

Nevada System of Higher Education

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January 18, 2017

To: Board of Regents

From: John V. White, Chancellor

CC: NSHE Presidents

RE: Preliminary Analysis of Executive Budget Recommendation

For your information I have prepared this preliminary analysis of Governor Sandoval's Executive Budget Recommendation. The NSHE finance staff is still reconciling several hundred lines of detail and calculations, but this will give you an overview of the recommendations impacting NSHE as they relate to your major budget initiatives. I will provide you further updates as we continue our work.

Budget Cuts:

I am pleased and extremely relieved to inform you that the Executive Budget does not contain budget cuts for NSHE. As you may recall, the original instructions indicated we were to plan for budget cuts of up to 5%, which had the potential to reduce the NSHE general fund by over \$27.5m per year/\$55m over the biennium.

Base Operating Budget & Maintenance Items:

1. Cost of Living Adjustment (COLA) adjustments and Classified Step increases. The Governor recommended a 2% COLA for each year of the biennium for all state employees including permanent NSHE professional and classified staff. This provides for an increase of approximately \$12.0 million in FY 18 and \$24 million in FY 19. Similar to all state classified employees, the Governor recommended funding for merit based step increases for NSHE classified that are not currently at the top step. This is an important program that directly impacts many of the lower paid NSHE employees.
2. Formula Funding. Governor Sandoval supported NSHE through the continuation of the funding formula enacted by the 2013 Legislature. There are a few important points to bring to your attention:
 - a. Caseload Growth. NSHE, as a System, produced 186,117 more weighted student credit hours (WSCH) in FY 16, which was the caseload base year for next biennium, over FY 14, which funding for the current biennium was calculated on. This generated \$28.58 million per year in both FY 18 and FY 19, for a total of \$57.16 million in additional funding for NSHE next biennium. The Executive Budget funded this growth at the FY 17 dollar amount/WSCH (\$153.55) which was slightly lower than the inflation adjusted rate in the NSHE request.

- b. Elimination of one-time mitigation (bridge) funds from GBC, WNC, and DRI. As directed by the 2015 Legislature in its closing actions, the Governor recommends removal of the one-time mitigation (bridge) funds from the small community colleges and DRI. This removes \$1.50 million from GBC and \$850 thousand from WNC, in both FY 18 and FY 19, when compared to FY 17 funding levels of each institution. This action also removed \$477 thousand/year from DRI in both FY 18 and FY 19.
 - c. DRI formula. Separate from the WSCH formula for the instructional budgets, the DRI formula budget is based on a sliding scale calculation determined by the amount of grant activity. This formula was implemented by the Legislature last biennium. As a result of a slight decrease in grant activity, a corresponding decrease in funding for DRI of (\$308,845) in FY 18 and (\$305,422) in FY 19, when compared to FY 17, was budgeted. Separately, the Board's enhancement request to adjust the DRI formula for a technical correction in the calculation methodology was also a part of the Governor's recommendation and is discussed in more detail below.
 - d. Performance Funding Pool. Consistent with the Funding Formula Study Bulletin, prior Legislative action, and the action of the Board of Regents in the budget request, the Governor recommended continuation of the Performance Pool program. This carve-out of general fund dollars from the instructional formula budgets of 20% in FY 18 (\$90.2 million Systemwide) and 20% in FY 19 (\$91.1 million Systemwide) will be held in a separate budget account until institutional performance is known each fall, after which funds earned will be transferred back to institutional budgets in advance of the respective fiscal year.
3. UNLV Medical School. In his Executive Budget, the Governor demonstrated his continued support for the development a full allopathic medical school at UNLV. As requested by the Board and recommended in the Executive Budget, the build-out of the school will continue in FY 18 with an additional appropriation of \$2.27 million over the FY 17 base amount of \$19.57 million, and in FY 19 with an additional appropriation of \$10.74 million over the base amount of \$19.57 in FY 17. This recommendation is consistent with the Board's request that was based on the Tripp Umbach roadmap.

