

Appendix C

ANNUAL REPORT OF THE COMMITTEE ON BUDGET AND FINANCE TO THE BOARD OF GOVERNORS OF THE UNIVERSITY OF NORTH CAROLINA July 1, 2006 through June 30, 2007

EXECUTIVE SUMMARY

The Committee on Budget and Finance met nine times between July 1, 2006, and June 30, 2007. The Committee was composed of the following Board members: Mr. Bradley T. Adcock, Mr. Brent D. Barringer, Ms. Peaches G. Blank, Mr. R. Steve Bowden, Mr. F. Edward Broadwell, Jr., Governor James E. Holshouser, Jr., Mr. Peter Keber, and Mr. David W. Young.

BUDGETS AND ALLOCATIONS, TUITION AND FEES

The Committee recommended:

- General Fund appropriations for a 6% average salary increase for faculty and other employees who were exempt from the State Personnel Act (EPA) as well as an 8% average salary increase comparable to that provided for public school teachers for all teaching employees of North Carolina School of Science and Mathematics.
- Allocation of funds provided by the 2006 General Assembly -- \$211,493,966 in recurring funds and \$7,963,000 in nonrecurring funds for University Operations and \$7,765,125 for Related Educational Programs. Special appropriations totaling \$14,188,474 were directed to program areas not included in the Schedule of Priorities requests.
- 2007-09 Budget Priorities -- for consideration during the 2007 legislative session.
- Tuition and Fees for 2007-08 -- For the second year in a row, Chancellors submitted their requests for tuition and fee increases consistent with parameters established ahead of time by the Board.

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 worked during the year to provide appropriate oversight for the bond program. Progress reports were received each meeting.

The Committee recommended:

- Allocation of \$139,980,000 provided by the 2006 General Assembly; allocation of \$102,225,427 from the Reserve for Repairs and Renovations; and allocation of \$529,046,000 for nonappropriated capital improvements projects.

- 2007-13 Capital Improvements Priorities -- In May, ASU, NCCU, and WSSU revised their priorities to move classrooms and science facilities higher on their lists. ECSU added a facility to complement its planned focus on programs associated with aviation and aerospace sciences. UNC-CH and UNCW added projects associated with medical and health education programs.
- Amendment of the 2007-09 Budget Priorities for capital improvements to include a request of \$48,261,807 to complete the installation of fire sprinklers in residence halls of the University.
- 23 new or supplemental non-appropriated capital improvements projects at six institutions totaling \$273,681,000. At the May meeting, at the request of UNC Pembroke, the Committee recommended that a project -- New Football/Multipurpose Tower -- be added to the list. The projects were forwarded to the General Assembly for authorization during the 2007 Session.

INSTITUTIONAL BORROWINGS

During the year, the Committee recommended the following issues of bonds for either financing new projects or refunding outstanding bonds when interest rate savings could be achieved.

- The Vice President for Finance was authorized to sell special obligation bonds not to exceed \$54,400,000 for financing the construction of a student union at The University of North Carolina at Charlotte.
- The Vice President for Finance was authorized to validate the terms and enter into a Line of Credit Agreement with Wachovia Bank, National Association, in the amount of \$400,000,000 to provide sufficient liquidity to purchase, if necessary (in the event of a failed remarketing or placement by the bond dealers), the outstanding UNC-Chapel Hill Variable Rate Bonds and outstanding Commercial Paper Bonds issued under the joint NCSU and UNC-Chapel Hill Commercial Paper Program.
- The Vice President for Finance was authorized to issue and sell bonds for the eighth pooled issue.
- The Committee recommended the establishment of KFBSF Private Equity Fund I, L.P., KFBSF Real Estate Fund I, L.P., and KFBSF, Inc. as UNC-CH associated entities to manage the investment funds as educational programs at the Kenan-Flagler School of Business without their obtaining nonprofit tax-exempt status.

PROPERTY

As requested by Boards of Trustees, the Committee recommended in Closed Session the approval of one lease for Winston-Salem State University, and under delegated authority, one lease for Fayetteville State University and one lease for UNC-Chapel Hill.

As requested by Boards of Trustees, the Committee recommended in Closed Session the approval of two parcels for East Carolina University, four parcels for UNC-Chapel Hill, and one parcel for Winston-Salem State University. There were no acquisitions reported to the Committee in Closed Session as approved under delegated authority.

Under delegated authority, 18 transactions were reported to the Committee in Open Session.

Leasing arrangements were approved for FSU, NCCU, and WSSU to enable the universities to meet long-term projected housing demands associated with campus growth. Lease payments would be made from student housing receipts.

The following transactions were recommended:

- authority to redevelop NCSU's Greek Court area;
- lease of State land to the NC State Residence, LLC for the purpose of constructing a new Chancellor's Residence;
- lease of State land to the Educational Foundation, Inc. for the purpose of expanding and renovating the Finley Golf Course Clubhouse for UNC-Chapel Hill;
- acceptance of a gift of 34.4 acres in Manteo, Dare County, on behalf of the Coastal Studies Institute;
- proposed exchange of property between the State of North Carolina and the Foundation of the University of North Carolina at Charlotte, Inc; and
- disposition of a 0.78-acre parcel of unimproved land in Hatteras Village in Dare County for NCSU.

