

AGENDA ITEM

C-2. 2017-19 Budget Priorities and Legislative Agenda Jonathan Pruitt/Andrew Kelly

Situation: One of the principal responsibilities of the Board of Governors (BOG) is to “develop, prepare, and present to the Governor and the General Assembly a single, unified recommended budget for the constituent institutions of the University of North Carolina” [G.S. 116-11(9)a]. In odd numbered years, the Governor recommends and the General Assembly enacts a biennial (two-year) budget. In even numbered years, adjustments are made to the budget for the second fiscal year of the biennium.

Background: The Office of State Budget and Management (OSBM) initially required all budget recommendations for 2017-19 to be submitted by October 31. OSBM has been flexible with the UNC System, understanding the complexities around development of a new strategic plan and the required review and approval by the Board of Governors.

Assessment: The proposed 2017-19 UNC budget priorities and legislative agenda lays the foundation for a more productive, data-driven, and accountable system of higher education and is directly tied to the goals in the strategic plan.

Action: This item requires a vote by the committee and a vote by the full Board of Governors.

North Carolina pioneered public higher education in the United States, and we continue to lead the nation in our commitment to educational opportunity. Though the Great Recession and its aftermath tested that commitment, our elected representatives and college leaders have successfully preserved access, affordability, and excellence in the face of new challenges. The University of North Carolina is more productive today than it was a decade ago, and our tuition prices are still among the most affordable in the nation. The University's contributions to North Carolina's human capital and economic development have helped to power one of the fastest growing state economies in the country.

At the same time, continued tuition increases have led families, political leaders, and employers to ask important questions about the value of higher education—why does it cost so much? And what is the return on that investment? We recognize that, in this new environment, continued state support comes with additional responsibilities for the UNC system. Put simply, we must be more accountable to taxpayers and more productive with the public resources they invest.

That commitment to accountability and productivity starts with our new Strategic Plan, which sets a series of robust, measurable goals that are aligned with state needs. These system-level goals will allow us to measure our progress in meeting those needs and hold our constituent institutions accountable for their contributions to our success.

In that spirit, and in recognition of the significant and generous support that the University receives from taxpayers, UNC General Administration will take steps to be more transparent about system spending, student outcomes, and performance on our strategic priorities. We will begin publishing an annual progress report for the system that provides a clear, accessible snapshot of our progress on the goals spelled out in the Strategic Plan. Measures will include:

- 5-year graduation rate
- Undergraduate degree efficiency
- Achievement gaps in undergraduate degree efficiency
- Transition between K-12 schools, community colleges, and UNC
- Enrollment and completion of low-income students
- Enrollment and completion of students from Tier 1 and Tier 2 counties
- Postgraduate success and well-being
- Tuition rates for resident undergraduates
- Credentials awarded in health sciences, STEM, and K-12 education
- Revenue from sponsored program awards and licensing income generated by research and development
- Assisting North Carolina communities in need
- Areas of distinction specific to each institution
- Engagement and retention of faculty and staff

We can make progress on many of our strategic goals through more efficient use of available resources. Achieving the others will require targeted investments in data and analytic capacity, innovations that improve graduation rates and grow our economy, and talented faculty and staff. We must also empower individual institutions to pursue the reforms and strategies necessary to improve on these key measures. By granting institutions more operational flexibility in exchange for stronger accountability and continued oversight, they can focus on results.

The budget and policy priorities outlined here lay the foundation for a more productive, data-driven, and accountable system of higher education. While a significant portion of our budget priorities for 2017-19 are directly tied to goals in the strategic plan, there are also specific areas of need that are important for the University to continue our work to serve and educate a growing state.

Inform: Fulfill our responsibility to be more transparent and accountable.

Modernize data systems to promote institutional improvement.

To achieve the gains called for in our Strategic Plan, institutional leaders need integrated information to make sound decisions. This requires transforming data systems that were designed to comply with federal, state, and accreditation agencies into sophisticated business intelligence tools.

The University requests funding for a three-part modernization effort. First, we will extend our existing data integration and warehousing efforts to finance, human resources, and student accounts to increase the quality of our data. Second, we will build the tools necessary for institutional leaders to use this information to make decisions about resource allocation. Third, we will leverage data science experts to help our institutions turn data into actionable information and develop analytical capacity. These efforts will represent the first significant state investment in system-wide data infrastructure.

