EXECUTIVE COMMITTEE MEETING OF THE OREGON STATE BOARD OF HIGHER EDUCATION

March 14, 1996

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OREGON STATE BOARD OF HIGHER EDUCATION
MINUTES OF EXECUTIVE COMMITTEE MEETING
CONVENE VIA CONFERENCE PHONE CALL

March 14, 1996

ROLL CALL
A meeting of the Executive Committee of the Oregon State Board of Higher Education was called to order at 10:05 a.m. The following Board members were present:

Dr. Herb Aschkenasy  Mr. Rob Miller
Ms. Diane Christopher  Mr. Les Swanson, Jr.

Also present: Chancellor Joseph W. Cox; Shirley Clark, Vice Chancellor, Academic Affairs; Marilyn Foute, Associate Vice Chancellor for Administration; Tim Griffin, Vice Chancellor, Corporate and Public Affairs; Weldon E. Ihrig, Vice Chancellor, Finance and Administration; Jan Lindsay, Assistant to the Board Secretary; Vicki Shives, Associate Board Secretary; Virginia L. Thompson, Secretary of the Board.

ACQUISITION OF US WEST BUILDING, PSU

Summary

Portland State University seeks authorization from the Executive Committee to request approval from the State Emergency Board to expend funds to acquire and equip a US WEST facility located next to the University District for their Urban Center, Phase II. The facility will primarily house classrooms and laboratories for PSU’s School of Engineering and Applied Sciences. Approval would be sought later from the Board of Higher Education for the actual acquisition.

Staff Report to the Board

Gerding/Edlen Development Company of Portland holds an option to purchase a 195,000-square-foot facility from the US WEST Corporation. The building, located one block from the PSU campus at SW Harrison and SW Fourth in downtown Portland, also includes more than 380 underground parking spaces and a large area of landscaped open space. The facility has been used for offices and computer operations and has exceptional electrical and mechanical systems and an extremely large raised floor computer and laboratory environment.
PSU proposes that the Board enter into a joint ownership agreement with Gerding/Edlen Development Company under which the Board initially would acquire ownership of the parking and of about 117,000 square feet of space for laboratories, classrooms, offices, meeting areas, and a communications and data processing center. These spaces would comprise the lower level and part of the first floor of the facility. After all vacant space in the building has been leased, the Board would have the option of acquiring title to the remaining space.

The initial transaction (stage one), involving the land beneath the building (about 117,000 square feet of space and an area for about 389 parking spaces), would cost $13,370,000. This includes an allowance for tenant improvements of $1,220,000. The second purchase (stage two), which could occur in 1998, will be for an amount not to exceed $6,600,000 plus closing costs.

An additional limitation of $1 million is being sought to permit PSU to expend gifts and grants now being pursued to help equip the laboratories to be used by the School of Engineering and Applied Sciences. These funds will be spent only if they are raised. The electrical engineering program and a new wireless communications research laboratory are targeted for the new space in the U S WEST building. These would be the first of several programs and new laboratories in electrical engineering, computer science, and mechanical engineering, which the School of Engineering and Applied Sciences hopes will occupy the entire building in the future.

The initial transaction would be financed from a combination of sources, principally bonds to be repaid from rental income and parking revenue. The first stage of approximately 117,000 square feet would include 35,000 square feet leased to U S WEST for an operations center, 25,000 square feet leased to the City of Portland for communications and computer functions, 5,000 square feet to be leased for storage, 8,000 square feet to be used by PSU for conference and meeting services, and 35,000 square feet to be used by the School of Engineering and Applied Sciences. (Another 9,000 square feet of common space is included as well.) In addition, there would be approximately 369 parking spaces available to the University.

Rent paid by the City and U S WEST, combined with parking revenue, will pay the necessary debt service on bonds and provide most of the funds for building operations. A cash donation of
$500,000 (already pledged) is proposed to match a like amount of Article XI-G bonds originally slated for the first phase of PSU's Urban Center. These are part of $3.5 million of bonds whose match was targeted for lottery futures revenue. It is unlikely that these lottery revenues will be realized during this biennium, forcing the postponement of construction on the first phase of the Urban Center until next biennium. The following table summarizes the financing arrangement for the initial transaction.

