

**ANNUAL REPORT
OF THE COMMITTEE ON BUDGET AND FINANCE TO THE
BOARD OF GOVERNORS OF THE UNIVERSITY OF NORTH CAROLINA
July 1, 2009 through June 30, 2010**

EXECUTIVE SUMMARY

The Committee on Budget and Finance met eight times between July 1, 2009 and June 30, 2010. The Committee was composed of the following Board members: Mr. John M. Blackburn, Mr. Bill Daughtridge, Jr., Mr. John W. Davis III, Mr. T. Greg Doucette, Governor James E. Holshouser, Jr., Dr. Cheryl Marvileane Locklear, Mr. Charles H. Mercer, Jr., Mr. Fred G. Mills, and Dr. Irvin A. Roseman. Mr. Davis served as Chair, Mr. Mercer served as Vice-Chair, and Mr. Daughtridge served as Secretary. Chancellor Steven Ballard (ECU), Chancellor Charlie Nelms (NCCU), Chancellor Linda Brady (UNCG), and Interim Chancellor Charles Jenkins (UNCP) also served on the Committee.

BUDGETS AND ALLOCATIONS, TUITION AND FEES

The Committee recommended:

- Allocations of Funds for Current Operations for 2009-10 -- Due to the economic crisis and resulting decreases in state revenues, the 2009 General Assembly made a number of reductions to the University's base (continuation) budget. Funds that had been provided by the Governor to cover continuation increases (to adjust for increases in the cost of providing ongoing services) were reduced by \$127,671,825. The federal government's 2009 American Recovery and Reinvestment Act (stimulus) made funds available to the State of North Carolina to assist in stabilizing education budgets. The General Assembly used \$137,815,944 of federal ARRA funds to offset the University's regular state appropriations in the 2009-10 budget. The General Assembly fully funded the Board's request for enrollment funds of \$44,197,776 for 2009-10.
- Budget adjustment at ECU of \$260,220 for 2009-10 as a result of nonresident freshmen enrollment for two consecutive years that exceeded 18% of the freshmen class -- an over-enrollment of twenty-six (26) nonresident freshmen students
- Authorization of Tuition and Fees for 2010-11 -- Chancellors submitted tuition and fees rate increases consistent with the tuition and fees guidelines established by the Board of Governors in October 2006.
- Budget Priorities for 2010-11 -- The Board of Governors had an existing biennial budget priority list before the Governor and General Assembly for 2009-11. As was customary, the President and Chancellors revisited those items in preparation for the second year of the biennium.

CAPITAL IMPROVEMENTS

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. The Committee provided oversight for the bond program. By June 30, 2010, all projects with the exception of the Digital Conversion at UNC-TV were completed. \$2.491B or 99.6% of the program funds had been expended.

The Committee recommended:

- Allocation of Funds for Capital Improvements for 2009-10 -- Senate Bill 202 allocated \$31,000,000 by special provision for Repairs and Renovations. For nonappropriated capital improvements projects, the 2009 General Assembly authorized \$214,891,500.
- Guaranteed Energy Saving Projects for ASU, NCSU, and UNCW -- G.S. 143-64.17F authorized state agencies to utilize guaranteed energy savings contracts as a method to reduce the state's increasing utility costs, improve efficiencies of operations, and reduce environmental impacts.
- Authorization of Non-Appropriated Capital Improvements Projects for 2010-11 – There were 21 new or supplemental capital improvements projects at nine institutions totaling \$479,448,900 of which \$458,038,300 was projected to be indebtedness. It was also recommended that the Board approve borrowing to support three capital improvements projects at UNC Hospitals and approve, for advance planning only, three projects at UNCC and one at UNCP.

INSTITUTIONAL BORROWING

The Committee recommended:

- Special Obligation Bonds for NCSU and UNC-CH for participation in the Commercial Paper Program for certain projects approved by the 2009 Session of the General Assembly
- Sale of Special Obligation Bonds for ECU, NCSU, UNC-Chapel Hill, and UNCC
- Pooled Bonds -- ASU, ECU, and UNCW asked to be included in the eleventh pooled issue to provide bonds for new construction and to refund bonds previously approved and issued by the Board of Governors currently outstanding at higher interest rates.
- Associated Entity -- The establishment of Private Equity Fund II as a UNC-Chapel Hill associated entity and an educational program at the Kenan-Flagler School of Business without obtaining nonprofit tax-exempt status.

PROPERTY

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

- Items in Closed Session for ASU, NCSU, UNCA, UNCG, UNCSA, WSSU, and the NC Arboretum -- 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.
- Student Housing Arrangements for ASU, ECSU, NCCU, UNCG, and UNCP 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.
- Exchange of property between NCSU and the Endowment Fund of NCSU -- The exchange of approximately 17.5 acres would provide for the development of the Centennial Campus consistent with the master land-use plan.
- Adoption of a resolution which designated that “additional” University-owned real property and appurtenant facilities become part of the NCSU Centennial Campus
- Under delegated authority, the following were reported to the Committee: ASU (2 transactions), ECU (four transactions), NCA&TSU (one transaction), NCSU (five transactions), UNC-CH (four transactions), UNCC (one transaction), UNCG (three transactions), and WCU (one transaction).

