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Higher Education

In the difficult economic times of the 2002 legislative session, the chief interests of the University of North Carolina and the North Carolina Community College System centered on the General Assembly's appropriations decisions. How bad would the cuts be?

The session's principal diversion was the controversy surrounding a summer reading program for incoming freshmen at Chapel Hill. Was it an unconstitutional violation of First Amendment rights to have all students read and discuss a book on Islam that many felt, in the wake of September 11, 2001, presented a distorted and unduly rosy picture of Islam and the Qur'an? A proposal to limit spending on such summer reading programs failed.

Mainly, thoughts centered on the lack of funds.

Appropriations and Salaries

The University of North Carolina Current Operations

Because the General Assembly works on a two-year budget cycle, the budget adopted in 2001, as in all odd-numbered years, set appropriations for both years of the cycle. In 2002, as in other even-numbered years, budget revisions made for the second year reflect the needs and resources currently available. This year, lack of resources drove the budget revisions: the General Assembly cut \$464 million from the statewide, government-wide General Fund appropriations for 2002–2003.

The University of North Carolina (UNC) shared in the cuts. From the original appropriation to the UNC Board of Governors of \$1,797,720,830, the budget revisions in the 2002 budget act (S.L. 2002-126 [S 1115]) took a total of \$30,223,721.

Community Colleges Current Operations

The budget act appropriates funds for all categories of state government operations, including education, health and human services, natural and economic resources, justice and public safety, transportation, debt service, general government, and many subcategories within each of these. Of all the subcategories adjusted by the 2002 budget act, only a handful received increases in the

amounts originally appropriated for fiscal 2002–2003. Of these few, the single largest increase (after the reserve for step-increases for public school teachers' salaries) went to the Community College System, whose budget grew by \$26,085,931 over the original appropriation of \$643,195,459. When times are hard economically, demand for community college services increases, and this upward budgetary adjustment reflects that fact.

Capital Improvements

Historically, the General Assembly has appropriated funds for capital improvements at the constituent institutions of The University of North Carolina System through the regular budget cycles. For those institutions, the state bears the entire burden of maintaining facilities. For the Community College System, however, while the General Assembly has occasionally made appropriations for capital improvements, it has principally left the chief burden for community college facilities where the general law places it, on counties.

The 2001 budget act contained no appropriations at all for capital improvements in either the university system or the Community College System, and the 2002 budget act similarly contains no appropriations for this purpose. In 2000 the voters of the state approved issuance of \$2.5 billion in bonds for the university and \$600 million for the Community College System to fund an extensive list of capital improvement projects. Since that time, there have been no direct appropriations.

S.L. 2002-173 (H 1726) does, however, authorize a number of UNC construction projects to be funded through gifts, grants, receipts, self-liquidating indebtedness, or other sources, but not from state appropriations or 2000 bond funds. Among the projects authorized are a \$78-million medical research facility at UNC Chapel Hill, a \$77-million student housing project at North Carolina State University, a \$46-million student residence project at UNC Chapel Hill, a \$22-million student residence project at UNC Charlotte, and a \$22-million student union project at UNC Wilmington.

Salaries

The 2002 budget act, S.L. 2002-126, contains no appropriations for salary increases for university system or community college employees. It does, however, include (in Section 28.3A) a one-time allocation of ten extra vacation days. The extra days are to be accounted for separately and may be carried over indefinitely. In that same section, the General Assembly “encourages the State Board of Community Colleges to adopt rules authorizing the colleges to provide special annual leave bonuses, compensation bonuses, or other employee benefits to their employees.”

Community College Governance

Budget and Management

Section 8.1 of S.L. 2002-126 contains a provision, also found in the 2001 budget act, allowing a community college to use all the state funds allocated to it (except for Literacy Funds and Funds for New and Expanding Industries) for any authorized purpose that is consistent with the college's Institutional Effectiveness Plan. Each college is to include in its plan a section on how funding flexibility allows the college to meet the demands of the local community and to maintain a presence in all previously funded categorical programs. However, systemwide, no more than 2 percent of funds may be transferred from faculty salaries without the approval of the State Board of Community Colleges.

Section 8.8 of the budget act authorizes the State Board to transfer funds within the budget of the Community College System Office to the extent necessary to implement base budget reductions and to reorganize the System Office so as to maintain management efficiencies. Section 8.14 directs the State Board to report to the General Assembly all reductions made by the State

Board and the individual colleges in implementing management flexibility reductions. Section 8.5 directs the State Board to examine and recommend to the General Assembly new options in state aid allocation for community college budgets.

Study of Entire System

Section 8.7 of the 2002 budget act directs the Joint Legislative Education Oversight Committee, in conjunction with the State Board of Community Colleges, to hire an outside consultant to consider

- the organization and structure of the system,
- the number of colleges, their location and sizes,
- whether some colleges or programs should be consolidated,
- the formula used to fund administration at the colleges,
- funding levels,
- appropriate size of administrative staffs,
- the funding of multicampus colleges and off-campus centers.

The same section authorizes the Joint Legislative Education Oversight Committee to hire an outside consultant to

- study system funding (including state funds, county funds, and tuition rate),
- compare the level of funding in North Carolina to other states,
- consider an appropriate level of county funding,
- look at current levels of tuition in light of available financial aid.

The results of both these studies are to be reported to the 2003 General Assembly.

