

MINUTES
JOINT MEETING
FINANCE AND CONSTRUCTION COMMITTEES

UNIVERSITY OF SOUTHERN INDIANA
BOARD OF TRUSTEES

May 10, 2003

The Finance and Construction Committees of the University of Southern Indiana Board of Trustees met in joint session on Saturday, May 10, 2003, in the University Conference Center. Present were Chair G. Patrick Hoehn and Trustees J. David Huber, Tina M. Kern-Raibley, Thomas F. McKenna, and James L. Will, Sr. Also present were President H. Ray Hoops, Vice President for Business Affairs and Treasurer Robert W. Ruble; and Vice President for Governmental Relations Cynthia S. Brinker.

Mr. Hoehn called the meeting to order at 1:00 p.m.

(CONSTRUCTION)

1. APPROVAL OF CONSTRUCTION BIDS FOR HENRY W. AND BETTY JANE RUSTON HALL AND RECOMMENDATION FOR CONSTRUCTION CONTRACTS

At its meeting on January 9, 2003, the Board of Trustees authorized the Construction Committee to award contracts for the Ruston Hall project. Miles Mann, assistant director of Facilities Operations, reported on the construction bids received for the project. He presented a staff recommendation to approve the following bids and issue construction contracts for general, electrical, and mechanical construction, and for an alternate bid to finish two classrooms and two storage areas in the basement.

	<u>Contractor</u>	<u>Base Bid</u>	<u>Alternate No. 1</u>
General	Arc Construction Co., Inc.	\$3,934,140	\$ 23,110
Electrical	J. E. Shekell, Inc.	752,300	11,294
Mechanical	Deig Brothers Construction Co.	<u>1,572,770</u>	<u>40,927</u>
		\$6,259,210	\$ 75,331

On a motion by Mrs. Kern-Raibley, seconded by Mr. Will, the recommendation to issue construction contracts was approved.

Mr. Mann reported that the timber sales from the site netted approximately \$58,000. The remaining tree limbs will be mulched for use on the University's cross-country course.

2. REPORT OF CHANGE ORDERS ISSUED BY THE VICE PRESIDENT FOR BUSINESS AFFAIRS (Attachment A)

Vice President Robert Ruble reviewed the change orders in Attachment A.

Following discussion regarding change orders, the committee requested that change orders be minimized on all construction projects.

(FINANCE)

3. APPROVAL OF RECOMMENDATION FOR INVESTMENT BANKING SERVICES FOR THE RUSTON HALL PROJECT

In its meeting on January 9, 2003, the Board of Trustees authorized the Finance Committee to approve a financing plan for the Ruston Hall project. In its meeting on January 22, 2003, the Finance Committee

authorized the University to issue a Request for Proposal (RFP) to investment banking firms interested in providing funding options for the Ruston Hall project.

Assistant Treasurer and Business Office Director Michael Whipple reviewed the responses to the RFP from investment banking firms (Attachments B and C) and presented a staff recommendation for investment banking services (Attachment D).

Following a review of the investment banking submissions, staff recommended the following:

1. That the University issue fixed-rate bonds for the project;
2. That the University select Banc One Capital Markets, Inc. as its investment banker;
3. That Fifth Third Bank Trust Company be selected as bond trustee;
4. That the University, pending State approval, pursue an aggressive issuance schedule and plan to issue bonds by late July or early August, 2003; and
5. That the selected investment banker be requested to investigate creation of a marketing plan that will include local involvement of the retail sales of the bonds.

On a motion by Mr. Will, seconded by Mrs. Kern-Raibley, the recommendation for investment banking services for the Ruston Hall project was approved.

4. APPROVAL OF RECOMMENDATION TO PROCEED WITH THE CONSTRUCTION AND FINANCING OF THE NEW LIBRARY

Vice President Ruble reported that as a result of the 2003 Indiana General Assembly approval of construction of the library and authorization of bonding for the facility, the University is preparing for the next steps in the approval process. He presented the following resolution regarding the construction and financing of the new library and recommended that it be presented to the Board of Trustees for approval at its meeting on May 10, 2003.

WHEREAS, the University of Southern Indiana Board of Trustees acted on July 1, 2002, to include a new library building in its 2003-05 capital budget request; and

WHEREAS, the 2003 Indiana General Assembly acted on April 26, 2003, to approve construction and authorize bonding for this facility; and

WHEREAS, the Indiana State Budget Committee must now approve the University's request to proceed with the construction and financing of the new library building;

NOW, THEREFORE, BE IT RESOLVED that the President is authorized to request of the Indiana Commission for Higher Education, the Indiana State Budget Committee, and the Governor of the State of Indiana approval to proceed with the construction and financing of the new library building; and

FURTHER RESOLVED that the Treasurer is authorized to issue a Request for Proposal to solicit investment banking firms interested in providing service to the University in financing the new library building; and

FURTHER RESOLVED that the Finance Committee of the University of Southern Indiana Board of Trustees be authorized to evaluate the results of the investment banking proposals submitted, accept a proposal or reject all proposals, and approve all financing plans on behalf of the full Board. The Finance Committee shall inform the full Board of its actions at its next scheduled meeting.

