

Minutes of the October 16, 2008 Meeting
of the Board of Governors' Committee on Budget and Finance

The Committee on Budget and Finance met in the University Center Multipurpose Room at Western Carolina University, in Cullowhee, North Carolina, on Thursday, October 16, 2008, at 1:30 p.m.

Committee members in attendance were Mr. John W. Davis, III, Mr. T. Greg Doucette, Mr. Peter D. Hans, Mr. Charles A. Hayes, Governor James E. Holshouser, Jr., Mr. G. Leroy Lail, Mr. Ronald C. Leatherwood, and Ms. Estelle W. Sanders. Necessarily absent were Mr. Bradley T. Adcock and Ms. Peaches G. Blank. Other Board of Governors' members attending the meeting were Chair Hannah D. Gage, Clarice Cato Goodyear, Fred G. Mills, and J. Craig Souza. Others attending the meeting were Chief of Staff Jeffrey R. Davies; Vice Presidents Laura Luger, Rob Nelson and Joni Worthington; Associate Vice Presidents Ginger Burks and James O. Smith; and Associate Vice President for Finance and University Property Officer Terrance Feravich. Also in attendance were Chancellor Steven C. Ballard (ECU), Chancellor Willie J. Gilchrist (ECU), Chancellor Charlie Nelms (NCCU), Chancellor Linda P. Brady (UNCG), Chair of the Faculty Assembly Judith Wegner, Chief Finance Officer Chuck Wooten (WCU), Chief of Staff Diane Lynch (WCU), Vice Chancellor for Advancement and External Affairs Clifton Metcalf (WCU), and members of the press.

Chair Lail convened the meeting. The minutes of the meeting of September 11, 2008 were approved.

1. The Board of Governors is responsible for the issuance of revenue and special obligation bonds to finance improvements on the campuses of the constituent institutions. In connection with all bond issues, the University had entered into various agreements with financial institutions to provide services to the constituent institutions, including remarketing agreements, commercial paper dealer agreements, standby bond purchase agreements, letters of credit reimbursement agreements, interest rate swap agreements, and agreements related to the investment of bond proceeds or reserves.

The financial markets were experiencing historic disruptions that were resulting in significant changes in the organizational structure and credit standing of many of the financial institutions with whom the University had entered agreements for financial services. It was necessary for the University to amend existing agreements, enter into new agreements, agree to the assignments of existing agreements, and otherwise take actions in response to changes in the financial marketplace. In some cases, such actions must be taken in a timely manner to protect the University's own financial standing.

It was recommended that the Board approve the Resolution which allowed the President of the University, acting in consultation with the Chair of the Board and the Chair of the Board's Budget and Finance Committee, to take such actions as appropriate and in the best interest of the University and its constituent institutions when necessary to respond to changing circumstances. The President would report all such actions to the Board in a timely manner, and no later than its next scheduled meeting.

On the motion of Mr. Leatherwood, seconded by Mr. Hayes, the recommendation was approved with a change that the Resolution would be effective for one year.

2. In 1999, the Board of Governors issued revenue bonds to fund the construction and equipping of Partners Building II and the relocation of utility easements on Centennial Campus at North Carolina State University. They were variable rate revenue bonds supported by a liquidity facility from Wachovia Bank and insured by Financial Security Assurance, Inc. (FSA). These bonds were remarketed by Lehman Brothers, and now by Barclays Capital. At the time the bonds were issued, NCSU entered into a swap agreement with Lehman Brothers for a majority of the bonds at a synthetic fixed rate of 4.57%. Due to general market turmoil over the last six months, including the market for variable rate revenue bonds, bond insurers, and the recent financial crisis, North Carolina State University had determined that it was in its best interest to refund the 1999 Bonds in the amount of \$11,200,000 and terminate the swap with Lehman Brothers. Under the swap documents and current market conditions, NC State would have to pay a termination payment estimated to be \$750,000 to terminate the swap. NC State intended to accomplish the refunding and the termination payment through the issuance of commercial paper within the existing commercial paper program with UNC-Chapel Hill (CP Program).

Pursuant to the bond documents establishing the CP Program, commercial paper bonds may only be issued to finance or refinance special obligation projects. Because the 1999 Bonds were issued before the General Assembly implemented the special obligation project process, it was necessary for the Board of Governors to now designate the refunding of the 1999 Bonds as a special obligation project.

It was recommended that the Board approve the Resolution refunding the 1999 bonds and designating it a special obligation project.

On the motion of governor Holshouser, seconded by Mr. Doucette, the recommendation was approved.

3. In 2001, the General Assembly and 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 is short-term, unsecured debt issued in the form of promissory notes, and presents an alternative to borrowing from banks. A commercial paper program provides 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 are issued by the Board of Governors but are an obligation of the constituent institution secured by available funds excluding state appropriations, tuition, and restricted gifts. Funds are drawn on an as-needed basis for capital expenditures. The short-term program is 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 have not been required to issue long-term debt as frequently as in the past and have had greater flexibility over the timing of bond issues. In addition, less frequent issuance of bonds reduces the

costs of issuance and achieves more attractive debt service costs. Tax-exempt commercial paper rates are often several percentage points lower than commercial bank loans.

