

APPENDIX JJ

ANNUAL REPORT OF THE COMMITTEE ON BUDGET AND FINANCE TO THE BOARD OF GOVERNORS OF THE UNIVERSITY OF NORTH CAROLINA JULY 1, 2001 THROUGH JUNE 30, 2002

The Committee on Budget and Finance met 19 times between July 1, 2001, and June 30, 2002.

The Committee was composed of the following Board members: Mr. J. Addison Bell, Mr. Bert Collins, Governor James E. Holshouser, Jr., Mr. Jim W. Phillips, Jr., Mrs. Gladys Ashe Robinson, Dr. Priscilla P. Taylor, and Mr. Robert F. Warwick. In August, the Committee elected the following officers: Mr. J. Addison Bell, Chairman; Mr. Bert Collins, Vice-Chairman; and Mrs. Gladys Ashe Robinson, Secretary.

The Committee functions to: advise and consult with the Chairman and the President concerning budget policy and preparation; consider the budget proposed by the President, recommend modifications to the budget if needed, and approve the budget for consideration by the Board; make recommendations to the Board for allocation of funds appropriated to the Board; work with the Committee on Educational Planning, Policies, and Programs to ensure the proper funding of long-range objectives; and 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.

COMMITTEE WORKSHOPS

During the year, the Committee hosted several sessions to share and discuss financial-related information. The sessions were either scheduled as workshops or Committee meetings and the entire Board was invited. These sessions were as follows.

January 11, 2002

The Committee hosted a workshop for discussion of tuition and fees. Board of Governors member Jim W. Phillips, Jr. discussed the constitutional and statutory authority for the establishment of tuition and fees by the Board of Governors.

Board member Ray S. Farris summarized the *Report of the Task Force on Tuition Policy* that had been adopted by the Board of Governors on November 13, 1998.

Chancellor Moeser of UNC-Chapel Hill, Chancellor Woodward of UNC Charlotte, and Chancellor Martin of Winston-Salem State University presented information regarding the importance of and the use of receipts generated from campus-initiated tuition increases.

President Broad reported on the cost of funding the projected enrollment increases for the 2002-03 year. Overall, the campuses were underfunded for 2001-02 when enrollment growth was higher than had been projected. She stated that the University's top priority would be to secure the necessary funds to support the enrollment currently on campus and projected for the next year.

Vice President Davies presented detailed information regarding the Board's tuition and fee policies and the use of revenues generated from tuition and fee charges. Elizabeth McDuffie of the State Education Assistance Authority and Julie Rice Mallette, the Financial Aid Director of North Carolina State University, provided detailed information regarding the use of funds available for student financial aid and the decline in unmet financial need as a result of the resources set aside from revenues generated by campus-initiated tuition increases.

February 7, 2002

The Committee hosted a workshop for discussion of tuition. President Broad presented detailed information regarding tuition and student financial aid and the effects of increasing/not increasing each of these for UNC students. Her discussion focused on information presented in a primer entitled "Keeping the Covenant: Ensuring that the University of North Carolina Remains Accessible and Affordable."

Vice President Davies discussed the environment in which the Board would review tuition increases. The discussion focused on budgetary reductions affecting the campuses and the strategies being used by campuses to cope with overenrollment and insufficient funding. Mr. Davies also reviewed the uses of lapsed salary funds in the University.

Dan Gerlach, Senior Policy Advisor for Fiscal Affairs, Office of the Governor, presented a report on the North Carolina economy – “The Economy and the Budget.” Mr. Gerlach responded to questions asked by Board members throughout his presentation.

February 19, 2002

The Committee hosted a workshop to discuss proposed increases in tuition and fees. Chairman Bell emphasized the State’s budgetary and economic situation. The Committee and Board members engaged in discussion related to the advisability of increasing or not increasing tuition in the current economic environment.

Vice President Davies provided information regarding tuition and fee proposals from the campuses, as well as the recommendation for a Board-initiated tuition increase put forward by the system-wide tuition committee.

Chairman Bell then led a discussion on the advisability of increasing tuition and, if so, by how much. Alternative scenarios were presented and the Committee considered the impacts of those scenarios on individual campuses. The members’ continuing discussion focused on issues such as access, affordability, and strategies for the campuses to accommodate the enrollment increases in a challenging economic environment.

March 5, 2002

The Committee hosted a workshop to continue a discussion on tuition. The discussion focused on budgetary reductions affecting the campuses and strategies being proposed by campuses to cope with over-enrollment and insufficient funding. Board member Craig Souza called for a resolution to be drafted to request the General Assembly to fully fund enrollment growth. The Committee acknowledged general discussion of a proposed draft for including enrollment growth in the continuation budget by the General Assembly. During the discussion, all Board members had a chance to voice their opinions on the subject.

May 10, 2002

Chairman Bell convened the workshop and the Finance staff made a presentation outlining the progress in the implementation of the UNC bond program. Fifty-four capital improvements projects were under construction on 14 of the 16 campuses. Every project had been bid within budget. The bid savings had been placed in a reserve to cover inflation for future projects. Seventy-eight percent of the total bond budget was in either the design or construction stage. The Committee discussed innovative ways to deliver bond projects, HUB participation, and the impact of the bond program on the North Carolina economy.

