Minutes of the November 4, 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, November 4, 2010, at 1:00 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, Peter D. Hans, Estelle Sanders, Brent D. Barringer, Peaches Gunter Blank, R. Steve Bowden, Walter C. Davenport, John W. Davis, III, James M. Deal, Jr., Dudley E. Flood, Paul Fulton, Clarice Cato Goodyear, 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 Laurie Charest, Steven Leath, Alan Mabe, Ernest Murphrey, Anita Watkins; Associate Vice Presidents Ginger Burks, Brent Herron, Bruce Mallette, 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 Mauceri (UNCSA), Chancellor John W. Bardo (WCU), Chancellor J. Todd Roberts (NCSSM), Chief Operating Officer George Burnette (UNCSA), Associate Vice Chancellor for Facilities Kevin MacNaughton, Assistant Vice Chancellor for Facilities Operations Jack Colby (NCSU), Director of Strategic Debt Management Lori Johnson (NCSU), Chair of the UNC Faculty Assembly Sandy Gravett, Assistant State Budget Officer for Education Elizabeth Grovenstein, and Budget Analyst Joyce Wallace, were in attendance as well as student representatives and members of the press.

Chair Mercer convened the meeting. The minutes of the meeting of October 7, 2010 were approved.

1. The tuition policy of the Board of Governors, adopted in 1998 and revised in 2003 when the existing tuition and fee policies were combined, provides the framework for the Board's annual review and action on proposed increases in tuition and fees. This framework was used by the Board in fulfilling its responsibility under General Statute 116-11(7), which states in part that *"The Board (of Governors) shall set tuition and required fees at the institutions, not inconsistent with actions of the General Assembly."* At the same time that the Board exercised its statutory authority, it wished to do so in a way that provided affordability for students, flexibility for the constituent institutions, and predictability for both the students and the constituent institutions.

   In September of 2006, the Board approved a four-year plan that outlined guidelines for the campuses to follow in submitting annual proposals for increasing tuition and fees and the Board agreed to review those guidelines after four years. In August 2010, the Board reviewed recommendations from a working group for adjustments to the four-year plan and later reviewed responses from President Bowles to the working group's recommendations. At its October 2010 meeting, the Board debated possible adjustments. The proposed "Second Four-Year Plan" reflected those deliberations, and, if approved by the Board would provide guidance to the campuses for the next four years. At the end of the second four-year period, the plan would again be evaluated by the Board.

It was recommended that the Second Four-Year Plan for Tuition and Fee Increases be approved.

On the motion of Mr. Daniels, seconded by Mrs. Goodnight, the recommendation was approved. (Attachment 1)

2. 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)." Initial discussions related to determining the 2011-13 Budget Priorities began during the Board's policy discussion in October.

   As was discussed, the State of North Carolina faced an extreme budget shortfall for the upcoming biennium. While the Board of Governors was charged with developing and presenting the budget to the State, it must also do so with knowledge that the State's fiscal condition required the utmost restraint. As a result, the recommended budget from the President presented only limited requests for continuation and expansion items. It was important to note that the University had been asked by the Governor to put forward 5% and 10% budget reduction scenarios.

   Beginning in July 2010, and continuing through October, the President, the chancellors, campus staff, and General Administration staff had collaborated on the 2011-13 Budget Priorities. These priorities were developed using the major findings and recommendations of the UNC Tomorrow Commission's Report issued in December 2007. The 2011-13 Budget Priorities as recommended by the President identified the operating and capital funding needed to carry out the highest priorities of the President, the chancellors, and the Board of Governors.

   Due to ongoing work of the Board of Governors on a plan to tie enrollment to retention and graduation, the University's enrollment change budget would not be finalized until December. Similarly, the work underway on studying Financial Aid Consolidation would impact the request for the UNC Need-Based Grant Program. It was recommended that the Committee on Budget and Finance be delegated the authority to approve those items when the amounts became available. There would be a special meeting for this purpose and the entire Board would be invited to participate, either in person or via telephone.

