

COMMITTEE ON BUDGET AND FINANCE

Board Room 1

General Administration Building

Chapel Hill, North Carolina

Thursday, January 8, 2004, 12:00 noon

AGENDA

Minutes of the meeting of November 13, 2003

1. Revision of Selection Criteria and Operating Instructions for Special Responsibility
Constituent Institutions
2. Issuance of UNC System Commercial Paper Bonds – North Carolina State
University/The University of North Carolina at Chapel Hill
3. Authorization of New Capital Improvements Projects – The University of North Carolina
at Chapel Hill
4. Exchange of Property – The University of North Carolina at Chapel Hill

DISCUSSION

1. A progress report on the UNC Bond Program

Minutes of the November 13, 2003 Meeting
of the Board of Governors' Committee on Budget and Finance

The Committee on Budget and Finance met in the Board Room of the General Administration Building in Chapel Hill, North Carolina, on Thursday, November 13, 2003, at 2:30 p.m.

Members in attendance were: Mr. R. Steve Bowden, Mr. F. Edward Broadwell, Jr., Mr. William L. Burns, Jr., Mr. Ray S. Farris, Ms. Hannah D. Gage, Mr. Peter D. Hans, Governor James E. Holshouser, Jr., Mr. Jim W. Phillips, Jr., and Mr. Benjamin S. Ruffin. Other Board of Governors' members attending the meeting were Brent D. Barringer, John W. Davis, III, and Patsy B. Perry. Others attending the meeting were President Molly Corbett Broad, Vice Presidents Jeffrey R. Davies, J.B. Milliken, Robyn R. Render, and Leslie Winner; Special Assistant to the University Kennis R. Grogan; Associate Vice Presidents Ginger B. Jones, Robert O. Nelson, Dwayne L. Pinkney, Robert J. Samors, and James O. Smith; Assistant Vice Presidents Shari Harris and Claudia Odom; Chancellor James H. Ammons, Jr. (North Carolina Central University), Chancellor Marye Anne Fox (North Carolina State University), and Chancellor James H. Woodward (The University of North Carolina at Charlotte); Ms. Charlotte Todd and Ms. Robin Johnson of the Fiscal Research Division of the General Assembly; Mr. Mike Mangum of the Purchase and Contract Division, Department of Administration; and members of the press were in attendance. Ms. Kay Webb, University Attorney (NCCU), Ms. Sharon Saunders, Assistant to the Chancellor for Public Relations (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 meeting of October 10, 2003 were considered.

On the motion of Mr. Bowden, seconded by Ms. Gage, the minutes of the previous meeting with approved with the following amendment. The first paragraph on page 4 was rewritten as follows.

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.

On the motion of Mr. Burns, seconded by Ms. Gage, the *Annual Report of the Committee on Budget and Finance, July 1, 2002 through June 30, 2003*, was approved.

1. The UNC Management Flexibility legislation directed 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 required 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 had complied with the reporting requirement for the 2002-03 fiscal year and the reports were summarized into the *Summary of Institutional Annual Reports*. Copies of the individual campus reports were available upon request.

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

At the Chairman's request, Chancellor Marye Anne Fox discussed management flexibility and gave examples of how the NCSU campus had used flexibility effectively as a management tool. Mr. Hans noted that the Committee should seek increased management flexibility in the personnel arena.

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

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

Chairman Phillips then called on Chancellor Ammons of NCCU to report on progress in the remediation of mold. The campus had made significant progress in replacing or repairing the mechanical systems in those academic facilities where mechanical system improvements were required. The University was proceeding with the selection of a designer for the mechanical system redesign in New Residence Halls 1 and 2. The total costs associated with mold-related repairs and improvements in all campus facilities was now estimated to be \$25.8 million, including replacement of the repurposed bond funds and providing for housing students off-campus. Without supplemental funding, the \$10.4 million of funds currently available would be depleted prior to the return of the General Assembly in May.

At the Chairman's request, Vice President Davies reported that the Chancellor of The University of North Carolina at Pembroke had informed the President of the need to invoke emergency procedures as allowed by G.S. 143-129 to close the Dial Building on the UNCP campus due to mold infestation. A test of mold spore counts revealed the presence of the toxic stachybotrys mold. The Dial Building was an academic facility with twelve classrooms, a lecture hall, several computer centers, and faculty offices. The campus had contracted with an environmental firm to ascertain the sources of the mold and to receive estimates of the cost to remediate mold in the building. The preliminary cost estimate for mold remediation was \$3.5 million.

