

## APPENDIX GG

### ANNUAL REPORT OF THE COMMITTEE ON BUDGET AND FINANCE TO THE BOARD OF GOVERNORS OF THE UNIVERSITY OF NORTH CAROLINA July 1, 2002 through June 30, 2003

#### EXECUTIVE SUMMARY

The Committee on Budget and Finance met 13 times between July 1, 2002, and June 30, 2003. The Committee functions as a standing committee that recommends the following to the Board of Governors: requests for funds for consideration by the Governor and the General Assembly, allocations of funds made available by the General Assembly, and actions 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*

The Committee considers campus requests for tuition and fee increases and makes recommendations for those increases to the Board. In December 2002, the Committee recommended that there be *no tuition increases* for the 2003-04 academic year. This recommendation resulted from discussions regarding significant recent tuition increases and a continuing weak economic climate in the State. In February 2003, the Committee authorized fees effective with the fall term 2003.

During the year, the General Assembly appropriated \$41,003,567 for Current Operations; \$2,249,105 for Related Educational Programs; and \$115,000 for the North Carolina School of Science and Mathematics for inflationary increases in the operating budget. Reductions of \$73,591,393 in the University's operating budgets were included in the Senate Bill 1115. In addition, the General Assembly directed that \$15,228,000 for the Board's Need-Based Financial Aid Program previously provided from State appropriations, as well as \$4,407,000 in new funding, be financed by transfers from the Escheat Fund. The Committee allocated all of the funds made available by the General Assembly.

Included in Senate Bill 1115 was a special provision that required the Board of Governors to submit a report on budget reduction decisions made by the Chancellors. This report was reviewed and approved by the Committee and forwarded to the Fiscal Research Division of the General Assembly.

In November, the Committee recommended approval of the *2003-05 Budget Request of the Board of Governors*.

#### *CAPITAL IMPROVEMENTS*

In 2000, North Carolina voters approved a bond issue to provide \$2.5 billion in State support for the first six years of a ten-year capital plan. The Committee worked during the year to provide appropriate oversight for the bond program. Progress reports were received each month.

The Committee recommended 35 capital improvements projects (or project supplements) at nine institutions totaling \$427,757,100, as well as supplemental funding of \$62,955,360 required for projects partially financed from the Higher Education Bonds.

The Committee recommended that North Carolina State University proceed with the construction of an Executive Conference Center/Hotel and Golf Course. The project was forwarded to the North Carolina General Assembly's Joint Legislative Commission on Governmental Operations for consultation as required by G.S. 66-58 (h).

#### *INSTITUTIONAL BORROWINGS*

One of the principal responsibilities of the Committee is to recommend the issuance of bonds to finance nonappropriated capital improvements projects. During the year, the Committee recommended the issuance of bonds totaling in excess of \$323,568,500 for either financing new projects or refunding outstanding bonds when interest rate savings could be achieved.

The Committee recommended approval of a variable-rate demand bond pooled loan program for 2003. The amount of the bonds issued would not exceed \$70 million.

#### *PROPERTY*

The Committee is responsible for reviewing requests by Boards of Trustees for the acquisition of property, either by purchase, lease, or exchange. Recommendations made by the Committee during the year included the following: five leases of property at four institutions; four outleases of property; purchase of 22 parcels of property by five institutions; a ground lease with air rights in Carter Finley Stadium; and several dispositions by ground lease, easement, or demolition; as well as equal value exchanges of property.

In 2001, the Office of the President was delegated authority to execute leases valued up to \$150,000 and contracts to acquire real property valued up to \$250,000. Actions taken under the delegated authority were to be reported at the next scheduled meeting. Twelve leases of property at four institutions, and eleven acquisitions of real property at five institutions, were expedited using the delegated authority.

#### *OTHER ACTIONS*

The Committee recommended approval of the University Hall property at Appalachian State University for designation as a Millennial Campus.

The UNC Association of Student Governments' Policy was adopted by the Board on July 12, 2002. The policy outlined the functions of the Association of Student Governments and its relationship to the UNC Board of Governors and the Office of the President.

The Summary of Institutional Annual Reports was recommended for approval.

A report for the fiscal year ending June 30, 2002 on the amount and uses of facilities and administrative receipts was transmitted to the Joint Legislative Education Oversight Committee, as directed by a special provision enacted by the 2001 General Assembly.

A report on activities undertaken under exemptions to the Umstead Act for the Centennial Campus of NCSU, the Horace Williams Campus (Carolina North) of the UNC-Chapel Hill, and any millennial campus of a constituent institution was also transmitted to the Joint Legislative Commission on Governmental Operations as directed by the 2002 General Assembly. In addition to NCSU and UNC-Chapel Hill, Appalachian State University and UNC-Charlotte were subject to the report.

**ANNUAL REPORT  
OF THE COMMITTEE ON BUDGET AND FINANCE TO THE  
BOARD OF GOVERNORS OF THE UNIVERSITY OF NORTH CAROLINA  
July 1, 2002 through June 30, 2003**

The Committee on Budget and Finance met 13 times between July 1, 2002, and June 30, 2003.

The Committee was composed of the following Board members: Mr. J. Addison Bell, Mr. Bert Collins, Governor James E. Holshouser, Jr., Mr. Jim W. Phillips, Jr., Mrs. Gladys Ashe Robinson, Dr. Priscilla P. Taylor, and Mr. Robert F. Warwick. In September, the following members joined the Committee: Mr. C. Clifford Cameron, Ms. Hannah D. Gage, and Senator Teena S. Little; Mrs. Gladys Ashe Robinson and Mr. Robert F. Warwick rotated off the Committee. At the September meeting, the Committee elected Mr. Bell as Chairman, Mr. Collins as Vice-Chairman, and Mr. Phillips as Secretary. In February 2003, Mr. Ray S. Farris was appointed to the Committee.

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 rates and fees.

