

Minutes of the April 8, 2010 Meeting
of the Board of Governors' Committee on Budget and Finance

The Committee on Budget and Finance met in Room 1011 of the H.M. Michaux, Jr. School of Education at North Carolina Central University in Durham, North Carolina, on April 8, 2010, at 2:00 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., Mr. Charles H. Mercer, Jr., Mr. Fred G. Mills, and Dr. Irvin A. Roseman. Necessarily absent was Dr. Cheryl Marvilleane Locklear. Board member Paul Fulton was in attendance as well as Chief of Staff Jeffrey R. Davies; Vice Presidents Steven Leath, Ernest Murphrey, and Anita Watkins; Associate Vice Presidents Ginger Burks, 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), Interim Chancellor James H. Woodward (NCSU), Chancellor W. Randolph Woodson (NCSU), Chancellor Philip Dubois (UNCC), Interim Chancellor Charles R. Jenkins (UNCP), and Chief Operating Officer George Burnette (UNCSA). In attendance from NCSU were Associate Vice Chancellor for Facilities Kevin MacNaughton and Director of Strategic Debt Management Lori Johnson; from NCCU, Interim CFO Yolanda Banks Deaver, Assistant Vice Chancellor Budgets and Finance Planning Cynthia Carter, and Associate Vice Chancellor for Finance Claudia Hager; from UNCA, CFO John Pierce; from UNC-CH, Dean of Law School John Boger, Distinguished Professor School of Law Elizabeth Gibson, Director of Athletics Dick Baddour, Associate Executive Director of the Athletic Educational Foundation Karlton Creech, Associate Athletic Director Rick Steinbacher, and Director of Facilities Planning Anna Wu; and from UNCP, CFO Neil Hawk. Janice Burke and Walter Goldsmith of FirstSouthwest Bank and members of the press were in attendance.

Chair Davis convened the meeting. The minutes of the meeting of February 11, 2010 were approved.

Chair Davis introduced and welcomed the recently appointed Vice President for Finance, Ernest G. Murphrey. Then the agenda items were considered.

1. The Board of Governors biennially adopts a six-year plan for capital improvements. The General Fund provides for projects directly related to teaching, research, and public service. Residence halls, parking decks, athletic facilities, and student recreation facilities are funded from non-General Fund sources and other receipts.

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 for the impact of the project on the 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. Criteria used for ability to pay were: (1) Debt Burden Ratio [Percentage], which measured the University's ability to repay annual principal and interest associated with all outstanding debt and its

effect on the overall budget; (2) Viability Ratio [times coverage], which measured the availability of liquid and expendable net assets compared to aggregate debt; and, (3) Moody's Investors Service's QRate, a predictive tool provided by Moody's which relied on five key performance measures and statistics to arrive at an estimated rating before and after the issuance of additional debt. A detailed financial plan would be reviewed for each project in consultation with financial advisors and bond counsel before bonds were issued and construction contracts were awarded. Final approval for the issuance of bonds was the responsibility of the Board of Governors.

It was recommended that the Board approve 21 new or supplemental capital improvements projects at nine institutions totaling \$479,448,900 of which \$458,038,300 was projected to be indebtedness. It was further recommended that the Board approve borrowing to support three capital improvements projects at UNC Hospitals and approve, for advance planning only, three projects at UNCC and one at UNCP. The projects would be forwarded to the General Assembly for authorization during the 2010 Session. It was further recommended that the President of the University, or his designee, be authorized to make refinements to the request in the interest of accuracy and completeness. (Attachment)

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

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

East Carolina University 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 ECU that resulted in changing interest rates from variable to fixed, thereby eliminating remarketing, liquidity and interest rate risks, and/or providing sufficient savings to ECU; (3) capitalizing interest on a portion of the 2010 Bonds; and (4) providing for the costs incurred in connection with the issuance of the 2010 Bonds. The 2010 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 President of the University, or his designee, in consultation with the appropriate officers at ECU, 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 \$38,700,000, with an expected issuance amount of \$32,000,000. The proceeds would be used to pay the cost of constructing new athletics facilities, including a track and field facility, a new women's soccer complex with seating for 1,000 spectators, a new team building with offices and support services for the "Olympic sports," a parking lot, and drainage improvements for the property. These improvements would be funded from a \$70 debt service fee previously approved by the

Board of Governors. Funds would also be used to provide additional dining facilities and make improvements to Tyler Residence Hall, including fire suppression systems, complete bathroom renovations, asbestos abatement, and ADA compliance. The University intended to retire the debt for these improvements with dining and housing receipts.

The issuance of bonds to refund all or a portion of prior revenue bonds issued on behalf of ECU would not exceed \$23,000,000. It was possible that no bonds would be refunded with this transaction.