On a motion by Mr. Will, seconded by Mrs. Kern-Raibley, the resolution was approved for presentation to the Board of Trustees at its meeting on May 10, 2003.

The committee requested a review of building plans for the library project. Vice President Ruble will provide the conceptual design plan. He reported that the actual design is in process and the proposed building design will be brought to the committee for approval.

5. RECOMMENDATION TO ESTABLISH THE FINANCE/AUDIT COMMITTEE

Vice President Ruble reported that in its meeting on March 6, 2003, the Finance Committee discussed the Sarbanes-Oxley Act of 2002 and the University's desire to be in voluntary compliance with the recommendations of the Act, which encourages ethical business practices and establishes methods of identifying questionable practices for review by governing boards. The proposed responsibilities of the Finance/Audit Committee are outlined in Attachment E. Vice President Ruble recommended approval of a proposal to the Board of Trustees to establish the Finance/Audit Committee.

On a motion by Mr. McKenna, seconded by Mr. Will, a recommendation that the Board of Trustees, at its meeting on May 10, 2003, establish the Finance/Audit Committee was approved.

6. PRESENTATION OF INTERNAL AUDIT CHARTER

Vice President Ruble introduced Diana Biggs, director of Internal Audit, who reviewed the Internal Audit Charter distributed to each member of the committee. She noted that the charter is a requirement of the Sarbanes-Oxley Act of 2002 and sets forth the mission, authority, responsibility, and professional proficiency of the USI Internal Audit Department. Mrs. Biggs requested the committee's review of the document, which will be presented for approval at the July 2003 meeting of the Finance/Audit Committee.

7. APPROVAL OF BUDGET APPROPRIATIONS, ADJUSTMENTS, AND TRANSFERS

Vice President Ruble reviewed the budget items in Attachment F.

On a motion by Mr. McKenna, seconded by Mrs. Kern-Raibley, the budget appropriations, adjustments, and transfers in Attachment F were approved.

8. PRELIMINARY DISCUSSION OF 2003-2004 BUDGET

Vice President Ruble reported that the University's proposed budget for 2003-2004 will be presented to the Board of Trustees for approval at its meeting in July 2003, after annual salary letters are mailed to continuing employees. He noted that the staff recommendation for a three percent pool for salary increases requires a budget with a fee increase of eight percent.

He presented a comparison of estimates from other four-year institutions in the state, and noted that the recommended fee increase will allow USI to remain the lowest-cost institution. An eight percent increase in fees represents an increase of \$144 per semester, the lowest dollar increase in the state. Vice President Ruble reported that while the State of Indiana has encouraged institutions of higher education to limit increases to five percent, the University believes that the recommended increase is reasonable and necessary, especially compared to other increases in the state, some of which include as much as a \$1,000 increase per year for first-time students.

President Hoops added that the proposed increase will allow the University to continue the progress that has been made in recent years. The proposal includes a reduced number of new initiatives and demonstrates restraint in terms of increases. He noted that the University of Southern Indiana has carried a heavy burden in keeping this the lowest-cost institution in the state, even though it receives a lower reimbursement per student than most institutions in the state and offers more costly programs than do many other institutions.

The committee requested that the staff prepare a concise outline of facts regarding the University's proposed fee increase, including the history, philosophy, and comparative data discussed in today's meeting.

Following discussion, the committee approved by consensus the mailing of salary letters to continuing employees prior to the approval of the budget in July.

There being no further business, the meeting adjourned at 2:05 p.m.

**Report to University of Southern Indiana Board of Trustees
 May 10, 2003**

Change Orders Issued by the Vice President for Business Affairs

On September 6, 2001, the Board of Trustees adopted a procedure related to changes in construction contracts which included the following: "Change orders up to \$25,000 may be issued by the Vice President for Business Affairs and reported to the Board of Trustees at its next meeting." Consistent with that policy, the following change orders have been issued.

