

Minutes of the January 11, 2007 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, January 11, 2007, at 2:00 p.m.

Members in attendance were: Mr. Bradley T. Adcock, Mr. Brent D. Barringer, Ms. Peaches G. Blank, Mr. R. Steve Bowden, Mr. F. Edward Broadwell, Jr., and Mr. Peter Keber. Necessarily absent were Governor James E. Holshouser, Jr. and Mr. David W. Young. Other Board members in attendance were Chair Jim W. Phillips, Jr., Laura W. Buffaloe, Phillip R. Dixon, Hannah D. Gage, Peter D. Hans, and Cary C. Owen. Attending from General Administration were Vice Presidents Russ Lea, Alan R. Mabe, Robert O. Nelson, Kimrey Rhinehardt, and Leslie Winner; Associate Vice Presidents Ginger Burks, George Burnette, Shari Harris, David Harrison, Robert C. Kanoy III, and James O. Smith; Associate Vice President and University Property Officer Terrance Feravich; Assistant Vice Presidents Claudia Odom and Jonathan Pruitt; Director for Academic and Student Affairs Kemal Atkins; and Executive Director of UNC Shared Services Alliance JoAnn W. Pearson. Chancellors in attendance were: Steven C. Ballard (ECU), T.J. Bryan (FSU), James C. Moeser (UNC-CH), Philip L. Dubois (UNCC), Allen C. Meadors (UNCP), Rosemary DePaolo (UNCW), and John W. Bardo (WCU). Chair of the Faculty Assembly Brenda Killingsworth, Fiscal Research Analyst Richard Bostic, Office of State Budget and Management Analysts Kristin Crosson and Elizabeth Grovenstein, and Executive Director of the State Education Assistance Authority Steven E. Brooks were in attendance, as well as members of the press.

Chair Bowden convened the meeting. The minutes of the meeting of November 9, 2006 were approved.

1. North Carolina State University had requested the authority to establish two new capital improvements projects.

The first project would construct a 7,500 square foot, 20-station teaching and research milking parlor for the 190 cow dairy herd. Work would include the demolition of an obsolete barn to clear the way for the new milking parlor, new milking equipment, and the reroofing and residing of adjacent dairy education buildings. The project was estimated to cost \$950,000, of which \$450,000 was for equipment. Funds were available from the proceeds retained by NCSU from the sale of its Randleigh Farm property.

The second project would expand campus infrastructure by increasing boiler and chiller capacity in the regional utility plants and making necessary changes to the distribution system. The project, estimated to cost \$2,500,000, would be funded from assessments to capital projects and auxiliary units. The assessments were equal to the costs the projects would have incurred had stand-alone chillers and boilers been installed in each. Life-cycle cost analysis had shown that connecting the individual projects to a regional utility plant was more efficient and effective than stand-alone installations.

It was recommended that these projects be authorized and that the methods of financing as proposed by North Carolina State University be approved.

On the motion of Ms. Blank, seconded by Mr. Barringer, the recommendations were approved.

2. On behalf of the Coastal Studies Institute, the University of North Carolina General Administration requested the authority to accept, by gift, property located in Dare County.

Three parcels of undeveloped land totaling 34.4 acres in Manteo adjacent to the west side of the Dare County Airport and across the road from the North Carolina State Aquarium would be donated to UNC-GA by Dare County. The property, estimated to be valued at \$3.4 million, would be used to provide facilities for a multi-campus Coastal Studies Institute that was established in 2002 and received State operating funds beginning in 2004. The Institute, a partnership between ECU, ECSU, NCSU, UNC-CH, and UNCW, would provide research, educational opportunities, and outreach to North Carolina's maritime counties. The 2004 General Assembly appropriated \$1.3 million to plan a research building with an auditorium, wet labs, administrative space, a storage/garage building, and a dormitory for the Institute. The University's 2007 capital budget included a request of \$32.5 million to construct the facility.

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

At this point, by request of Mr. Adcock, Dr. Lea gave the Committee a brief history of North Carolina coastal research. The Coastal Studies Institute was a result of over a decade of research into what North Carolina needed to protect its citizens on the coast, to explore the oceans and sounds, and to benefit from its rich coastal history and businesses. President Spangler established the Toll Commission during his administration to assess the level of UNC assets needed to address the diversity of coastal issues confronting the state. The principal outcome of the Commission's findings was that the coastline and its coastal issues were extremely diverse, north to south, and that investment needed to be placed in the south (Wilmington, Myrtle Grove), at mid-coast (Morehead, CMAST), and north (Manteo, CSI). After the southern and middle coastal initiatives were accomplished, President Broad established a study group to examine the northern coast and determine whether additional UNC and state resources were required to address the complexity of issues in the north. Two committees were charged with exploring requirements for the northern coast: one comprised of UNC scientists and administrators and the other from community stakeholders. The recommendation from both committees was that a non-degree granting research and outreach center should be built in the north that could coordinate activities across all of the universities. The Board approved formation of the CSI; it received state appropriations to operate and to plan the capital improvements; and the county was charged with finding a building site. All has been accomplished. Chancellor Moeser concurred with Dr. Lea's analysis and stated that there was great strength in the scientists working together and this effort would cover the Atlantic Seaboard for coastal research.