OTHER ACTIONS

The Committee recommended:

- Hard waiver model to be used in the creation of an RFP seeking quality student health insurance at an affordable premium and that it be implemented in fall 2010
- Sustainable Practices policy to meet the UNC Tomorrow Commission’s recommendation that the University of North Carolina assume a leadership role in addressing the state’s environmental challenges

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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.

Allocation of Funds for Current Operations – 2009-10

Due to the economic crisis and resulting decreases in state revenues, the 2009 General Assembly made a number of reductions to the University's base (continuation) budget. Funds that had been provided by the Governor to cover continuation increases (to adjust for increases in the cost of providing ongoing services) were reduced by \$127,671,825. The federal government's 2009 American Recovery and Reinvestment Act (stimulus) made funds available to the State of North Carolina to assist in stabilizing education budgets. The General Assembly used \$137,815,944 of federal ARRA funds to offset the University's regular state appropriations in the 2009-10 budget. In addition to the ARRA funds for State Fiscal Stabilization, \$300,000 in nonrecurring ARRA funds was allocated to continue the coastal sounds wind energy study. The General Assembly fully funded the Board's request for enrollment funds of \$44,197,776 for 2009-10. The Committee recommended the following.

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<u>Request</u>	<u>General Assembly provided</u>	<u>Includes Nonrecurring Funds of</u>
Our Citizens & Their Future: Access to Higher Education	\$23,475,700	\$12,000,000
Increase Efforts to Recruit & Retain High-Quality Faculty	2,000,000	0
Our Global Readiness	300,000	0
Our University's Outreach & Engagement	251,500	0
Our Communities & Their Economic Transformation	14,500,000	500,000
Our Health	5,835,000	0
Total 2009-10 Expansion Budget	46,362,200	12,500,000

The Legislative Tuition Grant appropriation for Aid to Private Institutions was reduced from \$1,950 to \$1,850 per student for 2009-10.

The 2009 General Assembly specified Special Provisions as follows:

- Reduce Number of Courses UNC Faculty and Staff May Take Tuition-Free
- Eliminate Some Tuition Waivers
- No Special Talent Tuition Waivers for Student Athletes
- UNC Management Flexibility Reduction
- American Recovery and Reinvestment Act of 2009 Funds Appropriated
- Campus-Initiated Tuition Increases
- The Education Access Awards North Carolina Scholars Fund Reduce/Maximum Grant Awards for 2009-2010 Fiscal Year and Repeal EARN Scholars Funds in 2010-2011 Fiscal Year
- Codify and Increase UNC Undergraduate Tuition Surcharge
- Distinguished Professor Endowment Trust Fund/Prioritize Use of Funds
- Graduate Nurse Scholarship Program for Faculty Production/Revert Part of Fund Balance
- Use of Escheat Fund for Need-Based Financial Aid Programs
- Transfers of Cash Balances to the General Fund
- Transfer Funding to Roanoke Island Commission for Performing Arts
- UNC Center for Alcohol Studies
- Repeal Full Tuition Grant for Graduates of North Carolina School of Science and Mathematics Who Attend a State University
- Closing the Achievement Gap/Grants
- Enrollment Growth Reporting
- Coastal Demonstration Wind Turbines
- Establish Joint Legislative Study Committee on State Funded Student Financial Aid
- UNC Board of Governors Review Separation and Transition Policy for UNC Administrators

Budget Adjustment

The fall 2009 Enrollment Report indicated that East Carolina University had nonresident freshmen enrollment – for two consecutive years – that exceeded 18% of the freshmen class, an over-enrollment of twenty-six (26) nonresident freshmen students. The Board's policy [700.1.3] required a budgetary adjustment at the institution. The Committee recommended that the budget for the 2009-10 fiscal year for ECU be reduced by \$260,220. It was further recommended that the funds be reallocated to the Board's need-based financial aid program for resident students.

Authorization of Tuition and Fees for 2010-11

At its February meeting, the Committee recommended approval of the 2010-11 tuition and fees rates. Chancellors submitted tuition and fees rate increases consistent with the tuition and fees guidelines established by the Board of Governors in October 2006. The 2009 General Assembly established tuition rates for the University for 2010-11 that increased existing rates by the lesser of \$200 or 8%. This legislative increase was applicable to both resident and nonresident students at both the undergraduate and graduate levels. While the current law prohibited the Board of Governors from authorizing different 2010-11 tuition rates for North Carolina residents, the President recommended that the Board ask the legislature to consider an alternative to its action on 2010-11 rates when they reconvened in spring 2010, and accept the rates recommended by the Board. If the legislature would not change its position, the University would abide by the current law.