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 rates and fees. Specific actions are identified in the following paragraphs.

In March 2001, the Board of Governors set tuition rates that reflected 4% across-the-board increases for all resident students with like dollar amount increases for nonresident students, an adjustment for change in Carnegie classification at UNC Charlotte, and certain campus-initiated increases. In addition, supplemental increases were proposed for graduate students to reflect the higher cost of graduate instruction to continue to move UNC rates closer to the national average ratio of graduate-to-undergraduate tuition and fees at public universities.

The 2001 Regular Session of the North Carolina General Assembly, on August 29, 2001, amended these rates to modify the Board's increases to four percent (4%) across-the-board for nonresident students and an additional across-the-board increase of five percent (5%) for all students. In September, the increases were recommended for Board approval and would be effective fall semester 2001.

In August, at the University of North Carolina at Pembroke, a new \$50 voluntary fee was recommended for off-campus students who desired a specified range of privileges (a UNCP Braves card, access to athletic events and Performing Arts productions, and use of the auxiliary gym, including the Wellness Center) currently being offered to on-campus students. The fee was effective with the fall semester, 2001.

The Committee recommended allocation of \$40,536,963 for Enrollment Changes. The General Assembly had enacted a Continuing Budget Resolution (S.L. 2001-395) that included funding for additional enrollment growth for the University, as well as the Community Colleges.

The Committee recommended budgeted enrollments for 2001-02 with 141,069 annual FTE and 3,840,814 total budgeted student credit hours. The enrollment changes request and

allocations were based on the semester credit hour funding model except for the components which were funded on the FTE funding model.

In October, the Committee recommended allocation of academic salary increases for 2001-02. The General Assembly provided appropriations for an annual salary increase of \$625 for faculty and other employees who are exempt from the State Personnel Act (EPA). These funds were to be awarded to individuals in accordance with the policies and procedures established by the Board. It was recommended that these funds be allocated in exact proportion to the number of budgeted positions at each institution in the General Fund salary base.

The Committee recommended allocation of \$25,192,758 for current operations, \$530,000 for Agricultural Programs, and \$3,226,210 for Related Education Programs for 2001-02.

The Committee also recommended several special appropriations totaling \$3,790,500 that were directed to program areas not included in the Schedule of Priorities requests. These appropriations were as follows:

- Scholarships for Teacher Assistants Pursuing Teaching Degrees - \$1,000,000
- North Carolina Progress Board - \$250,000
- Closing the Achievement Gap - \$250,000
- Treatment and Education of Autistic and Communications Handicapped Children (TEACCH) - \$290,500
- UNC Teacher Education through Distance Education - \$2,000,000

The 2001 Regular Session further made reductions in the continuing operating budgets of \$48,327,493 for The University of North Carolina.

In October, the Committee recommended that the Board's Policy on waiver of tuition for faculty and staff be amended to allow for the waiver of student fees according to an institutional policy set by the Board of Trustees. The constituent institutions could waive tuition charges for one course per semester taken by qualified UNC faculty and staff members. Allowing a waiver of student fees for qualified UNC faculty and staff members would provide an additional benefit that would be favorably received by employees at a minimal cost to the institutions.

In January, it was recommended that funds be allocated to North Carolina State University from a special appropriation in House Bill 688 of \$600,000 for the 2001-02 fiscal year and \$600,000 for the 2002-03 fiscal year for the purpose of providing funds to the Center for Turfgrass Environmental Research and Education for research initiatives. In addition, a related reporting requirement was established on the use of the funds and the sharing of the research with the other constituent institutions.

In January, as a result of the State's revenue condition, the Committee recommended suspension, for the 2001-02 fiscal year, of the policy that required a budget adjustment for those institutions that had enrolled for two consecutive years more than 18% of the freshmen class from out-of-state students. The three institutions that were exempted from this policy were Elizabeth City State University, North Carolina A&T State University, and the University of North Carolina at Wilmington.

In January, it was recommended that the Chancellors submit five-year plans on tuition and fees. In February, an amendment to the five-year tuition plan was recommended in that the base year of the plan be the 2002-03 fiscal year rather than the 2003-04 fiscal year, since the Board would approve the 2002-03 tuition rates at its March meeting.

In March, after three series of phone discussions with Chancellors, and after four tuition workshops in January, February, and March, the Committee recommended that the current tuition rates at the constituent institutions be increased by 8% for resident students and 12% for nonresident students. The tuition increases would generate tuition receipts totaling \$39,966,108. It was recommended that the funds be used as follows.

First, the receipts would be used to provide for one-half of the enrollment increase funding to be requested from the General Assembly. It was recommended that the General Assembly provide the remaining \$33,401,571 that was needed to fund the request for enrollment increases.

The remaining receipts, \$6,564,537, would be used to provide additional funding for the Board's need-based financial aid program. It was recommended that the

General Assembly match these funds to provide a total of \$13,129,074 in additional need-based financial aid. This would ensure full funding for the need-based financial aid program.

