

Minutes of the February 10, 2011 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, February 10, 2011, at 12:00 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, Estelle Sanders, Brent D. Barringer, Peaches Gunter Blank, R. Steve Bowden, Laura W. Buffaloe, Walter C. Davenport, John W. Davis, III, James M. Deal, Jr., Dudley E. Flood, Paul Fulton, Clarice Cato Goodyear, Charles A. Hayes, Adelaide Daniels Key, G. Leroy Lail, Ronald C. Leatherwood, Franklin E. McCain, Fred G. Mills, Marshall B. Pitts, Jr., Irvin A. Roseman, Priscilla P. Taylor, and David W. Young. President Thomas W. Ross, Chief of Staff Jeffrey R. Davies; Vice Presidents William Fleming, Steven Leath, Laura Luger, Kimrey Rhinehardt, Anita Watkins, Joni Worthington; Associate Vice Presidents Ginger Burks, David Harrison, Bruce Mallette, Shari Parrish, Jonathan Pruitt, Lynne Sanders; Associate Vice President for Finance and University Property Officer Terrance Feravich; and Assistant Vice Presidents Karrie Dixon and Jeffrey A. Henderson were in attendance. Chancellor Steven Ballard (ECU), Chancellor James A. Anderson (FSU), Chancellor Harold L. Martin, Sr., Chancellor Charlie Nelms (NCCU), Chancellor W. Randolph Woodson (NCSU), Chancellor Anne Ponder (UNCA), Chancellor H. Holden Thorp (UNC-CH), Chancellor Philip Dubois (UNCC), Chancellor Kyle Carter (UNCP), Chancellor Rosemary DePaolo (UNCW), Chancellor John Mauceri (UNCSA), Chancellor John W. Bardo (WCU), Chancellor Donald J. Reaves (WSSU), Chancellor J. Todd Roberts (NCSSM), Chief Operating Officer George Burnette (UNCSA), Chief Finance Officer Gregory Lovins (ASU), Interim Provost and Executive Vice Chancellor Lorin Baumhover (ASU), Dean of the Dental School of Medicine James Hupp (ECU), Chief Finance Officer Yolanda Banks Deaver (NCCU), Chief Finance Officer Reade Taylor (UNCG), Associate Vice Chancellor Campus Enterprises Mike Byers (UNCG), Interim Vice Chancellor for Student Affairs Cheryl Callahan (UNCG), Chief Finance Officer Robert Edwards (WCU), Chair of the UNC Faculty Assembly Sandy Gravett, 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 January 13, 2011 were approved.

Mr. Taylor and Mr. Byers presented information concerning the indebtedness fee for the Student Recreation Center at UNC Greensboro. Students Katie Marshall and Crawford Miller spoke in support of the fee and questions were answered.

The Committee then considered Items 1 and 2, the proposals for tuition and fees effective with the fall semester 2011. At the January workshop, the Board received an overview of the 2011-12 tuition and fee process and the requests for increases that had been submitted by the Chancellors. 290 pages of materials supporting the tuition and fee recommendations were provided in advance of the February meeting.

The Committee discussed the recommendations for tuition and fee increases fully, particularly the proposed increases in professional schools. Tuition for North Carolina undergraduates would increase by an average of \$284. Proposed increases in general fees averaged \$79 or 5.2%. It was evident that the second four-year plan adopted by the Board in November guided the campuses in making their tuition and fee proposals.

There was a recommendation to approve tuition and fees as presented. (Attachments 1 and 2)

On the motion of Mr. Daniels, seconded by Mr. Daughtridge, the Committee approved the tuition item. On the motion of Mr. Blackburn, seconded by Mr. Daniels, the Committee approved the Fee item.

3. The Fall 2010 Enrollment Report indicated that UNC-Chapel Hill had nonresident freshmen enrollment – for two consecutive years – that exceeded 18% of the freshmen class, an over-enrollment of thirteen (13) nonresident freshmen students. The Board’s policy [700.1.3], as shown below, required a budgetary adjustment at the institution.

Beginning with the fall of 1994, any constituent institution, except the North Carolina School of the Arts, that exceeds the 18% out-of-state freshman enrollment limitation prescribed in paragraph (a) above for two consecutive fiscal years shall have its state operating budget reduced. This reduction shall be made in the second fiscal year in which the two consecutive fiscal years’ condition is violated; the reduction shall be made, on a non-recurring basis, immediately after the Board of Governors approves the annual enrollment report at its November meeting. The budget reduction shall be based on the number of out-of-state freshmen enrolled in excess of the 18% limitation and the established method used for calculating the operating requirements for Regular Term enrollment changes.

