# SPECIAL VIDEOCONFERENCE MEETING
## BOARD OF REGENTS
## NEVADA SYSTEM OF HIGHER EDUCATION

System Administration Conference Rooms
5550 West Flamingo Road, Suite C-1, Las Vegas
2601 Enterprise Road, Reno
Berg Hall, Great Basin College
1500 College Parkway, Elko
Friday, December 12, 2008, 9:00 a.m.

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| Members Present: | Mr. Michael B. Wixom, Chair<br>Mr. Howard Rosenberg, Vice Chair<br>Mr. Mark Alden<br>Mr. Cedric Crear<br>Dr. Thalia M. Dondero<br>Mrs. Dorothy S. Gallagher<br>Dr. Jason Geddes<br>Mr. Ron Knecht<br>Mr. James Dean Leavitt<br>Dr. Jack Lund Schofield<br>Mr. Steve Sisolak<br>Mr. Bret Whipple *{via telephone}* |
| Members Absent: | Dr. Stavros S. Anthony |
| Others Present: | Chancellor James E. Rogers<br>Executive Vice Chancellor Daniel J. Klaich<br>Executive Vice Chancellor & CEO, HSS, Maurizio Trevisan<br>Vice Chancellor, Academic & Student Affairs, Jane Nichols<br>Vice Chancellor, Finance, Mike Reed<br>Vice Chancellor & COO, HSS, Marcia Turner<br>Special Counsel Brooke Nielsen<br>President Michael D. Richards, CSN<br>President Stephen G. Wells, DRI<br>Interim President Carl Diekhans, GBC<br>President Fred Maryanski, NSC<br>President Maria C. Sheehan, TMCC<br>President David B. Ashley, UNLV<br>President Milton D. Glick, UNR<br>President Carol A. Lucey, WNC<br>Chief Executive Officer of the Board Scott Wasserman |

Also present were faculty senate chairs Dr. Sondra Cosgrove, CSN; Mr. Gregory Robinson, NSC; Dr. Nasser Daneshvary, UNLV; Dr. Bill Follette, UNR; Mr. Stephen Bale, TMCC. Student government leaders present included Mr. Ryan Crowell, NSSA President, NSC; Mr. Adam Cronis, CSUN President, UNLV; Ms. Brithany Thompson, GSA President, UNR and Mr. Jeff Meyers, ASTM Board Chair, TMCC.

Chair Wixom called the meeting to order at 9:00 a.m. on Friday, December 12, 2008, with all members present except Regents Anthony, Knecht, Schofield and Sisolak.

Regent Alden led the pledge of allegiance.

1. Approved - FY 2009 Additional Budget Reduction *(Agenda Item #1)* - The Board heard a report concerning potential solutions to deal with the additional budget reduction scenarios requested by Governor Jim Gibbons, including legislative action taken during the 25th Special Session of the Nevada Legislature to address the declining total general fund revenues for the current biennium. The Board approved granting the authority to the Chancellor to take all action necessary to implement measures that would be necessary to comply with the legislative mandates contained in Assembly Bill Nos. 1 and 2 of the 25th Special Session of the Nevada Legislature *(Handout available in the Board office)*.

Regent Sisolak entered the meeting.

Executive Vice Chancellor Klaich stated that the System did not anticipate any additional operational changes as a result of the 25th Special Session of the Legislature. There were three provisions contained in Assembly Bill Nos. 1 and 2 that impact the NSHE in terms of the sweeping of certain accounts, including the Estate tax account. However, Executive Vice Chancellor Klaich advised the Board that the Legislature took into account the balance of that fund as of June 30, 2008, which was $4 million. The current balance of that account is $3,762,000, of which not all is available in cash at this time.

Regent Schofield entered the meeting.

Executive Vice Chancellor Klaich related that at the September 26, 2008, Investment Committee meeting, a rebalancing of funds was approved by adding $7 million in cash to the PIMCO *(Pacific Investment Management Company)* fund. The Board will be asked to reverse that decision to allow those funds to remain in cash to affect the anticipated sweep. The second provision involves the NSHE's Special Higher Education Capital Construction *(SHECC)* fund for projects of less than $500,000. The Legislature has anticipated that it will sweep those receipts for the next biennium, which the System hopes will be $2.5 million. It is not currently known if bonding will be available to return that amount to the System at a later time. The third provision impacts the NSHE's workers' compensation account. The System has experienced positive results in that area due to good management. The Legislature was able to readjust the System's premium rate retroactively to July 1, 2008, which freed up $4.1 million which will be reverted to the State. Executive Vice Chancellor Klaich related that all of the funds are on hand and will not cause any additional cuts. They are pleased with the result, as the thought of making additional cuts this biennium was daunting.

1. Approved - FY 2009 Additional Budget Reduction *(Agenda Item #1)* – *(Cont'd.)*

Regent Alden moved approval of granting authority to the Chancellor to take all action necessary to implement measures that would be necessary to comply with legislative mandates contained in Assembly Bill Nos. 1 and 2 of the 25th Special Session of the Nevada Legislature. Regent Rosenberg seconded.

