

Minutes of the August 13, 2009 Meeting  
of the Board of Governors' Committee on Budget and Finance

The Committee on Budget and Finance met in the Board Room of the General Administration Building, Spangler Center, in Chapel Hill, North Carolina, on Thursday, August 13, 2009, at 3:00 p.m.

Committee members in attendance were Mr. John M. Blackburn, Mr. Bill Daughtridge, Jr., Mr. John W. Davis, III, Mr. T. Greg Doucette, Governor James E. Holshouser, Jr., Dr. Cheryl Ransom Locklear, Mr. Charles H. Mercer, Jr., Mr. Fred G. Mills, and Dr. Irvin A. Roseman. Other Board of Governors' members attending the meeting were Board Chair Hannah D. Gage, Walter C. Davenport, Phillip R. Dixon, Adelaide Daniels Key, and Gladys Ashe Robinson. Others attending the meeting were President Erskine B. Bowles, Chief of Staff Jeffrey R. Davies; Executive Director of UNC Tomorrow Norma Mills; Vice Presidents Laura Luger, Robert Nelson, Anita Watkins, Kimrey Rhinehardt, and Joni Worthington; Associate Vice Presidents Ginger Burks, Claudia Odom Hager, Shari Parrish, Bruce Mallette, and James O. Smith; Associate Vice President for Finance and University Property Officer Terrance Feravich; and Assistant Vice Presidents Jeffrey A. Henderson and Jonathan Pruitt. Also in attendance were Chancellor Kenneth E. Peacock (ASU), Chancellor Steven C. Ballard (ECU), Chancellor Harold L. Martin, Sr. (NCA&T), Chancellor Charlie Nelms (NCCU), Chancellor Gerald Boarman (NCSSM), Chancellor Linda P. Brady (UNCG), Interim Chancellor Charles R. Jenkins (UNCP), Chancellor Rosemary DePaolo (UNCW), Chancellor John W. Bardo (WCU), Chief Operating Officer George Burnette (UNCSA), Chief Finance Officer Gregory M. Lovins (ASU), Chief Finance Officer Alan Robertson (NCCU), Associate Vice Chancellor for Campus Services Carolyn Elfland (UNC-CH), Director of the Sustainability Office Cindy Shea (UNC-CH), members of the ASG, and members of the press.

Chair Davis convened the meeting. The minutes of the meeting of May 7, 2009 were approved.

1. While most of the funding for each institution comes in the continuation budgets as approved by the General Assembly, funds for expansions and improvements are appropriated to the Board of Governors for allocation to the institutions. These appropriations were included in Senate Bill 202 (S.L. 2009-451), "2009 Appropriations Act," and House Bill 836, which made technical, clarifying, and other modifications to the 2009 Appropriations Act. By statute, the Board was directed to allocate such funds in accordance with its 2009-10 Budget Priorities and in accordance with any specifications in the appropriations act and the *Joint Conference Committee Report on the Continuation, Expansion and Capital Budgets*, dated August 3, 2009. In addition to the appropriations for the 2009-10 Budget Priorities, the General Assembly made a number of special appropriations for designated programs in University Operations and reductions to Aid to Private Institutions.

There was an amendment to the language on page 7 of 25 concerning the American Recovery and Reinvestment Act:

*In addition to the ARRA funds for State Fiscal Stabilization, as designated above, another \$300,000 in nonrecurring ARRA funds will be allocated to the University of North Carolina to continue the coastal sounds wind energy study from Section 9.12 of S.L. 2008-107. The related special provision was shown on page 23. It was recommended that these funds be allocated to UNC-Chapel Hill, Academic Affairs, and pursuant to the authority granted to the University of North Carolina in Section 9.14(e) of S.L. 2009-451, The University of North Carolina delegates to UNC-Chapel Hill all authority to negotiate, enter into contracts, and take all other actions necessary to fulfill the requirements of Section 9.14 of S.L. 2009-451.*

It was recommended that the proposed Allocations for Current Operations and Capital Improvements appropriations for 2009-10 be approved, as amended. It was further recommended that the President be authorized to make refinements in the interest of accuracy and completeness.

On the motion of Mr. Doucette, seconded by Governor Holshouser, the recommendation was approved. (See Attachments A and B.)

2. The Sustainability Policy was considered next. A presentation was given by Kimrey Rhinehardt, Shari Parrish, Carolyn Elfland, Greg Lovins, and Cindy Shea showing sustainability initiatives at the constituent institutions.

