

**ANNUAL REPORT
OF THE COMMITTEE ON BUDGET AND FINANCE TO THE
BOARD OF GOVERNORS OF THE UNIVERSITY OF NORTH CAROLINA
July 1, 2008 through June 30, 2009**

EXECUTIVE SUMMARY

The Committee on Budget and Finance met nine times between July 1, 2008 and June 30, 2009. The Committee was composed of the following Board members: Mr. Bradley T. Adcock, Ms. Peaches G. Blank, Mr. John W. Davis, III, Mr. T. Greg Doucette, Mr. Peter D. Hans, Mr. Charles A. Hayes, Governor James E. Holshouser, Jr., Mr. G. Leroy Lail, Mr. Ronald C. Leatherwood, and Ms. Estelle W. Sanders. Mr. Lail served as Chair, Ms. Blank served as Vice-Chair, and Mr. Leatherwood served as Secretary. Chancellor Steven Ballard (ECU), Chancellor Charlie Nelms (NCCU), Chancellor Linda Brady (UNCG), and Chancellor Allen Meadors (UNCP) also served on the Committee.

BUDGETS AND ALLOCATIONS, TUITION AND FEES

The Committee recommended:

- Academic Salary Increases (2008-09) -- \$61,620,000 for academic salary increases (EPA) for University personnel including the North Carolina School of Science and Mathematics.
- Allocations of Funds for Current Operations (2008-09) -- The 2008 General Assembly provided \$15,000,000 for campus safety; \$14,000,000 for research, and \$34,613,302 for enrollment adjustment as well as other appropriations, and made a number of special appropriations for designated programs in University Operations, Agricultural Programs, Related Educational Programs, and Aid to Private Institutions.
- Budget Priorities for 2009-11 -- Top priorities, forwarded to the 2009 General Assembly, were improving campus safety and expanding student access.
- Tuition and Fees for 2009-10 -- Chancellors recommended tuition rate increases consistent with the tuition and fee guidelines established by the Board of Governors in October 2006.

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 provided oversight for the bond program. Progress reports were received at most meetings.

The Committee recommended:

- Allocation of funds for capital improvements (2008-09) -- The 2008 General Assembly appropriated \$124,112,826 from the General Fund and authorized the issuance of \$499,015,000 in certificates of participation (COPS). In House Bill 2436, \$32,126,049 was

allocated by special provision for Repairs and Renovations. For Nonappropriated Capital Improvements projects, the 2008 General Assembly authorized \$401,499,000.

- 21 new or supplemental capital improvements projects at 11 institutions totaling \$214,891,500, of which \$183,112,600 was indebtedness -- The projects were forwarded to the General Assembly for authorization during the 2009 Session.

INSTITUTIONAL BORROWING

The Committee recommended:

- President's Delegated Authority -- A Resolution which allowed the President of the University, acting in consultation with the Chair of the Board and the Chair of the Board's Budget and Finance Committee, to take such actions as appropriate and in the best interest of the University and its constituent institutions when necessary to respond to changing circumstances in the financial marketplace. The resolution was in effect for one year and would expire October 16, 2009.
- Special Obligation Bonds for NCSU and UNC-CH for participation in the Commercial Paper Program for certain projects approved by the 2008 Session of the General Assembly.
- Sale of Special Obligation Bonds for UNCG for the purchase of Spring Garden Apartments.
- Pooled Bonds -- ASU, ECU, and NCCU were included in the tenth pooled issue to provide bonds for new construction and to refund bonds (UNCC) previously approved and issued by the Board of Governors currently outstanding at higher interest rates.
- Refunding Bonds for the UNC Hospitals at Chapel Hill for the purpose of current refunding a portion of the outstanding University of North Carolina Hospitals at Chapel Hill Revenue Bonds, Series 1999, dated May 1, 1999, of which \$45,420,000 principal amount was currently outstanding.

PROPERTY

As requested by Boards of Trustees, the Committee recommended the following:

- Property transactions for ECU, ECSU, NCSU, UNCC, and the Coastal Studies Institute -- The market value of each property would be determined by the State Property Office; the purchase would also be subject to approval by the Council of State.
- Lease transactions for NCSU (two transactions) and UNCW (one transaction) -- Lease costs would be at market rate, and subject to approval by the State Property Office, accomplished within the guidelines, procedures, and policies of the North Carolina Department of Administration, and approved by the Council of State.
- Student housing arrangements for ECU and WSSU to enable the universities to meet long-term projected housing demands associated with campus growth -- The cost per bed would

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be consistent with the current rate structure for comparable residence halls on campus and lease payments would be made from student housing receipts.

