



Memo

To: Governance Group Chairs
From: Michelle Quinn
Date: April 25, 2018
Subject: FY19 Budget Update
Cc: Executive Staff

Thank you for the invitations to attend recent governance group meetings; I hope you found the budget and financial discussions productive.

As promised, I will send a campus update on our FY19 budget next week when the recommended budget is sent to the Board for discussion at its May 9th Finance and Audit Committee meeting. There are two Executive Staff budget discussions (this Friday and next Tuesday) that will occur before we complete the recommendations.

In advance of the campus update, I wanted to let you know that we continue to make progress in reducing the FY19 budget deficit. Currently, I project a deficit of about \$5.4 million (down from an original deficit of \$9.2 million) due to cost savings work. Following is more information about the evolving work:

Furloughs and Salary Reductions

As I shared in my April 17th email, we do not plan to include furloughs or salary reductions in the recommended FY19 budget.

Temporary Hold Period and Review for Staff Hiring

The FY19 budget recommendations will include personnel expenditures savings that assume 1) we hold staff positions open for 60 days when they become vacant and 2) require additional review before they are filled.

- These requirements will go into effect July 1, 2018.
- The 60 day hold will apply before any position could be advertised. Principles will be established for exceptions to the hold, for issues of health and safety, specialized and essential skills, and the like.
- The additional review before approval to search to fill a position after the 60 days will include documentation of the rationale for filling the position using defined criteria, and require VP recommendation and presidential approval.
- This will not apply to positions under \$30,000.

Restrictions on Out-of-state Staff and Administrator Travel

The FY19 budget recommendations will include the assumption of reduced expenses due to limited out-of-state (including international) travel for exempt and classified staff (including administrators and deans). The limitations do not apply to athletic team travel, student-athlete recruiting, student travel, and faculty travel.

- These restrictions will apply to travel occurring after July 1, 2018.
- Travel will be limited to essential and urgent needs in keeping with university priorities.
- Out-of-state travel will require VP recommendation and presidential approval.
- FY19 travel to recruit students and for fundraising may continue to be approved as part of an annual plan, rather than on a trip-by-trip basis.

Official Functions Guidelines

Guidelines for Official Functions are being developed to better define restrictions on food and beverage purchases, require VP recommendation and presidential approval for alcohol, and limit who approves of Official Functions.

- P-cards usage will be restricted so that restaurant and grocery store purchases will not be allowed unless an approved Official Function form has been previously submitted to Accounts Payable.
- Work is still needed at the departmental level to reallocate budgets to the Official Function line as appropriate; the total Official Function budget is about \$500,000, while actual expenditures last year were about \$900,000.

Strategic Investments

New investments in the nine core plans and five support plans were scrutinized and limited to a total FY19 budget of \$3.3 million (as compared to the \$4.7 million FY18 budget). In particular, this includes:

- \$1.4 million in new investments in Research, Scholarship and Creative Works, and Centers and Institutes (as compared to \$2.4 million in FY18)
- \$275,000 new campus technology (as compared to \$900,000 in FY18).

The final FY19 budget will be submitted in early June to the Board for approval at their June 15th meeting. While the final budget is typically very similar to the recommended budget, there may be changes—the Board may provide additional direction; the state appropriations process is ongoing; and we continue to validate assumptions about enrollment, utilities costs, etc.

Finally, at the governance group meetings and in follow-up emails, there were questions I could not adequately answer and some good suggestions. While the following information is not exhaustive, I believe it addresses the most common and significant issues.

Fundraising and Development

The university went public with its first ever comprehensive, multi-year fundraising campaign—The Campaign for UNC— in March 2017 with a goal of \$45 million. At the public announcement, progress toward goal was \$24 million. To date, the progress to goal is \$43 million. Campaign results are counted in accordance with standards established by the Council for Advancement and Support of Education (CASE) and include cash, new pledges, planned gifts (estate commitments), and gifts in kind (non-cash), as shown in the table on the following page.

