

**ANNUAL REPORT
OF THE COMMITTEE ON BUDGET AND FINANCE TO THE
BOARD OF GOVERNORS OF THE UNIVERSITY OF NORTH CAROLINA
July 1, 2005 through June 30, 2006**

EXECUTIVE SUMMARY

The Committee on Budget and Finance met 11 times between July 1, 2005, and June 30, 2006. Nine of the meetings were held to conduct committee business and two of the meetings were workshops in preparation of the supplemental budget request, enrollment funding, and financial aid. The September meeting was conducted via teleconference because of the Governors' Executive Order on August 31 for all of State Government to take measures to conserve fuel resources in the aftermath of Hurricane Katrina.

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. A waiver of tuition and fees was recommended for the fall semester for college and high school students that had previously been enrolled, and had already paid tuition, at colleges and universities that had been forced to close because of Hurricane Katrina and were, subsequently, accepted at a UNC campus. The Committee recommended increases for undergraduate, graduate, and professional students as requested by the campuses, consistent with the tuition and fee parameters established by the Board. Proposals submitted increased the pool of financial aid funding, expanded student services, ensured competitiveness in faculty salaries, and continued to meet the Board's directives to reduce class size, increase section offerings, and hire more permanent and less part-time faculty.

The Committee made recommendations to the Board for allocating funds provided by the 2005 General Assembly. Included among the allocations were appropriations for an annual salary increase of 2% for faculty and other employees exempt from the State Personnel Act (EPA). The General Assembly had appropriated \$123,020,836 for University Operations; \$1,089,000 for Agricultural Programs; \$5,000,000 for UNC Health Care System; and \$2,991,488 for Related Educational Programs. Several special appropriations to the Board totaling \$5,856,147 were directed to program areas not included in the Schedule of Priorities requests.

The 2005 Session also made budget reductions of \$40,128,803 in the General Fund budget codes of The University. The associated summary report from the Chancellors was recommended for approval and transmitted to the Office of State Budget and Management and the Fiscal Research Division by December 31, 2005.

In April, the Committee recommended approval of the 2006-07 Budget Priorities and it was forwarded to the Governor and General Assembly for consideration during the 2006 Legislative Session. In May, the Committee recommended that the 2006-07 Budget Priorities be increased by \$500,000 and that North Carolina School of the Arts be authorized to seek a special provision from the General Assembly to allow this funding to be used for the required environmental clean-up by the Environmental Protection Agency at 20 East Acadia Avenue in Winston Salem.

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.

The Committee recommended the allocation of funds made available by the 2005 General Assembly: \$16,550,000 for capital improvements; \$56,800,000 from the Reserve for Repairs and Renovations, along with \$700,000 for repair and reconstruction of the Chancellor's residence at FSU; and \$446,135,000 for nonappropriated capital projects.

For the 2006 Session of the General Assembly, the Committee recommended 28 capital improvements projects at 10 institutions totaling \$432,250,000, as well as 14 supplements to previously approved capital improvement projects at seven institutions totaling \$97,366,000.

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 following institutional issues of bonds for either financing new projects to refunding outstanding bonds when interest rate savings could be achieved.

- authorized the Vice President for Finance to sell special obligations bonds for UNC-Chapel Hill and UNC Charlotte
- authorized the Vice President for Finance to issue bonds as needed to carry out a commercial paper bonds program for NC State and UNC-Chapel Hill
- recommended a new maximum authorized borrowing amount of \$500 million for the Commercial Paper Program
- authorized the 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 UNC-Chapel Hill
- authorized the Vice President for Finance to direct the call and redeem for NCSU the Parking System Refunding Revenue Bonds, Series 1996, the Housing System Refunding Revenue Bonds, Series N, and the Student Center Refunding Revenue Bonds, Series 1996

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: three leases of property at three institutions; purchase of three parcels by two institutions; exchanges of property for NCSU and UNCW; a ground lease of the land and existing improvements for the Joint Millennial Campus (NCA&T and UNCG), and a ground lease at UNC Wilmington.

Leasing arrangements were approved for FSU, NCCU, NCSA, NCSU, UNCP, and UNCW 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. Seven leases of property at three institutions, and seven acquisitions of real property at four institutions were approved under the delegated authority.

