

Budget Update

Faculty Council

Nathan Knuffman, Vice Chancellor for Finance and Operations

Nov. 3, 2023



Budget Updates

- North Carolina's new budget:
 - 7% salary increases
 - Significant funding to North Carolina Collaboratory
 - Extensive capital investment funds
 - Generous repairs and renovations funds
- UNC-Chapel Hill capital item funding:
 - Bell Hall, Kenan-Flagler Expansion
 - Nursing School Carrington Hall Redevelopment
 - Gardner Hall Renovation
- UNC-Chapel Hill operating budget priorities:
 - School of Data Science and Society (\$7.5M R and \$2.5M NR in FY24)
 - School for Civic Life and Leadership (\$2M NR in FY24 and FY25)
 - Enrollment Funding (\$1.7M R and \$5.9M NR in FY24)

FY 2024-25 Budget Process

Oct. 25, 2023	Instructions for developing FY24-25 budget submission sent to major campus units (MCU).
Oct. 25 to Nov. 17, 2023	Major campus units develop budgets. Budget and Reporting teams available for support.
Nov. 17, 2023	FY24-25 budget submission due from all MCUs.
Dec. 8, 2023	Compilation of MCU budget requests.
Dec. 4, 2023, to Jan. 26, 2024	Review and discussion of requests with each MCU and the Chancellor.
Feb. 9, 2024	Final budget decisions.
Feb. 23, 2024	Final budget documents completed.
March 27-28, 2024	Board of Trustees review and approval of budget.
May 22-23, 2024	Board of Governors review of budget.

What's New?



New Budget Tool: PlanCarolina

- Increase consistency, ease of use, transparency



New Focus Areas

- Space Allocation
- Contextual Metrics
- Efficiencies
- Enrollment Allocation



Institutional Priorities

- Solidifying investments
- Addressing State priorities
- Enhancing campus safety and accessibility
- Supporting Carolina's excellence