Budget Priorities for 2010-11

One of the principal responsibilities of the Board of Governors is to “develop, prepare, and present to the Governor and the General Assembly a single, unified recommended budget for all of public senior higher education (G.S. 116–11(9)a).” The Board of Governors had an existing biennial budget priority list before the Governor and General Assembly for 2009-11. As was customary, the President and Chancellors revisited those items in preparation for the second year of the biennium.

The Committee recommended adoption of the adjusted 2010-11 Budget Priorities for presentation to the Governor and General Assembly for consideration during the 2010 legislative session. It was also recommended that the Vice President for Finance be authorized to make refinements to the request in the interest of accuracy and completeness.

Delegation of Allocations for 2010-11

At its June meeting, the Committee recommended that it be delegated the authority to allocate funds made available by the General Assembly, if the State budget was ratified prior to the August meeting of the Board. There would be a special meeting for this purpose and the entire Board would be invited to participate, either in person or via telephone.

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.

By June 30, 2010 at fiscal year end, all projects were completed, with the exception of the Digital Conversion at UNC-TV. \$2.491B or 99.6% of the program funds had been expended. The campuses worked diligently toward finishing the close-out process.

The low number of claims had been one of the successes of the program, with total claims of \$18.2M, .73% of the entire program. Paid claims totaled only \$1.5M, or .06%.

Since the beginning of the Bond Program, \$470M in contracts for both design and construction had been awarded to HUB firms: \$428M (16.8%) for construction and \$42M (14.6%) awarded to designers. Outreach efforts developed during the Bond Program continue on non-bond projects as a result of legislation [G.S 143-128.2] and the Board of Governor's policy regarding Equal Access in Construction Contracting adopted in September 2001. To improve HUB participation on non-bond projects, efforts focus on challenges facing HUB firms: bonding capacity, access to capital, and challenges implementing legislation requiring all HUB firms to be certified with the State of North Carolina in order to be counted toward participation goals [G.S.143-128.4(e)].

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 2009.

Allocation of Funds for Capital Improvements – 2009-10

The Committee recommended the allocation of funds for capital improvements. Senate Bill 202 allocated \$31,000,000 by special provision for Repairs and Renovations. For nonappropriated capital improvements projects, the 2009 General Assembly authorized \$214,891,500.

Other special provisions were related to:

- Center for Design Innovation and Winston-Salem State Amendments
- Transfer of Unencumbered Cash Balances in Various Capital Funds
- Amend COPS Authorization Language/Allow Police Operations Center at School of the Arts
- Amend COPS Authorization Language/Appalachian State University Property Acquisition
- Report on Status of Certain UNC Repairs and Renovations Projects
- Allow Joint Construction of Nanoscience Building and Research Building on the Joint Millennial Campus of North Carolina A&T State University and the University of North Carolina at Greensboro

Guaranteed Energy Saving Projects

G.S. 143-64.17F authorized state agencies to utilize guaranteed energy savings contracts as a method to reduce the state's increasing utility costs, improve efficiencies of operations, and reduce environmental impacts. The President's Advisory Committee on Efficiency and Effectiveness (PACE) and the UNC Tomorrow Commission also identified guaranteed energy savings projects as important tools to achieve facility efficiencies and proper environmental

stewardship. Furthermore, G.S.143-64.12 requires that all state buildings reduce energy consumption per gross square foot by 20% by 2010 and 30% by 2015 based on fiscal year 2002-2003 consumption. Finally, the UNC Sustainability Policy, adopted by the Board of Governors in October 2009, authorized the implementation of sustainable practices in buildings to meet or exceed statutory requirements to reduce energy and water use, while maintaining air quality and comfort and giving priority to the installation of high-efficiency equipment as part of an ongoing sustainability action plan.

Appalachian State University requested authority to establish a capital improvements project and to enter into a guaranteed energy savings contract to provide more efficient lighting and mechanical systems, upgrade building controls for mechanical and electrical systems, and add water conservation devices in 16 campus buildings, involving about 24% of ASU's approximately 4,579,471 square feet of space. The estimated cost of the project, including financing costs, was \$8,959,000 and would be financed with a tax-exempt loan to be repaid within twelve years from utility savings guaranteed to total at least \$9,000,000. After the debt was paid, the savings produced by the improvements, estimated to be \$615,000 per year, would continue to accrue to ASU and the State. The project was expected to reduce the current energy consumption of the 16 buildings by at least 26%.

North Carolina State University requested authority to establish a capital improvements project and enter into a guaranteed energy savings contract for improvements in energy efficiencies through new or enhanced digital building controls, replacing major inefficient mechanical systems which had exceeded their life cycle, new utility meters for reliable energy monitoring and management, improved lighting fixtures and occupancy sensors, solar hot water heating, improvements to heating and airflow and water conservation measures to reduce water and sewer costs on the campus. The estimated cost of the project to be financed was \$19.7 Million and would be financed with a tax-exempt loan to be repaid from utility savings. The first year guaranteed savings was \$1.58 Million, with a guaranteed savings at the end of the project of \$38 Million. These savings and avoided costs would continue to accrue to NCSU and the State after the term of the contract. The project was expected to reduce the current energy consumption in the 13 buildings by at least 37%.