After this report, the Committee considered a Resolution in support of the efforts of North Carolina Central University and the University of North Carolina at Pembroke to finance emergency projects for the remediation of mold. The Resolution requested that the General Assembly provide \$29.3 million to address mold-related problems at NCCU and UNCP. The Resolution further asked that 46% of the repair and renovation funds made available by the

General Assembly through the issuance of Certificates of Participation (\$300 million) be available to The University of North Carolina. The funds needed for mold remediation would be in addition to the funds available for repairs and renovations. The Committee debated the resolutions and proposed word changes to stress the urgency of the need for the funds.

On the motion of Mr. Bowden, seconded by Mr. Broadwell, the Vice President for Finance was asked to prepare a resolution(s) to reflect the Committee discussions of the need for funds for repairs and renovations and mold remediation. The Resolutions are attached to these minutes and were approved by the Board on November 14, 2003.

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

It was 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 was further recommended that the purchasing benchmark for the University of North Carolina at Pembroke be set at \$150,000, also effective December 1, 2003.

On the motion of Mr. Broadwell, seconded by Mr. Burns, the recommendations were approved.

3. The Board of Trustees of Elizabeth City State University had 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 was 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 requested 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 was recommended that the request of the Board of Trustees to transfer funds be approved as authorized by the General Assembly.

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

4. The University of North Carolina at Charlotte requested 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 was \$7,150,000 and the debt service fee would be \$25 per year.

Western Carolina University requested 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 would be \$135 per year.

It was 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.

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

5. The Board of Governors was authorized to issue special obligation bonds for capital improvements projects that had been approved by the General Assembly. Although a specific source of funding was used by a campus when retiring these bonds, special obligation bonds were generally backed by a pledge of all campus revenues excluding tuition and State appropriations.

The University of North Carolina at Chapel Hill requested 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 were 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 would 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 was 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

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

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

It was 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 was found that such an agreement would 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 was further recommended that when any constituent institution had the authority to *swap* debt approved by the Board in original bond documents and a campus could achieve savings by executing a swap, the Vice President for Finance would have the authority to execute the necessary agreements to effect the swap.

On the motion of Mr. Farris, seconded by Mr. Broadwell, the recommendation was approved. The Committee asked for a report on the execution of any future swap agreements at the meeting following the swap.

7. 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 planned to provide the 144 additional beds by Fall 2004. On campus, current residence halls exceeded 100 percent occupancy for 2002-2003. Leasing student housing would enable the university to meet the current and projected housing demands associated with campus enrollment growth and provide students with the housing options they required.

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

As part of the financing package, it was 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

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

On the motion of Ms. Gage, seconded by Mr. Burns, 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.

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

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

A RESOLUTION IN SUPPORT OF THE PRESSING NEED TO
PROVIDE FUNDS FOR REPAIRS AND RENOVATIONS FOR
THE UNIVERSITY OF NORTH CAROLINA

WHEREAS, The University of North Carolina has a significant backlog of deferred maintenance needs and, until 2003, had not received State funding for repairs and renovations for three consecutive years; and

WHEREAS, in 2003 the General Assembly provided funding for repairs and renovations to State-owned facilities through two sources – the statewide Reserve for Repairs and Renovations (\$15,000,000) and the issuance of special indebtedness (\$300,000,000); and

WHEREAS, the General Assembly directed that 46% of the statewide Reserve for Repairs and Renovations, less a portion of the funds set aside to complete partially funded State projects, be made available to The University of North Carolina; and

WHEREAS, both legislative chambers in their individual technical corrections bills directed that 46% of the repair and renovation funds financed through special indebtedness be made available to The University of North Carolina, but adjourned before passing a final bill.

NOW, THEREFORE, BE IT RESOLVED, that the UNC Board of Governors respectfully requests that, in keeping with the intent expressed by both chambers of the General Assembly, 46% of the repair and renovation funds made available through the issuance of special indebtedness be designated for The University of North Carolina.