Regent Crear asked if a copy of the mandate was available. Executive Vice Chancellor Klaich stated that those were the three provisions contained within the legislative mandate. The $2.5 million from the SHECC account was on deposit in the Controller's office and has already been reverted back to the State. The Estate tax balance *(approximately $3,762,000)* will be liquidated and reverted back to the State, which is the authority being requested that day. In regards to the NSHE's workers' compensation account, the $4.1 million is an appropriation that will be reversed to free up general fund monies. Specifically, the only action being requested is to allow the transfer of the Estate tax funds which will require a meeting of the Investment Committee to reverse the transfer of those funds to PIMCO.

Regent Dondero asked if the action will include interest that has been generated. Executive Vice Chancellor Klaich replied that it would.

Regent Crear requested clarification for how the loss of $4.1 million from the workers' compensation account will impact that program at the System level. Executive Vice Chancellor Klaich replied that the $4.1 million is above the reserves that were calculated as being necessary to meet the System's claims. The System assesses premiums to the campuses and on the basis of those premiums the System receives funds back which are put into an account from which the claims are paid. The $4.1 million is coming from that account's reserves and does not impact the amount that has been determined as necessary for claims. Regent Crear expressed concern regarding the existence of any "reserves" at a time when the Board is being told there is no room for cuts.

Regent Knecht entered the meeting.

Chancellor Rogers stated that it is not comfortable to always reduce the reserves down to nothing. It would be nice to have that reserve on hand as the System moves forward.

Regent Crear requested clarification of the SHECC funds. Executive Vice Chancellor Klaich replied that every biennium, the System receives $15 million in slot machine taxes and other dedicated revenue that are the campuses only source for small maintenance projects under $500,000. The $2.5 million is not found money, it is money that was being anticipated and is going away. The Estate tax money has always been there and he felt they have been upfront on that. It is the tail end of money the System had received from the Estate tax account to try and match critical projects within the System. Regarding the workers' compensation reserves, the Regents need to think of that in terms of how the System pays its insurance. The System would have

1. Approved - FY 2009 Additional Budget Reduction *(Agenda Item #1)* – *(Cont'd.)*

adjusted its rate going forward because arguably if there is a reserve in excess of its current claims it could be argued that the premiums are too high. The likely result would be that the premiums would have been lowered resulting in a decrease in reserves. The State needs that money now and instead of lowering future premiums, it is going to change it retroactively back to July 1st.

Regent Dondero asked Executive Vice Chancellor Klaich what he meant by "anticipated" SHECC funds. Executive Vice Chancellor Klaich replied that means $2.5 million anticipated for the next fiscal year is being pulled into the current fiscal year to use for this year's bills. That is consistent with a number of the techniques used to avoid further operating cuts.

Regent Alden recognized Dr. Lonnie Hammargren as being present for this meeting. He related that the only real cut is the Estate tax fund. The SHECC fund will probably be saved through some bonding capacity. The workers' compensation is not a cut. The System set its reserve too high and did not have as many claims. He thanked the Governor and Legislature for doing good work.

Regent Sisolak inquired about the remaining balance in the workers compensation reserves. Executive Vice Chancellor Klaich replied that the balance was approximately $9 million. Regent Sisolak asked who decided the figure that should remain in the account. Executive Vice Chancellor Klaich related that after consultation with the Legislative Counsel Bureau staff, it was determined that $4.1 million was the amount that should be reverted back to the Sate as it applied only to the current fiscal year. The System's position is that it should be able to portion those reserves out in the future and not have to pay them back. Regent Sisolak expressed concern that the System backed into the $4.1 million determination. Executive Vice Chancellor Klaich replied that this reserve is a combination of premiums that are charged from the State as well as contributions from grants and contracts and other non-state fund sources. The balance builds up over a number of years so that for each claim, it could not be determined without a complete audit of the account if the claimant is a state worker or is paid from non-state funds. Determining exactly the amount due to the State was very difficult. It was determined by looking at what would have been charged for this year and, although unscientific, there was a method involved that was thought to be fair.

Regent Sisolak asked, in the event that additional emergency funds become necessary, would it be taken from the remaining reserves. Executive Vice Chancellor Klaich answered that it would not, adding that account would not be turned to again.

Regent Sisolak asked how the county funds provided to the cooperative extension program at UNR were being appropriately reverted to the State. Executive Vice Chancellor Klaich replied that although dual funding was involved, only dollars that would have been paid to the System in general fund appropriations were being reverted. Regent Sisolak expressed concern that the counties may feel that the System is juggling this money. Executive Vice Chancellor Klaich stated that the System was not paying its bills with someone else's money.

1. Approved - FY 2009 Additional Budget Reduction *(Agenda Item #1)* – *(Cont'd.)*

Regent Sisolak thought the Estate tax fund had already been depleted several times. Executive Vice Chancellor Klaich replied that there had been a minor amount left in the account that grew over a period of time due to positive operating investment returns. More specifically, after using the available funds from that account to assist with construction of the first building at NSC, it was thought that account was depleted. However, investment results showed that was not the case and as of last summer, that account held approximately $4.5 million.

