MINUTES
The University of North Carolina at Greensboro
Board of Trustees
Business Affairs Committee
December 5, 2012

MEMBERS PRESENT: Susan Safran, chair, Randall Kaplan, Lee McAllister, Harriet Smalls, and David Sprinkle

OTHER BOARD MEMBERS/GUESTS: Kate Barrett, Chelsea Boccardo, Alan Boyette, Linda Brady, Bonita Brown, Cherry Callahan, James Clotfelter, Howard Doyle, Jill Hillyer, Donna Honeycutt, Steve Honeycutt, Linda Hiatt, Joanne Jones, Wayne Jones, Jay Larrimore, Jennifer Leung, Richard Moore, Fred Patrick, David Perrin, Jorge Quintal, Kim Record, Cindy Reed, Steve Rhew, Jim Settle, David Schaefer, Steve Serck, Mike Tarrant, Reade Taylor

PROCEEDINGS: Ms. Safran called the meeting to order at 10:02 a.m. The minutes from the September 5, 2012 meeting were approved as distributed.

Mr. Taylor distributed the 2011-12 Financial Report to the board and thanked Wayne Jones, Controller, Joanne Jones, Manager of Financial Systems & Reporting and Jennifer Leung, Financial Reporting Manager for all of their hard work over the years. We have never had a major audit finding and a great deal of that is due to the meticulous work of this team. Mr. Taylor also offered to do a class on reading the financial report if there is interest.

ACTION ITEMS:

Student Fee Recommendations (BAC-1)

Dr. Callahan presented the student fee committee’s recommendation for student fees for the 2013-14 academic year. Her co-chair, Meredith Swain, Vice President of Student Government Association (SGA) was unable to attend the meeting due to her exam schedule. The committee, consisting of the chair, co-chair, nine additional students (undergraduate and graduate students), four faculty members and three ex-officio administrators, met for two months to thoroughly investigate the requests for fee increases.

Student fees which are broken into three categories – General (activities, athletics, educational & technology and health), Related to the retirement of debt (facilities) and Other (ASG, transportation and registration). All students except for distance learners and graduate students taking less than six hours or undergraduates taking less than nine hours are required to pay these fees. These students may pay the health fee but it is not required.

The activities fee is used for campus recreation, safety escorts, campus activities and programs, SGA general funding, equipment replacement, etc. The athletics fee supports the costs of UNCG's Division 1 intercollegiate athletics program. Some of this cost is met by revenue and endowment income. The educational and technology fee covers course materials and lab equipment and covers partial support of IT for student use. The health fee covers medical services, wellness programs, counseling and testing, etc.
The facilities fee pays off debt incurred on capital projects such as the soccer stadium, rec center, EUC renovations, etc. This does not include residence halls, dining or parking facilities which are paid by users.

UNCG is 6th overall in fee expense in the UNC system. Our increases this year were authorized up to 6.5% but we increased 3.6% which includes 5.6% increase in athletics, 4.69% in activities, 3.02% in health and 6.93% in educational and technology. There was no increase to the facilities fee. This is $42 per semester, $84 per year per student.

Dr. Callahan reported that the committee was unanimously in support of this request. The questions raised by the committee this year were much more in depth than previous committees. The students can remain on the committee for up to three years and this adds to the knowledge of the participants.

Mr. Kaplan asked why we were only increasing 3.6%. If it is to maintain middle of the pack status, what will we not be able to do that we need if we only increase this amount?

Dr. Callahan reported that Dr. Clotfelter and Ms. Record had requested more and that originally the committee was inclined toward no increase at all. They questioned why they should have to pay for an increase in athletics when they did not participate. Ms. Record wanted to fill out teams with full scholarships in our three headcount sports. The scholarship allocation is down and it does not match the expense. Dr. Clotfelter will receive an increase of $52,000 ($78,000 requested) from the E&T fee. The largest project we will be unable to complete is the wireless refresh campus-wide.

Mr. Kaplan asked if we were able to carry over fees for future expenses. Dr. Clotfelter reported that this year is the first time that practice is permitted for E&T fees. Dr. Callahan advised that these fees will be entertained again for fall 2013. Should the Board of Trustees approve this recommendation, the Board of Governors will rule on it on February 8, 2013.

Mr. Kaplan asked that this issue be discussed further. He stated that we are not doing UNCG any favors by remaining in the middle of the pack and not taking the increases we need. The state has cut our allocations and we still strive to maintain low tuition and fees. Why should we not encourage an increase so as not to be at a disadvantage?

Dr. Callahan reported that some on the committee had initially recommended no increase in fees. This year our students have been hit very hard financially. This was a compromise to maintain excellence. The students had done their homework and came with hard questions. They asked specifically how the funds were used last year.

Mr. McAllister asked if any of the committee were at cross purposes. Were they focusing out five years or more concerned about next year?

Dr. Callahan advised that she has looked carefully at programs to be discontinued and redirecting those funds to new areas due to the change in student profile. Mr. Kaplan asked if the committee makeup reflected the campus. It does, we had one graduate student in his 50's on the committee. These are not your 18-year-olds of ten years ago. There was strategic planning so every decision was intentional.

