

Chancellor Dan Klaich's Comments
From the
Special Meeting of the Board of Regents
02 Fe 2010

[[This section is taken from a series of prepared notes that were distributed by Chancellor Klaich. His notes indicated where he displayed a certain slide or slides; these have been interspersed into the document. Upon occasion, his live presentation included additional verbiage that was not in the document. Where these appear useful, they have been included in brackets.]]

Good morning. Thank you for the opportunity on behalf of myself and the presidents to update the Board on calls for budget reductions, and our response to date. Things have moved very quickly and I think that the most reasonable way to approach this discussion and to get us all on the same page this morning is to walk through the chronology that brings us here today. It is short and clearly prelude but I hope helpful.

Shortly after your last regular meeting there was a call for budget reduction plans of 1.4 and 3%. I responded to that call by indicating on your behalf that only the Board approves budgets and reductions and could not approve a plan in the time required. On the day that call was due, December 15, the Governor's Budget Director issued additional calls for reductions of 6-8-10%. This new call was to be responded to by January 5. There was no reasonable possibility of responding to this request within the time required but I spent a great deal of time over the Holidays analyzing revenue projections as best I could. As I did, I became more and more convinced that the current revenue shortfall was increasing and that action was required.

On Monday January 4, I called the presidents together and asked them to prepare statements detailing the impact that reductions of 8% would have on their respective campuses. I picked 8% which equated to approximately a \$350 million revenue shortfall. At the time that shortfall level seemed reasonable. I discussed this direction with the Chair and Vice Chair and then I wrote to the Budget Director, indicating that the Board would have a Special meeting on February 2 to consider the impacts of reductions at the 8% level.

From that point on the Presidents and I remained in constant communication and met weekly as we planned for today's meeting. You all know what happened in January. As the month passed and as the meeting of the Economic Forum approached, reports of a growing deficit became more and more common. That meeting was held. The number was announced. Our collective breath was taken away and our planning to date became moot on that terrible Friday afternoon in January.

The very next Tuesday, the presidents and I met again. We talked and contemplated this new reality. I asked the presidents to prepare impact statements should reductions to their budgets be reduced by 22%.



Budget Impacts

A 22 percent cut in General Fund appropriations (effective 3/1/2010) equates to a \$37 million cut in FY 2010 and a \$110 million cut in FY 2011 for NSHE.

Cutting NSHE budgets by an additional \$110 million in FY 2011 would result in a cumulative percent cut of 29.4 from FY 2009 Legislative approved amounts.

Initially, we think it is important to make sure the Board understands that we are unwinding almost a decade of significant progress in higher education and being asked to do it in a few weeks. This is truly an absurd proposition and no one should confuse what we are discussing with the kind of carefully thought out plans that would normally accompany changes of this magnitude and their implementation in higher education, or for that matter, in any going concern. We also need to be sure that the Board understands the cumulative effect of a series of budget cuts. This latest and largest of reductions is after all built on top of a series of other debilitating cuts. **[Slides 2 and 3 follow.]**



Budget Impacts

Cumulative Impacts for Fiscal Year 2010

General Fund Appropriations

| FY2009 Leg Approved | Actual Reduction | FY2010 | Percent |
|------------------------|---------------------|----------------|---------------|
| \$683 million | \$91 million | \$592 million* | -13.4% |

Budgets for the current fiscal year have already been reduced **13.4%**

| FY2009 Leg Approved | Potential Additional Reductions at 22% | FY2010 | Percent |
|------------------------|---|----------------|---------------|
| \$683 million | \$38 million | \$556 million* | -18.7% |

Additional cuts in this year could result in an overall cut for FY2010 of **18.7 percent**

* Includes \$92 million in stimulus funds received under the *American Recovery and Reinvestment Act of 2009*



Budget Impacts

Cumulative Impacts for Fiscal Year 2011

| General Fund Appropriations | | | | |
|-----------------------------|------------------------|--|-------------------|---------------|
| FY2009 Leg Approved | FY2011 Leg Approved | Potential Additional Reduction at 22% | FY2011 | Percent |
| \$683 million | \$592 million* | \$110 million | \$482 million* | -29.4% |

* Includes \$92 million in stimulus funds received under the *American Recovery and Reinvestment Act of 2009*

Of course, in the last session of the legislature, the NSHE to the largest cut of any major state agency, some of which actually increased in appropriations.

