

NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

CONNECT NC 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%). **Connect NC Bond Legislation:** <https://www.ncleg.gov/Sessions/2015/Bills/House/PDF/H943v8.pdf>

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. Can the college use the funds for Advanced Planning expenditures?

No. Planning and design costs are permitted when construction costs have been identified and obtained. Use of Connect NC Bond funds for design only is not permitted.

5. Is the college required to match bond funds expended for R&R?

No. There is no match required for R&R projects.

6. 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.) This 2015 tier designation was in effect when the Connect NC Bond bill was enacted in S.L. 2015-280 on October 21, 2015 and will not change.

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.

7. 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".

Connect NC Bond Act legislation was passed in 2015 and 2015 county tier rankings should be used to determine the local match requirement. 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".

8. 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. Colleges must reference a project number associated with a new construction, R&R or acquisition of a building with land on the NCCCS 3-1-P Form. 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.

9. 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.

10. 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.

11. 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.

12. 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.

13. Can a college use bond proceeds to pave a parking lot or road?

No, not as a stand-alone project or part of an R&R 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 new construction or addition of an existing facility that adds additional square footage. 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.

14. Can a college use bond proceeds to install equipment?

Acquiring equipment that is part of a new construction or renovation project is allowable, if it is established that the piece of equipment has a useful life of 10+ years. 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, or the retrofitting of the building's infrastructure (such as door jams, doors, etc.) would be allowable. A college may not, however, request to use bond funds to simply install a security system in an existing facility.

15. Can a college use bond proceeds to purchase furniture?

No. Furniture/furnishings are not an allowable expense for projects completed with Connect NC Bond funds. *Internal Revenue Manual* section 1.35.6.10 (07-26-2016) - Property and Equipment Capitalization dictates the useful life of various equipment items. Furniture is specifically referenced as having a useful life of 8 years which does not comply with legislation that requires a useful life of 10+ years. See this link for more information: https://www.irs.gov/irm/part1/irm_01-035-006.html#d0e1314

16. 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."

17. 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.

18. Can a college use unexpended Equipment funds (that were originally transferred from the State 112 to CI) for a Connect NC Bond project as an additional funding source?

Yes, to a renovation project that includes reconfiguring/adding space to accommodate new or additional equipment needed for a program (per Section 10.3 of S.L. 2015-241). Colleges must submit an explanation of how the project directly relates to and is necessary for the accommodation/installation of equipment in order to add this funding source to the project. Use of these funds must maintain legislative authorization; therefore, a college cannot transfer these funds to a project for a new facility. Reference: FY 2016-17 State Aid Allocations and Budget Policies document, page 55.

19. Can Connect NC Bond Funds be used to fund projects on leased property?

No. We have been given clear guidance from Bond Council and the Department of State Treasurer that Connect NC Bond proceeds cannot be expended on property that the community college, or the State or a local government, does not own outright.

However, further clarification was given that a long-term lease of property owned by another governmental entity, such as the county in which the college is located, does not create a federal tax issue, if the property continues to be owned by the county.

20. Can Connect NC Bond Funds be used to purchase a modular/mobile/trailer unit?

No. The bond bill prescribes that bond proceeds for NC Community Colleges “shall be used for new construction or rehabilitation of existing facilities and repairs and renovations.” Therefore, the fact that these units are not new construction and not an existing structure the purchase of one of these units does not conform to legislative intent.

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Requirements from Department of State Treasurer and OSBM:

S.L. 2015-280, Connect NC Bond Act of 2015, provides, general obligation bond debt pledging the faith and credit of the State for repayment of the indebtedness for infrastructure needs of the State.

Department of State Treasurer (DST)/Office of State Budget Management (OSBM) has set-up an extensive tracking system of the proceeds of the public improvement bonds and notes, including premium thereon, if any, to the extent necessary to enable the DST to properly account for the use of such proceeds for compliance with applicable requirements of the federal tax law or otherwise.

Connect NC Bonds are “tax-exempt” bonds. For the connect NC Bonds to be tax-exempt bonds, the Connect NC Bonds and the use of the proceeds thereof must comply with several requirements of the federal tax laws, including certain limitations on “private business use” of the facilities financed by the Connect NC Bonds. By addressing and acting on the bullet points below will give ability of the State to finance the Projects using federally tax-exempt obligations pursuant to the Internal Revenue Code and regulations.

- **Bond Questionnaire:** The Community College will fill out an Exhibit A form (Bond Questionnaire) as a condition of receiving funding from Connect NC Bonds for a project and/or acquisition of property.

The questionnaire is designed in a Yes/No format, with a “No” answer indicating that the response to the question does not raise a private business use issue, and a “Yes” answer indicating that further review may be necessary. (Answers of “Yes” may require further review by DST that will arrange for review by counsel.) **This Bond Questionnaire must be submitted with each 3-1 form.**

- **Annual Project Certification Form:** The Community College is expected to report on each Connect NC Bond project by executing a Tax Certificate annually, Exhibit B (Project has not yet been completed) or Exhibit C (Completed and placed in service) form.
- **Record Retention:** The records must be retained/stored by the College for the entire term that the Connect NC Bonds or any portion thereof that financed the Project(s) are outstanding, plus six (6) years after the later of (i) final maturity or prepayment date of such Connect NC Bonds or (ii) the final maturity or prepayment date of any obligations that refund (including through a series of refunding) such Connect NC Bonds or any portion thereof (Steve Cordell, Nexsen Pruet, PLLC – Connect NC Compliance Webinar (March 28, 2018).)

Each entity receiving the proceeds of public improvement bonds and notes, including premium thereon, if any, issued pursuant to and for projects listed in Section 1 of Session Law 2015-280, House Bill 943 shall report quarterly (System Office reports for Community Colleges), to the Joint Legislative Oversight Committee on Capital Improvements. The report must include total project costs, amount funded from the bonds, expenditures to date, and the percentage of project completeness.

- **CASHFLOW Spreadsheet:** Community Colleges must maintain an active project status and spread of funds using the colleges CASHFLOW spreadsheet. The current project status and projection of funds will help the State determine the time to expense bonds and aid the System Office with compiling the required Joint Legislative Oversight Committee on Capital Improvements quarterly report.