Regent Sisolak did not recall the Investment Committee receiving a report on those investments. Executive Vice Chancellor Klaich indicated that as a pooled investment fund, the Investment Committee does not normally receive a report on the breakout of the individual allocations.

Regent Sisolak was not aware those funds were from investments, and thought it was the System's portion of the Estate tax money and that no further monies would be received. Executive Vice Chancellor Klaich stated that by and large, that was the case. However, the balance grew due to better than expected returns and some fortuitous deaths that occurred after the account was thought to have been depleted.

Regent Sisolak thought that the base account had been spent, and asked what the returns would have been based on. Executive Vice Chancellor Klaich stated that the account was never completely depleted and it was never brought back to Board to say the remaining funds could be used on another project.

Regent Knecht thanked Chancellor Rogers, Executive Vice Chancellor Klaich, the Vice Chancellors and staff and the institutional leadership for their good efforts. He requested that an item be placed on the next Budget and Finance Committee agenda regarding confirmation of the implementation of the action taken that day. Chair Wixom concurred.

Regent Sisolak asked if the use of next year's anticipated SHECC funds in advance will create a hole that will also need to be filled. Executive Vice Chancellor Klaich stated that the System should be of the mindset that there will be $2.5 million less for maintenance projects than is normally received and those funds may not be returned.

Regent Sisolak noted that slot revenues were way down and asked what the System would do if those funds were not received next year. Chancellor Rogers replied that would be next year's problem.

Upon a roll call vote the motion carried unanimously. Regent Anthony was absent.

2. Approved - Discussion of 2009-2011 NSHE Biennial Budget *(Agenda Item #2)* - The Board continued its discussion of the 2009-2011 NSHE Biennial Budget Request that was submitted to the Governor, including a report on new developments from further discussions with the Governor's Office and updates on the financial status of the state and the corresponding impact on budgets. The Regents, institutional presidents and

2. Approved - Discussion of 2009-2011 NSHE Biennial Budget *(Agenda Item #2)* – *(Cont'd.)*

staff discussed various options for the development of methodologies to be used and/or future contingency plans in the event that the 2009-2011 NSHE budget as submitted is not fully funded. Based on the discussion, the Board approved a methodology to meet the budget cut mandated by the Governor to meet the anticipated potential funding reductions.

Chair Wixom read the following statement into the record *(statement on file in the Board office):*

1. As all of you know, we are faced with an unprecedented fiscal crisis in the State of Nevada. That crisis has had and will continue to have a severe impact on the Nevada System of Higher Education.
2. We have already faced significant and damaging budget cuts during this biennium and we face the propect of additional cuts during the next biennium.
3. Many government and civic leaders in the state, from both policital parties, are searching for ways in which to fill this budgegt hole to reduce or eliminate budget cuts, but the prospect of budget cuts is a real one.
4. The Governor is in the midst of preparing his own budget, which we are told will include significant budget cuts. As I indicated a moment ago, we all hope and expect that additional revenue will be found. Nevertheless, we must provide the Governor a means or methodology to effectuate a budget cut for the Nevada System of Higher Education that is the least damaging to all institutions.
5. None of us wants to make cuts. But I must emphasize that if we don't develop such a methodology, others will impose a methodology on us. I am positive that we would be very unhappy with that outcome.
6. Chancellor Rogers and I have discusssed this issue for some time, and we agree that some action is necessary. At our direction, Executive Vice Chancellor Klaich has met with the Council of Presidents to discuss a budget cut methodology. The Presidents have also included their business officers in this discussion.
7. There are two broad ways in which to effectuate budget cuts:
    a. One is to simply use the present funding formula, and to ratchet that formula down.
    b. Another is to suspend the formula and to spread the cuts across the System on a pro rata basis.

    Each has some significant downsides, and there are variations on each model. Executive Vice Chancellor Klaich will discuss the particulars in a moment.

2. Approved - Discussion of 2009-2011 NSHE Biennial Budget *(Agenda Item #2)* – *(Cont'd.)*

8. Please note that we have run our financial models only to a 14.12% cut level. After running these models, it became clear that any cuts beyond that level would damage the structural integrity of the System – we would not be able to operate the eight institutions in any semblance of the present system. At 14.12% we do immense damage, but beyond that level we just cannot function as a system any more.

9. The Presidents and their officers have worked very, very hard and we very much appreciate all that they have done. They have reached a general consensus that will be presented to you today and I will ask ExecutiveVice Chancellor Klaich to explain.

Executive Vice Chancellor Klaich related that questions have been raised as to how the System should respond to the Governor's request to resubmit a lower budget. This Board and the Chancellor have resisted submitting those plans because of the necessity of funding education at an appropriate level. Nonetheless, some response had to be made. There seemed to be a consensus around a formulaic response as opposed to a specific plan. That deceptively easy concept was the task assigned by the Board Chair and Chancellor to the staff. One of the numbers that was chosen to start with was the indicated 14.12% reduction, which rachets down the general fund appropriations to $587 million. The System felt, as a goup, that a number was necessary and that it could be discussed in the abstract. That allowed for a system approach to budgeting and one that would continue to take into account that the NSHE is a student-centered System and typically the Board has approved budgets where the dollars followed the students.

