

Minutes of the November 10, 2005 Meeting
of the Board of Governors' Committee on Budget and Finance

The Committee on Budget and Finance met in Board Room 1 of the General Administration Building in Chapel Hill, North Carolina on Thursday, November 10, 2005, at 1:30 p.m.

Members in attendance were: Mr. Brad Adcock, Jr., Mr. F. Edward Broadwell, Jr., Mr. William L. Burns, Jr., Mr. Ray S. Farris, Ms. Hannah D. Gage, Mr. Peter D. Hans, and Governor James E. Holshouser, Jr. Other Board of Governors' members attending were John W. Davis III, Phillip R. Dixon, Willie J. Gilchrist, Fred G. Mills, William G. Smith, and David W. Young. Necessarily absent were Mr. R. Steve Bowden and Mr. Benjamin S. Ruffin. Others attending the meeting were Vice Presidents Gretchen Bataille, Jeffrey R. Davies, and Leslie Winner; Associate Vice Presidents Ginger Burks, Laura Foxx, Robert Fraser, Shari Harris, Robert C. Kanoy III, Robert O. Nelson, Robert Samors, James O. Smith, and Joni Worthington; Associate Vice President and University Property Officer Terrance Feravich; Assistant Vice President Claudia Odom; Director for Academic and Student Affairs Kemal Atkins, and Special Assistant to the University Kennis R. Grogan. Chancellor Kenneth E. Peacock (ASU), Chancellor T.J. Bryan (FSU), Ron Marquette and Don Teeter of the Attorney General's Office, and Fiscal Research Analyst Richard Bostic, were in attendance as well as members of the press.

Chair Gage convened the meeting. The minutes of the meeting of October 18, 2005 were approved.

1. At the September and October meetings of the Board of Governors, the Board approved the waiver of tuition and fees for the fall semester for college and high school students that had previously been enrolled in and had already paid tuition at colleges and universities that had been forced to close because of Hurricane Katrina and were subsequently accepted to a UNC campus. Students previously enrolled in institutions that would continue to be closed during the spring semester could choose to continue their education at a North Carolina institution. Since those students had not previously paid tuition and fees for the spring semester, it was appropriate to charge the level of tuition and fees that they would have paid at their previous institution.

It was recommended that tuition and fees in excess of that which would have been charged by a student's previous institution be waived for college and high school students now accepted at an institution of The University of North Carolina for the spring semester 2005. To qualify, the student's former institution must not have reopened. In no event would tuition or fee charges for these students exceed those charged to similarly classified students at the institution.

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

2. The tuition and fee policy of the Board of Governors provided a framework for the Board to use in reviewing and approving increases in tuition and fees on an annual basis. The Budget and Finance Committee would consider proposals for increasing campus-initiated tuition rates and fees in February 2006, and proposed the following guidelines for the 2006 process.

This year's proposals for campus-initiated tuition increases followed a year in which the Board approved no increases in tuition for resident undergraduate students. North Carolina's state budget remained constrained and The University sustained reductions of almost \$42 million this past summer, permanent reductions that now totaled \$212 million since 2001-02. During this same time period, mandatory reversions of almost \$250 million had further constrained university operating budgets. The opportunities forgone during this period of time were enormous, and would impact the experience of UNC students, faculty and staff for many years to come.

Campuses wishing to submit requests for increases in undergraduate tuition and fees for 2006-07 should consider the following factors:

1. Institutional efforts to manage costs,
2. The impact that increasing tuition and fees has on student access,
3. Student indebtedness viewed in the context of student attrition levels,
4. The availability of financial aid and the amount of unmet financial need, and
5. The intended use of tuition receipts.

The following guidelines should be considered by institutions proposing increases in tuition and fees for 2006-07.

1. Since the Board of Governors reviewed both tuition increases and fee increases in the context of both being additional charges to students, campuses should understand that these guidelines applied to total tuition and fee proposals. For example, if the Committee recommended at its November meeting that it would entertain increases in tuition and fees of \$250.00, campuses would consider how much of that \$250.00 would go towards tuition increases and how much would go towards fee increases. The need for increased revenues, whether or not from tuition increases or fee increases, would be required to be thoroughly justified.
2. In the past five years, tuition increases within the university system had ranged from 2.5 percent to 16.5 percent. In an effort to find a more predictable method of determining rates of increase, various indices and comparators had been reviewed that might result in a more stable and predictable methodology. One simple method for determining increases would be to use the average increase of like public universities in the country. The Washington Higher Education Coordinating Board in the State of Washington gathered this information annually and issued a report which provided summaries of tuition and fee increases for comparable institutions throughout the United States. For the 2006-07 academic year *only*, it was proposed that campuses consider total tuition and fee increases consistent with the most recent three-year rolling average of percentage increases shown in the *2004-05 Washington State Tuition and Fee Report*. The university's commitment to low tuition and access should remain the overarching theme considered by each campus. The dollar amounts that reflected these increases are shown below.