The University of North Carolina at Wilmington had requested authority to establish a capital improvements project and to enter into a guaranteed energy savings contract to provide more efficient lighting, daylighting the top floor of Randall Library, replacing boilers in four buildings, refurbishing air handler units in two buildings, upgrading building controls for mechanical and electrical systems in seven buildings, connecting chilled water and hot water heating piping to the westside central plant underground distribution systems for five buildings, and replacing transformers in three buildings. Irrigation system optimization was also included and would help achieve water conservation goals. The estimated cost of the project to be financed was \$4,683,773 and would be financed with a tax-exempt loan to be repaid within twenty years from utility savings. After the debt was paid, the savings produced by the improvements, estimated to be \$590,000 per year, would continue to accrue to UNCW and the State. The project was expected to reduce the current energy consumption of 10 buildings by at least 36%.

Emergency Procedures

The Chancellors of North Carolina Central University, UNC Charlotte, and UNC-TV 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.

UNCC: UNC Charlotte had experienced the failure of the Hechenbleikner Lake dam, which impounded a large pond on campus and supported Broadrick Boulevard, a major traffic and pedestrian artery allowing students, faculty, staff, and visitors to enter and exit the campus.

UNC TV: The Director and General Manager of the University of North Carolina Center for Public Television invoked emergency procedures to make repairs from a lightning strike at UNC-TV's Concord transmitter site which created a fire in the station's transmitter building.

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.

ASU

New Fire Sprinkler System for Bowie Residence Hall and Eggers Residence Hall	\$ 901,065
Renovate and Expand the Beasley Broadcast Studio	3,194,236

ECU

Replace Residence Room Doors and Entry Doors of Aycock Residence Hall	564,000
Fire Alarm System for Aycock Residence Hall	339,000
Renovate Bathrooms in Fletcher Residence Hall	1,064,000
New Fire Sprinkler System for Fletcher Residence Hall	2,200,000

ECSU

Renovate the Auditorium in Moore Hall	500,000
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NCCU

Upgrade Campus Communication and Electrical Infrastructure and Renovate Space in the basement level of the Student Health Building to become the NCCU Campus Police Communications Center	744,000
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NCSU

Lath Shade House at the J.C. Raulston Arboretum	100,000
Renovate Room 2131 in the East Wing of D.H. Hill Library to be a Multimedia Room	235,000

UNC-CH

Renovate Space in the Medical Research B Building into a Crystallography and Protein Expression Core Laboratory	487,000
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UNCC

Replace the Failing Steam and Condensate Lines Serving the Cone University Center and King Building	750,000
Renovate 8,800 Square Feet on the Second Floor of the Student Activity Center for use by Intercollegiate Athletics	1,000,000
Improvements to the Clean Room and Laboratory Air Systems in the Optics Laboratory in Grigg Hall	600,000
Replace the Hazardous Pedestrian Bridge that Connected Parking Lot 8 with Scott and Holshouser Residence Halls	1,500,000

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UNCC (continued)

Additional Facilities for UNCC's Motorsports Engineering Program	\$ 4,500,000
Up-fit 3,000 Square Feet of Space to provide Bookstore and Café Services in the new Center City Classroom Building	1,000,000

UNCG

Renovate the Locker Room Facility on the First Floor of the Health and Human Performance Building	3,241,000
Quad Underground Utility Installation	3,000,000

UNCW

Marine Biotechnology Research Facility [Includes a \$15 million matching grant from the National Institute of Standards and Technology (NIST) - The grant was funded through the American Recovery and Reinvestment Act of 2009.]	30,000,000
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WCU

Safety and ADA Issues in Central Campus and Enhance Flow of Pedestrian Traffic	1,800,000
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Authorization of Non-Appropriated Capital Improvements Projects – 2010-11

The Board of Governors biennially adopts a six-year plan for capital improvements. The General Fund provides for projects directly related to teaching, research, and public service. Residence halls, parking decks, athletic facilities, and student recreation facilities are funded from non-General Fund sources and other receipts. The Committee recommended 21 new or supplemental capital improvements projects at nine institutions totaling \$479,448,900 of which \$458,038,300 was projected to be indebtedness. It was also recommended that the Board approve borrowing to support three capital improvements projects at UNC Hospitals and approve, for advance planning only, three projects at UNCC and one at UNCP. The projects would be forwarded to the General Assembly for authorization during the 2010 Session. The President of the University, or his designee, was authorized to make refinements to the request in the interest of accuracy and completeness.

