

Minutes of the Budget Summit of the Board of Regents of the University of New Mexico
March 25, 2014
Student Union Building, Ballroom C

Members present

Jack L. Fortner, President; Conrad D. James, Vice President; Bradley C. Hosmer, Secretary/Treasurer; James H. Koch; Suzanne Quillen; J.E. Gene Gallegos; Heidi Overton (Quorum)

Administration present

Robert G. Frank, President; Paul Roth, Chancellor for Health Sciences; David Harris, EVP for Administration and COO; Chaouki Abdallah, Provost and EVP for Academic Affairs; Elsa Cole, University Counsel; Elizabeth Metzger, University Controller; Jewel Washington, Interim VP HR; Eliseo 'Cheo' Torres, VP Student Affairs; Paul Krebs, VP Athletics; Josephine De Leon, VP Equity and Inclusion; Michael Dougher, VP Research and Economic Development; Helen Gonzales, Chief Compliance Officer; Ava Lovell, Sr. Exec. Officer of Finance and Administration, HSC

Regents' Advisors present

Richard Holder, President, Faculty Senate; Gene Henley, President, Staff Council; Priscila Poliana, President, GPSA; Isaac Romero, President, ASUNM

Presenters in attendance

Marc Saavedra, Director Government Affairs; Terry Babbitt, AVP Enrollment Management; Andrew Cullen, AVP Planning, Budget and Analysis; Michael Duran, Chief HR Operations Officer

Others in attendance

Members of the administration, faculty, staff, students, the media and others.

CONFIRMATION OF PRIOR SPECIAL MEETING IN EXECUTIVE SESSION

The Board of Regents met in a special meeting in executive session from 7:47 to 8:32 am. on Tuesday, March 25, 2014, in the Cherry Silver Room of the SUB for discussion of limited personnel matters, threatened litigation and the purchase of real property in accordance with Section 10-15-1H(2, 7, and 8) of the Open Meetings Act (NMSA). All of the Regents were present and at conclusion of the meeting, there was certification that only those matters described in the notice of the meeting were discussed in closed session.

CALL TO ORDER

Regent President Fortner called the Budget Summit to order at 9:09 am., a quorum was confirmed and the agenda was unanimously approved.

Regent Fortner called Taona Enriquez, Major, USAF, Aide de Camp to Supreme Allied Commander Europe/Commander US European Command, forward to allow her to present a flag she flew on an Afghanistan mission for Dr. Santa Falcone, Professor in the School of Public Administration and Special Assistant in the Provost's Office. Major Enriquez studied under Dr. Falcone and wanted to present the flag to Dr. Falcone as a gift of appreciation and gratitude to Dr. Falcone for her tutelage, mentorship and friendship during the years that major Enriquez studied at UNM.

APPROVAL OF CONTRACT FOR UNM FY14 ANNUAL FINANCIAL STATEMENTS AUDIT

Regent Gallegos introduced the recommendation. After consideration of the requests for proposals (RFPs), KPMG in combination with Moss Adams was selected as the auditors for the FY14 annual financial statements and that there be a 3-year contract for those firms. KPMG will lead the audit and Moss Adams will audit the clinical functions of Health Sciences Center. The total 3-Year cost is approximately \$2.8 Million. The contract received approval in the Regents Audit Committee meeting.

(See Attachment A, memo from Elizabeth Metzger, University Controller)

The motion to approve KPMG LLP and Moss Adams LLP as the external auditors for the University of New Mexico's fiscal year 2014 financial audit, subject to approval from the Higher Education Department and the State Auditor's Office, was unanimously approved with a quorum of Regents present and voting (1st Gallegos, 2nd Hosmer).

CONSIDERATION AND APPROVAL OF COMPENSATION AND TUITION RATES FOR FY15 AND PREVIEW OF FY15 BUDGET SCENARIO

Introductory Comments

President Frank commented that one of the most important things done at the University is approve the University budget. He commended the Strategic Budget Leadership Team (SBLT) for their hard work and difficult recommendations. The SBLT has been meeting weekly since November.

The recommendations that come before the Regents fall under two kinds of processes, the use of recurring dollars and the use of one-time funds. The amount of recurring dollars the University has is limited, which often creates holes in the budget. The budget recommendation out of the SBLT is very tight and focuses on using recurring dollars to cover recurring expenditures.