   The President's recommended budget was labeled as the "A" list. Since many requests were received from the campuses that were worthy of consideration by the Board, a "B" list was also presented that identified requests for the Board to consider and, if the Board deemed appropriate, add to those requests on the "A" list. Any item that was on the President's "B" list for 2011-12 was included within the President's "A" list for 2012-13.

It was recommended that the Board of Governors adopt the 2011-13 Budget Priorities ("A" list) for presentation to the Governor and General Assembly for consideration during the 2011 legislative session. If the Board of Governors chose to add items from the "B" list, it was recommended that those changes be incorporated for transmission to the Governor and General Assembly. It was also recommended that the President be authorized to make refinements to the request in the interest of accuracy and completeness. Should the Governor and the General Assembly eventually decide to cut the University's budget by 5% to 10%, the proposed cuts would be discussed in full with the Board of Governors at that time. [Note: The Committee recommended the "A" list.]

Each state agency was required (G.S. 143.34.44) to submit a six-year capital improvement needs estimate to the Office of State Budget and Management and the General Assembly's Fiscal Research Division. These plans would be used as the beginning point for the future biennial budget for capital projects. The University's six-year plan was included for the Board's review. It was recommended that the 2011-17 Capital Improvements Plan be approved and forwarded to the Office of State Budget and Management and the legislative Fiscal Research Division. It should be noted that the President was not recommending any capital projects for funding in this biennium. The President was requesting $163 million for repairs and renovations to existing projects in 2011-12. The President was also asking for planning resources of $162.5 million in 2012-13 to plan for needed capital improvements projects.

On the motion of Mr. Daniels, seconded by Dr. Locklear, the motion was approved. (Attachment 2)

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

Elizabeth City State University requested that the Board issue special obligation bonds for the purpose of (1) financing the costs of the construction, equipping and furnishing of a new student housing facility on the campus of ECSU, (2) paying capitalized interest on a portion of the Bonds related to the Project, (3) the refunding of all or a portion of prior revenue bonds issued on behalf of ECSU, and (4) paying the costs incurred in connection with the issuance of the 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 ECSU, 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 project previously approved by the Board and the General Assembly would not exceed a par amount of $15,500,000. These improvements would be funded from housing receipts.

The issuance of bonds to refund all or a portion of prior revenue bonds issued on behalf of ECSU would not exceed $4,500,000. It was possible that no bonds would be refunded with this transaction.

Elizabeth City State University did not currently have a public bond rating. ECSU's expendable resources to debt ratio after issuance of this proposed debt would be 0.25 which was consistent with the Moody's median for issuers with an A3 credit rating. With the issuance of these bonds, it was expected that ECSU would attain a credit rating of A3.

Wells Fargo Bank 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 November 2010 and the January 2011 meetings of the Board.

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

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

   The University of North Carolina at Asheville requested that the Board issue special obligation bonds for the purpose of (1) financing the costs of constructing and equipping a new residence hall and renovating an existing residence hall, Governor's Village, on the campus of UNCA, (2) paying capitalized interest on the 2010 Bonds, and (3) paying 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 UNCA, 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 projects previously approved by the Board and the General Assembly would not exceed a par amount of $26,160,000. These improvements would be funded from housing receipts.

UNC Asheville was currently rated A1 by Moody's Investor Service. UNCA's expendable resources to debt ratio after issuance of this proposed debt would be 0.52 which was consistent with the Moody's Median for issuers with the same credit rating. After issuance of these bonds, it was expected UNCA would maintain its A1 rating.

Wells Fargo Bank would be the underwriter for the issue. Parker Poe was bond counsel. Davenport and Company 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 November 2010 and the January 2011 meetings of the Board.