	FY 2017-18		FY 2018-19	
Data modernization & integration	\$6,300,000	NR	\$8,125,000	NR
			\$1,375,000	R
ERP modernization fund	\$3,500,000	NR	\$5,500,000	NR
Data science experts	\$200,000	NR	\$3,000,000	NR
Total	\$10,000,000		\$18,000,000	

Collect new data on post-graduation success and employee engagement and retention.

Our strategic plan calls for collecting new data in two areas that are critical to our improvement efforts.

First, we need better information on how our graduates fare after graduation. The true test of a UNC degree is how well it equips our graduates to be productive members of the economy and their communities. Better data on post-graduation success can inform prospective students and help institutional leaders identify areas for improvement.

The Know Before You Go (KBYG) effort enacted during the last legislative session is a major step in the right direction. The UNC system requests funding to augment KBYG with additional indicators of graduates' success and well-being after they complete a degree at one of our sixteen four-year institutions. For instance, the Gallup-Purdue index—developed via a partnership between Gallup and Purdue University—collects data that examines the long-term success of college graduates and provides insight into the relationship between the college experience and graduate satisfaction with life after college. Indiana has adopted the Gallup-Purdue Index as part of its transparency efforts, and Virginia, Texas, Florida, and Colorado are considering adopting it as well.

Second, we need to know more about faculty and staff retention, engagement, and job satisfaction so that we can continue to attract and retain top talent. Increased competition from other institutions for our best and brightest poses a challenge. Unfortunately, we lack the systematic measures of employee engagement and retention across institutions necessary to assess where we need to improve. The lack of systematic data leaves the University without critical information it could use to assess its competitiveness and to make decisions about personnel policies and benefits.

	FY 2017-18		FY 2018-19	
New data collection: student outcomes and human resources	\$750,000	R	\$750,000	R

Innovate: Invest in promising new ideas that will raise graduation rates and grow our economy.

Student Success Innovation Initiative: Competitive grants to improve graduation rates.

We can raise graduation rates by investing in promising strategies that will increase student success. The diversity of UNC institutions – from location to mission to student population – is a significant strength to rapidly test innovations and then bring those with positive results to scale. Through this program, new and innovative strategies can be rigorously assessed and the results shared across the system and the country, making North Carolina a national model.

This program will operate as a competitive grant, where institutions apply to implement or scale a strategy that is backed by rigorous evidence. Funded projects will be evaluated by a third-party evaluator, and institutions will have to contribute up to a 25 percent match. Potential strategies include: enhanced student advising and coaching, leveraging technology to redesign courses with high withdrawal and failure rates, peer-to-peer tutoring and academic support.

	FY 2017-18		FY 2018-19	
Implementation and evaluation costs	\$500,000	NR	\$500,000	R
Innovation grants			\$3,000,000	R
Total	\$500,000	NR	\$3,500,000	R

Leverage technology to help more students “Finish in Four.”

Our four-year graduation rates are higher than the national average but they still hover below 50 percent. The Guaranteed Tuition plan enacted last year should encourage more students to focus on graduating on-time, but there are steps we can take to increase completion rates and lower time to degree. Research shows that students benefit when they start college on a “guided pathway,” a map that lays out the most efficient path to a degree in their field and provides guidance along the way.

Advances in technology and big data have given rise to digital advising tools that help students optimize their path to a degree. A number of providers now offer software that helps students select the right courses at the right time to ensure timely degree completion. In addition, these platforms provide data to management that enable them to ensure course availability for their students. This solution would create an opportunity to integrate courses available via UNC Online, giving students more options to enroll in the courses they need when they need them.

The UNC system requests funding to pilot one of these products at a subset of institutions and evaluate its impact.

	FY 2017-18		FY 2018-19	
Guided pathway software pilot	\$1,200,000	NR	\$800,000	R

Research Opportunities Initiative.

