Minutes of the November 12, 2009 Meeting
of the Board of Governors' Committee on Budget and Finance

The Committee on Budget and Finance met in the Executive Conference Room of the General Administration Building, Spangler Center, in Chapel Hill, North Carolina, on Thursday, November 12, 2009, at 1:00 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 members attending were Chair Hannah D. Gage, Brent D. Barringer, Peaches Gunter Blank, Paul Fulton, Charles A. Hayes, Estelle Sanders, and Priscilla P. Taylor. Others attending the meeting were President Erskine B. Bowles; Chief of Staff Jeffrey R. Davies; Vice Presidents Laura Luger, Robert Nelson, Anita Watkins, and Joni Worthington; Associate Vice Presidents Ginger Burks, Claudia Hager, Shari Parrish, 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 Peacock (ASU), Chancellor Steven Ballard (ECU), Chancellor Charlie Nelms (NCCU), Chancellor Philip Dubois (UNCC), Chancellor Linda Brady (UNCG), Chancellor Rosemary DePaolo (UNCW), Chief Operating Officer George Burnette (UNCSA), Director of Treasury and Risk Management Services Brian Smith (UNC-CH), Phillip Ray, intern in the Finance Division, as well as members of the Association of Student Governments and members of the press.

Chair Davis convened the meeting. The minutes of the meeting of October 8, 2009 were approved.

Chair Davis called upon Greg Doucette and the Student Body Presidents from UNC-CH, ASU, and UNCW. They commented on the cost of textbooks and presented ideas concerning a tax free holiday for book purchases, book rental programs, and textbook buyback efforts. For the third consecutive year, General Administration staff would collect data on average textbook costs, the progress of each campus's guaranteed buyback or rental program, and the "on-time adoption rate" of textbooks by faculty. These data would be reviewed by the President as he considered campus requests for tuition and fee increases. The Committee appreciated Mr. Doucette's efforts to provide valuable insight from the students.

The next discussion topic was tuition. The Board of Governors is charged with setting tuition rates for the campuses "*not inconsistent with actions of the General Assembly*." As part of its budget deliberations, the 2009 General Assembly set tuition rates for the University for 2010-11 that increase all existing rates by the lesser of $200 or 8%. This increase would apply to both resident and nonresident students at both the undergraduate and graduate levels. While the new revenues from campus-initiated tuition increases remain on the campuses, the revenues from these legislatively mandated tuition increases would flow directly into the State's General Fund budget.

Based on his conversations with the legislative leadership, the President will recommend that the Board ask the General Assembly to consider an alternative to its action on tuition when it reconvenes in May. To prepare for that important discussion with the legislature, the Chancellors have been asked to continue to follow the Board's Four-Year Plan for proposing campus-based tuition increases for consideration by the Board of Governors in January and February.

The President would recommend that at least 50% of new tuition revenues be earmarked for additional need-based financial aid and that remaining revenues go to critical campus needs, such as improvements in retention and graduation rates. The President would also recommend that no campus consider an increase in resident tuition greater than $200.

If the Board of Governors approves, and the General Assembly embraces this alternative proposal, the campuses would benefit significantly from having the new tuition revenues remain on campus to address important needs. And, the alternative plan would also be far more favorable to resident students. Tuition and fees would be discussed more thoroughly at the January meeting.

The third discussion item was an update on UNCC's announced plan to add an intercollegiate football team. Chancellor Phil Dubois explained to the Committee that approval of a dedicated student fee by the Board of Governors to help support the operating costs of the football program was critical to the program's implementation. At the present time, the UNCC Board of Trustees is evaluating the question of whether to move forward with the original timetable to initiate football in the fall of 2013, or, because of present economic circumstances, postpone the start date for one or two years. If UNCC decides to move forward as originally planned, UNCC would recommend to the Board of Governors a phased-in plan, starting with the fall of 2010, to increase the student athletic fee to support the football program. The Chancellor reported that given the current excellent environment for bidding construction projects and very low interest rates, the Board of Trustees is also evaluating whether it makes sense to levy a debt service fee to support the capital needs of a football program. The Chancellor, Board of Trustees Chair Dr. Ruth Shaw, Vice Chair Gene Johnson, and Student Body President Joey Lemmons educated the Committee on the hard work and due diligence that has occurred since the UNCC football feasibility study was authorized by the UNCC Board of Trustees in December 2006. The information would be extremely useful to Board of Governors members as they reviewed recommendations for fee increases at their January and February meetings.

1. The Board of Governors was authorized to issue special obligation bonds for capital improvements projects that had been approved by the General Assembly. Although a specific source of funding was used by a campus when retiring these bonds, special obligation bonds were generally payable from all campus revenues excluding tuition, State appropriations, and restricted reserves.

