

**EXECUTIVE SUMMARY**  
**ANNUAL REPORT**  
**OF THE COMMITTEE ON BUDGET AND FINANCE TO THE**  
**BOARD OF GOVERNORS OF THE UNIVERSITY OF NORTH CAROLINA**  
**July 1, 2004 through June 30, 2005**

The Committee on Budget and Finance met 12 times between July 1, 2004, and June 30, 2005. Ten of the meetings were held to conduct committee business and two of the meetings were workshops held for the purpose of discussing the *2005-07 Budget Request of the Board of Governors*.

**BUDGETS AND ALLOCATIONS, TUITION AND FEES**

The Committee considered campus requests for tuition and fee increases and made recommendations for these increases to the Board. The Committee recommended that there be no increase in tuition for undergraduate resident students for the 2005-06 academic year. Tuition increases for resident graduate and professional students and all nonresident students were recommended as requested by the campuses. A \$140 increase proposed by UNC Pembroke would support the establishment of a football program – along with anticipated gate receipts, booster club revenue, and foundation contributions.

The Committee made recommendations to the Board for allocating expansion funds provided by the General Assembly. Included among the allocations were appropriations for an annual salary increase of 2.5% for faculty and other employees who were exempt from the State Personnel Act (EPA). The General Assembly had appropriated \$83,327,040 for University Operations; \$2,321,199 for Agricultural Programs; \$4,620,000 for Related Educational Programs; and \$1,480,000 for the North Carolina School of Science and Mathematics. The 2004 Session of the General Assembly made no appropriations for expansions and improvements at the UNC Health Care System. Several special appropriations to the Board of Governors totaling \$6,792,260 were directed to program areas not included in the Schedule of Priorities requests.

The General Assembly provided \$17,500,000 from the Escheat Fund for the Board's need-based student financial aid program.

The 2004 Session also made budget reductions of \$40,741,659 in the continuing operating budgets of The University.

In November, the Committee recommended approval of the *2005-07 Budget Request of the Board of Governors* and it was forwarded to the Governor and General Assembly for consideration during the 2005 legislative session. The *Request* identified the funding needed to carry out the six strategic priorities of the Board of Governors.

Per the Board's policy, the Committee recommended that the budget for UNC Asheville be reduced by \$97,570 and that the funds be reallocated to the Board's need-based financial aid program for resident students. The Fall 2004 Enrollment Report indicated that UNC Asheville had nonresident freshmen enrollment – for two consecutive years – that exceeded 18% of the freshmen class.

## **CAPITAL IMPROVEMENTS**

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

In addition, the Committee recommended the following: the allocation of \$12,500,000 made available in the State budget for capital improvements; the approval of projects funded by the General Assembly through special indebtedness – proposed projects totaled \$388,000,000; the allocation of \$35,325,786 for repairs and renovations; and the authorization of 30 capital improvements projects totaling \$298,557,000 and 11 supplements to previously approved capital improvements projects totaling \$114,578,000, all funded from nonappropriated sources to be submitted to the General Assembly for approval.

## **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 institutional issues of bonds totaling in excess of \$103 million for either financing new projects to refunding outstanding bonds when interest rate savings could be achieved.

The Committee further recommended approval of a variable-rate demand bond pooled loan program for fall 2004. The amount of the bonds issued would not exceed \$55 million. In March 2005, a pooled loan program was recommended for approval that would not exceed \$115 million.

The Committee recommended approval of special obligation bonds not to exceed \$110,000,000 for North Carolina State University.

The Committee recommended adoption of an authorizing Resolution and recommended that the Vice President for Finance be authorized to issue bonds as needed to carry out a commercial paper bonds program for North Carolina State University and the University of North Carolina at Chapel Hill.

The Committee recommended a resolution authorizing the Vice President for Finance and the Senior Associate Vice President for Finance to negotiate the terms and enter into Interest Rate Swap Agreements with respect to the bonds proposed to be issued for NC State in 2006.

## **PROPERTY**

The Committee is responsible for reviewing requests by Board of Trustees for the acquisition of property, either by purchase, lease, or exchange. Recommendations made by the Committee during the year included the following: six leases of property at four institutions; purchase of eleven parcels by six institutions; three ground leases at two institutions; disposition of a 345-acre parcel in northern Chatham County to the N.C. Wildlife Resources Commission and disposition of a 420-acre parcel in southeastern Wake County; several dispositions by easement or demolition, as well as one exchange of property. Leasing arrangements were approved for

N.C. State, UNC Charlotte, UNC Greensboro, UNC Wilmington, Western Carolina University and Winston-Salem State University to enable the universities to meet long-term projected housing demands associated with campus growth. Lease payments would be made from student housing receipts.

In April of 2001, the Committee recommended delegation to the Office of the President to authorize the execution of leases valued up to \$150,000 and the execution of contracts to acquire real property valued up to \$250,000. Actions taken under the delegated authority would be reported at the next scheduled meeting. Five leases of property at four institutions, and ten acquisitions of real property at four institutions were approved under the delegated authority.

## **OTHER ACTIONS**

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

In November, the Committee recommended for approval the recommendations of the Special Committee Reviewing the Funding Model for Enrollment Growth. The Committee held a series of meetings from September 2003 to October 2004.

The Selection Criteria and Operating Instructions for Special Responsibility Constituent Institutions, revised to clarify that campus Boards of Trustees had the authority to procure equipment through a lease without the approval of the Board of Governors, was recommended for approval.

The *Summary of Institutional Annual Reports, 2003-04*, was recommended for approval.

The report on the amount and uses of facilities and administrative receipts was recommended for approval.

The purchasing benchmark for Elizabeth City State University was recommended to be set at \$100,000 effective April 1, 2005.

## **INFORMATION SESSIONS**

In September, the Committee received information on privatized housing under construction and operational in the university system.

The Committee received an overview of the mission and activities of The University of North Carolina's Association of Student Governments.

Information was presented on tuition and fee trends. Comparisons of tuition and fee increases from the Southern Regional Education Board and from the Washington State Study on Tuition and Fees were discussed, as well as other approaches to tuition increases nationwide.

In October, the Committee received information about ongoing activities of the Finance staff in the President's Office to ensure fiscal integrity at the constituent institutions. The function and reporting of internal auditors was discussed.

