

Minutes of the June 12, 2008 Meeting
of the Board of Governors' Committee on Budget and Finance

The Committee on Budget and Finance met in the Board Room of the UNC-General Administration Building, Spangler Center, in Chapel Hill, North Carolina, on Thursday, June 12, 2008, at 2:30 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. Necessarily absent was Mr. J. Craig Souza. Other Board of Governors' members attending the meeting were Chair Jim W. Phillips, Jr., Laura W. Buffaloe, Frank Daniels, Jr., John W. Davis III, Ray S. Farris, Hannah D. Gage, Charles A. Hayes, Adelaide Daniels Key, Cheryl Ransom Locklear, and Estelle W. Sanders. Others attending the meeting were Chief of Staff Jeffrey R. Davies, Vice Presidents Laura B. Luger and Robert O. Nelson; Associate Vice Presidents Ginger Burks, Shari Harris, David Harrison, David A. King, and James O. Smith; Associate Vice President for Finance and University Property Officer Terrance Feravich; and 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), Chief Operating Officer George Burnette for Chancellor John Mauceri (NCSA), and Chancellor Anne Ponder (UNCA). Provost and Vice Chancellor for Academic Affairs Joan Lorden (UNCC), Chair of Faculty Assembly Brenda Killingsworth and Chair-elect Judith Wegner were also in attendance as well as members of the press.

Chair Adcock convened the meeting. The minutes of the meeting of May 8, 2008 were approved.

1. Each year when the General Assembly passes its budget, the Committee on Budget and Finance recommends allocations of funds made available by the General Assembly to the Board of Governors. It was uncertain when the General Assembly would pass its 2008-09 biennial budget, but it was anticipated that the budget could be in place before the Board met again in September.

It was recommended that the Committee on Budget and Finance be delegated the authority to allocate funds made available by the General Assembly, if the State budget was ratified prior to the September 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.

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

2. The Board of Governors is authorized to issue special obligation bonds for capital improvements projects that have been 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 backed by a pledge of campus revenues, excluding tuition and State appropriations.

North Carolina State University requested that the Board issue special obligation bonds not to exceed \$112,000,000 for the purpose of (a) financing the costs of constructing, renovating, equipping and furnishing the educational, housing, athletic and recreational facilities of the NCSU campus, (b) the refunding of indebtedness issued consistent with the UNC-CH/NCSU Commercial Paper Program, the proceeds of which were used to pay a portion of the costs of the 2008 projects, (c) the refunding in advance of their maturities of additional revenue bonds issued for the benefit of the University when sufficient net present value savings to the University were achieved, and (d) paying the costs incurred in connection with the issuance of the 2008 Bonds. Approximately \$75.5 M would refund indebtedness issued through the Commercial Paper Program, \$21.5 M would be for new construction, and \$15 M would refund NCSU's portion of the UNC pool bonds issued in 1998 and 2000 when net present value savings to the University were achieved.

The 2008 bonds would be issued for the following projects previously approved by the Board of Governors and the Legislature:

Projects	Not To Exceed Amount
Derr Track, Softball, and Soccer Complex	\$5.5 M
Carter Finley Stadium Improvements / Expansion	\$19.9 M
Residence Halls - Improvements	\$37.9 M
Student Fitness Center	\$11.0 M
Thompson Theater - Renovation and Expansion	\$11.7 M
Centennial Campus Infrastructure	\$9.0 M

It was recommended that the Resolution be adopted and that the Vice President for Finance be authorized to sell the special obligation bonds between the June 2008 and September 2008 meetings of the Board.

On the motion of Mr. Lail, seconded by Ms. Blank, the recommendation was approved.

3. Previously, the Board of Governors issued variable rate general revenue bonds on behalf of North Carolina State University (North Carolina State University at Raleigh Variable Rate General Revenue Bonds, Series 2003B) and The University of North Carolina at Chapel Hill (The University of North Carolina at Chapel Hill Variable Rate General Revenue Bonds, Series 2001C). Both issues were remarketed by UBS Securities LLC. Recently, UBS announced it would exit the municipal finance business. Both NC State and UNC Chapel Hill had requested authority to replace UBS as the remarketing agent on the variable rate bonds described above and appoint new remarketing agents.

It was recommended that the Board authorize the Vice President for Finance to take necessary actions to replace UBS and, after soliciting proposals, appoint new remarketing agents for the variable rate bonds described above, including executing and delivering new remarketing agreements.

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

4. The Board of Trustees of the University of North Carolina at Asheville had requested approval to accept a gift-in-place involving a ground lease of state-owned land for the construction of a track and field complex.

Located on the west side of the UNCA Track Facility, the project would include three buildings totaling approximately 1,815 square feet: a timing tower, a grandstand with bathrooms and press area, and a concession stand. The buildings would have brick and stone veneer with pitched metal roofs, solar domestic hot water, and radiant floor heat. The bathrooms and concessions would be used for track and field, baseball, and soccer events. The bathrooms and bleachers would be compliant with the Americans with Disabilities Act.

