University of North Carolina Board of Governors
Policy Priorities

1) Postpone Implementation of NC Guaranteed Admissions Program (NC GAP) until at least 2018 or modify to ensure program meets stated goals of the legislature
The joint North Carolina Community College System and University of North Carolina report highlighted the potential impacts of various implementation strategies; however, the identified strategies likely would not meet all of the goals laid out by the legislature. While reforms have been undertaken at both the community college and university level to improve student outcomes, no data exists that can show how much those changes will improve outcomes for students.

2) Eliminate Private Fundraising Cap
The conference report for the FY2015-16 budget, H. 97, included a provision to cap each individual UNC institution spending on private fundraising at $1 million in state funds. Since the recession, the legislature has been encouraging UNC institutions to seek private funds as state funds were drying up. This provision is a major shift and we seek the elimination of the recently enacted provision.

3) Extend 5% Carry Forward authority for next biennium
The legislature increased UNC carry forward authority to 5% for the biennium with the increase being used for R&R (up from 2.5%) in H. 97. We ask the legislature to extend the increase in carry forward authority in order to provide time for UNC institutions to show the positive impacts of this added flexibility.

4) Eliminate requirement for institutions to use non-General Funds for Advanced Planning for new capital projects
The FY15-16 budget included a provision requiring UNC institutions to use non-General Fund dollars for advanced planning before the legislature would be given a chance to approve projects. Unlike last year’s bond package request which included a “Skin in the Game” requirement if the legislature acted, this requirement goes further and requires campuses to front funds for projects the legislature may never approve. Because of the uncertainty of spending money for advanced planning before the legislature signs off on the project, there is a significant unintended negative impact on a number of our campuses.

5) Permanent fix for qualified excess benefit arrangement (QEBA) issue
Last session, UNC collaborated with the NC Treasurers Office to agree on a permanent fix for a pension issue that significantly impacts key leaders at UNC Hospital and several institutions. We were able to get a temporary reprieve on the issue through August 1, 2016, but we need to secure a permanent solution for those impacted.

6) Allow UNC/NCSU to issue Century Bonds
A century bond program for UNC Chapel Hill and North Carolina State University would enable both highly rated institutions to make significant, very long-term borrowings at historically low rates to make game-changing impacts to their significant deferred maintenance backlogs without requesting additional appropriations from the State. Addressing these backlogs in the near term will result in significant long-term capital savings by improving space utilization and reducing the need for new facilities.
Proposed UNC Action
At a minimum, postpone NC GAP implementation through at least 2018.

Issue Overview
Section 11.7 of Session Law 2015-241 calls for a guaranteed admission program that requires a student who satisfies the admission criteria of a constituent institution, but whose academic credentials are not as competitive as other students admitted to the institution, to enroll in a community college in this State and earn an associate degree prior to enrolling as a student at the constituent institution.

Rationale for UNC Action
NC GAP has the potential to significantly impact a number of campuses, especially the Minority Serving Institutions (MSI). The BOG has implemented policy changes around minimum admission requirements to improve student outcomes and need additional time to assess impact of these changes.

Impact
Implementation strategy 1: Increasing minimum admission requirements (MAR) from 2.5 GPA to 2.7 GPA could disparately impact rural, low-income; and minority students and potentially have detrimental effects on the viability of some of the MSI institutions.

Implementation strategy 2: Reduce admitted students at each institution by 2.5% might simply redistribute resources among UNC institutions. The program could create “brain drain” if students choose to go out-of-state. As an example, 200 North Carolinian students who were deemed qualified and admitted to UNC-CH would be deferred to a community college. At NC State, the number of families affected is estimated at over 250.

Last Session Action/Background
NC GAP has been discussed in the legislature since 2013. That year’s session ended with a required “report” to the Joint Committee on Education Oversight, which consisted of a verbal presentation highlighting the efforts of the Comprehensive Articulation and discussion of existing partnerships and bilateral agreements between UNC institutions and their regional NCCCS partners. The following year, the 2014 budget included a budget provision requiring a report to the same committee cataloguing those partnership and bilateral agreements.

In 2015, the budget conference report included language requiring implementation of NC GAP for the 2017-18 freshman class, but no budgetary impacts were included. The budget provision laid out five goals of the program and asked UNC/NCCCS to jointly produce a report about the impacts of NC GAP.

The report highlighted the potential impacts, but the identified implementation strategies did not meet all of the goals laid out by the legislature. The study highlights the completion rates of the 2009 cohort under implementation strategy 1, which would have led to an 11% BA attainment rate, as opposed to 36% without the program. While reforms have been undertaken at both the community college and university level to improve student outcomes, no data exists that can show how much those changes will improve outcomes for students.

