

MINUTES OF THE MEETING  
December 13, 2004  
10:00 a.m.  
University of North Carolina at Greensboro

The meeting of the Higher Education Bond Oversight Committee (the "Committee") at The University of North Carolina at Greensboro was called to order by co-chair, Charlie Davidson. Committee members attending were: Charlie Davidson, co-chair, Paul Fulton, co-chair, Kitty Barnes, Marshall Bass, Mac Everett, William Long, and William Thurman. Legislative Staff, Kristine Leggett, and Committee Assistant, Ann Faust, were in attendance. Others attending are noted on the sign in roster attached to the minutes.

New members Kitty Barnes and William Thurman were welcomed and retiring member, Marshall Bass, was recognized and thanked for his diligence and contributions to the work of the Committee. Mr. Bass' remarks emphasized the importance of the bond funds on the growing campuses, the wise use of the funds and the need for continued oversight.

Gladys Ashe Robinson, member of the UNC Board of Governors was recognized.

The minutes of the June meeting were approved.

Mr. Davidson expressed appreciation to UNC Greensboro (UNC-G) for hosting our meeting. He recognized Chancellor Patricia Sullivan for an overview of the impact of the bonds for UNC-G.

Chancellor Sullivan welcomed the Committee on behalf of the 15,387 undergraduate students, 4,000 graduate students and 50 PhD. students enrolled at UNC-G. The number one and largest project at UNC-G is the state of the art Science Building. Planning for the facility was done before the bond referendum and had received planning funding before the bond program. Two large projects, the science building and infrastructure projects had been designed and bid and construction begun before bond funds were available and current rules (C M at Risk) were in place. A video presentation showed the progress of building for about two years. President Broad and Governor Easley were present at the dedication of the Science Building, which came in on time and on budget. Chancellor Sullivan acknowledged the low rate of participation of HUB contractors under the Multi-Prime rules at the beginning of construction – 8% -and said that a good faith effort has been made to increase HUB representation with subsequent projects under the C M at Risk: Aycock Auditorium and Petty Science Building renovations for about \$31 million and other projects underway that are not funded by bond funds. Meetings have been held with N C A & T project leaders to work together to increase HUB participation. A joint minority outreach program brought 64 contractors to the campus. A \$24 million privatized dormitory project is underway, and UNC-G has set a 15% minority participation goal for that project. Bid information with detailed specifics has gone out. UNC-G and N C A & T will have an HUB academy on UNC-G's campus in the spring to help minority companies learn more about the intricacies of the state building requirements. Mr. Thurman asked for a clarification of C M at Risk with

respect to campus construction. Chancellor Sullivan explained that one construction manager was responsible for a job from the design process to completion for a set price. That manager hires and oversees the various contractors involved in the construction which helps keep prices down and construction speed up. Because the manager can hire contractors and subcontractors there are more opportunities for HUB contractors to work on smaller sections. Cost overrun is the responsibility of the project manager.

R & R funds have been used for approximately 120 smaller projects for \$900,000, and HUB participation is 23.4% on those projects. 75% of bond dollars are for renovation because of the age of the campus. The telecommunications project and chiller plant are the largest. The chiller plant was built in the parking deck, which is an innovation that has attracted many other campuses. The electrical power distribution substation is finally in operation to serve the extended campus. Previously, rolling blackouts were in place because the power demand was greater than the existing power plant could provide. Two projects to renovate historic buildings are moving ahead of time and budget projections. The bid for the Hall for Humanities and Research was \$1 million over budget due to rising materials costs but money saved from the Science Building was rolled into the project enabling it to go forward. It is scheduled for completion in May 2006. A Studio Arts Center, a \$19 million project, came in over bid but was funded through previous savings and rework by the designer.

Mr. Thurman asked if buildings were designed to fit the campus, and Jeff Davies, University Vice President for Finance, responded that they were. He reported that local Boards of Trustees have the responsibility for overseeing construction under the code of the Board of Governors; thereby allowing construction to meet individual campus requirements. A master architectural file is kept by the University.

