

NAVARRO COLLEGE BOARD OF TRUSTEES
MAY 28, 2009 SPECIAL MEETING
MINUTES

The governing body of NAVARRO COLLEGE met on Thursday, May 28, 2009, in the Lone Star Room located in Walker Dining Hall for a special meeting. All trustees were in attendance including: Mr. Lloyd Huffman, Chairman; Dr. James Price, Vice-Chairman; Mr. James Borkchum, Jr., Secretary-Treasurer; Mr. Richard Aldama, member; Mr. A. L. Atkeisson, member; Mr. Phil Judson, member; and Mr. Todd McGraw, member.

Also in attendance were:

Dr. Richard Sanchez	District President
Dr. Harold Nolte	President, Ellis County Campuses
Dr. Kenneth Martin	Vice President for Academic Affairs
Ms. Gettie Moreno	Vice President for Finance and Administration
Dr. Tommy Stringer	Vice President for Institutional Advancement
Ms. Donna Parish	Director of Market Relations
Dr. Cubie Ward	Dean of Midlothian Campus
Mr. Dewayne Gragg	Dean of Enrollment Management
Ms. Leslie Smith	Executive Administrative Assistant
Mr. George Williford	First Southwest Company
Mr. Erick Macha	First Southwest Company

Call to Order

Mr. Huffman called the meeting to order at approximately 12:13 p.m. and asked Dr. Price to begin the meeting with a prayer.

Board Announcements

There were no announcements.

Open Forum

There were no requests to address the Board.

Convene to President's Dining Room for Lunch
Break and Reconvene Meeting in Lone Star Room

Mr. Huffman announced the Board would move to the President's Dining Room for lunch. Following the lunch, Mr. Huffman reconvened the meeting in the Lone Star Room at 1:10 p.m.

Approval to Proceed with Revenue Bond Bid Solicitations

Dr. Sanchez stated Dr. Nolte would present a brief background on the establishment of the Midlothian campus in Ellis County to bring new trustees up-to-date followed. He further stated that Ms. Moreno who would share information on the revenue bond and a

review of the college's indebtedness and ratios at the conclusion of Dr. Nolte's presentation.

Dr. Nolte stated Dr. Sanchez first presented plans and projections to the board in 2004 for construction of the Midlothian campus. All projections have come true with one exception; the need for a second building was not anticipated until the year 2015. Because of the population boom in Ellis County and the increase in enrollment being experienced, additional classroom space is needed for 2010 -- five years earlier than originally projected.

Dr. Nolte stated the Waxahachie and Midlothian campuses service ten public school districts within Ellis County; four of these are large districts similar in size to the Corsicana School District. In addition, several private schools are located in the area. Population projections indicate growth in Ellis County will continue to increase at a rapid pace compared to nearby counties.

Dr. Nolte continued by stating the first building on the Midlothian campus was occupied in spring 2006. The building, designed by Good, Fulton and Farrell architects, includes administrative offices, a bookstore, and a financial aid office in addition to classrooms with a capacity for 800 students. Phases II-IV of the campus master plan are designed to accommodate 1,000 students each for a total campus capacity of 3,800.

The following semester, fall 2006, the Texas A&M University - Commerce/Navarro College Partnership Program began offering courses at the Midlothian campus. Enrollment at the campus center has grown from 236 students in spring 2006 to 1,041 students in spring 2009 (including enrollment in TAMU-C classes). The Midlothian campus draws students from 46 different communities including Dallas and Tarrant counties.

Dr. Nolte stated the second building, Phase II of the campus master plan, is needed now. Without the proposed building, future growth cannot be accommodated. He noted that Phase III will likely be needed by the year 2015. Discussion followed and Dr. Nolte responded to several questions from Trustees regarding enrollment before concluding his presentation.

At the conclusion of Dr. Nolte's presentation, Ms. Moreno presented a proposed timetable developed by First Southwest Company for issuing \$4.075 million in revenue bonds to finance the construction of Phase II. Ms. Moreno stated that with the board's approval, First Southwest Company would begin distributing bid solicitations from prospective banks on Friday, May 29, 2009 with a submission deadline of Friday, June 12, 2009. She stated the results of the bid solicitation will be presented at the June 18, 2009 Board of Trustees meeting. Based on the results, the board will be asked to consider action authorizing issuance of private placement bonds. If bids do not meet expectations, public placement may need to be considered.

Ms. Moreno presented two amortization schedules, a 20-year amortization based on a 5.11% interest rate and a 25-year amortization based on a 5.36% interest rate. Both

were based on an “A” bond-rating scale. Ms. Moreno pointed out the interest rate would be slightly higher for a 25-year repayment schedule and that her recommendation would be to amortize the proposed bond debt over a 20 year period.

According to the college’s audited debt schedule as of August 31, 2008, the long-term debt including bonds payable, notes payable and leases payable totaled \$30,194,110. Of this amount, \$25,775,000 represents bonds payable from previous issues. Ms. Moreno stated if the college decides to issue an additional \$4.5 million in revenue bonds, the current annual debt service payments of \$2,043,270 would increase to \$2,372,041 and the debt ratio as of August 31, 2008 would drop slightly from 4.40 to approximately 3.87.

