

November 3, 2003

Members of the Board of Governors:

Contingent upon the approval of the Committee on Budget and Finance at its meeting at 2:30 p.m. on Thursday, November 13, attached are the recommendations the Committee will present to the Board at its meeting on November 14.

A handwritten signature in black ink, appearing to read "Phillips", with a large, stylized initial "P" and a horizontal line extending from the end.

Jim W. Phillips, Jr., Chairman  
Committee on Budget and Finance

Attachments

COMMITTEE ON BUDGET AND FINANCE  
Board Room 1  
General Administration Building  
Chapel Hill, North Carolina  
Thursday, November 13, 2003, 2:30 p.m.

AGENDA

Minutes of the meeting of October 10, 2003

Annual Report of the Committee on Budget and Finance: July 1, 2002 through June 30, 2003

1. UNC Management Flexibility Legislation, Summary of Institutional Annual Reports, 2002-03
2. Management Flexibility – Increase in Purchasing Benchmarks for East Carolina University, North Carolina State University, the University of North Carolina at Chapel Hill, and the University of North Carolina at Pembroke
3. Transfer of 2000 Bond Funds – Elizabeth City State University
4. Authorization to Implement Debt Service Fees – The University of North Carolina at Charlotte and Western Carolina University
5. Sale of Special Obligation Bonds – The University of North Carolina at Chapel Hill
6. Authorization to Enter Into a Swap Agreement – North Carolina State University
7. Lease of Housing Space – The University of North Carolina at Pembroke

DISCUSSION

1. NCCU Progress Report on Mold (no attachment)
2. UNC Bond Program Progress Report (attachment)

Minutes of the October 10, 2003 Meeting  
of the Board of Governors' Committee on Budget and Finance

The Committee on Budget and Finance met in the Broyhill Ballroom of the Broyhill Inn and Conference Center at Appalachian State University in Boone, North Carolina, on Friday, October 10, 2003, at 9:00 a.m.

Members in attendance were: Mr. F. Edward Broadwell, Jr., Mr. William L. Burns, Jr. (via telephone), Mr. Ray S. Farris, Ms. Hannah D. Gage, Mr. Peter D. Hans, Governor James E. Holshouser, Jr., and Mr. Jim W. Phillips, Jr. Necessarily absent were Mr. R. Steve Bowden and Mr. Benjamin S. Ruffin. Other Board of Governors' members attending the meeting were G. Irvin Aldridge, James G. Babb, John F.A.V. Cecil, Jonathan L. Ducote, Dudley E. Flood, Peter Keber, Adelaide Daniels Key, G. Leroy Lail, Charles S. Norwood, Cary C. Owen, Estelle Sanders, Priscilla P. Taylor, and Robert F. Warwick. Others attending the meeting were President Molly Corbett Broad, Vice Presidents Gretchen Bataille, Jeffrey R. Davies, J.B. Milliken, Robyn R. Render, and Leslie Winner; Associate Vice Presidents Ginger B. Jones, Robert O. Nelson, James O. Smith, and Joni B. Worthington, Interim Chancellor William E. Shelton (East Carolina University), Chancellor Mickey L. Burnim (Elizabeth City State University), Chancellor T.J. Bryan (Fayetteville State University), Chancellor James H. Ammons, Jr. (North Carolina Central University), Chancellor Marye Anne Fox (North Carolina State University), Chancellor James H. Mullen, Jr. (The University of North Carolina at Asheville), Chancellor James C. Moeser (The University of North Carolina at Chapel Hill), Chancellor James H. Woodward (The University of North Carolina at Charlotte), and Chancellor Patricia A. Sullivan (The University of North Carolina at Greensboro); Dr. Jeff Passe, Chairman of the Faculty Assembly; Mr. George Briggs, Director of the North Carolina Arboretum; and members of the press were in attendance. Ms. Rosalind Fuse-Hall, Executive Assistant to the Chancellor (NCCU), Mr. Charles O'Duor, Chief Finance Officer (NCCU) and Mr. Tim Brown, Director of Capital Projects (NCCU) were also in attendance.

Chairman Phillips called the meeting to order. The minutes of the meetings of September 11 and 12, 2003 were approved.

1. During the 2003 legislative session, a special provision in Section 9.1 of House Bill 397 required that each Chancellor report to the Board of Governors on the reductions made to the General Fund budget codes in order to meet the reduction reserve amounts for his/her institution. The Board of Governors must then make a summary report to the Office of State Budget and Management and the Fiscal Research Division by December 31, 2003 on all the reductions made to reach the targeted amounts.

The Chancellors of the sixteen campuses, the Executive Director of the North Carolina School of Science and Mathematics, and UNC Healthcare had reported their reductions to the Board of Governors and the report had been prepared and distributed.

When considering the report on budget reductions, Chairman Phillips called upon Chancellor Sullivan and Chancellor Mullen to discuss the detailed impact of reductions on their respective campuses.

It was recommended that the Board of Governors approve the 2003-04 Budget Reductions Report and that it be transmitted to the Office of State Budget and Management and the Fiscal Research Division by December 31, 2003.

On the motion of Mr. Farris, seconded by Ms. Gage, the recommendation was approved.

2. The Board of Trustees of the University of North Carolina at Pembroke had requested approval to charge a \$70 debt service fee effective with the fall semester 2003.

At the request of the Board, the 2002 Session of the General Assembly approved a project for the expansion of the University Center on the UNCP campus. The project was estimated to cost \$3,000,000 and was to be financed from a new student fee of \$70 per year. The project would provide for the addition of a 500-seat dining facility, meeting space, offices, and storage space to the existing University Center that was built in 1985 and was unable to accommodate the rapid growth on the campus in recent years. The financing plan for the project included the student fee that the University now proposed.

It was recommended that the request of the Board of Trustees be approved.

On the motion of Ms. Gage, seconded by Governor Holshouser, the recommendation was approved.

3. The 2000 session of the General Assembly authorized the Board of Governors to designate "Millennial Campuses" at each constituent institution when the Board found that such a designation would "enhance the economic development of the region served by the constituent institution." The legislation stated that the Board should act on the recommendation of the President after the President had consulted with the Chancellor and the Board of Trustees. The designation should be based on the express finding that the institution "has the administrative and fiscal capacity to create and maintain such a campus." Each Millennial Campus would function in a manner similar to the Centennial Campus at North Carolina State University and each would be exempt from the provisions of the Umstead Act.

The Boards of Trustees of North Carolina A&T State University and The University of North Carolina at Greensboro had requested that the Board of Governors designate the land (formerly the Central School for the Deaf) reallocated to the Board of Governors by the 2003 Session of the General Assembly and a 75 acre parcel of land currently comprising a portion of the NCA&T State University Farm as a Joint Millennial Campus. The Millennial Campus would be developed to enhance the research, teaching and service missions of both campuses by relying on their respective strengths in the physical and life sciences, food nutrition, engineering technology and applied sciences. The President had completed the required consultations and recommended that the Board approve the request. The campuses had the administrative and fiscal capacity that was required and the activities to be performed on the Joint Millennial Campus would advance regional economic development.

It was recommended that the land reallocated to the Board of Governors and the 75-acre parcel at North Carolina A&T State University be designated as a Joint Millennial Campus.

On the motion of Ms. Gage, seconded by Governor Holshouser, the recommendation was approved.

4. The Board of Trustees of North Carolina A&T State University had requested approval of the lease of five acres of state land to the NCA&T Foundation for the purpose of constructing student housing. The University had experienced strong enrollment growth in recent years and required additional residence hall capacity. The Foundation would contract with a construction firm to build a 400-bed residence facility. The land was located adjacent to land leased to the Foundation for the construction of Aggie Suites, an 804-bed residence hall facility built in 1999.

The \$1 a year lease would be for a term of 30 years. Upon the expiration of the lease, the land and any improvements upon the land would revert to the State. The lease of land would be accomplished within the guidelines, procedures, and policies of the North Carolina Department of Administration and must be approved by the Council of State. Construction documents would be reviewed by the State Construction Office and the Department of Insurance.

It was recommended that the request of the Board of Trustees of North Carolina A&T State University be approved and transmitted to the Council of State for final action.

On the motion of Governor Holshouser, seconded by Mr. Broadwell, the recommendation was approved.

Chairman Phillips then led a series of discussions. He first called upon Vice President Davies and Chancellor T.J. Bryan for a report on the status of the financial systems at Fayetteville State University. Mr. Davies reported that the University had been released from its ninety-day count and would retain its budget flexibility; however, in light of the fact that the financial statements had been prepared by individuals who were not permanent employees, the President's Office had determined the need to provide continued support to the campus until permanent employees were hired and sufficiently trained. Chancellor Bryan indicated that she welcomed this assistance and further indicated that her recommendation for a permanent Chief Financial Officer would be considered by the Board later in the morning.

Chairman Phillips called upon Chancellor Ammons to provide the Committee with an update on the mold-related problems at North Carolina Central University. The Chancellor indicated that he had received a final report from Clark-Nexsen recommending actions to be taken in nine buildings in addition to the previous recommendations for the two New Residence Halls. The cost of mold-remediation and related activities now totaled in excess of \$27 million, including replacement of 100% of the steam lines on campus, costs of housing students off campus and transporting them to and from the off-campus housing. Chairman Phillips indicated that he believed the Committee to be supportive of seeking the required funding from the General Assembly.

The Committee then discussed parameters that would be considered reasonable to provide campuses as they considered forthcoming campus-initiated tuition proposals for the next two years. In summary, the Committee thought that proposals not in excess of \$300 per year with revenues used to fund faculty salaries, staff salaries, student financial aid, library activities, and student services would be received favorably. Any proposals in excess of \$300 would be reviewed critically by the Committee.

The President then discussed the effects of the post Sarbanes-Oxley act environment on the University environment, focusing on the role of internal auditors.

On the motion of Chairman Phillips, seconded by Ms. Gage, the Committee went into closed session, on the advice of counsel, to instruct the staff concerning the negotiation of the price and terms of contracts concerning the acquisitions of real property and to consult with legal counsel on potential litigation.

#### CLOSED SESSION

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The Committee returned to open session.

There being no further business, the meeting was adjourned.

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Mr. Jim W. Phillips, Jr.  
Chairman of the Committee  
on Budget and Finance

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Mr. F. Edward Broadwell, Jr.  
Secretary of the Committee  
on Budget and Finance

**ANNUAL REPORT  
OF THE COMMITTEE ON BUDGET AND FINANCE TO THE  
BOARD OF GOVERNORS OF THE UNIVERSITY OF NORTH CAROLINA  
July 1, 2002 through June 30, 2003**

**EXECUTIVE SUMMARY**

The Committee on Budget and Finance met 13 times between July 1, 2002, and June 30, 2003. The Committee functions as a standing committee that recommends the following to the Board of Governors: requests for funds for consideration by the Governor and the General Assembly, allocations of funds made available by the General Assembly, and actions with respect to capital improvements projects, institutional borrowings, property transactions, and other budgetary and financial matters within the jurisdiction of the Board of Governors.

*BUDGETS AND ALLOCATIONS, TUITION AND FEES*

The Committee considers campus requests for tuition and fee increases and makes recommendations for those increases to the Board. In December 2002, the Committee recommended that there be *no tuition increases* for the 2003-04 academic year. This recommendation resulted from discussions regarding significant recent tuition increases and a continuing weak economic climate in the State. In February 2003, the Committee authorized fees effective with the fall term 2003.

During the year, the General Assembly appropriated \$41,003,567 for Current Operations; \$2,249,105 for Related Educational Programs; and \$115,000 for the North Carolina School of Science and Mathematics for inflationary increases in the operating budget. Reductions of \$73,591,393 in the University's operating budgets were included in the Senate Bill 1115. In addition, the General Assembly directed that \$15,228,000 for the Board's Need-Based Financial Aid Program previously provided from State appropriations, as well as \$4,407,000 in new funding, be financed by transfers from the Escheat Fund. The Committee allocated all of the funds made available by the General Assembly.

Included in Senate Bill 1115 was a special provision that required the Board of Governors to submit a report on budget reduction decisions made by the Chancellors. This report was reviewed and approved by the Committee and forwarded to the Fiscal Research Division of the General Assembly.

In November, the Committee recommended approval of the *2003-05 Budget Request of the Board of Governors*.

*CAPITAL IMPROVEMENTS*

In 2000, North Carolina voters approved a bond issue to provide \$2.5 billion in State support for the first six years of a ten-year capital plan. The Committee worked during the year to provide appropriate oversight for the bond program. Progress reports were received each month.

