BOARD OF REGENTS
BRIEFING PAPER

1. **Title of Agenda:** **<u>University of Nevada, Reno Fire Science Academy (FSA) - Debt Reduction and Closure Cost Plan</u>**

Meeting Date: **<u>March 1-2, 2012</u>**

2. BACKGROUND & POLICY CONTEXT OF ISSUE:

At the December 2011 meeting the Board of Regents, upon the recommendation of UNR interim President Marc Johnson, voted unanimously to close the FSA program and proceed with the sale of the FSA facility to the Nevada Division of State Lands for the benefit of the Nevada Department of the Military for use by the Nevada National Guard. President Johnson's recommendation followed an aggressive but unsuccessful campaign to secure long-term public and/or private funding to ensure the future financial sustainability of the FSA.

At the December meeting President Johnson indicated he would return to the March 2012 Board of Regents meeting with an update on the FSA facility sale and a closure and debt reduction workout plan to deal with the residual FSA capital debt, accumulated operating deficit and anticipated costs of program closure and site reclamation.

<u>Status of the FSA Facility Sale to the Nevada Division of State Lands</u>

The Purchase and Sale Agreement selling the FSA facility to the Nevada Division of State Lands for $10M is in place having been previously approved by the Board of Regents, Board of Examiners and the Interim Finance Committee.

For nearly a year consummation of the sale, which involves both federal and state funding, has been awaiting receipt of appropriated federal funds which first required a technical correction in the legislative language contained in the National Defense Authorization Act authorizing relocation of the Nevada National Guard Readiness Center from Elko to Carlin.

On December 31, 2011, President Obama signed the National Defense Authorization Act making the federal funds available. All state funds in connection with this transaction are currently being held by the Nevada Division of State Lands. The sale of the FSA facility is now expected to close escrow sometime in the first quarter of 2012.

<u>Review of FSA Capital Debt and Accumulated Operating Deficit as of December 31, 2011</u>

<u>Capital Debt:</u>

$24.1M (Originally $31.0M)

The FSA capital debt is currently being serviced through a $6.50 per credit hour student CIP fee.

<u>Accumulated Operating Deficit:</u>

$10.2M – From Operations
<u>$ 1.6M</u> – From Mediated Settlement Regarding Contractor Cost Overruns
<u>$11.8M</u>

Currently, no debt service is occurring with regards to the operating deficits. The operating deficit is being funded from internal institutional borrowings.

FSA Capital Debt Reduction Plan

When the sale of the FSA is finalized, the $10M purchase price will be combined with: $4.5M in proceeds from the 2005 Mill & McCarran property sale; $1M in 2012 excess student fee collections; $1M from various other institution funds (i.e. investment income, unclaimed property reserve, favorable litigation settlement); and approximately $1.3M from the debt service fund held by Wells Fargo Bank as paying agent for the outstanding bonds, and used to call all but $6.5M of the outstanding FSA bonds. The $6.5M of capital debt, all of which is callable at any time, will remain outstanding for the present. The callable feature of these bonds gives the University ultimate flexibility in terms of timing to retire some or all of the remaining capital debt as opportunities present themselves.

As a result of the lower outstanding principal amount it is anticipated that the current $6.50 per credit hour student CIP fee for FSA debt service can be reduced to approximately $2.40. At today's interest rates the $4.10 of the CIP fee that is "freed-up" will support approximately $22.5M in new bonding capacity for future student-centered capital projects.

Further, the University is committed to applying all or a substantial part of any future extraordinary funds it may receive to pay-down the remaining $6.5M in capital debt in order to free-up the remaining $2.40 per credit hour CIP fee as soon as possible. An example of a possible source of extraordinary funds could be the future sale of excess Stead properties.

The Chancellor shall select the maturities of the outstanding FSA bonds to be called.

FSA Accumulated Deficit Reduction Plan

There is currently no specifically identified near-term deficit reduction plan with regard to the FSA $11.8M accumulated operating deficit. For the present the deficit will continue to be funded from internal institutional borrowings. However, once the FSA capital debt has been fully retired, any additional future extraordinary funds as noted above can be used to reduce the remaining accumulated operating deficit.

FSA Closure and Restoration Cost Plan

In 2008 the University reviewed the option of simply closing the Fire Science Academy. An estimate of closure costs was made which assumed simply 'mothballing' the facility and restoring the site to a level acceptable to the Nevada Division of Environmental Protection (NDEP).

In October of 2011 a new estimate for closure and site reclamation was conducted. It reflected a new set of assumptions based on the likelihood that if FSA closure was to occur, the University would not be the owner at that time and reclamation requirements for a future use might be different from that of simply 'mothballing.' If this was the case, additional work in excess of the 2008 estimate would be required to achieve this higher standard. The assumptions include the removal of props, concrete prop pads, other concrete lined areas and processed water treatment systems. Further, items which were abandoned in place in the 2008 assessment would need to be removed and disposed of in this version. These additional reclamation items increased the cost estimate from $3.5M to $4.1M. Uncertainty regarding exact NDEP requirements for property restoration still exists and will have a direct bearing on the final, actual costs to reclaim the property.