### *Tuition*

In July, 2002, it was recommended that the Board allow UNC-Chapel Hill to delay a portion of the campus-initiated tuition increases previously approved for students in the MBA and MAC programs. At a meeting on June 20th, the Special Committee reviewing Tuition and Fee Policies had received a report from Dean Robert Sullivan of the Kenan-Flagler School of Business regarding the cumulative effects of increases in both campus-initiated tuition increases and Board-initiated tuition increases and the need for tuition rates to be established at levels that allowed the School to remain competitive with its peer institutions, particularly in regard to non-resident students. The Board-initiated tuition increases were not known when UNC-CH had sent forth recommendations for campus-initiated tuition increases at the School of Business. The Chancellor had now requested that a portion of the approved campus-initiated increases for MBA and MAC students be delayed until market conditions improved. For the 2002-03 year, the MBA nonresident tuition rate would increase by \$500 (rather than \$2,000) and the MAC nonresident tuition rate would increase by \$100 (rather than \$1,300). The nonresident tuition rates for the programs would be \$26,749 and \$19,466, respectively. For the 2002-03 year, the MBA resident tuition rate would increase by \$1,000 (rather than \$2,000) and the MAC resident tuition rate would increase by \$500 (rather than \$1,300). The resident tuition rates for the programs would be \$11,794 and \$8,041, respectively.

On December 5, 2002, the Committee met to discuss tuition for the 2003-04 academic year. The Committee agreed to recommend to the Board of Governors that there be no tuition increases for the 2003-04 academic year. The following draft resolution was recommended for Board approval at the January 2003 meeting.

RESOLUTION IN SUPPORT OF NO INCREASE IN UNC TUITION  
FOR THE 2003-04 ACADEMIC YEAR

Whereas, the Board of Governors is responsible for establishing tuition rates at the constituent institutions of the University of North Carolina, not inconsistent with actions of the General Assembly; and

Whereas, over the course of the past three years, the Board has authorized across-the-board and campus-initiated tuition increases that have averaged 62 percent University-wide for the three-year period; and

Whereas, the economic climate within North Carolina has resulted in rising levels of unemployment and financial hardship for many citizens of the state; and

Whereas, students within the University and their families have borne a greater share of the cost of a UNC education through tuition increases implemented during the past three years.

Now, therefore, be it resolved that the Board of Governors of the University of North Carolina declares its intention to maintain tuition rates at current or previously approved levels for the 2003-04 academic year.

*Fees*

In February, the Committee approved a *Resolution Authorizing Fees* effective fall term 2003. The fee recommendations for 2003-04 had been developed in accordance with the policies and procedures adopted by the Board of Governors in May, 1993 as a result of the study and report of the Special Committee on Student Fees.

In July, the Committee approved an increase of \$10 in the debt service fee charged at the University of North Carolina at Chapel Hill as part of its method of financing improvements that were made in food service facilities on campus. The fee increased from \$40 to \$50 per year, effective with the fall semester, 2002.

In November, a debt service fee of \$95 per year, effective with the spring semester of 2003 was approved for Fayetteville State University. The fee would provide funds to repay bonds issued for athletic facilities improvements (\$2,766,550) previously approved by the Board of Governors and the General Assembly.

Two debt service fees, effective with the spring semester of 2003, were recommended for the University of North Carolina at Wilmington. A fee of \$20 per year would support the expansion of Westside Hall (\$3,000,000) for use as a student health center. A fee of \$115 per year would provide the revenue to finance a \$16 million expansion of the Student Union. Additionally, the Student Union expansion fee was approved to increase by \$120 in the fall semester.

#### *Allocations of Appropriations*

In October, following the conclusion of the legislative session, the Committee recommended allocations of new appropriations for the 2002-03 fiscal year. In response to the Board's expansion requests in the Schedule of Priorities for Current Operations, the General Assembly provided \$41,003,567: \$26,837,034 for enrollment changes (\$66,803,142 in appropriations less \$39,966,108 in additional tuition receipts); \$13,666,533 for focused-growth Institutions; and \$500,000 for K-16 Initiatives. In addition, the General Assembly appropriated \$2,249,105 for expansions and improvements for Related Educational Programs and \$115,000 to the North Carolina School of Science and Mathematics for inflationary increases in the operating budget. Reductions of \$73,591,393 in the University's operating budgets were included in the Senate Bill 1115. In addition, the General Assembly directed that \$15,228,000 for the Board's Need-Based Financial Aid Program previously provided from State appropriations, as well as \$4,407,000 in new funding, be financed by transfers from the Escheat Fund.

At the same October meeting, it was recommended that \$71,125 be allocated to the North

Carolina School of Science and Mathematics to provide for salary increases. The 2002 Session of the General Assembly provided funds for increasing salaries for public school teachers by an average of 1.84%. Teachers at the School were eligible to receive these funds. The Board of Trustees of the NCSSM had the specific authority to establish policies and procedures for salary increases for teaching employees at the School. The North Carolina General Assembly did not provide salary increase funds in response to the Board of Governors request for salary increases for faculty and EPA non-faculty on behalf of the constituent institutions.

A special provision in Section 9.7 of Senate Bill 1115 required that the Board of Governors report to the Fiscal Research Division of the General Assembly by November 30, 2002 on the institutional decisions made to effect the budget reductions. Due to the length of the 2002 legislative session, the Chancellors did not have sufficient time to determine all budget reductions in time for a report to be prepared and presented at the November Board meeting. At its November meeting, the Board of Governors delegated authority to the Committee on Budget and Finance to approve the budget reduction report on behalf of the Board in order to meet the required deadline. On November 26, the Committee met and approved the report.

### *Budget Request*

In November, the Committee recommended approval of the *2003-05 Budget Request of the Board of Governors*. One of the principal responsibilities of the Board of Governors is to make the University's needs for funding known to the Governor and the General Assembly. On a biennial basis, the budget request document is prepared. The *2003-05 Budget Request of the Board of Governors* identified the funding needed to carry out the Board's six strategic priorities.