| Institution | |
|---|-------|
| North Carolina State University and UNC-Chapel Hill | \$451 |
| East Carolina University, N.C. A&T State University, UNC Charlotte, and UNC Greensboro | 346 |
| Appalachian State University, Fayetteville State University, North Carolina Central University, UNC Pembroke, UNC Wilmington, and Western Carolina University | 322 |
| Elizabeth City State University and Winston-Salem State University | 271 |
| UNC Asheville | 356 |
| N.C. School of the Arts | 437 |

In the 2004-05 Washington State Tuition and Fee Report, tuition and fee increases for resident undergraduate students at flagship universities were 10.1 % for 2002-03, 11.2% for 2003-04 and 9.6% for 2004-05. For comprehensive institutions, the percentage increases for the same period of time were 10.5%, 11.6%, and 8.9% respectively.

These guidelines would not apply to increases in debt service fees or a fee that provided operating funds for facilities previously approved by the Board.

At the October meeting, it was recommended that the Vice President for Finance seek guidance from the chancellors regarding unique circumstances that would require campus proposals inconsistent with these guidelines. Most campuses reported an ability to adhere to the guidelines. The exceptions are listed below.

- The Chancellor of Appalachian State University reported that, although not formally recommended, the tuition committee had considered an increase of \$400. Increases needed in fee-supported activities, particularly those supported by the athletics fee and the educational and technology fee, were anticipated to result in requests that also would exceed the prescribed guidelines.
- The Chancellor of Fayetteville State University reported that requested increases were anticipated to total \$385.00 for tuition (\$200) and fees (\$185). This total exceeded the proposed guideline by \$63.
- While the Chancellor of North Carolina State University reported an ability to adhere to the guidelines, he pointed out that he may submit school-specific increases for consideration by the Board.
- The Chancellor at UNC Charlotte reported an ability to adhere to the guidelines with the possible exclusion of the implementation of the final phase of increasing tuition relative to its transition to Research Intensive status.
- Although the Chancellor of Western Carolina University denoted no specific amounts and would work to request amounts within the prescribed guidelines, he cited a potential need for increases that may be slightly in excess of the guidelines.

It was also requested that the Vice President for Finance seek information regarding debt service fees or other fees that would need to be increased as a result of previously approved facilities coming on-line. The following institutions reported the need for such increases.

- East Carolina University reported an anticipated debt service fee of approximately \$150 for the Mendenhall/Ledonia Wright Cultural Center project.
- North Carolina State University reported the implementation of the previously approved fee of \$30 to provide for renovations to the Thompson Theater Building and a new debt service fee for athletics facilities that would total in the range of \$40 to \$75, with specific amounts to be requested when more information was known.
- UNC Chapel Hill reported that a fee of \$50 was under consideration to provide for renovations to Carmichael Gymnasium.
- UNC-Charlotte reported an anticipated debt service fee increase of \$50 to \$60 to support the financing of the new Student Union approved by the Board in 2003.
- UNC-Wilmington reported an anticipated debt service fee of \$120 to support the Student Union expansion project approved by the Board in 2003.
- Winston-Salem State University reported the implementation of the debt service fee for previously approved athletics projects totaling \$129 and a possible debt service fee related to the Student Activity Center.

It should be noted that chancellors would need to demonstrate how the funds generated from tuition increases would be used to enhance the undergraduate student experience, e.g., providing reduced class sizes, increasing sections offered, providing fewer part-time faculty for teaching purposes and retaining superior faculty. Increasing financial aid should be a high priority.

Chancellors should consider undergraduate nonresident rates, graduate, and professional schools increases as allowed by the Board's tuition policy.

It was recommended that these guidelines be adopted and transmitted to the Chancellors.

