

Minutes of the May 10, 2007 Meeting
of the Board of Governors' Committee on Budget and Finance

The Committee on Budget and Finance met in Board Room 1 of the General Administration Building in Chapel Hill, North Carolina on Thursday, May 10, 2007, at 2:00 p.m.

Members in attendance were: Mr. Bradley T. Adcock, Mr. Brent D. Barringer, Ms. Peaches G. Blank, Mr. R. Steve Bowden, Mr. F. Edward Broadwell, Jr., Governor James E. Holshouser, Jr., Mr. Peter Keber, and Mr. David W. Young. Other Board of Governors' members attending were Chair Jim W. Phillips, Jr., John W. Davis III, Phillip R. Dixon, Hannah D. Gage, Adelaide D. Key, G. Leroy Lail, Estelle Sanders, William G. Smith, and Priscilla P. Taylor. Others attending the meeting were President Erskine B. Bowles, Chief of Staff Jeffrey R. Davies; Vice Presidents Russ Lea, Robert O. Nelson, and Robyn R. Render; Associate Vice Presidents Ginger Burks, George Burnette, Laura Foxx, Shari Harris, David Harrison, and James O. Smith; Associate Vice President and University Property Officer Terrance Feravich; and Assistant Vice Presidents Claudia Odom and Jonathan Pruitt. Chancellors in attendance were: Kenneth E. Peacock (ASU), Steven C. Ballard (ECU), T.J. Bryan (FSU), James H. Ammons, Jr. (NCCU), Gerald Boarman (NCSSM), Anne Ponder (UNCA), James C. Moeser (UNC-CH), Philip L. Dubois (UNCC), Allen C. Meadors (UNCP), and Rosemary DePaolo (UNCW). Chair of the Faculty Assembly Brenda Killingsworth, Office of State Budget and Management Analyst Trey O-Quinn, Associate Vice Chancellor for Centennial Campus Development Bob Fraser (NCSU), Treasurer Kathy Hart (NCSU), and UNCP students Dwight Humphrey and Barry Burch, Jr. were also in attendance as well as members of the press.

Chair Bowden convened the meeting. The minutes of the meeting of March 15, 2007 were approved.

At this point, Vice President Nelson discussed the House Budget that had been released the day before on May 9, 2007. Comments were heard and questions were answered during this time.

1. Along with its biennial capital budget request, each state agency is required (G.S. 143.34.44) to submit a six-year capital improvement needs estimate to the Office of State Budget and Management and the General Assembly's Fiscal Research Division. These plans form the basis for current and future requests for capital projects. The University's six-year plan was reviewed and approved by the Board of Governors at its November 2006 meeting. Because the plans were developed during the summer of 2006, the Vice President for Finance recently asked the Chancellors to review their plans and submit any changes.

The Chancellors made changes to their plans to reflect updated cost estimates and revised enrollment projections as well as additional consideration had been given to the future mission and academic programs of the University. Appalachian State University, North Carolina Central University, and Winston-Salem State University revised their priorities to move classrooms and science facilities higher on their lists. Elizabeth City State University added a facility to complement its planned focus on programs associated with aviation and aerospace sciences. The University of North Carolina at Chapel Hill and the University of North Carolina at Wilmington added projects associated with medical and health education programs.

It was recommended that the 2007-13 Capital Improvements Priorities be updated and revised as requested.

On the motion of Ms. Blank, seconded by Mr. Young, the item was approved.

At this point, Chair Bowden called upon Chancellor Boarman and he presented an overview of the North Carolina School of Science and Mathematics. The Committee offered comments about NCSSM and questions were answered during this time.