Construction would be accomplished by leasing approximately 1.4 acres to a local firm, NC Four C's, LLC (Raymond Chapman and Avery Cashion, managers), for the time required to complete the project. The improvements would revert to UNCA as a gift-in-place at the termination of the ground lease. Construction plans for the project would be developed to State and UNCA standards and would be reviewed and approved by the Department of Insurance and, if required, the Department of Administration.

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

On the motion of Ms. Blank, seconded by Mr. Leatherwood, the recommendation was approved.

5. The Board of Trustees of the University of North Carolina at Chapel Hill had requested approval to ground lease 2.7 acres of state-owned land to the Educational Foundation, Inc. for the time required to complete the Kenan Stadium Expansion, Phase 1 project.

Approved as part of the 2008 Non-Appropriated Capital Improvements request, the project would add two floors to the existing four floors in the west end zone to provide premium seating and private suites, additional restrooms, and office space for the football program. Contingent upon General Assembly approval, UNC-CH would issue up to \$50,000,000 in long-term indebtedness to refund the Foundation for the cost of construction. Both the Foundation and UNC-CH's Board of Trustees had approved the project, the ground lease, and the method of financing. Construction plans for the project would be developed to State and UNC-CH standards and would be reviewed and approved by the Department of Insurance and the Department of Administration. The improvements would revert to UNC-Chapel Hill at the termination of the ground lease.

After the completion of the renovation and improvement and acquisition of the project by the institution, and consistent with legislation approved by the General Assembly of North Carolina, UNC-Chapel Hill may provide for the operation and management of all or part of the renovated and improved portion of Kenan Stadium by contracting with the Educational Foundation, Inc., or any other special purpose entity created for that purpose.

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

On the motion of Ms. Blank, seconded by Mr. Lail, the recommendation was approved.

6. The Board of Trustees of the University of North Carolina at Chapel Hill had requested approval to renew leased space in three office buildings owned by the Endowment Fund of the University of North Carolina at Chapel Hill.

The lease would provide approximately 63,471 square feet of office space for various university departments including the Cecil G. Sheps Center for Health Services Research, Health Services, Human Resources, Highway Safety, the School of Medicine's Heart Failure Center, the Institute on Aging, and the Survey Research Center. The annual lease cost as proposed was \$19.50 per square foot and the initial annual cost was \$1,237,684. The rental rate would increase 3% annually beginning in year two of the five-year, non-renewable lease. The properties were located at 720, 725, and 730 Martin Luther King Jr. Boulevard in Chapel Hill; the university currently occupied this space under a prior lease. Lease payments would be funded from overhead receipts and did not include utilities and janitorial services.

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

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

7. The University of North Carolina at Chapel Hill had forwarded information for consideration and approval by the Board of Governors for three temporary construction easements, two permanent easements (for a sidewalk and drainage area), and one permanent right-of-way easement (for a drainage swale) to East West Partners Management Company, Inc., a Chapel Hill-based development company, in connection with their East 54 mixed-use development project currently being constructed near the intersection of Hwy. 54 and Finley Golf Course Road in Chapel Hill. The easements would allow the developer to comply with Town of Chapel Hill and NC DOT requirements. The President of East West Partners, Roger Perry, was also Chair of the Board of Trustees at UNC-CH.

The first temporary construction easement would be for a drainage swale and would comprise an area of approximately 0.33 acres. It would be located on UNC-CH property along Finley Golf Course Road. Project plans called for the widening of Finley Golf Course Road and the addition of a turn lane. NC DOT was requiring a new drainage swale. Upon completion of construction, a portion of this temporary easement, 0.18 acres, would become a permanent right-of-way easement and would be dedicated to NC DOT. No structures would exist in this right-of-way.

The second temporary construction easement would comprise an area of approximately 0.34 acres. It would be located on UNC-CH property along Prestwick Road. The easement was needed to allow for improvements to Prestwick Road. Plans called for

replacing the existing gravel road with a widened paved road with curb, gutter, and a sidewalk. The temporary easement area would be used for the purpose of raising the grade level to meet the new improvements. Upon completion of construction, two portions of this temporary easement area would become permanent easements dedicated to the Town of Chapel Hill. The first portion, 0.02 acres, would be used to build a small section of the new sidewalk along Prestwick Road that did not fit within the current right-of-way area. The second portion, 0.009 acres, would be used to build a 20'x20' stormwater drainage holding area.

Detailed construction plans, including plans for clearing and re-landscaping, would be submitted to UNC-CH for review and approval prior to the issuance of these easements.

As the planned improvements along Finley Golf Course Road and Prestwick Road benefited UNC-CH with improved safety, improved landscaping along Finley Golf Course, and with improved storm water management for their property, the State Property Office had indicated that they would not require the developer to provide additional compensation for the total of 0.21 acres of State property that would be encumbered by the permanent easements.

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

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

8. The University of North Carolina-General Administration requested authority to lease newly constructed laboratory, office, and support space at the North Carolina Research Campus in Kannapolis from Castle & Cooke North Carolina, LLC for use by North Carolina State University and, as space permitted, by other UNC institutions and partners.