The Committee recommended 35 capital improvements projects (or project supplements) at nine institutions totaling \$427,757,100, as well as supplemental funding of \$62,955,360 required for projects partially financed from the Higher Education Bonds.

The Committee recommended that North Carolina State University proceed with the construction of an Executive Conference Center/Hotel and Golf Course. The project was forwarded to the North Carolina General Assembly's Joint Legislative Commission on Governmental Operations for consultation as required by G.S. 66-58 (h).

#### *INSTITUTIONAL BORROWINGS*

One of the principal responsibilities of the Committee is to recommend the issuance of bonds to finance nonappropriated capital improvements projects. During the year, the Committee recommended the issuance of bonds totaling in excess of \$323,568,500 for either financing new projects or refunding outstanding bonds when interest rate savings could be achieved.

The Committee recommended approval of a variable-rate demand bond pooled loan program for 2003. The amount of the bonds issued would not exceed \$70 million.

#### *PROPERTY*

The Committee is responsible for reviewing requests by Boards of Trustees for the acquisition of property, either by purchase, lease, or exchange. Recommendations made by the Committee during the year included the following: five leases of property at four institutions; four outleases of property; purchase of 22 parcels of property by five institutions; a ground lease with air rights in Carter Finley Stadium; and several dispositions by ground lease, easement, or demolition; as well as equal value exchanges of property.

In 2001, the Office of the President was delegated authority to execute leases valued up to \$150,000 and contracts to acquire real property valued up to \$250,000. Actions taken under the delegated authority were to be reported at the next scheduled meeting. Twelve leases of property at four institutions, and eleven acquisitions of real property at five institutions, were expedited using the delegated authority.

#### *OTHER ACTIONS*

The Committee recommended approval of the University Hall property at Appalachian State University for designation as a Millennial Campus.

The UNC Association of Student Governments' Policy was adopted by the Board on July 12, 2002. The policy outlined the functions of the Association of Student Governments and its relationship to the UNC Board of Governors and the Office of the President.

The Summary of Institutional Annual Reports was recommended for approval.

A report for the fiscal year ending June 30, 2002 on the amount and uses of facilities and administrative receipts was transmitted to the Joint Legislative Education Oversight Committee, as directed by a special provision enacted by the 2001 General Assembly.

A report on activities undertaken under exemptions to the Umstead Act for the Centennial Campus of NCSU, the Horace Williams Campus (Carolina North) of the UNC-Chapel Hill, and any millennial campus of a constituent institution was also transmitted to the Joint Legislative Commission on Governmental Operations as directed by the 2002 General Assembly. In addition to NCSU and UNC-Chapel Hill, Appalachian State University and UNC-Charlotte were subject to the report.



**ANNUAL REPORT  
OF THE COMMITTEE ON BUDGET AND FINANCE TO THE  
BOARD OF GOVERNORS OF THE UNIVERSITY OF NORTH CAROLINA  
July 1, 2002 through June 30, 2003**

The Committee on Budget and Finance met 13 times between July 1, 2002, and June 30, 2003.

The Committee was composed of the following Board members: Mr. J. Addison Bell, Mr. Bert Collins, Governor James E. Holshouser, Jr., Mr. Jim W. Phillips, Jr., Mrs. Gladys Ashe Robinson, Dr. Priscilla P. Taylor, and Mr. Robert F. Warwick. In September, the following members joined the Committee: Mr. C. Clifford Cameron, Ms. Hannah D. Gage, and Senator Teena S. Little; Mrs. Gladys Ashe Robinson and Mr. Robert F. Warwick rotated off the Committee. At the September meeting, the Committee elected Mr. Bell as Chairman, Mr. Collins as Vice-Chairman, and Mr. Phillips as Secretary. In February 2003, Mr. Ray S. Farris was appointed to the Committee.

The Committee functions are: to advise and consult with the Chairman and the President concerning budget policy and preparation; to consider the budget proposed by the President, to recommend modifications to the budget if needed, and to approve the budget for consideration by the Board; to make recommendations to the Board for allocations of funds appropriated by the General Assembly; to work with the Committee on Educational Planning, Policies, and Programs to ensure the proper funding of long-range objectives; and to submit recommendations to the Board with respect to capital improvements projects, institutional borrowings, property transactions, and 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 rates and fees.

### *Tuition*

In July, 2002, it was recommended that the Board allow UNC-Chapel Hill to delay a portion of the campus-initiated tuition increases previously approved for students in the MBA and MAC programs. At a meeting on June 20th, the Special Committee reviewing Tuition and Fee Policies had received a report from Dean Robert Sullivan of the Kenan-Flagler School of Business regarding the cumulative effects of increases in both campus-initiated tuition increases and Board-initiated tuition increases and the need for tuition rates to be established at levels that allowed the School to remain competitive with its peer institutions, particularly in regard to non-resident students. The Board-initiated tuition increases were not known when UNC-CH had sent forth recommendations for campus-initiated tuition increases at the School of Business. The Chancellor had now requested that a portion of the approved campus-initiated increases for MBA and MAC students be delayed until market conditions improved. For the 2002-03 year, the MBA nonresident tuition rate would increase by \$500 (rather than \$2,000) and the MAC nonresident tuition rate would increase by \$100 (rather than \$1,300). The nonresident tuition rates for the programs would be \$26,749 and \$19,466, respectively. For the 2002-03 year, the MBA resident tuition rate would increase by \$1,000 (rather than \$2,000) and the MAC resident tuition rate would increase by \$500 (rather than \$1,300). The resident tuition rates for the programs would be \$11,794 and \$8,041, respectively.

On December 5, 2002, the Committee met to discuss tuition for the 2003-04 academic year. The Committee agreed to recommend to the Board of Governors that there be no tuition increases for the 2003-04 academic year. The following draft resolution was recommended for Board approval at the January 2003 meeting.

RESOLUTION IN SUPPORT OF NO INCREASE IN UNC TUITION  
FOR THE 2003-04 ACADEMIC YEAR

Whereas, the Board of Governors is responsible for establishing tuition rates at the constituent institutions of the University of North Carolina, not inconsistent with actions of the General Assembly; and

Whereas, over the course of the past three years, the Board has authorized across-the-board and campus-initiated tuition increases that have averaged 62 percent University-wide for the three-year period; and

Whereas, the economic climate within North Carolina has resulted in rising levels of unemployment and financial hardship for many citizens of the state; and

Whereas, students within the University and their families have borne a greater share of the cost of a UNC education through tuition increases implemented during the past three years.

Now, therefore, be it resolved that the Board of Governors of the University of North Carolina declares its intention to maintain tuition rates at current or previously approved levels for the 2003-04 academic year.

### *Fees*

In February, the Committee approved a *Resolution Authorizing Fees* effective fall term 2003. The fee recommendations for 2003-04 had been developed in accordance with the policies and procedures adopted by the Board of Governors in May, 1993 as a result of the study and report of the Special Committee on Student Fees.

In July, the Committee approved an increase of \$10 in the debt service fee charged at the University of North Carolina at Chapel Hill as part of its method of financing improvements that were made in food service facilities on campus. The fee increased from \$40 to \$50 per year, effective with the fall semester, 2002.

In November, a debt service fee of \$95 per year, effective with the spring semester of 2003 was approved for Fayetteville State University. The fee would provide funds to repay bonds issued for athletic facilities improvements (\$2,766,550) previously approved by the Board of Governors and the General Assembly.

Two debt service fees, effective with the spring semester of 2003, were recommended for the University of North Carolina at Wilmington. A fee of \$20 per year would support the expansion of Westside Hall (\$3,000,000) for use as a student health center. A fee of \$115 per year would provide the revenue to finance a \$16 million expansion of the Student Union. Additionally, the Student Union expansion fee was approved to increase by \$120 in the fall semester.

#### *Allocations of Appropriations*

In October, following the conclusion of the legislative session, the Committee recommended allocations of new appropriations for the 2002-03 fiscal year. In response to the Board's expansion requests in the Schedule of Priorities for Current Operations, the General Assembly provided \$41,003,567: \$26,837,034 for enrollment changes (\$66,803,142 in appropriations less \$39,966,108 in additional tuition receipts); \$13,666,533 for focused-growth Institutions; and \$500,000 for K-16 Initiatives. In addition, the General Assembly appropriated \$2,249,105 for expansions and improvements for Related Educational Programs and \$115,000 to the North Carolina School of Science and Mathematics for inflationary increases in the operating budget. Reductions of \$73,591,393 in the University's operating budgets were included in the Senate Bill 1115. In addition, the General Assembly directed that \$15,228,000 for the Board's Need-Based Financial Aid Program previously provided from State appropriations, as well as \$4,407,000 in new funding, be financed by transfers from the Escheat Fund.

At the same October meeting, it was recommended that \$71,125 be allocated to the North

Carolina School of Science and Mathematics to provide for salary increases. The 2002 Session of the General Assembly provided funds for increasing salaries for public school teachers by an average of 1.84%. Teachers at the School were eligible to receive these funds. The Board of Trustees of the NCSSM had the specific authority to establish policies and procedures for salary increases for teaching employees at the School. The North Carolina General Assembly did not provide salary increase funds in response to the Board of Governors request for salary increases for faculty and EPA non-faculty on behalf of the constituent institutions.

A special provision in Section 9.7 of Senate Bill 1115 required that the Board of Governors report to the Fiscal Research Division of the General Assembly by November 30, 2002 on the institutional decisions made to effect the budget reductions. Due to the length of the 2002 legislative session, the Chancellors did not have sufficient time to determine all budget reductions in time for a report to be prepared and presented at the November Board meeting. At its November meeting, the Board of Governors delegated authority to the Committee on Budget and Finance to approve the budget reduction report on behalf of the Board in order to meet the required deadline. On November 26, the Committee met and approved the report.

### *Budget Request*

In November, the Committee recommended approval of the *2003-05 Budget Request of the Board of Governors*. One of the principal responsibilities of the Board of Governors is to make the University's needs for funding known to the Governor and the General Assembly. On a biennial basis, the budget request document is prepared. The *2003-05 Budget Request of the Board of Governors* identified the funding needed to carry out the Board's six strategic priorities.

### *Other Budget Actions*

In January, it was recommended that the Board suspend its policy (for the 2002-03 fiscal year) which requires a budget adjustment for institutions that exceed the 18% limit on freshmen nonresident students two years in a row. Elizabeth City State University had exceeded the limit for two years; the current year had an over-enrollment of six nonresident freshmen students. The University was already dealing with serious operating challenges as a result of budget reductions; ECSU had already absorbed a 2.88% budget reduction and was meeting an additional 2% reversion target because of the State's uncertain revenue condition. The budget reduction required by the Board's policy on out-of-state freshmen would have further exacerbated this hardship.

In May, the Committee requested a delegation of authority from the Board of Governors to allocate any funds appropriated for expansions and improvements by the General Assembly for the 2003-04 fiscal year, including reductions in budgets. The Board of Governors was not scheduled to meet during the months of June and July, 2003, and the date for passage of the 2003-05 State Budget was uncertain but anticipated before the August meeting of the Board. It was further requested that the Committee be delegated the authority to allocate any funds made available for repairs and renovations in accordance with the Board's allocation formula. A full report of delegated actions was to be provided to the Board.

## **CAPITAL IMPROVEMENTS**

### *Higher Education Bond Program*

At each of its meetings, the Committee received a progress report on the UNC bond program. Throughout the year it was reported that the bond program continued to provide opportunities for the construction industry during difficult economic times. The Committee reports included the status of contractual commitments; numbers and dollar amounts of projects in design, under construction or completed; and regular updates on progress made in expanding opportunities for Historically Underutilized Businesses. Because of the rapid rate of progress in implementing the bond program, the State Treasurer issued bonds in February of 2003, rather than as scheduled in March, to ensure that sufficient funds would be available to keep the program on track.

In March, reallocations of bond funds were recommended for Elizabeth City State University and North Carolina Central University. The items were subsequently transmitted to the General Assembly for final action. Elizabeth City State University had requested that the Doles Residence Hall renovation project be cancelled and the funds be reallocated to make infrastructure improvements as outlined in the campus facilities master plan which converted the central core of campus to a pedestrian-only area and relocated roads and parking to the campus perimeter. North Carolina Central University, with increasing enrollment growth, had reevaluated the capacity of campus food services. In lieu of renovating Pearson Cafeteria, a reallocation of bond program funds was requested to expand Pearson Cafeteria.

### *Emergency Projects*

During the year the Committee reviewed the following capital projects that were approved by the Chancellors and reported to the President and the Board under emergency procedures as allowed by G.S. 143-129. In each case, the State Building Commission was also notified.