Based on the challenges given by the Regents at the last full Board meeting, the recommendations tightly adhere to what the Board has asked of Administration. As also directed at previous meetings, there has been diligent effort to spend down reserves. Last fall President Frank convened the SBLT and challenged them to meet a few priorities. First, begin the implementation of the new budget process, ROM (Results Oriented Management), reallocating at least \$3 million in internal efficiency savings. The ROM allocation fund was created to drive performance to fund the University's strategic investments; however, due to challenges presented in the budget and in the external environment, the entire 1% ROM will be allocated toward salary compensation. This will be done because human capital, the University's faculty and staff, is the University's greatest asset and must be preserved. Another important task of the SBLT was to maintain student success programs, as tremendous progress has been made in those area. As a result, for Main Campus, some of the Provost's academic plan initiatives are the only program investments maintained in the budget as all other investments have been stripped out of the budget. For Health Sciences, Chancellor Roth will address the HSC budget, which includes compensation increases for critical staff and faculty.

After months of careful budget considerations, the budget presented represents intense prioritization by the SBLT. The recommendations of the SBLT went to Senior Leadership of the University and were further sliced down to meet the challenges presented by the Regents. President Frank believes the budget focuses most importantly on human capital and will allow for compensation increases for faculty and staff across the Lobo enterprise.

2014 Legislative Results

Marc Saavedra provided a brief presentation on the outcome of this past Legislative Session. The FY15 State budget will take effect July 1, 2014. Of the State funding, Public Education Department received 43%, Higher Education Department received 13%, judicial appropriations received 4%, and other appropriations makes up 40%, which includes Medicaid match money that hospitals receive every fiscal year.

The State appropriation process is designed out of sector equity and the office of Government Relations works diligently to track the sector percentages. UNM is roughly 38% of the higher education budget and we have 29% of the enrollment statewide. UNM's total higher education appropriation is \$312.9 million; out of this, \$16.4 million is new recurring dollars which includes compensation, ERB, projects at the HSC, new residency slots, and Research & Public Service Projects (RPSP). UNM's Main Campus total Instruction & General (I&G) funding is \$269.3 million. It was a great

Legislative session with a 59.5% increase from FY14, which stays on track at 38% of the higher education total budget. A team has been assembled by Provost Abdallah, EVP Harris, and Chancellor Roth to track the funding formula in the interim beginning in April.

The formula is going to continue to reward on performance however, we never receive 100% of the formula, as it is based on what is available in the budget. The University is required to make up any difference such as the compensation increase, which was only funded 60%. The office of Government Relations will continue to track what goes on at the State and Mr. Saavedra recognized his staff for their hard work.

Mr. Saavedra stated there was increase in I&G dollars by 4.8% and this year the University received \$5.6 million in new dollars. Regent Gallegos was concerned about the differences in Mr. Saavedra's report with I&G of \$269 million and what was being presented in the budget scenario of \$179 million. Mr. Saavedra stated the \$179 million is just the Main Campus number; the \$269 million is campus wide, including HSC and the Branches. The \$312 million is the full amount including direct appropriations to the HSC for the medical school and various RPSPs and includes the Branch Campuses.

In response to Regent inquiry regarding the Lottery Scholarship, the new bill applies to current and incoming freshman. Terry Babbitt stated the legacy students, students who have completed 3 or more semesters, retain eligibility criteria of the old lottery law, which is 12 credit hours and 2.5 GPA, and they will receive 8 semesters of funding. Current and incoming freshman will have to take a minimum of 15 credit hours, maintain a 2.5 GPA and will receive 7 semesters of funding. There is a prorated percentage for all students, both legacy and non-legacy, and the LFC predicts it will be 85-90% funding based on the amount of money available. EVP Harris stated the Lottery Scholarship is no longer going to be exclusively funded from the proceeds of the Lottery, but the Legislature has earmarked part of the Liquor Excise Tax to it. Mr. Saavedra stated the Legislature earmarked funds until FY18 which will go toward solvency and will be close to 90% funding.

In response to Regent inquiry, the \$5.6 million in new dollar I&G funding is discretionary.

Andrew Cullen stated the \$312 million I&G funding is broken out into the following: \$180 million for Main Campus I&G; \$5.6 million for additional dollars based on work load and performance outcomes; \$3 million for ERB contribution and compensation; Main Campus RPSPs are \$11 million; Gallup Campus \$9.5 million; Los Alamos \$2 million; Taos \$3.8 million; Valencia \$5.6 million; HSC I&G \$62 million; HSC RPSPs \$33 million. RPSPs are written into law by line and cannot be used to fund other than what they are earmarked for.

EVP Harris commented that Mr. Saavedra was trying to illustrate in his report that the NM Legislature, unlike in other states, makes a strong effort to fund higher education.

