

**ANNUAL REPORT
OF THE COMMITTEE ON BUDGET AND FINANCE TO THE
BOARD OF GOVERNORS OF THE UNIVERSITY OF NORTH CAROLINA
July 1, 2010 through June 30, 2011**

EXECUTIVE SUMMARY

The Committee on Budget and Finance met eight times between July 1, 2010 and June 30, 2011. The Committee was composed of the following Board members: 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. Mr. Mercer served as Chair, Mr. Daughtridge served as Vice-Chair, and Dr. Locklear served as Secretary. Chancellor Steven Ballard (ECU), Chancellor Charlie Nelms (NCCU), Chancellor Linda Brady (UNCG), Chancellor Kyle R. Carter (UNCP), and Chancellor Donald J. Reaves (WSSU) also served on the Committee.

BUDGETS AND ALLOCATIONS, TUITION AND FEES

The Committee recommended:

- Allocation of Funds for Current Operations – 2010-11
- 2011-13 Budget Priorities
- Changes to the Funding Model to recognize successful performance of institutions in retaining students and operating efficiently
- Four-Year Plan for Tuition and Fees (2010-2014)
- Authorization of Tuition and Fees for 2011-12
- Budget Adjustment at UNC-CH of \$158,225 as a result of nonresident freshmen enrollment for two consecutive years that exceeded 18% of the freshmen class -- an over-enrollment of 13 nonresident freshmen students

CAPITAL IMPROVEMENTS

Higher Education Bond Program: Senate Bill 912, 1999 Session, authorized the issuance of \$3.1 billion in higher education bonds subject to a vote of the qualified voters of the State. In November, 2000, upon the approval of a majority of voters, \$2.5 billion was made available to the University of North Carolina for capital improvements. In November, 2010, the Committee heard the final progress report on the UNC Bond Program. 319 projects were completed in the program, adding 6,000,000 square feet to UNC's inventory.

The Committee recommended:

- Allocation of Funds for Capital Improvements – 2010-11
- 2011-17 Capital Improvements Plan
- Authorization of Non-Appropriated Capital Improvements Projects for 2010-11
- Guaranteed Energy Saving Projects for NCCU, NCSU, UNCP, WCU, and WSSU

INSTITUTIONAL BORROWING

The Committee recommended:

- Special Obligation Bonds for NCSU and UNC-CH for participation in the Commercial Paper Program for certain projects approved by the 2010 Session of the General Assembly
- Interim Financing to allow UNCG to renovate seven historic residence halls in one academic year
- Sale of Special Obligation Bonds for ASU, ECSU, UNCA, UNC-CH, UNCC, UNCW (two transactions), and UNC Health Care System
- The establishment of a student investment fund -- KFBSF Real Estate Fund II as a UNC-Chapel Hill associated entity and an educational program at the Kenan-Flagler School of Business

PROPERTY

As requested by Boards of Trustees, the Committee recommended

- Acquisitions of properties for ECU and UNCG
- Student housing arrangements for FSU and UNCG to enable the universities to meet long-term projected housing demands associated with campus growth
- Out-lease of space in Partners I Building on the Centennial Campus
- Lease with ECU and Pitt County Memorial Hospital for two leases of property (one to ECU and one to Pitt County Memorial Hospital) to support the NewCo Cancer Services, LLC
- Demolition at UNCC of three older apartment complexes which were near the end of their useful life to comply with the goal of having all campus-owned residential buildings protected by fire suppression sprinkler systems or removed from service by fall 2012
- Under delegated authority, the following were reported to the Committee: ECU (one transaction), NCCU (two transactions), NCSU (seven transactions), UNC-CH (four transactions), and UNCP (two transactions)

OTHER ACTIONS

The Committee recommended:

- Policy 600.1.3.1, Policy on Acquisition of Real Property by Lease
- Modification to Policy 200.6, Delegation of Authority to the President -- The modification to 200.6 accomplished the delegation permitted under 600.1.3.1.

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The Committee on Budget and Finance met eight times between July 1, 2010 and June 30, 2011. The Committee was composed of the following Board members: 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. Mr. Mercer served as Chair, Mr. Daughtridge served as Vice-Chair, and Dr. Locklear served as Secretary. Chancellor Steven Ballard (ECU), Chancellor Charlie Nelms (NCCU), Chancellor Linda Brady (UNCG), Chancellor Kyle R. Carter (UNCP), and Chancellor Donald J. Reaves (WSSU) also served on the Committee.