As recommended in the UNC Tomorrow Commission Report “the University of North Carolina should assume a leadership role in addressing the state’s environmental challenges by embracing environmental sustainability as a core value (4.6 Our Environment Major Finding).” Senate Bill 668, approved by the N.C. General Assembly in 2007 (G.S. 143-64.12) mandated significant reductions of 20% of all state agency buildings’ energy and potable water use by 2010 over FY 2002-03 levels, and 30% of energy use by 2015.

A 44-member Sustainability Committee with facility staff, faculty, student representation, and external state agencies including the State Construction Office, the Governor’s Office, and the Office of State Budget and Management, identified sustainable principles and practices that could be implemented on university campuses. These practices included measures in master planning, operations and maintenance, capital construction, transportation, and purchasing.

UNC campuses continue to implement energy conservation measures and programs; however the Committee, co-chaired by Shari Parrish, Associate Vice President for Finance at UNC General Administration, and Cindy Shea, Director of the Sustainability Office at the University of North Carolina at Chapel Hill, recommended that a comprehensive policy and implementation plan was needed to meet the UNC Tomorrow Commission recommendations, comply with legislative mandates, and address the environmental, social and economic challenges the University would face in the next decade and beyond. Adopting and implementing a sustainability policy that recognized the available resources, needs, and objectives of each constituent institution would facilitate a collaborative

approach and required a commitment from all stakeholders including administrators, faculty, students, campus operations staff, and providers of goods and services.

The Committee specifically recommended applying the principles of sustainability to eight (8) specific areas:

- Systematic Integration of Sustainability Principles
- Master Planning
- Design and Construction
- Operations and Maintenance
- Transportation
- Recycling and Waste Management
- Climate Change Mitigation and Renewable Energy
- Environmentally Preferable Purchasing (EPP)

The policy was provided for Board review.

3. As discussed at the May 7, 2009 Board of Governors' meeting, there was currently a wide variety of health coverage across the sixteen UNC campuses as well as a wide range of premiums. As a result, a request for proposal (RFP) was developed through extensive discussions with the UNC Student Health Center Directors and Vice Chancellors for Student Affairs, the N.C. Department of Insurance, and the N.C. Association of Independent Agents. In addition, the Chancellors and Chief Academic Officers had been included in the discussion of the issues surrounding the RFP's design.

The RFP was issued in November 2008 and it tested whether better rates and coverage could be obtained for all UNC students using a common base student health insurance plan. Bids were sought under the assumption that all schools would follow a hard waiver policy with the belief that rates would be lower for most students under this alternative. The results of the RFP demonstrated this was true.

It was recommended that the Board of Governors approve a hard waiver model to be used in the creation of an RFP seeking quality student health insurance at an affordable premium and that it be implemented in fall 2010.

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

4. In 2002, the General Assembly authorized state agencies to utilize guaranteed energy savings contracts as a method to reduce the state's increasing utility costs, improve efficiencies of operations, and reduce environmental impacts. The President's Advisory Committee on Efficiency and Effectiveness (PACE) and the UNC Tomorrow Commission identified guaranteed energy savings projects as important tools to achieve facility efficiencies and proper environmental stewardship.

The Board of Trustees of Appalachian State University had requested authority to establish a capital improvements project and to enter into a guaranteed energy savings contract that would improve energy efficiencies, replace failing equipment and infrastructure, and reduce water consumption on the ASU campus. The project would provide more efficient lighting and mechanical systems, upgrade building controls for mechanical and electrical systems, and add water conservation devices in 16 campus buildings, involving about 24% of ASU's approximately 4,579,471 square feet of space.

Working with the State Energy Office and their list of pre-qualified energy service companies, ASU selected Pepco Energy Services (John Huffman, CEO) as its energy services company. Pepco had validated the estimated project cost and utilities savings and was willing to enter into a contract in which they guaranteed that 100% of the projected savings would be achieved or Pepco would be liable for any shortfall. The estimated cost of the project, including financing costs, was \$8,959,000 and would be financed with a tax-exempt loan to be repaid within twelve years from utility savings guaranteed to total at least \$9,000,000. After the debt was paid, the savings produced by the improvements, estimated to be \$615,000 per year, would continue to accrue to ASU and the State. The project was expected to reduce the current energy consumption of the 16 buildings by at least 26%.

To finance this project, ASU solicited proposals from qualified lenders. ASU had selected SunTrust Equipment Finance and Leasing Corporation (Daniel E. McKew, President and CEO), a subsidiary of SunTrust Banks, Inc. (James M. Wells III, Chairman and CEO), who proposed a 5.1% fixed interest rate. The term of the loan was 12 years with a one-year construction period.