In 2014, North Carolina began investing \$3 million per year recurring (\$6 million to date) to support the UNC Research Opportunities Initiative (ROI), which provides targeted funding for highly innovative research projects. In the first two years of funding, the six inaugural ROI award teams have already earned \$7.5 million in follow-on funds from external sources, started two new companies, filed 11 patent and provisional patent applications, and attracted new world-class faculty who brought with them \$7.5 million

in equipment and grants. ROI awardees have applied for another \$12 million in research funding from external sources and are awaiting the outcomes of those proposals.

At the current \$3 million per year, ROI researchers have shown rapid and large returns, and increasing the size of the fund would expand our capacity to seed additional promising research programs and possibly to expand the funding priorities to other strategically important areas such as agriculture and life sciences research.

	FY 2017-18		FY 2018-19	
Research Opportunities Initiative	\$3,000,000	R	\$3,000,000	R

Faculty Recruitment and Retention Fund.

To ensure that we remain competitive in the academic labor market, the UNC system asks that the legislature increase funding to the existing Faculty Recruitment and Retention Fund. The Faculty Recruitment and Retention Fund has played a crucial role in attracting and keeping the best and brightest faculty in the UNC system. These funds will improve the University’s ability to recruit and retain nationally-recognized faculty.

	FY 2017-18		FY 2018-19	
Faculty Recruitment and Retention Fund	\$3,000,000	R	\$3,000,000	R

Empower: Grant institutions more flexibility in exchange for stronger accountability.

In order to achieve the goals set out in our Strategic Plan and fulfill our obligation to make well-informed decisions, our institutions need flexibility to pursue necessary reforms and relief from burdensome regulations. Some of this work can be achieved by simply reducing reporting requirements and focusing transparency efforts on an annual progress card. However, the University could realize even greater efficiencies if key pieces of legislation were amended to allow the Board of Governors and the institutions more authority in exchange for stronger accountability.

Allow additional flexibility for more efficient use of state funds for repairs and renovations.

The University currently has over \$1 billion in repair and renovation (R&R) needs as identified by the Facilities Condition and Assessment Program (FCAP). While UNC has benefited from an average R&R appropriation of just under \$30 million per year over the last 10 years, the University needs more flexibility to ensure regular maintenance of our facilities. Timely investment in facilities can reduce long-term maintenance costs for the University and the state while addressing issues that need immediate attention.

The following changes would allow chancellors and the Board of Governors more flexibility to use their operating funds for capital projects to facilitate strategic investment in institutional facilities:

- Reinststate 5% carryforward authority to allow problem solving with existing resources;
- Increase limit on operating funds used for capital projects from \$300,000 to \$1 million;
- Allocate R&R funding directly to the Board of Governors.

The Board of Governors currently reviews R&R capital improvement projects multiple times during their project development process. This review includes but is not limited to annual reviews of R&R priority projects from UNC institutions, Biennial Capital Priorities, quarterly capital reports, and fiscal year capital project summary reports.

Reduce time and cost of planning, completing, and funding capital projects.

The University is at a distinct disadvantage when planning and constructing capital projects compared to the private sector. Significant issues that increase cost and/or extend project timelines include: vendors know authorized project budgets which are published prior to bidding; individual institutions depend on their own credit rating when borrowing funds rather than being able to take advantage of the credit worthiness of the state; the approvals required are duplicative and significantly increase the time to begin a project; and the inability to expend state funds on advanced planning, which prohibits some of our institutions from requesting new capital projects even if the Board of Governors is supportive of their request.

The following changes would significantly impact our ability to implement efficiencies related to design, review, and approval, thus leading to faster completion of capital projects at lower cost:

- Allow confidential approval for capital projects to be published publicly after the bid process;
- Create a State Aid Intercept program to reduce interest expense and keep student fees low;
- Amend the State Construction Office process for review and approval as recommended by UNC Working Group on Capital Construction Costs;
- Eliminate non-state fund Advanced Planning requirement before requesting legislative support.

General Administration staff works closely with the North Carolina State Construction Office (SCO) to monitor total project cost, project schedule, manage designer solicitations and contracts, issue contractor award letters, and process capital project fund transfers through the SCO Interscope capital project management platform. Identifying and implementing efficiencies related to design, design review processes, and construction phases of capital projects will continue to have a significant impact on cost and schedule.

Reduce transactional management by the Office of State Budget and Management (OSBM).

