

Minutes of the October 11, 2007 Meeting
of the Board of Governors' Committee on Budget and Finance

The Committee on Budget and Finance met in the Board Room of the General Administration Building in Chapel Hill, North Carolina, on Thursday, October 11, 2007, at 1:00 p.m.

Committee members in attendance were Mr. Bradley T. Adcock, Mr. Brent D. Barringer, Ms. Peaches G. Blank, Governor James E. Holshouser, Jr., Mr. G. Leroy Lail, Mr. Ronald C. Leatherwood, Mr. William G. Smith, and Mr. David W. Young. Other Board of Governors' members attending the meeting were Jim W. Phillips, Jr., J. Craig Souza, R. Steve Bowden, Hannah D. Gage, H. Frank Grainger, and Charles H. Mercer, Jr. Others attending the meeting were Vice Presidents Rob Nelson and Leslie Winner; Associate Vice Presidents Ginger Burks, George Burnette, David Harrison, and James O. Smith; Associate Vice President for Finance and University Property Officer Terrance Feravich; Assistant Vice Presidents Claudia Odom and Jonathan Pruitt. Also in attendance were Chancellor Kenneth E. Peacock (ASU), Chancellor Steven C. Ballard (ECU), Chancellor Charlie Nelms (NCCU), Chancellor James C. Moeser (UNC-CH), Chancellor Philip L. Dubois (UNCC), Chancellor Patricia A. Sullivan (UNCG), Chancellor Allen C. Meadors (UNCP), Chancellor Rosemary DePaolo (UNCW), Chancellor John W. Bardo (WCU), and Chancellor Donald J. Reaves (WSSU). Chair of the Faculty Assembly Brenda Killingsworth, Associate Vice Chancellor for Centennial Campus Development Bob Fraser (NCSU), Director of Real Estate Ralph Recchie (NCSU), and Office of State Budget and Management Analyst Kristin Crosson were also in attendance, as well as members of the press.

The minutes of the meeting of September 6, 2007 were approved.

On the motion of Ms. Blank, seconded by Mr. Lail, it was recommended that agenda items 1 through 7 be approved by consent. The motion carried. Afterwards, several questions were answered about specific items. Details appear below.

1. In October 2001, the Board authorized North Carolina State University and the University of North Carolina at Chapel Hill to implement a commercial paper program allowing the periodic issuance of tax-exempt commercial paper bonds.

Commercial paper was short-term, unsecured debt issued in the form of promissory notes, and presented an alternative to borrowing from banks. A commercial paper program provided the issuer access to a flexible, low cost source of capital to provide bridge financing for projects. The program was established to fund previously approved projects, up to the authorized maximum amount. The bonds were issued by the Board of Governors but were an obligation of the constituent institution secured by available funds excluding state appropriations, tuition, and restricted gifts. Funds were drawn on an as-needed basis for capital expenditures. The short-term program was repaid with proceeds from a long-term bond issue, gift receipts, or other sources. By providing continual access to capital for construction projects, North Carolina State University and UNC-Chapel Hill had not been required to issue long-term debt as frequently as in the past and had had greater flexibility over the timing of bond issues. In addition, less frequent issuance of bonds reduced the costs of issuance and achieved more attractive debt service costs. Tax-exempt commercial

paper rates were often several percentage points lower than commercial bank loans.

North Carolina State University and the University of North Carolina at Chapel Hill 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 2007 Session of the General Assembly:

NC STATE PROJECTS

Companion Animal Hospital (\$34,000,000)
Residence Halls – Improvements and Infrastructure Expansion (\$13,000,000)

UNC AT CHAPEL HILL PROJECTS

College of Arts and Sciences – Digital Multimedia Center and Music Library (\$4,000,000)
Rosenau Hall Laboratory Building – Comprehensive Renovation (\$1,124,000)
Science Complex – Phase I (\$20,000,000)
Hanes Hall (\$750,000)
Genomic Sciences Building (\$12,500,000)
Electrical Infrastructure Improvements (\$9,300,000)
Information Technology Infrastructure Improvements (\$11,800,000)
Translational Medicine Program Facility Renovation (\$4,000,000)
Henry Stadium Renovation (\$2,000,000)
Carmichael Auditorium – Supplement (\$2,000,000)
Woolen Gymnasium – Supplement (\$2,000,000)
McColl Building Expansion and Renovation (\$6,500,000)
Bell Tower Development Parking (\$30,000,000)
Chilled Water Infrastructure (\$39,600,000)
Enterprise Administrative Systems (\$59,000,000)

It was recommended that the authorizing Resolution be adopted and that the Vice President for Finance be authorized to use commercial paper bonds for the projects listed.

2. The Chancellor of the University of North Carolina at Chapel Hill had informed the President of the need to invoke emergency procedures as allowed by G.S. 143-129 to make repairs by the quickest means possible for the following project.

On August 31, 2007, part of the UNC-CH law school was evacuated when a section of exterior brick veneer on the upper level of the original building buckled and windows cracked. No one was injured but four classrooms were taken off-line. The exact cause of the buckling was being investigated.