   The University of North Carolina at Charlotte requested that the Board issue special obligation bonds for the purpose of financing (1) the costs of constructing and equipping capital improvement projects previously approved by the Board of Governors and the North Carolina General Assembly as detailed below; (2) the refunding of all or a portion of prior revenue bonds issued on behalf of UNC Charlotte that resulted in sufficient savings to UNC Charlotte; (3) capitalizing interest on a portion of the 2009 Bonds; and (4) providing for the costs incurred in connection with the issuance of the 2009 Bonds. The 2009 Bonds may be issued in one or more series of bonds, including any combination of tax-exempt bonds, taxable "Build America Bonds" and other taxable bonds as the Vice President for Finance of the University, in consultation with the appropriate officers at UNC Charlotte, determined to be in the best interest of the University.

The issuance of bonds for new projects previously approved by the Board and the General Assembly would not exceed a par amount of $58,100,000. The proceeds would be used to pay the cost of constructing a parking deck adjacent to the Laurel Residence Hall ($39,100,000) to meet increased demand and to provide the next phase of planned student housing -- a 400-bed residence hall with apartment-style quarters, with some suite-style rooms and $19,000,000 for a 1,200 space parking deck. The University intended to retire the debt with parking and housing receipts.

The issuance of bonds to refund all or a portion of prior revenue bonds issued on behalf of UNC Charlotte, for interest savings, would not exceed $36,000,000. It was possible that no bonds would be refunded with this transaction.

UNCC was currently rated by Moody's Investor Service as an A1 institution. UNCC's expendable resources to debt ratio was 1.30 and its debt services to operations ratio was 3.6%, both consistent with UNCC's policy ceiling. After issuance of these bonds, UNCC's ratios would remain constant and it was expected UNCC would maintain its A1 rating.

It was recommended that the Vice President for Finance be authorized to sell the special obligation bonds between the November 2009 and the January 2010 meetings of the Board.

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

2. The Board of Governors was authorized to issue special obligation bonds for capital improvements projects that had been approved by the General Assembly. Although a specific source of funding was used by a campus when retiring these bonds, special obligation bonds were generally payable from all campus revenues excluding tuition, State appropriations, and restricted reserves.

The University of North Carolina at Chapel Hill requested that the Board issue special obligation bonds for the purpose of financing (1) the refunding of indebtedness issued under the UNC-CH/NCSU Commercial Paper Program, the proceeds of which were used to pay a portion of the costs of the 2009 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) the refunding of all or a portion of prior revenue bonds issued on behalf of UNC-Chapel Hill that resulted in sufficient savings to UNC-Chapel Hill; (4) capitalizing interest on a portion of the 2009 Bonds; and (5) providing for the costs incurred in connection with the issuance of the 2009 Bonds. The 2009 Bonds may be issued in one or more series of bonds, including any combination of tax-exempt bonds, taxable "Build America Bonds" and other taxable bonds as the Vice President for Finance of the University, in consultation with the appropriate officers at UNC-Chapel Hill, determine to be in the best interest of the University.

The issuance of bonds for new projects previously approved by the Board and the General Assembly will not exceed a par amount of $300,000,000 (the size of the bond issue was being finalized). These bonds would include amounts needed to refund indebtedness issued under the UNC-CH/NCSU Commercial Paper program for these new projects.

Proceeds of the 2009 bonds would be used to fund a combination of the below projects in a combination and in an amount not to exceed the individual project limits and not to exceed, in total, $300,000,000.

Project	**Not to Exceed Amount**
Research Resource Facility	$ 3,700,000
Rizzo Center	13,697,929
Residence College Phase III	1,255,639
Science Complex Phase I	14,199,361
Brinkhouse Bullitt – Translational Medicine	4,000,000
Carmichael Auditorium	26,500,000
Carmichael Residence Hall	6,800,000
Fetzer Gym Expansion	2,500,000
Genetic Medicine Building	24,212,902
Old East/Old West	5,200,000
Rosenau Hall	1,650,000
Sports Medicine – Woollen Gym	8,000,000
Utility Infrastructure	90,402,308
Kenan Stadium Phase I	25,000,000
Science Complex Phase II	77,200,000
Bell Tower/Genomics	44,500,000
Dental Sciences Teaching and Learning Building	20,000,000

The issuance of bonds to refund all or a portion of prior revenue bonds issued on behalf of UNC-Chapel Hill, for interest savings, would not exceed $100,000,000.