The Committee advises and consults with the Board of Governors' Chair and the President concerning budget policy and preparation; considers the budget proposed by the President, recommends modifications if needed, and approves the budget for consideration by the Board; makes recommendations to the Board for allocations of funds appropriated by the General Assembly; works with the Committee on Educational Planning, Policies, and Programs to ensure the proper funding of long-range objectives; and submits recommendations to the Board with respect to capital improvements projects, institutional borrowings, and property transactions, as well as 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 and fee rates.

Allocation of Funds for Current Operations – 2010-11: During this difficult economic period, the General Assembly funded the campuses' requests for enrollment growth by allowing an additional 4,900 students access to the University, providing an additional \$34.8 million for need-based financial aid, and approving the Board's Tuition Plan to allow supplemental tuition increases to mitigate the impact of budget reductions. The legislature approved new funding for many UNC Tomorrow initiatives, including energy research, engineering, nanoscience and nanoengineering and ECU's dental school.

2011-13 Budget Priorities: The 2011-13 Budget Priorities as recommended by the Committee and approved by the Board were presented to the Governor and 2011 General Assembly. The State of North Carolina faced an extreme budget shortfall for the 2011-13 biennium. While the Board of Governors was charged with developing and presenting the budget to the State, it had to do so with knowledge that the State's fiscal condition required the utmost restraint. As a result, the recommended budget 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. In January, the Committee recommended an amendment to meet the needs for changes in enrollment, a pool of funds to reward good

performance, and to provide for an increase to the UNC Need-Based Student Financial Aid Program.

The Committee recommended that the Board adopt changes to the funding model that recognized successful performance of institutions in retaining students and operating efficiently. It was further recommended that the performance model, which was approved only for this funding request, continue to be studied by the Board and the President with a goal of improving and strengthening the model.

Four-Year Plan for Tuition and Fees (2010-2014): The Four-Year Plan for Tuition and Fee Increases was presented for approval in November. In September of 2006, the Board approved a four-year plan that provided guidelines for the campuses to follow in submitting annual proposals for increasing tuition and fees; the Board agreed to review those guidelines after four years. The plan would again be evaluated in 2014.

Authorization of Tuition and Fees for 2011-12: The 2011-12 tuition and fees rates were recommended for approval in February. Chancellors submitted tuition and fees rates increases consistent with the guidelines established by the Four-Year Plan. Tuition for North Carolina undergraduates would increase by an average of \$284. Proposed increases in general fees averaged \$79.

Budget Adjustment: 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 13 nonresident freshmen students. The Board's policy [700.1.3] required a budgetary adjustment at the institution. The budget for the 2010-11 fiscal year for UNC-Chapel Hill was reduced by \$158,225. It was recommended that the funds be reallocated to the Board's UNC need-based financial aid grant program for resident undergraduate students.

Delegation of Allocations for 2011-13: At the June meeting, the Committee was delegated the authority to allocate funds made available by the General Assembly, if the State budget was ratified prior to the August meeting of the Board. There would be a special meeting for this purpose and the entire Board would be invited to participate, either in person or via telephone.

CAPITAL IMPROVEMENTS

Higher Education Bond Program

Senate Bill 912, 1999 Session, authorized the issuance of \$3.1 billion in higher education bonds subject to a vote of the qualified voters of the State. In November, 2000, upon the approval of a majority of voters, \$2.5 billion was made available to the University of North Carolina for capital improvements.

In November, 2010, the Committee heard the final progress report on the UNC Bond Program. The program was complete despite the remaining balance of \$6.5 Million at UNC-TV because the conversion to digital television 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 scheduled to be complete by July 2011. All other institutions had completely expended bond funds, submitted final reports, and closed out their programs. 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 valuable. 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. It also allowed for movement of funds between projects when a good bid outcome existed on one project resulting in savings that could be used to serve another project whose place in the work sequence fell under a less attractive bidding climate. The funding permitted staff support commensurate with the magnitude and duration of the project load.

Oversight provided focus and leverage for the bond program. Quarterly reporting forced a level of discipline and accountability that contributed to the program's successful delivery.

