SPECIAL MEETING
BOARD OF REGENTS
UNIVERSITY AND COMMUNITY COLLEGE SYSTEM OF NEVADA
Tam Alumni Center
University of Nevada, Las Vegas
4505 Maryland Parkway, Las Vegas
Wednesday, January 16, 2002

Members Present:
Mrs. Thalia Dondero, Chair
Mr. Mark Alden
Dr. Jill Derby
Mrs. Dorothy S. Gallagher
Mr. Douglas Roman Hill
Mrs. Linda Howard
Dr. Tom Kirkpatrick
Mr. Howard Rosenberg
Mr. Doug Seastrand
Mr. Steve Sisolak

Members Absent:
Mr. Tom Wiesner {Excused}

Other Present:
Chancellor Jane Nichols
President John Lilley, UNR
President Carol Harter, UNLV
Vice Chancellor, Finance & Administration, Dan Miles
Vice Chancellor, Academic Affairs, Richard Curry
General Counsel Tom Ray
Chief Administrative Officer, Suzanne Ernst

Also present were faculty senate chairs Dr. Paul Neil, UNR and Dr. Stephen Carper, UNLV. Student body presidents included Mr. Carlos Ledon, UNR-GSA; Mr. Matthew Wolden, UNR; Ms. Rana Koran, UNLV-GSA; and Mr. Paul Moradkhan, UNLV. UNR Representatives included Dr. John Frederick, Interim Executive Vice President and Provost; Dr. Ashok Dhingra, Vice President, Administration and Finance; Dr. Shannon Ellis, Vice President, Student Services; Mr. Buzz Nelson, Assistant Vice President, Facilities Management; Mr. Keith Lee, Chairman, Foundation Executive Committee; and Mr. Bob Dickens, Director, Government Relations. UNLV Representatives included Dr. Ray Alden, Provost; Dr. Rebecca Mills, Vice President, Student Services; Mr. Tony Flores, Vice President, Finance; and Mr. George Scaduto, Associate Vice President, Finance. System Administration representatives included Ms. Nancy Flagg, Deputy to the Chancellor; Mr. Van Weddle, Vice Chancellor, Technology; Mr. John Amend, Director, Capital Planning; and Ms. Kathleen Payne, Director, Banking and Investments.

Chair Dondero called the meeting to order at 10:05 a.m. on Wednesday, January 16, 2002, with all members present except Regent Wiesner, who was excused due to illness.

1. Approved-Resolution 01-11, Fire Science Academy, UNR - The Board approved the following:

- The issue of approximately $31 million in bonds, 30-year payback, to satisfy the existing obligation to GMACCM (as required by the terms of a litigation settlement agreement), to be financed through regular student fees. Bond proceeds will be used to purchase the Fire Science Academy at Carlin, Nevada from GMAC per the October 2001 settlement agreement.
- Designating the Fire Science Academy at Carlin, Nevada as part of the University of Nevada, Reno's Master Plan.

Chair Dondero asked Ms. Ernst to read the pending motion on the floor (from the Board's December 6-7, 2001 meeting):

Request was made for approval of the following:

- Issue about $31 million of bonds, 30-year payback, to be financed through regular student fees. The bond proceeds will be used to purchase the Fire Science Academy at Carlin, Nevada from GMAC per the October 2001 settlement

agreement.
- Designate the Fire Science Academy at Carlin Nevada as part of the University of Nevada, Reno's Master Plan.

In order to retire the indebtedness, the following student fees will be dedicated to servicing the bond debt:

- Redirect the $1.00 student per credit hour fee for FY02, and an additional $1.00 student per credit hour fee for FY03 (for a total of $2.00) that was approved for financing the University of Nevada, Reno's new library building to the Fire Science Academy.
- Approve for the use for the Fire Science Academy (FSA) the increases in regular student fees, retained by the University, in the amount of $1.00 per credit hour in FY04, $1.00 per credit hour in FY05, and $1.00 per credit hour in FY06.

Regent Seastrand asked whether the additional $1.00 student per credit hour fee for FY03 was also redirected. Chair Dondero replied that it was part of the pending motion. She then asked President Lilley to make his presentation.

President Lilley thanked the Regents, Chancellor Nichols and her staff, UNR colleagues, and many friends of the university for their help in addressing the FSA issue. He related that UNR had struggled with the challenge of meeting the financial commitments while still allowing the university to move forward. He recommended approval of funding both the $31 million in bonds and the $8.5 million bank loan from regular student fees for several reasons:

- Must not strip away assets the university urgently needs to face major growth challenges.
- Federal delegates would like to assist with the issue, but need to know the Regents' position.
- The System is entering the state budget cycle and the FSA is a huge distraction, potentially affecting the entire System.
- The uncertainty of Regent action is affecting bond ratings for the entire System.
- Bank interest rates are the lowest they've been in 40 years. UNR would like to initiate the bank loan necessary for the $8.5 million needed.
- President Lilley does not like the university being out of compliance with Regent expectations concerning deficits that must be reported as exceptions to the Finance & Planning Committee.
- UNR is working diligently to ensure the academy opens properly and on time. Major petroleum companies are enrolling, but are holding back on the size of their enrollments to see what action the Board takes.
- Securing gifts in this environment is impossible until the situation is resolved.

