Minutes of the April 11, 2013 Meeting
of the Board of Governors Committee on Budget and Finance

The Committee on Budget and Finance met in Room 103 of the Health Sciences Building at the University of North Carolina at Pembroke on Thursday, April 11, 2013 at 12:30 p.m.

Committee members in attendance were Mr. W. Louis Bissette, Jr., Mr. Walter C. Davenport, Dr. Fred N. Eshelman, Mr. Paul Fulton, Mr. G. Leroy Lail, Mr. Fred G. Mills, and Mr. David W. Young. Necessarily absent was Governor James E. Holshouser, Jr. Other Board members in attendance were Chair Peter D. Hans, John M. Blackburn, Peaches G. Blank, Cameron Carswell, and W. Edwin McMahan. Board member-elect Joan MacNeill was also in attendance as well as President Tom Ross, Chief of Staff Kevin Fitzgerald, Vice Presidents Laura Fjeld and Andrew Moretz, Senior Associate Vice President Jonathan Pruitt and Associate Vice President Terrance Feravich, Finance Division and other General Administration staff, Chancellors and other faculty/staff from the universities, staff from the Office of State Budget and Management, and members of the press.

Chair Fulton convened the meeting. The minutes of the meeting of February 7, 2013 were approved.

1. North Carolina State University's College of Engineering and College of Management requested authority to establish school-based tuition for 2013-14 for students enrolled in the Master of Supply Chain Engineering and Management Program pending the program's approval by the Board of Governors. This tuition was in addition to the tuition rates approved for resident graduate students ($7,173) and nonresident graduate students ($19,511). The additional revenue would support competitive recruitment and retention of faculty members, program operations, and student recruitment. If approved, the rates for this program would be consistent with the NCSU College of Management's Master of Business Administration program.

   The following rates were recommended for Board of Governors' approval.

   <u>College of Engineering and College of Management – Interdisciplinary</u>
   Master of Supply Chain Engineering and Management
   Resident ....$10,625 in 2013-14
   Nonresident ....$11,110 in 2013-14

   On the motion of Mr. Young, seconded by Mr. Bissette, the recommendation was approved.

2. In the fall semester of 2012, North Carolina A&T State University exceeded the 18 percent limit on out-of-state enrollment set by the Board of Governors. This situation was the result of several recent adjustments to the campus's recruitment and application process. These adjustments, designed to create a stronger out-of-state applicant pool, rendered historical projections of out-of-state enrollment invalid. NCA&T's enrollment projections, made in good faith and assuming the validity of historical data, ended up

significantly underestimating the number of accepted out-of-state students who ultimately chose to enroll.

At the same time, in-state enrollment projections proved overly optimistic. The same changes that produced an out-of-state applicant pool with greater interest in NCA&T also produced an in-state applicant pool with better qualifications and, therefore, more options. While out-of-state students chose to enroll in greater numbers than expected, in-state students pursued opportunities at campuses other than NCA&T in greater numbers than expected.

Background -- Working Toward a Stronger Applicant Pool

NCA&T had been working to improve the quality of the applicant pool for both North Carolina and out-of-state students, as well as the enrollment yield for both groups. A stronger pool of applicants could have a lasting impact on the quality and academic efficiency of the campus, improving the institution's performance in graduation and retention. Better-targeted recruitment had allowed NCA&T to be more efficient with direct outreach and general marketing.

With those goals in mind, and in response to system-wide Minimum Admissions Standards that began to take effect in 2009 and increased incrementally through 2013, NCA&T had steadily raised admissions standards. That had demanded corresponding changes in campus recruitment and application processes. An electronic admissions tool was updated to allow students to apply both within and independent of the College Foundation of North Carolina website, giving applicants greater flexibility. The campus also implemented procedures that put admissions officials in more regular contact with prospective applicants, soliciting documents and offering assistance in order to increase the number of completed applications.

Perhaps most significantly, NCA&T made a concerted effort to speed financial aid and scholarship decisions, allowing the campus to offer targeted financial incentives to prospective students much earlier in their decision-making process. Offering this information earlier was critical in encouraging well-qualified applicants -- who were often accepted at multiple institutions -- to commit to NCA&T.

