

APPENDIX A

PRESIDENT BOWLES' REPORT BOARD OF GOVERNORS MEETING FEBRUARY 10, 2006

After introducing several of the chancellors and leaders of affiliated organizations in attendance at the meeting, President Bowles remarked as follows:

Let me give you an update on my first month here. I survived, we survived. Some of them didn't think they would for a while. I think it has been a good month. I have certainly learned a lot, being someone who's been accused of coming from an industry that's 'ready, fire, aim.' I sometimes felt that I've come to an industry that's 'ready, aim, aim, aim...' I've had to learn how to aim and they have had to learn to take a couple of those 'aims' out of there. But it's been a good month, I've learned a lot. I think there is no question we have a great team here. I have grown to really value this team. They work hard, they work smart, and I think we're getting a lot done. If your question is *do I have my arms around it?* The answer is "absolutely not." Do I have my hands on it? I think it's fair to say I have a few fingers on it, but I promise you, I'm going to get there. I couldn't be more enthused.

Last month, I described to you the prism through which I am going to try to look at each and every opportunity that comes to us before we present it to you. I always think it's really important to think about issues in a way that has some real focus. I want to report to you on what we've done on a couple of those items that I mentioned in our prism.

I think the first thing I committed to you was that we would do all we could to make sure we operated this place in the most efficient, effective manner we possibly could to free up as many resources as we could to go to educate these 196,000 students that we have responsibility for. The first step in that is something that you've allowed me to do and that is to get Jeff Davies to be the Chief of Staff of this operation. Jeff Davies has earned, and I want to stress that word,

earned the respect and trust of all the people, not just at this table, but throughout these universities. He knows these universities, he understands their operations, he is trusted by the people, and he will be a great Chief of Staff. I don't know what it is going to cost me with Pat Sullivan, but it is going to be a lot. We have a search underway for a chief academic officer. This is clearly, for a non-academic which I prove everyday I am, the most critical search that we will undergo. I told the search committee, which is being headed by Larry Nielsen, the Provost at North Carolina State and is multi-campus and multi-divisional, that there was one thing I wanted to make sure would happen above all else. I wanted somebody that they respected, that they believed they could trust to be fair, and someone who has the experience, education, and skill to do this job. I can't determine that person myself because I am not an academic. But if they trust this person then I am comfortable that we will have the right person in that job. It is critical that we have the right person. They started the search and are well on their way. I am happy to tell you that we have Alan Mabe in that job now and he is doing a superb, not good, but superb job as our interim senior vice president. And I thank you, Alan, for what you are doing. But the search is underway. We also have a search, headed by Jeff, underway for the chief financial officer. And while we are looking, as all of you saw this morning, we are in good hands with Rob Nelson in that position.

In reference to being efficient and effective, there are a couple of things that we started during this month that I want you all to know about. There is lots of data out there that says we are inefficient. You all have seen a number of those studies. And there is lots of data out there that says we are very efficient. Intuitively, you would think that the way we have grown, with the number of students we are serving, and the way we are funded by the amount of money we get in addition is by the additional number of students we add while at the same time the

legislature has come down and cut our budget down to manage that operation and you think that we are probably efficiently operating. But I can't prove it to you. So what I want to do is to make sure we are or we are not. So we are going to attack this in three ways over the next six months. First we're going to do an internal study. It will be led by Rob Nelson and joined by the chief financial officer of each campus. The study will compile the data so that we can decide internally what we at General Administration think we can do to improve the operation. Secondly, each chancellor has agreed to do their own internal study and make that information available to us. And third, I am forming an outside task force which will be led by Krista Tillman who is the Chief Executive Officer of BellSouth, a nationally recognized efficiency expert, and the Chair of the UNC Wilmington Board of Trustees. She understands what we are doing here so she will lead that effort. The vice chair of that task force will be James Speed. Mr. Speed, a Certified Public Accountant and former Chief Financial Officer at Hardee's, is the president of North Carolina Mutual Life Insurance Company, the largest African-American owned life insurance company in the country. We are putting together a great team and I am excited about what they will bring back to us. We are going to take that information, look at it, discuss it and bring it before this board. My goal is to implement their recommendations.

