

**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**

EXECUTIVE SUMMARY

The Committee on Budget and Finance met nine times between July 1, 2007 and June 30, 2008. The Committee was composed of the following Board members: 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. The Committee elected Mr. Adcock as Chair, Mr. Young as Vice-Chair, and Ms. Blank as Secretary.

BUDGETS AND ALLOCATIONS, TUITION AND FEES

The Committee recommended:

- General Fund appropriations for a 4% average salary increase for faculty and other employees who were exempt from the State Personnel Act (EPA) as well as a 5% average salary increase comparable to that provided for public school teachers for all teaching employees of the North Carolina School of Science and Mathematics
- Allocation of funds provided by the 2007 General Assembly: \$35.6 Million for Need-Based Financial Aid fully funded from the Escheat Fund; \$53.9 Million for current operations which included nonrecurring funds of \$21.5 Million; \$48.3 Million for enrollment changes -- The 2007 Session also requested budget reductions in continuation budgets in the amount of \$49.7 Million for the system.
- 2008-09 Budget Priorities – for consideration during the 2008 legislative session
- Tuition and Fees for 2008-09 -- Chancellors submitted their requests consistent with the Four-Year Plan for Tuition and Fees approved by the Board at its October 2006 meeting.

CAPITAL IMPROVEMENTS

In November 2000, North Carolina voters approved a bond issue to provide \$2.5 Billion in State support for the first six years of the Board's ten-year capital plan. The Committee provided appropriate oversight for the bond program. Progress reports were received each meeting.

The Committee recommended:

- Allocation of \$133,149,000 provided by the 2007 General Assembly, as well as its authorization of the issuance of \$481,140,665 in Certificates of Participation
- Allocation of \$66,700,000 from the Statewide Reserve for Repairs and Renovations

- Allocation of \$334,681,000 for nonappropriated capital improvements projects
- 31 new or supplemental capital improvements projects at nine institutions totaling \$401,499,000 for authorization during the 2008 General Assembly

INSTITUTIONAL BORROWINGS

The Committee recommended:

- Use of proceeds of special obligation bonds for participation in the Commercial Paper Program for certain projects at NCSU and UNC-Chapel Hill approved by the 2007 Session of the General Assembly
- Special obligation bonds for North Carolina State University not to exceed \$112,000,000
- Special obligation bonds for UNC-Chapel Hill not to exceed \$315,000,000
- Pooled issue for six institutions (Appalachian State University, East Carolina University, University of North Carolina at Charlotte, University of North Carolina at Pembroke, Western Carolina University, and Winston-Salem State University) to provide bonds for new construction and to refund bonds previously approved and issued by the Board of Governors currently outstanding at higher interest rates -- The size of the bond issue was anticipated to be \$100 Million, with \$38.8 Million for refunding and \$61.2 Million for new construction.

PROPERTY

As requested by Boards of Trustees, the Committee recommended for North Carolina State University (two leases), UNC-Chapel Hill (two leases), and UNC General Administration (two leases).

As requested by Boards of Trustees, the Committee recommended the approval of acquisitions of property for Appalachian State University (one parcel), North Carolina State University (one parcel), UNC-Chapel Hill (two parcels), and UNC Wilmington (one parcel).

Under delegated authority, the following were reported to the Committee: Appalachian State University (one transaction), East Carolina University (three transactions), Elizabeth City State University (one transaction), N.C. A&T State University (one transaction), North Carolina Central University (four transactions), North Carolina School of the Arts (one transaction), North Carolina State University (11 transactions), UNC Asheville (one transaction), UNC-Chapel Hill (12 transactions), UNC Charlotte (one transaction), UNC Greensboro (one transaction), UNC Pembroke (one transaction), Winston-Salem State University (one transaction), and UNC General Administration (three transactions).

Leasing arrangements were approved for Elizabeth City State University, UNC Greensboro, UNC Wilmington, and Western Carolina University to enable the universities to meet housing demands associated with campus growth. The cost per bed would be consistent with the current

rate structure for comparable residence halls on campus and lease payments would be made from student housing receipts.

The following transactions were also recommended:

- ASU: ground lease to provide for stadium improvements
- NCSU: ground lease on the Centennial Campus for a simulated neighborhood of approximately five research and demonstration houses
- NCSU: lease of space to MeadWestvaco Corporation to construct a 35,000 square foot addition to Corporate Research I
- NCSU: acquisition by gift of a 172-acre farm located in Alamance County from the North Carolina Agricultural Foundation, Inc.
- UNCA: gift in place involving a ground lease for the construction of a track and field complex
- UNC-CH: ground lease for construction of a hangar at Raleigh-Durham International Airport to support the Medical Air program
- UNC-CH: a ground lease to the Robertson Scholars Foundation, Inc. for construction of a new building
- UNC-CH: ground lease to the Educational Foundation for the time required to complete the Kenan Stadium Expansion project

OTHER ACTIONS

The Committee recommended that an additional 13 acres be designated as part of WCU's Millennial Campus to accommodate the optimal placement of the town center (a hub with a series of functions, including food, retail, housing, and multi-tenant space).

The Committee recommended that the Annual Report on Budget Flexibility be eliminated.

The Committee received a report on the University's water conservation measures. In early October, President Bowles had requested that campuses take extraordinary steps to reduce non-essential water consumption among faculty, staff, and students.