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:

ASU

Steam Distribution/Return System – Reconstruction	\$1,750,000
Frank Residence Hall Renovation	20,000
Renovation of Welborn Cafeteria	2,500,000

NCCU

Pearson Cafeteria – Expansion	298,109
Master Plan Study	37,327
School of Nursing Building	500,000
2007 Repairs and Renovations	44,400
Emergency Project – High-Voltage Electrical Switchgear	25,364

NCSU

Williams Hall Laboratory Building – Comprehensive Renovation	15,000
Veterinary Medical Center	214,929

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NCSU (continued)

Facility Support Spaces	\$ 569,181
2007 Repairs and Renovations	25,811
Talley Student Center Addition and Renovations	2,500,000
J.C. Raulston Arboretum – Shade House	50,000
Centennial Campus Library	1,000,000
Lake Wheeler Field Laboratory – Research and Development Facility	150,000

UNC-CH

Bell Tower Development	150,000
Carmichael Auditorium Addition and Renovations	3,700,000
Bynum Hall Basement Renovation	65,000
Carolina North Hanger Replacement	563,279
Hinton James Residence Halls Sprinkler System	118,472
Energy Services Studies	360,000
Strategic Demand Side Energy Plan	11,090
Research Resource Facility	2,500,000
Oral Science Complex	54,565
Sports Medicine Facility	125,000

UNCG

Jackson Library Phase I Renovation	150,000
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UNCSA

Moore and Sanford Dorm Sprinkler and Window Replacement – Planning	60,522
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UNCTV

Digital Conversion General Fund	60,000
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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 2009-2010 fiscal year.

INSTITUTIONAL BORROWING

Commercial Paper Program – Special Obligation Bonds

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 the following projects, approved by the 2009 Session of the General Assembly. The Committee recommended approval and authorized the Vice President for Finance to use commercial paper bonds for the projects.

NC State Projects

West Lot Parking Deck (\$21,850,000)
Centennial Campus Enterprise Services Building (\$3,600,000)
Athletic Facilities Renovations and Expansion (\$11,500,000)

NC State Projects

Dining Facilities Improvements (\$5,000,000)
 NC State Creamery Building (\$4,100,000)
 Carmichael Complex Improvements (\$7,400,000)

UNC-Chapel Hill Projects

Residence Hall Fire Suppression Sprinkler System Installations (\$7,266,000)
 Carolina Inn Renovation (\$10,000,000)
 Dean Smith Student Activity Center Renovation and Expansion (\$7,500,000)

Special Obligation Bonds

The Board of Governors is authorized to issue special obligation bonds for capital improvements projects approved by the General Assembly. Although a specific source of funding is used by a campus when retiring these bonds, special obligation bonds are generally payable from all campus revenues excluding tuition, State appropriations, and restricted reserves. The following were issued in 2009-10.

UNC Charlotte: The issuance of bonds for new projects previously approved by the Board and the General Assembly would not exceed a par amount of \$58,100,000. The proceeds would be used to pay the cost of constructing a parking deck adjacent to the Laurel Residence Hall (\$39,100,000) to meet increased demand and to provide the next phase of planned student housing -- a 400-bed residence hall with apartment-style quarters, with some suite-style rooms and \$19,000,000 for a 1,200 space parking deck. The University intended to retire the debt with parking and housing receipts.

The Committee recommended that the Vice President for Finance be authorized to sell the special obligation bonds between the November 2009 and the January 2010 meetings of the Board. *Note: Bonds in the amount of \$49,770,000 closed on December 16, 2009.*

UNC-Chapel Hill: The issuance of bonds for new projects previously approved by the Board and the General Assembly would not exceed a par amount of \$300,000,000. These bonds would include amounts needed to refund indebtedness issued under the UNC-CH/NCSSU Commercial Paper program for these new projects. Proceeds of the 2009 bonds would be used to fund a combination of the below projects in a combination and in an amount not to exceed the individual project limits and not to exceed, in total, \$300,000,000.

Project	Not to Exceed Amount
Research Resource Facility	\$ 3,700,000
Rizzo Center	13,697,929
Residence College Phase III	1,255,639
Science Complex Phase I	14,199,361
Brinkhouse Bullitt – Translational Medicine	4,000,000
Carmichael Auditorium	26,500,000
Carmichael Residence Hall	6,800,000
Fetzer Gym Expansion	2,500,000
Genetic Medicine Building	24,212,902

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Project	Not to Exceed Amount
Old East/Old West	\$ 5,200,000
Rosenau Hall	1,650,000
Sports Medicine – Woollen Gym	8,000,000
Utility Infrastructure	90,402,308
Kenan Stadium Phase I	25,000,000
Science Complex Phase II	77,200,000
Bell Tower/Genomics	44,500,000
Dental Sciences Teaching and Learning Building	20,000,000

The issuance of bonds to refund all or a portion of prior revenue bonds issued on behalf of UNC-Chapel Hill, for interest savings, would not exceed \$100,000,000.

It was recommended that the Vice President for Finance be authorized to sell the special obligation bonds between the November 2009 and the January 2010 meetings of the Board.
Note: Bonds in the amount of \$210,540,000 closed on December 2, 2009.

