

Minutes of the June 8, 2006 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, June 8, 2006, at 2:00 p.m.

Members in attendance were: Mr. Bradley T. Adcock, Mr. R. Steve Bowden, Mr. F. Edward Broadwell, 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 was Mr. William L. Burns, Jr. Other Board of Governors' members attending were Chair J. Bradley Wilson, J. Craig Souza, Brent D. Barringer, Peter Keber, Charles H. Mercer, Jr., Fred G. Mills, Charles S. Norwood, Cary C. Owen, John W. Davis, III, Phillip R. Dixon, Dudley E. Flood, Willie J. Gilchrist, Charles A. Hayes, Irvin A. Roseman, Estelle Sanders, Priscilla P. Taylor, Derek Pantiel, and David W. Young. Attending from General Administration were Vice Presidents Robert O. Nelson, Robyn Render, and Leslie Winner; Associate Vice Presidents Ginger Burks, George Burnette, Laura Foxx, Shari Harris, David Harrison, Bobby Kanoy, and James O. Smith; Assistant Vice President Claudia Odom; Associate Vice President and University Property Officer Terrance Feravich; Director of Academic and Student Affairs Kemal Atkins, and Special Assistant to the University Kennis R. Grogan. Chancellors in attendance were: T.J. Bryan (FSU), Gretchen Bataille (NCSA), and Philip L. Dubois (UNCC). Hilary Coman, project manager for the Efficiency and Effectiveness Study, was in attendance as well as members of the press.

Chair Gage convened the meeting. The minutes of the meeting of May 11, 2006 were approved.

1. Each year when the General Assembly passed its budget, the Committee on Budget and Finance recommended allocations of funds made available by the General Assembly to the Board of Governors. It was uncertain when the General Assembly would pass its budget, but it was anticipated that the budget could be in place before the Board met in August.

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 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.

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

2. At its April meeting, the Board of Governors approved its *2006-07 Budget Priorities*. It was recommended that the *Budget Priorities* be amended to include a request for funds for the environmental clean-up required by the Environmental Protection Agency (EPA) at 20 East Acadia Avenue in Winston Salem.

The Environmental Protection Agency had been investigating heavy metal contamination on and around 20 East Acadia Avenue which was owned by the North Carolina School of the Arts Foundation. The EPA had asked the Foundation and the former owner of the property, NK Holdings, to execute a settlement agreement that required extensive clean up

of the site. The Foundation, funded through private gifts, did not have sufficient unrestricted funds necessary to cover the \$500,000 that was the Foundation's share of the estimated cost to clean up the site.

The North Carolina School of the Arts was the sole beneficiary of the Foundation's resources and had a vested interest in protecting and assisting the Foundation. Having worked with the Foundation to negotiate with the EPA and NK Holdings to secure a release of liability for any additional identified costs associated with the clean up, NCSA was now requesting that \$500,000 be added to the 2006 Budget Priorities so that, if appropriated, the settlement agreement could be executed.

It was recommended that the 2006-07 *Budget Priorities* be increased by \$500,000 and that NCSA be authorized to seek a special provision from the General Assembly to allow this funding to be used for the required environmental clean-up at the site.

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

3. North Carolina State University requested authority to direct the call and optional redemption of two revenue bonds.

The first, Housing System Refunding Revenue Bonds, Series N, were issued in the aggregate principal amount of \$4,110,000, pursuant to a resolution adopted by the predecessor to the Board on November 16, 1964, as supplemented and amended by a resolution adopted by the Board on October 14, 1994.

The staff of North Carolina State University had found that it was advisable to redeem all of the outstanding Series N Bonds maturing September 1, 2007 to 2009, inclusive. The University proposed to use a combination of available balances and bond reserves to accomplish these actions, which would allow the University access to approximately \$890,000 in reserves previously set aside in accordance with the bond documents and would eliminate bond coverage requirements. The University would also save over \$51,000 in interest.