The required budget adjustment and freshmen enrollment information was as follows:

	Budget Adjustment	2010 Freshmen Enrollment				Total Freshmen
		Out-of-State Freshmen	%	In-State Freshmen	%	
UNC-CH	\$158,225	726	18.3%	3,234	81.7%	3,960

For the 2010-11 fiscal year, it was recommended that the budget for UNC-Chapel Hill be reduced by \$158,225. It was further recommended that the funds be reallocated to the Board’s UNC need-based financial aid grant program for resident undergraduate students.

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

4. North Carolina State University and the University of North Carolina at Chapel Hill had requested authority to establish new capital improvements projects.

NCSU: This project would make improvements at the Slocum Forestry Camp located on the George Watts Hill Demonstration Forest in Durham County. The existing kitchen and dining facility (built in 1940 with 1,450 square feet) would be demolished and replaced with a 2,000 square-foot single-story building constructed to current code requirements. This work was expected to cost \$440,000. The project would also provide a new classroom building (2,000 square feet, one story, \$245,000) and four new residential cabins (650 square feet per cabin, each one story, and each costing

\$60,000). The project, to be completed by December 2011, was estimated to cost \$925,000 and would be funded with proceeds from the sale of land at Hope Valley Forest held in trust for the College of Natural Resources by the North Carolina Finance Authority.

NCSU: This project would expand the capacity of the Sullivan Electrical Substation which supplied electrical power to over 120 campus buildings. The project would expand the footprint of the existing substation by 8,400 square feet to accommodate the installation of a new transformer and would plan the replacement of a bank of three existing transformers. The expansion project, to be completed June 2013, was estimated to cost \$4,947,870 and would be funded by Facilities and Administrative receipts.

NCSU: This project would complete the first phase of a project that would provide a Facilities Service Complex on the Centennial Biomedical Campus (CBC). The CBC was bordered by Hillsborough Street, Blue Ridge Road, Wade Avenue and the I-440 Beltline. The College of Veterinary Medicine was located on a 218 acre tract in the CBC and consisted of over 20 buildings and structures which were used for instruction, research, clinical service and outreach. A master plan was completed in 2007 to determine the support facilities needed to provide efficient maintenance and operations services to the Campus. NCSU had purchased a building adjacent to the CBC with the intent of renovating the building to provide for the needs identified in the master plan. The total project included: site work to create a vehicle and materials yard; new exterior storage buildings; and renovation of the existing 14,577 square-foot building, built in 1968, for shop space, offices, and materials storage. The buildings to be added in future phases included a storage building for vehicles and equipment, bulk storage bins, fuel dispensing station, and hazmat storage. The total project cost was estimated to be \$3,000,000 and would be phased as money was available from appropriated R&R funds and Facilities and Administrative receipts. The cost of future phases would be: remainder of site development \$200,000; exterior storage buildings \$300,000; design \$300,000; building renovation \$1,700,000.

Requested in this item was the first phase of the total project which included site clearing, site grading, preparation, stabilization, and storm water management. This phase, to be completed by August, 2011, was estimated to cost \$500,000 and would be funded with Facilities and Administrative trust fund receipts.

UNC-CH: This project would renovate approximately 12,000 square feet in the Morehead Planetarium (56,868 square feet, five-story, built in 1949). At the request of the Morehead-Cain Foundation, some Morehead Planetarium Science Center functions would be relocated from the first floor to the second floor. This reallocation of space would allow the Foundation to expand the activities and services provided by the Morehead-Cain Scholars Program. Improvements would include converting office space to meeting/interview rooms, expansion of bathroom facilities, accessibility improvements, and relocation of the Science Center functions. The project, to be completed spring 2012, was estimated to cost \$1,950,000, and would be funded entirely by the Morehead-Cain Foundation.

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

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

5. 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 efficiency of operations, and reduce environmental impacts. The President's Advisory Committee on Efficiency and Effectiveness (PACE) and the UNC Tomorrow Commission both identified guaranteed

energy savings projects as important tools to achieve facility efficiencies and promote environmental stewardship. G.S.143-64.12 required that all state buildings reduce energy consumption per gross square foot 20% by 2010 and 30% by 2015 based on fiscal year 2002-2003 consumption. The UNC Sustainability Policy 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.

