

APPENDIX M

Authorization of Non-Appropriated Capital Improvements Projects

The Board of Governors biennially adopts a six-year plan for capital improvements. In addition to including projects to be funded from the General Fund for projects directly related to teaching, research and public service, the Board also plans for projects funded from non-General Fund sources to construct residence halls, parking decks, athletic facilities, and student recreation facilities. Some campuses with large research programs are authorized to use private and federal funds to construct and renovate research space to further their efforts. Since 1999, the General Assembly, at the request of the Board, has authorized non-appropriated capital improvements projects totaling over \$2.7 billion to be funded from available balances in University non-General Fund accounts or from the sale of bonds to be repaid from University receipts.

The University is now ready to proceed with the next year of its plan for projects to be funded from non-General Fund resources. The following pages contain descriptions of each proposed project as well as the sources of project financing.

The projects in this year's package were evaluated by UNC General Administration. Each project was reviewed on the basis of its need and its benefit to the University; on the process that was used at the campus level for project approval, including approval by an institution's Board of Trustees; on the basis of the impact of the project on the benefits and costs to students; and on the ability of the campus to pay for the project, as requested, without a negative impact on the institution's credit rankings. Where appropriate, the strength of individual revenue streams are noted in the project descriptions below. An overview of the affected campuses' ability to pay is attached. The main criteria used for ability to pay are debt coverage ratio (which measures coverage of direct debt by financial resources that are ultimately expendable), percent of debt service to operations (which is principal and interest payments as a percent of operating expenses), and Moody's Investors Service's QRate (which is a predictive

tool provided by Moody's which relies on five key performance measures and statistics to arrive at an estimated rating before and after the issuance of additional debt). A detailed financial plan will be reviewed for each project in consultation with financial advisors and bond counsel before bonds are issued and construction contracts are awarded. Final approval for the issuance of bonds is the responsibility of the Board of Governors.

It is recommended that the Board approve twenty-three new or supplemental capital improvements projects at six institutions totaling \$273,681,000. The projects will then be forwarded to the General Assembly for authorization during the 2007 Session. It is further recommended that the Vice President for Finance be authorized to make refinements to the request in the interest of accuracy and completeness.

Appalachian State University

Frank Residence Hall Renovation – \$7,461,000

This project would provide for the comprehensive renovation of this 26-year-old, 49,000 square foot residence hall. It is estimated that construction would begin in May 2008 and end during the summer of 2009. Work would include upgrading the existing fire safety systems and improving building accessibility. The project would be financed from indebtedness to be repaid from housing receipts. The estimated impact on students would be that all housing rents would be increased by up to \$100 per year, a 3% increase, to produce additional revenues for the housing system. The debt coverage ratio for ASU's housing system for 2005-06 was 2.62x, and it was 1.71x the previous year. With the issuance of this debt, the ratio would remain above 1.5x.

Steam Distribution System Improvements – Phase IV – \$3,086,000

This project would continue a comprehensive program to repair or replace steam distribution and condensate return lines on campus. Construction would begin in summer 2007. ASU runs its steam system as an auxiliary account and has existing debt issued to construct its power plant. Current debt coverage ratios are at 1.23, down from 1.55 for 2004-05. A rate increase effective July 1, 2006 of 2.5% would increase revenues by an estimated \$400,000, improving coverage ratios. This project would be funded from cash reserves set aside for steam line repair and replacement available in the auxiliary account. While there is no direct impact on students from steam rate increases, they could be marginally affected over time by corresponding increases in the cost of housing and dining services.

East Carolina University

Family Medicine Center – Supplement – \$6,000,000

This project was previously approved in the 2005 Session of the General Assembly. The proposed increase would enable the campus to extend services from the central utility plant to the building and address the known change in bidding climate and increased costs. The proposed increase would be financed from indebtedness to be repaid from Medicare education receipts. The total project cost would now be \$36,000,000. The debt coverage ratio for ECU's indebtedness for 2004-05 was 1.87x and it was 1.53x the previous year. With the issuance of this debt, the ratio would remain above 1.40x. This project would not have an impact on tuition and fees.

North Carolina State University

Companion Animal Hospital – \$34,000,000

This request would provide non-state funds for a Companion Animal Hospital for the College of Veterinary Medicine located on the Centennial Biomedical Campus, south of the existing hospital. The facility would be a 115,000 square foot teaching hospital with clinical animal spaces and specialty practice areas. The current companion animal hospital functions would move from the existing main building and would provide much needed space for hospital growth. This project would make available approximately 35,000 square feet in the existing main building for use as classrooms, labs, offices, and outreach programs. This project is part of the Board's 2007 Capital Priorities and was recommended by the Governor as part of his proposed 2007 budget. The total construction authorization would be \$38,000,000 from the General Fund plus \$34,000,000 from non-General Fund sources. The total cost of this project from all sources would be \$72,000,000. The requested \$34,000,000 from non-General Fund sources would be financed from indebtedness to be repaid from private gifts. This project would not have an impact on tuition and fees.