It was recommended that the authorizing resolution be adopted and that the Vice President for Finance be authorized to direct the call and redeem the Housing System Refunding Revenue Bonds, Series N.

The second tranch of bonds, Student Center Refunding Revenue Bonds, Series 1996, were issued in the aggregate principal amount of \$2,210,000, pursuant to a resolution adopted by the predecessor to the Board on October 6, 1967, as supplemented and amended by a resolution adopted by the Executive Committee of the predecessor to the Board on May 13, 1968 and a resolution adopted by the Board on October 13, 1989, and a Series resolution adopted by the Board on March 15, 1996.

The staff of North Carolina State University had found that it was advisable to redeem all of the outstanding Student Center Bonds maturing September 1, 2007 to 2009, inclusive.

The University proposed to use a combination of available balances and bond reserves to accomplish these actions, which would allow the University access to approximately \$850,000 in reserves previously set aside in accordance with the bond documents and would eliminate bond coverage requirements. The University would also save over \$75,000 in interest.

It was recommended that the authorizing resolution be adopted and that the Vice President for Finance be authorized to direct the call and redeem the Student Center Refunding Revenue Bonds, Series 1996.

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

4. In 2002, the General Assembly, at the request of the Board of Governors, authorized a project for the construction of Parking Deck G at The University of North Carolina at Charlotte. In 2004, the General Assembly supplemented the authorization. The project, estimated to cost \$13,750,000, would be financed through the issuance of special obligation bonds and parking receipts available to the University.

UNCC was now ready to proceed with the project and had requested authority to issue special obligation bonds not to exceed \$12,000,000 to provide permanent financing. The proceeds would be used to pay the cost of constructing an approximately 1,040-space parking deck on the campus and to pay the costs incurred in connection with the issuance of the bonds. The University intended to service the debt from its parking operations, including vehicle registration and gate card fees. Mr. Nelson reported to the Committee that the resolution authorizing the sale of bonds also included permissive language allowing the University to refund existing bonds if targeted savings of 2% net present value or greater could be achieved.

It was recommended that the Vice President for Finance be authorized to sell the special obligation bonds between the June 2006 and October 2006 meetings of the Board.

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

5. The Board of Trustees of Fayetteville State University had requested permission to lease space to accommodate approximately 190 students and resident assistants for the nine-month academic year for the next five years, beginning in the fall of 2006. The leased space would be fully furnished and include standard utilities.

Fayetteville State University had experienced enrollment growth over the last few years by more than 12%, which had increased the demand for on-campus housing. As a result of student body growth, FSU had also experienced an increase in faculty. Ongoing construction projects throughout campus had displaced faculty from their offices. In an effort to meet the needs for faculty office space, Joyner Residence Hall would be taken off line and converted to faculty offices in the fall of 2006, causing the loss of 85 beds. The university housing program would need leased space to house displaced students from Joyner Hall as well as anticipated additional students.

Fayetteville State University wanted to enter into a lease with the Fayetteville State University Housing Foundation, LLC for a five-year lease for a large portion of University Place Apartments located at 1316 Coley Drive in Fayetteville. The lease would be for 190 beds and would cost \$570,000 per year (\$1,500 per bed per semester) or \$2,850,000 for the five-year lease period. The rental rates charged to students would be consistent with equivalent on-campus housing so that no additional cost would be incurred by FSU. Lease payments would be met from student housing receipts derived from the University Place project.

The acquisition of the 190 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 recommended that the request of the FSU Board of Trustees be approved and transmitted to the Council of State for final action.

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

6. 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 may secure goods and services for amounts not exceeding the established benchmark using institutional procedures rather than routing bids through the Division of Purchase and Contract in Raleigh.

The University of North Carolina at Charlotte had conducted a self-assessment of its purchasing capabilities and, as a result of the assessment, requested an increase in its purchasing benchmark to \$500,000 from \$200,000. 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 the University of North Carolina at Charlotte be set at \$500,000 effective July 1, 2006.