Ms. Moreno continued stating in addition to allowing tuition and fees revenues to be pledged, new bond covenants authorize the use of auxiliary enterprises profits and some types of interest income to be pledged for securing bond debt and for determining the debt ratio. She stated that the intent is to only use tuition and fees as pledged revenues, which would leave auxiliary enterprise profits and interest income as a “buffer”.

Mr. Huffman noted that the debt ratio indicates the amount of “safety cushion” the college has available to cover its debts. Dr. Price inquired if the amount of tuition and fees generated by the Ellis County campuses could support the bond indebtedness. Dr. Sanchez responded that out of approximately \$8 million in out-of-district tuition and fees, he estimated that Ellis County generated approximately \$3.5 to \$4 million. He affirmed that Ellis County “pays its own way”. Ms. Moreno confirmed the amount of tuition and fees generated by the Ellis County campuses was more than sufficient to support the annual debt payment. Dr. Sanchez asked trustees to keep in mind that tuition and fees are increasing and will make the debt ratio higher in the future.

Discussion followed. Dr. Sanchez stated he is confident that a maintenance tax in Midlothian is viable within the next few years and could help offset the cost of future construction. Dr. Ward agreed. Dr. Nolte stated that the trend in Waxahachie was also turning in favor of Navarro College and he would not be surprised if a maintenance tax might be more favorably considered there within a few years.

Mr. McGraw inquired whether student enrollment in Ellis County has a negative impact on the main campus in Corsicana. Dr. Sanchez responded by stating that the main campus in Corsicana is projected to remain stable in the future and that all projected growth for the college district would occur in Ellis County. Mr. McGraw questioned the district’s capacity to add further debt beyond the existing amount. Dr. Sanchez then requested that Mr. George Williford, bond counsel for the district, respond to Mr. McGraw’s question.

Mr. George Williford, First Southwest Company, shared his perspective on the bond issue. Mr. Williford updated the board with a brief history on the college’s previous bond issues. He stated that the college has had good luck in obtaining favorable interest rates

in the past by using the private placement method. He recommended that private placement be considered again and that the college can use the "A" category rating already established. He stated using the public placement route would require the expense of a new rating review. He commented that several private placement buyers have backed away from the market recently and are no longer showing interest in purchasing. He stated it is First Southwest's intention to solicit bids from area banks that may have a local interest in the college, such as those in Frost, Waxahachie and Corsicana, as well as others.

He stated the college's debt ratio is well above the minimum 3.5 ratio required to issue new debt. He stated the college's actual debt coverage would be better than what Ms. Moreno previously stated because the existing debt has been reduced slightly since August 31, 2008. The ratio will continue to increase as the principle on existing debt is paid down each year.

Discussion followed regarding the possibility of paying off the debt early. Mr. Williford added that the bid specifications will request a fixed rate but anticipates bids will be submitted based on "five year (5 year) resets". He concluded by stating if the bid responses are not favorable, the college can reject the proposals and go the public issue route.

Dr. Sanchez informed new trustees that Midlothian is contributing \$2 million toward the project with \$500,000 coming from the City of Midlothian and \$1.5 million from the Midlothian Economic Development Corporation. He stated the estimated cost of the project, including furniture, equipment and fixtures, and soft costs, is approximately \$6 million.

Dr. Price made a motion to proceed with revenue bond solicitations, and Mr. Aldama seconded the motion. The decision was unanimous.

State Auditors

Dr. Sanchez advised that state auditors will be on campus next week to conduct an audit of the college's records. He added that an audit has been anticipated because of the dramatic increase in enrollment and preparations have been on-going over the past 3 months. He asked Mr. Gragg to share more information.

Mr. Gragg stated two state auditors are expected to arrive on Monday, June 1, 2009, to conduct a week-long audit of the college's records. He stated it is not unusual for schools to get audited when dramatic increases in enrollment, such as the college has experienced, are reported. The auditors will ask for a sampling of specific student records to be pulled from thousands of files and will thoroughly review each of them for any discrepancies. In addition, the auditors are expected to conduct individual interviews with him (Mr. Gragg) as the reporting official; David Edwards, Registrar; Dana Holland, Director of Computer Center; and Matt Miller, Director of Online Instruction, to determine what kind of controls the college has in place to ensure records are correct and access is secured.

Mr. Gragg stated the college has not knowingly done anything wrong and that he is confident that the audit will go well. He responded to several questions and stated that an exit interview will be held by the auditors before they leave on Friday, June 5, 2009.

Dr. Sanchez inquired if trustees would like to be notified once the exit interview has been scheduled. He stated he would advise trustees of the results if they are not able to attend.

Next Meeting Announcement and Adjournment

Mr. Huffman announced the next meeting of the Navarro College Board of Trustees will be held on Thursday, June 18, 2009, in the Arrowhead Room located in the Gooch One-Stop Student Center.

Mr. Atkeisson made a motion to adjourn the meeting at 2:08 p.m., and Mr. Judson seconded the motion. The decision was unanimous.

Dr. Sanchez stated a calendar listing board meetings dates throughout rest of 2009 as well as contact information on all board members was provided for trustees to take home.

Respectfully submitted,

Mr. James E. Borkchum, Jr.
Secretary/Treasurer
NAVARRO COLLEGE BOARD OF TRUSTEES