



NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

George Fouts

Interim President

March 31, 2016

MEMORANDUM

TO: Presidents
Chief Business Officers

FROM: Jennifer Haygood, Executive Vice President and CFO

RE: ConnectNC Bond Next Steps

As you know, the ConnectNC Bond was approved by voters on March 15, 2016. This memo provides more information about our next steps, as we move into the implementation phase. As projects are approved by your local boards of trustees, colleges should proceed with submitting Forms 3-1 requesting State Board approval of those proposed projects. As you are refining your plans for using the bond funds, **please see the attached memo from OSBM and updated FAQs**. As noted by State Budget Director, Andrew Heath, “construction and renovation should be long-term, sustainable projects of such a character that they will benefit our students, teachers, guardsmen, citizens, and visitors for the next several generations. These projects should include plans that will allow structures to adapt to new technologies and be conducive to future expansion as our state’s population grows.” The State Board will be reviewing projects with this purpose in mind.

In addition to submitting projects for State Board approval, we need to begin assessing colleges’ cash flow needs. There are on-going statewide conversations about how cash flow projections and bond reporting requirements will be met. Until further guidance is provided, however, we will use the attached cash flow projection worksheet to begin estimating our System’s cash needs from the bond. While this form will be familiar to those involved in the 2000 Higher Education Bond, we understand that may not be the case for many of our business officials. Therefore, we will conduct a session at the upcoming ACCBO conference to answer any questions about how to complete the spreadsheet.

To meet OSBM’s deadline for our first cash flow estimate, we need each college to **submit their first cash flow projection to Dorrine Fokes (<mailto:fokesd@nccommunitycolleges.edu>) by**

CC16-015
E-mail Copy

ConnectNC Bond Next Steps
March 31, 2016

Tuesday, April 19th. We will provide further guidance on submitting subsequent cash flow projections at a later date; however, colleges should expect to submit updated and refined cash flow projections approximately monthly. This is necessary due to the inherently dynamic nature of the capital improvement process. Also, the most recent information that we have received indicates that the first bond proceeds will likely be **available mid-August**, not July as originally indicated.

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

Attachments

- OSBM Memo (Dated 03/17/16)
- Bond FAQs (Revised 03/31/16)
- Bond Cash Flow Projection Worksheet



**STATE OF NORTH CAROLINA
OFFICE OF STATE BUDGET AND MANAGEMENT**

PAT MCCRORY
GOVERNOR

ANDREW T. HEATH
STATE BUDGET DIRECTOR

March 17, 2016

MEMORANDUM

TO: Department Heads, Chief Financial Officers

FROM: Andrew T. Heath 
State Budget Director

SUBJECT: Agency Guidance on Implementation of Connect NC Bond Package

On Tuesday, North Carolina voters approved the passage of the Connect NC Bond Package, a \$2 billion bond that will connect North Carolina to the 21st century through statewide investments in education, parks, safety, recreation, and water and sewer infrastructure. Investments will be made in 76 counties, and involve universities, community colleges, and multiple state agencies.

In anticipation of this bond, a cross-agency working group has already begun to coordinate project construction timelines so that we can effectively and efficiently issue the bonds and begin construction of these critical projects. The Governor greatly appreciates the contributions to this group from the Department of Administration, the Office of the State Controller, the State Treasurer, and General Assembly staff. This group is already working to schedule projects and anticipates the first bond issuance coming as early as July 2016. The Office of State Budget and Management will lead the execution of bond projects in order to ensure that the State is fully accountable to citizens and taxpayers with the use of bond proceeds.

The Governor has instructed OSBM to work with all state agencies to ensure that bond money is used as prudently and effectively as possible. Construction and renovation should be long-term, sustainable projects of such a character that they will benefit our students, teachers, guardsmen, citizens and visitors for the next several generations. These projects should include plans that will allow structures to adapt to new technologies and be conducive to future expansion as our state's population grows.

We will provide periodic updates as project timelines are developed, and we thank you in advance for your cooperation.

NORTH CAROLINA COMMUNITY COLLEGE SYSTEM
CONNECTNC BOND FAQs

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. 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.

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. 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.”