Dr. Brady advised that this would also be addressed in the tuition increase recommendation, but the challenge is financial distress. Recently as tuition and fees have been increased, we have lost students
and hurt retention. We receive allocations based on enrollment and budget for the number of students anticipated. When we miss our expectation the monies have to be refunded and still maintain quality.

Ms. Boccardo advised that we lost one of our student leaders over the summer very unexpectedly due to financial issues. People have to drop out because they are unable to take on the class load as well as work outside campus. Dr. Callahan stated that the makeup of the committee were good critical thinkers, including RAs, SGA leaders, etc. There was a depth of perspective with a lot of experience, the best she has seen.

Mr. Sprinkle asked if we lost students over rates, how we compare to other UNCG campuses. Has an analysis been done? Dr. Callahan said that only UNCC increased enrollment this year. Dr. Boyette stated that across the campuses this is the first time there has been a net decrease. We at UNCG did gain freshmen, over the state most campuses did not. This trend began in 2008 and General Administration has the data but it has not been distributed as a report.

Mr. Kaplan stated that we need to know why the students left. The fees might not be an issue if they cannot afford the tuition. Dr. Brady advised that additional students are working which extends the time to graduation if they have to cut back on the number and hours of classes which is not cost efficient. Dr. Callahan reported that Ms. Swain, her co-chair, attends school full time, is an officer in SGA and has two outside jobs. Dr. Boyette reported that 39% of our students are eligible for Pell grants and the state constitution states that we should provide higher education as free as practicable (which has not been defined). Ms. Boccardo will send information she has received of rates for all universities for the past ten years.

Mr. Kaplan called the question. Ms. Smalls moved to approve the committee's recommendation. Mr. Kaplan seconded and the vote was unanimous. BAC-1 will be moved to the consent agenda.

Acceptance of Completed Programs (BAC-2)

The code of the Board of Trustees sets the responsibility for final acceptance of all completed building and projects. This year we have completed the following projects:

- Joint School of Nanoscience and Nano engineering – completed December, 2011 at a cost of $64.2 million
- Quad Residence Halls Renovations – completed August, 2012 at a cost of $55.5 million (the largest construction project to date for UNCG campus)
- Curry Building renovation – was completed at a cost of $1.8 million
- In addition there were 49 other projects each with a scope of less than $500,000 completed

There were no questions. Ms. Smalls moved to accept the buildings, Mr. Kaplan seconded the motion. The vote was unanimous. This will be moved to the consent agenda.

Selection of Commissioning Agent for Student Recreation Center (BAC-3)

UNCG advertised for a qualified professional team to act as third-party commission agent for the new Student Recreation Center to be located in the mixed-use village. The total project budget is $91 million. Twenty-four letters of interest were received and four firms were invited to review and present.

System WorCx, PLLC from Charlotte, NC is recommended due to the firms demonstrated and emphasized student recreation experience, their flexible and comprehensive approach to building
commissioning and the articulated commitment to exception customer service as evidenced by a history of work with repeat clients.

There were no questions. Mr. Kaplan moved and Ms. Smalls seconded the motion. The vote was unanimous. This item will be moved to the consent agenda.

**INFORMATION ITEMS:**

**Annual Report on Capital Improvement Projects (BAC-4)**

Mr. Quintal presented the projects recently completed on campus. In addition to the Quad renovations and the JSNN previously mentioned above, the Curry building renovation was completed in May at a cost of $1.8 million. Also completed was the roof replacement for Cone Art Building in November at a cost of $485,000.

Projects under construction are the Moran Commons (dining hall) renovation, the Pedestrian Underpass, the HHP Room 101 Renovation, the Campus Police Building and the Mixed-Use Village phase 1.

Project in design are the new Student Recreation Center and renovations to Reynolds and Grogan Residence Halls.

Mr. Kaplan thanked Mr. Quintal, Mr. Patrick and Mr. Doyle team for all of the hard work they and their team have put into the campus and its structure.

**Annual Report on Designers Selected by the Chancellor (BAC-5)**

The Cone Art Building Space Study is to provide space assessment for both the current available space and the possibility of adding space to better meet a variety of facility, programmatic and visitor service needs. The budget for the project is $40,000.

Twenty-three letter of interest were received, two from Guilford County and one from Forsyth County. The firm of Holzman Moss Bottino Architecture, LLP, New York was recommended due to the demonstrated compelling methodology for planning and programming, their clear understanding of the project requirements and planning process and their nationally recognized expertise in programming visual arts facilities.

**UNC Investment Fund Update (BAC-6)**

Mr. Taylor reported that the Investment Fund increased in value from $198 million to $200.3 million during the third quarter of 2012. During this period, the fund outperformed or met the returns of a weighted index representing a diversified portfolio in all categories, 1-3-, 5-year and since inception.

During this time we received $1.4 million in new gifts and $7.9 million in net return. $7 million was distributed to participants.

