

Minutes of the June 14, 2012 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, June 14, 2012 at 12:00 p.m.

Committee members in attendance were Mr. W. Louis Bissette, Jr., Mr. John M. Blackburn, Mr. Walter C. Davenport, Dr. Fred N. Eshelman, Mr. Paul Fulton, Mr. Fred G. Mills, and Mr. David W. Young. Necessarily absent were Governor James E. Holshouser, Jr. and Mr. J. Bradley Wilson. Other Board members in attendance were Chair Hannah D. Gage, Cameron Carswell, Peaches Gunter Blank, Bill Daughtridge, Jr., Phillip R. Dixon, John C. Fennebresque, Dudley E. Flood, Ann B. Goodnight, H. Frank Grainger, Peter D. Hans, Thomas J. Harrelson, Mary Ann Maxwell, Franklin E. McCain, W. Edwin McMahan, Hari H. Nath, David M. Powers, Irvin A. Roseman, Richard F. Taylor, Raiford Trask III, and Phillip D. Walker. Also in attendance were President Tom Ross, Chief of Staff Jeffrey R. Davies, Vice President for Finance Charles Perusse, Finance Division and other General Administration staff, Chancellors and other campus faculty and staff, and members of the press.

Chair Young convened the meeting. The minutes of the meeting of April 12, 2012 were approved.

First in discussion, the Committee received a legislative and budget update from Vice President Perusse. After that, there was a presentation on Financial Aid by Associate Vice President for Finance Ginger Burks. Questions were answered throughout the discussion items.

1. Each year when the State budget is finalized, the Committee on Budget and Finance recommends allocations of funds made available by the General Assembly. It was uncertain when the 2012-13 budget would be finalized, but it was anticipated that the budget could be in place before the Board met again.

It was recommended that the Committee on Budget and Finance be delegated the authority to allocate funds made available by the General Assembly, if the State budget was ratified prior to the next Board meeting. There would be a special meeting for this purpose and the entire Board would be invited to participate, either in person or via telephone.

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

2. At the request of the Board of Governors, the 2011 General Assembly and the Governor approved Session Law 2011-145 section 9.6E which provided that the Board of Governors adopt uniform policies applicable to the deposit, investment, and administration of institutional trust funds and that through the President, the Board of Governors may delegate authority to the chancellors. The statutory changes made it necessary for the Board to make corresponding changes to the University of North Carolina Policies 200.6 and 600.2.4, and add UNC Policy 600.2.4.1. Additionally, UNC Policy 600.2.4.1[R] related to Institutional Trust Funds had been repealed.

North Carolina General Statute Section 116-36.1 gave the Board of Governors of the University of North Carolina the authority to authorize the President to delegate authority to the Chancellors of the constituent institutions to deposit and invest institutional trust funds outside the accounts held by the State Treasurer. The proposed policies provided for the delegation of authority to the President to deposit, invest and administer institutional trust funds and further set forth the process by which further delegation of the authority may be made by the President to the Chancellor of a constituent institution consistent with G.S. 116-36.1. The policies also established the requirements of a constituent institution that had been granted the delegated authority and provided for the revocation of the delegated authority should it be necessary.

It was recommended that the Committee on Budget and Finance approve the proposed policies to enable compliance with, and the utilization of, the investment flexibility as permitted by S.L. 2011-145.

If approved and pursuant to the Board of Governors' guidelines, it was further recommended that the policy be presented to the Board at its August 2012 meeting for final consideration.

On the motion of Dr. Eshelman, seconded by Mr. Davenport, the recommendation was approved.

3. As part of its 2008A Variable Rate Demand Bonds, North Carolina State University requested authority from the Board of Governors to execute a Standby Bond Purchase Agreement in the amount of up to \$68,000,000. This Standby Bond Purchase Agreement would provide sufficient liquidity to purchase, if necessary (in the event of a failed remarketing or placement by the bond dealers), the outstanding 2008A NCSU Variable Rate Demand Bonds. Therefore, these agreements would not create additional indebtedness for NCSU. As of May 1, 2012, the outstanding principal balance of NCSU's Variable Rate Demand Bonds was \$66,605,000. After reviewing competitive bids, NCSU was requesting that the Board enter into a Standby Bond Purchase Agreement with Wells Fargo Bank, N.A. in an amount of up to \$68,000,000.

It was recommended that the Resolution be approved authorizing the Vice President for Finance to validate the terms and enter into the Standby Bond Purchase Agreement and to execute future extensions of the Standby Bond Purchase Agreement on substantially the same material terms as the original Standby Bond Purchase Agreement.

