

Members of the Board of Governors:

During *An Evening with Five Presidents* in November, President Spangler offered ten suggestions that he believed could help the University cut costs and operate more efficiently. Many of you have asked about those proposals and I want to provide a written response for all Board members to review.

First, let me place the proposals in the context of our current operational environment. In his first year as President, Erskine Bowles appointed Krista Tillman, then CEO of BellSouth, to lead the President's Advisory Committee on Efficiency and Effectiveness (PACE). The captains of industry and other North Carolinians in this blue-ribbon group were asked to examine the administrative costs of the University and to make recommendations for where costs might be avoided and savings incurred. Some PACE recommendations, like eliminating duplicative and unnecessary reporting, were simple to implement, while others, like the installation of a University-wide e-procurement system, have taken substantial time and effort to put into effect.

As a result of PACE, the University has realized more than \$32 million in annual cost savings, but more importantly, best practices and improvements proposed by the Committee have to date enabled us to avoid another \$170 million in projected expenditures. President Bowles underscored his own commitment to the PACE initiative by offering 10% of General Administration's budget to the General Assembly as a signal that the University would operate more efficiently and that he expected the chancellors to follow his example by tightening up inefficient campus operations. With subsequent budget reductions, UNC General Administration's state-funded employee count was reduced by 40% during the Bowles administration, a cut that went far beyond his initial intentions and that many now believe leaves General Administration without sufficient staff to effectively serve the University's needs. University-wide, our State budget reductions in recent years have been targeted on administration, resulting in the elimination of over 900 administrative positions from our campuses in a single year.

The PACE initiative has fostered a culture that continues to focus on streamlining administration and implementing improvements that generate cost savings. A 2008 operational assessment conducted by Ernst and Young identified high-risk operations and proposed improvements in key areas. Those recommendations are being implemented University-wide through our Finance Improvement & Transformation (UNC FIT) initiative. UNC-Chapel Hill launched a Bain & Company study that resulted in Carolina Counts, a campus-wide effort to reduce overlap in administrative functions, streamline operations, and simplify unnecessary bureaucracy, thereby refocusing resources on the academic mission of the university. To date, Carolina Counts has identified and implemented \$50 million in permanent administrative savings. The Bain report was shared with all campuses so that each campus could review the recommendations and implement those parts that were applicable.

The bottom line is that for the past six years, our entire University system has been focused on streamlining operations. This has resulted in real dollar savings that have helped to soften the impact of the budget cuts to date. Prior to this year, the emphasis has been on administrative reductions. But because our administrative ranks have already been thinned, the \$414 million in additional budget

reductions this year have had a significant impact on our academic operations and are beginning to put the quality of our academic programs at risk.

As you know, President Spangler left office nearly 15 years ago. Knowing him as I do, I can say with certainty that his suggestions were made with the best of intentions. He was and remains completely dedicated to our University and keeping it great. With this context, I would like to offer observations on each of his cost-cutting proposals.

- **Defer faculty sabbaticals for two years.** We have learned that during the last two full academic years, six of our campuses (UNCP, NCCU, WSSU, NCSSM, ECSU, and NCA&T) awarded no sabbaticals. Another three institutions (ECSU, FSU, WCU) granted three or fewer faculty sabbaticals each year. NCSU has fully funded its sabbatical program with salary savings derived from faculty taking full-year sabbaticals at 50% pay and being replaced with adjuncts at a lower cost. UNCG, ASU, and UNCC also fully funded their sabbatical programs with salary savings from full year sabbaticals in 2009-10. Because of the varied sources of funding used to support sabbatical programs, it is difficult to determine the full costs associated with sabbaticals. That said, our best estimates are that deferring sabbaticals system-wide for two years would save less than \$1 million.
- **Freeze all salaries for individuals making above \$100,000 for two years.** Excluding employees who meet certain criteria established by the legislature, no employee in the University has had a salary increase during the last four years, and there is little likelihood that any of these employees will experience raises in the near future.
- **Require chancellors to cut administrative expenses by 10% for two years.** As stated earlier, our chancellors have been paring administrative expenses for six years and were directed to implement additional double digit cuts in state appropriations during this current fiscal year. In his final months in office, President Bowles publicly observed that administration within the University was now “dangerously thin,” and I have come to that same conclusion in my year as President. Chancellors must and will continue to focus on achieving administrative savings whenever possible, as evidenced by the restructuring now underway at UNCG and NCSU, but we also have an obligation to ensure that our operations can be conducted safely, securely, effectively, and with fiscal integrity. I will demand that our chancellors continue such efforts, but I am not willing to be prescriptive with a strict percentage, since I believe our chancellors need the flexibility given them by the legislature and the Board of Governors to effectively and efficiently manage their campuses.
- **Stop out-of-state travel except for travel specifically approved by the President and the Board of Governors.** In 2010-11, the University spent \$19.5 million in state funds for out-of-state and out-of-country travel. I will ask the chancellors to coordinate reviews of out-of-state travel to ensure that only the most essential travel is paid for by the state. However, bear in mind that in today’s world, travel is often required to engage in important national and international work that has been undertaken by our faculty, to advance global academic and research partnerships,

and to conduct research that can help rebuild and grow North Carolina's economy. As an example, you may have seen media coverage recently when an HIV prevention research study led by Dr. Myron Cohen, a professor of medicine, microbiology and immunology at UNC-Chapel Hill and director of the UNC Institute for Global Health and Infectious Diseases, was named the 2011 "Breakthrough of the Year" by the prestigious journal *Science*. This remarkable research, which found that early treatment with antiretroviral therapy reduced HIV transmission in couples by at least 96 percent, could not have been accomplished without international travel and collaboration.