The 2005 Mill & McCarran property sale proceeds account currently has a remaining balance of $8.7M. After deducting $4.5M for purposes of capital debt reduction, as previously approved by the Board of Regents, there remains a balance of $4.2M. Consistent with conditions imposed by the Board of Regents with regard to the use of Mill & McCarran property sale proceeds under Resolution 81-8, the University is requesting Board approval to use the $4.2M balance, with proceeds first being applied to required closure/remediation costs and any remaining funds being applied to the reduction of the outstanding capital debt.

Summary

The FSA workout plan as outlined above will, in the near term, reduce FSA capital debt, accumulated operating deficit and closure/restoration exposure from $40.0M to $18.3M, and is summarized in the table below.

FSA Debt Reduction and Closure Cost Plan Summary
($ in Millions)

	Capital Debt	Accumulated Operating Deficit	Closure/ Restoration	Total
Current Balance	**$24.1**	**$11.8**	**$4.1**	**$40.0**
FSA Facility Sale	($10.0)			
Mill & McCarran Proceeds	($4.5)			
2012 Excess Student Fees	($1.0)			
Institutional Reserves	($1.0)			
Debt Service Fund Contribution	($1.3)			
Accrued Interest/Transaction Costs	$0.2			
No Specifically Identified Sources for Repayment at this Time		$0		
Balance of Mill & McCarran Proceeds*			($4.1)	
New Balance	**$6.5**	**$11.8**	**$0**	**$18.3**

* Actual balance of Mill & McCarran proceeds is $4.2M. Any proceeds not used to for closure/restoration costs will be used to further reduce capital debt.

3. SPECIFIC ACTIONS BEING RECOMMENDED OR REQUESTED:

President Marc Johnson requests approval, consistent with conditions imposed by the Board of Regents in regard to the Mill & McCarran property sale proceeds under Resolution 81-8, to use the remaining balance of the sale proceeds (approximately $4.2M) to: 1) address FSA closure/reclamation costs, 2) to use any remaining funds to further reduce the amount of outstanding capital debt and 3) to call the maturities of the outstanding FSA bonds selected by the Chancellor from the sources identified in the FSA Debt Reduction and Closure Cost Plan.

4. IMPETUS (WHY NOW?):

On December 31, 2011, President Obama signed the National Defense Authorization Act making matching federal funds available to the state to complete the purchase of the FSA facility. The long awaited sale of the FSA facility is now expected to close escrow sometime in the first quarter of 2012.

5. BULLET POINTS TO SUPPORT REQUEST/RECOMMENDATION:

- The Board of Regents has previously endorsed and formally approved the sale of the FSA facility to the Nevada Division of State Lands for the benefit of the Nevada Department of Military for use by the Nevada National Guard.
- Approval of the proposed debt reduction plan will allow:
  *Reduction in capital debt from $24.1M to $6.5M.
  *Reduction in the $6.50 per credit hour student CIP fee for FSA debt to approx. $2.40.
  *Use of the $4.10 difference to support approximately $22.5M in new bonding capacity for future student-centered capital projects.

6. POTENTIAL ARGUMENTS AGAINST THE REQUEST/RECOMMENDATION:

The request to utilize the balance of the Mill & McCarran property sale proceeds (approximately $4.2M) to address FSA closure/reclamation costs and further reduce outstanding capital debt will deplete all the proceeds from the Mill & McCarran property sale.

7. ALTERNATIVE(S) TO WHAT IS BEING REQUESTED/RECOMMENDED:

In addition to leaving $6.5M in existing FSA tax-exempt bonds outstanding, the University could leave another $4.1M of FSA bonds outstanding, and reduce the contribution from the Mill & McCarran property sales proceeds by the same amount. However, such an alternative would adversely impact the Board and University's desire to substantially reduce the students' current CIP fee for FSA capital debt service to be able to reallocate those fees for future student-centered capital projects.

8. COMPLIANCE WITH BOARD POLICY:

- ❑ Consistent With Current Board Policy: Title #_____ Chapter #_____ Section #_______
- ❑ Amends Current Board Policy: Title #_____ Chapter #_____ Section #_______
- ❑ Amends Current Procedures & Guidelines Manual: Chapter #_____ Section #_______
- ❑ Other:____
- ❑ Fiscal Impact: Yes_____ No__X

  Explain: Approximately $4.10 of the student per credit hour CIP fees currently used for FSA debt service will be available for future student-centered capital projects.

Revised: June 2010