



MEETING OF THE BOARD OF GOVERNORS  
Committee on Budget and Finance

November 2, 2017 at 1:00 p.m.  
University of North Carolina General Administration  
Center for School Leadership Development, Board Room  
Chapel Hill, North Carolina

**AGENDA**

- B-1. [Capital Improvement Projects – ASU, NCCU, NCSU, UNC-CH, and UNCW](#) .....Will Johnson
- B-2. [Establishment of For-Profit Associated Entity – UNC-CH](#) ..... Jonathan Pruitt
- B-3. Other Business ..... O. Temple Sloan III
- B-4. Adjourn

## AGENDA ITEM

B-1. Capital Improvement Projects – ASU, NCCU, NCSU, UNC-CH, and UNCW .....Will Johnson

**Situation:** Five UNC institutions have requested a total of twenty-one capital improvement projects: three projects for advance planning, thirteen new projects for authority, and five projects for increased authorization.

**Background:** The Board of Governors may authorize capital construction projects and advance planning projects at UNC campuses using available funds.

**Assessment:** ASU, NCCU, NCSU, UNC-CH, and UNCW have requested projects that meet the statutory requirements and it is recommended that the Board of Governors approve the projects and their methods of funding. It is further recommended that these projects be reported to the Office of State Budget and Management as non-appropriated projects that do not require any additional debt or burden on state appropriations.

**Action:** This item requires a vote by the committee, with a vote by the full Board of Governors through the consent agenda.

## Capital Improvement Projects – ASU, NCCU, NCSU, UNC-CH and UNCW

### ISSUE OVERVIEW

UNC institutions are required to request authority from the Board of Governors to proceed with non-appropriated capital projects using available funds (non-general funds). Non-appropriated capital projects are funded by the institution and include the construction, repair, or renovation of facilities such as residence halls, dining facilities, research buildings, athletic facilities, and student health buildings.

Five UNC institutions have requested a total of twenty-one capital improvement projects: three projects for advance planning, thirteen new projects for authority, and five projects for increased authorization.

### I. ADVANCE PLANNING

Institution/Project Title		Total Project Cost (\$)	Previous Authorization (\$)	Requested Authorization (\$)	Funding Source
<b>North Carolina State University</b>					
1.	Equine Isolation Unit, College of Veterinary Medicine (\$1,000,000)	\$100,000	-	\$100,000	CVM Receipts
<i>NCSU Subtotal</i>		<i>\$100,000</i>	<i>\$0</i>	<i>\$100,000</i>	
<b>The University of North Carolina at Chapel Hill</b>					
2.	Science Complex 3 & Institute of Convergent Science, Feasibility Study (\$175,000,000)	\$500,000	\$300,000	\$200,000	F&A
3.	UNC School of Media & Journalism - Media & Communication Studio (\$6,660,304)	\$600,000	-	\$600,000	Gifts
<i>UNC-CH Subtotal</i>		<i>\$1,100,000</i>	<i>\$300,000</i>	<i>\$800,000</i>	

### II. NEW PROJECTS

Institution/Project Title		Total Project Cost (\$)	Previous Authorization (\$)	Requested Authorization (\$)	Funding Source
<b>Appalachian State University</b>					
4.	Campus Road Repairs	\$675,000	-	\$675,000	Carry-forward
5.	Field Hockey Field House	\$556,718	-	\$556,718	Gifts
6.	Physical Plant – Materials Delivery & Storage Facility & Lay-down Yard	\$750,612	-	\$750,612	Endowment
7.	Poplar Grove Child Care Center Expansion	\$2,573,788	-	\$2,573,788	Child Care Receipts
8.	Varsity Gym HVAC Upgrades	\$684,400	-	\$684,400	Carry-forward
<i>ASU Subtotal</i>		<i>\$5,240,518</i>	<i>\$0</i>	<i>\$5,240,518</i>	

