

April 14, 2016

University of North Carolina Asheville
Asheville, North Carolina

AGENDA ITEM

2. BOG Policy Agenda Update Drew Moretz

Situation: At the March 4th BOG meeting, the Board approved four policy items for the UNC Policy Agenda. UNC staff is proposing two additions to the policy agenda.

Background: The legislature returns to Raleigh for the legislative “short session” on April 25th. The legislative short session is designed to tweak the state’s biennium budget and address issues that were left undone in the 2015 session. Last month, the Public Affairs Committee approved a four issue policy agenda, which was subsequently approved by the full Board of Governors.

At the March BOG meeting, the Education Policy and Planning Committee accepted a report compiled by the North Carolina Community College System and University of North Carolina General Administration staff that called for postponing implementation of NC GAP until reform efforts already underway at both systems are allowed to demonstrate progress. The recommendation of the UNC/NCCCS staff report was to postpone implementation until at least 2018, until more data was available about each system’s efforts to improve student outcomes.

Additionally, UNC-CH and NCSU are requesting authorization to issue Century Bonds. This issue will be discussed in the Committee on Budget & Finance prior to being referred to Public Affairs for consideration to be added to the BOG Policy Agenda.

Assessment: If approved, these issues would be added to the UNC Board of Governor Policy Agenda.

Action: These additional items are up for a vote. (Committee and Full Board)

Proposed UNC Action

At a minimum, postpone NC GAP implementation through at least 2018.

Issue Overview

Section 11.7 of Session Law 2015-241 calls for a guaranteed admission program that requires a student who satisfies the admission criteria of a constituent institution, but whose academic credentials are not as competitive as other students admitted to the institution, to enroll in a community college in this State and earn an associate degree prior to enrolling as a student at the constituent institution.

Rationale for UNC Action

NC GAP has the potential to significantly impact a number of campuses, especially the Minority Serving Institutions (MSI). The BOG has implemented policy changes around minimum admission requirements to improve student outcomes and need additional time to assess impact of these changes.

Impact

Implementation strategy 1: Increasing minimum admission requirements (MAR) from 2.5 GPA to 2.7 GPA could disparately impact rural, low-income; and minority students and potentially have detrimental effects on the viability of some of the MSI institutions.

Implementation strategy 2: Reduce admitted students at each institution by 2.5% might simply redistribute resources among UNC institutions. The program could create “brain drain” if students choose to go out-of-state. As an example, 200 North Carolinian students who were deemed qualified and admitted to UNC-CH would be deferred to a community college. At NC State, the number of families affected is estimated at over 250.

Last Session Action/Background

NC GAP has been discussed in the legislature since 2013. That year’s session ended with a required “report” to the Joint Committee on Education Oversight, which consisted of a verbal presentation highlighting the efforts of the Comprehensive Articulation and discussion of existing partnerships and bilateral agreements between UNC institutions and their regional NCCCS partners. The following year, the 2014 budget included a budget provision requiring a report to the same committee cataloging those partnership and bilateral agreements.

In 2015, the budget conference report included language requiring implementation of NC GAP for the 2017-18 freshman class, but no budgetary impacts were included. The budget provision laid out five goals of the program and asked UNC/NCCCS to jointly produce a report about the impacts of NC GAP.

The report highlighted the potential impacts, but the identified implementation strategies did not meet all of the goals laid out by the legislature. The study highlights the completion rates of the 2009 cohort under implementation strategy 1, which would have led to an 11% BA attainment rate, as opposed to 36% without the program. While reforms have been undertaken at both the community college and university level to improve student outcomes, no data exists that can show how much those changes will improve outcomes for students.

Because neither strategy meets all of the legislature’s goals, the report highlights agreement from both system’s staff that more time is needed to measure the recently-implemented reforms in order for the legislature to have better data before moving forward with NC GAP.

Proposed UNC Action

Amend statute to allow UNC-Chapel Hill and NC State University to issue century bonds.

Issue Overview

Century Bonds are taxable fixed rate bonds issued with a 100-year bullet maturity. Century bond financings are particularly attractive to borrowers at this time due to the current environment of historically low interest rates, which presents the opportunity to lock in attractive costs of capital over a very long period of time. Century bonds have emerged in the higher education sector (primarily) over the past five years with \$4.8 billion issued by ten institutions including three public universities – University of California, Ohio State University and Ohio University.