As the program progressed, there emerged best practices, such as formally scheduling projects, ensuring the availability of training for capital project managers, the development of Historically Underutilized Businesses practices, and improving communication. There were regularly scheduled meetings with the Department of Insurance and the State Construction Office, architects, engineers, and contractors. 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 produced a comprehensive final report on the program which was presented to the Legislature.

Allocation of Funds for Capital Improvements – 2010-11: The Committee recommended the allocation of funds for capital improvements. The General Assembly responded to the Board's request for repair and renovation funds and the need for research equipment.

2011-17 Capital Improvements Plan: The Committee recommended approval of the 2011-17 Capital Improvements Plan and it was forwarded to the Office of State Budget and Management and the Fiscal Research Division. The President did not recommend any capital projects for funding in this biennium. \$163 million was requested for repairs and renovations to existing projects in 2011-12 and \$162.5 million was requested to plan for capital improvements projects in 2012-13.

Authorization of Non-Appropriated Capital Improvements Projects – 2010-11: The Board of Governors biennially adopts a six-year plan for capital improvements. The General Fund provides for projects directly related to teaching, research, and public service. Residence halls, parking decks, athletic facilities, and student recreation facilities are funded from non-General Fund sources and other receipts. The Committee recommended 20 new or supplemental capital improvements projects at 11 institutions totaling \$554,810,566. The Committee also approved, for advance planning only, two projects at UNC-Chapel Hill and two at UNC Charlotte. The

projects were forwarded to the General Assembly for authorization during the 2011 Session. 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.

Guaranteed Energy Saving Projects

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 identified guaranteed energy savings projects 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 2002-2003 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 and give priority to the installation of high-efficiency equipment.

The following projects were recommended and forwarded to the Department of Administration, the Office of State Budget and Management, the State Treasurer, and the Council of State for final approval.

NCCU: The project involved 83 energy conservation measures 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. 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. 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.

NCSU: The contract included the installation of cogeneration at Cates Utility Plant and replacement/rehabilitation of boilers at the Yarbrough Utility Plant. Along with increased reliability and efficiency, this project would meet projected steam demand growth through 2029 and would reduce greenhouse gas emissions by 25,000 tons per year. The project would be financed 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. 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.

UNCP: The project would improve energy efficiency, address deferred maintenance issues by replacing inefficient equipment and infrastructure, and reduce water consumption and involved 27% of the campus including Jones Athletic Building, Livermore Library, Old Main, and

Oxendine Science Building. 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.

WCU: The project involved 22% of WCU's central campus and included efficient lighting and controls, a relighting design and partial window replacement in Hunter Library, building envelope upgrades in six buildings, building control upgrades, HVAC system improvements, and the replacement of an obsolete chiller. Improvements to the Central Steam Plant, a campus-wide computer power management system program, and water conservation measures were also included. The project would be financed with a rate not to exceed 5% on an amount not to exceed \$6,000,000. The term of the loan would not exceed 18 years after a one-year construction period. After the debt was paid, the savings produced by the improvements, estimated to be \$651,737 per year, would continue to accrue to WCU and the State. The project was expected to reduce the current energy consumption of six buildings by at least 34%.

WSSU: The project would improve energy efficiency, address deferred maintenance issues by replacing inefficient equipment and infrastructure, and reduce water consumption and involved 24% of the campus buildings and included the Anderson Center, Hauser Building, Hall Patterson Building, Blair Hall, O'Kelly Library, Thompson Student Center, Whitaker/Gaines Complex, Coltrane Hall, and the Old Maintenance Building steam and chilled water plants. 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 15 years from utility savings. After the debt was paid, the savings produced by the improvements, estimated to be \$700,000 per year, would continue to accrue to WSSU and the State.

Emergency Procedures

Chancellors informed the President of the need to invoke emergency procedures as allowed by G.S. 143-129 to provide for new capital improvements projects. In accordance with emergency procedures, the State Building Commission was notified. The projects were as follows:

UNC Asheville: The roof on Mills Residence Hall was rated in 2004 by a consulting engineer as being in poor condition. The roof failed, was leaking, and there was a risk of a catastrophic breakdown. Repairs could not be made during the school year due to health and safety concerns for students. The new roof, estimated to cost \$600,000, would be funded from housing receipts.