Mr. Davies introduced Steve Bowden, a member of the University Board of Governors, who had joined the meeting, and who spoke as a HUB advocate about the importance of including minority contractors.

Mr. Davies assured Mr. Thurman that “on time and on budget” would not have been consistently possible under the old state construction rules of multi-prime projects, and that CM at Risk has been a great aid in keeping the bond projects in line. In November the University spent over \$60 million dollars on bond construction, the largest month of cash expenditures. \$1.25 billion, half of the bond funds, has been spent. Mr. Davies announced that Dwayne Pinkney has left the President’s Office for a position with the University. Also, he announced that the Treasurer’s Office would sell bonds in December to make cash available to the University in January in order that work continue on schedule with cash on hand.

Mr. Davies gave the University’s Report (See Attachment A) and a video presentation of projects under construction and costs for what is going on. There are now only four projects which have not begun, and those were scheduled to begin late. The progress in the last year has been enormous. There are 74 projects which are completed on time and on budget. Mr. Davies answered a question from Mr. Bass, saying that all projections for 2005 are in the University’s Report. Mr. Thurman asked who authorizes the start of a construction project. Mr. Davies answered that each project was identified in the bill that was passed by the General Assembly and in the capital plan that was

adopted by the Board of Governors in 1998. Each campus is able to begin a project when it is ready locally to do so. Each is encouraged to manage its own construction schedule. A scope change must be approved by the local trustees, the Board of Governors, and then the General Assembly. Mr. Thurman asked about cash reserve. Mr. Davies said that each campus had a 5% set aside for project management and inflation that can be used to cover a cost overrun, and non-bond funds can be used to supplement. At the beginning of construction, bids were coming in under projections so that money was put in reserve for later use. Mr. Thurman asked about keeping up to date with technology standards in construction. Mr. Davies responded that UNC has baseline standards and campuses were encouraged to build in the latest in technology. He referenced conversion of UNC-TV to digital broadcasting which is waiting until the last minute to install the latest technology.

Terry Feravich continued the review of the University's Report. The University expects commitments to increase by \$275 million in the next five months. The schedule is slipping a bit, but going forward as projected. The end date for the entire program is still on schedule. The Treasurer's Office is selling early in response to interest rate fluctuation. Bonds are sold at both fixed and variable rates. Since July, the University is averaging \$52 million in expenditures per month on bond projects.

Shari Harris reported on HUB participation for the University. She said that CM at Risk is increasing participation. Participation of women owned businesses is increasing. Capacity and bonding issues for African American businesses are a problem. Coordinators from all campuses meet quarterly to go over best practices and prepare written process and procedures so that all chancellors and CFO's, HUB coordinators and project managers will have the same standard information. Financial partnerships are being developed through workshops so that minority contractors can learn about all the opportunities available. Teaming is now pairing a minority contractor to work with a large contractor, and this is proving successful. The first graduation of the HUB Academy was held in September, and funding has been secured for 2005 for four academies. Academy instructors were provided by the Carolina's Association of General Contractors. Each campus has a list of available HUB contractors for teaming and mentoring. A joint venture with a HUB and major contractor is advantageous for smaller HUB contractors. Mr. Bass questioned the reason for such a wide discrepancy in HUB participation and concluded commitment to HUB participation is the underlying cause.

Terry Feravich praised Shari Harris for her outstanding commitment to HUB participation. The short and long term dividends will be a better and more diverse contractors' base. He said it is getting harder to get small and minority contractors bonded. The improving construction economy demands closer oversight. University construction, bond projects and non-bond projects, accounts for about 20% of the growing industry. It is important to get things bid as quickly as possible. Inflation plans are being developed which will add 8% annually to construction mid-point costs. There are few ways to deal with increasing costs. Campuses are to use reserves from the 5% project management costs built in to the contract and other sources rather than downsize the scope of a project.

The Community College ("CC") report was given by Mac Everett. He reported that there are now 400 projects, a number of which were not originally planned, and money can be moved around on a campus when demand requires a change in plans.

Review of the Watch List showed that nothing was particularly out of sync. Community colleges have matching local governmental funding requirements, and this was in order. HUB participation is 12.18% for the total CC package.

