

APPENDIX A

Molly Corbett Broad
President's Report to the Board of Governors
Grand Hall South, Broyhill Inn and Conference Center
October 19, 2005
10:30 a.m.

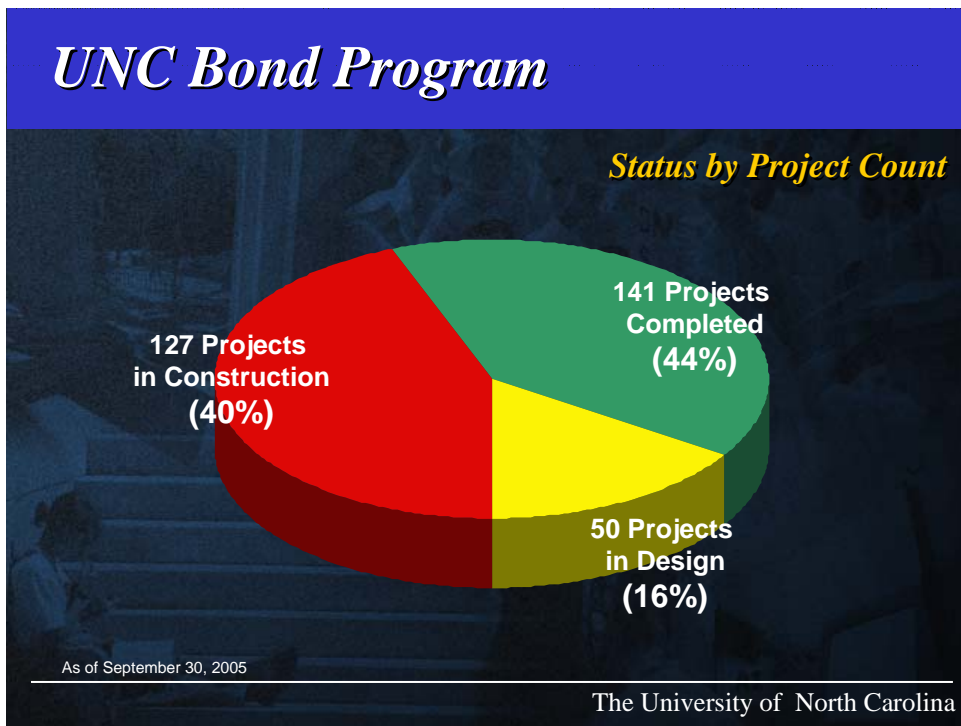
Katrina Enrollment Update

This morning I'd like to offer an update on the impact of your September action waiving tuition and mandatory fees—for the 2005 fall semester only—for students temporarily displaced because of Hurricane Katrina. I'm proud to report that our 16 campuses have stepped up to accommodate as many impacted students as possible, enrolling a total of 187 students from eight Gulf Coast colleges and universities closed this fall due to the hurricane. About two-thirds of these displaced students are undergraduates.

Update on UNC Bond Program

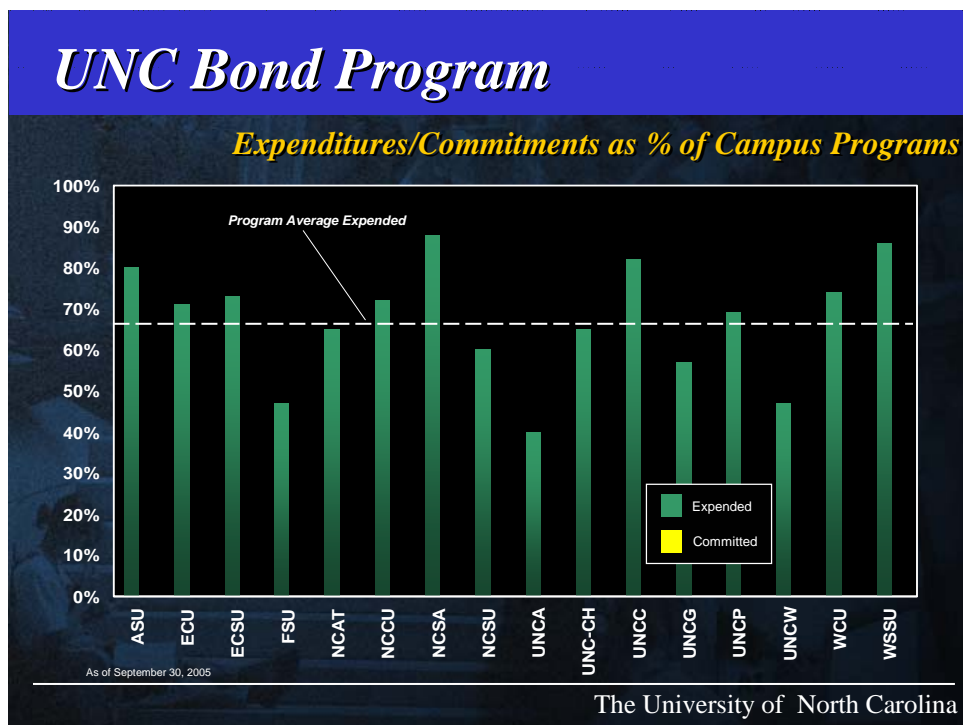
As the Budget and Finance Committee heard yesterday, the \$2.5-billion UNC Bond Program has entered the home stretch, with more than \$2 billion (80 percent) of the bond proceeds committed. This has largely been an unheralded success story – although we have now been contacted by some national media to examine the impact of this major re-capitalization of the University. All UNC bond projects are now either completed, under construction, or in design. We actually passed the peak of the construction phase this past June, with more than \$1 billion in construction activity underway—and more than 40,000 jobs directly supported by this bond program.