- Dispositions (demolition) of real property for NCCU and UNC-CH.
- Under delegated authority, the following were reported to the Committee: ECU (three transactions), NCA&T (two transactions), NCCU (one transaction), NCSU (six transactions), UNC-CH (one transaction), UNCC (one transaction), UNCG (one transaction), UNCP (one transaction), and UNCSA (one transaction).

OTHER ACTIONS

The Committee recommended:

- A resolution to endorse and support the budget and non-budget initiatives of the North Carolina Community College System for the 2009 Session of the General Assembly.
- A value statement of the Board of Governors: The current economic recession would require the legislature to make reductions in the budgets of the constituent institutions of the University of North Carolina.

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The Committee advises and consults with the Board of Governors' Chair and the President concerning budget policy and preparation; considers the budget proposed by the President, recommends modifications if needed, and approves the budget for consideration by the Board; makes recommendations to the Board for allocations of funds appropriated by the General Assembly; works with the Committee on Educational Planning, Policies, and Programs to ensure the proper funding of long-range objectives; and submits recommendations to the Board with respect to capital improvements projects, institutional borrowings, and property transactions, as well as other budgetary and financial matters within the jurisdiction of the Board of Governors.

BUDGETS AND ALLOCATIONS, TUITION AND FEES

During the year, the Committee made specific recommendations for consideration by the Board related to budget requests, allocations of funds, and the establishment of tuition and fee rates.

Academic Salary Increases (2008-09)

The Committee recommended the allocation of \$61,620,000 for academic salary increases (EPA) for University personnel including the North Carolina School of Science and Mathematics. Of these funds, \$54 million was for average salary increases of 3% for faculty and other employees who were exempt from the State Personnel Act (EPA). Funds were distributed in exact proportion to the share of each institution in the General Fund EPA salary base. Funds were also appropriated to provide an annual salary increase of 3% for teaching employees of the North Carolina School of Science and Mathematics. The total funding appropriated for EPA salary increases was to be used for merit, market, and equity increases.

Distinguished Professors' Endowment and Faculty Recruiting/Retention

The General Assembly appropriated \$4,600,000 in nonrecurring funds for the Distinguished Professors' Endowment Trust Fund to provide the state matching funds for a generous private Challenge Grant Initiative established by the Spangler Foundation.

The General Assembly appropriated \$3,000,000 to fund the University Faculty Recruiting and Retention Fund to be used at the discretion of the President for salary increases for the purpose of recruiting and retaining UNC faculty members as necessary.

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Allocations of Funds for Current Operations

The General Assembly provided the current operations budget of each institution. The Board allocated such funds in accordance with its Budget Priorities. In addition to the appropriations for the 2008-09 Budget Priorities, the General Assembly made a number of special appropriations for designated programs in University Operations, Agricultural Programs, Related Educational Programs, and Aid to Private Institutions. The Committee recommended the following.

<u>Request</u>	<u>General Assembly provided</u>	<u>Includes Nonrecurring Funds of</u>
Campus Safety	\$15,000,000	\$9,000,000
Research	14,000,000	4,000,000
More and Better Teachers & Improved Schools	600,000	600,000
Healthcare	4,657,000	1,500,000
Regional & Statewide Economic Transformation and Competitiveness	9,350,000	300,000
UNC Systems Support & Data Integration	2,000,000	1,000,000
Affiliated Entities	400,000	200,000
Enrollment Growth Adjustment	34,613,302	

Budget Priorities for 2009-11

The Committee recommended approval of the 2009-11 Budget Priorities, which identified operating and capital funds needed to carry out the highest priorities of the University of North Carolina, as defined by the Chancellors, the President, and the Board of Governors. Given the fiscal uncertainties created by worldwide credit and financial markets crises and the decline in state revenues, the University's 2009-11 budget request proposed the lowest percentage increase in more than 20 years. Top priorities were improving campus safety and expanding student access. Another major component of the request was funding to recruit and retain high-quality faculty. Every item proposed for funding responded directly to the recommendations of the UNC Tomorrow Commission.