Assessment -- Enrollment Projections Shown Invalid Due to Applicant Quality

These initiatives, coupled with a general increase in the quality and efficiency of recruitment efforts, produced results on a scale well beyond what the campus expected. Unfortunately, that meant historical models for projecting enrollment were inaccurate. Had nonresident students enrolled at NCA&T in keeping with the institution's anticipated projections, and in-state students enrolled in the numbers expected, NCA&T would have been at or below 18.6 percent out-of-state enrollment (excluding engineering students, per a Board-approved exception).

As it happened, a far greater number of out-of-state students chose NCA&T at the same time that fewer in-state students chose to enroll. This unexpected success in nonresident recruitment had given the campus an out-of-state enrollment rate of 31.4 percent for fall

2012 or 235 students above the 18 percent cap. Net additional revenue attributable to exceeding the cap was $2.5 million. The associated penalty for exceeding the cap was calculated to be $2.37 million.

Refinement of campus enrollment projections was needed, and officials at NCA&T were working to make those adjustments. With a full year under the revised recruitment and application initiatives, campus administrators were better positioned to understand the impact of those changes on yield, and, therefore, were considerably more confident of their ability to more accurately anticipate future enrollment decisions.

In recognition of the unique circumstances that led NCA&T to inaccurately predict out-of-state enrollment decisions and due to the prolonged economic downturn and significant budget cuts, the campus petitioned the Board of Governors to waive the penalty for exceeding the enrollment cap.

There was considerable precedent for waiving entirely or reducing the penalty for exceeding the 18 percent cap.

- 2000-01 -- ECU ($322,957), NCA&T ($182,036) and UNC-CH ($15,780) were exempted due to the required reversions from the state's declining fiscal condition.
- 2001-02 -- ECSU, NCA&T and UNCW were exempted from penalties. NCA&T's fine was waived because the over-enrollment involved out-of-state engineering students. ECSU's and UNCW's fines ($15,783 for ECSU and $203,447 for UNCW) were waived in consideration of other budget cuts; both campuses were being required to revert additional funds in 2001-02 due to the state's poor fiscal condition.
- 2002-03 -- ECSU ($47,773) was exempted, due to having already absorbed a permanent budget cut and being required to meet an additional reversion of state funds.
- 2004-05 -- UNCA was assessed a penalty of $97,570 for exceeding the cap by 13 students (19.8 percent out-of-state enrollment).
- 2009-10 -- ECU was assessed a penalty of $260,220 for exceeding the cap by 26 students (18.7 percent out-of-state enrollment).
- 2010-11 -- UNC-CH was assessed a penalty of $158,225 for exceeding the cap by 13 students (18.3 percent out-of-state enrollment).
- 2011-12 -- UNC-CH's fine ($334,632) was waived.

<u>Recommendation -- Request for Penalty Waiver</u>
Considering the unique circumstances of this case and considering previous budget cuts and economic conditions, the President recommended the following action:

1. The campus would forfeit $250,000 as a penalty for violating the Board's policy.
2. The campus would commit to investing $1,350,000 of the $2.5 million in excess revenue in efforts to enhance in-state recruitment and in financial aid packages for

in-state students, in strengthening the campus's in-state applicant pool, and in support of existing and/or new student success initiatives.

After discussion of the item, Mr. Young made a motion to waive the penalty. There was no second to the motion.

Mr. Lail made a motion to accept the President's recommendation but to amend it by adding the following sentence: In addition, General Administration agreed to study and propose in June alternative approaches for out-of-state limits that might be tested on selective campuses. The motion as amended was seconded by Mr. Bissette. Mr. Young voted no.

3. 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.

   Appalachian State University requested that the Board issue special obligation bonds for the purpose of refinancing ASU indebtedness and refunding all or a portion of prior revenue bonds or special obligation bonds issued for the benefit of ASU that resulted in sufficient savings, and (2) paying the costs incurred in connection with the issuance of the 2013 Bonds. The 2013 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 ASU, determined to be in the best interest of the University.

   The issuance of bonds to refund all or a portion of prior revenue bonds or special obligation bonds issued on behalf of ASU would not exceed $50 million. It was possible that no bonds would be refunded with this transaction if market conditions at the time of pricing produced no sufficient savings.