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The Committee advises and consults with the Chairman and the President concerning budget policy and preparation; considers the budget proposed by the President, recommends modifications if needed, and approves the budget for consideration by the Board; makes recommendations to the Board for allocations of funds appropriated by the General Assembly; works with the Committee on Educational Planning, Policies, and Programs to ensure the proper funding of long-range objectives; and submits recommendations to the Board with respect to capital improvements projects, institutional borrowings, and property transactions, as well as other budgetary and financial matters within the jurisdiction of the Board of Governors.

BUDGETS AND ALLOCATIONS, TUITION AND FEES

During the year, the Committee made specific recommendations for consideration by the Board related to budget requests, allocations of funds, and the establishment of tuition and fee rates.

Academic Salary Increases

The General Assembly appropriated \$86,263,230 for Academic Salary Increases: \$67.4 Million for average salary increases of 4% for faculty and other employees who were exempt from the State Personnel Act (EPA); \$12.8 Million to move the average faculty salary at each campus closer to the 80th percentile of its peer institutions; and \$6 Million in nonrecurring funds for the Distinguished Professors' Endowment Trust Fund to provide state matching funds for a private Challenge Grant established by the Spangler Foundation to address the existing backlog of endowed professorships.

The General Assembly also provided an annual salary increase of 5% for teaching employees of the North Carolina School of Science and Mathematics.

Allocations of Funds for Current Operations

The 2007 General Assembly fully funded from the Escheat Fund the Board's request of \$35.6 Million for Need-Based Financial Aid. Other appropriations were as follows:

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<u>Request</u>	<u>General Assembly provided</u>	<u>Includes Nonrecurring Funds of</u>
Student Success and Retention and Graduation	\$ 5,393,000	\$ 2,200,000
Research	25,900,000	12,500,000
More and Better Teachers and Improved Schools	5,132,000	1,557,000
Healthcare	6,270,791	3,500,000
Regional and Statewide Economic Transformation and Competitiveness	8,600,000	500,000
Campuses Specializing in the Arts and Sciences	1,100,000	1,100,000
Disaster Recovery	640,000	
Affiliated Entities	899,857	160,000

The General Assembly fully funded the Board’s request of \$48,312,908 for enrollment changes, which included \$1,502,626 to “hold harmless” one institution (NCA&T) that would otherwise have been reduced.

Special appropriations totaling \$56,489,003 were directed to program areas not included in the Board’s Budget Priorities.

The General Assembly increased Aid to Students Attending Private Colleges and Universities by \$8,721,950 on a recurring basis.

The 2007 Session also requested budget reductions in the continuation budgets in the amount of \$49,794,901 for the system.

2008-09 Budget Priorities

In March, the Committee recommended the 2008-09 Budget Priorities for presentation to the Governor and General Assembly for consideration during the 2008 legislative session. While much of the budget was assembled prior to the UNC Tomorrow study, it was important to note that the budget priorities of the Board had been confirmed through that process, during which UNC heard from almost 10,000 North Carolinians about what *they* needed from *their* public university. The budget priorities as recommended reflected the findings and recommendations of the UNC Tomorrow Commission, all of which were critical to strengthening the competitiveness of *all* regions of our state in today’s knowledge-based global economy and improving the quality of life for *all* North Carolinians: increasing access to higher education, improving public education, health, outreach and engagement, global readiness, economic transformation and community development, and the environment.

At the Committee’s May meeting, it was recommended that the *Budget Priorities* be amended to: (1) adjust the request for the Center for Bioenergy Technologies at NCSU; (2) include funding to implement financial system improvements to provide a payroll system for nine campuses migrating off the state’s Central Payroll program; (3) revise the capital priorities to include the Upper Coastal Plain Higher Education Center; and (4) include a request for the Center for Applied Public Policy. It was noted that the Upper Coastal Plain Higher Education Center had been added at the request of the Governor.

Authorization of Tuition and Fees for 2007-08

The Committee considered tuition and fees together. Chancellors submitted their requests for tuition and fee increases consistent with the Four-Year Plan for Tuition and Fees approved by the Board at its October 2006 meeting. Constituent institutions were asked to limit the rate of annual increases for campus-initiated tuition for resident undergraduates to the maximum allowable amount computed for their campuses and to limit increases in their general fees to 6.5%. The Board's plan required campuses to set aside at least 25% of new tuition revenues for need-based financial aid and at least another 25% of tuition revenues to support bringing faculty salaries to the 80th percentile of its peers. Consistent with the Four-Year Plan, combined tuition and fee rates for resident undergraduates must be within the bottom quarter of each campus' public peers. The combined rates for non-resident undergraduate students should be below the top quarter of the same approved peer group. The uses of the revenues from these increases were in the best interest of the University.

The Finance Division staff were directed by the Budget and Finance Committee to draft language to be included with tuition bills that would properly inform students about the predictability of tuition and fees. Current legislation required that the following statement be provided to all students:

(Name of UNC Constituent Institution) is a publicly supported institution. Tuition payments and other required fees meet only a part of the total cost of education of students enrolled. On average, for each full-time student enrolled in an institution of The University of North Carolina, the State of North Carolina appropriated \$X,XXX per year in public funds to support the educational programs offered.

The Committee recommended that the following language be included as part of the tuition bill statement and provided to students attending UNC constituent institutions:

The University of North Carolina Board of Governors adopted a plan to make tuition and fee rates for undergraduate North Carolinians predictable and affordable. Pursuant to the Plan, the maximum rate of annual increase for campus-initiated tuition and general fees (Athletics, Health Services, Student Activities, and Educational and Technology Fees) for undergraduate resident students is 6.5%. Specific information, including maximum allowable increases in tuition and fees per academic year by UNC campus is available at www.northcarolina.edu/content.php/finance/index.htm. Students and parents can also find detailed information concerning the total cost of college at www.cfnc.org.

