

# HIGHER EDUCATION BOND OVERSIGHT COMMITTEE

## MINUTES OF THE MEETING

May 7, 2002

9:30 a.m.

University of North Carolina - Charlotte

The meeting of the Higher Education Bond Oversight Committee (the "Committee") was called to order by presiding co-chair, Charles Davidson. Committee members attending were: Charlie Davidson, Paul Fulton, co-chair, Marshall Bass, Peaches Gunter Blank, Mac Everett, Samuel Hunter, Ron Leatherwood, Ruth Shaw, and William Smith. Staff fiscal analysts, Reyna Walters, Kristine Leggett and Committee assistant, Ann Faust, were in attendance. Others attending are noted on the sign in roster attached to the minutes.

UNC Charlotte Chancellor James Woodward was introduced for welcoming remarks. He also stressed the importance of bond funds for development of facilities at UNCC to accommodate the growing student body and increase program offerings.

Reyna Walters was introduced as the new primary staff person assigned by the General Assembly to work with the Committee.

Bob High, from the State Treasurer's office, reported via teleconference. The second year's installment sale of bonds has been completed. The first sale of \$201.6 million for the University and \$48.4 for Community Colleges was March 7, 2001 at an interest rate of 4.747. The balance remaining is \$87.2 million in University bonds and \$35.1 in Community College bonds. The second year's authorization was \$241.9 for the University and \$58.1 for Community Colleges. Those were sold in two charges: part in variable rate on March 12 at an interest rate of 1.65%, a liquidity fee of .12% and a remarketing fee of .05%. The fixed rate bonds closed on May 1 at maximum maturity of 10 years and sold at 4.0583%. The market is favorable for seven-day low floater paper. Thus far, bonds have been issued in the amount of \$443.5 million for the Universities and \$106.5 million for the Community Colleges. The balance in the authorization is \$2.056 for the Universities and \$493.5 for the Community Colleges. The issuance of those bonds, by law, can be done no faster than \$600 million in 2002-03, \$600 million in 2003-04, \$600 million in 2003-04 and \$700 million in 2004-05 and \$650 million in 2005-06. The bonds are issued on a cash flow basis rather than upfront funding. The bonds can only be issued if adequate debt service reserves/ appropriated funds, are made available.

Dr. Shaw asked for further explanation about availability of funds. Mr. High responded that he was referring to the current state of the budget. Depending on the economy, the state might possibly not have the authority to issue these bonds "full steam ahead." The bids are coming in low, and jobs are being created by the work. When entering debt, a long-range view is necessary. Mr. Davidson asked if the current sale would meet cash flow obligations through May 2003. Mr. High replied that the funds are to be utilized over a three-year period, and the next sale will be in March, April or May of 2003. Mr. High responded to a question from Mr. Davidson that the variable rate does not have a ceiling or floor. That can be fixed by refunding at a fixed rate, which can be done at

the end of each seven-day period. The fixed rate is not callable prior to maturity; the longest maturity is 10 years. Dr. Shaw asked about NC's credit rating retaining AAA. Mr. High reported that the AAA rating has been confirmed. However, Moody's moved NC from a negative to a credit watch negative. Moody's will be monitoring credit worthiness: can NC pay its debts, how will the budget be crafted? Mr. Everett expressed concern of NC keeping its AAA rating.

Mr. Everett was introduced to present the report on community colleges and the use so far of the \$600 million in bond money. He said that each institution has reported to Dr. Shaw or him on projects, progress and/or problems. Dr. Shaw and Mr. Everett feel that the State Community College System has appropriate managing tools in place to provide the information to assure compliance with the enabling legislation. There are 140+ sites with 439 projects of vastly differing size and cost within the community college system. Community College projects are governed by local decisions by campus, so oversight is different from University oversight. A question was raised at an earlier meeting about the disconnect between the initial projections of cash flow and actual expenditures, and Mr. Everett explained that he and Dr. Shaw are examining two areas, primarily. One, are there barriers to community colleges getting the projects underway and done? Two, cash flow: if money is released too soon, debt service will be high; if money is available too late, cash flow problems will arise. The Systems office requested, and has received, revised projections. Only 69% of dollars projected has been spent so far. Dr. Shaw met with the community college presidents at their regular meeting recently and reiterated the necessity for timely reporting on all phases of projects. She encouraged the presidents to collaborate on a regional basis to share construction management talent and resources. Mr. Everett said that the economic conditions are impacting the ability of the community colleges to raise local operating and maintenance funds to run the buildings. Alternative projects may have to be considered. Mr. Bass asked if land acquisition is part of the projects. Mr. Briggs responded that several campuses have bought land. Mr. Fulton asked if proceeds are being used per SB 12; are contracts consistent with the scope of the projects; and is availability of funds adequately timed with the needs of the projects? Dr. Shaw responded that monitoring is in place that defines and verifies a project before any money is spent. There is no blanket approval. Matching funds could at some time be a problem. Money will be spent as approved within a site. Mr. Briggs said that funds could be moved on site and from a main campus to a satellite campus, but not vice versa, and from new construction to renovation, but not the other way. This was preapproved.

