

THE UNIVERSITY OF NORTH CAROLINA

Budget Process

Background and Legal Bases of Process

The process by which The University budget is developed and administered has its legal bases in the State's Executive Budget Act and the Higher Education Reorganization Act of 1971. The Board of Governors, working within this statutory framework, has developed policies and procedures designed to (1) meet its responsibilities for presenting comprehensive financial plans to the General Assembly, (2) modify those plans in light of resources made available by the Legislature, and (3) establish and administer the annual budgets of The University and of those related educational activities for which the Board is responsible.

Three characteristics of the Executive Budget Act are most pertinent to the budget process of the Board of Governors. First, it is required that the Board's budget requests be presented to the General Assembly through the Governor, in consultation with the Advisory Budget Commission, who has responsibility for making recommendations to the Legislature on the appropriation requests of all State agencies. Second, The University's requests must be presented in the format and on a schedule established by the Director of the Budget (the Governor). Third, the Act provides that appropriations made in response to the requests of the agencies and the recommendations of the Governor, in consultation with the Advisory Budget Commission, may be used only for the purposes identified in the requests and recommendations or as amended by the General Assembly. However, this requirement has been modified significantly for those institutions designated as "special responsibility constituent institutions."¹

¹For further explanation see the Selection Criteria and Operating Guidelines for Special Responsibility Constituent Institutions, which is shown as Appendix I. Currently all 16 constituent institutions are designated as "special responsibility constituent institutions."

Partly in response to the frequent criticisms of prior procedures which allowed each institution to deal directly with the General Assembly on appropriation matters, the 1971 legislation reorganizing public senior higher education called for a single entity — the Board of Governors — to present a comprehensive budget request on behalf of The University of North Carolina. The statutes prescribe the form in which the budget requests are to be presented to the General Assembly and establish the pattern by which appropriations are to be made. The mandate to the Board with respect to budget requests is as follows:

The Board of Governors shall develop, prepare and present to the Governor, the Advisory Budget Commission and the General Assembly a single, unified recommended budget for all of public senior higher education. The recommendations shall consist of requests in three general categories: (i) funds for the continuing operation of each constituent institution, (ii) funds for salary increases for employees exempt from the State Personnel Act, and (iii) funds requested without reference to constituent institutions, itemized as to priority and covering such areas as new programs and activities, expansions of programs and activities, increases in enrollments, increases to accommodate internal shifts and categories of persons served, capital improvements, improvements in levels of operation and increases to remedy deficiencies, as well as other areas. The function of the Advisory Budget Commission under this section applies only if the Director of the Budget consults with the Commission in preparation of the budget. [G.S. 116-11(9)a]

The directive as to appropriations is as follows:

Funds for the continuing operation of each constituent institution shall be appropriated directly to the institution. Funds for salary increases for employees exempt from the State Personnel Act shall be appropriated to the Board in a lump sum for allocation to the institutions. Funds for the third category in paragraph (a) of this subdivision shall be appropriated to the Board in a lump sum for allocation to the institutions. The Board shall make allocations among the institutions in accordance with the Board's schedule of priorities and any specifications in the Current Operations Appropriations Act. When both the Board and the Director of the Budget deem it to be in the best interest of the State, funds in the third category may be allocated, in whole or in part, for other items within the list of priorities or for items not included in the list. Provided, nothing herein shall be construed to allow the General Assembly, except as to Capital Improvements, to refer to particular constituent institutions in any specifications as to priorities in the third category. Prior to taking any action under this paragraph, the Director of the Budget may consult with the Advisory Budget Commission. [G.S. 116-11(9)b]

This statutory context represents the principal determinant in the development of the Board of Governors' policies and procedures for budget-making and budget execution. The Executive Budget Act, as elaborated upon in the legislation of 1971, provides a balance of legal authority and responsibility in the administration of financial affairs that the Board requires for effective use of resources and for the direction of educational activities throughout The University. The required submission, as an element of its budget request, of a Schedule of Priorities gives the Board a formal means of framing comprehensive requests to the General Assembly in programmatic terms and provides the Governor and the Advisory Budget Commission, as well as the General Assembly, the informed judgment of the Board as to the relative priorities at different levels of appropriations of the various elements constituting the request. The use of the Schedule of Priorities throughout the remainder of the budget process, as contemplated by the statutes, serves to document the relationship between the Board's budget requests, legislative action on those requests, and the institutional budgets ultimately established by the Board in its allocations.