Adopted November 14, 2003

A RESOLUTION IN SUPPORT OF THE EFFORTS OF
NORTH CAROLINA CENTRAL UNIVERSITY AND
THE UNIVERSITY OF NORTH CAROLINA AT
PEMBROKE TO FINANCE EMERGENCY PROJECTS
FOR THE REMEDIATION OF MOLD

WHEREAS, after identifying significant mold growth in numerous buildings, the Chancellor of North Carolina Central University has invoked emergency procedures and is taking appropriate and aggressive steps to remediate the mold in order to provide a safe environment for students, faculty, and staff; and

WHEREAS, North Carolina Central University has closed two residence halls due to mold infestation and is housing affected students in hotels, thereby requiring significant expenditures of funds and denying students an on-campus housing experience; and

WHEREAS, the Chancellor of The University of North Carolina at Pembroke has invoked emergency procedures after identifying significant levels of mold in an academic building and has closed the building pending the remediation of the mold; and

WHEREAS, the costs of emergency remediation of mold are estimated to be \$25.8 million at North Carolina Central University and \$3.5 million at The University of North Carolina at Pembroke; and

WHEREAS, the funds made available by the 2003 General Assembly for repairs and renovations should be used to address the extensive backlog of deferred maintenance needs at all sixteen campuses.

NOW, THEREFORE, BE IT RESOLVED that the Board of Governors respectfully requests that the General Assembly provide funds totaling \$29.3 million, either through direct appropriations or through an increase in the current authorization for the issuance of special indebtedness, to allow for emergency mold remediation at North Carolina Central University and The University of North Carolina at Pembroke.

Adopted November 14, 2003

Revision of Selection Criteria and Operating Instructions for Special Responsibility Constituent Institutions

The 2003 Session of the North Carolina General Assembly enacted legislation granting the Board of Governors additional responsibilities for the management of purchasing contracts.

Session Law 2003-312 authorizes the Board of Governors to set separate purchasing benchmarks for each special responsibility constituent institution (SRCI) at levels up to \$500,000, doubling the prior benchmark of \$250,000.

Session Law 2003-228 provides additional purchasing flexibility for procurements made from non-general fund sources, and further provides authority to purchase materials, supplies, and services from sources other than those certified on the State's term contracts, subject to certain conditions.

At its September 2003 meeting, the Board of Governors voted to incorporate needed revisions to accommodate the legislative actions into The Selection Criteria and Operating Instructions for Special Responsibility Constituent Institutions. Policy 600.3.1 with revisions shown by underlines is attached and now requires formal ratification.

It is recommended that the policy outlining the Selection Criteria and Operating Instructions for Special Responsibility Constituent Institutions be ratified at the February 2004 meeting of the Board of Governors.

**Selection Criteria and Operating Instructions for
Special Responsibility Constituent Institutions**

A. Achieving and Retaining Status as a Special Responsibility Constituent Institution

Management Staffing Standards and Internal Controls and Safeguards

1. Responsibilities of Special Responsibility Constituent Institutions

The following standards and safeguards must be met and maintained in order to receive and retain the designation as a special responsibility constituent institution.

- a. The Chancellor/Executive Director must assume personal responsibility and also establish the appropriate administrative and internal control procedures for carrying out the special delegations of authority. In this regard, the Chancellor/Executive Director must certify that the administrative capability on campus in the areas of budgeting and accounting, personnel, and purchasing, as noted in b., c., and d. below, are sufficient to carry out the increased flexibility being granted.
- b. The capability of the staff and the system of budgeting, accounting and internal controls must be sufficient to administer the increased budget flexibility given to the designated institutions.
- c. The personnel capacity, which must be exercised under the direction of appropriate administrative officials, must be available on campus to evaluate jobs, classify positions appropriately, set compensation properly, and carry out the related functions of position management at the level of authority provided by the delegation.
- d. The on-campus expertise must be available to purchase properly the equipment, supplies, and other goods and services for the institution up to the benchmark level established by the Board of Governors for the institution pursuant to G.S. 116-31.10.
- e. The institution must maintain its financial records in such a manner that there are no significant findings in the annual financial audit reports, special reports, electronic data processing reports, performance reports, management letters, or any other report issued by the State Auditor's Office.
- f. Each Chancellor/Executive Director shall prepare a plan for the uses of appropriations carried forward from the previous fiscal year and anticipated lapsed salary funds for the current fiscal year, which should be submitted to the Office of the President by July 15 of each year.
- g. Chancellors/Executive Director may delegate the authority for approving departmental plans for expenditures authorized under budget flexibility, but may not delegate the authority below the level of the appropriate Vice Chancellor.
- h. The Chancellors/Executive Director shall review an annual internal audit report on expenditures authorized under budget flexibility.