I'd like to take a moment to share three visuals that offer a snapshot of bond program activity as we enter this final phase:



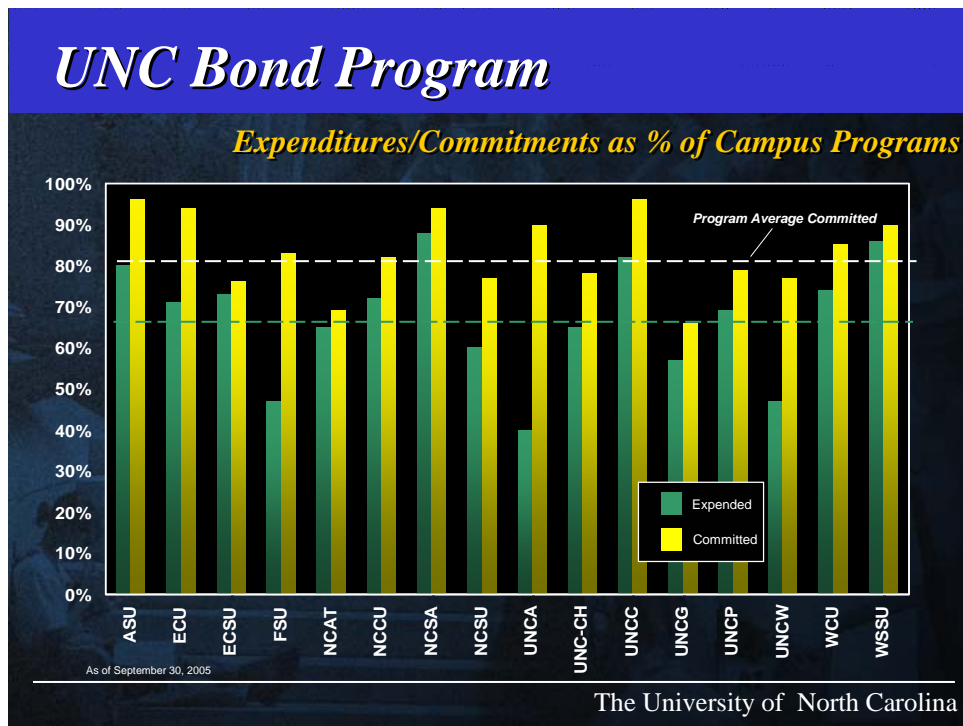
Visual 1: Program Status

- As this visual shows, of the 318 capital projects funded by the bond program, 141 (44%) have been completed. Another 127 (40%) are under construction. Only 50 projects (16%) are still in the design phase.
- All told, this bond program is adding about 5.8-million square feet of space to the University.



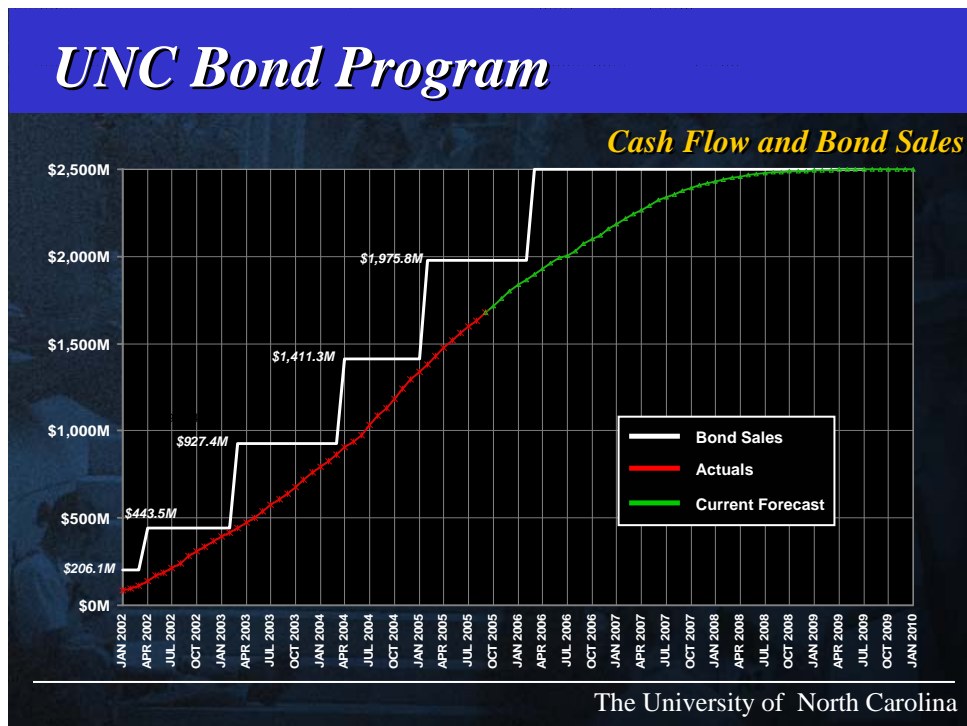
Visual 2: Expenditures/Commitments as % of Campus Program

