

Minutes of the September 9, 2010 Meeting
of the Board of Governors' Committee on Budget and Finance

The Committee on Budget and Finance met in the Board Room of the Spangler Center in Chapel Hill, North Carolina, on September 9, 2010, at 1:30 p.m.

Committee members in attendance were Mr. Atul Bhula, Mr. John M. Blackburn, Mr. Frank Daniels, Jr., Mr. Bill Daughtridge, Jr., Mr. Phillip R. Dixon, Mrs. Ann B. Goodnight, Governor James E. Holshouser, Jr., and Mr. Charles H. Mercer, Jr. Dr. Cheryl Marvileane Locklear was necessarily absent. Board members in attendance were Chair Hannah D. Gage, and Mr. Peter D. Hans. Chief of Staff Jeffrey R. Davies; Vice Presidents Laura Luger, Ernest Murphrey, Anita Watkins, and Joni Worthington; Associate Vice Presidents Ginger Burks, Shari Parrish, Jonathan Pruitt, and Lynne Sanders; Associate Vice President for Finance and University Property Officer Terrance Feravich; and Assistant Vice President Jeffrey A. Henderson were in attendance. Chancellor Kenneth Peacock (ASU), Chancellor Steven Ballard (ECU), Chancellor Philip Dubois (UNCC), Chancellor Kyle Carter (UNCP), Chancellor Rosemary DePaolo (UNCW), Chancellor Thomas Williams (NCSSM), Associate Vice Chancellor Facilities Management Zack Abegunrin (NCCU), University Architect Tim McMullen (NCCU), Chief Finance Officer Reade Taylor (UNCG), Provost Cathy Barlow (UNCW), Assistant to the Chancellor Mark Lanier (UNCW), Director Center for Marine Science Daniel Baden (UNCW), Chief Finance Officer Charles Maimone (UNCW), Associate Vice Chancellor Business Affairs Rick Whitfield (UNCW), Chief Operating Officer George Burnette (UNCSA), Chair of the UNC Faculty Assembly Sandy Gravett, Chair of the UNC Staff Assembly Kelley Eaves-Boykin, and Project Management Officer UNCFIT Gwen Canady (UNCGA) were in attendance as well members of the press.

Chair Mercer convened the meeting. The minutes of the meeting of August 12, 2010 were approved.

1. G.S. 143-64.17F authorized state agencies to utilize guaranteed energy savings contracts as a method to reduce the state's increasing utility costs, improve efficiencies of operations, and reduce environmental impacts. The President's Advisory Committee on Efficiency and Effectiveness (PACE) and the UNC Tomorrow Commission also identified guaranteed energy savings contracts as important tools to achieve facility efficiencies and proper environmental stewardship. G.S.143-64.12 requires that all state buildings reduce energy consumption per gross square foot by 20% by 2010 and 30% by 2015 based on fiscal year 2002-03 consumption. The UNC Sustainability Policy, adopted by the Board of Governors in October 2009, authorized the implementation of sustainable practices in buildings to meet or exceed statutory requirements to reduce energy and water use, while maintaining air quality and comfort and giving priority to the installation of high-efficiency equipment as part of an ongoing sustainability action plan. To improve the efficiency of its facilities and in support of the goals outlined by PACE and UNC Tomorrow, NCCU worked with the State Energy Office to select Chevron Energy Solutions from the state's list of pre-qualified energy services companies. This had been approved by the Board of Trustees.

NCCU entered into an agreement with Chevron in December of 2009 to perform a thorough Investment Grade Audit (IGA) of the proposed energy conservation measures. Upon receiving the completed IGA in May 2010, NCCU engaged the services of a third party engineering firm to validate the findings in the IGA report. The third party engineering firm's evaluation was completed in June 2010 confirming the accuracy of the costs and savings shown in the IGA report.

The Board of Trustees of North Carolina Central University had requested authority to establish a capital improvements project and to enter into a guaranteed energy savings contract to improve energy efficiencies, replace inefficient equipment and infrastructure, and reduce water consumption on the NCCU campus. The project involved 83 energy conservation measures (ECMs) to include replacing boilers and controls in the heating plant, refurbishing or replacing air handler units, more efficient lighting, a solar thermal system, upgrading building controls for mechanical and electrical systems, and water conservation measures in multiple buildings.

Chevron Energy Solutions had validated the estimated project costs and utility savings and was willing to enter into a contract to guarantee that 100% of the projected savings would be achieved, and if not, Chevron Energy Solutions would be liable for any shortfall.

NCCU would solicit competitive proposals from qualified lenders to finance this project with a tax-exempt loan in an amount not to exceed \$6,664,426 with a rate not to exceed 5.25% to be repaid from utility savings within 15 years. Construction would be anticipated to commence in January 2011. After the debt was paid, the savings produced by the improvements, estimated to be \$580,000 per year, would continue to accrue to NCCU and the State. The project was expected to achieve a 21% reduction in energy consumption in 10 buildings on the NCCU campus.

It was recommended that the request of the Board of Trustees of North Carolina Central University be approved and that the proposed contract be forwarded to the Department of Administration, the Office of State Budget and Management, the State Treasurer, and the Council of State for final approval.