   ASU was currently rated Aa3 by Moody's Investor Service. After issuance of these bonds, it was expected ASU would maintain its Aa3 rating.

   Hunton and Williams 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 April 2013 and the June 2013 meetings of the Board.

   On the motion of Mr. Lail, seconded by Mr. Young, 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 Asheville requested that the Board issue special obligation bonds for the purpose of (1) financing the acquisition of the Mountain Area Heath Education Center ("MAHEC") to be occupied by UNC Asheville's Student Health and Counseling Center and Development and Alumni Affairs, (2) refinancing of UNCA indebtedness and refunding all or a portion of prior revenue bonds or special obligation bonds issued for the benefit of UNCA that resulted in sufficient savings, and (3) paying the costs incurred in connection with the issuance of the 2013 Bonds. The 2013 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 UNCA, determined to be in the best interest of the University.

The issuance of bonds for the project previously approved by the Board and the General Assembly would not exceed a par amount of $4,987,000. The acquisition would be financed by a $90 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 Asheville would not exceed $2,522,000. It was possible that no bonds would be refunded with this transaction if market conditions at the time of pricing produced no sufficient savings.

UNC Asheville was currently rated A1 by Moody's Investor Service. After issuance of these bonds, it was expected UNCA would maintain its A1 rating.

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 April 2013 and the June 2013 meetings of the Board.

On the motion of Mr. Lail, seconded by Mr. Young, the recommendation was approved as amended.

5. On March 7, 2013, the Chancellor of the University of North Carolina at Pembroke informed the President of the need to invoke emergency procedures as allowed by G.S. 143-129 to provide for a new capital improvements project to address a matter of health and safety on the campus.

   The surface and supporting asphalt base of the outdoor, multi-purpose Taylor Track (built in 2000) had deteriorated to a condition that presented a significant trip-and-fall hazard. The track was closed and would remain closed until needed repairs and resurfacing could be done. The project, estimated to cost $1,400,000, would be funded from a combination of general fund sources and athletic receipts. The track was hoped to be ready for use by the start of the 2013 fall semester.

The Committee acknowledged the emergency project.

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

ECU – Todd Dining Hall Accessibility, Walk, and Patio Improvements: This project would make accessibility, walk, and patio improvements to Todd Dining Hall (built in 1994, 35,000 square feet, one-story) from six adjacent residence halls in the College Hill area. Work would include modifications to meet current accessibility requirements and enhance pedestrian safety along College Hill Drive. The project, estimated to cost \$942,546 and funded from housing receipts (\$471,273) and dining receipts (\$471,273), would be complete by September 2013.

ECU – White Residence Hall Renovations: This project would renovate the approximately 201 bedrooms in White Residence Hall (built in 1968, 82,731 square feet, ten-story, 390-bed). Work would include demolition of all built-in furniture, asbestos abatement, updating of interior finishes, and required code and accessibility improvements. The project, estimated to cost \$6,220,000 and funded from housing receipts, would be complete by August 2013.

ECU – Fletcher Residence Hall Renovations and Accessibility Improvements: This project would upgrade the HVAC and Exhaust systems and repurpose 4,000 square feet of unused basement space in Fletcher Residence Hall (built in 1964, 80,649 square feet, seven-story, 416-bed). Work would also include site improvements between Fletcher and Garrett Residence Halls along Dowell Way to increase accessibility and improve pedestrian circulation. The project, estimated to cost \$1,526,000 and funded from housing receipts, would be complete by August 2013.

ECU – Joyner Library Renovations: This project would renovate the approximately 4,000 square feet in Joyner Library (built in 1954, 129,963 square feet, three-story). Work would include renovation of the circulation desk area to improve space utilization, relocation of the franchised coffee kiosk to reduce noise in the library, relocation and expansion of the security office, expansion of restrooms to meet code and accessibility requirements, and associated architectural, mechanical, electrical, and plumbing system changes. The project, estimated to cost \$364,300 and funded from the ECU Langford Endowment, would be complete by August 2013.

ECU – Todd Dining Hall Roof Replacement: This project would replace approximately 27,600 square feet of the roof on Todd Dining Hall (built in 1994, 35,000 square feet, one-story). Work would include the replacement of the windows in the large cupola over the main dining room. The project, estimated to cost \$804,554 and funded from dining receipts, would be complete by October 2013.