Regional Programs

Section 8.7 of the budget act expresses the legislature's intent to increase the number of regional program offerings in the community colleges and to reduce duplication of programs by colleges that are reasonably close together. It directs the State Board to review existing programs and determine which ones can be offered on a regional basis. It also directs the State Board to report annually to the Governor, the Lieutenant Governor, the Speaker of the House, and the Joint Legislative Education Oversight Committee on all new programs the Board approves, the reason for the approval, and the progress made toward regionalizing programs.

UNC Governance

Scholarship Programs Consolidated

In Section 9.4 of the 2002 budget act, the legislature created a single scholarship fund, to be known as the "UNC Campus Scholarships." The following programs are combined into this fund:

- minority presence grants,
- Incentive Scholarship Program for Native Americans,
- Elizabeth City State University Incentive Program,
- Incentive Grants for Certain Constituent Institutions,
- Freshmen Scholars Program,
- Legislative College Opportunity Program.

All obligations to current students under these old programs are to be met. Under the UNC Campus Scholarships program, funds will be distributed to institutions in the same proportions as the combined funds of all the programs being replaced. Each institution will be required to maintain its current proportion of the allocation for Native American undergraduates. Scholarships for doctoral study are to be allocated according to the proportion of doctoral students enrolled at each campus that has doctoral programs.

Only North Carolina residents will be eligible. The State Education Assistance Authority will administer the UNC Campus Scholarships and make periodic recommendations about the redistribution of funds.

The Board of Trustees of each institution shall define its particular campus goals and guidelines for using the UNC Campus Scholarships for undergraduates, subject to the approval of the UNC president. Unless a campus administration has determined that it already has sufficient diversity in its undergraduate student population to provide the educational benefits of diversity, it is to award at least the same proportion of these funds to undergraduates who would promote diversity as was previously provided by minority presence grants, to the extent permitted by the constitution and laws of North Carolina and the United States.

Section 9.4 provides that no institution is required to have a community service requirement for receipt of grants from the UNC Campus Scholarships.

Need-Based Scholarship Funding

Section 9.19 of the 2002 budget act amends G.S. 116B-7, which has made income derived from investments of the Escheat Fund available for student loans, to make the income also available for student grants administered by the State Education Assistance Authority. It appropriates \$19,725,000 from Escheat Fund income to the UNC Board of Governors and \$1,000,000 to the State Board of Community Colleges. These funds are to be allocated by the State Education Assistance Authority for need-based student financial aid.

Collection of Unpaid Loans

Section 9.2 of the 2002 budget act transfers to the State Education Assistance Authority responsibility for collecting certain student loans that are more than thirty days overdue. Heretofore, the loans were the responsibility of the North Carolina Teaching Fellows Commission (for teaching fellows loans) and the Department of Public Instruction (for loans under the Scholarship Loan Fund for Prospective Teachers).

Umstead Act

The Umstead Act in general prohibits state government entities in North Carolina from engaging in economic activities that compete with private businesses. A set of exceptions found in G.S. 66-58(b)(8) provides that the Umstead Act does not apply to the Centennial Campus of North Carolina State University, the Horace Williams Campus of UNC Chapel Hill, or to any millennial campus of any UNC institution. The 2002 budget act, in Section 9.10A, directs the UNC Board of Governors to report on all activities that have been undertaken under this set of exceptions, detailing the reasons for those activities, listing activities that would have been prohibited without the exceptions, and including a similar report on anticipated future activities. Section 9.15 adds a new G.S. 66-58(h) providing that before certain steps are taken in connection with building a new golf course, hotel, or motel on the Centennial Campus, the Horace Williams Campus, or a millennial campus, the university must consult the Joint Legislative Commission on Governmental Operations.

S.L. 2002-109 (S 1441) adds a new G.S. 66-58(b)(8a) creating an Umstead Act exception for UNC gift shops, snack bars, and food service facilities physically connected with any of UNC's public exhibition spaces, including the North Carolina Arboretum, provided that the resulting profits are used to support the operation of the public exhibition space.

State Funds to Private Colleges

For a number of years, the General Assembly has provided funds to private colleges in North Carolina that enroll North Carolina undergraduate students. The funds provided have been of two types. First, there has been a payment to the private college of an amount per student for each

North Carolina undergraduate enrolled; such payments are to be placed in a separate, identifiable account in the college's budget and used to provide scholarship funds for needy North Carolina students. Second, there has been a separate per student payment to the college that is credited directly against that student's obligation to the college.

Section 9.11 of the 2002 budget act amends G.S. 116-22, which defines the private colleges eligible to receive these funds. Previously, a college was eligible only if "its main campus" was located in North Carolina. As amended, the statute now provides that a college is eligible if it has "a main permanent campus" located in the state. That term is defined in the new provision to mean a campus owned by the institution that provides on-premises housing, food services, and classrooms with full-time faculty members and administration that engages in postsecondary-degree activity.

The budget act provides that institutions that met the old definition on January 1, 2001, continue to be eligible, even if they do not meet the new definition.

School of Science and Mathematics

Section 9.12 of the 2002 budget act directs the Joint Legislative Education Oversight Committee to study the North Carolina School of Science and Mathematics, its purpose, its programs, its admissions policies, its administrative and personnel policies, its finances, its property, its financial obligations, and other related issues and report to the 2003 General Assembly.

It also amends G.S. 116-235(d) to provide that the school's Board of Trustees may not impose any fee without approval of the General Assembly, except for traffic, parking, and motor vehicle registration fees.

Horace Williams Airport

The 2002 budget act, in section 9.13, directs UNC Chapel Hill not to close the Horace Williams Airport before January 1, 2005, and directs the chancellor to consult with the Joint Legislative Commission on Governmental Operations before moving Medical Air, Inc., from the airport.

Robert P. Joyce