The Board has now presented 15 "single, unified recommended budgets" to the Governor and the General Assembly. Similar procedures have been employed in the development of each request and in the determination of the form in which the requests have been transmitted, subject to relatively minor changes reflecting only modifications required by the Director of the Budget or indicated by previous experience. However, it should be noted that recently the full Board of Governors has become more involved during the development phase of the budget request than it was previously. Consideration of and action on the Board's requests by the Governor, in consultation with the Advisory Budget Commission, and subsequently by the General Assembly have been substantially as contemplated in the reorganization legislation and subsequent amendments. The allocations and budget approval procedures first used by the Board in 1973, although changed slightly in subsequent budget-making

cycles, have satisfactorily accommodated the varying appropriations patterns for over the past quarter century.

Linkage of the Board's Budgeting and Planning Processes

Any description of the University's budget process should acknowledge the importance of the Board's planning and policy functions which always precede and inform the preparation of the Budget Request. (Generally, the Board's Long-Range Plan is revised in odd-numbered years and the biennial budget request is prepared in even-numbered years). The system of governance adopted by the Board of Governors, as set out in The University's Code, did not contemplate that the budget process would be the policy-making process of the Board. Rather, the Board's work is so structured as to have policy made in other contexts, and the budget process is driven by those other actions of the Board--to reflect policy, rather than to make policy. The most compelling policy decisions that affect the budget requests are the Board's determinations of the missions of the individual institutions, the current edition of the *Long-Range Plan*, and special Board studies addressing policy issues. This relationship is most evident in the formulation of the Board's Schedule of Priorities for Current Operations. Appendix II shows the linkage between the current long-range planning objectives and the Schedule of Priorities included in the Board's 1999-2001 Budget Request.

Steps in the Biennial Budget Preparation Process

The steps in the process of preparation of the Board's biennial budget request for transmittal to the Governor, in consultation with the Advisory Budget Commission and the General Assembly, are these:

1. The President of The University receives from the Office of State Budget and Management budget instructions which include general guidelines established by the Governor as Director of the Budget, the Advisory Budget Commission, and the Office of State Budget and Management, the final date for transmittal of the request to the Governor and Commission, and specific details as to format.

2. Budget workshops are conducted separately with three groups: the President's cabinet, the Chancellors, and the Board of Governors. During these workshops, the recent budgetary actions of the General Assembly are reviewed and recent Board studies and Long-Range Planning priorities and strategic directions are linked to components of the proposed budget request and relative priority assignments are determined. It is noted that the most recent budget requests have focused entirely on the Board's overall planning priorities and strategic directions and have resulted in smaller expansion budget operating requests. At the campus level, more emphasis has been placed on reallocation of existing resources to meet institutional priorities and less emphasis on anticipated additional resources.
3. In conjunction with the decisions reached at the budget workshops, the President provides instructions to the constituent institutions for the preparation of budget estimates.
 - (a) The instructions first identify the types of increased operating costs that may be included in the continuation budget requests. Although there has been some variation among budget requests, acceptable increases, as determined by the State Budget Officer based on policies established by the Governor, in consultation with the Advisory Budget Commission, have generally addressed increases mandated by State law (e.g. increases related to employer's retirement contributions) and federal statute (e.g., increase in employer's tax for social security), operating funds (reserves) for new facilities scheduled for occupancy during the budget period, and identifiable increases in a limited number of specific operating accounts (e.g. library books on occasions, fuel, and utilities increases).
 - (b) The instructions relating to the academic salary increases request reflect conclusions reached by the President after consultation through budget workshops with her Cabinet, the Chancellors, and the Board of Governors. Specific instructions are issued to the constituent institutions which relate to the common identification of the appropriations salary base from which the salary increase request is projected.
 - (c) The program improvements and expansions and capital improvements budget instructions identify the basic framework within which the institutions prepare the campus-based estimates essential for development of the Schedule of Priorities request. It is noted that some requests in this budget component are initiated and developed by the President's staff, with the institutions participating less formally in the development of a comprehensive University-wide request. Some expansion requests have both University-wide and institutional components.

In 1998-99, there was a significant change in the method of funding enrollment increases, which has traditionally been the highest priority of the Board for expansion and improvements current operations funding. Beginning in 1998-99, enrollment increases are being funded on the basis of semester credit hours rather than on the previous basis of full-time

equivalent (FTE) students. Also in 1998-99, students served at a distance are being funded on a basis comparable to on-campus instruction for the first time.