PROJECT: Science and Education Center

	<u>Description</u>	<u>Contractor</u>	<u>Amount</u>
<u>CO3, Contract 01</u>	Six changes to the project including excavate for electric conduit to MH # 2, south walkway revisions, elevator code revisions, tunnel smoke wall, vibration column cover, and cabinet for Room 111A	Industrial Contractors, Inc.	\$17,907
<u>CO 4, Contract 01</u>	Add signs to the existing Science Center rooms	Industrial Contractors, Inc.	10,270
<u>CO 6, Contract 05</u>	Revise shaft walls	Architectural Sales, Inc.	0
<u>CO 3, Contract 19</u>	Changes to data, telephone and electrical systems including changes to patch panels, relocate and revise site lighting, revise voice cable terminations, add junction boxes, and revise voice and data outlet locations	Mel-Kay Electric Co., Inc.	17,559

UNIVERSITY of SOUTHERN INDIANA

Executive Summary

Ruston Hall Bond RFP Responses

On January 22, 2003, the Board of Trustees Finance Committee authorized the University to issue a Request for Proposal soliciting data from investment banking firms interested in providing funding options for Ruston Hall. The Request for Proposal was sent to ten firms and responses were received from the following four firms:

- ❖ Banc One Capital Markets, Inc.
- ❖ RBC Dain Rauscher Investment Services
- ❖ Fifth Third Securities, Inc.
- ❖ McDonald Investments, Inc.

The consensus of three of the underwriters responding is that issuing bonds as fixed-rate debt rather than issuing variable-rate debt is the preferred rate structure in the current economic environment. One underwriter, RBC Dain Rauscher, proposes issuing variable rate debt as the most cost effective for the University.

Evaluation of Proposals for Investment Banker Services

Banc One Capital Markets, Inc.

Advantages

- ❖ Nationally recognized firm with a strong history in public finance
- ❖ Recent provider of investment banking services with vast experience with the state
- ❖ Primary contact for firm is located in Indianapolis
- ❖ Has represented the University before
- ❖ Proposal was well done and easy to follow
- ❖ Firm has national base for bond distribution
- ❖ Very attractive cost if fixed-rate product is selected

Disadvantages

- ❖ Proposal does not include local participation
- ❖ No local outlet for retail sales

Evaluation of Proposals for Investment Banker Services (continued)

RBC Dain Rauscher

Advantages

- ❖ Day-to-day account manager has worked with the University on numerous previous issues
- ❖ National firm with experience in higher education
- ❖ Proposal is professional and the day-to-day manager's knowledge of the University should positively impact upon bond sales
- ❖ Attractive costs if variable-rate product is selected

Disadvantages

- ❖ Will require separate underwriters counsel (Estimated \$10,000 additional expense)
- ❖ No local outlet for retail sales

Fifth Third Securities, Inc

Advantages

- ❖ Firm has a local connection
- ❖ University has experience with the firm (provided interim financing for the Health Professions Center and was co-manager for auxiliary system issue)
- ❖ Firm has worked with University's local attorneys
- ❖ Firm has strong regional presence and is recognized as a banking leader

Disadvantages

- ❖ Bond counsel has limited experience with the firm
- ❖ University has not worked with the day-to-day manager
- ❖ Costs are higher than some other respondents

McDonald Investments, Inc.

Advantages

- ❖ Firm has an Indiana presence (affiliated with Key Bank in Indianapolis)

Disadvantages

- ❖ Most expensive option
- ❖ University has limited experience with firm's staff

UNIVERSITY of SOUTHERN INDIANA
 Bond Analysis
 for University Housing - Ruston Hall
 May 10, 2003

	Banc One Capital Markets (1)		Dain Rauscher (2)		Fifth Third Securities (3)		McDonald Investments (4)
	<u>Fixed-Rate</u>	<u>Multi-modal</u>	<u>Fixed-Rate</u>	<u>Variable</u>	<u>Fixed-Rate</u>	<u>Variable</u>	<u>Fixed-Rate</u>
New Project	\$7,500,000	\$7,500,000	\$7,500,000	\$7,500,000	\$7,500,000	\$7,500,000	\$7,500,000
Underwriting Discount Per Thousand	\$3.25	\$2.25	\$4.15	\$2.05	\$3.99	\$3.99	\$7.25
Underwriting Discount	\$24,375	\$16,875	\$31,125	\$15,375	\$29,925	\$29,925	\$54,375
Bond Term	20-Year Life	20-Year Life	20-Year Life	20-Year Life	20-Year Life	20-Year Life	25-Year Life

- (1) Banc One recommends a fixed-rate issue and that USI refund the Auxiliary System B bonds.
- (2) Dain Rauscher recommends a variable-rate issue with a one-year or greater reset.
- (3) Fifth Third recommends a fixed-rate issue.
- (4) McDonald Investments recommends a fixed-rate issue.