UNC-Chapel Hill: There was a break in a reclaim water line at the Northeast Chiller Plant and the basement flooded with water. Repairs to damaged electrical equipment and piping were required to bring the plant back to full operation. The chiller plant would be down until repairs could be made, and it was essential that it be back on line during the peak summer cooling season. The project, estimated to cost \$300,000, would be funded from utilities receipts.

Capital Improvements Projects Not Requiring Action by the General Assembly

During the year, the Committee recommended approval of the following capital improvements projects to be funded principally from nonappropriated funds.

ASU

Fire suppression sprinkler system on all floors and renovation on the third floor of Anne Belk Hall for use by the Computer Science Department	\$ 2,338,000
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ECU

Up-fit 37,800 square feet of 4th floor shell space in the East Carolina Heart Institute into a cardiovascular robotics surgical training laboratory, lab support space, and office space for interdisciplinary study	8,000,000
Up-fit 2,414 square feet of 3rd floor shell space in the East Carolina Heart Institute into an exercise laboratory for metabolic and health and human performance research	450,000
Renovate approximately 3,000 square feet of lab space on the first floor in Howell Science East to accommodate the installation of a new linear accelerator for the Department of Physics	500,000
Upgrade approximately 8,500 square feet in the Science and Technology Building to provide wet laboratory space supporting the departments of Biology, Chemistry and Geology	2,425,000
Exterior masonry and structural repairs to Greene Residence Hall and White Residence Hall	1,938,000
Replace 62,000 square feet of single-ply membrane roof on the Student Recreation Center	798,000
Rebuild a warehouse-style building that was purchased in 2004 for general campus storage (damaged by fire in 2007 and later demolished)	895,000

NCSU

Outdoor, climate-controlled research laboratory space for the College of Natural Resources	450,000
Renovate 5,330 square feet of space in the Butler Communications Building to provide print shop and office space for the News Services Department	452,800
Improvements to building systems supporting the Pulsar Nuclear Reactor housed in the Burlington Engineering Laboratories Building	1,378,987

NCSU

Renovate 30,000 square feet of space in the Cherry Building to house the Early College High School, Upward Bound, and Talent Search programs	3,526,408
Renovate to construct a Biosafety Level 3 containment facility within the Phytotron Building (funded from an American Reinvestment and Recovery Act grant)	1,793,916
Improvements to North Residence Hall	2,400,000
Improvements at the Slocum Forestry Camp located at the George Watts Hill Demonstration Forest in Durham County	925,000
Expand the capacity of the Sullivan Electrical Substation which supplies electrical power to over 120 campus buildings	4,947,870
Complete the first phase of a Facilities Service Complex on the Centennial Biomedical Campus (includes site clearing, site grading, preparation, stabilization, and storm water management)	500,000
Soil and Groundwater Research Facility for the Department of Soil Science at the Lake Wheeler Road Field Laboratory	218,000

UNCA

Renovate existing space in Karpen Hall and Zeis Hall on the UNC Asheville campus to provide the classrooms, laboratories and offices needed to house the UNC-CH Eshelman School of Pharmacy Doctor of Pharmacy Satellite program	1,250,000
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UNC-CH

Renovate and expand the executive dining and recreation area in McLean Hall	\$ 958,000
Renovate approximately 7,300 square feet in four wet laboratories in the Kenan Lab Building to provide research space for faculty members in inorganic chemistry	1,996,997
Renovate approximately 4,600 square feet on the second floor of the North Carolina Memorial Hospital building to provide office space for the School of Medicine Anesthesiology Department	498,213
Renovate approximately 2,500 square feet in the Thurston Bowles Building to provide lab space for the School of Medicine	1,200,000
Construct a new building enclosure in the parking lot of the Genetic Medicine Research Facility to house a new biomarker generator	485,704
Renovate approximately 12,000 square feet in the Morehead Planetarium	1,950,000
Four additional fume hoods on the first and second floors in the Genetic Medicine Facility to support the activities of the School of Pharmacy	700,000
Repair the 37,500 square-foot top level of the Business School Parking Deck	350,000

UNCG

Exterior and interior renovations to the Curry Building	1,800,000
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UNCSA

Improvements to Residence Halls E and F	468,000
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Increases in Previously Authorized Projects