The project, the guaranteed energy savings contract, and the method of financing would be accomplished within the guidelines, procedures, and policies of the Department of Administration, the Office of State Budget and Management, and the Department of State Treasurer, and would be subject to the approval of the Council of State.

It was recommended that the request of the Board of Trustees of Appalachian State University be approved.

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

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

The first project would replace the failing steam and condensate lines serving the Cone University Center and King Building. Work would include conversion to a hot water heating system where replacing the existing lines from the main steam plant was cost prohibitive. The project, to be complete by October 2009, was estimated to cost \$750,000 and would be funded from maintenance reserves generated by Cone Center Student Fees (available balance \$750,000).

The second project would renovate 8,800 square feet on the second floor of the Student Activity Center for use by intercollegiate athletics. The continued growth of intercollegiate sports programs at UNCC, including organizing a football program, had created a need for more staff office space. The space currently utilized as a student game room would be renovated for office and support space, reception area, and conference room. The project was estimated to cost \$1,000,000 and would be funded from Intercollegiate Athletics Department Funds (available balance \$2,511,022) generated from student athletic fees, gate receipts, and gifts.

The third project would make improvements to the clean room and laboratory air systems in the Optics Laboratory in Grigg Hall. Supporting 3,580 square feet of research labs, the ventilation systems needed to comply with current code requirements and standards for clean room temperature and humidity control. The project was estimated to cost \$600,000 and would be funded from currently budgeted and available funds in UNCC's capital accounts.

It was recommended that the request of the Board of Trustees of the University of North Carolina at Charlotte be approved.

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

6. At the Board of Governors' request, the 2007 General Assembly approved a capital project – Marine Biotechnology Research Facility, \$15,000,000 – for the University of North Carolina at Wilmington. The facility would house MARBIONC (Marine Biotechnology in North Carolina) and other clients that focused on the application of marine biotechnology for health, food and energy by seeking to develop and market commercial products from various Marine Science research initiatives essential to the economic development of eastern North Carolina and the state. The project would be a partnership with UNCW's marine scientists and other public agency and private researchers. The project was approved to be financed from the marine biotechnology allocation (established by the General Assembly in 2004), leases, and overhead receipts.

In July 2009, UNCW was awarded a \$15 million matching grant from the National Institute of Standards and Technology (NIST) for the construction of this new Marine Biotechnology facility. The grant was funded through the American Recovery and Reinvestment Act of 2009 (stimulus funds).

The grant had a \$1-to-\$1 matching requirement, and UNCW now requested authority to combine its previously approved \$15 million capital project authority with the \$15 million NIST grant award to construct a \$30 million facility.

It was recommended that the request of the University of North Carolina at Wilmington and the proposed methods of financing the Marine Biotechnology Research Facility be approved.

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

7. In 1999, the Appalachian Student Housing Corporation was organized as a non-profit entity whose purpose was to support and aid Appalachian State University by providing modern residential facilities to students.

The Board of Trustees of Appalachian State University had requested approval to lease State land to the Appalachian Student Housing Corporation (ASHC) for the purpose of constructing student housing. ASU also requested approval to enter into a long-term lease to acquire up to 400 beds of student housing from the ASHC.

ASU would lease approximately 4.7 acres of land on campus to ASHC. ASHC would construct up to 400 beds which would then be leased back to ASU at a projected cost of \$910,000 (\$2,275 per bed) per year for a lease term not to exceed 30 years. The cost charged to students would be consistent with the current rate structure for comparable ASU housing. The facility would be built on the site of the current Mountaineer Apartment complex that would be demolished (nine buildings, 90 apartments, built in 1973). It was anticipated that the leased housing would be available by Fall of 2011. Residence halls had 100% occupancy in 2008-09. Lease payments would be funded from student housing receipts.

This project was part of the Master Plan and was approved by the Board of Trustees. The lease of state land and the lease of the 400 beds would be accomplished within the guidelines, procedures, and policies of the North Carolina Department of Administration, the North Carolina Department of Insurance, and the Council of State.

It was recommended that the request of the Board of Trustees of Appalachian State University be approved and transmitted to the Council of State for final action.

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

8. The Chancellor of North Carolina Central University had informed the President of the need to invoke emergency procedures to immediately enter into lease arrangements to accommodate students requesting to live on campus for the fall semester because of an unforeseen increase in enrollment.

