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MEMORANDUM

DATE: February 24, 2016

TO: Members, Board of Regents

FROM: Daniel J. Klaich, Chancellor 

COPY: NSHE Presidents

RE: Costing Out Budget Recommendations – March Board of Regents Meeting

At its January 22, 2016, Special meeting, the Board of Regents approved the framework for the development of the 2017-19 biennial budget request, which the Board will submit to Governor Sandoval for his consideration. The Board's action was based on a memorandum from me dated January 19, 2016. I want to clarify for the record that the discussion points raised in my memorandum were not in priority order and I do not believe that the Board prioritized enhancements at its Special meeting. Similarly, I believe the Board was very clear that the information requested for presentation at the March Board meeting would further inform an ongoing discussion as to both the prioritization of requests as well as on the total list of requests, which may certainly expand or contract during this continuing public discussion of the biennial budget.

At this time I am presenting for your review and discussion both the budget "roll-ups" (items that are either routine, such as caseload growth, or other budget factors that are already approved and do not require specific new action by the Board) as well as enhancements (new projects or proposals which involve creating new/expanding existing activities). Also included are status updates on the Faculty and Staff Compensation Committee, preliminary information on the capital process, and a report on the efficiency concept and process that the Board endorsed in January, 2016. For convenience, the discussion below is in the same order as presented in January.

ROLL-UPS

There are three major categories of roll-ups that I anticipate in the NSHE biennial budget request.

Caseload Growth. "*Caseload growth*" is the state budget term for number of individuals served or units of work completed which thereby impacts the base budget. In the case of NSHE, the Legislature's formula funds caseload growth measured by driver changes in the

number of weighted student credit hours, that is the increase in completed WSCH for the current measuring year over the measuring year for the prior biennium.

The formula funds caseload growth in each of the seven formula instruction budgets as well as changes in grants/contract expenditures at DRI. For the formula instruction budgets, Legislative budget policy dictates that the most recent actual fiscal year WSCH be used for the calculation. At the time we file our budget with the Governor in September of this year, the most recent fiscal year for which actual data on WSCH completions is available will be for FY 16, which is the current fiscal year. As such, that final calculation cannot be completed until the end of June 2016 when the final counts for completed student credit hours for the spring semester 2016 are available. We do have information for Fall Semester 2015 and historical information that indicates fall to spring trends from past years which we have utilized to project Spring Semester 2016. Utilizing this information we have projected the System-wide changes in caseload growth and the increase in formula funding that will result from that increase. I want to emphasize that this is simply a projection and that it will change.

FY 16	\$26.9 to \$27.9 million
FY 17	\$26.9 to \$27.9 million

Specific calculations by institution will be distributed to the Board as soon as they are available, and a request for Board approval will be made at the August 26, 2016 meeting.

The DRI formula budget is calculated using the most recent Federal Fiscal Year (FFY) grant/contract expenditures, in this case FFY 15. That calculation will result in a reduction to the DRI formula budget as follows:

FY 16	(\$287,614)
FY 17	(\$287,614)

We understand that this reduction is a serious issue for DRI, and I will discuss the DRI formula budget issue, and a resolution, in more detail below.

UNLV School of Medicine

Attachment A of this packet is the “*State Budget Incremental Request for Statewide Medical Education Expansion*” that was part of the budget request approved by the Board on August 22, 2014. Utilizing that document, the programmed request is as follows:

	FY 18	FY 19
Total Increment over FY 17 budget of \$19,567,702	\$2,271,987	\$10,742,046

Attachment A indicates in a footnote that the above state appropriation levels would be netted by student fees. It is my recommendation that the roll up request not be netted for fees in the 2017-

19 biennium. As is commonly known, the student fees for the inaugural class of the UNLV SOM and a significant portion of the following classes will be funded by scholarship donations largely from the Southern Nevada community. This will essentially work like a fee-waiver for student's enrolled next biennium. These scholarship donations were not known at the time the Board took action on the new Medical School budget, which anticipated significant funding from philanthropy to augment state appropriations. It would be contrary to the spirit of the Board's budget action in 2014 and almost certainly the intentions of the scholarship donors if the donations were to offset state appropriations.

Inflation, Maintenance and Other Base Adjustments

Traditionally, the Governor's Office issues budget instructions in mid-March. These instructions will contain information relating to routine roll-up costs that NSHE should build into its budget request, such as inflation, routine pay/fringe benefit adjustments and other related items. These inflation adjustments, adjustments commonly referred to as 'base adjustments' and 'maintenance' are consistent across all state agencies and NSHE will build our budget incorporating the roll-ups. The detail on the adjustments will be presented for your review at a future meeting once this information becomes available.