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

7. The Board of Trustees of North Carolina Central University had requested authority to establish two new capital improvements projects.

The first project, Edmonds Classroom Building Renovation, would renovate four classrooms to include new technology access, audio/video equipment, lighting, and window treatment. Funds for the project, estimated to cost \$374,000, would be budgeted pursuant to legislation that allowed the use of carry forward funds from the 2005-06 fiscal year. These improvements would transform traditional classrooms into "Smart

Classrooms,” which were technology-enhanced classrooms that strengthened learning by providing the opportunity to integrate interactive digital, audio/visual and networking technologies during lectures.

The second project, Security Camera Installation, would design and install security camera and monitoring systems serving the New Education Building, Turner Law Building, Townes Science Building, and Farrison-Newton Communication Building. The project, estimated to cost \$400,000, would be funded from Title III federal funds.

It was recommended that the projects be authorized and that the methods of financing as proposed by North Carolina Central University be accepted and the projects be forwarded to the Director of the Budget for approval.

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

8. The Board of Trustees of North Carolina State University had requested approval to exchange state-owned property for a ground lease of a parcel on the Carteret Community College campus for the construction of housing at NCSU’s Center for Marine Sciences and Technology (CMAST).

The four-story CMAST building was constructed on property leased from Carteret Community College in Morehead City. Since the beginning, NCSU had planned to provide temporary housing accommodations for students, visiting professors, and other researchers.

In 2005, the Board of Governors authorized NCSU, through the North Carolina Agricultural Foundation, Inc., to purchase property within walking distance of CMAST. After working with elected officials from Morehead City and the adjacent property owners, NCSU had concluded it would be in the best interest of all parties to site the two-story, 16 unit housing structure on land owned by the community college rather than on the land purchased in 2005. NCSU was now requesting approval to exchange, under a 99-year ground lease, the previously purchased property for a same-sized parcel offered by Carteret Community College to be used as the site for the housing facility.

The property to be transferred to Carteret Community College was purchased for \$200,000. The value of the property would constitute NCSU’s total lease payment for the 99-year term of the lease. The property and any improvements would revert to Carteret Community College at the end of the 99 years.

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. Hans, seconded by Mr. Farris, the recommendation was approved.

9. In 1998, the General Assembly passed House Bill 1737 to provide North Carolina State University with expanded flexibility for the development of the Centennial Campus. One of the changes included in the Bill enabled the Board of Governors to approve certain out-leases of space on the Centennial Campus and then report the leases to the Council of State

rather than secure the approval of the Council of State in advance. This change provided the University with the ability to execute leases in a shorter time period than had previously been possible. Once the Board had approved a lease, the Vice President for Finance was authorized to execute the lease on behalf of the Chairman of the Board of Governors.

The Board of Trustees of North Carolina State University had requested approval of the out-lease of space to MeadWestvaco Corporation. The lease would provide MeadWestvaco approximately 65,840 usable square feet of space on the Centennial Campus with a term of two years and an option to renew for up to twelve additional one-month periods. The initial annual rent would be \$19.80 per square foot, including estimated building operating costs, to be adjusted annually thereafter by increases in the CPI.

It was recommended that the request of the Board of Trustees be approved and reported to the Council of State.

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

10. The Board of Trustees of North Carolina State University had requested authorization to dispose of real property by sale.

Located in Rockingham County, NCSU was requesting permission to sell the property known as the Chinqua-Penn Plantation, a 23-acre parcel with improvements and associated collection of art, furnishings, and antiques.

Given to the University of North Carolina by Jeff and Betsy Penn and managed by NCSU since 1986, it was hoped that the Chinqua-Penn Plantation would become an attraction for visitors to Rockingham County. However, Chinqua-Penn Plantation had not been able to sustain a level of public interest that allowed it to be a self-supporting operation. NCSU had concluded it was in the best interest of the University and the State of North Carolina to sell the property and dedicate the proceeds for scholarships.