Kennon Briggs, Community College Vice President for Business and Finance, then reviewed the original cash flow projections versus the actual cash flow projections. (See Attachment B) Actual reimbursements are not the same as original projections on various campuses. Eighteen campuses are more than 50% behind projections and will report on the reasons for this lag. A number of campuses are ahead of schedule by using funding from other sources and taking advantage of the favorable bid climate at the beginning of construction. In January 2004, campuses were encouraged to accelerate draw down of cash to advance projects because cash was available from previous sale of bonds by the Treasurer's Office. There are about 385 projects – 54% are active and 25% are complete. Spending on renovation projects has increased dramatically as well as for new construction. Mr. Briggs reminded the Committee that Community Colleges did not have firm plans and projects for each campus at the time the bond referendum passed, and this slowed expenditures for about two years. The largest month of reimbursements, approximately \$13 million, was November, 2004 and he anticipates expenditures of \$20 million a month through summer 2005 when many projects will peak after which expenditures will begin to tail off.

The Committee had requested a report explaining the delay in expenditures, and Mr. Briggs presented the Bond Project Delay Explanations, December 10, 2004 document. (See Attachment B2) Colleges below 50% detailed the reasons. Redesign was the most frequent cause as Trustees reexamined plans to make projects as useful and adaptable as possible to meet long term demands, realizing the amount of capital would not be available again for many years and community needs were in flux. Site issues and working with county issues also contributed to slow down. The Office of State Construction has been helpful. Mr. Thurman asked if work and expenditures were coinciding, and Mr. Briggs replied they were. Coastal Carolina ran into many difficulties with code and environmental issues that have been settled, and work is now proceeding on schedule. There are no major concerns with other campuses that cannot be handled locally. Colleges were not prepared for the large influx of money, then the larger enrollments. Mr. Briggs said that the Community College System Office itself held individual campuses back to slow expenditures at the beginning of the program.

Bill Davis reported for the Office of State Construction. All state construction must undergo contract review, design review and construction document review. The Office also oversees ongoing construction. (See Attachment C) Plans are going through review expeditiously since he has a full staff at this time. Community College projects are usually simpler because they are smaller, and teaching space is easier to review than laboratory science projects. Bond projects make up approximately 25% of their work.

#### Member reports:

Mr. Bass reported on his on-site visit to Appalachian State University, (See Attachment D) Projects are on schedule Thirteen projects were scheduled for the campus. One project is in design, five are under construction, and seven are completed. Winter weather can be a deterrent, but time lags were built in completion projections.

The weak economic environment in the area has hampered progress; temporary housing is very scarce. Minority workers are not available. HUB participation has been around 8.8% recently. HUB participation at N C A & T is 13.19% and at UNC-G is 6.2%.

Reports from other campuses are included in the permanent minutes.

Mr. Thurman's campuses are North Carolina A &T University, Winston-Salem State University and North Carolina School of the Arts. Ms. Barnes' campuses are UNC-Asheville, Western Carolina University and Appalachian State University.

Ms. Leggett reported that projects at the School of Science and Math are complete and a final report or certification will be requested to determine use of all funds and/or savings. Best practices will be evaluated from each campus.

Mr. Davidson said that determining the quality of construction is beyond the purview of the Committee, but overseeing appropriate use of funds is the Committee's responsibility.

Mr. Thurman asked if projects were configured to meet future needs without major construction, particularly with technology advances. Mr. Davidson responded that because turn around time has been relatively quick facilities should be adequate. Some campuses had to build out years ahead, yet still find themselves short of facilities because of increased enrollment. A new bond program is being crafted for a few years from now.

Mr. Feravich reported that the General Assembly's enabling the schools to deal with scope and quality issues and reviewing and approving scope changes quickly were very helpful.

The next meeting will be held on Monday, March 14 at Durham Technical Community College. The July 18 meeting will be held at the School of Science and Math.

There being no further business, the meeting was adjourned.

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Charlie Davison, Co-Chair

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Ann Faust, Committee Assistant