On the motion of Mr. Bisette, seconded by Dr. Eshelman, the recommendation was approved.

4. 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.

The University of North Carolina at Chapel Hill requested that the Board issue special obligation bonds for the purpose of (1) financing the construction of projects approved by the General Assembly and the Board of Governors, (2) paying capitalized interest on a portion of the Bonds related to the Projects, (3) refinancing of UNC-CH indebtedness and refunding all or a portion of prior revenue bonds or special obligation bonds issued for the benefit of UNC-CH that resulted in sufficient savings, and (4) paying the costs incurred in connection with the issuance of the 2012 Bonds. The 2012 Bonds may be issued in one or more series of bonds, including any combination of tax-exempt bonds and taxable bonds as the President of the University, or his designee, in consultation with the appropriate officers at UNC-CH, determined to be in the best interest of the University.

The issuance of bonds for projects previously approved by the Board and the General Assembly would not exceed a par amount of \$215,000,000. The proceeds would be used to provide funding for the projects listed below. It was noted that some of these projects were funded on an interim basis through the commercial paper program and a portion of the proceeds of this long-term bond issue would retire outstanding commercial paper up to \$120,000,000. Debt service for these capital improvements would be funded from a combination of revenue sources including facilities and administrative receipts, student debt service fees, parking receipts, utility receipts, and athletic receipts.

Bell Tower/Genomics	\$ 72,408,685
Carolina North – advance planning	5,000,000
Carmichael Auditorium	4,381,669
Dental Sciences Teaching and Learning Building	20,000,000
ERP	21,843,152
Fetzer Gym Expansion	3,543,264
Frank Porter Graham Student Union Renovation	8,250,000
Lenoir Hall Renovation	4,167,662
Science Complex	20,114,016
Sports Medicine	1,483,492
Woollen Phase II	10,500,000
Utility Infrastructure	30,728,661

The issuance of bonds to refund all or a portion of prior revenue bonds or special obligation bonds issued on behalf of UNC-Chapel Hill would not exceed \$150,000,000. It was possible that no bonds would be refunded with this transaction.

UNC-Chapel Hill was currently rated Aaa by Moody's Investor Service, their highest rating. It was expected that UNC-CH would maintain this rating after issuance of these bonds.

J.P. Morgan would be the senior underwriter for the issue and Wells Fargo would be the co-underwriter. Parker Poe was bond counsel.

It was recommended that the President of the University, or his designee, be authorized to sell the special obligation bonds between the June 2012 and the August 2012 meetings of the Board.

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

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

Commercial paper is short-term, unsecured debt issued in the form of special obligation general revenue bonds, and presents an alternative to borrowing from banks. A commercial paper program provides the issuer access to a flexible, low cost source of capital to provide bridge financing for projects. The program was established to fund previously approved projects, up to the authorized maximum amount. The bonds are issued by the Board of Governors but are an obligation of the constituent institution secured by available funds excluding state appropriations, tuition, and restricted gifts. Funds are drawn on an as-needed basis for capital expenditures. The short-term program is repaid with proceeds from a long-term bond issue, gift receipts, or other sources.

By providing continual access to capital for construction projects, North Carolina State University and UNC-Chapel Hill had not been required to issue long-term debt as frequently as in the past and had had greater flexibility over the timing of bond issues. In addition, less frequent issuance of bonds reduced the costs of issuance and achieved more attractive debt service costs. Tax-exempt commercial paper rates were often several percentage points lower than commercial bank loans. Another benefit of commercial paper was that interest expense was incurred only on funds that had been drawn.

The authorized size of the commercial paper program was \$500 million. UNC-Chapel Hill was authorized to issue \$400 million and NC State was authorized to issue \$100 million. For its portion of the program, UNC-Chapel Hill requested the Board issue a resolution to limit maximum aggregate principal borrowings for UNC-Chapel Hill to \$250,000,000. This was in response to liquidity requirements from the ratings agencies.

Furthermore, UNC-Chapel Hill requested to amend the mix of Commercial Paper and Special Obligation Bonds previously approved by the Board of Governors for Kenan Stadium by reducing the Commercial Paper portion by \$28 million and increasing the Special Obligation Bond portion by \$28 million. This resulted in no change in the level of indebtedness for the previously approved project. Additionally, UNC-Chapel Hill requested to add Wells Fargo as a dealer for the Commercial Paper program in the interest of diversification of its dealer base. Currently, Bank of America-Merrill Lynch was the sole dealer for the joint program.

On the motion of Mr. Bisette, seconded by Dr. Eshelman, the recommendation was approved.

