A CALLED MEETING
of the
GEORGIA HIGHER EDUCATION FACILITIES AUTHORITY

February 8, 2012

The Georgia Higher Education Facilities Authority (the "Authority") held a called board meeting on February 8th at 1:00 PM in the offices of the Georgia State Financing and Investment Commission, 270 Washington Street, Suite 2141, Atlanta, Georgia. Members Ben Tarbutton and Kevin Clark were present in person and members Dick Anderson (Chair of the Authority) and Gary Bishop participated in the meeting via telephone conference call. Others in attendance were: Lisa Javorka with the Georgia Department of Law; Susan Ridley, Lee McElhannon, Kim Site and Kelly Zurbrugg with the Georgia State Financing and Investment Commission ("GSFIC"); Linda Daniels, Peter Hickey, John Brown, Marty Nance, Regina Travis, Cynthia Alexander, Ron Reed and Wayne Tyler with the Board of Regents ("BOR"); and Fallany Stover and Karol Mason with Alston & Bird LLP.

Call to Order and Approval of Minutes

The meeting was called to order at approximately 1:04 PM by Chair Dick Anderson. Mr. Anderson and Mr. Tarbutton commended Susan Ridley and her staff for the comprehensiveness of the minutes from the last meeting. Mr. Anderson stated that the first item on the agenda was to approve the minutes from the June 24, 2011 Authority meeting. Ben Tarbutton made a motion to approve the minutes; Kevin Clark seconded the motion; a vote was taken and the motion to approve passed unanimously.

Construction and occupancy update on GHEFA Series 2008, 2009A and 2010A Projects

Marty Nance presented an update on the construction and occupancy on GHEFA projects funded by the Authority's three bond issues (i.e., 2008, 2009A and 2010A) and utilized the attached power point presentation. Mr. Nance began by giving a summary of the attached Construction Progress Report. The Authority shall not have outstanding at any one time bonds exceeding $300 million; to date the Authority has issued a little over $294 million, with $292.91 million currently outstanding. Mr. Nance noted that the Authority has been able to construct projects on 13 campuses, which provided funding for over 1600 beds of student housing, 1645 parking spaces, including 3 parking decks, 2 football stadiums, and a little over 500,000 square feet of student center, recreation center, bookstores, and dining spaces. Mr. Nance then presented a map of the State of Georgia highlighting all the campuses that have participated in GHEFA financings; and pointed out that the campuses are geographically distributed all over the state.

Mr. Nance then provided the following information regarding the GHEFA projects: (1) the GHEFA Series 2008 projects have all been completed and are in their third year of operation; (2) the GHEFA Series 2009A projects have been completed; and (3) the projects constructed with the proceeds of the GHEFA Series 2010A bonds issued in August 2010 have all been completed. Photographs of all completed projects were shown during the presentation.

Mr. Nance then gave a status of the construction funds and noted that there are still some remaining balances but these funds represents retainage on some of the larger numbers and the anticipated payment of all final requisitions. He stated that the BOR expects these funds to be drawn down shortly. Mr. Nance noted that all projects were completed on time and within budget. Susan Ridley added that federal arbitrage and spend down requirements were met on all three GHEFA bond issues. Susan Ridley then asked if there were any questions for Mr. Nance on this presentation; there were no questions.

FY2011 Revenue, expense and enrollment reports for GHEFA Series 2008, 2009A and 2010A Projects

Cynthia Alexander provided an overview of the FY2011 revenue, expense and enrollment reports for the GHEFA Series 2008, 2009A and 2010A projects (using the attached power point presentation). Ms. Alexander stated that it was important to provide the members with an overview of what goes on from an asset management perspective for the entire portfolio. Ms. Alexander indicated that the Board of Regents is continuing with four major initiatives with regards to projects funded through the issuance of GHEFA bonds: (1) extensive training with their institutions (with Chief Business Officer's and the financial staff) on project reporting and project accountability; (2) ensuring timely frequent financial reviews of the projects with the campuses; (3) development of an annual operation strategy with the campuses; and (4) continued collaboration and joint review among each campus, the Office of Fiscal Affairs, and the Office of Real Estate and Facilities.

Ms. Alexander reminded the board that the last time the board met was in June 2011, and at the time there were three projects that were identified in the portfolio which had some issues of concern as it related to revenue. All three campuses have subsequently worked with the BOR and have developed action plans that have been put in place or have been submitted to the BOR.

