

4. 2014-15 Short Session Budget Priorities.....Andrea Poole

Situation: The Board of Governors has a statutory duty to make the needs of the University known to the Governor and the General Assembly.

Background: For the 2013-15 Biennium, the Board of Governors requested operating and capital funding for key areas, focusing on the 2013-2018 Strategic Plan, "Our Time, Our Future: The UNC Compact with North Carolina." The 2013-14 budget as enacted provided \$49 million less for the UNC system than was expended the prior year. This included full funding for enrollment change and operating reserves for new or renovated buildings, but also included a \$65.8 million management flexibility reduction and \$25.8 million in strategic plan efficiency reductions. No operating priorities received funding and two capital priorities received partial funding.

As currently enacted, the 2014-15 budget would implement additional reductions, providing \$70 million less than was expended in 2012-13. This includes a \$7.8 million increase to the management flexibility reduction and a \$27.2 million reduction which corresponds with a legislative increase to nonresident undergraduate tuition, as well as full second year funding for enrollment change and operating reserves for new or renovated buildings.

Assessment: The Board urges the Governor and General Assembly to provide the funds needed to sustain the University's ability to produce the highly educated workforce essential to the state's long-term economic competitiveness in accordance with the new Strategic Plan. UNC has done its part to absorb reductions imposed during the recent economic downturn, and UNC continues to become more efficient. Since 2007-08, education and related spending per degree has decreased by 10%, while the share of educational costs borne by students has increased 38%. Further reductions and large tuition increases will hamper UNC's ability to meet instructional needs and threaten academic quality.

Note: While compensation increases are considered outside the UNC expansion budget and therefore not included in the priorities, to retain our talented workforce, it is essential that UNC be included equally in any increase for teachers and state employees.

Action: This item requires a vote.

**2014-15 BUDGET PRIORITIES
OF
THE BOARD OF GOVERNORS
THE UNIVERSITY OF NORTH CAROLINA**



February 2014

University of North Carolina System

Key Facts for 2014-15 Budget Discussion

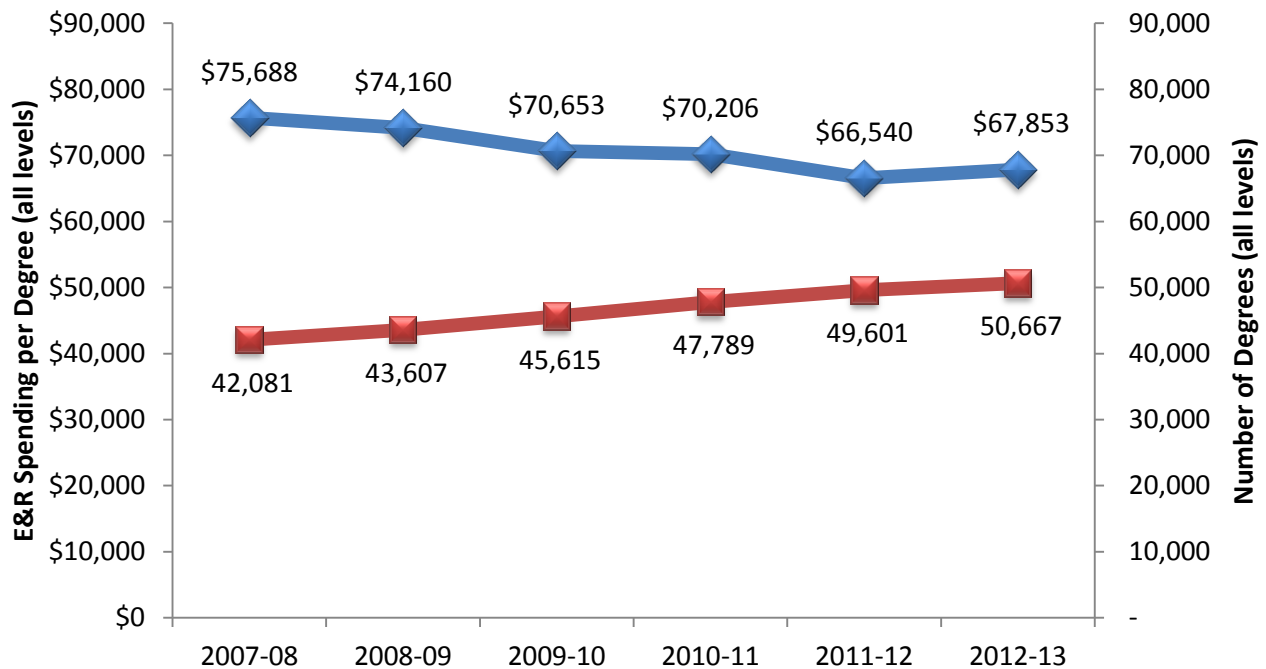
Changes in Key Metrics (2007-08 to 2012-13)

