

**MINUTES OF
THE MEETING OF THE
BOARD OF TRUSTEES OF THE
ROANOKE HIGHER EDUCATION AUTHORITY
December 2, 2009
Roanoke Higher Education Center**

The meeting was called to order by Chairman John Edwards at 12:30 p.m. Roll call was taken and quorum was confirmed.

Chairman Edwards announced the following new Board members: Charles Poindexter, representing the Virginia House of Delegates; Andrew Casiello, representing Old Dominion University; James Poythress, representing Virginia Western Community College, Debra Meade and Edward Murphy, both Governor's appointees as citizen members to the Board.

A motion was made by Dr. Krippel to approve the minutes of the Board of Trustees' meeting on June 3, 2009; Mr. Price seconded the motion; and the motion carried by unanimous vote.

FY 2009 Audit Report

Ethan Cook of Foti, Flynn, Lowen & Co. presented the results of his firm's audit of the Authority's FY 2009 financial records. Mr. Cook reported that, in the auditors' unqualified opinion, the Authority's financial statements for FY 2009 fairly represent the Authority's financial position. The auditors' unqualified opinion is its highest level of assurance. The audit disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards and no matters involving the internal control over financial reporting and its operation that are considered to be material weaknesses.

Board members were encouraged to refer to the Management Discussion and Analysis section of the audit for the Authority's management analysis of the financial statements.

Mr. White moved to receive the FY 2009 audit report and Mr. Poythress seconded the motion. The motion passed by unanimous vote.

Roanoke Higher Education Center, Inc. Board of Directors

Dr. McKeon explained that the Roanoke Higher Education Authority Board of Trustees appoints the Board of Directors of the Roanoke Higher Education Center, Inc. annually. The following people were recommended by the Executive Committee to the full Board for appointment to the RHEC, Inc. Board: John Edwards, Warner Dalhouse, Charles Price, Jeanine Stewart and Tom McKeon. Dr. Krippel moved that the recommended people be appointed; Mr. White seconded the motion; the motion carried by unanimous vote.

Election of First Vice Chair of RHEA Board

With the departure of Marilyn Burrows, the position of Board Vice Chair is vacant, and Debra Meade was nominated to fill that position. Mr. White moved to elect Debra Meade as Vice Chair of the RHEA Board of Trustees; Mr. Price seconded the motion; and the motion carried by unanimous vote.

FY 2010 Financial Report

RHEA's Finance Director, Sue Gregory, reviewed highlights of her detailed written report on the Authority's financial statements as of September 2009. RHEA is in a positive financial position, having reached its goal of accumulating six months worth of cash reserves. Current financial projections indicate that a portion of the FY 2009 surplus, which is part of the cash reserve, will be used to cover the anticipated budget deficit in FY 2010, cash flow and capital improvement expenses.

FY 2010 Budget Update

Ms. Gregory presented information regarding the impact on RHEA's FY 2010 budget of the 10% reduction in state appropriation which was announced in the Governor's September 2009 Reduction Plan. The Authority will be using approximately half of its FY 2009 budget surplus to cover the resulting FY 2010 budget deficit.

Some discussion followed regarding the history and future prospects for Roanoke City's financial support of the Center with focus on the revenue the City realizes from the City-owned parking facilities adjacent to the Center.

Energy Audit and Improvements

Dr. McKeon presented preliminary estimates of project costs intended to reduce the Center's energy usage. This state program guarantees the realization of energy cost savings within 15 years as a result of completing the recommended projects. The Center's audit projected its energy savings payoff within 11.2 years. The funding for the projects is provided by loans procured from the State Treasury Department or from state-approved private funding sources. The Board had previously approved pursuit of the energy audit and authorized its Executive Committee to approve the specific energy savings projects to be performed, which it did at its meeting on November 17, 2009.

Water Infiltration Study

Dr. McKeon reviewed the results of a recent study into the ongoing water infiltration problems in the Center building, significantly affecting leased spaces on the 7th and 8th floors. The repairs would include a new and different kind of roof, along with roof drain and flashing replacement. The cost of the study and estimates to make the repairs considered necessary in the near future total \$875,000. If window repair or replacement is also undertaken, the total would be between \$1,475,000 and \$2,075,000.

As recommended by the Board's Executive Committee, Dr. McKeon will be seeking funding from the state at the next General Assembly session for these repairs and will continue to pursue the Authority's eligibility to participate in the state's Building Maintenance Reserve funding plan.

Board members encouraged Dr. McKeon to ensure sufficient warranties and assurances are obtained for the proposed repair work, and suggested he pursue whatever financial recoveries might be available from building insurance and/or warranties on previous construction/repairs. It was also suggested that the Authority consider alternative rent rate structures for future building tenants to help recapture the expense of the repairs.

Mr. Casiello moved to authorize the Authority to spend up to \$875,000 of its financial reserve fund to make the repairs considered necessary in the near future; Mr. Price seconded the motion; and the motion carried by unanimous vote.

Issues Related to Future Success

- ***Cash Reserve and Cash Flow Review***

Sue Gregory gave a report of the negative impact of the FY 2010 budget deficit and the building repair and improvement projects upon the Authority's cash reserve and cash flow. The current 7.8 month operating reserve would be reduced to 1.7 months. Timing of expenditures should take into account cash flow issues determined by the liquidity of cash reserve investments.

- ***Rent Escalation Policy***

Dr. McKeon presented a proposal to change the method by which rent rate escalation is calculated for the Center's leaseholders. Currently, rent escalation is calculated by applying 75% of the change in CPI-U from December to December of each year, adjusted for the Greater Roanoke region (with a maximum increase of 4%). The proposal would change the calculation to apply 100% of the annual average change in the CPI-U each calendar year, adjusted for the Greater Roanoke region. This proposed change would more effectively enable the Center to keep pace with rising costs associated with inflation and maintaining an aging building, and to weather reductions in state funding during difficult economic times. The policy would go into effect in 2011. The maximum increase of 4% would remain unchanged.

After some discussion, Dr. Stewart moved that the new rent escalation policy be adopted as proposed; Dr. Cannaday seconded the motion; and the motion carried by unanimous vote.

- ***Leased and Leasable Space***

Dr. McKeon distributed a report of the square footage and annual rent value of all leased and leasable space at the Center. An additional \$166,236 in lease rent revenue could be realized if all 13,162 square feet of currently available space were to be leased.

- ***New Member Recruitment and Needs Assessment Study***

Dr. McKeon reported on plans to aggressively recruit new Center members utilizing information provided by a recent study of educational program needs in the region. The study identified five growth clusters for employment and economic growth, and a list is being developed of colleges and universities that may provide related educational programs to meet the identified needs.

Economic Impact Study

Dr. McKeon plans to have the economic impact study completed in time for the Center's tenth anniversary.

10th Anniversary Observance

Dr. McKeon informed the Board about events being considered to observe next year's 10th anniversary of the opening of the Roanoke Higher Education Center. Event ideas were developed by the 10th anniversary planning group which includes representatives from Center staff and Center members.

Director of Facility Services Search Update

Dr. McKeon announced that three candidates for the vacant position of Director of Facility Services have been selected out of over 150 resumes received. Additional interviews are being scheduled in mid-December which will include representatives from the Center members. The goal is to have the position filled by February 1, 2010.

Chairman Edwards announced that the meetings of the Board in 2010 will be held on June 2 and December 1, 2010, at 12 noon.

There being no further business, the meeting was adjourned at 1:50 p.m.

Respectfully submitted,

Barbara B. Smith
Secretary