

Minutes of the September 11, 2008 Meeting
of the Board of Governors' Committee on Budget and Finance

The Committee on Budget and Finance met in Board Room 2 of the UNC General Administration Building, Spangler Center, in Chapel Hill, North Carolina, on Thursday, September 11, 2008, at 3:00 p.m.

Committee members in attendance were Mr. Bradley T. Adcock, Ms. Peaches G. Blank, Mr. John W. Davis, III, Mr. T. Greg Doucette, Mr. Charles A. Hayes, Governor James E. Holshouser, Jr., Mr. G. Leroy Lail, Mr. Ronald C. Leatherwood, and Ms. Estelle W. Sanders. Other Board of Governors' members attending the meeting were Chair Hannah D. Gage, R. Steve Bowden, Gladys Ashe Robinson, Irvin A. Roseman, and William G. Smith. Others attending the meeting were Vice Presidents Rob Nelson and John Leydon; 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 President Jonathan Pruitt. Also in attendance were Chancellor Kenneth E. Peacock (ASU), Chancellor Steven C. Ballard (ECU), Chancellor Charlie Nelms (NCCU), Chancellor Linda P. Brady (UNCG), Chancellor Allen C. Meadors (UNCP), Chancellor Rosemary DePaolo (UNCW), and Chancellor Donald J. Reaves (WSSU). Chair of the Faculty Assembly Judith Wegner, Vice Provost for Student Affairs Kemal Atkins (ECU), Chief Finance Officer Gerald E. Hunter (WSSU), and Associate Vice Chancellor for Facilities Management Zack Abegunrin (NCCU) were also in attendance as well as members of the press.

Chair Lail convened the meeting. The minutes of the meetings of June 12, 2008 and August 6, 2008 were approved.

1. The Chancellors of North Carolina Central University, North Carolina State University, and Winston-Salem State University had 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 had been notified.

NCCU: On June 11, 2008, there was an electrical fire in the university's high-voltage electrical switchgear unit located on East Lawson Street. The fire was contained within the switchgear, but the unit was destroyed. There were no injuries reported. Approximately nine buildings were without power for five hours. On June 27, 2008, three additional switchgear units were damaged by fire, and on June 30, one additional unit caught fire. The failure of these five units left 50% of the campus without electrical power and the remainder of the campus experienced intermittent power outages. Educational instruction, freshmen orientation, and special events were cancelled. In addition, the lack of power and random power surges damaged research efforts, mechanical systems, and digital data storage and networking equipment. NCCU personnel worked with the State Construction Office, North Carolina State University, electrical engineers and contractors to assess the damage, identify causes, implement interim measures to restore campus electrical power, and develop a proper recovery plan. The project, estimated to cost \$1,814,000, would repair the electrical distribution system (\$233,500), install an uninterruptable power supply/power conditioning unit for the Information Technology Services (\$700,500), and

upgrade the emergency generator system serving campus research facilities (\$880,000). Funding for the project would be from Title III funds (\$1,168,000), Repairs and Renovations funds (\$587,000), and campus operating funds (\$59,000).

NCSU: Buckling masonry was observed on the exterior of the D.H. Hill Library and investigation revealed a structural failure of the support system for the brick masonry veneer on the south face of the building. NCSU took steps to ensure safety in and around the area of failure until repairs could be made. The project, estimated to cost \$400,000, would rebuild approximately 2,500 square feet of the south wall and be funded from Repairs and Renovations funds previously authorized by the Board. Funds had been reallocated from the contingency reserves of a number of on-going Repairs and Renovations projects. The reallocation would not affect the completion of the other projects.

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

2. The Chancellors of East Carolina University and Winston-Salem State University had informed the President of the need to invoke emergency procedures to immediately enter into lease arrangements to accommodate students requesting to live on campus for the fall semester because of an unforeseen surge of enrollment.

ECU: The North Carolina Department of Administration's State Property Office, using its emergency procedures, secured two leases in Greenville for the fall semester. Each lease could be renewed, on an as-needed basis, for the 2009 spring semester. The first lease was with The Bellamy, owned by Phoenix Greenville, LP (Manager: David C. Garrett, III), and would provide 116 beds at a cost of \$1,468 per bed per semester. The second lease was with North Campus Crossing, LLC (Manager: William G. Garner) and North Campus Crossing II, LLC (Manager: Amy Allston Wells), and would provide the 128 beds at \$1,729 per bed per semester. Estimated at \$391,600 per semester, the total cost of the two leases would be funded from student housing receipts. It was expected that the total cost of the leases would be completely offset by rents charged to the students living in these locations. Rents charged to the students would be consistent with comparable on-campus housing.