In November, President Broad discussed steps taken at the North Carolina School of the Arts to address the findings of the State Auditor in his special review.

Board Chair Wilson appointed the Task Force on Best Financial Practices to outline the role that the Board should play in ensuring financial integrity system-wide, including accountability within non-profit entities established in support of the campuses.

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OF THE COMMITTEE ON BUDGET AND FINANCE TO THE  
BOARD OF GOVERNORS OF THE UNIVERSITY OF NORTH CAROLINA  
July 1, 2004 through June 30, 2005**

The Committee on Budget and Finance met 12 times between July 1, 2004, and June 30, 2005.

The Committee was composed of the following Board members: 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 B. Holshouser, Jr., Mr. Jim W. Phillips, Jr., and Mr. Benjamin S. Ruffin. At the August meeting, the Committee elected Mr. Phillips as Chair, Ms. Gage as Vice-Chair, and Mr. Broadwell as Secretary. In February, Board of Governors' Chairman J. Bradley Wilson assigned Mr. Craig Souza to the Committee. On June 30, Mr. Phillips and Mr. Souza rotated off 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.

Workshops by Committee

The Committee on Budget and Finance hosted two workshops for the purpose of discussing the *2005-07 Budget Request of the Board of Governors*. The first workshop was held on Friday, September 10, and the second workshop was held on Friday, October 8, 2004.

## **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 and fee rates.

### Tuition

In October, the process for establishing rates for tuition and fees for the 2005-06 academic year began. Chairman Phillips asked that campuses requesting increases in tuition identify the need for the additional receipts and provide information on the impact of increased rates on access. In February, each chancellor appeared before the Committee to explain his/her proposal for increasing tuition and fees and, in general, discussed the need for funds to ensure competitiveness in faculty salaries, to increase the pool of funding available for financial aid funding, to expand student services, and to meet the Board's directives to reduce class size, increase section offerings, and hire more permanent and less part-time faculty. At its February meeting, the Committee recommended that, in light of past increases and the State's economic circumstances, there would be no increases in tuition rates for undergraduate resident students. In March, tuition increases for resident graduate and professional students and all nonresident students were recommended to the Board as requested by the campuses. Also in March, the special tuition rates for nonresident students with special talents and nonresident graduate teaching or research assistants, as well as the methodology for determining tuition charges for students enrolled in degree-credit distance education courses were recommended for approval.

At the May meeting, in response to a special provision in the budget bill then currently under consideration by the General Assembly that would allow the Boards of Trustees at NCSU and UNC-CH to set tuition rates independent of the Board of Governors, the Committee engaged in substantial discussion and recommended the following resolution to the Board for consideration:

#### Resolution in Support of Preserving Tuition-Setting Authorities of the UNC Board of Governors

WHEREAS, the general statutes of North Carolina charge the Board of Governors of the University of North Carolina with responsibility for the general determination, control, supervision, management, and governance of all affairs of the sixteen constituent institutions; and

WHEREAS, this system of university governance has been recognized across the United States as highly effective, has served as a model for other state university systems, and has, among other things, been responsible for establishing the University of North Carolina as one of the leading university systems in the country; and

WHEREAS, decisions related to tuition rates at each of the sixteen campuses are important policy determinations that fundamentally impact the access of North Carolina citizens to the University and affect the system as a whole; and

WHEREAS, a special provision recently passed by the Senate would allow the boards of trustees of North Carolina State University and the University of North Carolina at Chapel Hill to set tuition rates for those campuses independent of the Board of Governors, thereby impeding the Board of Governors' ability to effectively manage and govern the University in the public interest;

NOW, THEREFORE, BE IT RESOLVED that the Board of Governors affirms its strong conviction that it is in the entire University's best interests for it to retain responsibility for establishing tuition rates for all sixteen constituent institutions of the University of North Carolina, consistent with current statutes and policies.

BE IT FURTHER RESOLVED that the Board of Governors directs the President of the University to transmit this resolution to such state lawmakers, policymakers, and others as appropriate.

Also in May, the Committee recommended that the Board oppose a special provision in the Senate budget that provided for nonresident undergraduate students that received full scholarships to be treated as resident students. The impact of this provision would place an additional financial burden on the system that would be in excess of \$32 million annually.

### Fees

In March, the RESOLUTION AUTHORIZING FEES for the 2005-06 academic year was recommended for approval. The Committee delayed action on an increase in the athletics fee at UNC Pembroke and the Chair asked three committee members to visit that campus to learn more about the proposed fee. The \$140 increase proposed by UNC Pembroke would support the establishment of a football program – along with anticipated gate receipts, booster club revenue, and foundation contributions. At the April meeting, the \$140 increase in the athletics fee was recommended to the Board for approval.

### Allocations of Appropriations

In July, with the date for passage of the 2004-05 State Budget uncertain, but anticipated before the September meeting of the Board, the Committee requested and was delegated the authority to act on behalf of the Board between meetings to allocate any funds appropriated by the General Assembly for expansions and improvements for the 2004-05 fiscal year, as well as budget reductions enacted by the General Assembly. The Committee was further delegated the authority to allocate any funds made available for capital improvements and repairs and renovations.

### Academic Salary Increases

The Committee recommended allocations of General Fund appropriations in the amount of \$32,121,281, an amount equivalent to a 2.5% average salary increase for faculty and other employees exempt from the State Personnel Act (EPA). The 2.5% salary increase appropriation was recommended for distribution in exact proportion to the share of each institution in the General Fund salary base. 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.

### Current Operations

The Committee recommended approval of the appropriations provided in Session Law 2004-124 “Current Operations and Capital Improvements Appropriations Act of 2004” as follows: \$83,327,040 for University Operations; \$2,321,199 for Agricultural Programs; \$4,620,000 for Related Educational Programs; and \$1,480,000 for the North Carolina School of Science and Mathematics. The 2004 Session of the General Assembly made no appropriations for expansion and improvements at the UNC Health Care System. Several special appropriations to the Board of Governors totaling \$6,792,260 were directed to program areas not included in the Schedule of Priorities requests.

### Need-Based Student Financial Aid Plan

The General Assembly provided \$17,500,000 from the Escheat Fund for the Board's need-based student financial aid program. The General Assembly further provided \$390,000 from the Escheat Fund to fund need-based scholarships for students enrolled in the teacher education programs at the historically black colleges and universities that did not have any teaching fellows (Elizabeth City State University, Fayetteville State University, and Winston-Salem State University).

