

Minutes of the November 13, 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 General Administration Building, Spangler Center, in Chapel Hill, North Carolina, on Thursday, November 13, 2008, at 11:00 a.m.

Committee members in attendance were Mr. Bradley T. Adcock, Ms. Peaches G. Blank, 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. Other Board of Governors' members attending the meeting were Chair Hannah D. Gage, Brent D. Barringer, R. Steve Bowden, Frank Daniels, Jr., Phillip R. Dixon, Ray S. Farris, Dudley D. Flood, Ann B. Goodnight, Clarice Cato Goodyear, H. Frank Grainger, Adelaide Daniels Key, Charles H. Mercer, Jr., Fred G. Mills, Jim W. Phillips, Jr., Marshall B. Pitts, Jr., Gladys Ashe Robinson, Irvin A. Roseman, William G. Smith, Priscilla P. Taylor, and David W. Young. Others attending the meeting were President Erskine B. Bowles, Chief of Staff Jeffrey R. Davies; Vice Presidents Harold Martin, Steve Leath, Laura Luger, Alan Mabe, Norma Mills, Robert Nelson, John Leydon, Kimrey Rhinehardt, Andy Willis, and Joni Worthington; Associate Vice Presidents Ginger Burks, Shari Harris, David 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 Willie J. Gilchrist (ECSU), Chancellor James A. Anderson (FSU), Chancellor Stanley F. Battle (NCA&T), Chancellor Charlie Nelms (NCCU), Chancellor Gerald L. Boarman (NCSSM), Chancellor James L. Oblinger (NCSU), Chancellor Anne Ponder (UNCA), Chancellor H. Holden Thorp (UNC-CH), Chancellor Philip L. Dubois (UNCC), Chancellor Linda P. Brady (UNCG), Chancellor Allen Coats Meadors (UNCP), Chancellor Rosemary DePaolo (UNCW), Chancellor John Mauceri (UNCSA), Chancellor John W. Bardo (WCU), and Chancellor Donald J. Reaves (WSSU). Chair of the Faculty Assembly Judith Wegner was in attendance, as well as Richard Bostic of the Fiscal Research Division and Elizabeth Grovenstein of State Budget and Management, and members of the press.

Chair Lail convened the meeting. The minutes of the meeting of October 16, 2008 were approved.

1. It was recommended that the Committee approve the 2009-11 Budget Priorities. The 2009-11 Budget Priorities identified the additional operating and capital funds needed to carry out the highest priorities of the University of North Carolina, as defined by the Chancellors, the President, and the Board of Governors. Given the fiscal uncertainties created by recent worldwide credit and financial markets crises and the decline in state revenues, the University's 2009-11 budget request proposed the lowest percentage increase in more than 20 years. The percentage increase requested for operating priorities in 2009-10 was one-half that requested in 2008 (5.8% vs. 11.6%), and the increase requested for the second year of the biennium was even lower at 4.3%. By contrast, over the last three biennia, the University's requested budget increase had averaged 12.5% per year. Top priorities were improving campus safety and expanding student access. Another major component of the request was funding to recruit and retain high-quality faculty. Every

item proposed for funding responded directly to the recommendations of the UNC Tomorrow Commission.

Several Board members discussed the importance of the order of the priorities. On the motion of Mr. Leatherwood, seconded by Mr. Doucette, it was recommended that Priority No. 10 (Efficient Use of Available Resources – Continue Efforts to Establish Accountability and Performance Measures) be moved to the Priority No. 4 position, and each priority thereafter be shifted down one place. The motion did not carry. [Note: In the Board meeting on November 14, on a motion from the Audit Committee, the Board of Governors voted to change the order of priorities consistent with the motion made by Mr. Leatherwood.]

On the motion of Mr. Adcock to approve the item as written, seconded by Ms. Blank, the recommendation was approved. Mr. Leatherwood voted no.

2. North Carolina State University had requested the authority to establish a new capital improvements project.

This project would provide a new fire sprinkler system for all seventeen residence halls at E.S. King Village (built in 1959 and totaling 211,055 square feet). Work would include tapping the 12" water main on Ligon Street and extending fire suppression sprinkler system water distribution lines to all buildings. The phased project, to be completed by August 2012, was estimated to cost \$3,700,000 and would be funded from a combination of housing receipts (\$3,189,108) and funds appropriated in 2008 to install fire suppression sprinkler systems in existing residence halls.

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

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

3. The Board of Trustees of the University of North Carolina at Charlotte had requested the authority to establish two new capital improvements projects.

The first project would construct twelve regulation-size tennis courts for intercollegiate competition and a 3,200 square-foot building providing restrooms, locker rooms, coaches' offices, and storage. Work would include site improvements, court lighting, bleacher seating, required accessible parking, and fencing. The project, to be completed by March 2010, was estimated to cost \$4,000,000 and would be funded from private gifts.