Because neither strategy meets all of the legislature’s goals, the report highlights agreement from both system’s staff that more time is needed to measure the recently-implemented reforms in order for the legislature to have better data before moving forward with NC GAP.
Proposed UNC Action

Eliminate Private Fundraising Cap

Issue Overview
The enacted 2015 Budget Bill capped campuses state spending on fundraising activities to $1 million and cut an associated $16.4 million from the UNC System budget.

Rationale for UNC Action
A 2012 study showed that less than half of our universities were in the 50th percentile or greater in actual dollars raised or endowment values when compared to their peer institutions. The UNC System Strategic Plan adopted in early 2013 outlined two very aggressive goals in this area. They included 1.) Increase UNC total gifts by a minimum of 25% ($125 million) and 2.) Move all universities to at least the 50th percentile in key performance metrics as compared to their peers.

The cap would negatively impact a strong and proven return-on-investment. For every dollar invested in advancement, the University raised $6.76 cash in return and when commitments are included, the return-on-investment increases to $10.39. Following the recession, UNC has shown consistent growth in total gifts by campus. Between 2010 and 2015 cash receipted by UNC has increased by 22% and the University’s endowments increased by 61% over the same time period.

Impact
This cap and associated budget reduction of $16.3 million would have a significant impact on a number of our universities. North Carolina State University would see a $5.4 million reduction, while UNC Greensboro and East Carolina University would have to implement cuts exceeding $3 million. If enacted, campuses would be forced to reduce private fundraising staff or take funds away from scholarships to fund the positions.

Ultimately, private fundraising supports financial aid to students. Nearly 49,400 of our 225,000 students depend on this support. Limiting the ability to fundraise at our universities means that many of these students will have to add more debt as they earn their degrees.

Last Session Action/Background
This issue was first introduced in the Governor’s 2015 budget and subsequently included in the original House budget. House leaders found one-time funds to ensure this cut did not take effect in FY 2015-16. At that time, legislative leaders indicated they would be willing to revisit the issue in the Short Session. UNC agreed to move this item to a Management Flex cut in order to remove it permanently during the Senate budget negotiations. The House provision was adopted in the conference report.
Proposed UNC Action
Extend 5% carry forward authority for next biennium (2017-2019)

Issue Overview
G.S. 116-30.3 allows UNC institutions to carry forward up to 2.5% of unexpended state appropriations, subject to the approval of the State Budget Director, for one-time expenses that do not obligate the state to an ongoing expenditure. System-wide, we carried forward 1.23% into FY 2015-16. Of the 17 campuses, 14 carried forward funds and 6 carried forward more than 2%. Section 31.17 of the 2015 Appropriations Act temporarily increased this authority to 5% for funds carried forward from FY 2015-16 to FY 2016-17, with the additional amount to be used only for certain capital expenditures (repairs and renovations of facilities and advanced planning of new capital projects).

Rationale for UNC Action
The Board of Governors has strongly supported increasing carry forward authority for several years as it creates an additional incentive for chancellors to find savings to redirect and address critical repair and renovation (R&R) backlogs on their campuses. This is particularly important as R&R appropriations from the state have been unpredictable. The temporary nature of the additional carry forward authority creates uncertainty about availability of this source of funds in the future. This additional authority should be extended through the next biennium to allow the campuses to plan on a minimum level of R&R funding each year and demonstrate a reduction in the backlog of Repairs and Renovations.

Impact
We need time to demonstrate our ability to solve some of our own problems through careful management of state appropriations. With the sunset extended, campuses will be able to better plan to use this authority for the next several years and demonstrate a reduced R&R backlog.

Last Session Action/Background
This was the top Board of Governor legislative priority last session. House leaders inserted this provision into the budget, while the Senate budget did not include this provision. The provision was included in the conference report for H. 97. The language provided a one-time option for UNC institutions to carry forward 5%. UNC leadership needs a longer window in order to demonstrate the potential effectiveness of this policy change.
Proposed UNC Action
Eliminate requirement for institutions to use non-General Fund money for advanced planning for new capital projects

Issue Overview
Section 31.9 of the 2015 Appropriations Act requires UNC institutions to use non-General Fund money to fund advanced planning for new capital projects before approaching the legislature to confirm the project as a shared priority with the Board of Governors.

Rationale for UNC Action
This provision was likely a reaction to the current process of campuses requesting funds for advanced planning for projects, even if the State has not yet committed to fund the entire project. However, if unchanged, this provision will cause significant harm to campuses’ ability to request future new capital projects due to fundraising challenges.

Impact
This provision harms campuses’ ability to fundraise for new capital projects and may cause campuses to waste valuable non-General Fund resources on advanced planning for projects the General Assembly will not choose to authorize. Additionally, this added step will cause delays in the project timeline, which could increase costs and violate statutory time limits on project authorizations (G.S. 143C-8-11(b)).