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

2. North Carolina State University had requested authority to establish two new capital improvements projects.

The first project would renovate 5,330 square feet of space in the Butler Communications Building to provide print shop and office space for the News Services Department as they relocated from the Joyner Visitor Center. Work would include electrical, mechanical, lighting and data systems upgrades, reconfiguration of office and support space, and equipment installation. The project, expected to be complete by January 2011, was estimated to cost \$452,800 and would be funded from available carry-forward funds. (Carry-forward funds are operating funds unexpended on June 30 and, pursuant to state law, are "carried-forward" into the next fiscal year to support one-time expenditures.)

The second project would renovate 30,000 square feet of space in the Cherry Building to house the Early College High School, Upward Bound, and Talent Search programs. Used by the Department of Health and Human Services until July 2010, the two-story Cherry Building was built in 1949 and was located in the Spring Hill Precinct of the Centennial Campus. Work would include exterior and interior building repair and renovations, upgrading of all major building support systems including lighting to improve energy efficiency, and improvements to comply with current accessibility, fire safety, and code requirements. The project, expected to be complete by March 2013, was estimated to cost \$3,526,408 and would be funded from available carry-forward funds.

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

On the motion of Mr. Daniels, seconded by Mrs. Goodnight, 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.

UNC Wilmington had requested that the Board issue special obligation bonds for the purpose of financing (1) the costs of constructing and equipping a capital improvement project previously approved by the Board of Governors and the North Carolina General Assembly; (2) capitalizing interest on a portion of the 2010 Bonds; 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 UNCW, determined to be in the best interest of the University.

Build America Bonds were authorized by Congress in 2009 as part of the Federal Stimulus program (ARRA) to benefit issuers of municipal bonds. Qualifying issuers of municipal debt were permitted to issue taxable bonds and receive a subsidy payment from the Federal government equal to 35% of the interest cost. To be eligible, projects must meet all of the requirements of tax exempt debt.

The issuance of bonds for the new project previously approved by the Board and the General Assembly would not exceed a par amount of \$15,750,000. The proceeds, along with a \$15,000,000 award by the National Institute of Standards and Technology (NIST), would be used to pay the cost of constructing a new facility to house MARBIONC, a biotechnology development program established in 2004 at the University's Center for Marine Science, which focused on the application of marine biotechnology for health, food and energy. Research areas included drug discovery, detection technologies for human-origin marine pollutants and biotoxins from microorganisms, and algae farming for

biofuels and mariculture. These improvements would be funded from a combination of lease agreements, university unrestricted funds, and facilities and administrative receipts (F&A receipts).

UNCW was currently rated A1 by Moody's Investor Service. In May of 2010, Moody's Investors Service recalibrated their U.S. Municipal Ratings to its Global Scale. The recalibration resulted in UNCW moving up from a rating of A2 to A1 on the global scale. After issuance of the bonds, it was expected that UNCW would maintain its A1 rating.

BB&T Capital Markets would be the underwriter for the issue. 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 September 2010 and the October 2010 meetings of the Board.

On the motion of Mr. Daniels, seconded by Mrs. Goodnight, the recommendation was approved.

4. The Board of Trustees of the University of North Carolina at Charlotte had requested authorization to dispose of real property by demolition consistent with the Campus Master Plan and to comply with the goal of having all beds in campus-owned residential buildings protected by fire suppression sprinkler systems or removed from service by fall 2012.

Proposed to be demolished was the seven-unit Hunt Village apartment complex (built in 1978, 53,450 square feet, 222 beds), the nine-unit Phase III apartment complex (built in 1980, 48,910 square feet, 200 beds), and the ten-unit Martin Village apartment complex (built in 1979, 63,351 square feet, 312 beds).

Considering the goal that all beds be protected by sprinkler systems by the fall of 2012, UNCC had determined that it was not cost effective to add sprinkler systems to these older apartment complexes which were at or near the end of their useful life. Both the Campus Master Plan and the Housing Master Plan identified the demolition of these complexes in order to accommodate the construction of new, more densely populated residence halls that would be protected by sprinkler systems. UNCC was planning a phased approach that would have old beds demolished as new beds became available. In 2011, 200 beds (Phase III) would be eliminated, but 431 beds (Phase IX) would be coming online. In 2012 or 2013, the 534 beds in Hunt Village (222 beds) and Martin Village (312 beds) would be demolished, but 800 beds in Phase X (400 beds) and Phase XI (400 beds) would be coming online. UNCC was planning four additional phases (XII-XV) that would provide a total of 1,450 additional new beds by 2017 or 2018.

The demolition of all three complexes, which included asbestos abatement and site restoration, was estimated to cost \$2,000,000, and would be funded from housing receipts.

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

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

At the point, the Committee discussed the preparation of the 2011-13 operating and capital budget priorities. Space utilization was also discussed.

On the motion of Mr. Bhula, seconded by Mr. Daughtridge, 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. Charles H. Mercer, Jr.
Chair of the Committee
on Budget and Finance

Dr. Cheryl Marvileane Locklear
Secretary of the Committee
on Budget and Finance