### *Other Budget Actions*

In January, it was recommended that the Board suspend its policy (for the 2002-03 fiscal year) which requires a budget adjustment for institutions that exceed the 18% limit on freshmen nonresident students two years in a row. Elizabeth City State University had exceeded the limit for two years; the current year had an over-enrollment of six nonresident freshmen students. The University was already dealing with serious operating challenges as a result of budget reductions; ECSU had already absorbed a 2.88% budget reduction and was meeting an additional 2% reversion target because of the State's uncertain revenue condition. The budget reduction required by the Board's policy on out-of-state freshmen would have further exacerbated this hardship.

In May, the Committee requested a delegation of authority from the Board of Governors to allocate any funds appropriated for expansions and improvements by the General Assembly for the 2003-04 fiscal year, including reductions in budgets. The Board of Governors was not scheduled to meet during the months of June and July, 2003, and the date for passage of the 2003-05 State Budget was uncertain but anticipated before the August meeting of the Board. It was further requested that the Committee be delegated the authority to allocate any funds made available for repairs and renovations in accordance with the Board's allocation formula. A full report of delegated actions was to be provided to the Board.



## CAPITAL IMPROVEMENTS

### *Higher Education Bond Program*

At each of its meetings, the Committee received a progress report on the UNC bond program. Throughout the year it was reported that the bond program continued to provide opportunities for the construction industry during difficult economic times. The Committee reports included the status of contractual commitments; numbers and dollar amounts of projects in design, under construction or completed; and regular updates on progress made in expanding opportunities for Historically Underutilized Businesses. Because of the rapid rate of progress in implementing the bond program, the State Treasurer issued bonds in February of 2003, rather than as scheduled in March, to ensure that sufficient funds would be available to keep the program on track.

In March, reallocations of bond funds were recommended for Elizabeth City State University and North Carolina Central University. The items were subsequently transmitted to the General Assembly for final action. Elizabeth City State University had requested that the Doles Residence Hall renovation project be cancelled and the funds be reallocated to make infrastructure improvements as outlined in the campus facilities master plan which converted the central core of campus to a pedestrian-only area and relocated roads and parking to the campus perimeter. North Carolina Central University, with increasing enrollment growth, had reevaluated the capacity of campus food services. In lieu of renovating Pearson Cafeteria, a reallocation of bond program funds was requested to expand Pearson Cafeteria.

### *Emergency Projects*

During the year the Committee reviewed the following capital projects that were approved by the Chancellors and reported to the President and the Board under emergency procedures as allowed by G.S. 143-129. In each case, the State Building Commission was also notified.

At the University of North Carolina at Wilmington, an emergency project was expedited in Hanover Hall when a preliminary building assessment revealed systemic structural corrosion problems posing a threat to life safety, the result of the failure of a shower floor. The University had contracted directly with a structural engineering firm to investigate the extent of repairs, design the corrective action, and secure a construction contractor to perform the work.

At North Carolina Central University, an emergency project for repairs in Chidley Hall was required when an inspection by a representative from the State Fire Marshall's office subsequent to a fire in mid-April revealed life safety egress issues. A design firm was selected to design the remediation. The construction would be bid. A portion of the 2000 Higher Education Bond funds earmarked for code compliance corrections would be used to fund the repairs.

At East Carolina University, emergency procedures were invoked to provide for replacement of a failed chiller providing cooling to the Brody School of Medicine. In order to have the chiller back in service before the next cooling season, an immediate replacement was ordered and design services secured. The project, estimated to cost \$350,000, was to be financed from Renovation and Repair funds.

### *Identification of Sustainable Design Projects*

The Committee recommended for approval the following list of construction and renovation projects for a pilot study using the Triangle J. Council of Governments High Performance Guidelines that supported sustainable design practices. House Bill 1272 passed

during the 2001 session of the North Carolina General Assembly required the Board of Governors to designate projects for this purpose.

Appalachian State University - Student Recreational Complex (new construction)  
East Carolina University – College Hill Housing Expansion  
North Carolina A&T University - Harrison Auditorium (renovation)  
North Carolina Arboretum - Operations Center (new construction)  
North Carolina State University - Jordan Hall Addition (new construction)  
North Carolina State University - Leazar Hall (renovation)  
University of North Carolina at Asheville - Science Building (new construction)  
University of North Carolina at Asheville - Physical Plant Building (new construction)  
University of North Carolina at Chapel Hill - Global Education Center (new construction)  
University of North Carolina at Chapel Hill - Morrison and Hinton James Buildings (renovation)

*Nonappropriated Projects Authorized by the General Assembly*

In October, the Committee reviewed 34 nonappropriated projects authorized by the General Assembly totaling \$410,183,650. Thirty-three of the projects had been approved by the Board in May 2002; the General Assembly had added a project for a student recreation center at Western Carolina University totaling \$11,500,000.

In March, the Committee recommended that the Board approve 35 capital improvements projects (or project supplements) at nine institutions totaling \$427,757,100, as well as approve supplemental funding of \$62,955,360 required for projects partially financed from the Higher Education Bonds. The projects were forwarded to the General Assembly for authorization during the 2003 Session and are listed below.