The Board of Trustees of the University of North Carolina at Pembroke had requested authority to establish a capital improvements project and enter into a guaranteed energy savings contract which would improve energy efficiency, address deferred maintenance issues by replacing inefficient equipment and infrastructure, and reduce water consumption on the UNCP campus. This project involved 27% of the campus and included Jones Athletic Building, Livermore Library, Old Main, and Oxendine Science Building. The energy conservation measures (ECMs) ranged from the installation of efficient lighting and water fixtures, occupancy sensors, energy management controls, building envelope improvements, boiler replacement in the Jones Athletic Building, air handling unit (AHU) replacements, new air conditioning for the Gym, new underground piping connections between three buildings for the heating and cooling plant, retro-commissioning of some existing buildings, and the conversion of lab hoods in the Science Building. Desktop computer energy management and vending machine upgrades would further reduce what was known as electrical “plug load.”

Working with the State Energy Office and their list of pre-qualified energy service companies, UNCP selected Siemens Industry, Inc. as the energy services company to execute the performance contract. Siemens 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, Siemens would be liable for any shortfall. The estimated cost of the project would not exceed \$7,000,000 and would be financed with a tax-exempt loan to be repaid within 17 years from utility savings. After the debt was paid, the savings produced by the improvements, estimated to be \$697,000 per year, would continue to accrue to UNCP and the State. The project was expected to reduce the current energy consumption of the four buildings substantially.

To finance this project, UNCP would solicit competitive proposals from qualified lenders. UNCP expected a finance rate not to exceed 5%. The term of the loan would not exceed 17 years after a one-year construction period. Construction was anticipated to commence in late spring 2011.

It was recommended that the request of the Board of Trustees of the University of North Carolina at Pembroke 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 Mrs. Goodnight, seconded by Dr. Locklear, the recommendation was approved.

6. Each biennium, the Board of Governors adopts a six-year plan for capital improvements. The legislature provides funds to construct projects that directly relate to the University's core instructional activities and some research activities, while campus-based sources of funding are used to provide residence and dining halls, some research facilities, student recreation and athletic facilities, and parking decks. On an annual basis, the Board considers campus proposals for non-appropriated projects that require the issuance of long-term debt and, if approved by the Board, the projects are forwarded to the General Assembly for authorization.

For 2011, the President recommended that the Board approve the construction of 20 capital improvements projects at 11 institutions totaling \$554,810,566. In addition, the President recommended that two campuses be authorized to plan projects totaling \$14,590,741. It should be noted that this list had been pared down from the original slate of campus requests that totaled \$769,877,365.

Many of these projects had been advanced by the chancellors to help their campuses meet the retention and graduation goals established by the Board. It was well documented that students living in on-campus residential facilities were retained at higher levels than those living off campus. There was considerable evidence that campus-based amenities and services, e.g., student unions and recreational facilities, enhanced the overall educational experience and helped create a sense of community. Other projects on the list were directly targeted at improving student health and safety.

Moving forward with construction of these facilities now also would enable the campuses to take advantage of historically low construction and financing costs. As the economy improved, construction costs were projected to increase up to 25 percent over the next two to three years. Increases were being observed already in the cost of steel, copper, and concrete. These projects also would provide a needed boost to the State's construction industry by supporting approximately 9,700 new jobs and over \$1 billion in new local spending across North Carolina. (Source of employment and income multipliers: Dr. Michael L. Walden, NCSU) Postponing these projects would likely increase their final construction cost significantly. For every \$1 million of indebtedness, a 1 percent increase in interest rates would require an additional \$300,000 in financing, assuming the projects were financed over 30 years. Each project in this recommendation had been reviewed and determined to be needed and financially viable.

