

Nov. 9, 2017

Campus Memo from President Norton re: Fiscal Sustainability

Dear Colleagues,

I apologize for the length of this letter, but there is a lot I have to share with you. As we begin to construct next year's budget (FY19) I am reminded yet again that it takes all of us to deliver on our promise of transformative education.

I'm writing to share an update on our fiscal sustainability work. As you know, we established UNC's Five-year Fiscal Sustainability Plan in June 2014 to map out a multiyear approach to adapt to ongoing limitations on state funding and the dramatically changing market for higher education. The ultimate goal of this work is to ensure that we can deliver on our promise of transformative education into the foreseeable future.

The plan calls for growing enrollment revenue, identifying sustainable cost savings, limiting cost increases primarily to investments that support enrollment growth, and spending reserves while revenues catch up with expenditures. Even though we haven't moved as fast as planned, we've been making steady progress. Our enrollment has grown for three years, and we reached our highest enrollment in a decade this fall. We've held down expenditures and identified about \$4 million in sustainable cost savings so far. Though our total reserve spending is less than initially planned, we still expect to spend about \$7 million from reserves this year.

We are now in the fourth year of the plan and are beginning to develop the budget for FY19, the final year of the plan, when revenues must be greater than or equal to expenditures.

To balance the FY19 budget, we have to consider anticipated enrollment revenue and state funding, as well as how much we will spend on personnel, non-personnel, strategic investments and capital. We have set ambitious but realistic enrollment targets for next year, including 3 percent growth in new freshmen and 6-7 percent growth in new graduate students. The Governor's proposed FY19 budget includes a higher education funding increase that would yield about \$2.1 million for UNC; however, there would also be a 3-percent cap on tuition increases. This is relatively good news on the revenue front, but we still need to redouble our efforts to contain costs and find savings in order to eliminate our reliance on reserve spending.

To ensure that UNC cash flows positive in FY19, we have identified four areas for sustainable cost savings, which we will be discussing with the Board at its work session next week.

First, as we've developed the annual staffing plan, we have already identified about \$1.5 million in savings by holding, eliminating or restructuring vacant positions. This level of savings is comparable to what we typically identify in the staffing plan process.

Second, we've set a target of \$1.4 million in non-personnel savings, which will require a campus-wide effort. Please begin thinking about ways to reduce non-personnel expenditures such as staff travel, organizational memberships, promotional materials, official functions and furniture purchases. We remain committed to avoiding across-the-board budget cuts, but we need everyone's help in order to meet this goal.

Third, we are working to identify \$1.7 million in savings from our multiyear strategic investments budget. We're already well on the way to meeting this target with reductions in new technology expenditures and costs associated with planning, as well as work to true-up budgets to match anticipated expenditures.

Finally, we do not anticipate increasing faculty or exempt staff salaries next year. Funding a salary pool of just 2 percent would require us to identify more than \$2.5 million in additional cost savings, and I do not believe that would be prudent. I regret that we will lose ground in our push to make faculty and exempt salaries more competitive. Perhaps even more important, I recognize how many faculty and staff throughout UNC are working diligently to help us grow enrollment and identify cost savings, and I regret not being able to acknowledge your work with a salary increase. I am extraordinarily grateful for the efforts of our campus community and for what you do every day to support our students.

As a reminder, classified staff salaries are determined by the state. The Governor's proposed budget includes a classified salary increase of 3 percent; however, there would also be a mandatory increase in employees' PERA contribution. The PERA contribution increase would be 2 percent of salary, which means the effective increase in pay would be just 1 percent. Please understand that these numbers are preliminary; the Governor's budget proposal is subject to change as it goes through the legislative process.

In closing, I want to thank you again for the time and effort that you invest in UNC and our students. I also want to reassure you. We have made significant progress toward fiscal sustainability over the past three years, and we're almost there. As I said in the State of the University Address, I recognize that short-term accountability is difficult, but I also know, as you know, that generations of future students are counting on us.

Best,

Kay Norton