ECU was rated Aa3 and AA- by Moody's Investor Service and Standard & Poors, respectively. ECU's expendable resources to debt ratio after issuance of this proposed debt would be 1.20 and its debt service to operations ratio would be 2.2%, both consistent with ECU's debt management guidelines. After issuance of these bonds, it was expected ECU would maintain its Aa3/AA- rating.

Wells Fargo Securities would be the senior underwriter for the issue, and Jackson Securities, LLC would serve as the co-underwriter. Parker Poe was bond counsel. First Southwest was the financial advisor.

It was recommended that the President of the University, or his designee, be authorized to sell the special obligation bonds between the April 2010 and the June 2010 meetings of the Board.

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

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

North Carolina State University 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 2010 projects as listed below; (2) the costs of constructing, renovating, equipping and furnishing capital improvement projects previously approved by the Board of Governors and the North Carolina General Assembly as listed below; and (3) providing for the costs incurred in connection with the issuance of the 2010 Bonds. The 2010 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 President of the University, or his designee, in consultation with the appropriate officers at North Carolina State University, 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 \$85,000,000. 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 2010 bonds would be used to fund a combination of the below projects in an amount not to exceed \$85,000,000.

<u>Project Title</u>	<u>Not to Exceed Amount</u>
Terry Companion Animal Hospital	\$34,000,000
Student Health Center Expansion	10,900,000
West Lot Parking Deck	21,850,000
Dining Facilities Renovations and Expansion	5,000,000
Athletics Facilities Renovations and Expansion	11,500,000
Carmichael Complex Improvements	7,400,000

North Carolina State University was currently rated Aa2 by Moody's Investors Service and AA by Standard & Poor's Rating Services. NC State's expendable resources to debt ratio was 1.4 and its debt services to operations ratio was 2.1%. After issuance of these bonds, it was expected NC State would maintain its Aa2/AA rating. In May, 2010, Moody's Investors Service would be recalibrating their U.S. Municipal Ratings to its Global Scale. While the actual recalibration level was unknown at this point, all indications were that North Carolina State University would be recalibrated to Aa1 on the global scale.

J.P. Morgan Securities, Inc., was the senior underwriter, with Loop Capital Markets and Morgan Keegan serving as co-managers. Womble Carlyle was bond counsel.

It was recommended that the President of the University, or his designee, be authorized to sell the special obligation bonds between the April 2010 and June 2010 meetings of the Board.

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

4. The Chancellor of the University of North Carolina at Charlotte 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.

UNC Charlotte had experienced the failure of the Hechenbleikner Lake dam, which impounded a large pond on campus and supported Broadrick Boulevard, a major traffic and pedestrian artery allowing students, faculty, staff, and visitors to enter and exit the campus.

In late February 2010, the dam began to fail with water percolating through the core of the dam. This condition indicated a potential catastrophic collapse of the dam, thereby, threatening Broadrick Boulevard, the pedestrian path on top of the dam, and the waterway system downstream. The roadway and pedestrian walkway were immediately closed and water was drained from the pond. The closures created significant traffic congestion and related safety concerns throughout campus. On March 12, 2010, UNCC received a Notice of Deficiency from the North Carolina Department of Environment and Natural Resources

(DENR) requiring that UNCC submit a repair plan for the dam within 30 days. DENR's letter stated "In the event of a dam failure, human life and significant property would be endangered"

The most cost-effective repair option identified by the campus was to build a new, smaller dam on the upstream side of Broadrick Boulevard. UNCC had requested \$2,500,000 from the State's Contingency and Emergency account to fund this repair. Any unfunded balance would be funded from campus operating or uncommitted Repairs and Renovations funds. Work was expected to be complete by November 2010.

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

5. Appalachian State University and the University of North Carolina at Charlotte had requested authority to establish new capital improvements projects.

ASU: This project would provide a new fire sprinkler system for Bowie Residence Hall (nine-story, built in 1966, 288 beds, and 54,384 square feet) and Eggers Residence Hall (nine-story, built in 1970, 288 beds, and 57,721 square feet). Existing plaster and lay-in ceiling systems would also be repaired or replaced. The project, to be completed by the start of the 2010 fall semester, was estimated to cost \$901,065 and would be funded from a combination of housing receipts (\$650,000) and a 2008 appropriation for installation of fire suppression sprinkler systems in existing residence halls (\$251,065).

UNCC: This project would up-fit 3,000 square feet of space to provide bookstore and café services in the new Center City Classroom Building. The bookstore would allow downtown students to get textbooks and supplies without traveling to the main campus and the café would serve students, faculty, staff, and the local community. The café consisted of a service counter and preparation area. The project, to be completed by the start of the 2011 fall semester, was estimated to cost \$1,000,000 and would be funded from a combination of bookstore receipts (\$150,000) and food service receipts (\$850,000).

It was recommended that these projects be authorized and that the methods of financing as proposed by ASU and UNC Charlotte be approved.