The second part of the prism that I talked to you about last month was to make sure that we really focus on K-12. That we are doing all we can as a University to make sure that we address the shortage of teachers, the quality of teachers, the curriculum, and the leadership to make sure we have the best trained principals in these schools. Those are really our obligations. I had meetings this month with the Department of Public Instruction, the Community College System, and the Board of Education and frankly, we have a lot of work to do. The first step we took this month is very interesting. I had the support of the chancellors, which made me feel

good, but we took a little risk. I met with the deans of education of every one of the schools of education on our campuses. I told them I'd make a Faustian bargain with them, that if each one of them would look at their operation and rationalize it, in other words every organization that I've ever look at had great programs, good programs, okay programs, fair programs and poor programs and I assume our schools of education do too. But if they would agree to eliminate or reduce their poor and fair programs and take those resources and reallocate them either in their own great programs or another campus' great program that they had not tried, I would make them our number one priority. Now, why would I do that? I would do that because we have a crisis and if you have a crisis you have to treat it like one. We have to lead and we can't act like things are going just as they always have. If we are going to compete in this new global economy, we have to have more people better educated and there is no bigger key than teachers. We're going to do our part and they are excited about it. We have meetings set up over the next month with the deans of the schools of education, the deans of the schools of arts and sciences, and the provosts to bring them all together to make sure we really do focus on this. In addition, you all have been smart enough to bring together all of these great institutes from across the state that used to be on various campuses and put them over here in this building called the Center for School Leadership Development. We put them together, but they are not working together. So I am going to make the same Faustian bargain with them and if they accept it that will be wonderful, if they don't then I am going to fight them. We have to make sure that we use these limited resources as wisely and effectively as we can. I know every one of these programs has a godfather or a rabbi behind it somewhere but we have to take on the challenges because we have to lead. So, I may not be here long.

Another part of this prism was that we were determined to have a seamless relationship with the community colleges to collaborate, collaborate, collaborate. I think I surprised Martin Lancaster with how much I really meant that. We did a survey here in General Administration to try to come up with all the ways that we could voluntarily reduce some of the road blocks that prevented us from having as collaborative relationship as we could. We put those suggestions together and sent them to Martin. We also suggested creating joint UNC – Community College System cabinet that would meet on a regular basis to address policy and operational issues that require common solutions. He has accepted those suggestions and he is now working on ones that he can send back to us. I think we are going to have a great relationship with the community colleges and I think the people of the state will benefit from it enormously.

Access and affordability remain a big part of our focus; it is a big part of that prism. Tuition is one of those parts, along with scholarships and utilizing facilities. As it relates to tuition, I am comfortable with the board's support of campus-initiated tuition proposals for 2006-2007. I am because you gave the campuses some guidelines and thresholds they had to meet and they have met and adhered to them. And I think you can't ask someone to do something and then not support them. Looking to the future, I have asked the tuition task force not to reach any decisions yet on what we are going to do for the next four years as it relates to a policy because I believe its critical for us to make sure we don't inadvertently do anything that would cause the legislature to be dissincentivized from supporting us because they felt they could rely on tuition as a substitute for legislative dollars we might be able to get. We are going to work with the legislature in this regard to make sure we keep tuition as low as possible. Not just because we have a constitutional mandate to do it, but because we feel we have a true moral obligation and

responsibility to make sure that every North Carolinian who is qualified has access and can afford to go to one of our universities.

We are working on a number of fronts to come up with recommendations to you all and to the tuition task force to consider in developing the board's policy on tuition for the next four years. With that in mind, I'd like to share with you a few visuals that attempt to put the tuition and the costs of attending UNC in a broader context.

The first slide looks at what our average tuition and fees have been from 1992 to the academic year 2005-06. It also compares it to where the four year public institutions in the south are, and where the four year public institutions nationally are. As you can see we are about a little more than a thousand dollars less than what the average is for institutions in the south and about two thousand dollars less than the average for institutions nationally.

The second slide deals with the percentage of North Carolina General Funds, what we get from the legislature. If you remember, last month I talked about the fact that Medicaid was just eating the legislature alive. You can see that it has taken a bigger and bigger portion of the funds, and while it has, the amount of funding that's available for higher education has gone down. That's not to imply by any stretch of the imagination that the legislature is not very generous to us. It just shows you how difficult their job is.

The next slide looks at tuition and state appropriations. The state appropriations are in red and the University tuition is in blue and you can see how they move at inverse proportions over the history of this organization. This goes back to 1972 when this organization was formed.

The next slide adds fees and you can see the performance of fees is far less erratic, except for the year in which you added the educational technology fee. That is the big spike, but otherwise it has been relatively flat since the creation of the University.

The next slide has a couple of things on it. It has the total growth in funding that we get from the legislature. That is the red figure at the top. Then you have UNC fees, UNC tuition, and the lower number is the per capita contribution that the legislature makes to us. You see that dip in there recently, that is the pressure the legislature has been under, but it also shows that our number of people is growing faster than the rate of increase we're getting funding from the legislature. So our per capita contribution has been flat to down.

