# *The University of North Carolina State Budget Update*

## *BOG Policy Discussion*

The University of North Carolina

***April 7, 2011***

# *Presentation Outline*

- **Critical Budget Dates**
- **Fiscal Year 2010-11 Update**
- **State Budget 101**
- **Governor's Fiscal Year 2011-12 Budget Recommendations**
- **Major Policy Issues**
- **Budget Cut Impact on UNC System**

## *Critical Budget Dates*

| | |
|---|---|
| ■ Governor's Budget Presented | February 17 |
| ■ House Budget Approved | by April 21 |
| ■ Senate Budget Approved | by mid-May |
| ■ Final Budget Adopted | by June 1 |
| ■ Closeout FY 2010-11 | by mid-July |
| ■ BOG Review and Approval of UNC System Budget Items | by August Mtg. |



## *FY 2010-11 Update: Economy and Revenues*

- General Fund revenue collections through February are above target, but by less than 1%.
- Withholding and sales tax collections continue to outpace expectations.
- Employment growth has been slow.
- Paying attention to rising food and gas prices, sovereign debt issues, and disaster in Japan.
- Potential for April surprise?

# *FY 2010-11 Update: Budget Management*

- **Senate Bill 109 requires the Governor to reduce appropriations by $538 million.**
- **Required 3.5% reversion totals at least $400 million.**
- **$83 million in special funds and trust funds were transferred to General Fund on March 28.**
- **Remaining funds to be accumulated through additional overcollection of revenues, additional reversions or limiting carry-forwards.**



# *State Budget 101: Budget by Program Area*

| | (in billions) | |
|---|---|---|
| Public Education | $ 7.6 | 38% |
| UNC System | 2.7 | 14% |
| Community Colleges | 1.0 | 5% |
| Medicaid | 3.2 | 16% |
| Corrections & Court System | 1.9 | 10% |
| Debt Service | 0.7 | 3% |
| DHHS (excluding Medicaid) | 1.5 | 7% |
| Other (General Govt.) | 1.3 | 7% |
| Total | $19.9 | 100% |

# *State Budget 101: Budget by Expense Category*

| | (in billions) | |
|---|---|---|
| Salaries & Benefits (excluding health care) | $11.6 | 59% |
| Health Care (Medicaid, active/retired employees) | 5.0 | 25% |
| Debt Service | 0.7 | 3% |
| Other | 2.6 | 13% |
| Total | $19.9 | 100% |



# *State Budget 101: Personnel Costs by Program Area*

| | |
|---|---|
| Teachers | 42% |
| Public Education (non-teachers) | 10% |
| Subtotal | 52% |
| UNC System | 20% |
| Community Colleges | 9% |
| Corrections & Court System | 10% |
| Other (General Govt.) | 9% |
| Total | 100% |

# *State Budget 101: Budget by Revenue Category*

| | (in billions) | |
|---|---|---|
| **Individual Income** | **$ 9.9** | **50%** |
| **Sales and Use** | **6.1** | **31%** |
| **Corporate and Franchise** | **1.6** | **8%** |
| **Other Tax** | **1.3** | **7%** |
| **Nontax & Transfers** | **0.7** | **4%** |
| **Total** | **$19.6** | **100%** |



# *Governor's FY 2011-12 Budget Recommendations*

| | 2011-12 | 2012-13 |
|---|---|---|
| | (in millions) | |
| Base Revenues | $18,823 | $19,884 |
| ***Potential Expenditures*** | | |
| Base Budget | 20,821 | 20,817 |
| **Mandatory Base Budget Adjustments** | | |
| Medicaid | 0 | 253 |
| Debt Service | (9) | 77 |
| Public Schools Enrollment | 38 | 111 |
| Higher Education Enrollment | 41 | 75 |
| UNC System & State Government Bldg. Reserves | 35 | 68 |
| *Subtotal: Base Budget Adjustments* | 105 | 584 |
| **Supplemental Adjustments** | | |
| State Health Plan | 117 | 251 |
| Retirement System | 115 | 230 |
| Severance Reserve | 30 | 0 |
| Other | 57 | 33 |
| *Subtotal: Supplemental Adjustments* | 319 | 514 |
| Total Potential Expenditures | 21,245 | 21,915 |
| **Balance** | **(2,422)** | **(2,031)** |

# *Governor's FY 2011-12 Budget Recommendations (cont.)*

| | 2011-12 | 2012-13 |
|---|---|---|
| | (in millions) | |
| ***Measures to Balance*** | | |
| **Credit Balance** | | |
| Funds Left on Table | $ 0 | $ 0 |
| Actual Credit Balance at 6/30/10 (prior year reductions) | 111 | 0 |
| Reversions from 2010-11 (current year reductions) | 406 | 0 |
| Revenue Overcollections 2010-11 | 156 | 0 |
| Invest in NC Construction & Repair Jobs | (75) | 0 |
| Transfer to Savings Reserve Acct. (Rainy Day Fund) | (150) | 0 |
| Rebuild Mental Health Trust Fund | (75) | 0 |
| Establish Consolidation & Efficiency Incentive Fund | (25) | 0 |
| Invest in Community Colleges Equipment & Technology | (25) | 0 |
| *Subtotal: Credit Balance* | 323 | 0 |
| Reductions (Balances 72% of Shortfall) | (1,342) | (1,536) |
| Revenue Changes (Balances 27% of Shortfall) | 645 | 556 |
| Other Changes (Balances 5% of Shortfall) | 112 | 115 |
| Total Measures to Balance | 2,422 | 2,207 |
| Total Recommended Expenditures | 19,903 | 20,379 |
| **Revised Balance** | **0** | **176** |