WSSU: The State Property Office, using its emergency procedures, secured three leases in Winston-Salem for the fall semester. Each lease could be renewed, on an as-needed basis, for the spring semester. The first lease with the Wingate Inn, owned by Southeastern Hospitality Hotels (Chairman: Don Gray Angell), would provide 129 beds at a cost of \$3,454 per bed per semester. The second lease with the Hawthorne Inn and Conference Center, owned by Wake Forest University Baptist Medical Center (CEO: John D. McConnell), would provide 75 beds at a cost of \$3,754 per bed per semester. The third

lease with the Brookstone Inn, owned by Southeastern Hospitality Hotels (Chairman: Don Gray Angell), would provide 46 beds at a cost of \$3,476 per bed per semester.

Rent charged to the students would be consistent with comparable on-campus housing rates. The total cost of the leases would not be completely offset by rents charged to the students living in these locations. Total requirements were estimated at \$1,119,000 (\$887,000 for the leases plus \$232,000 for on-site security and transportation). WSSU estimated the deficit to be \$601,000, which would be paid from available reserves in housing and dining operations and institutional trust funds.

Recognizing the negative impact on both academic and fiscal affairs that was caused by emergency arrangements to accommodate students requesting to live on campus, President Bowles had directed appropriate staff in UNC-General Administration and on the campuses to address the problem and produce guidelines and best practices to more appropriately address emergency housing needs before the start of the Fall 2009 semester.

3. 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.

East Carolina University – Acquisition of Real Property by Deed

Use: Parking and future ECU Steam Plant Expansion
Owner: East Carolina University Educational Foundation, Inc.
Location: 1310 East 14th Street, Greenville, Pitt County
Description: 0.53 acres with parking improvements
Cost: \$189,775
Source: Auxiliary Receipts
Approvals: The ECU Board of Trustees recommended this action on July 17, 2008.

The University of North Carolina at Greensboro – Acquisition of Real Property by Deed

Use: Future campus expansion identified by the campus Master Plan
Owner: Michael L. Barber
Location: 213 McIver Street, Greensboro, Guilford County
Description: Approximately 0.20 acres with a 2,763 square-foot, two-story house that would be demolished -- The property was within the boundaries of the National Register and UNCG had afforded the North Carolina Historical Commission the opportunity to comment with regard to such an undertaking.
Cost: \$265,000
Source: 2000 Higher Education Bond Funds
Approvals: The UNCG Board of Trustees recommended this action on September 6, 2007.

After the agenda items, Chair Lail asked Mr. Nelson to discuss responsibilities assigned to the Committee on Budget and Finance:

- Board of Governors Budget Request - On a biennial basis (odd numbered years), the Committee recommends a Budget Request that, when approved by the Board, is transmitted to the Governor and the General Assembly. The *Budget Request* is the mechanism for securing appropriations to support continuing operations, academic salary increases, new programs, and other expansions and

improvements. The *Budget Request* also presents University needs for capital projects. A *Supplemental Budget Request* is prepared by the Board in the even-numbered years.

- Budget Allocations - When the General Assembly appropriates new funds, the Committee recommends the allocations of those funds to the constituent institutions. The recommended allocations cover salaries, current operations appropriations, and capital improvement appropriations.
- Tuition and Fees - The Committee recommends tuition rates not inconsistent with actions of the General Assembly. Campus-initiated tuition increases are based on the recommendations of individual Boards of Trustees after an extensive and consultative campus process. The Committee further recommends student fees, again after an extensive process has been conducted at the campus and UNC-GA level.
- Authorization of New Capital Improvements Projects - Any project proposed by an institution that is to be financed from non-appropriated funds must be authorized by the Board of Governors. The Committee reviews the need for the project and the method of payment. The method of payment should be related to the project. For example, residence hall projects must be financed from residence hall reserves or borrowing to be retired from future residence hall rents.
- Approval of bank financing - The Committee recommends that the Board authorize Chancellors to secure bank loans to finance small projects or provide interim financing for large projects until revenue bonds are issued.
- Issuance of Revenue Bonds and Special Obligation Bonds - The Committee recommends that the Board sell bonds to finance large projects. Projects that are financed by issuing bonds are approved by the Board and subsequently approved by the General Assembly. The Board of Governors then sells the bonds.
- Reports, Special Studies and Policies - The Committee reviews reports and special studies that must be adopted by the Board of Governors as directed by the General Assembly. For example, the Committee conducted the capital study that ultimately resulted in the bond referendum approved by the voters in November of 2000. The Committee also recommends University policy on financial matters, e.g., implementation of budget flexibility.
- Leases - The Committee recommends leases of property with the University system. Many University programs operate in leased space. The University also leases property to non-University organizations, e.g., Centennial campus leases.
- Property Acquisitions/Dispositions - University property acquisitions/dispositions are recommended by the Committee to the Board of Governors.

