



The University of North Carolina

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Constituent Universities
Appalachian State
University

East Carolina
University

Elizabeth City
State University

Fayetteville State
University

North Carolina
Agricultural and
Technical State
University

North Carolina
Central University

North Carolina
School of the Arts

North Carolina
State University
at Raleigh

University of
North Carolina
at Asheville

University of
North Carolina
at Chapel Hill

University of
North Carolina
at Charlotte

University of
North Carolina
at Greensboro

University of
North Carolina
at Pembroke

University of
North Carolina
at Wilmington

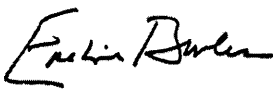
Western Carolina
University

Winston-Salem
State University

Constituent High School
North Carolina
School of Science
and Mathematics

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March 11, 2009

TO: Members of the Board of Governors
FROM: Erskine Bowles 
RE: Policy Workshop on 2009-11 Budget Reductions

No one knows better than the Board of Governors that, historically, the General Assembly has been extraordinarily supportive of the University. Today, because of the global economic crisis, the Governor and the General Assembly must make some very difficult decisions as they prepare the 2009-11 budget for our State. I know all of you understand that fully.

No one is immune from the current recession, but everyone recognizes that education is the answer to a solid economic future for North Carolina. As the Governor said this week, education is our "seed corn." Can any of you imagine how North Carolina could have survived—much less thrived—after the implosion of the economy of our youth that was built on textiles, apparel, furniture, and tobacco without a highly trained, highly educated workforce? Without strong universities and community colleges, we simply wouldn't have been in a position to attract the new high-skilled jobs that have enabled North Carolina to grow over the past decade. Now we are at a crossroads again, and I believe to my core that North Carolina must continue to invest in our people and provide them with the skills and knowledge that they need to compete in this new knowledge-based global economy if we are to ensure a sound future for the State of North Carolina.

North Carolina will emerge from this economic downturn, but none of us are sure when. In the meantime, we must deal with the reality that resources will be incredibly scarce this year. It is unrealistic to expect that funding will be available for many important priorities advanced by the Board of Governors, our chancellors, and me. Our budget request was prepared before the true severity of this current economic crisis was known, and the dollars just aren't there. Therefore, I have advocated only for funding for enrollment growth and need-based financial aid.

We are team players, and in the current year we cooperated fully when the Governor reluctantly cut our budgets by \$175 million on a nonrecurring basis.

We will continue to do our fair share to help our State balance its budget, but I promise you I will do everything within my power to protect the academic core—and the academic quality—of this University. While it takes generations to build a great University like UNC—one that is acknowledged as one of the best in the world—that hard-won quality and reputation will erode quickly if it is not adequately funded and sustained. Our Chancellors and I will first look to cut programs that are not critical to our academic core because we cannot sacrifice our quality and excellence and also expect to properly prepare the future leaders of North Carolina with the skills and knowledge they will need to succeed.

The \$175 million in cuts we have absorbed this year is in addition to the \$52 million in permanent reductions that we volunteered to take as a part of our PACE initiative. Because this year's cuts were nonrecurring, the chancellors have met their obligations by freezing vacant positions, limiting travel, postponing equipment purchases, and making other decisions that delay improvements or extend timelines. With nonrecurring cuts, the use of such management tools is viable. This is why we have advocated that any cuts to the University in the coming year should be nonrecurring. This recession—as awful as it is—is not permanent, and it makes common sense to protect one of this State's greatest assets and to limit these damaging budget cuts to the timeframe in which we are losing revenue.

Looking ahead to the next biennium, we were asked by the Governor to develop scenarios describing the potential impact on UNC of budget reductions at the 3%, 5%, and 7% levels. Our plans are hypothetical because of the many “known unknowns” that will become clearer in the months ahead: the impact of the federal stimulus package, the final revenue picture for North Carolina, the new tools that might be made available to us to deal with reductions (e.g., furloughs), the above-normal increases in enrollment that typically accompany recessions, and the associated increased demand for need-based financial aid.

