

*University of North Carolina
Budget Reductions*

BOG Policy Discussion



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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)

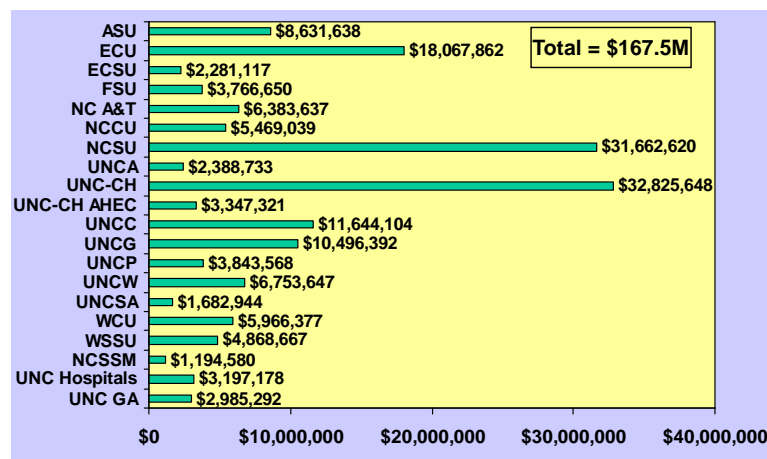
Original 2008-09 Budget (July 08)	\$20.9 B
Revised Forecast (Jan. 09)	\$18.6 B
Decrease of	(\$2.3 B) or 11.0%

Source: Fiscal Research Division Presentation – May 6, 2009



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7% Holdback for 2008-09 UNC System



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



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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



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

Original 2008-09 Budget (July 08)	\$20.9 B
Revised Forecast (Jan. 09)	\$18.6 B
Revised Forecast (April/May 09)	\$17.7 B
Decrease of	(\$3.2 B) or 15.2%

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



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2008-09 Revenues Comparison to Past Recessions

	Current Recession	Past Two Recessions
Revenue Shortfall	-15.2%	-9-10%
April 15th Tax Collections	-40%	-20-21%
Length of Recession	17 + ? months	8 months

*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**



April OSBM Memorandum

Spending Restrictions

- **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



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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



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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



2009-10 Budget Reductions Governor and Senate Budgets

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

* Nonrecurring



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)**

	Governor (March 09)	Senate (April 09)	(May 09)
Revenue Forecast	\$18,861.5	\$18,861.5	\$17,516.4
Continuation Budget	\$22,113.9	\$22,113.9	\$22,113.9
Shortfall*	-\$3,252.4	-\$3,252.4	-\$4,597.5

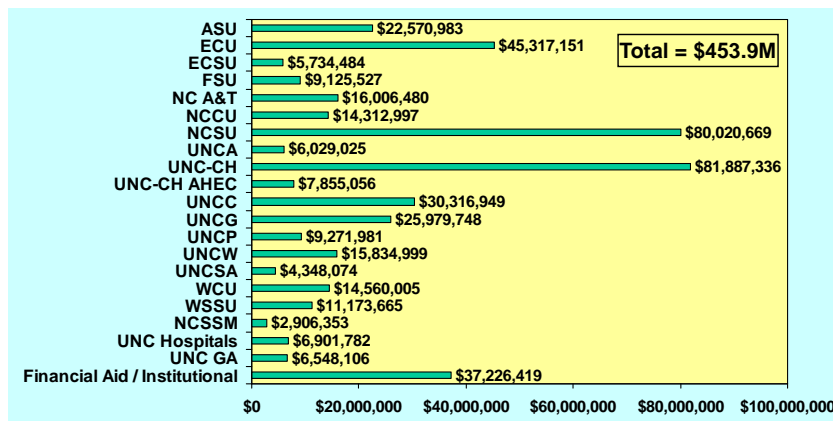
* Does not include \$1,430.6B in federal stimulus funds or \$500M in tax adjustments.



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Source: Fiscal Research Division
Presentation – May 6, 2009

**15% Reduction for 2009-10
UNC System**

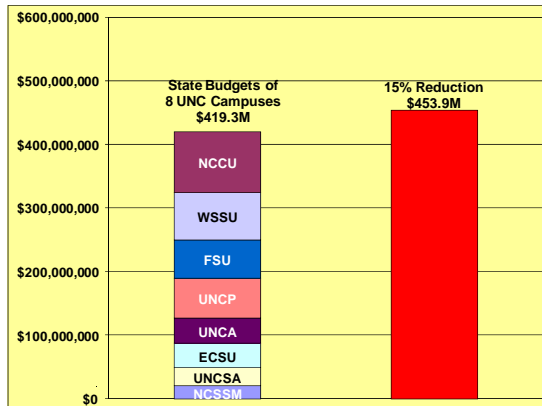


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15% Appropriations Reduction



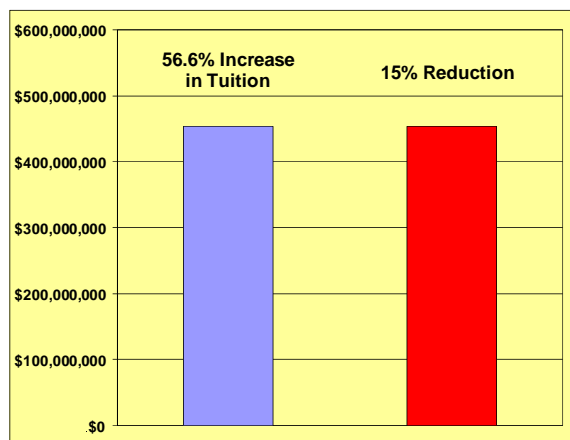
- ◆ More than total state budgets of 8 UNC campuses
- ◆ Enrollment of 33,064 FTE students at these 8 campuses



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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



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