



**STATE BOARD OF EDUCATION
TRUSTEES OF BOISE STATE UNIVERSITY
TRUSTEES OF IDAHO STATE UNIVERSITY
TRUSTEES OF LEWIS-CLARK STATE COLLEGE
BOARD OF REGENTS OF THE UNIVERSITY OF IDAHO
STATE BOARD FOR PROFESSIONAL-TECHNICAL EDUCATION
TRUSTEES FOR THE IDAHO SCHOOL FOR THE DEAF AND THE BLIND**

**APPROVED MINUTES
STATE BOARD OF EDUCATION
May 11, 2011
Special Teleconference Meeting
Boise, ID**

A special teleconference meeting of the State Board of Education was held May 11, 2011. It originated from the Board office in Boise Idaho. Board President Richard Westerberg presided and called the meeting to order at 2:00 p.m. A roll call of members was taken.

Present:

Richard Westerberg, President
Don Soltman, Secretary
Emma Atchley
Bill Goesling

Ken Edmunds, Vice President
Rod Lewis
Milford Terrell

Absent:

Rod Lewis

BUSINESS AFFAIRS & HUMAN RESOURCES

1. Review request by Idaho State University for approval of Real Estate Acquisition.

Milford Terrell stated that the Board is here today to discuss the authority to make an offer to purchase a building and property associated with ISU research and their business park. Ken Edmunds reported a brief history of the building which was also included in the materials presented for review to the Board from ISU. Mr. Edmunds stated the building has many of the attributes necessary for a research facility at ISU and further commented that the primary repayment would be in the form rent either form work performed through ISU or other things providing some kind of income stream.

Mr. Edmunds reminded the Board that those other types of commitments are not presently in place. He also indicated there was a sense of urgency to purchase the building so the opportunity was not lost. He commented that the building is substantially below market value and greatly below replacement value. Board members Emma Atchley and Ken Edmunds recommended ISU come before the Board with a request for acquiring the building from university funds and not a request based on other sources of income from the university.

Mr. Edmunds believes ISU has demonstrated they can cover the variable costs of the building and have a small surplus without any other revenue stream. The university's hope is that with the available facility they will be able to enhance that revenue stream both for the benefit of the university finances and for the benefit of the university's growth in research.

Emma Atchley further commented that this transaction would be very beneficial for the university. She also commented that an added benefit would be the reduction in storage costs for equipment they currently do not have a place for. She reiterated that the likelihood of other income streams is very high with having this building.

Milford Terrell requested Jim Fletcher from ISU to give an additional overview. Mr. Fletcher reminded the Board members of the packet they were given containing financial analysis of the building transaction. To summarize, ISU proposes to purchase the Ballard Building with funds from its reserves which they feel are more than sufficient to cover this purchase. The purchase will be structured as a loan to the College of Science and Engineering which they will pay back over time. ISU has allocated funds from various sources within the College of Science and Engineering's budget which total approximately \$380,000 which will provide the revenue stream for the Ballard building.

Mr. Fletcher commented that ISU had looked exhaustively at the maintenance costs of the building which will be around \$186,000 and they strongly feel they are able to maintain the building with all the operational costs plus approximately \$25,000 in moving-in/set-up costs and still realize in the first year \$167,000, and the second year \$192,000 without any additional revenue opportunities. Mr. Fletcher stated it is a 6.5% return on the money being used to purchase the building. The price of the building was negotiated with Kimberly Clark and the purchase price which they have agreed upon is \$3.6 million dollars. This price has also been confirmed in writing. Mr. Fletcher said they will proceed with purchase upon approval from the Board. The finalization will include an appraisal, a title search and a contract with Kimberly Clark. ISU's general counsel estimated they should be able to close by the end of next week (week of 5/23).

Mr. Fletcher pointed out that the appraised value is \$5 million which shows they are buying it below market value and below replacement value.

President Vailas briefly reiterated the importance and benefits for the university to purchase this building and that it is a low risk proposal given the long term benefits of acquiring this building which includes opportunities to stimulate the economy.

M/S (Edmunds/Atchley): I move to authorize Idaho State University to enter into an agreement to purchase a building and associated assets located in Pocatello, Idaho, within the boundaries of the Idaho State University Business and Research Park, commonly known as the Ballard Medical Building, for a purchase price not to exceed \$3,600,000, and to authorize James A. Fletcher, ISU Vice President for Finance and Administration, to execute all related closing documents for and on behalf of the State Board of Education for Idaho State University. A roll call vote was taken and the motion passed 6-1. Tom Luna voted no on the motion.

Discussion:

President Westerberg asked if there was further discussion regarding the motion.

Matt Freeman posed two questions to Jim Fletcher of ISU. Mr. Freeman asked what would be the funding source for the college to repay the loan and if there is any internal commitment or plan to restore the university reserves as the loan is repaid. Mr. Fletcher responded that the revenue source in the short term to repay the loan would be the excess revenue from the college's commitment. The college is putting up 380,000 and they need less than half of that to carry the building. The agreement will say that as revenues come into the facility from the additional opportunities which will be available, the college will accelerate the payment of the loan. Mr. Fletcher commented that repayment may be able to be done within one year.

To the second portion of Mr. Freeman's question, Mr. Fletcher commented that the university reserves will remain intact because instead of being invested in cash and marketable securities, the money will be invested in real estate. They expect the full reserve to be restored within a year considering the revenue opportunities of the facility.

Mr. Goesling stated he was concerned the packet the Board received did not contain value information for other educational institutions in Idaho. He asked that if other educational institutions wished to do a cooperative program with ISU in that particular facility, what the priority and needs would be. Would they overshadow the commercial aspects of the building?