Kennon Briggs and Philip Albano, Division of Business and Finance and Administrative and Facility Services Section of the North Carolina Community College System, were introduced for their presentation. Mr. Briggs reminded the Committee that the accounting is done in Raleigh before anything is released to a college/project. (See Attachment A) Mr. Briggs and Mr. Albano reviewed the "Presentation to The Higher Education Bond Oversight Committee," the status report which shows what was projected and what is actually being expended and the status of each project. Mr. Albano reported that the original 439 projects were now 415. Some were deleted, some combined and a few added during the process. Projects are changing as local conditions/demands change based on the economy. Small projects are bundled to be funded as a larger project. Projects may not go forward until the State Board has approved the project and the money is available. Local funds may be used before bond funds are available; some of those funds may be reimbursed when bond money is released to the campus. Mr. Leatherwood ascertained

that some projects might not be completed, or work stopped, if the Legislature does not authorize that bonds be sold. Discussion followed about progress and percent of completion and cash flow. (Mr. Davies, UNC Vice President, Finance, said that there were now more University contracts out than cash available to finish those contracts, but that money to cover completion is from future sales.) New construction funds have to be matched; repair and renovation funds do not. Discussion followed about matching funds from various counties. Mr. Everett and Dr. Shaw acknowledged that they and the System may have to monitor some campuses closely assure projects were going forward according to plan, that funds are being utilized in a timely manner, and funds are not being under-spent. The flexibility built in to the community college projects leads to discrepancies in the time lines/projected and actual expenditures. Mr. Albano is responsible for monitoring cash flow and keeping it in balance. Some may be covered by slippage. If not, some projects may be put on hold. The reasons for delays are the flexibility by campus, administration of project changes, design issues and funding issues. **Mr. Davidson asked that at the next meeting the System share the proactive measures being taken to achieve bringing all colleges in line with the schedule.**

Jeff Davies, University Vice President – Finance, was introduced to present for the University. He will extrapolate from the large report presented and prepare a brief on point report with visuals on exactly where the schools are relative to budget and time frame projections. The effect of the building program on the economy of the state is significant, particularly during this down period. The volume of the program is large now and the volume will pick up in the near future; therefore, a contract has been signed with a major construction firm, Jacobs-Channing, to provide on demand, as-needed support for the campuses and the president's office. The president's staff will be augmented so that oversight is sufficient and reporting is on time and accurate.

Kevin McNaughton, Associate Vice President – Finance, continued the presentation for the University. (See Attachment B) Fifty-four projects are now under construction on fourteen campuses. The Science Initiative is moving forward. The University is getting excellent bids and realizing savings, which are set aside for unanticipated expenses, *i.e.* hiring the construction management firm. **Mr. Fulton asked that a report be prepared showing the schedule for each project by campus – ahead or behind projection. Put it in context – where you are compared to where you are supposed to be.** Mr. Davidson questioned using a construction manager and general contractor on some sites. Mr. McNaughton reviewed the use of North Carolina contractors described as those with offices in the state. Brief discussion followed. Mr. Smith asked about contracts with Historically Underutilized Businesses (HUB's). Most are working on Historically Black Universities (HBCU's). North Carolina State has met with minority architects/designers for major projects and will open the designer list. Ms. Walters asked about the progress of Fayetteville State and Pembroke. Mr. McNaughton said that Fayetteville State is on schedule. Pembroke has about two months' slippage, due primarily to lack of staff. Mr. Smith asked what to do if the chancellor does not want the assistance of the construction manager. Mr. McNaughton said that campuses are not required to use the construction manager. Mr. Davies said that the University is working on that situation.