The North Carolina Department of Administration's State Property Office, using its emergency procedures, secured a lease in Durham for the fall semester. The lease could be renewed, on an as-needed basis, for the 2010 spring semester. The lease was with Millennium Hotel Durham, owned by Durham Operating Partnership, L.P., a Delaware Limited Partnership (Agent: CT Corporation System, Kenneth J. Uva, Vice President), and would provide 300 beds at a cost of \$1,960 per bed per semester. Estimated at \$588,000 per semester, the total cost of the lease would be funded from student housing receipts. It

was expected that the total cost of the lease would be completely offset by rents charged to the students living in these locations. Rents charged to the students would be consistent with comparable on-campus housing.

9. In 2002, the NCCU Real Estate Foundation, Inc. was organized as a non-profit entity whose purpose was to support and aid North Carolina Central University by providing modern residential facilities to students. In 2003, the Foundation acquired a site adjacent to the NCCU campus and constructed a 408-bed student housing complex.

The Board of Trustees of North Carolina Central University had requested approval to lease the student housing complex, known as Eagle Landing, from the Foundation. The cost would be consistent with the current rate structure for comparable residence halls on campus. The leasing arrangement would enable NCCU to meet long-term projected housing demands. The lease term would not exceed 32 years and payments would be made from student housing receipts which would be used to retire tax-exempt, long-term indebtedness issued by the Foundation to cover the cost of constructing the facility.

The acquisition of the 408 beds would be accomplished within the guidelines, procedures, and policies of the North Carolina Department of Administration and would be subject to approval by the Council of State.

It was recommended that the request of the Board of Trustees of North Carolina Central University be approved and transmitted to the Council of State for final action.

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

10. The Director and General Manager of the University of North Carolina Center for Public Television had informed the President of the need to invoke emergency procedures as allowed by G.S. 143-129 to provide for a new capital improvements project.

On May 2, 2009, a lightning strike at UNC-TV's Concord transmitter site resulted in a fire in the station's transmitter building. The fire, contained to the generator/electrical room, caused extensive damage to the facility's electrical distribution equipment. No one was injured in the incident. Temporary power was restored to the site, allowing a return to minimal services. The Concord facility provided over-the-air analog and digital television in the Charlotte area on station WUNG. It also provided the interconnect structure for the Voice Interoperability Plan for Emergency Responders (VIPER) system operated by North Carolina State Highway Patrol and other area law enforcement agencies.

Restoring the generator/electrical room to its full use was estimated to cost \$1,200,000 and would be funded by insurance proceeds. Any unreimbursed balances would be funded from operating or uncommitted Repairs and Renovations funds. Work was expected to be complete by October 2009.

In accordance with emergency procedures, the State Building Commission was notified.

In 2006, the Board authorized the President to execute leases valued up to \$350,000 and other property interests up to \$500,000. The following property transactions were approved under this delegation and were reported to the Committee on Budget and Finance.

Appalachian State University – Disposition of Real Property by Easement

Grantor: State of North Carolina for Appalachian State University  
Grantee: North Carolina Department of Transportation  
Justification: To allow for the widening of US Hwy 421 (King Street) in Boone, NC  
Description: Approximately 0.344 acres of undeveloped land along US Hwy 421, Watauga County  
Term: Permanent  
Consideration: \$84,950  
Proceeds: To be deposited into the Endowment Fund of Appalachian State University for use in accordance with G.S. 116-36  
Approvals: The ASU Board of Trustees recommended this action on June 19, 2009.

Western Carolina University – Exchange of Real Property

Grantor: State of North Carolina for Western Carolina University and Jackson County  
Grantee: Jackson County and State of North Carolina for Western Carolina University  
Justification: This exchange of properties will allow the reconstruction and expansion of the existing Cullowhee Volunteer Fire Department station serving WCU and the local area in Jackson County  
Description: WCU will dispose of approximately 2.9 acres of undeveloped land along SR 1367 and acquire approximately 3.3 acres just off SR 1367, Jackson County  
Term: Permanent  
Consideration: Benefits to both parties  
Proceeds: \$0  
Approvals: The WCU Board of Trustees recommended this action on March 13, 2009.

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

\*\*\*\*\* CLOSED SESSION \*\*\*\*\*

There being no further business, the meeting was adjourned.

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Mr. John W. Davis, III  
Chair of the Committee  
on Budget and Finance

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Mr. Bill Daughtridge, Jr.  
Secretary of the Committee  
on Budget and Finance



Attachments A and B are not reprinted due to size. They are posted on [www.northcarolina.edu](http://www.northcarolina.edu); they are on file in the Finance Division and available upon request.