|  |              |
|--|--------------|
| <b>Appalachian State University</b>                      |              |
| Student Athletic Facilities Improvements                 | \$35,800,000 |
| 400-Space Parking Deck                                   | 5,000,000    |
| <b>East Carolina University</b>                          |              |
| College Hill Residence Halls, Phase I                    | 35,000,000   |
| Renovation of Clement, Greene, and White Residence Halls | 4,950,000    |
| <b>North Carolina A&amp;T State University</b>           |              |
| Renovation of the Memorial Student Union                 | 2,700,000    |

|   |              |
|---|--------------|
| <b>North Carolina Central University</b>  |              |
| 500-Space Parking Deck  | \$ 5,000,000 |
| <b>North Carolina State University</b>  |              |
| Renovation of Berry, Becton, and Bagwell Residence Halls  | 10,000,000   |
| E.S. King Village (Student Family Housing) Improvements   | 2,000,000    |
| Student Fitness Center  | 12,000,000   |
| Partners V Building   | 18,000,000   |
| Renovations to Thompson Theatre, Talley and Witherspoon Student Centers, and Price Music Center | 6,000,000    |
| Derr Track/Soccer/Softball Complex  | 1,000,000    |
| Renovations to Reynolds Coliseum  | 5,000,000    |
| <b>The University of North Carolina at Chapel Hill</b>  |              |
| Rizzo Center Expansion  | 18,000,000   |
| McColl Building Addition  | 18,000,000   |
| Botanical Garden Visitor Education Center   | 6,000,000    |
| Ackland Art Museum Expansion  | 16,000,000   |
| Information Technology and Printing Services Facilities   | 15,800,000   |
| YMCA Renovation   | 3,500,000    |
| Student Family Housing  | 30,000,000   |
| Cobb Residence Hall Renovation  | 9,884,000    |
| Parking Facilities  | 19,200,000   |
| Major Infrastructure Improvements and Waste Remediation   | 52,000,000   |
| <b>The University of North Carolina at Charlotte</b>  |              |
| Student Facilities/Bookstore/Dining   | 39,700,000   |
| Baseball Stadium Improvements   | 3,000,000    |
| <b>The University of North Carolina at Greensboro</b>   |              |
| Student Exercise Track  | 1,000,000    |
| Ragsdale/Mendenhall and Weil/Winfield Residence Halls Renovations                               | 3,300,000    |
| Elliot University Center Improvements   | 1,500,000    |
| Gove Health Center  | 8,500,000    |
| Softball Field  | 3,000,000    |
| <b>Western Carolina University</b>  |              |
| New Student Residence Hall  | 13,161,000   |
| Residence Hall Renovation, Phase I  | 10,264,700   |
| Parking Deck, 500 Spaces  | 6,250,000    |
| Dodson Cafeteria Renovations  | 4,927,400    |
| Softball Field and Stadium  | 2,320,000    |

The following list of projects required supplements to Higher Education Bond funds. Before issuing special obligation bonds for these projects, the General Assembly requires a final project review.

| Institution | Project   | Total Project Cost | Non-bond Funding | Source of Debt Repayment         |
|-------------|---|--------------------|------------------|----------------------------------|
| UNC-CH      | Burnett-Womack Building                                     | \$32,243,000       | \$ 7,395,000     | Gifts                            |
| UNC-CH      | Beard Hall Renovations                                      | 5,894,000          | 2,394,000        | Gifts                            |
| UNC-CH      | Science Complex, Phase I                                    | 81,904,000         | 8,854,000        | F&A Receipts                     |
| UNC-CH      | Manning Steam Plant   | 23,180,360         | 13,212,360       | Utilities Trust Fund Receipts    |
| UNC-CH      | Global and International Studies Facility                   | 25,000,000         | 5,000,000        | Gifts                            |
| UNC-CH      | Cogeneration-Turbine Improvements                           | 26,625,000         | 24,000,000       | Utilities Trust Fund Receipts    |
| UNCP        | Auxiliary Services Building                                 | 5,696,000          | 1,500,000        | Bookstore Receipts               |
| UNCP        | Improvements to Recreational, Athletic, and P.E. Facilities | 8,843,700          | 600,000          | Student Debt Service Fee of \$14 |

*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 non-appropriated funds.

**Appalachian State University**

Turf Replacement at Kidd-Brewer Stadium \$1,200,000

**East Carolina University**

|  |         |
|--|---------|
| Upgrade two elevators to meet code requirements in the nine-story Green Residence Hal  | 502,161 |
| Replace roofs on Belk, Fletcher, and Umstead Halls   | 391,400 |
| Replace exterior windows and doors to improve energy efficiency and interior doors with fire-rated doors for safety in Cotton Residence Hall       | 651,900 |
| Expand the electrical distribution system to support the addition of window-mounted air conditioning units on three floors of Jones Residence Hall | 403,500 |
| Renovations to the Garrett Hall lobby and adjacent spaces  | 436,000 |
| Renovation of the information and ticketing areas of the main lobby in the Mendenhall Student Center   | 235,900 |
| Replace the student room doors on floors two through four of Jones Residence Hall  | 224,300 |
| 1,000 parking spaces to replace parking that had been eliminated from the main campus as a result of the construction of several projects          | 324,100 |
| Renovations to Aycock Residence Hall   | 456,100 |
| Elevator Improvements in Fletcher Residence Hall   | 478,600 |
| Consolidate, pave, light, and provide camera security for three gravel parking lots at Fourth and Reade Streets                                    | 432,000 |

**North Carolina State University**

|  |           |
|--|-----------|
| Renovation of approximately 19,000 square feet of space in the Graphics Building | 1,950,000 |
| Installation of a Linear Accelerator Vault, College of Veterinary Medicine       | 650,000   |
| Installation of a Nanostepper, Engineering Graduate Research Center              | 300,000   |
| Renovation of the Basement and Second Floor, Patterson Hall                      | 276,000   |

|  |            |
|--|------------|
| <b>The University of North Carolina at Greensboro</b>  |            |
| Recreational Field Building  | \$ 300,000 |
| <b>The University of North Carolina at Wilmington</b>  |            |
| Structural repairs to the foundation of Hanover Hall   | 500,000    |
| Repairs and renovations to Wagoner Hall dining facility, the University Union and the Warwick Center, Burney Bookstore, and 22 residence halls | 1,000,000  |
| <b>Western Carolina University</b>   |            |
| Fire safety improvements to Reynolds and Buchanan residence halls.   | 657,200    |