4. Upon receiving instructions and guidelines from the President, each constituent institution proceeds to prepare its budget estimates in the manner indicated. The Chancellor is responsible for the preparation of the budget estimates for the institution and the assignment of any institutional priorities that may be applicable to the request. The internal procedure for assuring the involvement of the faculty and staff in the preparation of the institutional estimates is determined by the Chancellor.
5. After the institutional budget estimates are received by the President, the review procedures are:
 - (a) Continuation Budgets are reviewed by the Vice President for Finance and staff for general consistency and conformance with instructions. The campus data upon which the academic salary increases requests are based are also reviewed in a similar manner.
 - (b) A Budget Committee, headed by the Senior Vice President and Vice President for Academic Affairs and composed of senior members of the President's staff, reviews all campus budget estimates for program improvements and expansions and capital improvements. The Committee assesses institutional priorities, examines requests with reference to the established role and mission of the institution, and evaluates each program or project included in the institutional estimates. Beginning in 1996, the Board implemented a new plan for the prioritization of capital improvements projects presented in the Schedule of Priorities.
6. After receiving the recommendations of the Vice President for Finance and the Budget Committee, the President confers with the Chancellors of the constituent institutions, as appropriate, and then prepares the budget recommendations for consideration by the Board's Committee on Budget and Finance. All proposed requests for appropriations for program improvements and expansions and capital improvements are summarized in the Schedule of Priorities and supported in appropriate detail. Beginning in 1996, the Budget and Finance Committee and the President and senior staff have conducted budget workshops for the Board of Governors in advance of the Board's formal consideration of the budget recommendations.
7. The Board's Committee on Budget and Finance considers the budget proposed by the President and, upon its approval, submits the budget to the Board of Governors.
8. The Board of Governors considers and takes final action on the budget following approval by its Committee on Budget and Finance. The Board's budget request is then submitted to the Governor and the Advisory Budget Commission.

9. Following the formal transmittal of the request, the President represents The University in such hearings as the Governor and the Advisory Budget Commission may hold on the request.
10. The Governor, in consultation with the Advisory Budget Commission, forwards recommendations on the University's budget request to the General Assembly as a part of the comprehensive State budget recommendations.

The Budget Request calendar for 1999-2001, which relates the process described above to the most recent preparation schedule, is shown as Appendix III.

Reconvened Legislative Sessions

Since the early 1970's, the General Assembly has reconvened in even-numbered years for a "Reconvened" or "Short" Session principally to make adjustments in the State's budget. Prior to the beginning of this Session, the Board of Governors has an opportunity to submit a Supplemental Budget Request to the Governor and the General Assembly. In the development of the Supplemental Budget Request, the Board of Governors has been able to review and revise the enrollment increase estimates and make other adjustments in its budget request. A collaborative internal process similar to the one previously described for preparation of the biennial request is followed. However, since the budget review is being made in the context of Regular Session appropriations actions and the principal focus is on unfunded high priority expansions and improvements requests included in the Schedule of Priorities and salary increase requests, the development process is not nearly as lengthy as that for the preparation of the biennial budget request.

Legislative Consideration of the Board's Budget Request

The political and economic conditions, which change over the years, have had a profound influence on the budgetary deliberations of each Session of the General Assembly. These conditions ultimately affect the appropriations made to fund The

University, as well as all other agencies and programs supported by the General Fund. The budget request of The University, and especially the Schedule of Priorities, has been designed to present the highest priority needs of The University in an effective manner without regard to the political and economic conditions facing the General Assembly. This has been the case throughout the years the Board has been in existence.

The Legislative consideration of the Board's request is centered on the Appropriation Committee hearings, especially those of the Appropriations Subcommittee on Education. In some Sessions, these have been conducted as joint meetings with both the House and Senate; in other Sessions these Sub-Committees have met separately. Even when they have met separately, there is usually some point in the process when separate budget proposals are developed by the House and the Senate and reconciled through a Conference Committee at the end of the budget deliberations.

Hearings usually begin with The University's continuation or base budgets; then consideration is given to expansions and improvements requests for both current operations and capital improvements, and to academic salary increases requests. The President and the senior staff, with appropriate assistance from the Chancellors, represent The University in hearings held by the legislative committees considering The University's budget request. The committee hearings begin soon after the Session begins and continue on varying schedules until near the end of the Session. At the conclusion of the process, the budget enacted by the General Assembly is included in one or more appropriations bills. Traditionally, operating and capital improvements appropriations are made in separate bills; however, on some occasions both appropriations are included in a single bill. On a limited number of occasions The University has also received some appropriations in "special bills," separate bills

making an appropriation for a single or a limited number of specified programs or purposes.

