

BOARD OF TRUSTEES OF THE NEBRASKA STATE COLLEGES
ITEMS FOR DISCUSSION AND ACTION\FISCAL, FACILITIES AND AUDIT

ACTION: **Approve FY24-25 Biennium Budget Request**

The Board approved the budget request guidelines and the preliminary capital construction requests for the 2023-2025 (FY24-FY25) biennium budget proposal at the January 2022 meeting. The preliminary budget proposal was provided to the Board at the April meeting. The Board approved the capital construction and LB 309 budget requests and prioritization at the June meeting. Since the April approval of the preliminary requests, the System Office and the Colleges have been working on the strategic initiatives and waiting to finalize the budget request items based on the final budget guidelines. The formal budget preparation instructions for the 2023-2025 biennium were released on July 11, 2022, and provided the necessary guidance for completing the salary increase request as well as the DAS/Worker's Comp requests. The salary increase of 5% is based on the guidance, but is not indicative of any planned increase or anticipated collective bargaining result.

The cost of insurance for FY23 is also now available so a budget request amount has been added to address the escalating costs of liability, property and cyber insurance.

The strategic initiatives for the Career Scholarship Program, the RHOP Program, and the Insurance Trust Pool have been completed and the request amounts have been identified in this Board item. The narrative details on these initiatives will be provided in the Retreat packet and staff will be available to review with the Board.

The deadline to submit the biennium budget request outline to the Coordinating Commission for Postsecondary Education is August 15, 2022. The deadline to have the proposals to the Director of Administrative Services is September 15, 2022. The Commission will make its final recommendations no later than October 6, 2022 on the 2023-2025 Biennial Public Postsecondary Operating Budget and the 2023-2025 Biennial Capital Construction Budget Recommendations and Prioritization. The final recommendations will be submitted to the Governor and Legislature no later than October 15, 2022.

Operating Budget Request Proposal

The CORE Needs requests are in-line with those identified and approved by the Board in January of 2022. The basis of the requests follow, along with a summary of the projected biennium requests.

Salary Increases - As has been the case historically, requests related to any salary increase

are provided upon request of the Governor's budget office. The budget preparation instructions asked each agency to estimate salary increases equivalent to 5% for each year of the biennium request. It was noted that the Governor and Legislature will determine appropriation levels during the budget process that will take into consideration any agreements reached through the collective bargaining process.

Health Benefits - Looking at the increases for the last 5 years, and given the escalation of costs this past year and the outlook for the coming year, we believe our annual increases are likely to be closer to 7%. The historical increases in our rates follow:

Health/Dental Insurance Annual Rate Increases

FY19 - 0%
FY20 - 4.99%
FY21 - 6.71%
FY22 - 2.96%
FY23 - 5.84%

Utilities - Given the escalation of energy costs this past year, it is hard to predict what the increases will be for the next biennium. As of the end of May 2022, the 12-month Consumer Price Index for electricity increased 12.0%, and natural gas increased 30.2%.

The Colleges experienced an increase in total utility expenses from FY20 to FY21 of 4.4%; from FY21 to FY22 it was 14%; and for FY23 the estimated increase is 8.7%. Energy costs are likely to continue to escalate beyond these levels. The estimate for the utility increase for each year of the biennium is 8%.

Insurance - Insurance costs for liability, property and cyber insurance are escalating at astronomical rates. In addition to increases in premium rates, the coverage limits are being reduced by carriers and deductibles are being increased to control costs. Claims do impact rates, and the risks and monetary liability awards continue to drive premiums up.

The request for the next biennium for liability insurance is based on the past five-year average increase of 12%. The average five-year percent increase for property insurance is 42%.

Operating Cost Increase - The All Urban Consumers CPI increase for the 12-months ended May 2022 less food and energy costs was 6.0%. It is likely that index will remain high for the next two years if inflation continues. The estimate for operating expense inflation is 5%.

New Building Openings - The WSC Athletic and Recreation Facility and the PSC Indoor/Outdoor Recreation Complex are the two new facilities that should be completed during the next biennium. The schools have estimated the impact on their operating budgets.

Department of Administrative Services Rate Increases - The budget preparation instructions provided the rate changes for the 2023-2025 biennium for services provided by the Department of Administrative Services as well as the Worker's Compensation estimates. The increases for vehicle physical damage and liability coverage, Transportation Service Bureau lease and mileage rates, Nebraska Information System assessments, and Worker's Compensation rates were all calculated using the new rates projected for the biennium.