To meet those cuts the campuses in the System have already made significant operating cuts. At CSN, the Henderson business operations have been closed and the Tropicana site started to improve articulation to UNLV was closed. At UNR, 281 positions equal to 13% of the state funded work force were eliminated along with sharp reductions in the writing and math centers. NSC, with a thin start up staff eliminated a VP position. GBC deferred a million dollars in maintenance and left 10-12 vacancies unfilled equal to 10% of its workforce. WNC has had a hiring freeze in effect since 2007 that has led to dramatic faculty and staff numbers while instituting a voluntary workload increase. DRI, also extremely thin on state support eliminated a VP position and terminated a decades long cloud seeding program. UNLV eliminated 100 faculty and 281 staffs positions, cut over 100 class sections and 30% if the budget for part time instructors. It merged two colleges. TMCC reduced its testing center, its career center and its placement center, combined two VP positions into one and is down 59 positions. All of these actions were in response to prior budget cuts.

We need to emphasize that while the size of this current budget hole has surprised us as it has surprised everyone; the campuses have been managing their institutions with one eye on the budget all along. [We are not discussing cuts from whole cloth. The cloth is tattered and has holes in it.] We don't want anyone to think that any institution is divorced from reality and not acting accordingly. While trying our best to protect core missions every president has already taken action in anticipation of further cuts like freeze hiring, cancel O&M, close programs, units and centers, institutes, put in place stronger enrollment management practices, delay purchases, limit travel, etc. However, these are activities that produce savings in the low single digits and not the kind of reduction that may be implied here. **[Slide 4 follows.]**



Budget Impacts To Date

Actions Already Taken (since FY 2008)

- ✓ Programs eliminated;
- ✓ Centers and units closed;
- ✓ Hiring freezes and furloughs; and
- ✓ Facility maintenance deferred.

Student Impacts

- ✓ Fee increases & surcharges;
- ✓ More students;
- ✓ Larger course sections; and
- ✓ Most services for students reduced or eliminated.

Make no mistake, higher education in Nevada is changing and not for the better. **[Slide 5 follows.]**



Budget Impacts To Date

Our institutions are changing and not for the better. In years to come we will see the dramatic impacts of these cuts in terms of fewer enrolled students, greater time to degree for those student who are enrolled, and further declining graduation rates – resulting in long term impacts to our state’s economy. We will not meet the demands of employers in building the new knowledge-based economy Nevada needs to come out of this recession.

There is no easy or simple way to make cuts of this magnitude. Nor is there any way to fully mitigate the impacts. Before cuts are spread to campuses and units of the System,

1. We applaud all in leadership who are thinking outside the box when they approach this crisis and who are trying to find ways to manage rather than cut through it. We encourage creative and courageous thought to ensure that actions taken in this short term do not cripple the State for years to come.
2. We encourage the State to do everything within its power to take actions to reduce the overall revenue shortfall before spreading any cut to agencies. This could include a myriad of actions from cash flow and one time sweeps to much more difficult actions. The System has provided a partial list of suggestions to the Governor.
3. We encourage the System to undertake a similar analysis as requested of the State, that is, look at every savings that could be found on a Systemwide basis to reduce any number that we got before it was “spread”. This could take a variety of forms from obvious to very difficult. I think we will need to look at all common “back office” type of operations to see which seem to be duplicative and how we can consolidate. We need to look at which system operations do not seem core and can be eliminated. We need to be prepared at this level of cuts for discussion on possible restructuring. I will appoint a number of System task forces that are narrowly charged to review areas for structural changes and potential savings. These groups will be tasked to report recommendations to me that I can include in a report to the Board.

What do these cuts really mean? Let me first try to give you an idea of the magnitude of the cuts we are talking about today:

1. Without reduction, in order to meet cuts of this magnitude, we have to reduce budgets in an amount that exceeds the budgets of entire colleges. While I am not proposing and I would not expect the Board to react in this fashion, this gives you an idea of the size of cuts we are actually talking about today, not a “sky is falling” scenario. [I hope that 22% is used in the recommendation but never passed down to the institutions.] **[Slide 6 follows.]**



Budget Cut Options

Statewide budget reductions of \$110 million annually could be met by:

Scenario #1

- ✓ Close CSN
- ✓ Close NSC

Scenario #2

- ✓ Close GBC
- ✓ Close TMCC
- ✓ Close DRI
- ✓ Close the Law School
- ✓ Close the Dental School
- ✓ Close the Medical School