CAPITAL IMPROVEMENTS

Higher Education Bond Program

Senate Bill 912, 1999 Session, authorized the issuance of \$3.1 billion in higher education bonds subject to a vote of the qualified voters of the State. In November, 2000, upon the approval of a majority of voters, \$2.5 billion was made available to the University of North Carolina for capital improvements.

Senate Bill 912 required that the Board of Governors report annually on the bond program as well as on the condition of the University's capital facilities and proposed repair, renovation, and maintenance projects. The annual report was recommended for approval in September 2007 and transmitted to the Joint Legislative Commission on Governmental Operations and the Joint Legislative Education Oversight Committee.

At each of its meetings, the Committee received a progress report on the bond program. By June 2008, almost 97.5% of the bond funds were committed by contract or already expended. The Bond program had experienced \$5.2 Million in construction claims or potential claims against the total \$2.5 Billion. Efforts involving UNC, contractors, designers, and other State agencies continued to support teamwork and problem-solving before specific issues could become claims or lawsuits. The Committee received HUB updates each meeting. As of the June report, the total HUB participation for all bond projects was 16.6% and \$415 Million.

Meetings to share best practices continued with the Association of General Contractors, representatives of the architects and engineers, and the UNC Bond Alliance and Capital Project Coordinators.

The Higher Education Bond Oversight Committee held quarterly meetings. As more and more projects were completed, the Committee continued to be positive regarding the University's overall program progress and encouraged HUB participation on projects yet to bid. Meetings continued with the Department of Insurance and the State Construction Office in regard to legislation in House Bill 73 to reduce review times of construction drawings by review agencies.

UNC and the North Carolina Department of Insurance (DOI) hosted a training session that provided an overview of the North Carolina Building Code to representatives from across the institutions. More than 100 facilities planning, operations, and construction management staff across the State had now taken advantage of this training opportunity to enable them to work more effectively with project designers and DOI staff.

HUB Academies (a training program for HUB contractors) were completed at UNC Charlotte and UNC Wilmington. A joint Academy with Winston Salem State University and Goler Community Development Corporation was completed; HUB Academy II at North Carolina State University provided more technical and targeted training. Fayetteville State University's Contractor Academy completed in April 2008.

Allocation of Capital Improvements from the 2007 General Assembly

The Committee recommended the 2007 General Assembly’s appropriation of \$133,149,000 from the General Fund as well as its authorization of the issuance of \$481,140,665 in Certificates of Participation.

The Committee also recommended allocation of \$66,700,000 from the Statewide Reserve for Repairs and Renovations, and \$334,681,000 for nonappropriated capital improvements projects.

The General Assembly authorized scope changes for projects in the UNC Higher Education Bond Program on the campuses of Elizabeth City State University and North Carolina Central University.

	Decrease	Increase
Elizabeth City State University		
Renaming "Mitchell-Lewis Residence Hall – Replacement" to read "Mitchell-Lewis Residence Hall – Comprehensive Renovation"	–	–
Land Acquisition	\$ 650,000	–
Lane Hall Classroom Building – Comprehensive Renovation	–	\$ 600,000
Electrical Distribution System Upgrade	–	25,000
Campus Infrastructure Improvements	–	25,000
North Carolina Central University		
Hoey Building – Comprehensive Renovation	2,300,000	–
Pearson Cafeteria – Expansion	–	1,000,000
Eagleson Residence Hall – Comprehensive Renovation	–	1,300,000

Nonappropriated Projects for Authorization by the 2008 General Assembly

In February 2008, the Committee recommended the Kidd Brewer Stadium Improvements project for \$8,300,000 at Appalachian State University. In May, the Committee recommended 30 new or supplemental capital improvements projects at eight institutions totaling \$393,199,000. All projects were forwarded to the General Assembly for authorization during the 2008 Session. Each project was reviewed on the basis of its need and its benefit to the University, with a focus on each project’s alignment with the findings and recommendations of the UNC Tomorrow Commission. Projects were also evaluated on the impact of the project for benefits and costs to students, as well as the ability of the campus to pay for the project as requested without a negative impact on the institution’s credit rankings.

Emergency Projects

Chancellors informed the President of the need to invoke emergency procedures as allowed by G.S. 143-129 to provide for the following capital improvements projects. In accordance with emergency procedures, the State Building Commission was notified.

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UNC-CH: A project to repair approximately 200 linear feet of exterior wall on Van Hecke-Wettach Hall after a section of brick veneer on the upper level buckled and windows cracked -- estimated to cost \$250,000 -- funded from the Reserve for Repairs and Renovations.

NCCU: A project to replace the 41-year-old heating system and supporting electrical system in Baynes Hall -- estimated to cost \$390,000 -- funded from a combination of State operating funds and lapsed salaries funds.

UNC-CH: A project to replace 160 feet of failing 60-inch stormwater pipe just north of Ehringhaus Residence Hall -- estimated to cost \$1,700,000 -- funded from Institutional Trust Funds and 2007 Repair and Renovation Funds.

Authorizations of Capital Improvements Projects Not Requiring Action by the General Assembly

During the year, the Committee recommended that the Board approve the following capital improvements projects to be funded principally from nonappropriated funds.