Executive Vice Chancellor Klaich explained that the concern was that the System had never used that formula in the circumstances such as it finds itself in now. The point was raised that this formula could well have been constructed as a methodology for allocating incremental positive dollars. That leaves the question, was this formula ever supposed to do what it is being asked to do now. Another option was to take the 14.12% off the bottom. However, that does not take into account any population shifts that may have occurred since the last legislative session. It also assumes that the methodology for returning money to the state was just as good as for when asking money from the state. Initially there were three models that included running the formula backwards or taking it off the bottom . One of the concerns with the formula was if enrollment growth could continue to be projected out when appropriations were declining. The third model ran the formula only on the basis of the current year's enrollment. In that model, there was an element of compromise and equity that was felt to be inherent.

Regent Whipple left the meeting.

Executive Vice Chancellor Klaich read the following statement into the record *(statement on file in the Board office)*. Due to the uncertain fiscal circumstances of the State and the numerous times that revenue projections have been revised this year, the recommendation is made based on (1) a 14.12% reduction and (2) certain assumptions which are integral to the recommendation. Should either this percentage increase or these assumptions prove incorrect, the recommendation must be revisited to conform to the new budget realities.

2. Approved - Discussion of 2009-2011 NSHE Biennial Budget *(Agenda Item #2)* – *(Cont'd.)*

The 14.12 % budget reduction understates the impact of these cuts to the NSHE institutions. In addition to the 14.12% budget reduction, other sources of revenue for the NSHE institutions have also been reduced and/or suspended, and the base budget includes "roll ups" which will add true cost to the budget but which will not be funded. The true reduction is likely at least 2% higher.

Moreover, the 14.12 % budget reduction will demonstrably threaten the quality of all programs at the NSHE institutions. NSHE instructional and research programs that have been built over many years, producing graduates whose abilities are responsible for business success around the State, and that leverage the campus-based knowledge that defines the NSHE relationship with the State. The 14.12% reduction threatens this legacy of success and simultaneously produces de facto enrollment caps in the face of a demonstrated increase in student demand. Campuses cannot grow programs in the face of the budget cuts.

In submitting this recommendation it should be clearly understood that a general fund reduction of this magnitude is neither acceptable nor achievable without significant and long-term negative impact on the citizens of Nevada. As the Chancellor has repeatedly pointed out, there are other solutions available to this type of draconian budget cut, and each of those solutions should be pursued vigorously. Cuts of this magnitude will impose significant and dramatic negative long lasting changes in the landscape of our institutions and the students they serve.

The State must act decisively to eliminate any unfunded mandates from the 2009-2011 budget. In a time of declining revenues and, therefore, declining appropriations, it is inappropriate to allow salaries to increase while reducing or eliminating the institutions' ability to provide services and at the same time to expect institutions and agencies to absorb those unsupported increases. It is critical that this basic business policy be implemented on a state-wide basis so that all employees are treated equally. Therefore, step increases, longevity pay, COLA, merit pay, and the like should be suspended for the next biennium. Further, NSHE should seek an active role in setting fringe rates for retirement, health insurance, REGIA and other assessments. Finally, the State must work with NSHE to resolve the issue of unfunded utility expenditures.

The Governor has requested budget submissions based upon a general fund reduction of 14.12% and the methodology recommended below is based solely on that 14.12% – which is intolerably high. Should budget reductions exceed that percentage, the consequences to the basic structure of the campuses and to students and the community they serve are so severe, that there is no plan for such a level of reduction.

2. Approved - Discussion of 2009-2011 NSHE Biennial Budget *(Agenda Item #2)* – *(Cont'd.)*

A budget reduction in the amount of 14.12% will involve significant shared pain and impact on students, services and service areas. The System will not bring recommendations for additional tuition and registration fee increases for the 2009-2011 biennium unless 100% of those tuition and fee increases are retained by the campuses at which they are generated.

At the direction of the Chair and the Chancellor, the Council of Presidents met December 9 and 10 to review options for addressing requests from the Governor for reductions to the NSHE 2009-2011 biennial budget. The Presidents had earlier received the recommendations of the Business Officers. A number of options were considered, most of which included utilization of the current funding formula.

Another option considered was to suspend utilization of the formula and apply across the board cuts from current appropriation levels. After discussion, the Council of Presidents recommends to the Chancellor and Chair the following:

1. That utilization of the formula continues as the primary driver for creation of the biennial budget.

2. That given the uncertainty of appropriations and enrollments, that only 2008-2009 enrollments be utilized in building the budget instead of the normal three-year weighted average.

3. That certain non-formula budgeted equipment appropriations in the amount of approximately $1 million per year be directed to support the operating budget of NSC.

4. That this methodology is conveyed to the Governor and that the Board strongly recommends that he create his executive budget using the same.

President Ashley dissented from the recommendations and indicated that he could not on behalf of UNLV agree to a recommendation that did not impose a maximum limitation of budget reductions. For information, such a limitation imposed regardless of current enrollments would result in a net decrease in funding otherwise available to higher growth institutions.