Many of the items that currently require OSBM approval are transactional in nature, and often have already been approved by the UNC Board of Governors or directed in statute. In the 2016 Appropriations Act, there were four provisions that related to compensation changes for University faculty and staff. In order to make these changes, University staff completed 188 separate budget adjustments that each required individual approval from OSBM and General Administration even though all of the requested increases were changes required in statute.

The following changes would significantly reduce the administrative burden of transactional approvals and allow for more efficient use of time by budget staff at each institution, General Administration, and at OSBM:

- Require OSBM approval of budget revisions to certify funds to budget codes specified in the Appropriations Act;
- Allow for transfers between budget codes and capital projects for all Special Responsibility Constituent Institutions;
- Move from monthly to quarterly allotments;
- Eliminate the requirement for the State Budget Director to approve the availability of funds for specific capital projects.

Section 600.3.1 of the UNC Policy manual already provides for internal controls and safeguards required of each Special Responsibility Constituent Institution (SRCI) including a monthly operating report of each budget code as well as the institution's current expenditure plan. In addition, all SRCIs will continue, as required in the OSBM Policy Manual 3.5.5, to complete a Type 14 budget revision to align the internal data with OSBM's official system on a quarterly basis.

Ensure that we attract and retain the best and brightest.

To achieve and maintain excellence, universities and systems need to leverage efficient and effective human resource policies and practices that attract and retain top faculty and staff. The inability to implement fully competitive compensation and benefit programs can hinder recruitment, development, and retention of the necessary talent. Some peer universities and systems have sought and achieved greater personnel management authority, resulting in flexible approaches that positively impact recruitment and retention.

The following changes target key segments of the workforce for highly competitive positions that are particularly difficult to recruit and susceptible to high turnover:

- Expand EHRA exemption to financial and IT positions to keep pace with competitive employment markets;
- Grant authority to establish performance incentive, recruitment, and retention compensation policies for SHRA employees.

Other Targeted Priorities

These additional items address specific areas of need that are important for the University to continue our work to serve and educate a growing state.

Reinstate the NCSSM Tuition Grant.

The following funds would provide a full tuition grant to all students who graduate from the North Carolina School of Science and Mathematics (NCSSM) and who enroll full-time in a constituent institution of the University for four consecutive years of enrollment. The program funds would begin with students graduating in the 2017-18 academic year.

	FY 2017-18	FY 2018-19
2017-18 Graduating class of 220 students		\$1,500,000 R

Note: As each successive class graduates, the funds required for this grant will increase until four cohorts are enrolled at UNC institutions.

Lab Schools operational funding.

The 2016 Appropriations Act provided for the establishment of eight laboratory schools tied to constituent institutions with teacher education programs. The requested funding will allow for six Laboratory Schools to provide the highest quality and pedagogically sound education to students.

	FY 2017-18	FY 2018-19
Additional Funding for 6 Lab Schools	\$930,000 R	\$1,860,000 R
Implementation of second group of schools	\$1,000,000 NR	
Total	\$1,930,000 R	\$1,860,000 R

Elizabeth City State University academic and student success initiatives.

The Elizabeth City State University working group recommends the following short-term investments to provide sustainable funding through strategic enrollment growth. These evidence-based solutions will enhance the attractiveness and effectiveness of the university.

- Problem based learning coupled with an emphasis on digital learning environments;
- Strategic investment in Aviation Science including adding three additional degree programs;
- Investment in a student success center with a team of coaches that will support students on an individual level.

	FY 2017-18	FY 2018-19
Faculty to anchor key programs	\$780,352 NR	\$780,352 NR
Aviation Science investment	\$1,130,000 NR	\$510,000 NR
Enhance and coordinate student success	\$895,000 NR	\$895,000 NR
Total	\$2,805,352 NR	\$2,185,352 NR

Medical education expansion.

The Boston Consulting Group report and the UNC Healthcare Working Group, which was a collaboration between UNC Chapel Hill and East Carolina University, recommended measures to improve health care delivery in the State of North Carolina.

	FY 2017-18	FY 2018-19
Medical education expansion	\$10,000,000 R	\$10,000,000 R

Doctoral program at North Carolina A&T State University.