Authorization of Tuition and Fees for 2009-10

At its February meeting, the Committee recommended approval of the 2009-10 tuition and fee rates. Chancellors recommended tuition rate increases consistent with the tuition and fee guidelines established by the Board of Governors in October 2006.

Winston-Salem State University's original submission did not include a tuition increase. In March, WSSU revised its request to recommend tuition rate increases for all students to support financial aid and other critical needs. The rate increase would generate \$219,546 in tuition revenue to support financial aid (50%) and critical academic needs (50%).

CAPITAL IMPROVEMENTS

Higher Education Bond Program

Senate Bill 912, 1999 Session, authorized the issuance of \$3.1 billion in higher education bonds subject to a vote of the qualified voters of the State. In November, 2000, upon the approval of a majority of voters, \$2.5 billion was made available to the University of North Carolina for capital improvements.

Senate Bill 912 required the Board of Governors to report annually on the bond program as well as on the condition of the University's capital facilities and proposed repair, renovation, and maintenance projects. The President, under his delegated authority, approved and forwarded the annual report to the Joint Legislative Commission on Governmental Operations and the Joint Legislative Education Oversight Committee in September 2008.

At each of its meetings, the Committee received a progress report on the bond program. By May 2009, UNC Charlotte and the North Carolina Arboretum had closed out their programs. UNC Greensboro and UNC School of the Arts had only land acquisitions remaining. *Note: The Budget and Finance Committee strongly emphasized that schools should finish the close-out process as timely as possible.*

Small fund balances remained to be committed at several institutions. Most of the remaining funding was for contingency or equipment purchases within projects currently under construction. Of the remaining \$20M to be committed, the largest balance (\$11.5M) was held at UNC-TV, where delays had occurred with the digital conversion process. With conversion scheduled for June 2009, UNC-TV was projecting that their bond program could be completed by June 2010. The program continued its outstanding record of claims management. Settled claims were slightly more than \$1.4 Million, an extremely low claims rate by industry standards. The Higher Education Bond Oversight Committee continued to provide valuable leadership and assistance in the successful completion of the bond program.

HUB Update: HUB participation remained constant with 99.2% of the program expended or committed. Contracts awarded to HUB firms for construction had reached \$421 Million (16.7%) and for design \$40.2 Million (14.1%). The UNC system historically underutilized business (HUB) participation for the Bond Program continued to exceed the 10% state goal.

Outreach efforts developed during the Bond Program would continue on all UNC projects and, where applicable, be enhanced to reflect the Board of Governors' policy regarding Equal Access in Construction Contracting adopted in September 2001.

Allocation of Capital Improvements from the 2008 General Assembly

The Committee recommended the allocation of funds for capital improvements. The General Assembly appropriated \$124,112,826 from the General Fund and authorized the issuance of \$499,015,000 in certificates of participation (COPS). In House Bill 2436, \$32,126,049 was allocated by special provision for Repairs and Renovations. For nonappropriated capital improvements projects, the 2008 General Assembly authorized \$401,499,000.

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There were scope changes for projects in the UNC Higher Education Bond Program as follows:

	<u>Decrease</u>	<u>Increase</u>
<u>UNC-Chapel Hill</u>		
Berryhill Laboratory Building – Comprehensive Renovation	\$8,600,000	–
Division of Laboratory Animal Medicine – Upfits	–	\$8,600,000

Other special provisions were related to:

- Gateway University Research Park, Inc.
- Airport Authority for the University of North Carolina
- Western Carolina University, UNC Asheville, and M.A.H.E.C.
- Upper Coastal Plain Higher Education and Health Center

Emergency Procedures

The Chancellors of North Carolina Central University, North Carolina State University, and Winston-Salem State University informed the President of the need to invoke emergency procedures as allowed by G.S. 143-129 to provide for new capital improvements projects. In accordance with emergency procedures, the State Building Commission was notified.

NCCU: On June 11, 2008, there was an electrical fire in the university's high-voltage electrical switchgear unit. On June 27, 2008, three additional switchgear units were damaged by fire, and on June 30, one additional unit caught fire. The failure of these five units left 50% of the campus without electrical power and the remainder of the campus experienced intermittent power outages. The project, estimated to cost \$1,814,000, would repair the electrical distribution system, install an uninterruptable power supply/power conditioning unit for the Information Technology Services, and upgrade the emergency generator system serving campus research facilities. Funding for the project would be from Title III funds, Repairs and Renovations funds, and campus operating funds.