The Chancellor declared an emergency on September 5, 2007 to repair approximately 200 linear feet of exterior wall on Van Hecke-Wettach Hall to minimize further damage to the building and return the classrooms to use. It was expected that one, 50 foot long section of brick wall and associated windows would be replaced and that the support system for another three sections near the repaired section would be strengthened. Expansion joints would be added to the repaired wall sections. The project, estimated to cost \$250,000, would be funded from the Reserve for Repairs and Renovations.

In accordance with emergency procedures, the State Building Commission was notified.

3. The Board of Trustees of NCSU requested permission to execute a ground lease for the development of approximately seven acres on the Centennial Campus to support the activities of The American Home at N.C. State initiative, a partnership of public and private institutions seeking to be the premier research, education, and extension facility for housing in the United States.

The American Home at N.C. State initiative required that a simulated neighborhood of approximately five research and demonstration houses be constructed on a site located at the southwest corner of the intersection of Bilyea Street and Barbour Drive on the Centennial Campus, an area known as the Spring Hill Precinct. No one would live in the houses.

The project would be funded with a combination of cash and in-kind gifts. To facilitate these donations, NCSU would like to ground lease the site to American Home, LLC, which was wholly controlled by NCSU, to construct the houses and make site improvements.

The LLC would construct the demonstration houses with the help of its partners. Upon completion, each house would be donated to NCSU for use by The American Home at N.C. State initiative.

The ground lease to the LLC would be developed by the State Property Office, approved by the Council of State, and executed by the Governor; and it would have a term of five years with no renewals and a \$1 cost for the term. Upon the expiration of this lease, the land and any improvements upon the land would revert to the State. NCSU was working with state reviewing agencies to ensure that these working laboratory facilities met local, state, and federal code requirements.

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

4. The Board of Trustees of North Carolina State University had requested approval of the lease of space to MeadWestvaco Corporation on the Centennial Campus.

The requested lease would replace an existing lease of 65,000 square feet with a new lease for 100,000 square feet in Corporate Research I. The new lease would house MeadWestvaco's Center for Packaging Innovation. To accommodate the new lease, NCSU would use authority received in 2006 to construct and finance a 35,000 square foot addition to Corporate Research I. The initial term of the requested lease was 15 years with two, five-year renewal options. While contingent on the cost of the addition and tenant-requested improvements to the existing space, the initial annual rent was expected to be \$25.33 per square foot with annual adjustments thereafter. MeadWestvaco would be responsible for building operating costs including utilities.

It was recommended that the request of the Board of Trustees be approved and sent to the Council of State for final action.

5. The Board of Trustees of North Carolina State University had requested approval to acquire by gift a 172-acre farm located in Alamance County from the North Carolina Agricultural Foundation, Inc. for use by NCSU.

Located along Turner Road in Alamance County, the property was donated by Clark Buster Sykes to the Foundation in 2004. The Foundation had agreed to convey the property to the State of North Carolina, as a gift. The conveyance to the State would include a 40-year ground lease of approximately 18 acres to the State for the Wildlife Resources Commission for the purpose of public education by the Commission's Divisions of Inland Fisheries and Wildlife Management, and a 40-year ground lease of approximately 154 acres to Alamance County for the purpose of recreational activities by its Recreation Department. A 2005 appraisal valued the property at \$600,000. The Foundation would retain the timber management rights and any proceeds derived.

It was recommended that the request of the Board of Trustees be approved and transmitted to the Council of State for final action.

6. The Board of Trustees of Appalachian State University had requested approval and funding for the acquisition of three contiguous properties in Boone that would be used as the location for ASU's new College of Education Building. This accumulation of properties, estimated to cost \$4.3 million, was near the Belk Library and the Plemmons Student Union, on the north side of campus.

The first property, consisting of approximately 0.5 acre, had the intersection of College Street and Howard Street as its southwest corner and was the western most of the three properties. Formerly owned by Cottrell Enterprises Inc., the property was acquired by the ASU Foundation in March 2007 for \$1,950,000. The purchase price was \$1,950,000 plus closing and carrying costs incurred by the ASU Foundation, estimated to be \$7,000.

The second property, consisting of approximately 0.2 acre, was located at 607 Howard Street and was the middle of the three properties. Formerly owned by J.C. Boone and Ann Cottrell Boone, the property was acquired by the ASU Foundation in January 2007 for \$588,500. The purchase price was \$588,500 plus closing and carrying costs incurred by the ASU Foundation, estimated to be \$3,000.

The third property, consisting of approximately 0.3 acre, was located at 623 Howard Street and was the eastern most of the three properties. Formerly owned by Jack A. Underdown, Robert H. Ball, and Daniel J. Park, the property was acquired by the Endowment Fund of ASU in August 2007 for \$1,750,000. The purchase price was \$1,750,000 plus closing and carrying costs incurred by the Endowment Fund of ASU, estimated to be \$3,500.

All three properties had existing improvements that would be demolished so the land could be used to build the new College of Education Building. Funds for the proposed purchases were available from the University of North Carolina Reserve for Land Acquisition appropriated by the 2007 General Assembly.

