AGENDA
Oakland University
Board of Trustees
Finance, Audit and Investment Committee Meeting
March 15, 2011, 9:00 a.m.
Auditorium, Elliott Hall of Business & Information Technology
Presiding: Chair Jacqueline S. Long

A. Call to Order – Chair Jacqueline S. Long

B. Reports

Tab 1. Treasurer's Report
Presented by: John W. Beaghan

C. New Items for Consideration

Tab 2. Appointment of Independent Public Accountants for Audit Services, FY2011
Presented by: John W. Beaghan

Tab 3. Engineering Center Reimbursement Resolution
Presented by: John W. Beaghan

Tab 4. Architectural and Engineering Firm for the Engineering Center
Presented by: Virinder K. Moudgil/John W. Beaghan

Tab 5. Authorization to Enter into an Assessment Agreement Regarding Merit Network, Inc.
Presented by: Virinder K. Moudgil/Theresa M. Rowe

D. Adjournment

E. Closed Session

03/11/2011

Report
Oakland University
Board of Trustees
Finance, Audit and Investment Committee
March 15, 2011

TREASURER'S REPORT

1. **Division and Department:** Finance and Administration, Budget and Financial Planning, Treasury Management, and Facilities Management

2. **General Fund Budget Performance:** Oakland University's (University) FY2011 actual enrollment is projected to meet and possibly exceed budget on a Fiscal Year Equated Student (FYES) basis. As approved by the Board of Trustees (Board) within the FY2011 budget, one percent of net tuition revenues has been reserved to address a potential mid-year appropriation reduction and/or to help limit a FY2012 tuition increase. The University's FY2011 appropriation budget anticipated an appropriation reduction of 3.1%, however, the actual cut the University received was 2.8%. As approved by the Board, the $177,600 difference has been reserved to address a potential mid-year appropriation reduction and/or to help limit a FY2012 tuition increase. A mid-year appropriation reduction is not currently anticipated. Overall General Fund expenditures are within budget with no deficits or major spending variances in any division or unit.

The Governor has proposed a FY2012 budget which includes a 22.6% ($11.4 million) reduction in the University's appropriation. The proposed reduction can be limited to 15.0% ($7.6 million) if the University limits its tuition increase to 7.1%. The Governor's proposed budget is now being considered by the Legislature.

The University's divisions, college and schools are developing potential budget reduction strategies for consideration by the Executive Council in preparation for the FY2012 General Fund budget.

A monthly budget monitoring process managed by the Budget and Financial Planning Office helps ensure budget management accountability.

3. **Investment Performance:** A summary of the results of the University's pooled cash and endowment investment activities is presented in the *Cash and Investments Report, January 31, 2011 and 2010* (Attachment A).

Total portfolio investment returns from both pooled cash and the endowment met or exceeded the composite benchmarks for both the quarter and year ending December 31, 2010. Equities underperformed their benchmarks in January 2011 and for the calendar year primarily because these funds have a longer term perspective and have not reacted to shorter term events as the market did in 2010.

The liquidity of both pooled cash and endowment investments remains strong. The University's investments are being managed according to Board policies and approvals.

4. <u>Debt Management:</u> The *Capital Debt Report, January 31, 2011* (Attachment B) shows the University's outstanding principal, rate of interest, weighted average cost of capital, type of debt, annual debt service, maturity, and purpose of each debt issuance, and a section with information about the University's two swap arrangements. The 1997 Bonds will be fully extinguished during FY2011, relieving the University of approximately $1.2 million in annual debt service costs. The University's debt is being managed according to the Board's policies and approvals.

5. <u>Construction Projects Progress Report:</u> The *Construction Projects Progress Report, January 31, 2011* (Attachment C) includes budget information, source of funding, forecasted final costs and comments for all ongoing capital projects above $500,000, as required by Board policy. All projects have been properly approved and are within budget.

6. <u>University Reviews/Approvals:</u> The reports were prepared by the Budget and Financial Planning, Treasury Management, and Facilities Management Departments, and reviewed by the Vice President for Finance and Administration and Treasurer to the Board of Trustees, and President.

7. <u>Attachments:</u>

A. Cash and Investments Report, January 31, 2011 and 2010
B. Capital Debt Report, January 31, 2011
C. Construction Projects Progress Report, January 31, 2011

<u>Submitted to Vice President for Finance and Administration and Treasurer John W. Beaghan:</u> JWB
(Please Initial)

<u>Reviewed by Secretary Victor A. Zambardi:</u> VZ
(Please Initial)

<u>Reviewed by President Gary D. Russi:</u> GR
(Please Initial)

Oakland University
Cash and Investments Report
January 31, 2011 and 2010

	Fair Market Value January 31, 2010	Fair Market Value January 31, 2011	Total Return Month Ending January 31, 2011	Benchmark Month Ending January 31, 2011	Total Return Qtr. Ending December 31, 2010	Benchmark Qtr. Ending December 31, 2010	Total Return Calendar Yr. Ending December 31, 2010	Benchmark Calendar Yr. Ending December 31, 2010
Pooled Cash								
JP Morgan Equity Funds	$ 15,351,913	$ 43,801,953	1.98%	2.32%	11.19%	10.17%	13.24%	14.63%
Commonfund High Quality Bonds	69,966,594	49,705,316	0.49%	0.12%	-0.64%	-1.30%	9.08%	6.54%
JP Morgan S-T Bond Fund		55,347,184	0.25%	0.21%	0.13%	-0.07%		
Overnight Sweep - Money Market	67,234,493	27,635,105	0.00%	0.00%	0.02%	0.01%	0.09%	0.03%
Pooled Cash Summary	$ 152,553,000	$ 176,489,558	0.71%	0.68%	1.41%	1.02%	6.43%	5.62%
Endowment								
UBS:								
Equity Funds	$ 30,537,757	$ 33,160,224			9.17%	10.76%	14.12%	15.06%
Fixed Income Funds	16,597,667	17,700,740			-0.68%	-1.30%	8.71%	6.54%
Hedge Funds		2,058,285			1.74%			
Commodity Funds		1,948,519						
Private Equity		150,000			-0.09%			
Cash	317,087	15,373						
Endowment Pool Summary	$ 47,452,511	$ 55,033,141			5.78%	5.79%	12.19%	11.84%

Comments:
The Pooled cash is greater than the previous year due primarily to investment returns.
The endowment pool balances are higher than the prior year due primarily to increases in market values.