Generally, the Carnegie classification system defines a research university that awards at least 20 research doctorates each year as a Doctoral Research University. In 2005, North Carolina A&T State University was designated as a Doctoral Research University and is currently classified as an R2: Doctoral University-higher Research Activity. Universities transitioning to this designation embark upon an enhanced focus on STEM focused undergraduate, graduate education, and research. This transition requires investments in faculty, student support, and infrastructure for which NC A&T is requesting additional funding.

	FY 2017-18		FY 2018-19	
Faculty salaries	\$2,000,000	R	\$2,000,000	R
Graduate support	\$500,000	R	\$500,000	R
Total	\$2,500,000	R	\$2,500,000	R

Operating building reserves.

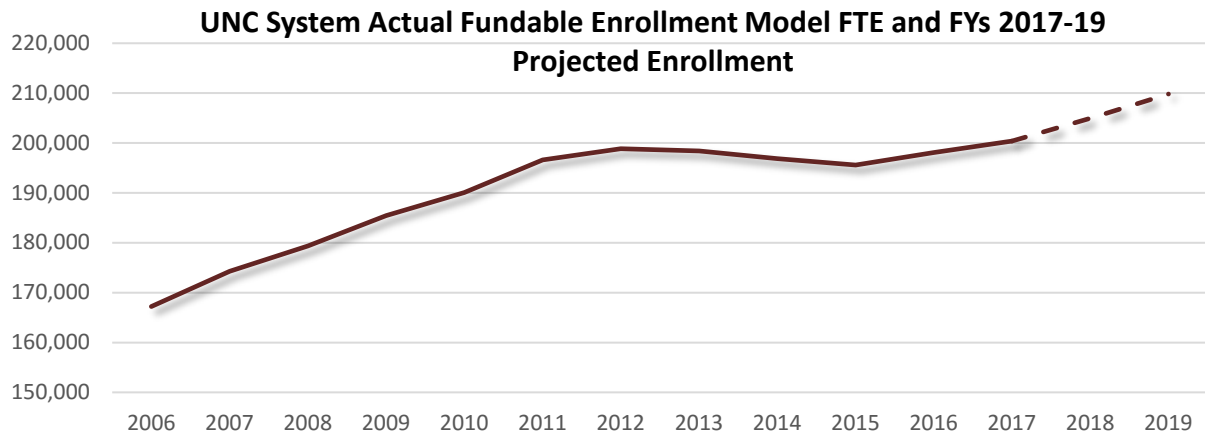
The revised definition of the Continuation Budget provided for additional changes including the requirement that operating building reserves be considered as part of an agency's expansion request. The operating costs for authorized capital projects that will be completed during the 2017-19 biennium are included below.

	FY 2017-18		FY 2018-19	
ASU Beaver College of Health Sciences			\$4,207,983	R
ECSU GR Little Library Renovation			\$288,615	R
UNC-CH AHEC Mountain Area Health Center	\$643,654	R	\$838,974	R
UNCP Student Health Services Building	\$107,458	R	\$145,599	R
WSSU Science & General Office Building			\$429,191	R
Total	\$751,112	R	\$5,910,362	R

Enrollment Change Request

Historically, enrollment change funding requests have been included in the base budget. However, changes to the State Budget Act now require that these funds be requested as part of the expansion budget; for this biennium, OSBM has exempted enrollment change requests from the allowable expansion request of 2% of the certified appropriations.

Overall, enrollment is projected to increase 1.98%, over 2016-17 budget levels, for 2017-18 and an additional 2.46% for 2018-19. The chart below shows system-wide actual fundable enrollment since 2005-06 and the 2018-19 projections.



The associated appropriation request for this increase is \$46.6 million in FY 2017-18 and an additional \$48.2 million in FY 2018-19.

