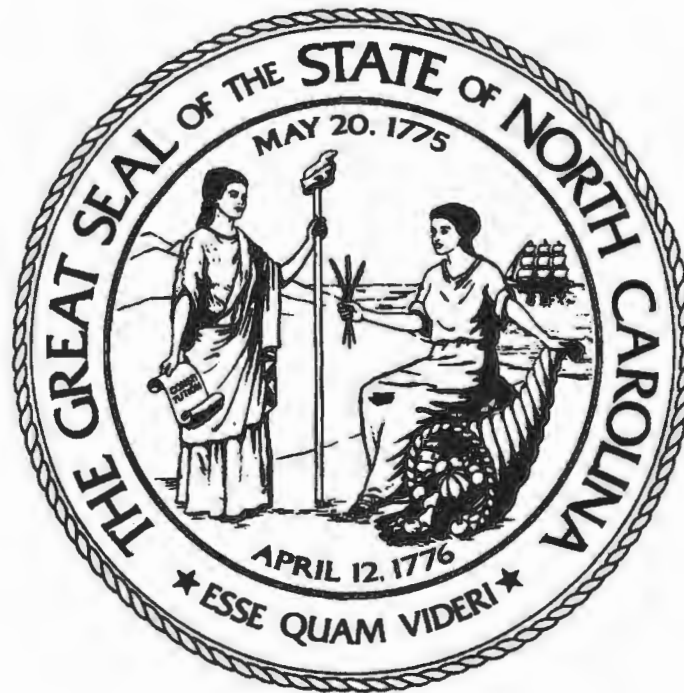


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HIGHER EDUCATION BOND OVERSIGHT COMMITTEE



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SEMI-ANNUAL REPORT: JULY 2002

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HIGHER EDUCATION BOND OVERSIGHT COMMITTEE



July 15, 2002

TO THE MEMBERS OF THE JOINT LEGISLATIVE COMMISSION ON
GOVERNMENTAL OPERATIONS:

Attached for your consideration is the July 2002 Semi-Annual report to the Joint
Legislative Commission on Governmental Operations. The Higher Education Bond
Oversight Committee prepared this report, pursuant to G. S. 116D-5.

Respectfully Submitted,

Handwritten signature of Charles T. Davidson in cursive.

Charles T. Davidson
Co-Chair

Handwritten signature of Paul Fulton in cursive.

Paul Fulton
Co-Chair

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HIGHER EDUCATION BOND OVERSIGHT COMMITTEE

COMMITTEE CO-CHAIRS

July 1, 2002

CHARLES T. DAVIDSON

Members of the Joint Legislative Commission on Governmental Operations
Members of the State Board of Community Colleges
Members of the University of North Carolina Board of Governors

PAUL FULTON

COMMITTEE MEMBERS

Dear Friends:

KELLY BARNHILL, SR.

We are extremely pleased to provide you with the first Semi-Annual Report of the Higher Education Bond Oversight Committee.

MARSHALL BASS

The Higher Education Bond Oversight Committee is charged to determine: (i) whether the expenditures of the proceeds from the bonds issued under the act are in compliance with the provisions of this act (ii) whether the awarded contracts are consistent with the budget and scope of the approved projects (iii) whether the changes in construction methods could enhance cost savings and promotion of on-time completion of the projects (iv) and whether the bond issuances are adequately timed to reflect cash-flow requirements of the projects.

PEACHES G. BLANK

HARLAN BOYLES

MAC EVERETT

The goal of the HEBOC is to oversee the Bond program and make recommendations based on the four charges outlined above. The information in this report explains the method for carrying out the oversight function, summarizes the information provided by participants in the Bond program, and makes recommendations based on this information.

LEATHERWOOD

RUTH SHAW

The citizens of North Carolina made a commitment to higher education when they voted overwhelmingly in support of the Higher Education Bonds. Since the committee's first meeting, we have worked to ensure that the bond money is being expended in a responsible and efficient manner.

WILLIAM SMITH

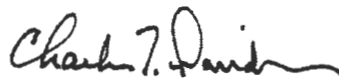
COMMITTEE STAFF

We are extremely honored to be a part of this tremendous experience. We are up to the challenge of making sure that this Bond Program is a successful one.