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

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

The University of North Carolina at Charlotte requested that the Board issue special obligation bonds for the purpose of (1) financing the construction and equipping of a football complex and related facilities on the campus of UNCC, (2) refinancing of UNCC indebtedness and refunding all or a portion of prior revenue bonds or special obligation bonds issued for the benefit of UNCC that resulted in sufficient savings, and (3) paying 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 UNCC, 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 project previously approved by the Board and the General Assembly would not exceed a par amount of $42,525,000. These improvements would be funded from a $120 debt service fee previously approved by the Board of Governors.

The issuance of bonds to refund all or a portion of prior revenue bonds or special obligation bonds issued on behalf of UNC Charlotte would not exceed $4,800,000. It was possible that no bonds would be refunded with this transaction.

UNC Charlotte was currently rated Aa3 and A+ by Moody's Investor Service and Standard & Poors, respectively. UNCC's expendable resources to debt ratio after issuance of this proposed debt would be 0.91 which was consistent with the Moody's median for issuers with the same credit rating. After issuance of these bonds, it was expected UNCC would maintain its Aa3/A+ rating.

Morgan Stanley would be the underwriter for the issue. Stephens Inc. would be the co-underwriter. Robinson, Bradshaw and Hinson was bond counsel. RBC Capital Markets 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 November 2010 and the January 2011 meetings of the Board.

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

6. North Carolina State University's campus culture was one of actively engaging students as well as faculty and staff in investigating and implementing energy savings opportunities. The campus was guided by a Strategic Energy and Water Plan, a tactical program of addressing inefficiencies and meeting the environmental stewardship required by both UNC Tomorrow and the Board of Governor's Sustainability Policy and statutory (G.S. 143-64.12) energy reduction goals of 20% by 2010 and 30% by 2015.

The Board of Trustees of North Carolina State University requested authority to establish an energy-related capital improvements project financed through a guaranteed energy savings contract. The project scope would implement "energy conservation measures" or ECM's at two steam and chilled water central distribution facilities on North and Central Campus to improve energy efficiency and reliability. The savings achieved would be sufficient to cover all project costs, including annual maintenance and monitoring fees for the duration of the contract term. ECM's at the two utility plants would result in net annual savings in electric, water, sewer and treatment. The contract included the installation of cogeneration (also known as combined heat and power, CHP, one of the listed approved ECM's under G.S.143-64.17) at Cates Utility Plant and replacement/rehabilitation of boilers at the Yarbrough Utility Plant. Energy cost savings would occur at the Cates Utility Plant by the use of a heat engine or a power station to simultaneously generate both electricity and useful heat, increasing power plant energy efficiency by 40%. Energy cost savings would occur at the Yarbrough Plant by increasing boiler plant efficiency by 15%. Along with increased reliability and efficiency, this project would meet projected steam demand growth through the year 2029 and would reduce green house gas emissions by 25,000 tons per year. G.S. 143-64.17B and 143-64.17F authorized state agencies to utilize guaranteed energy savings contracts to reduce the State's increasing utility costs, improve efficiencies of operations, and reduce environmental impacts.

Working with the State Energy Office, NCSU selected Ameresco, Inc. as the company to execute the performance contract. NCSU entered into an agreement with Ameresco in March, 2010 to perform a thorough Investment Grade Energy Audit (IGEA) of the proposed energy conservation measures.

Ameresco, Inc. 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, would be liable for any shortfall. The first year guaranteed savings was $3.9 million, with a guaranteed savings at the end of the project of $10 million per year. These savings would continue to accrue, benefiting both the University and State of North Carolina after the term of the contract.

NCSU and Ameresco would solicit competitive proposals from qualified lenders to finance this project with a tax-exempt, or taxable Build America Bond loan in an amount not to exceed $61 million with a rate not to exceed 4.875% to be repaid from utility savings within 18 years. Construction was anticipated to commence in January 2011.

The project, the guaranteed energy savings contract, and the method of financing would be accomplished within the guidelines, procedures, and policies of the Department of Administration, Office of State Budget and Management, and Department of State Treasurer, and would be subject to the approval of the Council of State. It was recommended that the request of the Board of Trustees of NCSU be approved.