OTHER ACTIONS

- 210 acres in three separate sites at the University of North Carolina at Wilmington was designated as a Millennial Campus.
- An additional 1.5 acres of University-owned real property and appurtenant facilities was designated as part of the existing UNCC Charlotte Research Institute (Millennial) Campus.
- Winston-Salem State University's purchasing benchmark was increased to \$350,000 from \$100,000.
- Additional recommendations were approved for a system-wide effort to keep the cost of textbooks as low as possible for students.

**ANNUAL REPORT
OF THE COMMITTEE ON BUDGET AND FINANCE TO THE
BOARD OF GOVERNORS OF THE UNIVERSITY OF NORTH CAROLINA
July 1, 2006 through June 30, 2007**

The Committee on Budget and Finance met nine times between July 1, 2006, and June 30, 2007. The Committee was composed of the following Board members: Mr. Bradley T. Adcock, Mr. Brent D. Barringer, Ms. Peaches G. Blank, Mr. R. Steve Bowden, Mr. F. Edward Broadwell, Jr., Governor James E. Holshouser, Jr., Mr. Peter Keber, and Mr. David W. Young. The Committee elected Mr. Bowden as Chair, Mr. Broadwell as Vice-Chair, and Mr. Adcock as Secretary.

The Committee functions are: to advise and consult with the Chairman and the President concerning budget policy and preparation; to consider the budget proposed by the President, to recommend modifications to the budget if needed, and to approve the budget for consideration by the Board; to make recommendations to the Board for allocations of funds appropriated by the General Assembly; to work with the Committee on Educational Planning, Policies, and Programs to ensure the proper funding of long-range objectives; and to submit recommendations to the Board with respect to capital improvements projects, institutional borrowings, property transactions, and 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 Committee recommended that the General Fund appropriations for the 6% average salary increase for faculty and other employees who were exempt from the State Personnel Act (EPA) be distributed in exact proportion to the share of each institution in the General Fund salary base as well as an 8% average salary increase comparable to that provided for public school teachers for all teaching employees of North Carolina School of Science and Mathematics.

In addition, the General Assembly appropriated \$5,000,000 to establish a University Faculty Recruiting and Retention Fund [Senate Bill 1741 (S.L. 2006-66)] to be used at the discretion of the President for salary increases for the purpose of recruiting and retaining UNC faculty members as necessary at constituent institutions. The Committee recommended that these funds be allocated to UNC-General Administration, Institutional Programs to be held in reserves pending further action by the President.

Current Operations

Recommendations were made to the Board for allocating funds provided by the 2006 General Assembly. Included were appropriations for University Operations of \$211,493,966 in recurring funds (includes \$79.2 million for enrollment and \$95.6 million for academic salary increases) and \$7,963,000 in nonrecurring funds; and \$7,765,125 for Related Educational Programs. Several special appropriations to the Board totaling \$14,188,474 were directed to program areas

not included in the Schedule of Priorities requests.

2006-07 Budget Priorities

In November, the Committee recommended that the Board of Governors adopt the 2007-09 Budget Priorities for the Governor and General Assembly to consider during the 2007 legislative session. The 2007-09 Budget Priorities identified the operating and capital funding needed to carry out the highest priorities of the Chancellors, the President, and the Board of Governors.

In February, the Budget Priorities were amended to include a request for funds to support research and programs at North Carolina Central University School of Law.

In March, the Committee recommended that the Budget Priorities for capital improvements be amended to include a request of \$48,261,807 to complete the installation of fire sprinklers in residence halls of the University. State funds would allow campuses to revise their plans and expedite the installation of sprinklers with a goal of completion by fall 2012.

Authorization of Tuition and Fees for 2007-08

Continuing a precedent set last year, the Committee recommended tuition and fees together. And, for the second year in a row, Chancellors submitted their requests for tuition and fee increases consistent with parameters established ahead of time by the Board. This year's requests were guided by the Four-Year Plan for Tuition and Fees approved by the Board at its October 2006 meeting. Proposals submitted by campuses met the Board's directive to increase the pool of financial aid funding, bring faculty salaries to the 80th percentile, expand student services, reduce class size, increase course offerings, improve library operations, and other purposes that improved the overall student experience.

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 also required that the Board of Governors report annually to the Joint Legislative Commission on Governmental Operations and the Joint Legislative Education Oversight Committee 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 October 2006 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 UNC bond program. By May 2007, more than 93% of the bond funds, amounting to \$2.3 billion were committed under the program and over \$2B had been expended. 22 projects, totaling just over \$72 million, remained to be bid. 29 out of 210 completed projects had been administratively closed out. Also

at each meeting, HUB participation data for the campuses was reported. By May 2007, of the \$2.3B awarded, \$381 million were HUB contract dollars.