Residence Halls – Improvements and Infrastructure Expansion – \$13,000,000

This project would make improvements in campus residence halls and provide the necessary infrastructure for new chapter houses to be built at the existing Greek Court site. Work in the existing residence halls would include fire safety upgrades, elevator replacements, bathroom renovations, window repairs, interior renovations, and water pipe repairs. The project would also include the installation of new infrastructure, including roads and pathways, to connect the Greek Court area to the campus. The project would be financed from indebtedness to be repaid from housing receipts, including revenues received directly from the Greek organizations. The estimated impact on students would be that housing rents would be increased by 3% per year to cover increased operational costs as well as increased debt service. The debt coverage ratio for NCSU's housing system for 2005-06 was 1.38x and it was 1.85x the previous year. Using a combination of cash and reserves, NCSU's housing system retired two outstanding bond issues during this fiscal year. With the issuance of this debt, the ratio would remain above 1.45x.

The University of North Carolina at Chapel Hill

College of Arts and Sciences – Digital Multimedia Center and Music Library – \$4,000,000

This project was authorized as part of the 2000 Higher Education Bond program and included partial funding from private gifts. The campus has requested the authority to borrow, if needed, \$4,000,000 on an interim basis until construction is complete. The total cost of the project from all sources would be \$29,191,310. The requested \$4,000,000 would be financed from indebtedness and repaid from private gifts. This project would not have an impact on tuition and fees.

Rosenau Hall Laboratory Building – Comprehensive Renovation – \$1,124,000

This project was authorized as part of the 2000 Higher Education Bond program and included partial funding from private gifts. The campus has requested the authority to borrow, if needed, \$1,124,000 on an interim basis until construction is complete. The total cost of the project from all sources would be \$13,392,908. The requested \$1,124,000 would be financed from indebtedness and repaid from private gifts. This project would not have an impact on tuition and fees.

Science Complex – Phase 1 – \$20,000,000

This project was authorized as part of the 2000 Higher Education Bond program and included partial funding from private gifts. The campus has requested the authority to borrow, if needed, \$20,000,000 on an interim basis until construction is complete. The total cost of the project from all sources would be \$127,411,118. The requested \$20,000,000 would be financed from indebtedness and repaid from private gifts. This project would not have an impact on tuition and fees.

Hanes Hall – \$750,000

This project was authorized as part of the 2000 Higher Education Bond program. Total project cost is \$7,051,083. The project would include renovation of the fourth floor to expand offices and interview suites for Career Services. The proposed increase would be financed from indebtedness to be repaid from private gifts.

Genomic Sciences Building – \$12,500,000

The Genomic Sciences Building would be a hub for groundbreaking discoveries and for training the next generation of scientists. This facility would provide 210,000 square feet of modern classrooms, laboratories, and offices, including nine wet labs, four bioinformatics labs, a 250-seat lecture hall, a 450-seat lecture hall, an 80-seat classroom, and four 30-seat seminar rooms, serving faculty, post-doctoral fellows, technicians, graduate students and undergraduates. Over 400 undergraduate and graduate research students would learn and work in this new interdisciplinary building. This project is part of the Board's 2007 Capital Priorities and was recommended by the Governor as part of his proposed 2007 budget. The total construction authorization would be \$148,000,000 from the General Fund plus \$12,500,000 from non-General Fund sources. The total cost of this project, from all sources

and including \$28,391,775 appropriated by the 2006 General Assembly, would be \$160,500,000. The requested \$12,500,000 from non-General Fund sources would be financed from indebtedness to be repaid from facilities and administrative receipts (\$12,000,000) and dining receipts (\$500,000). This project would not have an impact on tuition and fees.

Electrical Infrastructure Improvements – \$9,300,000

This project would upgrade the medium voltage electrical distribution system at the south substation and continue the build-out of a ductbank serving campus electrical and telecommunications needs. The project includes high speed switches, breakers, cables, and upgraded control system. UNC-CH's current expendable resource to debt coverage is 1.83x. The project would be financed from indebtedness to be repaid from utility receipts. With the issuance of this debt and future revenues, debt coverage is estimated to be 1.76x or higher. While there is no direct impact on students from utility rate increases, they could be marginally affected over time by corresponding increases in the cost of student services.