The second project would replace an electrical duct bank that held two major circuits of the campus high voltage electrical grid. One circuit in this duct bank had failed and could not be repaired. This failure required switching to an alternate circuit which was now at maximum capacity. Should the second, 30-year-old circuit in the duct bank fail, 1/3 of the facilities on the main campus would be without power for an extended time. The campus estimated the probability of failure of the second circuit was high. The project was

estimated to cost \$1,000,000 and would be funded from a combination of repair funds, carry forward funds, and institutional trust funds.

It was recommended that these projects be authorized and that the methods of financing as proposed by the University of North Carolina at Charlotte be approved.

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

4. The Board of Trustees of North Carolina State University had requested approval to lease an additional 10,000 square feet of space in the Centennial Campus Laboratory Building that was being constructed to support the research activities of the College of Engineering.

Currently wet lab space available for research activities on the Centennial Campus was 100% occupied. Additional research space was needed to attract and retain quality faculty for the College of Engineering (COE) and to compete for research grants on the national level. Being built by the Keystone Corporation (J. Patrick Gavaghan, President) of Morrisville, North Carolina, the Centennial Campus Laboratory Building would provide 75,000 square feet of new wet lab and research space on land owned by the NCSU Endowment. NCSU had designated the COE as the anchor tenant for this facility. In early 2008, after receiving needed approvals, the COE committed to lease 10,000 square feet in the new building. At this time, the COE was seeking to lease an additional 10,000 square feet to support their research activities.

As with the earlier lease, the cost would be at market rate, subject to approval by the State Property Office, with an initial term anticipated to be ten years with one, five-year renewal option. Lease payments would be paid from facilities and administrative receipts. This lease would be accomplished within the guidelines, procedures, and policies of the North Carolina Department of Administration and would be approved by the Council of State.

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

5. 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 A&T State University – Acquisition of Real Property by Lease

Use:	Temporary lab and office space for the Joint School of Nanoscience and Nanoengineering (JSNN), a joint program of NCA&T and UNCG, while their permanent building was being constructed
Owner:	Gateway University Research Park, Inc. (John R. Merrill, Executive Director)
Location:	2901 East Lee Street, Greensboro, NC, Guilford County (Gateway University Research Park – South Campus)

Description: 4,300 square feet of commercial office space of which approximately 950 square feet would be renovated to lab space to meet tenant research requirements
Cost: Base rent would be \$64,500 annually (\$15 per square foot). Operating costs would be \$34,400 annually (\$8 per square foot). Lab upfit costs would be \$81,700 annually (\$19 per square foot). Costs would not be increased over the term of the lease.
Term: Three years
Source: JSNN Operating Funds
Approvals: The NCA&T Board of Trustees recommended this action on September 17, 2008.

North Carolina State University – Acquisition of Real Property by Lease

Use: To expand research and training activities in close proximity to the current Golden LEAF Biomanufacturing Training & Education Center (BTEC)
Owner: Keystone Corporation (J. Patrick Gavaghan, President) of Morrisville, NC
Location: Centennial Campus Lab Building on the northwest corner of Varsity Drive and Main Campus Drive, Centennial Campus, Raleigh, NC, Wake County
Description: 5,000 square feet of lab and office space
Cost: Market rate, subject to approval by the State Property Office
Term: Five-year initial term with two, five-year renewals
Source: Contract and Grants Receipts
Approvals: The NCSU Board of Trustees recommended this action on September 19, 2008.

North Carolina State University – Acquisition of Real Property by Lease

Use: To provide office space for up to 24 professional staff in NCSU's Office of Technology Transfer
Owner: Venture Center, LLC (Manager: MGRA Venture NC, L.L.C., managed by Chauncey C. Mayfield)
Location: Venture Center II Building, 920 Main Campus Drive, Centennial Campus, Raleigh, NC, Wake County
Description: 5,244 square feet of office space
Cost: To be negotiated, subject to approval by the State Property Office -- current rate was \$122,972 annually (\$23.45 per SF)
Term: Two-year initial term with three, one-year renewals
Source: Office of Technology Transfer Operating Funds
Approvals: The NCSU Board of Trustees recommended this action on September 19, 2008.

North Carolina State University – Acquisition of Real Property by Lease

Use: Additional office space for Ticket Office and Marketing/Promotions Office (Athletics Department) which were currently leasing space at this location
Owner: N.C.S.U. Student Aid Association, Inc. (Wolfpack Club)
Location: 5400 Trinity Road, Raleigh, NC, Wake County
Description: 3,000 square feet of office space
Cost: To be negotiated, subject to approval by the State Property Office
Term: Five years
Source: Athletics Department Receipts
Approvals: The NCSU Board of Trustees recommended this action on September 19, 2008.