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

3. During the 2005 legislative session, a special provision in Section 9.1 of Senate Bill 622 required that each Chancellor report to the Board of Governors on the reductions made to the General Fund budget codes in order to meet the reduction reserve amounts for his/her institution. The Board of Governors must then make a summary report to the Office of State Budget and Management and the Fiscal Research Division by December 31, 2005 on all the reductions made to reach the targeted amounts.

The Chancellors of the fifteen affected campuses (there was no reduction to NCSA) and the President of UNC Hospitals had reported their reductions to the Board of Governors. The summary report was attached.

It was recommended that the Board of Governors approve the 2005-06 Budget Reductions Report and that it be transmitted to the Office of State Budget and Management and the Fiscal Research Division by December 31, 2005.

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

4. 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. 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.

North Carolina Central University had conducted a self-assessment of its purchasing capabilities and, as a result of the assessment, requested an increase in its purchasing benchmark to \$200,000 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 the institution.

It was recommended that the purchasing benchmark for North Carolina Central University be set at \$200,000 effective January 1, 2006.

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

5. In 2004, the General Assembly passed House Bill 1264 (S.L. 2004-179) which authorized the issuance of certificates of participation to provide funding for capital improvements in The University of North Carolina. Included among the projects was an allocation of \$10,000,000 to Fayetteville State University for the following:

Land acquisition, site preparation, and engineering, architectural, and other consulting services for a Center of Excellence of Teaching and Nursing at Fayetteville State University.

The 2005 Session of the General Assembly amended this language in Section 30.3A of Senate Bill 622 (S.L. 2005-276). The amended language is as follows:

Land acquisition, site preparation, engineering, architectural, and other consulting services, and construction for the Southeastern North Carolina Nursing Education and Research Center at Fayetteville State University.

In October 2004, the Board of Governors approved that \$3,000,000 of the \$10,000,000 be allocated to FSU to purchase land and plan facilities consistent with the legislation passed by the General Assembly.

FSU was now requesting that the Board of Governors allocate the remainder of the \$10,000,000 for construction of a nursing facility consistent with the rewritten legislation approved this past session by the General Assembly.

It was recommended that \$10,000,000 be made available to Fayetteville State University to be used to construct the Southeastern North Carolina Nursing Education and Research Center.

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

6. At the request of East Carolina University, in July 2004, the Board of Governors issued \$17,790,000 in variable rate general revenue bonds, of which \$16,920,000 was currently outstanding. Funds were used for capital projects previously approved by the Board and the General Assembly. Pursuant to the general trust indenture and the terms of a remarketing agreement dated August 1, 2004, Legg Mason Wood Walker, Incorporated had served as remarketing agent for the 2004 Bonds.

The Board had been advised by bond counsel that the existing remarketing agent services provided by Legg Mason Wood Walker, Inc. had been sold to Citigroup Global Markets Inc. effective December 1, 2005, and it was, therefore, necessary to appoint a new remarketing agent under Section 8.2 of the general trust indenture for ECU's 2004 bonds.

East Carolina University requested that the Board approve the removal of Legg Mason Wood Walker, Incorporated, as the remarketing agent for the 2004 Bonds and authorize the Vice President for Finance to approve and execute a new remarketing agreement with a new remarketing agent as long as the terms of such remarketing agreement were substantially similar to the terms of the existing remarketing agreement. A competitive request for proposals would be issued to firms interested in serving as the remarketing agent for ECU's 2004 bonds.

It was recommended that the authorizing resolution be approved authorizing the Vice President for Finance and the Senior Associate Vice President for Finance to select a remarketing agent for East Carolina University.

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

7. The Board of Trustees of the University of North Carolina at Wilmington requested the approval of a proposed exchange of property between the State of North Carolina and the Foundation of the University of North Carolina at Wilmington, Inc.

The State would receive three properties that were purchased for a total of \$2,415,000 and that would provide UNCW additional parking, warehouse space, and office space. The three properties were:

1. 720 St. James Street: 0.32-acres with a 3,000 square-foot office building purchased for \$370,000.
2. 737 St. James Street: 0.53-acres with a 5,200 square-foot office building purchased for \$545,000.
3. 4702 N. MacMillan Avenue: a former 84 Lumber on 2.9-acres with 30,000 square-feet of warehouse space, 500 square-feet of office space, and 175 parking spaces that were purchased for \$1,500,000.

The Foundation would receive the 680 South College Road property that was purchased for \$1.8 million. Just southwest of the UNCW campus, the former United Artists Cinema property of approximately 9.5 acres would be developed by the Foundation for the benefit of UNCW.