	<u>2007-08</u>	<u>2012-13</u>	<u>Change</u>
Campus Appropriations per Student (FTE)*	\$12,054	\$11,268	(7%)
Tuition Receipts per Student (FTE)*	\$4,302	\$6,342	47%
Split of Appropriations / Tuition Revenue	74%/26%	64%/36%	(10%)/10%
Externally Funded Research (in millions)**	\$1,112	\$1,281	15%
UNC-CH National Ranking for Research and Development Expenditures (All Universities)**	27th	11th	up 16

* Includes all student types.

** Data included in the 2012-13 column for these metrics is for 2011-12, the most recent year available.

Education and Related Spending per Degree and Degrees Conferred^{1, 2}



¹ Includes high school diplomas awarded by the UNC School of the Arts; does not include the NC School of Science and Mathematics.

² Over this period, mandated fixed costs for personnel have increased by more than 5% or about \$730 per student (FTE) enrolled in Fall 2012.

Note: Controlling for inflation, education and related spending per degree (all levels) has decreased by 18% since 2007-08.

UNC System 2014-15 Budget Priorities

FY 2014-15 UNC System Budget per Appropriations Act of 2013	\$2,496,550,121
A. Key Strategic Plan Investments	\$38,000,000
Increase Degree Attainment	18,800,000
<i>(a) Charge Military and Veterans Resident Tuition Rate</i>	<i>8,000,000</i>
<i>(b) Support Year-Round Instruction</i>	<i>5,000,000</i>
<i>(c) Performance Fund</i>	<i>5,000,000</i>
<i>(d) Early Warning System</i>	<i>800,000</i>
Strengthen Academic Quality	6,500,000
<i>(a) Career Counseling and Academic Advising Support</i>	<i>2,500,000</i>
<i>(b) E-Learning Strategies</i>	<i>3,000,000</i>
<i>(c) Competency-Based Assessment</i>	<i>1,000,000</i>
Economic Development and Knowledge Creation	11,900,000
<i>(a) Game Changing Research – Consortia of Excellence</i>	<i>3,400,000</i>
<i>(b) Convert More Discovery into Innovation</i>	<i>3,000,000</i>
<i>(c) Faculty Recruitment and Retention Fund</i>	<i>5,000,000</i>
<i>(d) Prepare Job-Ready Students through Experiential Internships</i>	<i>500,000</i>
Community Health Care Needs	800,000
<i>(a) Rural Health Collaborative</i>	<i>500,000</i>
<i>(b) ECU Dental Clinics Student Housing</i>	<i>300,000</i>
B. Retain Talented Workforce	\$13,000,000
1. Optional Retirement Plan Contribution	5,000,000
2. Distinguished Professors	8,000,000
C. Restore Reductions and Repeal Nonresident Tuition Increase	\$35,048,459
1. Eliminate Additional Management Flexibility Reduction	7,805,302
2. Repeal Nonresident Tuition Increase	27,243,157
3. Carry Forward Reform	-
D. Other Critical Campus Needs	\$7,600,000
1. East Carolina University Medical School Emergency Appropriation	3,000,000
2. Campus Security	3,100,000
3. CFNC Support	1,000,000
4. Strengthen Audit Functions	500,000
Subtotal Recommended Campus Changes	\$93,648,459
E. Other Critical UNC System Needs	
1. UNC Health Care / Medical School Appropriation Restoration	15,000,000
Recommended Revised UNC System Budget	\$2,605,198,580

UNC System 2014-15 Budget Priorities Detail

Technical Adjustment – Reinvest Enrollment Funding

Enrollment Funding Adjustment	(2,000,000)
Support UNC Early and Middle College High School Programs	2,000,000
Net Technical Adjustments	-

A. Key Strategic Plan Investments

\$30,000,000 R
\$8,000,000 NR

Note: These requests total the amount of FY 2014-15 Strategic Plan reductions included in the 2013 budget.