East Carolina University: The issuance of bonds for new projects previously approved by the Board and the General Assembly would not exceed a par amount of \$38,700,000, with an expected issuance amount of \$32,000,000. The proceeds would be used to pay the cost of constructing new athletics facilities, including a track and field facility, a new women's soccer complex with seating for 1,000 spectators, a new team building with offices and support services for the "Olympic sports," a parking lot, and drainage improvements for the property. These improvements would be funded from a \$70 debt service fee previously approved by the Board of Governors. Funds would also be used to provide additional dining facilities and make improvements to Tyler Residence Hall, including fire suppression systems, complete bathroom renovations, asbestos abatement, and ADA compliance. The University intended to retire the debt for these improvements with dining and housing receipts.

It was recommended that the President of the University, or his designee, be authorized to sell the special obligation bonds between the April 2010 and the June 2010 meetings of the Board.
Note: Bonds in the amount of \$31,460,000 closed on May 26, 2010.

North Carolina State University: The issuance of bonds for new projects previously approved by the Board and the General Assembly would not exceed a par amount of \$85,000,000. These bonds would include amounts needed to refund indebtedness issued under the UNC-CH/NCSU Commercial Paper program for these new projects.

Proceeds of the 2010 bonds would be used to fund a combination of the below projects in an amount not to exceed \$85,000,000.

<u>Project Title</u>	<u>Not to Exceed Amount</u>
Terry Companion Animal Hospital	\$34,000,000
Student Health Center Expansion	10,900,000
West Lot Parking Deck	21,850,000
Dining Facilities Renovations and Expansion	5,000,000
Athletics Facilities Renovations and Expansion	11,500,000
Carmichael Complex Improvements	7,400,000

It was recommended that the President of the University, or his designee, be authorized to sell the special obligation bonds between the April 2010 and June 2010 meetings of the Board. *Note: Bonds in the amount of \$77,630,000 closed on April 28, 2010.*

Pooled Bonds

Three institutions (Appalachian State University, East Carolina University, and UNC Wilmington) asked to be included in the eleventh pooled issue to provide bonds for new construction and to refund bonds previously approved and issued by the Board of Governors currently outstanding at higher interest rates. The size of the bond issue was anticipated to be as follows:

ASU	Cone Residence Hall Renovation	\$ 9,000,000
	Kidd Brewer Stadium Improvements	<u>8,000,000</u>
	Total	17,000,000
ECU	Dowdy-Ficklen Stadium Improvements	\$ 18,200,000
UNCW	Student Recreation Center Expansion	\$ 35,000,000

While preparing for the issuance, the University would review all outstanding debt for potential savings from refunding. The refunding plan for the institutions would target a net present value savings of at least 2.0%.

The Committee recommended that the Resolution be adopted and that the Vice President for Finance be authorized to issue and sell bonds between the February 2010 and April 2010 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: Bonds in the amount of \$148,685,000 closed on March 31, 2010.*

Associated Entity

The Committee recommended that the Board of Governors allow the establishment of Private Equity Fund II as a UNC-Chapel Hill associated entity and an educational program at the Kenan-Flagler School of Business without obtaining nonprofit tax-exempt status.

In September 2006, the Board of Governors approved a request from the Kenan-Flagler School of Business of the University of North Carolina at Chapel Hill to establish three associated entities, the KFBSF Private Equity Fund I, L.P., the KFBSF Real Estate Fund I, L.P., and KFBSF, Inc., none of which had tax-exempt status at their time of establishment. The University of North Carolina Regulation #600.2.5.2[R] required that associated entities have not-for-profit corporate and tax-exempt status unless the Board of Governors approved otherwise. The non-profit corporation and two limited partnership investment funds for Kenan-Flagler School of Business were approved as associated entities without nonprofit tax-exempt status. They were educational programs of the Business School. Private Equity Fund I was fully invested.

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. Lease costs will be at market rate, subject to approval by the State Property Office, and accomplished within the guidelines, procedures, and policies of the North Carolina Department of Administration.

As requested by Boards of Trustees, the Committee recommended the following items in Closed Session.

ASU: acquisition of property to support construction of the new College of Education Building and future campus expansion

NCSU: a lease for an additional 10,000 square feet to support the research activities of the College of Engineering and private sector partners

UNCA: acquisition consistent with the Master Plan for campus expansion

UNCG: acquisition of two parcels as defined by the Master Plan

UNCSA: acquisition of a parcel to complete the site needed to build the Film School Production Design Facility

WSSU: acquisition of a parcel for campus expansion and another for the Center for Design Innovation

NC Arboretum: acquisition by deed to protect from encroaching development

Ground Lease Transaction

The Board of Trustees of the University of North Carolina at Chapel Hill requested to ground lease 3.4 acres of state-owned land to The Educational Foundation, Inc. for the time required to complete the Kenan Stadium Improvements Phase 2 project. This would involve demolition of the Student Athlete Development Center, Kenan Field House and Kenan Stadium Southeast and Southwest Toilet Towers to accomplish the Phase 2 project.

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.

ASU

In 1999, the Appalachian Student Housing Corporation was organized as a non-profit entity whose purpose was to support and aid Appalachian State University by providing modern residential facilities to students.