On the motion of Ms. Blank, seconded by Mr. Barringer, the recommendation was approved.

3. In 2006, the Board authorized the President to execute leases valued up to \$350,000 and other property interests up to \$500,000. The following property transactions were approved under this delegation and were reported to the Committee on Budget and Finance.

East Carolina University – Acquisition of Real Property by Lease

Use: Lease of office and clinical space for the Physicians Psychiatric Outpatient Center, Brody School of Medicine  
Owner: To be determined by bid  
Location: Located within two miles of Pitt County Memorial Hospital  
Description: Approximately 10,224 square feet of office and clinical space  
Cost: Estimated to be \$164,000 annually (\$16 per net square foot) not including utilities and custodial services  
Term: Five-year initial term with two, three-year renewal options  
Source: Medical Faculty Practice funds  
Approvals: The ECU Board of Trustees recommended this action on December 15, 2006.

East Carolina University – Acquisition of Real Property

Use: Campus expansion and interim office space pursuant to ECU's master plan  
Owner: Judith S. Yongue  
Location: 601 E. Fifth Street, Greenville, Pitt County (adjacent to the Chancellor's residence)  
Description: Approximately 0.25 acres with a two-story frame house and detached garage totaling 3,111 square feet  
Cost: \$255,000 (State Property Office concurs with the purchase price.)  
Source: Carry-Forward Funds (operating funds unexpended on June 30 and, pursuant to state law, "carried forward" into the next fiscal year to support one-time expenditures)  
Approvals: The ECU Board of Trustees recommended this action on December 15, 2006.

North Carolina State University – Disposition of Real Property by Lease

Owner: State of North Carolina  
Justification: MeadWestvaco Corporation planned to open a new Packaging Innovation Center on the Centennial Campus and would bring partnership opportunities with the Colleges of Natural Resources, Textiles, Design, and Engineering. This lease would provide temporary office space during the construction of their new build-to-suit facility.  
Location: Suite 2540, Partners I Building, NCSU Centennial Campus, Wake County  
Description: 2,623 square feet of office space within Partners I Building  
Term: Two years with an option to renew for up to twelve additional one-month periods  
Rental Income: \$69,667 per year (\$26.56 per square foot) including base rent and building operating costs with annual CPI adjustment  
Proceeds: Per G.S. 116-36.5, the proceeds were retained by the Centennial Campus Trust Fund for continued development of the Centennial Campus.  
Approvals: The NCSU Board of Trustees recommended this action on November 17, 2006.

North Carolina State University – Acquisition of Real Property by Lease

Use: To lease space to house the Distance Education and Learning Technology Applications (DELTA) program. DELTA needed additional space to accommodate a new component of its program (Distance Education Student Services) by May 2007 and there was not enough room in the current space. DELTA was working with the State Property Office to locate suitable space with a landlord that would agree to a phased move-in. Distance Education Student Services would move in by May 2007 and the entire program would come together when DELTA's current lease expired in March 2008.  
Owner: To be determined by bid

Location: To be determined by bid  
Description: Approximately 10,500 square feet of office and training/classroom space  
Cost: Approximately \$27 per square foot including utilities and custodial services with annual CPI increases  
Term: Five-year initial term with two, one-year renewal options was desired  
Source: DELTA program operating funds  
Approvals: The NCSU Board of Trustees recommended this action on November 17, 2006.

The University of North Carolina at Chapel Hill – Acquisition of Real Property

Use: To expand the buffer between the Cogeneration Facility and adjacent neighborhood  
Owner: John R. Aman  
Location: Lot 9 of the I.W. Pritchard tract, Chapel Hill, Orange County  
Description: Located on McCauley Street, the property was an undeveloped lot of approximately 0.6 acres  
Cost: \$60,000  
Source: Utility receipts  
Approvals: The UNC-CH Board of Trustees recommended this action on November 15, 2006.