2. Responsibilities of the President and the Board of Governors

The President is directed to establish the administrative procedures necessary to carry out the following rules:

- a. The President and the General Administration staff shall review the annual financial audit reports, special reports, electronic data processing reports, performance reports, management letters, or any other report issued by the State Auditor's Office for each special responsibility constituent institution.
- b. The President shall take immediate action regarding reported weaknesses in the internal control structure, deficiencies in the accounting records, and noncompliance with rules and regulations. In any instance where significant findings are identified, the President shall notify the Chancellor/Executive Director of the particular special responsibility constituent institution that the institution must make satisfactory progress in resolving the findings, as determined by the President of The University, after consultation with the State Auditor, within a three-month period commencing with the date of receipt of the published financial audit report, any other audit report, or management letter.
- c. If satisfactory progress is not made within a three-month period, the President shall recommend to the Board of Governors at its next meeting that the designation of the particular institution as a special responsibility constituent institution be terminated until such time as the exceptions are resolved to the satisfaction of the President of The University of North Carolina, after consultation with the State Auditor. However, once the designation as a special responsibility constituent institution has been withdrawn by the Board of Governors, reinstatement may not be effective until the beginning of the following fiscal year at the earliest.
- d. Any actions taken by the Board of Governors with respect to withdrawal or reinstatement of an institution's status as a special responsibility constituent institution shall be reported immediately to the Joint Legislative Education Oversight Committee.
- e. The President and her/his staff, after consultation with the State Auditor, shall review and consult with the Director of the Office of State Personnel and the Director of the Division of State Purchasing and Contracts in ascertaining whether or not a constituent institution has the management staff and internal financial controls to administer the additional authorities authorized under G.S. 116-30.2, 116-30.4, and 116-31.10. Such review and consultation must take place no less frequently than once each biennium.
- f. The President shall review plans submitted by the Chancellors/Executive Director for uses of funds carried forward from the previous fiscal year and anticipated lapsed salary funds and, upon approval, present a summary of these plans to the Board of Governors at its August meeting each year.

B. Budget Administration

1. Appropriations to Special Responsibility Constituent Institutions

- a. All General Fund appropriations made by the General Assembly for continuing operations of a special responsibility constituent institution of The University of North Carolina shall be made in the form of a single sum to each budget code of the institution for each year of the fiscal period for which the appropriations are being made.
- b. Notwithstanding G.S. 143-23(al), G.S. 143-23 (a2), G.S. 143-23(a3), and G.S. 120-76(8), each special responsibility constituent institution may expend the General Fund monies so appropriated to it in the manner deemed by the Chancellor/Executive Director to be calculated to maintain and advance the programs and services of the institutions, consistent with the directives and policies of the Board of Governors including but not limited to the following:
 1. A current institutional expenditure plan for each budget code must be established and maintained under the direction of the Chancellor/Executive Director.
 2. No action shall be taken that would materially change the capability of the institution to carry out its educational mission as defined by the Board of Governors. The Board of Governors will retain program responsibility. No actions taken should have the effect of either establishing a new academic, research, or public service program or closing such a program without the specific approval by the Board. Reallocation of academic program resources should not be made to the extent that a particular existing program is seriously weakened or effectively discontinued, or a new activity not expressly authorized by the Board of Governors is initiated.
 3. Reallocations of interinstitutional program resources should not be made to the extent that campus participation in a particular program is materially weakened without specific approval by the Board.
 4. No action should be taken which would have the effect of establishing a new community service or student financial aid program without specific approval by the Board of Governors.
 5. Appropriations providing support for Distance Education/Extension degree credit instruction at off-campus locations cannot be reallocated for other purposes without specific approval by the Board of Governors.
- c. The quarterly allotment procedure established pursuant to G.S. 143-17 shall apply to the General Fund appropriations made for the current operations of each special responsibility constituent institution.
- d. All General Fund monies so appropriated to each special responsibility constituent institution shall be recorded, reported, and audited in the same manner as are General Fund appropriations to other constituent institutions.
- e. The preparation, presentation, and review of General Fund budget requests of special responsibility constituent institutions shall be conducted in the same manner as are requests of other constituent institutions.

2. Reversions and Carry-Forwards of Appropriations

Of the General Fund current operations appropriations credit balance remaining in each budget code of a special responsibility constituent institution, at the close of a fiscal year, any amount of the General Fund appropriations for that budget code, may be carried forward by the institution to the next fiscal year and may be used for one-time expenditures that will not impose additional financial obligations on the State. However, the amount carried forward under this section shall not exceed two and one-half percent (2 1/2%) of the General Fund appropriation. The Director of the Budget, under the authority set forth in G.S. 143-25, shall establish the General Fund current operations credit balance remaining in each budget code of each institution. *(Note advanced approval requirement in Sections A1.f. and A2.f. above.)*

C. Personnel Administration

The Chancellor of a special responsibility constituent institution, when he finds that to do so would help to maintain and advance the programs and services of the institution, may establish and abolish positions, acting in accordance with:

- (1) State Personnel policies and procedures if these positions are subject to the State Personnel Act and if the institution is operating under the terms of a Performance Agreement or a Decentralization Agreement authorized under Chapter 126 of the General Statutes; or
- (2) Policies and procedures of the Board of Governors if these positions are exempt from the State Personnel Act.