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

7. East Carolina University, North Carolina State University, the University of North Carolina at Chapel Hill, and the University of North Carolina School of the Arts had requested authority to establish new capital improvements projects.

> <u>ECU</u>: This project would up-fit 37,800 square feet of <u>4th floor</u> shell space in the East Carolina Heart Institute (Cardiovascular Institute, 210,000 square feet, four-story, built in 2008) into a cardiovascular robotics surgical training laboratory, lab support space, and office space for interdisciplinary study. The laboratory space would include bio-containment areas, fume hood rooms, tissue culture rooms, medical imaging resources, cold rooms, and storage. The robotic surgery laboratory area had a large training room for demonstrations and seminars, two surgery rooms, and two procedure rooms. The project would finish work that was planned to be completed as part of the original project but omitted due to budget constraints. The construction project, to be completed by spring 2012, was estimated to cost $8,000,000 and would be funded with remaining authorized funds from the original construction project ($800,000), Facilities and Administrative receipts ($1,000,000) and from available carry-forward funds ($6,200,000). (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.)

> <u>ECU</u>: This project would up-fit 2,414 square feet of <u>3rd floor</u> shell space in the East Carolina Heart Institute (Cardiovascular Institute, 210,000 square feet, four-story, built in 2008) into an exercise laboratory for metabolic and health and human

performance research. The project would complete work that was planned to be completed as part of the original project but omitted due to budget constraints. The project, to be completed by spring 2011, was estimated to cost $450,000 and would be funded entirely by a grant from the Golden Leaf Foundation awarded on August 11, 2010.

NCSU: This project would make improvements to North Residence Hall (73,924 square feet, six-story, built in 1974). Work would include structural repair to the exterior balcony walkways, replacement of handrails, repair and painting of the exterior walls, asbestos abatement, and replacement of the entry canopy. Work would also include the replacement of the existing storefront room entries and HVAC units to improve energy efficiency. The project, to be completed summer 2011, was estimated to cost $2,400,000 and would be funded from Housing receipts.

NCSU: This project would make improvements to the building systems supporting the Pulstar nuclear reactor housed in the Burlington Engineering Laboratories Building (62,511 square feet, four-story, built in 1955). The project would upgrade the reactor's cooling and plumbing, mechanical, and electrical support systems as needed to increase the reactor's capacity from one million watts to two million watts and provide the potential to increase capacity to five million watts. The project, to be completed spring 2012, was estimated to cost $1,378,987 and would be funded entirely by a grant from the U.S. Department of Energy awarded on August 16, 2010.

UNC-CH: This project would renovate approximately 7,300 square feet in four wet laboratories in the Kenan Lab Building (140,411 square feet, twelve-story, built in 1971) that provide research space for faculty members in inorganic chemistry. Work would include the replacement of all current lab benches, fume hoods, and student carrels. Each laboratory would be upgraded to the maximum number of fume hoods allowable by the capacity of the existing HVAC system. Work also included required asbestos and mercury abatement and provided needed mechanical, plumbing, and electrical service to the replacement lab benches and equipment. The project, to be completed spring 2012, was estimated to cost $1,996,997 and would be funded entirely by a grant from the National Science Foundation awarded on September 1, 2010.

UNCSA: This project would make improvements to Residence Hall E (8,042 square feet, three-story, built in 1969) and to Residence Hall F (13,225 square feet, three-story, built in 1969). Work would include replacement of existing with new fire-rated building, corridor, and room entry doors; new ADA-compliant door hardware, new energy efficient windows, and interior and exterior accessibility upgrades. The project, to be completed summer 2011, was estimated to cost $468,000 and would be funded from Housing receipts.

It was recommended that these projects be authorized and that the methods of financing as proposed by ECU, NCSU, UNC-CH, and UNCSA be approved.