ECU

Renovate Laboratory Space	\$ 725,000
Replace Windows, Upgrade Electric Distribution System, and Install Air Conditioning Units in Belk Residence Hall	938,000
Replace Existing Fire Alarm Systems in Jones Residence Hall and Garrett Residence Hall	569,000
Install New Fire Sprinkler System and New Fire Alarm System in Cotton Residence Hall and Fleming Residence Hall	1,074,650

NCCU

Renovate Four Classrooms in Farrison-Newton Communications Building	262,000
Replace Roof and Upgrade Heating, Venting, and Air Conditioning System in Elder Student Union Building	650,000

NCSU

Research Greenhouse at Partners II Building	295,000
Renovate and Provide Space to Grounds Facility at Sullivan Drive Operations Center	2,500,000
Research and Development Facility at Lake Wheeler Field Laboratory	300,000
Equipment Storage Building at Sandhills Research Station	60,000

UNC-Chapel Hill

Hangar at RDU Airport for Medical Air Program	3,000,000
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UNC Charlotte

Improvements at Baseball Stadium	2,500,000
Outdoor Student Recreational Facilities	4,000,000
New Fire Sprinkler System in Oak Hall	800,000
Facility to House the Development and Alumni Affairs Division	3,000,000

UNC-Greensboro

Replace Windows and Install New Fire Sprinkler System in Weil-Winfield Hall	1,692,700
New Fire Sprinkler System and Fire Alarm System in Jamison Residence Hall	945,000

Increases in Previously Authorized Projects

Capital improvements actions initiated throughout the year by the President pursuant to Board delegation are reported below. The following increases in previously authorized projects were approved:

Appalachian State University	
2005 Repairs and Renovations	\$ 140,000
2006 Repairs and Renovations	3,991,117
Bookstore Renovation and Expansion	67,834
East Carolina University	
Infrastructure – Repairs and Expansion	76,865
Scott Residence Hall Renovation	1,100,000
Todd Dining Hall Servery Modifications	725,000
Fayetteville State University	
Lilly Gymnasium – Renovation	500,000
North Carolina Central University	
Pearson Cafeteria – Expansion	1,000,000
Master Plan Study	37,800
North Carolina School of the Arts	
Renovation of DeMille Theatre	433,013
Joint Center for Design Innovation	158,125
North Carolina State University	
Riddick Lab – Comprehensive Renovation	21,278
Harrelson Classroom Building – Renovation	500,000
Paul Derr Track Complex	65,200
Veterinary Medical Center	61,070
Student Life Master Plan	5,500
D.H. Hill Library Multimedia Center	40,000
Teaching and Research Milking Parlor	250,000
2006 Repairs and Renovations	641,500
2007 Repairs and Renovations	394,952
Rocky Branch Bank Stabilization	741,433
Classroom Improvements	159,596
UNC Asheville	
Science and Multimedia Building	2,781,838
Relocate Physical Plant Facilities	65,000
UNC-Chapel Hill	
Science Complex – Phase II	1,589,746
Steele Building – Renovation	107,000
Hamilton Hall – Renovation	74,001
Storm Drainage Improvements	250,000
Residence Halls Improvements	1,670,000
Old East and Old West Renovations	2,200,000
Town of Chapel Hill – Stipulations	860,000
2005 Repairs and Renovations	1,192,161
Boshamer Baseball Stadium – Improvements	5,900,000
Carolina North Hanger Replacement	3,000,000
2006 Repairs and Renovations	8,000
Hinton James Residence Halls Sprinkler System	2,134,000

UNC-Chapel Hill (continued)	
Energy Services Studies	\$ 400,000
2007 Repairs and Renovations	1,500,000
Medical Research Building	720,078
Rosenau Hall Laboratory Building – Renovation	379,860
Burnett Womack Building Research Laboratory – Renovation	20,623
Beard Hall Classroom and Laboratory Building – Renovation	125,000
UNC Charlotte	
College of Nursing and Health Professions Building	419,121
Physical Plant and Campus Public Safety Facilities	3
Cone University Center Roof Replacement	1,550
Campus Master Plan Study	500,000
Sidewalk and Lighting Improvements	600,000
Oak Hall Fire Sprinkler	224,350
Center City Classroom Building (Non-COPS)	4,582,470
UNC Greensboro	
McIver Classroom Building – Replacement	50,000
Aycock Auditorium – Renovation	75,000
Forney Classroom Building – Renovation	289,494
Bryan Building Data Center Upgrade	398,200
West Lee Street Parking Lot	56,000
2006 Repairs and Renovations	200,000
Jamison Residence Hall Fire Sprinkler System	120,000
2007 Repairs and Renovations	1,203,904
UNC Pembroke	
New Football/Multipurpose Tower	200,000
UNC Wilmington	
General Classroom Building	10,949
Land Acquisition	1,040,184
University Union Addition and Renovation	37,357
Western Carolina University	
2005 Repairs and Renovations	263,000
Hinds University Center Addition, Phase I	50,190
Athletic Facilities Improvement, Part I	81,558
Winston-Salem State University	
Replace Underground Steam and Hot Water Piping	106,155
Athletic and Student Recreation Facilities	360,000
Brown Hall Renovations	300,000
Infrastructure Improvements	40,000
Whitaker Basketball Courts Reconstruction	35,000

In 2006, the Board of Governors delegated to the President the authority to approve capital improvements projects estimated to cost less than \$500,000. Items were to be sent to Committee members one week prior to approval by the President's Office so that members would have an opportunity to consider the projects, ask questions, and determine if the projects warranted further discussion at the next Committee meeting. There were no delegated projects submitted for the 2007-08 fiscal year.