Benchmarks for Investments are:
- For Equities: Russell 1000 Value Index, Russell 1000 Growth, MSCI - EAFE International (Relative Weighted)
- For Bonds: Barclays Capital Aggregate Bond Index, Barclays Capital 1-3 year US Gov/Credit Bond Index
- For Overnight Sweep - Money Market Fund: Lipper Institutional Money Market Fund Index
- For Endowment Equities: S & P 500
- For Endowment Fixed Income: Barclays Capital U.S. Aggregate Bond Index
- For Endowment Cash : City Group T-Bill (90 Day)

Benchmark Performance Comments:
Pooled cash and endowment investment funds are all managed funds (not index funds) and are expected to exceed their benchmarks over time. They will not necessarily meet or exceed the benchmarks each month or each quarter.

Attachment A

Oakland University
Capital Debt Report
January 31, 2011

		Principal Remaining	Rate of Interest	Interest Type		FY 11 Debt Service	Expires	Bond Rating	Purpose
Bonded Indebtedness:									
General Revenue Bonds, Series 1997	$	1,175,000	4.850%	Fixed	$	1,234,925	2011	Aaa	Elliott Hall, Admin Comp System, Parking
Variable Rate Demand Bonds, Series 1998		4,600,000	0.340%	Variable		15,180	2023	NR	Sharf Golf Course
General Revenue Refunding Bonds, Series 2004		26,925,000	5.100%	Fixed		2,493,488	2026	Aaa	Sports, Recreation and Athletics Center
General Revenue Refunding Bonds, Series 2008		53,280,000	3.373%	Variable/Hedged		1,797,134	2031	Aaa	USA, Pawley Hall, OC Expan, Elec Upgrade
General Revenue Bonds, Series 2009 - BABs		33,650,000	4.427%	Fixed		2,072,793	2039	A2	HHB, Infrastructure Projects
Other Capital Debt:									
2005 ESA II Loan		16,256,303	3.785%	Fixed		1,302,687	2027		Energy Services Agreement II
	$	135,886,303	3.936%	Weighted Avg	$	8,916,207			

Debt covenant compliance:
The University has a general revenue covenant in many of its borrowing agreements including bonded debt and other capital debt.
This covenant is consistent in all University debt agreements and commits the University to maintain "General Revenues" to exceed the sum of twice annual debt service on senior debt and one times annual debt service on subordinate debt each fiscal year. At June 30, 2010, the University recorded $194,782,000 in qualified General Revenues while the calculated debt service covenant requirement amounted to $17,832,000. The University exceeds its debt covenant requirement by a multiple of 10.9.

	Counterparty	Notional Amount	Termination Present Value	Counterparty Rating	Purpose/Comment
Debt-Based Derivatives:					
Constant Maturity Swap (CMS)	JPMorgan Chase Bank	$ 34,370,000	$ 3,209,962	Aa1	Yield curve swap paying about $70,000 per month.
Interest Rate Swap - Synthetically Fix 2008 Bonds	Dexia Credit Local	53,280,000	(4,843,633)	A1	Current low variable rates = High termination costs.

The CMS is performing as expected because the yield curve is relatively normal at this time.
The Interest Rate Swap is stabilizing total interest cost on the 2008 Bonds at less than 4%. Current extremely low variable interest rates (0.29% annualized) drive up present values to terminate.
The Termination Present Value is dynamic, changing daily depending on interest rates and eventually becoming zero at the end of the swap agreement.
This swap however does fix the interest rate paid on the bond issue at 3.373% for the life of the bond issue (and the swap agreement).
Oakland University's underlying credit rating, according to Moody's Investors Service's Global Rating Scale is A1 - Stable.

Attachment B

Oakland University
CONSTRUCTION PROJECTS PROGRESS REPORT
January 31, 2011

Item	Projects in Progress - over $500,000	JCOS Approval Required		Original Budget	Revised Project Budget	Actual Expenditures to Date	Forecast of Final Cost	Source of Funding
1	**2010 Infrastructure North Loop HTHW** Fund Number: 70849 Status: Construction 99% of North Loop, landscaping to be completed in spring 2011; Construction 98% of UTS Addition; & Construction 0% for ODH Windows Board of Trustees Approved: July 2, 2009 Projected Completion Date: October 2012	Yes	2/4/2010	$11,000,000	$11,000,000	$4,794,013	$11,000,000	$11,000,000 - 2009 General Revenue Bonds
2	**Human Health Building** Fund Number 70786, 70868, 32102 & 39576 Status: Construction 18% Board of Trustees Approved: February 4, 2009 Project Completion Date: December 2012	Yes	11/12/2009	$2,989,150	$64,561,200	$10,889,324	$64,561,200	$21,748,100 - 2009 General Revenue Bonds $40,000,000 Capital Outlay $ 2,738,100 DOE Grant $ 75,000 Kresge Grant Green Building Initiative
3	**Mt. Clemens Renovation** Fund Number: 70901 & 32891 Status: Demolition Phase Board of Trustees Approved: September 2010 Projected Completion Date: October 2011	Yes	9/16/2010	$2,087,750	$2,087,750	$55,388	$2,087,750	$ 504,000 - #14292 Strategic Fund $1,583,750 - HUD Grant
4	**2010 Parking Projects** Fund Number 70854 Status: Completed, waiting on final invoices Board of Trustees Approved: April 7, 2010 Projected Completion Date: April 2011	Yes	7/8/2010	$107,800	$1,915,540	$1,515,063	$1,915,540	$1,915,540 - 24349 Parking Lot Reserve Fund
5	**HH Window Replacement** Fund Number: 70903 Status: Bidding Phase Projected Completion Date: December 2011 Comment: Due to receiving low bids; we will be reducing funding in February	Yes	Pending	$1,020,000	$1,020,000	$0	$1,020,000	$1,020,000 - #45489 Residence Hall
6	**Campus Surveillance Cameras** Fund Number: 70870 Status: Engineering Phase Projected Completion Date: December 2011	No		$980,000	$980,000	$0	$980,000	$980,000 - #24350 Capital Project Supplement
7	**Elliott Hall Room 200 Renovation** Fund Number: 70846 Status: Construction 98% Projected Completion Date: February 2011	No		$221,890	$872,500	$670,086	$872,500	$221,890 - #38005 SBA Gift Fund $355,000 - #29912 Discretionary Account $ 52,000 - #11386 SBA Student Technology Support $180,000 - 27576 Discretionary Account $ 63,610 - #38005 SBA Gift Fund

