

BOARD OF REGENTS
BRIEFING PAPER

Allocation of Estate Tax Funds, CCSN

BACKGROUND & POLICY CONTEXT OF ISSUE:

During the 2005 Session of the Nevada Legislature, the NSHE received a state appropriation for a CCSN classroom building. Originally, the building was proposed to be approximately a \$30 million structure, but was recommended by the Board of Regents for much less; approximately \$10 million. A portion of this building (\$5.0 million) was recommended for funding out of estate tax collections.

The pool of estate tax dollars available for this one-shot appropriation was estimated to be \$29.0 million. It was recommended that the Board distribute those funds over a number of different projects, including the DRI CAVE, the first building at NSC, the CCSN classroom building and a small amount to the auto tech building. At the time, that was believed to be the balance of the estate tax funds.

At the close of the legislature, NSHE was fortunate in the one-shot capital funding it received. At that time, the legislature increased the "size" of CCSN building to \$25.0 million. In the frenzy of the last days of the legislature, however, the estate tax funds allocated to the building were apparently counted twice creating a shortfall in the funding of \$5.0 million. This amount was listed in the appropriation "other funds" putting the burden on the college to raise those funds. While NSHE sought appropriations on other state buildings on the basis of matching institutional funds, they have largely been at the two universities where the fund raising capabilities are greatest. Dr. Carpenter had never indicated to the Board or the Legislature that the institution had the ability to raise funds for this classroom building. In addition the problem was complicated by the requirement that the institution have its "other" funds on deposit with the state before the building could commence.

At this point, Dr. Carpenter undertook some due diligence on whether he could raise the necessary \$5.0 million. He determined that it was not likely that he could, due to the general purpose nature of the facility rather than a targeted special need, or, that the fundraising effort itself would prove so lengthy that the building would be jeopardized. The pressing need at the Charleston Campus for this general purpose need was so significant that Dr. Carpenter determined that he would rather have a smaller \$20.0 million building "right now" than the larger building at some unknown future time.

The System went back to State Public Works Board and counsel for the Interim Finance Committee (IFC) to determine if NSHE could reduce the building scope and were told that a change in scope was not possible because the appropriation was clearly for \$25.0 million. IFC could not change that provision as approved by the 2005 Legislature. Therefore, the only option was for CCSN to borrow the \$5.0 million and that is the plan it pursued.

NSHE first went to IFC to secure approval to borrow the funds that were to account for the CCSN contribution. At that time NSHE asked for some relief for the institution, specifically if CCSN could save money through "value engineering" of the project. NSHE asked that if CCSN could bring the project in at less than the full \$25.0 million without reducing the scope of the project that the savings offset the loan that CCSN was securing. In addition, NSHE asked for the authority to allocate any additional estate tax collections to the project. The latter request was made because these funds may only be spent with the concurrence of the Board and the Legislature. NSHE received approval of both requests at the November 2005 IFC meeting and brought the item to the Board in December 2005.

The loan process is a two step process. First, the institution must request authority to negotiate the loan and then the loan is finalized after all of the loan terms are known. NSHE went to the Board in 2005 requesting the right to negotiate the loan and received that approval. At the time the Board was advised of the outcome of the IFC meeting and that approval was received to apply project construction savings and future estate tax collections to reduce the amount that CCSN would have to otherwise borrow. It was indicated to the Board at that time that the same requests would be made of the Board. However, it was not necessary at the time for the Board to act on either of these matters and it did not. That action was anticipated to occur when the actual loan was brought back to the Board for consideration.

After that meeting two projects started at CCSN. Dr. Carpenter explored the loan market and his construction manager, Mr. Gilbert, began to work on bids for the project. The work of Mr. Gilbert seemed to take some precedence because if he could bring the building in under the \$25.0 million price tag, the amount of the loan

needed would decrease. Over that time and until recently, in at least one conversation with Vice President Patty Charlton System staff verified that estate tax collections were basically flat and that no extra money was collected.

SPECIFIC ACTIONS BEING RECOMMENDED OR REQUESTED:

At this time Mr. Gilbert has bids for the building. They are expected to be within the appropriated amount. However, in the meantime there has been an increase in estate taxes collected. There is an amount in that account close to the \$5.0 million shortfall, which would eliminate the need for CCSN to borrow anything on the building. Therefore, Board approval is requested to allocate the recent estate tax collections to this classroom project and allow it to go forward. Any difference between the full amount and the estate tax collections would be made up by CCSN from institutional funds.

IMPETUS (WHY NOW?):

A special meeting is requested because Mr. Gilbert has secured pricing for the building which will slip if not taken advantage of immediately.

BULLET POINTS TO SUPPORT REQUEST/RECOMMENDATION:

- CCSN needs this classroom space in order to accommodate its unprecedented growth in enrollments.
- Pricing for the building has been secured. Delaying the project could result in potentially higher costs in the future.
- It was the Board's original intent to move forward with this project in this timeframe.

POTENTIAL ARGUMENTS AGAINST THE REQUEST/RECOMMENDATION:

- Construction costs could reduce over time, though it is unlikely.
- The estate tax funds could be available for allocation to other System projects.

ALTERNATIVE(S) TO WHAT IS BEING REQUESTED/RECOMMENDED:

Do not approve the request and do not move forward with building the classroom building.

COMPLIANCE WITH BOARD POLICY:

- Consistent With Current Board Policy: Title #____ Chapter #____ Section #____
- Amends Current Board Policy: Title #____ Chapter #____ Section #____
- Amends Current Procedures & Guidelines Manual: Chapter #____ Section #____
- Other: _____
- Fiscal Impact: Yes X No _____
Explain: \$5 million in estate tax funds will be allocated to this project and, therefore, not available for other System projects.