### Budget Reductions

The 2004 General Assembly enacted budget reductions totaling \$40,741,659 in the continuing operating budgets of The University. Section 9.1 of House Bill 1414 also 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. The summary report was presented for approval in October and later transmitted to the Office of State Budget and Management and the Fiscal Research Division by December 31, 2004.

### Special Provision

The Current Operations and Capital Improvements Appropriations Act of 2004 (SL 2004-124) included a special provision that directed the Board of Governors to fund a study required by House Bill 1264 that was to ensure that the North Carolina Community College System and The University of North Carolina had the necessary programs and facilities to produce the future workforce that would contribute successfully to the North Carolina economy. The provision stated that the study should be financed from "funds appropriated to The University of North Carolina." Consistent with the historical interpretation of this language, the Committee recommended a nonrecurring reduction to institutional budgets to be spread over two fiscal years to lessen the impact of the additional reductions on institutional budgets in the current fiscal year. It was also recommended that the \$2,000,000 be allocated to UNC-General Administration, Institutional Programs, to fund the study as required by the General Assembly.

### 2005-07 Budget Request

In November, the Committee recommended approval of the *2005-07 Budget Request of the Board of Governors* and the request was forwarded to the Governor and General Assembly for consideration during the 2005 legislative session. 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. The *Request* identified the funding needed to carry out the six strategic priorities of the Board of Governors.

In February, an amendment was recommended to include additional funds in the amount of \$3,200,000 in 2005-06 and 2006-07 to hold North Carolina students harmless from changes in the federal Pell Grant formula.

In March, a second amendment was recommended to request additional recurring funds in the amount of \$585,565 in 2005-06 and \$1,523,183 in 2006-07 for the North Carolina School of Science and Mathematics Tuition Grant Program, the North Carolina Millennium Teacher Scholarship Loan Program, and the Health, Science and Mathematics Student Loan Program.



The 2004 session of the North Carolina General Assembly instituted a program, funded by an appropriation of \$390,000 from the Escheat Fund, to provide for need-based scholarships for students enrolled in the teacher education programs at the HBCUs that did not have any teaching fellows (ECSU, FSU and WSSU). It was recommended that the Budget Request for Current Operations be increased to seek recurring funding of \$390,000 in 2005-06 and \$780,000 in 2006-07 to continue each subsequent class of students.

The Health, Science and Mathematics Student Loan Program was available to North Carolina residents who had been accepted as full-time students in accredited associate, baccalaureate, master's or doctoral programs leading to a degree. Students must be studying in specified health, science, or mathematic-related fields and may attend a North Carolina postsecondary institution or an eligible out-of-state institution. The Committee recommended a request for an additional recurring appropriation of \$1,100,000 in order for the program to make loans to new students. Without this funding, in 2005-06, the program could renew current recipients but could not make any new loans.

The Committee recommended a change in the method of financing a project for the construction of the Family Medicine Center at ECU. Instead of requesting appropriations, the Committee recommended that the project be financed with funds available to the Brody School of Medicine from Medicare reimbursements for education costs, gifts, grants, receipts, self-liquidating indebtedness, or other funds, or any combination of these funds. It further recommended that a revised method of financing for the Family Medicine Center at ECU be forwarded to the North Carolina General Assembly for consideration during the 2005 Session. The Family Medicine Center was included in the Board's request with an estimated cost of \$30,000,000. Because of the urgent need for the replacement of the current facility and the inability of the General Assembly to appropriate funds for this purpose, the Board of Trustees of East Carolina University had requested that the Board of Governors approve a revised method of financing for the project.

#### Budget Adjustment – 18% Nonresident Freshman Enrollment

In January, for the 2004-05 fiscal year, it was recommended that the budget for UNC Asheville be reduced by \$97,570 and that the funds be reallocated to the Board's need-based financial aid program for resident students. The fall 2004 Enrollment Report indicated that UNC Asheville had nonresident freshmen enrollment – for two consecutive years – that exceeded 18% of the freshmen class, an over-enrollment of thirteen (13) nonresident freshmen students. The Board's policy required a budgetary adjustment at the institution.

#### Delegated Authority

In May 2005, it was recommended that the Committee on Budget and Finance be delegated the authority to allocate funds made available by the General Assembly if the 2006 State budget was ratified prior to the August meeting of the Board. There would be a special meeting for this purpose and the entire Board would be invited to participate, either in person or via telephone.

## **CAPITAL IMPROVEMENTS**

### **Higher Education Bond Program**

Senate Bill 912, 1999 Session, authorized the issuance of \$3,100,000 in higher education bonds subject to a vote of the qualified voters of the State. In November, 2000, upon the approval of a majority of voters, \$2.5 billion was made available to the University of North Carolina for capital improvements.

Senate Bill 912 further required that the Board of Governors report annually to the Joint Legislative Commission on Governmental Operations and the Joint Legislative Education Oversight Committee on the bond program as well as on the condition of the University's capital facilities and proposed repair, renovation, and maintenance projects. The report was recommended for approval in September 2004 and transmitted to the Joint Legislative Commission on Governmental Operations and the Joint Legislative Education Oversight Committee.

At each of its meetings, the Committee received a progress report on the UNC bond program.

One important accomplishment in meeting the Board's directive to provide ample participation for minority contractors had been the graduation of 23 minority contractors from The Contractor Academy. The pilot program was the result of a consorted effort between UNC, the Carolinas Associated General Contractors, Small Business Technology & Development Center, the N.C. Institute of Minority and Economic Development, and local prime general contractors. The program focused on developing skills essential to managing a competitive construction business. As a result of the Academy, five of the participants had formed a joint venture, Academy Construction, Inc.

In January and February, it was reported that 64% of the bond program was under contract and that half of the authorized funding had been expended and that 312 of the 316 certified projects were underway or completed. 80 projects were in design, 154 projects were in construction, and over 550 contracts were being managed. The program had more than \$1.67 billion under contract or completed. With the State Treasurer's December 2004 bond sale, additional allotments totaling over \$251 million were distributed to the campuses in January 2005 and were expected to sustain the program's expenditure stream through June 2005. Though moderating because of the holiday season, the program's cash flow had been averaging more than \$50 million per month. This construction level continued to benefit the North Carolina economy by providing an estimated 52,700 jobs. The program teams at the campuses continued to work through the specific challenges of an increasing demand for construction services, material cost increases, and local contractors, large and small, who had committed their available capacity.

