

Board of Trustees
Committee on Finance, Business and Capital Planning

Minutes of Meeting

VOLUME FBCP 1

September 19, 2013

A meeting of the Committee on Finance, Business & Capital Planning was held in Room 207 of The Penn Stater Conference Center Hotel, The Pennsylvania State University, University Park, Pennsylvania, beginning at 9:00 a.m. on September 19, 2013.

The following committee members, constituting a quorum, were present: Mark Dambly, Donald Cotner, Kathleen Casey, Barbara Doran, William Oldsey, Paul Silvis, and Linda Strumpf. Committee member Alvin Clemens was not in attendance.

Faculty Senate Representative Brent Yarnal, student representative Scott Rager, and the following staff members were also present: Rodney Erickson, Susan Basso, Madeline Cantu, Joseph Doncsecz, David Gray, Nicholas Jones, Donna Newburg, Daniel Sieminski, Rachel Smith, and Ford Stryker.

The meeting was called to order by Chairman Dambly. Chair Dambly advised the Committee that actions and recommendations by the Committee would be reported to the full Board of Trustees for their consideration at the September 20, 2013 meeting.

A Sightlines Facilities Benchmarking presentation was given by James Kadamus.

David Gray gave a brief presentation regarding the Investment Council Operations and Investment Policy.

Chair Dambly welcomed Fred Volkmann, Penn State's newly appointed Interim Vice President for Strategic Communications.

The Committee reviewed the following consent agenda items and unanimously approved action items H and I.

Consent Agenda Items:

Information Items –

- a) Cyber Health Initiative at Millennium Science Complex, University Park
- b) Residence Hall Surveillance Cameras, University Park
- c) Theatre Building Mechanical Upgrades, University Park
- d) Naming of Rooms, Portions of Buildings, and Plazas
- e) Status of Major Construction Programs and Borrowing
- f) Capital Budget Request for Fiscal Year 2014-2015
- g) Summary and Designation of Gifts Received by the University

Action Items –

- h) Summary of Revisions to Existing Scholarships, Fellowships, Etc.
- i) Acknowledgments of Endowments and Other Major Commitments

The Committee reviewed the appointment of non-university employees to the Penn State Investment Council. Since Committee member Strumpf serves on the Penn State Investment Council, she recused herself and abstained from voting on this item. The Committee unanimously approved the following resolution:

RESOLVED, That Carmen Gigliotti, Colleen Ostrowski, and Linda B. Strumpf, non-University employees, are appointed to the Penn State Investment Council for terms ending in 2016.

RESOLVED, That Joseph B. Markovich, non-University employee, is appointed to the Penn State Investment Council for a term ending in 2015.

Before the Committee voted regarding the Leases with PSRP Developers, Inc., Chair Dambly noted that the Committee on Finance, Business and Capital Planning received from Dan Sieminski, the responsible officer for this matter, a description of the contracting process and his analysis as to why it was in the best interests of the University to proceed with the proposed lease arrangement with PSRP. He added that by voting on the resolutions presented, the Committee was agreeing that the proposed transaction was in the University's best interests and that the price and value provided are fair and reasonable to the University. The Committee unanimously approved the following resolutions:

RESOLVED, That the current leases in 101 and 103 Innovation Boulevard with PSRP Developers, Inc., totaling 31,891 square feet at a current annual cost of \$787,338 are hereby ratified.

FURTHER BE IT RESOLVED, that the proposed lease in 101 Innovation Boulevard with PSRP Developers, Inc. for 4,196 square feet at an initial annual cost of \$106,578 is hereby approved.

The Request for 2014-2015 Appropriations for Operations was presented by Rachel Smith. The Committee unanimously approved the following resolution:

RESOLVED, That the Officers of the University are authorized to submit to the Legislature, appropriate departments, and offices of the Commonwealth of Pennsylvania, a State Appropriation Request for fiscal year 2014-2015 in the amount of \$299,685,000.

It was noted that the State Appropriation request would be presented by President Erickson at the full Board of Trustees meeting on September 20, 2013.

