

Minutes of the August 11, 2005 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, August 11, 2005, at 11:30 a.m.

Members in attendance were: 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., and Mr. Benjamin S. Ruffin. Necessarily absent were Mr. Bradley T. Adcock and Mr. R. Steve Bowden. Other Board of Governors' members attending the meeting were J. Bradley Wilson, Brent D. Barringer, John W. Davis, III, Phillip R. Dixon, Willie J. Gilchrist, Adelaide Daniels Key, G. Leroy Lail, Charles H. Mercer, Jr., Fred G. Mills, Charles S. Norwood, Cary C. Owen, Gladys Ashe Robinson, Irvin A. Roseman, Estelle Sanders, Priscilla P. Taylor, and Zachary A. Wynne. Others attending the meeting were President Molly Corbett Broad; Vice Presidents Jeffrey R. Davies, Alan R. Mabe, Wayne McDevitt, Robyn R. Render, and Leslie Winner; Associate Vice Presidents Ginger Burks, George Burnette, Laura Foxx, Robert Fraser, David Harrison, Robert O. Nelson, Bob Samors, James O. Smith, and Joni Worthington; Associate Vice President and University Property Officer Terrance Feravich; Assistant Vice Presidents Shari Harris and Claudia Odom; and Special Assistant to the University Kennis R. Grogan. Also in attendance were Richard Bostic of the Fiscal Research Division, Kristin Crosson and Trey O'Quinn of the Office of State Budget and Management; Rosalind Fuse-Hall, Executive Assistant to the Chancellor, Roland H. Gaines, Vice Chancellor for Student Affairs, and Charles D. O'Duor, Vice Chancellor for Financial Affairs, of North Carolina Central University; Jon Yellin, Chief Financial Officer, and Anne White, Vice Chancellor for Student Life, at North Carolina School of the Arts, Brian Smith, Debt Manager at UNC-Chapel Hill; Chancellor T.J. Bryan (FSU), Chancellor James H. Ammons, Jr. (NCCU), Chancellor Rosemary DePaolo (UNC Wilmington), Jerry Baker, consultant to the Presidential Search Committee, and members of the press.

As designated by Board Chairman J. Bradley Wilson, Mr. Broadwell called the meeting to order.

The first item of business was to elect Committee officers. On the motion of Mr. Ruffin, seconded by Mr. Farris, Ms. Gage was elected Chair by unanimous consent. On the motion of Mr. Ruffin, seconded by Mr. Farris, Mr. Broadwell was elected Vice-Chair by unanimous consent. On the motion of Mr. Ruffin, seconded by Mr. Farris, Mr. Bowden was elected Secretary by unanimous consent.

Chair Gage then welcomed everyone to the meeting, thanked the other Committee members for their support, and expressed her views on items of importance for the Committee to address during the upcoming year.

Chair Gage then called upon Board of Governors' Chair Brad Wilson. Mr. Wilson announced that he was appointing a special Tuition Policy Task Force—to be co-chaired by Ms. Gage and Mr. Mercer—to make recommendations on improvements in policies and practices to ensure affordability, flexibility, and predictability in the tuition-setting process. In addition to the co-chairs, this group would include Brent Barringer, Peaches Gunter Blank, Steve Bowden, Ray Farris, Governor James Holshouser, Leroy Lail, Fred Mills, Jim Phillips, Gladys Robinson, Ben Ruffin, Craig Souza, and Zack Wynne, as well as three *ex officio* members: NCA&T Chancellor

James Renick, UNC-Chapel Hill Board Chair Nelson Schwab, and NC State Board Chair Wendell Murphy. The task force would be asked to expedite its work in order to bring a set of recommendations to the Board at its October meeting.

Next, Chair Gage called upon Mr. Jerry Baker, Presidential search consultant, to present a report on the search process.

At the Chair's request, President Broad informed the Committee of a new University-led initiative that would directly benefit the Kannapolis and Gaston County regions of the state, with a significant impact on the entire state's economy. The partnership between Dole Foods and the University of North Carolina would provide for the construction of manufacturing and research facilities, with an anticipated investment of \$750,000,000 in the Kannapolis region alone. The University's role in the Kannapolis revitalization was completely aligned with its historic three-part mission of teaching, research, and public service, and was in keeping with the Board of Governors' growing commitment to foster economic development in all parts of the state. Research conducted at these centers would attract top scientists and graduate students to North Carolina.

On the motion of Mr. Broadwell, seconded by Mr. Hans, President Broad was commended for her work and creative thinking in spearheading the Kannapolis-Dole Foods initiative. The Committee further agreed to give thoughtful consideration to a budget request to the General Assembly for funding to be provided to North Carolina State University and the University of North Carolina at Chapel Hill in support of the initiative.