	Appropriation Request		Budgeted FTE		
	FY 2017-18	FY 2018-19	FY 2016-17	FY 2017-18	FY 2018-19
ASU	\$2,304,810	\$1,516,033	17,312	17,527	17,793
ECU	\$3,995,826	\$7,250,754	25,982	26,817	27,505
ECSU	\$(259,309)	\$1,307,344	1,343	1,215	1,437
FSU	\$1,466,474	\$727,298	5,256	5,098	5,184
NCA&T	\$2,825,142	\$2,756,338	9,802	10,419	10,859
NCCU	\$(1,049,215)	\$558,398	7,290	7,426	7,510
NCSU	\$(6,661,600)	\$6,856,925	30,015	29,762	30,324
UNCA	\$(207,225)	\$563,976	3,510	3,405	3,479
UNC-CH	\$5,379,096	\$1,253,138	27,405	27,541	27,848
UNCC	\$15,251,241	\$6,715,730	24,751	25,918	26,641
UNCG	\$10,543,014	\$10,933,453	17,057	17,793	18,603
UNCP	\$(1,245,172)	\$318,543	5,624	5,516	5,693
UNCW	\$8,257,066	\$3,158,039	14,259	14,703	15,015
UNCSA	\$697,947	\$389,822	1,232	1,258	1,279
WCU	\$4,066,385	\$1,452,704	9,339	9,790	10,059
WSSU	\$1,029,896	\$2,177,679	5,119	5,182	5,297
NCSSM	\$176,736	\$227,232	862	878	896
TOTALS	\$46,571,112	\$48,163,406	206,158	210,246	215,420

**University of North Carolina
FY 2017-19 Operating Budget Priorities**

	<u>FY 2017-18</u>		<u>FY 2018-19</u>	
2016-17 Certified Budget	\$2,680,728,367		\$2,680,728,367	
<i>(Excludes Aid to Private Institutions)</i>				
Fulfill our responsibility to be more transparent and accountable	750,000	R	2,125,000	R
Modernize data systems to promote institutional improvement and integrate with post-graduation success and employee engagement and retention data	10,000,000	NR	16,625,000	NR
Invest in promising new ideas that will raise graduation rates and grow our economy	6,000,000	R	10,300,000	R
Focused strategies to increase graduation rates and retention of both students and faculty	1,700,000	NR		
Other Targeted Priorities				
Employee Compensation			Equity with other state employees	
Reinstate NCSSM Tuition Grant			1,500,000	R
Lab Schools Operational Funding	930,000	R	1,860,000	R
	1,000,000	NR		
Elizabeth City State Academic and Student Success Initiatives	2,805,352	NR	2,185,352	NR
Medical Education Expansion	10,000,000	R	10,000,000	R
NCA&T Doctoral Program	2,500,000	R	2,500,000	R
Building Reserves	751,112	R	5,910,362	R
Requested Increase to FY 2017-19 Operating Budget	\$20,931,112	R	\$34,195,362	R
	\$15,505,352	NR	\$18,810,352	NR
Total Requested Increase to FY 2017-19 Operating Budget	\$36,436,464		\$53,005,714	
Percent Change in Recurring Funding	0.78%		1.28%	
Total Percent Change	1.36%		1.98%	
Enrollment Changes	\$46,571,112	R	\$94,734,518	R
Requested Increase Including Enrollment Funding	\$67,502,224	R	\$128,929,880	R
	\$15,505,352	NR	\$18,810,352	NR
Total Revised FY 2017-19 Operating Budget	\$ 2,763,735,943		\$ 2,828,468,599	
Total Percent Change Including Enrollment Funding	3.10%		5.51%	

In 2016, the General Assembly and voters of North Carolina approved a bond referendum that resulted in investment of over \$1 billion in new facilities at UNC institutions. In recognition of this significant investment in new facilities, the UNC capital budget priorities will be focused on maintaining our existing facilities by focusing the request on funding for repairs and renovations.

The quantity and scope of deferred maintenance needs of UNC capital facilities is assessed and documented by the North Carolina State Construction Office through the Facility Condition and Assessment Program (FCAP). These needs are prioritized by building system components at each UNC campus, identified as repairs and renovations capital projects, and partially funded on an annual basis by the State.

Two distinct types of repairs and renovations (R&R) capital project combine to make up the 2017-2019 capital budget priorities: typical R&R projects directed toward single-component building systems and targeted renewal capital projects which are comprehensive building renovations that seek to combine multiple FCAP priorities into one larger renovation project.