Enhancement Requests:

Governor Sandoval recommended a number of enhancements to the NSHE budgets, with all of the Regent's enhancement requests moving forward.

4. CTE Weight Increases – Community Colleges. The Executive Budget contains a recommendation of \$9.18 million in FY 18 and \$12.24 million in FY 19 to enhance the formula weights for Career and Technical Education courses in the WSCH formula budgets of the four community colleges. This is consistent with the Board's amended budget request of December 2, 2016. The following amounts were recommended:

Institution	FY 18 CTE Recommendation	FY 19 CTE Recommendation
College of Southern Nevada	\$4,575,464	\$6,100,619
Great Basin College	\$1,731,494	\$2,308,659
Truckee Meadows Comm Coll	\$1,898,675	\$2,531,567
Western Nevada College	\$978,113	\$1,304,150

5. Capacity Building – All Institutions. The Executive Budget also contains approximately \$10 million in FY 19 in base budget funding for expansion of programs directly related to workforce and economic development in Nevada. This is consistent with the Board’s amended budget request of December 2, 2016. The following amounts were recommended:

Institution	FY 19 Capacity Enhancement Recommendation
University of Nevada, Reno	\$2,200,000
University of Nevada, Las Vegas	\$2,900,000
College of Southern Nevada	\$2,600,000
Great Basin College	\$300,000
Truckee Meadows Comm College	\$1,000,000
Western Nevada College	\$393,189
Nevada State College	\$399,999
Desert Research Institute	\$200,000

6. DRI Cloud Seeding. The Governor recommended restoration of the DRI Cloud Seeding Program with a budget allocation of \$683 thousand per year.
7. Silver State Opportunity Grant (SSOG). The Executive Budget Recommendation contained two actions related to the SSOG. The first was an increase from the current funding levels of \$2.5 million/year this biennium to \$5.0 million/year. Additionally, the Governor is recommending this program be made permanent.
8. DRI Formula Adjustment. As mentioned earlier, the Board of Regents requested an enhancement to perform a technical adjustment in the DRI formula calculation in the amount of \$195 thousand in FY 18 and \$198 thousand in FY 19. This request was included in the Executive Budget.

Capital Improvement Program:

The Governor recommended three items for NSHE in the 2017 Capital Improvement Program.

1. UNR Engineering Building. The Governor’s Budget recommends construction of a new engineering building at UNR, and includes a financing mechanism for \$41.5 million dollars, which is approximately one half of the total construction cost. The remainder will be funded by UNR through donations and revenue bonds.
2. Hotel College Academic Building FFE. The Governor recommended a total of \$1.4 million to fund approximately one half of the estimated cost to complete construction of the Hotel College Academic Building on the UNLV campus with the acquisition of

Fixtures, Furnishings and Equipment (FFE). UNLV will generate the matching 50% through donor funds.

3. HECC/SHECC deferred maintenance. The Governor recommended continuation of the \$15 million/biennium allocation from slot tax funds to NSHE deferred maintenance, as requested by the Board. In recognition of the projected shortfall in slot tax collections next biennium, the \$15 million now contains approximately \$1.5 million in general fund appropriations.

Non-NSHE Budget Items:

While not part of the NSHE budget, there were other items in the Executive Budget that I would like to call to your attention.

1. Knowledge Fund & WINN Fund. The Executive Budget contained \$10 million in funding to the Governor's Office of Economic Development for continuation of the Knowledge Fund and \$8 million for the WINN Fund. We look forward to continuing our partnership with GOED in this area.
2. Graduate Medical Education Expansion. The Governor's recommendation continued \$5 million in funding each year in support of expansions to medical residencies and fellowships. Both UNR and UNLV, as well as other medical schools in Nevada, will participate in these expansions.

Our biennial budget is now in the hands of the Legislature. A preliminary presentation of our budget is scheduled for 10:00 am on January 25, prior to the convening of the regular Session on February 6. I will continue to keep you apprised of developments as this process progresses and as my office completes the analysis of the Executive Budget recommendation. If you have any comments or questions in the interim, please let me know.