The State Treasurer's Office provided excellent support for the program in making bond funds available with the institutions' needs. A sale held in February 2007 would provide the cash required for the completion of the program.

Efforts remained strong to ensure that all involved in the program pooled their knowledge and experience. Meetings with the Association of General Contractors, representatives of the architects and engineers, and the UNC Bond Alliance and Capital Project Coordinators continued with the sharing of best practices.

The Higher Education Bond Oversight Committee continued to hold quarterly meetings. As more and more projects were completed, the Committee focused efforts on the administrative work necessary to close out each project. Institutions were encouraged to complete punch lists, obtain as-built documents and manuals, make final payments, and file final reports.

The UNC Bond Program had been challenged over the past years as reviewing agencies had struggled to complete timely plan reviews under a heavy work load with insufficient staff resources. Review times had averaged as much as 54 days per review. Since plans were reviewed at three different stages during the design process, review times were contributing significantly to project durations. Senate Bill 192, an act seeking modifications of certain review procedures for UNC construction projects, during the 2006 Session led to the General Assembly establishing the Legislative Study Commission on State Construction Inspections. The final report of the Commission was approved at their January meeting. The report's recommendations included: engage the State Building Commission within its legislative authority to coordinate the capital process, including the development of standard measurements for accountability within the process; continue meetings with review/inspection organizations and the agencies they serve; and require reporting to the State Building Commission to ensure that work continues. The Commission also endorsed additional staffing in the State Construction Office and the Department of Insurance. It further recommended that the Office of State Personnel perform market studies of architectural/engineering positions in an effort to aid in recruitment and retention of these positions, as a number of agencies described challenges in obtaining and retaining these resources even when positions were available.

The Committee acknowledged and praised Shari Harris' work with the HUB Academies. The 2006 General Assembly transferred the HUB Academy under the State Department of Administration with funding provided for this purpose by legislation. The first HUB Academy since the transition was in December and the largest class to date with 37 contractors. Additional academies were planned at Fayetteville State University and Elizabeth City State University under the direction of the Department of Administration in 2007.

In June, the committee reviewed lessons learned from the UNC bond program. It had been important to keep staff equipped to manage both the bond program as well as all capital improvement projects. Because of staff turnover, changing procedures, or new software releases, training had been an important component in maintaining the program's progress.

Modifications to Bond Projects

Since 2000, consistent with state law, and after approval by the Board of Governors and the General Assembly, changes had been requested and approved for 30 of the 318 projects in the Bond Program. At its May meeting, the Committee recommended that four requests to modify bond projects at ECSU, NCCU, and UNC-Chapel Hill be approved by the Board and forwarded to the General Assembly.

Allocation of Capital Improvements from the 2006 General Assembly

The Committee recommended the allocation of \$139,980,000 provided by the 2006 General Assembly, which included the issuance of certificates of participation totaling \$45,827,400 for the construction of the UNC Charlotte Center City Classroom Building.

Appalachian State University College of Education Building – Planning	\$ 1,820,000
Fayetteville State University Science and Technology Complex – Planning	1,000,000
NC Agricultural and Technical State University General Classroom Facility – Planning	1,000,000
NC School of the Arts Library – Planning	1,000,000
NC State Engineering Complex III – Construction	61,000,000
UNC-Chapel Hill Genomics Science Building – Planning and Site Development	28,391,775
UNC Charlotte Center City Classroom Building	45,827,400
UNC-Greensboro Academic Classroom and Office Building – Planning	2,300,000
UNC Hospitals at Chapel Hill – Master Facilities Plan	3,000,000
UNC-Pembroke Residence Hall – Planning	\$ 1,000,000
UNC-Wilmington School of Nursing – Construction	27,000,000
Western Carolina University School of Health/Gerontology Building – Planning	2,400,000
Winston Salem State University Student Activities Center – Planning	768,225
Dental Schools – Planning	7,000,000
Reserve for Capital Cost Overruns	2,300,000

The Committee also recommended allocation of \$102,225,427 for the Reserve for Repairs and Renovations, and \$529,046,000 for nonappropriated capital improvements projects.

Six-Year Capital Improvements Plan

In November, the Committee recommended approval of the 2007-13 Capital Improvements Plan. Each state agency was required (G.S. 143.34.44) to submit a six-year capital improvement needs estimate to the Office of State Budget and Management and the General Assembly's Fiscal Research Division. These plans would be used as the focal point for future biennial capital requests.

In March, the Committee recommended that the 2007-09 Budget Priorities for capital improvements be amended to include a request of \$48,261,807 as an appropriation from the General Fund to complete the installation of fire sprinklers in residence halls of the University.