2. At its March meeting, the Board of Governors adopted its plan for projects to be funded from non-General Fund resources during the 2007-08 fiscal year. At the request of the University of North Carolina at Pembroke, a project not in the plan was discussed at the meeting and committee members asked for additional information:

New Football/Multipurpose Tower - \$2,000,000: This project would provide an elevated, fully accessible building to support campus academic, recreational, athletic, and fund-raising activities. This facility, totaling 3,850 square feet, would include approximately 2,300 square feet built 36 feet above the ground and supported by steel pilings. The elevated space would house four 80 square-foot enclosed spaces with the remaining square footage left open to maximize flexibility. Approximately 260 square feet would be built on-grade to provide restrooms, elevator access, and an elevator equipment room. Adding to the cost of the facility was the inclusion of code-required fire protection sprinklers, an additional fire pump, two exit ways for fire safety, and an elevator. This facility would be used to support a number of events including the UNCP football program, UNCP spring commencement, marching band competitions, Student Government Association sponsored outdoor concerts, track meets, Special Olympics, and N.C. Senior Games. A plan showing completed and proposed projects pertaining to the football program was attached (Attachment A). The project would be financed from indebtedness to be repaid from a \$30 debt service fee. This project and the debt service fee had been approved by the Chancellor and the Board of Trustees pursuant with the Board's policy, including input and support from students. The impact on students would be the \$30 debt service fee. The debt coverage ratio for UNCP for 2005-06 was 1.43x and 1.56x in 2004-05. With the issuance of this debt, the ratio would remain above 1.4x.

Chair Bowden introduced Dwight Humphrey, President of the UNCP Student Government Association, and Barry Burch, Jr., Vice President of the UNCP Student Government Association. They spoke in support of the above project stating that it would add more activities to the campus life experience. They also spoke on behalf of the students in support of the \$30 debt service fee. Committee members added comments endorsing the leadership of Mr. Humphrey and Mr. Burch.

It was recommended that the above project be added to the list of non-appropriated capital improvements projects approved at the March meeting. On the motion of Mr. Adcock, seconded by Mr. Keber, the recommendation was approved. The project would be forwarded to the General Assembly for authorization during the 2007 Session.

3. The guidelines for Special Responsibility Constituent Institutions (SRCI) authorized the Board of Governors to set separate purchasing benchmarks for each SRCI at levels up to \$500,000. Essentially, each institution could secure goods and services for amounts not exceeding the established benchmark using institutional procedures rather than routing bids through the Division of Purchase and Contract in Raleigh.

Winston-Salem State University had conducted a self-assessment of its purchasing capabilities and, as a result of the assessment, requested an increase in its purchasing benchmark to \$350,000 from \$100,000. In accordance with the Board's guidelines, the Vice President for Finance had consulted with the Director of Purchase and Contract and the State Budget Officer to determine an appropriate benchmark for the institution.

It was recommended that the purchasing benchmark for Winston-Salem State University be set at \$350,000 effective July 1, 2007.

On the motion of Mr. Young, seconded by Mr. Barringer, the recommendation was approved.

4. In 2000, the UNC Bond Program was approved by the Board of Governors, the General Assembly, and a majority of the voters of North Carolina. Since that time, consistent with state law, and after approval by the Board of Governors and the General Assembly, changes had been requested and approved for 30 of the 318 projects in the program. As the program moved into its final stage, Elizabeth City State University, North Carolina Central University, and the University of North Carolina at Chapel Hill requested changes to four of their remaining projects.

Elizabeth City State University requested that up to \$2,400,000 be used for the renovation of the existing Mitchell-Lewis Residence Hall and the currently authorized new residence hall. Campus housing requirements and construction times indicated that the campus would be best served by renovating the existing Mitchell-Lewis Residence Hall and using any remaining funds for the replacement residence hall or other bond projects.

ECSU was also requesting that its Land Acquisition project be reduced in scope or cancelled and that any savings be used to support other bond projects. The campus had determined that it would be unlikely that suitable parcels would become available for purchase by the end of the bond program.

North Carolina Central University requested that up to \$2,300,000 be transferred from Hoey Building Renovation to two other bond projects: Pearson Cafeteria Expansion/Renovation and Repairs to Eagleson Residence Hall. Repairs to Hoey Building's roof were in progress and the remaining funds were not sufficient to fully renovate Hoey Building. Funds totaling \$1,000,000 were needed for Pearson Cafeteria to cover additional construction costs and a total of \$1,300,000 was needed for Eagleson Hall to address water intrusion in exterior walls discovered during construction. Hoey Building would be renovated from allocations from the Reserve for Repairs and Renovations over the next biennium.

