

APPENDIX O

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President's Report to the Board of Governors
UNC General Administration Building Board Room
February 8, 2002
10:00 a.m.

Governor Calls for Additional Reversions

As has been widely reported, Governor Easley announced this Tuesday that the projected shortfall in the current year's state budget will exceed \$1 billion. Acting under his executive emergency powers, the Governor has now called for additional reversions from the budgets of the University, as well as most state agencies. There is no questioning the severity of the state's financial problems, and the latest evidence about the state economy presents a daunting set of challenges to sustain fiscal integrity in the State Budget. The University stands ready to shoulder a reasonable share of the reductions required to balance the budget and is now preparing to make deeper, painful sacrifices. It is important that the Board of Governors understand that the cumulative impact of successive cuts—exacerbated by the stresses of unprecedented enrollment growth—has serious long-term implications for this University.

In the first round of reversions announced last October, Governor Easley called upon the University to revert \$43-million from our budget, an average cut of 2.7-percent. This agreement was predicated on our chancellors' commitment to maintain instructional activities during the spring semester at levels that did not adversely affect students. This week—while acknowledging the ongoing need to protect student instruction and access to the University—Governor Easley called for another \$21.1 million reversion from our current year's operating budget. Yet a third cut coming from the Governor's use of emergency powers this week is \$51.5 million appropriated to the University for repairs and renovations will be diverted to help fill the budget hole. Taken together, these mid-year cuts bring UNC's contribution to closing the current budget shortfall to more than \$115 million.

These latest reversions will be particularly hard to absorb, since the University sustained \$48.3 million in hard cuts during the 2001 legislative session. Greater-than-expected enrollment growth has magnified the impact of those cuts. Staying true to the promise of access conveyed during the 2000 bond campaign, our campuses enrolled some 1,600 more students last fall than were anticipated or funded by the legislature. Providing full academic and support services to these unbudgeted students has had the net impact of an additional \$23-million cut.

The loss of our repair and renovation funds is particularly troubling, since the state's failure to provide for ongoing maintenance issues was the very approach that led to the need for a \$2.5-billion construction bond issue. During the bond campaign, we heard time and time again from voters that they did not want to replicate the past mistakes that put the University in this capital dilemma to begin with.

Despite the hardships these reversions will bring to our campuses, we remain absolutely determined to serve the students already enrolled on our campuses, as well as the thousands more we expect to enroll next fall. Preliminary spring enrollment data reflect the same aggressive growth pattern we experienced in the fall and confirm that student demand has not waned in this second semester. We will protect classroom instruction for the remainder of the academic year and spring classes are well underway.

Great universities are created only by sustained efforts to achieve ever-higher quality over a long period of time, by attracting the very best faculty and providing state-of-the-art laboratories so essential to building first rate academic departments and programs. While it takes a long time to create that quality, it can be diminished in a short period of time if the programs are starved of resources. We must be realistic that protection of the University's programs of instruction for a growing number of enrolled students next Fall, will require some reasonable assurance of full funding for UNC enrollment. I call upon each of you to join me in making sure that our state policy makers — who themselves face difficult and painful choices — will understand these implications and consequences for the University of North Carolina.

Higher Education Bond Sale Rescheduled for March

Under the schedule set by the State Treasurer, the second annual installment of Higher Education Bonds was to be sold this week, but in light of Tuesday's budget announcement, that bond sale has been deferred until next month. Treasurer Richard Moore has given me his personal assurance that this short delay will not impact the progress of our bond program. Moreover, his issuing the bonds "just in time" to accommodate construction cash flow is a smart strategy that will promote maximum interest return and minimum debt service.

I need not remind you how vital predictable cash flow is to the ultimate success of our capital program. It also is important to acknowledge that in recent months, the higher education bonds have provided a vitally important stimulus for the state's economy, in communities throughout the state. At a time when companies across the state are laying off employees in large numbers, this Bond Program is putting thousands of North Carolinians to work.

Mr. Chairman, this concludes my report.