**Education Session**

Mr. Quintal gave a presentation on the campus facility deficiencies regarding deferred maintenance and capital renewal and replacement.
Mr. Quintal reported that the State Construction Office is required by law to assess all state assets every three years. However, due to budget cuts, their inspection team was disbanded and UNCG was last inspected externally in 2008. UNC-CH and NCSU have hired staff to inspect their campuses. UNCG does not have a formal process for inspection and determining the cost of deficiencies. Based on the 2008 report and other information gathered by staff and consultants we estimate the following cost of repairs:

- Roof repairs and replacements and structural repairs - $6.1 million
- Repairs to meet federal and state standards - $23.9 million
- Electrical and air condition repairs for energy efficiency - $14.6 million
- Repairs to improve use of existing space - $6.2 million
- Roads, walks, infrastructure and drainage (including underground steam lines) - $94.2 million

For a total of $145 million

When we look at these needs by priority the needs are:

- Critical (1-2 years) - $7.1 million
- Potentially critical (2-5 years) - $32.3 million
- Recommend addressing (5-8 years) - $19.2 million
- Not yet critical (8+ years) - $86.6 million

Mr. Quintal explained the Facility Condition Index (FCI). The formula used for this is FCI = deficiency backlog/current replacement value. Using the steam lines in this equation shows UNCG in the poor condition category. Without the steam lines, we fall into the good condition category.

Some renovations are necessary for program upgrades and when those occur when can use the opportunity to replace and renew building systems. Programmatic changes are often needed because we do things differently today than years ago. For example, we do not teach nursing as we did with the Moore building was constructed. Approximately $15 million of the funds used in renovating the Quad reduced our deferred maintenance. The cost to replace all of the state owned structures and infrastructure on campus would be $1.372 billion. It would be close to $2 billion if university-funded facilities were added. We have 3 million gross square feet of state appropriated structures on campus, 59 buildings plus the underground steam and chill water lines.

Dr. Barrett asked how we know when an area becomes unsafe. Mr. Quintal reported that we do formal safety inspections annually and the mechanics that work on the equipment and in the buildings keep watch over their areas. Should an issue become a safety problem it is fixed immediately. However, that does not address ADA issues and code violations. Ventilation codes have changed dramatically since most of the buildings on campus were completed.

Mr. Quintal advised that if we continue with the same funding, we will never catch up and the backlog continues to grow.

Mr. Sprinkle asked if UNC-CH’s staff handle the maintenance issues identified by their inspection teams. Mr. Quintal reported that their staff only inspects, repairs still have to be funded, but they have a better grasp on what is needed. Recently the State Construction Office did reinstate a team of inspectors, three for the entire state.

Mr. McAllister asked about the addition of the problem with new buildings. Could we have used those building funds for this purpose rather than building new? We are not allowed to use R&R funds for new
construction. We have typically not used R&R funding for major building renovation. Mr. Moore advised that this was a good separation. If we used the funds for new structures the legislature could say that we didn't need the R&R funds since they were not used for that purpose. Mr. Quintal explained that R&R is mandated not to be used for new space unless it is a code compliance issue such as an elevator.

Mr. Kaplan asked if there were other revenue sources. Can we put in fees for repairs on non-state buildings? Mr. Taylor advised that our dorms are in competition with other apartments close to campus and if we raise fees to pay for maintenance of other facilities we could lose students to alternatives.

Ms. Safran asked where the funds come from when something is critical. Mr. Taylor requested one-time funds from the chancellor using reversion funds (vacant positions) to pay for emergencies.

Ms. Hiatt stated that this was ridiculously insurmountable. Mr. McAllister asked if there was a comprehensive budget and timeline. Mr. Quintal said not since 2008. We have a list of the most critical problems from the mechanics. They warn us when things are leaking, if there is no obvious problem, it could be missed. We do have hidden problems that need to be addressed. When they become failures it is too late.

Mr. Kaplan asked if we could float bonds while the rates are low.

Mr. Taylor advised that GA is going to approach the legislature not for new buildings but for R&R. We hope to have $300 million for the entire state. If we were to do something on our own, we are not allowed to use state appropriations to repay debt so this would have to come from gifts or fees. The possibility of an ESCO to address the steam lines is doubtful because the payback would be longer than the loan on the ESCO. Mr. Sprinkle mentioned the funds that Duke Energy is using to help with solar power. Mr. Quintal explained the issues of problems with leases from the state for renewable energy. President Ross has only been able to sign leases of ten years in the last few months. Elon and Guilford College did use this method.

Funding is the major issue. The conclusions reached from this study are
- Facility condition index continues to rise
- Deficiency backlog is growing
- Building systems which are critical to mission are deteriorating
- Repair and renovation (R&R) funding levels have not kept pace with the deficiency backlog
- One of GA's priorities for the long session is permanent annual R&R funding

Mr. Sprinkle reminded the Board of the tours of Financial Aid, School of Education and Jefferson Suites at 3 p.m.

There being no further questions, Ms. Safran adjourned the meeting at 11:45 a.m.

Respectfully submitted

[Signature]

Donna Honeycutt