At the University of North Carolina at Wilmington, an emergency project was expedited in Hanover Hall when a preliminary building assessment revealed systemic structural corrosion problems posing a threat to life safety, the result of the failure of a shower floor. The University had contracted directly with a structural engineering firm to investigate the extent of repairs, design the corrective action, and secure a construction contractor to perform the work.

At North Carolina Central University, an emergency project for repairs in Chidley Hall was required when an inspection by a representative from the State Fire Marshall's office subsequent to a fire in mid-April revealed life safety egress issues. A design firm was selected to design the remediation. The construction would be bid. A portion of the 2000 Higher Education Bond funds earmarked for code compliance corrections would be used to fund the repairs.

At East Carolina University, emergency procedures were invoked to provide for replacement of a failed chiller providing cooling to the Brody School of Medicine. In order to have the chiller back in service before the next cooling season, an immediate replacement was ordered and design services secured. The project, estimated to cost \$350,000, was to be financed from Renovation and Repair funds.

### *Identification of Sustainable Design Projects*

The Committee recommended for approval the following list of construction and renovation projects for a pilot study using the Triangle J. Council of Governments High Performance Guidelines that supported sustainable design practices. House Bill 1272 passed



during the 2001 session of the North Carolina General Assembly required the Board of Governors to designate projects for this purpose.

Appalachian State University - Student Recreational Complex (new construction)  
East Carolina University – College Hill Housing Expansion  
North Carolina A&T University - Harrison Auditorium (renovation)  
North Carolina Arboretum - Operations Center (new construction)  
North Carolina State University - Jordan Hall Addition (new construction)  
North Carolina State University - Leazar Hall (renovation)  
University of North Carolina at Asheville - Science Building (new construction)  
University of North Carolina at Asheville - Physical Plant Building (new construction)  
University of North Carolina at Chapel Hill - Global Education Center (new construction)  
University of North Carolina at Chapel Hill - Morrison and Hinton James Buildings (renovation)

*Nonappropriated Projects Authorized by the General Assembly*

In October, the Committee reviewed 34 nonappropriated projects authorized by the General Assembly totaling \$410,183,650. Thirty-three of the projects had been approved by the Board in May 2002; the General Assembly had added a project for a student recreation center at Western Carolina University totaling \$11,500,000.

In March, the Committee recommended that the Board approve 35 capital improvements projects (or project supplements) at nine institutions totaling \$427,757,100, as well as approve supplemental funding of \$62,955,360 required for projects partially financed from the Higher Education Bonds. The projects were forwarded to the General Assembly for authorization during the 2003 Session and are listed below.

<b>Appalachian State University</b>	
Student Athletic Facilities Improvements	\$35,800,000
400-Space Parking Deck	5,000,000
<b>East Carolina University</b>	
College Hill Residence Halls, Phase I	35,000,000
Renovation of Clement, Greene, and White Residence Halls	4,950,000
<b>North Carolina A&amp;T State University</b>	
Renovation of the Memorial Student Union	2,700,000

<b>North Carolina Central University</b>	
500-Space Parking Deck	\$ 5,000,000
<b>North Carolina State University</b>	
Renovation of Berry, Becton, and Bagwell Residence Halls	10,000,000
E.S. King Village (Student Family Housing) Improvements	2,000,000
Student Fitness Center	12,000,000
Partners V Building	18,000,000
Renovations to Thompson Theatre, Talley and Witherspoon Student Centers, and Price Music Center	6,000,000
Derr Track/Soccer/Softball Complex	1,000,000
Renovations to Reynolds Coliseum	5,000,000
<b>The University of North Carolina at Chapel Hill</b>	
Rizzo Center Expansion	18,000,000
McColl Building Addition	18,000,000
Botanical Garden Visitor Education Center	6,000,000
Ackland Art Museum Expansion	16,000,000
Information Technology and Printing Services Facilities	15,800,000
YMCA Renovation	3,500,000
Student Family Housing	30,000,000
Cobb Residence Hall Renovation	9,884,000
Parking Facilities	19,200,000
Major Infrastructure Improvements and Waste Remediation	52,000,000
<b>The University of North Carolina at Charlotte</b>	
Student Facilities/Bookstore/Dining	39,700,000
Baseball Stadium Improvements	3,000,000
<b>The University of North Carolina at Greensboro</b>	
Student Exercise Track	1,000,000
Ragsdale/Mendenhall and Weil/Winfield Residence Halls Renovations	3,300,000
Elliot University Center Improvements	1,500,000
Gove Health Center	8,500,000
Softball Field	3,000,000
<b>Western Carolina University</b>	
New Student Residence Hall	13,161,000
Residence Hall Renovation, Phase I	10,264,700
Parking Deck, 500 Spaces	6,250,000
Dodson Cafeteria Renovations	4,927,400
Softball Field and Stadium	2,320,000

The following list of projects required supplements to Higher Education Bond funds.

Before issuing special obligation bonds for these projects, the General Assembly requires a final project review.

Institution	Project	Total Project Cost	Non-bond Funding	Source of Debt Repayment
UNC-CH	Burnett-Womack Building	\$32,243,000	\$ 7,395,000	Gifts
UNC-CH	Beard Hall Renovations	5,894,000	2,394,000	Gifts
UNC-CH	Science Complex, Phase I	81,904,000	8,854,000	F&A Receipts
UNC-CH	Manning Steam Plant	23,180,360	13,212,360	Utilities Trust Fund Receipts
UNC-CH	Global and International Studies Facility	25,000,000	5,000,000	Gifts
UNC-CH	Cogeneration-Turbine Improvements	26,625,000	24,000,000	Utilities Trust Fund Receipts
UNCP	Auxiliary Services Building	5,696,000	1,500,000	Bookstore Receipts
UNCP	Improvements to Recreational, Athletic, and P.E. Facilities	8,843,700	600,000	Student Debt Service Fee of \$14

*Authorizations of Capital Improvements Projects Not Requiring Action by the General Assembly*

During the year, the Committee recommended that the Board approve the following capital improvements projects to be funded principally from non-appropriated funds.

**Appalachian State University**

Turf Replacement at Kidd-Brewer Stadium \$1,200,000

**East Carolina University**

Upgrade two elevators to meet code requirements in the nine-story Green Residence Hall 502,161  
 Replace roofs on Belk, Fletcher, and Umstead Halls 391,400  
 Replace exterior windows and doors to improve energy efficiency and interior doors with fire-rated doors for safety in Cotton Residence Hall 651,900  
 Expand the electrical distribution system to support the addition of window-mounted air conditioning units on three floors of Jones Residence Hall 403,500  
 Renovations to the Garrett Hall lobby and adjacent spaces 436,000  
 Renovation of the information and ticketing areas of the main lobby in the Mendenhall Student Center 235,900  
 Replace the student room doors on floors two through four of Jones Residence Hall 224,300  
 1,000 parking spaces to replace parking that had been eliminated from the main campus as a result of the construction of several projects 324,100  
 Renovations to Aycock Residence Hall 456,100  
 Elevator Improvements in Fletcher Residence Hall 478,600  
 Consolidate, pave, light, and provide camera security for three gravel parking lots at Fourth and Reade Streets 432,000

**North Carolina State University**

Renovation of approximately 19,000 square feet of space in the Graphics Building 1,950,000  
 Installation of a Linear Accelerator Vault, College of Veterinary Medicine 650,000  
 Installation of a Nanostepper, Engineering Graduate Research Center 300,000  
 Renovation of the Basement and Second Floor, Patterson Hall 276,000

<b>The University of North Carolina at Greensboro</b>	
Recreational Field Building	\$ 300,000
<b>The University of North Carolina at Wilmington</b>	
Structural repairs to the foundation of Hanover Hall	500,000
Repairs and renovations to Wagoner Hall dining facility, the University Union and the Warwick Center, Burney Bookstore, and 22 residence halls	1,000,000
<b>Western Carolina University</b>	
Fire safety improvements to Reynolds and Buchanan residence halls.	657,200

Capital improvements actions initiated throughout the year by the President pursuant to Board delegation are reported below. The following actions were taken:

<b>Appalachian State University</b>	
Improvements to Student Residence Facilities (project increase)	\$ 3,417,000
<b>East Carolina University</b>	
Tyler Residence Hall Roof Replacement	107,600
<b>Fayetteville State University</b>	
Comprehensive Renovation and Conversion of Spaulding (Old Infirmary) for Public Safety Facilities (project increase)	443,200
Cook Dining Hall – Comprehensive Renovation and Conversion of Building for Academic Use and Student Services (project increase)	228,907
Infrastructure Enhancements (project increase)	299,000
Master Plan (project increase)	98,500
Installation of Fire Alarms (project increase)	298,907
Exterior Repairs to Academic and Administrative Facilities (project increase)	167,000
Improvements for Energy Efficiency (project increase)	298,000
1998 Repairs and Renovation (project increase)	250,000
<b>North Carolina School of the Arts</b>	
Student Activity Center (project increase)	1,500,000
General Site Improvements (project increase)	40,000
<b>North Carolina State University</b>	
Broughton Hall Renovation (project increase)	125,000
Rocky Branch Bank Stabilization (project increase)	1,713,609
<b>The University of North Carolina at Asheville</b>	
North Carolina Center for Creative Retirement (project increase)	102,000
Improvements to Owen Hall (project increase)	45,554
<b>The University of North Carolina at Chapel Hill</b>	
Airport Drive Office Building, AA (project increase)	1,894,800
Addition to Carrington Hall, HA (project increase)	2,077,900
Memorial Hall Additional Renovations A/P, AA (project increase)	5,000,000
Hanes Hall – Renovate 2 <sup>nd</sup> Floor, AA (project increase)	290,000
Frank Porter Graham Child Development Center – New Building, AA (project increase)	400,000
IOG-Knapp Building Additions/Renovations, AA (project increase)	2,822,500
Americans with Disabilities Act Improvements, AA (project increase)	520,000
1999 Repairs and Renovations, HA (project increase)	275,000

<b>The University of North Carolina at Pembroke</b>	
1999 Repairs and Renovation (project increase)	\$ 345,975
Regional Center for Economic, Professional and Community Development (project increase)	2,355,800
Jones Physical Education Complex – Comprehensive Renovation (project increase)	600,000
<b>Western Carolina University</b>	
2000 Repairs and Renovation (project increase)	705,000
WNC Regional Labor Force Development Center (project increase)	1,725,489
Highlands Biological Station Residence Hall (project increase)	128,234
<b>Total</b>	<b>28,274,975</b>

In April, 2001, the Board of Governors delegated to the President the authority to approve capital improvements projects estimated to cost less than \$250,000. 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 that the projects warranted further discussion at the next Committee meeting. Listed below are projects approved under this delegation.

<b>East Carolina University</b>	
Todd Dining HVAC Upgrades	\$ 125,700
<b>North Carolina State University</b>	
Broughton Hall Mechanical Engineering Student Commons and Seminar Room Renovation	135,000
<b>Western Carolina University</b>	
Electrical Distribution Improvements	250,000

#### *Other Capital Improvements Actions*

In November, the Committee recommended that the Board approve the request of North Carolina State University to proceed with the construction of an Executive Conference Center/Hotel and Golf Course. The project was forwarded to the North Carolina General Assembly's Joint Legislative Commission on Governmental Operations for consultation as required by G.S. 66-58 (h).