Strategic Initiatives

The three initiatives that have been included in the 2023-2025 Biennium Request are the final year of the System Career Scholarship funding along with the request for the WSC - Grand Island Program, the Insurance Risk Loss Trust, and the Rural Health Opportunities Program (RHOP) and Public Health Early Admission Student Track (PHEAST) Scholarship Programs. The details for these programs will be available at the Board meeting.

2023-2025 Biennium Request Summary

A summary of the Core Needs budget requests and the Strategic Initiatives follows:

Nebraska State College System		
2023-2025 Biennium Request Summary		
Summary of Year over Year Requests		
	FY24	FY25
<u>Core Needs Request</u>	<u>2023-2024</u>	<u>2024-2025</u>
Salary and Related Benefits	\$3,381,253	\$3,550,314
Health Benefits (7%)	\$642,213	\$687,168
Utilities (8%)	\$264,675	\$285,849
Insurance (12%/42%)	\$371,383	\$508,677
Operating Expenses (5%)	\$1,060,585	\$1,113,615
Building Openings (est.)	\$231,066	\$271,755
DAS Rate Changes (actual)	<u>\$7,072</u>	<u>\$0</u>
Total Core Needs Request	\$5,958,247	\$6,417,378
<u>Strategic Initiatives</u>		
Career Scholarship Program	\$1,057,500	\$132,500
RHOP and PHEAST Scholarships	\$300,000	\$300,000
Insurance Risk Loss Trust	<u>\$1,500,000</u>	<u>\$0</u>
Total Strategic Initiatives Request	\$2,857,500	\$432,500
Total Biennium Request	\$8,815,747	\$6,849,878

Capital Construction Projects

The Board approved the capital construction projects for the 2023-2025 biennium at the June meeting. The capital request includes three parts:

- Reaffirmations of previously authorized state funding for capital projects
- New capital project requests
- Task Force for Building Renewal (309 Task Force) project categories

A summary of the reaffirmations, capital requests and prioritization follows:

Reaffirmations	FY24	FY25	Future
LB383 (2021) PSC Geothermal Conversion	\$2,101,905		
LB384 (2021) Bond Repayments			
LB384/LB957 (2016) Bond Repayment	\$1,125,000	\$1,125,000	\$16,875,000 (to FY40)
Student Matching Fees Bond Repay	\$1,440,000	\$1,440,000	\$21,600,000 (to FY40)
LB384/LB297 (2019) Bond Repayment	\$2,216,000	\$2,216,000	\$33,240,000 (to FY40)
LB969 (2015) Sports Facilities Cash Fund	\$300,000	\$300,000	\$3,000,000 (10 years)
LB1100 (1998) Capital Improvement Fee	\$900,000	\$900,000	\$9,000,000 (10 years)
New Capital Requests	FY24	FY25	Future
CSC Memorial Hall Renovation & Addition*	\$2,950,000	\$21,240,000	\$5,310,000
PSC A.V. Larson Renovation Program Statement	\$150,000		
PSC Campus Geothermal Conversion Shortfall	\$6,129,800		
WSC Brandenburg Renovation*	\$1,310,000	\$9,176,000	\$2,622,800

**Total Project Costs for CSC Memorial Hall (\$29,500,000) and WSC Brandenburg Hall (\$13,108,800) are based on estimates from the recently completed College Facility Master Plans and these estimates will be revised based on completed program statements.*

PRIORITIZATION OF ALL CAPITAL REQUESTS, INCLUDING 309 TASK FORCE CATEGORIES

The state biennial budget request process requires a prioritization of all capital projects requested, including 309 Task Force building renewal requests in the four categories of Fire/Life Safety, Deferred Repair, Americans with Disabilities Act (ADA), and Energy Conservation. The System Office recommends the following prioritization:

Priority

1. Fire/Life Safety - Class 1
2. Deferred Repair - Class 1
3. ADA - Class 1
4. Energy Conservation - Class 1
5. Campus Geothermal Conversion Shortfall (PSC)
6. Brandenburg Renovation (WSC)
7. Memorial Hall Renovation and Addition (CSC)
8. A.V. Larson Renovation Program Statement (PSC)
9. Fire/Life Safety - Class 2
10. Deferred Repair - Class 2
11. ADA - Class 2
12. Energy Conservation - Class 2

Board Action

The System Office recommends approval of the Biennium Budget Requests for 2023-2025 with the authorization to adjust any numbers due to calculation errors or changes in guidance.

The System Office recommends approval of the FY24-25 Biennium Budget Request.