In May, the Committee recommended that the 2007-13 Capital Improvements Priorities be updated and revised. Because the plans were developed during the summer of 2006, the Chancellors made changes to reflect updated cost estimates and revised enrollment projections,

as well as additional consideration for the future mission and academic programs of the University. ASU, NCCU, and WSSU revised their priorities to move classrooms and science facilities higher on their lists. ECSU added a facility to complement its planned focus on programs associated with aviation and aerospace sciences. UNC-CH and UNCW added projects associated with medical and health education programs.

Nonappropriated Projects for Authorization by the 2007 General Assembly

In March, the Committee recommended twenty-three new or supplemental capital improvements projects at six institutions totaling \$273,681,000. The projects were forwarded to the General Assembly for authorization during the 2007 Session. At the request of the University of North Carolina at Pembroke, a project not in the plan, New Football/Multipurpose Tower for \$2,000,000, was discussed at the meeting and committee members asked for additional information. At the May meeting, at the request of UNC Pembroke, the Committee recommended that the project be added to the list of non-appropriated capital improvements projects and it was also forwarded for authorization during the 2007 Session.

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 of the projects.

ECSU: A project to restore a decommissioned residence hall (Mitchell-Lewis) to active use to provide an appropriate living and learning environment for 42 students -- estimated to cost \$773,000 - - financed from a combination of Repairs and Renovations funds and housing receipts.

ECSU: Anticipating an unmet demand for 111 beds for fall 2007, a project to reactivate the second and third floors of the existing Mitchell-Lewis Residence Hall to provide 128 additional beds -- estimated to cost \$1.3 million -- financed from a combination of Repairs and Renovations funds and housing receipts.

NCCU: A project to replace an uninterruptible power supply (UPS) unit that failed which provided conditioned electrical service and battery backup power to data center servers that supported critical campus operations including classroom instructional systems, campus financial systems, and residence hall card access systems -- estimated to cost \$480,000 -- financed from lapsed salary funds.

NCSU: A project to make repairs to damage caused by a ruptured water distribution line on the third floor of the Murphy Center, on the southwest side of Carter-Finley Stadium, which caused extensive flooding on the third, second, and first floors -- estimated to cost \$1,200,000 -- funded from a combination of proceeds from the installing contractor's insurance, the university's insurance, and athletic receipts.

UNC-CH: A project to remove four hazardous trees with root and trunk decay as well as replace portions of stone walls that edged Raleigh Road (just South of Franklin Street) -- estimated to cost \$426,000 -- funded from Repairs and Renovations funds.

WSSU: A project to complete repairs on an electrical/telecommunications ductbank serving a number of buildings on the south side of campus (two power service interruptions occurred during one month, and on both occasions, significant damage was done to electrical equipment) -- estimated to cost \$150,000 -- funded from Repairs and Renovations 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.

<u>NCSU</u>	
Teaching and Research Milking Parlor	\$ 950,000
Expand Campus Infrastructure (increasing boiler and chiller capacity in the regional utility plants and making necessary changes to the distribution system)	2,500,000
<u>UNC Charlotte</u>	
Backup Server Room (College of Health and Human Services Building for information technology systems)	1,300,000
Conversion of Three Spaces in Rowe Hall to Modern Lecture Hall Use	1,500,000
Add Sidewalks, Stairs, and Lighting between the Library, Student Activity Center, and the Cone University Center	900,000
Replace Existing Bleacher Seating at the Intercollegiate Softball Stadium With Stadium Seats, including required ADA seating	700,000
Replace Deteriorating Vinyl Siding on Nine Residence Halls Built in 1980	1,100,000
<u>UNC Greensboro</u>	
Upgrade the Electrical Service and Air-Conditioning Equipment Serving the Bryan Building Data Center	735,000
Improve the Existing Landscaping of the Lawn on the West Side of the Elliott University Center	562,000
Construct a new 228-Space Parking Lot at 1200 West Lee Street	560,000
Replace the Existing Fire Alarm System and Install a New Fire Sprinkler System in Grogan Hall	1,366,000
<u>UNC Pembroke</u>	
Additional Permanent Seating at the Belk Complex	624,000
<u>WSSU</u>	
Renovate Teaching and Office Space in the Hall-Patterson Building	209,000
Infrastructure Improvements for the Installation of a Modular Office Complex to Provide Space for Approximately 80 Faculty and Staff	381,000

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:

<u>Appalachian State University</u>	
Parking Facilities Improvements	\$ 750,000
Convocation Center Roof Repairs	3,316
Bookstore Renovation and Expansion	500,000
Improvements to Student Residence Facilities	1,738,508
<u>Fayetteville State University</u>	
Athletic Facilities Improvements	13,800
<u>North Carolina A&T State University</u>	
Parking Deck	670,000
<u>North Carolina Central University</u>	