Attachment C

Oakland University
CONSTRUCTION PROJECTS PROGRESS REPORT
January 31, 2011

Item	Projects in Progress - over $500,000	JCOS Approval Required	Original Budget	Revised Project Budget	Actual Expenditures to Date	Forecast of Final Cost	Source of Funding
8	**NFH & ANI Renovation for Career Services** Fund Number: 70740 Status: Completed, waiting on final invoices Board of Trustees Approved: May 2008 Projected Completion Date: August 2010	No	$800,000	$800,000	$766,517	$766,517	$800,000 - #14488 Project Support - $4.8M Fund
9	**VBH Window Replacement** Fund Number: 70859 Status: Completed, waiting one invoice Board of Trustees Approved: April 2009 Projected Completion Date: December 2010	No	$1,007,300	$777,500	$696,969	$777,500	$740,000 - #45489 Residence Halls Rooms $ 37,500 - #24810 Plant Renewal Supplement
	TOTAL PROJECTS IN PROGRESS		$20,213,890	$84,014,490	$19,387,360	$83,981,007	

Notes:

1. Revised Project Budget equals the Original Budget plus all approved changes to the budget.
2. Projects are added to the report when a funding source has been identified and a plant fund is authorized for the project.
3. The project status will be reported as "Completed" when the "actual expenditures to date" equals the "forecast", TMA work order system ties to Banner, and no additional expenditures or work is anticipated on the project.
4. A project whose status has been reported as complete to the Board, will be removed from the report for the next Board meeting.

Attachment C

Agendum
Oakland University
Board of Trustees
Finance, Audit and Investment Committee
March 15, 2011

APPOINTMENT OF INDEPENDENT PUBLIC ACCOUNTANTS FOR AUDIT SERVICES, FY2011

1. **Division and Department:** Finance and Administration, Controller's Office

2. **Introduction:** According to the Board of Trustees' (Board) Standing Finance, Audit and Investment Committee Policy, it is the responsibility of the Finance, Audit and Investment Committee (FAIC) to "review and recommend to the Board, the selection, retention or termination, as appropriate, of independent public accountants to perform audit services for the University."

According to the Board's Rotation of Auditing Firms Policy, "independent public accounting services must be competitively bid at a minimum of every five years with results of the bid and a recommendation presented to the Board's Finance, Audit and Investment Committee for its formal recommendation to the Board." And, the appointment of the independent public accounting firm "shall be for a one-year period."

Andrews Hooper & Pavlik (AH&P) performed independent public accounting services for Oakland University (University) for FY2007 – FY2010, four fiscal years. At the direction of the Board, these services were to be competitively bid following the FY2010 engagement.

In November 2010, a Request for Proposals (RFP) was sent to three auditing firms serving public universities in Michigan. All three firms responded with formal proposals (AH&P, Plante Moran and Rehmann Robson). An Audit Firm Search Committee (Search Committee) was formed to review the proposals, conduct interviews, and formulate a recommendation. The Search Committee was comprised of the Chair of FAIC, Vice President for Finance and Administration and Treasurer, Assistant Vice President and Controller, Chief Information Officer, Dean of the School of Business Administration, Director of Internal Audit, Director of Financial Aid, and Manager of Accounting.

After a thorough review of the proposals, AH&P was invited to interview with the Search Committee. AH&P's proposal satisfactorily addressed each of the University's needs as outlined in the RFP. Their information technology staff is familiar with the University's SCT/Sungard Banner administrative system. AH&P currently serves as external auditors for Central Michigan University and Saginaw Valley State University, in addition to many community colleges and private universities. Their references were very satisfied with the audit services performed. They have agreed to the University's required language for their engagement letter. Their proposed fees were the lowest of the three firms.

Following the interview, the Search Committee unanimously agreed to recommend AH&P to the FAIC as the University's independent public accountants for a one-year engagement.

3. Previous Board Action: In March 2007, AH&P was appointed as the University's independent public accountants for FY2007. In January 2008, October 2008, and April 2010, AH&P was reappointed for FY2008, FY2009, and FY2010, respectively.

4. Budget Implications: The fee for FY2010 audit services was $89,625. The proposed fee for FY2011 audit services is $72,780.

5. Educational Implications: None.

6. Personnel Implications: None.

7. University Reviews/Approvals: The proposals were reviewed by the Search Committee. This recommendation was prepared by the Assistant Vice President and Controller, and reviewed by the Vice President for Finance and Administration and Treasurer, and President.

8. Board Action to be Requested: At the March 30, 2011 Formal Session, the Board will be asked to approve the recommendation to appoint Andrews Hooper & Pavlik as the University's independent public accountants to perform audit services for FY2011.

9. **Attachments:** A. Summary of Proposals.

Submitted by Vice President for Finance and Administration and Treasurer John W. Beaghan: JWB (Please Initial)

Reviewed by Secretary Victor A. Zambardi: VZ (Please Initial)

Reviewed by President Gary D. Russi: GR (Please Initial)

ATTACHMENT A

Appointment of Independent Public Accountants for Audit Services, FY2011

Summary of Proposals

Andrews Hooper & Pavlik	$ 72,780
Rehmann Robson	$ 74,000
Plante Moran	$ 91,500

Agendum
Oakland University
Board of Trustees
Finance, Audit and Investment Committee
March 15, 2011

ENGINEERING CENTER REIMBURSEMENT RESOLUTION

1. Division and Department: Finance and Administration Division, Treasury Management Department.

2. Introduction: In December 2010, the Governor of the State of Michigan signed a Capital Outlay Appropriation, House Bill No. 5858, which is Public Act 329 of 2010, allocating a capital appropriation of $30 million for Oakland University (University) to build an Engineering Center at a total cost of $74,551,739. The $44,551,739 University match will be funded from private support and/or bond proceeds. Expenditures for the Engineering Center are expected to begin in FY 2011, and may include, but not be limited to, initial architectural and engineering services, site surveys, testing, and boring.

In order for expenditures made prior to the issuance of tax-exempt bonds to be subsequently reimbursed out of bond proceeds, Internal Revenue Service regulations require that a resolution be adopted by the bond issuer evidencing its intent to issue a specified maximum principal amount of bonds in the future for the project to be financed. The proposed "Reimbursement Resolution" satisfies the Internal Revenue Service's requirements in this regard.

The proposed Reimbursement Resolution does not commit the Board of Trustees (Board) to issue bonds for the Engineering Center, nor to issue any particular amount of bonds, nor to proceed with the construction of the Engineering Center. Its sole purpose is to satisfy the Internal Revenue Service's regulations in the event that tax-exempt bonds are issued by the Board for the Engineering Center. If the resolution is adopted, any expenditure with respect to the Engineering Center made after the adoption of the Reimbursement Resolution and any expenditures made within sixty days prior to the adoption of the Reimbursement Resolution can subsequently be reimbursed out of bond proceeds.