In May 2005, it was reported that another milestone had been accomplished in the University bond program – all projects were now underway. With all projects under design, more construction contracts awarded, and more projects completed, the bond program was entering the "home stretch." While the significant escalation of construction prices experienced over the last year appeared to have slowed, higher price levels were expected to continue and could significantly impact the projects remaining to be constructed. During April, each campus assessed the impact of inflationary increases and the President's Office engaged in discussions with the campuses to ensure that the final portion of the program would be expedited effectively.

Engaging the minority community in the remaining opportunities and building a base for participation in future projects continued to be a high priority. The successful “Contractor’s Academy” would be expanded with additional sessions.

### Allocation of Capital Improvements

In August, the Committee recommended the allocation of funds for capital improvements. The General Assembly in House Bill 1414 appropriated \$12,500,000 from the General Fund for the following projects, as specified in the Joint Conference Committee Report of July 17, 2004.

Center for Design Innovation - \$2,000,000  
Winston-Salem State University – Department of Life Sciences (acquire land and space) - \$2,000,000  
NC A&T State University and UNC-Greensboro Millennium Campus - \$4,000,000  
NC Motorsports Testing and Research Complex - \$4,000,000  
UNC-Wilmington School of Nursing - \$500,000

In addition to the capital projects included above, House Bill 1264 authorized the issuance of special indebtedness totaling \$388,000,000 for the following capital projects and land acquisitions to promote health-related and other programs in The University of North Carolina.

Institution and Project	Authorization
East Carolina University	
Eastern Carolina Cardiovascular Diseases Institute	\$ 60,000,000
Elizabeth City State University	
Pharmacy School	28,000,000
Fayetteville State University	
Center of Excellence of Teaching and Nursing	10,000,000
North Carolina A&T State University and UNC Greensboro	
Joint Millennial Campus	10,000,000
North Carolina School of the Arts and Winston-Salem State University	
Joint Center for Design Innovation	10,000,000
UNC Asheville	
Center for Health Promotions and Partnerships	35,000,000
UNC Charlotte	
Bioinformatics Center	35,000,000
UNC Pembroke	
Optometry School	10,000,000
Western Carolina University, the Mountain Area Health Education Consortium, and the N. C. Center for Aging	
Consortium Funds	10,000,000
UNC Health Care System	
North Carolina Clinical Cancer Hospital	180,000,000

The Committee recommended that institutions provide the President with plans for expending the above-stated funds. The plans should include the identification of any proposed new degree programs and should link the establishment of those programs to construction timelines. Proposals for new degree programs would follow the review and approval processes required by the Board of Governors.

In October, the plans for carrying out the above projects were presented to the Board for approval.

The projects at the UNC Health Care System (North Carolina Cancer Hospital) and at East Carolina University (Eastern Carolina Cardiovascular Facility) were funded by the General Assembly at the request of the Board; therefore, no additional Board action was required before the Board allowed those projects to begin. The projects at Elizabeth City State University (School of Pharmacy) and the University of North Carolina at Pembroke (Optometry School) required the authorization of academic programs upon the recommendation of the Committee on Educational Planning, Policies and Programs before proceeding with the design of a facility.

For ECSU, in November, it was recommended that \$2,500,000 of the \$28,000,000 allocation be made available to provide temporary facilities for students in the Joint Pharmacy Program.

For WCU, in October, it was recommended that \$1,300,000 of the \$10,000,000 allocation be made available for advanced planning activities for a new Health and Gerontological Sciences facility at WCU. In February, it was recommended that the remaining \$8,700,000 for land acquisition (budgeted at \$7,000,000), advanced planning of the MAHEC facility (budgeted at \$1,261,575), engineering studies/utilities extensions (budgeted at \$393,296), and additional advanced planning for the Health and Gerontological Sciences Building at WCU (\$45,129) be allocated. Land proposed to be purchased for use by the partnership would follow the approved University and State acquisition process including being subject to specific review and approval by the Board of Governors.

At the May 2005 meeting, the Board of Governors approved the establishment of the Center for Design Innovation; therefore, the Committee recommended that the \$2,000,000 made available through House Bill 1414 be allocated to the North Carolina School of the Arts. Through House Bill 1264, of the \$10,000,000 made available to jointly pursue the acquisition of land and other services, it was recommended that \$5,000,000 be allocated to the North Carolina School of the Arts and the remaining \$5,000,000 be allocated to Winston-Salem State University.

#### Reserve for Repairs and Renovations

The 2004 Regular Session of the 2003 General Assembly appropriated \$76,797,361 to the Statewide Reserve for Repairs and Renovations, of which \$35,326,786 (46%) was allocated to the Board of Governors of The University of North Carolina. Of that amount, \$26,420,144 was to be further allocated by the Board in accordance with the guidelines developed in The University of North Carolina Funding Allocation Model for Reserve for Repairs and Renovations, while \$8,906,642 was designated to restore bond funds used for mold remediation, as authorized by S.L. 2003-284, at North Carolina Central University.

#### Nonappropriated Capital Improvements Project Authorizations

In response to the Board's request, the 2004 General Assembly in House Bill 1699 authorized 35 nonappropriated capital projects totaling \$355,482,900.

### Nonappropriated Projects for Authorization by the 2005 General Assembly

In March, the Committee recommended approval of 30 capital improvements projects at ten institutions totaling \$298,557,000. It was further recommended that the Board approve 11 supplements to previously approved capital improvements projects at six institutions totaling \$114,578,000. The projects were forwarded to the General Assembly for authorization during the 2005 Session.

### Emergency Projects

In July, the Chancellor of the University of North Carolina at Chapel Hill had informed the President of the need to invoke emergency procedures as allowed by G.S. 143-129 to provide for two capital improvements projects. The first project involved removal and replacement of three trailers located in the UNC-CH Medical School complex. The project, estimated to cost \$350,000, would be funded from facilities and administrative receipts. The second project provided for repairs to the bathroom floors in Old West residence hall. The project, expected to cost \$500,000, would be funded from housing receipts.