ECU – Dance Studio: This project would construct a new freestanding approximately 16,000 square-foot dance studio facility to house the ECU Dance Program to meet program accreditation requirements to allow the program to become fully accredited. The building would include three 2,500 square-foot dance studios, faculty and staff offices, shower and dressing rooms, and required equipment storage, data, telecommunications, electrical, and mechanical space. The project, estimated to cost $1,900,000 and funded from carry forward funds,* would be complete by September 2014.

ECU – School of Dental Medicine 4th Floor Fit-up Phase I: This project was the first of two or three projects that would fit-up the 4th floor of Ross Hall (2012, 188,000 square feet, four-story) which housed the School of Dental Medicine (SODM). This project would create research and office space to support the overall SODM's accreditation process. The total cost to fit-up the 47,000 square-foot 4th floor was estimated to be $7,100,000. This Phase I project was expected to fit-up 23,000 square-feet of the 47,000 square feet, was estimated to cost $4,892,526, would be funded from carry forward funds,* and would be complete by August 2015.

ECU – Residence Hall Coordinator Apartment Improvements: This project would renovate existing apartments in nine residence halls to create two and three bedroom apartments suitable for the young professional and their families that ECU Residential Life seeks to attract to its residence hall coordinator positions. Work would include comprehensive demolition of existing apartments, asbestos abatement, reconfiguring space, associated building system upgrades, and required code and accessibility improvements. The project, estimated to cost $3,893,000, funded from housing receipts, and phased over four successive summers, would be complete by August 2016.

NCSU – College of Textiles Interior Renovations: This project would renovate approximately 16,200 square feet in the College of Textiles building (built in 1990, 307,163 square feet, four-story) to accommodate the Graduate School's relocation from leased space. Work would provide office space, a multi-purpose room, a digital capture/smart classroom, and a general purpose classroom. Work would include building entry modifications to improve accessibility and associated architectural, mechanical, electrical, and plumbing system changes. The project, estimated to cost $1,952,667 and funded from carry forward funds,* would be complete by August 2014.

**(Carry-forward funds: operating funds unexpended on June 30 and, pursuant to state law, are "carried-forward" into the next fiscal year to support one-time expenditures.)*

NCSU – Hazardous Waste Facility: This project would construct a new approximately 1,200 square-foot building to provide for the safe handling and storage of flammable liquids, gases, solids, and corrosive chemicals on the Centennial Biomedical Campus. The project, estimated to cost $350,000 and funded from facilities and administrative receipts, would be complete by September 2013.

NCSU – 2013 Retained Energy Savings (S.L.2010-196) Project: This project would perform four energy conservation measures (ECM) using funds carried forward under provision of Session Law 2010-196. The project, estimated to cost $1,135,000 and funded from utilities energy savings carry forward funds, would be complete by June 2015. The four ECMs are:

a. Tridium Vykon Energy Suite/Periscope License ($110,000): Purchase and perform system integration of the Tridium Vykon Energy Suite/Periscope, an enterprise level energy savings analysis and reporting platform that integrates with existing campus building automation systems, and install integral Periscope energy dashboard for campus energy manager and campus community.

b. Complete the Centennial Campus (CC) Building Automation System Integration for Energy program ($225,000): Install fully integrated utility meters at eight CC buildings and connect the CC substation supervisory control and data acquisition system (SCADA) to make CC fully capable of demand load shedding and refined energy saving building scheduling.
c. Main Campus Building Automation System Upgrade - Phase I ($400,000): Install DDC controls on VAVs and remaining AHUs in North and South book stacks of D.H. Hill (North stack, constructed 1975, twelve floors; South stack, constructed 1990, eleven floors), and rebalance building for air and water flows that would conserve energy.
d. Supervisory Control and Data Acquisition system (SCADA) Modernization ($400,000): Upgrade the SCADA system to enable more efficient control of power that would reduce operating costs. Work would include extending the campus fiber optic network, upgrading campus breaker relays, upgrading remote terminal units, and upgrading SCADA system software.