President Lilley related that other reasons included:

- UNR is trying to recruit the best people for reopening the academy on May 1, 2002. All candidates ask about the probability of the FSA being approved and ready to operate.
- He and his colleagues need to know what they can rely upon as they tackle issues central to the university meeting its obligations, improving its quality and doubling its size in a relatively short time.
- Resolving the FSA question in a prompt manner would build confidence with those who want to help the Regents and the university.

President Lilley related that, after he arrived in July 2001 and began preparing for the court-ordered mediation in Elko, he studied the background of this issue. He felt it was a sad commentary on good intentions. He noted that some Regents were not on the Board at that time, but the Board clearly struggled to make the right decision. He noted that some Regents were criticized for their questions. He was grateful to the Board for their efforts on behalf of the university. He stated that he was prepared to answer any questions.

Regent Alden referred to a (UNR Foundation Board of Trustees) management letter from August 10, 2001, noting that he requested a copy of that letter numerous times but had never received it. He felt that indicated he was guilty of voting for the academy initially, adding that he would not vote for it today. He felt it was the largest fraud perpetrated upon the Board and that supporting this motion would open the door for future and unending bailout requests.

Regent Sisolak related that he spent an inordinate amount of time on the FSA matter, acknowledging that others had as well. He thanked Chancellor Nichols, President Lilley, General Counsel Ray, and Fire Science Academy Executive Director, Ms. Denise Baclawski for addressing each of his issues. He expressed his mutual dismay with the matter. He acknowledged that no other recourse had been identified to address the $31 million debt. He emphasized that he could not support the motion without the students' agreement, adding that they had assured him they did. He said it was not something he wanted to do, but he understood it had to be done.

Regent Seastrand referred to the Board's January 23-24, 1997 minutes and a comment from Dr. Crowley relating that one of the features of the approach was that, upon completion of the building, if UNR was not satisfied with the structure they were not obligated to keep it. He asked whether the structure had been accepted or whether there was still opportunity to reject the building. He noted that (former) Regent Phillips asked about criteria for rejecting the building, with Dr. Crowley responding that it was the level of satisfaction that all of the work would be done by Nevada firms on the subcontract. General Counsel Ray related that he recalled that conversation, noting that the issue of concern at that time was that Regents were concerned about using an unknown entity (All-Star Investments) and what protection was provided for advancing funds and obligating construction of the facility should All-Star not perform. The explanation had been that, since it was a lease-purchase agreement, the institution did not have to advance construction money. Obligation for lease payments did not arise until UNR took possession of the facility and the developer had to finance construction of the facility. Problems did not emerge until after UNR began to use the facility, which resulted in the litigation. Regent Seastrand agreed that no one was happy about the situation and redirecting student funds to service the debt. He appreciated Dr. Lilley and his staff's efforts over the past few months. He felt it would be foolish for the Board not to purchase the facility from GMAC, indicating his support for the motion. He related that the students' support had been key to his decision.

Regent Sisolak asked about delaying the library project by redirecting the fees. President Lilley replied that it would not delay the library ($22 million each from the state, student fees, and private fundraising). Private fundraising is underway, but the total amount has not been secured. He assured the Board that UNR would not lose the library, noting a mandate to be underway by 2004. He said there would be no delay in the process. Regent Sisolak asked about funds being redirected from the library. President Lilley replied that the project was comprised of a pool of funds. Since UNR was not ready to begin construction, redirecting funds for two years would not delay the process.

Regent Kirkpatrick expressed concern for placing the financial burden on future students, even though existing students supported the measure. Regent Sisolak requested a point of clarification. Chancellor Nichols clarified that students would not pay more fees because of the FSA, adding that this was not a surcharge. As fees increase over time, those additional student fees will be directed to the FSA and will not be available for other uses. Regent Kirkpatrick emphasized that services would not be available to students because they had been redirected to another purpose. He felt this was a dangerous precedent for the use of student fees. Regent Sisolak established that the fees were planned, with no increase, but were redirected to the FSA debt in lieu of other activities.

Regent Seastrand asked for President Lilley's commitment to pursue other avenues to eliminate the student fee burden. President Lilley stated that he was pleased to make that commitment. He assured the Board that, once the debt was addressed, he would vigorously pursue other revenue streams for eliminating the debt. Regent Seastrand asked whether the fees would be eliminated if an alternative revenue source were identified. President Lilley replied that the fees would not be dropped, but would be redirected to student-related activities. Regent Seastrand established that President Lilley would pursue alternative revenue sources to pay off the debt.

Regent Derby questioned no delay in the library project. President Lilley replied that fees were placed in a pooled account for library expansion. He explained that those fees would be redirected to the FSA debt on a temporary basis. He assured the Board that UNR would meet the terms for library construction.

Regent Gallagher stated that fundraising was hampered by the current debate regarding the FSA.

Regent Seastrand referred to the Board's October 23-24, 1997 minutes, noting (former) Regent Eardley's suggestion for using State Department of Education Vocational Act funds. He asked whether UNR was receiving such funds. President Lilley replied there were two categories of assistance being pursued: 1) Work with various entities who might make appropriate use of the facility (i.e. governmental, federal, and state agencies), as well as private companies; and 2) Benefactions and gifts to reduce the total indebtedness. Regent Kirkpatrick related that the Vocational Act of 1963 was a job-entry training program directed at high schools and community colleges, noting that the university did not receive much funding from that source. Chancellor Nichols agreed. She recalled conversations regarding GBC's' use of the facility, which never materialized. She assumed that UNR would pursue that possibility. Regent Seastrand agreed there were other avenues that could still be explored, and encouraged President Lilley and his staff to pursue every possible option.