In early August, the Chancellor of North Carolina Agricultural and Technical State University informed the President of the need to invoke emergency procedures to immediately enter into a lease agreement for up to 94 beds to accommodate students wishing to reside on campus for the fall semester. Estimated at \$87,730, the cost of the lease would be funded from housing reserves.

In accordance with emergency procedures, the State Building Commission had been notified of all projects.

### 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 nonappropriated funds.

#### **East Carolina University**

Replacement and Upgrade of the First Alarm System in Clement Residence Hall	\$ 287,700
Replacement of Non-Fire-Rated Corridor and Room Doors in Fletcher Residence Hall	378,000
Abatement of Asbestos-Containing Floor Tile and Pipe Insulation in Green Residence Hall and Tyler Residence Hall	330,004

#### **North Carolina A&T State University**

Renovation of the Sebastian Health Center	1,400,000
Agricultural Farm Pavilion	1,200,000

#### **North Carolina State University**

Contamination Remediation System for Groundwater at the NC State Lot 86 Superfund Site	525,000
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**The University of North Carolina at Charlotte**

Main Entrance Road into Campus off U.S. Highway 49	\$4,000,000
Resurfacing of the Intercollegiate Running Track at the Belk Track and Field Complex	750,000
Expansion of Cameron Boulevard	500,000

**The University of North Carolina at Greensboro**

Guaranteed Energy Savings Projects (cost savings guaranteed to pay for the project and would be financed over a maximum term of 12 years)	5,809,000 (cost of installing all energy efficient devices)
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Capital improvements actions initiated throughout the year by the President pursuant to Board delegation are reported below. The following increases in authorization were approved:

**East Carolina University**

West End Dining Hall	\$ 33,062
1999 Repairs and Renovation	1,131,443
Fleming Hall Door and Window Replacement	42,293
Aycock Basement Renovation	12,000
White Residence Hall Elevator Replacement	25,525
Fire Safety Improvements in Student Residence Halls	391,700
Academic Space Requirements – Teaching Laboratories	350,000
North Recreation Complex Fields	275,000
Cotton Hall Asbestos Abatement	270

**Fayetteville State University**

Taylor Gymnasium – Conversion of Building for Academic Use	925,000
Science Annex – Comprehensive Renovation	75,000
Seabrook Auditorium – Comprehensive Renovation	150,000

**North Carolina A&T State University**

Improvements to School of Agriculture Facilities	606,480
Three Classroom Buildings (Dudley, Gibbs, and Moore) – Comprehensive Renovation	73,953
2000 Repairs and Renovation	83,693

**North Carolina Central University**

Repairs to Five Academic Buildings	150,000
Restore Bond Funds Used for Mold Remediation	24,315

**North Carolina School of the Arts**

Residence Hall	50,000
Student Activity Center	87,771

**North Carolina State University**

Engineering Instruction Facility, Advance Planning	75,000
Research Laboratory Space – Phase I	150,000
Renovations of University Graphics Building	14,000
Turfgrass Field Storage Facility	71,200
2000 Repairs and Renovation	625,282
Lot 86 Superfund Site	500,000
Sullivan Drive Shops Replacement Building – Phase II	180,983
Reynolds Coliseum Improvements	1,080,000
Schaub Food Science Building – Comprehensive Renovation	771,961
Gold, Welch, and Syme Residence Halls (HVAC, Sprinklers, Fire Alarm)	168,567
Turlington and Alexander Residence Halls (HVAC, Sprinklers, Fire Alarm)	163,062

Rocky Branch Bank Stabilization	\$ 625,000
Library – Addition	628,000
4-H Environmental Education Center (1995 Appropriation)	87,202
Sullivan Drive Shops Replacement Building – Phase II	145,000
<b>UNC Asheville</b>	
Justice Center Gymnasium Partial Renovation	3,124
Relocate Physical Plant Facilities	364,766
<b>North Carolina Arboretum</b>	
Greenhouse Exhibition Center	350,000
<b>UNC-Chapel Hill</b>	
Brauer Hall – Comprehensive Renovation of Dental Clinic	750,000
Infrastructure Improvements – Main Campus`	5,000,000
School of Dentistry Building – Renovation and Conversion from Operatory to General Academic Use	240,189
Rizzo Center – Expansion	1,800,000
Infrastructure Improvements – Main Campus	29,058
Ramshead Parking Lot Development	23,324
Taylor Student Health Roof Replacement	30,000
New West Classroom Building – Comprehensive Renovation	16,640
YMCA Building – Renovation	476,640
Parking Lot Maintenance Repairs 2001	45,156
Morrison Residence Hall – Renovations	137,455
Saunders Hall Classroom Building – Comprehensive Renovation	250,000
Science Complex – Phase II	230,400
Memorial Hall Additional Renovations, Advance Planning	97,350
Morrison Residence Hall – Renovations	362,545
440 West Franklin Street – Comprehensive Renovation and Conversion for Information Technology and Data Processing	1,000,000
Glaxo/Molecular Biology Research Laboratories – Renovation	90,000
Physical Plant Support Facilities	87,000
Jackson Place Parking Deck	1,800,000
<b>UNC-Charlotte</b>	
Graduate Engineering and Research Building	1,000,000
Physical Plant and Campus Public Safety Facilities	250,000
Rowe Classroom Building – Comprehensive Renovation	32,175
Library Tower Exterior Masonry Replacement	550,000
<b>UNC Greensboro</b>	
Softball Field	646,000
Elliott University Center Connector to Library	150,000
Gove Health Center	1,500,000
HVAC Renovation Phase III (Guilford, Mary Foust and Dining Hall)	450,000
Meeting/Seminar/Office Space – Alumni House – Code Compliance and Building System Replacements	402,367
Dining Hall Roof Replacement	150,000
Joint Millennial Campus	3,600,000
<b>UNC Pembroke</b>	
Improvements to Recreational, Athletic, and Physical Education Facilities	13,078
University Center Expansion	845,557
<b>UNC Wilmington</b>	
Westside Hall Classroom Building – Comprehensive Renovation	20,593
Marine Sciences Research Center Operations Facility	603,259

<b>Western Carolina University</b>	
Access Control for Residence Halls	\$ 200,000
Athletic Facilities Improvement, Part 2	42,000
2000 Repairs and Renovation	18,411
Infrastructure Improvements (Steam and Electrical)	97,000
2000 Repairs and Renovation	18,411
Student Recreation Center	1,225,000
Infrastructure Improvements (Steam and Electrical)	1,200,000
Master Plan	75,000
Athletic Facilities Improvement, Part 2	326,000
WNC Regional Labor Force Development Center	65,121
Reynolds and Buchanan Residence Halls Fire Safety Improvements	65,000
<b>Winston-Salem State University</b>	
Physical and Life Sciences Building – Replacement of Hill Hall	170,000
Renovations to Residence Halls	17,124
<b>Total</b>	<b>\$36,688,505</b>

In, 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. One project was approved under this delegation.

