

University of Idaho  
**FACULTY COUNCIL MINUTES**

**2002-2003 Meeting #16, Thursday, February 20, 2003**

**Present:** Bitterwolf (chair), Wagner (vice-chair), Bailey, Baillargeon, Chandler, Daley Laursen, Haggart (w/o vote), Lillard, McCaffrey, McClure, McGuire, Pikowsky, Pitcher (w/o vote), Reese, Rinker, Schekler, Stegner

**Absent:** Cloud, Fairchild, Guenther, Hong, Nelson **Observers:** 37

**Call to Order.** A quorum being present, Faculty Council Chair, Professor Thomas Bitterwolf, called the meeting to order at 3:34 p.m. in the Brink Hall Faculty Lounge. He also took the opportunity to thank leaders from staff affairs and student government for coming to the meeting, as well as welcoming the overflow crowd of visitors to the meeting.

**Special Orders. SBOE Investigation of U of Idaho Loan to the U of Idaho Foundation and Other Issues Related to the Development and Funding of “University Place” in Boise.** U of Idaho Provost Brian Pitcher, Executive Director of Budget and Planning Wayland Winstead, Executive Director and Vice President for Advancement Joanne Carr, and Interim Vice President of Finance and Administration Laura Hubbard provided the council with detailed information on the events that led the SBOE/Regents to call for an independent investigation of the financial arrangements surrounding the development of University Place in Boise. This same administrative group also listened to comments and fielded questions from the council and others in attendance at the meeting.

The U of Idaho is under investigation by the SBOE/Regents for lending the U of Idaho Foundation \$10 million for project development cost associated with the University Place building project. The regents are concerned that U of Idaho officials may have violated their board policy in authorizing the loan. No one believes that there was any criminal act or malfeasance involved, but university or board policies may have been broken. A review of the procedures used by the U of Idaho and U of Idaho Foundation will be conducted by an independent consultant, who will be instructed to investigate the whole process. That investigation will not only be concerned with the \$10 million dollars in loans made over the past two years, but also the \$28 million in development expenses incurred by the U of Idaho Foundation. The foundation had the expectation that it would be repaid through the sale of the revenue bonds for the project funds it had spent and borrowed. But, primarily due to the unanticipated inflation in the building cost estimates, the U of Idaho Foundation has not been able to recover any of its investment. The \$10 million came to the foundation in three loans over a period of two years, the last \$2 million this month. The funds were taken from the U of Idaho’s cash management fund.

The U of Idaho Foundation is a private and separate corporate arm of the university. Its purpose is fundraising and development. It holds assets in many forms and applies those assets to projects approved by the university. The foundation can borrow money, buy property, and manage the endowment trust fund. About ten years ago the relationship between the U of Idaho Foundation Board and the U of Idaho was enhanced by the SBOE/Regents. The Vice President for Finance and Administration also serves as the treasurer for the foundation and the Executive Director and Vice President for Advancement is a part of the university administration. The idea behind this enhancement was to guarantee control so that the U of Idaho Foundation would not become too independent. Part of the upcoming investigation will be to look carefully at those dual roles and how they affect management decision-making.

The focus of the questions and discussion was on the \$10 million loan, but it became clear by the end of the meeting that just as important to the impending independent investigation will be examining the decision-making process involved in the \$28 million the U of Idaho Foundation spent on development expenses. The issue is complex, answers will come and lessons will be learned, but this will take time and the skill of an independent objective investigator. It was made clear during the discussion that the U of Idaho Foundation would be seeking private financing to immediately repay the \$10 million loan, plus interest. The fact that the foundation has not recovered its initial investment also means that the U of Idaho will lose \$1.8 million in income from the foundation, which in turn has been used for advancement operations, such as fundraising.