6. 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 Greensboro requested that the Board issue special obligation bonds for the purpose of financing (1) the costs of constructing the police station, (2) the cost of acquiring Jefferson Suites residence hall from the UNCG Capital Facilities Foundation, (3) refunding of all or a portion of prior revenue bonds issued on behalf of UNC Greensboro that resulted in sufficient savings to UNCG, and (4) providing for the costs incurred in connection with the issuance of the 2012 Bonds. The 2012 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 UNCG determined to be in the best interest of the University.

The issuance of bonds for the projects previously approved by the Board and the General Assembly would not exceed a par amount of \$45,000,000. The issuance of bonds to refund all or a portion of prior revenue bonds issued on behalf of UNC Greensboro to achieve interest rate savings would not exceed \$33,000,000. It was possible that no bonds would be refunded with this transaction.

UNC Greensboro was currently rated Aa3 and A+ by Moody's Investor Service and Standard and Poor's respectively. It was expected that UNCG would maintain its Aa3/A+ credit rating after issuing the bonds.

Parker Poe was bond counsel. PNC was the financial advisor. Wells Fargo, R.W. Baird and Co., and Stephens Inc. would serve as underwriters.

It was recommended that the President of the University, or his designee, be authorized to sell the special obligation bonds.

On the motion of Mr. Davenport, seconded by Dr. Eshelman, the recommendation was approved.

7. East Carolina University, North Carolina Central University, and the University of North Carolina General Administration had requested authority to establish new capital improvements projects.

ECU – Clement Residence Hall Fire Safety Improvement: This project would replace non-fire-rated corridor and resident room doors in Clement Residence Hall (ten-story, built in 1969, 387 beds, 86,044 square feet) to enhance resident and staff safety. Work would include the installation of new door closers and new ADA code-compliant

hardware to meet current life safety code requirements. The project, estimated to cost \$440,000 and funded from housing receipts, would be completed by the start of the 2013 fall semester.

NCCU – Baynes Residence Hall Fire Sprinkler Installation: This project would provide a new fire sprinkler system and upgraded fire alarm system for Baynes Residence Hall (nine-story, built in 1966, 400 beds, 85,320 square feet). Work would include a new fire service water main; existing ceiling and lighting systems would be repaired or replaced as needed. The project, estimated to cost \$1,200,000 and funded from housing receipts, would be completed by the beginning of the 2013 spring semester.

UNCGA – UNC President's House Renovation and Expansion: The UNC President's House, built in 1907, was last renovated more than 25 years ago (two-story, 5,900 square feet, major renovations in 1929 and 1986). This project would renovate approximately 1,000 square feet of existing space in the southern portion of the House and add approximately 1,600 square feet of new interior space and 700 square feet of porch area. These improvements would provide an appropriate configuration of code-compliant space needed to accommodate larger receptions and other University functions hosted by the UNC President as part of his/her duties. Proposed renovations would also improve the functionality of guest areas on the first floor, and in compliance with the Americans with Disabilities Act, provide easier access to the first and second floors of the House. Existing exterior mechanical equipment would be relocated and the site would be modified to accommodate the new addition. The project, to be completed by November 2013, is estimated to cost \$933,000 and will be funded by a gift from an anonymous donor that was expressly designated for renovations and improvements to the President's House. These private funds cannot be used for any other purpose.

The need for design services for this project was advertised and eight design proposals were received. The three firms interviewed and recommended, in priority order, were: (1) John B. Hawkins, AIA, Architect, Chapel Hill, NC; (2) HH Architecture, Raleigh, NC; and (3) Tise-Kiester Architects, PA, Chapel Hill, NC. The policies and procedures of the State Building Commission and the N.C. Administrative Code required that a list of three selected design firms in priority order be presented to the Board of Governors for approval.

It was recommended that these projects be authorized and that the methods of financing as proposed by ECU, NCCU, and UNC-GA be approved. It was further recommended that the three design firms listed above in priority order be approved for the UNC President's House project.

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

On the motion of Chair Young, seconded by Mr. Davenport, the Committee went into Closed Session to consult with our attorney to establish or instruct the staff concerning the negotiation of the price and terms of a contract concerning the acquisition of real property.

\*\*\*\*\* CLOSED SESSION \*\*\*\*\*

There being no further business, the meeting was adjourned.

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Mr. Paul Fulton, Chair  
Committee on Budget and Finance

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Mr. Fred G. Mills, Secretary  
Committee on Budget and Finance

## CLOSED SESSION

This page has been removed for Open Session materials.