ENHANCEMENTS

Faculty and Staff Compensation

As you are aware, I convened a task force of Presidents, faculty and students from across the System to provide a recommendation to the Board regarding compensation. This group developed two cornerstone position statements. I am providing them to you with my strong recommendation that they be adopted as your first priority as part of your overall budget package:

- a. *In order to recruit and retain the highest quality faculty and staff necessary to fulfill our mission and best serve the State of Nevada, we recommend that all full-time employees of the Nevada System of Higher Education be treated in the same fashion as all other state and major employee groups with respect to cost of living and merit increases appropriated by the state.*
- b. *System and institutional policies that preclude or inhibit the award of one-time compensation for specific, unusual and extraordinary efforts by faculty or staff should be revised to allow faculty to receive one-time compensation for specific, unusual and extraordinary performance or awards. It is intended that this one-time compensation would be unique, and therefore not a replacement for performance based increases to faculty base salary. Definitions and/or criteria for the circumstances under which such compensation is appropriate would be adopted into policy for the NSHE.*

As in prior years, the NSHE budget office will be calculating our professional merit and classified step request when that position detail is available later this spring for discussion at a future meeting, as well as any changes the Board may take in this area.

To define the magnitude of salary changes, each 1% salary adjustment incurs a cost of approximately \$5.25 million System-wide for state budgeted positions. Self-supporting and grant positions are not included in this total.

Formula Enhancement - Increase in Community College CTE WSCH Weighting

When the new funding formula was constructed, the State of Nevada made a policy determination that recognized the research missions of the universities, and more specifically the indirect but related costs associated with upper division and graduate education at a research university. As a result, the weighting on those courses was increased by 10% on WSCH generated by upper division and graduate courses to directly fund the research mission of the two universities for the first time. In reviewing the workforce mission of the colleges, Presidents Richards, Curtis, Dalpe, Burton and I believe that a similar budget dynamic and funding need exists at the four community colleges in the area of career and technical education (CTE). As such, we are recommending as an enhancement request an additional weighting for these college CTE courses. These courses are currently weighted at 2.0 for lower division and 2.5 for upper division.

The four Presidents and I looked at three scenarios for adjustment, ranging from 1.0 to 2.0. Consistent with discussion at the January meeting, we indicated that we would bring forward requests that were scalable. For your consideration, I have provided estimates, using FY 14 WSCH, of the relative annual cost of each of the three potential incremental adjustments.

	1.0 Weight Adjustment*	1.5 Weight Adjustment*	2.0 Weight Adjustment*
CSN	\$3,633,914	\$5,450,871	\$7,267,828
GBC	\$1,004,217	\$1,506,326	\$2,008,434
TMCC	\$1,005,138	\$1,507,707	\$2,010,276
WNC	\$617,578	\$926,367	\$1,235,156

*Projections based on FY 14 WSCH, will be updated in summer 2016 with FY 16 WSCH

DRI Formula Correction In preparing the DRI formula calculations, the NSHE finance staff as well as DRI staff noted that there is a technical issue with the DRI formula as it relates to inflationary funding or other pay adjustments. While the WSCH formula has a mechanism to adjust the dollars appropriated per WSCH for these types of adjustments, no such mechanism exists in the DRI formula. I believe this was an oversight in the construction of the formula and as such, I am recommending the Board request an adjustment to accommodate these types of increases. The estimated impact of this adjustment is:

	FY 18	FY 19
DRI Formula Budget	\$198,150 (estimated)	\$198,150 (estimated)

WINN Fund The WINN (Workforce Innovations for a New Nevada) Fund is a rapid response workforce training fund enacted in the 29th Special Session (2015) of the Nevada Legislature. The WINN Fund was established to support the recruitment, assessment and training of workers necessary to develop the skilled and innovative workforce to support the statewide economic

development plan. The fund has a total of \$3.5 million in the current biennium, most of which is targeted to create the curriculum and establish the facilities necessary to train approximately 4,500 workers for the Faraday Futures project. The Governor's Office of Economic Development (GOED) manages the funds, which are intended to respond to unique training needs for workers in specific, new or expanding industries where a skilled workforce is currently unavailable. While this will not be a part of the NSHE budget, I recommend the Board support a GOED budget request at a recommended level of \$10 million for the 2017-19 biennium since this fund can directly inure to the benefits of our colleges.

Silver State Opportunity Grant (SSOG) The SSOG program is a state-supported, need-based financial aid program aimed at supporting full-time students who are college-ready at the community colleges and state college. The program was established during the 2015 Session of the Nevada Legislature through the enactment of Senate Bill 227. For the 2015-17 biennium, NSHE received \$5 million for the initial program pilot (\$2.5 million for each year of the biennium). NSHE is requesting that funding for the program be made a permanent part of NSHE's base funding and increase the funding to \$10 million for the biennium. The additional \$5 million in funding would enable the program to expand to serve students enrolled in at least 12 credits. Under such an expansion, NSHE recommends first serving students enrolled in 15 credits, with the remaining funds then serving students enrolled in at least 12 credits until all such funds are exhausted.