In August 2009, the Board of Governors approved Appalachian State University's request to lease State land to the Appalachian Student Housing Corporation (ASHC) for the purpose of constructing student housing and enter into a long-term lease to acquire up to 400 beds of student housing from ASHC.

In April 2010, the Committee recommended approval of: (1) the use of a wholly-owned subsidiary of ASHC (a single-member LLC to be created by ASHC) to consummate the transactions, (2) an increase in the number of beds to be leased to 460, and (3) the authorization of agreements related to the construction of the facility.

ECSU

The Board of Trustees of Elizabeth City State University requested permission to acquire by lease off-campus housing for up to 250 students for the 2010 fall semester to address expected demand for housing. The lease would include an option to renew, on an as-needed basis, for the 2011 spring semester, the fall 2011 semester, and the 2012 spring semester.

On May 9, 2008, the Board of Governors approved the request of the Board of Trustees of Elizabeth City State University to lease up to 120 beds of student housing space, on an as-needed basis, for the 2008-09 academic year, with options to renew for the 2009-10 and 2010-11 academic years. The lease for the 2009-10 academic year, with an option to renew for 2010-11, would be at the Microtel Inn at the same rate-per-bed and term.

NCCU

In August, the Chancellor informed the President that emergency procedures were enacted to enter into lease arrangements for 300 beds to accommodate students requesting to live on campus for the fall semester because of an unforeseen increase in enrollment.

The NCCU Real Estate Foundation, Inc. was organized in 2002 as a non-profit entity to support and aid North Carolina Central University by providing modern residential facilities to students. In 2003, the Foundation acquired a site adjacent to the NCCU campus and constructed a 408-bed student housing complex. In August 2009, the Committee recommended approval to lease the student housing complex (known as Eagle Landing) from the Foundation.

UNC Greensboro

The University of North Carolina at Greensboro requested approval to lease State land to the Capital Facilities Foundation, Inc., for the purpose of constructing student housing. The

University also requested approval to enter into a long-term lease to acquire approximately 400 beds of student housing from the Foundation when construction was complete.

In April, UNCG requested permission to acquire by lease off-campus housing for up to 500 students in any semester in multiple locations, as needed, over the next four years beginning in the 2010-11 academic year. The State Property Office would determine, by bid, the location and price of the housing each fall semester.

UNC Pembroke

In February 2003, the Board of Governors approved a lease for approximately 12 acres of land to The UNCP Foundation, Inc. (the Foundation) for a 30-year term. The Foundation subleased the land to a private developer who financed and constructed 216 beds of student housing.

In April 2010, the Foundation again was planning to construct a new suite-style residence hall facility that would provide 476 beds and approximately 194 parking spaces. The facility would be built within the 12 acres originally leased to the Foundation. The Committee recommended approval to enter into a long-term lease for the new residence hall facility, including parking when construction was complete, and to extend the existing ground lease to accommodate the proposed financing package.

Exchange of Property

The Board of Trustees of North Carolina State University had requested the approval of the exchange of property between NCSU and the Endowment Fund of NCSU. The exchange of approximately 17.5 acres between these two entities would provide for the development of the Centennial Campus consistent with the master land-use plan. The acreage to be exchanged was considered to be of equal value.

Centennial Campus – NCSU

General Statute 116-198.34(8a) empowers the Board of Governors to designate the real property and appurtenant facilities to be included as part of the Centennial Campus, the Horace Williams Campus, or a Millennial Campus.

The Committee recommended adoption of a resolution which designated that “additional” University-owned real property and appurtenant facilities become part of the NCSU Centennial Campus.

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.

APPENDIX G

ASU: disposition of real property by easement to allow for the widening of U.S. Hwy. 421 in Boone

ASU: disposition of real property by demolition of Coffey Hall and Home Management House to make way for the construction of the Center for Student Leadership and Excellence Development project

ECU: exchange of real property to facilitate the City's Intermodal Transportation Center to benefit ECU and future campus expansion

ECU: acquisitions of real property by deed for future campus expansion identified by the campus Master Plan (two different parcels)

ECU: acquisition of real property by gift to be used to provide temporary housing for guests of the university

ECU: disposition of real property by lease to allow emergency notification via text messaging to cell phones -- ECU, using a competitive process, selected a single vendor capable of configuring, installing and maintaining a Distributed Antenna System (DAS) that would eliminate dead zones or poor signal strength in campus buildings. The vendor would secure agreements for up to six cellular providers and the revenue stream from these subleases would be used by the vendor to purchase, install, and maintain needed equipment and pay for the use of ECU's fiber optic cable and electrical power system.

NCA&TSU: acquisition of real property by deed for future campus expansion as identified in the Master Plan

NCSU: reallocation of property between NCSU and the N.C. Department of Juvenile Justice and Delinquency Prevention to provide additional buffer from approaching development

NCSU: acquisition of real property by lease renewal for laboratory and office space for the College of Agriculture and Life Sciences' Center for Applied Aquatic Ecology

NCSU: disposition of real property by lease of office space to Talecris Biotherapeutics, Inc. to expand their research activities

Note: S.L.1998-159 enabled the Board to approve and execute a disposition of space by lease on the Centennial Campus for a term of 10 years or less and then report the lease to the Council of State, rather than secure the approval of the Council of State in advance. This change provided the University with the ability to execute leases on the Centennial Campus in a shorter time period than had previously been possible. On June 11, 1999, the Board authorized the Vice President for Finance to execute these leases.