ANN FAUST
CLERK

Sincerely,

REYNA WALTERS
LEGISLATIVE STAFF


Charles T. Davidson
Co-Chair


Paul Fulton
Co-Chair



Overview

In 1999, the General Assembly passed Senate Bill 912, authorizing the issuance of \$3.1 billion in General Obligation bonds. A special provision in the bill created the Higher Education Bond Oversight Committee (HEBOC). The committee hears reports from the State Construction Office, Office of the State Treasurer, University of North Carolina System, and the Community College System. Based on information provided by each entity, the HEBOC makes recommendations based on the following: *whether expenditures of the proceeds from the bonds issued under the act are in compliance with the provisions of the act, whether the awarded contracts are consistent with the budget and scope of the approved projects, whether changes in construction methods could enhance cost savings and promotion of on-time completion of projects, and whether the bond issuances are adequately timed to reflect cash-flow requirements of the projects.*

The work of the HEBOC is going very well. The committee has found no significant issues at this time.

Agency Reports and HEBOC Recommendations

Treasurers Office: The schedule and amount of the bond sales are as follows:

Year	Community Colleges	UNC
2001	\$48,400,000	\$201,600,000
2002	\$58,100,000	\$241,900,000
2003	\$116,100,000	\$483,900,000
2004	\$116,100,000	\$483,900,000
2005	\$135,500,000	\$564,500,000
2006	\$125,800,000	\$524,200,000
TOTALS	\$600,000,000	\$2,500,000,000

The debt service for 2002-2003 on the Higher Education Bonds (ONLY November 2000) is \$30,737,429 for the Universities and \$7,380,698 for the Community Colleges.

State Construction Office: The following is a snapshot of Bond Projects in the State Construction office:

- 319 bond projects listed in State Construction Office database
- 53 projects currently in schematic design review phase (50 started in 2001, 3 started in 2002)
- Review Time (average calendar days) Schematic Design Phase: **31**; Design Development Phase: **39**; Construction Documents Phase: **65**; Final Construction Documents Review: **34**

While staffing levels may affect the review time of capital improvement projects, the information received does not create a high level of concern at this time.



Department of Insurance: The following is a snapshot of construction projects in the DOI (no distinction between Bond/non-Bond Projects):

University Projects (Plan Review Status: 4/30/2002)

- Average total plan review time State project is 21 days
- Average 115 plan reviews per month; 6 reviewers @ 19 per month
- Average project takes four reviews before final approval
- 37 University projects
- 25 university projects have had at least one review

Community College Projects (Plan Review Status: 5/03/2002)

- Average backlog for last six months has been two weeks
- Average review time is three to four weeks
- Total review time is four to six weeks
- Average 90 plan reviews per month; 6 reviewers @15 per month
- Average project takes four reviews before final approval
- 43 Community College projects in current plan review file

Community Colleges:

In attempting to carry out the oversight function, it is critical to note that the Universities and Community Colleges are extremely different in carrying out the Bond Program.

Community College Bond Program Highlights:

- Fifty-nine Colleges submitted a total of 415 Community College projects
- There are 151 State Board approved sites in 89 counties.
- The State Board has authorized \$246,882,129 in bond funds
- Funds for 146 projects have been released
- HUB participation currently at 8.34%
- Bond Funds Under Contract thru 5/17: \$56,505,379
- Bond Funds Expended thru 5/17: \$13,752,745
- Bond Funds Committed thru 5/17: \$252,541,313

Matching Requirement: *While there do not seem to be significant matching problems now, this could become an issue for poorer counties in the future. The HEBOC will continue to monitor this issue as time progresses.*

Are the bond issuances adequately timed to reflect cash-flow requirements of the projects?
At this time, bond issuances are adequately timed to reflect current cash flow needs.

Are the expenditures of the proceeds from the bonds issued under the act in compliance with the provisions of the act? *There are several methods in place such as the Bond Checklist and Bond Authorization report to verify a project before any money is spent.*

Are the awarded contracts consistent with the budget and scope of the approved projects? *Due to Local flexibility, budgets and scopes may change frequently.*



Could changes in construction methods enhance cost savings and promotion of on-time completion of projects? *The passage of Senate Bill 914, Construction Law Changes, addresses many of these issues. There is currently one Construction Manager at Risk being used (Edgecombe CC) and one Construction Manager being used (Central Piedmont CC). The HEBOC will continue to monitor and report on data found.*

The Watch List: This list will help maintain effective oversight over the Community Colleges. There are approximately 14 projects on the list.