In response to several questions and comments concerning the cash management fund that provided the money for the \$10 million loan, it was pointed out that this fund could not include any appropriated funds. Therefore, even if it was the desire of the administration, this fund could not be used to help alleviate the budget-cutting burden being put on academic departments. It was pointed out by an academic department administrator that many parts of an academic budget did not involve appropriated instructional funds, and therefore, if excess money was available it might have been used to help pay those types of expenses. In response, the administration team said that the cash management fund could not be thought of as a source of funds to counteract budget cut-backs. This fund allows the university to pay its bills each month and the only thing that can be done with excess funds in the account is to invest them.

Another observer pointed out that it was actually good business practice to have excess funds in this kind of account. The alternative would be not having the ability to pay for day-to-day operational expenses. The bottom-line on the discussion of this major point was that these funds could not be used to alleviate budget reductions, but could be used for reinvesting, such as a short-term loan to the U of Idaho Foundation.

It was pointed out that there has been a melding of stories in the newspaper accounts that is misleading. Most press reports have tied the lengthening of the bond's terms from 30 to 40 years with the university loan problems. The issuance of the bonds is clearly the responsibility of the Idaho State Building Authority and it was that body that changed the bond maturities. The university plays no part in the writing or issuance of construction bonds. The U of Idaho's role in the one building being built will be to lease space in that building. The U of Idaho is currently leasing space in the M-K building for its Boise based programs. The plan envisions having other organizations leasing or actually buying space in the building, including the U.S.D.A. Forest Service Rocky Mountain Research Station, the state Department of Water Resources, and the Idaho Water Resources Research Institute. The lease price per square foot at the new water building will only be about a dollar higher than what is now being paid for the leased space in the M-K building and part of the new building space will be built with a research laboratory infrastructure.

Several people asked questions or made comments about how academic investments are made at the U of Idaho; for instance, decisions to offer programs off-campus resulting in people, programs, research, and dollars flowing to off-campus locations. Many would argue that a greater investment needs to be made on the Moscow campus, continuing to make it a "campus of choice," while others see the need for viable programs at the off-campus sites, like Boise. The discussion centered on the need to be clear that we are choosing the right academic and research enterprises.

In response to questions about who will be doing the investigation and how much it would cost, the administrative team said that all of that is unknown. The SBOE/Regents will be making the decisions on the investigation, but the U of Idaho will have to foot the bill.

Questions and comments concerning the SBOE/Regent's role in the decision-making process indicated that no one is clear about what criteria the board has for decisions that need board notification and board approval. It was clear that the SBOE/Regent's thought that they should have been better informed. The administrative group and others emphasized that there is no substitute for good communications in building good relationships. It would have been wise to make sure the board was informed and approved of each step that the U of Idaho was taking in this project. It was strongly suggested that the upcoming investigation include the SBOE/Regent's role in financial decision-making as well as that of the U of Idaho.

Concern about the political fallout from this matter and the subsequent investigation were on the minds of many of those in attendance at the meeting. All agreed that this was the absolute worst time that this could have happened. Yet, the provost said that meetings with the U of Idaho Foundation Board of Directors and alumni have shown solid support, and the SBOE/Regents is publicly supporting the University Place concept.

The U of Idaho will move ahead with its plans for University Place by building the Idaho Water Center, but plans for the other two buildings in the complex will be delayed. The U of Idaho had anticipated building a Learning Center and Idaho State University is scheduled to build a Health Professions Center as the final building at University Place. There is the possibility that the U of Idaho Foundation will not get any of its investment returned. It was an investment that was made and others will have to determine, as well as history, whether it was a wise investment decision. At the conclusion of the meeting there was general agreement that two central concerns were: (1) that none of the parties identified in all of our written and verbal communication concerning University Place as our "partners" have contributed any money to the project, and (2) that the processes and decision-making involved in this project need thoughtful independent investigation.

**Adjournment.** It was **moved and seconded** (Reese, Rinker) to adjourn. The motion was **adopted** by unanimous voice vote, and Chair Bitterwolf, after thanking everyone for an enlightening discussion, adjourned the meeting at 5:17 p.m.

**Next Meeting.** The next regularly scheduled meeting of the council will be **March 4<sup>th</sup>**.

Respectfully submitted,

Peter A. Haggart  
Secretary of the Faculty Council