The results achieved by establishing and abolishing positions pursuant to the conditions set forth in subdivision (1) of this section shall be subject to postauditing by the Office of State Personnel.

With respect to personnel actions taken under subdivision (2) of this section, no action should have the effect of either establishing a new academic program or administrative unit or closing an existing academic or inter-institutional program or administrative unit. No action should be taken which permanently reduces the number or amount of Regular Term budgeted teaching positions supported by General Fund appropriations thereby changing the student-faculty ratio or the budgeted average teaching salary established by the Board of Governors.

Implementation of all personnel actions shall be subject to the availability of funds within the institution's current budget to fund the full annualized costs of these actions.

D. Purchasing

Notwithstanding G.S. 143-53.1 or G.S. 143-53(a)(2), the expenditure benchmark for a special responsibility constituent institution with regard to competitive bid procedures and the bid value benchmark shall be an amount not greater than ~~\$250,000~~ \$500,000. The Board shall set the benchmark for each institution from time to time. In setting an institution's benchmark, the Board shall consider the institution's overall capabilities including staff resources, purchasing compliance reviews, and audit reports. The Board shall also consult with the Director of the Division of Purchase and Contract and the Director of the Budget prior to setting the benchmark.

Institutions with an expenditure benchmark greater than \$250,000 but not greater than \$500,000 shall submit to the Division of Purchase and Contract for that Division's approval, or other action deemed necessary by the Division, a copy of all offers received and the institution's recommendation of award or other action. Notice of the Division's decision shall be sent to that institution. The institution shall then proceed with the award of contract or other action recommended by the Division.

The power and authority granted to the Board of Governors with regard to the acquisition, operation, maintenance and disposition of real and personal property and services shall be subject to, and exercised in accordance with, the provisions of Chapter 143 and 146 of the General Statutes and related sections of the North Carolina Administrative Code, except when a purchase is being made that is not covered by a State term contract and either:

- (1) The funds used to procure personal property or services are not moneys appropriated from the General Fund or received as tuition or, in the case of multiple fund sources, moneys appropriated from the General Fund or received as tuition do not exceed thirty percent (30%) of the total funds; or
- (2) The funds used to procure personal property or services are contract and grant funds or, in the case of multiple fund sources, the contract and grant funds exceed fifty percent (50%) of the total funds.

When a special responsibility constituent institution makes a purchase under condition (1) or (2) above, the requirements of Chapter 143, Article 3 shall apply, except the approval or oversight of the Secretary of Administration, the State Purchasing Officer, or the Board of Awards shall not be required, regardless of dollar value.

Special responsibility constituent institutions shall have the authority to purchase equipment, materials, supplies, and services from sources other than those certified by the Secretary of Administration on term contracts, subject to the following conditions:

- (1) The purchase price, including the cost of delivery, is less than the cost under the State term contract;
- (2) The items are the same or substantially similar in quality, service, and performance as items available under State term contracts;
- (3) The cost of the purchase shall not exceed the benchmark established under G. S. 116-31.10; and
- (4) The special responsibility constituent institution notifies the Department of Administration of purchases consistently being made under this provision so that State term contracts may be improved.

E. Impact on Education

Each special responsibility constituent institution shall include in its institutional effectiveness plan those assessment measures that are determined by the Board to be measures that will assure some standard measure of student learning and development in general undergraduate education. The intent of this requirement is to measure the impact of G.S. 116–30.1 through G.S. 116–30.5, establishing and administering special responsibility constituent institutions, and their implementation on undergraduate student learning and development. The measures shall be taken from accountability reports to the Board and any other performance measures developed for this purpose by the Board.

F. Reporting Requirements

1. Monthly Report

Each designated institution must prepare a monthly operating report for each budget code in the format of the current BD-701 report. The "Authorized Budget" included in this report, which may be changed under the direction of the Chancellor/Executive Director, will show the institution's current expenditure plan. The current Chart of Accounts will be used for reporting purposes.