NCSU – Witherspoon West Improvements: This project would add vestibules to the building entrances on the west side of Witherspoon Student Center (built in 1991, 44,343 square feet, three-story) to enhance energy efficiency and building appearance. Work would also include site improvements between Witherspoon and Dan Allen Drive to increase accessibility and improve pedestrian circulation. The project, estimated to cost $500,000 and funded from campus enterprises trust fund receipts, would be complete by September 2013.

UNC-CH – Mary Ellen Jones Building Renovations – Phase I: This project would renovate the exterior building envelope; replace building HVAC, electrical, plumbing, and life safety systems; and renovate 41,320 square feet on multiple levels in the Mary Ellen Jones building (built in 1978, 223,994 square feet, 11-story). Work would include roof and window replacement, asbestos abatement, updating of interior finishes, and code and accessibility improvements. The project, estimated to cost $45,000,000 and funded from facilities and administrative receipts, would be complete by May 2015.

UNC-CH – North Chiller Plant Capacity Upgrade: This project would increase by 4,500 tons the chilled water production capacity of the North Chiller Plant (built in 1970, 21,131 square feet, one-story). Work would include the installation of two new chillers and associated variable speed drives, disconnects controls, piping, and building utilities. The project, estimated to cost $4,500,000 and funded from utility receipts, would be complete by March 2015.

UNC-CH – Brinkhous-Bullitt Building 10th Floor Renovations: This project would renovate approximately 8,637 square feet of the tenth floor of the Brinkhous-Bullitt building (built in 1978, 223,994 square feet, 11-story) for the School of Medicine. Work would provide a cardio-thoracic medical simulation suite, a surgical simulation laboratory, large conference room, offices, and support space. Work would include demolition, asbestos abatement, reconfiguring space, associated building system upgrades, and required code and accessibility improvements. The project, estimated to cost $1,383,000 and funded from clinical receipts, would be complete by January 2014.

UNC-CH – Berryhill Hall 3rd Floor Renovations: This project would renovate approximately 15,521 square feet of the third floor of Berryhill Hall (built in 1970, 126,196 square feet, nine-story) for the School of Medicine. Work would provide a medical education simulation laboratory, monitoring room, classroom, exam rooms, offices, and support space. Work would include demolition, asbestos abatement, reconfiguring space, associated building system upgrades, and required code and accessibility improvements. The project, estimated to cost $3,601,000 and funded from clinical receipts, would be complete by January 2014.

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

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

7. G.S. 143-64.12 requires that all state buildings reduce energy use per gross square foot 20% by 2010 and 30% by 2015 based on fiscal year 2002-2003 energy consumption. G.S. 143-64.17F authorizes 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 interest in a systematic approach to implementing facility efficiencies and encouraging environmental stewardship in conjunction with the Board of Governors UNC Sustainability Policy, authorizes the implementation of sustainable practices in buildings to meet or exceed statutory requirements as part of an ongoing sustainability action plan.

The Board of Trustees of Appalachian State University had requested authority to establish a capital improvements project and to enter into a guaranteed energy savings contract that would improve energy efficiencies, replace failing equipment and infrastructure, and reduce water consumption on the ASU campus. The project would provide more efficient lighting and mechanical systems, upgrade building controls for mechanical and electrical systems, and add water conservation devices in 28 campus buildings, involving approximately 1.8 million square feet of space.

Working with the State Energy Office and their list of pre-qualified energy service companies, ASU selected Pepco Energy Services (John Huffman, CEO) as its energy services company. Pepco had validated the estimated project cost and utilities savings and was willing to enter into a contract in which they guaranteed that 100% of the projected savings would be achieved or Pepco would be liable for any shortfall. The cost of the project would not exceed $16,500,000 and would be financed with a tax-exempt loan or capital lease to be repaid within 13 years from utility savings guaranteed to total at least $23,621,335. After the debt was paid, the savings produced by the improvements of the $16,500,000 project (estimated to be $1,900,000 per year) would continue to accrue to ASU and the State. The project was expected to reduce the current energy consumption of the 28 buildings by at least 30%.

To finance this project, ASU would solicit competitive proposals from qualified lenders. ASU expected a finance rate not to exceed 3.6% on an amount not to exceed $16,500,000. The term of the loan would be for 13 years with a 22-month construction period. 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, the Office of State Budget and Management, and the 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 Appalachian State University be approved.

