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BOARD OF GOVERNORS
STATE UNIVERSITY SYSTEM OF FLORIDA
BY TELEPHONE CONFERENCE CALL
TALLAHASSEE, FLORIDA
FEBRUARY 26, 2009

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The Chair, Sheila M. McDevitt, convened the meeting of the Board of Governors by telephone conference call, from Tallahassee, at 9:00 a.m., February 26, 2009, with the following members present: Ava Parker, Vice Chair; John Dasburg; Ann Duncan; Charlie Edwards; Dr. Stanley Marshall; Frank Martin; Tico Perez; Carolyn K. Roberts; Dr. Judy Solano; Gus Stavros; John Temple; Norm Tripp; and Dr. Zach Zachariah.

1. Call to Order and Chair's Report

Ms. McDevitt thanked the Board members for their participation in the meeting. She commented that the Legislative Session would begin the following week. She said Legislators would have to consider the needs of the state as they crafted the 2009-2010 budget. She said this would be a challenge. She said she was confident that the SUS would present a unified front and would be successful. She said that since her election as Chair, she had spent a great deal of time in Tallahassee getting to know Legislators and talking about the needs of the institutions and of the System. She said there was now a much more receptive audience in the Capitol; there was recognition of the importance of higher education.

Ms. McDevitt said that the Governor had released his proposed Budget Request the previous week. She said he had recommended no additional cuts to the SUS operating budget, and had recommended lump sum funding with allocations by university, in accordance with Board of Governors methodology. She noted that the Governor had added \$131 million in economic stimulus to the operating budget, with the Board of Governors determining the allocation by university. She said the Governor had recommended a base tuition increase of five percent; an additional 10 percent could be implemented if the differential tuition legislation passed.

She explained that in the Fixed Capital Outlay budget, the Governor had recommended \$89.7 million for university PECO projects, but did not name specific projects. She noted that this was \$55.6 million less than the amount approved by this Board in January. She said the Governor had recommended no funding for the Alec Courtelis Facilities Enhancement Challenge Grant Program.

She said she would work hard to try to achieve all of the Board's agenda articulated last November, including the budget, full funding for the existing and new medical schools, and the funding for New College. She said the Board also had a full plate of substantive legislation.

Ms. McDevitt said the next Board meeting would be held March 25-26, 2009, in Tallahassee. She said she hoped Board members would use the time in Tallahassee to meet with Legislators and ask for their support of the Board's agenda.

2. Report, President-in-Residence

President Delaney said he had been spending a few days in Tallahassee since December. He said he appreciated the Board staff, who had worked for many Chancellors over the past ten years.

He said he had made a number of presentations to House and Senate Committees in recent weeks. He said President Wetherell had given an excellent presentation on the different "colors of money" in university budgets; President Brogan had given an excellent presentation on branch campuses in the Senate. He said Presidents Bradshaw, Hitt and Wetherell had also made presentations on articulation issues; Presidents Hitt and Maidique had reported on the status of their new medical schools.

President Delaney said as he understood it, the Governor's budget recommendations appeared to use federal stimulus funds to plug holes in the education budget, and moving PECO dollars to fund operations. He said the House and Senate did not agree. He said it appeared that \$5-8 billion was needed to plug the budget shortfall. He commented that the stimulus funds could make up half that amount if the money were spread over two years. He said the Legislature seemed inclined to spread the funds over two years. He said there was talk of some revenue enhancements to address the needs of the state.

He echoed the Chair's comments that his reception in the Legislature had been terrific. He said many Legislators recognized that the State University System was vital to the economic future of the state. He said it appeared that the difficult economy and the budget challenges created a willingness by Legislators to extend the differential tuition to all the universities.

He said Chair McDevitt had negotiated a tremendous agreement with the Florida Prepaid Board. He said the agreement would protect the Prepaid Program in future years, and the universities would get some revenue from increases in the differential tuition. He said there was also talk about Bright Futures. He said Legislators recognized the significance of higher education.

Mr. Edwards commented on the Governor's use of PECO funds for operational needs. He cautioned that they needed to be very careful about losing a valuable, and dedicated, source of revenue. Mr. Delaney said he shared this concern about the use of non-recurring dollars. He said he was not sure how the stimulus funds were being used.