Increase Degree Attainment

Provides funding to meet degree attainment goals that are responsive to North Carolina's current and future workforce needs; enables UNC to increase graduation rates of community college transfer students and individuals with some college credit; and improves access and support for veterans and active military personnel. Funding will be distributed as follows:

- | | |
|--|---------------------|
| <p><i>(a) Charge Military and Veterans Resident Tuition Rate</i></p> <p>Allow UNC to offer resident tuition to our 600 nonresident veteran UNC students. Keeping veterans in North Carolina is a smart economic growth strategy and many other states offer early residency status to certain veterans.</p> | <p>8,000,000 NR</p> |
| <p><i>(b) Support Year-Round Instruction</i></p> <p>Year-round instruction will accelerate students' time to degree and maximize use of university facilities. Research shows that students who enroll in summer term courses are more likely to graduate on time.</p> | <p>5,000,000 R</p> |
| <p><i>(c) Performance Fund</i></p> <p>This funding will incentivize and reward campuses that show improved student performance (retention and graduation rates) and greater operational efficiency and effectiveness.</p> | <p>5,000,000 R</p> |
| <p><i>(d) Early Warning System</i></p> <p>By Fall 2014, each campus is required to have in place an early warning system that alerts campus personnel to signs of student academic distress or behavior likely to lead to poor academic performance. This funding will provide ongoing support for these campus systems.</p> | <p>800,000 R</p> |

Strengthen Academic Quality

UNC is committed to achieving the highest levels of student success and academic rigor. These funds will help ensure that UNC graduates have the core competencies needed to succeed and develop new methods that more effectively incorporate and leverage technology and distance education. Funding will be distributed as follows:

UNC System 2014-15 Budget Priorities Detail

- (a) *Career Counseling and Academic Advising Support* 2,500,000 R
Improving career and academic advising systems will reduce undergraduate attempted hours to degree and help better align student learning with employer needs. These funds will be used to hire additional professional and academic career advisors, support high-quality faculty advising, and begin implementing a shared electronic advising system with the NC Community College System.
- (b) *E-Learning Strategies* 3,000,000 R
These funds will support high-need degree and certificate programs identified by employers, including competency-based certificates and 2+2 online degrees. Additionally, monies will be used to leverage technology to redesign courses and provide centralized UNC system online offerings.
- (c) *Competency-Based Assessment* 1,000,000 R
These funds will be used to identify, develop, and implement the most effective ways to assess and assure student learning.

Economic Development and Knowledge Creation

North Carolina's future economic success will hinge less on our ability to make things than our ability to think things – to create new technologies, products, processes, and ways of organizing and doing work. Funding will be distributed as follows:

- (a) *Game Changing Research – Consortia of Excellence* 3,400,000 R
Consistent with Gov. McCrory's economic development priorities, this funding will provide strategic investments in six "needle-moving" areas:
- Advanced manufacturing
 - Data science
 - Defense, military, and security
 - Energy
 - Marine and coastal science
 - Pharmacoengineering
- (b) *Convert More Discovery into Innovation* 3,000,000 R
Research at UNC institutions has generated discoveries, ideas, and technologies with marketplace potential. This funding will assist campuses with the transition from laboratory to marketplace, providing competitive funding for proof-of-concept work and commercialization costs.
- (c) *Faculty Recruitment and Retention Fund* 5,000,000 R
These funds will improve UNC's ability to recruit and retain nationally recognized faculty.
- (d) *Prepare Job-Ready Students through Experiential Internships* 500,000 R
Responding to employer demands for graduates with more applied experiences, UNC will form partnerships with businesses across the state to support growth in internships, co-ops, clinical experiences, and collaborative research.

UNC System 2014-15 Budget Priorities Detail

Community Health Care Needs

Provides funding to help address rural North Carolina's growing health care needs, including:

(a) *Rural Health Collaborative* 500,000 R

This seed funding will help develop an initiative to prepare students for work in health fields that address the critical needs and health disparities in rural North Carolina.

(b) *ECU Dental Clinics Student Housing* 300,000 R

AHEC made a commitment to house students from the School of Dentistry at ECU during fourth-year rotations at community learning centers across the state. This funding will provide student housing at 10 sites across North Carolina.