Last Session Action/Background
This provision received little attention during the legislative process. As such, there is no known widespread support for this provision and the longer it remains in statute, the more challenging it will be to repeal. Numerous campuses, such as Western Carolina University, have made this a top priority for their concerns during the interim.

UNC staff worked with House chairman Dean Arp to limit this provision to schematic design (first 2% of project cost) versus original requirement for campuses to front 10% of project cost, and amended to allow campuses to use the additional carry forward authority granted in Section 31.17.
Proposed UNC Action

Find Permanent Solution for the Qualified Excess Benefit Arrangement issue (QEBA)

Issue Overview

Internal Revenue Service (IRS) Section 415(b) limits the amount that defined benefit pension plans may pay out to beneficiaries, but also provides a way for public pensions to pay beneficiaries above that amount by creating a QEBA under IRS Section 415(m). A QEBA is an account set up outside of the state's pension plan for the purpose of addressing the gap between the IRS 415(b) limits and the total amount that is due to the retiree under the State's retirement benefit formula, which is based on age, years of creditable service, and compensation amount. The state of North Carolina did not create a QEBA for many years and operated the plan paying benefits in excess of the IRS 415(b) limits.

Rationale for UNC Action

In 2013, the General Assembly directed the State Treasurer's office to create a QEBA, but included a December 31, 2014 sunset. This sunset created retention challenges for the UNC System and UNC Health Care employees due to the potential reduction in value of future retirement benefits by impacted individuals. The UNC Board of Governors directed General Administration staff to ensure those employees were not negatively impacted, but only for those impacted by the December 31, 2014 sunset date.

Impact

This issue impacts UNC employees across the system (less than 300 identified for the long term—of which 30 would be impacted in 2016) including chancellors, athletic directors, physicians and clinical department chairs at the UNC School of Medicine. For the UNC School of Medicine and the UNC Health Care System, it is anticipated they would have to provide $50-$70 million for new start up packages to replace three clinical chairs as well as three other seasoned medical professionals. This is difficult to manage all at one time.

It is projected that this issue will remedy itself over time. These 300 or fewer employees will eventually retire. Legislation could limit participation for the future for those that are only currently vested in the State Retirement System. It should be noted that there is no appropriations required to fund the QEBA. It is self-funded through retirement earnings and employees and state contributions. Further if not addressed, it is anticipated individuals will sue the State for the benefits earned as it is believed this is a defined benefit at the start of an individual's employment with the State.

Last Session Action/Background

Throughout the last legislative session, the UNC General System worked with the State Treasurer's office and legislative leadership to ensure a long-term and permanent fix was approved. While the permanent legislative fix was not included in the final State budget, the budget did contain a provision that created a new sunset date of August 1, 2016. While providing temporary relief, UNC needs to seek a permanent solution on this issue.
Proposed UNC Action

Amend statute to allow UNC-Chapel Hill and NC State University to issue century bonds.

Issue Overview

Century Bonds are taxable fixed rate bonds issued with a 100-year bullet maturity. Century bond financings are particularly attractive to borrowers at this time due to the current environment of historically low interest rates, which presents the opportunity to lock in attractive costs of capital over a very long period of time. Century bonds have emerged in the higher education sector (primarily) over the past five years with $4.8 billion issued by ten institutions including three public universities – University of California, Ohio State University and Ohio University.

Rationale for UNC Action

The University of North Carolina at Chapel Hill alone has a deferred maintenance backlog of approximately $656 million with annual needs of approximately $60 million and has received limited state appropriation to address these needs. In the current historically favorable debt market, a century bond would provide a long-term cost effective tool to address much of this deferred maintenance backlog, as well as other institutional needs. These bonds require a single principal payment at maturity with ongoing interest paid during the life of the bonds. To repay the principal at maturity the University would establish a sinking fund with proceeds at issuance that would be allowed to grow over the 100 life of the bonds. Given the wide variety of facilities, including academic buildings, whose deferred maintenance could be addressed with these proceeds the University would need to service the interest using a variety of funds including tuition. The University would not use State Appropriation to service this debt at any time. To take advantage of quickly changing R&R needs, authority to establish projects from these proceeds would need to be delegated to the Board of Governors rather than granted through the regular annual self-liquidating process. It is also essential to take quick action on a potential century bond program to ensure access to the current historically favorable bond markets.

Impact

A century bond program for UNC Chapel Hill and North Carolina State University would enable both highly rated institutions to make significant, very long-term borrowings at historically low rates to make game-changing impacts to their significant deferred maintenance backlogs without requesting additional appropriations from the State. Addressing these backlogs in the near term will result in significant long-term capital savings by improving space utilization and reducing the need for new facilities.

Last Session Action/Background

No legislative action has been taken on this issue. However, the legislature did enact a new provision to report on the debt capacity of the UNC System.