The Board of Governors, on behalf of the University of North Carolina at Chapel Hill, had entered into a forward-starting interest rate swap as a hedge for the 2009 transaction with the Bank of New York as the counterparty and a start date of December 1, 2009. Since the 2009 bonds were being issued as fixed-rate instruments, the financing plan was to modify the start date on the interest rate swap to move the start date to December 1, 2011 to serve as a hedge for the next planned bond issue.

UNC-CH was currently rated by Moody's Investor Service as an Aa1 institution. UNC-CH's expendable resources to debt ratio was 1.53 and its debt services to operations ratio was 3.51%, both consistent with the UNC-CH Board of Trustee's policy ceiling. After issuance of these bonds, it was expected UNC-CH would maintain its Aa1 rating.

It was recommended that the Vice President for Finance be authorized to sell the special obligation bonds between the November 2009 and the January 2010 meetings of the Board.

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

3. East Carolina University, Elizabeth City State University, and North Carolina Central University had requested authority to establish new capital improvements projects.

ECU: This project would provide a new fire alarm system for Aycock Residence Hall (four-story, built in 1960, 480 beds, 89,516 square feet). Work would replace the outdated analog fire alarm system with a fully addressable system meeting current code requirements. Existing plaster and lay-in ceiling systems would also be repaired or replaced as needed. The project, estimated to cost $339,000, would be funded from housing receipts (available fund balance of $5,000,000) and would be completed by the 2010 fall semester.

ECSU: This project would partially renovate the 5,420 square-foot, 600-seat auditorium in Moore Hall (two-story, built in 1922, 41,457 square feet). The auditorium was closed in 2004 due to safety concerns. This project would repair the fire escape serving the auditorium and make other improvements that enhance accessibility and compliance with current code requirements while preserving the historical character and use of the space. The auditorium project would also replace windows and doors, upgrade the electrical service, upgrade the HVAC system, and replace or repair wall, ceiling and floor finishes. The project, estimated to cost $500,000, would be funded from a National Park Service Grant (American Recovery and Reinvestment Act funds) that was awarded to ECSU in September 2009. The project would be completed by the 2011 fall semester.

NCCU: This project would upgrade campus communication and electrical infrastructure and renovate 3,288 square feet of space located in the basement level of the Student Health Building to become the NCCU Campus Police Communications Center. The existing communication center was too small to support the expansion of the campus central telephone and communications system and the central security camera, security access, and fire alarm monitoring station. The project required the installation of a fiber optic cable between the Shepard Library and the Student Health Building, the upgrade of the electrical distribution system to and within the Student Health Building, and the installation of an emergency generator. The project would also create a secure communications/monitoring area and include five new offices and restrooms. The project, estimated to cost $744,000, would be funded from a combination of Title III Federal Funds ($600,000) and Repairs & Renovations funds ($144,000). The project would be completed by the 2010 fall semester.

It was recommended that these projects be authorized and that the methods of financing as proposed by East Carolina University, Elizabeth City State University, and North Carolina Central University be approved.

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

4. The Annual Report of the Committee on Budget and Finance to the Board of Governors of the University of North Carolina, July 1, 2008 through June 30, 2009, was recommended for approval. The Committee had been given a draft copy of the report at the October meeting for review.

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

Next the Committee received the update on the UNC Bond Program. The UNC Bond program was nearing completion. The remaining construction projects in progress at NCA&T, NCCU, UNC-CH, and UNCP, along with land acquisitions at UNCSA and UNCG, were all scheduled for completion within the calendar year.

Only one claim by contractors or designers remained outstanding and it was at WSSU. A hearing had been held at State Construction and a written ruling was anticipated soon. The low number of claims had been one of the successes of the program, with total claims of $18.2M, .73% of the entire program. Paid claims totaled only $1.5M, or .06%.

$2.497 of the $2.5B, or 99.86% of the program had been expended or committed, with $2.47B of that being completed and/or closed out.

HUB UPDATE

Since the beginning of the Bond Program, $466M in contracts for both design and construction had been awarded to HUB firms: $424M (16.8%) for construction and $42M (14.7%) awarded to designers. Outreach efforts developed during the Bond Program continued on non-bond projects as a result of legislation [G.S 143-128.2] and the Board of Governor's policy regarding Equal Access in Construction Contracting adopted in September 2001. To improve HUB participation on non-bond projects, efforts would focus on challenges facing HUB firms: bonding capacity, access to capital, and most recently, problems with the implementation of legislation requiring all HUB firms to be certified with the State of North Carolina in order to be counted toward participation goals [G.S.143-128.4(e)].

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

Mr. John W. Davis, III Chair of the Committee on Budget and Finance	Mr. Bill Daughtridge, Jr. Secretary of the Committee on Budget and Finance

For Closed Session Only