

COMMITTEE ON PUBLIC AFFAIRS

Committee on Public Affairs

December 4, 2014

3. State Legislative and Policy Agenda UpdateDrew Moretz

Situation: The General Assembly will be returning to Raleigh for a brief organizational meeting on January 14th, 2015, to formally elect leadership. The legislature will return for business at the end of January to begin the legislative “long session.”

In order to begin discussions with legislators, UNC needs to create a BOG-approved Policy agenda. Once approved, State Relations staff can proceed in securing bill sponsors and building support for these priorities.

Background: Each year, the BOG approves a policy agenda prior to the start of the legislative session. This draft agenda is separate from the budget request, but there may be areas that overlap both policy and budget.

This year, State Relations is proposing several stand-alone policy provisions and intends to build legislative support for an efficiency “omnibus” bill. During the legislative session, there are multiple potential vehicles to move these policy proposals forward.

Once approved, the State Relations staff will work with legislators, BOG members and other interested parties to create a strategy designed to ensure enactment of these priorities.

Assessment: N/A

Action: Approval required. Need to secure full Board of Governor approval as well.



The University of North Carolina 2015 Policy Agenda

1) Incentivize savings practices to encourage and maximize 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 current incentive is, in effect, to "use it or lose it," as budget managers fear they will lose funds going forward if they fail to expend the full amount appropriated. Best business practices are designed to encourage savings.

This recommendation would increase the current carry-forward maximum from 2.5% to 5.0% of an institution's annual appropriation. These retained savings could be used to support critical one-time investments including: (1) building repairs and renovations, (2) computer and equipment upgrades, (3) matching and leveraging private funds to support the Distinguished Professorship program, and (4) implementing energy savings projects or other efficiency initiatives.

2) Provide In-state tuition for military veterans

In 2014, Congress passed comprehensive Veterans Administration (VA) reform legislation requiring public universities to provide in-state tuition for certain veterans or risk being barred from collecting all VA educational benefits. Prior to the federal legislation, the NC legislature passed a budget that included recurring funding for UNC institutions to participate in the VA's Yellow Ribbon Program with the first awards to be issued in the 2015-16 school year. In light of the federal legislation, the Yellow Ribbon Program proposal is no longer workable for public universities.

We encourage the legislature to pass conforming legislation providing in-state tuition for certain veterans beginning July 1st, 2015, and carry-forward the 2014-15 appropriation being held in escrow, thereby permitting UNC to use these funds to pay for the transition cost associated with complying with federal law requiring in-state tuition for qualified veterans.

3) Restore BOG Authority for certain Repair & Renovation and Maintenance Projects

The University of North Carolina and state government in general is facing serious challenges with maintaining their critical infrastructure, due to inconsistent Repair & Renovation funding. One recent study indicated UNC was facing over a \$2b R&R shortfall. Until recently, UNC institutions were able to address some of the R&R needs by identifying efficiencies in their operating budget to tackle their R&R backlog. These investments allowed the institutions to fix problems before they became emergency repairs. We encourage the legislature to reinstate this authority up to \$1m for the Board of Governors and allow the institutions to carry forward these identified efficiencies into the next year if contractually obligated to complete the R&R project.

4) University Budget Effectiveness

When the State Budget Act was enacted in 2006, the legislation recognized the University of North Carolina is part of the legislative branch of government and included several exemptions not provided for executive branch agencies. During the 2013 budget process however, slight changes were made to the State Budget Act that created a potentially inconsistent dual reporting requirement to both the legislature and the executive branch as it relates to submitting a Board of Governors-approved budget. UNC must now report a budget following the instructions as directed by the executive branch, while also presenting the needs of the university to the General Assembly and Governor as directed elsewhere in statute. We encourage the legislature to reinstate the exemptions which reflect the University's unique position as an agency governed by the legislative branch of state government.

UNC Efficiency Omnibus:

1) Support state aid intercept to keep student fees affordable

As the cost of college attendance goes up, universities across the country are looking for ways to keep student fees low. Several states, including Virginia, Kentucky, Colorado and Massachusetts, have intercept programs that provide public entities more favorable access to capital markets. Credit ratings for institutions that participate in intercept programs are typically “one-notch” below the state’s general obligation bond rating.

Implementing a program in North Carolina would allow UNC campuses to refinance existing debt or finance new debt on self-liquidating projects with AA category bonds. The estimated total cash savings on refinancing existing debt is \$8.2 million for the UNC system and would greatly assist our campuses in keeping student fees affordable, especially those campuses who are having to pay higher interest rates due to diseconomies of scale.