Institution/Project Title		Total Project Cost (\$)	Previous Authorization (\$)	Requested Authorization (\$)	Funding Source
<b>North Carolina Central University</b>					
9.	TV Studio Renovation	\$1,896,629	-	\$1,896,629	Title III
<i>NCCU Subtotal</i>		<i>\$1,896,629</i>	<i>\$0</i>	<i>\$1,896,629</i>	
<b>North Carolina State University</b>					
10.	HVAC Renovations Price Music Hall	\$975,000	-	\$975,000	Student Center Receipts
11.	Restroom Finish Renovations Phase 2 – Bragaw Hall	\$400,000	-	\$400,000	Housing Receipts
<i>NCSU Subtotal</i>		<i>\$1,375,000</i>	<i>\$0</i>	<i>\$1,375,000</i>	
<b>The University of North Carolina at Chapel Hill</b>					
12.	Cameron Cogen – Dry Sorbent Injection System	\$5,000,000	-	\$5,000,000	Trust Fund
13.	Cryo-Electron Microscopy (Cryo-EM) at Glaxo Research Building	\$850,000	-	\$850,000	F&A
14.	Kenan Stadium Seating Enhancement Project	\$7,000,000	-	\$7,000,000	Athletic Receipts
15.	Outdoor Education Center Pond Retrofit	\$387,355	-	\$387,355	Trust Fund (44%) / Fundraising (9%) / Grant (47%)
16.	Carolina Union Auditorium Renovation	\$1,500,000	-	\$1,500,000	Trust Fund
<i>UNC-CH Subtotal</i>		<i>\$14,737,355</i>	<i>\$0</i>	<i>\$14,737,355</i>	

### III. INCREASED AUTHORIZATION

Institution/Project Title		Total Project Cost (\$)	Previous Authorization (\$)	Requested Authorization (\$)	Funding Source
<b>North Carolina State University</b>					
17.	CBC Chiller Plant Expansion	\$4,987,553	\$4,648,941	\$338,612	Self-liquidating Debt (62%) / R&R (38%)
18.	Dabney Hall Lab Exhaust Upgrades – Phase 1	\$1,923,965	\$1,100,000	\$823,965	Carry-forward
<i>NCSU Subtotal</i>		<i>\$6,911,518</i>	<i>\$5,748,941</i>	<i>\$1,162,577</i>	
<b>The University of North Carolina at Chapel Hill</b>					
19.	Kenan Laboratory Renovation	\$24,000,000	\$15,850,000	\$8,150,000	F&A (50%) / Trust Funds (50%)
20.	Taylor Campus Health Sports Medicine and Specialty Clinics Renovation	\$2,750,000	\$1,900,000	\$850,000	Trust Funds
<i>UNC-CH Subtotal</i>		<i>\$26,750,000</i>	<i>\$17,750,000</i>	<i>\$9,000,000</i>	

Institution/Project Title		Total Project Cost (\$)	Previous Authorization (\$)	Requested Authorization (\$)	Funding Source
<b>The University of North Carolina at Wilmington</b>					
21.	Hurst Parking Lot	\$4,511,369	\$3,458,771	\$1,052,598	Parking Receipts
<i>UNCW Subtotal</i>		<i>\$4,511,369</i>	<i>\$3,458,771</i>	<i>\$1,052,598</i>	
<b>Grand Total</b>		<b>\$62,622,389</b>	<b>\$27,257,712</b>	<b>\$35,364,677</b>	

## RECOMMENDATION

All projects and associated funding sources are in compliance with G.S. 143C-8-12 (State Budget Act).

It is recommended that these projects be authorized and reported to the Office of State Budget and Management as non-appropriated projects that do not require any additional debt or burden on state appropriations.

## AGENDA ITEM

### B-2. Establishment of For-Profit Associated Entity – UNC-CH ..... Jonathan Pruitt

**Situation:** The University of North Carolina at Chapel Hill has requested approval to establish a for-profit associated entity (“KFBSF Real Estate Fund IV”) to manage real estate investment funds as an educational program at the Kenan-Flagler School of Business.