NCSU: acquisition of real property by lease of classroom and office space for the College of Management's MBA program

NCSU: acquisition of real property by lease renewal for classroom and office space to support the teaching, research and extension activities of the College of Design - Prague Institute study abroad program in the Czech Republic

UNC-CH: disposition of real property by ground lease to allow for the construction of a 20,000 square foot, long-term stay facility (Ronald McDonald House)

UNC-CH: disposition of real property by demolition of Miller Hall to realize savings from not having to work around the building to accomplish their steam tunnel replacement project

UNC-CH: acquisition of real property by lease for retail space for the Ackland Art Museum's Gift Store and office space for the Equal Opportunity/ADA Office

UNC-CH: acquisition of real property by lease for office space for the UNC Carolina Population Center

UNCC: disposition of real property by easement to allow the installation of a secondary electrical service to Carolinas Medical Center - University

UNCG: acquisitions of real property by deed for future campus expansion identified by the campus Master Plan (two different parcels)

UNCG: acquisition of real property by deed to expand the Park and Ride Program

UNCG: acquisition of real property by lease of space for UNCG's North Carolina License Assessment Project

WCU: exchange of real property to allow the reconstruction and expansion of the existing Cullowhee Volunteer Fire Department station serving WCU and the local area in Jackson County

OTHER ACTIONS

Student Health Insurance

The Committee recommended that the Board of Governors approve a hard waiver model to be used in the creation of an RFP seeking quality student health insurance at an affordable premium and that it be implemented in fall 2010.

There was a wide variety of health coverage across the sixteen UNC campuses as well as a wide range of premiums. A request for proposal (RFP) was developed through extensive discussions with the UNC Student Health Center Directors and Vice Chancellors for Student Affairs, the N.C. Department of Insurance, and the N.C. Association of Independent Agents. The Chancellors and Chief Academic Officers were included in the discussion of the issues surrounding the RFP's design.

Sustainable Practices Policy

The Committee recommended approval of a Sustainable Practices policy to meet the UNC Tomorrow Commission's recommendation that the University of North Carolina assume a leadership role in addressing the state's environmental challenges. The practices, identified by the Sustainability Committee, would be applied to eight specific areas:

- Systematic Integration of Sustainability Principles
- Master Planning
- Design and Construction
- Operations and Maintenance
- Transportation
- Recycling and Waste Management
- Climate Change Mitigation and Renewable Energy
- Environmentally Preferable Purchasing (EPP)

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, 2008 through June 30, 2009 was recommended for approval at the November Board meeting.

In June, the Committee recommended the following:

RESOLUTION

WHEREAS, the people of North Carolina have been linked to higher education since North Carolina's first Constitution, adopted on December 18, 1776, which provided for one or more universities;

WHEREAS, on December 11, 1789, the North Carolina General Assembly ratified the Charter giving birth to the University of North Carolina, our nation's oldest state university;

WHEREAS, the University of North Carolina has a rich history in higher education and plays a vital role in the life of North Carolina and its citizens by providing educational opportunities, promoting an educated citizenry and conducting research that positively affects the lives of North Carolinians;

WHEREAS, the General Assembly of North Carolina has been a partner of the University and has historically provided funds that have helped the University maintain its premier role in higher education;

AND WHEREAS, the continued support of the people of North Carolina and the General Assembly of North Carolina is vital in order for the University to maintain its ability to meet the educational needs of the people of this State:

APPENDIX G

NOW, THEREFORE, BE IT RESOLVED by the Board of Governors of the University of North Carolina:

- 1. We express our appreciation to the North Carolina General Assembly and the people of North Carolina for their traditional financial support of the University;*
- 2. We understand the current difficult economic environment and the challenges it places on the General Assembly and the people of North Carolina;*
- 3. We recognize the principle of shared sacrifice necessary at this time and pledge to continue to promote fiscal responsibility and the efficient operation of the University;*
- 4. We express our appreciation and support for the North Carolina Senate's 2010-2011 budgetary allocation for the University within the Senate's budget proposal; and*
- 5. We are hopeful that the final budget passed by the General Assembly will provide the funding necessary to protect the role of the University and enable the University to continue its mission of providing affordable and quality educational opportunities to the citizens of North Carolina.*

Note: The Resolution was approved by the Board on June 11, 2010.

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

- Cost of Textbooks – Ideas from the Student Body Presidents
- Budget and Legislative Updates
- Sustainability Policy
- Responsibilities of the Committee on Budget and Finance
- UNC Charlotte – Update on the Football Program
- Tuition and Fees
- A Report on the Cost of Textbooks