Capital improvements actions initiated throughout the year by the President pursuant to Board delegation are reported below. The following actions were taken:

|   |              |
|---|--------------|
| <b>Appalachian State University</b>   |              |
| Improvements to Student Residence Facilities (project increase)   | \$ 3,417,000 |
| <b>East Carolina University</b>   |              |
| Tyler Residence Hall Roof Replacement   | 107,600      |
| <b>Fayetteville State University</b>  |              |
| Comprehensive Renovation and Conversion of Spaulding (Old Infirmary) for Public Safety Facilities (project increase)            | 443,200      |
| Cook Dining Hall – Comprehensive Renovation and Conversion of Building for Academic Use and Student Services (project increase) | 228,907      |
| Infrastructure Enhancements (project increase)  | 299,000      |
| Master Plan (project increase)  | 98,500       |
| Installation of Fire Alarms (project increase)  | 298,907      |
| Exterior Repairs to Academic and Administrative Facilities (project increase)   | 167,000      |
| Improvements for Energy Efficiency (project increase)   | 298,000      |
| 1998 Repairs and Renovation (project increase)  | 250,000      |
| <b>North Carolina School of the Arts</b>  |              |
| Student Activity Center (project increase)  | 1,500,000    |
| General Site Improvements (project increase)  | 40,000       |
| <b>North Carolina State University</b>  |              |
| Broughton Hall Renovation (project increase)  | 125,000      |
| Rocky Branch Bank Stabilization (project increase)  | 1,713,609    |
| <b>The University of North Carolina at Asheville</b>  |              |
| North Carolina Center for Creative Retirement (project increase)  | 102,000      |
| Improvements to Owen Hall (project increase)  | 45,554       |
| <b>The University of North Carolina at Chapel Hill</b>  |              |
| Airport Drive Office Building, AA (project increase)  | 1,894,800    |
| Addition to Carrington Hall, HA (project increase)  | 2,077,900    |
| Memorial Hall Additional Renovations A/P, AA (project increase)   | 5,000,000    |
| Hanes Hall – Renovate 2 <sup>nd</sup> Floor, AA (project increase)  | 290,000      |
| Frank Porter Graham Child Development Center – New Building, AA (project increase)  | 400,000      |
| I/OG-Knapp Building Additions/Renovations, AA (project increase)  | 2,822,500    |
| Americans with Disabilities Act Improvements, AA (project increase)   | 520,000      |
| 1999 Repairs and Renovations, HA (project increase)   | 275,000      |

|   |                   |
|---|-------------------|
| <b>The University of North Carolina at Pembroke</b>                                     |                   |
| 1999 Repairs and Renovation (project increase)  | \$ 345,975        |
| Regional Center for Economic, Professional and Community Development (project increase) | 2,355,800         |
| Jones Physical Education Complex – Comprehensive Renovation (project increase)          | 600,000           |
| <b>Western Carolina University</b>  |                   |
| 2000 Repairs and Renovation (project increase)  | 705,000           |
| WNC Regional Labor Force Development Center (project increase)                          | 1,725,489         |
| Highlands Biological Station Residence Hall (project increase)                          | 128,234           |
| <b>Total</b>  | <b>28,274,975</b> |

In April, 2001, the Board of Governors delegated to the President the authority to approve capital improvements projects estimated to cost less than \$250,000. 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 that the projects warranted further discussion at the next Committee meeting. Listed below are projects approved under this delegation.

|   |            |
|---|------------|
| <b>East Carolina University</b>   |            |
| Todd Dining HVAC Upgrades   | \$ 125,700 |
| <b>North Carolina State University</b>  |            |
| Broughton Hall Mechanical Engineering Student Commons and Seminar Room Renovation | 135,000    |
| <b>Western Carolina University</b>  |            |
| Electrical Distribution Improvements  | 250,000    |

#### *Other Capital Improvements Actions*

In November, the Committee recommended that the Board approve the request of North Carolina State University to proceed with the construction of an Executive Conference Center/Hotel and Golf Course. The project was forwarded to the North Carolina General Assembly's Joint Legislative Commission on Governmental Operations for consultation as required by G.S. 66-58 (h).

The following Resolution was also recommended for adoption:

**RESOLUTION SUPPORTING THE CONSTRUCTION AND OPERATION OF AN  
EXECUTIVE CONFERENCE CENTER/HOTEL AND GOLF COURSE ON THE  
CENTENNIAL CAMPUS OF NORTH CAROLINA STATE UNIVERSITY**

WHEREAS, North Carolina State University is among the top-ranked universities in the country in terms of its partnerships with industry and government; and

WHEREAS, under the guidance and leadership of the Board of Trustees and administration of North Carolina State University, the Centennial Campus has experienced tremendous growth and is an international success story; and

WHEREAS, North Carolina State University's Centennial Campus is home to over 60 corporate and government partner organizations working with university programs and provides over 1,500 jobs to tax-paying citizens of North Carolina; and

WHEREAS, the Centennial Campus Executive Conference Center/Hotel and Golf Course has been planned to carry out the North Carolina State University's mission; and

WHEREAS, the proposed Executive Conference Center/Hotel and Golf Course on the Centennial Campus of North Carolina State University is a capstone component of the Campus's Master Plan and has been since the mid-1980s; and

WHEREAS, the Board of Trustees of North Carolina State University, after careful study and consideration of both the project's risks and rewards, is proceeding with a plan to use the NC State University Partnership Corporation, organized for the purpose of supporting the University, to form a Limited Liability Corporation to construct, own, and hire a management company to operate the conference facility; and

WHEREAS, North Carolina State University has exercised due diligence and has carefully researched and evaluated the feasibility of this project, and, during this effort, sought, received, and followed the advice of expert consultants and financial advisors, including PFK, HVS International, Lehman Brothers and others; and

WHEREAS, North Carolina State University will not seek State funding to support the construction or operation of the facility; and