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 2008 Session of the General Assembly:

NC STATE PROJECTS

Student Health Center Expansion (\$10,900,000)
Avent Ferry Administration Center Renovation (\$5,200,000)
Centennial Campus Tenant Space Renovations (\$10,000,000)
Collaborative Research Building I (\$35,000,000)

UNC AT CHAPEL HILL PROJECTS

Athletic Facilities Renovation and Expansion (\$7,023,000)
Carmichael Auditorium – Supplement (\$9,500,000)
Carmichael Residence Hall – Supplement (\$1,300,000)
Dental Sciences Teaching and Learning Building (\$26,000,000)
Fetzer Gymnasium Expansion (\$2,500,000)
Kenan Stadium Expansion, Phase I (\$50,000,000)
Mary Ellen Jones Animal Facility Renovation (\$10,000,000)
Medical Research Building D Renovation and Expansion (\$5,000,000)
Old East and Old West Residence Halls Improvements – Supplement (\$3,200,000)
Research Resource Facility – Phase III (\$8,600,000)
Woollen Gymnasium (Sports Medicine) – Supplement (\$1,500,000)
Chilled Water Infrastructure (\$6,000,000)
Cogeneration and Steam Infrastructure Improvements and Expansion (\$17,700,000)
Electrical Infrastructure Improvements (\$13,500,000)

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

On the motion of Mr. Davis, seconded by Mr. Doucette, the recommendation was approved.

4. The Board of Trustees of the University of North Carolina at Charlotte had requested the authority to establish a new capital improvements project.

The project would construct a 250-space parking lot on the west side of campus to serve the Harris Alumni Center (opened in 2007) and the Development Center (scheduled to open in June 2011). Work would include site improvements, paving, sidewalks, lighting, and emergency phones. The project, estimated to cost \$1,500,000, would be funded from parking receipts. The project was expected to be complete in January 2010.

It was recommended that this project be authorized and that the method of financing as proposed by the University of North Carolina at Charlotte be approved.

On the motion of Mr. Doucette, seconded by Mr. Hans, the recommendation was approved.

5. The Board of Trustees of the University of North Carolina at Greensboro had requested the authority to establish a new capital improvements project.

This project was the first phase of a planned five-phase renovation of the Jackson Library. Work would include improving the accessibility and circulation in the four-story section of the building built in 1950; renovating the basement level for the Government Information and Data Services Center, periodicals reading room, and library archives; and creating a Cyber Café. The library would remain open during all phases of the renovation.

The project, estimated to cost \$1,000,000, would be funded from available carry-forward funds (operating funds unexpended on June 30 and, pursuant to state law, are “carried forward” into the next fiscal year to support one-time expenditures).

It was recommended that this project be authorized and that the method of financing as proposed by the University of North Carolina at Greensboro be approved.

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

6. The Board of Trustees of the University of North Carolina at Chapel Hill had requested authorization to dispose of real property by demolition.

To construct the Imaging Research Building, which would house the Biomedical Research Imaging Center, UNC-CH needed to demolish the existing Medical Building A, an 8,609 square-foot building located on Mason Farm Road and built in 1969 and two, 655 square-foot portable office units. The demolition, which included asbestos abatement, chemical and medical waste mitigation, and contaminated soil removal, was estimated to cost \$250,000 and would be funded from the Imaging Research Building project budget.

The Imaging Research Building would be a 343,000 square-foot facility that would provide shared imaging research facilities and associated laboratory space to bring together basic science research investigators in an interdisciplinary and collaborative environment to rapidly develop proven treatments for cancer, study demographics, cancer prevention, and patient care research. This facility would serve as a collaborative state-wide resource serving researchers across North Carolina in a centralized facility which would handle the acquisition, processing, analyses, storage, and retrieval of images. Construction of the Imaging Research Building was expected to begin in May 2009.

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

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

7. The Board of Trustees of North Carolina State University had requested approval to sublease space to Dole Research within the North Carolina State Fruit & Vegetable Institute (F&VI) on the North Carolina Research Campus in Kannapolis, North Carolina.

This request would allow NCSU to sublease approximately 11,300 square feet of laboratory, office and support space in the F&VI to Dole Research (Owner: David H. Murdock). Locating Dole Research within the building would provide opportunity for joint activities between the research teams of Dole Research and NCSU's College of Agricultural and Life Sciences. The term of the requested sublease was for twenty years or the end of NCSU's lease of the F&VI from Castle & Cooke North Carolina, LLC, whichever came first. The annual base rent was \$43 per square foot and would not increase over the term of the sublease. Additional annual rent for operating costs would start at \$19.22 per square foot and would be adjusted annually based on projected operating costs. The total first full year of revenue was expected to be \$703,000. The revenue from this sublease would be applied to NCSU's rent and operating expenses at the N.C. Research Campus.

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. Hayes, seconded by Mr. Doucette, the recommendation was approved.

At this point, the Committee reviewed a report from the Commonfund Institute entitled "*Higher Education Price Index*" for the 2007-08 fiscal year and the requirements of the Board's Tuition and Fees Policy and its Four-Year Tuition Plan. Questions were answered by Finance staff.

After hearing the HEPI report, Budget and Finance Committee members discussed tuition. A moratorium on tuition increases for 2009-10 was suggested but no action was taken. The Committee reviewed the economic situation in North Carolina and learned that proposals for 2009-10 tuition increases would be submitted to UNC-GA in December for consideration in February 2009. The Committee decided to take no action on tuition and fees until they had the opportunity to evaluate data submitted by the campuses and to study the President's recommendations. Staff was instructed to consider the state's economy and its impact on students and their families when reviewing requests for campus-based tuition increases.

Mr. Nelson mentioned that a draft annual report of the Committee on Budget and Finance had been distributed in October, and in November, the annual report would be an action item.

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