The proposed Reimbursement Resolution was prepared by Miller Canfield, external Bond Counsel.

3. Previous Board Action: On December 9, 2010, the Board approved the Fiscal Year 2012 Capital Outlay Project request which indicated the Engineering Center as the University's highest priority capital outlay funding need.

4. Budget Implications: Beginning in FY2015, debt service on the Engineering Center project will be budgeted in the General Fund.

5. Educational Implications: The Engineering Center will be the new home for the School of Engineering and Computer Science, as well as general purpose classrooms.

6. Personnel Implications: None.

7. <u>University Reviews/Approvals:</u> The resolution was prepared by Miller Canfield, external Bond Counsel, and reviewed by the Vice President for Legal Affairs and General Counsel, Treasury Management Department, Vice President for Finance and Administration, and President.

8. <u>Board Action to be Requested:</u> At the March 30, 2011 Formal Session the Board will be asked to approve the following resolution:

WHEREAS, the United States Department of Treasury has promulgated final regulations that, among other things, impose requirements on governmental entities such as the Board of Trustees of Oakland University (the "University") when they desire to reimburse themselves for expenditures made for capital improvements from the proceeds of tax-exempt debt obligations issued after the making of the expenditures; and

WHEREAS, the University has identified a certain capital project, namely the Engineering Center, which is to become the new home of the University's School of Engineering and Computer Science, as well as general purpose classrooms (the "Project"), and with respect to which the University expects to expend its funds prior to the issuance of tax-exempt debt obligations, and to reimburse itself from the proceeds of those obligations upon their issuance; and

WHEREAS, the University intends to state at this time its declaration of official intent to reimburse itself for the capital expenditures made for the Project in accordance with Treasury Regulation Section 1.150-2.

NOW, THEREFORE, BE IT RESOLVED THAT:

1. The BOARD OF TRUSTEES OF OAKLAND UNIVERSITY makes the following declarations for the purpose of complying with the reimbursement rules of Treas. Reg. Section § 1.150-2 pursuant to the Internal Revenue Code of 1986, as amended:

a. As of the date hereof, the University reasonably expects to expend funds for the Project and to reimburse itself for the capital expenditures in connection therewith with the proceeds of debt to be incurred by the University.

b. The design phase of the Project has commenced, and it is currently contemplated the Project will be completed on or before June 30, 2014.

c. The maximum principal amount of debt expected to be issued by the University for the capital expenditures described herein, including issuance costs, is $50,000,000.

d. The expenditures described above will be "capital expenditures" as defined in Treas. Reg § 1.150-1(h), which are any costs of a type which are properly chargeable to a capital account (or would be so chargeable with a proper election or with the application of the definition of "placed in service" under Treas. Reg. § 1.150-

2(c)) under general Federal income tax principles (as determined at the time the expenditures are paid).

2. Pursuant to Treasury Regulation Section 1.150-2, the University hereby authorizes each of the President and the Vice President for Finance and Administration to execute and file in the place where minutes of the Board of Trustees of Oakland University are kept, Reimbursement Orders for future projects, evidencing the intent of the University to reimburse itself for capital expenditures from the proceeds of subsequently issued debt.

3. This resolution shall be operative, effective and valid upon its passage.

9. <u>Attachments:</u> None.

<u>Submitted by Vice President for Finance and Administration and Treasurer John W. Beaghan:</u> JWB (Please Initial)

<u>Reviewed by Secretary Victor A. Zambardi:</u> VZ (Please Initial)

<u>Reviewed by President Gary D. Russi:</u> GR (Please Initial)

Agendum
Oakland University
Board of Trustees
Finance, Audit and Investment Committee
March 15, 2011

ARCHITECTURAL AND ENGINEERING FIRM FOR THE ENGINEERING CENTER

1. **Division and Department:** Academic Affairs Division, School of Engineering and Computer Science, Finance and Administration Division, and Facilities Management Department

2. **Introduction:** In December 2010, the Governor of the State of Michigan signed a Capital Outlay Appropriation, House Bill No. 5858, Public Act 329 of 2010, allocating a capital appropriation of $30 million for Oakland University (University) to build an Engineering Center at a total cost of $74,551,739.

The $44,551,739 University match will be funded primarily from bond proceeds. As with previous capital projects, the University will solicit private support and also attempt to identify and apply for external grants to further support the design and construction of the Engineering Center. Such grants, if available, would add value to the Engineering Center at no incremental cost to the University.

The preliminary program statement for the Engineering Center notes approximately 127,000 square feet which will be the new home for the School of Engineering and Computer Science (SECS) and general purpose classrooms.

Board of Trustees (Board) approval of an architectural and engineering firm (Firm) is necessary to proceed with project planning.

Eighteen (18) Firms responded to a widely distributed and advertised Request for Qualifications (RFQ). The RFQ submissions were reviewed and evaluated by the University's Facilities Management Department, resulting in five Firms (Albert Kahn, Harley Ellis Deveroux, Lord Aeck Sargent, SmithGroup, and TMP Architecture) being selected to participate in a Request for Proposals (RFP) process. The proposals were reviewed by the Engineering Center Oversight Committee (Committee) consisting of the following members:

Virinder K. Moudgil, Senior Vice President for Academic Affairs and Provost
Louay M.Chamra, Dean, School of Engineering and Computer Science
John W. Beaghan, Vice President for Finance and Administration
Terry Stollsteimer, Associate Vice President for Facilities Management
Steve L. Zmich, Director, Capital Planning and Design
Susan Riley, Senior Project Manager
Maria Ebner-Smith, Purchasing Manager

The Committee thoroughly reviewed the RFQ and RFP responses and conducted detailed interviews. Considering experience with similar facilities, excellent references, interest and enthusiasm for the project, a unique ability to understand and reflect the University's vision for this project, and the fact that SmithGroup will commit an individual who is nationally recognized in the design of laboratory spaces (integral to the Engineering Center) and 712 more project hours the Committee recommends SmithGroup to provide architectural and engineering services for the Engineering Center project.

The base fee is $2,545,300, which includes schematic design, design development, construction documents, bidding, construction administration, site selection/master planning, pathway design for telecommunications, basic and enhanced commissioning, management of the State of Michigan Department of Management and Budget approval process, and reimbursable expenses. An additional $100,000 is needed for owner's contingencies.

Consistent with Board policy, the schematic design for the Engineering Center will be presented to the Board for approval before any construction can commence.