The following Resolution was also recommended for adoption:

**RESOLUTION SUPPORTING THE CONSTRUCTION AND OPERATION OF AN  
EXECUTIVE CONFERENCE CENTER/HOTEL AND GOLF COURSE ON THE  
CENTENNIAL CAMPUS OF NORTH CAROLINA STATE UNIVERSITY**

WHEREAS, North Carolina State University is among the top-ranked universities in the country in terms of its partnerships with industry and government; and

WHEREAS, under the guidance and leadership of the Board of Trustees and administration of North Carolina State University, the Centennial Campus has experienced tremendous growth and is an international success story; and

WHEREAS, North Carolina State University's Centennial Campus is home to over 60 corporate and government partner organizations working with university programs and provides over 1,500 jobs to tax-paying citizens of North Carolina; and

WHEREAS, the Centennial Campus Executive Conference Center/Hotel and Golf Course has been planned to carry out the North Carolina State University's mission; and

WHEREAS, the proposed Executive Conference Center/Hotel and Golf Course on the Centennial Campus of North Carolina State University is a capstone component of the Campus's Master Plan and has been since the mid-1980s; and

WHEREAS, the Board of Trustees of North Carolina State University, after careful study and consideration of both the project's risks and rewards, is proceeding with a plan to use the NC State University Partnership Corporation, organized for the purpose of supporting the University, to form a Limited Liability Corporation to construct, own, and hire a management company to operate the conference facility; and

WHEREAS, North Carolina State University has exercised due diligence and has carefully researched and evaluated the feasibility of this project, and, during this effort, sought, received, and followed the advice of expert consultants and financial advisors, including PFK, HVS International, Lehman Brothers and others; and

WHEREAS, North Carolina State University will not seek State funding to support the construction or operation of the facility; and

WHEREAS, the Board of Trustees of North Carolina State University at Raleigh has been delegated the general oversight and supervision of the University and, after studying the project carefully, has unanimously voted in support of the Centennial Campus Executive Conference Center/Hotel and Golf Course under the following conditions:

- That the project proceed in a manner consistent with the recommendations of the HVS International report, and
- That the opening be delayed until at least the first quarter of 2005, and
- That value engineering recommendations and corresponding cost reductions be implemented, and
- That the University pursue gifts, sponsorship and naming opportunities to generate revenue in support of the project, and
- That the financial projections that demonstrate project feasibility be regularly reevaluated and that significant economic events be examined carefully to determine the effects of the events on the project, and
- That a professional management firm be hired from the private sector to operate the facility, and

- That no State appropriations, no tuition payments, no restricted funds and no special facilities revenues be used to support the project; and

WHEREAS, the Board of Governors has previously approved a resolution authorizing North Carolina State University to purchase room nights and conference space in the hotel/conference center if needed to meet annual debt service coverage requirements as required by bond covenants; and

WHEREAS, the Board of Governors has previously authorized North Carolina State University to lease land on the Centennial Campus to the NC State Conference Center LLC, for the purpose of constructing and operating the facility; and

WHEREAS, the Executive Conference Center/Hotel and Golf Course project is estimated to cost \$70.8 million, of which \$66.5 million will be from the issuance of taxable bonds.

NOW, THEREFORE, BE IT RESOLVED that the Board of Governors authorizes North Carolina State University to proceed with securing the necessary reviews and approvals for the construction and operation of the Centennial Campus Executive Conference Center/Hotel and Golf Course as recommended by the Board of Trustees of North Carolina State University;

AND, BE IT FURTHER RESOLVED that North Carolina State University will provide, within five years from the initial date of borrowing, \$12 million from gifts, grants, and project savings, and receipts available to the University, including receipts from the Centennial Campus Trust Fund to reduce outstanding debt of the Limited Liability Corporation to a balance not to exceed \$54.5 million; and

BE IT FURTHER RESOLVED that the Chancellor will report semi-annually to the President on the project's progress and financial status, including progress made in reducing the outstanding indebtedness to \$54.5 million.

At its February 2003 meeting, the Committee recommended approval of UNC-Pembroke's request to enter into a lease with the UNCP Foundation for the construction of a residence hall. The Higher Education Bond program had provided funds for a residence hall on the UNCP campus and the Board of Trustees requested that the necessary steps be taken to repurpose those funds for the construction of a general classroom building on campus. Final approval would be required by the Council of State (approval of the lease) and the General Assembly (approval of the change in bond funds).

In March, it was recommended that the firm of Stanford-White Associates of Raleigh, North Carolina be chosen for design services for the Bryan Center Fire Safety System Upgrade at The University of North Carolina Center for Public Television at a project cost of \$100,000. The General Manager of the Center had solicited for design services in accordance with State Building Commission and University guidelines.

## INSTITUTIONAL BORROWINGS

The Committee continued the process of delegating the issuance of revenue bonds to the Vice President for Finance so that bonds could be issued when market conditions were optimal rather than on days when the Board met. On June 8, 2001, the Board delegated to the Office of the President authorization to approve interim financing and other bank loans when the funds were to be used for capital improvements projects previously authorized by the Board. During the year, the Committee recommended for approval the following institutional borrowings.

### **Appalachian State University**

Construction of a New Student Recreation Center and Improvements to Existing Student Recreation Facilities	\$ 25,711,500
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### **East Carolina University**

West End Dining Hall (includes a central chiller plant to serve this facility, in addition to five residence halls; demolition of several small parking lots to create a student plaza for access to the new dining hall and adjacent residence halls)	15,857,000
Refund the 1994 Athletic Facilities Revenue Bonds	5,500,000

### **North Carolina State University**

Student Housing, Upgrade of Baseball and Tennis Facilities, University Apartments for Student Housing	77,000,000
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### **The University of North Carolina at Asheville**

Refinancing New Residence Hall	11,500,000
Defease certain of the 1993 series of Dormitory and Dining System Revenue Bonds to take advantage of lower interest rates and to modify the financial covenants for the benefit of the University	8,000,000

### **The University of North Carolina at Wilmington**

Renovation of Three Buildings and the Construction of a New Student Center Building	30,000,000
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### **UNC Hospitals at Chapel Hill**

Defease Revenue Bonds, Series 1996	150,000,000
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In October, nine institutions (Appalachian State University, Elizabeth City State University, Fayetteville State University, the University of North Carolina at Charlotte, the University of North Carolina at Greensboro, the University of North Carolina at Pembroke, the University of North Carolina at Wilmington, Western Carolina University, and Winston-Salem State University) asked to be included in a third pooled issue to finance 17 projects previously



approved by the Board of Governors. Included in this issuance was the repayment of bank loans and bonds currently outstanding at higher interest rates. The size of the bond issue was \$63,175,000. The bonds would be outstanding for up to 25 years, with the average loan being for a period of 18 years. The Committee recommended approval of the authorizing resolution and requested that the Vice President for Finance be authorized to sell the bonds between the October 2002 and January 2003 meetings of the Board of Governors and to execute loans to campuses for projects previously approved by the Board. Bonds were sold on October 15, 2002.

## **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.

On June 8, 2001, the Board delegated authority to the President to execute leases with annual costs up to \$150,000 and property acquisitions for up to \$250,000. Actions under delegated authority are reported to the Committee at its next meeting.

### *Acquisitions and Dispositions of Property by Lease*

As requested by Boards of Trustees, the Committee recommended the approval of the following leases of property: East Carolina University (one lease), Elizabeth City State University (one lease), The University of North Carolina at Chapel Hill (two leases), and The University of North Carolina at Pembroke (one lease).

The following leases were reported to the Committee on Budget and Finance as approved by the Office of the President under delegated authority: East Carolina University (two leases),

North Carolina State University (two leases), The University of North Carolina at Chapel Hill (six leases), and the UNC Center for Public Television (two leases).

The following out-leases of space were reported to the Committee on Budget and Finance as approved by the Office of the President under delegated authority: For North Carolina State University, an out-lease of 4,012 square feet of office space in the Partners I Building to the USDA/APHIS (Federal Government); an out-lease of 3,750 square feet of space in the College of Veterinary Medicine to the IAMS Pet Imaging, LLC (Proctor and Gamble); an out-lease of 78,335 square feet of residence space for seven fraternities and one sorority; 13,568 square feet of residence space for two sororities; and a 39-bed residence hall to the ETA KAPPA House Corporation. For the UNC Center for Public Television, an out-lease of tower space on the 1,100 foot tower at Delco, North Carolina to Raycom America, Inc. of Montgomery, Alabama, and land to contract a transmitter building serving the Raycom equipment.

The Committee recommended approval of a ground lease with air rights to provide a 104,000 square-foot area within Carter-Finley Stadium to the NCSU Student Aid Association, Inc. for the construction of a facility to replace the existing press box constructed in 1966. The new facility was proposed to be a three-level structure that would include areas for the media, fifty suites, and the addition of approximately 900 club seats. The area to be leased was along and above the west concourse of Carter-Finley Stadium. The term of the lease was 20 years (the time required to repay the debt borrowed by the Association) and the estimated value of construction improvements was \$30 million. The improvements would revert to North Carolina State University at the termination of the ground lease.

The Committee recommended a disposition of property by ground lease on the site of the Baity House, north of Mason Farm Road, in Chapel Hill. The lease to the University of North Carolina at Chapel Hill Foundation would include approximately 23 acres of land on which the Foundation would construct 306 apartment-style units to house students and their families. The

lease would expire upon completion of the construction. Upon lease expiration, the improvements would revert to the University as a gift-in-place. Contingent upon approval of the non-appropriated capital improvements project bill by the General Assembly, the University would also accept responsibility for any indebtedness incurred to finance the project.

The Committee recommended approval of the disposition of property by ground lease on the south shore of Lake Raleigh on the Centennial Campus. The lease to the North Carolina State University Alumni Association would include approximately six acres of land on which the Alumni Association would construct a 60,000 square foot new facility. The lease would expire upon completion of the construction, but no later than the end of 2004. Upon lease expiration, the improvements would revert to the University as a gift-in-place. Along with the lease, the Alumni Association would pay the University \$962,000 over four years as an infrastructure assessment. The infrastructure assessment would be used for the continuing development of maintenance of Centennial Campus infrastructure. Under the lease, the Alumni Association would retain an option for seven years to lease an additional 1.1 acres for the construction of an addition to the proposed facility totaling 14,000 square feet. Upon exercise of the option, the Association would pay an additional infrastructure assessment of \$359,700 (adjusted for CPI escalation at the time of execution). This portion of the lease would have similar reversion provisions upon completion of the improvements.

#### *Other Acquisitions and Dispositions of Property*

The Committee recommended property acquisitions for East Carolina University (fourteen parcels), North Carolina A&T State University (two vacant parcels acquired by condemnation), North Carolina State University (two parcels), The University of North Carolina at Chapel Hill (three parcels), and The University of North Carolina at Wilmington (one parcel).

The following acquisitions of property were reported to the Committee on Budget and Finance as approved under delegated authority by the President: East Carolina University (four parcels), North Carolina School of the Arts (three parcels), North Carolina State University (one parcel), The University of North Carolina at Wilmington (one parcel), and Western Carolina University (two parcels).

Also approved under the delegated authority and reported to the Committee on Budget and Finance was an equal value exchange of property between Appalachian State University and a public citizen to acquire land more suitable for playing fields.

The Committee recommended an exchange of property between the State of North Carolina and the Endowment Fund of North Carolina State University. The equal value exchange of 9.8 acres between these two entities would provide for the development of the Centennial Campus consistent with the master land-use plan. The State would receive acreage in areas of the Centennial Campus that were to be developed into academic buildings, utility corridors, and open space. The Endowment Fund would receive acreage in areas that were proposed for development of office and laboratories for governmental and corporate partners.

The Committee also recommended the equal value exchange of 0.8 acres of land between the North Carolina Department of Transportation's Division of Highway Patrol, and North Carolina State University. The land received by North Carolina State University was adjacent to university property on William Moore Drive and would provide an expanded building site at the College of Veterinary Medicine Centennial Biomedical Campus. The acreage to be received by the Division of Highway Patrol adjoined the existing Highway Patrol property on the north side with frontage on Blue Ridge Road.

A term special use permit was approved by the President under delegated authority and reported to the Committee on Budget and Finance between the North Carolina Arboretum and

the U.S. Department of Agriculture, Forest Service, to provide for continued use and development of lands currently occupied by the North Carolina Arboretum.

In February, the Committee recommended approval of the disposition of a parcel located in Chapel Hill. The property was located at the corner of Senlac and Boundary Streets, the southeast corner of the parcel occupied by Brooks Hall which housed the UNC Press. It was a parcel of approximately one-half acre with an access easement traversing it to an adjacent property owned by Elizabeth Price Kenan. The property was to be sold at no less than its fair market value with the proceeds going to the general fund of the state. The University would concurrently retain an option to purchase the entire parcel along Senlac Road when Mrs. Kenan or her heirs elected to sell or otherwise convey the property outside her immediate family.

Throughout the year, the Committee recommended approval for several demolitions of properties as follows.

Appalachian State University: Demolition of three campus buildings that did not meet current fire and other life safety standards and were classified as “substandard” facilities by the Office of State Construction. Whitener Hall, a three-story, 72,855 square-foot classroom building, was constructed in 1954. The Broome-Kirk Gymnasium, a three-story, 86,553 square-foot building, was constructed in 1955. The third demolition, the oldest part of the Rankin Science Hall complex, was a three-story, 49,140 square-foot building constructed in 1960.

East Carolina University: Demolition of two masonry structures totaling 6,214 square feet. These buildings were located at 219 and 221 Cotanche Street adjacent to the old *Daily Reflector* building. The *Daily Reflector* building had recently been renovated to serve as the campus information technology facility. Demolition of these structures would provide space for a parking area to serve this facility.

