University of North Carolina
Budget Reductions

BOG Policy Discussion

The University of North Carolina

May 7, 2009

2008-09 Required Reversions
Overview of Budget Reversions for 2008-09

- 7% Hold Back ($168M)
- OSBM April Memo – hiring freeze and spending restrictions (estimated additional $25M)
- April Executive Order – “Flexible Furloughs” (estimated additional $10M)
- Estimated Total Impact for 2008-09
  - $203M or 8.4%

2008-09 Required Reversions

- State appropriations that are not spent by the end of the fiscal year revert back to the state General Fund.
- Results in a one-time, nonrecurring rescission of authority to spend funds.
- State action used to manage budget when revenues are not sufficient to support the enacted budget.
**2008-09 Changes in State Revenues**  
(January 2009)

<table>
<thead>
<tr>
<th>Original 2008-09 Budget (July 08)</th>
<th>$20.9 B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revised Forecast (Jan. 09)</td>
<td>$18.6 B</td>
</tr>
<tr>
<td>Decrease of</td>
<td>($2.3 B) or 11.0%</td>
</tr>
</tbody>
</table>

*Source: Fiscal Research Division Presentation – May 6, 2009*

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**7% Holdback for 2008-09**  
**UNC System**

- **ASU**: $8,631,638  
  **Total = $167.5M**
- **ECU**: $2,281,117  
- **ECSU**: $2,281,117  
- **FSU**: $3,766,659  
- **NC A&T**: $6,383,637  
- **NCCU**: $5,469,039  
- **NCSU**: $18,067,862  
- **UNCA**: $2,388,733  
- **UNC-Ch**: $3,347,321  
- **UNC-CH AHEC**: $11,644,104  
- **UNCC**: $10,496,392  
- **UNCP**: $3,843,568  
- **UNCW**: $6,753,647  
- **UNC-CH**: $1,682,944  
- **WCU**: $5,966,377  
- **WSSU**: $4,468,667  
- **NCSMM**: $1,194,580  
- **UNC Hospitals**: $3,197,178  
- **UNC GA**: $2,985,292  

*Note: ECU amount includes Health Affairs, NCSU amount includes Ag. Programs, and UNC-CH amount includes Health Affairs.*
2008-09 Operating Challenges Continue

- Funds now reverting to the state that UNC would use to:
  - Provide academic and student support
  - Support library resources
  - Add class sections
  - Start-up new research labs
  - Upgrade equipment, technology, classrooms, and labs
  - Make repairs and renovations
  - Fill vacant positions

2008-09 Changes in State Revenues (April / May 2009)

<p>| | |</p>
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<td>$18.6 B</td>
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<tr>
<td>Revised Forecast (April/May 09)</td>
<td>$17.7 B</td>
</tr>
<tr>
<td>Decrease of</td>
<td>($3.2 B) or 15.2%</td>
</tr>
</tbody>
</table>

The revision of $17.7 B is 10.8% less than 2007-08 actual collections, which is unprecedented.

Source: Fiscal Research Division Presentation – May 6, 2009
### 2008-09 Revenues
**Comparison to Past Recessions**

<table>
<thead>
<tr>
<th></th>
<th>Current Recession</th>
<th>Past Two Recessions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Shortfall</td>
<td>-15.2%</td>
<td>-9-10%</td>
</tr>
<tr>
<td>April 15(^{th}) Tax Collections</td>
<td>-40%</td>
<td>-20-21%</td>
</tr>
<tr>
<td>Length of Recession</td>
<td>17 + ? months</td>
<td>8 months</td>
</tr>
</tbody>
</table>

Source: Fiscal Research Division

Presentation – May 6, 2009

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### April OSBM Memorandum
**Spending Restrictions**

- Allowable spending limited to payroll, utilities, financial aid, required state aid, and debt service
- Freeze on hiring, promotions, purchase of fixed assets including classroom furnishings and equipment, and travel
- Mailings restricted to only those necessary for minimal business operation
- Few exceptions to the restrictions have been granted
- Estimated to result in an additional $25M or 1% reversion in 2008-09

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April OSBM Memorandum
Spending Restrictions

Examples of exceptions approved by OSBM:

- Direct classroom instruction only for critical items necessary to fulfill instructional requirements in the current fiscal year
- Spring Commencement ceremonies can be held but costs must be kept to a minimum

Examples of exceptions denied by OSBM:

- Travel related to student recruitment
- Student and faculty travel to conference for students to present their research
- Trip for student group to perform as a finalist in a competition at the Kennedy Center
- Purchase of vehicles and specialized motorized equipment on order but not delivered
- Replacement of broken or unusable classroom chairs
- Library acquisitions and repair of books and educational materials
Executive Order
“Flexible Furloughs”

- .5% reduction of annual salary taken from May and June 2009 pay periods
- Employees receive 10 hours of flexible time to be used between June 1, 2009 and December 31, 2009
- Applies to all employees
- Expected to save up to $70M statewide from all agencies
- Estimated additional reversion of $10M or 0.4% for UNC System
- As an example, for an employee earning $50,000, a total of $250 would be reduced from the May and June paychecks

2008-09
Additional UNC Reversions

- Capital - $131.7M
  - New Construction – $99.6M
  - Repairs and Renovation – $32.1M
    - Roof Repairs and Replacements
      ASU, ECU, FSU, NCCU, NCSU, UNCA, UNC-CH, UNCC, UNCG, UNCW, UNCSA, and WCU
    - Improvements for Energy Efficiency
      ASU, ECU, ECSU, FSU, NCA&T, NCCU, NCSSM, NCSU, UNCA, UNC-CH, UNCC, UNCP, UNCW, UNCSA, WCU, and WSSU
    - Fire Safety
      ECU, NCA&T, NCCU, NCSSM, NCSU, UNCA, UNC-CH, UNCC, UNCG, UNCW, and UNCSA
    - Structural / System Repairs
      ASU, ECU, ECSU, NCA&T, NCCU, NCSSM, NCSU, UNCA, UNC-CH, UNCG, UNCP, UNCW, UNCSA, and WSSU
Next Steps
2008-09 Reversions

- Continue to manage through the end of fiscal year given spending limitations
  - No travel, hiring, or other spending limited by OSBM
  - Request exceptions through process established by OSBM
- Implement flexible furlough program
  - May and June payrolls

2009-10 Reductions
2009-10 Reductions

- State action used to permanently align budgeted expenditures and revenues
- Results in a permanent decrease in funding levels

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2009-10 Budget Reductions
Governor and Senate Budgets

<table>
<thead>
<tr>
<th></th>
<th>UNC Stated Could Support</th>
<th>Governor</th>
<th>Senate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Campus Cuts</td>
<td>Not specified</td>
<td>$175 M (5.8%)</td>
<td>$100 M (3.3%)</td>
</tr>
<tr>
<td>Total Gross Cuts</td>
<td>$150 M * (5.0%)</td>
<td>$195 M (6.5%)</td>
<td>$106 M (3.5%)</td>
</tr>
<tr>
<td>Add Backs</td>
<td>$23 M</td>
<td>$28 M</td>
<td>$71 M</td>
</tr>
<tr>
<td>Net Cuts</td>
<td>$127 M (4.2%)*</td>
<td>$168 M (5.5%)</td>
<td>$35 M (1.2%)</td>
</tr>
</tbody>
</table>

* Nonrecurring

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Examples of Budget Cuts at 7% and the Impact on Quality

- Eliminate EPA non-faculty and SAAO Tier 2
- Eliminate SPA jobs
- Increase faculty productivity/reduce faculty
- Increase class sizes and reduce number of class sections
- Increase use of non-tenure-track instructors
- Reduce operating hours for computer labs
- Reduce library acquisitions
- Reduce/eliminate student programs (leadership, 21st century skills, study abroad, community engagement)
- Reduce/eliminate ability to address UNC Tomorrow priorities

Examples of Budget Cuts at 7% and the Impact on Quality (continued)

- Reduce/eliminate centers and institutes
- Reduce/eliminate support for research grant development
- Reduce funding for Affiliates
- Reduce/eliminate support for graduate teaching and research assistantships
- Reduce/eliminate advancement personnel, leading to a corresponding decline in private gifts
- Decrease housekeeping and grounds maintenance
- Increase length of preventive maintenance cycles
- Reduce/eliminate contracted security services
- Reduce/eliminate investment in communications and technology
Examples of Budget Cuts at 7% and the Impact on Quality (continued)