3. Previous Board Action: On December 9, 2010, the Board approved the Fiscal Year 2012 Capital Outlay Project Request which included the Engineering Center as the University's highest priority capital outlay funding need.

4. Budget Implications: Architectural and engineering fees are budgeted in the Engineering Center project. The proposed contract is within budget. Beginning in FY2015, debt service on the Engineering Center project will be budgeted in the General Fund.

5. Educational Implications: The Engineering Center will be the new home for the School of Engineering and Computer Science, as well as general purpose classrooms.

6. Personnel Implications: None.

7. University Reviews/Approvals: This recommendation was formulated by the Associate Vice President for Facilities Management and reviewed by the Engineering Center Oversight Committee, and President.

8. Board Action to be Requested: At the March 30, 2011 Formal Session the Board will be asked to authorize the Vice President for Finance and Administration to negotiate and execute a contract with SmithGroup, Inc. for architectural and engineering services for the Engineering Center at a cost not to exceed $2,645,300 plus the total amount of any grant funding that may become available, at no incremental cost to the University; and that the contract have appropriate language to protect the University in the event the University suspends the project, and otherwise be reviewed and approved by the Office of the Vice President for Legal Affairs and General Counsel prior to execution; and, the total cost for the Engineering Center shall not exceed $74,551,239 plus the total amount of any grant funding that may become available, at no incremental cost to the University.

9. **Attachments:** A. Summary of Proposals.

Submitted by Senior Vice President for Academic Affairs and Provost Virinder K. Moudgil: VKM (Please Initial)

Submitted by Vice President for Finance and Administration and Treasurer John W. Beaghan: (Please Initial)

Reviewed by Secretary Victor A. Zambardi: (Please Initial)

Reviewed by President Gary D. Russi: GR (Please Initial)

ATTACHMENT A

Architectural and Engineering Firm

for the Engineering Center

Summary of Proposals

SmithGroup	$2,545,300
Albert Kahn	$2,569,300
Lord Aeck Sargent	$2,767,500
TMP Architecture	$2,950,000
Harley Ellis Devereaux	$3,035,800

Agendum
Oakland University
Board of Trustees
Finance, Audit and Investment Committee
March 15, 2011

AUTHORIZATION TO ENTER INTO AN ASSESSMENT AGREEMENT REGARDING MERIT NETWORK, INC.

1. **Division and Department:** Academic Affairs, University Technology Services.

2. **Introduction:** Merit Network, Inc. ("Merit") is a Michigan nonprofit and nonstock membership corporation that is owned by Michigan's four-year public universities ("University Members") and governed by a Board of Directors comprised of University Member representatives. Oakland University is one of the University Members.

The University Members established Merit in 1966 to design, implement and maintain a computer network between public universities in Michigan. Merit also provides high-performance networking and computer services to various non-profit research and education organizations throughout Michigan.

Merit is funded by (i) annual membership fees established and paid by the University Members; (ii) annual service fees established by Merit and paid by the non-profit and education organizations using Merit's network and services; and (iii) grant awards.

Merit has received a $102.9 million grant ("Grant") through the Federal Broadband Technology Opportunities Program to build approximately 2,300 miles of additional advanced fiber optic networks throughout Michigan. The Grant requires Merit to provide $8.2 million in matching funds for the project.

The Michigan Strategic Fund ("MSF") has agreed to issue tax-exempt bonds in the amount of $8,000,000 and loan the bond proceeds to Merit to be used for the required matching funds ("MSF Loan"). JP Morgan Chase ("Chase") has agreed to purchase the bonds; provided, however, that the University Members sign an Assessment Agreement providing in part that:

- Each University Member will pay a percentage of the principal and interest due on the MSF Loan based upon the schedule attached as Exhibit A. Oakland University's percentage will be 4.24% or approximately $394,036.
- Each University Member will remain responsible for their assigned percentage even if they are removed or withdraw from Merit.
- If a University Member defaults on its obligation, the remaining University Members will assume the defaulted obligations on a pro rata basis up to a maximum of 125% of its initial obligation; in Oakland University's case, approximately an additional $98,509.

- The total membership fees established and paid by the University Members to Merit each year must: (i) be set in an amount that will equal or exceed the principal and interest due on the MSF loan; (ii) include an amount that will be deposited into a sinking fund that Merit will use to pay the principal and interest due on the MSF Loan in accordance with the Bond Amortization Schedule attached as Exhibit B; and (iii) be paid solely from the general revenues of the University Members.

A copy of the Assessment Agreement is attached as Exhibit C. The Assessment Agreements are being submitted to the University Members' governing boards for approval based upon the recommendation of Miller, Canfield, which drafted the Assessment Agreement as legal counsel for Michigan State University and the University of Michigan, because the funds paid by the University Members will be used to guarantee the indebtedness of Merit.

The Assessment Agreement has been approved by the governing boards of the following eight (8) University Members: Central Michigan University, Lake Superior State University, Michigan State University, Michigan Technological University, Northern Michigan University, University of Michigan, Western Michigan University and Wayne State University. The Assessment Agreement will be considered by the governing boards of the following three (3) University Members in their upcoming business: Eastern Michigan University, Ferris State University and Grand Valley State University.

The Assessment Agreement has also been reviewed and approved by the Office of the Vice President for Legal Affairs and General Counsel, complies with the law and University policies and regulations, and conforms to the legal standards and policies of the Vice President for Legal Affairs and General Counsel.

3. <u>Previous Board Action:</u> None.

4. <u>Budget Implications:</u> Oakland University's current annual membership fee is $123,894. A portion of Oakland University's annual membership fee for fiscal years 2011 through 2017, representing 4.3% of the principal and interest due on the MSF Loan, will be deposited into the sinking fund and used by Merit to repay the MSF Loan. Merit has estimated that Oakland University's total obligation with respect to the MSF Loan will be $394,036. Merit has represented that the University Members' annual membership fees will not be increased in order to repay the MSF Loan; in fact, Merit believes that the project will result in long-term cost savings and fee reductions for the University Members. Merit has prepared a "7 Year Summary" for Oakland University, a copy of which is attached as Exhibit D, reflecting the University's anticipated share of the MSF Loan obligation as well as the University's share of the anticipated cost savings.

5. **Educational Implications:** Merit provides the internet connectivity and services that Oakland University's faculty, staff and students rely upon for their on-campus and distance education programs, research, administration and communications. The project funded by the Grant and the MSF Loan should allow Oakland University to expand and improve upon these internet uses because the project will provide expanded internet connectivity throughout the State of Michigan, greater internet capacity, a more reliable internet infrastructure and additional financial resources (either through cost savings or use fees paid by new non-profit/educational organizations who will use the expanded network) to fund future network improvements.