Elizabeth City State University: Demolition of the campus bookstore which was located on the site of the new 200-bed residence hall, a project funded from the 2000 higher education bond issue. The bookstore function currently housed in the 5,228 square-foot, one-story brick building would be relocated to the new student center also to be built with bond funds. This was consistent with the university's master plan. During the interim period, the bookstore would be housed in trailer facilities.

North Carolina School of the Arts: Demolition of a 1,289 square foot, single-family dwelling located at 1700 Chapel Street and owned by the university as was the University's plans for the parcel at the time of purchase.

North Carolina State University: Demolition of a brick and frame dwelling adjacent to the main entrance of the Centennial Campus at Varsity Drive and Avent Ferry Road to allow for expansion of the Centennial Campus; demolition of the Public Safety Building, formerly the Riddick Stadium Field House to facilitate the extension of the pedestrian tunnel that goes under the campus railroad tracks and to clear the area for future improvements consistent with the campus master plan; demolition of Riddick Stadium west stands to allow for the construction of the north campus chiller plant and clear the area for future academic development; and demolition of Riddick Engineering Lab Annex "A" and Annex "B" to accommodate the renovation of the Riddick Engineering Lab Building.

The University of North Carolina at Greensboro: Demolition of Park Gymnasium, a 17,051 square-foot facility constructed in 1962, and had been used as swing space and temporary office space. The master plan called for this site to be the home of the new Humanities Hall and Research Building, a project funded in the 2000 Higher Education Bonds, as a replacement structure for the McIver Building.

Winston-Salem State University: Demolition of Colson Hall, a five-story, 21,607 square-foot building constructed in 1921, and demolition of the Alumni Building, a three-story, 12,516 square-foot building constructed in 1918. The two buildings were steel-frame, masonry structures that had been vacant for several years due to unsafe conditions and extreme deterioration. They were identified for demolition on the State Construction Office Facilities Condition Assessment Program and the 1999 Capital Adequacy and Equity Study.

Two additional actions were reported to the Committee as approved by President under delegated authority. The first was for an easement of land for UNC-Chapel Hill from the town of Chapel Hill for a right-of-way on Airport Road required for the construction of the administration building. The second was a disposition of property by for the UNC Center for Public Television.

## OTHER ACTIONS

Other actions taken by the Committee throughout the year were as follows.

In August 2002, the Committee on Budget and Finance recommended approval of the University Hall property at Appalachian State University for designation as a Millennial Campus. President Broad had completed the required consultations and had recommended that the Board approve the request. The campus had the administrative and fiscal capacity that was required and the activities to be performed on the Millennial Campus would advance regional economic development. The proposed area, 2.3 acres of land located approximately one mile from the main campus, currently owned by the University now housed the Appalachian Regional Development Institute, the Appalachian Cultural Museum, the Center for Appalachian Studies and the Division of Continuing Education, and the Office of Conferences and Institutes.

The Policy on the UNC Association of Student Governments was adopted by the Board on July 12, 2002. The policy outlined the functions of the Association as the organization to represent the interests of students and its relationship to the University of North Carolina Board of Governors and the Office of the President. In September, 2002, the Committee recommended that the policy be amended to reflect that any employees of the UNCASG should be clerical in nature. In May, 2003, the Committee recommended an amendment which stated that the UNCASG was the organization recognized by the Board to represent the interests of students.

In November, as required by the statute authorizing UNC Management Flexibility, the *Summary of Institutional Annual Reports, 2001-02* was recommended for approval and subsequently forwarded to the General Assembly's Joint Legislative Education Oversight Committee.

Also at the November meeting, Mr. Mark Yusko, Chief Investment Officer of The University of North Carolina at Chapel Hill, presented information to the Committee regarding his efforts to enhance the returns on investment for the UNC-Chapel Hill campus and to offer an

opportunity for other campuses to invest their funds along with those of Chapel Hill with the potential to realize a greater return on investment. At the end of the presentation, the Committee authorized the Vice President for Finance to participate with the Chapel Hill entity by investing funds belonging to the Office of the President.

Legislation enacted by the 2001 General Assembly (S.L. 2001-424) included a special provision directing the Board of Governors to report on the amount and uses of facilities and administrative receipts. In response to this legislation, the report was prepared for the fiscal year ending June 30, 2002. The Committee recommended approval of the report and it was transmitted to the Joint Legislative Education Oversight Committee.

In February, the Committee recommended that the findings of the Office of the President regarding exemptions to the Umstead Act be accepted and reported to the Joint Legislative Commission on Governmental Operations. The 2002 North Carolina General Assembly instructed the Board of Governors to report to the Joint Legislative Commission on Governmental Operations prior to March 1, 2003 on activities undertaken under exemptions to the Umstead Act, which were set out in G.S. 66-58(b) (8), for the Centennial Campus of North Carolina State University, the Horace Williams Campus (Carolina North) of the University of North Carolina at Chapel Hill, and any millennial campus of a constituent institution. In addition to North Carolina State and UNC-Chapel Hill, Appalachian State University and the University of North Carolina at Charlotte were subject to this report.



UNC Management Flexibility Legislation, Summary of Institutional Annual Reports, 2002-03

The UNC Management Flexibility legislation directs the Board of Governors to report annually by March 31 of each year to the General Assembly's Joint Legislative Education Oversight Committee on operating results. In this regard, the *Operating Instructions for Special Responsibility Constituent Institutions* adopted by the Board require each designated institution to submit an annual report. In its 1999 Legislative Session, the General Assembly enacted legislation that extended management flexibility to the University of North Carolina General Administration on a basis comparable to that authorized for the special responsibility constituent institutions; it extended management flexibility to the North Carolina School of Science and Mathematics in the 2001 Legislative Session. All institutions have complied with the reporting requirement for the 2002-03 fiscal year and the reports have been summarized into the *Summary of Institutional Annual Reports* attached. Copies of the individual campus reports are available upon request.

On August 11, 2000, the Board took action to require increased accountability over the expenditure of lapsed salary funds. The accountability is partially fulfilled through additions to the annual report that deal with lapsed salary expenditures and a list of positions held vacant for nine months or more. Highlights of 2002-03 results are shown in the Executive Summary.

It is recommended that the attached *Summary of Institutional Annual Reports, 2002-03*, be approved and forwarded to the General Assembly's Joint Legislative Education Oversight Committee.

**Report to the  
2004 North Carolina General Assembly  
Joint Legislative Education Oversight Committee**

**The University of North Carolina  
Summary of Institutional Annual Reports  
Special Responsibility Constituent Institutions  
UNC General Administration  
North Carolina School of Science & Mathematics  
2002-03**

**The Board of Governors of  
The University of North Carolina**

**November 14, 2003**

## Executive Summary

- The UNC Management Flexibility legislation directs the Board of Governors to report annually by March 31 of each year to the General Assembly's Joint Legislative Education Oversight Committee on operating results. Section I of this document summarizes the results of operating during the 2002-03 fiscal year under the UNC Management Flexibility Legislation, as reported by the 16 Chancellors of the Special Responsibility Constituent Institutions (SRCI).
- In its 1998 session, the General Assembly enacted legislation (S.L. 1998-212, section 11(b)) which stated that for fiscal years beginning with 1999-2000, no reversions to the State's General Fund are required. However, due to the state's fiscal condition, the UNC constituent institutions were required to contribute \$79.7 million (5.05% of their state appropriations) during 2002-03 to offset the budget shortfall. No funds were allowed to be carried forward into the 2003-04 fiscal year.
- One-time reallocations of \$127.3 million from lapsed salary funds and \$37.3 million from other sources and recurring reallocations of \$30.7 million were made to carry out management initiatives on the campuses. These amounts represent 5.54%, 1.62%, and 1.33% respectively of the authorized budget requirements of the institutions at the end of the fiscal year. University-wide, major emphases continue to be placed on strengthening undergraduate instruction and improving graduation rates, graduate instruction and research, enhancing physical facilities and their operations, upgrading infrastructure and expanding computing and telecommunications capabilities.
- 309 teaching (of approximately 10,000 total) and 284 non-teaching positions were reported as being vacant for nine months or more during fiscal year 2002-03.
- During the 2002-03 fiscal year, 6,824 purchases totaling \$204.7 million were made on the campuses between the old benchmark of \$10,000 and the increased benchmarks, which ranged from \$35,000 to \$250,000. Without the special legislation, these purchases would have required processing through the central Division of Purchase and Contract in the Department of Administration.
- In response to the requirement for more stringent monitoring of internal/financial controls and management staffing, each of the institutions provided a compliance certification letter, signed by the Chancellor, certifying that his/her institution complied in the areas outlined by the guidelines. The compliance certifications demonstrate the commitment to strong institutional management, accountability over resources, and internal control structures.
- Management Flexibility legislation has enabled the Chancellors to take ownership of their budgets to an extent not previously possible and manage their resources more efficiently and thereby better utilize the taxpayers' dollars.

- The General Assembly, in the 1999 Regular Session, extended management flexibility to the University of North Carolina General Administration on a basis comparable to that authorized for the special responsibility constituent institutions. This report documents the General Administration's use of flexibility provisions in Section II.
- In its 2001 Regular Session, the General Assembly extended management flexibility to the North Carolina School of Science and Mathematics, on a basis comparable to that authorized for the special responsibility constituent institutions. This report documents NCSSM's use of flexibility provisions in Section III.

**The University of North Carolina**  
**Summary of Annual Reports**  
**Section I – Special Responsibility Constituent Institutions**  
**Designated Under the UNC Management Flexibility Legislation**  
**2002-03**

The Regular Session of the 1991 General Assembly enacted the UNC Management Flexibility legislation (G.S. 116-30) which granted significant additional authority in the areas of budgeting, personnel administration, and purchasing to those institutions designated as “Special Responsibility Constituent Institutions.” The Board of Governors, acting on the recommendation made by the President after consultation with the State Auditor, was authorized to designate one or more institutions as Special Responsibility Constituent Institutions. In this regard, the Board of Governors adopted Selection Criteria and Operating Instructions for Special Responsibility Constituent Institutions on September 13, 1991; these criteria have been updated to reflect changes as needed. Between October of 1991 and September of 1993, the Board of Governors designated all 16 constituent institutions as “special responsibility constituent institutions.”

The UNC Management Flexibility Legislation directs the Board of Governors to report annually by March 31 of each year to the General Assembly's Joint Legislative Education Oversight Committee on operating results. This document summarizes the results reported by the 16 Chancellors of the Special Responsibility Constituent Institutions that operated under the UNC Fiscal Management Flexibility Legislation during the 2002-03 fiscal year. Although each report necessarily described the results that were applicable to the particular institution, observations can be made which reflect common or similar experiences for several or all institutions.

**Impact on Education.** The Management Flexibility legislation directs the Board of Governors to develop standard measures of student learning and development in general undergraduate education in order to assess the impact of the legislation on these areas at the designated institutions. These measures have been developed and the impact of management

flexibility is included as a part of the assessment measures reports, which are separately made to the Joint Legislative Education Oversight Committee.

**Reversions.** In accordance with legislation enacted in 1998 [S.L. 1998-212, section 11(b)], for fiscal years beginning with 1999-2000, no reversions to the State's General Fund are required. However, during 1999-2000, UNC institutions were required to contribute to offset Hurricane Floyd damages (\$13.7 million) and to reallocate \$1.3 million in previously required reversions to initiatives funded in the expansion priorities. In fiscal year 2000-01, the UNC constituent institutions were required to contribute \$32 million (1.91% of their State appropriations) to offset the budget shortfall. In fiscal year 2001-02, UNC constituent institutions were required to contribute \$144.1 million (9.06% of State appropriations). The State's continuing dire fiscal condition required that Chancellors revert substantial appropriations to the General Fund. In 2002-03, \$79.7 million (5.05%) was reverted by UNC institutions to the General Fund. No funds were allowed to be carried forward into the 2003-04 fiscal year.

**Fiscal Savings.** As already indicated, a total of \$79.7 million was reverted as required to the State's General Fund. These funds constitute University savings that were used by the State to address the State's economic crisis. If these funds had not been required to revert to the State, UNC institutions would have had these funds available to address additional needs such as to provide additional support to academic departments and libraries, fund information technology improvements, supplement faculty recruitment activities, and make much-needed repairs and renovations to facilities. These lost opportunities decrease the effectiveness of management flexibility on the campuses.

At the programmatic level, the institutional reports identified a number of operating efficiencies and related effective uses of financial resources that resulted in savings during the 2002-03 fiscal year. While there are inherent limitations in quantifying these savings in dollar terms, specific examples reported by the institutions provide evidence that budget flexibility continues to give the institutions greater ability to operate more efficiently and thereby save taxpayers' dollars.

