

Amendment to the 2011-13 Budget Priorities of the UNC Board of Governors

One of the principal responsibilities of the Board of Governors is to “develop, prepare, and present to the Governor and the General Assembly a single, unified recommended budget for all of public senior higher education (G.S. 116–11(9)a).” The Board of Governors adopted the 2011-13 Budget Priorities for the University at its meeting in November 2010, with the exception of funding requests for enrollment and for the UNC Need-Based Student Financial Aid Program which are to be finalized and approved at the January Board meeting.

As was discussed in November, the University’s enrollment change budget was not complete due to ongoing work to link performance, as measured through improvements in student retention and graduation, to the enrollment funding model. Similarly, completion of enrollment projections was necessary before the request for UNC Need-Based Student Financial Aid could be calculated. On December 14, 2010, former President Bowles sent a memorandum to the Board of Governors outlining the methodology to be used to tie student success to enrollment and performance funding. It is now recommended that the following funding requests be approved and incorporated into the 2011-13 Budget Priorities.

*Enrollment Change:*

The enrollment projections presented in this recommendation are calculated based upon the methodology outlined in the former President’s December 14th memorandum. Retention and graduation rates of each campus have been reviewed to determine those campuses that are eligible to increase the size of their freshman class. Under this methodology, UNC Pembroke is not allowed to project growth in its freshman class beyond currently budgeted levels. Both UNC Greensboro and Western Carolina are only allowed restricted growth in the freshman class; however, UNC Greensboro’s projections are more conservative than required and project no growth in the freshman class.

In calculating the request for enrollment change funds to the General Assembly, the cost factors previously applicable to liberal arts institutions and non-doctoral institutions have been eliminated and replaced with two new factors that recognize good performance in retaining students and in efficient operations. A third factor that recognizes success in graduating students will be implemented in 2013.

A special provision passed by the 2010 General Assembly and related to enrollment growth funding for 2011-13 is shown below:

**UNC ENROLLMENT GROWTH**

**SECTION 9.22.** In considering potential increases in enrollment growth for The University of North Carolina for the 2011-2013 fiscal biennium, the Board of Governors shall consider all of the following items:

- (1) The general economic conditions of the State as reported by the Office of State Budget and Management and the Fiscal Research Division.
- (2) The possible increases and decreases in the State's revenue, particularly General Fund revenue as reported by the Office of State Budget and Management and the Fiscal Research Division.
- (3) Any other non-State revenue resources available to The University of North Carolina that may be used to assist with the recurring costs of enrollment growth.

In order to respond to this provision, former President Bowles requested that adjustments be made in campus projections (as outlined later), with the goal of reducing the budget request to the General Assembly for enrollment funds. At the end of the initial process followed to determine enrollment changes, the calculations indicated that more than \$60 million in additional state appropriations was required. For comparative purposes, this amount was consistent with the average request for enrollment funding for the last three years, also about \$60 million.

A multi-disciplinary team at UNC-GA (Academic Affairs, Finance, and Institutional Research and Analysis Divisions) worked with the campuses for several months to evaluate campus proposals and make refinements to campus requests. At the end of this process, former President Bowles found that the requests for 2011-12 were still higher than required in the State's current fiscal environment. As a result, campus requests were reevaluated; funds needed for undergraduate enrollment were not altered but funds for graduate enrollment were reduced by 15% and moved to the second year of the biennium unless a campus was already providing the graduate instruction.

After completing this work, the resulting request for enrollment change funding is \$45.8 million (approximately 25% less than originally proposed) for 2011-12. This funding will provide for an additional 2,337 FTE, through both on-campus and distance education. Enrollment funding is critically important in the current difficult economic environment as more students look to the University and seek the skills needed to compete successfully in today's and tomorrow's workplace. As reported in the New York Times on January 2, 2011, students with baccalaureate degrees are far less likely to be unemployed than students without degrees (there is

a 5% unemployment rate among Americans with 4-year college degree; a 10% rate among those with a high school diploma; and a 15% rate among those with less than a high school degree). Over the past five years freshman applications have increased by 36% and transfer applications have increased by 27% and we see no reason why this trend will not continue. In fact, this year our campuses are seeing significant increases in applicants seeking a college education over the numbers that applied last year. The increase in enrollment provides for more community college students to transfer to the University, more nontraditional students to take courses through distance education (including many unemployed North Carolinians and veterans), and more graduate students that are focused on the STEM disciplines, business, health sciences, and nursing.