INSTITUTIONAL BORROWINGS

Commercial Paper Program

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, short-term, unsecured debt issued in the form of promissory notes. A commercial paper program provided the issuer access to a flexible, low cost source of capital to provide bridge financing for projects. North Carolina State University and UNC-Chapel Hill had issued long-term debt less frequently as in the past and had had greater flexibility over the timing of bond issues. Tax-exempt commercial paper rates were often several percentage points lower than commercial bank loans. The Committee recommended 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)

Special Obligation Bonds

The Board of Governors was authorized to issue special obligation bonds for capital improvements projects that had been approved by the General Assembly.

The Committee recommended that the Board issue special obligation bonds for UNC-Chapel Hill not to exceed \$315,000,000 for the purpose of financing (1) the refunding of indebtedness issued consistent with the UNC-CH/NCSSU Commercial Paper Program, the proceeds of which were used to pay a portion of the costs of the 2007 projects as listed below; (2) the costs of acquiring, constructing, and equipping capital improvement projects previously approved by the Board of Governors and the North Carolina General Assembly as listed below; (3) capitalizing interest on a portion of the 2007 Bonds; and (4) providing for the costs incurred in connection

with the issuance of the 2007 Bonds. The 2007 bonds would be issued for the following projects previously approved by the Board of Governors and the Legislature:

<u>Projects</u>	<u>Not to exceed Amount</u>
Food Services Facilities	\$ 3,000,000
Rizzo Center	21,000,000
Residence Hall Improvements	6,450,000
Morrison Residence Hall Renovation	26,000,000
Residence College, Phase II	86,000,000
Global Education and International Studies	7,828,892
Parking Facilities (Park and Ride)	3,000,000
Science Complex, Phase II	4,000,000
Daniels Student Store Renovation	11,000,000
Utility Infrastructure	130,000,000
Information Technology Infrastructure Improvements	11,800,000
Carmichael Auditorium	17,000,000
Woollen Gym Renovation	4,500,000
School of Medicine Research Facilities (Genetic Medicine)	5,000,000

The Committee recommended that the Board issue special obligation bonds for North Carolina State University 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. The 2008 bonds would be issued for the following projects previously approved by the Board of Governors and the Legislature:

<u>Projects</u>	<u>Not to exceed Amount</u>
Derr Track, Softball, and Soccer Complex	\$ 5,500,000
Carter Finley Stadium Improvements	19,900,000
Residence Halls – Improvements	37,900,000
Student Fitness Center	11,000,000
Thompson Theater – Renovation and Expansion	11,700,000
Centennial Campus Infrastructure	9,000,000

Pooled Bonds

In November 1998, the Board approved for the first time the issuance of pooled bonds for long-term debt for several campuses rather than individual institutional issues. A pooled issue, because of its larger size, presented an attractive offering for institutional investors often resulting in lower interest rates and improved bond insurance rates. Six institutions (Appalachian State University, East Carolina University, University of North Carolina at Charlotte, University of North Carolina at Pembroke, Western Carolina University, and Winston-Salem State University) had asked to be included in a ninth pooled issue to provide bonds for new construction and to refund bonds previously approved and issued by the Board of Governors

currently outstanding at higher interest rates. The size of the bond issue was anticipated to be \$100 million, with \$38.8 million for refunding and \$61.2 million for new construction. The Board of Governors would issue the bonds and then make a loan to each institution participating in the pool. The bonds would be outstanding for up to 25 years with an average life of 13 years. The refunding plan for the institutions anticipated achieving net present value savings of at least 2.0%, totaling over \$1.8 million. Bonds would be issued in one series, Series 2008A.

Direct the Call and Redeem Bonds

The Committee recommended that the Vice President for Finance be authorized to direct the call and redeem the Dining Hall System Refunding Revenue Bonds, Series 1996 for North Carolina State University. The bonds were issued in the aggregate principal amount of \$2,345,000, pursuant to a Resolution adopted by the Board on February 9, 1990, and a Series Resolution adopted by the Board on March 15, 1996. NCSU proposed to use available balances to accomplish this action, which would save approximately \$120,000 in interest and would eliminate bond coverage requirements.

Remarketing Agent

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; UBS had announced it would exit the municipal finance business. The Committee recommended that the Vice President for Finance take necessary actions to replace UBS, including executing and delivering new remarketing agents. *Note: UBS was replaced at UNC-Chapel Hill by Bank of America and at NCSU by Wachovia.*

PROPERTY

All property transactions of The University in excess of \$50,000, or for which General Fund appropriations are allocated, require approval of the Board and, therefore, action by the Committee on Budget and Finance. Upon the approval of the Board, the University's Associate Vice President for Finance and Property Officer forwards such proposals to the Council of State for final action.

Leases of Property

As requested by Boards of Trustees, the Committee recommended the following leases:

NCSU: lease of 8,500 square feet of office and classroom space in the Venture II Building on Centennial Campus from Venture Center, LLC in support of the Institute for Advanced Analytics and its new graduate program in Analytics -- Lease payments would be paid from state operating appropriations available and budgeted for this purpose.

NCSU: lease of 10,000 square feet of space in the Centennial Campus Laboratory Building when construction was complete to support the research activities of the College of Engineering -- NCSU would provide new wet lab and research space that could support research, including the Governor's electric car initiative. Lease payments would be paid from Facilities and Administrative Receipts.

UNC-CH: lease for the School of Dentistry to provide facilities for temporary relocation of the occupants and their activities when the School of Dentistry's Dental Office Building and Dental Research Building was demolished -- Lease payments would be paid from the funding authorized for the Oral Sciences Building project.

UNC-CH: renewal of 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. Lease payments, funded from overhead receipts, did not include utilities and janitorial services.

