

APPENDIX D

ANNUAL REPORT OF THE COMMITTEE ON BUDGET AND FINANCE TO THE BOARD OF GOVERNORS OF THE UNIVERSITY OF NORTH CAROLINA July 1, 2005 through June 30, 2006

EXECUTIVE SUMMARY

The Committee on Budget and Finance met 11 times between July 1, 2005, and June 30, 2006. Nine of the meetings were held to conduct committee business and two of the meetings were workshops in preparation of the supplemental budget request, enrollment funding, and financial aid. The September meeting was conducted via teleconference because of the Governors' Executive Order on August 31 for all of State Government to take measures to conserve fuel resources in the aftermath of Hurricane Katrina.

BUDGETS AND ALLOCATIONS, TUITION AND FEES

The Committee considered campus requests for tuition and fee increases and made recommendations for these increases to the Board. A waiver of tuition and fees was recommended for the fall semester for college and high school students that had previously been enrolled, and had already paid tuition, at colleges and universities that had been forced to close because of Hurricane Katrina and were, subsequently, accepted at a UNC campus. The Committee recommended increases for undergraduate, graduate, and professional students as requested by the campuses, consistent with the tuition and fee parameters established by the Board. Proposals submitted increased the pool of financial aid funding, expanded student services, ensured competitiveness in faculty salaries, and continued to meet the Board's directives to reduce class size, increase section offerings, and hire more permanent and less part-time faculty.

The Committee made recommendations to the Board for allocating funds provided by the 2005 General Assembly. Included among the allocations were appropriations for an annual salary increase of 2% for faculty and other employees exempt from the State Personnel Act (EPA). The General Assembly had appropriated \$123,020,836 for University Operations; \$1,089,000 for Agricultural Programs; \$5,000,000 for UNC Health Care System; and \$2,991,488 for Related Educational Programs. Several special appropriations to the Board totaling \$5,856,147 were directed to program areas not included in the Schedule of Priorities requests.

The 2005 Session also made budget reductions of \$40,128,803 in the General Fund budget codes of The University. The associated summary report from the Chancellors was recommended for approval and transmitted to the Office of State Budget and Management and the Fiscal Research Division by December 31, 2005.

In April, the Committee recommended approval of the 2006-07 Budget Priorities and it was forwarded to the Governor and General Assembly for consideration during the 2006 Legislative Session. In May, the Committee recommended that the 2006-07 Budget Priorities be increased by \$500,000 and that North Carolina School of the Arts be authorized to seek a special provision from the General Assembly to allow this funding to be used for the required environmental clean-up by the Environmental Protection Agency at 20 East Acadia Avenue in Winston Salem.

CAPITAL IMPROVEMENTS

In November 2000, North Carolina voters approved a bond issue to provide \$2.5 billion in State support for the first six years of the Board's ten-year capital plan. The Committee worked during the year to provide appropriate oversight for the bond program. Progress reports were received each month.

The Committee recommended the allocation of funds made available by the 2005 General Assembly: \$16,550,000 for capital improvements; \$56,800,000 from the Reserve for Repairs and Renovations, along with \$700,000 for repair and reconstruction of the Chancellor's residence at FSU; and \$446,135,000 for nonappropriated capital projects.

For the 2006 Session of the General Assembly, the Committee recommended 28 capital improvements projects at 10 institutions totaling \$432,250,000, as well as 14 supplements to previously approved capital improvement projects at seven institutions totaling \$97,366,000.

INSTITUTIONAL BORROWINGS

One of the principal responsibilities of the Committee is to recommend the issuance of bonds to finance nonappropriated capital improvements projects. During the year, the Committee recommended the following institutional issues of bonds for either financing new projects to refunding outstanding bonds when interest rate savings could be achieved.

- authorized the Vice President for Finance to sell special obligations bonds for UNC-Chapel Hill and UNC Charlotte
- authorized the Vice President for Finance to issue bonds as needed to carry out a commercial paper bonds program for NC State and UNC-Chapel Hill
- recommended a new maximum authorized borrowing amount of \$500 million for the Commercial Paper Program
- authorized the Vice President for Finance to negotiate the terms and enter into Interest Rate Swap Agreements with respect to the bonds proposed to be issued for UNC-Chapel Hill
- authorized the Vice President for Finance to direct the call and redeem for NCSU the Parking System Refunding Revenue Bonds, Series 1996, the Housing System Refunding Revenue Bonds, Series N, and the Student Center Refunding Revenue Bonds, Series 1996

PROPERTY

The Committee is responsible for reviewing requests by Board of Trustees for the acquisition of property, either by purchase, lease, or exchange. Recommendations made by the Committee during the year included the following: three leases of property at three institutions; purchase of three parcels by two institutions; exchanges of property for NCSU and UNCW; a ground lease of the land and existing improvements for the Joint Millennial Campus (NCA&T and UNCG), and a ground lease at UNC Wilmington.

