



**STATE OF NORTH CAROLINA**  
**OFFICE OF STATE BUDGET AND MANAGEMENT**

PAT MCCRORY  
GOVERNOR

ART POPE  
STATE BUDGET DIRECTOR

February 28, 2014

MEMORANDUM

TO: Peter Hans, Chairman of the Board of Governors of the University of North Carolina  
Members of the Board of Governors of the University of North Carolina

cc: Tom Ross, President of the University of North Carolina  
The Honorable Pat McCrory, Governor of North Carolina  
The Honorable Phil Berger, President Pro Tem of the North Carolina Senate  
The Honorable Tom Tillis, Speaker of the North Carolina House  
Co-Chairs of the North Carolina Senate and House Appropriations Committee

FROM: Art Pope, State Budget Director *Art Pope*

RE: University of North Carolina System Budget Request for Fiscal Year 2014-2015

Dear Ladies and Gentlemen:

I am in receipt of the "2014-15 Budget Priorities of the University of North Carolina," as set forth in the Committee on Budget and Finance report, dated February 20, 2014, and approved as amended by the full Board of Governors (BOG) on February 21, 2014 (the "UNC FY 2014-15 Budget"). The Board of Governors has requested a total UNC FY 2014-15 Budget of \$2,842,163,048, which is \$288,466,366, (or 11.3%) more than the enacted General Fund budget for FY 2013-14, and \$340,512,472, (or 13.6%), more than the enacted budget for FY 2014-15. (See Table below for details.) Furthermore, while the Board of Governors requested "UNC be included equally in any compensation increase for teachers and state employees," the above increase in the BOG UNC FY 2014-15 Budget does not include any funding for pay increases for UNC employees and faculty.

Governor McCrory strongly supports the University of North Carolina. Higher education, and our public universities in particular, are crucial to providing the people of North Carolina an opportunity to succeed in life, and for the overall long term growth and prosperity of the state. However, the spiraling cost of higher education, the increased costs to student and their parents, including growing personal debt, as well as the increasing demands on the state budget, cannot continue indefinitely. The University of North Carolina has a responsibility to its students and to the state to operate and improve the university in the most cost effective and affordable manner as practicable.

Respectfully, it simply is not realistic for the Board of Governors to request an 11.3% increase from the General Fund, \$288 million more for next year's FY 2014-15 budget, over this year's current budget. While the economy is improving, it is highly unlikely the state's total General Fund revenue or overall

availability will increase 11% or more next year. Total General Fund availability is budgeted to increase only 2.3% in FY 2014-15, and the state has not had an 11% revenue increase in the last 20 years, even with a variety of enacted tax increases. In addition, university enrollment is down from what has already been budgeted and inflation projections for FY 2014-15 remain modest (in the 1.5% to 2.0% range). Furthermore, the limited increase in revenue and availability must first be applied to mandatory obligations, such the growth in Medicaid, and overall priorities, including a pay increase for teachers and state employees. To fund a \$288 million, 11% increase for UNC, would require the Governor and General Assembly to make major reductions in other state agencies and programs, such as our courts, the "K-12" public schools, and health care.

It is for this reason that the Office of State Budget and Management sent out its budget instruction letter dated December 12, 2013 directing all state agencies, including the University of North Carolina, to submit for consideration a budget reduction and expansion request that "must equate to a net savings of a minimum of two percent (2%) of the agency's FY 2014-15 BD 307 certified appropriation. The general fund appropriation expansion requests shall not exceed two percent (2%) of your agency's FY 2014-15 BD 307 certified appropriation." The University of North Carolina did submit by a letter dated February 10, 2014 outlining a reduction of \$49 million to be implemented through "management flexibility." However, this potential reduction is far exceeded by the UNC Board of Governors' requested expansion budget increase of \$288 million for FY 2014-15, and this reduction option apparently was not presented to the Board of Governors for consideration.

When discussing this matter with President Ross, he stated that the University had a statutory duty to present its "needs" to the Governor and General Assembly. Respectfully, N.C. Gen. Stat. §116C-11(9)a requires the Board of Governors to submit a "budget," not "needs."

In addition N.C. Gen. Stat. §116C-11(9)a (ii) expressly requires the Board of Governors to submit a budget, including funds for EPA salary increases, and N.C. Gen. Stat. §143C-3-3(b) & (c) requires the University of North Carolina to submit a detailed description of current deficiencies, proposed corrections and estimate of project costs for repairs and renovations. Yet the Board of Governors only submitted a one line lump sum request for an allocation of \$163 million for repairs and renovations. Pursuant to N.C. Gen. Stat. §143C-3-3, and consistent with N.C. Gen. Stat. §116C-11(9), I hereby request the Board of Governors to provide a prioritized list for repairs and renovations with the required information for each project, with an estimated fund availability for the UNC System of \$30 million, \$40 million, and a maximum \$60 million.

Respectfully, I request that the Board of Governors reconsider its General Fund budget request and re-submit a more realistic proposal. It would also be most helpful when considering a realistic General Fund budget request for FY 2014-15, that the General Fund request be put in context of the overall University of North Carolina budget, including its annual institutional trust fund receipts of approximately \$4.99 billion.

As one particular example, the UNC System collected \$228 million in overhead receipts in FY 2011-12, and had a cash balance of \$268.7 million at the June 30, 2012 fiscal year-end. How much of the overhead receipts are being used for the repairs and renovations for the facilities used to generate the overhead

Thank you in advance for providing the requested information and considering a revision of the “2014-15 Budget Priorities of the University of North Carolina” submitted February 21, 2014. The Office of State Budget and Management looks forward to working with the Board of Governors and the University of North Carolina, consistent with our respective statutory duties and authority, to prepare and enact a state budget that meets the constitutional requirement for a balanced budget, improves education opportunities provided by the University of North Carolina, and serves all the people of North Carolina.

UNC System Budget, excludes 16015 Aid to Private Colleges							
	2013-14 Enacted Appropriation	2014-15 Enacted Appropriation	2014-15 UNC BOG Request	\$ Change from 2013-14	% Change from 2013-14	\$ Change from 2014-15 Enacted	from 2014- 15 Enacted
GF Operating	2,489,696,682	2,496,550,121	2,605,198,580	115,501,898	4.6%	108,648,459	4.4%
R&R	60,000,000	5,100,455	163,000,000	103,000,000	171.7%	157,899,545	3095.8%
Capital	4,000,000	-	73,964,468	69,964,468	1749.1%	73,964,468	#DIV/0!
<b>TOTAL</b>	<b>2,553,696,682</b>	<b>2,501,650,576</b>	<b>2,842,163,048</b>	<b>288,466,366</b>	<b>11.3%</b>	<b>340,512,472</b>	<b>13.6%</b>
Prepared by OSBM							
Source: Session Law 2013-360 as amended by Session Law 2013-363							