If the General Assembly was able to fund enrollment increases and student financial aid at a level higher than requested, the additional funding would result in proportionately reduced tuition rates at all of the campuses. The Committee on Budget and Finance had determined that to ensure that access to the University for 2002-03 would be available to the people of North Carolina without eroding the quality of programs, it was necessary to raise tuition to provide for a portion of the cost of enrollment increases and student financial aid.

The Committee also recommended that the following campus-initiated tuition increases be approved.

For the five institutions that had not previously requested campus-initiated tuition increases, the amounts submitted by those campuses were approved. These institutions and the tuition increases were as follows.

Elizabeth City State University, \$150
Fayetteville State University, \$100
North Carolina School of the Arts, \$400
Western Carolina University, \$200
Winston-Salem State University, \$200

For North Carolina State University and the University of North Carolina at Chapel Hill, it was recommended that the campus-initiated tuition increase total \$300 at each campus.

For East Carolina University, the University of North Carolina at Charlotte, and the University of North Carolina at Greensboro, it was recommended that the campus-initiated tuition increase total \$250 at each campus. At the University of North Carolina at Greensboro, this total would include the \$150 previously approved by the Board effective with the 2002-03 year.

For all remaining baccalaureate and comprehensive universities, the campus-initiated tuition increases would not exceed \$200, to be approved by the President upon the request of each campus Board of Trustees based on a determination that any amount in excess of the campus's originally requested amount was necessary to improve or maintain the quality of academic programs or to provide access. At Appalachian State University and North Carolina A&T State University, this would include the \$150 previously approved by the Board effective with the 2002-03 year; and at the University of North Carolina at Pembroke, this would include the \$80 previously approved by the Board effective with the 2002-03 year.

The \$300 campus-initiated tuition increase for the University of North Carolina at Asheville previously approved by the Board effective for the 2002-03 year would remain in effect.

The revenue resulting from a campus-initiated tuition increase would be used only for instructional or academic purposes or student financial aid. If a campus had a request for a purpose other than academic or instructional in its proposal, the campus' Board of Trustees would submit a request to the President to reallocate the funds based on a determination that the reallocated amount was necessary to improve or maintain the quality of academic programs or to provide access.

The Committee recommended that the Vice President for Finance be authorized to make adjustments in tuition remission and other schedules to reflect the tuition increases recommended above.

The Committee recommended that the Vice President for Finance be authorized to prepare a supplemental budget request for the General Assembly to reflect the tuition increases, the appropriations needed for enrollment increases and student financial aid, and other priorities previously approved by the Board. [Note: The supplemental budget request was prepared and forwarded to the General Assembly in May 2002.]

The Committee recommended that the Board of Governors request the General Assembly to make statutory changes to include enrollment growth funding as a part of the States' continuation budget.

Also in March, fees were recommended for 2002-03. The fee recommendations had been developed in accordance with the policies and procedures adopted by the Board of Governors in May 1993 as a result of the study and report of the Special Committee on Student Fees.

Also in March, the Committee recommended that the Board approve a student fee of \$1 per FTE annually for all students in The University of North Carolina to provide revenues to

support the University of North Carolina Association of Student Governments. The fee would generate approximately \$165,000 annually. In May, the annual budget and administrative operations plan for the UNCASG were recommended for approval. The policy outlining the functions of the Association and its relationship to the Board of Governors and the Office of the President was reviewed at the May meeting and was recommended for approval at the July meeting.

In May, a plan to charge for parking at the North Carolina Arboretum was recommended for implementation effective September 1, 2002. Since 1995, The North Carolina Arboretum had experienced visitor growth of more than 966%, from 16,500 in 1995 to 494,000 in 2001. The operating budget of the Arboretum had increased at a rate of about 4% annually during this same period, leading management to the conclusion that a plan to generate revenue was necessary to provide needed expansion funding. A plan that incorporated charges for parking, the sale of food and gifts, and charges for use of the facilities for special events was developed. A parking fee not to exceed \$6 per passenger vehicle or \$45 for vehicles exceeding 14-passenger capacity, excluding registered school groups would be reviewed by the Board periodically and adjustments would be made as needed.

In May, in an update on the State's revenue condition, the following was recommended:

- (1) The Board of Governors, Chancellors, and President maintain a commitment to the principles already submitted to the General Assembly as the budget discussions continue;
- (2) That the Board be kept in close contact for consultation purposes, even though the President and her staff are tasked with quick turn-around times for some legislative requests; and
- (3) The President and Chancellors be allowed flexibility to manage the budget.

CAPITAL IMPROVEMENTS

The Committee continued to receive progress reports each month on the implementation of the UNC Bond Program. The University's effort continued to increase minority contracting in University construction. Broadening the base of minority contractors participating on University construction projects was important, both to be non-discriminatory and to achieve the broadest possible construction pool available to UNC. In September, the following statement of policy was recommended:

It is the policy of The University of North Carolina to provide businesses owned by minority persons equal access and opportunity to participate fully in all aspects of the University construction program; to prohibit discrimination against businesses on the basis of race, color, national origin, or gender; to promote and encourage full and open competition; and to promote equal access to contracting opportunities among the various contractors and vendors that do business with the University. Minority persons are defined in North Carolina General Statutes 143-128.