**Background:** Section 600.2.5.2[R] (specifically Section C.2.) of the UNC Policy Manual requires constituent institutions to receive approval from the Board of Governors to establish an associated entity on a for-profit basis. Since 2006, the Kenan-Flagler School of Business has established six for-profit student investment funds (three private equity and four real estate) with Board approval. These funds are generally \$2.5 million to \$3.5 million in size and are established primarily as an educational program. Students in both the MBA and Bachelor of Science in Business Administration (BSBA) programs evaluate investment opportunities and make recommendations to the General Partner, KFBSF, Inc., a N.C. nonprofit corporation established by Kenan-Flagler Business School Foundation, Inc. (Business Foundation). In addition to the General Partner, profits are distributed to the Limited Partners. Any funds to the General Partner in excess of expenses are transferred to the Business Foundation.

**Assessment:** These funds provide MBA and BSBA students with hands-on experience in operating a private investment fund. KFBSF Real Estate Funds I and II are fully invested, and KFBSF Real Estate Fund III is almost fully invested. If future students are to participate in this education program, additional funds will need to be raised and an additional real estate fund established (“KFBSF Real Estate Fund IV”).

**Action:** This item requires a vote by the committee, with a vote by the full Board of Governors through the consent agenda.

## **Establishment of For-Profit Associated Entity – UNC-Chapel Hill**

### **ISSUE OVERVIEW**

In September 2006, the Board of Governors approved a request from the Kenan-Flagler School of Business of The University of North Carolina at Chapel Hill to establish three associated entities: (1) KFBSF Private Equity Fund I, L.P.; (2) KFBSF Real Estate Fund I, L.P. as for-profit investment funds; and (3) KFBSF, Inc., a North Carolina not-for-profit corporation of which the Kenan-Flagler Business School Foundation, Inc. (Business Foundation) is the sole member and serves as General Partner for the funds. The Board of Governors approved similar requests to establish Private Equity Fund II, L.P. (in 2010), Real Estate Fund II, L.P. (in 2011), Real Estate Fund III, L.P. (in 2014), and KFBSF Private Equity Fund III, L.P. (in 2014) without tax-exempt status. These student investment funds are all part of an educational program of the Business School and each fund is about \$2.5 million to \$3.5 million in size.

The Limited Partner investors are by invitation only, generally have a relationship with the School, and must meet certain eligibility requirements. In addition to the General Partner, profits are distributed to the Limited Partners. There are 31 Limited Partners in Real Estate Fund I, 39 Limited Partners in Real Estate Fund II, and 51 Limited Partners in Real Estate Fund III. Any funds to the General Partner in excess of expenses are transferred to the Business Foundation.

The General Partner is organized and operated to support the Business School and its educational programs. It is managed under the direction of its Board of Directors, which consists of six directors, four of whom are employees of the University assigned to the Business School and two of whom are elected by the Board of Directors of the Business Foundation. The General Partner is also an "Associated Entity" under Board of Governors' rules and has adopted conflict of interest, document retention, and whistleblower policies in accordance with the rules and on behalf of these investment funds.

Kenan-Flagler and UNC-Chapel Hill now request authority to establish a seventh student investment fund -- KFBSF Real Estate Fund IV, L.P. – because KFBSF Real Estate Fund III, L.P. is almost fully invested. If future students are to participate in this educational program, additional funds will need to be raised and an additional real estate fund established. Section 600.2.5[R] (specifically Section C.2.) of the UNC Policy Manual requires that associated entities have nonprofit corporate and tax-exempt status unless the Board of Governors approves otherwise.

The primary objective of these limited partnership funds is to give selected students hands-on experience in operating private investment funds. To our knowledge, all of the KFBSF Real Estate Funds are the only student-managed real estate private equity funds in the U.S. These students work with faculty and friends of Kenan-Flagler to identify and evaluate investment opportunities and to make investment recommendations to the General Partner. Students participate, without pay, as part of an investment management course for academic credit. After an investment is made by the partnerships, the students monitor the investment. Through the identification, evaluation and monitoring process, students gain insights into the operation and management of private investment funds and their portfolio companies as well as establish personal and professional relationships with investment managers. A secondary objective is to provide investment returns to the partners who are the investors.

It is recommended that the Board of Governors approve the establishment of KFBSF Real Estate Fund IV, L.P. as a UNC-Chapel Hill associated entity and an educational program at the Kenan-Flagler School of Business without obtaining nonprofit tax-exempt status.