The recommendations are expressly limited to the budget for the 2009-2011 biennium.

Executive Vice Chancellor Klaich stated that any methodology used results in different percentage reductions to the instutitions from their 2009 budget. Due to the differences in enrollments, the institutions left the last session of the legislature in different positions. Since that time, there have been further changes that have caused redistribution in any of the formulas that has resulted in a different percentage of cuts per institutions, even with the basic driver of 14.12% reduction. President Ashley had

2. Approved - Discussion of 2009-2011 NSHE Biennial Budget *(Agenda Item #2)* – *(Cont'd.)*

recommended that once a formula is determined, that brackets be placed around how low and high a cut could be. The Council of Presidents have referred to this as a "stop loss." The Board could set that bracket at any point it chose. It was President Ashley's concern that some of the institutions fell outside of the stop loss points and that would prevent the redistribution of dollars from one institution to another.

Regent Sisolak asked if there was a handout indicating the numbers involved. Chair Wixom requested that Executive Vice Chancellor Klaich provide a summary and then the Regents' questions would be answered. Executive Vice Chancellor Kliach re-stated the four parts of the recommendation.

Regent Alden related that when it was established, the primary purpose of the Board of Regents was to hire and fire the executive staff, establish academic programs, fix tuition and fees, but most importantly it was to be involved in the budget process. The Regents drive the budget process; the institutions do not. He does not agree with this recommendation in its totality and is bemused by the dissent of one president. He agreed with Chair Wixom that there will be a shortfall in funding. He respects the Chancellor and Board Chair for understanding that and respecting the Governor's request. When getting back to basics and considering best practices in private industry, the NSHE's product is the students. It is necessary to first say that budgets for education, whether private or public, are built around students. Faculty and staff are needed to augment that mission. He addressed four keystone areas of best practices: 1) focus on the students; 2) take a hard look at administrative salary reductions; 3) consider capping enrollments at the universities and moving those students to the community or state college; and 4) look at taking teaching and graduate nursing programs out of the universities and moving them into the state college at the bachelor degree level. He also recommended the need to consider the sharing of academic overhead between WNC and TMCC and determine a way to help GBC by providng them with support levels so that administrators do not have to be hired at every level. Hard times make for stronger businesses that will gain the confidence of the public, Governor and Legislature. He would like to see some modifications to the recommended plan, but stated it was important to reach concensues and to support the Board Chair and the Chancellor.

Regent Leavitt moved approval of the following recommendation in relation to the 14.12% budget reduction: 1) that utilization of the formula continue as the primary driver for creation of the biennial budget; 2) that given the uncertainty of appropriations and enrollments, only 2008-2009 enrollments be utilized in building the budget instead of the normal three-year weighted average; 3) that certain non-formula budgeted equipment appropriations in the amount of approximately $1 million per year be directed to support the operating budget of NSC; and 4) that this methodology be conveyed to the Governor and that the Board strongly recommends that he create his executive budget using the same. Regent Rosenberg seconded.

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Regent Knecht stated that Regent Geddes possessed a copy of Executive Vice Chancellor Klaich's statement and asked if the information, as presented, differed from that statement. Chair Wixom indicated that perhaps the information in Regent Geddes' possession had been circulated to the Council of Presidents for their purposes.

Regent Sisolak called a pointed and asked if all Regents were provided the same information. Chair Wixom requested that copies of the statement, as prepared by Executive Vice Chancellor Klaich, be distributed.

Regent Knecht thanked the Chancellor, Executive Vice Chancellor Klaich and the presidents for their work in preparing the recommendation. This is a dark day for the System and for Higher Education in Nevada. He is concerned about the unfunded mandates and felt that the presidents and System staff were wise to highlight the unfunded mandates issue and its role in this and likewise the withdrawal or reform of the letter of intent. He observed that this action adopts only a methodology and understood and accepted the explanations provided with regard to applying the methodology at certain levels. However, it is his understanding from the nature of the motion that the System is not placing conditions for particular levels of budget cuts upon the recommended method. If this did place a condition for a particular level, then he would not support the motion. Chair Wixom felt that Regent Knecht had misunderstood the motion and requested clarification.

Regent Leavitt related that his recommendation was specifically related to, and based upon the 14.12% reduction. Regent Rosenberg confirmed that was also his understanding of the motion.

Regent Knecht stated that would then pose a problem for him. He expressed concern that the System is playing a dangerous game by not being timely and doing its duty. He felt that the System may have jeopardized its prospects of being successful in reforming the letter of intent. He indicated that if the recommendation is tied to a specific reduction number as opposed to a general methodology, he would not support it.

Regent Sisolak stated that he could not support the motion until he received more information. He requested to see the three-year rolling average. He then asked what the operating budget was for NSC. Executive Vice Chancellor Klaich replied that the current operating budget *(general fund)* for NSC is approximately $18.1 million for FY 09. Regent Sisolak requested a better explanation of the additional $1 million in equipment that was included in the motion.