It was further recommended that the President develop and implement a plan to promote the utilization of Historically Underutilized Businesses in the UNC construction program; provide the final HUB Plan, and any subsequent amendments to it, to the members of the Board of Governors; and report to the Budget and Finance Committee of the Board of Governors on a quarterly basis the progress that each campus had made in utilizing HUBs in its construction projects.

Also, in September, the Committee submitted a report to the Joint Legislative Commission on Governmental Operations regarding the implementation of the University of North Carolina's Bond Program. Included in the report was the status of UNC bond projects, expenditures to date, estimated operating costs, and the condition of the capital facilities, with repair and renovation needs. The report was also forwarded to the Bond Oversight Committee. In November, the following Resolution was adopted by the Committee and was presented to the Board:

The Board of Governors urges Boards of Trustees to utilize North Carolina architects when practicable in connection with The University of North Carolina bond construction projects to the extent allowed by law.

During a bond update in January 2002, it was stated that bond projects that had been bid to date had actually come in under budget. Also, Senate Bill 914, Public Construction Law Changes, had increased the University's authority to approve contracts for projects \$2,000,000 and less. The legislation also allowed public entities to bid projects as single prime contract or to employ a construction manager at risk which would provide a guaranteed maximum construction price.

In October, the Committee made allocation recommendations for capital improvements. The General Assembly had appropriated \$57,500,000 to The University from the Statewide Reserve for Repairs and Renovations. It was recommended that the Board provide funds for projects at affiliated institutions and then allocate the remainder of the funds to the institutions in accordance with the formula approved by the Board in 1994, as updated to reflect the most recent data available. It was recommended that Chancellors identify specific projects to be financed from the institutional allocations and present those projects to the President to be transmitted to the Joint Legislative Commission on Governmental Operations and the Fiscal Research Division of the Legislative Services Office for their joint review, as required by legislation. It was further recommended that allocations to an institution may be transferred as needed among projects within that institution upon the request of the Chancellor and the approval of the President. [Note: In January, 2002, the Office of State Budget and Management notified the Office of the President that the \$57 million would not be available for expenditure and the funds would be reverted to the General Fund to balance the 2001-02 State Budget.]

In October, it was reported that the Chancellor of the University of North Carolina at Chapel Hill had informed the President of the need to invoke emergency procedures as allowed

by G.S. 143-129 to provide for additional ventilation of space in Berryhill Hall that was posing a hazard to health. Berryhill Hall was scheduled for a major renovation as a part of the university bond program in 2004. A preliminary building assessment had revealed that a local exhaust system must be installed immediately in the gross anatomy lab to evacuate excess concentrations of formaldehyde. Again in February, it was reported that the Chancellor of the University of North Carolina at Chapel Hill had informed the President of the need to invoke emergency procedures to provide for remediation of ground water contamination at a low level radioactive waste site located at Mason Farm that was posing a potential hazard to health. Ongoing efforts to remedy contamination at a low level radioactive waste site located at Mason Farm had revealed that the area of groundwater affected was greater than initially believed. In light of this finding, the North Carolina Department of Environmental and Natural Resources had notified the university that clean up efforts had to be expedited. Full remediation had to be completed by the end of July 2002, a full year earlier than originally anticipated. As required, the State Building Commission had been notified in each incidence.

With the passage of Senate Bill 914, Public Construction Law Changes, the 2001 General Assembly provided the University with increased authority for the management of construction projects. The bill amended General Statute 116-31.1 to allow the university to conduct fee negotiations for all design contracts and to award and manage all construction and design projects costing \$2,000,000 and less, increasing this amount from the previous limit of \$500,000 established in 1998. The Board of Governors had been responsible for ensuring that the staffing at each campus and affiliated organization was capable of handling this increased responsibility. In February, it was recommended that the Board delegate responsibility for projects costing \$2,000,000 and less to the constituent institutions and the Office of the President and that the affiliated organizations listed as follows be granted similar authority under the proposed support structure.

- (1) North Carolina Arboretum to be supported by Western Carolina University;
- (2) North Carolina School of Science and Math to be supported by the University of North Carolina at Chapel Hill; and
- (3) University of North Carolina Television to be supported by the University of North Carolina Office of the President

In February, a reallocation of funds associated with a provision regarding Medicare receipts was recommended. The provision in NC Statute 116-36.6(3) allowed for all Medicare receipts received by the East Carolina University School of Medicine that remained after meeting all required expenditures be used for capital improvements subject to the approval of the Board and the Joint Legislative Commission on Governmental Operations. In February of 2000, the Board approved East Carolina University's original Medicare Reimbursement Trust Fund Spending Plan. In February of 2002, pursuant to G.S. 116-36.6(3), the Committee recommended a reallocation of \$705,395 previously allocated for telecommunications projects to property acquisition.

In May, the Committee discussed the history of approvals and activities to date regarding the Centennial Campus Conference Center/Hotel and Golf Course, and the following items were recommended for Board approval; thereafter they were forwarded to North Carolina State University for consideration by the Board of Trustees: (1) An independent consultant not involved thus far should examine the project; (2) The university should explore an option to handle expenses for the golf course with private funds (\$12,000,000); and (3) NCSU should keep the private sector involved in all aspects of the project. During the discussion, it was recommended that Chancellor Fox present the full review of all aspects of the project to the Board before any approvals went forward to the Council of State.