Ms. Alexander first presented the GHEFA I Series 2008 projects. The presentation provided a review on a project by project basis, but overall, in FY2011, these projects had a total lease payment of $6.5 million, and a total cumulative cash flow of $9.2 million. Ms. Alexander stated all those projects have met what the BOR considers a self-liquidating threshold ratio with the exception of Darton College, which was identified in June as one of the projects that had some challenges. Ms. Alexander noted that she would explain later in the presentation how Darton is improving its financial situation.

After the general overview, Ms. Alexander began the review of each individual project with the Dalton State College Parking Deck project, where the fee instituted in connection with the project covers the parking deck, and surface parking spaces. For FY2011, the campus had included some costs associated with the school's transportation system in the expenses for the GHEFA project, which was originally funded by a $20 fee for the transportation network that was inadvertently dropped when the fee for this project was approved. In response to an inquiry from Mr. Tarbutton, Ms. Alexander indicated that the $20 fee for the transportation network was not originally included in the pro forma, and that the school is asking for a reinstatement of such fee. This request is currently under review by the BOR.

Next, Ms. Alexander discussed the Darton College Student Center project, stating that this was also one of the three schools that had challenges for FY2010. For FY2011, the school has re-evaluated which students should be assessed the student activity fee instituted in connection with the approval of the GHEFA project, and has refined its policy with regards to which students are exempt from paying such fee so that it is more closely in line with the pro forma. The school is seeking an increase to the fee assessed for the project. The request to increase the fee has been submitted and is under review by the BOR. Mr. Tarbutton inquired as to why the actual expenses of $796,000 varied so much from the pro forma expense of $65,000. Ms. Alexander replied that the pro forma did not originally include the revenues or the expenses of the dining operations. The student center includes a dining operation which occupies over half of the space on the first floor. The dining operation was a component that was envisioned in the design and it was one of the components that the students requested. BOR wanted to make sure that a true cost of the operation is reflected, so the school was asked to include both the revenues and the expenses for the dining operations. Mr. Nance noted that the school did not have a dining program prior to this facility opening. Mr. Tarbutton noted that he feels that the board should have had a revised pro forma. Ms. Alexander responded that BOR will work on revising this going forward, to include both the revenues and expenses of the dining operations. Susan Ridley noted that there have been numerous discussions at the staff level on the issue of amending pro formas. The pro forma was part of the offering document and part of the basis of the board's approval of the projects as being self-liquidating. For revisions to any pro forma, it is important to notify the members with the documentation to support any changes. There was also discussion about the fee exemptions for online students as they relate to this project. Ms.

Alexander explained that originally if a student took one online course they were exempt from the fee, whether they lived on campus or not. The school has since re-evaluated this fee policy, and as a result has made changes to ensure that all students who benefits from the student center is charged the fee. It was noted that Darton College is recognized for its robust nursing program with East Georgia and Swainsboro, and those online students remain exempt from the fee. However, Ms. Alexander noted that the school is seeking a $40 increase to help better match expenses.

Next, Ms. Alexander provided an update of the Fort Valley State University Student Center and Stadium project. The slight difference in FY2011 revenues from the pro forma was attributed to who the school was assessing fees to. A re-evaluation of the fee policy has been made. The fee is now charged to all students, including those enrolled in less than 4 credit hours and those enrolled in online course.

Ms. Alexander then presented Gainesville State College Parking Deck. The original pro forma reflected fees charged to the students in both the Gainesville and Oconee campuses; however, after reviewing collected revenues, the school confirmed that the fee was applied only to the Gainesville campus. The analysis showed that there was more than sufficient revenue to support the project; this pro forma was restated in 2011 to reflect that fees for this project are only applied to the students at the Gainesville Campus.

Ms. Alexander presented the Georgia College and State University Bookstore and Theater renovation project. FY2011 revenues were less than the pro forma amounts due to increased use by the campus theatre department and less than projected rental income from use by the outside public. Beginning in Fall 2012, there will be an increased fee charged to the campus theater department to better match pro forma projections.

Ms. Alexander then discussed the Georgia State University Student Housing Project. The pro forma revenues and expenses include both the housing and dining operations. The FY2011 actual revenues exceeded the pro forma amounts because of the dining facility's success on that campus. This project had a FY2011 self-liquidation ration of 1.81, the highest of the projects included in the GHEFA Series 2008 bond issue.

Ms. Alexander then presented the last project in the GHEFA 1 series – the Southern Polytechnic State University Parking Deck. This campus has a transportation fee versus a specific parking deck fee. The $100 transportation fee is based on the school enrollment; $75 of that fee is allocated to the parking deck and $25 is applied to the transportation network. To match pro forma projections the school needs the allocation to be $80, and have therefore requested an increase. If the increase is approved by BOR, the pro forma will be closely in line with the pro forma going forward.