Appropriations to The University

After legislative consideration of the budget has been completed, the General Assembly appropriates funds to The University in accordance with the statute cited previously. Continuation budgets are appropriated directly to the 16 constituent institutions. Academic salary increase funds are appropriated to the Board of Governors in a lump sum for allocation to the constituent institutions. Funds for program improvements and expansions and capital improvements are also appropriated to the Board in a lump sum, subject to any specifications identified in the Budget Appropriation Acts. Since 1993, the General Assembly has appropriated funds to the Board of Governors in a Reserve for Repairs and Renovations, which has been allocated to the constituent institutions in accordance with a formula adopted by the Board.

Budget Allocations by the Board of Governors

Upon receipt of the notice of appropriations to the Board of Governors, each institution is given the opportunity to reassess its earlier estimates and priorities in the light of current enrollment estimates, legislative action on the continuation requests, the institutional allocation of the total amount made available to the Board for University-wide program expansions and capital improvements, and any applicable legislative directives. Utilizing internal procedures substantially the same as those followed in developing the budget request, the President then prepares and presents to the Committee on Budget and Finance and the Board of Governors recommended allocations of the lump sum appropriations, including those for academic salary increases, subject to any applicable legislative directives. The Committee's report is

then formally recommended to the Board of Governors and final action is taken on the allocations. Recently, the Budget and Finance Committee and the President and senior staff have conducted a budget workshop for the Board of Governors to review proposed allocations in detail prior to Board action. These allocations, in combination with the direct appropriations to the campuses in the continuation budgets, constitute the approved operating and capital budgets for the institutions. If the Board of Governors' allocations requires any amendment of the Schedule of Priorities, the concurrence of the Director of the Budget (who may consult with the Advisory Budget Commission) in the amendments is required. The continuing operations budgets are certified to the institutions in line-item detail. The Board allocations for operating funds from the lump sum appropriation are also identified to the institutions in the same detail. Appendix IV shows the 1998-99 current operations and capital improvements budgets as established by the Board of Governors.

Budget Administration and Execution--Current Operations

The Executive Budget Act authorizes limited transfers between budget purposes and objects of expenditures within an established institutional operating budget; however, in 1991² the General Assembly enacted the UNC Management Flexibility legislation which grants significant additional authority in the area of budgeting, as well as personnel administration and purchasing, to those institutions designated "special responsibility constituent institutions." The Board of Governors, acting on the recommendation made by the President after consultation by him with the State Auditor, is authorized to designate one or more institutions as special responsibility constituent institutions. In this regard, the Board of Governors originally adopted

² The 1991 legislation contained a sunset provision of June 30, 1994. The sunset provision was removed by the General Assembly in 1994 and the legislation became a permanent part of the General Statutes.

Selection Criteria and Operating Guidelines for Special Responsibility Constituent Institutions at its meeting of September 13, 1991, and made the most recent revision on November 13, 1998 as shown in Appendix I. Currently all 16 constituent institutions have received designated status and each Chancellor is administering the institutional budget under the Operating Guidelines.

Budget Administration and Execution--Capital Improvements

The capital improvements budgets are, by Board of Governors' policy, subject to more centralized execution than are operating budgets. Capital funds that are allocated by the Board for new facilities or for major renovation of existing facilities are not transferred to the institutions until the construction bid procedure has been completed and the actual costs of the proposed project determined. Funds for repairs and renovations are transferred to the constituent institutions after allocation by the Board of Governors and subsequent review by the Joint Legislative Commission on Governmental Operations and the Fiscal Research Division of the General Assembly.

For both large capital projects and repairs and renovations projects, the President is authorized by the Board to approve limited transfers from one project to another in the interest of timely execution of construction contracts. Such transfers may require the concurrence of the Director of the Budget, who may consult with the Advisory Budget Commission.

Budgetary Reporting

Each institution is required to file a monthly financial report with the Office of State Budget and Management on each State budget code for both operating and capital improvement funds. Copies of these reports are received by the President.

If you would like a complete copy of the Budget Process document with the appendices included, please contact Karen Russell at UNC-General Administration at 919-962-4606 ktr@ga.unc.edu. Your University library also has a complete copy.