NCSU: Buckling masonry was observed on the exterior of the D.H. Hill Library and investigation revealed a structural failure of the support system for the brick masonry veneer on the south face of the building. The project, estimated to cost \$400,000, would rebuild approximately 2,500 square feet of the south wall and be funded from Repairs and Renovations funds previously authorized by the Board.

WSSU: On June 26, 2008, a storm blew off the roof on the office wing of the C.E. Gaines Center. The project, estimated to cost \$180,000, would provide approximately 6,420 square feet of new roof and would be funded from Repairs and Renovations funds previously authorized by the Board. Funds had been re-allocated from a water main relocation project that would be delayed until additional funds became available.

Capital Improvements Projects Not Requiring Action by the General Assembly

During the year, the Committee recommended approval of the following capital improvements projects to be funded principally from nonappropriated funds.

<u>ASU</u>	
Replacement of Entry Doors for 140 Individual Rooms of the Appalachian Pan Hellenic Residence Hall	\$ 340,000
<u>ECU</u>	
New Fire Sprinkler System for Aycock and Jones Residence Halls	2,500,000
<u>NCSU</u>	
New Fire Sprinkler System for all 17 Residence Halls at E.S. King Village	3,700,000

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UNCC

Construct 250-Space Parking Lot to Serve the Harris Alumni Center and the Development Center	\$1,500,000
Construct 12 Regulation-Size Tennis Courts and a Building for Restrooms, Locker Rooms, Coaches' Offices, and Storage	4,000,000
Replace an Electrical Duct Bank Holding Two Major Circuits of the Campus High Voltage Electrical Grid	1,000,000

UNCG

First Phase of a Planned Five-Phase Renovation of Jackson Library	1,000,000
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Authorization of Non-Appropriated Capital Improvements Projects – 2009-10

The Committee recommended 21 new or supplemental capital improvements projects at 11 institutions totaling \$214,891,500, of which \$183,112,600 was indebtedness. The projects would be forwarded to the General Assembly for authorization during the 2009 Session. The projects were evaluated on the basis of its need and its benefit to the University, with a focus on each project's alignment with the findings and recommendations of the UNC Tomorrow Commission. Projects were also evaluated on the benefits and costs to students as well as the ability of the campus to pay for the project without a negative impact on the institution's credit rankings. A detailed financial plan would be reviewed for each project in consultation with financial advisors and bond counsel before bonds were issued and construction contracts were awarded.

Increases in Previously Authorized Projects

Capital improvements actions initiated throughout the year by the President pursuant to Board delegation are reported below. The following increases in previously authorized projects were approved:

Appalachian State University

Parking Facilities Improvements	\$ 618,783
2006 Repairs and Renovations	969,559
Frank Residence Hall Renovation	750,000
2007 Repairs and Renovations	1,223,000
Bookstore Renovation and Expansion	200,000

East Carolina University

Garrett Dorms – Door Replacement	325,000
Todd Dining Hall Servery Modifications	200,000

Fayetteville State University

Lilly Gymnasium – Comprehensive Renovation and Conversion of Building for Student Services	141,291
2007 Repairs and Renovations	290,000

North Carolina A&T State University

Nanoscience and Nanoengineering Building	300,000
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North Carolina Central University

Pearson Cafeteria – Expansion	949,649
Security Camera Installation	14,911
2006 Repairs and Renovations	760,000