Other leases included:

- UNCA: a lease to the University of North Carolina at Asheville Foundation, Inc. for the purpose of constructing residential space for the University's Chancellor.
- UNCP: a lease to the University of North Carolina at Pembroke Foundation, Inc. for the purpose of constructing a Health and Physical Education Center on campus.
- WSSU: a lease for the long-term use of the City of Winston-Salem's Bowman Gray Stadium.
- NCSU: an out-lease of space to MeadWestvaco Corporation on the Centennial Campus.

The Committee recommended disposition of two parcels located in Monroe County, Florida, that were escheated in 1957 by the Superior Court of Carteret County, North Carolina, to the University of North Carolina pursuant to relevant statutes at the time.

The Committee also recommended disposition of Chinqua-Penn Plantation. Given to the University of North Carolina by Jeff and Betsy Penn and managed by NCSU since 1986, Chinqua-Penn Plantation had not been able to sustain a self-supporting operation. 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.

OTHER ACTIONS

The Committee recommended that 344.77 acres as well as the Outreach Center, the Graham Building, and the Moore Building be designated as a Millennial Campus at Western Carolina University.

The Committee recommended increases in purchasing benchmarks for three universities:

NCCU – increased from \$35,000 to \$200,000, effective January 1, 2006

UNC Charlotte – increased from \$200,000 to \$500,000, effective July 1, 2006

UNC Wilmington – increased from \$200,000 to \$500,000, effective February 1, 2006

In February, 2006, the report and recommendations of the Subcommittee Reviewing the Cost of Textbooks was recommended for approval. Appointed in March 2005, the subcommittee was charged with making recommendations to address student concerns over the rising costs of textbooks.

ADDITIONAL INFORMATION

In August 2005, Board of Governors' Chair Brad Wilson appointed a special Tuition Policy Task Force that would make recommendations on improvements in policies and practices to ensure affordability, flexibility, and predictability in the tuition-setting process.

Also in August 2005, President Broad informed the Committee of a new University-led initiative that would directly benefit the Kannapolis and Gaston County regions of the state, with a significant impact on the entire state's economy. The partnership between Dole Foods and the University of North Carolina would provide for the construction of manufacturing and research facilities, with an anticipated investment of \$750,000,000 in the Kannapolis region alone. The University's role in the Kannapolis revitalization was completely aligned with its historic three-part mission of teaching, research, and public service, and was in keeping with the Board of Governors' growing commitment to foster economic development in all parts of the state.

During the year, the Committee received follow-up discussions related to mold remediation at North Carolina Central University.

UNC President Erskine Bowles wanted to assure the state's legislature and taxpayers that the significant resources already dedicated to the University were utilized as efficiently and effectively as possible. To assist in that effort, he commissioned a blue-ribbon Committee of state and business leaders to review the university's activities and to provide findings and possible recommendations to him by late October 2006. At its April meeting, the Committee was introduced to Hilary Coman, the project manager assisting the campuses with the Efficiency and Effectiveness Study. Her first report was given to the full Board at its May meeting.

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The Committee was composed of the following Board members: Mr. Bradley T. Adcock, Mr. R. Steve Bowden, Mr. F. Edward Broadwell, Jr., Mr. William L. Burns, Jr., Mr. Ray S. Farris, Ms. Hannah D. Gage, Mr. Peter D. Hans, Governor James E. Holshouser, Jr., and Mr. Benjamin S. Ruffin. At the August meeting, the Committee elected Ms. Gage as Chair, Mr. Broadwell as Vice-Chair, and Mr. Bowden as Secretary.

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.

Special Meetings by the Committee

February 10, 2006

The Committee on Budget and Finance hosted a workshop in preparation of the supplemental budget request, as well as enrollment funding and financial aid. Topics discussed were: the request for funding the research extensive universities, the request for the UNC Research Campus at Kannapolis, the Renaissance Computing Institute (RENCI) proposal, the Alfred E. Mann Institute for Biomedical Engineering, the Hickory Center for Engineering Technology, and the request for HUB Contractor Business Academies.

April 11, 2006

A joint meeting of the Committee on Budget and Finance and the Committee on Educational Planning, Policies, and Programs was held to consider the supplemental budget. Topics discussed were: the request for funding for teacher education, the request for funding for nursing, the proposed plan for dentistry in North Carolina, the research campus at Kannapolis, the Hickory Center for Engineering Technology, the Renaissance Computing Institute/IBM initiative, and funding for the Alfred Mann Institute.

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 Waiver

At the September and October meetings, the Committee recommended a 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 at 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.

The Committee further 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 2006. 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.