Capital improvements actions initiated throughout the year by the President pursuant to Board delegation are reported below. The following increases in previously authorized projects were approved:

ASU

Beasley Broadcast Studio	\$ 779,861
Renovation of Welborn Cafeteria	276,000

ECU

Building 214 – Storage Facility	875,709
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NCA&TSU

Aggie Stadium Press Box Renovation and Expansion	1,700,000
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UNCC

South Village Sector Master Plan	213,000
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UNCP

Belk and North Residence Hall Fire Suppression	69,127
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In 2006, the Board of Governors delegated to the President the authority to approve capital improvements projects estimated to cost less than \$500,000. 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 if the projects warranted further discussion at the next Committee meeting. There were no delegated projects submitted for the 2010-11 fiscal year.

INSTITUTIONAL BORROWING

Commercial Paper Program – Special Obligation Bonds

North Carolina State University and the University of North Carolina at Chapel Hill had 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. The Committee recommended approval and authorized the Vice President for Finance to use commercial paper bonds for the projects.

NC State

Talley Student Center Renovation and Expansion (\$120,000,000)

Greek Village Townhouses (\$25,000,000)

UNC-Chapel Hill

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)

In June 2011, as part of its joint Commercial Paper Program with NCSU, UNC-Chapel Hill requested authority to execute Line of Credit Agreements with up to four banks in the combined amount of up to \$400,000,000. These Line of Credit Agreements, together with other funds available to UNC-CH, would provide sufficient liquidity to purchase, if necessary (in the event of a failed remarketing or placement by the bond dealers), the outstanding UNC-Chapel Hill Variable Rate Bonds and outstanding Commercial Paper Bonds issued under the joint NCSU and UNC-CH Commercial Paper Program. These agreements would not create additional indebtedness for NCSU and UNC-CH. As of May 12, 2011, the outstanding balance of UNC-Chapel Hill's Variable Rate Demand Bonds was \$69,000,000, and the outstanding balance of the \$500,000,000 joint Commercial Paper Program was \$74,000,000.

Interim Financing: The Committee recommended approval of UNC Greensboro's request to enter into interim financing for the renovation of seven existing historic residence halls: Cotton, Bailey, Hinshaw, Coit, Shaw, Jamison, and Gray. The project would include the complete interior demolition and renovation including the addition of fire sprinklers. Interim financing was necessary to allow the University to begin construction and complete the project in one academic year. UNCG was authorized to enter into a short-term loan agreement with a financial institution for an amount not to exceed \$46,000,000 between the January and February 2011 meetings of the Board. *Note: The loan sold for \$46,000,000 on January 27, 2011.*

Special Obligation Bonds

The Board of Governors is authorized to issue special obligation bonds for capital improvements projects 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. 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 Committee recommended that the President of the University, or his designee, be authorized to sell the following special obligation bonds.

UNCW requested 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 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. These improvements would be funded from a combination of lease agreements, university unrestricted funds, and facilities and administrative receipts. *Note: The bonds sold for \$15,750,000 on October 20, 2010.*

UNC 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; and (2) providing for the costs incurred in connection with the issuance of the 2010 Bonds. 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. *Note: The bonds sold for \$48,875,000 on November 23, 2010.*

On November 23, 2010, the Board of Governors issued Build America Bonds on behalf of UNC Hospitals to finance the expansion of the Ambulatory Care Center and the construction of a new imaging and outpatient clinic. In order to receive the interest rate subsidy, issuers must prepare, file, and execute a Form 8038-CP to the Internal Revenue Service for each interest payment date. The Committee recommended that the Board delegate to the President and the Executive Vice President and Chief Financial Officer of UNC Hospitals the authority to prepare, execute and submit on behalf of the Board of Governors the Form 8038-CP and any other documents related to the Build America Bond Program.