FY 2023-24 Budget

Improves Budget Transparency



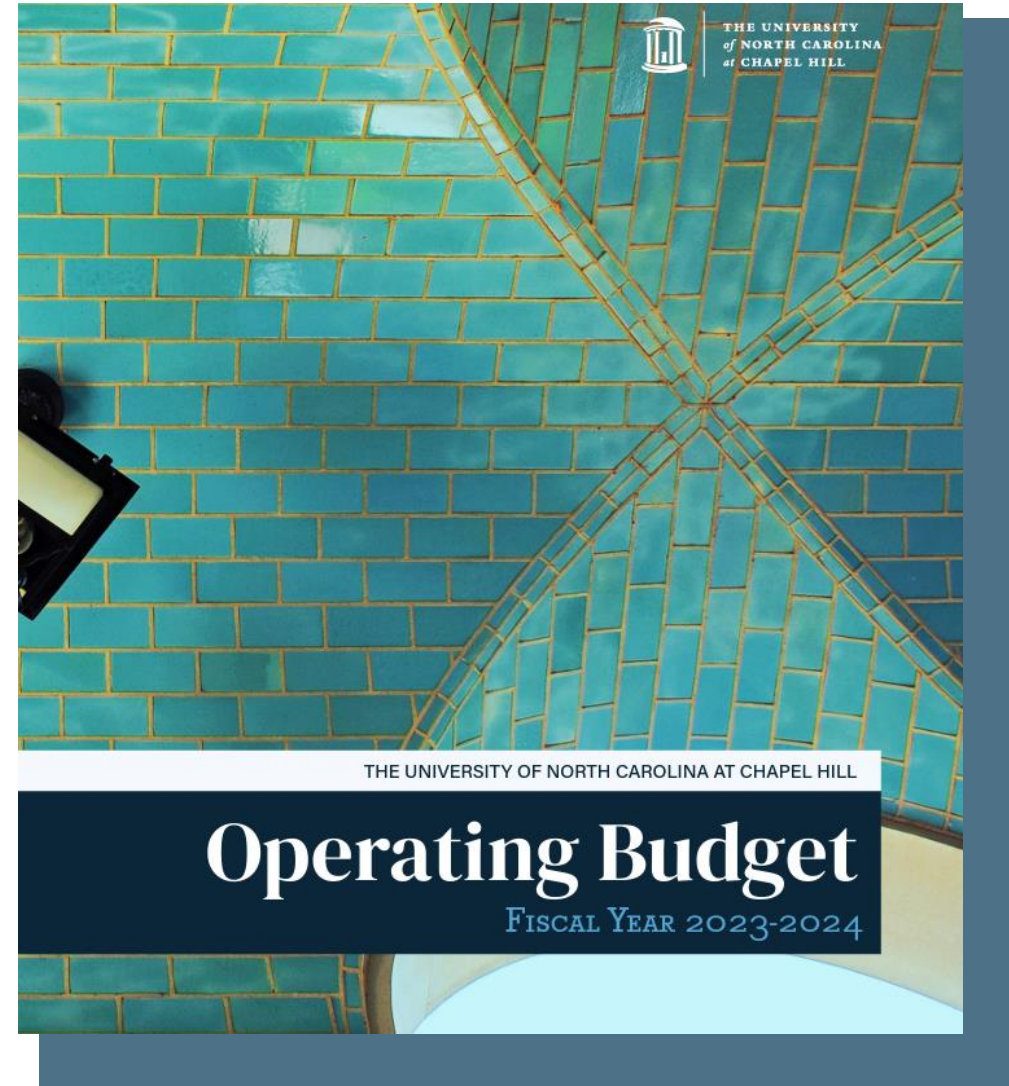
Fiscally Balanced



Reserves Contingency Funds



Aligns Resources to
Top Priorities



Rating Agencies – AAA Rating

"Leadership's move to all funds budgeting and closer expense alignment efforts support the likelihood that the university's operating performance gains in fiscal 2021 and 2022 will remain durable."

-- MOODY'S INVESTOR SERVICE,
MARCH 2023 CREDIT PROFILE UPDATE
AAA STABLE RATING

Positive Contributing Factors

- High student demand
- Consistent and generous state support
- Fundraising strength
- Sustainable endowment distribution rate
- Strong and increasing research awards
- Fiscal management

Rating Sensitivities

- Operating cash flow margin
- Potential cuts to federal research funding
- Potential cuts to state funding

Enrollment Allocation Model



Allocation model addresses long-standing issues

Issues to Address	Allocation Model Improvements
UNC continues to face pressure on primary revenue sources	Allows for a predictable flow of funds over a long-term time horizon
Lack of transparency around resource allocation	Standardizes revenue sharing across units rather than defaulting to one-off agreements
Does not align incentives but rewards declines in productivity	Directs funding tied to changes in enrollment, both up and down
Revenue generation does not tie to revenue distribution	Creates direct correlation between revenue generation and distribution while still allowing for meaningful budget process

Guiding Principles

- An allocation model should allow for robust long-term financial planning.
- An allocation model should be easy to understand.
- The allocation and expenditure of state funds should be transparent.
- Incentives to generate revenue across the institution should be aligned with what is best for the University as a whole.
- The allocation model should be equitable across units to the extent practical.
- Implementation should not be unnecessarily disruptive but should recalibrate over time.

What, Why, When and How?

Why:

Need predictability, transparency, strategic alignment, and there is a new UNC System funding formula

What:

Proposed approach for revenue sharing of *NEW* tuition and appropriation

When:

Gathering feedback now to be incorporated into FY 2024-25 budget process, implemented July 2024

How:

Working groups of deans, finance leads, academic support team, and implementation team

What this is not:

- Not reallocating current dollars
- Not a replacement of the current budget process
- Not directing F&A or other trust dollars
- Not creating additional resources

Endowment Update



COURTESY OF UNC MANAGEMENT COMPANY

Return Summary

UNCIF has generated top decile performance across time periods

Annualized Performance Periods ending June 30, 2023	1 Year	3 Years	5 Years	7 Years	10 Years
UNC Investment Fund	-0.4%	13.9%	10.3%	10.8%	9.7%
<i>Primary Benchmark: SIPP</i>	3.6%	11.2%	8.4%	8.9%	7.9%
Traditional Portfolio: Global 70/30 ⁽¹⁾	11.2%	6.5%	6.1%	7.2%	6.7%
Peer Universe: BNY Mellon E & F ⁽²⁾					
Median	7.1%	9.2%	6.8%	8.2%	7.5%
Top Quartile	9.8%	11.4%	8.2%	9.0%	8.3%
Top Decile	11.8%	13.2%	10.1%	10.7%	9.4%