An informational report regarding the proposed five-year capital plan for the University was given by Ford Stryker and a borrowing authority presentation was given by Joseph Doncsecz. The Committee unanimously approved the following resolutions:

WHEREAS, the University and its affiliated organization, The Milton S. Hershey Medical Center (the "Medical Center"), have studied their capital needs and plan to make capital expenditures for projects of the University and the

Medical Center included or to be included as part of the capital improvement programs of the University and the Medical Center and consisting of, among other things, land and interests in land, land improvements, buildings, infrastructure, building improvements, renovations, fixtures, equipment, furnishings, information technology assets, and other capital assets and projects serving University or Medical Center purposes at various locations (collectively, the "Projects"), or to reimburse their other funds for capital expenditures previously made in respect of the Projects, in an amount approximately equal to Seven Hundred Fifty Million (\$750,000,000) Dollars during the period until June 30, 2018; and

WHEREAS, the University may be required to provide its guaranty of obligations issued by the Medical Center for the payment of costs of capital projects of the Medical Center; and

WHEREAS, it is in the financial interests of the University and the Medical Center to pay for depreciable assets over a period which does not exceed the useful lives of such depreciable assets or such longer period as is permitted by Federal tax law; and

WHEREAS, depending on the stage of development of the Projects, it may be in the financial interests of the University and the Medical Center to incur obligations for the payment of the cost of the Projects at one time or in part from time to time; and

WHEREAS, the specific timing of University borrowing or guarantees by the University of indebtedness of the Medical Center in light of trends in the financial markets can make a significant difference to the University, the Medical Center and their constituents in the cost of borrowing for capital projects; and

WHEREAS, the decisions as to price, timing, interest rates, terms, serialization and tax exempt or taxable status of such borrowing of the University and the form of any guarantees by the University of indebtedness of the Medical Center can be made by the officers of the University in a more flexible, timely and efficient fashion than would be the case if it were necessary to postpone a financing until the next scheduled meeting of the University's Board of Trustees; and

WHEREAS, it may be advantageous to refund or otherwise refinance certain outstanding obligations of the University from time to time or, prior to, concurrently with or subsequent to the issuance of obligations of the University, to enter into agreements relating to bond insurance, letters of credit or other credit or liquidity facilities (collectively, "Credit Enhancement") or agreements relating to interest rate swaps or other forms of interest rate hedge or similar agreements associated with such obligations (collectively, "Hedge Agreements") and such decisions can be made by the officers of the University in a more flexible, timely and efficient fashion than would be the case if it were necessary to postpone such actions until the next scheduled meeting of the Board of Trustees; and

WHEREAS, the University may from time to time issue its obligations directly or indirectly through other qualified governmental entities, and rate subsidies or other benefits may be available if the University's obligations are issued through certain Commonwealth of Pennsylvania public authorities and the proceeds of such obligations are loaned by the issuing public authorities to the University or to the Medical Center (with such loans to the Medical Center guaranteed by the University, if appropriate), and decisions regarding the form of such obligations and borrowing can be made by the officers of the University in a more flexible, timely and efficient fashion than would be the case if it were necessary to postpone such actions until the next scheduled meeting of the Board of Trustees.

NOW THEREFORE, BE IT RESOLVED that the Board of Trustees of the University acknowledges that decisions regarding the form of University obligations and borrowing of the University and as to the other aspects of such obligations and borrowing described in the recitals to these resolutions may be most effectively made from time to time by officers of the University as hereafter described and that, for purposes of these resolutions, the term "officers of the University" shall mean the persons holding the positions of the President, the Senior Vice President for Finance and Business/Treasurer, the Associate Vice President for Finance and Corporate Controller, or any two of them, acting from time to time pursuant to the authority granted by these resolutions.