In May, the Committee recommended that twenty-six self-liquidating capital improvements projects (or project supplements) be forwarded for authorization by the 2002 General Assembly.

Appalachian State University	
Residence Hall Comprehensive Renovations	\$ 12,000,000
East Carolina University	
West End Central Utility Plant	3,357,000
Clement Residence Hall Air Conditioning	2,833,000
Elizabeth City State University	
Renovation of Campus Dining Facility	1,178,000
Fayetteville State University	
Athletic Facilities Improvements	2,766,550
North Carolina State University	
Soccer, Track, and Softball Complex	4,500,000
Fire Safety Residence Halls	1,300,000
University Apartments for Student Housing	77,260,700
Parking Expansion Projects	1,000,000
The University of North Carolina at Chapel Hill	
208 West Franklin Street	4,000,000
Kenan, McIver, and Alderman Residence Hall Renovations	10,500,000
Residence College, Phase II	46,500,000
School of Medicine Research Facilities	77,700,000
Ramshead Development – Supplement	12,800,000
Hot Water Replacement, Phase II	5,000,000
The University of North Carolina at Charlotte	
Hall, Phase 8	22,000,000
Brockner Health Center	7,150,000
Parking Deck G	8,300,000
The University of North Carolina at Pembroke	
Surface Parking Lot	275,000
University Center Expansion	3,000,000
Improvements to Student Recreation Facilities	600,000
The University of North Carolina at Wilmington	
University Union Building Expansion and Renovation	22,400,000
Surface Parking	3,000,000
Wagoner Hall Renovations	4,000,000
Residence Hall Renovations	6,000,000
Western Carolina University	
Hospitality Management Center	8,000,000
Total	347,420,250

Also in May, the Committee recommended approval of the methods of financing for the receipts portion of seven capital improvements projects partially funded from the 2000 Higher Education Bond program. They were forwarded for authorization by the 2002 General Assembly.

North Carolina State University	
College of Engineering, Phase II	\$ 8,000,000
College of Veterinary Medicine Research Lab Building	14,584,000
Centennial Campus Research Buildings, Supplemental Authority	4,064,000
The University of North Carolina at Chapel Hill	
Carrington Hall Addition	2,077,900
Science Complex Phase I	18,037,500
The University of North Carolina at Pembroke	
Auxiliary Services Complex and Student Bookstore	1,500,000
The University of North Carolina at Wilmington	
Westside Building Expansion	3,000,000
Total	51,263,400

During the course of the year, the Committee recommended that the Board approve a number of capital improvements projects to be funded from non-appropriated sources or uncommitted appropriation balances. The projects were:

East Carolina University	
Renovation of Aycock and Belk Residence Halls	\$ 775,131
Winston-Salem State University	
Relocation and Restoration of the S.G. Atkins House	500,000

In April of 2001, the Committee recommended delegation to the Office of the President to authorize capital projects of less than \$250,000. Items would 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 project should come before the Committee at its next meeting. Listed below are projects approved under this delegation.

East Carolina University	
Student Recreation Center – Weight Room	\$ 160,000
Fletcher Residence Hall – Asbestos Abatement	175,000
Jones Residence Hall – Asbestos Abatement	157,140
Fletcher Residence Hall – Lobby Renovation	249,000
Brody Building Parking Lot – Paving	170,000
Ward Sports Medicine Building – Renovations	242,600
Cotton and Fleming Residence Halls – Hot Water Generators	245,000
Bookstore Front Desk Renovation	141,000
Belk Residence Hall Asbestos Abatement	197,300
North Carolina State University	
Broughton Hall Renovation	125,000
The University of North Carolina at Charlotte	
Sanford/Moore Residence Hall – HVAC Replacement	175,942
Total	2,037,982

Capital improvements actions initiated throughout the year by the President pursuant to Board delegation are herewith reported to the Board by the Committee on Budget and Finance.

The following actions were taken:

Appalachian State University	
Expansion and Renovation of Child Care Center (project increase)	\$ 75,024
Bookstore/Student Union Chiller Replacement (project increase)	1,605,000
East Carolina University	
Multipurpose Center/Strength and Conditioning Center (proj. inc.)	44,449
DEC Modular Unit (project increase)	25,000
Fletcher Asbestos Abatement (project increase)	160,000
Weight Room Repairs (project increase)	130,750
Fletcher Residence Hall (project increase)	50,500
Fletcher Lobby Renovation (project increase)	50,500
Minges Coliseum Lighting (project increase)	45,000
Bookstore Front Desk Renovation (project increase)	141,000
Belk Residence Hall Asbestos Abatement (project increase)	197,300
North Carolina A&T State University	
Williams Cafeteria Renovation and Expansion (project increase)	520,900
North Carolina State University	
Owens and Tucker Residence Halls – HVAC and Fire Protection Renovations (project increase)	1,490,000
Baseball and Tennis Stadium Improvements (project increase)	1,391,982
The University of North Carolina at Asheville	
New Residence Hall (project increase)	1,137,450
The University of North Carolina at Charlotte	
Barnhardt Student Activity Center – Arena Lighting (project inc.)	248,489
Winston-Salem State University	
Campus Tennis Courts (project increase)	116,300
Physical and Life Sciences Building – Replacement of Hill Hall (project increase)	248,000
Total	7,677,644