President Vailas indicated that ISU is and has been in collaboration with the other universities and also the Idaho National Lab (INL), and certainly would be welcoming to other universities to participate in scientific programs at ISU.

Milford Terrell asked Bill Goesling to explain more about his question. Mr. Goesling stated that he felt it was important to include input to or from other universities on being able to use these facilities cooperatively. His concern was that if the building was filled with outside entities as tenants, there would be no room for the other institutions in Idaho to participate in programs at that facility.

Mr. Edmunds commented that there is a strong collaborative effort going on among the universities that is being documented and being put into a plan. He commented that one of the primary income streams being considered is actually work being performed by ISU with their accelerator that will create a revenue stream that benefits a commercial company but is still under the control of ISU. He summarized that the intent and the way this building purchase is being structured should address Mr. Goesling's concerns of collaboration.

Mr. Goesling stated that he would additionally like to see an indication of value to state and local economy showing the benefits both to Pocatello and the State of Idaho.

Mr. Goesling further commented that the cost estimate seemed to be low and that certain costs would be ramping up sooner than shown. He felt that higher move-in/start-up costs should be reflected along with maintenance and waste removal costs, and he felt those costs were underestimated.

In response, Mr. Fletcher stated that the business case reflects only the costs of maintaining the facility as a storage facility for the high tech equipment. It does not reflect what would be the

cost requirement for the additional opportunities. He commented that as they move toward additional opportunities, additional costs would be manageable and containable. Mr. Fletcher indicated they did not show that scenario in the business case as presented because they are simply showing that if none of those opportunities materialize, they can still carry the cost of maintaining the building.

Mr. Fletcher further went on to answer the question on the impact of Pocatello and southeastern Idaho. He commented that extensive analysis had been done on area impact as well, where they have identified all economic sectors that would be impacted, the multiplier effect, and the job opportunities which could be provided to the city of Pocatello.

Mr. Fletcher stated moving costs in the model were based on the university's actual costs of moving equipment into the temporary storage facility. Mr. Fletcher acknowledged Mr. Goesling's concerns and stated that certainly additional costs would be incurred as they move toward additional opportunities and they have examined and reviewed that information with Board members Atchley and Edmunds.

Tom Luna questioned that if they show an increase in the activity of the building and realize those increases, then certainly the operating costs would go up. He asked if those activities would generate some additional revenue that is going to offset the obvious increases in costs.

Mr. Fletcher answered that they will have costs with the additional opportunities, and the expenses will be carried and paid for by the additional revenue generated from the additional opportunities. Mr. Luna asked what generates the additional revenue. Mr. Fletcher stated that a number of opportunities will generate this additional revenue; however those opportunities will materialize *after* they have access to the building. Because those contracts will not be accessed until after they have access to the building, they did not include them in the business case.

Mr. Fletcher further commented ISU could review those contracts with the regents, Mr. Edmunds and Emma Atchley as they occur. Mr. Luna commented that they don't need to specifically identify who the additional opportunities are with, but they should identify what the additional revenue would be and what the additional expense would be so that the Board could see that this is something that is a net-net type of a bid.

Mr. Luna mentioned that another concern was the fact that this property is coming off of the tax rolls with the possibility that it will generate other economic activity in the community, but the other economic activity is not going to compensate for the loss of property tax revenue that goes to the schools and other governmental entities that rely on property taxes. He commented that creating more jobs does not increase property taxes. Additionally, by taking a piece of property off the tax roll, it will have an impact on everyone else's property taxes in that they will be increased to cover the loss of that property tax revenue. Mr. Luna commented that he did not agree with ISU's analysis that one will offset the other.

Mr. Luna commented that the Board recently approved a tuition hike where one of the arguments made by ISU was the need to preserve its reserve account. Mr. Luna is concerned that now, ISU is stating that it is going to take those reserves and spend them on property.

Mr. Fletcher indicated the economic impact of the additional opportunities include direct jobs, indirect jobs, an increase in business for local transportation and service industry business, all of which will pay taxes. Mr. Fletcher further commented that it was the judgment of the county

and the Mayor that the overall economic impact of this transaction will more than offset the loss in property tax. Mr. Luna commented that their argument is flawed in that all the identified activity is not going to increase property tax revenue for the city. It will increase sales tax revenue, payroll taxes and business activity but none of that additional activity will replace the property tax revenues when you take this building off the property tax rolls.

Mr. Fletcher commented that the overall assessment made by the city was very positive, and collectively they believe with the opportunities this building will provide such as new employees, there will also be new housing which would include property taxes. Further, when the additional revenue opportunities materialize, additional spending will be allocated.

Mr. Fletcher stated that as to the matter of the reserves, ISU's reserves are not depleted from an accounting point of view because they are simply transferring money from cash into real estate, in which the cash will be replaced. ISU has 7.6 **million** of reserves that will stay. He further stated the commitment made to the Board at the time of the tuition fee review meeting has not changed.

Mr. Luna queried how long it would take to replace the cash. Mr. Fletcher responded that they expect to have it replaced within the year.

President Vailas concluded by commenting that there are a number of revenue opportunities with a facility like this one. Additionally, the kind of research this facility will support has high potential in generating patents and other kinds of agreements. He commented that the facility is a short distance from ON Technology, who is a semi conductor facility in Pocatello. He stated that in the debate held in Pocatello about the building, ON Technology, the Mayor and the Economic Development Council was very supportive of the direction ISU is taking in occupying this facility.

President Westerberg asked if there were any additional questions or comments from the Board members.

No further discussion.

There being no further business, a motion to adjourn was passed.

M/S (Terrell/Goesling): To adjourn at 2:33 p.m. Motion carried unanimously.