Regent Hill noted that this problem had been a dark cloud for the entire System. He felt there was still a bright future for UNR, as well as other System institutions. He said that resolving the issue would be prudent Board action. He complimented General Counsel Ray, President Lilley and their staffs for efforts invested in this matter. He felt the motion was likely the best solution to a very bad situation. He noted that those not on the Board at the time could have made the same mistake, adding that the System still had a bright future.

Mr. Ledon asked how the Regents knew the students' position since it had only been discussed that morning. Regent Sisolak explained that he met with Mr. Ledon prior to the meeting. Regent Seastrand said that Regents had listened to comments from other Board members who had indicated the students' support. Regent Kirkpatrick stated that he had been informed that graduate and undergraduate students supported this measure. Regent Sisolak reaffirmed that his support for the measure was contingent exclusively upon the students' support. Regent Howard recalled that the students also indicated their support at the December meeting.

Mr. Matthew Wolden, UNR student body president, stated that undergraduate students were distressed that convincing arguments and long-standing trust had persuaded the Board to approve the FSA. He felt that ownership, responsibility and more thorough checks-and-balance measures should be ensured from this point on. He noted that the integrity and reputation of the entire System was at stake. He endorsed the redirection of student fees as having less negative impact than reducing valuable assets and programs. He affirmed that UNR students would not accept cuts in existing programs or liquidation of valuable assets. He cautioned that, in redirecting those fees, the university should not hinder growth of programs and facilities, adding that the students desired the option with the least impact. He urged that every avenue be explored to alleviate this burden from the students.

Mr. Carlos Ledon, UNR GSA student body president, stated that student representatives had conversations with Regents Rosenberg and Sisolak, adding that they hoped to have similar conversations with the other Regents. He was disturbed by the absence of former decision makers on this matter. He observed that current UNR students were forced to correct an administrative error that should have been avoided. He noted that the academy would lose money, might never break even and could cost more later. He said that, while the students did not like the fee redirection, they realized that it was the only means to address the debt. He also believed that Dr. Lilley would not have proposed this method had other options been available, adding that it would resolve only the legal side of the issue. He felt it should be the number one priority of the Board and UNR administration to remove the burden placed on the students and to ensure that it never happens again.

Regent Howard asked about plans for rectifying past problems in getting students to the facility. President Lilley introduced Ms. Denise Baclawski, Executive Director of the FSA. Ms. Baclawski agreed that travel to the facility had been a challenge. She observed that fire academies were not typically built in large cities due to environmental detractions affecting residents, which was why the academy had been relocated to Carlin. She indicated that major competitors also faced similar concerns. FSA personnel have been working with Skywest/Delta Airlines to arrange special fares for prospective students. They can now fly clients from a hub city to Elko on 737's. She noted that some clients take trains or buses. Academy clients have indicated that, while transportation is expensive, it is not more of an issue than getting to competitor facilities. She indicated that the business plan addressed ongoing relationships with the travel industry and creating advisory boards to assist with negotiating better rates. Regent Howard felt it was very important to have a written business plan. She asked about plans for fundraising. President Lilley assured her they would be working on that once this issue was addressed. Regent Howard asked whether UNR was pursuing the liquidation of assets for the debt. President Lilley replied they were not. He explained that he was not opposed to selling property available for sale, but preferred those funds be placed in the property acquisition account to further expand the campus. Regent Howard expressed concern for pursuing other avenues to reduce the debt. President Lilley explained that, any programs offered at the facility to meet state or federal requirements, would only mean that the academy would be operating at a higher level of efficiency.

Regent Rosenberg observed that assigning blame was counterproductive. He was disturbed with accusations of fraud and lies. He did not believe that anyone deliberately tried to do anything to hurt the System or UNR. He indicated that he cares a great deal about the students. He expressed his support for the motion because he felt it was the right thing to do. He believed that, while students were not happy with the situation, they did support it. He still felt the academy could be successful and urged Board members to support the motion.

Regent Alden clarified that the motion under consideration did not include obtaining bank loans or other means to cover past and future expenses associated with the operation of the academy. General Counsel Ray assured him it did not. Regent Alden asked Mr. Keith Lee, Chairman, Foundation Executive Committee, to provide him with a copy of the Foundation letter (referenced by Grant Thornton) regarding obligations to the academy. Mr. Lee assured him he would do so.

Regent Sisolak asked about the request for $8.5 million. General Counsel Ray explained that the motion on the floor did not include the $8.5 million. He related that the agenda item was worded in a manner to allow Board consideration of alternative motions. Chancellor Nichols explained that the agenda language was broadly written so the public could be properly noticed of potential Board action, adding that the Board could consider alternatives. She explained that the motion made at the previous meeting dissected the agenda item. Regent Sisolak established that the current motion had nothing to do with the $8.5 million. Chancellor Nichols agreed.

