April 27, 2016

MEMORANDUM

TO: Presidents
   Chief Business Officers

FROM: Jennifer Haygood, Executive Vice President and CFO

RE: ConnectNC Bond Update

I want to thank you for your colleges’ assistance with putting together the first ConnectNC Bond cash flow projection. As we have discussed, this projection is a work in progress that will be updated periodically to help inform decisions on when the bonds are sold and the allocation of the bond proceeds among projects. Based on this initial projection, we have communicated to OSBM that we are estimating a need for $78.8 million in bond cash needs for FY 2016-17. Once we have received further instructions from OSBM, we will communicate to colleges when we will need the next iteration of each college’s projection.

Please see the attached ConnectNC Bond FAQs, which have been updated (updates are highlighted in yellow) with clarifications based on feedback we’ve received from colleges. I would also note that we have added a new FAQ that speaks to the State Board’s priorities for the use of the bond funds. While the State Board recognizes that colleges have significant renovation needs, particularly related to roofing, HVAC, and ADA compliance, colleges will need to balance these needs with projects that enhance student instruction and support. Likewise, the State Board has indicated that it is unlikely to approve projects involving improvements to administrative buildings that are not related to ADA compliance and other life safety/security issues.

We are also working with our State partners to help facilitate projects, particularly informal R&R projects, that colleges desire to begin prior to the time the first bond proceeds are available. OSBM has agreed that a college may proceed with a project dependent in part or in total on bond funds, if the college is willing to certify that 1) it is willing to take on the risk associated with the fact that the Council of State has not yet approved the first bond sale, and 2) it has the ability to cover any invoices for which payment is due prior to the time the first bond proceeds become available (mid-August). If the State Board grants approval for a project prior to its August meeting, the college’s project approval letter will include the form to certify the college agrees with these conditions. Once the System Office receives the signed...
certification form, we will enter the project into Interscope as an approved project. If the college does not wish to certify agreement to these conditions, we will simply hold off on entering the project into Interscope until the first bond sale is completed.

We continue to appreciate everyone’s patience and understanding as we work through the myriad details that are inherent with any major bond program.

Attachments
   Bond FAQs (Revised 04/26/16)
1. **How much would my college receive from the bond?**
   The amount of bond proceeds allocated to each college is specifically listed in Section 1.(f) of S.L. 2015-280. You can easily find the amount for your college by entering your college ID # in the green box of the bond project calculator that was sent on December 15, 2015. The college allocations in the final bond bill were calculated based on a formula determined by the General Assembly. This formula included the following factors and associated weights: 1) County wealth, as defined by 2015 NC Department of Commerce tier designation for the college’s main campus county (67.5%), R&R need, as defined by age weighted square footage (17.5%), and need for additional space (15%).

2. **Is the college required to expend the bond funds on the #1 priority we submitted this summer?**
   No. The college should evaluate what project(s) would be best supported by the bond funds, given the amount allocated to the college and any required match conditions that must be met.

3. **Does the college have to use the bond funds for R&R?**
   No. The college is authorized to use the bond funds for R&R and new construction. However, any items purchased with such proceeds and installed or replaced as part of a renovation or rehabilitation must have a useful life of at least 10 years or must extend the life of the facility by at least 10 years once renovated or rehabilitated.

4. **Is the college required to match bond funds expended for R&R?**
   No. There is no match required for R&R projects.

5. **Is the college required to match bond funds expended for new construction?**
   Yes. The amount of local match required is based on the NC Department of Commerce’s 2015 tier designation for the county in which your main campus is located, regardless of which county the project is located. (Note that this is different than the 2000 Bonds.)

   Colleges with main campuses in Tier 1 counties must provide $1 in local funds for every $3 dollars in State bond funds. Colleges with main campuses in Tier 2 counties must provide $1 in local funds for every $2 dollars in State bond funds. Colleges with main campuses in Tier 3 counties must provide $1 in local funds for every $1 dollar in State bond funds.
6. **Can my college’s overmatch credit be used to satisfy this match requirement?**
   Yes. As provided by G.S. 115D-31.(a).(1), colleges may use any prior expenditure of non-State funds for capital construction or land acquisition not already used for matching purposes. We call this amount your “overmatch credit”.

Even though the match ratio is based on the county where the college’s main campus is located, the amount of overmatch available for a project depends on the county where the project is located. For example, Central Carolina’s main campus is located in Lee County, a Tier 2 county; therefore, it would be required to provide $1 in local funds for every $2 in State bond funds for a new construction project, regardless the project’s location. If the new construction project was located at its Chatham County Campus, the college would only be able to use its Chatham County overmatch credit towards the match requirement.