- AS GREEN BAR BUILDS....University-wide, about two-thirds of the bond funds (\$1.68B) have actually been expended. While three campuses are still below 50%, others are well above 75%.



Visual 2B: Expenditures/Commitments as % of Campus Program

- AS YELLOW BAR BUILDS.... As I noted earlier, about 80% of total bond funds have been contractually committed. Again, there is considerable variation among the campuses.
- More than 85% of all design dollars have gone to North Carolina firms. About \$2 billion in construction dollars (including some non-appropriated monies paired with bond funds) also have gone to firms based in the state.
- To promote the inclusion of Historically Underutilized Businesses, many construction contracts have been divided into smaller bid packages that more HUB firms can manage. HUB participation in the bond program stands at 15.4% overall, significantly above the 10% state goal.



Visual 3: Cash Flow and Bond Sales

- This visual juxtaposes the incremental sale of bonds by the State Treasurer with the actual cash flow of the bond proceeds. You'll recall that the sale of the bonds has been carefully timed to match anticipated cash flow requirements. As you can see, we have completed the steepest growth phase of this bond program and we are now seeing the cash flow curve flattening. The final bond sale is scheduled for March of 2006.

Still, we will not grow complacent! As we move forward, we are carefully monitoring market trends—such as those affecting the price of steel, concrete, and other raw materials—to ensure that this bond program remains on track. The scope of the destruction in the Gulf region from Hurricanes Katrina and Rita will undoubtedly exacerbate price escalation. Each and every one of our chancellors understands that the remaining months are absolutely crucial to the ultimate success of this bond program. And I assure you that we fully intend to make good on the pledge of accountability we made to the voters of this state in November 2000. With that in mind, I

commend to you the Finance Committee's support that we now allocate to the campuses and affiliated entities bond funds held in a special reserve for potential cost overruns and other project setbacks.

As the Finance Committee discussed yesterday, the 2000 enabling legislation set aside a reserve of just over \$25 million to accommodate cost overruns and/or construction claims on UNC bond program projects. At the time—given the statutory requirement for multi-prime contracting and the appallingly low percentage of all state construction projects that had historically finished either on time and within budget—the size of this reserve seemed wholly inadequate. That we have now reached this advanced stage of the bond program without having to exhaust or even tap those funds is a remarkable achievement—one that just doesn't happen on the natural in capital programs of this scope and complexity—and that certainly doesn't happen often in *public* construction programs!

I must commend the chancellors and their staffs—as well as the Finance staff in the Office of the President—for yeoman's work on this massive project, and I'd also call to your attention an essential combination of key factors and strategies that have positioned us for long-term success:

1. At the inception of the bond program, the only construction delivery method available to us was multi-prime design, bid, and build. It was a recipe for disaster. At the urging of the University and other state agencies, the legislature authorized the use of single-prime delivery, construction manager at risk, and a more comprehensive process for mediating construction claims. This critical reform gave us some modern tools for managing construction. Today more than a third of

UNC bond projects are being delivered via CM at risk, at a considerable savings of time and money to the University. In fact, a recent review by the Office of State Construction of potential claims exposure on bond projects completed to date identified less than \$5 million in potential exposure—far lower than would have been expected on this volume of construction.

2. At the outset, we commissioned an outside firm to assess the adequacy of each campus' staffing and expertise to execute their bond programs, and we then worked with them to address identified weaknesses.
3. We engaged the outside firm to provide program and project management services related to the bond program. This brought a new level of sophistication to the scheduling and cash flow of the program. We acquired a new management information system that provides much better project tracking and management. In addition, we've promoted partnering among designers, subcontractors, and campuses; undertaken independent process and financial audits of selected bond projects on multiple campuses; and worked very closely with the Department of Insurance and the NC Association of General Contractors to resolve issues of mutual concern. As noted earlier, we've taken numerous steps promote and support greater HUB participation.
4. Finally, a University-wide Bond Alliance with key participants from each campus continues to meet frequently to share information and exchange best practices.

Kannapolis Highlights Tape

Finally, several of you were able to be with us in Kannapolis last month for the formal announcement of the North Carolina Research Campus in Kannapolis. It was a glorious day and more than 1,000 enthusiastic people were in attendance. For the benefit of those of you who weren't able to take part in that celebration, I'd like to close with a short "highlights" reel from the September 12th ceremony. Mr. Chairman, this will conclude my report.