Tuition

Discussion of guidelines for campuses requesting tuition and fee increases for 2006-07 began in October. The Committee agreed that for one year only, a dollar guideline would be used and determined by averaging recent tuition increases for similar institutions nationwide. Since the tuition and fee processes were already underway at most campuses, the Vice President for Finance was asked to consult with the chancellors for historic or unique circumstances that would require deviations from the proposed parameters. The Vice President for Finance was also asked to seek information from the chancellors regarding fee increases required by bringing new or renovated buildings on line.

At the November meeting, the Committee recommended approval of guidelines in submitting proposals for increasing campus-initiated tuition rates and fees. 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 in summer 2005, 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. The guidelines would not apply to increases in debt service fees or a fee that provided operating funds for facilities previously approved by the Board. Chancellors should consider undergraduate nonresident rates, graduate, and professional schools increases as allowed by the Board's tuition policy.

In February, the Committee recommended that the increases in tuition for undergraduate, graduate, and professional students be considered as requested by the campuses, consistent with the parameters established by the Board. Proposals submitted increased the pool of financial aid funding, expanded student services, ensured competitiveness in faculty salaries, and continued to meet the Board's directives to reduce class size, increase section offerings, and hire more permanent and less part-time faculty.

Fees

In February 2006, the Committee recommended Board approval of the RESOLUTION AUTHORIZING FEES for the 2006-07 academic year. It reflected the Chancellors' recommended fee rate increases consistent with the tuition and fee parameters established by the Board of Governors at its November 2005 meeting.

Academic Salary Increases

The Committee recommended allocations of General Fund appropriations in the amount of \$28,189,720, an amount equivalent to the 2% average salary increase for faculty and other employees exempt from the State Personnel Act (EPA). The 2% salary increase appropriation was proposed 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.

In addition, it was recommended that a separate General Fund appropriation of \$4,000,000 for salary increases at the University Agricultural Programs be allocated as follows: North Carolina State University - \$3,700,000 and North Carolina A&T State University - \$300,000.

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

Current Operations

The Committee made recommendations to the Board for allocating funds provided by the 2005 General Assembly. Included were appropriations of: \$123,020,836 for University Operations; \$1,089,000 for Agricultural Programs; \$5,000,000 for the UNC Health Care System; and \$2,991,488 for Related Educational Programs. Several special appropriations to the Board totaling \$5,856,147 were directed to program areas not included in the Schedule of Priorities requests.

Budget Reductions

The 2005-06 Budget Reductions Report was recommended for approval. 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 reductions made to the General Fund budget codes in order to meet the reduction reserve amounts for their institution. The Chancellors of the fifteen affected campuses (there was no reduction to NCSA) and the President of UNC Hospitals had reported their reductions totaling \$40,128,803. The summary report on reductions was then

transmitted to the Office of State Budget and Management and the Fiscal Research Division by December 31, 2005.

2006-07 Budget Priorities

In April, the Committee recommended adoption of the operating and capital budget priorities for presentation to the Governor and the General Assembly for consideration during the 2006 Legislative Session. The Committee also recommended that, as part of its budget package, the Board of Governors adopt a resolution highlighting the cooperative relationship established with the North Carolina State Board of Community Colleges. President Lancaster, President Bowles, and others had been working together to establish a program to successfully provide higher education for the citizens of North Carolina.

In May, the Committee 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 required environmental clean-up by the Environmental Protection Agency at 20 East Acadia Avenue in Winston Salem.

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 annual report was recommended for approval in September 2005 and transmitted to the Joint Legislative Commission on Governmental Operations and the Joint Legislative Education Oversight Committee.

When the 2000 General Assembly authorized the \$2.5 billion UNC Bond Program, a reserve of \$25,186,595 was set aside as a part of the enabling legislation for cost overruns or repairs and renovations to university facilities. In October, the Committee recommended that the Reserve for Repairs and Renovations and Cost Overruns be allocated to the constituent institutions and affiliated entities based on the relative amounts of the original bond funding. The bond program was currently 80% committed. The remainder of the program, however, faced challenges associated with the escalation of construction costs which began during the last quarter of 2004. Allotment of the statutory reserve would have a positive impact on the program at this time.

At each of its meetings, the Committee received a progress report on the UNC bond program. At the beginning of this fiscal year, data indicated that there were 116 completed projects.

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

In the past year, there had been concern about the construction market and the price spikes experienced. While the market had stabilized, Hurricanes Katrina, Rita, Wilma, and the related recovery efforts would certainly have an impact on the construction market. Widespread damage from the storms in early September would extend the rebuilding impact over a longer period of time.