Regent Kirkpatrick agreed that mistakes were made and placing blame was not productive. He noted that there had been a plan for the academy to be successful. He related that Regent Sisolak noticed something about the FSA in an audit letter. Board requested material was delivered to Board members over the course of several meetings, until construction faults/leaks were discovered in June 2000. He observed that the Board had no assurances that the academy would be successful. He thought that Dr. Lilley felt the academy would never break even, adding that it was a bad decision then and a bad decision now. President Lilley clarified that he said that the FSA would not be able to secure enough revenue to pay off the debt, but he did believe it would break even by 2005.

Chair Dondero called for the question.

Upon a roll call vote the motion carried. Regents Derby, Dondero, Gallagher, Hill, Howard, Rosenberg, Seastrand, and Sisolak voted yes. Regents Alden and Kirkpatrick voted no. Regent Wiesner was absent.

Regent Hill moved approval for UNR to be authorized to seek loans up to a maximum of $8.5 million to cover accumulated deficits and startup costs for reopening the FSA; such loans to be obtained after consultation with the Chancellor and Vice Chancellor of Finance and Administration to explore other funding sources and Chancellor and Vice Chancellor approval of any advances on the loans, prior to obtaining the loans; loans to be retired by student fees dedicated to that purpose. Regent Derby seconded.

Regent Sisolak noted that $4 million was an accumulated deficit (float from other accounts). He observed a $183,828 transfer in FY1999-00 from the property acquisition account to the FSA. He noted another transfer this fiscal year, transferring the money back to the property acquisition account and asked about the source of funds. Dr. Ashok Dhingra, Vice President, Administration and Finance-UNR, replied that this information was provided at the Henderson meeting, when it was reported that the FSA was in the black at that time (only due to the transfers made). Regent Sisolak asked whether the Board had discussed or voted on the transfer. Dr. Dhingra replied that they did not. Regent Sisolak was dismayed that such a transfer could occur without Board knowledge. He asked about the source of funds used when the academy was operating with a $4 million deficit. Dr. Dhingra replied that the property acquisition account had money available to address the deficit. The transaction was reversed in order to properly reflect the FSA debt. Regent Sisolak asked about the source of funds transferred to the FSA to eliminate the deficit. Dr. Dhingra explained that the university has several unrestricted accounts, which provide working capital for the university. He said that the working capital was used to carry the FSA, adding that the Board had complete knowledge of the transfers and the deficit. Regent Sisolak begged to differ. He recalled discussions surrounding the deficit and not establishing reserves, which would create an even larger deficit. President Lilley explained that it was similar to a bank; if all depositors demanded their money simultaneously, the bank would be unable to satisfy the demand. He was under the impression that all deficits were reported to the Board's Finance & Planning Committee. Regent Sisolak expressed concern that significant funds could be transferred from one account to another without Board knowledge. Dr. Dhingra noted that the president has authority to transfer money in those accounts.

Regent Sisolak questioned whether new fundraising efforts would be any more successful than prior attempts. He related that prior business plans and marketing strategies had been proposed, adding that the projected enrollments never materialized. He observed that if current enrollment projections were not realized the FSA would be in even deeper difficulty. He felt that basing the current marketing strategy on projections was not reasonable, since past projections were either unrealistic or never came to fruition. Dr. Lilley replied that he and his colleagues had attempted to base the presentation on realistic projections and to avoid rosy scenarios. UNR used PricewaterhouseCoopers' advice on the projections, adding that he hoped they were more realistic. Regent Sisolak said that he wanted to ensure the Board did not continue to make the same mistakes repeatedly. He indicated that former President Crowley had assured him that prior projections had been realistic and conservative. He noted that the plan was also contingent upon state funding of operation and maintenance (O & M) costs. He related that legislators had expressed no appetite to bail out the FSA, adding that it was not part of the academic mission and that no degrees were issued at the facility. He related that, if the state did not fund O & M costs, there would be another $1 million shortfall. Dr. Lilley stated that the university had a long history of providing extended programming as part of its mission. He noted that the old academy at Stead did receive O & M support. When the facility moved to Carlin, it was believed the facility would be a huge financial success so O&M funding was not sought. He indicated that UNR was again seeking state support for O & M costs.

The meeting recessed at 11:25 a.m. and reconvened at 11:45 a.m. with all members present except Regent Wiesner.