The University of North Carolina at Chapel Hill – Acquisition of Real Property by Lease

Use: Lease of office and clinical space for the UNC-CH School of Medicine's Treatment and Education of Autistic and Related Communication-Handicapped Children (TEACCH) Center in Asheville, NC  
Owner: Chrysler Building, LLC  
Location: 162 Cox Avenue, Asheville, Buncombe County  
Description: Approximately 3,711 square feet of office and clinical space  
Cost: \$52,880 annually for the initial term (\$14.25 per square foot) and \$61,232 annually for the renewal term (\$16.50 per square foot). Cost included utilities, custodial services, and parking.  
Term: Five-year initial term with one, five-year renewal option  
Source: TEACCH Center operating funds  
Approvals: The UNC-CH Board of Trustees recommended this action on September 27, 2006.

Ms. Blank commented that by next November, the delegation ceiling should again be increased from \$500,000 to \$1,000,000. Mr. Nelson explained that the number of items falling under delegated authority this year would be examined.

Then Chair Bowden called on Mr. Brooks and he presented an overview of Need Based Financial Aid in The University of North Carolina. Questions were answered as he discussed the basic formula of federal need-based financial aid, components of the federal expected family contribution, and student indebtedness.

Next, Ms. Burks presented the General Fund Financial Summary for 2005-06. In 2005, the Board of Governors' Best Financial Practices Committee recommended that the Board annually review a financial report for the University. The report, from UNC General Administration's Unified Financial Data Model, included 2005-06 General Fund information from all 16 campuses and General Administration budgets.

A progress report on the UNC Bond Program was presented by Ms. Harris. Since the last meeting, contracts had been awarded at UNC-CH and UNCW. Projects had been completed at ASU, NCCU, NCSU, UNCP, and WCU. Bond dollars in completed projects now exceeded \$1.4B with \$2.2B committed overall, and more than 91% of bond funds now committed.

The UNC Bond Program had been challenged over the past years as reviewing agencies had struggled to complete timely plan reviews under a heavy work load with insufficient staff resources. Review times had averaged as much as 54 days per review. Since plans were reviewed at three different stages during the design process, accumulated review times were contributing significantly to project durations. Consideration of Senate Bill 192, an act seeking modifications of certain review procedures for UNC construction projects, during the 2006 Session led to the General Assembly establishing the Legislative Study Commission on State Construction Inspections. On November 2, the Commission heard information about the state construction process from the Department of Administration/State Construction Office, Department of Insurance, Department of Labor, and Office of State Budget and Management. On November 22, President Bowles and Rob Nelson met with Commissioner Jim Long of the Department of Insurance and State Fire Marshal, Deputy Commissioner Chris Noles, and Assistant Commissioner Wayne Goodwin to discuss recent process improvements and additional improvement opportunities. On December 6, the Commission heard perspectives on the state construction process from state agencies including the University of North Carolina, Department of Health and Human Services, Department of Environment and Natural Resources, Department of Cultural Resources, and the Department of Correction (by letter). A working group was appointed to determine which recommendations and suggestions had consensus among all parties. The working group, including UNC, met on December 13 and 20, 2006. The Commission was expected to consider the recommendations of the working group and would shape their final report at the concluding meeting on January 18, in order to complete its task by January 24, 2007.

Construction contracts to HUB firms had risen \$24.9 million dollars since the last quarterly report data was compiled. Total HUB participation was 16.5%, equivalent to \$375 million. A forum to continue acclimating HUB contractors to bonding opportunities offered through the North Carolina Institute of Minority and Economic Development (NCIMED) was held in December on the university's campus. This program had previously helped contractors acquire bonding who had been unsuccessful in the past. The HUB Academy had been transferred under the State Department of Administration with funding provided for this purpose by legislation. The first HUB Academy since the transition began in December and was the largest class to date with 37 contractors. Unlike past academies, contractors could undergo business assessments to identify strengths and weaknesses in their companies. The assessments would be used to identify mentor/protégé opportunities with larger construction firms and would be made available through a partnership with the Raleigh Business Technology Center. Additional academies were planned at Fayetteville State University and Elizabeth City State University under the direction of the Department of Administration in 2007.

The University of North Carolina Online was presented by Dr. Mabe. General Administration was working with the constituent institutions to develop a single entry point to all online offerings to allow students to get information about degree programs, certificates, and available courses as well as information about applying, registering, and enrolling in online programs and courses. A large number of development projects were underway. The target date for announcing the University of North Carolina Online was early April 2007.

Mr. Nelson discussed requests received for campus-initiated tuition and fee increases. This item would be considered by the Committee at its February meeting and an overview would be the first step in the process. The average increase requested was \$226. Mr. Nelson stated the requests were consistent with the Board's policy and four-year tuition plan. There was a UNC-GA committee reviewing all increases over 6.5%. They were analyzing trends, growth, the purpose of the increase, and the use of funds.

There being no further business, the meeting was adjourned.

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

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Mr. Bradley T. Adcock  
Secretary of the Committee  
on Budget and Finance