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Elder Student Union	\$ 650,000
Emergency Project – High-Voltage Electrical Switchgear	1,218,000
Repairs to Five Academic Buildings	25,457
North Carolina State University	
Harrelson Classroom Building – Comprehensive Renovation	111,432
Facility Support Spaces	1,219,264
2006 Repairs and Renovations	65,000
Improvements to 4-H Camp	100,000
Schaub Dairy Retail Facility	115,000
E.S. King Village Fire Sprinkler System	1,420,000
Rocky Branch Bank Stabilization	1,222,983
UNC Asheville	
Science and Multimedia Building (Bond Title: Math and Science Building – Replacement of Rhodes and Robinson Buildings)	956,380
Craft Campus	200,000
UNC-Chapel Hill	
Major Infrastructure Improvements & Waste Remediation	1,761,500
Morehead Planetarium & Science Center	4,200,000
2004 Repairs and Renovations	404,451
Water Reclamation and Reuse Infrastructure	312,647
Carmichael Auditorium Addition and Renovations	3,500,000
Strategic Demand Side Energy Plan	136,300
2007 Repairs and Renovations	1,510,000
Botanical Garden Visitor Education Center	1,000,000
Rosenau Hall Laboratory Building – Comprehensive Renovation	378,742
Sports Medicine Facility	1,583,000
UNC Charlotte	
New Main Entrance (University City Boulevard)	412,500
Prospector Hall Renovation – Phase II	2,728,841
2007 Repairs and Renovations	200,000
UNC Greensboro	
Bryan Building Data Center Upgrade	360,000
2006 Repairs and Renovations	80,000
UNC TV	
Digital Conversion General Fund	2,048,742
Western Carolina University	
Dodson Cafeteria Renovation	400,000
2007 Repairs and Renovations	300,000

In 2006, the Board of Governors delegated to the President the authority to approve capital improvements projects estimated to cost less than \$500,000. Items were to be sent to Committee members one week prior to approval by the President's Office so that members would have an opportunity to consider the projects, ask questions, and determine if the projects warranted further discussion at the next Committee meeting. There were no delegated projects submitted for the 2008-09 fiscal year.

INSTITUTIONAL BORROWING

President's Delegated Authority

The Board of Governors is responsible for the issuance of revenue and special obligation bonds to finance improvements on the campuses of the constituent institutions. In connection with all bond issues, the University had entered into various agreements with financial institutions to provide services to the constituent institutions, including remarketing agreements, commercial paper dealer agreements, standby bond purchase agreements, letters of credit reimbursement agreements, interest rate swap agreements, and agreements related to the investment of bond proceeds or reserves. Financial markets had experienced historic disruptions that were resulting in significant changes in the organizational structure and credit standing of many of the financial institutions with whom the University had entered agreements for financial services. It was necessary for the University to take actions in response to changes in the financial marketplace. The resolution was in effect for one year and expired October 16, 2009.

The Committee recommended approval of a Resolution which allowed the President of the University, acting in consultation with the Chair of the Board and the Budget and Finance Committee's Chair, to take actions as appropriate and in the best interest of the University and its constituent institutions when necessary to respond to changing circumstances in the financial marketplace. The President would report all such actions to the Board in a timely manner, and no later than its next scheduled meeting.

Refunding Variable Rate Revenue Bonds and Designate as Special Obligation Project

In 1999, the Board of Governors issued variable rate revenue bonds to fund the construction and equipping of Partners Building II and the relocation of utility easements on Centennial Campus at North Carolina State University. The variable rate revenue bonds were supported by a liquidity facility from Wachovia Bank and insured by Financial Security Assurance, Inc. (FSA). The bonds were remarketed by Lehman Brothers (which was now Barclays Capital). At the time the bonds were issued, NCSU entered into a swap agreement with Lehman Brothers for a majority of the bonds at a synthetic fixed rate of 4.57%.

North Carolina State University determined that it was in its best interest to refund the 1999 bonds in the amount of \$11,200,000 and terminate the swap with Lehman Brothers. Under the swap documents and current market conditions, NC State would have to pay a termination payment estimated to be \$750,000. NC State intended to accomplish the refunding and the termination payment through the issuance of commercial paper within the existing commercial paper program with UNC-Chapel Hill.

Commercial Paper Bonds could only be issued to finance or refinance special obligation projects. Because the 1999 Bonds were issued before the General Assembly implemented the special obligation project process, the Committee recommended approval of a Resolution refunding the 1999 bonds and designating them as special obligation.