Scenario #3

- ✓ Close NSC
- ✓ Close GBC, TMCC, and WNC
- ✓ Close UNR Athletics
- ✓ Close UNLV Athletics
- ✓ Close the Agricultural Experiment Station (UNR)

2. A cut of this magnitude will roll back state funding to higher education to about the 2002 level, and what has happened between now and then that could be wiped out and that could include the 20,843 additional students we have enrolled since 2002.
3. I mentioned above that it is a difficult if not absurd process to try to detail the exact impacts that cuts of this magnitude would have on the campuses and the system. However, the presidents your staff and I have tried to quantify the results as best we could. I have cautioned the presidents to be as realistic as possible. This is not an empty gun lying on the table; these are the consequences we face.
 - a. We could find \$110 million dollars in pay reductions and furloughs, but we could not implement any of these options without a declaration of financial exigency **[Slides 7 and 8 follow.]**



Budget Cut Options

\$110 million cut through pay reductions, furloughs and layoffs - 3 difficult choices:

- Approximately 20 percent pay cut across the System;
- At least an additional 5 furlough days per month;
 - 6 furlough days per month total
 - Significant impact on productivity
 - Net reduction in work hours to .74 FTE
- At least an additional 1,290 layoffs.



Financial Exigency

All of the previously mentioned scenarios would require the Board of Regents to declare financial exigency.

- b. We could lay this reduction off on the students with a selective tax on them, increasing fees Systemwide by about 50% on top of the 39% that fees have already been increased in the last five years. This equates to about \$2200 a year to a full time Nevada resident attending UNR or UNLV. Of course this assumes that all our students would be able to remain in college at these increased levels or that we would be able to serve them – neither reasonable assumptions, making the real increase likely even larger. Also keep in mind that this puts low income and under-represented students and their families particularly at risk because of the extremely low level of need based financial aid in Nevada. **[Slide 9 follows.]**



Budget Cut Options

Fill the \$110 million Cut with Student Fees:

| | 2010-11 Approved Reg Fee | New Rate | Percent Increase |
|-----------------------------|--------------------------------|----------|---------------------|
| Universities - undergrad | \$156.75* | \$232.09 | 48% |
| Universities – graduate | \$239.50 ** | \$345.61 | 48% |
| State College | \$113.25* | \$167.68 | 48% |
| Community Colleges | \$69.25* | \$102.53 | 48% |

**Assumes
current
enrollment
levels**

*rate includes 2010-11 surcharge of \$14 for university (undergraduates only), \$10 for NSC , and \$6.25 for community colleges (lower division)

** no surcharge for graduate students

- c. Finally, we could spread cuts of this magnitude among the campuses and direct them to deal with it.
 - d. More than any one of these sole scenarios playing out, it is likely that any reduction plan would be a combination of all of these areas.
- 4. Within the limited time we had, the presidents and I have attempted to detail for you what this means for NSHE and the State of Nevada. **[Slides 10 and 11 follow.]**



Budget Cut Options

Presidential Projections if Institutions take \$110 million cut:

- ✓ Approximately 15,750 students unable to enroll (14 % of fall 2009 students)
- ✓ Approximately 7,600 fewer FTE generated
- ✓ Decrease in Full Time faculty and staff of approximately 1025



Budget Cut Options

Presidential Projections if Institutions take \$110 million cut (continued):

- ✓ Elimination of operating, travel, student wages, library support, closure of remote campuses
- ✓ Elimination of about 70 academic programs, centers, and departments
- ✓ Increase in Part-Time instruction