The University of North Carolina at Chapel Hill requested that up to \$8,900,000 be transferred from Berryhill Hall Laboratory Building Renovation to two other projects: Berryhill Hall Replacement Planning and Mary Ellen Jones Building Renovation. The original Berryhill Hall project scope called for a comprehensive modernization to the classroom and teaching laboratory facility. Berryhill Hall was the primary education

building for the School of Medicine. Recently, the School of Medicine and the Carolinas Medical Center in Charlotte began studying the feasibility of a joint program which would allow growth in current student enrollment from 160 students to 210 students per class. The existing Berryhill Hall would not accommodate teaching and support facilities needed for expansion within its existing footprint. UNC-CH would use funds to plan for a replacement of Berryhill Hall, if space was needed for a larger medical school class. Funds would also be used to renovate research support space in Mary Ellen Jones Building to replace research support space currently located in Berryhill Hall.

It was recommended that the requests to modify bond projects at Elizabeth City State University, North Carolina Central University, and the University of North Carolina at Chapel Hill be approved and forwarded to the General Assembly for approval.

On the motion of Mr. Barringer, seconded by Mr. Young, the recommendation was approved.

5. General Statute 116-198.33(4) defines the real property and appurtenant facilities bounded by Blue Ridge Road, Hillsborough Street, Wade Avenue, and Interstate 440 as part of the Centennial Campus. This property, home to the College of Veterinary Medicine, the University Club, and the Agricultural Turf Grass Management Program, was also known as the Centennial Biomedical Campus (CBC).

The Board of Trustees of NCSU requested permission to execute three related transactions that would facilitate research partnerships and public/private development of approximately 20 acres of the 182-acre CBC.

Transaction One: This transaction would approve NCSU's Board of Trustees' request for a ground lease of approximately 20 acres of the CBC to the NC State Partnership Corporation (NCSPC). Wholly controlled by NCSU, the NCSPC would assign subleases to limited liability corporations (LLC) wholly owned by NCSPC. The LLCs would lease smaller parcels to private developers. The subleasing of the ground through the LLCs would allow NCSU to provide the assurances and meet the timing requirements that attracted private investment to the CBC while insulating NCSU from financial risk on a project-by-project basis. This initial ground lease to the NCSPC would be developed with the oversight of the State Property Office, approved by the Council of State, and executed by the Governor. It was expected that this lease would have a term of 99 years with no renewals and a \$1 cost for the term. Subsequent ground subleases of smaller parcels to the NCSPC-controlled LLCs would be developed by the NCSPC at market rates and with terms, including renewals, not exceeding the remaining years in the ground lease and would be approved by the NCSU Board of Trustees and the UNC Board of Governors, and executed by the Vice President for Finance. Per G.S. 116-36.5, any proceeds from the leases would be retained by the Centennial Campus Trust Fund for continued development of the Centennial Campus. Upon the expiration of this lease, the land and any improvements upon the land would revert to the State.

Transaction Two: The second transaction would approve NCSU's Board of Trustees' request to provide an assignable, reciprocal easement between the CBC and the NCSPC for the 20 acres noted in transaction one. This agreement would provide cross-access between the 20 acres and the remaining acreage on CBC for both parties and would provide that all subleases assure initial and future partners the use of paved areas to access building sites and designated common areas. These easements would be incorporated into the subleases described in transaction one. There would be no additional charge for the easements and the term would not exceed the remaining years in the ground lease.

Transaction Three: The third transaction would approve NCSU's Board of Trustees' request to lease approximately 10,000 square feet of space in the first planned, but not yet constructed, collaborative research building on a 2.64 acre portion of these 20 acres. This space lease would allow the College of Veterinary Medicine (CVM) to relocate one off-campus research facility to a portion of the planned 44,500 usable square foot CBC Flex Laboratory Building. In order to facilitate research collaboration, the building would be located in immediate proximity to the current CVM Research Building and the proposed Companion Animal Hospital project. Leasing about 20% of the square feet, CVM would serve as the anchor tenant in this privately financed building. The planned building represented \$10.5 million of private investment in research and corporate collaboration space at the CBC. The cost of the lease would be approximately \$300,000 annually or a maximum of \$30 per usable square foot not including operating expenses. Tenant improvement allowances were currently stipulated at \$63 per square foot and would be negotiated with the developer. The initial term of the lease would be for ten years with a single, five-year renewal option. CVM research grant funds would support the cost of the lease.