Biomanufacturing Research Institute and Training Enterprise	\$2,300,000
Renovations to Law School Basement	2,645,036
<u>North Carolina State University</u>	
2000 Repairs and Renovation	28,988
Biomanufacturing Teaching and Education Center	2,993,790
Centennial Biomedical Campus Infrastructure, Phase A	550,000
<u>UNC-Chapel Hill</u>	
Glaxo/Molecular Biology Research Laboratories – Renovation	132,239
Residence College Phase II	7,000
410 East Franklin Street – Renovation	132,100
2005 Repairs and Renovations	1,109,000
Botanical Garden Visitor Education Center	210,000
Medical Research Building	80,354
Ambulatory Care Renovations	70,000
<u>UNC Charlotte</u>	
Brocker Health Center	715,000
Cameron Boulevard Extension	600,000
Scott Hall HVAC Upgrade	400,000
<u>UNC Greensboro</u>	
Walker Parking Deck Roof and Waterproofing	40,000
Recreation Center Roof Replacement	350,000
<u>UNC Wilmington</u>	
University Union Addition and Renovation	824,891
<u>Western Carolina University</u>	
Access Control for Residence Halls	170,000
Residence Hall Elevator Replacement – Scott, Walker and Harrill	500,000
<u>Winston-Salem State University</u>	
Athletic and Student Recreation Facilities	785,000
Bowman Gray Stadium Field House Expansion and Renovation	1,500,000
Whitaker Basketball Courts Reconstruction	10,000
Total	\$19,829,022

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. Only one project was approved under this delegation: Swannanoa 4-H Center Staff House in the amount of \$450,000.

INSTITUTIONAL BORROWINGS

Issuance of Refunding Bonds

The Committee recommended the issuance of refunding bonds for the purpose of current refunding a portion of the outstanding Board of Governors of The University of North Carolina, University of North Carolina Hospitals at Chapel Hill Revenue Bonds, Series 1999, dated May 1, 1999, of which \$49,020,000 principal amount was currently outstanding. The Series 1999 Bonds were callable for optional redemption on February 15, 2009. Due to limitations imposed by the Internal Revenue Code of 1986, as amended, the Series 1999 Bonds could not be advance refunded. Given that interest rates were currently at historically low levels, UNC Hospitals desired to enter into financial arrangements through the use of an interest rate swap agreement that would lock in the current attractive interest rates for the refunding bonds when issued.

Special Obligation Bonds

The Committee recommended that the Vice President for Finance be authorized to sell special obligation bonds not to exceed \$54,400,000 for financing the construction of a student union at The University of North Carolina at Charlotte. In 2004, 2005 and 2006, the General Assembly supplemented the authorization to reflect changes in scope and to adjust for inflation. The project, estimated to cost approximately \$65,000,000, would also be financed partially from an equity contribution from the University. The University intended to retire the debt with a debt service fee approved by the Board when the project was first authorized, and approved by the Board at its February meeting to begin collection in the fall of 2007.

Commercial Paper Program

The Committee recommended that the Vice President for Finance be authorized to validate the terms and enter into a Line of Credit Agreement with Wachovia Bank, National Association, in the amount of \$400,000,000 on substantially the same material terms as the original Line of Credit Agreement. This Line of Credit Agreement, together with other funds available to UNC-Chapel Hill, would provide sufficient liquidity to purchase, if necessary (in the event of a failed remarketing or placement by the bond dealers), the outstanding UNC-Chapel Hill Variable Rate Bonds and outstanding Commercial Paper Bonds issued under the joint NCSU and UNC-Chapel Hill Commercial Paper Program. This agreement would not create additional indebtedness for NCSU and UNC-Chapel Hill. As of June 30, 2006, the outstanding balance of UNC-Chapel Hill's Variable Rate Demand Bonds was \$92,230,000, and the outstanding balance of the \$500,000,000 joint Commercial Paper Program was \$133,414,000.

On the request of North Carolina State University and the University of North Carolina at Chapel Hill, 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 2006 Session of the General Assembly:

NC STATE PROJECTS

Derr Track – Renovation and Expansion – Phase II (\$2,500,000)
Partners VI Building and Parking Deck (\$40,000,000)
Centennial Campus Infrastructure (\$10,000,000)
Residence Halls – Renovation – Supplement (\$11,500,000)
Thompson Theater – Renovation and Expansion – Supplement (\$4,500,000)

UNC AT CHAPEL HILL PROJECTS

Food Service Facilities – Renovation and Expansion (\$3,500,000)
Science Complex – Phase II (\$92,200,000)
Carmichael Auditorium – Renovation and Expansion (\$15,000,000)
Research Resource Facility – Phase II (\$12,400,000)
Residence Halls – Improvements (\$2,000,000)
Woollen Gymnasium – Renovation (\$4,500,000)
Boshamer Baseball Stadium – Improvements (\$14,000,000)
Cogeneration Warehouse (\$500,000)
Steam Infrastructure Improvements (\$55,700,000)
Electrical Infrastructure Improvements (\$29,530,000)
Bell Tower Development – Phase I (\$10,000,000)
Global Education and International Studies Center – Improvements (\$2,500,000)
Residence Halls – Improvements – Supplement (\$2,500,000)
Botanical Garden Visitor Education Center – Supplement (\$5,000,000)
Educational Foundation Office Building – Supplement (\$12,000,000)
Cobb Residence Hall – Renovation – Supplement (\$5,116,000)
Residence College – Phase II – Supplement (\$8,000,000)
Rizzo Center – Expansion – Supplement (\$5,300,000)