Ms. Harris then discussed the bond update. Since the Board's last meeting in June, major projects had been completed at a number of campuses, including ECU (Belk Building Renovation, \$5.7 Million), ECSU (Lane Hall Renovation, \$2.3 Million), FSU (Spaulding Old Infirmary Renovation and Conversion, \$1 Million), NCA&T (Zoe Barbee Residence Hall Renovation, \$5.1 Million), NCSU (Williams Hall Renovation, \$2.9 Million and Polk Hall Renovation, \$14.8 Million), UNCA (Math and Science Multimedia Building, \$22.6 Million), UNC-CH (Science Complex Phase II, \$31.9 Million), UNCC (College of Nursing and Health Professions Building, \$27.5 Million), and UNCG (Aycock Auditorium Renovation, \$17.9 Million and Alumni House Renovations, \$4.9 Million).

The program had exceeded \$2.23 Billion (nearly 90%) in projects completed or closed out, with little remaining under construction or design. ASU, ECU, UNCA, UNCC, WSSU, NCSSM and the NC Arboretum had completed their construction programs. Campuses were continuing to focus on final close-outs, with more than \$1 Billion in bond dollars or 42% of the program now administratively closed. Claims continued to be exceptionally small for such a program, with only about \$1 Million (.047%) remaining in currently pending claims.

In response to the Board's request, the General Assembly authorized scope changes for projects in the UNC Higher Education Bond Program on the campus of the University of North Carolina at Chapel Hill. The change reduced the scope of the "Berryhill Laboratory Building–Comprehensive Renovation" by \$8,600,000 and transferred the funds to a new project titled "Division of Laboratory Animal Medicine–Upfits." Including this change since 2001, the General Assembly had supported all 34 requested changes that had helped the campuses align their program with current needs.

HUB Participation Update: The UNC system historically underutilized business (HUB) participation for the Bond Program continued to exceed the 10% state goal. As of this report, \$418.8 Million or 16.7% had been awarded to HUB contractors. Participation on Non-Bond projects exceeded the 10% goal as well, with \$295.2 Million (17.7%) in contracts awarded to HUB firms.

Finally, Mr. Nelson reported on a legal analysis for the Educational and Technology Fee as prepared by Vice President Laura Luger.

The Educational and Technology Fee (E&T Fee) was created in 1993 as a "general fee" to ensure a consistent approach to student fees across the University system. According to the Board of Governors' study report issued in May 1993, the E&T fee was intended to "be deposited into each institution's academic budget code and would replace the revenues generated from previously existing course and special fees."

University Policy 1000.1.1 governed the establishment of tuition and fees. "Tuition . . . was used to partially defray the costs of general academic and administrative operations of campuses, including academic programs and faculty and administrative salaries and benefits." Fees, in contrast, were "charged for limited, dedicated purposes" and were not intended to cover those expenses covered by tuition. The Policy explained that "institutions traditionally rely entirely on student fees to finance a number of activities, services and facilities." The E&T fee was among four general fees applicable to all students. The other three were athletic, health services, and activity fees. These "general fees" applicable to all students were distinguishable from "special fees" that were "applicable only to students engaged in particular activities or courses of study..." Thus, the Policy made clear to students and their families that they were responsible for various general fees, but it did not require specific enumeration of the costs that the fees would defray.

The State Auditor focused on the description of the E&T fee set out in The University of North Carolina Chart of Accounts, revised as of May 2007. The E&T fee was described on page 44 of that document, not with reference to the guiding University Policy 1001.1.1. The description in the Chart of Accounts appeared to narrow the breadth of use of the E&T fee permitted by University Policy. This was how it had been interpreted by the State Auditor. In fact, however, even in the Chart of Accounts, the phrase "data processing equipment" specifically contemplated the type of use to which the E&T fee was put by UNCG. Funding implementation of upgraded technology infrastructure and other technology projects applicable and beneficial to student services was just the sort of use for which this general fee was created. Here, UNCG accessed the E&T fee network access fund for a "limited, dedicated purpose," as the Policy allowed.

N.C. Gen. Stat. § 116-30.2(a) provided that as a "special responsibility constituent institution," UNCG, through its Chancellor, may expend monies appropriated to it so as to maintain and advance the programs and

services of the institutions, and may transfer appropriations between budget codes. Thus, the legislature had afforded campuses that qualified as special responsibility constituent institutions budget flexibility that allowed for reasonable discretion in application of budget codes. This flexibility extended to the use of student fees that were reflected in the same budget codes.

In conclusion, it appeared that the inconsistency between applicable University policy and the language adopted in the Chart of Accounts caused the State Auditor to question UNCG's use of the E&T fee as noted. This inconsistency would be corrected by the Vice President for Finance with a revision to the description relative to the E&T fee in the Chart of Accounts.

There being no further business, the meeting was adjourned.

Mr. G. Leroy Lail
Chair of the Committee
on Budget and Finance

Mr. Ronald C. Leatherwood
Secretary of the Committee
on Budget and Finance