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Special Obligation Bonds – Commercial Paper Program

North Carolina State University and the University of North Carolina at Chapel Hill had requested that the Board approve and ratify the use of proceeds of special obligation bonds for participation in the Commercial Paper Program for certain projects approved by the 2008 Session of the General Assembly. The Committee recommended approval and authorized the Vice President for Finance to use commercial paper bonds for the following projects:

NC State

Student Health Center Expansion (\$10,900,000)
Avent Ferry Administration Center Renovation (\$5,200,000)
Centennial Campus Tenant Space Renovations (\$10,000,000)
Collaborative Research Building I (\$35,000,000)

UNC at Chapel Hill

Athletic Facilities Renovation and Expansion (\$7,023,000)
Carmichael Auditorium – Supplement (\$9,500,000)
Carmichael Residence Hall – Supplement (\$1,300,000)
Dental Sciences Teaching and Learning Building (\$26,000,000)
Fetzer Gymnasium Expansion (\$2,500,000)
Kenan Stadium Expansion, Phase I (\$50,000,000)
Mary Ellen Jones Animal Facility Renovation (\$10,000,000)
Medical Research Building D Renovation and Expansion (\$5,000,000)
Old East and Old West Residence Halls Improvements – Supplement (\$3,200,000)
Research Resource Facility – Phase III (\$8,600,000)
Woollen Gymnasium (Sports Medicine) – Supplement (\$1,500,000)
Chilled Water Infrastructure (\$6,000,000)
Cogeneration and Steam Infrastructure Improvements and Expansion (\$17,700,000)
Electrical Infrastructure Improvements (\$13,500,000)

Sale of Special Obligation Bonds for UNC Greensboro

The Committee recommended the purchase of Spring Garden Apartments and authorized the Vice President for Finance to sell the special obligation bonds between the March 2009 and May 2009 meetings of the Board. UNCG had requested authority to issue special obligation bonds not to exceed \$33,000,000 in par amount to provide permanent financing for the purchase. UNCG had also requested authority to issue special obligation bonds not to exceed \$15,000,000 to refund all or any portion of bonds issued in 1997 and 2001, if the refunding would produce not less than 2% net present value savings to UNCG while it was in the bond market.

Pooled Bonds

Three institutions (Appalachian State University, East Carolina University, and North Carolina Central University) asked to be included in the tenth pooled issue to provide bonds for new construction and to refund bonds (UNC Charlotte) previously approved and issued by the Board of Governors currently outstanding at higher interest rates. The Committee recommended adoption of the Resolution and authorized the Vice President for Finance to issue and sell bonds between the May 2009 and August 2009 meetings of the Board of Governors, and for the

refunding bonds, at such time as the net present value savings equaled or exceeded at least 2.0%.
Note: The bonds were sold on June 25, 2009 at a price of \$127,405,000.

Refunding Bonds for the UNC Hospitals at Chapel Hill

The Committee recommended the authorizing Resolution for the issuance of refunding bonds on or about February 12, 2009 for the purpose of refunding a portion of the outstanding University of North Carolina Hospitals at Chapel Hill Revenue Bonds, Series 1999, dated May 1, 1999, of which \$45,420,000 principal amount was currently outstanding.

PROPERTY

All property transactions of the University in excess of \$50,000, or for which General Fund appropriations are allocated, require approval of the Board and, therefore, action by the Committee on Budget and Finance. Upon the approval of the Board, the University's Associate Vice President for Finance and Property Officer forwards such proposals to the Council of State for final action.

Property Transactions

As requested by Boards of Trustees, the Committee recommended the following acquisitions. The market value of each property would be determined by the State Property Office; the purchase would also be subject to approval of the Council of State.

ECU: acquisition of property by deed for campus expansion as indicated in the Master Plan

ECSU: acquisition of property by gift for the Aviation Science program -- The 2007 and 2008 sessions of the General Assembly appropriated \$500,000 and \$1,500,000, respectively, to plan the ECSU School of Aviation Complex. The Board of Governor's 2009 capital budget included a request of \$15.5 million to construct the project.

NCSU: acquisition of property near the entrance to the Centennial Campus to be used for future development of the Centennial Campus

UNCC: purchase of property to house the Development and Alumni Affairs division and bring all of UNCC's development functions into one location

Coastal Studies Institute: purchase of property to provide the site for the CSI's new facility for unique research and education opportunities

Lease Transactions

As requested by Boards of Trustees, the Committee recommended the following leases. Lease costs would be at market rate, and subject to approval by the State Property Office, accomplished within the guidelines, procedures, and policies of the North Carolina Department of Administration, and approved by the Council of State.