<b>North Carolina State University</b>	
Official Varietal Testing Equipment Storage Facility	\$231,000

## **INSTITUTIONAL BORROWINGS**

The Committee continued the process of delegating the issuance of 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. In 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.

<b>Appalachian State University</b>	
Renovate White Residence Hall (approximately \$7 million); Renovate Lovill Residence Hall (approximately \$5 million); and Construct a new Athletics Field House and install new football stadium field turf and other improvements to athletic facilities (approximately \$16 million)	\$28,000,000
Refund two outstanding debt issues: (1) Parking System Revenue Bonds, Series 2000 (approximately \$10 million), and (2) Housing and Student Center System Revenue Bonds, Series 2000 (approximately \$13 million)	23,000,000
<b>East Carolina University</b>	
Baseball Stadium project, Housing Renovation project, Refunding 1996 Bonds, and Refunding 1998A Bonds	19,285,000



### Pooled Issues

In November 1998, the Board approved the first issuance of pooled bonds to provide long-term financing for multiple campuses at one time in lieu of individual institutional issues. A pooled issue presented an attractive offering for investors often resulting in lower interest rates and improved bond insurance rates. Additionally, the fixed costs of issuing bonds were spread among all participants resulting in savings for individual institutions through economies of scale.

In the fall of 2004, in the sixth pooled issue, East Carolina University and the University of North Carolina at Greensboro had asked to finance eight projects previously approved by the Board of Governors. The size of the bond issue was anticipated to be between \$50 million and \$55 million. The Board of Governors would issue the bonds and then make a “loan” to each institution participating in the pool. The bonds would be outstanding for a maximum of 30 years.

In March 2005, in the seventh pooled issue, six institutions (ECU, FSU, UNCA, UNCC, UNCG, and UNCW) had asked to refund bonds previously approved and issued by the Board of Governors that were currently outstanding at higher interest rates. Based on the current bond market, it was likely that the 1998 and 2000 pooled issues would also generate savings and reduce covenants if refunded. The 1998 and 2000 pooled issues involved nine campuses (ASU, ECU, NCA&TSU, NCSA, NCSU, UNCA, UNCC, UNCP, and WCU). The size of the bond issue was anticipated to be between \$65 million and \$115 million.

### Special Obligation Bonds

The Committee recommended approval for North Carolina State University to issue special obligation bonds not to exceed \$110,000,000 for the purpose of (a) financing the costs of constructing, renovating, equipping and furnishing the educational, housing, athletic and recreational facilities of the NCSU campus, (b) 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, (c) 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, and (d) paying the costs incurred in connection with the issuance of the 2005 Bonds for the following projects previously approved by the Board of Governors:

- Construction of Partners III Building
- Construction of College of Engineering Building
- Construction of College of Veterinary Medicine Research Building
- Construction of University Apartments
- Renovation and Construction of Barry, Becton and Bagwell Residence Halls
- Greek Housing Renovations
- Renovations to Athletics Facilities

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 campus revenues, excluding tuition and State appropriations.

### Commercial Paper Program

In 2001, the Board 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 Committee recommended approval for North Carolina State University and the University of North Carolina at Chapel Hill to use the proceeds of special obligation bonds for participation in the Commercial Paper Program for the following projects, approved by the 2004 Session of the General Assembly:

#### **NC State**

Dining Hall Renovations  
Renovation of Berry, Becton, and Bagwell Residence Halls  
Renovations to Reynolds Coliseum  
Student Commons Improvements

#### **UNC-Chapel Hill**

Ambulatory Care Renovation  
Arthritis Research Center  
Athletic Facilities Improvements  
Campus Fiber Optic Wiring  
Carmichael Fields 3 & 4  
Daniels Building Renovations  
Educational Foundation Office Building  
Institute for Advance Materials, Nanoscience & Nanotechnology  
ITS Building  
Major Infrastructure Improvements: Airport Drive Chilled Water, Airport Road Ductbank, Chilled Water & Steam Metering, Chilled Water Phase IV, East Campus Ductbank, Energy Management and Control Services Building, Hot Water Phase II, Mason Farm Electrical Ductbank, New Southwest Sanitary Sewer Line, Northeast Chiller Plant, Steam Phase II, Substation Upgrades, 20" Steam Line – Carolina Inn to Beard  
Morrison Dorm Renovations  
Parking Facilities: Global Parking Deck, Jackson Circle Parking Deck  
Residence Halls Phase II  
School of Medicine Research Facilities – Addition

### Interest Rate Swap Agreement

As part of its debt management plan, North Carolina State University expected to request authority from the Board of Governors to issue \$73,000,000 of special obligation bonds in 2006 to finance capital projects. These bonds would provide funding totaling \$23,500,000 for projects that had previously been approved by the Board and the General Assembly, as well as \$49,500,000 for additional projects included in the Board's self-liquidating package pending approval in the 2005 General Assembly. While interest rates had risen during the last few months, overall interest rates remained at very attractive levels and NC State had requested that the Board enter into financial arrangements that would secure these attractive rates for the bonds when issued.

The Committee recommended a resolution authorizing the Vice President for Finance and the Senior Associate Vice President for Finance to negotiate the terms and enter into Interest Rate Swap Agreements with respect to the bonds proposed to be issued for NC State in 2006. An agreement with respect to bonds for projects already authorized by the General Assembly would be entered into when due diligence revealed it was in the best interest of the University and the State to do so. Any Swap Agreement with respect to bonds for projects pending legislative approval would be entered only after legislative authorization by the 2005 General Assembly and when due diligence revealed it was in the best interest of the University and the State to do so.