UNC-General Administration: lease of laboratory, office, and support space at the North Carolina Research Campus for use by North Carolina A&T State University, North Carolina Central University, the University of North Carolina at Chapel Hill, the University of North Carolina at Charlotte, and the University of North Carolina at Greensboro -- This lease would provide UNC campuses with full use of the UNC Nutrition Research Building. 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. Lease payments would be met with appropriations and other funds budgeted and available for this purpose.

UNC-General Administration: lease of newly constructed laboratory, office, and support space at the North Carolina Research Campus 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 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 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.

Acquisitions of Property

As requested by Boards of Trustees, the Committee recommended the approval of the following acquisitions of property:

ASU: acquisition of three contiguous properties in Boone for the new College of Education Building -- This accumulation of properties, estimated to cost \$4.3 million, had existing improvements that would be demolished. Funds for the purchases were available from the University of North Carolina Reserve for Land Acquisition appropriated by the 2007 General Assembly.

NCSU: acquisition of 197 acres on Bull's Bay in Tyrell County, North Carolina -- The purchase would help restore and conserve wetlands and riparian buffers in a fragile coastal watershed that was subject to increasing pressures from development. Adjacent to the Eastern 4-H Environmental Conference Center, the property would also provide opportunities for research, education, and recreation. The purchase price of \$2,300,000 would be funded by a North Carolina Clean Water Management Trust Fund grant (\$1,700,000) as well as proceeds from the sale of a 159-acre tract held in escrow by the Endowment Fund of NC State University (\$600,000).

UNC-CH: acquisition of 7.5 acres located in the Town of Carrboro and 1.0 acre located in the Town of Chapel Hill -- The land would allow additional rail cars to supply coal and materials to the Cogeneration Facility on Cameron Avenue. The purchase price of \$3,500,000 would be funded from available utility receipts.

UNC-CH: acquisition of 13.3 acres in Chapel Hill owned by Duke Energy Carolinas, LLC -- An office and warehouse building on the property would be used as a base location for connecting electric utility services to the Carolina North development. The negotiated purchase price of \$4,050,000 would be funded from a combination of facilities and administrative receipts (\$3,000,000) and 2000 Higher Education Bond Funds (\$750,000) and utilities receipts (\$300,000).

UNCW: acquisition of 3.3 acres contiguous to the Center for Marine Science to be used for future center expansion and serve as a buffer from approaching residential development -- The purchase price of \$1,100,000 would be funded from current year carry-forward funds.

Transactions by Delegated Authority

In 2006, the Board delegated authority to the President to execute leases with annual costs up to \$350,000 and property acquisitions or dispositions for up to \$500,000. Actions under delegated authority would be reported to the Committee at its next meeting. Under delegated authority, the following were reported to the Committee in Open Session:

ASU: acquisition by gift to support the programs, partnerships, and activities of the North Carolina Center for Engineering Technologies in Hickory, North Carolina.

ECU: disposition by lease to allow Pitt County Memorial Hospital (the teaching hospital affiliated with ECU's Brody School of Medicine) to use the old Health Sciences Library space for computer software training.

ECU: acquisition by lease of office space for the Division of Academic Affairs to relieve overcrowding in the Spilman Building.

ECU: acquisition by deed for future expansion of the campus consistent with the ECU Master Plan.

ECSU: disposition by demolition of a house with structural damage caused by water infiltration and termite infestation.

NCA&T: acquisition for future campus expansion consistent with NCA&TSU's Campus Master Plan.

NCCU: acquisition by deed for campus expansion consistent with NCCU's Campus Master Plan (0.17 acre)

NCCU: acquisition by deed for campus expansion consistent with NCCU's Campus Master Plan (0.34 acre)

NCCU: acquisition by deed for campus expansion consistent with NCCU's Campus Master Plan (616 Depree St.).

NCCU: acquisition by deed for campus expansion consistent with NCCU's Campus Master Plan (618 Dupree St.).

NCSA: acquisition by deed for campus expansion consistent with NCSA's Campus Master Plan.

NCSU: acquisition by lease of office space for NCSU's Technology Incubator that would be subleased to small start-up businesses in support of NCSU's mission to sustain economic development and technology transfer.

NCSU: disposition by lease of student housing and organizational space to PI KAPPA ALPHA Fraternity of ALPHA EPSILON HOUSING CORPORATION as interim housing while their new facilities were constructed in NCSU's Greek Village redevelopment.

NCSU: disposition by lease of student housing and organizational space to SIGMA KAPPA Sorority of GAMMA PHI HOUSE CORPORATION as interim housing while their new facilities were constructed in NCSU's Greek Village redevelopment.

NCSU: disposition by lease of student housing and organizational space to EPSILON ETA Sorority of DELTA DELTA DELTA HOUSE CORPORATION as interim housing while their new facilities were constructed in NCSU's Greek Village redevelopment.

NCSU: disposition by lease of student housing and organizational space to SIGMA PHI EPSILON Fraternity of SIGMA PHI EPSILON HOUSE CORPORATION as interim housing while their new facilities were constructed in NCSU's Greek Village redevelopment.

NCSU: disposition by easement to The North Carolina Agricultural Foundation, Inc. -- The Eastern 4-H Environmental Education Conference Center had recently been awarded a \$1.7M grant for land acquisition immediately adjacent to the facility by the NC Clean Water Trust Fund. A stipulation in the grant application and funding included the condition that approximately 90 acres of the existing 4-H facility grounds be placed in a conservation easement with a qualified third party to insure that the 90 acres remained in a natural state while continuing to provide for education, research, and recreation as part of the 4-H Center.

NCSU: acquisition by lease of classroom and office space for the Institute for Advanced Analytics.