2. Fiscal Year Plan

Each Chancellor/Executive Director of a special responsibility constituent institution must prepare a fiscal year plan, due to the President by July 15, as follows:

- a. An annual plan specifying programmatic, and major expenditure classification detail, for expending funds carried forward from the previous fiscal year as allowed under G.S. 116-30.3.
- b. An annual plan for expending anticipated lapsed salary funds for the fiscal year. This portion of the plan would be a projection of the amount of lapsed salaries and the programmatic priorities for expending the estimated funds.

3. Annual Report

An annual report, and other reports as may be directed by the President, are required from each special responsibility constituent institution. The annual report must be submitted to the Office of the President by October 10 following fiscal year end, and shall include the following information:

- a. an annual operating report in the same format as the monthly report described above
- b. the impact on undergraduate student learning and development as demonstrated by the standard assessment measures related to this topic
- c. fiscal savings
- d. management initiatives undertaken
- e. increased efficiency and effectiveness achieved, including institutional purchases under the expenditure benchmark established by the Board of Governors for the institution
- f. other outcomes made possible by the flexibility provided
- g. documentation of any reallocation of resources which distinguishes between one-time and permanent transfers, including the actual uses of funds reallocated during the fiscal year as a result of lapsed salaries
- h. the actual uses of appropriations carried forward from the previous fiscal year
- i. any additional costs incurred
- j. a schedule of positions established and positions abolished
- k. list of positions that were vacant for more than 9 months during the fiscal year and an explanation for the length of the vacancy
- l. compliance certification letter to the President from each SRCI Chancellor/Executive Director

Each institution must establish the administrative procedures necessary to accumulate this information for reporting purposes.

Issuance of UNC System Commercial Paper Bonds – North Carolina State University/The University of North Carolina at Chapel Hill

In October 2001, the Board of Governors authorized North Carolina State University and the University of North Carolina at Chapel Hill to implement a commercial paper program through the periodic issuance of tax-exempt commercial paper bonds. The initial maximum authorized borrowing amount was established at \$100 million. The Commercial Paper Program has been very successful. UNC-Chapel Hill has used \$42.9 million and North Carolina State has used \$25 million of the existing authority. UNC-Chapel Hill's short-term debt was replaced in December with a 30-year issue. NC State's short-term indebtedness was paid down in June 2003 when debt was issued for a new residence hall. Those issues reinstated the original \$100 million authority for the Commercial Paper Program.

North Carolina State University and the University of North Carolina at Chapel Hill have benefited from the Commercial Paper Program and, based on cash-flow analyses, now request that the maximum authorized borrowing amount be increased by \$150 million. The new maximum, not to exceed amounts will be \$60 million for North Carolina State University and \$190 million for UNC-Chapel Hill. These amounts are based on projections of need from each institution's Chief Financial Officer.

Commercial paper is short-term, unsecured debt issued in the form of promissory notes, and presents an alternative to borrowing from banks. A commercial paper program provides the issuer access to a flexible, low cost source of capital to provide bridge financing for projects. The program is available only to fund projects, on an interim basis, previously approved by the Board and the General Assembly, up to the authorized maximum amount. The additional bonds would be issued by the Board of Governors but would be an obligation of the constituent institution secured by available funds excluding state appropriations, tuition, and restricted gifts.

Funds would be drawn on an as-needed basis for capital expenditures. The program would be repaid with proceeds from a long-term bond issue, gift receipts, or other sources.

The Commercial Paper Program has allowed North Carolina State University and UNC-Chapel Hill to issue long-term debt less frequently than in the past and provided greater flexibility over the timing of bond issues. The less frequent issuance of bonds reduces the costs of issuance and achieves more attractive debt service costs. Tax-exempt commercial paper rates are often several percentage points lower than commercial bank loans.

It is recommended that the following Resolution be adopted and that the Vice President for Finance be authorized to issue bonds as needed to carry out the commercial paper bonds program up to a maximum of an additional \$150 million.

AN AMENDED AND RESTATED RESOLUTION AUTHORIZING THE ISSUANCE, SALE AND DELIVERY OF BONDS DESIGNATED "UNIVERSITY OF NORTH CAROLINA SYSTEM COMMERCIAL PAPER BONDS (UNC AT CHAPEL HILL/NC STATE)," AS SPECIAL OBLIGATIONS OF THE BOARD PAYABLE FROM THE REVENUES PLEDGED THEREFOR; PROVIDING FOR THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON SUCH BONDS; PROVIDING FOR THE RIGHTS OF THE HOLDERS THEREOF; AND DETERMINING AND PROVIDING VARIOUS MATTERS RELATED TO THE AUTHORIZATION ISSUANCE, SALE, DELIVERY AND SECURITY OF SUCH BONDS.