Information Technology Infrastructure Improvements – \$11,800,000

This project would upgrade the campus and building fiber optics distribution system. Work would include WiFi connectivity, broadcast-quality video capabilities, network security, and real time communication projects. The project would be financed from indebtedness to be repaid from Information Technology Services receipts. UNC-CH's current expendable resource to debt coverage is 1.83x. The project would be financed from indebtedness to be repaid from ITS receipts. With the issuance of this debt and future revenues, debt coverage is estimated to be 1.76x or higher. While there is no direct impact on students from utility rate increases, they could be marginally affected over time by corresponding increases in the cost of student services.

Translational Medicine Program Facility Renovation – \$4,000,000

This project would renovate 12,000 square feet of space on the second floor of the Brinkhous-Bullitt Building serving the School of Medicine's Translational Medicine program. The work would create office and conference space that supports the program's translation of research results into clinical applications. Improvements to the building's systems and infrastructure are also included. The project would be financed from indebtedness to be repaid from patient receipts and overhead receipts. UNC-CH's current expendable resource to debt coverage is 1.83x. The project would be financed from indebtedness to be repaid from Medical School receipts. With the issuance of this debt and future revenues, debt coverage is estimated to be 1.76x or higher. This project would not have an impact on tuition and fees.

Henry Stadium Renovation – \$2,000,000

This project would replace the existing synthetic turf at Henry Stadium, due to age-related wear and tear, in order to improve the safe use of the facility. Work would include the replacement of the turf pad, asphalt sub-base, and field drainage. The project would be financed from indebtedness to be repaid from private funds. This project would not have an impact on tuition and fees.

Carmichael Auditorium – Supplement – \$2,000,000

This project was previously approved in the 2006 Session of the General Assembly. The proposed increase would enable the campus to address the known change in bidding climate and the increased costs associated with preserving the necessary project scope. The proposed increase would be financed from indebtedness to be repaid from fundraising. The total project cost would now be \$17,500,000. This project would not have an impact on tuition and fees.

Woollen Gymnasium – Supplement – \$2,000,000

This project was previously approved in the 2006 Session of the General Assembly. The proposed increase would enable the campus to address the known change in bidding climate and the increased costs associated with preserving the necessary project scope. The proposed increase would be financed from indebtedness to be repaid from fundraising. The total project cost would now be \$6,700,000. This project would not have an impact on tuition and fees.

McColl Building Expansion and Renovation – \$6,500,000

This project was previously authorized in October 2005 following consultation with the Joint Legislative Commission on Governmental Operations. Expected to be funded from private gifts, the original project was to up-fit the 10,000 square foot, fifth floor that was left as unfinished expansion space when the McColl Building was built in 1997. The up-fit would provide needed program and instructional technology support space for the Kenan-Flagler Business School. This proposed increase would enable the campus to address the increased costs associated with the original project scope and to renovate approximately 25,000 square feet of additional space on the first through fourth floors. The proposed increase and the original authorization of \$1,900,000 would be financed from indebtedness to be repaid from private gifts. The total project cost would now be \$6,500,000. This project would not have an impact on tuition and fees.

Bell Tower Development Parking – \$30,000,000

In order to accommodate additional development on campus, surface parking is being abolished to create space for new buildings. The parking deck in this plan would replace spaces lost to the construction of the Genome Sciences Building. The Town of Chapel Hill has restricted the University's ability to accommodate growth through on-campus parking. The parking ratio for employees (including faculty) is less than 60 spaces for every 100 employees. It is critical that 700 spaces be replaced. This area is the primary faculty parking lot for main campus. In addition, the deck is an integral part of the Bell Tower development design. It is needed to complete the pedestrian pathways and circulation to the Health Affairs area. It also is needed to release land for stormwater mitigation as required by federal permit requirements. The project would be financed from indebtedness to be repaid from parking receipts. Debt coverage is estimated to be 1.76x or higher.

Chilled Water Infrastructure – \$39,600,000

The chiller plant is required to meet the University's chilled water demand growth, and is essential to the opening of the Genomics Sciences Building. The University has five chiller plants that serve the entire campus. The new plant in the Bell Tower parking lot is critical to the system's hydraulics. It is the first plant built on campus, has reached the end of its useful life, and needs to be totally renovated and have its capacity increased. In addition, the renovation would move the cooling tower location so that UNC Hospitals can expand its operating rooms, a high priority. The chiller plant work must be done as a part of the overall Bell Tower development project. Cost would increase greatly if construction of some elements had to be done later, working around the new construction. The entire site needs to be developed at once so that new site circulation, stormwater, and utilities can be installed at the same time. The project would be financed from indebtedness to be repaid from utility receipts. With the issuance of this debt and future revenues, debt coverage is estimated to be 1.76x or higher. While there is no direct impact on students from utility rate increases, they could be marginally affected over time by corresponding increases in the cost of student services.