The minutes of the meeting of May 12, 2005 were then approved.

- 1a. Allocation of Funds for Academic Salary Increases (EPA) for University Personnel and Personnel at the North Carolina School of Science and Mathematics: It was recommended that the General Fund appropriations for the 2% average salary increase for faculty and other employees who were exempt from the State Personnel Act (EPA) be allocated as shown in the table below.

University Operations	2% Increase Funds
Appalachian State University	\$ 1,587,572
East Carolina University	
Academic Affairs	2,691,681
Health Affairs	604,282
Elizabeth City State University	321,417
Fayetteville State University	576,680
North Carolina A & T State University	1,230,783
North Carolina Central University	819,185
North Carolina School of the Arts	298,973
North Carolina State University	4,557,766
UNC-Asheville	427,388
UNC-Chapel Hill	
Academic Affairs	3,626,302
Health Affairs	2,148,814

Area Health Education Centers	607,939
UNC-Charlotte	2,098,710
UNC-Greensboro	1,802,956
UNC-Pembroke	543,655
UNC-Wilmington	1,153,436
Western Carolina University	972,123
Winston-Salem State University	645,943
UNC-General Administration	247,172
Total	26,962,777
Agricultural Programs	
Agricultural Research Service	503,134
Cooperative Extension Service	501,536
Total	1,004,670
UNC Health Care System	77,764
N. C. School of Science & Mathematics *	144,509
TOTAL (includes estimated fringe benefits)	28,189,720

**Provides an annual average salary increase of 2% for non-teaching employees and an annual average salary increase (2.24%) comparable to that provided for public school teachers for all teaching employees of the N. C. School of Science and Mathematics.*

The 2% salary increase appropriation was proposed for distribution in exact proportion to the share of each institution in the General Fund salary base.

In addition, it was recommended that a separate General Fund appropriation for salary increases at the University Agricultural Programs be allocated as follows:

North Carolina State University	\$3,700,000
North Carolina A&T State University	300,000
Total	\$4,000,000

The allocations, as approved, were for expenditures in accordance with the Resolution on Faculty and Non-Faculty EPA Salary Increases 2005-06, subject to adoption of this Resolution by the Committee on Personnel and Tenure. The Board of Trustees of the North Carolina School of Science and Mathematics had the specific authority to establish policies and procedures for academic salary increases at the School.

It was further recommended that an additional appropriation of \$334,147 for increases in the salaries of the chancellors be held in a reserve account, pending further action by the Board of Governors.

This item included allocations from the Joint Conference Committee Report on the Continuation, Expansion and Capital Budgets, dated August 8, 2005. It was anticipated that the General Assembly would ratify the budget on August 11, 2005.

It was recommended that the Vice President for Finance be delegated the authority to adjust this recommendation to reflect technical amendments to the budget if any related

amendments were approved by the General Assembly. It was further recommended that the Committee on Budget and Finance be authorized to act on behalf of the Board between the August and September Board meetings should further actions by the General Assembly require Board action prior to the September meeting.

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

1b. Allocation Recommendations for Current Operations (attached)

This item included allocations from the Joint Conference Committee Report on the Continuation, Expansion and Capital Budgets, dated August 8, 2005 (Senate Bill 622). It was anticipated that the General Assembly would ratify the budget on August 11, 2005.

It was recommended that the Vice President for Finance be delegated the authority to adjust this recommendation to reflect technical amendments to the budget if any related amendments were approved by the General Assembly. It was further recommended that the Committee on Budget and Finance be authorized to act on behalf of the Board between the August and September Board meetings should further actions by the General Assembly require Board action prior to the September meeting.

It was recommended that the Allocation Recommendations for Current Operations appropriations be approved.

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

1c. Allocations of Funds for Capital Improvements (attached)

This item included allocations from The Joint Conference Committee Report on the Continuation, Expansion and Capital Budgets, dated August 8, 2005. It was anticipated that the General Assembly would ratify the budget on August 11, 2005.

It was recommended that the Vice President for Finance be delegated the authority to adjust this recommendation to reflect technical amendments to the budget if any related amendments were approved by the General Assembly. It was further recommended that the Committee on Budget and Finance be authorized to act on behalf of the Board between the August and September Board meetings should further actions by the General Assembly require Board action prior to the September meeting.

It was recommended that the Allocations of Funds for Capital improvements appropriations be approved.

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

2. The Board of Trustees of the University of North Carolina at Chapel Hill had requested the

authority to establish a new capital improvements project. Originally left as unfinished expansion space in 1997, this project would finish the 10,000 square-foot, fifth-floor of the McColl Building to provide needed program and instructional technology support space for the Kenan-Flagler Business School. Estimated to cost \$1.9 million, the project would be financed from gifts and trust funds.