<table>
<thead>
<tr>
<th>Amount</th>
<th>Fund Source</th>
<th>Repayment Source</th>
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<tbody>
<tr>
<td>$ 500,000</td>
<td>Gifts</td>
<td>Not Required</td>
</tr>
<tr>
<td>500,000</td>
<td>Article XI-G Bonds</td>
<td>General Fund</td>
</tr>
<tr>
<td>1,000,000</td>
<td>Gifts/Grants</td>
<td>Not Required</td>
</tr>
<tr>
<td>5,415,000</td>
<td>Article XI-F(1) Bonds</td>
<td>Parking</td>
</tr>
<tr>
<td>680,000</td>
<td>Article XI-F(1) Bonds</td>
<td>PSU Auxiliaries</td>
</tr>
<tr>
<td>3,735,000</td>
<td>Article XI-F(1) Bonds</td>
<td>Rental–City</td>
</tr>
<tr>
<td>2,395,000</td>
<td>Article XI-F(1) Bonds</td>
<td>Rental–Private</td>
</tr>
<tr>
<td>145,000</td>
<td>PSU Operating Budget</td>
<td>Not Required</td>
</tr>
<tr>
<td>$14,370,000</td>
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Because some of the tenancy is private (most notably the U S WEST holdover), a portion of the bonds probably will be sold as taxable bonds.

The purchase of the remainder of the building, if the Board chooses to do so at a later date, would be financed through the issuance of bonds to be repaid from rental revenue associated with the space. PSU could occupy the space upon the expiration of the leases if sufficient funds can be found in the future to pay debt service and operating costs.

It is anticipated that rental and parking income, coupled with normal operations and maintenance funding for the space used for academic programs, will pay all debt service and operating expenses except for the debt service on the Article XI-G bonds (about $36,000 per year), which is projected for an additional state appropriation in 1997.

An environmental assessment has been performed. A small amount of asbestos was found; it was deemed to be stable. U S WEST will remove a storage tank prior to closing.
Agreements with the developers are being prepared and will be subject to approval by the Attorney General. They will include options for the Board to purchase the remainder of the building at various points.

PSU is seeking authorization from the Executive Committee to request approval from the Emergency Board for: 1) recognition of $500,000 of gifts into the General Fund account for the Urban Center, appropriation of these funds, and approval for their use to match $500,000 of Article XI-G bonds for the acquisition and outfitting of a part of the U S WEST building; 2) establishment of an Other Funds limitation of $13,870,000 and authorization to expend that amount for the acquisition and outfitting of the parking and 117,000 square feet of space (stage one); and 3) establishment of an Other Funds limitation of $6,600,000 (plus closing costs not to exceed $250,000) and authorization to expend that amount for the acquisition of the remaining space in the building (stage two).

If the necessary approvals are granted by the Emergency Board, PSU will request that the Board of Higher Education enter into the agreements necessary to purchase the property. No purchase agreements will be concluded unless authorized by the Board. Completion of the transaction also will be contingent upon the conclusion of satisfactory lease terms with U S WEST and the City of Portland and appropriate approvals of use by the City of Portland.

The project will be entitled Urban Center, Phase II—Acquisition of U S WEST Building. Its Other Funds limitation will be $20,470,000 (plus closing costs for stage two) and its General Fund appropriation (from gifts) will be $500,000.

Staff Recommendation to the Executive Committee

Staff concurred with the request of Portland State University and recommended that the Executive Committee authorize the staff to request approval from the Emergency Board for the actions outlined in this report. The conclusion of any agreement will be subject to ratification by the full Board of Higher Education at the April 1996 meeting.
Executive Committee Discussion and Action

Vice Chancellor Ihrig explained that the Executive Committee was only authorizing staff to request Emergency Board approval to expend funds. Acquisition would need Board approval at a later date.