3. Approval, Agreement between the Florida Prepaid College Board and the Florida Board of Governors

Ms. McDevitt said the Agreement with the Florida Prepaid Board was not included in the materials when the agenda was sent out, as it was not yet complete. She said the documents had been distributed to all Board members and were posted to the Board's website the previous week.

Ms. McDevitt explained the Agreement. She said the Agreement applied only to existing Prepaid contract holders. She said beginning in late 2006, early 2007, as discussions were beginning about additional tuition increases with General Revenue declines, the Chancellor and Board staff had begun conversations with Prepaid staff about ways to maintain the soundness of the fund, protecting the state and contract holders while beginning to increase tuition. She noted that the first differential tuition law passed in 2007; it was expanded in 2008. As of July 1, 2007, "tuition" Prepaid contract holders were exempt from the payment of the "differential tuition." She said there was concern that there would be a greater burden on the Trust Fund than had been actuarially assumed when the contract prices were set. There was also a concern about the loss of revenue to the universities from the numbers of exempt contract holders, and a concern about an increased strain on the Prepaid funds which would require the state to step in and exercise its obligation to backstop the program. She noted that all these concerns increased as the proposed tuition legislation this year would apply to all 11 institutions.

Ms. McDevitt said House and Senate staff, and the Governor's Office staff, had all been in the conversations that the Board of Governors and the Prepaid Board should try to craft a solution balancing all the differing interests. She said the Agreement related only to contracts purchased prior to the effective date of the Agreement and to "differential tuition fee" contracts purchased after July 1, 2007 until the effective date. She said there were different contracts available to purchasers: base tuition contracts which included matriculation or tuition fees, the financial aid fee, the building fee and the Capital Improvement Trust Fund fee; dorm contracts; two-year and four-year contracts; and contracts for local fees. Also, since 2007, purchasers could buy additional "differential tuition" contracts. She said there were over 400,000 university and 2+2 Registration Fee contract holders who might use their benefits in the SUS in the next 24 years, and approximately 18,000 "differential tuition fee" contract holders.

Ms. McDevitt said the Prepaid Board had made actuarial assumptions of an annual 6.5 percent increase in tuition. She said the Agreement established a base rate for the Registration Fee, as well as for the local fees, the dorm fees and the differential fee until 2012-2013. The universities would be paid the base rates escalated and compounded annually, at 6 percent, 6.25 percent, or 6.5 percent, depending on the actuarial reserve. The Agreement also provided for increases in local fees and in dormitory fees, regardless of the actuarial reserves. She noted that over the life of the Prepaid Plan, since 1988, the Registration Fee had increased annually on average 5.66 percent, and over the last 10 years the increase had been 5.33 percent. She noted that with the Agreement, the universities would cap their exposure to a maximum of \$105 million for the 18,000 differential contracts over 20 years. She said the universities had the potential to gain up to \$3 billion in revenue if the Registration Fee remained what it was now with the compounded escalators. She noted that even if the future rate of growth in the Registration Fee was equal to the last 10 years average of 5.33 percent, this Agreement would net the SUS \$415 million over the next two decades.

Ms. McDevitt said there were many advantages to both the Prepaid Board and to this Board with this Agreement. It provided for certainty to the Prepaid Board and some predictability in funds to the universities. It capped the exposure of the state to shore up the commitment to contract holders. She commented that the escalators to the dorm and local fee contracts were at their historical rates of increase, and were not tied to the actuarial reserves.

Mrs. Roberts thanked Ms. McDevitt for successfully concluding this Agreement. She said her expertise had made a difference in the discussions.

President Delaney also thanked Chair McDevitt. He said without the Agreement, if base tuition did not increase, and the differential tuition grew to 15 percent, the universities would have to absorb the difference for all the students with Prepaid Contracts. He said the universities were guaranteed a 6 or 6.5 percent on the Prepaid contracts, regardless of the increase in the differential tuition, and the contract holders were not at risk. He said he viewed this as a real breakthrough with the Prepaid Board. He added that the Legislature had to pass legislation to allow Prepaid to pay these funds to the universities. He said in the past, the Prepaid Board had opposed tuition increases because of its liability to contract holders.

