

APPENDIX HH

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President's Report to the Board of Governors
UNC General Administration Building Board Room
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The Escalating Budget Shortfall and Legislative Activity

Over the course of this academic year, we have dealt with a worsening economic environment and a succession of required budget cuts and reversions. When this board last met in March, UNC's contribution to meeting the current budget shortfall exceeded \$115 million.

In early April, as he began gathering information for his budget proposal to the General Assembly, Governor Easley asked that we prepare summary documents describing potential budget reductions across the University for the 2002-03 fiscal year. In keeping with the commitment to protect classroom instruction, the requested reduction scenarios are presented in 1-percent increments up to 4 percent. We also responded to a subsequent request for potential reductions at the 5-percent level.

The scenarios submitted by the chancellors confirmed that reductions at or above the 4-percent level would seriously impair instructional activities on all campuses. Nonetheless, our chancellors have developed plans that would retain all permanent faculty. In ongoing conversations with the governor and his staff, we have reiterated that it will be vital that our chancellors retain the managerial flexibility needed to provide for cuts in a manner that minimizes harm to the campus.

As reported by the Budget and Finance Committee, we are committed to preserving access and affordability, to fulfilling our mission (teaching, research, and public service) and to protecting the quality of our academic programs.

I wish I had more optimistic news to share today. But as has been widely reported, the state's April tax collections were down about 30 percent from last year, a much steeper drop than expected. To make matters worse, tax refunds increased by about 17 percent

over last year. In combination, these two factors will bring the total gap in the current year's budget above \$1.5 billion—a least \$300 million beyond what had been considered the worst-case scenario.

This development is having a dramatic and immediate impact on all state government operations—including the University—since reducing the state's expenditures by this additional margin will be especially difficult with less than two months remaining in the fiscal year. Using his emergency powers, Governor Easley issued yet another directive last week that, effective immediately, all agency allocations would be reduced to cover only payroll and mandatory obligations such as utilities, financial aid, and debt service.

What's the practical application of this directive for the University? Beyond these most basic necessities, the funds allocated to our campuses for the remainder of the year will be slashed to a mere 25 percent of the amount they would ordinarily have received. With limited exceptions tied to academic instruction, all state-funded hiring, purchases other than mandatory obligations, and travel also have been frozen through June 30th. All carry-forward funds that ordinarily would be retained by our campuses will be recaptured by the state.

Without question, the state now faces extraordinary budget challenges, to address the escalating shortfall and to restore fiscal stability to the state budget. We are cooperating fully with Governor Easley, but we must acknowledge, that maintaining current levels of operations and service is virtually impossible under these circumstances.

As we look to the fiscal year that begins July 1, the legislature's Joint Appropriations Subcommittee on Education has been meeting regularly in recent weeks to begin identifying options for meeting its assigned reduction target of \$695 million. Members have been reviewing the base budgets of the three public education sectors, as well as their reduction scenarios submitted to Governor Easley. Needless to say, the April figures have reinforced the seriousness of this exercise.

On Wednesday of this week, the joint subcommittee reviewed a list—prepared by the legislative staff—of reduction options within UNC’s base budget. Among the options offered by legislative staff were:

- The elimination of all or some portion of vacant SPA and EPA non-faculty positions across the University (up to \$36 million);
- Across-the-board reductions in non-personnel budgets;
- Significant funding reductions for multiple components of UNC General Administration, including UNC-TV (up to 15%) and the Center for School Leadership Development (up to 25%). Some important programs (Model Clinical Teacher Consortium, the Education Research Council, and the Strategic Initiative Reserve) could be eliminated entirely.
- Increases in faculty workloads and student-faculty ratios;
- The diversion of up to 75 percent of the University’s overhead receipts (up to \$91 million);
- Staff also broached the option of eliminating campus-initiated tuition increases for 2002-03. Higher across-the-board tuition increases (up to 20%) might be levied to fund all UNC’s enrollment growth.

That some of these possibilities are being given such consideration is of serious concern because they would cause impairment to academic quality and impede our efforts to fulfill our mission.