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

8. It was recommended that the Annual Report of the Committee on Budget and Finance to the Board of Governors of the University of North Carolina – July 1, 2009 through June 30,

2010 be approved. This report was presented in October for Committee review and was presented at the November meeting for approval.

On the motion of Mr. Bhula, seconded by Mr. Blackburn, the recommendation was approved. (Attachment 3)

9. In its November 2006 report to the Board of Governors, the President's Advisory Committee on Efficiency and Effectiveness (PACE) recognized that "the need to lease space was growing, especially as more campuses do greater and more complex research" and that "extending leasing authority as currently granted under G.S. 116-37 to all campuses would render the process timelier and more efficient" suggesting that this legislative relief could reduce process times from approximately nine to four months. The PACE working group explained that delays in the current leasing process not only cost administrative time and effort but that opportunity costs also existed. If research grant funding was predicated on obtaining necessary office space and the campus could not lease the space in time, it could very well lose the grant.

These conclusions echoed the findings of the Huron Consulting Group in their 2004 report, "Enhancing the Ability of North Carolina's Public Research Universities to Contribute to State Economic Development." This report emphasized that efficient processes must support research programs, noting that "speed and adaptability were essential to success in a competitive environment. As opportunities arose in the research marketplace, researchers and institutions must have the ability to react quickly, and to respond to those opportunities in a manner that would create competitive advantage."

At the request of the Board of Governors, the General Assembly and Governor produced the needed legislative authority in Section 9 of Session Law 2007-322 titled: AN ACT TO IMPLEMENT EFFICIENCIES WITHIN THE UNIVERSITY SYSTEM AND STATE GOVERNMENT AS RECOMMENDED BY THE PRESIDENT'S ADVISORY COMMITTEE ON EFFICIENCY AND EFFECTIVENESS (PACE) or as it was often called, the "PACE bill" which stated:

> ***SECTION 9.*** *Article 1 of Chapter 116 of the General Statutes was amended by adding a new section to read:*
>
> ***"§ 116-31.12. Acquisition of real property by lease.***
>
> *Notwithstanding G.S. 143-341(4), the Board of Governors may authorize the constituent institutions and the General Administration to acquire real property by lease if the lease is for a term of not more than 10 years. The Board of Governors shall establish a policy for acquiring an interest in real property for the use of The University of North Carolina and its constituent institutions by lease. This policy may delegate authorization of the acquisition of real property by lease to the boards of trustees of the constituent institutions or to the President of The University of North Carolina. The Board of Governors shall submit all initial policies adopted pursuant to this section to the State Property Office for review prior to adoption by the Board. Any subsequent changes to these policies adopted by the Board of Governors shall be submitted to the State Property Office for review. Any comments by the State Property Office shall be submitted to the President of The University of North Carolina. After the acquisition of an interest in real property by lease, The University of North Carolina shall promptly file a report concerning the acquisition to the Secretary of Administration. Acquisitions of an interest in real property by lease pursuant*

to this section shall not be subject to the provisions of Article 36 of Chapter 143 of the General Statutes or to the provisions of Article 6 of Chapter 146 of the General Statutes."

North Carolina General Statute Section 116-31.12 gives the Board of Governors of the University of North Carolina the authority to authorize the constituent institutions and the General Administration of the University of North Carolina to acquire real property by lease if the lease was for a term of not more than 10 years. Further, the statute directed the Board of Governors to establish a policy by which this leasing authorization may be further delegated to the boards of trustees of the constituent institutions or to the President of the University of North Carolina.

The proposed policy delegated leasing responsibility consistent with G.S. 116-31.12 to a 'designated' constituent institution based on capability that had been affirmed by the constituent institution, confirmed and recommended by the President, and approved by the Board of Governors. Unless leasing authority was designated or exercised on behalf of the constituent institution by the President, a constituent institution would continue to use the North Carolina Department of Administration's State Property Office for its real property transactions.

It was recommended that the Committee on Budget and Finance approve the proposed policy to enable compliance with, and the utilization of, the acquisition of real property by lease flexibility as permitted by North Carolina General Statute Section 116-31.12.