#### Report on Fiscal Liabilities

G.S. 116-13.2 required the Board of Governors to report on an annual basis to the Joint Legislative Commission on Governmental Operations on the financing of buildings and other facilities and fiscal liabilities or contingent liabilities of the University or any constituent institution. In March, it was recommended that the Report on Fiscal Liabilities be accepted and reported to the Joint Legislative Commission on Governmental Operations.

### **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.

In 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 (two leases), UNC Asheville (one lease), UNC-Chapel Hill (two leases), and one lease in Washington, D.C. for the UNC in Washington Internship Program.

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 (one lease), North Carolina State University (two leases), UNC-Chapel Hill (two leases), and UNC Greensboro (one lease).

#### Out-Leases of Space

The Committee recommended several leasing arrangements to enable the universities to meet long-term projected housing demands associated with campus growth. Lease payments would be made from student housing receipts. The lease of State land and the lease of the new beds would be accomplished within the guidelines, procedures, and policies of the North Carolina Department of Administration and the Council of State. Construction documents for each new facility would be reviewed by the Office of State Construction and the Department of Insurance.

Winston-Salem State University requested approval to amend a 2001 lease in order to lease to the WSSU Housing Foundation, LLC approximately six additional acres of State land on the campus of the university, in addition to extending the term of the 2001 lease to a term not to exceed 35 years. The Foundation would construct a new 400-bed student housing facility and refinance the costs of the 2001 project. Upon completion of construction, the new facility and the 2001 project would be leased by the Foundation to the University for a lease term not to exceed 32 years. The financing of the construction of the new facility and the refinancing of the 2001 project would be accomplished through the use of the proceeds of tax-exempt, long-term indebtedness.

The University of North Carolina at Charlotte had requested approval to lease approximately 16 acres of State land to the University of North Carolina at Charlotte Facilities Development Corporation, Inc., (Facilities Development Corporation) for the purpose of constructing student housing. The University also requested approval to enter into a long-term lease to acquire up to 360 beds of student housing from Facilities Development Corporation when construction was complete. The cost would not exceed \$475 per month per bed for a lease term not to exceed thirty-two years. The cost would be consistent with the current rate structure for the University's comparable residence halls.

Western Carolina University had requested approval to lease approximately 10 acres of state land to the Affinity Housing, LLC, a subsidiary limited liability company of the Western Carolina University Research and Development Corporation for the purpose of constructing student housing. Western Carolina University also requested approval to enter into a long-term lease to acquire up to 290 beds of student housing from Affinity Housing, LLC, when construction was complete. The cost would not exceed \$375 per month per bed for a lease term not to exceed thirty years.

The University of North Carolina at Greensboro requested approval to lease approximately 3.4 acres of state land to the Capital Facilities Foundation, Inc. for the purpose of constructing student housing and parking deck spaces. The University also requested approval to enter into a long-term lease to acquire up to 400 beds of student housing and 200 parking deck spaces from the Capital Facilities Foundation, Inc. when construction was complete. The cost would not exceed \$480 per month per bed and not to exceed \$33 per month per parking space for a lease term of thirty years.

The University of North Carolina at Wilmington requested approval to lease approximately 15 acres of state land to the UNCW Corporation Housing I, LLC for the purpose of constructing student housing. The University also requested approval to enter into a long-term lease to acquire up to 524 beds of student housing from UNCW Corporation Housing I, LLC when construction was complete. The lease term would not exceed thirty-two years.

North Carolina State University requested to lease the chapter house for Delta Zeta National Housing Corporation with an initial term of six years with two five-year renewal options to provide student housing and organization space. The rental proceeds would be used for the operation of fraternity and sorority housing at NCSU.

North Carolina State University had also requested approval to lease State property to the North Carolina Delta Chapter of PI BETA PHI House Corporation to provide a 6,784 square-foot chapter house with a 40-bed capacity.

The Board of Trustees of the University of North Carolina at Wilmington had requested approval to lease State land to the UNCW-Student Aid Association for the purpose of constructing a Golf Training Facility on campus. The project would be built near the South Gate parking lot and was estimated to cost \$860,000. Construction would be accomplished by leasing State land to the UNCW-Student Aid Association for the time required to complete the project. When construction was complete, the Association would donate the project to the University as a gift-in-place.

### Acquisitions of Property

As requested by Boards of Trustees, the Committee recommended the approval of the following acquisitions of property: Appalachian State University (two parcels), East Carolina University (two parcels), North Carolina Central University (one parcel), North Carolina State University (three parcels), UNC-Chapel Hill (one parcel), and UNC Greensboro (two parcels).

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

### Disposition to fund acquisition

In July, the disposition of two NCSU properties in Raleigh would fund the property acquisition of property and warehouse space currently leased by NCSU to support the operational needs of NCSU's Center for Marine Sciences and Technology (CMAST) located on the campus of Carteret Community College.

### Exchange of property

In May, the Committee recommended approval of an exchange of property between the State of North Carolina and the Foundation of the University of North Carolina at Charlotte, Inc. The State would receive approximately three-quarters of an acre in uptown Charlotte that would provide for the development of UNCC's presence consistent with the campus's academic plan. The Foundation would receive approximately 24 acres on the northeast border of the UNCC campus to provide for the development of a mixed-use community. The land areas to be exchanged would be adjusted so as to be considered of equal value by the State Property Office.

### Ground Lease

In September, the Committee recommended approval for NCSU to enter into a ground lease with the N.C. State University Centennial Development LLC to construct and operate a golf course on the NCSU Centennial Campus. The LLC would reimburse NCSU for golf course design costs incurred and the project would be completed at no cost to NCSU. The property and the improvements would revert to NCSU at the end of the 99-year lease.

In September, the Committee recommended approval of revisions to the term and other items for the ground lease and air rights agreement previously approved by the Board of Governors at its May 2003 meeting for the construction of a facility to replace the existing press box constructed in 1966 at Carter-Finley Stadium. The term of the lease was up to 30 years to be consistent with financing requirements and the estimated value of construction improvements was \$40 million. The improvements would revert to North Carolina State University at the termination of the ground lease.

Also in September, the Committee recommended on behalf of ECU a ground lease to Pitt County Memorial Hospital to construct and operate a Gamma Knife (radiology) Facility.

#### Other Acquisitions and Dispositions of Property

In January, the Committee recommended approval of the disposition of a 345-acre parcel in northern Chatham County to the North Carolina Wildlife Resources Commission for the purposes of protecting wildlife habitat and to provide wildlife recreational opportunities to North Carolina sportspersons.