The Campaign for UNC Results through April 2018					
Source	FY15*	FY16	FY17	FY18 (at mid-April)	Total
Cash and Stock	\$150,228	\$7,753,448	\$7,562,040	\$8,247,009	\$23,712,725
Less Pledge Pymts	(\$2,000)	(\$1,619,769)	(\$2,403,962)	(\$3,466,266)	(\$7,491,997)
New Pledges	\$4,220,000	\$4,065,130	\$4,026,619	\$1,370,726	\$13,682,475
Planned Gifts	\$0	\$570,000	\$3,110,700	\$124,342	\$3,805,042
Gifts in Kind	\$0	\$151,075	\$85,521	\$9,414,946	\$9,651,542
Total Gifts and Commitments	\$4,368,228	\$10,919,884	\$12,380,918	\$15,690,757	\$43,359,787
Total Number of Donors	9	5,290	4,383	3,827	8,286

*FY15 includes only reach backs per the counting guidelines and is not reflective of total of FY15 philanthropic activity in either total dollars raised or total donors in the year.

As requested at the Faculty Senate meeting a ten-year history of annual contributions, as reported in the Foundation's audited financial statements, is shown below. (FY18 data is unaudited and for six months only). Financial statement contribution revenue is calculated using generally accepted accounting principles. These are different from campaign results above because of differences in timing, how multi-year pledges are valued, and the absence of revocable bequests.

UNC Foundation Contribution Revenue History	
Unaudited FY18 YTD 12/31/17	\$ 15,704,356
FY17	\$ 5,811,908
FY16	\$ 7,847,332
FY15	\$ 11,792,345
FY14	\$ 6,531,931
FY13	\$ 12,368,913
FY12	\$ 4,866,253
FY11	\$ 4,943,677
FY10	\$ 4,194,533
FY09	\$ 4,740,456
FY08	\$ 4,984,169

Gifts made to the university by donors are usually restricted to a specific purpose by the donor. Gifts may be immediately spendable or they may be endowed (where the original gift is not available for use, but a portion of the annual earning is available in perpetuity). The Foundation's assets—including both endowments and spendable resources—totaled \$122.2 million at June 30, 2017.

Donor funds available to the university are a combination of current fundraising results and spendable earnings from endowed gifts made in the past. In any given year, available donor funds may not be fully expended. This can happen if the donor-intended scholarship or program (academic, athletic, student support) purpose cannot be satisfied. As another example, in both FY16 and FY17, the university did not use all available Campus Commons donor funds, because we chose to first use state capital appropriations.

In the past three years, UNC expended the following total donor funds for scholarships, capital and program support:

- FY15 \$10.6 million
- FY16 \$9.7 million
- FY17 \$8.8 million

These funds were transferred to the university from the Foundation and are reflected in our quarterly financial reports and audited financial statements.

Extraction Lease

A total of \$151,000 has been received under the Oil and Gas Lease dated November 23, 2011 between the Board of Trustees for the University of Northern Colorado and Mineral Resources, Inc. All revenue under the lease has been included as part of UNC's general operating revenues and not designated for any particular use. That is, it supported the overall budget including faculty and staff salaries and educational and general non-personnel operating expenses.

We do not have an estimate of when we might receive additional revenue under the lease.

Voluntary Employee FTE Reductions

At the PASC and CSC meetings, there were a number of suggestions about the possibility of voluntary staff FTE reductions. This idea has a merit as a win-win solution in a variety of situations. While we have not incorporated any of these personnel savings in the FY19 budget, we do plan to develop a defined process to guide individual employees and supervisors to identify where a voluntary permanent staff FTE reduction might be beneficial to both the employee and the university.

Accreditation and Credit Ratings

External entities like the Higher Learning Commission (which accredits UNC) and ratings agencies (bond ratings) require annual reporting about our finances. Based on the data in our reports, they analyze and assess our financial condition, relative to other institutions.

In December 2017, due to prescribed financial ratio thresholds, the Higher Learning Commission required us to submit additional information about our finances. In January 2018, we were notified that their panel had reviewed our report and concluded that no further monitoring would be required at this time.

On April 20, 2018, Standard and Poor's Global Ratings issued a ratings update changing our rating from A to A-, with a stable outlook. Later this spring we anticipate an updated rating from Moody's. Our current rating with Moody's is A2.

I believe these external reviews and ratings confirm what we have been discussing. By definition, continuing deficits are not sustainable, but we are still a strong institution and still have cash reserves. The current circumstances are urgent and important, but we are capable of working together to eliminate the deficits in a strategic and systemic way.

I appreciate your leadership as we are wrapping up the FY19 budget and your graciousness at the recent meetings.

Please share this information as appropriate.

Best,

Michelle