This transaction, in whole and its parts, would be accomplished within the guidelines, procedures, and policies of the North Carolina Department of Administration and must be approved by the Council of State.

It was recommended that the requests of the Board of Trustees of North Carolina State University be approved and transmitted to the Council of State for final action.

On the motion of Mr. Broadwell, seconded by Mr. Adcock, the recommendation was approved.

6. 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 transaction was approved under this delegation and reported to the Committee on Budget and Finance.

The University of North Carolina at Chapel Hill – Acquisition of Real Property by Lease

Use:	Lease of office space for the School of Medicine's Children's Communication Disorder Program & Audiology Clinic
Owner:	Fortunes Ridge Associates
Location:	5501 Fortunes Ridge Road, Suites E, A, B, Durham, Durham County
Description:	Approximately 5,149 square feet of office space
Cost:	\$90,674 annually for the initial term (\$17.61 per square foot) with annual increases not to exceed 2%. Cost included utilities.
Term:	Five-year initial term with two, one-year renewal options
Funding	
Source:	Clinical receipts and grants
Approvals:	The UNC-CH Board of Trustees recommended this action on July 26, 2006.

After the action items, the Committee received the progress report on the UNC Bond Program. UNC-Chapel Hill had completed the Global Education Center (\$35M of which \$19.4M was bond), Wilson Labs Renovation Phase II (\$7.7M), Brauer Hall Dental Clinic Renovation (\$11.5M), and Burnett Womack Research Lab Renovation Phase II (\$36.5M of which \$26.8 was bond). UNC Charlotte had completed Rowe Classroom Building Modernization (\$4.9M) and East Carolina University had completed its East Campus Electrical Distribution Infrastructure project (\$1.9M). With the recent completion of the parking deck associated with the Central Library Complex, Appalachian State University had joined the NC School of Science and Mathematics on the list of those completing their programs.

Construction contract awards had been made at North Carolina Central University for the Pearson Cafeteria Addition and Renovation (\$12M) and at UNC Pembroke for the Lowry Classroom Building Renovation (\$1.9M) and the Business Administration Building Renovation (\$1M). The final bond sale had occurred with all funds now available to the institutions. More than 93% of the bond funds, amounting to \$2.3B were now committed under the program and over \$2B had been expended. 22 projects, totaling just over \$72M, remained to be bid. 29 out of 210 completed projects had been administratively closed out. Representatives from many of the campuses participated in the March symposium sponsored by the American Council of Engineering Companies titled "University Capital Project Delivery – Past/Present/Future" where break-out sessions focused on areas for improvement. Work groups were identified to continue the tasks begun in this forum. In partnership with the Department of Insurance, UNC sponsored a two-day seminar in April to provide an overview of the North Carolina Building Code to university staff engaged in maintenance and construction projects. Participation was capped at 50 to facilitate informal discussions. Interest exceeded that level and another class would be offered at a later date.

HUB Update: Since the last Budget and Finance Committee report, the quarterly report was provided to the Higher Education Bond Oversight Committee at its meeting on April 23. For the quarter reported, \$6.2M was awarded for construction contracts to HUB firms. This was 13% of the contracts awarded during that period. Roughly \$72M in projects remained to be bid. In order to maintain the 16.5% total HUB participation, a minimum of \$413M would need to be awarded to HUB contractors based on data to date. A minimum awarding of \$8M through the end of the Bond Program was required to maintain the 3.5% African American participation. Of the \$2.32B awarded, \$381M were HUB contract dollars. A concentrated effort was essential to maintaining current participation levels.

After the bond report, Vice President Nelson told the Committee that the Finance Division had begun a review of relative funding of the 16 constituent institutions. He briefly reviewed previous studies on the subject and noted that a national expert had been consulted. Mr. Nelson stated that Board members, CFOs, and Chancellors would all be asked for input and involvement as the review progressed. (Attachment B).

There being no further business, the meeting was adjourned.