Repairs and Renovations

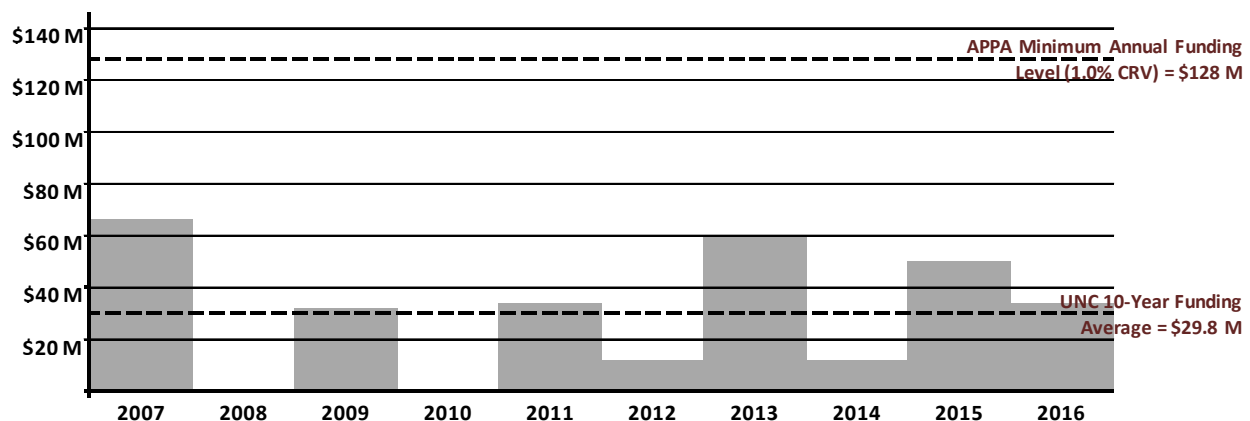
Of the University’s 84 million total gross square feet (GSF) of building inventory, 45 million GSF is made up of appropriated buildings with a current replacement value of \$12.8 billion.

In 2013, the North Carolina General Assembly created the Blue-Ribbon Commission to Study the Building and Infrastructure Needs of the State. The Commission’s Report states that “funding the repair and renovation of State owned buildings should be among the highest priorities of the General Assembly. A dedicated reserve accompanying the costs for construction would signal a commitment to maintaining the State’s assets. ‘The Costs of Moving Forward’ presentation heard by the Commission in October (2016) suggested an annual appropriation of 3% of total building value appropriated for repairs and renovations.”

The Association of Physical Plant Administrators (APPA) establishes a benchmark deterioration rate for a reasonably well-maintained facility at +2.5% per year. Additionally, APPA recommends a minimum 1.0% of Current Replacement Value (CRV) as an annual funding level for repairs and renovations, equating to \$128 million per year for the University.

The ten-year average annual funding from the Repairs and Renovations Reserve allocated to the University is \$29.8 million, or 0.2% of CRV, and is shown on the following table:

UNC 10-Year R&R Funding History



Strategic Capital Repairs and Renovations Six-Year Plan

Using the APPA recommended minimum of 1.0% of CRV and a 50/50 percentage allocation between repairs and renovations funding and targeted renewal capital projects funding, the University requests a total of \$128 million annually. It is vital to our institutions that this funding be consistent. Predictable levels of funding allow institutions to be more strategic in deciding which projects to undertake the most efficient way to complete them.

	FY 2017-18	FY 2017-18	FY 2017-18	FY 2017-18	FY 2017-18	FY 2018-19
R&R	\$64 M	\$64 M	\$64 M	\$64 M	\$64 M	\$64 M
Targeted Renewal	\$64 M	\$64 M	\$64 M	\$64 M	\$64 M	\$64 M
Total	\$128 M	\$128 M	\$128 M	\$128 M	\$128 M	\$128 M

Annually, the Board of Governors will identify system-wide priorities through a competitive process with the UNC institutions to determine the comprehensive building renovations proposed to receive funding from a new targeted renewal capital project reserve.

Consistent with the UNC strategic planning process, efficiencies and cost effectiveness will be gained by combining multiple FCAP building system deficiencies into a single design/construction capital project. This eliminates costly project overhead redundancies and overlapping construction efforts historically associated with single-system renovation.