There was general agreement that the CM at Risk delivery provided for procurement flexibility that other delivery methods did not provide.

The Higher Education Bond Oversight Committee (HEBOC) held quarterly meetings. HEBOC members discussed the need to place the remaining projects under contract as soon as practicable to minimize the affect of steadily increasing costs and, especially for UNC, the need to remain focused to finish the program on time. By May 2006, bond funding commitments exceeded \$2.1 billion.

The State Treasurer's Office 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.

In June 2006, HUB participation data continued to demonstrate the University's commitment to provide economic opportunities to a wide range of firms by exceeding the state's 10% goal. HUB participation was at 16.2% with African-American participation being 3.5%. The total construction dollars awarded to HUB contractors was \$341 million.

HUB Contractor Academies graduated students at UNC Wilmington and UNC Charlotte. A total of 41 contractors participated in both academies. ECU began its academy on March 14 and had 22 contractors and a representative from the North Carolina Department of Administration's HUB office in the class. 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.

Allocation of Capital Improvements

The Committee recommended the allocation of funds for capital improvements. The 2005 General Assembly appropriated \$16,550,000 as follows:

NCSU Engineering Complex III - \$8,700,000
Renaissance Computing Institute - \$500,000
UNC-Chapel Hill School of Dentistry - \$2,000,000
UNCG/NCA&T Joint Millennium Campus - \$2,000,000
The University of North Carolina at Wilmington - \$2,600,000
WSSU Lab Planning Funds - \$750,000

The Committee also recommended allocation of the Reserve for Repairs and Renovations in the amount of \$56,800,000 along with \$700,000 for repair and reconstruction of the chancellor's residence at FSU. The 2005 General Assembly, in House Bill 1775, authorized nonappropriated capital projects totaling \$446,135,000. Scope changes for certain bond projects on the campuses of ECSU, NCCU, UNCP, UNCW, and WCU were also authorized.

Nonappropriated Projects for Authorization by the 2006 General Assembly

In April, the Committee recommended approval of 28 capital improvements projects at 10 institutions totaling \$432,250,000. It also recommended approval of 14 supplements to previously approved capital improvement projects at seven institutions totaling \$97,366,000. The projects would be forwarded to the General Assembly for authorization during the 2006 Session.

Emergency Projects

Chancellors had informed the President of the need to invoke emergency procedures as allowed by G.S. 143-129 to provide for the following capital improvements projects. In accordance with emergency procedures, the State Building Commission had been notified of the projects.

NCCU – A project to repair steam leaks in lines serving McLendon-McDougald Gymnasium and Hubbard Chemistry, Lee Biology, and Robinson Science Buildings, estimated to cost \$134,000, and funded from repair and renovation funds and Higher Education Bond funds.

UNC-CH – A project to repair fire damage to Cooling Tower #2 at the North Chiller Plant, estimated to cost \$350,000, and funded from insurance proceeds.

UNC-CH – A project to repair a section of steam distribution tunnel that could no longer safely support the weight of vehicles crossing over it on Pittsboro Street, estimated to cost \$1,000,000, and funded from utility receipts.

UNC-CH – A project to repair a large underground cavity that would involve replacing approximately 800 feet of 10-ft. corrugated pipe roughly 35 feet under the surface of Skipper Bowles Drive, estimated to cost \$6,000,000, and funded from Facilities and Administrative receipts, Higher Education Bond funds, and repair and renovation funds.

WSSU – A project to replace the existing underground steam line feeding the C.F. Thompson Center (which included the central dining facility), Pegram Residence Hall, and the O’Kelly Library, estimated to cost \$400,000, and funded from Repair and Renovation funds.

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.

North Carolina Central University

Edmonds Classroom Building Renovation	\$ 374,000
Security Camera Installation	400,000

UNC-Chapel Hill

Finish the 10,000 square-foot, fifth-floor of the McColl Building to provide needed program and instructional technology support space for the Kenan-Flagler Business School	1,900,000
Renovate existing laboratory space in Mitchell Hall	900,000
Roadway and sidewalk improvements at three major intersections and traffic signal improvements at additional intersections	1,400,000

UNC Charlotte

Replace a 33-year-old heating, ventilating, and air-conditioning system at Scott Hall	1,200,000
Replace a 20-year-old roof at Cone University Center	700,000

UNC Greensboro

Renovation of Reynolds Residence Hall Fire Sprinkler	1,200,000
Walker Parking Deck Waterproofing Repairs	635,000

UNC Wilmington

Renovate and expand the former baseball locker room facility	540,000
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Winston-Salem State University

Reconstruction of Whitaker Basketball Courts	285,000
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The Committee recommended approval of The University of North Carolina at Charlotte’s request to amend the method of financing for two capital improvements projects by using carry forward funds in the amount of \$1,234,972 of unspent appropriations from fiscal year ending June 30, 2005.

