APPENDIX F

Allocation of Reserve for Repairs and Renovations and Cost Overruns

When the 2000 General Assembly authorized the $2.5 billion UNC Bond Program, a reserve of $25,186,595 was set aside as a part of the enabling legislation. Legislation allows for these funds to be used for cost overruns or repairs and renovations to university facilities.

The bond program is currently 80% committed. The remainder of the program, however, faces challenges associated with the escalation of construction costs and associated market volatility. Escalation began in earnest during the last quarter of 2004 and it is predicted that it will be exacerbated by recent natural disasters. Allotment of the statutory reserve would have a positive impact on the program at this time.

The following justifications support the allocation of the Reserve for Repairs and Renovations and Cost Overruns at this time.

- 90% of the contract commitments for the program will be made by summer of 2006. Waiting may diminish the potential positive impacts of the reserve on the overall program – principally in reduced project scope that cannot be replaced.
- Cumulative cost escalation has adversely impacted cash flow and program progress by necessitating reduced project scopes and schedule delays. Scope changes and negotiations after bidding of projects will continue to delay the overall schedule.
- Due to swing space considerations, the projects remaining are primarily the rehabilitation of existing buildings. These are less desirable projects for contractors in a tight bidding market and they are more prone to inaccurate project budgets and cost escalation.
- Materials that relate to both the residential market and commercial/institutional markets such as cement, plywood, and gypsum board have escalated in response to the strong construction market nationwide. Pre-Katrina total construction activity was up 9% over last year and residential construction was up over 12%.
    - Hurricane Katrina and, perhaps to a lesser extent, Hurricane Rita are projected to exacerbate commodity pricing escalation as relief efforts redirect the construction market related to goods and services.
    - Overall market escalation and some commodity related market volatility will increase due to material shortages.
- Volatility in the petroleum market has manifested itself in escalation of materials that are petroleum based. Examples are PVC pipe and asphalt shingles. This escalation is generally independent of the effects of recent hurricanes.

- Recent surveys of the campuses indicate that there is less than $5 million, or 0.2%, in bond project claims exposure. This amount has not increased since our last report.
  - Recent meetings with the Office of State Construction indicate that claims appear to be holding steady.
  - The use of CM @ Risk delivery of projects has contributed to a claims rate lower than would normally have been expected.
  - It appears that individual campuses can handle their own construction claims.

Conditions for distribution would include the following:

- The funds could be used for cost overruns on the bond program.
- The funds could be used for repairs and renovations.
- The funds could be used for construction claims on UNC Bond Program Projects. A stipulation for the disbursement of reserve funds would be that the campuses are responsible for payment of all claims.
- Funds would be allocated based on the relative amounts of the original bond funding in the Bond Program.

Allocation amounts will be as follows:

Institution	**Bond Program Dollars**	**Reserve Allocation**
ASU	$ 87,406,200	$ 889,548
ECU	190,609,500	1,939,865
ECSU	46,296,800	471,170
FSU	46,021,400	468,368
NCAT	161,800,091	1,646,667
NCCU	121,246,203	1,233,943
NCSA	42,547,500	433,013
NCSU	468,256,655	4,765,527
UNCA	50,464,200	513,583
UNC-CH	510,539,075	5,195,843
UNCC	190,033,501	1,934,003
UNCG	166,008,255	1,689,494
UNCP	56,873,600	578,812
UNCW	109,201,800	1,111,365
WCU	100,336,744	1,021,144
WSSU	46,786,581	476,155
UNC-TV	65,890,600	670,580
NCSSM	5,163,000	52,545
NCARB	9,331,700	94,970

It is recommended that the Reserve for Repairs and Renovations and Cost Overruns be allocated to the constituent institutions and affiliated entities based on the relative amounts of the original bond funding.