Chair Wixom asked if the three year rolling average was known. Regent Sisolak stated that he wanted to know which institutions will benefit from using the 2008 enrollment numbers versus the three year rolling average. The last time this was done, there was a significant advantage to some institutions. He felt that NSC would receive a benefit in using 2008 enrollment numbers in addition to receiving $1 million for equipment.

Regent Sisolak noted that Executive Vice Chancellor's Klaich's statement indicates that the money should be directed to the individual campuses. Executive Vice

2. Approved - Discussion of 2009-2011 NSHE Biennial Budget *(Agenda Item #2)* – *(Cont'd.)*

Chancellor Klaich clarified that the term "campus" in the recommendation means each institution.

Regent Sisolak then asked if sabbaticals were being eliminated. Executive Vice Chancellor Klaich replied that sabbaticals were an issue that he has researched and that the System will not be eliminating sabbaticals. It may seem counter-intuitive but the use of sabbaticals is critical to the renewal of the academic processes and actually saves the System money. Regent Sisolak stated that without seeing the specific information, it would be hard for him to accept that. Chair Wixom stated that particular information would not be available at that day's meeting but requested that the information be compiled and circulated to the Board as soon as possible.

Chair Wixom asked if the information regarding the three year rolling average was available that day. Executive Vice Chancellor Klaich requested a short break to obtain that information. Chair Wixom stated that the Board would be allowed to voice their questions and then it would recess for a short break.

Regent Crear asked what the recommendation to continue with the formula funding consists of, and what exactly are those numbers and the differences involved. He then asked specifically where the 14.12% reductions were being made. Chancellor Rogers replied that to see where the specific cuts are being made would require a review of every institution and every program. The approach has been to minimize or eliminate the extremes of those that will be hurt and those that will benefit and bring them into some balance. Option 2, as recommended by the presidents, provides for a closer balancing than the other options. President Ashley's concern with Option 2 is that UNLV will have an additional $14 million in cuts. The Board will be provided with the information for all four options *(Options 1, 2, 3 and 7)* so it can see which options create the greatest and least extremes. Regent Crear asked if the System is recommending that 14.12% needs be cut from the budget and then directing the individual institutions to manage that reduction. Chair Wixom indicated that was correct.

Regent Dondero asked if the System is considering the possibility of stabilizing enrollments or if it is allowing for growth. Chancellor Rogers stated that the option recommended will automatically reduce the student population because it will reduce the number of classes. Regent Dondero felt that limiting the number of students that could attend college was not right. Chair Wixom appreciated that, adding that the System must determine a methodology to address a budget reduction. If a methodology is not determined, one will be created for the System. Chancellor Rogers added that they are trying to make it as fair as possible.

The meeting recessed at 10:17 a.m. and reconvened at 10:33 a.m. on Friday, December 12, 2008, with all members present except Regent Anthony.

Chancellor Rogers related that he had attended many of the discussions and felt that every institution acted in good faith. Nothing is perfect, but seven of the presidents voted for all of the recommended approach and President Ashley voted for most of it.

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President Ashley stated that when the recommended model is calculated, there are differential impacts on the institutions. Some are more adversely impacted and some are bettered by the fact that they experienced comparatively higher enrollments *(handout on file in the Board office).* The proposal that he has put forward *(Option 7)* is, to operate as a System, there should be a band around that 14.12%. A plus amount that means a more adverse impact that is limited to 1% or 1.5% above the 14.12% as well as a betterment impact that does not, in a sense, better any institution to the point that it has no share in the event. Those bands are what are considered the stop-loss. With that notion, UNLV would support the approach that was recommended. Without that notation, UNLV felt that any institution could be severely impacted and that was not operating as a System with an equal share of the burden. Over the biennium when the pro-rata is calculated, UNLV will experience a $52 million reduction but when the recommended model is calculated *(Option 2)*, that number turns into over $65 million. For UNLV, the difference between calculating the reduction based on an equal number and calculating it without the constraints is $14.09 million.

President Ashley related that UNLV wants to participate in operating as a System, and recognizes the desire to put forth an approach to the Governor. UNLV could agree to Option 2 as long as there is a maximum adverse impact that any one institution could bear. As long as that sentiment is in the proposal, UNLV would be in support. In the Council of Presidents, there was discussion of 1.5%, with each percent equal to $1.9 million per year or approximately $3.8 million over the course of the biennium *($5.6 million additional reduction for UNLV)*. Without that consideration, UNLV would not be in support of the recommendation for Option 2.

Regent Sisolak asked if President Ashley would support 2%. President Ashley indicated that if the notion is carried forward that UNLV believes a limit needs to be in place, they could live with a different percentage upon further discussion. Regent Sisolak requested clarification that as it presently stands, President Ashley will not support 2%. President Ashley stated that if the recommendation does not include an indication that UNLV believes there should be a stop-loss, they would not support 2%.

In referring to the handout *(on file in the Board office)*, Executive Vice Chancellor Klaich explained that the far left column of the handout is the legislatively approved FY 2009 General Fund appropriations. Option 1 is what occurs if the budget is built with the regular three-year rolling formula. Option 3 reflects the taking of 14.12% off of the base *(the first column)*. Option 2, the recommended option, is to run the formula but only use current enrollments. Option 7 is the option that Regent Sisolak was discussing with President Ashley that includes the stop-loss. The affects of Option 7 is largely felt at UNLV, CSN, GBC and NSC.