- The construction of a new main entrance road, \$4,000,000, authorized by the Board in May 2005, would be financed from a combination of available facilities and administrative receipts and gifts as well as \$900,000 in carry-forward funds.
- The structural repairs and architectural enhancements to Cone Plaza, \$634,000, authorized by the Board in March 2004, would be financed from Cone Center receipts as well as \$334,972 in carry-forward funds.

The Committee also recommended approval of a change in the method of financing by the University of North Carolina at Greensboro. In Session Law 2002-161 (An Act to Promote Energy Efficiency in State-Owned Buildings), the General Assembly enabled state agencies to utilize guaranteed energy savings contracts as a method to reduce the state’s increasing utility

costs, improve efficiencies of operations, and reduce environmental impacts. The Office of the State Treasurer had advised UNCG that, pending sufficient interest state-wide to justify this issuance of debt by the Treasurer, an alternative method for financing the project would be a lease-purchase agreement; UNCG had requested that their authority to use an energy performance contract be expanded to include the lease-purchase financing option.

The 2004 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 for a Center of Excellence of Teaching and Nursing 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. The 2005 Session of the General Assembly amended this language in Section 30.3A of Senate Bill 622 (S.L. 2005-276) to include “and construction for the Southeastern North Carolina Nursing Education and Research Center at Fayetteville State University.” The Committee recommended allocation of the remainder of the \$10,000,000 for construction of a nursing facility consistent with the rewritten legislation.

Capital improvements actions initiated throughout the year by the President pursuant to Board delegation are reported below. The following increases in authorization were approved:

Appalachian State University	
Bookstore Renovation and Expansion	\$ 1,150,000
Renovation of Welborn Cafeteria	2,372,000
1999 Repairs and Renovation	1,075,000
North Carolina State University	
2000 Repairs and Renovation	265,000
Biomufacturing Teaching and Education Center	1,500,000
Lot 86 Superfund Site	745,000
Gold, Welch, and Syme Residence Halls (HVAC, Sprinklers, and Fire Alarm)	2,800,000
Fire Damage – Reynolds Coliseum	500,000
2004 Repairs and Renovations	1,460,000
Reynolds Coliseum Improvements	175,000
UNC-Chapel Hill	
Sonja H. Stone Black Cultural Center	500,000
Alderman, Kenan, and McIver Residence Halls Renovations	200,000
Cobb Residence Hall	250,000
Residence College Phase II	5,335,809
Daniels Student Store Renovation	221,378
Chatham County Park and Ride Lot	670,000
410 East Franklin Street – Renovation	671,000
2004 Repairs and Renovations	20,537
Memorial Hall Additional Renovations (A/P)	500,000
1998 Repairs and Renovation	220,000
Medical Research Building	1,334,000
Addition to Carrington Hall	250,000
UNC Charlotte	
Traffic Improvements at East Deck	82,000
Parking Lot G	1,250,000

UNC Greensboro	
HVAC Renovation Phase III (Guilford, Mary Foust and Dining Hall)	100,000
Dining Hall Roof Replacement	200,000
UNC Pembroke	
University Center Expansion	229,383
Improvements to Student Recreation Facilities	75,000
UNC Wilmington	
Improvements to Athletic Facilities	13,152
University Union Addition and Renovation	449,777
Western Carolina University	
Access Control for Residence Halls	100,000
Residence Hall Elevator Replacement – Scott, Walker and Harrill	180,000
2005 Repairs and Renovations	150,000
Winston-Salem State University	
Bowman Gray Stadium Field House Expansion and Renovation	200,000
Total	\$25,244,036

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 if the projects warranted further discussion at the next Committee meeting. No projects were approved this fiscal year under this delegation.

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.

Special Obligation Bonds

The Board of Governors is authorized to issue special obligation bonds for capital improvements projects that have been approved by the General Assembly. Although a specific source of funding is used by a campus when retiring these bonds, special obligation bonds are generally payable from all campus revenues excluding tuition and State appropriations.