Ms. Alexander then provided a summary of the GHEFA II Series 2009 projects: (1) the bond issue funded three projects; (2) the lease payment for these three projects totaled $3.4 million; and (3) the cumulative cash flow for these three projects totaled $4.6 million. Ms. Alexander started with the Bainbridge College Student Wellness Center project, which exceeded the pro forma numbers due to enrollment exceeding projections. Next, Ms. Alexander discussed the Columbus State University Recreation Center, which is the 3rd and final project of GHEFA that had enrollment fee challenges last July. In response, the BOR developed a strategy to re-evaluate the exemptions from the fee that was assessed in connection with the approval of the GHEFA project and has reduced the number of students exempt from the fee: summer students are now charged the full fee and the school now offers limited memberships to the faculty and staff. In addition, a fee increase has been requested. In April 2011, BOR approved a $10 increase; however an additional $35 is being requested to better match the pro forma projections. The fee is being reviewed by BOR at this time. Susan Ridley asked if the fee increase were approved, would that bring the schools net operating income equal to their FY 2012 lease payment. Ms. Alexander responded that the fee increase would help them meet the school's lease payment, which substantially increases in FY 2012.

Ms. Alexander then presented Southern Polytechnic State University Student Housing and Dining Hall. When the housing initially opened in Fall 2010 it was only at 45% occupancy. The occupancy has increased and is now at 75-76%. BOR continues to work with the campus in devising a housing plan to achieve the pro forma projected 95% occupancy rate. The dining hall facility is offered to the entire campus; revenues from the dining facility helped this project achieve a positive net operating income in FY2011.

Next, Ms. Alexander provided the members the summary of GHEFA Series 2010A Projects: (1) currently, all projects are complete as of that date of the meeting, but Ms. Alexander explained that the projects were not complete during FY2011, which is the period being discussed, (2) there were no lease payments due in FY2011, (3) there was a $2.98 million cumulative cash flow in FY2011, resulting from fees generated by the projects. BOR is monitoring those first year fees to make sure they are tracking pursuant to the pro forma. The first project that Ms. Alexander discussed was College of Coastal Georgia Student Center, which outperformed the pro forma. The next project, College of Coastal Georgia Student Housing, was under construction in FY2011. There were actual revenues and expenses for this project due to the campus' marketing program which generated security deposits and a positive cash flow of $2,535.

The next project introduced was the East Georgia College Student Housing, which also was under construction during FY2011. Ms. Alexander stated that this again is another example of marketing efforts commencing prior to the project completion. This project was 100% leased for Fall 2011 and for this current Spring 2012 semester they lost one person, resulting in an occupancy at 99%. Ms. Alexander then moved to Georgia College and State University Student Wellness and Recreation Center, which did not meet pro forma projections. The pro forma reflected a $50 fee increase, which was approved by BOR at the time of project authorization; however, before the campus actually collects the increased fee, it must first go before the board review process. When approved, the increase will provide sufficient revenues for the school to make its lease payment. Linda Daniels added that this was a staggered increase projected in the original pro forma, all originally approved in concept, but is implemented yearly. Ms. Alexander then added for any project that has increases in fees, even though the initial pro forma was approved, BOR will bring back the increase to the board. Ms. Alexander next discussed the Savannah State University Student Center/Stadium project, where the fees that were generated more than supported the pro forma. She then provided information on the University of West Georgia Bookstore, which was not open during FY 2011, but it is now open and operational. BOR sees no problems with the school's ability to meet the fiscal year lease payments.

Ms. Alexander concluded her presentation by outlining the following next steps for BOR: (1) continue collaborative review of fee requests between the Office of Real Estate Facilities and the Office of Fiscal Affairs; (2) evaluate current year performance; (3) develop Fall 2012 strategies with campuses; and (4) provide ongoing training for Fiscal Year 2012 financial reporting. She stated that Fiscal Affairs leads that effort and BOR's Office of Real Estate and Facilities provides support and background information in working with the campuses.

Ms. Alexander asked if there were any questions on the financial performance of the projects. Mr. Anderson asked if the $35 fee increase for Columbus State University Recreation Center would solve the problem or would they need to do something else. Ms. Alexander replied that the $35 increase, which is expected to be approved in April, coupled with what they have already done, should solve the problem. Mr. Tarbutton asked if the Darton, Dalton and Columbus students approved the fees. Ms. Alexander replied that all fee requests have been approved by the proper student bodies.