On the motion of Mr. Daniels, seconded by Mrs. Goodnight, the recommendation was approved contingent upon final consultation with the State Property Office. This item would be presented for final consideration at the Board's January 2011 meeting. (Attachment 4)

After this, the Committee heard the final progress report on the UNC Bond Program. The Bond Program was essentially complete despite the remaining balance of $6.5 Million at UNC-TV as a result of the conversion to digital television which was deferred by federal action and delayed UNC-TV's progress. The remaining work involved equipment procurements and minor electrical, heating, ventilating, and air conditioning installations in support of this equipment and was slated to be complete by July 2011. All other institutions had completely expended bond funds, submitted final reports, and closed out their programs.

In conjunction with additional shared-funding that campuses were expected to contribute, the bond program had resulted in a $3.167 Billion overall infusion into campus facilities. Over 50% of the funding was directed toward new or replacement facilities and an additional 34% supported the modernization of existing facilities. Nearly a third of the facilities were in support of science, engineering, or computing disciplines and another 20% addressed general classroom needs. A total of 319 projects were completed in the program, adding 6,000,000 square feet to UNC's inventory.

The lessons learned throughout the execution of the bond program were a valuable outcome above and beyond the facilities assets themselves. First, the benefit of a long-term program with a known stream of capital project funding over an extended period of time was substantial in comparison to the uncertain authorization of individual projects. A predetermined program permitted appropriate sequencing of projects for new construction and the subsequent renovation of vacated facilities, as well as more effective development of supporting infrastructure such as utilities, and vehicular and pedestrian flows. It also allowed for movement of funds between projects when a good bid outcome may exist on one project resulting in savings that could be used to serve another project whose place in the work sequence may fall under a less attractive bidding climate.

In addition, the program permitted funding support for related professional staff allowing first time capital funds to be used for this purpose, resulting in the successful execution of the program. This funding permitted staff support commensurate with the magnitude and duration of the project load. Where capital projects were sporadically authorized, obtaining and training capital staff was often difficult, as institutional personnel resources were directed at the most immediate needs. This meant that institutions without significant capital projects over an extended time were starting behind, often with staff for which capital projects were just one of many responsibilities. Staff retraining over time provided a higher level of competency and the readiness to get projects off to a quick start.

The value of oversight was another lesson, which served as an aid to focus and provide leverage for the bond program. Quarterly reporting requirements forced a level of discipline and accountability that contributed to the program's successful delivery.

As the program progressed, there were experiences that emerged as best practices that would contribute to more successful future capital projects. Among these practices were formally scheduling projects and ensuring that schedules were routinely used, not just filed away; ensuring the availability of training in a number of areas for capital project managers; the development of Historically Underutilized Businesses (HUB) practices, and improving communication. The latter proved to be one of the most significant best practices as routine communications channels were established within the UNC system under the "Bond Alliance" created to share problems and solutions across the system. Regularly scheduled meetings with other State agencies (the Department of Insurance and the State Construction Office), architects, engineers, and contractors allowed ongoing dialog about mutual concerns and suggestions for improvement. The routine nature of these meetings with stakeholders allowed for continuous improvement to benefit all projects. Claims were kept at a minimum which was exceptional for a program of this size.

The President's annual report to the Joint Legislative Commission on Governmental Operations was filed in September.

The Higher Education Bond Oversight Committee (HEBOC) produced a comprehensive final report on the program which would be presented to the legislature. The final HEBOC meeting was held October 25, 2010. It was anticipated that the legislature would formally disband HEBOC early in its next session.

Mr. Bowden stated disappointment in the program. He recommended reflection of HUB data by pulling white women out of the mix. The Community Colleges did not get planning money as did the universities. And he further urged the hiring of local people should this type of program ever occur again in North Carolina.

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

Note: Due to bulk, the Attachments are omitted. They may be found on the Board of Governors' January Meeting website.