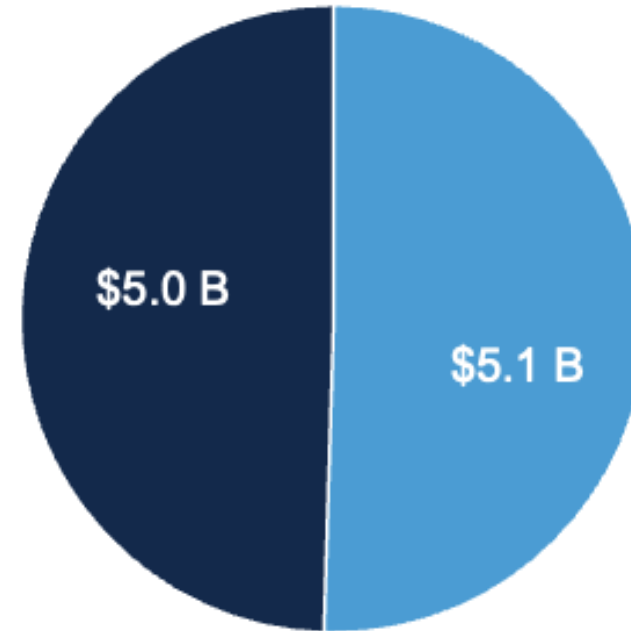
Top Decile Performance

UNCIF has produced 9.7%+ annualized returns and top decile performance over the medium- and long-term

1) Global 70/30 Portfolio: 70% MSCI All Country World Index (ACWI), 30% Bloomberg U.S. Aggregate Bond Index
 2) BNY Mellon Endowment & Foundation universe adjusted for internal fees

Market Value of Endowment

- Less than 10% of \$5.1 B endowment is unrestricted
- Unrestricted funds available for central allocation total approximately \$6.0 to \$7.0 M annually
- Major uses include support for scholarships, fellowships, advising, and Carolina Scholars programs



- Chapel Hill Endowment and Foundations (UNC-CH funds)
- UNC Investment Fund (Pooled funds across UNC System)

Market value as of June 30, 2023

Distribution Policy Objectives

- Protect the real value of CHIF's assets over the long term
- Distribute dollars to support programs at a stable, sustainable rate
- Provide a perpetual stream of increasing financial support at a rate that meets or exceeds inflation over the long term

Distribution Policy: Establishing the Distribution Rate

“Constant Growth” Rule

- **Under the “Constant Growth” approach, the CHIF distribution amount is not determined using a percent of CHIF market value (or a moving average of the market value)**
- **FY 2023’s \$ per unit distribution amount is the primary determinant for setting the \$ per unit amount for FY 2024**
- In the base case scenario, FY 2024’s \$ per unit distribution amount would be FY 2023’s adjusted \$ per unit amount increased for inflation (CPI)
- The percent of CHIF’s market value that gets distributed is a by-product of the “constant growth” methodology
 - % of market value calculations are used to assess the sustainability of the distribution amount looking forward

The objective of the “Constant Growth” approach is to increase annual payouts at a rate equal to or greater than inflation each year

Historical Market Values and Distributions

Chapel Hill Investment Fund

Fiscal Year End	CHIF FYE Market Value \$ millions	Distribution \$ millions	Distribution \$ as a % of Beginning Mkt Value
2013	\$2,337.9	\$123.1	5.8%
2014	\$2,640.0	\$128.1	5.5%
2015	\$2,883.9	\$134.5	5.1%
2016	\$2,782.7	\$143.1	5.0%
2017	\$3,044.2	\$147.7	5.3%
2018	\$3,427.1	\$155.8	5.1%
2019	\$3,639.4	\$167.2	4.9%
2020	\$3,640.1	\$175.3	4.8%
2021	\$5,097.7	\$183.4	5.0%
2022	\$5,242.3	\$200.1	3.9%
2023	\$5,100.6	\$221.4	4.2%
2024 ⁽¹⁾		\$236 ⁽¹⁾	4.6% ⁽¹⁾

Over the past 10 years:

- \$ distributed have increased > 6% annualized
- CHIF mkt value has grown > 8% annualized

- On June 30, 2023 CHIF distributed \$221.4 million to support University programs

(1) Pro Forma - - assumes a 6.6% payout increase on existing shares

Questions?





**FINANCE AND
OPERATIONS**