5. I need to emphasize that I have asked the presidents to bring forward sustainable plans that they can live with as we cannot expect the current financial crisis to recover quickly.
 - a. Students will be denied access - turned away, slowed down, turned off. Already ready we are 50th in the nation for the chance of a high school student completing his or her degree on time.
 - b. The quality and integrity of the faculty will be impacted. Jobs will be lost adding to an already crushing unemployment burden on the state and these will be high quality and high paying jobs that add greatly to the economy. [It's more difficult to recruit a top professor than to retain one.]
 - c. Externally funded research and its infrastructure will be threatened directly impacting not only the dollars from that research that flow into our state economy but the very missions of our research institutions
 - d. We will lose the ability to train the workforce necessary for the very economy we wish to attract. Nevadans who in record numbers wish to upgrade their skills to move off the unemployment rolls will be told "there is no room".
 - e. Schools, departments or colleges lost (with little initial savings), devastating impact on economy and future.
 - f. We will further defer O&M, simply decaying the infrastructure investment that Nevada has in our campuses and create a larger bill for the future
 - g. We will be destroying a system that has taken decades to build and will take as long to rebuild.
 - h. We will own some of the worst higher education funding in the country, a powerful disincentive to any company wanting to relocate in Nevada.
 - i. We will drive Nevadans and Nevada businesses out of state. This will have an immediate and long term effect on Nevada, economic development and ultimately our recovery – **the cure is, in the long run, worse than the disease**
 - j. We will "own" a system of higher education that does not match our spirit, our needs or the goals of this State.
 - k. And finally, make no doubt about it, rebuilding will be more difficult in terms of recruiting faculty and students. It is much more difficult to retain an excellent faculty member than to recruit one. The quality gap between us and an upper tier of institutions will grow, and at the same time we may be raising tuition to levels that imply more quality than we can deliver.

In order to implement cuts of this magnitude or cuts in this magnitude,

1. We will have to discuss financial exigency and curricular termination, understand how we do it and the implications. You will want to know effect on accreditation which is difficult to determine in advance of known cuts. We need also to discuss in this area, necessary changes to Code or policy that will allow the kind of necessary flexibility to act in these very limited situations that we are now facing. [I see little way to avoid a declaration of financial exigency.]
2. The presidents have all indicated that the decisions for implementing these cuts should largely be left to the campuses managed by the respective presidents and I basically agree. There may be certain decisions implied by the size of this reduction that must be handled at the system level, for example pay and fee issues. I think these will be discreet and easily identified. The presidents need autonomy within their respective institutions – they want to control their own destiny.
3. We all agree that “limping through” is not possible with cuts of the size being discussed. We will need to consider strategic vertical (or possibly diagonal as vertical cuts may not produce necessary savings either) cuts that are strategic in nature (and correspondingly very painful to some, with all having built in constituencies). The problem with some of these cuts is that the savings may not be fully realized until year two or year three, but we must know that this cut may last that long as well.
4. Issues like faculty workload, fees, etc. seem to be implied with these cuts and we need to discuss how and when we talk about them. In this regard we will need to discuss with you what the Board can do to help the campuses manage cuts in terms of changes to policy or Code. We will also want maximum flexibility from the Board in terms of movement of dollars in and out of what might otherwise be restricted fee categories. Finally in this category, we will ask the Board to suspend mandated new projects that require the campuses to “do more” as money becomes tighter.
5. Carry forward of funds seems to be more important than ever if the watchword is efficiency, and maybe we can even press it in the special session.

[Strategic cuts will be required on each of our campuses....There may need to be changes to our Code.]

What should we do and where do we go from here? I started with a chronology of how we got here, and would like to end with a chronology of the coming days. [Today at 4:00 PM, Chair Leavitt has a teleconference with the chairs of both houses (of the state government) to explain to them what has been discussed here today.] The day after tomorrow, the Interim Finance Committee of the legislature will begin hearings and town hall meetings to understand the impact of these cuts.

In less than a week, the Governor will deliver a special State of the State address outlining his view of this crisis which will include a call for a special session of the legislature. It is widely expected that that session will be convened later this month or the beginning of March.

No Nevadan hopes that these cuts will be enacted with the attendant disastrous results. We hope that our elected leaders will carefully review the options and do everything in their power to manage through this crisis, with a sharp eye on our future. I was asked shortly after the 22nd if we should cancel this meeting. I felt strongly that the answer was no, the Board needed to come together in public so that we could understand and discuss the potential cuts and impacts. Yet, I strongly believe that while we are here today to engage and inform the Board, you should not feel and I do not recommend that you take any precipitous actions. We will have time for that in the very near future when we better know what we have to deal with.

Finally, while we have a regular Board meeting scheduled for a month from today, it is likely that we will need additional special meetings to deal further with this subject as we know more clearly what we are dealing with.

On a positive note, the collaboration among the presidents, faculty staff and students has been inspiring. While each has a constituency to represent and they do represent those constituencies zealously, all have pulled together with the common goal to preserve as much of the quality of higher education in Nevada as we can.

I would be happy to answer any questions you might have.

[[After Chancellor Klaich's presentation, there followed a discussion period. Some of the ensuing comments have been delineated below in brief.]]