Legislative Authority to Acquire and Implement Enterprise Administrative Systems

The University of North Carolina at Chapel Hill is embarking on an initiative to replace its information technology applications supporting its Student, Human Resources, Payroll, and Finance operations. The primary objective of the project would be to provide UNC-CH with a fully integrated management system that would allow the institution to deliver outstanding service to support the highest quality education for its student population and to conduct cutting-edge research. UNC-CH is faced with a fragile, aging, and inflexible information technology architecture. Legacy systems are increasingly prone to errors, where changes can lead to unpredictable ripple effects, and modifications are becoming risky and excessively laborious. In fact, some of the systems are approaching the forty year. The planning phase for the project is underway and the estimated implementation timeline for the student, human resource/payroll, and financial systems is FY 2006-07 through FY 2010-11.

The total cost of the project is not expected to exceed \$88,200,000, with the portion that will require financing estimated at an amount not to exceed \$59,000,000. This additional debt will not cause UNC-CH to exceed its debt capacity nor affect its bond rating. The project will be funded through a combination of cash payments and debt financing. The sources for the cash payments and the repayment of debt include, but are not limited to, cash reserves, internal reallocations, facilities and administrative (overhead) reimbursements, and a previously approved student debt fee of \$50, approved by the Board in 2006.

The General Assembly will be asked to allow UNC-CH to accomplish the financing of the acquisition and implementation its enterprise administrative systems, including but not limited to Student, Human Resources, Payroll, and Finance, in an amount not to exceed \$59,000,000. The project will occur over the next two biennia.

The University of North Carolina at Wilmington

Residence Halls Improvements – \$5,000,000

This project makes improvements to residence halls on campus. It would replace existing fire alarm systems, install fire sprinkler systems, and update bathrooms in Belk Hall, Graham Hall, Hewlett Hall, Schwarz Hall, and University Suites. This project would also replace two, 33-year-old elevators in Galloway Hall, a six-story residence hall serving 400 students. Work would include new cabs, motors, and controls required by code and accessibility standards. The project would be financed from indebtedness to be repaid from housing receipts. The estimated impact on students would be that all housing rents would be increased by up to \$176 per year, a 4% increase, to produce additional revenues for the housing system. The debt coverage ratio for UNCW's housing system for 2005-06 was 0.85x and it was 1.31x the previous year. With the issuance of this debt, the ratio would remain above 1.31x.

Marine Biotechnology Research Facility – \$15,000,000

This project would build an approximately 60,000 square foot commercial aquaculture and bio-tech research facility. The facility would house the Wilmington Oyster Hatchery and other initiatives seeking to develop and market commercial products from various Marine Science research initiatives. The project would be a partnership with UNCW's marine scientists and other public agency and private researchers. The project would be financed from grants, leases and overhead receipts. The project would not be constructed until full funding is in place to secure indebtedness. It is anticipated that 50% of debt service would come from non-University sources. The construction of the facility would be accomplished by leasing State land to the UNCW Corporation for the time required to complete the project. Project plans and specifications would comply with UNCW and State design and construction requirements and regulatory review. When complete, the lease would end and the State would acquire the project. The debt coverage ratio for UNCW's indebtedness for 2004-05 was 2.38x and it was 1.13x the previous year. With the issuance of this debt, the ratio would remain above 1.91x. This project would not have an impact on tuition and fees.

Western Carolina University

New Residence Halls – \$44,560,000

This project, in accordance with the campus master plan, would redevelop the core of the east campus. The redevelopment would replace two, 400-bed residence halls. WCU would demolish Helder Hall (built in 1966, with 80,144 square feet), and Leatherwood Hall (built in 1966 with 80,144 square feet) and acquire by purchase or construction, the approximately 830 beds planned in the two new residence halls. Included in this project is the demolition of the old Dodson Cafeteria, a central cooling plant, and faculty offices for the Honors College which would create a living-learning environment to enhance the student learning experience by co-mingling faculty offices within the traditional residence hall setting. This project would be financed from indebtedness to be repaid from housing receipts. The project and the indebtedness would be phased in over a three-year period, beginning in summer 2007. The construction of the two residence halls would be accomplished by leasing approximately 7.4 acres of State land to the Western Carolina University Research and Development Corporation for the time required to complete the project. Project plans and specifications

would comply with WCU and State design and construction requirements and regulatory review. When complete, the lease would end and the State would acquire the project. The WCU Board of Trustee's has approved this redevelopment. The estimated impact on students would be that all housing rents would be increased by an average of 3% per year to produce additional revenues for the housing system. The debt coverage ratio for WCU's housing system for 2005-06 was 3.43x and 3.08x in 2004-05. With the issuance of this debt, the ratio would remain above 2.4x.