# *Major Statewide Budget and Policy Issues*

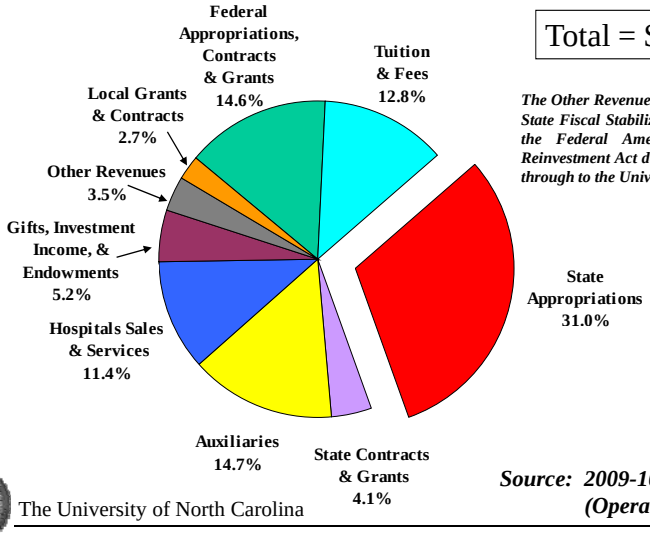
- **Protecting Core Services (Education, Public Safety, and Health)**
  - **Governor's budget reductions by agency range from 3% to 17%.**
- **Budget balancing strategy – reductions, revenues, cash balance transfers**
  - **Governor's budget continues 0.75% of sales tax increase passed in 2009 and sunsets the surtaxes on individuals and businesses.**
  - **Redirect large special fund or trust fund balances to General Fund (like Golden Leaf).**

# *Major Statewide Budget and Policy Issues*

- **Position Eliminations (reductions-in-force)**
  - **Governor's budget eliminates over 9,900 positions.**
- **State Health Plan**
  - **Governor's budget and legislation passed by General Assembly begins charging a monthly premium for active employees and retirees.**
- **Retirement System Funding (actuarial soundness)**



# *Impact of Cuts on UNC System: Budget by Source*




Total = $8.3 billion

*The Other Revenues category includes the State Fiscal Stabilization Fund portion of the Federal American Recovery and Reinvestment Act dollars that were passed through to the University from the state.*

*Source: 2009-10 IPEDS Data (Operating Revenues)*

# *Estimated Impact of 15% Reductions*

| | |
|---|---|
| **All Positions** | **-3,200** |
| ***Faculty*** | ***-1,500*** |
| **Course Sections** | **-9,000** |
| **Class Seats** | **-240,000** |

- **To protect UNC's core academic mission, previous cuts have been focused on <u>administrative</u> areas:**
  - **These have caused reductions in operational service levels and campus responsiveness; and**
  - **Further significant cuts in these areas will threaten the integrity of operations.**
- **Future reductions will undoubtedly impact academic budgets. More filled positions will be eliminated.**



# *Campus-specific examples (academic) at 15% Level*

- **Approximately 9,000 fewer course sections would be offered:**
  - **950 at ASU**
  - **630 at NCA&T**
  - **1,030 at NCSU**
- **UNCC estimates that the average time to degree for students could increase by a full semester.**
- **WCU would have to eliminate 63 faculty positions (11% of all faculty), resulting in the loss of an estimated 147 courses per semester and 3,600 fewer classroom seats.**

## *Campus-specific examples (academic/campus safety) at 15% Level*

- **WSSU would have to eliminate 9% of their faculty (38 positions).**
- **UNCSA may have to close the School of Filmmaking.**
- **UNCA would have to eliminate 6% of its faculty (13 positions) at the same time that applications are up 22%.**
- **NCSU would have to eliminate six fire protection and police positions (9% of total), impacting crime prevention and front-line public safety support to the university.**



## *Campus-specific examples (services/operations) at 15% Level*

- **UNCG would have to eliminate 18 facilities operations positions (7% of total).**
  - **Longer response times for service calls**
  - **Impacts cleanliness of classrooms, restrooms and campus common areas**
- **Similar reductions at WSSU would cause delays in repairs and further diminish campus infrastructure.**
- **Position eliminations at UNC-CH's Admissions Office would necessitate closing the office two days per week from November 1 through March 31 in order to properly review applications.**

## *Campus-specific examples (services/operations) at 15% Level*

- **NCCU would have to eliminate 12 positions in critical infrastructure areas (Finance, HR, IT).**
  - **Service to students, faculty and staff will be adversely impacted**
  - **Increased risk for non-compliance**
- **ASU would have to eliminate financial aid and loan staff which is compounded by the increase in students with financial need requirements.**
- **ECU's library cuts would directly impact student learning and faculty research.**
  - **Very limited purchases of books**
  - **Cancel core journal and database subscriptions**



## *Student Testimonials*

- **Student in high need teaching program – "Because our General Education program is at 99% capacity, I am having extreme difficulty getting the classes I need to graduate in four years."**
- **Student interaction with Financial Aid Office – "At a young age, I took on some of the financial burdens of the house when my father died. Thankfully, financial aid has made it easier for me to concentrate more on my studies and less on money."**

## *Student Testimonials*

- **Student concerned about budget cuts – "Although I am graduating this May, I am afraid and saddened for my fellow students I leave behind. I feel they may not be given the same opportunities and chance to experience all that makes this university great."**
- **Students concerned about classes being to large – In a recent campus survey, 36% of students reported that three or more classes were too big to learn effectively.**



## *Major Issues Facing UNC System*

- **Ensuring decision makers understand that substantial cuts to state appropriations directly impacts classroom instruction**
- **Other fund sources (endowments & auxiliary) cannot be diverted to support General Fund operations**
- **Maintaining campus flexibility**
- **Tuition is not a magic bullet**
  - **Systemwide, average undergraduate resident increase over last 10 years is +149%.**