We will continue to work closely with the committee and legislative staff in the weeks and months ahead, and will keep you informed of new developments. We will also continue to work closely with members of the General Assembly on non-budgetary issues of importance to the University, in keeping with the legislative agenda you adopted today. The size and breadth of the agenda validate the efforts of the Public Affairs Committee and show that our campuses have embraced the process established for airing legislative proposals.

On a more uplifting note, this morning's Finance Committee workshop summarized the steady progress being made on the University Bond Program. On Tuesday, the Higher Education Bond Oversight Committee—which held its third meeting on the UNC Charlotte campus—heard a similar report. The feedback from the Oversight Committee has been overwhelmingly positive.

The business plans have been implemented to date with overwhelming success. Projects are under budget; the interest rate is the lowest in 40 years; and the pace of the design process has been very impressive, but we know (and the chancellors know) that the most challenging part of implementing the construction plan lies ahead.

It is important for us to remember that this \$2.5-billion bond program is only part of a \$6.9-billion, ten-year capital plan. In securing support for this bond program from the voters of the state, we as a University pledged to do our fair share—to meet roughly 40 percent of our capital needs with non-state sources of revenue. The package of non-appropriated projects you approved this morning—while large in scale—is entirely consistent with that commitment.

Teacher Quality and Student Success

I'd like to express my appreciation to the Board's Planning Committee and Vice President Charles Coble for arranging yesterday's workshop session with Dr. William Sanders. As his presentation made clear, the link between teacher quality and student performance is direct and irrefutable. As we work in tandem with the public schools to address to the growing teacher supply gap, we must never lose sight of the need for a high-quality teacher at the front of every classroom. As a state, we can't afford to fail in this critically important effort.

Other Academic Matters

I'd also to recap the very powerful findings of the Planning Committee's report on expanding access to higher education through distance learning programs. Student demand for these programs is growing by more than 20 percent annually. The data

confirm that these programs are primarily utilized by older, non-traditional students who otherwise would not have access to a UNC education. And perhaps most gratifying, the report underscores the extent to which the campuses of this University are carefully tailoring distance education offerings to address the state's critical needs in the areas of teacher education, health professions, and information technology.

In response to demonstrated state need, you have approved today the establishment of new degree programs on several UNC campuses. Each of these prospective programs has undergone rigorous review at the campus and system levels. However, given our current fiscal constraints and the expectation that many of these programs would be built through the reallocation of existing campus resources, the implementation schedule for some of these programs may have to be modified.

In your folders today you will find an article entitled "Genomics in Our Schools." It comes from the latest issue of *The Naturalist*, the magazine of the North Carolina Museum of Natural Sciences. Since the mapping of the human genome was completed, we've heard a lot about genomics and its potential to transform medicine, our economy, and the way we view the world around us. We're certain to hear more. For your own education and understanding of this important topic, I commend to you a very special traveling exhibit called "The Genomic Revolution" on display at the Museum through September 2. Created by the American Museum of Natural History in New York, the exhibit uses extraordinary art and interactive displays to explain genomics, the study of genes and their functions, and this applications of this evolving science.

Faculty in the Life and Mission of the University

I need not remind you that this is the season of commencement, perhaps the most important and symbolic event in the life of a University. Over the next few weeks, our 16 campuses will award more than 32,000 undergraduate, graduate, and professional degrees.

Earlier this morning, you passed a resolution acknowledging the retirement of some 220 faculty members across our 16 campuses. Three out of four of them have taught on a UNC campus for at least 20 years. More than half have been with the University for more than 30 years. Twelve hold distinguished professorships. Collectively, they have contributed nearly 6,200 years of service to UNC.

This group of retirees—larger than the entire faculty at one-third of our campuses—underscores the hiring challenge we face in a period of unprecedented enrollment growth. Given the current budget situation and the documented salary gap between public and private institutions, we will be hard pressed to attract and retain the very best faculty, particularly at our research institutions.

And finally, let me remind you that at our luncheon today, we will celebrate the core mission of this University: teaching. We will honor 16 of the University of North Carolina's best and brightest professors—a varied group that reflects a wide array of academic disciplines and teaching styles. All have in common, however, a deep-seated love of learning and a gift for inspiring excellence in students and colleagues alike. This is an important and symbolic event in the life of this University, one that shouldn't be missed.

Mr. Chairman, this concludes my report.