Authorization of New Capital Improvements Projects – The University of North Carolina at Chapel Hill

The Board of Trustees of The University of North Carolina at Chapel Hill has requested authority to establish two new capital improvements projects.

The first project would provide for the renovation of approximately 2,500 square feet of space at 410 East Franklin Street and add 700 square feet to the existing facility. When the project is completed, the Center for the Study of the American South, which is currently located in Hamilton Hall, will relocate to the facility. This will free additional space in Hamilton Hall for the departments of History, Sociology, and Political Science. The project is estimated to cost \$300,000 and would be financed from private gifts.

The second project would provide for the renovation of the Hamilton Hall basement. This 3,300 square-foot renovation would provide dry lab storage space for the Anthropology Department. The project is estimated to cost \$980,000 and would be financed from facilities and administrative receipts.

It is recommended that the projects be authorized and that the methods of financing as proposed by The University of North Carolina at Chapel Hill be approved.

Exchange of Property – The University of North Carolina at Chapel Hill

The Board of Trustees of The University of North Carolina at Chapel Hill requests the approval of the exchange of property between The University of North Carolina at Chapel Hill Foundation, Inc. and The University of North Carolina at Chapel Hill.

The University property is located at 412 East Rosemary Street in Chapel Hill. It is a .276-acre lot with a 1,716 square foot house as an improvement. The house is currently used as a rental property and the University has no long-term need for the property. The University has received appraisals for the property that range from \$237,000 to \$300,000.

The Foundation is currently negotiating the purchase of property at 606 Cameron Avenue in Chapel Hill. The Cameron property is .19 acres with an approximate 3,511-square-foot improvement that is currently under construction. Appraisals for this property range from \$153,000 to \$200,000 and do not include the improvements now underway. The Cameron property would be the subject of the exchange with the University once the Foundation's purchase of the property is complete.

The Cameron property is uniquely located between a parcel owned by the University and three other parcels along West Cameron Avenue to the corner of South Graham Street in Chapel Hill. In the short term, the properties along West Cameron Avenue would be used to address a parking shortage for employees who work at the cogeneration facility, which is located across the street from the Cameron property. The Cameron property is also located at a key corner of the main campus adjacent to the railroad line that connects to the future site of the proposed Carolina North campus.

It is recommended that the request of the Board of Trustees be approved and transmitted to the Council of State for final action.

University of North Carolina Board of Governors
UNC Bond Program Report
January 2004

The Guaranteed Maximum Price contracts from NC Central's New Science Complex (\$27.7M) and NC State's College of Engineering Relocation – Phase II (\$34.7M) together provide for over \$62 million in increased contractual commitments from the last update. In addition, construction contract awards were made at NC A&T for the Chemistry Laboratory-Replacement for Hines Hall (\$13.5M), Poultry Facilities (\$1M), and an initial chiller plan phase in support of the Morrison Residence Hall Renovation (\$1.5M). Contracts have also been awarded at UNC-Charlotte for the Physical Plant and Campus Public Safety Facility (\$4.7M), UNC-Greensboro for Heating Plant Capacity (\$3.4M), and Winston-Salem State University for the Anderson Center Early Childhood project (\$1.5M).

The increase in construction contract commitments results in a corresponding increase in monthly expenditures of bond funds. For the month of November 2003, \$42.7M in bond funds was expended. When compared with the \$26M spent for the month of November 2002, the increase in expenditures provides a good indicator of the increased pace of the bond program. The monthly expenditures are anticipated to approach \$70M per month at the peak of construction later in 2004. These expenditures will continue to fuel the recovery of the State's economy and to engage Historically Underutilized Businesses at a level well beyond the State's goal of 10%.

The Higher Education Bond Oversight Committee met on the Centennial Campus of North Carolina State University on December 8, 2003. The Committee heard reports from Chancellor Fox and her staff on NCSU's progress and from Jeff Davies' and his staff on the overall progress of the University's efforts. The Committee continues to express confidence in the management of the program.

An updated project status overview is included in this report reflecting the activity by institution.