Regent Crear asked for clarification on how the suggested stop-loss would work. Executive Vice Chancellor Klaich explained that the suggested stop-loss only relates to Option 7. It gets back to the point where he has tried to say that even though the target is 14.12%, it is not the same percent for every institution because there have been enrollment changes. One institution could be above 14.12%, and another could fall

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below that number. In declining revenues with flat appropriations, this affects a redistribution of dollars and changes those percentages. UNLV's proposal is that there is a certain point on that spectrum where there should not be outliers, that no one institution should do that much worse or better than the others.

Chancellor Rogers explained that once the formula is put into effect, if it rings the bell at either end, then the excess is reapportioned back to the other institutions. Executive Vice Chancellor Klaich stated that was correct, but added that moving the excess from one institution to another will not change the final result.

Chancellor Rogers continued that with Option 2, if an excess is determined, it effectively turns into Option 7 which allows for the stop-loss and redistribution. Executive Vice Chancellor Klaich stated that asking for the numbers does provide a real focus on who the winners and the losers are. He felt there were really no winners, adding that this was a very difficult exercise. Chancellor Rogers related that the biggest issue is that the actual number is still a guess. That is why he was so concerned about getting locked into something without understanding that there needs to be great flexibility going forward.

President Wells related that all of the institutions would have started off at the same percentage, except that for some of the institutions, the hold harmless had been adjusted.

Executive Vice Chancellor Klaich explained that there were a couple reasons why those percentages are different. Part of that reason is that enrollments have changed and the budgets have traditionally been built with student centers and those dollars follow the students. It also changed because a number of institutions received hold harmless adjustments in the last legislative session.

Regent Knecht asked Executive Vice Chancellor Klaich what specific instruction the System had received from the Governor or Budget office to this point. Executive Vice Chancellor Klaich replied that the System had received a number of requests. The request being responded to that day was the request for a reduction in the amount of 14.12%. Regent Knecht asked if the System had received a specific request from the Governor or Budget office for a higher number. Executive Vice Chancellor Klaich stated that it had, and as a group it was decided that the System will not bring a recommendation to the Regents of 24% or 34%. Regent Knecht stated that was not the question, his question was what specific request had the System received from the Governor or Budget office. Executive Vice Chancellor Klaich replied that the System had received three requests for budget scenarios showing differing reductions from 2008-2009 appropriations in the respective amounts of approximately 14%, 24% and 34% and it was responding only to the 14%. Regent Knecht stated it was helpful for him to understand that specific context.

President Ashley felt that the inclusion of the discussion of hold harmless may run people astray. It was his understanding that the model does not include any prior impact of hold harmless funding. Chair Wixom asked if the hold harmless numbers were not included in the budget reductions. President Ashley stated that his understanding that the effect being seen is not part of hold harmless.

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Regent Sisolak asked how, mathematically, those numbers could not have had an impact. President Ashley stated that for UNLV, the net effect of partial hold harmless funding brought their institution to 83.5% instead of 85.5%. UNLV was not even fully funded last biennium.

Regent Sisolak felt that President Wells had said that the institutions were not at the same percentage last time, which was causing this effect, but President Ashley was indicating this was not the case. President Ashley stated that UNLV only received partial hold harmless funding. It is his understanding that Option 2 uses current enrollment and parameters that are in effect now and does not represent an impact of hold harmless. He suggested that hold harmless should not be used as an issue as it is not a factor in this discussion.

Executive Vice Chancellor Klaich respectfully disagreed with President Ashley. In any of the options presented, the percentages of funding have slid to a point where every institution is out of hold harmless. To the extent that there are no hold harmless numbers in the options, he agrees with President Ashley. However, the comparisons used to arrive at the percentages play off of the left column which does include hold harmless for UNR, UNLV, CSN, GBC and TMCC. All of those numbers are included in what was appropriated. The calculations contained in Options 1 through 7 do not contain hold harmless numbers. However, the comparison number *(FY 09 GF)* does have some hold harmless in it.

Regent Sisolak requested further clarification of the $936,879 under "NFB" as indicated under Option 1. Executive Vice Chancellor Klaich explained that the second series of line items on the handout *(SA, SP, SCS, UP and so forth)*, are non-formula budgets which receive an allocation for equipment. Regent Sisolak requested clarification of the type of equipment being purchased. Executive Vice Chancellor Klaich replied that for System Administration, it could be workstations that need to be replaced and for System Computing Services *(SCS)*, it could be used to replace servers that are out of warranty.

Regent Sisolak asked if, under Option 2, that $936,879 for NFB is already included in the NSC's figures. Executive Vice Chancellor Klaich replied that was correct. Regent Sisolak clarified that under Option 2, the $13.6 million for NSC already includes the $936,879. Executive Vice Chancellor Klaich replied that was correct, the $936,879 was included in NSC's numbers under Options 2, 3 and 7.