B. Retain Talented Workforce

\$5,000,000 R

\$8,000,000 NR

1. *Optional Retirement Plan Contribution* 5,000,000 R

UNC's Optional Retirement Plan (ORP) contribution rate has not increased since 1997. To remain competitive with the market, the ORP contribution rate must be closer to the current Teachers and State Employees Retirement System contribution rate of 8.68%. These funds will increase the rate from 6.84% to 7.42% in FY 2014-15. Additional funding will be sought for FY 2015-16 to increase the rate to 8.0%.

2. *Distinguished Professors* 8,000,000 NR

As of December 31, 2013, the Distinguished Professors Endowment Fund has \$61 million of private funds secured, and another \$7 million pledged, for the backlog of 109 professorships now awaiting state matching funds. A total of \$34 million in state matching funds is needed to eliminate this backlog and put the private donations to work.

C. Restore Reductions and Repeal Nonresident Tuition Increase

\$35,048,459 R

1. *Eliminate Additional Management Flexibility Reduction* 7,805,302 R

Eliminates the remaining budgeted increase to UNC's management flexibility reduction. Over the past six years, UNC has absorbed \$666 million in recurring management flexibility reductions, and our appropriation per FTE student has decreased by 9%. Further reductions will hamper our ability to meet instructional needs and damage academic quality.

2. *Repeal Nonresident Tuition Increase* 27,243,157 R

Maintains the Board of Governors' responsibility for setting tuition, by repealing the FY 2014-15 legislative tuition increases enacted in the 2013 legislative session. The associated reduction in appropriations is restored.

UNC System 2014-15 Budget Priorities Detail

3. *Carry Forward Reform*

Carry-forward authority is currently limited to a maximum of 2.5% of an institution's annual General Fund appropriation. These restrictions tend to foster a "use it or lose it" mentality. This recommendation increases the current carry-forward maximum from 2.5% to 5.0% of an institution's annual state appropriation. These funds will be used to support critical one-time investments, including repairs and renovations, computer and other equipment upgrades, support of the Distinguished Professors program, and implementation of energy savings and other efficiency measures.

D. Other Critical Campus Needs

\$7,600,000 R

1. *East Carolina University Medical School Emergency Appropriation*

3,000,000 R

State and federal changes have resulted in lost revenue to the East Carolina University School of Medicine. These funds will partially replace that revenue, allowing the school to maintain operations at its current level.

2. *Campus Security*

3,100,000 R

Provides funding to improve campus security, consistent with recommendations of the 2013 UNC Campus Security Initiative. Funds will be used to bring campus security and telecommunications personnel to market salary rates and for a system-wide position to manage and coordinate UNC campus safety activities and federal and state compliance requirements.

3. *CFNC Support*

1,000,000 R

Due to federal loan program changes, the NC State Education Assistance Authority has lost revenue in recent years used to fund the College Foundation of North Carolina, Inc. (CFNC). As a result, state funding is needed to continue CFNC operations. Without this support, UNC and community college campuses will need to assume many of the critical statewide services that CFNC currently provides (including on-line applications and financial aid and college planning assistance).

4. *Strengthen Audit Functions*

500,000 R

Addresses identified staffing deficiencies in special investigative and information technology audit functions, to help prevent waste, fraud, and abuse.

Subtotal Recommended Campus Changes

\$93,648,459

E. Other Critical UNC System Needs

1. *UNC Health Care / Medical School Appropriation Restoration*

15,000,000 R

Restores the State appropriation to the UNC School of Medicine for medical education that was supposed to be included in the FY 2013-14 continuation budget.

UNC System 2014-15 Capital Budget Priorities

Note: All capital budget priorities were approved by the Board of Governors in 2013, but did not receive full funding. More information on each request can be found in the 2013-15 Budget Priorities document.

1. Allocation from Repairs and Renovations Reserve	\$163,000,000
2. Strategic Capital Priorities	\$73,964,468
(a) NCSM – Discovery Center's Reynolds East Living/Learning Residence Hall – Construction	8,000,000
(b) NCSU/UNC-CH – Pharmacoengineering Facilities – Planning	9,200,000
(c) UNCW – Allied Health/Human Sciences Facility and Related Infrastructure – Planning	5,094,430
(d) ASU – College of Health Sciences – Planning <i>(Balance of funding)</i>	6,200,000
(e) UNCC – Science Building – Planning	12,638,338
(f) UNCG – Nursing/Classroom/Office Building – Planning	13,133,200
(g) ECU – Life Sciences and Biotechnology Building/Howell Sciences Renovation – Planning	19,698,500
Total Recommended Changes	\$236,964,468

UNC System 2014-15 Capital Budget Priorities Detail

Note: All capital budget priorities were approved by the Board of Governors in 2013, but did not receive full funding. More information on each request can be found in the 2013-15 Budget Priorities document.