- **Restrict scholarship funds to in-state students only.** Students must already be North Carolina residents to be eligible for any financial aid through the UNC Need-Based Aid Program. Since 2009-10, more than \$11 million of state-funded scholarship/tuition-waiver programs for nonresident students have been eliminated (athletic full scholarships, special talent undergraduate waivers, nonresident teacher waivers, nonresident prospective teacher scholars program). Remaining graduate tuition remissions extended to top teaching and research assistants from out of state are critical to maintaining the academic competitiveness of our graduate programs.
- **Defer all athletic facilities expansion.** New or renovated athletic facilities are supported from athletic receipts or from student fees, but are not supported by state budgets. Therefore, this idea would not save any state-appropriated funds. Nonetheless, I believe that this recommendation would ensure that new debt service fees for athletic facilities would not be imposed on students and, thus, is worthy of consideration.
- **Raise all out-of-state undergraduate tuition to the full cost of education.** Although this was not the case when President Spangler was in office, this is already required by the Board's most recent four-year tuition plan and has been in operation for several years.
- **Request all wealthy persons who attended or whose sons or daughters attended a UNC campuses to make a one-time tax-deductible gift in support of ten in-state tuitions.** As I indicated during *An Evening with Five Presidents*, I support this concept and know that all of our campuses pursue gifts from wealthy North Carolinians on a continuing basis.
- **Transfer all RN nursing programs to the Community Colleges.** A recent national study projected a shortage of 260,000 nurses by 2025. North Carolina's share of the shortage will be roughly 7,500 nurses. If this is even close to reality, we will need all the nursing schools we have in place to produce a high quality nursing workforce for the state. There is a growing recognition that the increased complexity of the health problems being treated in hospitals and in community settings requires a nursing workforce with higher levels of critical thinking, problem solving, and patient-management skills. Nationally, the minimum of a Bachelor of Science in Nursing (4-year degree) is now required for positions such as clinical leaders, patient care managers, public health nurses, and school nurses. Nurses wishing to move into management and administration are required to have BSNs or Masters of Science in Nursing, as

well. A number of academic teaching hospitals now require that their entire nursing staffs hold BSNs or above. To respond to this need for higher-level training, a 2004 NC Institute of Medicine Task Force on the Nursing Workforce recommended that North Carolina increase the proportion of nurses in the state with a BSN to 60% by 2020. Currently, only 35% hold such credentials. UNC programs are also fundamental to growing faculty for our schools of nursing, at both the community college and university levels. To be nationally accredited, community college nursing programs must have all faculty trained at the master's level. There has been a chronic shortage of nursing faculty at all levels for many years, a factor that prevents many schools from admitting more students who are academically qualified.

- **Delay all new program expansions for two years.** As recently validated by the Jim Woodward review, the Board already has in place effective practices for the screening and consideration of campus requests for new academic degree programs. In addition, the Board has for many years followed a rigorous review process that has facilitated the consolidation or elimination of programs with low demand or productivity. Currently, there are no requests pending for the sorts of new professional schools cited by President Spangler, e.g. law, medicine, pharmacy, engineering, or dentistry. You will recall that Chancellor *Emeritus* Woodward has recommended that the Board revisit and consider strengthening further its relevant policies, procedures, and review criteria, and the Board has a task force looking at these matters at the present time.

I share President Spangler's commitment to making our University more efficient and keeping it affordable for North Carolina families. I also appreciate the specific cost-cutting ideas he offered at our *Evening with Five Presidents*. Any proposals that might save money and allow us to reinvest those dollars in our academic programs are worthy of consideration and, as you can see, we have already implemented many of President Spangler's suggestions or are acting upon them now. The reality, however, is that the potential savings from all of his ideas together wouldn't begin to address the magnitude of reductions that we have experienced in our state budgets this year.

I believe that we are on the right path with our continued efficiency initiatives. All of our campuses have implemented or are in the process of implementing e-procurement systems, and we have an initiative underway at General Administration to consolidate these systems in order to drive down the cost of purchasing goods for all of our institutions. E-procurement systems also provide for the electronic processing of bill paying, saving campuses significant sums. Through this initiative alone, we are on track to achieve \$41.5 million in annual savings, the kind of savings that will make a real difference in our operations.

All of you know that we are now processing at General Administration the payrolls for nine of our smaller campuses. Working collaboratively with the North Carolina Community Colleges, we also are examining the feasibility of processing the verification portions of financial aid applications as a shared service, thereby eliminating the need for redundant processes at our institutions, as well as at the community colleges. Further, we are contemplating making all residency determinations in a shared services environment, instead on each campus. We also have a project underway to implement shared services for advancement officers. Through our Information Technology division, we are capitalizing on

the sharing of specific skill sets among campuses. For example, we make data base administration support available through General Administration for those campuses that do not need or cannot afford a full-time data base administrator. Our campuses that are co-located are examining ways to collaborate with each other to reduce costs. Again, as an example, the UNC School of the Arts procures internal audit services from Winston-Salem State University rather than paying for its own full-time internal auditor. Throughout our University, our campuses are adjusting to the new normal with creative solutions to economic problems, and we will continue to encourage and support these initiatives.

It is critical that we continue to save money through efficiencies so that we can then reinvest those resources to maintain quality and affordability. If we act smartly and thoughtfully, we have the opportunity to become an even stronger and better University.