NCSU: acquisition by deed for 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.

NCSU: disposition by easement to extend the main electrical distribution service to a new substation serving NCSU's Centennial Biomedical Campus.

NCSU: disposition by demolition of four buildings at the Reedy Creek Laboratory located within the new right-of-way for the proposed Trenton Road primary electrical distribution line.

NCSU: disposition by demolition of the College of Veterinary Medicine's Administrative Annex Building to allow an easement for Progress Energy to provide transmission grade electric power to support development on the Centennial Biomedical Campus. The current occupants of the Annex would be relocated to the Reproductive Physiology Building.

UNCA: acquisition by deed for future campus expansion consistent with UNCA's Campus Master Plan.

UNC-CH: acquisition by lease of office space for UNC-CH Career Services during the renovation of Hanes Hall.

UNC-CH: acquisition by lease of office and classroom space for the UNC-CH Center for Developmental Sciences.

UNC-CH: acquisition by deed for campus expansion consistent with UNC-CH's Campus Master Plan.

UNC-CH: acquisition by lease of office and meeting space for the Sheps Center for Health Services Research and the North Carolina Institute of Medicine.

UNC-CH: acquisition by lease of office space for the School of Public Health's Department of Nutrition.

UNC-CH: acquisition by lease of office space for the School of Public Health's Department of Biostatistics.

UNC-CH: acquisition by deed for future expansion of the Cogeneration Facility consistent with UNC-CH's Master Plan.

UNC-CH: acquisition by lease of office and meeting space for the UNC-CH Graduate Student Center.

UNC-CH: acquisition by lease of office space for the UNC-CH Odum Institute's Citizen Soldier Support Program.

UNC-CH: acquisition by lease of office space for UNC-CH Career Services Office during the renovation of Hanes Hall.

UNC-CH: disposition by demolition to provide for future site development and construction of buildings for Carolina North.

UNC-CH: acquisition by lease of office space for the UNC-CH Institute for the Environment.

UNCC: acquisition by deed for future campus expansion consistent with UNCC's Campus Master Plan.

UNCG: acquisition by deed for future campus expansion consistent with UNCG's Campus Master Plan.

UNCP: acquisition by lease of off-campus office space for administrative staff to allow more faculty offices on campus -- This property was directly across the street (Odum St.) from the east side of campus.

WSSU: acquisition by lease of office space for the Center for Community Safety and the Center for Entrepreneurship.

UNC General Administration: acquisition by lease of office space for the UNC in DC Intern Program.

UNC General Administration: acquisition by lease of faculty residence/office space for the UNC in DC Intern Program.

UNC General Administration: acquisition by lease of office space for the James B. Hunt Institute for Educational Leadership & Policy.

Student Housing Arrangements

The Committee recommended leasing arrangements to enable the universities to meet long-term projected housing demands associated with campus growth. The cost per bed would be consistent with the current rate structure for comparable residence halls on campus and lease payments would be made from student housing receipts. The lease of State land and the lease of the new beds would be accomplished within the guidelines, procedures, and policies of the North Carolina Department of Administration and the Council of State. Construction documents would be developed to State and university standards and would be reviewed by the Office of State Construction and the Department of Insurance.

ECSU: Invoked emergency procedures to immediately enter into two lease agreements to provide 106 beds for students who requested to live on campus for the fall semester -- The State Property Office, using its emergency procedures, secured two leases for the duration of the fall and spring semesters. It was expected that a portion of the total lease cost would not be completely offset by rents charged to the students living in these locations and would need to be funded from housing reserves. The Chancellor had provided his assurance that the Housing System had the financial capacity to handle the needed supplemental funding.

ECSU: A lease for up to 120 beds of student housing space from Roanoke Bible College, on an as-needed basis, for the 2008-09 academic year with options to renew for the 2009-10 and 2010-11 academic years -- ECSU administrators projected a small increase in related costs since the campus shuttle would have to extend each trip by 1.5 miles.

UNCG: An authorizing resolution was approved which allowed the agreements for UNCG's Spring Garden Apartments project to be amended to extend the repayment date to sometime prior to May 1, 2009 -- A ground lease of state-owned land and a long-term lease for housing allowed UNCG to enter into an agreement with the Capital Facilities Foundation, Inc. to construct facilities to be used for student housing. The Capital Facilities Foundation, Inc. entered into a tax-exempt bank loan to provide financing for the project with the expectation

that repayment of the loan would occur when UNCG purchased the project sometime prior to May 2008. It had been determined that the purchase would not be completed prior to May 2008.

UNCW: Lease of 12.8 acres of state land to UNCW Corporation for the purpose of constructing 662 beds of student housing and an adjacent parking structure with 1,000 parking spaces -- The University also requested approval to enter into a long-term lease to acquire the 662 beds of student housing and parking spaces from UNCW Corporation when construction was complete. Lease payments would be met from student housing and parking receipts.

WCU: A lease of approximately 7.5 acres of State land to Western Carolina University Research and Development Corporation for the purpose of constructing student housing -- Western Carolina University also requested approval to enter into a long-term lease to acquire 832 beds of student housing from Western Carolina University Research and Development Corporation at a cost not to exceed \$420 per month per bed for a lease term of not to exceed 32 years. Lease payments would be made from student housing receipts.

Other Leasing Arrangements

ASU: A ground lease, a capital project, and its method of financing -- The ground lease would provide 3.1 acres at Kidd Brewer Stadium to the Appalachian State University Foundation, Inc. for stadium improvements. The term of the lease would be for the time required for the Foundation to complete construction of the project. The improvements would revert to Appalachian State University at the termination of the ground lease. Appalachian State also sought permission to issue up to \$8,300,000 in long-term indebtedness which would be repaid from athletic receipts, ticket revenues, and donor gifts. The impact on students would be \$18 per year.