Within the analysis, three campuses (ECSU, FSU and NCA&T) are projected to be below currently budgeted enrollment levels in 2011-12 and two of these (ECSU and FSU) would continue to be below the currently budgeted levels in 2012-13. As in prior years, it is recommended that these campuses be held harmless and that their budgets not be reduced since each of these campuses has deliberately planned reductions in enrollment as they work to meet the Board's requirements and their own goals to admit more qualified students and make improvements in retention and graduation rates. Although campuses will be held harmless in this biennium, it is recommended that all campuses be made aware that this is the last biennium that any campus will be held harmless. Beginning in 2013, it is recommended that the Board no longer hold campuses harmless when they are not achieving their enrollment goals.

The requests for enrollment change funding by campus are listed on the following page:

APPENDIX H

	<b>2011-12</b>	<b>2012-13 (an additional)</b>
ASU	\$ 3,102,821	\$ 1,513,771
ECU	5,113,218	5,486,060
ECSU	0	0
FSU	0	0
NCA&T	0	2,218
NCCU	425,853	1,388,297
NCSU	11,080,468	10,088,971
UNCA	724,036	241,422
UNC-CH	8,509,879	5,189,273
UNCC	7,333,387	3,619,700
UNCG	733,952	2,813,589
UNCP	1,987,969	1,528,454
UNCW	837,406	1,901,879
UNCSA	212,086	158,312
WCU	2,555,861	3,918,539
WSSU	2,921,337	2,697,252
NCSSM	279,850	261,194
<b>UNC TOTAL</b>	<b>\$45,818,123</b>	<b>\$40,808,931</b>

While the individual campus amounts lead to the overall budget request amount, it is recommended that any funding provided for 2012-13 be held in reserve and further analyzed for changes that may be necessary to reflect performance. Furthermore, President Ross and the Chancellors will continue to refine the performance metrics which may result in changes to the current request for the 2012-13 year.

*Performance-Based Funding:*

As also referenced in the President's memo, it is recommended that the Board of Governors request an additional \$1 million to be used for rewarding high performing campuses. Two-thirds of the funding would be used to reward high performing institutions and one-third would be used to fund campus proposals for new initiatives that result in improvements in retention rates, graduation rates, or efficiencies.

*UNC Need-Based Student Financial Aid Program:*

The UNC Need-Based Student Financial Aid Program was first funded by the General Assembly in 1999-2000 and is administered by the State Education Assistance Authority (SEAA). In fiscal year 2010-11, the program has a total budget of \$162,288,763 and is expected to provide grants to more than 67,000 resident undergraduate students by the end of the year. The 2010-11 budget includes \$34,856,563 of nonrecurring funding and the remainder, \$127,432,200, is appropriated on a recurring basis. When evaluating information for the projected budget request for this program, UNC General Administration and SEAA analyzed the current budget and expected 2010-11 outcomes, the projected number of students who would be newly eligible for the program, and cost increases anticipated in 2011-12 and 2012-13. The predominant factor driving the request for financial aid is that \$34,856,563 million of funding in the current budget is nonrecurring and should be made recurring. An additional \$21,487,037 million of additional funding is required, bringing the 2011-12 request for funding to \$56,343,600.

Furthermore, the Board has not previously requested an increase to the UNC Need-Based Financial Aid Program to accommodate the supplemental tuition increases approved by the President in July 2010 as authorized by the General Assembly. The need-based financial aid required to accommodate those increases for eligible undergraduate resident students is \$28,165,100. The legislative provision authorizing the increases further provided that receipts from the tuition increases could be used to provide financial aid and our campuses used approximately \$13,380,700 of the tuition receipts for this purpose. It is now recommended that

the difference of \$14,784,400 be requested from the General Assembly. Therefore, the total need-based financial aid requested for 2011-12 is \$71,128,000.

For the second year of the biennium (2012-13), the required addition to the UNC Need-Based Financial Aid Program is \$21,639,200.

It is recommended that the University's 2011-13 Budget Priorities be increased by the amounts noted for Enrollment Change, Performance-Based Funding, and the UNC Need-Based Student Financial Aid Program. It is also recommended that the President be authorized to make refinements to the request in the interest of accuracy and completeness.