UNCC 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 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. *Note: The bonds sold for \$40,895,000 on December 2, 2010.*

UNCA 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 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. *Note: The bonds sold for \$26,160,000 on December 16, 2010.*

ECSU 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 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. *The bonds sold for \$19,450,000 on December 29, 2010.*

UNCW 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 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 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. *Note: The bonds sold for \$9,000,000 on March 14, 2011.*

ASU requested that the Board issue special obligation bonds for the purpose of financing (1) the costs of constructing three projects -- the Plemmons Student Union Expansion, the Center for Student Leadership and Development Honors Residence Hall, and the Steam and Chilled Water Tunnel serving the Center for Student Leadership and Development -- and (2) providing for the costs incurred in connection with the issuance of the 2011 Bonds. The issuance of bonds for the new projects previously approved by the Board and the General Assembly would not exceed a par amount of \$65,000,000. The Plemmons Student Union Expansion would be financed with revenue from a \$100 debt service fee previously approved by the Board of Governors. The Center for Student Leadership and Development Honors Residence Hall would be financed with housing receipts. The Steam and Chilled Water Tunnel serving the Center for Student Leadership and Development would be financed with utility receipts. *Note: The bonds sold for \$60,435,000 on June 2, 2011.*

UNC-CH requested that the Board issue special obligation bonds in an amount not to exceed \$35,000,000 for the purpose of acquiring improvements to Kenan Stadium that had been made through a lease agreement between the Educational Foundation, Inc. and the State of North Carolina. The debt would be repaid with revenues specific to the project including private gifts and donations and premium seat revenues. The project was previously approved by the Board of Governors and the North Carolina General Assembly and the lease agreement was approved by the UNC-CH Board of Trustees, the Board of Governors, and the North Carolina Council of State.

Associated Entity

In September 2006, the Board of Governors approved a request from the Kenan-Flagler School of Business at the University of North Carolina at Chapel Hill to establish three associated entities: the KFBSF, Inc., the KFBSF Private Equity Fund I, L.P., and the KFBSF Real Estate Fund I, L.P. -- none of which had tax-exempt status at the time of establishment. In February 2010, the Board of Governors approved a similar request to establish Private Equity Fund II, without tax-exempt status. In April 2011, the Committee recommended the establishment of a fourth student investment fund -- KFBSF Real Estate Fund II.

The limited partnerships allow selected students hands-on experience in operating private investment funds. The students participate without pay as part of an investment management course for academic credit. Through the identification, evaluation and monitoring process, students gain insight into the operation and management of private investment funds and their portfolio companies and establish personal and professional relationships with investment managers as well as provide investment returns to the limited partners who are the investors.

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. Lease costs will be at market rate, subject to approval by the State Property Office, and accomplished within the guidelines, procedures, and policies of the North Carolina Department of Administration.

As requested by Boards of Trustees, the Committee recommended the following items in Closed Session.

ECU: acquisition of property to use for parking in the short term, and for expansion of academic and athletic/recreation facilities in the long term

UNCG: acquisition of a housing complex to provide additional beds to help meet a strong demand for student housing

Student Housing Arrangements

The Committee recommended leasing arrangements to enable the universities to meet projected housing demands associated with campus growth. The cost per bed would be consistent with the current rate structure for comparable residence halls on campus and lease payments would come from student housing receipts. Leases were approved by the Boards of Trustees and would be accomplished within the guidelines, procedures, and policies of the North Carolina Department of Administration and the Council of State.

FSU: With approval from the Board of Governors and the Council of State in 2006 and 2007, Fayetteville State University was currently leasing 341 student 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. FSU requested approval to renew the lease of 341 beds and enter into a new long-term lease to acquire an additional 350 beds. The additional beds would allow FSU to replace Vance Residence Hall built in the 1960s. Improved residential space would 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.

UNCG: The Capital Facilities Foundation, Inc., a North Carolina nonprofit corporation wholly controlled by UNCG, acquired an apartment complex for use as student housing. The Foundation intended to construct an additional 800 beds of student housing on land contiguous to the apartment complex. UNCG requested approval to enter into a lease of up to 30 years for the above-mentioned beds. The Capital Facilities Foundation, Inc. would secure financing for the acquisition and construction using UNCG's commitment to lease student housing.

Centennial Campus – NCSU: The Committee recommended approval of an out-lease of space to Talecris Biotherapeutics, Inc. to provide office and laboratory space in Partners I Building on the Centennial Campus. In 1998, the General Assembly passed House Bill 1737 to provide North Carolina State University with expanded flexibility for the development of the Centennial Campus. One of the changes included in the Bill enabled the Board of Governors to approve certain out-leases of space on the Centennial Campus and then report the leases to the Council of State rather than secure the approval of the Council of State in advance. Once the Board had approved a lease, the Vice President for Finance was authorized to execute the lease on behalf of the Chairman of the Board of Governors.

