

Minutes of the October 7, 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 Thursday, October 7, 2010, at 12:30 p.m.

Committee members in attendance were Mr. Atul C. 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., Dr. Cheryl Marvileane Locklear, and Mr. Charles H. Mercer, Jr. Board members in attendance were Chair Hannah D. Gage, Estelle Sanders, Brent D. Barringer, Peaches Gunter Blank, Laura W. Buffaloe, Walter C. Davenport, John W. Davis, III, James M. Deal, Jr., Paul Fulton, Clarice Cato Goodyear, Charles A. Hayes, Adelaide Daniels Key, G. Leroy Lail, Ronald C. Leatherwood, Franklin E. McCain, Fred G. Mills, Burley B. Mitchell, Jr., Marshall B. Pitts, Jr., Gladys Ashe Robinson, Irvin A. Roseman, and Priscilla P. Taylor. President Erskine B. Bowles, Chief of Staff Jeffrey R. Davies; Vice Presidents Laura Luger, Alan Mabe, Ernest Murphrey, Kimrey Rhinehardt, Anita Watkins, Joni Worthington; Associate Vice Presidents Ginger Burks, Alisa Chapman, Shari Parrish, Jonathan Pruitt, 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 Charlie Nelms (NCCU), Chancellor W. Randolph Woodson (NCSU), Chancellor Anne Ponder (UNCA), Chancellor Philip Dubois (UNCC), Chancellor Linda Brady (UNCG), Chancellor Kyle Carter (UNCP), Chancellor Rosemary DePaolo (UNCW), Chancellor John W. Bardo (WCU), Chancellor Donald Reaves (WSSU), Chancellor Thomas Williams (NCSSM), Vice Chancellor for Business Affairs Reade Taylor (UNCG), Assistant Vice Chancellor for Auxiliary Services Mike Byers (UNCG), Chief Operating Officer George Burnette (UNCSA), Chair of the UNC Faculty Assembly Sandy Gravett, and Fiscal Research Analyst Richard Bostic were in attendance as well as student representatives and members of the press.

Chair Mercer convened the meeting and reminded the Committee that the Tuition Plan would be discussed today, a draft would be provided incorporating the Committee's input, and that the Tuition Plan would be an action item at the November meeting. The Committee commenced to discuss the Tuition Plan.

After the Tuition Plan discussion, the Committee continued with the agenda. The minutes of the meeting of September 9, 2010 were approved.

1. In 2001, the General Assembly and the Board authorized North Carolina State University and the University of North Carolina at Chapel Hill to implement a commercial paper program allowing the periodic issuance of tax-exempt commercial paper bonds.

Commercial paper is short-term, unsecured debt issued in the form of promissory notes, and presents an alternative to borrowing from banks. A commercial paper program provides the issuer access to a flexible, low cost source of capital to provide bridge financing for projects. The program was established to fund previously approved projects, up to the authorized maximum amount. The bonds are issued by the Board of Governors

but are an obligation of the constituent institution secured by available funds excluding state appropriations, tuition, and restricted gifts. Funds are drawn on an as-needed basis for capital expenditures. The short-term program is repaid with proceeds from a long-term bond issue, gift receipts, or other sources. By providing continual access to capital for construction projects, North Carolina State University and UNC-Chapel Hill have not been required to issue long-term debt as frequently as in the past and have had greater flexibility over the timing of bond issues. In addition, less frequent issuance of bonds reduces the costs of issuance and achieves more attractive debt service costs. Tax-exempt commercial paper rates are often several percentage points lower than commercial bank loans. Another benefit of commercial paper is that interest expense is incurred only on funds that have been drawn.

North Carolina State University and the University of North Carolina at Chapel Hill requested that the Board approve and ratify the use of proceeds of special obligation bonds for participation in the Commercial Paper Program for the following projects, approved by the 2010 Session of the General Assembly:

NC STATE PROJECTS

Talley Student Center Renovation and Expansion (\$120,000,000)
Greek Village Townhouses (\$25,000,000)

UNC AT CHAPEL HILL PROJECTS

Carolina North Infrastructure Improvements (\$5,000,000)
Graham Student Union Renovations (\$7,500,000)
Kenan Stadium Improvements, Phase 2 – Carolina Student
Athlete Center for Excellence (\$55,000,000)
Lenoir Hall Renovations (\$5,000,000)
Woollen Gymnasium Renovations, Phase 2 (\$7,100,000)

It was recommended that the Resolution be adopted and that the Vice President for Finance be authorized to use commercial paper bonds for the projects listed.

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

2. The University of North Carolina Health Care System, on behalf of University of North Carolina Hospitals at Chapel Hill, requested that the Board of Governors issue revenue bonds with a principal amount not to exceed \$50,000,000 to finance (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; and (2) 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 UNC Hospitals, 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 bond proceeds would be used to pay the cost of the expansion, renovation and equipping the Ambulatory Care Center to add new operating rooms, pre- and post-operative space and other support space and the acquisition, construction and equipping of a new imaging and outpatient clinic and associated parking facilities.

UNC Hospitals was currently rated Aa3 and AA- by Moody's Investor Service and Standard & Poor's, respectively. UNC Hospitals was recently reviewed by Moody's and S&P in June of 2010 and both agencies affirmed the credit ratings at the Aa3/AA- level. After issuance of these bonds, it was expected that UNC Hospitals would maintain its Aa3/AA- rating.

UNC Hospital's ability to cover the debt service on the revenue bonds had been examined. Debt service would be covered by funds available to the hospital such as patient revenues and unrestricted reserves. The debt service coverage ratio after the issuance of the bonds was expected to be 5.59 which was consistent with the Moody's median coverage ratio of 5.6 for entities with the same credit rating.

UNC Hospitals was being represented by Womble Carlyle Sandridge & Rice, PLLC, as bond counsel. Bank of America Merrill Lynch would serve as the underwriter for the proposed revenue bonds. US Bank would serve as the trustee.

It was recommended that the authorizing Resolution be adopted and that the President of the University, or his designee, be authorized to provide for the sale of the bonds.

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

3. North Carolina State University had requested authority to establish a new capital improvements project that would allow grant funded renovations in the NCSU Phytotron building.

Originally constructed in 1968 and then called the Southeastern Plant Environment Laboratory, the NCSU Phytotron Building (four-story, 42,216 square feet) was located adjacent to Gardner Hall. This special laboratory, one of only three in the United States, was especially designed for research that dealt with the response of biological organisms to the environment. Within the NCSU Phytotron Building, there were 60 artificially lighted growth chambers of various sizes, nine photoperiod rooms, and five temperature-controlled, rooftop greenhouses. Separate controls regulated temperature, moisture, photoperiod, and atmospheric gasses in each chamber, making it possible to duplicate any climate on earth from tropical rain forest to arid desert. The NCSU Phytotron lent itself to an enormous

number of experiments, usually between 50 and 70 different projects each year, and a broad range of research interests.

The renovation would construct a Biosafety Level 3 (BSL-3) containment facility within the existing building, update laboratory environmental controls, upgrade the control of the carbon dioxide system, and increase laboratory cooling capacity.

The project, expected to be completed by July 2013, was estimated to cost \$1,793,916 and would be funded from an American Reinvestment and Recovery Act grant awarded on August 17, 2010.

It was recommended that this project be authorized and that the method of financing as proposed by NCSU be approved.

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

On the motion of Mr. Dixon, 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