Appalachian State University was able to use management flexibility to bulk purchase 81 desktop computers, at a savings of \$15,000. North Carolina Agricultural and Technical State University was able to save \$495,000 by employing temporary workers in some areas and outsourcing other work which would have previously be done through the hiring of permanent staff or overtime payments. Similarly, UNC-Chapel Hill - Academic Affairs units saved \$989,623 by the employment of temporary employees, students, contract employees and dual employment, which enabled the campus to provide the necessary service without creating permanent positions. In addition, Western Carolina University was able to take advantage of several savings opportunities through critical timing and bulk purchases that were a direct result of management flexibility. WCU saved \$800,000 in the purchase of equipment for the Work Force Development Center, as well as \$187,194 in bulk purchases of computers for classrooms, labs, and offices. Large-scale purchasing also saved Winston Salem State University approximately \$18,595 in the purchase of systems and equipment necessary for its remote access project.

**Management Initiatives.** During 2002-03, campuses reallocated \$164.6 million on a one-time basis and \$30.7 million on a permanent basis to carry out management initiatives. The degree of emphasis placed on specific initiatives reflects individual institutional needs and decisions. University-wide, major emphases were placed on strengthening undergraduate instruction and improving graduation rates, graduate instruction and research, upgrading classrooms and labs through repair and renovations as well as equipment purchases, enhancing physical facilities and their operations, strengthening infrastructure, and expanding computing and telecommunications capabilities. On a permanent basis, there was an increased focus on strengthening undergraduate instruction and graduation rates, graduate instruction and research and improving infrastructure. Accommodating recent budget cuts has added a significant challenge to budget administration.

It is evident that major initiatives on all campuses have been undertaken to improve institutional budget and personnel administration. The trend continues toward developing an increased level of participation by the chancellors, vice chancellors and other managers in budget

planning and execution. This involvement has permitted a number of expenditure decisions to be made at the program level in the organization, often by the department or school. Since flexibility allows the expenditure of unspent salary funds from vacant positions (lapsed salaries) to be used for non-personnel purposes, detailed expenditure plans have been more comprehensive than previously possible. Flexibility has also permitted management to focus decisions on program priorities instead of budget categories. In general, release from the rigid time frame of the fiscal year gives the campuses an opportunity for multi-year budget planning; however, the State's poor economic situation eliminated the ability to carry forward balances from 2002-03 to 2003-04.

Significant reallocations continue to support the acquisition of computing equipment, including initiatives dedicated to providing wireless connectivity in classrooms and common areas for students. This investment reflects the joint commitment of the campuses, the Board of Governors and the General Assembly to provide enabling technology for higher education in North Carolina.

Fourteen of the sixteen UNC constituent institutions have agreed to collaborate on moving to new, more efficient, administrative computer systems to better support the academic, research, and public service missions of the campuses. This collaboration makes possible more favorable pricing, and facilitates sharing between campuses as they prepare to implement the systems. Reallocations for 2002-03 reflect related planning and equipment acquisitions at several of the UNC institutions.

Management flexibility has enabled the constituent institutions to respond to unforeseen circumstances, including the need to meet mandatory reversion requirements related to the current financial condition of the State of North Carolina. Furthermore, the availability of management flexibility has been crucial as the campuses experience these mandatory reversions simultaneously with continued budget reductions. The campuses, through flexibility, have been able to provide critically important operating funds for academic departments, equipment for classrooms and laboratories, and temporary and part-time workers to continue basic campus operations in the face of budget reductions and required reversions. This is also evident in the



fact that many campuses have been forced to rely on management flexibility to reallocate funds to meet the need to supplement their under-funded utilities budgets. In recent years, some campuses have found that their rapid growth along with utilities rate increases have outpaced allowable inflationary increases in the University's continuation budget. Likewise, absent inflationary increases in line items for library collections purchases, but faced with increasing costs of acquisitions, many campuses have used flexibility to prioritize funds for the maintenance and upgrading of their library collections.

Management flexibility has also been vitally important to successful implementation of the 2000 Higher Education Bonds. Due to the campuses' ability to reallocate funding to meet priorities, it has been possible to fund staffing, equipment, and supplies for the new buildings that are constantly coming online. Furthermore, since the campuses have had no meaningful state funding for repairs and renovations since 2001, many campuses reallocated funds from lapsed salaries to fund necessary repairs and minor renovations.

**Increased Efficiency and Effectiveness Achieved.** Although closely related to the sections on fiscal savings, management initiatives, and reallocation of resources, certain summary conclusions may be drawn from the institutional reports on the achievement of increased efficiency and effectiveness.

Major efficiencies are principally attributable to the provision that all General Fund appropriations for continuing operations are made to the designated institutions in the form of a lump sum to each budget code, giving the institutions the ability to use funds budgeted for salaries of vacant positions for non-personnel expenditures. Prior to flexibility authorization, unexpended salary funds were not available for such uses. Institutions used lapsed salary funds to update and replace obsolete educational, scientific, and computing equipment; to repair and renovate teaching and laboratory facilities; and to make other one-time improvements in instruction and support functions. Emphasis continues to be placed on providing the infrastructure to support increased levels of instruction offered at a distance, consistent with the Board's initiative to expand access to educational opportunities to a greater number of North Carolina's citizens. In addition, campuses are investing in attracting and retaining quality

employees in a tight labor market through appropriate adjustments to hiring rates, reclassifications and through providing increased training opportunities.

Flexibility also has provided the opportunity for institutions to reallocate resources in response to changing institutional priorities, as well as to respond to unforeseen opportunities or challenges. Such opportunities are evidenced at the campuses, as mentioned in the section on fiscal savings, where flexibility allowed timely purchases through agreements with vendors or making purchases in bulk which results in savings. This ability also proved critical to the institutions during 2002-03, as they were required to revert more than \$79 million to the State, and will continue to be an important option if the State's economy remains weakened.

The management flexibility given to the designated institutions in purchasing administration has contributed to significant improvements. Prior to the Management Flexibility legislation, institutional purchases of \$10,000 or more required processing through the central Division of Purchase and Contract in the Department of Administration. Under flexibility, the threshold amount was increased to a maximum of \$250,000. Due to the previous success of the purchasing flexibility, the 2003 General Assembly approved an additional increase of this cap to \$500,000.

During 2002-03, 6,824 purchases totaling \$204.7 million were made on the campuses between the old benchmark of \$10,000 and the increased benchmarks. This represents a 42% increase (based on number of purchase orders) over the 2001-02 fiscal year. In addition, the time required to process purchase orders has been significantly decreased.

Under budget flexibility, institutions have the authority to create and abolish positions to realign budgets to meet managerial needs. Although personnel budgets may be realigned under budget flexibility, institutions continue to adhere to separate rules and regulations regarding personnel actions. For SPA employees, institutions are subject to applicable rules and regulations promulgated by the Office of State Personnel and operate under Performance Agreements negotiated with that Office that allow campuses to make decisions independent of OSP. EPA employees are subject to policies set by the Board of Governors. The General Assembly has now provided the Board with the ability to delegate personnel responsibilities to

the campuses and seven campuses have applied for and received the ability to act independently of the Board of Governors in certain personnel areas.

**Documentation of Reallocation of Resources.** Each institution was required to include in its 2002-03 annual report all net budget transfers that were authorized by the Chancellor and which previously required the approval of the Office of State Budget and Management. These reallocations, made to implement the management initiatives undertaken by each campus, distinguished between one-time transfers of lapsed salaries, one-time transfers from other sources, and permanent transfers.

*One-Time Reallocations* – For the 2002-03 fiscal year, one-time reallocations from lapsed salary funds totaled \$127.3 million, which represented 5.54% of the authorized budget requirements of the institutions at June 30, 2003. Of these funds, \$85,285,707 (67%) were generated from lapsed teaching salaries, while \$42,021,372 (33%) were from lapsed salaries from non-teaching positions. One-time reallocations from other sources totaled \$37.3 million, which represented 1.62% of the authorized budget requirements of the institutions at June 30, 2003.

*Permanent Reallocations* – In addition to the one-time budget reallocations, a lesser number of permanent reallocations were made during the year. Many of these involved increases in personnel budgets. Implementation of all personnel actions under management flexibility is subject to the availability of funds within the institution's currently authorized budget to fund the full annualized costs of the actions taken.

During the 2002-03 fiscal year, permanent reallocations totaled \$30.7 million, which represented 1.33% of the authorized budget requirements of the institutions at June 30, 2003. Of these permanent reallocations, 516 positions were established and 490 positions were abolished for a University-wide net increase of 26 positions.

**Vacant Positions.** A total of 593 positions, University-wide, were vacant for nine months or more during fiscal year 2002-03. Of these, 309 were teaching and 284 non-teaching positions.

The largest number of vacant positions were those held open to meet anticipated budget reductions (169) and temporary operating needs (152); keeping these positions open enabled the campuses to meet the large (5.05%) reversion requirement for fiscal year 2002-03. A significant number of positions (127) involved recruitment problems. Other explanations for extended vacancy periods include a delayed search process (49), reorganizations/reclassifications (84) and pending/recent new management in the area (12).

**Availability and Use of Appropriations Carried Forward.** The Management Flexibility legislation provides that the appropriations carried forward of up to 2.5% “may be used for one-time expenditures that will not impose additional financial obligations on the State.” However, due to the State’s fiscal condition, the \$79.7 million remaining on June 30, 2003 was required to return to the State’s General Fund as reversions.

**Internal Financial Controls and Management Staffing.** The Second Extra Session 1996 amended the Management Flexibility legislation directing the Board of Governors to establish more stringent rules for monitoring and resolving audit exceptions and for reviewing and monitoring staffing and internal control procedures. These directives focused on a continuing assessment of the competence of the institutions to carry out the additional authority granted in the areas of budgeting, personnel administration, and purchasing.

Each of the special responsibility constituent institutions provided a compliance certification letter, signed by the Chancellor, certifying that their institution complied in the areas outlined by the instructions. The compliance certifications demonstrated the Chancellors’ commitment to strong institutional management, accountability over resources, and internal control structures. No instances of non-compliance were reported.

**Additional Costs Incurred.** The institutions reported that no significant additional costs were incurred as a result of management flexibility.

**The University of North Carolina  
Summary of Annual Reports  
Section II – UNC General Administration  
Designated Under the UNC Management Flexibility Legislation  
2002-03**

The General Assembly, in its 1999 Regular Session, extended management flexibility to the University of North Carolina General Administration [G.S. 116-14, section b1-b2 and G.S. 116.30.3(e)]. The results of the UNC General Administration's use of management flexibility for the fiscal year 2002-03 are included in this report.

The UNC General Administration reports fiscal savings through the use of temporary employees to perform critical duties while permanent positions were vacant and through outsourcing selected information technology services.

Management initiatives undertaken by UNC General Administration emphasized expanding computing, telecommunication and information resources; improving administrative services infrastructure; and strengthening such targeted program areas as the Math Science Education Network, the NC Center for Nursing's Institute for Nursing Excellence, the North Carolina Center for School Leadership Development, the North Carolina Education Research Council, the North Carolina Progress Board, North Carolina Principal's Executive Program, and the North Carolina Teacher Academy. Funds were also reallocated for UNC-TV to cover the increased cost from the Department of Insurance, to establish and revise agency departmental records retention schedules in UNC Office of the President, and to fund a Disaster Preparedness Study. Total one-time reallocations of \$1,618,484 included \$958,122 of transfers from lapsed salary funds. Permanent reallocations of \$205,298 were made during fiscal year 2002-03.

During 2002-03, UNC General Administration established three positions and abolished five positions, for a net decrease of two positions. Two EPA non-teaching positions were reported as being vacant for nine months or more during 2002-03. These vacancies were held vacant in anticipation of budget reductions.

The UNC General Administration reported no instances of non-compliance with required rules, regulations and guidelines.

**The University of North Carolina**  
**Summary of Annual Reports**  
**Section III – North Carolina School of Science and Mathematics**  
**Designated Under the UNC Management Flexibility Legislation**  
**2002-03**

The General Assembly, in its 2001 Regular Session, extended management flexibility to the North Carolina School of Science and Mathematics [G.S. 116-30.2(b)]. The results of the School's use of management flexibility for the fiscal year 2002-03 are included in this report.

Management initiatives undertaken by North Carolina School of Science and Mathematics emphasized enhancing recruitment, addressing safety concerns on campus, strengthening instruction, enhancing physical facilities and their operations, and strengthening student support services.