R. Knecht: "It's going to be painful for everybody." "Exigency – is it timely if we wait until March?" "It has been moving so fast that it makes my head swim."

C. Klaich: "My guiding principle is ... 'the Least Drastic Means': Move prudently and cautiously."

R. Knecht disputes the 20% salary cut figure in the presentation, and the five additional furlough days. He claims that this does not apply to people paid by non-state funds and asks, "Can we spread it out more evenly?"

C. Klaich: "It's exceedingly difficult to incorporate salary cuts and...fairness. There's a difference between 5% to my executive assistant and 5% to me."

R. Knecht estimates that there will be an average salary reduction of 7%.

R. Wixom: notes that financial exigency would have to be declared after a recommendation from the Chancellor and the presidents. We could be presented with a limited or general declaration in March. One of his concerns is providing flexibility: could that lead to inconsistent approaches from campus to campus? How do we allow flexibility but not inconsistency and legal issues? Would it come back to haunt the presidents or the regents?

Bart Patterson: There will be system direction on pay and furloughs. Program cuts, etc. – I don't see that as an inconsistency. **R. Leavitt** sees no problem; we'll resolve it like we did the furlough issue.

R. Gallagher: told someone "Next year when we send you a paycheck it could bounce." Wants to support the presidents.

R. Cobb: "How can the board cut \$40 million in FY 10?"

C. Klaich: "The presidents know what that number is. They have the ability to meet portions of those cuts."

The Interim Finance Committee will get C. Klaich's handout. The regents directed him also to send it to the legislators and to the governor.

R. Cobb: prefers that there be no taxes. However, "You could lose a community college here and there." He says that if cuts are taken, "They'll get what they pay for."

R. Geddes: "How will shutting down campuses, etc., be discussed?"

C. Klaich: indicates that there will be 1 to 3 task forces set up to evaluate the situation and report back to the board. "We will work to bring back solutions."

R. Knecht: “My understanding is that the governor and the legislators are looking around at revenue sources.” He expresses a belief that they will “come up with \$100 million in new revenues.”

C. Klaich: says that he believes “we really can’t take any cuts, but we must deal with the reality of the situation.”

R. Page: predicts that the economy will change. “We’re probably close to the bottom of this cycle.” He quoted CNBC who wrote that, ‘Education and business go hand in hand.’ He cited a statistic that Nevada ranks 49th in education and posited that with the latest cuts we’re probably 50th.

R. Wixom: disagrees with the principle that lower taxes produce prosperity.

R. Schofield: “73 years ago....”

R. Anderson: Oregon just approved a tax. Nevada needs to look at that.

The community college presidents agree one by one that the CC’s would not be able to meet the demands of employers if the cuts take place.

[[At this point, there was a period of public comment. A member of the classified staff at UNLV spoke anecdotally about their plight. Student government leaders from several institutions also spoke in support of caution and restraint. Some faculty talked about the struggles of taking cuts – particularly for lower-paid faculty.]]

Frank's Comments

[[I did not make these comments to the board; rather, they are being sent to GBC faculty.]]

I deal with numbers for the better part of each day. During the regents' meeting, I opened my briefcase to notice therein several pages of a math paper that I wrote. Naturally, the pages were filled with numbers.

I am confident that by looking at the numbers alone it would be easy for me to balance the state budget in one day. I believe that you could all do the same thing. However, we are not dealing here with numbers that we can simply "line out" and compel to go away. Solving this problem by looking only at numbers will create a much larger problem, in my opinion.

How could I simply strike a number off of a list when to me that number represents the livelihood of someone that I know – a valued colleague? It is a grand oversimplification to treat people like numbers. When human beings enter the equation, we must be far more delicate in how we proceed.

Somewhat obliquely, the chancellor cited my proposal to initiate a graduated cut – one that would impact lower-paid personnel less than higher-paid ones. This alone is not enough and comes at the end of the process. It is my hope and belief that the special session of the legislature will produce ideas for generating revenue that will greatly reduce the \$800 million to \$900 million deficit that has been the source of concern. I think that this number will come down considerably prior to the system being asked to take cuts. Following that, I believe that the system is working to preserve the missions of the institutions.

Last year, the state tossed around "doomsday scenarios," as one author put it. None of those things came to pass during the legislative session. The legislators assembled with the purpose of keeping the state intact, and enough wisdom prevailed in that session to prevent NSHE from the necessity of declaring financial exigency. I believe that they will deliberate with similar caution this year.