Ms. McDevitt recognized Mr. Stanley Tate, the former Chair of the Prepaid Board, who had called her and asked to address the Board. She said she had told him that the Board was not discussing a tuition increase at this meeting.

Mr. Tate said he was pleased that current contract holders were covered. He said it was good to have the Agreement. He said his biggest concern was about future increases in the differential tuition for future contract holders. He commented that 24 percent fewer contracts had been sold this year than in past years. He said that polling

showed that 78 percent of Floridians were opposed to differential tuition increases of up to 15 percent. He said he would wage a formidable campaign in the Legislature against the proposed tuition increase. He said he had long fought for affordable tuition for low and low-middle income families, who would now be unable to afford Prepaid contracts. He said he intended to put pressure on House and Senate members not to pass this bill, which would prevent low income families from being able to pay affordable tuition. He said he had hired an advertising agency to help him in this fight.

Mr. Tate said there were other places for the universities to find money. He said he wanted to keep the Prepaid Program as it was meant to be, affordable tuition for low-income families.

Mr. Edwards commented that Mr. Tate's position was well known. He said his position had long been "the cheaper, the better."

Mr. Edwards moved that the Board approve the Agreement between the Florida Prepaid College Board and the Florida Board of Governors, as presented. Mrs. Roberts seconded the motion, and members of the Board concurred.

4. Update, Federal Economic Stimulus Package

Mr. Jones said that the Stimulus Package contained a number of funding opportunities through grants from federal agencies, particularly from NIH and NSF. He said applications for funding were to be made directly to the federal agencies. He estimated that \$2.7 billion would come to Florida for K-20, of which \$2.2 billion was to restore funding to 2007-08 levels and \$0.5 billion was for public safety and government services. He said this included renovation and repair of buildings.

He said there was an LBR issue relating to campus safety. There were potential projects for funding in the SUS. He said each state's Governor had to apply for funds. Guidelines for applying were yet to be developed. He said there was also a requirement for an annual report on how the funds had been used, the number of jobs saved, the tax increases averted by state legislatures, and actions taken to limit tuition increases. He noted that the Legislature would have to appropriate the funds for them to be spent. He noted that the Governor had used \$1.1 billion of stimulus money in his budget recommendations.

Ms. McDevitt inquired whether Florida would qualify for the waiver because of previous budget reductions. Mr. Jones said he had heard that the U.S. DOE had assured Florida it would qualify for such a waiver. He added that Florida would still have to apply for the waiver and receive official U.S. DOE approval.

5. Status Report, New Medical Schools, UCF and FIU

Ms. McDevitt said this Board had agreed to an ongoing process of updates about the existing and the new medical schools. She commented that FIU and UCF would welcome their first medical students in Fall 2009.

Mrs. Roberts said the medical schools met several critical functions. She said they provided medical education, and were economic engines. She said UCF and FIU had been asked to provide information about their private fundraising, and building construction and renovation.

President Hitt said Dean Deborah German was with him on the call. He said UCF was thrilled by the response from prospective students. He said 4600 students had applied for the 40 seats. He reported that construction at the Lake Nona site was proceeding on schedule and the "medical city" envisioned for that site was becoming a reality. He said the "fly in the ointment" was the \$10 million the state had not appropriated for the medical school, which had been part of the initial plan. He said this funding this Session was critical.

Dean German said she was pleased with the support for the medical school in the community, but she stressed the need for the additional funding.

Mrs. Roberts inquired about UCF's fundraising. Dr. Hitt responded that UCF had received gifts of \$40,479,579 and pledges for another \$15 million. In addition, UCF had received \$24.1 million in state match, but had not received another \$10 million in state match. He said he expected another \$10 million which had been pledged, but was not yet in hand. He said the gift of 50 acres of land at Lake Nona was valued at \$20.4 million.

Ms. McDevitt inquired whether the \$10 million UCF was seeking from the Legislature were recurring dollars. President Hitt said they were recurring dollars, and would be a part of the ongoing budget for the medical school.