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

6. In August 2009, the Board of Governors approved Appalachian State University's request 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 ASHC.

The Board approved the lease of approximately 4.7 acres of land on campus to ASHC to 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. ASU's residence halls had 100% occupancy in 2008-09. Lease payments would be funded from student housing receipts.

ASU's Board of Trustees had requested that the Board of Governors approve: (1) the use of a wholly-owned subsidiary of ASHC (a single-member LLC to be created by ASHC) to consummate the transactions described above, (2) an increase in the number of beds in the facility to be leased to 460, and (3) the authorization of agreements related to the construction of the facility.

It was recommended that the request and the following resolution be approved.

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

7. In February 2003, the Board of Governors approved a lease for approximately 12 acres of land to The UNCP Foundation, Inc. (the Foundation) for a 30-year term. The Foundation subleased the land to a private developer who financed and constructed 216 beds of student housing. The Foundation, on advice from its financial advisors and attorneys, then purchased the student housing facility from the private developer and constructed 144 additional beds in 2004. Consistent with the rules and regulations of the Department of Administration's Office of State Property, UNCP currently leased the entire six-building apartment complex known as The University Village Apartments and rented the apartments as part of its on-campus housing program.

The Foundation was planning to construct a new suite-style residence hall facility that would provide an additional 476 beds of student housing and approximately 194 parking spaces. The facility would be built on an available site within the twelve acres originally leased to the Foundation in 2003.

At this time, UNCP requested approval to enter into a long-term lease for the new residence hall facility, including parking when construction was complete, and to extend the existing ground lease to accommodate the proposed financing package. The lease to UNCP, at a term of approximately 25 years, would be at a cost consistent with similar housing and parking rates on campus. Lease payments would be made from housing receipts. It was anticipated that the new housing would be available by fall 2011 to accommodate anticipated enrollment growth.

This project was part of UNCP's Master Plan and was approved by the Board of Trustees. The lease of the facility would be accomplished within the guidelines, procedures, and policies of the North Carolina Department of Administration and the Council of State.

It was recommended that the authorizing resolution, which included the continuation of the ground lease, be approved and the request of the University of North Carolina at Pembroke be transmitted to the Council of State for final action.

Mr. Mills and Mr. Mercer recused themselves from this item.

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

8. 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 transaction was approved under this delegation.

The University of North Carolina at Charlotte – Disposition of Real Property by Easement

Grantor: State of North Carolina for the University of North Carolina at Charlotte
Grantee: Duke Energy
Justification: To allow the installation of a secondary electrical service to Carolinas Medical Center - University
Description: Approximately 0.8 acres of undeveloped land along an access road near East W.T. Harris Boulevard, Mecklenburg County
Term: Permanent
Consideration: \$95,187
Proceeds: Net proceeds to revert to the original source of funds
Approvals: The UNCC Board of Trustees recommended this action on December 5, 2005.

9. One of the principal responsibilities of the Board of Governors is to “develop, prepare, and present to the Governor and the General Assembly a single, unified recommended budget for all of public senior higher education (G.S. 116–11(9)a).” The Board of Governors had an existing biennial budget priority list before the Governor and General Assembly for 2009-11. As was customary, the President and Chancellors had revisited those items in preparation for the second year of the biennium.

The recommendation for the 2010-11 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. There were no new items presented in this request. The priorities required some modification and changes were noted for informational purposes. The proposed amendment to the Operating Budget Priorities was an increase of \$5.6 million in the University’s enrollment funding request to reflect additional enrollment that was not projected at the time of the initial funding request. The only changes that had been made in the Capital Budget Priorities were revisions to amounts requested due to updated information and some reordering of capital priorities based on Chancellors’ input.

Each state agency is required (G.S. 143.34.44) to prepare a six-year capital improvement needs estimate, which is used as the beginning point for future budget requests for capital projects. The Chancellors had updated their 2007-13 capital plans and the necessary adjustments were noted. Resulting changes to the University’s Capital Budget Priorities for the 2010 Session were shown.

It was recommended that the Board of Governors adopt the adjusted 2010-11 Budget Priorities for presentation to the Governor and General Assembly for consideration during the 2010 legislative session. It was also recommended that the Vice President for Finance be authorized to make refinements to the request in the interest of accuracy and completeness. (Attachment)

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

After this, Ms. Watkins presented information concerning legislative activities. The Session would convene on May 12. The economy was not where the Legislature would like it to be. It was anticipated that the Governor's budget would be released on April 20. More cuts were being mentioned for the universities.

On the motion of Chair Davis, seconded by Mr. Mercer, 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 *****

Back in open session, Governor Holshouser stated that a high priority for the Board and General Administration should be to persuade the Legislature to allow tuition to come back to the campuses. The campuses should be allowed to keep the money for need-based financial aid, and any further cuts should be held to a minimum. 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