6. **Personnel Implications:** None.

7. **University Reviews/Approvals:** This recommendation was formulated by the Chief Information Officer, University Technology Services, and reviewed by the Senior Vice President for Academic Affairs and Provost and the President.

8. **Board Action to be Requested:** The Finance, Audit and Investment Committee is asked to recommend to the Board of Trustees for its approval at its March 30, 2011 Formal Session authorization for the Senior Vice President for Academic Affairs and Provost to execute the Assessment Agreement on the University's behalf.

9. **Attachments**:

Exhibit A:	Member Percentages Schedule
Exhibit B:	Bond Amortization Schedule
Exhibit C:	Assessment Agreement
Exhibit D:	Oakland University – 7 Year Summary

Submitted by Senior Vice President for Academic Affairs And Provost Virinder K. Moudgil VKM
(Please initial)

Reviewed by Secretary Victor A. Zambardi: VZ
(Please initial)

Reviewed by President Gary D. Russi: GR
(Please initial)

EXHIBIT A

MEMBER	PERCENTAGES
Central Michigan University Board of Trustees	4.23%
Board of Regents of Eastern Michigan University	4.23%
Board of Trustees of Ferris State University	1.99%
Board of Trustees of Grand Valley State University	4.23%
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Board of Trustees of Michigan State University	26.68%
Board of Control of Michigan Technological University	4.23%
Board of Trustees of Northern Michigan University	4.23%
Board of Trustees of Oakland University	4.23%
Regents of the University of Michigan	26.96%
Board of Governors of Wayne State University	8.50%
Board of Trustees of Western Michigan University	8.50%

EXHIBIT B

BOND AMORTIZATION SCHEDULE

	Payment Date	Interest Rate	Days in Period	Principle	Balance		Interest Payment
2011	03/01/11	3.285%	70		$8,000,000	$	58,394
	06/01/11	3.285%	90		$8,000,000	$	65,700
	09/01/11	3.285%	90		$8,000,000	$	65,700
	12/01/11	3.285%	90		$8,000,000	$	65,700
2012	03/01/12	3.285%	90		$8,000,000	$	65,700
	06/01/12	3.285%	90		$8,000,000	$	65,700
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	12/01/12	3.285%	90		$8,000,000	$	65,700
2013	03/01/13	3.285%	90		$8,000,000	$	65,700
	06/01/13	3.285%	90		$8,000,000	$	65,700
	09/01/13	3.285%	90		$8,000,000	$	65,700
	12/01/13	3.285%	90	$1,600,000	$8,000,000	$	65,700
2014	03/01/14	3.285%	90		$6,400,000	$	52,560
	06/01/14	3.285%	90		$6,400,000	$	52,560
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	09/01/15	3.285%	90		$4,800,000	$	39,420
	12/01/15	3.285%	90	$1,600,000	$4,800,000	$	39,420
2016	03/01/16	3.285%	90		$3,200,000	$	26,280
	06/01/16	3.285%	90		$3,200,000	$	26,280
	09/01/16	3.285%	90		$3,200,000	$	26,280
	12/01/16	3.285%	90	$1,600,000	$3,200,000	$	26,280
2017	03/01/17	3.285%	90		$1,600,000	$	13,140
	06/01/17	3.285%	90		$1,600,000	$	13,140
	09/01/17	3.285%	90		$1,600,000	$	13,140
	12/01/17	3.285%	90	$1,600,000	$1,600,000	$	13,140

EXHIBIT C

ASSESSMENT AGREEMENT

THIS ASSESSMENT AGREEMENT, dated as of December 1, 2010 (the "Assessment Agreement") between **MERIT NETWORK, INC.**, a Michigan nonprofit corporation ("Merit") and each of its undersigned members (each individually a "Member" and collectively, the "Members").

RECITALS:

WHEREAS, Merit has been awarded \$102.9M through the Federal Broadband Technology Opportunities Program ("BTOP") initiatives grant program to build approximately 2,300 miles of an advanced fiber optic network throughout the Lower and Upper Peninsulas in Michigan which will serve Anchor Institutions, as defined in the BTOP (the "REACH Michigan Middle Mile Collaborative" or "REACH 3MC Project"); and,

WHEREAS, Merit is responsible for \$8,200,000 in cost share toward total project expenditures which are approximately \$128.9M; and,

WHEREAS, the Michigan Strategic Fund (the "Issuer") has issued an inducement Resolution pursuant to which the Issuer has proposed to issue its limited obligation revenue bond in the principal amount not to exceed \$8,000,000 (the "Bond") pursuant to a Loan Agreement (the "Loan Agreement") among the Issuer, JPMorgan Chase Bank, as Lender, and Merit, as Borrower, in order to finance Merit's share of the costs of the REACH 3MC Project; and

WHEREAS, Merit has received and approved a term sheet from JPMorgan Chase Bank (the "Purchaser") with respect to its direct purchase of the Bond and the terms of the financing, and Merit and each of the Members recognize and acknowledge that the primary source of funds from which Merit will be able to repay its loan under the Loan Agreement, which will be used to pay principal of and interest on the Bond, will be amounts to be paid by the Members as provided in this Assessment Agreement; and

WHEREAS, Merit and each of the Members understand and agree that the Purchaser is willing to advance funds to purchase the Bond in reliance upon the obligation of each of the Members pursuant to this Agreement, for so long as any portion of the Bond is outstanding and unpaid, to budget and appropriate on an annual basis, but only from General Revenues (as hereinafter defined) the funds necessary to deposit into the Sinking Fund (hereinafter created), as membership fees for its participation in Merit, its Member Debt Service Amount (as hereinafter defined) so that the sum of all Member Debt Service Amounts paid by all Members each year shall equal the amount, and be paid at such times, necessary to pay the Annual Debt Service on the Bond (as hereinafter defined) when due; and

WHEREAS, Merit's rights and interests under this Assessment Agreement, including its right to receive the aforesaid payment by each of the Members of its respective Member Debt Service Amount, will be collaterally assigned to the Purchaser as security for the prompt payment of the principal of and interest on the Bond when due; and

WHEREAS, Merit and each Member recognize and acknowledge that the Purchaser would not be willing to purchase the Bond but for the agreement of Merit and each Member contained in this Assessment Agreement;

NOW, THEREFORE, in consideration of the Purchaser's purchase of the Bond and the other promises and mutual covenants hereinafter contained, the parties hereto agree as follows:

1. Each Member of Merit hereby covenants and agrees, for the benefit of Merit and the owners of the Bond that for so long as any portion of the Bond is outstanding and unpaid, such Member shall budget and appropriate each year, commencing the fiscal year starting July 1, 2011, but only from the sources of funds specified herein, on an annual basis an amount equal to the percentage (the "Percentage") for that Member set forth on Exhibit A attached hereto, multiplied by the total Annual Debt Service on the Bond for that year (the "Member Debt Service Amount"), such that the aggregate of the Member Debt Service Amounts for all Members shall equal one hundred percent (100%) of the Annual Debt Service on the Bond. Each Member's Percentage shall be recalculated on any day on which a Member is added to Merit as provided in Paragraph 11 below. Whenever a Member is added, Merit shall promptly notify the Purchaser in writing of the applicable Percentage of each Member to be thereafter used in calculating the Member Debt Service Amount as herein provided. The aggregate Member Debt Service Amount shall equal Annual Debt Service on the Bond, so long as any portion of the Bond remains outstanding under the Loan Agreement. Each Member Debt Service Amount shall be paid on or before August 1 of each year and immediately deposited into the Sinking Fund. Each Member's obligation to pay its Member Debt Service Amount, but only from the sources of funds specified herein, in accordance with the terms of this Assessment Agreement shall be absolute and unconditional and shall continue without set-off, deduction, counterclaim, abatement, recoupment of reduction and regardless of any failure of the REACH 3MC Project to be installed and operational, any defect in its installation or operation or the failure of the REACH 3MC Project to perform to any Member's or Merit's satisfaction or any inability for whatever reason of any such Member of Merit to exercise its rights with respect to such Project.

2. Notwithstanding anything herein to the contrary, the obligations of each Member hereunder shall be limited and not general obligations, payable solely from the General Revenues of that Member.

3. Upon original issuance of the Bond and so long as any portion of the Bond remains outstanding, the Annual Debt Service on the Bond shall be included and approved as a separate line item in the annual budget of Merit and approved by the Members at each mid-year meeting of Merit.

4. Merit hereby covenants and agrees that the aggregate amount of annual fees collected from the Members, allocated for payment of Member Debt Service Amounts under this Assessment Agreement and deposited into the Sinking Fund shall equal one hundred percent (100%) of the Annual Debt Service on the Bond so long as any portion of the Bond remains outstanding under the Loan Agreement.

5. Merit shall take all steps necessary to cause the Issuer to establish with the Purchaser a segregated debt service sinking fund (the "Sinking Fund"), which together with Merit's rights and interests under this Assessment Agreement shall be irrevocably assigned to the Purchaser as additional security for the payment of the principal of and interest on the Bond when due. Upon receipt of all or any portion of the Member Debt Service Amount from any Member as herein provided, Merit shall cause such amount to be deposited into the Sinking Fund and shall take all actions necessary or advisable to assure that on or before September 1 of each year an amount equal to one hundred percent (100%) of Annual Debt Service on the Bond shall be so deposited into the Sinking Fund.

6. The funds in the Sinking Fund shall be invested in a depository account or other account acceptable to Merit and the Purchaser.

7. The Sinking Fund shall be drawn upon by the Purchaser for payment of the principal of and interest on the Bond when due, and Merit and the Members authorize the Purchaser to apply all funds therein for that purpose.

8. The balance remaining in the Sinking Fund after July 1 of each year shall be depleted except for a reasonable carryover not to exceed the greater of one year's earnings on the amounts in the Sinking Fund or 1/12 of the Annual Debt Service on the Bond. Each Member shall receive a credit against its payment due on the succeeding August 1 for its share of any balance remaining in the Sinking Fund on each July 1. Each Member's credit shall be proportionate to the total amounts paid by that Member in fulfillment of its obligations under this Agreement during the prior fiscal year.

9. Each Member covenants and agrees that in the event a Member withdraws from or is removed as a Member of Merit during the term of this Assessment Agreement, in accordance with the Bylaws of Merit, the withdrawing or removed Member shall remain liable for the payment each year, from the sources of funds specified herein, of its Member Debt Service Amount until the Bond is paid in full.

10. Each Member covenants and agrees that in the event any Member fails to pay any portion of its Member Debt Service Amount when due in any year, and such failure continues for the period of ten (10) days after the due date of such payment, each of the remaining Members shall pay, within ten (10) business days after receipt by that Member of notice of the default, but not later than August 31, its pro rata share (based on the relative Percentage of each non-defaulting Member) of the amount not paid by the defaulting Member, provided, however, that in no event shall a Member's required payment at any time be increased by more than twenty five percent (25%) of the amount it would have to pay if no default by any other Member occurred. Merit shall provide notice to each non-defaulting Member of any non-cured payment default by any Member and the amount to be paid by each non-defaulting Member as a result of the default within fifteen (15) days of the date the defaulted payment was due. Any Member who pays any increased amount hereunder shall be entitled to

reimbursement from the defaulting Member of the amount paid, with interest at the rate of interest equal to the Prime Rate published from time to time by the Wall Street Journal.

11. In the event of admission of additional Members to Merit during the term of this Assessment Agreement, each new Member shall be bound by this Assessment Agreement and the terms hereof. As a condition of becoming a new Member, such new Member shall agree to pay its Member Debt Service Amount calculated in the same manner as such amount is calculated and adjusted for the current Members. Merit shall calculate the revised Percentage and Member Debt Service Amount for each Member that will be a Member after the addition of such new Member and shall provide written notice to the Members and the Purchaser of the revised Percentage of Each Member. Any overpayment by Members resulting from the admission of a new Member during the course of a fiscal year shall be returned to the Members which made the overpayment, proportionately to the total amount each Member originally paid in fulfillment of its obligations under this Assessment Agreement during that fiscal year.

12. Merit and each of the Members expressly agree and acknowledge that this Assessment Agreement is provided to the Purchaser as security for the prompt payment of principal of and interest on the Bond as and when the same becomes due and agree that the Purchaser shall be a third party beneficiary of this Assessment Agreement while any portion of the Bond remains outstanding. Merit agrees to notify the Purchaser of the failure of any Member to make payment of its Member's Debt Service Amount on or before September 1 of each year; however, Merit shall have the right to deposit such defaulting Member's Debt Service Amount in the Sinking Fund from other available funds and to pursue its remedies against the defaulting Member, and such default shall not constitute an Event of Default under the Loan Agreement so long as Merit has deposited one hundred percent (100%) of the Annual Debt Service on the Bond in the Sinking Fund on or prior to September 1 of each year.