North Carolina State University – Disposition of Real Property by Lease

Owner: State of North Carolina
Justification: Lease of student housing and organizational space to the Delta Epsilon Chapter at NCSU of the Sigma Chi Fraternity House Corporation as interim housing while their new facilities were constructed in NCSU's Greek Village redevelopment
Location: 2409 W. Fraternity Court, Raleigh, NC, Wake County

Description: 9,742 square-foot, two-story house built in 1964 with a 35-resident capacity
Term: One-year initial term with one, one-year renewal option
Rental Income: \$118,200 for the initial term -- Annual rent increase for renewal year shall be no more than 110% of the rent for the prior lease year with the limitation that the per-student dollar increase should not be any more than the average increase for students in comparable residence hall housings
Proceeds: Rental proceeds would be used for the operation of fraternity and sorority housing at NCSU.
Approvals: The NCSU Board of Trustees recommended this action on September 19, 2008.

6. It was recommended that the Annual Report of the Committee on Budget and Finance to the Board of Governors of the University of North Carolina – July 1, 2007 through June 30, 2008 be approved. This report was presented in October for Committee review and was presented at the November meeting for approval.

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

On the motion of Mr. Adcock, seconded by Ms. Blank, the Committee went into Closed Session to consult with our attorney to establish or instruct the staff concerning the negotiation of the price and terms of a contract concerning the acquisition of real property.

***** CLOSED SESSION *****

Discussion then turned to Guaranteed Energy Performance Contracts which involved the evaluation, recommendation and implementation of Energy Conservation Measures (ECMs). Payments for the identification, design, and installation of these measures were made over time from the energy savings generated, which were guaranteed to exceed the costs of the contract. ECMs could include the design, installation of equipment, repair and/or replacement of existing equipment. State law limited the term of the financing contract to 20 years or less. The University was authorized to execute and deliver, on behalf of the State of North Carolina, a contract to finance the costs of energy conservation measures. Currently the aggregate amount payable by the State, for all state projects under Energy Performance Contract (EPC) financing, was statutorily limited to not exceed one hundred million dollars (\$100,000,000) at any one time. The EPC process included a request for proposal, a short listing, and selection from state certified Energy Service Companies (ESCOs), and an investment grade audit provided by the ESCO. If the audit results were within 10% of the preliminary estimated savings, the institution could decide to proceed to request authorization from the Board of Governors. If the campus decided not to proceed and the results were within 10%, the ESCO would be reimbursed for reasonable cost the ESCO incurred to conduct the audit.

In May 2005, the Board of Trustees of the University of North Carolina at Greensboro requested authority to establish a new capital improvement project, Guaranteed Energy Savings Project, which included four buildings. The project was nearing completion and savings would be monitored, tracked, and reported when available. Currently, Appalachian State University, North Carolina State University, the University of North Carolina at Asheville, and Western

Carolina University were in the process of requesting proposals for energy performance contracts. The University of North Carolina at Wilmington was positioned to proceed with the investment grade audit, which would determine the scope and potential energy savings. The majority of the remaining campuses were identifying possible project opportunities, applying to the State Energy Office, selecting owner's representatives to guide them through the process, or preparing a request for proposal. Specifically, East Carolina University and North Carolina A&T State University were identifying potential projects; North Carolina Central University was in process of obtaining an owner's representative; Elizabeth City State University had selected an owner's representative to assist them through the process; UNC Chapel Hill had implemented a large number of energy and water savings measures through a comprehensive sustainability program and planned to move forward on this contracting mechanism once the campuses were enabled to retain the savings; and the North Carolina School of Science and Math was working with the State Energy Office to determine how the process would work for their campus. Finally, the University of North Carolina School of the Arts and Fayetteville State University planned to hire an Energy Manager to develop and manage the Energy Performance Contract, and the University of North Carolina at Charlotte was developing a request for proposal for an Energy Performance Contract.

Next, the Committee received the bond update. Since the last report to the Board, NCA&T had completed the Barnes Hall Lab Comprehensive Renovation (\$5.2 Million) and WCU had finished the Stillwell Lab Building Comprehensive Renovation (\$25.2 Million). Among the last major projects to be awarded, NCA&T's Cherry Hall Comprehensive Renovation was now under contract. The program continued its outstanding record of claims management. Settled claims were slightly more than \$1 Million to date, with another \$1.8 Million pending. The program had an extremely low claims rate by industry standards -- at 0.112% of the program value. The Higher Education Bond Oversight Committee met on October 13, 2008 and continued to provide valuable leadership and assistance in the successful completion of the bond program. Participation for Historically Underutilized Businesses (HUBs) on Bond Program projects was 16.5% and \$415.1 Million.

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