Leasing arrangements were approved for FSU, NCCU, NCSA, NCSU, UNCP, and UNCW to enable the universities to meet long-term projected housing demands associated with campus growth. Lease payments would be made from student housing receipts.

In April of 2001, the Committee recommended delegation to the Office of the President to authorize the execution of leases valued up to \$150,000 and the execution of contracts to acquire real property valued up to \$250,000. Actions taken under the delegated authority would be reported at the next scheduled meeting. Seven leases of property at three institutions, and seven acquisitions of real property at four institutions were approved under the delegated authority.

Other leases included:

- UNCA: a lease to the University of North Carolina at Asheville Foundation, Inc. for the purpose of constructing residential space for the University's Chancellor.
- UNCP: a lease to the University of North Carolina at Pembroke Foundation, Inc. for the purpose of constructing a Health and Physical Education Center on campus.
- WSSU: a lease for the long-term use of the City of Winston-Salem's Bowman Gray Stadium.
- NCSU: an out-lease of space to MeadWestvaco Corporation on the Centennial Campus.

The Committee recommended disposition of two parcels located in Monroe County, Florida, that were escheated in 1957 by the Superior Court of Carteret County, North Carolina, to the University of North Carolina pursuant to relevant statutes at the time.

The Committee also recommended disposition of Chinqua-Penn Plantation. Given to the University of North Carolina by Jeff and Betsy Penn and managed by NCSU since 1986, Chinqua-Penn Plantation had not been able to sustain a self-supporting operation. In accordance with the intent of the original gift, the proceeds from the sale of this property would be used to fund an endowment in the name of the Penn Family for students from Rockingham County for scholarships at University of North Carolina constituent institutions.

OTHER ACTIONS

The Committee recommended that 344.77 acres as well as the Outreach Center, the Graham Building, and the Moore Building be designated as a Millennial Campus at Western Carolina University.

The Committee recommended increases in purchasing benchmarks for three universities:

NCCU – increased from \$35,000 to \$200,000, effective January 1, 2006

UNC Charlotte – increased from \$200,000 to \$500,000, effective July 1, 2006

UNC Wilmington – increased from \$200,000 to \$500,000, effective February 1, 2006

In February, 2006, the report and recommendations of the Subcommittee Reviewing the Cost of Textbooks was recommended for approval. Appointed in March 2005, the subcommittee was charged with making recommendations to address student concerns over the rising costs of textbooks.

ADDITIONAL INFORMATION

In August 2005, Board of Governors' Chair Brad Wilson appointed a special Tuition Policy Task Force that would make recommendations on improvements in policies and practices to ensure affordability, flexibility, and predictability in the tuition-setting process.

Also in August 2005, President Broad informed the Committee of a new University-led initiative that would directly benefit the Kannapolis and Gaston County regions of the state, with a significant impact on the entire state's economy. The partnership between Dole Foods and the University of North Carolina would provide for the construction of manufacturing and research facilities, with an anticipated investment of \$750,000,000 in the Kannapolis region alone. The University's role in the Kannapolis revitalization was completely aligned with its historic three-part mission of teaching, research, and public service, and was in keeping with the Board of Governors' growing commitment to foster economic development in all parts of the state.

During the year, the Committee received follow-up discussions related to mold remediation at North Carolina Central University.

UNC President Erskine Bowles wanted to assure the state's legislature and taxpayers that the significant resources already dedicated to the University were utilized as efficiently and effectively as possible. To assist in that effort, he commissioned a blue-ribbon Committee of state and business leaders to review the university's activities and to provide findings and possible recommendations to him by late October 2006. At its April meeting, the Committee was introduced to Hilary Coman, the project manager assisting the campuses with the Efficiency and Effectiveness Study. Her first report was given to the full Board at its May meeting.