President Maidique said he was delighted to report that the FIU medical school was on track and the facilities were in place. He reported that they also had many student applicants. He said the founding faculty members were in place. He said FIU had attracted a wide array of partners, including Mercy Hospital, Mount Sinai Medical Center, Leon Medical Centers and the Florida Department of Health. He said they had already built two buildings, a third building was still to be built, to house the 120 students expected for the full four years. He said he was proud of the quality of the faculty being hired for the school, including two NIH merit award winners.

Dr. Maidique said the College of Medicine had raised \$54 million; Dade County had committed \$10 million to build an on-campus ambulatory facility. He said the Faculty Practice Plan was also in place.

Mrs. Roberts inquired about the \$54 million. Dr. Maidique said \$9 million was in hand; there were commitments for \$31 million. He said \$21 million was eligible for state match which had not yet been received.

Ms. McDevitt inquired what FIU needed from the Legislature this Session. Dr. Maidique said they needed \$11 million. He added that this was the year they needed significant state funding; hereafter, the amounts would be less.

Ms. McDevitt inquired whether this year's request included the funding they did not receive last year. Dr. Hitt said UCF did not get \$4 million last year; this was now part of UCF's request for \$10 million.

Dr. Zachariah inquired whether in this economy it was realistic to expect all these funds. Dr. Maidique commented that Miami-Dade County had made the \$10 million commitment. He said the donation of \$10 million from the Leon family was solid; their business was doing well. He said he did not see significant risks in these donations. Dr. Zachariah inquired about the timeline for the receipt of the \$36 million in pledges. Dr. Maidique said it was a matter of finding a chair or building a building. He noted that the Leon gift was a five-year pledge; the \$5 million for North Dade Scholarships was in hand.

There were no further questions. Ms. McDevitt thanked the Presidents for the reports.

6. Approve, Authorization to Implement a Guaranteed Energy Performance Program, FAMU, Tallahassee Campus

President Ammons explained that FAMU solicited qualifications from firms qualified to implement a Guaranteed Energy Performance Program for the University. He said they contracted with Siemens Building Technologies, Inc., to perform the work and install energy-saving equipment. He said the program cost was \$2.5 million; debt service payments would be funded from revenues generated by savings guaranteed under the terms of the contract. Dr. Ammons said these were much-needed improvements.

Mr. Kinsley noted that the Board had previously approved a similar program at FSU. The Board of Regents had also approved a number of these contracts at other universities. He said that staff had reviewed the proposed Energy Performance Program and supporting documentation. He said it appeared that the proposed

financing was in compliance with applicable Florida State Energy Performance Based Contracting Procedures.

Ms. Duncan moved that the Board authorize the implementation by Florida A & M University, of a Guaranteed Energy Performance Program, in an amount not to exceed \$2.5 million, as presented. Mr. Dasburg seconded the motion, and members of the Board concurred.

7. Closing Remarks and Adjournment

President Delaney said even if the proposed tuition bill did not pass, two thirds of the students in the SUS would be attending an institution already authorized to charge differential tuition. He said the proposed bill would give the universities some discretion about raising tuition. He said it allowed the universities to raise their tuition to the national average. He said quality was important, and resources were a driver on quality. He said the Legislature might also address Bright Futures. He said these were all steps forward.

President Maidique thanked the Chair for the conference call. He said he was at a table with seven colleagues who had not had to travel.

Ms. McDevitt clarified that the Agreement with the Prepaid Board had nothing to do with tuition. She said present contract holders held valid contracts. This was a way to balance the interests of the Prepaid Fund and the universities not receiving dollars from students who would be attending their universities. She said they all understood the rights of the contract holders. She said it would be helpful to have an income breakdown on the purchasers of Prepaid Contracts. She added that the program was not simply directed to low-income families.

Mr. Tate said when he wrote the program, his goal was to make tuition affordable and to make college possible for students who were not attending college because of the cost of tuition.

Mr. Dasburg moved that the meeting be adjourned. Mr. Edwards seconded the motion, and Board members concurred. Having no further business, the Chair adjourned the conference call meeting of the Board of Governors at 10:05 a.m., February 26, 2009.

Sheila M. McDevitt,
Chair

Mary-Anne Bestebreurtje,
Corporate Secretary