Regent Sisolak asked about programs currently offered for credit at the academy. President Lilley observed that many non-credit courses were offered through the College of Extended Studies. Ms. Baclawski replied that no credit courses were offered at the academy. She indicated they were exploring associate degree opportunities with GBC as well as a four-year degree. Regent Sisolak asked what would happen if growth projections were not realized. President Lilley replied that he would closely monitor the program. If the business plan was not realized, he would bring it to the Board's attention. He noted that it had once been successful and felt it could be again. He said that they would not endlessly go on losing money. Regent Sisolak asked whether sale of the property would be negatively impacted if they were unsuccessful in running the program. President Lilley replied that Ms. Baclawski had reported that the academy had been realizing the targets when it was open in Carlin, adding that the program had an international reputation. He noted that the academy closed due to environmental problems and not due to lack of enrollments. Regent Sisolak agreed that they may have been meeting the targets, but it was still operating at a deficit. Ms. Baclawski stated that the FSA had a 30-year history of providing quality emergency response programs, with an extremely loyal following from 50 states and 40 countries. She indicated that clients want to train at this facility because there is no other like it in the world. A competitive advantage is that they can still burn petroleum fuels. She related that the original business plan was full of rosy scenarios. She felt the facility should never have been built at its existing size and cost. She said that the marketing plan implemented had been extremely successful. Enrollments rose from 350 students to over 2,900 in one year. She said that clients had indicated their desire to train there throughout the legal battle. She reported the development of new opportunities, adding that she believed the academy would be a jewel in the university's crown. Regent Sisolak asked whether the academy was making money when the plan was implemented. Ms. Baclawski replied it was not. She related that the current business plan did not assume the FSA could pay off the $31 million debt. Regent Sisolak observed that the academy never covered variable or operating expenses. Ms. Baclawski replied that full operating expenses were covered during several months of full enrollment. Regent Sisolak observed that it was difficult to isolate the few months when it did. He was concerned with the viability of the ongoing operation. He felt these were unrealistic projections and that the Board would face the same scenario in the future. President Lilley acknowledged that he also shared that concern, adding that he would monitor the program very closely. The program has been moved to the College of Extended Studies where it will receive proper marketing and monitoring.

Regent Sisolak expressed his appreciation to Dr. Lilley for providing the list of university-held properties: He related that he understood the necessity to accumulate properties surrounding the campus. He indicated that he wanted some of the money from the sale of the Stead property dedicated to the FSA at Carlin. He favored using revenues from future property sales to retire the debt because he felt it was easier to raise money to purchase property surrounding the campus than it would be to raise money for the FSA. President Lilley stated that fundraising was a difficult business. He said that UNR needed to reestablish the FSA's reputation in order to fundraise successfully. He noted that fundraising to purchase individual parcels was also difficult.

Regent Sisolak asked about the maximum amount that could be reserved/floated Dr. Dhingra stated that he felt the institution should float nothing. He noted that the Board had to approve the transfer of funds to service deficit accounts. He related that Board policy also required provision of a performance statement for repayment. None of the accounts were able to relinquish money to resolve the debt. He said that those deficits were reported until the issue was resolved, adding that it was not a good practice. He noted that a loan could be approved, but it required a plan for repayment, such as was proposed by President Lilley. Regent Sisolak requested a figure for what could be floated (like the $4 million). Dr. Dhingra related there was no figure. Regent Sisolak asked whether $10, $20 or $31 million could be floated. Dr. Dhingra replied that it was not a good practice. Regent Sisolak asked when the Board was notified, adding that it was not addressed in Audit Committee. Dr. Dhingra apologized for previously stating that the Board had approved/blessed the deficits. He related that he meant to convey that the Board had complete knowledge of it. He related that it was reported at each Finance & Planning Committee meeting, adding that it was not hidden. Regent Sisolak felt that it was hidden from him, adding that it was never revealed in the Audit Committee and that he never blessed or approved it. Dr. Dhingra agreed that it was not a good policy and apologized for using the term "blessed".

Regent Alden said that, if he approved this, he was willing to sit in solitary confinement with the other Regents who approved the matter. He avowed that he never approved the $4 million deficit.

Regent Hill recalled a presentation to the Audit Committee on this matter prior to Regent Sisolak's participation. Dr. Dhingra replied that he could only recollect reporting to either the Audit Committee or the Finance & Planning Committee.

Regent Kirkpatrick noted a $3.96 million deficit in July 1, 2001 and asked about the deficit as of January 1, 2002. Dr. Dhingra replied that it was less than $5 million. President Lilley related there were some containment costs for security, adding they had mothballed the facility and reduced costs as much as possible. He related there was a small staff there and they had continued to spend money to prepare for the May reopening. Ms. Baclawski said that the numbers represented were accurate. Regent Kirkpatrick said they had been robbing Peter to pay Paul with the deficit. President Lilley stated that they had been using that set of accounts to pay for the deficit. Regent Kirkpatrick asked about the source of the $5 million. President Lilley equated the use of funds to a bank loan. The university effectively loaned money from the accounts to cover the deficit, which was reported to the Finance & Planning Committee as an exception. Regent Kirkpatrick asked whether those exceptions had been reported. Vice Chancellor Miles reported that they had. He noted that the fiscal exceptions report was a quarterly report that reported accounts in deficit or in a negative cash position. He related they had been coming to the Finance & Planning Committee since December 31, 1999. Regent Kirkpatrick asked whether they were cumulative. Vice Chancellor Miles replied that the report did show the accumulated deficit as well as the increased deficit over the previous quarter. Regent Kirkpatrick stated the he was skeptical of the figures provided in the business plan, adding that he saw no provision for faculty. Ms. Baclawski replied that the organizational chart included full-time equivalent employees responsible for running the facility. She noted that many instructors were hired on a per-class basis and were not full-time faculty. Regent Kirkpatrick asked whether instructional costs were included in the budget provided. Ms. Baclawski replied there were no instructor costs in Phase I because no courses were being offered. Instructor costs for Phase II were included under direct costs. Regent Kirkpatrick observed a $7.7 million deficit at the end of FY 2005. Ms. Baclawski replied there would be an accumulated deficit. Regent Kirkpatrick felt that should worry anyone.

