

## **APPENDIX A**

**Molly Corbett Broad  
President's Report to the Board of Governors  
UNC General Administration Building Board Room  
October 11, 2002  
10:30 a.m.**

Thank you, Mr. Chairman.

### **2002 General Assembly Finishes Its Work**

As was discussed earlier during the Public Affairs Committee meeting, the General Assembly recently adopted a 2002-03 state budget that, in light of the state's fiscal condition, is remarkably supportive of the University. Your efforts, and those of other University supporters, made a real difference in the final outcome.

As you know, many damaging cuts to the University contemplated during the session were avoided. For example:

- A proposed early-retirement incentive that would have had devastating consequences for the University was rejected.
- All overhead receipts earned by our campuses through research activity were ultimately protected.
- Our salary base was fully funded, averting a potential \$33.5-million loss.
- Graduate student tuition remissions were spared.
- Respecting the responsibilities of the Board of Governors, a special provision that would have required the Board to establish designated professional schools and academic degree programs on specified campuses was deleted.

In the end, legislative leaders made good on their pledge to protect all sectors of education, including the University, to the fullest extent possible. Permanent cuts to campus operating budgets were held to under 3 percent, while reductions within UNC General Administration were held at the 5-percent level. In addition, the University was assured full flexibility to determine how best to carry out required reductions.

I do not mean to sound like Polyanna regarding these cuts. The consequence of these cuts are real and harsh—especially because they come on top of a series of budget reductions over the past several years. They will be felt by faculty and felt by students—but our campuses are doing all that is humanly possible to protect classroom instruction. We should not forget that at the beginning of the legislative session, cuts to UNC were predicted to be much higher. That said, there remains significant risk about whether this level of funding can be sustained given the fragile balance of the state budget. The final budget anticipates \$25 million in statewide savings resulting from recommendations of the Governor’s Efficiency Commission, and it directs Governor Easley to identify another \$41.5 million in reductions across state government. The University’s assigned share of these additional cuts is yet to be determined, but we have every reason to believe the Governor will continue his demonstrated commitment to protect education.

Despite severely constrained resources, the General Assembly found the wherewithal to provide significant funding for several of this board’s highest legislative priorities, including full funding for enrollment growth. By drawing on Escheats Fund income to support and enlarge our Need-Based Financial Aid Program, the legislature was able to provide \$4.5 million in additional aid for North Carolina residents attending UNC campuses. The budget also makes more than \$13 million available to help address the special needs of our focused-growth institutions.

In the closing days of the session, the legislature also approved \$410 million in self-liquidating capital projects across our campuses. It is important for us to remember that in securing voter support for our \$2.5-billion bond program, we as a University pledged to do our fair share—to meet roughly 40 percent of our long-term capital needs with non-state sources of revenue. This latest installment of non-appropriated projects is large in scale and absolutely necessary to carry out our \$6.9-billion, ten-year capital plan.

In the current economic environment, this is an exceptionally positive outcome, and we cannot adequately express our appreciation to Governor Easley, the legislative leadership, and our many supporters in both chambers of the General Assembly. We must also acknowledge that this outcome would not have been possible without this Board’s active and sustained involvement in advancing the University’s legislative agenda. The Chancellors worked with us tirelessly. And I would like to take this opportunity to personally thank J.B. Milliken, Mark Fleming, and the rest

of the Public Affairs staff; as well as Jeff Davies and members of the Finance staff for the long hours and tireless effort they invested on the University's behalf during the session. With the 2003 General Assembly set to convene in only three months, I need not remind you that the state's budget crisis is expected to get worse before things get better. We cannot afford to lessen our resolve in advocating for the needs of our 177,000 students.

### **Bond Sales and Bond Ratings**

As the Finance Committee heard yesterday, our chancellors and finance staffs are using all the financial management tools available to them to stretch limited nonappropriated dollars and reduce costs. In particular, significant savings are being generated by pooling multiple bond issues to dramatically reduce administrative costs and obtain lower interest rates for our campuses. You will consider this morning a resolution authorizing the issuance of up to \$65 million in pooled bonds. By utilizing this approach, nine campuses will collectively avoid about \$865,000 in fixed costs associated with 17 projects previously approved by the board. Drawing on this same pool to repay bank loans and bonds currently outstanding at higher interest rates will generate an additional \$800,000 in savings for our campuses. As a welcome outgrowth of having this pool rated for prospective investors, Standard and Poor's announced that it had decided to *upgrade* the credit ratings for several of our campuses. This brings to four the number of campuses that have been upgraded since the state's credit rating was lowered. According to bond counsel, this is in large part a reflection of our strong track record and investor confidence that the State's recent downgrade will not impact University-issued debt.

### **Closing the Academic Achievement Gap**

In my five-year report, I highlighted the growing and long-term importance of our commitment to help strengthen North Carolina's public schools. I'm delighted to report that last week the National Science Foundation awarded \$13 million to the University and our Math and Science Education Network to help raise academic achievement in 17 rural school districts in eastern North Carolina. The U.S. Department of Education has committed another \$8.3 million to this effort, bringing the total five-year award to \$21.3 million. The grant will promote collaboration among school personnel and parents in these 17 school districts, the Department of Public Instruction, and faculty from East Carolina University, Fayetteville State University, UNC Pembroke, and UNC Wilmington. Professionals from business and industry will also assist in

this effort. This program is evidence of our ironclad determination to be a committed partner in efforts to strengthen the public schools and improve the academic performance of all students.

### **UNC Attracts Additional Federal Funding**

This week we received additional good news that exemplifies our growing success at attracting federal dollars to leverage scarce state funds.

During your August meeting, I reported that an important multi-state initiative spearheaded the University of North Carolina had received a \$4-million special appropriation in the Office of Naval Research budget. The award for the SouthEast Atlantic Coastal Ocean Observing System (SEA-COOS) will lay the groundwork and help initiate an integrated coastal observing and monitoring system for North Carolina, South Carolina, Georgia, and Florida. Just yesterday, we learned that the final FY03 Defense Appropriations Conference Report includes an additional \$5.6 million to fund the second year of this important new project.

There's more. The FY03 Defense budget also includes a \$5 million appropriation for UNC Charlotte's Center for Optoelectronics and Optical Communications, which this board approved earlier this year.

This small subset of project awards will provide more than \$40 million to jumpstart three programs of immense long-term importance to the state of North Carolina. Such strong support speaks volumes about the breadth and high quality of research and service being conducted across UNC, and I'd like to take this opportunity acknowledge the fine job Bob Samors is doing representing our interests in Washington, and to express our appreciation to members of the North Carolina delegation for their ongoing interest and support.

Mr. Chairman, that concludes my report.