It was recommended that the project be authorized and that the method of financing as proposed by the University of North Carolina at Chapel Hill be approved

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

3. 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 payable from all campus revenues excluding tuition and State appropriations.

The University of North Carolina at Chapel Hill requested that the Board issue special obligation bonds 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 2005 projects as listed below; (2) the costs of acquiring, constructing, and equipping capital improvement projects previously approved by the Board of Governors and the North Carolina General Assembly as listed below; (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 as explained below; (4) capitalizing interest on a portion of the 2005 Bonds; and (5) providing for the costs incurred in connection with the issuance of the 2005 Bonds. The size of the bond issue was being finalized. The issuance of bonds for new projects previously approved by the Board and the General Assembly was expected to total between \$385 million and \$400 million. These bonds included amounts needed to refund indebtedness consistent with the UNC-CH/NCSU Commercial Paper program. The issuance of bonds for refunding previous issues was expected to total between \$37 million and \$124 million, depending on projected savings.

The 2005 bonds would be issued for the following projects:

<u>Projects to be Funded from 2005 Bonds</u>	<u>Not to exceed Amount</u>
Burnett Womack Building	\$ 7,395,000
Cobb Residence Hall – Renovation	9,884,000
Renovations to Connor, Winston, and Alexander Residence Halls	10,000,000
Student Family Housing	49,000,000
Ramshead Complex for Parking and Student Support	56,800,000
Parking Facilities (Jackson Circle Parking Deck)	17,000,000
Parking Facilities (North East Parking Deck)	19,200,000
Public Health Teaching and Research Center	25,598,300
Residence College, Phase II	67,000,000

Science Complex - Phase I	26,891,500
Addition to Carrington Hall - School of Nursing	7,904,000
Major Infrastructure Improvements	119,044,000
Carmichael Fields # 2 and # 4	1,200,000
School of Medicine Research Facilities (Genetic Medicine)	110,700,000

The University planned to issue refunding bonds when it would achieve net present value savings of at least 2.0%. Potential refunding bonds included Parking System Revenue Bonds, Series 1997A, Housing System Revenue Bonds, Series 1997A, Student Fee Revenue Bonds (Student Union Center), Series 2000, and General Revenue Bonds, Series 2001A.

It was recommended that the authorizing Resolution be adopted and that the Vice President for Finance be authorized to sell the special obligation bonds between the August 2005 and October 2005 meetings of the Board.

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

4. The University of North Carolina at Charlotte requested authority to change the method of financing for two capital improvements projects.

In May 2005, at the request of the Board of Trustees of the University of North Carolina at Charlotte, the Board of Governors authorized a capital project for UNCC, construction of a new main entrance road. The project, estimated at \$4,000,000, would provide for the construction of a new main entrance road into the campus off of U.S. Highway 49 (University City Boulevard) to address increasing traffic pressures resulting from steadily increasing enrollment growth. The Board approved the project and the University's requested method of financing from a combination of available facilities and administrative receipts and gifts.

In March 2004, at the request of the Board of Trustees of the University of North Carolina at Charlotte, the Board of Governors approved a project that would provide for structural repairs and architectural enhancements to Cone Plaza, an exterior component of the Bonnie Cone University Center. The steel substructure of the plaza area was severely corroded and in danger of losing its structural integrity due to moisture intrusion. The project was estimated to cost \$634,000 and the Board approved the project and the University's requested method of financing from Cone Center receipts.

Pursuant to G.S. 116-30.3, the Office of State Budget and Management recently authorized UNCC to carry forward \$1,234,972 of unspent appropriations from fiscal year ending June 30, 2005. These funds could be used for one-time expenditures that did not incur a continuing obligation.

At this time, the University of North Carolina at Charlotte would like to amend their methods of financing the construction of a new main entrance road capital project and the repairs to Cone Plaza project to be a combination of available facilities and administrative

receipts, gifts, and carry forward funds. UNCC planned to use \$900,000 in carry-forward funds in lieu of facilities and administrative receipts for the road project and \$334,972 in carry-forward funds for the Cone Plaza repairs.

It was recommended that the methods of financing as revised by the University of North Carolina at Charlotte be approved.

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

5. At its May 2005 meeting, the Board of Governors approved a request from the Board of Trustees of the University of North Carolina at Greensboro to establish a new capital improvements project, Guaranteed Energy Savings Projects, to provide for the improvement of energy efficiencies on campus. The result would be cost savings sufficient to pay for the project, which would be financed over a maximum term of twelve years. The estimated cost of installing all energy efficient devices was \$5,809,000. Total guaranteed cost savings was \$6,253,000.

