Memorandum

To: Chancellors

From: Jennifer Haygood
   Senior VP for Finance and Administration and CFO

Date: September 16, 2021

Subject: FY 2023 All-Funds Budget Guidance

As discussed at the May 2021 Board of Governors meeting, all UNC System constituent institutions are required to develop an all-funds budget for fiscal year 2023 and annually thereafter. The all-funds budget shall provide a comprehensive operating budget for the institution, reflecting both General Fund and Institutional Trust Fund operating revenues and expenditures, and must be approved by the institution’s Board of Trustees. This memo provides guidance on assumptions and policy priorities campuses are expected to consider when developing their budgets.

Background
North Carolina has a long history of state support for public higher education, resulting in substantial state appropriations and low tuition. For the majority of the System’s history, these two revenue sources were the primary revenues that supported System operations. Since both are considered state General Fund revenues, they are governed by strong regulations for budgeting.

UNC System institutions’ operations are also supported by various other fund sources, called Institutional Trust Funds in the General Statutes, which are comprised of revenues from auxiliary enterprises, federal grants and contracts, donor funds, and student fees. These revenues have not been subject to the same formal budgeting requirements. Over time, these Institutional Trust Funds have grown and now comprise roughly half of UNC System revenues.

G.S. 116-1 provides that the University has a duty, in the fulfillment of its mission, to “seek an efficient use of available resources to ensure the highest quality in its service to the citizens of the State.” The comprehensive, all-funds budget will provide the necessary structural foundation for the execution of the University’s strategic plan and to ensure the delivery of the University’s teaching, research and service mission in a financially sustainable manner. It will improve the transparency of resource allocation decisions, strengthen the fiduciary responsibility of Boards of Trustees, and result in better alignment of resources and strategic priorities. Further, required approvals of business actions throughout the year (tuition and fees, auxiliary rates, personnel actions, etc.) can be viewed in the context of the institution’s comprehensive budget.

Budgeting Process and Campus Involvement
The utility of a financial plan is dependent on acceptance and willingness of campus leadership as well as those empowered to make financial decisions across the institution to actively support and participate in the budgeting process. This requires broad understanding of strategic priorities and how resource allocation impacts progress on these goals. Not only does it include the impact of strategic action steps on revenues and expenses, but also how reserves within and transfers between individual academic and business units impact overall university assets and financial stability.
As part of the work to develop an all-funds budget, each institution is expected to work closely with stakeholders across the campus to ensure a collaborative process that promotes a shared understanding of resource allocation and management in pursuit of strategic priorities. To aid in this effort, a campus process checklist has been provided that should be submitted along with the other required materials at the end of the process (Attachment A).

Many institutions may already have begun their work in developing a budget for FY 2023. As this is a new process that will have to be incorporated into the other work of the university, campuses are encouraged to begin as soon as possible. The process should culminate in approval of the campus Board of Trustees, which should occur prior to May 4, 2022.

**Strategic Priorities**

Throughout the all-funds budget development, campus leadership is expected to identify opportunities to repurpose existing funds to better align resources and strategic priorities. Institutions must provide a written narrative of no more than two pages explaining how the all-funds budget reflects investment in mission-aligned activities. Specifically, the narrative should address how the campus is allocating its resources to accomplish the following:

- **Progress towards system-wide strategic goals.** The UNC System strategic plan set ambitious goals for access, student success, and economic impact. More recently, the Board of Governors has set goals for the president on metrics including on-time graduation and degree efficiency, student debt among bachelor’s degree completers, and education and related expenses per degree. These metrics will also factor into the president’s incentive compensation program for chancellors, which was authorized by the Board of Governors in Policy 200.6 in May. Budget narratives should clearly identify how the allocation of resources will drive meaningful improvement in affordability (including costs beyond tuition and fees), timely completion of undergraduate degrees (with particular emphasis on four-year graduation rates), and productivity (the cost per positive outcome).

- **Progress towards institution-specific strategic goals.** In addition to consideration of the priorities set by the Board of Governors and the president, institutional financial plans should be reflective of strategic priorities that help individual institutions reach mission-specific goals. Campuses should consider how resource allocation can support needs specific to the institution, the students that the institution serves, as well as the local community.

- **Improved efficiency.** As stewards of both taxpayer and student dollars, the UNC System has a responsibility to continually look for ways to generate greater value with its limited resources. For example, campuses should consider whether there are opportunities to eliminate duplicative, underperforming, or low priority programs; to streamline and consolidate programs, offices, and services; and to reduce layers of management and administration. Campuses should also be attuned to areas that have had higher than average personnel growth over the last five years and consider whether this growth is aligned with the institution’s strategic vision (see Attachment B for 2016-2020 Workforce Analysis Summary). Campus narratives should articulate specific strategies being implemented and an estimated amount of savings generated that can be repurposed towards higher priorities or to address structural budget issues.
• **Financial sustainability and enterprise risks:** Achieving the UNC System’s mission is predicated on the financial stability and sustainability of its institutions. It is imperative that structural budget issues – instances where recurring revenues are inadequate to support recurring expenditures – are identified and remedied through thoughtful planning. Likewise, the COVID pandemic has reiterated the importance of adequate reserves to help institutions weather unanticipated events. Campuses should review reserves in auxiliaries or other areas that are intended to be self-supporting to ensure adequate funds are available to support unforeseen expenses. Consideration should also be given to relevant financial ratios and strategies the university may employ to improve creditworthiness, particularly related to outstanding debt. It is also important to consider other enterprise risks and how resources are allocated for mitigation.

**Budgeting Conventions**
Campuses must complete the attached budget template (Attachment C) for their institutions as a whole and identified organizational units. To allow for consistency in the approach to budgeting various items that impact most if not all institutions, Attachment D provides more explicit instruction for budgeting items such as enrollment funding, tuition and fees, financial aid, and employee benefit rates. The template and budgeting conventions provide a common minimum standard for presenting budget information. Institutions are welcome to develop more detailed budgets for internal management purposes and roll up that information for submission to the System Office.

**Submission Requirements**
By May 4, 2022, please email the completed budget template, narrative, and campus process checklist to Angelisa Riggsbee (alriggsbee@northcarolina.edu). This information will be compiled for distribution to the Board of Governors at its May 2022 meeting.

The development of a comprehensive, all-funds budget is intended to be an iterative process. The primary goal is to improve financial planning, strategic resource allocation, and understanding of campus-specific financial position for leadership and other stakeholders within each institution. This has the secondary benefit of insight for the president and Board of Governors into resource allocation, financial commitment to campus goals and priorities, resource needs, and financial risks. As the process matures over time, it is expected that it will need to be revised and refined, but this is a first step to a stronger, more transparent UNC System.

We appreciate your cooperation on this important endeavor.

Att. A: Campus Process Checklist
Att. C: Budget Template
Att. D: Budgeting Conventions

cc: Board of Trustee Chairs
Chief Financial Officers
Chiefs of Staff
Provosts
Budget Directors