Rationale for UNC Action

The University of North Carolina at Chapel Hill alone has a deferred maintenance backlog of approximately \$656 million with annual needs of approximately \$60 million and has received limited state appropriation to address these needs. In the current historically favorable debt market, a century bond would provide a long-term cost effective tool to address much of this deferred maintenance backlog, as well as other institutional needs. These bonds require a single principal payment at maturity with ongoing interest paid during the life of the bonds. To repay the principal at maturity the University would establish a sinking fund with proceeds at issuance that would be allowed to grow over the 100 life of the bonds. Given the wide variety of facilities, including academic buildings, whose deferred maintenance could be addressed with these proceeds the University would need to service the interest using a variety of funds including tuition. The University would not use State Appropriation to service this debt at any time. To take advantage of quickly changing R&R needs, authority to establish projects from these proceeds would need to be delegated to the Board of Governors rather than granted through the regular annual self-liquidating process. It is also essential to take quick action on a potential century bond program to ensure access to the current historically favorable bond markets.

Impact

A century bond program for UNC Chapel Hill and North Carolina State University would enable both highly rated institutions to make significant, very long-term borrowings at historically low rates to make game-changing impacts to their significant deferred maintenance backlogs without requesting additional appropriations from the State. Addressing these backlogs in the near term will result in significant long-term capital savings by improving space utilization and reducing the need for new facilities.

Last Session Action/Background

No legislative action has been taken on this issue. However, the legislature did enact a new provision to report on the debt capacity of the UNC System.



The University of North Carolina

2016 Policy Agenda

University of North Carolina Board of Governors Policy Priorities

1) Postpone Implementation of NC Guaranteed Admissions Program (NC GAP) until at least 2018 or modify to ensure program meets stated goals of the legislature

The joint North Carolina Community College System and University of North Carolina report highlighted the potential impacts of various implementation strategies; however, the identified strategies likely would not meet all of the goals laid out by the legislature. While reforms have been undertaken at both the community college and university level to improve student outcomes, no data exists that can show how much those changes will improve outcomes for students.

2) Eliminate Private Fundraising Cap

The conference report for the FY2015-16 budget, H. 97, included a provision to cap each individual UNC institution spending on private fundraising at \$1 million in state funds. Since the recession, the legislature has been encouraging UNC institutions to seek private funds as state funds were drying up. This provision is a major shift and we seek the elimination of the recently enacted provision.

3) Extend 5% Carry Forward authority for next biennium

The legislature increased UNC carry forward authority to 5% for the biennium with the increase being used for R&R (up from 2.5%) in H. 97. We ask the legislature to extend the increase in carry forward authority in order to provide time for UNC institutions to show the positive impacts of this added flexibility.

4) Eliminate requirement for institutions to use non-General Funds for Advanced Planning for new capital projects

The FY15-16 budget included a provision requiring UNC institutions to use non-General Fund dollars for advanced planning before the legislature would be given a chance to approve projects. Unlike last year's bond package request which included a "Skin in the Game" requirement if the legislature acted, this requirement goes further and requires campuses to front funds for projects the legislature may never approve. Because of the uncertainty of spending money for advanced planning before the legislature signs off on the project, there is a significant unintended negative impact on a number of our campuses.

5) Permanent fix for qualified excess benefit arrangement (QEBA) issue

Last session, UNC collaborated with the NC Treasurers Office to agree on a permanent fix for a pension issue that significantly impacts key leaders at UNC Hospital and several institutions. We were able to get a temporary reprieve on the issue through August 1, 2016, but we need to secure a permanent solution for those impacted.

6) Allow UNC/NCSU to issue Century Bonds

A century bond program for UNC Chapel Hill and North Carolina State University would enable both highly rated institutions to make significant, very long-term borrowings at historically low rates to make game-changing impacts to their significant deferred maintenance backlogs without requesting additional appropriations from the State. Addressing these backlogs in the near term will result in significant long-term capital savings by improving space utilization and reducing the need for new facilities.