13. At the written request of the Purchaser, Merit shall deliver within ten (10) days to the Purchaser a schedule of the Member Debt Service Amounts for each Member as of the last Fiscal Year. This Assessment Agreement shall continue in full force and effect so long as any portion of the Bond is outstanding under the Loan Agreement.

14. In order to permit the Bond to be delivered on or before December 31, 2010, and recognizing that not all of the Members will be able to receive required authorizations from their governing boards, UM and MSU have each agreed that its initial Percentage will be fifty percent (50%), but notwithstanding Section 10 hereof, the Percentage of liability of each of UM and MSU shall not exceed fifty percent (50%) of the total liabilities hereunder. As each other Member executes this Agreement, that Member will assume its Percentage of the collective liability hereunder as set forth on Exhibit A, and the Percentage of UM and MSU will be proportionately reduced, subject in each case to the provisions of Section 10. Upon execution by all Members, the Percentage of each Member shall be that shown on Exhibit A.

In witness whereof, the parties to this Assessment Agreement have executed the same as of the date first above written.

MERIT NETWORK, INC.,
A Michigan non-profit organization

By ____________________________

Its __________________________

MEMBERS

CENTRAL MICHIGAN UNIVERSITY BOARD OF TRUSTEES **By:**______________________ **Its:**______________________	**BOARD OF REGENTS OF EASTERN MICHIGAN UNIVERSITY** **By:**______________________ **Its:**______________________
BOARD OF TRUSTEES OF FERRIS STATE UNIVERSITY **By:**______________________ **Its:**______________________	**BOARD OF TRUSTEES OF GRAND VALLEY STATE UNIVERSITY** **By:**______________________ **Its:**______________________
BOARD OF TRUSTEES OF LAKE SUPERIOR STATE UNIVERSITY **By:**______________________ **Its:**______________________	**BOARD OF TRUSTEES OF MICHIGAN STATE UNIVERSITY** **By:**______________________ **Its:**______________________
BOARD OF CONTROL OF MICHIGAN TECHNOLOGICAL UNIVERSITY **By:**______________________ **Its:**______________________	**BOARD OF TRUSTEES OF NORTHERN MICHIGAN UNIVERSITY** **By:**______________________ **Its:**______________________

BOARD OF TRUSTEES OF OAKLAND UNIVERSITY By:____________________________ Its:____________________________	REGENTS OF THE UNIVERSITY OF MICHIGAN By:____________________________ Its:____________________________
BOARD OF GOVERNORS OF WAYNE STATE UNIVERSITY By:____________________________ Its:____________________________	BOARD OF TRUSTEES OF WESTERN MICHIGAN UNIVERSITY By:____________________________ Its:____________________________

EXHIBIT A

MEMBER	PERCENTAGES
Central Michigan University Board of Trustees	4.23%
Board of Regents of Eastern Michigan University	4.23%
Board of Trustees of Ferris State University	1.99%
Board of Trustees of Grand Valley State University	4.23%
Board of Trustees of Lake Superior State University	1.99%
Board of Trustees of Michigan State University	26.68%
Board of Control of Michigan Technological University	4.23%
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Board of Trustees of Oakland University	4.23%
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EXHIBIT B

BOND AMORTIZATION SCHEDULE

	Payment Date	Interest Rate	Days in Period	Principle	Balance	Interest Payment
2011	03/01/11	3.285%	70		$ 8,000,000	$ 58,394
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	12/01/15	3.285%	90	$ 1,600,000	$ 4,800,000	$ 39,420
2016	03/01/16	3.285%	90		$ 3,200,000	$ 26,280
	06/01/16	3.285%	90		$ 3,200,000	$ 26,280
	09/01/16	3.285%	90		$ 3,200,000	$ 26,280
	12/01/16	3.285%	90	$ 1,600,000	$ 3,200,000	$ 26,280
2017	03/01/17	3.285%	90		$ 1,600,000	$ 13,140
	06/01/17	3.285%	90		$ 1,600,000	$ 13,140
	09/01/17	3.285%	90		$ 1,600,000	$ 13,140
	12/01/17	3.285%	90	$ 1,600,000	$ 1,600,000	$ 13,140

EXHIBIT D

Oakland Univeristy
7 Year Summary
Member Fee Payment Compared To
Pro Rata Share of Expense Increase/Decrease/Avoidance
(Based upon OU's 4.23% share of total Member Fees)

		FY 11	FY12	FY 13	FY 14	FY 15	FY 16	FY 17	Total
	Annual Member Fee[1]	$ 123,894	$ 123,894	$ 123,894	$ 123,894	$ 123,894	$ 123,894	$ 123,894	$ 867,258
Merit's Tax-Exempt Bond Financing Outcomes									
Expense Increase	Interest and Principle Payment[2]	$ 10,817	$ 11,127	$ 78,869	$ 76,644	$ 74,418	$ 72,193	$ 69,968	$ 394,036
Expense (Decrease)	Circuit Expense Reduction [3]	($4,657)	($27,944)	($39,587)	($46,573)	($46,573)	($46,573)	($46,573)	$ (258,479)
Expense (Decrease)	Other Debt Reduction [4]	($59,436)	($101,070)	($103,898)	($103,898)	($103,898)	($103,898)	($103,898)	$ (679,995)
Expense (Avoidance)	Total Interest Rate Differential [5]	($14,586)	($14,277)	($12,310)	($10,032)	($7,404)	($4,399)	($989)	$ (63,996)
	Total Expense Increase/Avoidance/(Decrease) and Long-Term Potential for Member Fee Decrease[6]	($67,862)	($132,163)	($76,925)	($83,859)	($83,456)	($82,677)	($81,492)	$ (608,435)
	Annual Member Fee Increase	$0	$0	$0	$0	$0	$0	$0	$0

(1) Current FY11 member fee with no anticipated increase

(2) Tax-exempt bonds through the Michigan Economic Development Corporation (Michigan Strategic Fund) at 3.285%, 2 years interest only, 5 years interest & principle, this is paid utilizing the annual Member Fee, no increase in Member fee is required

(3) Circuit expense reduction begins with the fiber build in early April, 2011 with full reduction by October, 2013. Additional circuit expense has been accounted for in overall expense reduction

(4) Based upon projections from audited financials ending June 30, 2010

(5) Rate differential between offered standard rate of 7.5% compared to 3.285% of tax-exempt bond financing.

(6) These amounts do not represent actual project decrease but rather demonstrate the potential for actual Member Fee decreases over the next six years.