WHEREAS, the Board of Trustees of North Carolina State University at Raleigh has been delegated the general oversight and supervision of the University and, after studying the project carefully, has unanimously voted in support of the Centennial Campus Executive Conference Center/Hotel and Golf Course under the following conditions:

- That the project proceed in a manner consistent with the recommendations of the HVS International report, and
- That the opening be delayed until at least the first quarter of 2005, and
- That value engineering recommendations and corresponding cost reductions be implemented, and
- That the University pursue gifts, sponsorship and naming opportunities to generate revenue in support of the project, and
- That the financial projections that demonstrate project feasibility be regularly reevaluated and that significant economic events be examined carefully to determine the effects of the events on the project, and
- That a professional management firm be hired from the private sector to operate the facility, and



- That no State appropriations, no tuition payments, no restricted funds and no special facilities revenues be used to support the project; and

WHEREAS, the Board of Governors has previously approved a resolution authorizing North Carolina State University to purchase room nights and conference space in the hotel/conference center if needed to meet annual debt service coverage requirements as required by bond covenants; and

WHEREAS, the Board of Governors has previously authorized North Carolina State University to lease land on the Centennial Campus to the NC State Conference Center LLC, for the purpose of constructing and operating the facility; and

WHEREAS, the Executive Conference Center/Hotel and Golf Course project is estimated to cost \$70.8 million, of which \$66.5 million will be from the issuance of taxable bonds.

NOW, THEREFORE, BE IT RESOLVED that the Board of Governors authorizes North Carolina State University to proceed with securing the necessary reviews and approvals for the construction and operation of the Centennial Campus Executive Conference Center/Hotel and Golf Course as recommended by the Board of Trustees of North Carolina State University;

AND, BE IT FURTHER RESOLVED that North Carolina State University will provide, within five years from the initial date of borrowing, \$12 million from gifts, grants, and project savings, and receipts available to the University, including receipts from the Centennial Campus Trust Fund to reduce outstanding debt of the Limited Liability Corporation to a balance not to exceed \$54.5 million; and

BE IT FURTHER RESOLVED that the Chancellor will report semi-annually to the President on the project's progress and financial status, including progress made in reducing the outstanding indebtedness to \$54.5 million.

At its February 2003 meeting, the Committee recommended approval of UNC-Pembroke's request to enter into a lease with the UNCP Foundation for the construction of a residence hall. The Higher Education Bond program had provided funds for a residence hall on the UNCP campus and the Board of Trustees requested that the necessary steps be taken to repurpose those funds for the construction of a general classroom building on campus. Final approval would be required by the Council of State (approval of the lease) and the General Assembly (approval of the change in bond funds).

In March, it was recommended that the firm of Stanford-White Associates of Raleigh, North Carolina be chosen for design services for the Bryan Center Fire Safety System Upgrade at The University of North Carolina Center for Public Television at a project cost of \$100,000. The General Manager of the Center had solicited for design services in accordance with State Building Commission and University guidelines.

## INSTITUTIONAL BORROWINGS

The Committee continued the process of delegating the issuance of revenue bonds to the Vice President for Finance so that bonds could be issued when market conditions were optimal rather than on days when the Board met. On June 8, 2001, the Board delegated to the Office of the President authorization to approve interim financing and other bank loans when the funds were to be used for capital improvements projects previously authorized by the Board. During the year, the Committee recommended for approval the following institutional borrowings.

### **Appalachian State University**

|  |               |
|--|---------------|
| Construction of a New Student Recreation Center and Improvements to Existing Student Recreation Facilities | \$ 25,711,500 |
|--|---------------|

### **East Carolina University**

|  |            |
|--|------------|
| West End Dining Hall (includes a central chiller plant to serve this facility, in addition to five residence halls; demolition of several small parking lots to create a student plaza for access to the new dining hall and adjacent residence halls) | 15,857,000 |
| Refund the 1994 Athletic Facilities Revenue Bonds  | 5,500,000  |

### **North Carolina State University**

|   |            |
|---|------------|
| Student Housing, Upgrade of Baseball and Tennis Facilities, University Apartments for Student Housing | 77,000,000 |
|---|------------|

### **The University of North Carolina at Asheville**

|   |            |
|---|------------|
| Refinancing New Residence Hall  | 11,500,000 |
| Defease certain of the 1993 series of Dormitory and Dining System Revenue Bonds to take advantage of lower interest rates and to modify the financial covenants for the benefit of the University | 8,000,000  |

### **The University of North Carolina at Wilmington**

|   |            |
|---|------------|
| Renovation of Three Buildings and the Construction of a New Student Center Building | 30,000,000 |
|---|------------|

### **UNC Hospitals at Chapel Hill**

|                                    |             |
|------------------------------------|-------------|
| Defease Revenue Bonds, Series 1996 | 150,000,000 |
|------------------------------------|-------------|

In October, nine institutions (Appalachian State University, Elizabeth City State University, Fayetteville State University, the University of North Carolina at Charlotte, the University of North Carolina at Greensboro, the University of North Carolina at Pembroke, the University of North Carolina at Wilmington, Western Carolina University, and Winston-Salem State University) asked to be included in a third pooled issue to finance 17 projects previously

approved by the Board of Governors. Included in this issuance was the repayment of bank loans and bonds currently outstanding at higher interest rates. The size of the bond issue was \$63,175,000. The bonds would be outstanding for up to 25 years, with the average loan being for a period of 18 years. The Committee recommended approval of the authorizing resolution and requested that the Vice President for Finance be authorized to sell the bonds between the October 2002 and January 2003 meetings of the Board of Governors and to execute loans to campuses for projects previously approved by the Board. Bonds were sold on October 15, 2002.

## **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.

On June 8, 2001, the Board delegated authority to the President to execute leases with annual costs up to \$150,000 and property acquisitions for up to \$250,000. Actions under delegated authority are reported to the Committee at its next meeting.