Regent Seastrand asked whether the settlement agreement included a provision for opening the facility. General Counsel Ray replied that the settlement agreement did not expressly obligate that. He explained that the settlement agreement required payment to GMAC. Regent Seastrand asked about other obligations. General Counsel Ray replied that, during the negotiation process, it was represented that UNR intended to reopen the facility, which related to damage claims and the necessity to make the repairs, in addition to promises made to prospective clients. Regent Seastrand asked about exposure to damage and risk if the facility did not reopen. General Counsel Ray replied that he did not believe there was any relating to the litigation settlement. He said that potential claims would involve advance fees paid by future clientele. Regent Seastrand asked where the money would go if the Board approved the $8.5 million loan. President Lilley replied that the money would be returned to the set of unrestricted accounts at the university. President Lilley stated that the university should not be floating accounts at all and wanted to stop doing so. Regent Seastrand asked why the money would be returned to those accounts if there were no demand for those funds. President Lilley replied that the university wanted to be in compliance with Regent policy and also felt it was not good business to continue to float the deficit. He said that UNR did not want to encourage people to create private accounts for fear that unused money would be taken from them.

Regent Rosenberg felt that the loan would allow the academy to operate so that it could become marketable for sale. He felt they should concentrate on programming, marketing, and providing the students full value for their money. He indicated his support for the loan.

Regent Gallagher felt the loan would provide the money necessary for the academy to operate and would provide Dr. Lilley with a level playing field. She indicated that she had received calls from the BLM in Washington, the forest service and the mining industry regarding training programs at the facility. She noted there were many avenues to explore. She recalled that the well had become tainted with barium, adding that a waterline from Carlin had been installed. She related that Senator Reid helped obtain a grant to offset the cost, but they still had to raise $350,000. She related that Elko County, the City of Elko, and the City of Carlin had all signed agreements to address the $350,000 based upon the academy opening again.

Regent Sisolak asked when the FSA had demonstrated it could succeed since moving to Carlin. Regent Rosenberg acknowledged that the Board never expected it to break even immediately, adding that all new businesses required time to break even. He noted that, even now, it was reported that it would not break even prior to 2005 or 2006. He felt that people need to know that the programs would be available. Regent Sisolak felt the academy was a sinkhole, acknowledging that there were alternatives to explore. He felt the reported exception could have been missed with the volume of material presented to Board committees. He asked about floating the $8.5 million debt and authorizing permanent transfers from those university accounts to cover the debt, noting there was more than $8.5 million available in such reserves. He felt sure a caveat existed to repay tuition collected, should the academy not reopen. Ms. Baclawski agreed. He did not want to gamble that the academy would make money eventually, adding that the Board had already gambled with students' futures, redirected fees, floated loans, as well as the entire project. He felt reopening the academy would propose an additional $8.5 million gamble. Regent Rosenberg did not believe there were currently prospective buyers for the academy, adding that UNR could not sell a closed academy in such a remote location. He indicated his trust for UNR's planning, adding that he felt they had done the best they could and that he trusted Dr. Lilley. He felt a successful academy was very important for the university as well as the System and that the risk was justified. He felt UNR should be provided the opportunity to prove that it could work. Regent Sisolak stated that opening the academy would require the academy to be sold fro an additional $8.5 million in order to be in the same position.

Regent Howard asked about projections for bringing the books out of deficit and into profit status. Ms. Baclawski replied that business plan projections were included in the reference material (page 47). She noted that if an $8.5 million loan was approved, that would bring the account into the black. By 2005 the academy would begin making money and, after 2005, the academy could start paying back the loan. Regent Howard asked when a profit would be realized. Ms. Baclawski replied that the business plan indicated that it would be in profit status ($115,917) by 2005. Regent Howard asked whether the academy would become sufficiently healthy for sale. President Lilley replied that they would explore every possibility as they went along. He related they would pursue improving the level of income through additional services and controlled costs, as well as any opportunities for sale. He said that there must never again be any question about full disclosure of information to the Board. He acknowledged that the operation of the business was a risk. He believed a contingency existed, due to Elko County's donation of land, that the property was to be used for a specific purpose. He also noted commitments made to Carlin and Elko, adding that UNR would watch the situation very closely. He felt that reopening May 1, 2002 was the appropriate action to take. Regent Howard said that it sounded as if the Board would be stuck with the academy for another 10 years. President Lilley stated that they would not be stuck with it, if it was not making target projections. He related that he fully understood the difficulty the academy created for the Board and for him personally.