FURTHER RESOLVED, that officers of the University are authorized to cause the University (1) to borrow, through the issuance of bonds, notes, leases, installment sale agreements or other forms of debt obligations, including as part of a line of credit or other credit facility, in one or more series or sub-series, fixed rate or variable rate, taxable or tax-exempt, secured or unsecured, senior or subordinate, in a single issuance or from time to time, and (2) to guaranty or become surety for indebtedness of the Medical Center, in an aggregate principal amount not to exceed Seven Hundred Fifty Million Dollars (\$750,000,000) (collectively, the "Obligations"), with such Obligations to be issued and sold at such price in a competitive, negotiated or invited sale and to be of such tenor and otherwise to contain or have the benefit of such terms and provisions, including, without limitation, provisions for redemption or mandatory or optional tender for purchase, maturity, collateral security, covenants, representations and warranties and events of default, as the officers of the University shall deem to be necessary or appropriate to the University.

FURTHER RESOLVED, that the officers of the University are authorized to execute, in the name and on behalf of the University, agreements, contracts and instruments of every nature and description which are necessary or appropriate to accomplish the foregoing or in connection with the issuance of the Obligations, including without limitation securities disclosure documents, trust indentures, mortgages, deeds of trust, security and pledge agreements, guarantees, loan agreements, bond purchase agreements, letter of credit reimbursement agreements, issuing and paying agency agreements, dealer agreements, refunding escrow agreements, leases, installment sale agreements, interest rate management agreements, investment contracts, tax compliance agreements and other agreements and documents of every nature and description that are necessary or appropriate to accomplish the foregoing or in

connection with the issuance and delivery of the Obligations.

FURTHER RESOLVED, that the officers of the University are authorized to cause the Obligations to be issued directly by the University and also by and through any appropriate public authorities of the Commonwealth of Pennsylvania having jurisdiction, including, without limitation, The Pennsylvania Higher Educational Facilities Authority and the Centre County Higher Education Authority, with the proceeds of such indebtedness of such public authorities being loaned to the University, or to the Medical Center, as the case may be.

FURTHER RESOLVED, that the officers of the University are authorized to refund or otherwise refinance the Obligations and other outstanding indebtedness of the University from time to time and, prior to, concurrently with or subsequent to the issuance of indebtedness of the University, to execute any agreements (including any amendments or supplements thereto or thereof) which are required in connection with Credit Enhancement or Hedge Agreements, all on such terms and conditions as the officers of the University shall deem necessary or appropriate.

FURTHER RESOLVED, that it is hereby declared to be the official intent of the University, as referred to in Section 1.150-2 of the Treasury Regulations promulgated under the Internal Revenue Code of 1986, as amended ("Code"), that the University be reimbursed from the proceeds of the Obligations authorized hereby in a maximum principal amount of \$750,000,000 for expenditures for or in respect of the Projects paid from other available funds of the University on or after the date which is sixty days prior to the effective date of these resolutions (except for certain expenditures which are not subject to such time limitation under U.S. Treasury Regulation §1.150-2), provided that the issuance of the Obligations providing such reimbursement in any particular case occurs not later than eighteen months after the latest of (i) the date on which the earliest expenditure subject to U.S. Treasury Regulation §1.150-2 is paid, (ii) the date on which the particular Project is placed in service or abandoned, but in no event more than three years after the earliest expenditure is paid, or (iii) the date otherwise permitted by the Code or U.S. Treasury Regulations promulgated thereunder and, in implementation hereof, the officers of the University may approve specific capital expenditures to be reimbursed from the proceeds of Obligations later to be issued, and the funds from which such capital expenditures shall be paid, as required by the said Treasury Regulations.

FURTHER RESOLVED, that the borrowing of the University or guarantees of indebtedness of the Medical Center under these resolutions, shall be limited to capital projects approved by the University's Board of Trustees prior to June 30, 2018.

FURTHER RESOLVED, that the authority to borrow of the University or the Medical Center for refunding or refinancing existing indebtedness of the University or the Medical Center shall not be limited in principal amount by this resolution and shall not be taken into account when calculating the \$750,000,000 amount of indebtedness authorized by this resolution.