2) Insurance Acquisition Authority

State law, through GS 58-31-55, limits the University's authority to acquire insurance and requires that the University place insurance through the NC Department of Insurance and its designated broker. As a result, the University spends several hundred thousand dollars in placement costs for insurance products that are specific to University operations and expertise. The University has the capability and expertise to acquire excellent coverage with lower transaction costs, with resulting savings to the State due to reduced risks and fees.

3) After Tax Benefit Plan Efficiency

Currently, each campus must maintain an Employee Insurance Committee if the institution offers after-tax payroll deduction insurance products. By requiring each institution to maintain an Employee Insurance Committee, UNC misses out on opportunities to centralize the offerings and gain greater efficiencies. We encourage the legislature to modify the statute for competitive selection of payroll deductions insurance products paid for by state employees to be approved by the President of the University as it impacts UNC employees and eliminate the need for each campus to maintain an Employee Insurance Committee.

4) Administer self-supporting programs & non-credit instructions to Institutional Trust Funds

The UNC Strategic Plan encouraged institutions to improve time to degree completion. Many campuses would like to better utilize academic offerings during the summer as a way to accomplish this goal, which are classes that aren't subsidized by the state. While summer term charges full tuition to cover costs and allows better utilization of existing facilities, it also operates across fiscal years, which creates operating challenges under the current structure and limits the institution's ability to expand class offerings. Similarly, non-credit instruction similarly is receipt-supported and receives no state appropriation. The current model creates operating difficulties, inefficiencies and cash management issues for those offerings that overlap fiscal years. We encourage the legislature to allow the campuses to retain funding for these non-state subsidized course offerings in Institutional Trust Funds.

5) UNC Board of Governors Legal Services Authority

Under current law, UNC must petition the Attorney General and the Governor's office before securing outside counsel. While the Attorney General is appropriately the University's representative in litigation matters, the University's complex and multi-faceted business operations, which are unique to State government, often require the assistance of specialized private counsel in other areas such as intellectual property, technology transfer, international law and regulatory compliance that are outside the scope of services provided by the Attorney General's office. The University is not among the administrative departments within the executive branch. Moreover, the University always pays the costs of private counsel that it retains from University resources. UNC encourages the legislature to give authority to the Board of Governors to authorize the president to retain private legal counsel without need for separate approval from the Attorney General or Governor's office in any non-litigation matter, as well as in any litigation matter in which the Attorney General concurs that representation of the University in the litigation matter would be enhanced by assistance from outside counsel, recognizing that the University will continue to be responsible for paying the costs of outside legal counsel from its own resources.

Board of Governors Policy Agenda Review

Drew Moretz

Vice President of State Government Relations
University of North Carolina – General Administration

Policy Priorities

- Requested feedback from campuses, internal UNCGA departments
- Several levels of internal review
- BOG review/adoption at December 4th – 5th meeting

UNC Draft Policy Priorities

- **Expand Carry Forward**
 - Currently 2.5%; BOG asked for increase to 5%
 - Allows campus to address priority needs w/o additional appropriation

- **In-state Tuition for Veterans**
 - Yellow Ribbon included in FY14-15 budget
 - Federal Law now requires in-state for certain vets – rendering YRP essentially obsolete for public universities
 - Need NC to pass compliance law & carry forward appropriated funds originally intended for YRP participation

UNC DRAFT Policy Priorities, cont.

- **Restore BOG Authority for certain Repair & Renovation and maintenance projects**
 - Lost Chancellors'-approved projects in last year's budget. House amended budget to retain, but removed in conference
- **University Budget Effectiveness**
 - Currently, have two inconsistent requirements on budget submission, due to SBA changes in 2013 budget

UNC Efficiency Omnibus

- **State Aid Intercept**
 - Opportunity to keep student fees down
 - Track record in other states
- **Insurance Acquisition Authority**
 - Purchase insurance on own when we have experience/expertise
 - Annualized savings of \$450k
- **After Tax Benefit Plan Efficiency**
 - Allows UNC President to consolidate existing Employee Insurance Committees on each campus
 - Shared service which saves money/eliminates government redundancy/improves products offered

UNC Efficiency Omnibus

- **Administer self-supporting/non-credit instruction to ITF**
 - No state appropriated dollars for either
 - Can lower time to degree by encouraging expanded offerings during summer
 - Encourages more efficient use of facilities

- **UNC BOG Legal Services Authority**
 - Eliminates hoops for UNC to jump through before engaging outside legal counsel
 - Currently, must gain approval from Governor's General Counsel & AG
 - Similar to what NC DOT was granted
 - All costs to be paid by UNC