INSTITUTIONAL BORROWINGS

The Committee continued the process of issuing revenue and special obligation bonds midweek when market conditions were optimal. The Board had delegated the authority to sell bonds to the Committee, and the Committee reported the details of the sale at the next Board meeting. On June 8, 2001, the Board delegated to the Office of the President authorization to approve interim financing and other bank loans when the funds were to be used for capital improvements projects previously authorized by the Board. During the year, the Committee approved the following institutional borrowings:

Appalachian State University	
University Bookstore Renovations and Additions	\$ 6,000,000
1993 Series of Housing and Student Center System Revenue and Refunding Revenue Bonds	10,070,000
Housing and Student Center System Revenue and Refunding Revenue Bonds, Series 1993	16,000,000
East Carolina University	
Student Recreation Center	16,500,000
North Carolina State University	
Construction of a Residence Hall in 1983; Construction of a Research Building on the Centennial Campus in 1993; Construction of a Residence Hall in 1994	20,000,000
The University of North Carolina at Chapel Hill	
Utilities Systems Revenue Refunding Bonds, Series 1993	66,000,000
The University of North Carolina at Charlotte	
New Parking Deck	7,900,000
1992 Series of Parking Systems Bonds	5,010,000
The University of North Carolina at Greensboro	
Oakland Avenue Parking Deck	13,500,000
1992 Series of Student Facilities System Revenue Bonds and 1993 Series of Housing and Dining System Revenue Bonds	12,500,000
The University of North Carolina at Wilmington	
New Residence Hall	11,500,000

The Committee recommended adoption of an authorizing Resolution and recommended that the Vice President for Finance be authorized to issue bonds as needed to carry out a commercial paper bonds program for North Carolina State University and the University of North Carolina at Chapel Hill. North Carolina State University and UNC-Chapel Hill had requested to implement a commercial paper program through the periodic issuance of tax-exempt commercial paper bonds. The initial maximum authorized borrowing would be \$25

million for NC State and \$75 million for UNC-Chapel Hill. These amounts were based on projections of need from each institution's Chief Financial Officer. Commercial paper presented an alternative to borrowing from banks and was issued in the form of promissory notes in short-term, unsecured debt. A commercial paper program provided the issuer access to a flexible, low cost source of capital to provide bridge financing for projects. The program would be available to fund all previously approved projects, up to the authorized maximum amount, and would avoid the need for separate bank loans for different projects. The bonds would be issued by the Board of Governors but would be an obligation of the constituent institution secured by available funds excluding state appropriations, tuition, and restricted gifts. Funds would be drawn on an as-needed basis for capital expenditures. The program would be repaid with proceeds from a long-term bond issue, gift receipts, or other sources. By providing continual access to capital for construction projects, North Carolina State University and UNC-Chapel Hill would not be required to issue long-term debt as frequently as in the past and would have greater flexibility over the timing of bond issues. In addition, less frequent issuance of bonds reduced the costs of issuance and achieved more attractive debt service costs. Tax-exempt commercial paper rates were often several percentage points lower than commercial bank loans.

In February, the Committee recommended adoption of an authorizing Resolution and recommended that the Vice President for Finance be authorized to execute and deliver necessary documents to extend a line of credit. In early 2001, the Board of Governors issued special obligation bonds for the University of North Carolina at Chapel Hill supported by a line of credit from J.P. Morgan Chase Bank and Toronto Dominion Bank. The line of credit expired in February 2002, and the Banks had agreed to extend it to February 2003 through an amendment to the original agreement.

In May, the Committee recommended for approval a request from Western Carolina University to consolidate multiple accounts at financial institutions in which WCU no longer had

active relationships. Western Carolina University had several bond resolutions dating back to 1964 under which several different financial institutions were appointed as depositories for University funds. All of those financial institutions had been acquired by or merged into other financial institutions over time. WCU now requested that all accounts be consolidated with the University's central depository account at Wachovia Bank, National Association. This action would not affect any mandated reserve requirements for debt service and maintenance and repair. Board action was required to effect the proposed change since the depositories were appointed through bond resolutions approved by the Board.

The Committee recommended approval of a variable-rate demand bond pooled program for 2002. It was further recommended that the Vice President for Finance be authorized to execute loans to the campuses only for projects previously approved by the Board. Historically, the Board of Governors had issued revenue bonds, and since 2000, special obligation bonds, to finance capital projects on an institution-by-institution basis. In the fall of 1998, for the first time, the Board of Governors approved the issuance of a fixed-rate bond pooled program for multiple campuses. A pooled issue benefited the institutions by spreading the fixed costs of issuing bonds among all participants and was attractive to investors who preferred larger principal amounts in each maturity over the smaller ones associated with a borrowing by a single institution. In 1998, nine campuses participated. In 2000, seven institutions asked to be included. The 2002 variable-rate demand bond pooled loan program was designed principally to meet short-term borrowing needs of the constituent institutions although long-term borrowing was also possible. The program would utilize tax-exempt variable rate bonds. Each constituent institution borrowing from the pool would be obligated only for its own borrowing. The borrowing could be of any size greater than \$1,000,000. Loans could be prepaid without penalty, and if a constituent institution desired, the variable interest rate could be swapped to a fixed rate for all or part of the amount and/or term of the loan. The funds could be borrowed