Dr. Aschkenasy asked for more details about the relationship with developers. “Do we have all of the responsibility and none of the control?” Mr. Ihrig responded that the two floors above ground, with the exception of conference space, would be owned by the developer. The developer would be responsible for the grounds and maintaining their space. The Board would own the other space, including all the parking and the parking revenue associated with that space. Liability would be shared in that same ratio. Mr. Ihrig agreed to find out what mutual responsibility, for example, there may be if the developer overloaded a floor.

Dr. Aschkenasy asked if the Board had any rights regarding tenant selection or approval. Mr. Ihrig thought there was, and would verify that understanding.

Mr. Swanson acknowledged that the Department of Engineering at PSU presently has inadequate space. He inquired about the relationship of those needs with the CAPITAL Center. Mr. Ihrig indicated that both issues had been discussed. “The PSU engineering program is cramped, and their accreditation visit reinforced that. Because the department serves a large number of residents, the proposed U S WEST space is better suited to meet that need than the CAPITAL Center.”

Mr. Miller asked if the space to be acquired would provide for flexibility of use if the engineering needs change. Mr. Ihrig responded that it is a multi-use space. That's the reason for the title “Urban Center.” Mr. Miller asked why we weren't considering purchasing the other space at this time; Mr. Ihrig replied that the Board couldn't afford it at this time. Finally, Mr. Miller asked why it was for sale. Mr. Ihrig indicated that U S WEST is downsizing.

Ms. Christopher questioned when it would be available for use by PSU, to which Mr. Ihrig responded, “By summer 1996.”
RESOLUTION FOR THE SALE OF ARTICLE XI-G & ARTICLE XI-F(1) BONDS

The Board concurred with the Chancellor’s remarks that this is a good opportunity, price, and location.

Ms. Christopher moved and Mr. Miller seconded the motion to approve the staff recommendation. The following voted in favor: Directors Aschkenasy, Christopher, Miller, and Swanson. Those voting no: none.

Summary

At the July 21, 1995, Board meeting, the Board authorized the State Treasurer to issue $26,960,000 of bonds in the fall under authority of Article XI-F(1) and $200,000 under authority of Article XI-G of the Oregon Constitution for construction projects for higher education. Since the fall bond sale was deferred to April, staff now recommends that the Board authorize the State Treasurer to issue an adjusted amount of $44,580,000 of bonds for Article XI-F(1) projects and $11,985,000 of bonds for Article XI-G projects.

Staff Report to the Board

The 1995 Legislative Assembly authorized the Board of Higher Education to issue general obligation bonds to finance projects for capital construction and facilities repair and renovation. The maximum amount authorized for 1995-1997 is $96,070,000 for bonds to be issued under authority of Article XI-F(1) of the Oregon Constitution, which are to be repaid from dedicated revenue sources associated with these projects or from student building fees. An additional $32,950,000 of bonds may be issued under Article XI-G. Debt service on these bonds is paid from the General Fund.

Typically, the Board requests the State Treasurer to issue bonds at least twice during each biennium. However, the bond sale scheduled for fall 1995 was postponed by the State Treasurer, with staff concurrence, to spring 1996. As a result, adjustments to the Board-approved projects and new projects have emerged, as reflected in the Resolution.

Article XI-G bonds are matched by an appropriation from the state General Fund and are general obligations of the state. The construction projects included in this bond sale are for the University of Oregon Law Center planning and Systemwide capital deferred
maintenance projects. The UO project will use gift funds as matching for the Article XI-G bonds. The required match for bonds issued to pursue deferred maintenance projects are from an appropriation made by the legislature for that purpose.

The legislature also approved a possible lottery allocation to replace the need to issue bonds to address deferred maintenance projects. However, since this source is not expected to be available and due to time constraints in securing contractor commitments in advance of the upcoming summer construction season, the bonds are being sold this spring.

Article XI-F(1) of the Oregon Constitution authorizes the Board to issue bonds to construct and repair facilities used by self-supporting operations. Such bonds constitute general obligations of the state. Article XI-F(1) has been used to issue most of the outstanding bonds of the State System. Uses have been to construct and renovate student facilities (student unions, health facilities, recreation facilities), housing facilities (residence halls and family housing), athletic facilities (stadiums), and hospital/clinic facilities. In recent years, bonds also have been approved by the legislature for projects to house communications activities and child care facilities.