Pooled Bonds

Six institutions (Appalachian State University, East Carolina University, North Carolina A&T State University, University of North Carolina at Pembroke, University of North Carolina at Wilmington, and Western Carolina University) asked to be included in the eighth 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 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 27 years with the average maturity being for a period of 14 years. The refunding plan for the institutions anticipated net present value savings of at least 2.0%, totaling over \$1.6 million. The Committee recommended that the Vice President for Finance be authorized to issue and sell bonds between the November 2006 and January 2007 meetings of the Board of Governors, and for the refunding bonds, at such time as when the net present value savings equaled or exceeded at least 2.0%. [Bonds were sold on November 30, 2006 totaling \$104,085,000 at 4.3% true interest cost Call-In.]

Associated Entities

It was recommended that the Board of Governors allow the establishment of KFBSF Private Equity Fund I, L.P., KFBSF Real Estate Fund I, L.P., and KFBSF, Inc. as UNC-CH associated entities to manage the investment funds as educational programs at the Kenan-Flagler School of Business without their obtaining nonprofit tax-exempt status. The University of North Carolina Regulation #600.2.5.2[R] required that associated entities have not-for-profit corporate and tax-exempt status unless the Board of Governors approved otherwise. The School of Business had requested establishment of a not-for-profit corporation and two LLC investment funds, to be

structured as North Carolina limited partnerships, as associated entities without acquiring nonprofit tax-exempt status. The LLCs would give selected students hands-on experience in operating private investment funds. These students would work with faculty and friends of the School of Business to identify and evaluate investment opportunities and to make investment recommendations to the General Partner of each entity.

Account Location Change

The Committee recommended that the Board approve a request to close a Wachovia Securities account in Charlotte, open a Wachovia Securities account in Durham, and authorize the Assistant General Manager as the person responsible to engage Wachovia Securities for the purpose of carrying out transactions associated with donations, gifts, grants, stocks, and other bequests on behalf of UNC-CPTV. Bank policy required that the governing body authorize the change as well as the person responsible for the account. Under the provisions of North Carolina General Statutes 116-36, UNC-CPTV was allowed to accept donations, gifts, grants, stocks, and other bequests for the benefit of its operations and to supplement state appropriations.

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.

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.

As requested by Boards of Trustees, the Committee recommended the approval of one lease for Winston-Salem State University. The following leases were reported to the Committee in Closed Session as approved under delegated authority: Fayetteville State University (one lease) and UNC-Chapel Hill (one lease).

As requested by Boards of Trustees, the Committee recommended the approval of the following acquisitions of property: East Carolina University (two parcels); UNC-Chapel Hill (four parcels); and Winston-Salem State University (one parcel). There were no acquisitions reported to the Committee in Closed Session as approved under delegated authority.

Under delegated authority, the following were reported to the Committee in Open Session:

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 and clinical space for the Physicians Psychiatric Outpatient Center, Brody School of Medicine.

ECU: acquisition of real property for campus expansion and interim office space pursuant to the master plan of ECU.

ECU: acquisition of property by lease to renew an existing lease that houses ECU's facilities' trade shops and offices.

ECU: disposition of property by lease of the Wahl Coates Elementary School, a laboratory training school utilized by the School of Education for teacher training.

NCA&T: acquisition of two parcels of real property for future campus expansion consistent with the campus Master Plan.

NCSU: disposition of property by lease to provide temporary office space during the construction of a new Packaging Innovation Center on the Centennial Campus by MeadWestvaco Corporation.

NCSU: acquisition of property by lease of space to house a new component of the Distance Education and Learning Technology Applications (DELTA) program.

NCSU: disposition of property by lease of additional laboratory and office space to Erimos Pharmaceutical LLC.

NCSU: acquisition of property by lease of office and training space for The Ergonomics Center of North Carolina.

NCSU: acquisition of property by lease of classroom and office space to support the teaching, research and extension activities of the College of Design – Prague institute study abroad program in the Czech Republic.

NCSU: disposition of property by ground lease of NCSU's Lot 86 to Carolina Solar Energy, LLC to construct a collaborative solar generation project with the NC Solar Center.

UNC-CH: acquisition of real property to expand the buffer between the Cogeneration Facility and the adjacent neighborhood.

UNC-CH: acquisition of property by lease of office and clinical space for the UNC-CH School of Medicine's Treatment and Education of Autistic and Related Communication-Handicapped Children (TEACCH) Center in Asheville, North Carolina.

UNC-CH: acquisition of property 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 of property by lease of office space for the School of Medicine's Children's Communication Disorder Program and Audiology Clinic.