### *Acquisitions and Dispositions of Property by Lease*

As requested by Boards of Trustees, the Committee recommended the approval of the following leases of property: East Carolina University (one lease), Elizabeth City State University (one lease), The University of North Carolina at Chapel Hill (two leases), and The University of North Carolina at Pembroke (one lease).

The following leases were reported to the Committee on Budget and Finance as approved by the Office of the President under delegated authority: East Carolina University (two leases),

North Carolina State University (two leases), The University of North Carolina at Chapel Hill (six leases), and the UNC Center for Public Television (two leases).

The following out-leases of space were reported to the Committee on Budget and Finance as approved by the Office of the President under delegated authority: For North Carolina State University, an out-lease of 4,012 square feet of office space in the Partners I Building to the USDA/APHIS (Federal Government); an out-lease of 3,750 square feet of space in the College of Veterinary Medicine to the IAMS Pet Imaging, LLC (Proctor and Gamble); an out-lease of 78,335 square feet of residence space for seven fraternities and one sorority; 13,568 square feet of residence space for two sororities; and a 39-bed residence hall to the ETA KAPPA House Corporation. For the UNC Center for Public Television, an out-lease of tower space on the 1,100 foot tower at Delco, North Carolina to Raycom America, Inc. of Montgomery, Alabama, and land to contract a transmitter building serving the Raycom equipment.

The Committee recommended approval of a ground lease with air rights to provide a 104,000 square-foot area within Carter-Finley Stadium to the NCSU Student Aid Association, Inc. for the construction of a facility to replace the existing press box constructed in 1966. The new facility was proposed to be a three-level structure that would include areas for the media, fifty suites, and the addition of approximately 900 club seats. The area to be leased was along and above the west concourse of Carter-Finley Stadium. The term of the lease was 20 years (the time required to repay the debt borrowed by the Association) and the estimated value of construction improvements was \$30 million. The improvements would revert to North Carolina State University at the termination of the ground lease.

The Committee recommended a disposition of property by ground lease on the site of the Baity House, north of Mason Farm Road, in Chapel Hill. The lease to the University of North Carolina at Chapel Hill Foundation would include approximately 23 acres of land on which the Foundation would construct 306 apartment-style units to house students and their families. The

lease would expire upon completion of the construction. Upon lease expiration, the improvements would revert to the University as a gift-in-place. Contingent upon approval of the non-appropriated capital improvements project bill by the General Assembly, the University would also accept responsibility for any indebtedness incurred to finance the project.

The Committee recommended approval of the disposition of property by ground lease on the south shore of Lake Raleigh on the Centennial Campus. The lease to the North Carolina State University Alumni Association would include approximately six acres of land on which the Alumni Association would construct a 60,000 square foot new facility. The lease would expire upon completion of the construction, but no later than the end of 2004. Upon lease expiration, the improvements would revert to the University as a gift-in-place. Along with the lease, the Alumni Association would pay the University \$962,000 over four years as an infrastructure assessment. The infrastructure assessment would be used for the continuing development of maintenance of Centennial Campus infrastructure. Under the lease, the Alumni Association would retain an option for seven years to lease an additional 1.1 acres for the construction of an addition to the proposed facility totaling 14,000 square feet. Upon exercise of the option, the Association would pay an additional infrastructure assessment of \$359,700 (adjusted for CPI escalation at the time of execution). This portion of the lease would have similar reversion provisions upon completion of the improvements.

#### *Other Acquisitions and Dispositions of Property*

The Committee recommended property acquisitions for East Carolina University (fourteen parcels), North Carolina A&T State University (two vacant parcels acquired by condemnation), North Carolina State University (two parcels), The University of North Carolina at Chapel Hill (three parcels), and The University of North Carolina at Wilmington (one parcel).

The following acquisitions of property were reported to the Committee on Budget and Finance as approved under delegated authority by the President: East Carolina University (four parcels), North Carolina School of the Arts (three parcels), North Carolina State University (one parcel), The University of North Carolina at Wilmington (one parcel), and Western Carolina University (two parcels).

Also approved under the delegated authority and reported to the Committee on Budget and Finance was an equal value exchange of property between Appalachian State University and a public citizen to acquire land more suitable for playing fields.

The Committee recommended an exchange of property between the State of North Carolina and the Endowment Fund of North Carolina State University. The equal value exchange of 9.8 acres between these two entities would provide for the development of the Centennial Campus consistent with the master land-use plan. The State would receive acreage in areas of the Centennial Campus that were to be developed into academic buildings, utility corridors, and open space. The Endowment Fund would receive acreage in areas that were proposed for development of office and laboratories for governmental and corporate partners.

The Committee also recommended the equal value exchange of 0.8 acres of land between the North Carolina Department of Transportation's Division of Highway Patrol, and North Carolina State University. The land received by North Carolina State University was adjacent to university property on William Moore Drive and would provide an expanded building site at the College of Veterinary Medicine Centennial Biomedical Campus. The acreage to be received by the Division of Highway Patrol adjoined the existing Highway Patrol property on the north side with frontage on Blue Ridge Road.

A term special use permit was approved by the President under delegated authority and reported to the Committee on Budget and Finance between the North Carolina Arboretum and

the U.S. Department of Agriculture, Forest Service, to provide for continued use and development of lands currently occupied by the North Carolina Arboretum.

In February, the Committee recommended approval of the disposition of a parcel located in Chapel Hill. The property was located at the corner of Senlac and Boundary Streets, the southeast corner of the parcel occupied by Brooks Hall which housed the UNC Press. It was a parcel of approximately one-half acre with an access easement traversing it to an adjacent property owned by Elizabeth Price Kenan. The property was to be sold at no less than its fair market value with the proceeds going to the general fund of the state. The University would concurrently retain an option to purchase the entire parcel along Senlac Road when Mrs. Kenan or her heirs elected to sell or otherwise convey the property outside her immediate family.