In Session Law 2002-161 (An Act to Promote Energy Efficiency in State-Owned Buildings), the General Assembly enabled state agencies to utilize guaranteed energy savings contracts as a method to reduce the state's increasing utility costs, improve efficiencies of operations, and reduce environmental impacts. The contracts would be forwarded to the State Treasurer who would provide funding through an investment vehicle of his choice which would be reimbursed by the campus over a twelve-year period. The energy service company must guarantee that 100% of the savings would be achieved and was liable for any shortfall.

Since the Board's approval, the Office of the State Treasurer had advised UNCG that, pending sufficient interest state-wide to justify this issuance of debt by the Treasurer, an alternative method for financing the project would be a lease-purchase agreement between a vendor and the University. UNCG had requested that their authority to use an energy performance contract be expanded to include the lease-purchase financing option.

It was recommended that the change to the method of financing as requested by the University of North Carolina at Greensboro be approved and that the proposed contract be forwarded to the Department of Administration, the Office of State Budget and Management, the State Treasurer, and the Council of State for final approval.

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

6. It was reported that on July 15, 2005, the Chancellor of North Carolina Central University informed the President of the need to invoke emergency procedures to immediately enter into a lease agreement for 480 beds to accommodate an unusually high number of students that had paid deposits for on-campus housing for the fall semester. This action was necessary to have proper rooms available for students that began arriving on August 3, 2005, to provide students timely notification of their room assignments, and to prevent a reduction in NCCU's enrollment.

The State Property Office competitively secured and the Council of State had approved a lease for the duration of the 2005-06 academic year with Campus Apartments, Inc. (Philadelphia) at their Campus Crossing Apartments Community located at 1400 E. Cornwallis Drive in Durham.

The estimated cost of the lease was \$2.6 million or \$19.53 per bed per day including utilities, janitorial services, transportation, security, and furnishings. Office space for NCCU staff and complex common spaces were provided at no additional charge. The cost of the lease would be funded from student housing receipts and housing reserves.

7. In 2001, the NCSA Housing Corporation was organized as a non-profit entity whose purpose was to support and aid North Carolina School of the Arts by providing modern residential facilities to students. In 2002, the NCSA Housing Corporation acquired a site adjacent to the NCSA campus and constructed a 156-bed student housing complex.

The North Carolina School of the Arts now requested approval to lease the student housing complex, known as Center Stage, from the NCSA Corporation. The cost would be consistent with the current rate structure for comparable residence halls on campus. This leasing arrangement would enable the School of the Arts to meet the long-term projected housing demands on campus. The lease term would not exceed 32 years. Lease payments would be made from student housing receipts and would be used to retire tax-exempt, long-term indebtedness issued by the Corporation to cover the cost of constructing the facility.

The acquisition of the 156 beds would be accomplished within the guidelines, procedures, and policies of the North Carolina Department of Administration and would be subject to approval by the Council of State.

It was requested that the Board of Governors adopt the authorizing Resolution and that the NCSA request be transmitted to the Council of State for final action.

On the recommendation of Mr. Broadwell, seconded by Mr. Burns, the recommendation was approved.

Chair Gage then asked Mr. Fraser and Ms. Harris to present the update on the 2000 Higher Education Bond program. Since May's Board meeting, the Bond Program had reached another milestone, more than \$2 billion had been contractually committed. On a program-wide basis, approximately 80.4% of the bond funds were committed. Almost 30% of the construction work had now been completed. The most recent data indicated that there were 116 completed projects.

The second graduating class of the "Contractor's Academy" celebrated another kind of milestone with its June graduation. Contractor academies were proving to be a valuable means of ensuring future HUB participation. Contractors were provided with knowledge on how to compete for jobs and with the skills to manage the various aspects of the bidding and contracting process.

Networking with the constituencies involved in construction in the State had also continued.

Recent meetings had involved representatives of the Association of General Contractors and the North Carolina American Institute of Architects. Regularly scheduled meetings had been established with the Director of the State Construction Office and with representatives of the Department of Insurance's Plan Review section in an effort to facilitate communication, to provide opportunities for problem solving, and to discuss methods for improving processes and outcomes. The quarterly meeting of the Bond Alliance had been held on July 27.

On the motion of Mr. Broadwell, seconded by Governor Holshouser, the Committee went into closed session to consult with legal counsel to establish or instruct the staff concerning the negotiation of the price and terms of contracts concerning the acquisition of real property.

CLOSED SESSION

The Committee returned to open session.

There being no further business, the meeting was adjourned.

Ms. Hannah Gage
Chair of the Committee
on Budget and Finance

Mr. R. Steve Bowden
Secretary of the Committee
on Budget and Finance