

BOARD OF REGENTS
BRIEFING PAPER

Agenda Item Title: University of Nevada, Reno - New School of the Arts Fine Arts Building Financing Plan/Promissory Note

Meeting Date: March 3 - 4, 2016

1. BACKGROUND & POLICY CONTEXT OF ISSUE:

Background

At the December 2015 meeting the Board of Regents approved President Marc Johnson's request to proceed with the development of a new School of the Arts fine arts building to be located on the main campus of the University of Nevada, Reno (UNR). At the same meeting President Johnson also stated that a proposed funding plan would be presented at the March 2016 Board meeting. The purpose of this agenda item is to present and request Board approval of the funding plan and a related Promissory Note.

Project Review

The following is a summary of the major features associated with the proposed fine arts building project:

Size: A three-story, 35,000 square foot fine arts building that will be reflective of the current "modern Jeffersonian" campus architectural style (Exhibit 1).

Location: The University plans to construct the new fine arts building on University property east of the current Church Fine Arts Building with a bridge connecting the two fine arts buildings (Exhibit 2).

Estimated Cost: Based upon preliminary pre-design the total project cost for the new fine arts building, expressed in 2018 dollars, is currently estimated at \$20 million.

Schedule: The pre-design work for the proposed fine arts building has been completed. Final design through construction documents will commence in late spring 2016, be completed in early 2017, with construction completed in time for the spring semester of 2019.

The proposed fine arts building will address several key institutional goals, including accommodating increased student enrollment in the arts, accommodating increased numbers of arts faculty, creating more space for public arts performances and exhibitions, and reducing scheduling pressures on existing arts classrooms and performance spaces. This building is on the Board of Regents approved Master Plan for UNR.

Financing Proposal Summary - The proposed \$20.0M project financing plan involves no state funds and is wholly dependent on donor gifts and pledges, including two trust expectancies. At present, the University has \$5.6M of donor cash in-hand, \$12.4M in documented donor pledge agreements and trust related gifts and \$2.0M in anticipated the School of the Arts funding. Two loans – one bank loan and one loan from the University of Nevada, Reno Foundation - will be used to monetize/bridge the \$12.4M pledge portion of the funding plan. Loan re-payments will be made utilizing the cash flows associated with the pledge payments and trust gifts. These documented commitments are from major local foundations and individuals that have long, deep and demonstrated histories of gifting to UNR. Precedents for bridging donor pledges at UNR include the Knowledge Center (2005), Center for Molecular Medicine (2008), Davidson Mathematics and Science Center (2010), Pennington Health Sciences Building (2011), Pennington Student Achievement Center (2016) and the E. L. Wiegand Fitness Center (2017). As was the case with these precedents, any loan

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interest carry cost associated with these donor gifts will be funded from non-state institutional funds.

Financing Proposal Timing - The University currently has \$5.6M of donor cash in hand. The project's estimated cash "draw-down" schedule indicates the \$5.6M will fund the project well into 2017 and be used primarily for design work. Of the \$12.4M in pledges and trust expectancies, approximately \$7.4M will be received in 5 years or less and will be monetized with a competitively bid bank loan. Since the need for and exact amount of the loan will not be known until 2017, no Board action is being requested for this bank loan at this time.

There is one \$5.0M trust expectancy associated with an irrevocable marital trust gift whose timing is unknown. However, based upon standard life expectancy estimates, the cash proceeds from this gift may not be received for many years. NSHE's financial advisor JNA Consulting Group, LLC, has researched this situation and advised the University that the chances of securing a long-term bank loan in connection with this potentially long-term pledge is highly unlikely.

In a show of support for the School of the Arts and the proposed new fine arts building the University of Nevada, Reno Foundation (UNRF) has instead offered to loan the University the \$5.0M associated with this particular gift. The UNRF Executive Committee, following a review and affirmative recommendation from its Investment Committee, met on January 21, 2016 and formally approved the offer and terms of the loan. The basic terms of the Foundation loan are as follows:

- Interest - Variable rate; 1-Year U.S. Treasury + 1%; repriced quarterly; paid every six months.
- Draws - As needed.
- Prepayment Penalty - None
- Call Provision – The loan may be called at any time, but with no less than 365 days' notice.
- Guarantee – Board of Regents of the Nevada System of Higher Education/University of Nevada, Reno

In summary, the estimated cost of the project and the related financing plan may be summarized as follows:

Estimated Project Cost (in 2018 Dollars)	\$20.0
Cash Gifts In Hand	\$5.6
UNR Foundation Promissory Note	5.0
Bank Loan	7.4
School of the Arts Funding Contribution	2.0
Total Funding Sources	\$20.00

The \$5.0M UNRF Promissory Note (Exhibit 3) is being presented to the Board of Regents for consideration and approval at this time.

2. SPECIFIC ACTIONS BEING RECOMMENDED OR REQUESTED:

University of Nevada, Reno President Marc Johnson requests:

1. Approval of the UNR financing plan for a new School of the Arts fine arts building project currently estimated to cost \$20 million (in 2018 dollars).
2. Approval of a \$5 Million Promissory Note from the University of Nevada, Reno Foundation to the Board of Regents of the Nevada System of Higher Education/University of Nevada, Reno.

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3. IMPETUS (WHY NOW?):

- The new School of the Arts fine arts building project was previously reviewed and approved by the Board of Regents at their December 2015 meeting.
- The existing fine arts facilities do not provide the capacity necessary to provide education, faculty development and public performance and exhibition spaces necessary to accommodate enrollment and faculty growth. To address these capacity needs, it is important to proceed as soon as possible to design and construct the additional fine arts building.
- The cost of design services and construction in northern Nevada continue to increase.
- Interest rates continue to be relatively low and attractive.