Regent Derby asked President Lilley to address alternatives proposed by Regent Sisolak. She asked whether revenues existed that the university could use to cover expenses, if the bank loan was not approved. She asked about the source of such funds. She asked why he felt the academy would be less valuable if it were sold on May 1. President Lilley replied that the Board could authorize the extraction of needed dollars from income/expense accounts. He explained that departments deposited funds from programming with the university, adding that accounts held outside of the university would not be tolerated. He related there would be severe morale problems if those departments were notified that money had been extracted from their accounts to cover the FSA debt. He explained that, thus far, no one had been deprived of their money. He felt it would constitute a huge breech of trust with university colleagues who deposited their funds in good faith. Regent Sisolak felt it would be no less a breech of trust than was administered to the students. President Lilley noted a slight difference. He said that no one liked doing this, adding that all would work very hard to ensure it was temporary. He related there were no guarantees. Regent Sisolak compared the accounts to a joint account with multiple sub-ledgers, adding that those accounts had some reserves. He asked whether it was feasible to extract some of those reserves to fund the $8.5 million required. He noted that the Board was being asked to make a conscious decision to fund an additional $8.5 million to open the academy, in lieu of using those funds. President Lilley replied that he did not know whether such action was feasible, adding that if the Board did not approve the $8.5 million loan, UNR would attempt to use those funds for that purpose. Regent Derby requested clarification regarding sale of the academy. President Lilley stated that he had been advised that, once the academy was reopened and it proved that environmental problems were solved, it could demonstrate there is a market for this type of education, and it would have move value than it did now. He indicated that UNR believes that an open, operating academy had more value than a closed one. Regent Derby observed that, once an additional $8.5 million was borrowed, they would need to increase the sale price of the academy by $8.5 million. President Lilley related that UNR would not borrow the full $8.5 million at this time, but would borrow $4 million to open and operate the academy.

Regent Kirkpatrick clarified that, even with profit status in 2005, losses would be sustained in 2002-2004. He felt that using $39.5 million to reap a $115,917 profit was not smart. He asked about President Lilley's plans for repaying the $8.5 million loan. President Lilley replied that they hoped additional resources would be revealed to address the debt, as well as help from benefactors and government communities. He hoped that the additional support would remove the burden from the students over time. He hoped that this would only be temporary funding. Regent Kirkpatrick asked about collateral for the loan. President Lilley replied that student fees of an additional $2.00/credit would be used as collateral. Regent Kirkpatrick asked about the amount intended for the following year. President Lilley replied that, if they used $39.5 million ($31 million plus $8.5 million) it would result in the following:

- FY04 an additional $3.00/credit dedicated to retirement of the debt.
- FY05 an additional $2.00/credit ($5.00/credit total) would be added and would continue until the debt was retired.

Regent Kirkpatrick expressed grave concern for placing such a heavy burden on the students.

Regent Gallagher asked whether Regent Sisolak proposed paying back university accounts with interest if reserve funds were used to retire the FSA debt. Regent Sisolak was unsure about current practices. He suggested removing excess funds permanently. Regent Gallagher did not believe there was a large excess of funds. She said that she participated on the Audit and Finance & Planning committees for a long time, adding that the exceptions had been reported. She believed it would be a terrible mistake to just take the money rather than borrowing it with interest. She suggested borrowing funds from a bank. Regent Sisolak suggested borrowing the money internally and saving the interest expense. Regent Gallagher recommended fixing the academy and getting it up and operating. She recommended providing Dr. Lilley with sufficient funds to move forward. She said that, if there were still problems in a year, the Board would need to reevaluate the situation. She questioned who would be willing to buy a closed fire science academy.

Regent Alden stated that the university's primary mission was to provide quality undergraduate education, master's and doctorate programs, and some research. President Lilley stated that teaching, research, and service with an outreach component were primary to the land grant institution's mission. Regent Alden asked whether that included the free enterprise of a nonproductive asset. President Lilley replied that the academy could be viewed as part of the regional mission. Regent Alden noted that the problem with the School of Medicine's Practice Plan had been addressed and was nearly resolved. He did not feel that the FSA was part of the university's mission, adding that he could not support this measure.

Regent Derby requested students speak to this issue. Mr. Wolden said that students favored the method that resulted in the least amount of damage to them. He felt that stripping student programs was not an answer and that the $8.5 million might help the FSA operation thrive. Mr. Ledon said that he found it difficult to justify another increase for students, adding that if the Board determined it was appropriate he would support it, even though he disliked it.

Chair Dondero asked whether the presentation constituted President Lilley's recommendation. Dr. Lilley replied that it was for that day. He noted that he would have done some things differently with a strategic planning process. He did believe that the recommendation was the best given the current situation. He wished that he did not have to make this recommendation. He felt it was the best method, adding there were no guarantees and that it was not without risk. He promised to share information regularly with the Board. He acknowledged that everyone in the room was in a very difficult position.

Regent Kirkpatrick asked Regent Hill to amend his motion to include the manner of repayment. Regent Hill replied that he had identified student fees dedicated to the purpose. Mr. Ledon asked that the total dollar amounts be clarified. Chancellor Nichols explained that the motion passed earlier was described in the reference material (FY03-$0/FY04-$1 FY05-$2/FY06-$3). She related that, if this motion passed, the previous motion would be overridden by the additional $8.5 million (FY03-$0/FY04-$3/FY05-$5 and continuing). Regent Sisolak observed that these payments would only service the interest and would not reduce the debt. Chancellor Nichols stated that the payment schedule would continue to pay the principle over time. Chancellor Nichols clarified that the maximum increase in student fees would be $5.00.

Upon a roll call vote the motion failed. Regents Derby, Dondero, Gallagher, Hill, and Rosenberg voted yes. Regents Alden, Howard, Kirkpatrick, Seastrand, and Sisolak voted no. Regent Wiesner was absent.

Regent Kirkpatrick proposed allocating funds from the Estate Tax rather than borrowing money. Chair Dondero observed that it would require an appearance before the Interim Finance Committee (IFC).

Regent Kirkpatrick moved approval of allocating $8.5 million in Estate Tax funds for operation of the FSA.