Mr. R. Steve Bowden
Chair of the Committee
on Budget and Finance

Mr. Bradley T. Adcock
Secretary of the Committee
on Budget and Finance

Football/Multipurpose Tower, Masterplan

Project Name	Description	Estimate	Funding Sources	Estimated Start	Estimated Finish
PROJECTS COMPLETED OR IN PROGRESS					
Fieldhouse	Construction of Fieldhouse, Public Toilets	\$46,000	Gifts/Loan	Jun-06	Mar-07
Bleachers - west	Relocate East Bleachers to West Side	\$180,000	Private	Dec-07	Mar-07
Bleachers - east	Purchase and Install 1500 Seats of New Bleachers	\$600,000	Carryforward	As soon as carryforward is approved	5 months after start
Observation Tower	Schematic Drawings Phase Completed	\$2,000,000	Debt/Student Fee	Apr-07	Apr-08
PROJECTS PLANNED BUT NOT FUNDED:					
Fencing	Complete Fencing Isolation of Field	\$100,000	Private	When funds are available	to be determined
Concessions	Location to be determined	\$200,000	Private	When funds are available	to be determined
Ticket Booth	Ticket Booth - location to be determined	\$50,000	Private	When funds are available	to be determined
Entrance Gateway and Plaza	Create a more formalized and secure main entrance and a plaza area between the fieldhouse and bleachers	\$400,000	Private	When funds are available	to be determined
Additional 1500 Seats	Install an additional 1500 Bleacher Seats, Ramping, and Sidewalks	\$700,000	Gate Receipts and/or Carryforward	When attendance merits the need and when funds are available	to be determined
Additional Toilets Facility	Build a Second Public Toilet Facility for the Additional 1500 Seats per Code	\$850,000	Self Liquidating and/or Private Funding	Required when additional seating is installed	to be determined
Parking *	Develop Parking	\$600,000	Parking Receipts	Paving of an access road could take place summer 2009; parking area to be developed when appropriate land is acquired	to be determined

Notes:

*Parking is needed primarily for commuter and resident parking, but would also be used for game day and special events parking.

Source: Chancellor's Office, UNCP

4/16/2007

Discussion Item 1 – Evaluation of Relative Funding

Start Date	End Date	Activity	Responsible Person
		<p>There have been four known studies:</p> <ul style="list-style-type: none"> • First was conducted by the Board of Governors in 1990, General Assembly provided funding in 1993-95 biennium – \$2,050,000 (ASU, ECU, FSU, NCSU, UNCA, UNCC, and UNCW) • Second was study by MGT in 1995 and 1996 – 12 months to complete – \$21 M recurring appropriation in 1997-98 (ASU, ECU, UNCC, UNCG and UNCW) • Third was a study by the BOG in 2003-04 – 14 months to complete – \$8.4 M recurring appropriation in 2005-06 (ASU, UNCW) • Fourth was done during the development of the Tuition Plan and the 2007-09 biennial budget priorities by GA and Chancellors – faculty salaries at the 80th percentile and need-based financial aid request – \$87.8 M and \$54.8 M respectively 	
April 17, 2007	April 17, 2007	Meet with outside consultant	Finance
April 30, 2007	April 30, 2007	Share relative funding calendar with Chancellors at Administrative. Council Meeting	Nelson
May 10, 2007	May 10, 2007	Discuss with Budget & Finance Committee	Nelson
May 2007	July 2007	<p>Study of relative resource differentiation amongst universities, such as:</p> <ul style="list-style-type: none"> • Appropriations Per Capita • Expenditure Trends • Instructional Percentages – budget and expenditures • Other States / Systems • Peer Analysis • Total Funds Per Capita 	Finance
May 22, 2007	May 22, 2007	Discuss with Chief Finance Officers at CFO Meeting	Nelson/Finance
May 29, 2007	May 29, 2007	Discuss with Chancellors at Administrative Council Meeting	Nelson
June 7, 2007	June 7, 2007	Budget & Finance Committee Update	Nelson
July 2, 2007	July 2, 2007	Discuss with Chancellors at Administrative Council Meeting	Nelson
August	August	Discuss with Chief Finance Officers at CFO Meeting	Nelson/Finance
August 15	August 15	Report to President / General Administration Council	Nelson
Sept. / Oct.	Sept. / Oct.	Budget & Finance Committee Discussion and Final Report	Nelson

Related initiatives:

- a. PACE
- b. University of North Carolina Tomorrow
- c. Accountability measures
- d. Tuition and fee plan
- e. Board of Governors Budget Priorities Process