The Committee recommended that the Vice President for Finance be authorized to sell special obligation bonds for UNC-Chapel Hill for the purpose of financing (1) the refunding of indebtedness issued consistent with the UNC-CH/NCSU Commercial Paper Program, the proceeds of which were used to pay a portion of the costs of the 2005 projects; (2) the costs of acquiring, constructing, and equipping capital improvement projects previously approved by the

Board of Governors and the North Carolina General Assembly; (3) the refunding in advance of their maturities of additional revenue bonds issued for the benefit of the University when net present value savings to the University were achieved; (4) capitalizing interest on a portion of the 2005 Bonds; and (5) providing for the costs incurred in connection with the issuance of the 2005 Bonds. UNC-Chapel Hill would issue refunding bonds when it would achieve net present value savings of at least 2.0%.

The Committee also authorized the Vice President for Finance to sell special obligation bonds for the construction of Parking Deck G at The University of North Carolina at Charlotte. 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. The authorizing resolution included permissive language allowing the University to refund existing bonds if targeted savings of 2% net present value or greater could be achieved.

Remarketing Agent Services

East Carolina University requested that the Board approve the removal of Legg Mason Wood Walker, Incorporated, as the remarketing agent for the 2004 variable rate general revenue 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. Pursuant to the General trust indenture and the terms of a remarketing agreement dated August 1, 2004, Legg Mason Wood Walker, Inc. had served as remarketing agent for ECU's 2004 bonds. Effective December 1, 2005, Legg Mason Wood Walker would be sold to Citigroup Global Markets, Inc. It was, therefore, necessary to appoint a new remarketing agent under Section 8.2 of the general trust indenture for the 2004 bonds.

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. Again this year, North Carolina State University and the University of North Carolina at Chapel Hill requested that the Board approve and ratify the use of proceeds of special obligation bonds for participation in the Commercial Paper Program for projects approved by the 2005 Session of the General Assembly. The Committee recommended that the Vice President for Finance be authorized to use commercial paper bonds for the projects.

The Committee further recommended a new maximum authorized borrowing amount of \$500 million for the Commercial Paper Program. The current maximum authorized borrowing amount was established at \$240 million. The new maximum amounts would be \$100 million for North Carolina State University and \$400 million for UNC-Chapel Hill. These amounts were based on projections of need from each institution's capital improvement program.

Interest Rate Swap Agreement

The Committee recommended that Vice President for Finance be authorized to negotiate the terms and enter into Interest Rate Swap Agreement(s) for UNC Chapel Hill when due diligence revealed it was in the best interest of the University and the State to do so. Given that interest

rates remained at historically attractive levels, UNC-CH requested that the Board enter into financial arrangements that would secure these attractive rates for special obligation bonds to be issued in 2007 and 2009.

Refunding Revenue Bonds

As requested by the NCSU Board of Trustees, the Committee recommended adoption of the resolution authorizing the Vice President for Finance to direct the call and redeem the following:

- Parking System Refunding Revenue Bonds, Series 1996. The University would save over \$230,000 in interest.
- Housing System Refunding Revenue Bonds, Series N and Student Center Refunding Revenue Bonds, Series 1996. The University would save over \$126,000 in interest.

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. The subject report was recommended for approval 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 would be reported to the Committee at its next meeting.

As requested by Boards of Trustees, the Committee recommended the approval of the following leases of property: East Carolina University (one lease), North Carolina School of the Arts (one lease of space for the Chancellor's residence), and UNC-Chapel Hill (one lease). The following leases were reported to the Committee on Budget and Finance as approved under delegated authority: East Carolina University (two leases), UNC-Chapel Hill (two leases), and UNC Pembroke (three leases).

As requested by Boards of Trustees, the Committee recommended the approval of the following acquisitions of property: Fayetteville State University (one parcel), and UNC-Chapel Hill (two parcels). The following acquisitions were reported to the Committee on Budget and Finance as

approved under delegated authority: East Carolina University (two parcels), North Carolina School of the Arts (three parcels), UNC Pembroke (one parcel), and UNC Wilmington (one parcel).

Out-Lease of Space

The Committee recommended several leasing arrangements to enable the universities to meet long-term projected housing demands associated with campus growth. The cost per bed would be consistent with the current rate structure for comparable residence halls on campus and 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.

The Board of Trustees of Fayetteville State University 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.