Lease with ECU and Pitt County Memorial Hospital: Since 1984, the Leo Jenkins Cancer Center at East Carolina University's Brody School of Medicine had provided care to over 6,000 patients annually including over 19,000 chemotherapy visits and 35,000 radiation treatments annually. ECU and Pitt County Memorial Hospital (PCMH) with the approval of UNC General Administration, created NewCo Cancer Services, LLC. The LLC would bring together the resources of ECU and PCMH to provide optimal cancer care delivery. The Committee recommended approval to enter into two leases of State property to support the joint venture: one to the PCMH and one to the LLC.

Transactions by Delegated Authority

In 2006, the Board authorized the President to execute leases valued up to \$350,000 and other property interests up to \$500,000. The following property transactions were approved under this delegation and were reported to the Committee on Budget and Finance.

ECU: acquisition of real property by deed for future campus expansion identified by the campus Master Plan

NCCU: acquisition of real property by deed for future expansion as identified by the campus Master Plan (2 parcels)

NCSU: acquisition of real property by lease for office space supporting the Center for Urban Affairs and Community Service

NCSU: disposition of real property by lease of student housing and organizational space to ALPHA TAU OMEGA Fraternity as interim housing while their new facilities were constructed in NCSU's Greek Village redevelopment

NCSU: disposition of real property by lease of student housing and organizational space to EPSILON ETA Chapter of DELTA DELTA DELTA Fraternity

NCSU: disposition of real property by lease of student housing and organizational space to ALPHA SIGMA PHI Fraternity

NCSU: disposition of real property by lease of student housing and organizational space to ETA UPSILON House Corporation of KAPPA DELTA Sorority

NCSU: disposition of real property by lease of student housing and organizational space to BETA TAU Chapter of SIGMA NU Fraternity

NCSU: disposition of real property by lease of student housing and organizational space to TAU Chapter of PI KAPPA PHI Fraternity

UNC-CH: acquisition of real property by deed to provide a strategic buffer from future area development for the Bingham Research Resource Facility

UNC-CH: disposition of real property by easement to provide the necessary right-of-way and drainage to allow upgrades to NC 86 (South Columbia Street) between Purefoy Road and Manning Drive -- Work would include the installation of bicycle lanes.

UNC-CH: acquisition of real property by lease for office space for the School of Public Health Department of Epidemiology

UNC-CH: acquisition of real property by lease for Office and child care space for the School of Public Health Department and the School of Medicine's Horizon Project

UNCP: acquisition of real property by deed for future campus expansion identified by the Campus Master Plan (two parcels)

Demolition of Property: The Committee recommended approval of the University of North Carolina at Charlotte's request 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. The seven-unit Hunt Village apartment complex, the nine-unit Phase III apartment complex, and the ten-unit Martin Village apartment complex would be demolished. It was not cost effective to add sprinkler systems to these older apartment complexes which were near the end of their useful life. 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.

OTHER ACTIONS

The Annual Report of the Committee on Budget and Finance to the Board of Governors of the University of North Carolina for July 1, 2009 through June 30, 2010 was recommended for approval at the November Board meeting.

The Committee recommended and the Board approved Policy 600.1.3.1, Policy on Acquisition of Real Property by Lease, which relieved the University from a host of approvals. The new policy gave the Board the right to delegate to the President certain specific authority.

The Committee recommended a modification to Policy 200.6, Delegation of Authority to the President, which 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.

At most meetings throughout the year, the Committee discussed specific topics. Those topics included:

- Budget Memorandum #1 – Preparation of the 2011-13 Operating Budget Priorities
- Budget Memorandum #2 – Preparation of the 2011-13 Capital Budget Priorities
- Tuition Plan
 - President Bowles' Recommended Changes to the Four-Year Tuition Plan
 - Original Four-Year Tuition Plan
 - Tuition and Fees Committee Recommendations
 - Review of the Board of Governors' Four-Year Tuition Plan
- A Progress Report on the UNC Bond Program
- A Report on the Cost of Textbooks
- Effective Practices for Student Involvement in the Tuition and Fee Setting Process
- Legislative Session Updates