Staff Recommendation for Investment Banking Services
for the Ruston Hall Project

Upon an extensive review of the investment banking submissions, staff recommends the following:

1. That the University issue fixed-rate bonds for the project

While variable-rate debt carries a lower initial interest rate than fixed-rate debt, the financial benefits may disappear if interest rates eventually increase.

Interest rates for fixed-rate debt are at an all-time low, and with fixed-rate financing the University has the opportunity to lock in those low rates for the twenty-year life of the indebtedness. Additionally, issuing fixed-rate debt will provide the University with the security of a known debt structure.

2. That the University select Banc One Capital Markets, Inc. as its investment banker.

For a fixed-rate issue, Banc One Capital Markets, Inc. offers lowest cost services. Additionally, based on the advantages and disadvantages previously cited for each investment banker, staff is comfortable with this firm.

3. That Fifth Third Bank Trust Company be selected as bond trustee

Until the University issued the Auxiliary System debt, Old National Trust acted as the sole trustee for all University bonded debt. Fifth Third Bank was selected as the trustee for the auxiliary system.

4. That the University, pending State approval, pursue an aggressive issuance schedule and plan to issue bonds by late July or early August, 2003.

5. That the selected investment banker be requested to investigate creation of a marketing plan that will include local involvement of the retail sales of the bonds

Retail sales are more prevalent with fixed-rate issues and partnering with a local retail sales firm may enhance the University's ability to market the bonds within its service area.

Proposed Finance/Audit Committee Responsibilities

The Board of Trustees will assign audit-related responsibilities to the Finance/Audit Committee as follows:

1. The Finance/Audit Committee will approve the initial mission statement and charter of the internal audit function of the University and update or revise it as needed.
2. The Finance/Audit Committee will provide a structured reporting line for internal audit and facilitate the maintenance of the independence of the internal audit function.
3. At least annually, the Finance/Audit Committee will meet with the director of Internal Audit to:
 - a. discuss and approve an annual work plan of the internal audit function;
 - b. review internal audit activities and reports of previous periods;
 - c. assess management's responses to recommendations contained in audit reports;
and
 - d. consider the adequacy of the University's financial reporting, accounting, and internal control procedures.
4. The director of Internal Audit may contact the chair of the Finance/Audit Committee to discuss emergency items. A decision will be made at that time whether to convene the full Finance/Audit Committee.
5. The Finance/Audit Committee will periodically review and confirm the organizational structure of the internal audit function.
6. The Finance/Audit Committee will be encouraged to review the scope of the external auditors' (State Board of Accounts) examination periodically and to request clarification of any areas not fully understood.
7. The chair of the Finance/Audit Committee will be invited to attend the annual financial audit exit conference and the federal audit exit conference conducted by the State Board of Accounts. Many times both exit conferences are held simultaneously.
8. The Finance/Audit Committee will perform such other functions as may from time to time be assigned to the committee by the Board of Trustees.

BUDGET APPROPRIATIONS, ADJUSTMENTS, AND TRANSFERS

1. Additional Appropriation of Income

From:	Unappropriated Current Operating Funds		
To:	1-10300	Pott School of Science and Engineering Personal Services Supplies and Expense	\$ 25,200 2,754
To:	1-10400	School of Nursing and Health Professions Personal Services Supplies and Expense	72,000 5,898
To:	1-10700	School of Business Personal Services Supplies and Expense	14,000 1,644
To:	1-10800	Bower-Suhrheinrich School of Education and Human Services Personal Services Supplies and Expense	6,900 690
To:	1-10921	Academic Skills Personal Services Supplies and Expense	25,200 2,736
From:	Unappropriated Designated Funds		
To:	2-20300	Student Government Supplies and Expense	1,469
To:	2-23100	Faculty Development Travel Supplies and Expense	6,339
To:	2-23130	Faculty Enhancement – Science and Engineering Supplies and Expense Capital Outlay	4,299
From:	Unappropriated Auxiliary Funds		
To:	3-30900	New Harmony Operations Supplies and Expense	197

2. Transfer and Appropriation of Funds

From:	6-60000	Auxiliary System	
To:	3-33000	Residence Life Operations Supplies and Expense	89,130

3. Transfer of Funds

From:	2-20000	Student Service Fee	
To:	2-20050	Student Services	12,870
From:	2-20050	Student Services	
To:	3-33100	Resident Life Revenue	12,870

From:	2-20300	Student Government	
To:	2-20061	Spring Fest	1,500
From:	2-20900	Bodmer Exhibit Restoration	
To:	3-30900	New Harmony Operations	1,754
From:	2-24200	Equipment Maintenance Revolving Fund	
To:	6-61350	Science/Education Classroom Building	250,000
From:	2-24210	Campus Technology Fund	
To:	6-61350	Science/Education Classroom Building	162,500