NCSU: sublease of space to Dole Research within the North Carolina State Fruit & Vegetable Institute on the North Carolina Research Campus in Kannapolis to provide an opportunity for joint activities between the research teams of Dole Research and NCSU's College of Agricultural and Life Sciences

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NCSU: lease of an additional 10,000 square feet of space in the Centennial Campus Laboratory Building that was currently being constructed to support research activities of the College of Engineering -- Additional research space was needed to attract and retain quality faculty for the College of Engineering as well as to compete for research grants on the national level

UNCW: lease to support the departments of Academic Affairs, Advancement Services, Business Services, Human Resources, and Public Service

Student Housing Arrangements

The Committee recommended leasing arrangements to enable the universities to meet long-term projected housing demands associated with campus growth. The cost per bed would be consistent with the current rate structure for comparable residence halls on campus and lease payments would be made from student housing receipts. The lease of State land and the lease of the new beds would be accomplished within the guidelines, procedures, and policies of the N.C. Department of Administration and the Council of State.

ECU: The State Property Office, using its emergency procedures, secured two leases in Greenville for the 2008 fall semester. The first lease provided 116 beds. The second lease provided 128 beds.

WSSU: The State Property Office, using its emergency procedures, secured three leases in Winston-Salem for the 2008 fall semester. Each lease could be renewed, on an as-needed basis, for the spring semester. The first lease provided 129 beds; the second lease provided 75 beds; the third lease provided 46 beds.

ECU: Acquisition by lease for off-campus apartments for up to 350 students for the 2009 fall semester to address expected demand for housing -- The State Property Office would determine, by bid, the location and the price of the requested housing for the fall semester.

WSSU: Acquisition by lease for off-campus housing for approximately 200 students for the 2009 fall semester to address expected demand for housing -- The State Property Office would determine, by bid, the location and the price of the requested housing for the fall semester.

Transactions by Delegated Authority

In 2006, the Board authorized the President to execute leases valued up to \$350,000 and other property interests up to \$500,000. The following property transactions were approved under this delegation and were reported to the Committee on Budget and Finance.

ECU: acquisition of real property by deed for parking and future Steam Plant expansion

ECU: acquisition of real property by deed for office and support space for the Campus Operations Department

ECU: acquisition of real property by deed for future campus expansion identified by the campus Master Plan

NCA&TSU: acquisition of real property by lease for temporary lab and office space for the Joint School of Nanoscience and Nanoengineering, a joint program of NCA&T and UNCG, while their permanent building was being constructed

NCA&TSU: two acquisitions of real property by deed for future campus expansion identified by the campus Master Plan

NCCU: acquisition of real property by deed for future campus expansion identified by the campus Master Plan

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NCSU: acquisition of real property by lease to expand research and training activities in close proximity to the current Golden LEAF Biomanufacturing Training & Education Center

NCSU: acquisition of real property by lease to provide office space for up to 24 professional staff in NCSU's Office of Technology Transfer

NCSU: acquisition of real property by lease for additional office space for the Ticket Office and Marketing/Promotions Office (Athletics Department) which were currently leasing space at this location

NCSU: disposition of real property by lease of student housing and organizational space to the Delta Epsilon Chapter at NCSU of the Sigma Chi Fraternity House Corporation as interim housing while their new facilities were constructed in NCSU's Greek Village redevelopment

NCSU: acquisition of real property by lease (renewal) to allow NCSU's Distance Education and Learning Technology Applications Program to continue to provide courses in business, engineering, and related subjects through the Gateway Technology Center located in Rocky Mount

NCSU: disposition of real property by sublease to allow joint research activities between Mallard Creek Polymers, Inc. and the College of Agriculture and Life Sciences at the N.C. Research Center at Kannapolis

UNC-CH: disposition of real property by lease to allow for the construction and operation of a homeless shelter

UNCC: acquisition of real property by lease for office space for the College of Computing and Informatics Bioinformatics Research Center and the Charlotte Research Institute

UNCG: acquisition of real property by deed for future campus expansion identified by the campus Master Plan

UNCP: acquisition of real property by deed for campus expansion identified by the campus Master Plan

UNCSA: acquisition of real property by deed to complete the site for the new Central Storage and Police Operations facility.