The colleges and universities are requesting that $26,960,000 of Article XI-F(1) bonds authorized for issuance in fall of 1995 be adjusted to a new total of $44,580,000 for spring 1996. The purposes for which the bonds would be sold include the development of student family housing at the UO ($6,120,000), to be repaid from housing revenue; the design and construction of a new residence hall and renovation of the current residence facility at EOSC ($4,015,000), to be repaid from housing revenue; building fee-supported renovation work at three student unions (WOSC, OSU, and the UO) totaling $5,255,000; the renovation of the West Hall Dining Center at OSU ($4,410,000), supported by housing charges; the renovation of student housing facilities at PSU ($2,245,000), to be repaid from housing charges, and the Urban Center Phase II at PSU ($13,475,000), to be repaid from a variety of sources including parking fees, general auxiliary, and rental income from the City of Portland and U S WEST; the West Hall Renovation Project at OSU ($8,450,000), to be repaid from housing charges; and a supplemental sale for the OSU Food Innovation Center ($610,000), to be repaid from rental income.
Of the total Article XI-F(1) bonds, bond counsel will designate the $2,245,000 for Portland State University's Housing Renovation project as 501(c)(3) bonds because a private non-profit entity will manage the housing units for the University. In addition, bond counsel may designate a portion of the Urban Center Phase II project bonds ($2,445,000) as taxable because of space utilization by a private entity, U S WEST.

The resolution now before the Board authorizes staff to pursue the sale of bonds for all projects currently identified by the colleges and universities as needing bond funding during 1996-97. Adjusted bond issuance amounts requested for both Article XI-F(1) projects and Article XI-G projects are listed in the resolution. All figures for these projects include a two percent addition for the bond cost of sale/discount.

Staff believes that the projects for which Article XI-F(1) bonds are proposed meet the self-liquidating and self-supporting requirements of Article XI-F(1), Section 2 of the Oregon Constitution.

Staff Recommendation to the Board

Staff recommended the Board: 1) find that the projects for which Article XI-F(1) bonds are proposed meet the self-liquidating and self-supporting requirements of Article XI-F(1), Section 2, of the Oregon Constitution; and 2) adopt the following resolution authorizing the sale of Article XI-G and Article XI-F(1) bonds.

RESOLUTION

WHEREAS, ORS 286.031 states, in part, that the State Treasurer shall issue all general obligation bonds of this state after consultation with the state agency responsible for administering the bonds proceeds; and

WHEREAS, ORS 286.033 states, in part, that the state agency shall authorize issuance of bonds subject to ORS 286.031 by resolution; and

WHEREAS, ORS Chapters 351, 288, and 286 provide further direction as to how bonds are sold and proceeds administered; and
WHEREAS, Senate Bill 5535, Chapter 410, Oregon Laws 1995, establishes Oregon Constitution limitations on the amount of bonds that may be sold pursuant to Articles XI-G and XI-F(1) for the 1995-1997 biennium; and

WHEREAS, Senate Bill 5555, Chapter 254, Oregon Laws 1995, lists those projects that may be financed pursuant to Articles XI-G and XI-F(1); and

WHEREAS, it is appropriate for this Board to authorize the State Treasurer to issue bonds for projects authorized by Senate Bill 5555 and in amounts not greater than authorized by Senate Bill 5555 and as otherwise required by law for the 1995-1997 biennium without requiring further action of this Board;

NOW, THEREFORE, be it resolved by the State Board of Higher Education of the State of Oregon as follows:

Section 1. Issue. The State of Oregon is authorized to issue general obligation bonds (the "Bonds"), in such series and principal amounts as the State Treasurer, after consultation with the Vice Chancellor for Finance and Administration of the Department of Higher Education, shall determine are required to fund projects authorized by Oregon law for the 1995-1997 biennium. The Bonds shall be designated, dated, authenticated, registered, shall mature, shall be in such denomination, shall bear such interest, be payable, be subject to redemption, and otherwise contain such terms as the State Treasurer determines, including the designations as Oregon Baccalaureate Bonds, after consultation with the Vice Chancellor for Finance and Administration. The maximum net effective interest rate for the Bonds shall not exceed ten percent per annum.