The State Property Office supported the proposed exchange of properties.

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

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

8. The Board of Trustees of the University of North Carolina at Asheville had requested approval to lease State land to the University of North Carolina at Asheville Foundation, Inc. (the Foundation) for the purpose of constructing residential space for the University's Chancellor. The residence would contain private space for the Chancellor's family and public space for the Chancellor to fulfill University-related functions.

The Chancellor's residence would be built on a five-acre site on the University's south campus at an estimated cost of \$2,000,000. Construction would be accomplished by leasing State land to the Foundation for the time required to complete the project. As a part of the lease agreement, the net amount received from the planned sale of the existing residence would be transferred to the Foundation – the campus was currently working with the State Property Office to market and sell this residence. The Foundation was engaged in a capital campaign to raise the funding required in excess of that received from the sale of the current residence. When construction was complete and the residence paid, the Foundation would gift the improved property to UNCA and the lease would expire.

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

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

9. The University of North Carolina at Pembroke had requested approval to lease State land to the UNCP Student Housing Foundation, LLC, (the Foundation) 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 from the Foundation when construction was complete.

The University of North Carolina at Pembroke would lease approximately 2 acres of land on campus to the Foundation. The Foundation would construct up to 360 beds of student housing which would then be leased back to UNCP at a cost consistent with similar housing on campus. It is anticipated that the leased housing would be available by fall 2007 and would allow for the accommodation of anticipated enrollment growth. UNCP residence halls were currently at 100 percent occupancy for fall 2005. Lease payments would be met from student housing receipts.

The lease of state land and the lease of the 360 beds would be accomplished within the guidelines, procedures, and policies of the North Carolina Department of Administration and the Council of State. Construction documents would be reviewed by the Office of State Construction and the Department of Insurance.

It was recommended that the authorizing resolution be approved and the request of the University of North Carolina at Pembroke be transmitted to the Council of State for final action.

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

10. The Office of the President requested authorization to dispose of real property by sale that was transferred to the University of North Carolina in 1957.

Located in Monroe County, Florida, the two parcels were escheated by the Superior Court of Carteret County, North Carolina, to the University of North Carolina pursuant to relevant statutes at the time. Each parcel was 50 feet by 100 feet or approximately 0.16 acres and part of the Port Largo development on Key Largo, Florida.

The University had recently been contacted by the State of Florida with an offer to purchase these properties. The Florida Department of Environmental Protection was actively acquiring for conservation over 4,500 acres in the North Key Largo Hammocks and sought to buy the University's properties as part of its program.

It was requested that the Board of Governors authorize the Vice President for Finance and the Vice President and General Counsel to enter into negotiations with the State of Florida and, with the help of the State Property Office, establish the current value of these properties and, if it was in the best interest of the University, execute any and all documents required to sell these properties while complying with the rules, regulations and laws of the State of North Carolina.

It was recommended that the sale of these properties be approved and, when negotiations were complete, a request be transmitted to the Council of State for final action.

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

11. The Annual Report of the Committee on Budget and Finance – July 1, 2004 through June 30, 2005 – was recommended for approval.

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

Then Chair Gage asked an update on the 2000 Higher Education Bond Program. The value of completed projects currently stood at \$1,013,049,723. The President's staff was continuing to research the impacts that Hurricane Katrina, Hurricane Rita, and Hurricane Wilma were having on the construction market. At a recent meeting with the North Carolina Association of General Contractors, university personnel and others had engaged in discussion on ways to mitigate the

risks to both public owners and contractors posed by the fluctuations in the construction market caused by these natural disasters. All parties pledged to work together to share risk in a manner that best ensured the successful completion of the Bond Program. There was general agreement that the continued use of CM at Risk delivery provided for procurement flexibility that other delivery methods did not provide. In addition, the Office of State Construction had asked the University to participate in presentations on CM at Risk best practices, construction project audits, and cost mitigation strategies at the State Construction Conference to be held in January of 2006. The University was supporting the Department of Insurance in its attempts to secure additional staffing in order to expedite their reviews of design documents.

On the motion of Mr. Farris, seconded by Governor Holshouser, the Committee went into closed session to establish or instruct the staff concerning the negotiation of the price and terms of a contract concerning the acquisition of real property, as well as, to discuss with counsel concerning the Board of Governors and others vs. R.K. Stewart and Son, Inc., and others.

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