



Higher Education: Spending What We Have and What We Don't Have

The 2007-2008 legislative sessions were marked by strong but uneven growth in appropriations for the University of North Carolina (UNC) and North Carolina Community College System (NCCCS). NCCCS moved forward with a controversial directive – which it later reversed, and is currently again reviewing – to admit illegal immigrants. The Legislature continued to finance UNC construction projects through authorization of record amounts of non-voter approved certificates of participation (COPs). Major legislation impacting higher education includes:

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What the Legislature Did:

Unprecedented COPs Borrowing

The General Assembly authorized UNC to borrow \$482 million in Certificates of Participation (COPs) in FY 2007-08 and \$523 million in FY 2008-09 for a total of \$1.005 billion in COPs-financed construction projects over two years. COPs do not require voter approval. Because COPs are not backed by the full faith and credit of the state, interest rates are usually approximately 0.5 % higher than for general obligation bonds which require voter approval, costing taxpayers millions more in debt payments.

Expanded Appropriations.

Boosted appropriations for UNC and NCCCS by 19% and 12% respectively over two years.

Enhanced Campus Safety and Outlawed Smoking

Provided \$15 million to implement recommendations of UNC campus safety force. Banned smoking in buildings and grounds of UNC and NCCCS campuses.

Responded to Enrollment Growth

Added \$34 million to UNC base budget to fund the equivalent of 8,100 more fulltime students. Added \$24 million to NCCCS base budget to fund the equivalent of 6,455 new fulltime students.

Expanded Financial Assistance to Middle Income Families

Developed the EARN Scholars program in 2007 to provide tuition subsidies to families of four earning up to \$41,300 per year. In 2008, \$60 million was transferred from the Escheats Fund to keep the EARN Scholars program operating. Expanded eligibility for Legislative tuition grants to half-time students enrolled in at least 6 credits at North Carolina independent institutions.

What Are Certificates of Participation (COPs)?

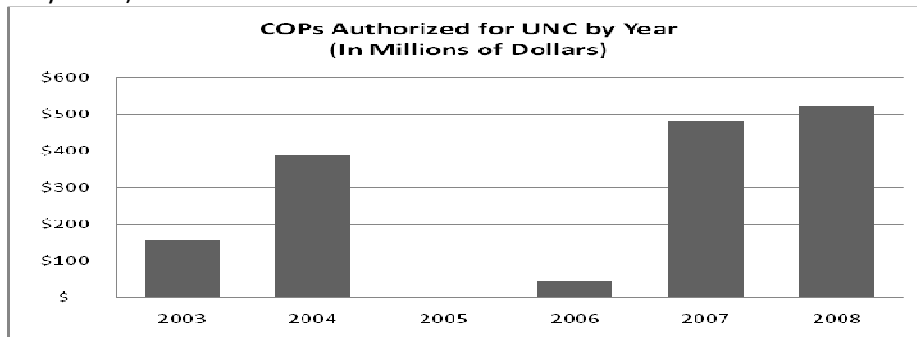
Like general obligation (GO) bonds, COPs are a means for the state to finance capital projects. In exchange for financing, COPs investors receive a claim on a state-provided tax-exempt future revenue stream. Unlike GO bonds where the building financed is used as collateral in the financing transaction, no collateral is used in COPs financing. Should there be a default, COPs investors have no remedy or recourse. For these reasons, state government officials believe COPs reduce the risks of state government borrowing. Unlike GO bonds, COPs do not require voter approval. While the law does not classify COPs as public debt, it is hard to classify the annual state appropriations for debt service as anything other than public debt.



What the Legislature Did Not Do:

Limit COPs Borrowing

Failed to approve an amendment to the budget (2008:Amendment 16 to HB 2436) directing the transfer of all \$542.9 million of certificates of participation (COPs) debt to general obligation bonds and require voter approval. Seventy-seven percent of North Carolina voters oppose allowing the General Assembly to borrow money without voter approval (Civitas Institute DecisionMaker Poll May 2008).



Source: Fiscal Research Division of General Assembly

Restrict Higher Ed Benefits for Illegal Immigrants

Failed to approve legislation (H409), making individuals residing unlawfully in the United States ineligible for in-state tuition benefits. Seventy-six percent of North Carolina voters support charging out-of-state tuition for illegal immigrants (Civitas DecisionMaker Poll, February 2008). Failed to pass legislation (SB 2019) that prohibits illegal immigrants from enrolling in community colleges. Sixty-eight percent of North Carolina voters are opposed to allowing illegal immigrants to enroll in community colleges (Civitas Institute, DecisionMaker Poll, February 2008).

Repeal In-State Tuition For Athletes

In 2006-07, legislation was approved to grant in-state tuition status to all recipients of full-scholarships. Because 70 percent of full scholarships are athletic scholarships, the bill benefits athletic departments and limits in-state admissions. Legislation (HB 205, HB 1602) to prohibit UNC from counting out-of-state students as in-state students and limiting in-state tuition status to recipients of academic scholarships, failed to pass the legislature. Fifty-two percent of North Carolina voters disagree with granting athletes in-state tuition. (Civitas Institute, DecisionMaker Poll, January 2008).

Develop Incentives for Students to Graduate On Time

Failed to approve legislation (HB 1944) imposing a 100 percent tuition surcharge on students who take more than 140 credits to complete a baccalaureate degree for a four year program or 110 percent of the credit hours necessary to complete a five-year program.