UNC-CH: disposition by lease to allow the Educational Foundation, Inc. to make improvements to Boshamer Baseball Stadium -- The associated capital improvements project was established in April 2006.

WSSU: acquisition of property by lease of office and warehouse space for Facilities Planning and Facilities Maintenance storage.

Out-Lease of Space

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 for each new facility would be reviewed by the Office of State Construction and the Department of Insurance.

The Board of Trustees of Fayetteville State University requested permission to modify a lease approved in June 2006. The modified lease would rent all 341 beds at University Place Apartments (up from 190 beds currently being leased) for a five-year term beginning in the fall of 2007 with one, five-year renewal option. The leased space would be fully furnished and include standard utilities.

The Board of Trustees of North Carolina Central University requested permission to extend an existing lease or enter into a new lease to accommodate students seeking on-campus housing. In 2005, nearly 800 beds were removed from service when the campus closed Chidley and Latham Residence Halls. At that time, NCCU received approval to lease space at Campus Crossing to restore much of that lost capacity. NCCU worked with the State Property Office to seek competitive bids for the lease of student housing equivalent to that currently being rented. NCCU would enter into a new lease at a suitable location for a similar term subject to public bid through the 2009-10 academic year.

The Committee recommended amendment of a previous ground lease to the Winston-Salem State University Housing Foundation, LLC for a lease not to exceed six additional acres on the campus of WSSU, in addition to extending the term of the ground lease not to exceed 37 years. The Foundation would construct a new 316-bed student housing facility. Upon completion of construction, the facility would be leased by the Foundation to WSSU for a term not to exceed 32 years from the date of completion.

The Board of Trustees of North Carolina State University requested authority to redevelop NCSU's Greek Court area. Fifteen chapter houses were located in the area known as Greek Court. These houses were owned by NCSU and leased to the chapters. NCSU would allow fraternities and sororities to design, construct, own, and operate chapter houses on land leased from the university. The new Greek Village would include 20 individual building lots for houses, a row of Greek townhouses for smaller organizations, a community center, two large pavilions, and an amphitheater. Based on a successful program at the University of South Carolina, Greek organizations at NCSU, through alumni/ae house corporations, would be offered building sites in the redeveloped Greek Village. Construction would begin as early as January 2008 and continue over the course of the next 10 to 15 years.

The Committee recommended approval of an out-lease of space on the Centennial Campus to Talecris Biotherapeutics, Inc. This lease combined two existing leases that would expire on December 31, 2006 and would provide approximately 12,070 square feet of office and laboratory space in Partners I Building.

The Board of Trustees of NCSU requested three related transactions that would facilitate research partnerships and public/private development of approximately 20 acres of the 182-acre Centennial Biomedical Campus (CBC), home to the College of Veterinary Medicine, the University Club, and the Agricultural Turf Grass Management Program as follows.

Transaction One: a ground lease of approximately 20 acres of the CBC to the NC State Partnership Corporation (NCSPC).

Transaction Two: an easement between the CBC and the NCSPC for the 20 acres noted in transaction one.

Transaction Three: lease of approximately 10,000 square feet in the first planned, but not yet constructed, collaborative research building on a 2.64 acre portion of these 20 acres to allow the College of Veterinary Medicine (CVM) to relocate one off-campus research facility to a portion of the planned 44,500 usable square foot CBC Flex Laboratory Building.

The Board of Trustees of North Carolina State University had requested approval to lease State land to the NC State Residence, LLC for the purpose of constructing a new Chancellor's Residence utilizing private gifts. The residence would be constructed on the south shore of Lake Raleigh on the Centennial Campus and would include private and public space.

The Board of Trustees of the University of North Carolina at Chapel Hill had requested approval to lease State land to the Educational Foundation, Inc. for the purpose of expanding and renovating the Finley Golf Course Clubhouse. At the end of the construction period, the lease would end and the State would accept the completed project as a gift-in-place.

Gift of Property

The Committee recommended on behalf of the Coastal Studies Institute, an entity of UNC General Administration, the acceptance of a gift of property located in Dare County. Three parcels of undeveloped land totaling 34.4 acres in Manteo, estimated to be valued at \$3.4 million, would be used to provide facilities for a multi-campus Coastal Studies Institute that was established in 2002 and received State operating funds beginning in 2004. The Institute, a partnership between ECU, ECSU, NCSU, UNC-CH, and UNCW, would provide research, educational opportunities, and outreach to North Carolina's maritime counties.

Exchange of Property

The Board of Trustees of the University of North Carolina at Charlotte requested the approval of a proposed exchange of property between the State of North Carolina and the Foundation of the University of North Carolina at Charlotte, Inc. The State would receive approximately 0.87 acre in uptown Charlotte to provide the site for UNCC's Center City Building project. The Foundation would receive approximately 13 acres on the northwest border of the UNCC campus along US-29.