Dwayne Pinkney reported on cash flow and economic impact in the state. (See pages 12ff) Revisions are made quarterly; tracking is done monthly. The University has created a buffer of approximately \$8 million to assure available cash. At this time, cash

flow is on line with projections. In response to a question from Mr. Bass about HUB's and local economic impact, Mr. Pinkney said there is no direct line for reference. Mr. Hunter wants to encourage the legislature to continue the work for the good of the economy.

In closing remarks, Mr. Davies said that one advantage of having the bond money is that it is now possible to see a wholeness that was not available before. Dispute mediation can be selected up front – consensual between parties. The mediators do not make a decision but facilitates agreements. A website has been created to get information into the construction community, planning rooms are set up on some campuses, and partnering is working in several places. An RFP is out for someone to review and make recommendations related to insurance coverage. The challenge is to keep momentum going as work picks up.

#### Lunch

Mr. Pinkney opened discussion on project budgets. All projects are on schedule and on budget. **At the next meeting he will provide a list of each project, where the project came in, and the savings that were achieved on each project.** There are no problems with respect to budgets at this time.

Charlie Leffler reported on the Meat Processing Laboratory for NCSU that was funded in 1995, eliminated after Hurricane Floyd and restored in the bond issue. Due to changes in the meat processing industry, the scope of the project has changed. The money was to build one plant on the campus of the Veterinary School. The recommendation at this time is to use the same money across three projects dealing with meat safety. One project would expand the facility on Lake Wheeler Road to expand poultry and swine research activities and provide a hands-on facility for processing. Shaub Hall, designated for general renovation, on campus needs to be expanded for better meat processing. (Tab 7 in the large binder) After discussion, the Committee expressed no objection to the money's being spent for the change in scope of the original purpose.

Ms. Walters was recognized for remarks and updates. She will correspond primarily by e-mail and will try to have the agenda, reports and information packets to members two weeks ahead of the meetings. She is updating the website. The report to the Board of Governors, The State Board of Community Colleges and the Joint Legislative Commission on Governmental Operations is due in mid-July. She is working to develop a standard format and target questions for reports of campus visits to be used by the October meeting.

The next meeting will be held on Monday, July 29 at Wake Technical Community College. The fall meeting will be held on Monday, October 28 at NCCU.

Mr. Fleggas reported for the Office of State Construction. In response to several complaints about the time it took for reviews, the Office has worked to expedite the process. Normal review time is 30 days for schematic design, 30 days for design development, and 60 days for construction documents. 88%-90% of projects are being processed within that time. SB 914 allows for many more single prime contracts, and those take more time. New HUB requirements for owners and contractors take more time. There is an increase in community college projects coming for review, and many of them

have several funding sources, so the Office is working to speed those reviews. Dr. Shaw asked if staffing continues to be a problem? Mr. Fleggas acknowledged that it is but he has no authorization for new hires. In response to a question from Ms. Walters, Mr. Fleggas said that reviews for jobs' bids solicited on/after January 1, 2002 were covered by SB914.

Grover Sawyer, Department of Insurance, made a presentation by teleconference. (See Attachment C) He reviewed Attachment C. He said that average total turnaround time is approximately 21 days for University plans; 115 sets of plans come in per month; there are six reviewers. There are usually four reviews for each plan: schematic design, preliminary design development, construction drawings and final drawings are the basic plan submittals. The second page of the Attachment lists the project plans now in DOI for review and dates of action. Mr. Everett asked why there are the four reviews. Mr. Sawyer explained that state-owned projects are submitted in three stages: the design/development stage to assure everyone envisions the same plan, the preliminary review once the plans have been done, and then a final review. Most plans do not meet all requirements of the code during first review, and designers want early review to ensure that all codes are met before going deep into construction. All designers are not familiar with the nuances of the North Carolina code, and early review saves time and money. In response to a question from Dr. Shaw, Mr. Sawyer said that because community colleges are locally owned and local codes must be met the review process could be longer. Mr. Sawyer said that e-mail would be used to speed up the process wherever possible.