It was recommended that the Board approve the 20 new or supplemental capital improvements projects at 11 institutions totaling \$554,810,566, of which all was projected to be indebtedness. It was further recommended that the Board approve, for advance planning only, two projects at UNC-Chapel Hill and two at UNC Charlotte. If approved, these projects would be forwarded to the General Assembly for authorization during the 2011 Session. It was further recommended that the President of the University, or his designee, be authorized to make refinements to the request in the interest of accuracy and completeness. For each authorized project, a detailed financial plan would be reviewed in consultation with financial advisors and bond counsel before bonds were issued and

construction contracts were awarded. Final approval for the issuance of bonds was the responsibility of the Board of Governors. (Attachment 3)

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

7. 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 requested that the Board issue special obligation bonds for the purpose of financing (1) the costs of renovating two university residence halls, Swartz Hall and University Suites, and the Wagoner Hall Dining System facility; and (2) providing for the costs incurred in connection with the issuance of the 2011 Bonds. The 2011 Bonds may be issued in one or more series of bonds, including any combination of tax-exempt bonds or taxable bonds as the President of the University, or his designee, in consultation with the appropriate officers at UNCW determine to be in the best interest of the University.

The issuance of bonds for the new project previously approved by the Board and the General Assembly would not exceed a par amount of \$9,000,000. The proceeds would be used to pay the cost of renovating two residence halls, Swartz Hall and University Suites, and renovating the Wagoner Hall Dining System facility. The improvements to the residence halls would include fire sprinklers and the replacement of the HVAC system. The improvements to the dining facility would include infrastructure, electrical, plumbing, HVAC, and fire suppression. These improvements would be funded from a combination of housing and dining receipts.

UNCW is currently rated A1 by Moody's Investor Service. In May of 2010, Moody's 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.

Parker Poe was bond counsel. First Southwest was the financial advisor. The bank/underwriter would be determined prior to issuing the bonds.

It was recommended that the President of the University, or his designee, be authorized to sell the special obligation bonds between the February 2011 and the April 2011 meetings of the Board.

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

8. With approval from the Board of Governors and the Council of State in 2006 and 2007, Fayetteville State University was currently leasing 341 student residential beds at University Place Apartments. The facility was owned by the Fayetteville State University

Housing Foundation, LLC, a special purpose entity created by the Fayetteville State University Foundation. In 2006, FSU leased 190 beds and 151 beds were added in 2007.

At this time, Fayetteville State University requested approval to renew the previously approved lease of 341 beds and approval to enter into a new long-term lease to acquire an additional 350 beds. The renewal of the existing lease would allow existing debt to be refinanced with significant savings in the cost of debt service. FSU students living on campus would benefit from the savings.

The additional beds would allow Fayetteville State University to replace Vance Residence Hall. Built in the 1960s, Vance Hall did not conform to current life safety code requirements or student expectations for collegiate housing. While Vance Hall was equipped with functioning smoke and fire alarms, structural issues prevented the building from being retrofitted with fire sprinklers and other life safety code measures. FSU's Chancellor and Board of Trustees had a goal of increasing retention and graduation rates at FSU to levels achieved at other comparably competitive institutions. The replacement of Vance Hall would enhance recruitment strategies that targeted and attracted undergraduate students with a high probability of completing a degree, while continuing FSU's commitment to access, affordability, and diversity. Improved residential space would also entice a larger percentage of FSU students to live on campus.

FSU would lease no more than 10 acres of land on campus to Fayetteville State University Housing, LLC, which would construct up to 350 beds which would then be leased back to FSU at a projected annual cost equal to the required annual debt service plus incidental expenses (consisting primarily of the cost of an annual audit). Current estimates were \$1.1 million per year. The cost charged to students would be consistent with the current rate structure for comparable FSU housing. Lease payments would be funded from student housing receipts.

This project was part of FSU's Campus Master Plan and was approved by the Board of Trustees. The lease of state land and the lease of the beds would be accomplished within the guidelines, procedures, and policies of the North Carolina Department of Administration and would be subject to approval by the Council of State.

It was recommended that the request from Fayetteville State University be approved and transmitted to the Council of State for final action.

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

9. In January, the Board approved the acquisition of real property by lease policy which relieved the University from a host of approvals (see Policy 600.1.3.1). The new policy gave the Board the right to delegate to the President certain specific authority. The proposed modification to Policy 200.6 (redline) sets out the duties delegated by the Board to the President. The modification to 200.6 accomplished the delegation permitted under 600.1.3.1. (Attachment 4)

It was recommended that the Committee on Budget and Finance approve the proposed modification. If approved and pursuant to the Board of Governors' guidelines, it was further recommended that the policy be presented to the Board at its April 2011 meeting for final consideration.

On the motion of Mrs. Goodnight, seconded by Dr. Locklear, the recommendation was approved.

After the agenda items, the Committee members heard the Report on the Cost of Textbooks.

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' April Meeting website.