Disposition of Property

The Board of Trustees of North Carolina State University had requested authorization to dispose of real property located in Dare County. NCSU was requesting permission to sell a 0.78-acre parcel of unimproved land in Hatteras Village, intended to be used for purposes supporting NCSU's marine research programs. Because the parcel had been reduced by coastal erosion

from 1.69 acres to the remaining 0.78 acres and was only accessible by watercraft, NCSU had determined that it would be in its best interest to sell this parcel and use the proceeds to support its marine research activities.

Demolition of Property

Throughout the year, the following demolitions of properties were recommended:

ASU: Demolition of three buildings located at Kidd Brewer Stadium to clear room for the 105,000 square foot Kidd Brewer Stadium Field House authorized in 2003.

NCSU: Demolition of a modular building at North Carolina State Centennial Biomedical Campus to make way for the construction of a new parking deck.

NCSU: Demolition of an existing two-level parking deck adjacent to Corporate Research I on the Centennial Campus in order to construct a 65,000 square foot addition.

UNC-CH: Demolition of three former fraternity houses located at Finley Golf Course; the cost to renovate the existing houses to meet current accessibility requirements and codes would exceed the value of using them for campus purposes.

OTHER ACTIONS

Millennial Campus Designation

The Committee recommended approximately 210 acres in three separate sites based on their proximity to existing campus academic and research activities at the University of North Carolina at Wilmington to be designated as a Millennial Campus. The Millennial Campus would be known as CREST (Campus for Research, Entrepreneurship, Service, and Teaching) and would be developed to enhance the research, teaching, and service missions of UNCW by relying on its respective strengths in Marine Biotechnology; Health, Fitness and Nutrition; and Chemistry, Biochemistry and Molecular Biology.

The Committee recommended an additional 1.5 acres of University-owned real property and appurtenant facilities, to become part of the existing UNCC Charlotte Research Institute (Millennial) Campus. Adding the Smith Hall Tract to the Millennial Campus would support additional partnerships involving engineering design, analysis, and testing; and would allow research partners in the Charlotte economic region to have flexible access to state of the art testing equipment and facilities housed in Smith Hall. In the near term, this addition would enable the creation of new partnerships between UNC Charlotte and private industry related to civil and environmental engineering while supporting the growth of collaborative research in energy production and infrastructure. In the long term, this action would also enable future collaborations as Smith Hall was renovated and repopulated with engineering and engineering technology faculty.

Purchasing Benchmark

An increase in WSSU's purchasing benchmark was recommended. Winston-Salem State University had conducted a self-assessment of its purchasing capabilities and, as a result of the assessment, requested an increase to \$350,000 from \$100,000. Each institution may secure goods and services for amounts not exceeding the established benchmark using institutional procedures rather than routing bids through the Division of Purchase and Contract in Raleigh. In accordance with the Board's guidelines, the Vice President for Finance consulted with the Director of Purchase and Contract and the State Budget Officer to determine an appropriate benchmark for the institution.

PACE Recommendation

The Committee recommended that, effective with the current reporting cycle, the President's report to the Board on the proposed uses of lapsed salary funds and funds carried forward into the new fiscal year be eliminated. The final President's Advisory Committee on Efficiency and Effectiveness (PACE) report of November 1, 2006 contained a number of recommendations for the elimination of reports judged to be unnecessary or duplicative. The elimination of this report was determined to no longer be necessary.

General Fund Financial Summary Report

In 2005, the Board of Governors' Committee on Best Financial Practices recommended that the Board annually review a General Fund Financial Summary report for the University. The Committee recommended the report, from UNC General Administration's Unified Financial Data Model, which included 2005-06 General Fund information from all 16 campuses and General Administration budgets.

Subcommittee Studying the Cost of Textbooks

In March 2005, the Chair of the Committee on Budget and Finance, appointed a subcommittee to study the cost of textbooks and charged them with making recommendations to address student concerns over the rising costs of textbooks. The subcommittee held a series of meetings from July 2005 to January 2006 and the Board of Governors approved the recommendations in February 2006. One of the recommendations approved was that one year following the conclusion of the work of the subcommittee, the Vice President for Finance would make a report to the Committee on Budget and Finance on the implementation of the subcommittee recommendations and progress made system-wide to address keeping the costs of textbooks as low as possible for students. The Committee received the subject report and approved additional recommendations as listed below:

1. Each campus committee must continue; their efforts had resulted in good alternatives, solutions, and increased education.
2. Bookstore managers should meet at least quarterly to discuss the UNC buyback consortium, other best practices, and opportunities for improvements.
3. The PACE implementation effort should continue to consider the various options for possible exemptions or changes to the sales taxes currently charged for textbooks.

4. All Chancellors should support existing efforts and do whatever necessary to ensure 100% on-time adoptions of textbooks.
5. Likewise, campus requests for increases in tuition or fees must be accompanied by a calculation of average textbook costs for undergraduates on their campus.
6. By January 2008, all campuses must have a guaranteed buyback or rental of the required textbooks for introductory courses.