During 2002-03, 19 purchases totaling \$302,312 were made by NCSSM between the benchmarks of \$10,000 and \$35,000.

Total one-time reallocations of \$175,091 were entirely funded through lapsed salaries. Permanent reallocations of \$66,672 were made during 2002-03, all of which were used to support personnel-related expenditures.

During 2002-03, the North Carolina School of Science and Mathematics established two positions and abolished one position. No positions were reported as being vacant for nine months or more.

The North Carolina School of Science and Mathematics reported no additional costs due to management flexibility. The North Carolina School of Science and Mathematics reported no instances of non-compliance with required rules, regulations and guidelines.

Management Flexibility – Increase in Purchasing Benchmarks for East Carolina University, North Carolina State University, the University of North Carolina at Chapel Hill, and the University of North Carolina at Pembroke

As a result of action by the General Assembly in 2003, the Board of Governors approved a change in the guidelines for Special Responsibility Constituent Institutions (SRCI) authorizing purchasing benchmarks for each SRCI at levels up to \$500,000 as set by the Board. Essentially, each institution may secure goods and services for amounts not exceeding the established benchmark using institutional procedures rather than routing bids through the Division of Purchase and Contract in Raleigh.

East Carolina University, North Carolina State University, and the University of North Carolina at Chapel Hill have conducted a self-assessment of purchasing capabilities and, as a result of their assessments, request an increase in their respective benchmarks to \$500,000 from \$250,000. The University of North Carolina at Pembroke has also conducted a self-assessment of purchasing capabilities and requests an increase in its benchmark to \$150,000 from \$35,000. In accordance with the Board's guidelines, the Vice President for Finance has consulted with the Director of Purchase and Contract and the Director of the Budget to determine an appropriate benchmark for each of these institutions.

It is recommended that the purchasing benchmark for East Carolina University, North Carolina State University, and the University of North Carolina at Chapel Hill be set at \$500,000 for each campus, effective December 1, 2003. It is further recommended that the purchasing benchmark for the University of North Carolina at Pembroke be set at \$150,000, also effective December 1, 2003.

Transfer of 2000 Bond Funds – Elizabeth City State University

The Board of Trustees of Elizabeth City State University has requested the authority to use 2000 Higher Education Bond Funds to plan a new capital improvements project that would provide a facility to support students in the ECSU/UNC-CH Joint Pharmacy Program. The request is pursuant to the 2003 Session of the General Assembly's authorization in S.L. 2003-284 (2003 Budget Act) of the transfer of bond funds for the purpose of planning the facility for the Joint Pharmacy Program, with the approval of the Board of Governors of The University of North Carolina.

As part of its 2003-05 biennial budget request, the Board of Governors presented a project for Elizabeth City State University in the amount of \$3,333,000 to the General Assembly with the acknowledgement that the estimate was given without the benefit of advance planning. The request was to fund the project design at eight percent (8%) of the estimated amount.

The General Assembly's response to the Board's request was to authorize the use of 2000 Higher Education Bond Funds for the purpose of advance planning the proposed facility. In response to that authorization, the Board of Trustees at ECSU requests the use of up to \$30,000 of the campus' bond funds designated for program administration to support the advance planning of a facility for the Joint Pharmacy Program on the ECSU campus.

It is recommended that the request of the Board of Trustees to transfer funds be approved as authorized by the General Assembly.



Authorization to Implement Debt Service Fees – The University of North Carolina at Charlotte and Western Carolina University

The University of North Carolina at Charlotte requests authority to implement a debt service fee effective with the spring semester of 2004. The debt service fee was previously approved as the source of revenue to repay bonds issued to finance a new capital project, New Student Health Center. The project was approved by the Board of Governors and the 2002 Session of the General Assembly. The total project cost is \$7,150,000 and the debt service fee is \$25 per year.

Western Carolina University requests authority to implement a debt service fee effective with the spring semester of 2004. The fee was previously approved as a source of revenue to repay bonds issued to finance a capital improvements project, Student Recreation Center (\$11,500,000), approved by the Board of Governors and the 2002 Session of the North Carolina General Assembly. The debt service fee is \$135 per year.

It is recommended that the debt service fees as proposed by the University of North Carolina at Charlotte and Western Carolina University be approved, effective with the spring semester 2004.

Sale of Special Obligation Bonds – The University of North Carolina at Chapel Hill

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 backed by a pledge of all campus revenues excluding tuition and State appropriations.

The University of North Carolina at Chapel Hill requests that the Board issue special obligation bonds not to exceed \$160,000,000 for the purpose of financing (1) the refunding of indebtedness issued consistent with the UNC-CH/NCSU Commercial Paper Program, the proceeds of which were used to pay a portion of the costs of the 2003 projects; (2) the costs of acquiring, constructing, and equipping capital improvement projects previously approved by the Board of Governors and the North Carolina General Assembly; (3) the refunding in advance of their maturities of additional revenue bonds issued for the benefit of the University when net present value savings to the University are achieved; (4) capitalizing interest on a portion of the 2003 Bonds; or (5) providing for the costs incurred in connection with the issuance of the 2003 Bonds.

The 2003 bonds will be issued for the following projects:

Administrative Office Building	\$ 9,500,000
Renovations to Connor, Alexander, Winston Residence Halls	10,500,000
Renovations to McIver, Kenan, Alderman Residence Halls	11,300,000
Public Health Teaching and Research Center	15,598,300
Ramshead Complex for Parking and Student Support	53,536,000
School of Nursing Addition	6,281,900
Sonja H. Stone Black Cultural Center	6,000,000

It is recommended that the following Resolution be adopted and that the Vice President for Finance be authorized to sell the special obligation bonds between the November 2003 and March 2004 meetings of the Board.

RESOLUTION OF THE BOARD OF GOVERNORS OF THE UNIVERSITY OF  
NORTH CAROLINA AUTHORIZING THE ISSUANCE OF SPECIAL  
OBLIGATION BONDS TO FUND THE SPECIAL OBLIGATION BOND  
PROJECT FOR THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL  
HILL

Authorization to Enter Into a Swap Agreement – North Carolina State University

In the past, the Board of Governors has approved the ability for institutions to engage in “swaps” or similar agreements when it has approved the issuance of debt. Financial Advisors seek opportunities to *swap* variable rate debt for fixed rate debt when fixed rates are low and it is financially beneficial to do so. North Carolina State University is reviewing proposals to swap variable rate bonds issued earlier this year and lock in a fixed rate. It is estimated that as a result locking into a fixed rate in the future, the University will save approximately 20 basis points over the fixed rate that would have been achieved when the bonds were issued. The bond documents require approval of the Board of Governors before this *swap* can occur.

It is recommended that the following resolution be approved authorizing the Vice President for Finance to execute a Swap Agreement for North Carolina State University’s Variable Rate General Revenue Bonds, Series 2003B when it is found that such an agreement will achieve significant savings as compared to other products available in the debt market and enhance investment returns within prudent risk guidelines.

RESOLUTION OF THE BOARD OF GOVERNORS OF THE  
UNIVERSITY OF NORTH CAROLINA AUTHORIZING THE  
EXECUTION AND DELIVERY OF AN INTEREST RATE SWAP  
AGREEMENTS FOR NORTH CAROLINA STATE UNIVERSITY  
AT RALEIGH

It is further recommended that when any constituent institutions has the authority to *swap* debt approved by the Board in original bond documents and a campus can achieve savings by executing a swap, the Vice President for Finance will have the authority to execute the necessary agreements to effect the swap.

Lease of Housing Space – The University of North Carolina at Pembroke

In February 2002, the Board of Governors approved a lease for approximately 12 acres of land to the UNCP Foundation, Inc. for a 30-year term. The Foundation subleased the land to a private developer to finance and construct high-quality apartments to provide up to 360 beds of student housing. With the completion of 216 beds in Fall 2003, UNCP, consistent with the rules and regulations of the Department of Administration's Office of State Property, subleased the apartment complex and rented the apartments as part of its on-campus housing program. The cost to students was consistent with rents charged at other on-campus residence halls. The Foundation plans to provide the 144 additional beds by Fall 2004. On campus, current residence halls exceed 100 percent occupancy for 2002-2003. Leasing student housing will enable the university to meet the current and projected housing demands associated with campus enrollment growth and provide students with the housing options they require.

The Foundation, on advice from its financial advisors and attorneys, has decided to purchase the student housing facility from the private developer and construct the additional 144 beds. The Foundation will use tax-exempt, long-term indebtedness to finance the purchase and the construction. The initial savings from Foundation ownership is projected to be \$300 per bed per year.

As part of the financing package, it is requested that the Board of Governors adopt the following Resolution authorizing the continuation of the ground lease, lease, use agreement, and deed-of-trust related to the housing facilities on the UNCP campus.

A RESOLUTION AUTHORIZING AGREEMENTS RELATED TO THE  
CONSTRUCTION OF PRIVATE HOUSING FACILITIES ON THE  
CAMPUS OF THE UNIVERSITY OF NORTH CAROLINA AT  
PEMBROKE

**University of North Carolina Board of Governors**  
**UNC Bond Program Report**  
**November 2003**

The pace of the bond program continues to rise as earlier predicted as more project designs are completed and construction activity gets underway. Contractual commitments from bond funds have increased by more than \$94 million in the last month, representing the largest increase in commitments for a single month since the program's inception. The majority of this increase resulted from the award of the first phase of the new Science Complex at UNC-Chapel Hill, a construction manager-at-risk project. This project has a Gross Maximum Price of over \$68 million, with bond funds accounting for more than 80 percent (or \$55 million) of the total cost.

Additional contracts were awarded this month for classroom facilities at Elizabeth City State (Trigg Hall Classroom Building work totaling \$318,000), North Carolina A&T State University (Classroom and Laboratory Complex-General Classroom Phase III at \$8.8 million), and NC State University (David Clark Lab at \$17.8 million) and for residential facilities at NC Central (Baynes Residence Hall Replacement at \$10.5 million).

While the data confirming minority firms' participation in this latest group of construction awards is not fully compiled, an interim update continues to demonstrate participation levels well above the State's 10% goal. Bond construction projects alone showed a total participation rate of nearly 15% with the distribution across minorities continuing to show improved diversity. In this latest data, African-American participation is at 3.76%, Hispanic participation is at 3.81%, with the majority of the remaining participation being Female at 6.54%.

Overall, the bond program now has contractually committed to or completed projects or land acquisitions involving 45% of bond funds or \$1.122 billion. An updated project status overview is included in this report reflecting the activity by institution.

We have attached three charts for your review that provide an illustration of the pace of the program as indicated by cash expenditures and program status. The first chart provides a comparison of the actual and projected cash flow of the program to date. As the chart demonstrates, the campuses continue to provide reasonable estimates of cash expenditures, thereby allowing the President's Office to monitor the program's cash requirements to ensure the adequate timing of bond sales. The second chart demonstrates that the bulk of the construction phase of the bond program will take place during the summer of 2004. Given the impressive transformation that can already be observed on the campuses, next year's construction efforts will further solidify the fundamental change and increased capacity that the bond program has made possible. The third chart shows the status of each campus and affiliate's program as a percentage of projects in design, construction, completed, or not started. You will note that UNCA, UNCC, UNCW, WSSU, UNC-TV, the School of Science and Math, and the NC Arboretum each have their entire programs underway, with WSSU, UNC-TV, the School of Science and Math, and the Arboretum having all of their projects either under construction or completed.