In March, the Committee recommended approval of the disposition of a 420-acre parcel of land in southeastern Wake County since its current and future uses were expected to be adversely affected by the proposed routing of I-540 Southern Wake Expressway. In anticipation, NCSU had consolidated the operations at this dairy farm onto other field laboratory locations and the property was no longer needed to support these activities.

UNC-Chapel Hill provided a dedicated right-of-way for the existing alleyway known as Pharmacy Lane per the conditions of the Site Development Permit issued by the Town of Chapel Hill for the Global Education Center Building.

Throughout the year, the Committee recommended approval for several dispositions of real property by easement as follows:

ASU – to provide the Town of Boone the opportunity to relocate an existing water line that crossed ASU property that had to be moved because of university construction on Phase III of the Turchin Center for the Visual Arts.

ECU – to provide the North Carolina Department of Transportation right-of-way easements for the 14<sup>th</sup> Street Bridge replacement and street widening project.

ECSU – to provide Eastern North Carolina Natural Gas Company an easement to install, operate and maintain a natural gas distribution system dedicated to the ECSU campus that will initially serve the following buildings: Central Utility Plant, Student Center, University Suites, Bedell Cafeteria, Fine Arts Complex, Information Technology Center, 200 Bed Residence Hall, and K.E. White Center.

NCSU – to provide the North Carolina Department of Transportation with a conservation easement for additional repair of Rocky Branch stream and its eroded banks.

NCSU – to provide the North Carolina Department of Transportation additional right-of-way on Reedy Creek Road to facilitate paving of this road with divided median and the addition

of a greenway trail that would provide a connection between the Museum of Art and Umstead State Park.

WCU – to provide The Tuckaseegee Water and Sewer Authority (TWSA) additional right of way to construct a sewer line to replace an existing line that was in need of repair. The new line would provide additional capacity for future campus development.

WCU – to provide utility right-of-way to allow the relocation of an overhead transmission line in order to complete construction at its water storage facility along Old Cullowhee Road and near the Water Treatment Plant.

WCU – to allow a private developer to gain access to the Tuckaseegee Water and Sewer Authority (TWSA) sewer service so that land adjacent to the campus could be developed into a student housing project.

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

ASU – demolition of Welborn Dining Hall to facilitate the construction of the new Central Dining Facility and the proposed expansion of the central campus “open space.”

ASU – demolition of Owens Field House to construct a replacement facility.

ECU – demolition of a house to allow the construction of additional campus parking.

NCSU – demolition of the Morris Building in order to provide the site to be used for the construction of an academic building to replace Harrelson Hall.

UNC-CH – demolition of Chase Hall to construct the Student and Academic Services project, which would consolidate a number of student support services into one facility and free up space in academic buildings in the center of the campus.

UNC-CH – demolition of all or some portion of seven buildings to construct the Arts Common project.

## **OTHER ACTIONS**

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

In November, the Committee recommended for approval the recommendations of the Special Committee Reviewing the Funding Model for Enrollment Growth. The Committee held a series of meetings from September 2003 to October 2004. In each of these meetings, the Chairman sought input from Board members, Chancellors, and staff from the President’s Office. In summary, the Committee recommended that the “Delaware Cost Study” continue to be the source of national cost data used to review and validate the cost categories in the model, although North Carolina specific data should be evaluated in future budget requests. The Committee also recommended changes to three of the undergraduate cost factors to reflect more relevant ways to determine which schools qualified for the factors. It was recommended that the

calculation at the end of the model that provided financial aid for the institutions be deleted since the Board's need-based financial aid program had received significant support from the General Assembly. After the review of nine different approaches to determine funding adjustments for institutions funded below a minimal level of acceptability on an FTE basis, it was recommended that \$8.3 million be requested from the General Assembly to provide additional support for Appalachian State University (\$1,384,498) and UNC Wilmington (\$7,013,603). Finally the Committee recommended that the Board request \$8.8 million to appropriately fund all practice teaching and clinical nursing courses.

In November, the Selection Criteria and Operating Instructions for Special Responsibility Constituent Institutions, as revised, were recommended for approval. The 2003 Session of the North Carolina General Assembly enacted legislation granting the Board of Governors additional responsibilities for the management of purchasing contracts. The revision clarified that campus Boards of Trustees had the authority to procure equipment through a lease without the approval of the Board of Governors.

In November, the Committee recommended that the *Summary of Institutional Annual Reports, 2003-04*, be approved and forwarded to the General Assembly's Joint Legislative Education Oversight Committee.

In February, the Report on the amount and uses of facilities and administrative receipts was recommended for approval and later transmitted to the Joint Legislative Education Oversight Committee.

In March, it was recommended that the purchasing benchmark for Elizabeth City State University be set at \$100,000 effective April 1, 2005. The guidelines for Special Responsibility Constituent Institutions (SRCI) authorized the Board of Governors to set separate purchasing benchmarks for each SRCI at levels up to \$500,000.

### Information Sessions

In September, the Committee received information on privatized housing under construction and operational in the university system. The time and cost for constructing privatized residence halls was compared to that for constructing traditional on-campus housing. The differences in construction materials and anticipated life of the facilities were also compared.

Also in September, the Committee received from Amanda Devore, President of the Student Government Association, an overview of the mission and activities of The University of North Carolina's Association of Student Governments. She discussed the mission statement, the history of the ASG, and the service activities that the organization provided throughout the past year and proposed to provide in the current year.

In October, information was presented on tuition and fee trends. Comparisons of tuition and fee increases from the Southern Regional Education Board and from the Washington State Study on Tuition and Fees were discussed, as well as other approaches to tuition increases nationwide.



In October, the Committee received information about ongoing activities of the Finance staff in the President's Office to ensure fiscal integrity at the constituent institutions. The function and reporting of internal auditors was discussed.

In November, President Broad discussed steps taken at the North Carolina School of the Arts to address the findings of the State Auditor in his special review. Although budget flexibility had not been formally withdrawn from the institution, the steps taken were the equivalent of withdrawing flexibility and placing the responsibility for financial record keeping at the institution with the Finance Division in the President's Office.

Board Chair Wilson appointed the Task Force on Best Financial Practices to outline the role that the Board should play in ensuring financial integrity system-wide, including accountability within non-profit entities established in support of the campuses.