Notwithstanding the above, a college may request to “borrow” overmatch credit from another county in its service area. However, such requests will only be approved upon submission of a letter from an authorized official from the “lending” county on county letterhead. Further, any future local funds provided by the “borrowing” county for CI projects will first be applied to repaying this overmatch “debt”.

7. **Can I use bond proceeds to acquire real property?**
   Yes, if the real property acquisition is part of a capital improvement project (new construction or R&R) with identified funding. The acquisition of real property is considered new construction and subject to the associated matching requirements. A college may not use bond funds to acquire real property with no immediate plans to build, renovate, or otherwise put the facility into use.

8. **Can bond funds be used to support projects that were approved by the State Board prior to the date of the bond referendum?**
   Only in two circumstances:
   a. If the State Board approved a project, but not all funding sources were identified at the time of approval. In this situation, bond funds may be used for the portion of the project funding that was previously unidentified.
   b. If bond funds are used to fund an increase the scope of the project. Bond funds may not be used to supplant State or local funds already identified in a State Board approved project, as documented on the approved 3-1.

9. **Is there a deadline by which the college must expend the bond funds or by which matching funds must be identified?**
   No. S.L. 2015-280 did not prescribe a deadline for colleges to expend bond funds or for identifying matching funds. However, colleges should be aware that Section 1.(f).(3)
gives the General Assembly authority to reallocate bond funds within certain parameters. If the college fails to expend its bond funds after several years, there could be potential risk of reallocation.

10. If the State Board approves a college CI project that uses bond funds, can the college subsequently amend the 3-1 to reduce the amount of bond funds used and substitute another fund source for the bond funds?
   This is allowable to the extent that the bond funds have not yet been expended. However, under no circumstances will colleges be allowed to “recode” expenditures from bond proceeds to another source of funds. For example, if a college has already been reimbursed bond funds to cover an expenditure, it cannot return those funds and code the expenditure to another fund source.

11. Can colleges use bond proceeds to hire time-limited personnel to help administer the bond or manage bond projects?
   No. Section 1.(d) of S.L. 2015-280 specifically states, “Nothing in this section shall permit the use of bond funds to pay salaries or fees for bond administration”. This statement, however, does not prohibit colleges from using the Construction Manager At-Risk (CM At-Risk) method of contracting for a construction project.

12. Can a college use bond proceeds to pave a parking lot or road?
   No, not as a stand-alone project. The bond bill prescribes that bond proceeds be used for “the cost of constructing, reconstructing, enlarging, acquiring, and improving facilities and acquiring equipment and land therefor.” Therefore, the project must involve the construction or renovation of a facility. If a college is constructing or expanding a facility, bond funds may be used for associated parking and necessary building access as part of the project.

13. Can a college use bond proceeds to install equipment?
   As noted in the answer above, acquiring equipment that is part of a new construction or renovation project is allowable. However, bond proceeds may not be used for expenses for a “project” that only involves the installation of equipment. For example, if a college was constructing or renovating a facility, the cost of installing a security system as part of that project would be allowable; likewise, it would be allowable if the installation required the retrofitting of the building’s infrastructure (such as door jams, doors, etc.). A college may not, however, request to use bond funds to simply install a security system in an existing facility.

14. Can a college use bond proceeds to construct or renovate athletic facilities?
   No. As stated in Section 1.(c) of S.L. 2015-280, Connect NC Bond funds are being provided to our System because the State recognizes that community colleges are “in
need of new and renovated facilities to education and prepare students and workers for the 21st century for the purpose of enhancing the economic attractiveness of the State.”

15. Are there other guidelines or priorities that colleges should keep in mind when identifying projects?
The State Board wants to see the majority of the funds expended to provide or improve facilities that directly serve students. While the State Board recognizes that colleges have significant renovation needs, particularly related to roofing, HVAC, and ADA compliance, colleges should describe how such renovations impact students and balance these needs with projects that enhance student instruction and support. Likewise, the State Board has indicated that it is unlikely to approve projects involving improvements to administrative buildings that are not related to ADA compliance and other life safety/security issues.

16. Once the State Board approves a project, when can we start?
Once the State Board approves a project, OSBM has agreed that we can reimburse colleges for expenses incurred prior to the date of the first bond sale if the college certifies that 1) it is willing to take on the risk associated with the fact that the Council of State has not yet approved the first bond sale, and 2) it has the ability to cover any invoices for which payment is due prior to the time the first bond proceeds become available (mid-August). If the State Board grants approval for a project prior to its August meeting, the college’s project approval letter will include the form to certify the college agrees with these conditions. Once the System Office receives the signed certification form, we will enter the project into Interscope as an approved project. If the college does not wish to certify agreement to these conditions, we will simply hold off on entering the project into Interscope until the first bond sale is completed.