Regent Sisolak expressed concern that the money follows the students. He asked for an explanation of the anomaly with the NSC High School program that is apparently causing a reduction of FTE. Executive Vice Chancellor Klaich explained that President Maryanski did terminate the contract with the NSC High School and there was some reduction in FTE that might otherwise be going to NSC as a result of that. He had encouraged and applauded President Maryanski for terminating that contract. However, similar stories could be heard from all the institutions about how activities they have undertaken have had impacts on their enrollment.

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Regent Sisolak asked if the program was eliminated due to forced cuts or because the program was not working. President Maryanski replied that it had been eliminated before any major cuts were determined. They understood that it was approximately 8% of NSC's FTE, and he agreed that NSC should take the largest hit. Initially, NSC was taking a 10 % larger hit and this brought it down to approximately 5.5%. Regent Sisolak asked if NSC was receiving funding at the regular formula rate for the high school students. Executive Vice Chancellor Klaich replied yes, to the extent that they were taking colleges courses.

Regents Leavitt and Whipple left the meeting.

Regent Sisolak expressed concern for the junior and senior high school level students that the System made a commitment to and now the program has been eliminated. He asked what happens to those students. President Maryanski replied that NSC High School was provided a one-year notice. Approximately half of the juniors have chosen to stay at NSC and the other half have been referred to other institutions and there are no new students coming in. Regent Sisolak asked if funding was still being received for the half that returned to NSC. President Maryanski indicated that was correct. Regent Sisolak noted that for the other half that have not returned, the other institutions are receiving that funding.

Regent Geddes asked if Option 1 is what the Governor's office would implement based on how the formula currently works. Chair Wixom stated that was correct. Regent Geddes stated that with Option 2, the System is asking to use current year enrollments but there is no guarantee the Governor's office would agree to that request. Executive Vice Chancellor Klaich stated that the System does not know what the Governor's office will do, but rather than allow the Governor to make a decision with no input from this Board, it is the System's suggestion that the Board make a recommendation to the Governor's office. The Governor has the option to follow it or not. Regent Geddes indicated his support of Option 2 and the motion that was currently on the table.

The meeting recessed at 11:07 a.m. and reconvened at 11:11 a.m. on Friday, December 12, 2008, with all members present except Regent Anthony.

Mr. Scott Wasserman, Chief Executive Officer of the Board of Regents, repeated the motion as being made to approve the following recommendation in relation to the 14.12% budget reduction: 1) that utilization of the formula continue as the primary driver for creation of the biennial budget; 2) that given the uncertainty of appropriations and enrollments, only 2008-2009 enrollments be utilized in building the budget instead of the normal three-year weighted average; 3) that certain non-formula budgeted equipment appropriations in the amount of approximately $1 million per year be directed to support the operating budget of NSC; and 4) that this methodology be conveyed to the Governor and that the Board strongly recommends that he create his executive budget using this methodology.

Regent Alden urged his fellow Regents to support the motion.

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Regent Sisolak asked how this information will be conveyed to the Governor. Chair Wixom stated that the motion assumes that the information contained in Executive Vice Chancellor Klaich's statement will be conveyed to the Governor. Executive Vice Chancellor Klaich stated that the information to be conveyed would include that this recommendation is made with respect to a budget reduction of 14.12%, that the Board encourages the Governor to look at other solutions to find revenues other than budget reductions, encourage the State to act decisively to eliminate unfunded mandates and that the Board will not bring recommendations for additional tuition and registration fee increases unless 100% of those increases are retained by the institution at which they are generated. Regent Sisolak asked if that would be part of the motion. Chair Wixom replied that it was.

Regent Gallagher requested a point of clarification, and asked if Option 7 was available as a consideration at the time that the presidents voted on their recommendation. Chair Wixom stated it was. Regent Gallagher asked if the presidents' vote was seven to one in favor of Option 2. Chair Wixom replied that was correct.

Upon a roll call vote, Regents Alden, Crear, Dondero, Gallagher, Geddes, Leavitt, Rosenberg, Schofield, Sisolak and Wixom voted yes. Regent Knecht voted no. Regent Whipple abstained. The motion carried. Regent Anthony was absent.

Regent Alden noted that he had expressed his concern for the dissent of one president and asked if it would be possible for the Regents to vote unanimously to show thier support. Chair Wixom indicated that would not be possible.

3. Information Only - Public Comment *(Agenda Item #3)* – None.

4. Information Only - New Business *(Agenda Item #4)* – On behalf of Regent Leavitt, Chair of the Board Development Committee, he reminded the Regents that the new Regents' Orientation luncheon is scheduled for January 30, 2009. Regent Leavitt strongly encouraged the presidents to attend that luncheon at the Las Vegas System Administration office to allow everyone an opportunity to meet with the new Regents personally.

Regent Alden asked that representatives from the private sector be appointed to the new Effectiveness and Efficiency Committee.

The meeting adjourned at 11:17 a.m.

Prepared by: Keri Nikolajewski
Program Officer 1

Jessica C. Morris
Administrative Assistant IV

Submitted for approval by: Scott G. Wasserman
Chief Executive Officer of the Board of Regents

*Approved by the Board of Regents at the February 5-6, 2009, meeting.*