The next slide deals with the costs to attend the University. It is more than just tuition and fees; it is also room, board, books, and other expenses. The total cost is approximately \$12,000 and you can see how that breaks down.

The next slide just simply states that what we try to do in determining financial aid is think about what the expected family contribution could be and then provide the additional funds necessary to meet the cost of education.

On the next slide we start to point that out. As many of you know, the maximum Pell Grant you can get is \$4,050. Very few people qualify for that. The University's average Pell Grant is \$2,719 and the average UNC tuition cost is about \$1,703 but we have already said that is not the total cost of the education by any stretch.

The next slide just shows you how important the financial aid we get from the legislature has been to all of us to support need based efforts that we have and how that has grown so significantly over the last six years.

The next slide deals with where the students in the lowest income quintile can hope to get the resources they need to go to college. The federal portion would be about \$4,169, the state portion, which leverages the federal portion, is about 12% or \$1,300. Then you have the campus portion that can be made available to the student. The next category to the left is loans, which

are generally about \$2,350. The last portion is the amount that we believe the student can earn on work study, either working on campus or working full time in the summer and part time during school. That would leave the expected family contribution at only \$345.

The next slide deals with the middle income quintile, families making between \$36,600 and \$58,000. Again, you can see the federal contribution is much less, the state contribution is more, the campus contribution is slightly more, loans are relatively the same, you can see what the work amount is, and lastly, the expected family contribution is \$4,335, because they can afford more.

The last thing I want you to take a glance at and to study is this huge bit of data on this long form you have in front of you. This is information I want you to have. What we have tried to do is to look at the organization since 1972 when it was formed, looking at what tuition was, what fees were, and the combination of the two, looking at what the operating appropriations have been, the capital appropriations have been, the relative increase has been. Then we have tried to look at various inflationary factors that you may want to think about as to why tuition and our appropriations might have increased over a period of time. I think the one thing I would point out to you is in columns 18 and 19. You can see, in those two columns, what resident tuition and fees are, and the percent of resident tuition and fees and per capita appropriations. I think it is clear to see that leaves out very significant sources of revenue. It leaves out the auxiliary income which is about \$900 million a year. It leaves out our private funding, about \$900 million a year, it leaves out federal grants and other grants we get which amount to \$800 million a year. So that leaves out significant sources of revenue, but if you want to look at the percentage of what the student is putting up versus the percentage that the legislature is putting up, you can see that the students are putting up a larger percentage over the last several years

than they have in the past. But still, they are only putting up 25% of what the total is. So I think we can say that we are still doing all we can to make sure that we keep tuition costs as low as practical. But what I want to make sure in going forward is that we don't dissincentivize the legislature to do their fair share and that we always relate the two. So the proposal that we come back with will hopefully do that. Any ideas that you have on that subject, I would greatly appreciate.

I don't have any progress to report on other elements of my prism during the first month, such as distance education and improving student retention. It is not because those aren't critically important. It's just that I am working my way down the list. We'll have, I assure you, lots to share with you in the months ahead, but we haven't made enough progress on those for me to report anything to you yet. But they are on the list, believe me.

Finally, let me make just a couple of observations on this morning's workshop on the supplemental budget request. I know that most of you took part in those discussions. I think it is fair to say that several of the proposals we reviewed this morning are about preparing our students and our economy for the jobs of tomorrow. And our request certainly targets high need areas such as teaching and nursing. Other proposals such as Kannapolis, the Mann Institute, and the RENCI proposal offer the rare opportunity to leverage massive amounts of outside funding and outside private capital towards research and development in areas that could propel us towards the jobs of tomorrow. In addition, he have looked at the Hickory proposal which would serve as a pilot for our efforts to expand the system's offerings in under served regions of our state. And if, and only if, it proves itself and you all adopt a policy, the concept could be replicated elsewhere. Again, I think we certainly have plenty to think about between now and April.

As we discussed at our meeting last month, certainly at length in the meeting of the Committee on Educational Planning, Policies, and Programs, our chancellors have been working together to help us prioritize the strategic directions for the long range plan which in turn will help shape the priorities for funding requests that we will make in the future. Without question enrollment funding and financial aid will remain top priorities, but I think it is also fair to say that please never forget, everything else we do does not matter much if we can't recruit and retain the very best faculty.

Mr. Chairman, this concludes my remarks.