Demolition: The Committee recommended the following dispositions of real property:

UNC-CH: demolition of the existing Medical Building A and two portable office units in order to construct the Imaging Research Building, which would house the Biomedical Research Imaging Center

NCCU: demolition of the Chidley Annex as well as renovation of the original Chidley Hall for the New Residence Hall project

Resolution for Land Purchases

The University campuses had identified over 150 parcels, with an estimated value of over \$140 million, to accommodate both immediate and long-range University growth and development. In January 2009, the Council of State of North Carolina, based on recommendations from the Office of State Budget and Management, authorized the issuance of only \$10 million of the \$25 million approved in 2008 by the General Assembly for University land purchases. The Committee on Budget and Finance concluded that it would be in the best interest of the University and the State of North Carolina to proceed with the acquisition of additional land for the University as soon as practicable. The Committee requested the Vice President for Finance draft a Resolution for Board approval, which stated that the Board of Governors endorsed and supported fully the release of the additional \$15 million for land acquisition as authorized by the 2008 General Assembly. On March 20, the Board approved the Resolution.

OTHER ACTIONS

Annual Report of the Committee on Budget and Finance

The Annual Report of the Committee on Budget and Finance to the Board of Governors of the University of North Carolina for July 1, 2007 through June 30, 2008 was reviewed by the Committee in October and was recommended for approval at the November Board meeting.

Resolution Supporting Legislative Requests of the Community Colleges

The Committee recommended that the Board of Governors adopt a resolution to support the budget and non-budget initiatives of the North Carolina Community College System for the 2009 Session of the General Assembly.

Value Statement of the Board of Governors

The Committee recommended the following:

Value Statement of the UNC Board of Governors

The current economic recession undoubtedly will require the legislature to make reductions in the budgets of the constituent institutions of the University of North Carolina. The General Assembly has been very generous to the University, and the Board acknowledges our obligation to be a team player and accept our fair share of cuts needed to balance the state's budget. We remain concerned, however, that budget reductions that are recurring and cuts that are in excess of 5% would cause permanent harm to the University's academic core, and it is our hope that the General Assembly will keep reductions within these levels. We further urge the General Assembly to provide the University full flexibility in managing necessary budget reductions so that our chancellors can make management decisions that are in the best long-term interests of their respective campuses.

In light of the state's worsening fiscal outlook, our chancellors have prepared potential budget reduction scenarios as requested by the Governor. As the true extent and nature of state budget cuts become known and the President and the chancellors refine their reduction plans, it is imperative that cost-saving measures implemented by the campuses reflect the priorities of the Board of Governors. While the process for determining how and what to cut will be as individual as the campuses themselves, the overarching themes and priorities outlined below should help guide and inform the decision-making process on every UNC campus:

- 1. Protect UNC's commitment to teaching, research, and public service. These core missions must be preserved at every institution, with academic instruction taking highest priority. A sharp focus on mission and academic integrity should drive each campus' budget-cutting strategy, and necessary reductions should be targeted to weaker and/or nonessential programs that are not deemed critical to the institution's core mission.*
- 2. Sustain academic excellence, high quality, and affordability.*
- 3. In keeping with the University's ongoing PACE initiative, explore ways of achieving cost savings and improving efficiencies and effectiveness in all operations, and continue to demonstrate sound financial management and fiscal accountability. To that end, prioritize all programs and services before beginning the budget-cutting process.*
- 4. Across-the-board reductions should be utilized only as a last resort. Consider strategic vertical cuts that would reduce or eliminate lower productivity and/or less essential programs and centers that no longer contribute in as meaningful a way to the campus' modern mission as they once did. Where feasible and appropriate, face-to-face courses that are eliminated should be made available through high-quality on-line instruction via UNC Online.*

APPENDIX E

5. *Campuses are encouraged to continue their commitment to be more outward-facing, collaborative on a systemwide basis, and regionally engaged. Priorities identified in the UNC Tomorrow Commission's final report will continue to provide a roadmap for the University. To the extent feasible, implement reductions in a manner that does the least damage to priorities identified in the report.*

At most meetings throughout the year, the Committee discussed specific topics. Those topics included:

- Legal Affairs' interpretation of the Education and Technology Fee
- Higher Education Price Index
- Tuition and Fees Process
- Report on the Cost of Textbooks
- Update on the NCSU Conference Center and Hotel Project
- Sustainability Initiative
- Guaranteed Energy Performance Contracts