The lease would provide UNC campuses with full use of an approximately 100,000 square-foot building to be known as the North Carolina State University Fruits and Vegetables Institute. The lease would be for a single 20-year term after which the leased facilities would be gifted to the State for use by the University. The base lease cost was expected to be \$3,025,000 per year, or \$30.25 per square foot, and did not include utilities, custodial services, and other operational costs as identified in the November 30, 2006 Memorandum of Understanding. The base lease cost would not increase over the term of the lease and payments would be met with appropriations and other funds budgeted and available for this purpose.

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

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

9. 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 reported to the Committee on Budget and Finance.

Appalachian State University – Acquisition of Real Property by Gift

Use: To support the programs, partnerships, and activities of the North Carolina Center for Engineering Technologies in Hickory, North Carolina
Owner: The Board of Trustees of the Endowment Fund of Appalachian State University
Location: 1990 Main Avenue SE, Hickory, Catawba County
Description: 3.17 acres with a 56,000 square-foot classroom and laboratory building
Cost: \$0 (estimated value of the gift was \$1,500,000)
Source: N/A
Approvals: The ASU Board of Trustees recommended this action on March 18, 2008.

East Carolina University – Acquisition of Real Property by Deed

Use: Future expansion of the campus consistent with the ECU Master Plan
Owner: East Carolina University Real Estate Foundation
Location: 920 East 14th Street, Greenville, Pitt County
Description: 0.23 acres with a 1,606 square-foot house and 909 square-foot detached apartment (both to be demolished)
Cost: \$165,000
Source: Auxiliary Overhead Receipts
Approvals: The ECU Board of Trustees recommended this action on February 22, 2008.

University of North Carolina at Chapel Hill – Disposition of Real Property by Demolition

Reason: To provide for future site development and construction of buildings for Carolina North
Owner: State of North Carolina
Location: Northeast corner of Municipal Drive and Martin Luther King Jr. Boulevard in Chapel Hill, Orange County
Description: The buildings constructed and financed by the Town of Chapel Hill as its Public Works and Transportation Complex would be demolished over time as needed. None of the buildings were of historical significance. There were a total of five Public Works Buildings: Public Works Administration (1,800 SF, 1978), Public Works Garage 1 (8,250 SF, 1978), Public Works Garage 2 (6,000 SF, 1978), Public Works Modular Office and Lounge (2,100 SF, 2000) and Public Works Operation Offices and Work Bays (8,150 SF, 1991). There were a total of three Transportation Buildings: Transportation Administration (1,980 SF, 1986), Transportation Operations and Garage (19,500 SF, 1980), and Transportation Tire Storage (315 SF, 1980).
Cost: Estimated cost to demolish the eight buildings was \$492,000 and would be funded from institutional trust funds.
Approvals: The UNC-CH Board of Trustees recommended this action on May 22, 2008.

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

Use: Future expansion of the Cogeneration Facility consistent with UNC-CH's Master Plan
Owner: Stanley Holdings LLC (Manager: Patricia Stanley)
Location: 435 McCauley Street and adjacent to the Cogeneration Facility, Chapel Hill, Orange County
Description: 0.59 acres without improvements
Cost: \$102,000
Source: Utility receipts
Approvals: The UNC-CH Board of Trustees recommended this action on May 22, 2008.

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

Use: To lease office space for the UNC-CH Institute for the Environment
Owner: To be determined by bid
Location: To be determined by bid
Description: 4,166 square feet of office space
Cost: Not to exceed \$81,237 for the first year (\$19.50 per square foot) not including utilities and custodial services, with increases not exceeding 3% annually
Term: Five years
Source: Facilities and Administrative receipts
Approvals: The UNC-CH Board of Trustees recommended this action on May 22, 2008.

After the agenda items, Vice President Nelson asked for any issues that members would like to review and discuss over the next several months in preparation for the FY 2009-10 tuition and fees process. Questions and comments were heard concerning fees and peers. Committee members asked Finance Division staff to present information in the fall concerning the impact of economic conditions on UNC students, including the availability and use of financial aid. Staff was also asked to review with the constituent institutions the impact of two years of fee increases limited to 6.5% by the Board's Four-Year Plan. Mr. Leatherwood asked staff to review and report to the Committee the UNC Code's policy on the use of fees as it related to administrative computing expenditures.

Next, the Committee received the UNC Bond Program update. An additional 31 projects had closed since the last report. A total of 145 projects had been administratively closed out. The largest contributors to this increase were NCSU and WCU with ten projects each closed during this period. Slightly more than 32% of bond funds were now in closed out projects, with almost 84% either closed, completed, or in land acquisitions. Almost 97.5% of the bond funds were committed by contract or already expended. The Bond program had experienced very few construction claims. Currently, there were slightly more than \$5.2 Million in claims or potential claims against the total \$2.5 Billion. Mutual efforts to improve the capital project process involving UNC, contractors, designers, and other State agencies continued to support a culture of teamwork and foster problem-solving before specific issues could become claims or lawsuits.

HUB Update: Limited opportunities remained to significantly increase the dollars awarded to HUB firms in the Bond Program. Efforts continued to focus on maintaining existing participation levels through the end of the program and increasing participation on all other capital projects.

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