It was recommended that the request of the Board of Trustees and the method of financing be approved and transmitted to the Council of State for final action.

7. 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.

North Carolina State University – Acquisition of Real Property by Lease

Use: Lease of classroom and office space for the Institute for Advanced Analytics
Owner: LGC Wireless, Inc. (Ian Sugarbroad, President and CEO)
Location: Venture III Building, NCSU Centennial Campus, Raleigh, Wake County
Description: Approximately 4,300 square feet of classroom and office space
Cost: \$78,833 (\$20 per square foot)
Term: Eleven months
Source: Institute operating funds
Approvals: The NCSU Board of Trustees recommended this action on September 21, 2007.

North Carolina State University – Acquisition of Real Property by Deed

Use: Reallocation that would expand NCSU's Schenck Forest while providing a strategic barrier from development to preserve the forest's natural integrity and research uses
Owner: State of North Carolina for N.C. Department of Transportation
Location: Windy Woods Drive, Westridge Subdivision, Raleigh, Wake County
Description: Approximately 2.83 acres the City of Raleigh conveyed to the State for the future construction of the Duraleigh Connector
Cost: \$57,000 (\$20,142 per acre) which was half of the \$114,000 paid by the City of Raleigh to acquire the property in 1994
Source: Proceeds from the sale of the 1735-acre Hope Valley Forest property in Chatham County -- Proceeds were held in trust for the College of Natural Resources at NCSU by the North Carolina Rural Rehabilitation Corporation. The trust's current available balance was \$141,466.
Approvals: The NCSU Board of Trustees recommended this action on September 21, 2007.

North Carolina State University – Disposition of Real Property by Easement

Use: Easement to extend main electrical distribution service to new substation serving NCSU's Centennial Biomedical Campus
Grantor: State of North Carolina
Grantee: Progress Energy
Location: From Blue Ridge Road, eastward along the southern boundary of the Ramada Inn site to the Centennial Biomedical Campus
Description: Approximately 910 linear feet of a 70 foot wide easement or approximately 1.5 acres
Cost: \$0 as it benefitted NCSU
Approvals: The NCSU Board of Trustees recommended this action on September 21, 2007.

North Carolina State University – Disposition of Real Property by Demolition

Use: Four buildings at the Reedy Creek Laboratory located within the new right-of-way for the proposed Trenton Road primary electrical distribution line must be removed.
Owner: State of North Carolina
Location: Reedy Creek Field Laboratory

Description: A one-story, 2,484 square-foot fertilizer storage building constructed in 1974; a one-story, 2,501 square-foot crop drying building constructed in 1974; a one-story, 280 square-foot storage shed constructed in 1974; and a one-story, 312 square-foot sample drying building constructed in 1987

Cost: Progress Energy had indicated that it intended to pay for the removal and replacement of the buildings. Estimated cost to remove the buildings and restore the site was \$18,000. Estimated cost to replace the buildings was \$181,000.

Approvals: The NCSU Board of Trustees recommended this action on September 21, 2007.

Then Vice President Nelson presented the progress report on the UNC Bond Program. ECU's Old Cafeteria Renovation for Student Services/Academic Use (\$7M), NCA&T's Graham Engineering Lab Renovation (\$3.4M), and UNCP's Lowry Classroom Building Renovation (\$1.9M) had been completed since the Board's last report. Bond funds were now more than 96% committed with nearly 93% completed, closed out, or in land acquisitions. A meeting of HUB Coordinators was held on August 23 to share best practices as the institutions continued to focus on reaching participation goals in the last stages of the bond program. The United Minority Contractors of North Carolina (UMCNC) demonstrated their contractor's database as a tool for identifying competent minority subcontractors that firms might use. As of this report, the total construction dollars awarded to HUB contractors since the beginning of the Bond Program had reached \$404 million. Construction-Manager-at-Risk projects continued to exceed single prime participation levels. Twenty-two percent of the contracts had been awarded to HUB contractors. The 22% was comprised of 5.7% for African American, 11.4% for Women-Owned businesses, and 4.9% for other HUB ethnic classifications. Two new HUB Academies had begun at UNC Charlotte and UNC Wilmington. Additional training was planned for the next few months on contractual agreements, dispute resolution, and pay applications. The training would be held in conjunction with the Raleigh Business Technology Center, a resource center for HUB contractors.

After all agenda items were completed, Chair Adcock called on Vice President Nelson to review the Tuition Policy and the Board's Four-Year Tuition Plan. Mr. Souza asked the Finance Division to draft and circulate before the November meeting language that could be shared with students and others as a disclosure of tuition predictability. Chair Adcock also asked Mr. Nelson to update the committee about on-going analyses of base level funding. Mr. Nelson stated that the Chancellors were reviewing a comparison of funding levels of UNC institutions and their Board-selected peers. The Chancellors would discuss the analyses in more detail at their October 29 meeting. Mr. Adcock urged Chancellors to provide their comments to Vice President Nelson and President Bowles.

There being no further business, the meeting was adjourned.

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

Ms. Peaches G. Blank
Secretary of the Committee
on Budget and Finance