Increasing Capacity System-wide. As I reported at the January Special Board meeting, each campus developed enhancement requests to increase capacity System-wide to support the growth and development of the State. This request for funding is different from the funding for caseload growth noted above. Caseload growth funds existing programs and services, at current levels, for additional students and completions. This enhancement request seeks funding to create additional capacity through new programs and initiatives. It is also different from support for the WINN Fund, which will provide select programs tailored to specific businesses.

The way our current formula works, classes must be organized, developed and funded without state appropriations. Classes must develop and attract student participation until the next measuring year and legislative funding year which can be three to four years down the road before the funding formula will provide state funding. Nevada cannot wait for critical increased capacity and, in many cases, the colleges simply do not have the funds to "front" these costs.

Attachment B summarizes these enhancement requests. You will note many of these are indicated as requests for one time funding as opposed to continuing operating funds. The majority of these programs will ultimately reside in the formula budgets and, when fully operational, will generate WSCH and student registration fees in those budgets. At that point, the start-up funding requested in this enhancement will be reduced. While this enhancement for one-time funding is limited to the 2017-19, the Board should expect similar requests for the 2019-21 based on the funding cycle described above.

CAPITAL

As in prior years, our capital request will take three parts:

New Projects Consistent with prior capital cycles, I asked each institution to forward potential capital projects for the Board's consideration and inclusion in the Capital Improvement Program request. Unfortunately, also consistent with prior capital cycles, NSHE budget staff

forecasts that the level of capital funding available statewide in the 2017 Session will remain relatively flat at \$80-\$100 million statewide for the biennium. I mention this not to dissuade the Board from forwarding to the Public Works Board a list denoting the NSHE construction priorities, but rather to inform the Board that projects with significant campus match or potential for alternative funding vehicles (such as lease purchase) may be more attractive to the Governor and Legislature as a way to make scarce dollars go further. The list of capital projects proposed by the institutions, with each campus' number one priority noted, is Attachment C to this memo.

Board policy also requires a biennial update on space inventory and utilization. This study identifies surpluses, deficits, and projected space need. The 2016 study and analysis are each provided together as Attachment D. The Board requested information over the past year from each campus on space utilization, and this summary provides the most recent System-wide data to aid the Boards' decision making process.

Capital Renewal, Plant Adaption, and Deferred Maintenance Projects (2% Projects) Board Policy (Title 4, Chapter 10 "Existing Facility and Infrastructure Needs") states: *Existing Facility and Infrastructure Needs - Effective with the 2011 capital improvement budget cycle described in subsection 5, every even numbered year each institution must plan for existing facility and infrastructure needs by requesting funding for capital renewal, plant adaption, and deferred maintenance projects. The budgeted figure for these projects shall be two percent of the insured replacement value for owned facilities five or more years since construction or a major building renovation, excluding storage facilities and auxiliary enterprise buildings (e.g. resident halls and athletic facilities). In calculating the amount budgeted for existing facility and infrastructure, the state revenues request for Higher Education Capital Construction (HECC) and Special Higher Education Capital Construction (SHECC) are in addition to the two percent threshold, and may not be applied to the amount budgeted for this purpose. The chancellor shall establish procedures to standardize the manner in which projects associated with improving existing facilities and infrastructure are identified and ranked.*

When we last measured our deferred maintenance backlog in 2013, the backlog totaled \$814,000,000! Following Regent policy, a reasonable maintenance allowance at 2% would amount to approximately \$61,700,000. The totals for these 2% projects by campus are also included in Attachment C.

HECC/SHECC NSHE historically receives \$15 million each biennium in slot tax revenue for its deferred maintenance backlog. The funding source for this is a portion of the \$250/machine slot tax (the remaining funds in the account are used for NSHE bond debt service and to support the Distributive School Account). However, recent gaming trends show the numbers of slot machines in Nevada continues to fall year after year. In fact, this biennium we have seen a shortfall in this funding source of FY 16 ~ (\$176,000) and FY 17 projected ~ (\$629,000). I am recommending that while NSHE continue to request this funding as it exists currently in statute, but to also request a supplemental appropriation for the shortfall this biennium. I also recommend that you further direct me and my staff to work with the appropriate officials in Carson City to create a long-term solution to what appears to be a structural funding issue for deferred maintenance.

EFFICIENCY AND EFFECTIVENESS

I would like to summarize Board discussions to date on this important topic. First, the Board clearly endorsed the concept that budget building needed to proceed within the efficiency context. Secondly, I understand that the Board embraced the concepts in my recommendation that efficiency actions had to be viewed in the context of the budget cuts over the recession, and

that there was no specific amount, no common solution and could involve productivity increases instead of direct monetary savings. The Presidents and I have been working on a common template that embraces the foregoing concepts. A draft copy of a common template is included as Attachment E. Details are not available from each institution at this time, but will be available to the Board at its April 2016 special meeting and June 2016 regular meeting.