using any of the constituent institution's available pledges as security. Short-term uses of the program included interim financing for projects where total financing costs were uncertain, or for projects awaiting traditional fixed rate financing on an individual or pooled basis. Medium-term financing would be possible for equipment or for smaller projects that did not require long-term amortization. Also, refinancing of outstanding loans would be possible. The funds would be available for capital improvements authorized by the Board of Governors. The Board would issue the bonds and then make a "loan" to each institution participating in the pool. The bonds would be outstanding for up to 25 years. Eligible loans to be made initially were as follows.

	Not to Exceed Amount	Expected Start Date
Appalachian State University		
Student Recreation Center – Phase I	\$ 4,000,000	05/02
Residence Hall Comprehensive Renovations	5,500,000	08/02
Residence Halls Comprehensive Renovations	6,200,000	08/03
Elizabeth City State University		
Residence Hall Upfit	910,000	05/02
Refinance Housing System Bonds	3,600,000	07/02
Renovation of Campus Dining Facility	1,200,000	09/02
The University of North Carolina at Asheville		
New Residence Hall	11,500,000	05/02
The University of North Carolina at Pembroke		
Surface Parking Lot	275,000	09/02
Renovation of Office Space	1,200,000	09/02
University Center Expansion	3,000,000	09/02
Improvements to Student Recreation Facilities	600,000	09/02
Auxiliary Services Building	1,500,000	08/03
The University of North Carolina at Wilmington		
Surface Parking Lot	1,500,000	05/02
Residence Halls – Renovations and Repairs	500,000	05/02
Refinance Bank Loans - Parking System	300,000	05/02
Westside Building Expansion	3,000,000	02/03
Western Carolina University		
Student Recreation Center	11,500,000	08/02
Athletic Facilities	8,500,000	10/02
Winston-Salem State University		
Renovations to Residence Halls	3,100,000	05/02

The size of the bond issue was being finalized and it was requested that the amount of bonds be issued in an amount not to exceed \$50 million.

Pursuant to the delegated authority, the Office of the President authorized interim financing and other bank loans when the funds were to be used for capital improvements projects previously authorized by the Board. There were two authorizations approved under the delegated authority for 2001-02.

	Amount
Western Carolina University Student Recreation Center	\$ 3,900,000
Winston-Salem State University Residence Hall Renovations	3,100,000

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.

During the year as requested by Boards of Trustees, the Committee recommended the approval of the following leases of property: East Carolina University (one lease), Fayetteville State University (one lease), North Carolina State University (one lease), and UNC-Chapel Hill (two leases).

On June 8, 2001, the Board delegated to the Office of the President the authority to execute leases valued up to \$150,000. Actions taken under the delegated authority would be reported to the Committee at its next scheduled meeting.

The following leases were reported to the Committee on Budget and Finance as approved by the Office of the President under delegated authority: North Carolina State University (five leases), UNC-Chapel Hill (four leases), UNC-Greensboro (one lease), and UNC-General Administration (one lease).

For North Carolina State University, seventeen dispositions of property by lease were recommended.

Approval was recommended for the University of North Carolina at Chapel Hill to out-lease approximately six acres of land on Airport Road to The University of North Carolina at Chapel Hill Foundation, Inc. The Foundation would use the land for the construction of a new office building to consolidate several administrative support functions including Human Resources, Contracts and Grants, and Finance. The term of the lease would be for the period required for construction of the project. Upon completion of construction, the University would

issue special obligation bonds to reimburse the Foundation for the construction expenses. This project was authorized as a self-liquidating capital improvements project during the 1999 session of the North Carolina General Assembly.

The Committee recommended property acquisitions for Appalachian State University (one acquisition), East Carolina University (one acquisition and a tract of land with 40 parcels/153 acres), North Carolina Central University (34 parcels/5.472 acres), North Carolina School of the Arts (two acquisitions), North Carolina State University (one acquisition), and Western Carolina University (one parcel/306 acres).

Also delegated to the Office of the President was authority for the execution of contracts to acquire real property valued up to \$250,000. Actions taken under the delegated authority would be reported to the Committee at its next scheduled meeting.

The following acquisitions of property were reported to the Committee on Budget and Finance as approved by the Office of the President under delegated authority: Appalachian State University (one acquisition), East Carolina University (one acquisition), North Carolina School of the Arts (fourteen acquisitions), UNC-Pembroke (one acquisition).

In August, the Committee recommended approval to demolish six small homes located on properties recently purchased by East Carolina University. The University's intent upon purchase was to demolish the homes since they offered no value to the University and removal would allow for use of the properties consistent with the University master plan.

In September, the Committee recommended approval to demolish several structures located on properties owned by the University of North Carolina at Greensboro. The University's intent upon purchase was to demolish the buildings to allow for construction of a new 1,000 car parking structure. This action was consistent with the existing university master plan.