Throughout the year, the Committee recommended approval for several demolitions of properties as follows.

Appalachian State University: Demolition of three campus buildings that did not meet current fire and other life safety standards and were classified as “substandard” facilities by the Office of State Construction. Whitener Hall, a three-story, 72,855 square-foot classroom building, was constructed in 1954. The Broome-Kirk Gymnasium, a three-story, 86,553 square-foot building, was constructed in 1955. The third demolition, the oldest part of the Rankin Science Hall complex, was a three-story, 49,140 square-foot building constructed in 1960.

East Carolina University: Demolition of two masonry structures totaling 6,214 square feet. These buildings were located at 219 and 221 Cotanche Street adjacent to the old *Daily Reflector* building. The *Daily Reflector* building had recently been renovated to serve as the campus information technology facility. Demolition of these structures would provide space for a parking area to serve this facility.

Elizabeth City State University: Demolition of the campus bookstore which was located on the site of the new 200-bed residence hall, a project funded from the 2000 higher education bond issue. The bookstore function currently housed in the 5,228 square-foot, one-story brick building would be relocated to the new student center also to be built with bond funds. This was consistent with the university's master plan. During the interim period, the bookstore would be housed in trailer facilities.

North Carolina School of the Arts: Demolition of a 1,289 square foot, single-family dwelling located at 1700 Chapel Street and owned by the university as was the University's plans for the parcel at the time of purchase.

North Carolina State University: Demolition of a brick and frame dwelling adjacent to the main entrance of the Centennial Campus at Varsity Drive and Avent Ferry Road to allow for expansion of the Centennial Campus; demolition of the Public Safety Building, formerly the Riddick Stadium Field House to facilitate the extension of the pedestrian tunnel that goes under the campus railroad tracks and to clear the area for future improvements consistent with the campus master plan; demolition of Riddick Stadium west stands to allow for the construction of the north campus chiller plant and clear the area for future academic development; and demolition of Riddick Engineering Lab Annex "A" and Annex "B" to accommodate the renovation of the Riddick Engineering Lab Building.

The University of North Carolina at Greensboro: Demolition of Park Gymnasium, a 17,051 square-foot facility constructed in 1962, and had been used as swing space and temporary office space. The master plan called for this site to be the home of the new Humanities Hall and Research Building, a project funded in the 2000 Higher Education Bonds, as a replacement structure for the McIver Building.

Winston-Salem State University: Demolition of Colson Hall, a five-story, 21,607 square-foot building constructed in 1921, and demolition of the Alumni Building, a three-story, 12,516 square-foot building constructed in 1918. The two buildings were steel-frame, masonry structures that had been vacant for several years due to unsafe conditions and extreme deterioration. They were identified for demolition on the State Construction Office Facilities Condition Assessment Program and the 1999 Capital Adequacy and Equity Study.

Two additional actions were reported to the Committee as approved by President under delegated authority. The first was for an easement of land for UNC-Chapel Hill from the town of Chapel Hill for a right-of-way on Airport Road required for the construction of the administration building. The second was a disposition of property by for the UNC Center for Public Television.



## OTHER ACTIONS

Other actions taken by the Committee throughout the year were as follows.

In August 2002, the Committee on Budget and Finance recommended approval of the University Hall property at Appalachian State University for designation as a Millennial Campus. President Broad had completed the required consultations and had recommended that the Board approve the request. The campus had the administrative and fiscal capacity that was required and the activities to be performed on the Millennial Campus would advance regional economic development. The proposed area, 2.3 acres of land located approximately one mile from the main campus, currently owned by the University now housed the Appalachian Regional Development Institute, the Appalachian Cultural Museum, the Center for Appalachian Studies and the Division of Continuing Education, and the Office of Conferences and Institutes.

The Policy on the UNC Association of Student Governments was adopted by the Board on July 12, 2002. The policy outlined the functions of the Association as the organization to represent the interests of students and its relationship to the University of North Carolina Board of Governors and the Office of the President. In September, 2002, the Committee recommended that the policy be amended to reflect that any employees of the UNCASG should be clerical in nature. In May, 2003, the Committee recommended an amendment which stated that the UNCASG was the organization recognized by the Board to represent the interests of students.

In November, as required by the statute authorizing UNC Management Flexibility, the *Summary of Institutional Annual Reports, 2001-02* was recommended for approval and subsequently forwarded to the General Assembly's Joint Legislative Education Oversight Committee.

Also at the November meeting, Mr. Mark Yusko, Chief Investment Officer of The University of North Carolina at Chapel Hill, presented information to the Committee regarding his efforts to enhance the returns on investment for the UNC-Chapel Hill campus and to offer an

opportunity for other campuses to invest their funds along with those of Chapel Hill with the potential to realize a greater return on investment. At the end of the presentation, the Committee authorized the Vice President for Finance to participate with the Chapel Hill entity by investing funds belonging to the Office of the President.

Legislation enacted by the 2001 General Assembly (S.L. 2001-424) included a special provision directing the Board of Governors to report on the amount and uses of facilities and administrative receipts. In response to this legislation, the report was prepared for the fiscal year ending June 30, 2002. The Committee recommended approval of the report and it was transmitted to the Joint Legislative Education Oversight Committee.

In February, the Committee recommended that the findings of the Office of the President regarding exemptions to the Umstead Act be accepted and reported to the Joint Legislative Commission on Governmental Operations. The 2002 North Carolina General Assembly instructed the Board of Governors to report to the Joint Legislative Commission on Governmental Operations prior to March 1, 2003 on activities undertaken under exemptions to the Umstead Act, which were set out in G.S. 66-58(b) (8), for the Centennial Campus of North Carolina State University, the Horace Williams Campus (Carolina North) of the University of North Carolina at Chapel Hill, and any millennial campus of a constituent institution. In addition to North Carolina State and UNC-Chapel Hill, Appalachian State University and the University of North Carolina at Charlotte were subject to this report.