**The University of North Carolina  
Bond Project Status Overview - November 2003  
Contractual Commitments from Bond Funds**

Institution	# of Projects per Bond List*	# of Project Bid Packages*	Total Dollar Value	In Design Phase				In Construction Phase				Complete				Land Acquisitions	
				\$	%	#	%	\$	%	#	%	\$	%	#	%	\$	%
Appalachian State University	13	23	\$87,406,200	\$5,373,664	6.15%	5	21.74%	\$50,367,780	57.62%	9	39.13%	\$9,062,930	10.37%	8	34.78%	\$829,300	
East Carolina University	13	22	\$190,609,500	\$8,605,541	4.51%	5	22.73%	\$12,281,809	6.44%	7	31.82%	\$62,186,849	32.63%	6	27.27%	\$7,667,248	4.02%
Elizabeth City State University	19	21	\$46,296,800	\$2,973,550	6.42%	6	28.57%	\$22,314,567	48.20%	5	23.81%	\$1,893,992	4.09%	3	14.29%	\$0	
Fayetteville State University	16	23	\$46,021,400	\$1,647,084	3.58%	11	47.83%	\$14,612,703	31.75%	9	39.13%	\$574,320	1.25%	1	4.35%	Not Applicable	
North Carolina A&T State University	24	33	\$161,800,091	\$7,057,669	4.36%	8	24.24%	\$44,255,240	27.35%	12	36.36%	\$2,933,132	1.81%	5	15.15%	\$5,916,258	3.66%
North Carolina Central University	23	37	\$121,246,203	\$8,061,778	6.65%	11	29.73%	\$22,167,250	18.28%	12	32.43%	\$585,141	0.48%	2	5.41%	\$1,733,376	1.43%
North Carolina School of the Arts	12	10	\$42,547,500	\$1,945,196	4.57%	4	40.00%	\$18,772,363	44.12%	3	30.00%	\$4,237,497	9.96%	1	10.00%	\$2,210,770	5.20%
North Carolina State University	40	70	\$468,256,655	\$20,782,309	4.44%	26	37.14%	\$150,489,734	32.14%	18	25.71%	\$26,060,974	5.57%	14	20.00%	\$367,000	0.08%
UNC-Asheville	9	12	\$50,464,200	\$3,052,742	6.05%	5	41.67%	\$8,701,415	17.24%	2	16.67%	\$1,720,243	3.41%	5	41.67%	Not Applicable	
UNC-Chapel Hill	50	77	\$510,539,075	\$29,495,052	5.78%	39	50.65%	\$144,177,023	28.24%	23	29.87%	\$53,695,557	10.52%	11	14.29%	\$8,872	
UNC-Charlotte	15	22	\$190,033,501	\$11,665,137	6.14%	8	36.36%	\$112,794,880	59.36%	8	36.36%	\$6,958,653	3.66%	6	27.27%	Not Applicable	
UNC-Greensboro	17	26	\$166,008,255	\$5,881,026	3.54%	5	19.23%	\$15,318,232	9.23%	7	26.92%	\$35,446,724	21.35%	6	23.08%	\$3,051,765	1.84%
UNC-Pembroke	16	14	\$56,873,600	\$3,973,102	6.99%	8	57.14%	\$23,747,350	41.75%	4	28.57%	\$0	0.00%	0	0.00%	Not Applicable	
UNC-Wilmington	18	33	\$109,201,800	\$5,565,430	5.10%	16	48.48%	\$20,018,089	18.33%	7	21.21%	\$2,031,452	1.86%	10	30.30%	\$635,000	0.58%
Western Carolina University	15	22	\$100,336,744	\$4,940,974	4.92%	5	22.73%	\$40,267,143	40.13%	8	36.36%	\$6,169,305	6.15%	4	18.18%	\$0	
Winston-Salem State University	11	17	\$46,786,581	\$1,378,411	2.95%	4	23.53%	\$20,589,565	44.01%	5	29.41%	\$6,278,203	13.42%	8	47.06%	Not Applicable	
UNC Center for Public Television**	2	5	\$65,890,600	\$32,500	0.05%	0	0.00%	\$21,671,371	32.89%	1	20.00%	\$8,619,295	13.08%	4	80.00%	Not Applicable	
NC School of Science and Math**	2	4	\$5,163,000	\$227,250	4.40%	0	0.00%	\$2,311,563	44.77%	1	25.00%	\$1,780,102	34.48%	3	75.00%	Not Applicable	
The NC Arboretum	1	6	\$9,331,700	\$596,958	6.40%	4	66.67%	\$1,503,942	16.12%	1	16.67%	\$110,000	1.18%	1	16.67%	Not Applicable	
Reserve – For Repairs and Renovations and Cost Overruns			\$25,186,595														
<b>Total</b>	<b>316</b>	<b>477</b>	<b>\$2,500,000,000</b>	<b>\$123,255,373</b>	<b>4.93%</b>	<b>170</b>	<b>35.64%</b>	<b>\$746,362,019</b>	<b>29.85%</b>	<b>142</b>	<b>29.77%</b>	<b>\$230,344,369</b>	<b>9.21%</b>	<b>98</b>	<b>20.55%</b>	<b>\$22,419,589</b>	<b>0.90%</b>

\*The number of projects undertaken by the institutions differs from the number as listed in the bond legislation because projects are in some instances combined or separated into multiple phases. The percentages reported are based on the number of bid packages being prepared by the institution in order to give a more accurate progress picture.

\*\*With no projects still in design, a design contract amount continues to be reported reflecting the designer's ongoing responsibility and the institution's financial commitment until the completion of the project when the design contract amount is incorporated into the total reported under "Complete."

Construction Manager at Risk preconstruction fee is listed under "Construction" column and will reflect a project count when a Gross Maximum Price contract is executed.

10/17/2003

Design and Construction Commitments  
Complete/Land

\$869,617,392  
\$252,763,958

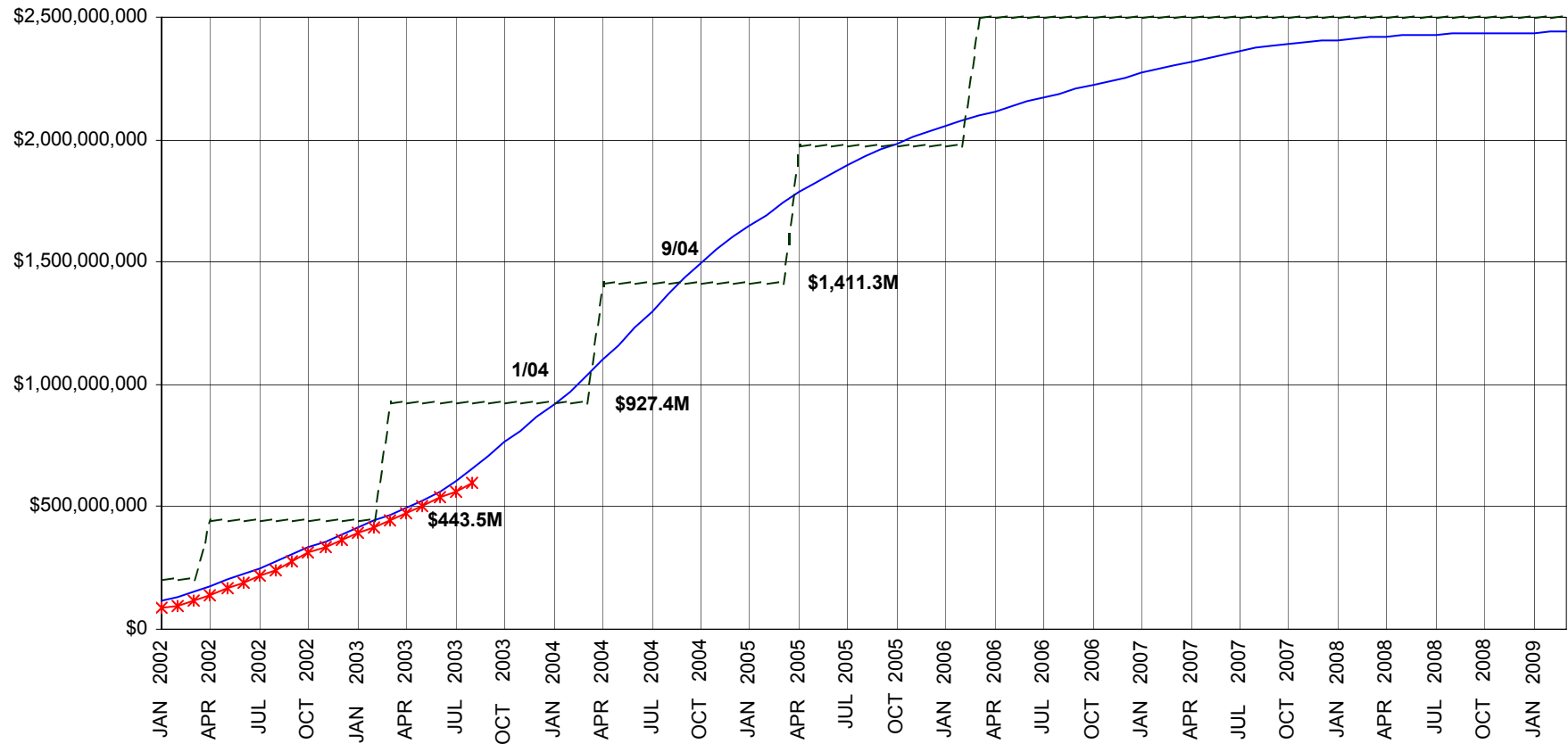
Progress against \$2,500,000,000

\$1,122,381,350  
44.8953%

Rate of change:

Nov-02	\$652,244,359
Dec-02	\$26,088,980
Jan-03	\$30,930,579
Feb-03	\$38,892,216
April-03	\$79,191,685
July-03	\$168,607,882
Aug-03	\$22,933,304
Sep-03	\$9,079,662
Oct-03	\$94,412,683

# Chart 5 Cash Flow and Bond Sales



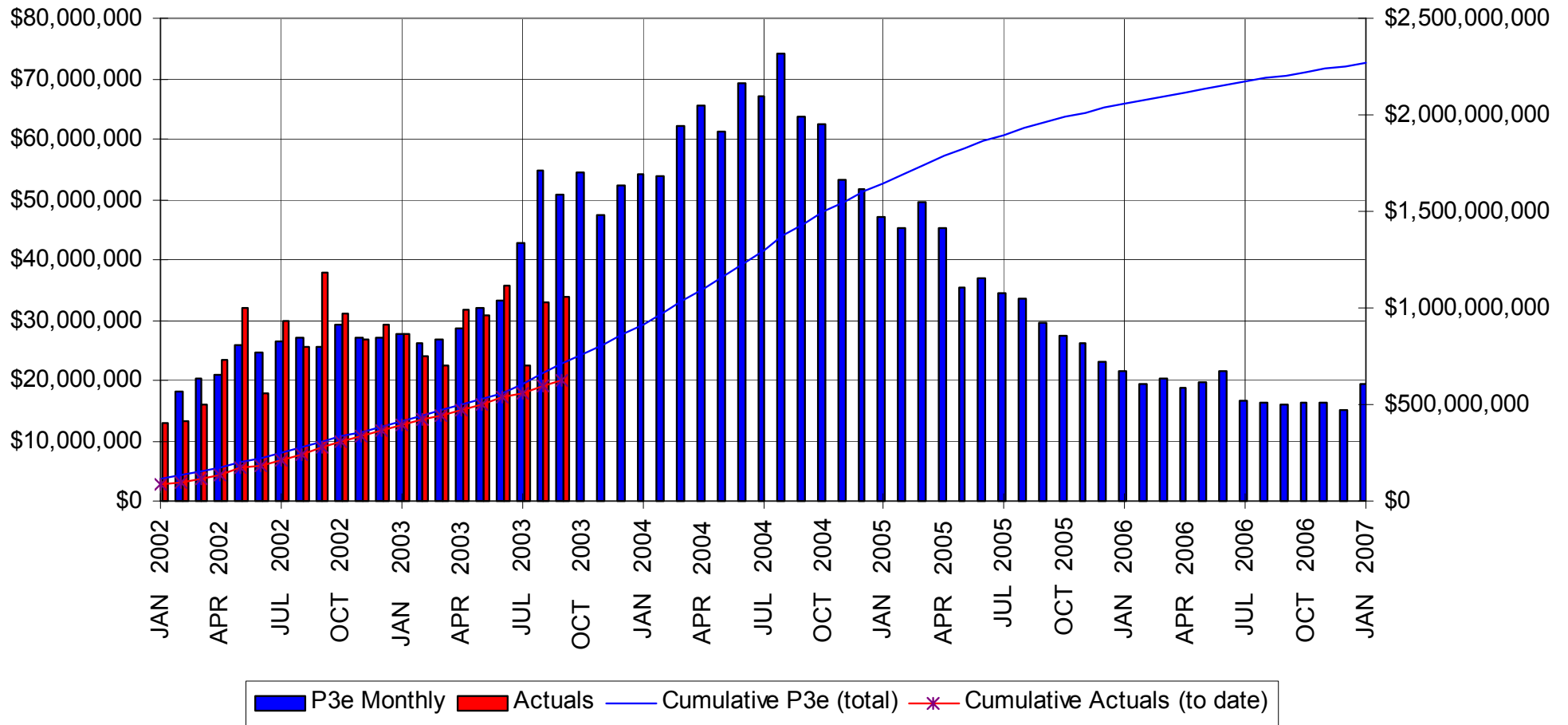
Report - Sept 2003

— Current Forecast

\* Actuals

- - - Bond Sales

## Monthly Cash Flow Forecast





Program Status by Institution  
Based on Bid Packages