In August, the Committee recommended a conservation easement to the North Carolina Department of Transportation for North Carolina State University. The easement would allow the Department of Transportation access to 4.1 acres along Rocky Branch Creek that transversed the campus between Gorman Street and the entrance to Fountain Dining Hall. The University would restore the creek with funding provided by NCDOT. NCDOT would then receive stream credits to be used for future mitigation of disturbance of other urban streams.

In September, an access easement and a public utility easement were recommended on behalf of North Carolina State University for the development of the Centennial Campus golf course.

Also in September, the Committee recommended for North Carolina State University approval of a modification to the ground lease for the executive conference center and hotel facilities on the Centennial Campus. In accordance with the financing plan for the project at the time, on January 14, 2000, North Carolina State University requested and the Board approved a 200-acre ground lease to Benchmark/Hines for the purpose of developing this facility. After continued study and revisions to the financing plan for the project, North Carolina State University decided to finance the project through the issuance of bonds by a special purpose entity with the debt secured by a contractual use obligation by the university. On May 11, 2001, North Carolina State University requested and the Board approved an agreement providing for a guaranteed occupancy of these facilities. Consistent with this provision, it was the desire of the university to establish the North Carolina State University Conference Center, LLC, a special purpose entity created for the development of the property and to have the ground lease with this entity rather than Benchmark/Hines.

In November, the Committee recommended approval of an exchange of property in Watauga County between Appalachian State University and a local developer. The university's property, acquired in 1936, consisted of approximately 21 acres of unimproved woodlands. It

had minimal access and was located approximately five miles from the campus. The local developer's property offered in exchange was a .42-acre parcel located within 50 feet of the existing campus boundary. The property included a structurally unsound creamery building that would be demolished once acquired. The exchange would provide for campus expansion. The estimated value of the properties to be exchanged was \$235,000.

In January, the Committee recommended the designation of 100 acres of land on the University of North Carolina at Charlotte campus as a "Millennial Campus." The Charlotte Institute identified research areas to be precision metrology and intelligent manufacturing; e-business technology with an emphasis on data security, privacy, and cryptography; and optoelectronics and optical communication. Construction of necessary infrastructure and three academic/research buildings were to be accomplished with funds earmarked from the higher education bonds passed in November 2000.

In February, the Committee recommended for approval the findings and the suggested improvements for expediting disposition of state surplus property as proposed by the Surplus Property Task Force. The Report of the Surplus Property Task Force was approved and forwarded to the General Assembly.

OTHER ACTIONS

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

In August, the Committee recommended to the Board a “Financial Audit Finding Report Card”. The 2001-02 report card continued to show the strong commitment by the schools to ensure that there were strong internal controls, proper accountability, and appropriate financial reporting over all resources. The report reflected that for fiscal year-ended June 30, 2000, of the financial audits, there were only two reportable audit findings among the sixteen universities – one audit finding each at two universities.

In November, the *Annual Report of the Committee on Budget and Finance* to the Board of Governors of The University of North Carolina, July 1, 2000 through June 30, 2001, was recommended for approval.

Also in November, the Summary of Institutional Annual Reports was recommended for approval. In December, the summaries of institutional plans for the use of lapsed salary funds and funds carried forward under budget flexibility were reviewed and approved by the Committee as delegated by the Board in November. In past years, each Chancellor was required to submit a plan by July 15 of each year. For the 2001 Session, because the legislature did not complete its actions on the State’s budget until fall and because the Governor required budgetary reversions, the Chancellors were not able to prepare meaningful plans by the July 15 deadline.

In February, it was recommended that North Carolina State University and the University of North Carolina at Chapel Hill be exempted from the State’s electronic procurement system until May 1, 2003, in accordance with the directive of the North Carolina General Assembly. It was further recommended that the Vice President for Finance review this exemption in February, 2003, and report to the Committee on Budget and Finance regarding e-procurement activities on the two campuses. In 2001, the General Assembly enacted House Bill 231 (technical corrections bill) that rewrote Section 15.6(b) of Senate Bill 1005 (codified as Session Law 2001-424).

Section 28.(a) of House Bill 231 directed the Board of Governors of the University of North Carolina to exempt North Carolina State University and the University of North Carolina at Chapel Hill from the State's electronic procurement system until May 1, 2003. Each exemption was subject to Board of Governors' annual review and reconsideration. Each institution should continue working with the North Carolina E-Procurement Service as that system evolved and should ensure that their own procurement systems were compatible with the North Carolina E-Procurement Service so that they may take advantage of the service to the greatest extent possible.

In March, in response to legislation, the report for the fiscal year ending June 30, 2001 on the amount and uses of facilities and administrative receipts was recommended to the Board and later transmitted to the Joint Legislative Education Oversight Committee.

At the February meeting, it was recommended that the North Carolina School of Science and Mathematics be designated as a Special Responsibility Constituent Institution. As required by legislation, the President had consulted with the State Auditor regarding the designation. The Division of Purchase and Contract had reviewed the capabilities of the purchasing staff and concurred that the purchasing threshold should be set at \$35,000. In May, the amended Instructions to reflect North Carolina School of Science and Mathematics' designation as an SRCI, effective February 8, 2002, were recommended.