4. BULLET POINTS TO SUPPORT REQUEST/RECOMMENDATION:

- Same as 3. above

5. POTENTIAL ARGUMENTS AGAINST THE REQUEST/RECOMMENDATION:

Given the need for two loans to bridge the pledge and trust gifts, this request would result in additional indebtedness to the financial position of the University. While sufficient donor pledges to retire the indebtedness have been secured and documented, should any pledge fail to materialize the University will be responsible for resolving the shortfall.

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

Pass on the opportunity to construct a fully donor-funded new fine arts building and continue to limit the School of the Arts to its limited existing space.

7. 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 X No _____
Explain: Project will require the University to secure two loans, one now and one in 2017, to monetize/bridge donor pledges.

Exhibit 1



Exhibit 2



**Proposed Location
Of New Fine Arts
Building**

Exhibit 3

PROMISSORY NOTE

Borrower: Board of Regents of the Nevada System of Higher Education
on behalf of the University of Nevada, Reno
1664 N. Virginia St., MS 0003
Reno, NV 89557
Attention: Ron Zurek

Lender: University of Nevada, Reno Foundation
1664 N. Virginia St., MS 0007
Reno, NV 89557
Attention: John Carothers

Principal Amount: \$5,000,000.00

TERMS

- 1. Promise to Pay:** For value received and subject to the terms and conditions below, Borrower promises to pay Lender the principal sum of up to Five Million Dollars (\$5,000,000.00) (the "Loan Amount") with interest as set forth in paragraph 2. below, as Borrower may draw against such during the Loan Amount during term of the loan for the purpose of supporting the Fine Arts Act II Building project at the University of Nevada, Reno.
- 2. Interest:** Borrower shall pay Lender interest on the outstanding and unpaid principal balance of the Loan Amount at an adjustable rate equal to the one year U.S. Treasury Bill rate, plus one percent (1%). Interest shall begin to accrue on the unpaid principal balance of the Loan Amount on the date Borrower makes its first draw on the Loan Amount. Interest shall be adjusted quarterly after the date of Borrower's first draw on the Loan Amount.
- 3. Interest Payments:** Accrued interest shall be calculated and paid at six month intervals, commencing six months after Borrower makes its first draw on the Loan Amount.
- 4. Payment of Principal:** Separate from this Promissory Note and aside from the Agreement between the Borrower and Lender, a donor designated herein as The Harlan O. and Barbara R. Hall Marital Trust ("The Hall Marital Trust") has pledged the sum of Five Million Dollars (\$5,000,000) to be applied toward the Fine Arts ACT II Building project. Upon receipt of such pledged funds from The Hall Marital Trust, such funds shall first be applied to the outstanding principal balance on the Loan Amount in satisfaction of Borrower's obligations under this Promissory Note. Should the pledge by The Hall Marital Trust fail to distribute to the Lender the funds necessary to satisfy the outstanding principal balance of this Promissory Note, then Borrower shall pay Lender the then remaining outstanding principal balance, plus any accrued and unpaid interest thereon within one (1) year of receipt of written notice by Lender to Borrower that the pledge will not be sufficient to satisfy the Borrower's obligations under this Promissory Note.
- 5. Lender's Right to Call Promissory Note Due:** The Lender may call this Promissory Note due, in full or in part, at any time so long as Lender provides Borrower with adequate written notice of such demand. However, in no event shall the Borrower be required to meet such call in fewer than 365 days from receipt of such written notice of demand

6. **No Prepayment Penalty:** So long as Borrower is not in default of its obligations under this Promissory Note, the Borrower may pay or pre-pay the outstanding balance then owing to Lender, or may make partial payments on the principal balance, without penalty.
7. **No Waiver:** Any forbearance, inaction or failure by Lender to promptly pursue any remedy for Borrower's default under the terms of this Promissory Note shall not be construed as a waiver of any right to enforce the terms of this Promissory Note, nor shall Lender be estopped from enforcing the full provisions hereof. Any waiver must be expressed in writing and signed by Lender.
8. **Cost of Enforcement:** All costs and expenses, including the legal costs incurred by the Lender to enforce this Promissory Note as the result of any default by Borrower, will be added to the principal then outstanding and will immediately be deemed due and payable by Borrower.
9. **Severability:** If any term, covenant or condition of this Promissory Note is held by a court of competent jurisdiction to be invalid, void or unenforceable then the remaining terms of this Promissory Note shall remain operative and in full force and effect without regard to the invalid, void or unenforceable provision.
10. **Choice of Law and Venue:** This Promissory Note shall be interpreted and governed by the laws of the state of Nevada. Venue for any dispute, claim, mediation, arbitration or litigation arising out of this Promissory Note shall be in Washoe County, Nevada.
11. **Successors/Assigns:** This Promissory Note will enure to the benefit of and be binding upon the respective successors and assigns of the Borrower and Lender.
12. **Presentment, Notice and Protest Waived:** Borrower waives presentment for payment, notice of non-payment, protest and notice of protest.
13. **Modification:** No modification of this Promissory Note will be effective unless made in writing and signed by the Borrower.

**Board of Regents of the Nevada System
of Higher Education on behalf of the
University of Nevada, Reno**

_____ Date _____
Daniel Klaich, Chancellor

Recommended by:

_____ Date _____
Marc Johnson, President