Bob Fraser from NCSU and Andy Perkins from NC A&T were introduced for a "Best Practices" discussion to present ideas that could be adapted for use across the University and Community College projects. Mr. Perkins said that his primary job at present is to execute the capital improvements program at NC A & T. He thinks that the Construction Manager At Risk offers another procurement alternative for doing a better job and provides a valuable project team member to sit at the table with the designer and owner to evaluate cost of design and development and make it easier to craft a schedule for a project by bringing contractors together. A & T has used the CM at risk method using owner funds to build an 804 bed residence hall, a \$17 million job done in 9½ months and is overseeing another residence hall. The CM is doing pre-construction, cost evaluation work going into the market place to take bids under guidance from the school. Savings of 8%-9% are being realized. The University System has an interview process for hiring a CM at risk to guarantee experience and expertise. Mr. Perkins is comfortable with a 4%-5% fee for the CM's services. Kevin McNaughton added that there is a guaranteed maximum price from the CM for a job bid, and any savings realized go to the owner not the CM. Mr. Leatherwood said that experience will bring estimates in line with actual bids; and if estimates continue to go over, he suggests they are inflated. Mr. Perkins stressed getting the best materials for the best price, which the CM can do. Discussion followed concerning setting a fixed price for a CM. Mr. Bass and Mr. Perkins added that the Foundation had funded land acquisitions of most of 63 properties needed at NC A & T. The Foundation will be repaid from future bond funds.

Bob Frazier is head of Facilities Design at NCSU. The Capitol Project Coordinators from the 16 campuses met with the Bond Alliance to determine how to work more effectively with DOI. Consultants are hired to prepare individual design assessments (IDA) in coordination with architects and engineers and to prepare a report to accompany

the set of drawings sent to DOI. This has improved communication and been effective in cutting down review times. Code changes are reviewed in project meetings, and agreements can be reached before documents go to DOI, thus, shortening turn around time. Because of fees, this process is used primarily for large projects throughout the university system. Dr. Shaw agreed that clarity at the beginning of the process is a benefit of the IDA model and expedites a project from the outset. Mr. Leatherwood suggested that because community college plans compete with commercial plans, designating a person to deal with educational facilities would be beneficial to the process. **Mr. Davidson asked Ms. Walters, with a Community College System representative, to prepare a letter to DOI to encourage expediting the approval process for community college projects.** Mr. McNaughton said that the IDA could be used on projects on other campuses. For a \$30 million laboratory, the cost of the consultant is about \$25 thousand. Liability laws in North Carolina discourage some firms from accepting the risks involved. Discussion followed concerning indemnification. **Mr. Leatherwood asked for a schematic chart showing the flow of projects so that progress can be tracked across the board.**

Tom Howe, Director and General Manager of UNC-TV, was introduced for a presentation. (See Attachment D) He reviewed the UCC mandate for digital conversion and the progress of conversion within the UNC network, financial data, programming and the role of UNC-TV in North Carolina, all of which is in the Attachment. In April 1997, the FCC mandated that all TV broadcasters convert from analog to digital capability by May 2003. A new transmitter and other extensive equipment and facility modifications and upgrades are required at all 11 UNC-TV sites. Eight of the 11 sites are on the air as digital stations. Having a single prime contractor was extremely beneficial. Conversion started the day after the approval of the referendum and is 50% complete. In response to a question from Mr. Bass, Mr. Howe said that because of continuing changes in technology, purchase of some production equipment has been postponed to guarantee the newest innovations. He believes that the full scope of the project will be complete within budget by the target date.

Ms. Blank moved approval of the minutes, as mailed, of the February 4, 2002 meeting; Mr. Smith seconded the motion. The minutes were approved.

In closing remarks, **Mr. Fulton stressed consistency in reporting so that projects can be evaluated comparatively. He asked for a timeline showing how all results fit with projections for both construction and expenditures. Dr. Shaw asked for a chart that shows at a glance where we are in the whole process.** Mr. Pinkney will work to prepare a cash flow/time line.

The Committee must report to the UNC Board of Governors, the Joint Legislative Commission of Governmental Operations and the Community College System before the July meeting.

Mr. Leatherwood expressed concern about the possibility of construction being halted on projects covered by issued contracts and recommended that reserves should be built so that what is committed can go forward. Members commended the presenters on helpful information – particularly from DOI and best practices. The Committee was reminded not to go beyond the functions given the Committee.

**Mr. Fulton made the following recommendations by the July meeting:**

**Report by campus as to:**

- 1. status of projects;**
- 2. problems;**
- 3. original budget;**
- 4. projections;**
- 5. projects underway;**
- 6. cash flow projections;**
- 7. time line by campus.**

**Ms. Walters will create a standard reporting format with which all reporters should comply. Mr. Smith asked for information about any changes in projects.**

The next meeting will be at Wake Tech on Monday, July 29, 2002.

There being no further business, the meeting was adjourned.

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Charles Davidson, Co-Chair

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Ann Faust, Committee Clerk