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

The Board of Trustees of North Carolina Central University requested permission to extend an existing lease and to seek additional leased student housing in order to accommodate a continuing high number of students seeking on-campus housing for the 2006-07 academic year. Also, NCCU was requesting permission to work with the State Property Office to lease up to an additional 300 beds for the 2006-07 academic year at a location and price to be determined by bid.

The Committee recommended approval for North Carolina School of the Arts to lease the 156-bed student housing complex, known as Center Stage, from the NCSA Housing Corporation. Lease payments would be made from student housing receipts and would be used to retire tax-exempt, long-term indebtedness issued by the Corporation to cover the cost of constructing the facility.

The University of North Carolina at Pembroke 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 Wilmington requested approval to lease state land to the UNCW Corporation Housing II, LLC for the purpose of constructing student housing. The University also requested approval to enter into a long-term lease to acquire up to 609 beds of student housing from UNCW Corporation Housing II, LLC when construction was complete.

The Board of Trustees of North Carolina State University requested approval to lease State property to the Beta Upsilon Chapter of Kappa Sigma for the purpose of providing student housing and organization space for a fraternity.

The Board of Trustees of the University of North Carolina at Asheville 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 Board of Trustees of the University of North Carolina at Pembroke requested approval to lease State land to the University of North Carolina at Pembroke Foundation, Inc. (the Foundation) for the purpose of constructing a Health and Physical Education Center (Field House) on campus.

The Board of Trustees of Winston-Salem State University requested approval to enter into a lease for the long-term use of the City of Winston-Salem's Bowman Gray Stadium.

As requested by the Board of Trustees of North Carolina State University, the Committee recommended approval of the out-lease of space to MeadWestvaco Corporation.

Disposition of Property

Located in Monroe County, Florida, two parcels were escheated in 1957 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 and part of the Port Largo development on Key Largo, Florida. The Florida Department of Environmental Protection was acquiring acres in the North Key Largo Hammocks for conservation purposes and wanted to buy the University's two properties. The Committee recommended authorizing 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, to execute any and all documents required to sell these properties while complying with the rules, regulations and laws of the State of North Carolina, if determined that this disposition was in the best interest of the University.

The Committee recommended NCSU's request to sell the property known as the Chinqua-Penn Plantation, a 23-acre parcel with improvements and associated collection of art, furnishings, and antiquities. Given to the University of North Carolina by Jeff and Betsy Penn and managed by NCSU since 1986, 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. 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.

Under delegated authority, it was reported to the Committee that 142 acres in Stokes County had been disposed by 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.

Under delegated authority, it was reported that UNC-Chapel Hill had disposed of real property by lease to allow the Kenan-Flagler Business School Foundation to construct building improvements on the 5th floor of the McColl Building for the Ph.D. program and Information Technology support groups. The lease would end upon completion of construction.

Under delegated authority, it was reported that UNC-Chapel Hill had disposed of real property by lease to allow the Educational Foundation, Inc. to construct a 34,000 square foot building to house offices for the Educational Foundation and the Athletics Department, a new ticket office, and a memorabilia room for basketball. The lease would end upon completion of construction.

Under delegated authority, it was reported that UNC-Chapel Hill had disposed of real property by lease to allow for the construction and operation of a Carrboro Fire Department Substation.

Exchange of Property

The Board of Trustees of North Carolina State University 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 Board of Trustees of NCSU had requested approval of the exchange of equal value property between the State of North Carolina and the Endowment Fund of North Carolina State University to provide for the development of the Centennial Campus consistent with the master land-use plan for the Biomanufacturing Training and Education Center.

The Board of Trustees of the University of North Carolina at Wilmington requested the approval of an 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 purchased for a total of \$2,415,000 to provide UNCW additional parking, warehouse space, and office space. The Foundation would receive property that was purchased for \$1.8 million, the former United Artists Cinema property of approximately 9.5 acres to be developed by the Foundation for the benefit of UNCW.

Ground Lease

The Committee recommended approval of the request of the Boards of Trustees of NCA&T and UNCG for a ground lease of the land and existing improvements for the Joint Millennial Campus to the Greensboro Center for Innovative Development, a jointly-controlled and jointly-funded 501(c)(3) entity that would administer the educational, research, and economic development mission of the Joint Millennial Campus.

For the University of North Carolina at Wilmington, the Committee recommended a ground lease to the UNCW Student Aid Association for the period required to renovate and expand the former baseball locker room facility near the Brooks Baseball Field. At the end of the construction period, the lease would end and the State would accept the completed project as a gift-in-place.