FURTHER RESOLVED, that the officers of the University are hereby authorized and directed to execute and deliver such other agreements and documents and to take such other action as may be necessary or appropriate in order to effectuate the foregoing resolutions.

The proposal for the appointment of an architect for data centers at University Park and the Milton S. Hershey Medical Center was given by Ford Stryker. The Committee unanimously approved the following resolution:

RESOLVED, That in view of the special nature of this project, the interview process has been conducted by the University's Office of Physical Plant.

FURTHER BE IT RESOLVED, That the Officers of the University are authorized to employ the firm of IDC Architects of Pittsburgh, Pennsylvania as architects for the Data Centers at University Park and The Milton S. Hershey Medical Center.

Final plans and authorization to award contracts for the Centralized Biological Laboratory Cagewash Addition at University Park was presented by Ford Stryker. The Committee unanimously approved the following resolutions:

RESOLVED, That the final plans for the Centralized Biological Laboratory Cagewash Addition, as designed by the firm of Payette Associates of Boston, Massachusetts, are approved.

FURTHER BE IT RESOLVED, That authorization to award contracts to construct the project be approved at a cost of \$5,400,000.

Chair Dambly announced that the Committee would forego the information report related to endowment and similar funds for the fiscal year ending June 30, 2013 since the report would be presented at the full Board of Trustees meeting on September 20, 2013.

The Proposed Revision to Agreement of Sale of Whitehall Road Property at University Park was presented by Dan Sieminski. Before the Committee voted on this item, Chair Dambly noted that Trustee Peetz disclosed the following facts regarding her relationship with Toll Brothers. Trustee Peetz is an officer and employee of Bank of New York Mellon Corporation. BNY Mellon, through one of its investment management subsidiaries, holds Toll Brothers Common stock on behalf of its clients. BNY Mellon does not own any shares of Toll Brothers for its own account. Trustee Peetz does not personally own any shares of Toll Brothers. Trustee Peetz does not consider these facts to constitute a conflict of interest under the conflict of interest policy set forth in the University bylaws. The Committee concurs with that determination and does not consider Trustee Peetz to have a conflict of interest with respect to this matter. It was further noted that notwithstanding this determination, Trustee Peetz has not participated in any deliberations on this matter and would not be voting on this matter. The Committee unanimously approved the following resolutions:

WHEREAS, The Board of Trustees at its May 2012 meeting approved the sale of a 15.26-acre parcel and an adjoining 25.13-acre parcel, being Lots 3 and 4 in the Penn State University Whitehall Road 6 Lot Final Subdivision Plan, located in Ferguson Township, Centre County, Pennsylvania, to Springton

Pointe, LP, a Pennsylvania Limited Partnership, which is a wholly owned subsidiary of Toll Bros., Inc. for \$13,500,000.

WHEREAS, Toll Bros., Inc. has since indicated the need for an additional 5.5 acres adjoining Lots 3 and 4, to accommodate storm water facilities to fully develop the site and justify the current sale's price.

RESOLVED, That Board of Trustees approves the addition of 5.5 acres to the existing Agreement of Sale for a 15.26-acre parcel and an adjoining 25.13-acre parcel, being Lots 3 and 4 in the Penn State University Whitehall Road 6 Lot Final Subdivision Plan, for a total of 45.89 acres, located in Ferguson Township, Centre County, Pennsylvania, to Springton Pointe, LP, a Pennsylvania Limited Partnership, which is a wholly owned subsidiary of Toll Bros., Inc. for \$13,500,000.

BE IT FURTHER RESOLVED, That the Officers of the University are authorized and directed to take such steps as are necessary to make effective this resolution.

In the interest of time, the Photo Report on Selected Construction Projects was not given.

David Gray gave a presentation on the background of the Integrated Student Information System Project.

An Intercollegiate Athletics Financial Review was presented by Joseph Doncsecz, David Joyner, and Richard Kaluza.

The public session of the Committee on Finance, Business & Capital Planning was adjourned at 11:15 a.m.

Respectfully submitted,

Donna J. Newburg
Assistant Secretary
Board of Trustees