The University of North Carolina
Bond Project Status Overview - December 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	\$4,988,264	5.71%	5	21.74%	\$45,946,530	52.57%	6	26.09%	\$13,896,818	15.90%	10	43.48%	\$829,300	0.95%
East Carolina University	13	22	\$190,609,500	\$8,653,258	4.54%	6	27.27%	\$12,330,065	6.47%	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	\$3,114,750	6.73%	7	33.33%	\$22,336,685	48.25%	5	23.81%	\$1,893,992	4.09%	3	14.29%	\$0	0.00%
Fayetteville State University	16	23	\$46,021,400	\$1,945,039	4.23%	11	47.83%	\$14,481,821	31.47%	8	34.78%	\$718,988	1.56%	2	8.70%	Not Applicable	N/A
North Carolina A&T State University	24	34	\$161,800,091	\$7,323,424	4.53%	8	23.53%	\$59,384,387	36.70%	14	41.18%	\$2,933,132	1.81%	5	14.71%	\$5,916,258	3.66%
North Carolina Central University	23	47	\$121,246,203	\$8,124,488	6.70%	10	21.28%	\$53,176,628	43.86%	14	29.79%	\$585,141	0.48%	2	4.26%	\$1,733,376	1.43%
North Carolina School of the Arts	12	10	\$42,547,500	\$1,945,196	4.57%	4	40.00%	\$18,807,344	44.20%	3	30.00%	\$4,237,497	9.96%	1	10.00%	\$2,210,770	5.20%
North Carolina State University	40	74	\$468,256,655	\$22,736,465	4.86%	26	35.14%	\$187,467,658	40.04%	21	28.38%	\$26,171,174	5.59%	16	21.62%	\$371,896	0.08%
UNC-Asheville	9	12	\$50,464,200	\$3,052,742	6.05%	5	41.67%	\$8,785,916	17.41%	2	16.67%	\$1,720,243	3.41%	5	41.67%	Not Applicable	N/A
UNC-Chapel Hill	50	75	\$510,539,075	\$34,612,195	6.78%	39	52.00%	\$141,623,811	27.74%	21	28.00%	\$56,695,557	11.11%	12	16.00%	\$8,872	0.00%
UNC-Charlotte	15	22	\$190,033,501	\$11,638,237	6.12%	7	31.82%	\$117,509,570	61.84%	9	40.91%	\$6,985,553	3.68%	6	27.27%	Not Applicable	N/A
UNC-Greensboro	17	26	\$166,008,255	\$5,881,026	3.54%	5	19.23%	\$18,772,221	11.31%	8	30.77%	\$35,473,199	21.37%	6	23.08%	\$3,051,765	1.84%
UNC-Pembroke	16	14	\$56,873,600	\$4,343,602	7.64%	9	64.29%	\$23,873,028	41.98%	4	28.57%	\$0	0.00%	0	0.00%	Not Applicable	N/A
UNC-Wilmington	18	33	\$109,201,800	\$5,530,950	5.06%	15	45.45%	\$19,410,853	17.78%	6	18.18%	\$3,168,016	2.90%	11	33.33%	\$635,000	0.58%
Western Carolina University	15	25	\$100,336,744	\$5,771,255	5.75%	9	36.00%	\$40,436,231	40.30%	9	36.00%	\$6,221,654	6.20%	4	16.00%	\$0	0.00%
Winston-Salem State University	11	17	\$46,786,581	\$1,371,161	2.93%	3	17.65%	\$20,514,923	43.85%	6	35.29%	\$6,348,207	13.57%	8	47.06%	Not Applicable	N/A
UNC Center for Public Television**	2	5	\$65,890,600	\$32,500	0.05%	0	0.00%	\$21,673,488	32.89%	1	20.00%	\$8,619,295	13.08%	4	80.00%	Not Applicable	N/A
NC School of Science and Math**	2	4	\$5,163,000	\$227,250	4.40%	0	0.00%	\$2,440,076	47.26%	1	25.00%	\$1,780,102	34.48%	3	75.00%	Not Applicable	N/A
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	N/A
Reserve – For Repairs and Renovations and Cost Overruns			\$25,186,595														
Total	316	493	\$2,500,000,000	\$131,888,760	5.28%	173	35.09%	\$830,475,177	33.22%	146	29.61%	\$239,745,417	9.59%	105	21.30%	\$22,424,485	0.90%

*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.

12/12/2003

Design and Construction Commitments	\$962,363,937	Rate of change:	
Complete/Land	\$262,169,902	Nov-02	\$652,244,359
		Dec-02	\$26,088,980
		Jan-03	\$30,930,579
	\$1,224,533,839	Feb-03	\$38,892,216
Progress against \$2,500,000,000	48.9814%	April-03	\$79,191,685
		July-03	\$168,607,882
		Aug-03	\$22,933,304
		Sep-03	\$9,079,662
		Oct-03	\$95,301,036
		Dec-03	\$196,565,172