NCSU: 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 for a simulated neighborhood of approximately five research and demonstration houses -- The project would be funded with a combination of cash and in-kind gifts. To facilitate these donations, NCSU would ground lease the site to American Home, LLC, to construct the houses and make site improvements. Upon completion, each house would be donated to NCSU for use by The American Home at N.C. State initiative. Upon the expiration of this lease, the land and any improvements upon the land would revert to the State.

NCSU: A lease of space to MeadWestvaco Corporation on the Centennial Campus -- The requested new lease for 100,000 square feet would replace an existing lease of 65,000 square feet in Corporate Research I to house MeadWestvaco's Center for Packaging Innovation. NCSU would use authority received in 2006 to construct and finance a 35,000 square foot addition to Corporate Research I. MeadWestvaco would be responsible for building operating costs including utilities.

UNCA: A gift-in-place involving a ground lease of state-owned land for the construction of a track and field complex -- Construction would be accomplished by leasing approximately 1.4 acres 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.

UNC-CH: A ground lease and new capital improvements project for construction of a hangar at Raleigh-Durham International Airport to support the UNC-Chapel Hill Medical Air program in its relocation from the Horace Williams Airport -- UNC-Chapel Hill would enter into a ground lease with the Raleigh-Durham Airport Authority for up to 72,640 square feet (1.67 acres) of land adjacent to the N.C. Department of Transportation's hangar facility. The cost of the ground lease would be funded from departmental operating funds. The hangar was estimated to cost \$3,000,000 and would be funded from unrestricted investment income. The improvements on the leased property would revert to RDU at the conclusion of the initial lease or any subsequent extensions.

UNC-CH: a ground lease to the Robertson Scholars Foundation, Inc. for construction of a new building that would provide offices and meeting space for the Robertson Scholars Program. The site preparation, including utilities relocation, would be performed by UNC-Chapel Hill at a cost of \$1.9 million, and be funded by Facilities and Administrative receipts. The building cost of up to \$12.9 million would be funded by the

Foundation. At the end of construction, the lease would end and the State would accept the completed project as a gift-in-place.

UNC-CH: a ground lease to the Educational Foundation, Inc. for the time required to complete the Kenan Stadium Expansion, Phase 1 project. UNC-CH would issue up to \$50,000,000 in long-term indebtedness to refund the Foundation for the cost of construction. 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.

Transactions Involving Ground Leases

The Board of Trustees of North Carolina State University had requested permission to execute three related transactions to provide facilities to support the continued development of the Centennial Campus.

Transaction One: This transaction would approve NCSU's Board of Trustees' request for a ground lease of approximately 30 acres of land on Centennial Campus to the NC State University Partnership Corporation (NCSUPC). Upon the expiration of this lease, the land and any improvements upon the land would revert to the State. Any net proceeds realized by NCSU from the ground subleases would be retained by the Centennial Campus Trust Fund for continued development of the Centennial Campus.

Transaction Two: This transaction would approve an assignable, reciprocal easement between NCSU and the NCSUPC for the 30 acres noted in transaction one.

Transaction Three: This transaction would report the NCSUPC-controlled LLC sublease of approximately 10 acres to a private developer, the Bozzuto Group, for the development, construction, and operation of a market rate apartment complex.

The Board of Trustees of UNC-Chapel Hill had requested permission to execute two related transactions that would provide facilities to support technology businesses emerging from University research.

Transaction One: This transaction would approve a request for a ground lease of no more than 7.4 acres on Carolina North to the University of North Carolina at Chapel Hill Foundation, Inc. Upon the expiration of this lease, the land and any improvements upon the land would revert to the State.

Transaction Two: This transaction would approve the Foundation's sublease of all or part of its ground lease to Alexandria Real Estate Equities, Inc. at fair market rent for the construction and operation of an approximately 85,000 square foot building called the Innovation Center.

Acquisition by Gift

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. 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.

Easements

The University of North Carolina at Chapel Hill had forwarded information for 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. As the planned improvements along Finley Golf Course Road and Prestwick Road benefited UNC-CH, 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.

OTHER ACTIONS

Millennial Campus Designation

In 2006, the Board of Governors designated 344 acres as the WCU Millennial Campus. The Committee recommended that an additional 13 acres be designated as part of WCU's Millennial Campus to accommodate the optimal placement of the town center (a hub with a series of functions, including food, retail, housing, and multi-tenant space).

Budget Flexibility Report

The Committee recommended that the Annual Report on Budget Flexibility be eliminated. The 2007 non-budget legislative agenda contained items designed to implement efficiencies within the University as recommended by the President's Advisory Committee on Efficiency and Effectiveness (PACE). This recommendation was included in House Bill 749 and was ratified by the General Assembly and signed into law by the Governor. House Bill 749 repealed G.S. 116-30.6, which directed the Board of Governors to report annually to the Joint Legislative Education Oversight Committee on the results achieved under management flexibility by the special responsibility constituent institutions.

Cost of Textbooks

The Committee discussed the Report on the Cost of Textbooks. Each institution had been asked to document the average textbook costs for undergraduate students, the on-time adoptions of textbooks by faculty, and their progress towards implementation of a guaranteed buyback or rental program for required textbooks for introductory courses. President Bowles reported that he and the Finance Division would continue their efforts to control the costs of textbooks and he would monitor each campus' progress. A status report would be presented to the Board in February 2009.