University of North Carolina:

Bond Program Highlights:

- There are currently 54 projects under construction in the UNC System
- \$623 million (17%) in budgeted projects are in the construction phase
- Every project has bid within budget or under budget. Savings have come in as high as 20%
- Any bid savings are placed in a reserve for future inflation. Average savings is about 7%
- There are 147 (47%) projects in design phase
- Combining construction and design, 64% of the program is in some active stage.
- The average construction contract was let for 13.9% less than the final Architect/Engineer estimate
- As of April 2002, Bond commitments totaled \$507 million
- As of April 30, 2002, the University had expended approximately \$136,432,236 in Bond money.
- HUB Participation is approximately 13%
- UNC-TV is expected to meet the 2003 digital conversion deadline
- UNC-TV has expensed/committed \$38,217,876 (58%) of the total \$64 million
- 91% of design contracts awarded to North Carolina designers
- 85% of construction contracts awarded to North Carolina contractors

Are the bond issuances adequately timed to reflect cash-flow requirements of the projects?
At this time, bond issuances are adequately timed to reflect current cash flow needs.

Are the expenditures of the proceeds from the bonds issued under the act in compliance with the provisions of the act? *Based on the actual versus targeted expenditures and the dashboard indicators of where Bond money is being expended, it does seem that the expenditures are within the provisions of this act.*

Are the awarded contracts consistent with the budget and scope of the approved projects?
Based on the information that the committee has received, we do believe that awarded contracts are consistent with the budget and scope of approved projects.

Could changes in construction methods enhance cost savings and promotion of on-time completion of projects? *There are approximately 19 CM at Risk projects in the system. UNC-G has also started using web based construction management tools. The HEBOC will continue to monitor and report on the data received.*



Exceptions Reports: The University of North Carolina at Pembroke did experience a two-month slippage in construction starts. However, since that time, they have added an architect to their staff and have done schedule recovery work, which has brought them back on schedule.

Other Issues

The Higher Education Bond Oversight Committee knows and understands the difficult situation legislators are facing with the State Budget. However, as a committee charged with being aware of issues that could affect the ability of Universities and Community Colleges to complete the Bond program on time, on budget, and on schedule, we feel obligated to share the following information.

Delay in Bond Sales

The HEBOC does not recommend this course of action. Delaying the March 2003 Bond Sale would have an extremely negative financial impact on the Universities and Community Colleges. There would be unnecessary additional costs associated with delaying the sale. Contractors would seek funds for stopping and restarting the work, canceling and reordering or storing materials, and ultimately, inflationary increases for materials and labor. There are also contractual agreements that have already been made by the Universities and Community Colleges that would still need to be honored, regardless of a delay. The total uncovered commitments for Universities and Community Colleges would total \$631.9 million¹.

University Impact of Delaying the March 2003 Bond Sale

- 231 contract commitments would still need to be honored
- Uncovered construction commitments \$465.8 million
- Uncovered formal design commitments \$ 45.0 million
- Uncovered A/E construction administration \$ 12.2 million
- TOTAL UNCOVERED COMMITMENTS \$523.0 million

Community College Impact of Delaying the March 2003 Bond Sale

- 132 contract commitments would still need to be honored
- Uncovered construction commitments \$105.4 million
- Uncovered design commitments \$ 3.5 million
- TOTAL UNCOVERED COMMITMENTS \$108.9 million

Overhead Receipts

There are several University campuses that have expressed concerns regarding the long-term availability of overhead receipts. If these funds should become jeopardized, there are 13 Bond projects that could be profoundly affected.

Conclusion

The Higher Education Bond Oversight Committee is committed to seeing that the Bond program is carried out in a manner complimentary to the original intent of voters. The next report will include more detailed, comparative data for each University campus, including, status of projects, project timelines, projected versus actual construction schedules, and original versus actual project budgets.

¹ Estimated cost