Regent Sisolak noted a point of order. General Counsel Ray established that such a motion could be brought back to the Board for consideration at a separate meeting. Regent Kirkpatrick asked about the next IFC meeting. Vice Chancellor Miles replied that the IFC would meet February 5th, adding that they could have missed the deadline for that agenda. Vice Chancellor Miles related that the IFC meets approximately every two months. Regent Rosenberg suggested the item be brought forward in March. Chancellor Nichols related there was an item on the Board's January 24-25 agenda that would allow follow-up discussion/action from this meeting. She said the Board could ask UNR to bring a proposal for using Estate Tax funds to that meeting.

Regent Alden asked that the FSA balance and status be reported at each subsequent Board meeting (via committee). He also asked that the Board receive at the next meeting the deficit balance as of December 31, 2000 and an exact accounting of which accounts were used to borrow the money. Regent Sisolak stated that UNR could not identify which specific accounts had been used, adding that it was a general account. Regent Alden asked whether changes of $25,000 or more from fixed appropriated state accounts required Board approval. Vice Chancellor Miles replied that the $25,000 threshold applied to funds transferred within a budget account and not between different budget accounts.

Regent Sisolak requested an action/information item for the next agenda, that the entire Board be notified of borrowing/lending/allocating/floating of funds between accounts in the future. Chancellor Nichols asked that the matter be brought to the March meeting because the January agenda had been mailed. Regents Alden and Sisolak agreed. Regent Alden asked whether they had clarified that they intended addressing the use of a pool of funds where the source of funds had not been clearly identified.

President Lilley clarified that the accounts used had not been state accounts, adding that the accounts held indirect cost recovery for all research programs and were very serious accounts. He related that they had not specifically taken money from those accounts, but had been carrying a deficit that was covered by those funds.

Mr. Ledon felt that Regent Kirkpatrick's suggestion could be considered as an alternative.

Regent Kirkpatrick moved approval of using $8.5 million in Estate Tax funds for FSA operations. Regent Hill seconded.

Regent Derby noted a point of order. She related that the specific content of that motion had not been on the agenda, adding that other institutions not present that day also utilized Estate Tax funds. Chancellor Nichols strongly recommended that System staff be afforded the opportunity to investigate whether $8.5 million was available. She cited statutory requirements for maintaining a minimum account balance. She asked Regent Kirkpatrick to ask staff for a recommendation or information regarding his motion, which could be considered at the next meeting. Regent Gallagher asked whether the Estate Tax Committee could consider it the following week. General Counsel Ray explained that the agenda was adequate to address Regent Kirkpatrick's motion with regards to the Open Meeting Law. He expressed concern for executing proper process as it relates to the Estate Tax and the Estate Tax Committee and recommended the matter be referred to the Estate Tax Committee.

Regents Kirkpatrick and Hill accepted amending the motion to refer the matter to the Estate Tax Committee.

Regent Sisolak noted a point of order. He felt it was grossly unfair to the other institutions not represented that day. Regent Kirkpatrick favored using $8.5 million in Estate Tax funds for UNR's FSA. Regent Sisolak did not agree.

Regent Howard asked about the number of Board members on the Estate Tax Committee. Chair Dondero replied there were two (Regents Gallagher and Kirkpatrick). Regent Howard clarified the process: Estate Tax Committee to full Board, to IFC. She asked why Regent Kirkpatrick supported using Estate Tax funds. Regent Kirkpatrick replied that the Legislature often required programs be supported by Estate Tax funds, adding that he preferred establishing the intended purpose. Regent Howard stated that the Legislature might have better purposes in mind than the Board did.

Upon a roll call vote the motion failed.
Regents Dondero, Gallagher, Hill, Kirkpatrick, and Rosenberg voted yes. Regents Alden, Derby, Howard, Seastrand, and Sisolak voted no. Regent Wiesner was absent.

Regent Alden clarified that any funds deposited with the System was under the Board's direct authority. President Lilley agreed, adding that some of those dollars stipulated a specific use.

2. Approved-Fire Science Academy, UNR, Selection of an Underwriter - The Board approved delegating the authority to approve the selection of an underwriter to the Chancellor or Vice Chancellor of Finance and Administration pursuant to NRS 396. The underwriter selection must meet the timelines necessary to close any financing in time to meet the requirements of the court settlement at the Fire Science Academy.

Vice Chancellor Miles recommended the Board delegate authority for selection of an underwriter to avoid an additional special meeting. He said a special meeting would need to occur by February 4th or 5th in order to meet the deadlines. He related that final approval of the bond sale would be presented at the March meeting.

Regent Sisolak moved approval of delegating the authority to approve the selection of an underwriter to the Chancellor or Vice Chancellor of Finance and Administration pursuant to NRS 396. Regent Kirkpatrick seconded. Upon a roll call vote the motion carried. Regents Derby, Dondero, Gallagher, Hill, Howard, Kirkpatrick, Rosenberg, Seastrand, and Sisolak voted yes. Regent Alden voted no. Regent Wiesner was absent.

Regent Sisolak expressed his appreciation for the candor of UNR personnel and students.

3. Public Comment - None.

4. New Business - Regent Alden stated that Chair Dondero had conducted a good meeting.

The meeting adjourned at 1:25 p.m.

Suzanne Ernst
Chief Administrative Officer to the Board