1. Allocation from Repairs and Renovations Reserve 163,000,000 NR

The Board of Governors top capital priority is to seek funds needed to repair and renovate existing facilities. UNC has over \$2.2 billion of documented deficiencies. This request is based upon 1.5% of the current replacement value of UNC's General Fund supported facilities.

2. Strategic Capital Priorities 73,964,468 NR

(a) NCSSM – Discovery Center's Reynolds East Living/Learning Residence Hall – Construction 8,000,000 NR

This project would construct the Reynolds East Living/Learning Residence Hall component of NCSSM's \$81,900,000 Discovery Center. Designed and bid-ready, this resident hall project would provide a 22,000 square-foot, 3-story, 70-bed residence hall with approximately 7,000 square feet of laboratories and classrooms, allowing NCSSM to increase its enrollment.

(b) NCSU/UNC-CH – Pharmacoengineering Facilities – Planning 9,200,000 NR

This project would provide the specialized facilities needed to support Pharmacoengineering at NCSU and UNC-CH. This project includes approximately 165,000 square feet of labs, a current Good Manufacturing Practice Biomanufacturing Operations facility, and animal quarters on locations at NCSU and UNC-CH. The total cost of this project is \$92,000,000 with \$9,200,000 requested for planning.

(c) UNCW – Allied Health/Human Sciences Facility and Related Infrastructure – Planning 5,094,430 NR

This 165,000 square-foot facility would house the new Health and Human Services College, the Center for Healthy Living, existing academic programs in Health and Applied Human Sciences and Social Work, and related labs and classrooms to produce more health care professionals and expand services to the rural areas of the region. Available sites for the facility require specialized foundation work and work would include the extension of all primary infrastructure services to the site. The total cost of this project is \$50,944,300 with \$5,094,430 requested for planning.

UNC System 2014-15 Capital Budget Priorities Detail

- (d) *ASU – College of Health Sciences – Planning* 6,200,000 NR
Provides the balance of funding for planning for the College of Health Sciences Building; \$2 million nonrecurring was appropriated in 2013. This project would provide a 200,000 square-foot facility for the College of Nursing, as well as various academic and public service programs in Health Sciences. Work would also include the renovations needed to repurpose Duncan Hall (built in 1965, 81,887 square feet, 3-story). The total cost of this project is \$82,000,000 with a combined total of \$8,200,000 for planning.
- (e) *UNCC – Science Building – Planning* 12,638,338 NR
The 236,210 square-foot Science Building would provide facilities for classroom and research activities in chemistry, physics, and biology and classrooms and office space for associated departments. The current space occupied by these departments is inadequate for modern science instruction. The building would provide scientific laboratories and support space for programs and research initiatives that contribute to the economic development of the region and allow UNC Charlotte to serve projected student enrollment. The total cost of this project is \$126,383,375 with \$12,638,338 requested for planning in 2014-15.
- (f) *UNCG – Nursing/Classroom/Office Building – Planning* 13,133,200 NR
This project would house the School of Nursing, which is currently located in four buildings and is constrained for space. Additional instructional, faculty, and support space is essential in order for UNC Greensboro to accommodate planned enrollment increases, new academic program offerings, and expected growth in externally-funded research and service. Since these initiatives are faculty and space intensive, this project would construct a 200,000 square-foot, four-floor building consisting of laboratory and related support space, academic teaching facilities, and office space on the existing McIver Classroom Building site. The total cost of this project is \$131,332,000 with \$13,133,200 requested for planning.
- (g) *ECU – Life Sciences and Biotechnology Building/Howell Sciences Renovation – Planning* 19,698,500 NR
The project includes construction of a 200,000 square-foot Life Sciences and Biotechnology Building on the current site of the Christianbury Gym; the demolition and reconstruction of Christianbury Gym (built in 1952) in a new location; and the renovation of the Howell Sciences complex (built in 1969 and 1970) to bring it up to current life safety and building codes and modern laboratory standards. The total cost of this project is \$196,985,000 with \$19,698,500 requested for planning.

Total Net Recommendations

\$236,964,468