Contingent on a 90-day examination period ending June 30, 2006 and necessary State approvals, NCSU had entered into an Agreement for Purchase and Sale of Real Property with a recommended buyer and at a recommended sales price. The sales price of \$4,128,500 was consistent with an independent appraisal of the real property and an independent valuation of the art, furnishings, and antiques. NCSU had requested that the buyer remain confidential until the conclusion of the examination period. The State Property Office concurred with the sales price of this property.

In accordance with the intent of the original gift, the proceeds from the sale of this property would be used to fund an endowment in the name of the Penn Family for students from Rockingham County for scholarships at University of North Carolina constituent institutions.

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

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

11. In 2001, the Board authorized the Office of the President to execute leases valued up to \$150,000 and dispositions up to \$250,000. The following property transaction was approved under this delegation and reported to the Committee on Budget and Finance.

North Carolina State University – Disposition of Real Property by Easement

Owner:	State of North Carolina
Disposition reason:	Provide a conservation easement to the North Carolina Agricultural Foundation, Inc. in exchange for funding by the Clean Water Management Trust Fund to replace a failed waste water infrastructure system at the Sertoma 4-H Center -- This disposition would also assist the 4-H Center in its commitment to environmental stewardship and the education of hundreds of children who visit the Center each year.
Location:	Sertoma 4-H Center, Stokes County
Description:	Approximately 142 acres of riparian buffer along Vade Mecum Creek and two unnamed tributaries. The buffer width would range from 300 to 600 feet.
Term:	N/A
Rental Income:	None anticipated
Proceeds:	Grant funds of up to \$232,000 for wastewater infrastructure at the Center
Approvals:	The NCSU Board of Trustees recommended this action on April 28, 2006.

Then Chair Gage asked for the update on the 2000 Higher Education Bond Program. NC A&T State University's list of completed projects now included the New Science Building at \$16.2 million, Harrison Auditorium Renovation at \$3.7 million, and the Dairy Facilities at \$1 million. UNC Chapel Hill had completed the Medical Sciences Research Building at \$18.2 million and Environmental Health and Safety Building at \$4.2 million. UNC Greensboro's Humanities Research Building at \$14.5 million and UNC Wilmington's Hoggard Hall Classroom Building Renovation at \$5.1 million had also been completed. With nearly 85% of the entire \$2.5 billion committed or completed, the list of finished projects was growing rapidly despite the decreasing rate of new awards. The State Treasurer's Office had continued to support timely bond releases to provide funding as progress dictated. Proceeds from the next bond sale would be available in mid-June in time to replenish allocations to support the intense activity that would occur over the summer and into early fall. The Finance Division had worked with bond counsel to resolve issues of private use of tax-exempt bonds.

Recent data on HUB participation continued to demonstrate the result of the University's commitment to providing economic opportunities to a wide range of firms. The University's participation continued to exceed the state's 10% goal. Overall HUB participation was currently at 16.2% with African-American participation being 3.5%. The total construction dollars awarded to HUB contractors was \$341 million.

The long-term commitment to aid in the development and stability of HUB firms was supported by the ongoing HUB Academies, one of which was currently underway at East Carolina University. Additional academies were scheduled for the summer of 2006 at both Elizabeth City State and Fayetteville State Universities. With the addition of the eastern and southern North Carolina locations, access had broadened to contractors in the state. Efforts to partner with the community colleges continued with the goal to further enhance accessibility to the program for HUB contractors.

After that, Vice President Winner conducted a follow-up discussion related to mold remediation at NCCU.

Following, Vice President Nelson discussed the selection process for bond counsel and underwriters.

On the motion of Mr. Adcock, seconded by Mr. Bowden, the Committee went into closed session to consult with the attorney to establish or instruct the staff concerning the negotiation of the price and terms of a contract 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