Demolition of Property

Throughout the year, the following demolitions of properties were recommended:

NCSU: A ground lease of approximately 6.4 acres of land and the demolition, with replacement, of the existing Finley Field House facility to construct additional seating in the north end zone area -- The associated \$14.5 million project was on the 2005 Non-General Fund Capital Improvement Projects list that had been approved by the Board of Governors and approved, as HB1775, by the General Assembly.

UNC-CH: Demolition of a 570 square foot storage bunker built in 1986 in order to clear the site for the construction of Phases II and III of the Science Complex

UNC-CH: Demolition of Nash Hall in order to construct the Cogeneration Steam Tunnel Rehabilitation and Expansion Project

UNCG: Demolition of Brown Annex, consistent with the master plan for renovation of the Brown Building

OTHER ACTIONS

The Committee recommended that 344.77 acres as well as the Outreach Center, the Graham Building, and the Moore Building be designated as a Millennial Campus at Western Carolina University. The Millennial Campus would be developed to enhance the research, teaching and service missions of WCU by relying on its strengths in the advanced manufacturing, human learning systems, media and media content, molecular biosciences, retirement, aging, and education. The campus had the administrative and fiscal capacity that was required; and the activities to be performed on the Millennial Campus would advance regional economic development.

Increases in purchasing benchmarks were recommended for three universities. 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. 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.

NCCU – increased from \$35,000 to \$200,000, effective January 1, 2006

UNC Charlotte – increased from \$200,000 to \$500,000, effective July 1, 2006

UNC Wilmington – increased from \$200,000 to \$500,000, effective February 1, 2006

The Summary of Institutional Annual Reports, 2004-05, was recommended. In response to legislation requiring that the Board report annually by March 31 of each year, the report would be forwarded to the General Assembly's Joint Legislative Education Oversight Committee.

The Committee recommended approval of the report on the amount and uses of facilities and administrative receipts. In response to legislation, the report had been prepared for fiscal year ending June 30, 2005 and was reported to the Joint Legislative Education Oversight Committee.

In February, 2006, the committee recommended the Report and Recommendations of the Subcommittee Reviewing the Cost of Textbooks. In March 2005, Jim Phillips, Chair of the Committee on Budget and Finance, appointed a subcommittee and charged them with making recommendations to address student concerns over the rising costs of textbooks and a series of meetings were held from July 2005 to January 2006. Throughout the meetings, the subcommittee sought input from Board members, staff from General Administration, faculty, students, and bookstore managers.

ADDITIONAL INFORMATION

In August 2005, Board of Governors' Chair Brad Wilson announced a special Tuition Policy Task Force that would make recommendations on improvements in policies and practices to ensure affordability, flexibility, and predictability in the tuition-setting process. The Committee, Co-Chaired by Hannah Gage and Charles Mercer, also included Brent Barringer, Peaches Gunter Blank, Steve Bowden, Ray Farris, Governor James Holshouser, Leroy Lail, Fred Mills, Jim Phillips, Gladys Robinson, Ben Ruffin, Craig Souza, and Zack Wynne, as well as three *ex officio* members: NCA&T Chancellor James Renick, UNC-Chapel Hill Board Chair Nelson Schwab, and NC State Board Chair Wendell Murphy.

Also in August 2005, President Broad informed the Committee of a new University-led initiative that would directly benefit the Kannapolis and Gaston County regions of the state, with a significant impact on the entire state's economy. The partnership between Dole Foods and the University of North Carolina would provide for the construction of manufacturing and research facilities, with an anticipated investment of \$750,000,000 in the Kannapolis region alone. The University's role in the Kannapolis revitalization was completely aligned with its historic three-part mission of teaching, research, and public service, and was in keeping with the Board of Governors' growing commitment to foster economic development in all parts of the state. Research conducted at these centers would attract top scientists and graduate students to North Carolina.

During the year, the Committee received follow-up discussions related to mold remediation at North Carolina Central University.

UNC President Erskine Bowles wanted to assure the state's legislature and taxpayers that the significant resources already dedicated to the University were utilized as efficiently and effectively as possible. To assist in that effort, he commissioned a blue-ribbon Committee of state and business leaders to review the university's activities and to provide findings and possible recommendations to him by late October 2006. At its April meeting, the Committee was introduced to Hilary Coman, the project manager assisting the campuses with the Efficiency and Effectiveness Study. Her first report was given to the full Board at its May meeting.