August 21, 2012

2013-15 Budget Memorandum – Number 1

TO: The Chancellors
    President, UNC Hospitals

FROM: Charlie Perusse

SUBJECT: Preparation of the 2013-15 Operating Budget Priorities:
          Continuation Budget

As the process for developing the University’s 2013-15 Budget Priorities begins, it is important to acknowledge that the State of North Carolina expects only modest economic growth over the next several years. Therefore, our recommendations will need to be very focused and in line with the Board of Governors’, the Governor’s and the General Assembly’s priorities. Likewise, as the Board of Governor’s Strategic Planning process continues to evolve, the 2013-15 Budget Priorities will reflect the outcomes of those discussions.

The purpose of this first memorandum is to transmit supplemental instructions unique to the University for the preparation of your 2013-15 continuation budgets. The Office of State Budget and Management (OSBM) has issued instructions for the preparation of the 2013-15 Governor’s Recommended State Budget. If you have not already done so, please obtain copies of these instructions from OSBM’s website using the following address: http://www.osbm.state.nc.us.

For planning purposes, the University’s budget request information is expected to be presented to the Board of Governors at its meetings in October and November. During the next few months, we will work on these items with you and your campus staffs.

The first set of instructions released by OSBM includes detailed guidelines for the preparation of the continuation budget. Since the State has increasingly considered continuation and expansion items together, and G.S. 116-11 also requires that the Board of Governors presents a “single, unified recommended budget for all of the constituent institutions,” General Administration will take a more active role in the preparation of the University’s continuation budget request. Therefore, please follow guidelines in this memo as it pertains to the continuation budget process, including the submission of items to UNC-GA Finance, rather than submitting information directly to OSBM.
There are multiple items discussed in OSBM’s continuation instructions. At this time, the University will focus primarily on the following allowable increases:

1. operating funds for new or renovated facilities (appropriated projects);
2. annualization of programs and positions/removal of nonrecurring items; and
3. enrollment change funds.

The first item that your campus will need to complete and submit to UNC-GA is a request for operating funds for new or substantially renovated facilities. Please review the listing of any new or renovated facilities that are scheduled to come online at your campus during the 2013-15 biennium. To be eligible to request that the State’s General Fund cover the operations of that facility, the determination should be made that the facility serves a State function and that the project was authorized by the State. Generally, if the project was completed using the non-appropriated/self-liquidating process, it will not be eligible for inclusion in the state funds request for operational dollars. (Some special situations may exist, which can be handled individually.) In order to request these operating funds for eligible facilities, please complete the attached building reserve new facility or renovated facility template (as appropriate) and submit to Kristen Crosson (kcrosson@northcarolina.edu) by September 7, 2012. Questions on the building reserve templates may be directed to Kristen or to Ginger Burks.

In regard to the annualization of programs and adjustments for nonrecurring items, UNC-GA will take the lead in working with OSBM to determine applicable items. General Administration staff will coordinate with your CFO and Budget Officers.

UNC-General Administration will also complete a review to determine whether additional requests for other inflationary increase items, such as gasoline, fuel oil, utilities, or library books and periodicals should be requested. After that review is completed, UNC-GA Finance Staff will consult further with the CFOs and budget office staffs to make a determination whether any requests for these items will be included in the University’s budget request. If you have an item that you believe deserves particular attention, please direct that information to Ginger Burks (ginger@northcarolina.edu).

OSBM lists several items as “exceptions” which would only be considered in extreme circumstances. These include requests for replacement of existing equipment and replacement of vehicles. Each campus should critically evaluate whether there is documented evidence of extraordinary conditions or cost drivers that would prevent the maintenance of current operational levels in the next biennium within existing resources. If the determination is made that a request for funding in these areas is justified, the campus should complete the associated required OSBM worksheet and forward that information to UNC-GA (see table on page 3) by September 7, 2012.

This is the first of a series of budget memoranda that will address multiple components of the 2013-15 Budget Priorities. Additional memos will address the enrollment, expansion and capital budget processes. I look forward to working with each of you and your staffs to compile a budget request that can be successful with the Governor and General Assembly in 2013.
For your planning, below is a quick summary of continuation budget items:

<table>
<thead>
<tr>
<th>Continuation Item</th>
<th>OSBM page</th>
<th>FORM</th>
<th>Due to GA</th>
<th>GA Contact(s)</th>
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</thead>
<tbody>
<tr>
<td>Operating Funds for New/Renovated Facilities</td>
<td>20</td>
<td>Attached to this memo (UNC form)</td>
<td>9/7/12</td>
<td>Kristen Crosson <a href="mailto:kcrosson@northcarolina.edu">kcrosson@northcarolina.edu</a></td>
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<tr>
<td>Exception Requests (equipment, vehicles, other non-facility based operating accounts)</td>
<td>20-21, multiple attachments</td>
<td>OSBM attachment</td>
<td>9/7/12</td>
<td>Ginger Burks <a href="mailto:ginger@northcarolina.edu">ginger@northcarolina.edu</a> Kristen Crosson <a href="mailto:kcrosson@northcarolina.edu">kcrosson@northcarolina.edu</a> Erin Schwie Langston <a href="mailto:eslangston@northcarolina.edu">eslangston@northcarolina.edu</a></td>
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<tr>
<td>Facility Based Adjustments (utilities such as water &amp; sewer, electric/natural gas, fuel oil)</td>
<td>20</td>
<td>N/A</td>
<td>Coordinated with each campus as needed</td>
<td>Ginger Burks <a href="mailto:ginger@northcarolina.edu">ginger@northcarolina.edu</a></td>
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<tr>
<td>Program Adjustments (library books &amp; periodicals, K-12 textbooks, gasoline, etc.)</td>
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<td>N/A</td>
<td>Coordinated with each campus as needed</td>
<td>Erin Schwie Langston <a href="mailto:eslangston@northcarolina.edu">eslangston@northcarolina.edu</a></td>
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<td>Nonrecurring Items</td>
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<td>Annualization of Programs, New Facilities, Salaries</td>
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<td>Ginger Burks <a href="mailto:ginger@northcarolina.edu">ginger@northcarolina.edu</a></td>
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<td>Receipts Adjustments</td>
<td>18-19</td>
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<td>N/A</td>
<td>OSBM Budget Analyst</td>
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</table>

**Attachments:**
Instructions and templates for New Building Operating Funds and Operating Funds for Renovated Buildings

cc: Chief Academic Officers
Chief Finance Officers
Legislative Liaisons
Ms. Elizabeth Grovenstein, OSBM