Ms. Alexander then presented the fiscal year enrollment numbers, and provided comparisons to what the assumptions were in the pro forma. Ms. Alexander asked if anyone had any questions on the numbers in the presentation. Mr. Anderson asked if there is a normal drop off from fall to spring, and the response was that this was true. Susan Ridley commented that the summary showed that there were only two schools (Columbus State and Southern Poly) that did not meet the pro forma assumptions and those were just slightly under their pro formas. Ms. Alexander agreed. Susan Ridley then added that a number of these schools significantly over performed compared to the pro forma assumption on enrollment, commenting that the GHEFA performance is largely a good news story. Susan Ridley thanked Cynthia Alexander for her thorough explanation of not only the revenue situation, but also on the steps being taken to address issues as they arise.

Status of the Qualified Management Agreements for GHEFA Series 2008, 2009A and 2010A

Fallany Stover, bond counsel and counsel to the Authority, provided the Authority members with the status of the qualified management agreements for GHEFA Series

2008, 2009A and 2010A projects. Ms. Stover stated that she wanted to provide a status update and elaborate on what the concerns are relating to the qualified management contracts. She explained that while tax exempt bonds are outstanding there are certain federal tax rules that must be compiled with, and it is very important how management contracts are structured. Ms. Stover stated that the main concern is private business use (generally, use in a trade or business other than state or local government) of tax-exempt facilities. Private business use can potentially be for any GHEFA project that has a third party managing any function at the bond-funded facility. Ms. Stover reviews the contract to make sure it falls within the safe-harbors provision of IRS Rev. Proc. 97-13. Ms. Stover then referred the board to the list prepared by the BOR (and attached to these minutes) showing the facilities financed with proceeds of GHEFA bonds. The list shows three categories of projects: (1) projects where the compensation arrangements in the reviewed contracts fall within one of the 97-13 safe harbors, (2) projects where the compensation arrangements in the contracts do not fall within any of the 97-13 safe harbors, but the contracts fall within the requirements for the limited amount of private business use that federal tax law allows, and (3) the schools that have no third party vendor participation. Ms. Stover stated that the attached list is a good summary of where we are with regards to management contracts, with the exception of Bainbridge. Contrary to what is set forth on the list, Ms. Stover stated that she has not approved the final version of the Bainbridge contract. However, she has reviewed several drafts of the contract and believes that the school is headed in the right direction with regards to developing a compensation arrangement that fits within one of the safe harbors set forth in Rev. Proc. 97-13.

Board of Regents provided an update on Senate Bill 302

John Brown presented the members with an update on Senate Bill 302, which is sponsored by Senator Cecil Staton, and raises the cap on the amount of bonds that GHEFA can issue from $300 million to $500 million. The bill has passed the Senate, and is believed to have passed in the House Higher Education Committee. Mr. Brown shared that some of the testimony assurances that had to be provided were that GHEFA has averaged selling about $100 million a year and that it was recommended that GHEFA not request funds next year.

Mr. Brown expressed to the GHEFA members that he hopes BOR will not need to request an increase in the next two years. BOR has developed a new process to be used with the new projects that may be funded with the additional $200 million to better prepare solid pro formas so that increasing fees are not used to solve problems. Mr. Brown indicated that a better job will be done with maintaining debt service coverages.

Dick Anderson asked if there is any interest in either the Governor's office or the Legislature on the impact of GHEFA projects regarding job creation. Mr. Brown responded that they recognize that the smaller schools have benefited and that there has been significant impact on jobs in those areas. Mr. Anderson responded by saying it seems to be a good story, commenting on the following three aspects: (1) diversity of project locations across the state; (2) good management of financial performance; and (3) job creation. Mr. Anderson expressed that there are very compelling reasons why the Authority may seek to increase the cap again. Mr. Anderson said he thought about it in investment terms. GHEFA projects have such good stories and are so well managed, that they are a good return on the investment. Linda Daniels welcomed John Brown to the University system and commended his contributions to BOR.

Update on the GHEFA FY 2011 Audit (informational purposes only)

Susan Ridley presented the GHEFA FY 2011 Audit. Ms. Ridley noted that the GHEFA audit was a clean audit with no findings. There was no discussion by the board members on the audit.

New Business and Adjournment

Mr. Anderson asked if any Authority member had any other business to discuss. The members did not have any additional business to discuss and the meeting was adjourned at approximately 1:57 p.m.

Richard A. Anderson
Chair

Diana Pope
Secretary and Treasurer