Likewise, the University of North Carolina Center for Public Television (UNC-TV) requested authority to establish a capital improvements project and enter into a guaranteed energy savings contract to improve energy efficiency and reduce water consumption in the Center for Public Television complex. The specific energy conservation measures would be identified and documented during an Investment Grade Audit, and may include replacement of inefficient heating, ventilating, and air conditioning equipment, as well as improved controls for these systems, lighting improvements, and water conservation measures. To finance this project, UNC-TV would solicit competitive proposals from qualified lenders. UNC-TV expected a finance rate not to exceed 3.5% on an amount not to exceed $1,700,000. The savings generated by the guaranteed energy savings contract would fund the debt. After the debt was paid, the savings produced by the improvements would continue to accrue to UNC-TV and the State. The term of the loan would not exceed 20 years after a four-month construction period anticipated to commence by June 2013. The savings guaranteed by the selected energy services company was anticipated to exceed $102,000 annually. The selected energy services company would validate the project costs and utility savings and would enter into an Energy Services Agreement guaranteeing 100% of projected savings would be achieved, along with liability for any shortfall.

A Request for Proposal was issued to prequalified energy services companies in compliance with State Energy Office policies and procedures and three responses were received. The three firms interviewed and recommended for approval, in priority order, were: (1) Pepco of Raleigh, N.C., (2) Brady Trane of Morrisville, N.C., and (3) Honeywell of Morrisville, N.C.

It was recommended that this project and its method of financing be authorized, and the selected energy service company be approved. It was further recommended that the Board delegate authority to the President to forward a contract to the Department of Administration, the Office of State Budget and Management, the State Treasurer, and the Council of State for final approval as he deemed appropriate, following the results of an Investment Grade Audit and solicitation for financing.

On the motion of Mr. Bissette, seconded by Mr. Davenport, both recommendations were approved.

8. The Committee reviewed proposed changes to UNC Policy 600.1.1, UNC Policy 600.3.1, and to UNC Policy 600.6.1 that made these existing policies consistent with current law, regulation, and/or recognized best practice promoting institution efficiency and effectiveness.

   It was recommended that the Committee on Budget and Finance adopt the proposed changes to Policies 600.1.1, 600.3.1, and 600.6.1.

If approved and pursuant to the Board of Governors' guidelines, the policies would be presented to the Board at its June 2013 meeting for final consideration. (Attachment 1)

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

9. Upon request by a Board of Trustees of a constituent institution and with the recommendation of the President, the Board of Governors may delegate authority consistent with G.S. 116-31.12 to the constituent institution, per its Policy 600.1.3.1 adopted on January 14, 2011 and amended by the Board on November 11, 2012 to include disposition by lease consistent with amended General Statute 116-31.12.

As amended by Session Law 2012-142, North Carolina General Statute 116-31.12 states:

§116-31.12. (Effective until June 30, 2015) Acquisition and disposition of real property by lease.

> *Notwithstanding G.S. 143-341(4), and in addition to the powers granted in G.S. 116-198.34(5), the Board of Governors may authorize the constituent institutions and the General Administration to acquire or dispose of 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 and disposing of 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 or disposition 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 or disposition of an interest in real property by lease, The University of North Carolina shall promptly file a report concerning the acquisition or disposition to the Secretary of Administration. Acquisitions and dispositions 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 or 7 of Chapter 146 of the General Statutes. (2007-322, s. 9; 2012-142, s. 9.10(a).)*

The Board of Trustees of East Carolina University had requested and ECU had demonstrated the administrative, technical, and support resources necessary to properly carry out the requested authority. It was recommended that the Committee on Budget and Finance approve ECU's request for delegated authority consistent with G.S. 116-31.12.

In April 2012, the Board delegated authority consistent with G.S. 116-31.12 to North Carolina State University and the University of North Carolina at Chapel Hill. It was recommended that the Committee on Budget and Finance approve amending the previous delegations to include authority for disposition of property by lease consistent with G.S. 116-31.12 as currently written.

Consistent with Board policy, it was recommended that ECU's request for delegated authority and that NCSU's and UNC-CH's amendment to previously delegated authority be approved by the Board of Governors. Each delegation was effective immediately upon approval by the Board.

