

# Policy Discussion 2:

Proposed Short Session  
Budget and Policy Agenda

# Policy Agenda Discussion

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# 2013 Policy Priorities

## Priorities Continued from Long Session

- Carry-forward reform
- State Aid Intercept Program
- ORP participation for certain SPA employees
- Modify definition of “volunteer”
- Tuition waivers

# 2013 Policy Priorities

## Priorities Accomplished

- E-commerce enabling legislation
- Increase BOG authority on disposition by lease
- Expand funding options for NCSSM & UNCSA
- Authority to self-manage energy efficiency projects for new campus (UNCC)
- Clarify/Simplify Residency Statutes (study)

# 2013 Policy Priorities

## Temporarily Deferred Priorities

- Eliminate unnecessary/duplicate reporting requirements
- Consolidate SPA employees under BOG
- Align approval limit for capital projects with informal project limit & bonding threshold

# Timeline for 2014 Agenda Adoption

<b>October 29, 2013</b>	<b>Request to Campuses</b>
<b>November 22, 2013</b>	<b>Deadline for Submission of Campus Requests</b>
<b>January 9, 2014</b>	<b>Discussion at Public Affairs Committee of the UNC Board of Governors</b>
<b>February, 2014</b>	<b>Discussion with Chancellors</b>
<b>February 20, 2014</b>	<b>Public Affairs Committee Consideration and Approval</b>
<b>February 21, 2014</b>	<b>Board of Governors' Final Action</b>

### *Incentivize Savings Practices (Carry-Forward Reform)*

Carry-forward reform is a critical tool for encouraging and maximizing campus efficiencies. Current state statutes governing the carry-over of General Fund appropriations to the next fiscal year provide little direct incentive for campuses to conserve funds. Carry-forward authority is limited to a maximum of 2.5% of an institution's annual General Fund appropriation. The carry-over must also be deposited in the state's General Fund, making it subject to review and approval by the Office of State Budget and Management. These restrictions tend to cause a noticeable uptick in spending during the fourth quarter of the fiscal year. The current incentive is, in effect, to "use it or lose it," as agency heads and budget managers fear they will lose funds going forward if they fail to expend the full amount appropriated.

This dilemma, not unique to UNC, has been well documented in public policy scholarship. In a 2009 policy brief, the International Monetary Fund (IMF) concluded that carry-over authority can be highly effective in promoting efficiency gains. IMF noted that carry-forward provisions promote more active and durable cost savings initiatives. "Only when budget managers are given discretion to use the resources that have been carried over in the manner which they see fit are the incentives for realized savings maximized."

#### **Recommended Action: Amend carry-forward statutes to create a Savings Incentive Program.**

The parameters of this recommendation include:

1. Increase current carry-forward maximum from 2.5% to 5.0% of an institution's annual state appropriation.
2. Deposit efficiency savings in a special institutional trust fund, where monies can be retained\*\* and not be subject to future carry-forward restrictions.
3. Cap trust fund cash balances at 5.0% of an institution's annual appropriation as of June 30 each year. Any cash above this 5.0% threshold would be reverted to the state's General Fund.

\*\*These retained savings would be used to support critical one-time investments including: (1) building repairs and renovations, (2) computer and other equipment upgrades, (3) matching private funds to support Distinguished Professors program and (4) implementing energy savings projects and other efficiency initiatives.

#### Hypothetical Example of Implementation if Enacted Effective July 1, 2014

UNC-CH Appropriation in FY 2014-15	\$500,000,000	Estimate
5.0% Carry-Forward in FY 2014-15	\$25,000,000	Increase of \$12.5 million
Trust Fund Cash Balance on 6/30/15	\$25,000,000	

NOTE: The \$25 million accumulated in the Trust Fund as of June 30, 2015 would be cash flowed and expended the types of investments noted above (\*\*) throughout FY 2015-16.

## State Aid Intercept Program

Several states, including Virginia, Kentucky, Massachusetts and Colorado, have intercept programs that provide public entities with more favorable access to capital markets. Under these programs, credit ratings are typically “one notch” below the state’s general obligation bond rating. Implementing such a program in North Carolina would not adversely impact the state’s AAA rating, since no additional appropriations would be required.

The general parameters of the proposed intercept program include the following.

1. Would apply only to auxiliary and non-state supported debt.
2. If a borrower defaulted, the trust indenture would authorize the trustee to “intercept” the borrower’s state appropriations in order to pay bondholders before remaining funds flowed to the borrower.
3. The Board of Governors (BOG) would administer the program under its existing authority to provide pooled financing and oversight of the UNC system.
4. Interception of one campus’s appropriations would not affect the others.
5. Amortization and structuring considerations would be consistent with existing BOG guidelines:
  - a. Generally no more than 25 years;
  - b. Level payments or level principal; and
  - c. Competitive or negotiated financing.

### **Program Benefits**

A State Aid Intercept Program would allow UNC campuses to finance new debt and/or refinance existing debt with AA category bonds.

### Estimated Savings on New Issuance

A \$20 million transaction amortized over 20 years would save:

- ✓ Aa3 campus \$20,680 annually and \$413,598 over life
- ✓ A1 campus \$50,720 annually and \$1,014,399 over life
- ✓ A3 campus \$81,045 annually and \$1,620,899 over life

### Estimated Savings on Existing Debt

Campus	Rating	Total Cash Savings	Avg. Annual Savings	NPV Savings
ASU	Aa3	\$1,161,978	\$55,332	\$954,548
ECU	Aa2/AA-	45,237	2,154	41,927
FSU	A-/A	18,798	2,089	23,175
NC A&T	A1	359,440	17,116	289,942
NCCU	A3	2,798,876	127,222	2,068,199
UNCC	Aa3/AA-	933,722	46,686	759,380
UNCG	Aa3	543,187	25,866	491,833
UNCP	A	643,566	42,904	565,632
UNCSA	NR	108,519	18,087	109,297
UNCW	A1	667,125	31,768	546,550
WCU	Aa3	400,481	20,024	365,462
WSSU	A	270,766	12,894	253,234
<b>Total</b>		<b>\$7,951,695</b>	<b>\$402,142</b>	<b>\$6,469,181</b>