What is already clear from the budget scenarios we have run is that the budget reductions we face will cause real, lasting pain if they are applied on a recurring basis. That is why we have asked that our cuts be nonrecurring, that they not exceed the 5% level, and that we be provided with full flexibility to manage the cuts. I've asked for full flexibility so our chancellors and those who work with them can make these determinations. I've always found that in any organization, the closer to the customer that the decisions can be made, the less likely they are to erode quality. As I mentioned earlier, I want the cuts to be nonrecurring because that will do the least damage to our academic core.

I am sure that no members of the legislature would cut education to the extent they may have to if they did not face a severe economic crisis. Again, that is why I have suggested making the duration of the cuts match the length of the crisis—so that when the crisis ends, we will have the economic resources to spring forward and give our students the education they need to compete with the world's best and brightest, wherever they may be.

At our last Board meeting, we discussed the fact that 75% of the funds we receive from the State provide for personnel. If we were to protect all our people and not reduce personnel budgets, a 7% permanent reduction would result in the elimination of 28% of our non-personnel budgets. It is just not feasible to take that approach, and regrettably, 7% permanent reductions must therefore result in the elimination of positions. At a 7% permanent budget cut, we face the elimination of more than 1,600 jobs, of which almost 1,000 are currently filled.

We also discussed at our last board meeting the fact that 70% of our state-funded budgets are dedicated to instruction, academic support, and student services. If we were to make no reductions in these budgets in an effort to fully protect our academic core, at the 7% permanent reduction level we would eliminate 23% of the non-academic budgets. This also is impossible. Budget reductions at the 7% level will unavoidably impact our academic core.

If we cut our budgets permanently by 7%, we will obviously make significant reductions in our budgets for travel, supplies and materials, telephone services, postage, utilities, and repairs and maintenance. You will also see reductions in administrative costs and staff size, an even more intense focus on increased faculty productivity, further reductions in middle management expenses, program consolidation, and the elimination or downsizing of centers and institutes.

When I testified before the joint house and senate education subcommittees, I told them that I would protect our academic core before I would stand up for anything else—including such worthy, valuable centers and institutes as the Center for International Understanding (\$635,000), the NC Center for the Advancement of Teaching (\$7,040,000), the NC Arboretum (\$2,922,000), UNC-TV (\$13,896,000), and the Center for School Leadership Development (\$4,591,000). There is no question that all of these centers are both important and valuable to the people of North Carolina. This Board of Governors and I, as well as many legislators, fully realize the positive impact they all have had on our state. But none of them are in our academic core. And I feel I must first protect that academic core.

Let me stress there will be many cuts that will hurt the quality of the education we offer. These cuts will lead to:

- Larger classes;
- Less student advising and counseling;
- Higher faculty/student ratios;
- Lower retention and graduation rates;
- Delayed classroom upgrades and laboratory renovations;
- Less delivery of quality patient care in our hospital;
- Fewer security personnel;
- Fewer accounting and internal control personnel; and
- Reductions in maintenance.

We also will not be able to launch new job-creating degree programs such as genetics at NC State University, aviation at Elizabeth City State University, or respiratory and physical therapy at UNC Wilmington. We will not be able to expand the nursing program at NC Central University. The UNC School of the Arts will cancel performances in Charlotte, Raleigh, and Manteo. UNC Asheville will have to reduce the student affairs staffing in residence halls by 20%. The list goes on and on, but I'm sure the picture is clear to you now. The pages that follow show specific impacts on individual campuses.

Again, our financial picture is very tough. We are team players and we will get through this together. But make no mistake about it—this Board and I will have to fight to protect our academic core. I believe the economic future of North Carolina depends on our success in doing that.

Our plan for this workshop is for you to hear from campus personnel directly involved in making reduction decisions. You will have the opportunity to converse with two chancellors, a provost, and a CFO in order to better understand the process that a campus goes through when cutting budgets and the resulting impacts of the proposed reductions.