It was recommended that the President of the University, or his designee, be authorized to make amendments to the previously approved delegated authority of a constituent institution to maintain consistency with changes to G.S. 116-31.12.

On the motion of Mr. Bissette, seconded by Mr. Lail, the recommendation was approved.

10. In 2006, the Board authorized the President to execute leases valued up to $350,000 and other property interests up to $500,000. In 2012 and consistent with state law, the Board further authorized the President to approve and execute a lease without the approval of the Department of Administration, the Governor and the Council of State if the lease was for a term of no more than 10 years. The following property transactions were approved under this delegation.

<u>Elizabeth City State University – Acquisition of Real Property by Lease with Improvements</u>

Use:	Ground lease of land and purchase of existing improvements on the land (hangar) to support ECSU's Aviation Science program
Owner:	Elizabeth City Pasquotank County Airport Authority for the ground lease; Curtis Hinkley and Jay Isbell for the improvements (hangar)
Location:	Elizabeth City Regional Airport, Elizabeth City, Pasquotank County
Description:	Approximately 4,200 square feet of hangar space and associated land on which the hangar was built
Cost:	$756 annually with biannual CPI increases capped at 5% payable to the airport authority not including utilities and custodial services; $248,000 one-time payment to purchase the hangar payable to the current owners
Term:	20 years remaining on the initial term of the ground lease with two, five-year renewal options
Source:	Department operating funds and Federal Title III funds
Approvals:	The ECSU Board of Trustees recommended this action on March 12, 2013.

<u>The University of North Carolina at Charlotte – Acquisition of Real Property by Lease</u>

Use:	Office space for the College of Computing and Informatics Bioinformatics Research Center (BRC) and the Charlotte Research Institute (CRI) -- The BRC would provide much of the needed bioinformatics expertise for all partners at the NCRC. The CRI would work to connect UNCC's research centers with partners at NCRC and to accelerate technology commercialization and the growth of entrepreneurial ventures.
Owner:	Castle & Cooke – NCRC Properties 1, LLC (Manager: Mary J. Garnett)
Location:	David H. Murdock Core Laboratory Building, North Carolina Research Campus, Kannapolis, NC, Cabarrus County
Description:	4,185 square feet of office space (3,185 currently leased plus 1,000 square feet of additional space) with access to building and campus computing and laboratory resources
Cost:	$198,000 per year for the initial year ($47.31/SF) with 1.5% annual increases -- Rent included maintenance and operating costs including all utilities with the exception of telecommunications services.

Term:	Five-year initial term with two, five-year renewal options
Source:	Appropriations and other funds budgeted and available for this purpose
Approvals:	The UNCC Board of Trustees recommended this action on February 28, 2013.

11. Request: East Carolina University requested that the Board of Governors approve the updated affiliation agreement between East Carolina University's Brody School of Medicine ("BSOM") and Pitt County Memorial Hospital, Inc. d/b/a Vidant Medical Center ("VMC").

Affiliation Background

- VMC and BSOM had maintained a close affiliation dating back to the inception of BSOM. The first affiliation agreement between the two was signed in 1974. An updated version of the agreement, with a 20-year term, was finalized in 1994.

- The affiliation agreement established the foundation for the relationship between BSOM and VMC and outlined areas of mutual activity and interest, including:

    - Administration and financial responsibility of each institution;
    - Medical student education;
    - Graduate medical education (GME, i.e., residency training programs);
    - VMC Medical Staff membership and VMC Chiefs of Service;
    - Research, Facilities, and Services; and
    - Appointments to the VMC Board.

- The affiliation agreement established a Joint Policy Committee that oversaw operation of the affiliation agreement and assisted in related problem solving.

- BSOM and VMC had worked collaboratively over the last year through small work teams to draft an updated affiliation agreement as the expiration date for the current agreement neared. This proposed new version had been approved by the Joint Policy Committee, the ECU Board of Trustees and the VMC Board of Trustees on April 9, 2013. Because of the County's reversionary interest in VMC, it would be submitted to the Pitt County Board of Commissioners for approval as well. (Attachment 2)

On the motion of Mr. Lail, seconded by Mr. Young, the updated affiliation agreement was approved.

There being no further business, on the motion of Mr. Fulton, seconded by Mr. Lail, the meeting was adjourned.

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

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