- Reduce/eliminate tutoring and advising programs affecting retention and graduation rates
- Reduce/eliminate new course development in distance education
- Close libraries
- Reduce/eliminate library service functions associated with collections in media, microforms, and digital media
- Reduce counseling services
- Reduce/eliminate resources for sustainability affecting energy consumption, recycling, and water usage
- Reduce needed staffing associated with compliance activities (internal audits, lab inspections, chemical safety reviews, public information requests)

Approach to Budget Reductions for 2009-10

- Board of Governors’ Value Statement
  - Protect teaching, research, and public service
  - Sustain academic excellence, high quality, and affordability
  - Achieve cost savings and improve efficiencies and effectiveness in all operations. Prioritize all programs and services before beginning the budget-cutting process
  - Across-the-board reductions should be utilized only as a last resort
  - Campuses encouraged to continue to be more outward-facing, collaborative on a system-wide basis, and regionally engaged
Approach to Budget Reductions for 2009-10

- Budget Reduction Guidelines
  - No across the board cuts
  - Limit impact on direct classroom functions
  - First look to reduce administrative costs, centers and institutes, low productivity programs
  - Increase faculty productivity where possible
  - No impact to student financial aid

Approach to Budget Reductions for 2009-10

- Process for Budget Reductions
  - Cuts will not be across the board
  - Each Chancellor will be assigned percentage cut by President and VP for Finance
  - Factors
    - Economies of scale
    - Weighted values for campus functions
      - Academic Core (50-75%)
      - Administration (125-150%)
      - Non-Core Activities (150-200%)
Approach to Budget Reductions for 2009-10

- Focus
  - Reduce administrative costs
    - Review growth of administration, faculty, and students over last 5 years
    - Review ratio of faculty and non-faculty positions
    - Review ratio of number of administrators to number of FTE students
    - Take action to improve faculty productivity where appropriate on individual campuses

Approach to Budget Reductions for 2009-10

- Focus
  - Reduce/Eliminate Centers and Institutes
  - Low Productivity Programs
    - Review of 272 of 2,050 (13%) programs in March
    - 74 programs eliminated
Approach to Budget Reductions for 2009-10

- **Focus**
  - Review Faculty Workload
  - PACE–like improvements
    - E-Procurement
    - Shared services center
    - Consolidate duplicative administrative functions
    - Eliminate unnecessary layers of management
    - Improve processes such as voice over internet
    - Outsource email services

Next Steps
2009-10 Reductions

- House Budget
- Conference Budget
- Implementation of 2009-10 Reductions
Estimate of Gap between Revenues and Continuation Budget had Changed (FY 2009-10 in $ millions)

<table>
<thead>
<tr>
<th></th>
<th>Governor (March 09)</th>
<th>Senate (April 09)</th>
<th>(May 09)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue Forecast</strong></td>
<td>$18,861.5</td>
<td>$18,861.5</td>
<td>$17,516.4</td>
</tr>
<tr>
<td><strong>Continuation Budget</strong></td>
<td>$22,113.9</td>
<td>$22,113.9</td>
<td>$22,113.9</td>
</tr>
<tr>
<td><strong>Shortfall</strong></td>
<td>-$3,252.4</td>
<td>-$3,252.4</td>
<td>-$4,597.5</td>
</tr>
</tbody>
</table>

* Does not include $1,430.6B in federal stimulus funds or $500M in tax adjustments.

Source: Fiscal Research Division Presentation – May 6, 2009

15% Reduction for 2009-10 UNC System

Note: ECU amount includes Health Affairs, NCSU amount includes Ag. Programs, and UNC-CH amount includes Health Affairs.
15% Appropriations Reduction

- More than total state budgets of 8 UNC campuses
- Enrollment of 33,064 FTE students at these 8 campuses

15% Appropriations Reduction

- Equal to a 56.6% increase in tuition for all resident and nonresident students
- Would be equal to an increase of $1,371 in the average undergraduate resident tuition