Section 2. Article XI-F(1) Projects. Bonds are authorized to be sold to provide funds for projects as may be authorized by the Oregon legislature and as may be revised by the Vice Chancellor for Finance and Administration as authorized by Oregon law.
### Article XI-F(1) Projects

**University of Oregon**
- Student Family Housing (Amazon Housing, Phase II): $9,705,000 / $6,120,000
- EMU Safety Improvements: 255,000 / 255,000
- EMU/Child care: 305,000 / 0
- Vivian Olum Child Care Center: 130,000 / 0
- Amazon Housing Child Care: 495,000 / 0

**Oregon State University**
- Memorial Union Renovation, Ph II: $2,705,000 / $2,705,000
- West Hall Dining Renovation: 4,410,000 / 4,410,000
- Food Innovation Center: 0 / 610,000
- West Hall Renovations: 0 / 8,450,000

**Portland State University**
- Housing Renovation: $2,245,000 / $2,245,000
- Urban Center Phase II: 0 / 13,475,000

**Western Oregon State College**
- Forensics Laboratory: $400,000 / $0
- Werner College Center Renovation: 2,295,000 / 2,295,000

**Eastern Oregon State College**
- Residence Hall Construction/Renovation: $4,015,000 / $4,015,000

**Total Article XI-F(1) Projects**
- $26,960,000 / $44,580,000

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Section 3. Article XI-G Projects. Bonds are authorized to be sold to provide funds for projects as may be authorized by the Oregon legislature and as may be revised by the Vice Chancellor for Finance and Administration as authorized by Oregon law.
Executive Committee

Bonds Authorized

July 21, 1995

Revised

Bond Authorization

March 14, 1996

Article XI-G Projects

University of Oregon

Law Center

$ 200,000

$510,000

System

Capital Repair/Deferred Maintenance

$0

$11,475,000

Total Article XI-G Projects

$200,000

$11,985,000

Total All Bond Projects

$27,160,000

$56,565,000

Section 4. Maintenance of Tax-Exempt Status. The Board covenants for the benefit of the owners of the Bonds to comply with all provisions of Internal Revenue Code of 1986, as amended (the "Code"), that are required for Bond interest to be excludable from gross income for federal income taxation purposes (except for taxes on corporations), unless the Board obtains an opinion of nationally recognized bond counsel that such compliance is not required in order for the interest to be paid on the Bonds to be so excludable. The Board makes the following specific covenants with respect to the Code:

(a) The Board shall not take or omit any action if the taking or omission would cause the Bonds to become "arbitrage bonds" under Section 148 of the Code, and shall assist in calculations necessary to determine amounts, if any, to allow the State to pay to the United States all "rebates" on "gross proceeds" of the Bonds that are required under Section 148 of the Code.

(b) Covenants of the Board or its designee in its tax certificate for the Bonds shall be enforceable to the same extent as if contained herein.

Section 5. Sale of Bonds. The State Treasurer, with the concurrence of the Vice Chancellor for Finance and Administration, shall sell the Bonds as the State Treasurer deems advantageous.
Section 6. Other Action. The State Treasurer, the Vice Chancellor for Finance and Administration, or the Controller of the Department of Higher Education is hereby authorized, on behalf of the Board, to take any action that may be required to issue, sell, and deliver the Bonds in accordance with this resolution.

Executive Committee Discussion and Action

Ms. Christopher asked about other needs of OIT relative to earthquake damage. Mr. Ihrig responded that those were largely covered by insurance.

Ms. Christopher moved and Dr. Aschkenasy seconded the motion to approve the staff recommendation, with final ratification by the full Board at the April 1996 meeting. The following voted in favor: Directors Aschkenasy, Christopher, Miller, and Swanson. Those voting no: none.

ADJOURNMENT The Executive Committee adjourned at 10:40 a.m.

Virginia L. Thompson
Secretary of the Board

Les Swanson, Jr.
President of the Board