Presentation of Alternative Scenarios

Andrew Cullen mentioned the Strategic Budget Leadership Team (SBLT), which has been working since November and is comprised of members from all around campus. The SBLT does not necessarily back into a tuition and fee increase, rather, they look at the requests as they are generated on campus and filter through them. The requests go through Academic Affairs, Provost Abdallah, EVP Harris, and to President Frank. They began with \$20 million in new initiatives, including compensation and fixed cost increases such as ERB. If that package had been brought to the Regents it would have entailed a 7.25% tuition increase. Over the course of 2-3 months, the SBLT saw many presentations. The requests were then scaled down until the final recommendation from the SBLT included only \$14 million in new initiatives and fixed cost increases. Of the \$14 million, \$1.9 million comes from Provost Abdallah's year 3 of 5 academic plan. The recommendation also includes \$630K in need-based aid. The most important recommendation from the SBLT was the 3% compensation increase for faculty and the 2% compensation increase for Staff/GAs/TAs. Mr. Cullen stated the SBLT originally came up

with a tuition and fee increase of 3% to fund all of the must funds and initiatives. Due to Regents' request, they have tightened the budget and are recommending tuition and fee increase of 1.5%.

Regent Gallegos mentioned the Regents have asked in prior years to be brought in to the budget process earlier, around December or January, and this year that was not done. Recommendations from the SBLT could have been shared with the Regents two months ago. EVP Harris said the preliminary recommendations are blue sky types of items and it is not until the University knows what the appropriation levels are can it start to narrow down the recommendations. There is delay based on the three weeks the Governor has for veto. It was very helpful at last meeting when the Regents gave Administration some parameters to work with, but it is a fast-moving process and Administration does the best that it can working with the time constraints and when the funding information becomes available. Regent Gallegos recommended working with the prior year's budget and to provide information to the Regents at least a month, ideally two, in advance, not a week or day in advance.

Regent James would have liked to know about the prioritization of the strategic investments. He agreed the faculty and staff compensation increases requiring \$6 million and the must funds of \$3.29 million should be priorities, but these could have been communicated to the Regents earlier, because these are about strategic decisions for the University.

President Frank is also unsatisfied with the budget process and wants to improve it for next year. UNM is making budget decisions earlier than other universities in the State. Some universities have a conversation once, then they have a round robin and they come back a second time and make a decision. Perhaps an initial conversation at the March meeting would be better. President Frank has already told Administration and Staff that he will be looking to them for ideas for improvement of the process so there will be earlier engagement next year.

Andrew Cullen mentioned the State appropriation came on March 12. Assumptions about appropriation dollars can be made beforehand, during the Governor's veto window, however when this was done a couple years ago it was frowned upon so typically the University waits until the State appropriations are firm numbers.

Andrew addressed the proposed budget that included a 1.5% increase in tuition and fees and a 3% compensation increase for faculty and 2% compensation increase for staff (see Attachment B). He explained that there were only \$1.5 million of reserve balances, one-time dollars, used to fund recurring expenditures and so this is the only amount that would have to be made up for in next year's budget. The amount of reserve balances to fund I&G budget was \$13.5 million in 2010, primarily due to the \$62 million cut in State appropriations that occurred during 2009-2011.

Regent Gallegos asked about the institutional share of the land grant dollars. Mr. Cullen said \$8 million of the land grant dollars is classified as a reduction to expenditures, the institutional share line item shows the incremental portion of \$547.9 K.

The overall budget has \$5.6 million in new State money coming in with compensation funded by the State at only 60% leaving a shortfall of about \$2.2 million, so to get Faculty and Staff to a 1.5% compensation increase, the University needs to provide \$2.2 million to make up the shortfall, and that amount would come out of the \$5.6 million. The must funds use an additional \$1.8 million, which leaves \$1.6 million, from which \$1.077 million and the \$0.2 million are transferred to Health Sciences, so the funds that are left are only \$0.4 million.

With regard to the ERB contribution, that was not part of the \$5.6 million of new money from the State. To cover ERB, the State gave \$0.9 million, only 60%, but the total actual cost is \$1.5 million, so \$0.6 million is the shortfall the University has to cover.

Student Regent Overton asked for more detail about the Provost's Academic plan and if the committed funds should be categorized under must funds. Provost Abdallah said there are about \$1.9 million that could be categorized as must funds because the funds are basically committed dollars since it is for prospective faculty that have accepted position offers. Planning for hire of new faculty has to begin a year in advance. President Frank said the critical parts of the Provost's plan were retained such as current critical faculty hires, student success and veterans program.

Regent James asked for clarification of the \$62 million mentioned in State appropriations reduction and when those reductions occurred. Mr. Cullen stated it was around the time of the recession 2009. Provost commented they are now working on building up faculty hires that were put on hold at that time and the new hires are paying off because they directly contribute to improved graduation rates. Mr. Cullen mentioned that during the downturn of the economy, more people went back to school, the FTEs increased from roughly 26,000 to around 29,000, so there were more students at the time when there was less funding.

Student Regent Overton asked for clarification in the use of reserve balances. Mr. Cullen said there would be \$1.5 million use of reserves in I & G budget. The majority of the rest of the reserves are held up in plant, that is, funds for buildings or bond money not yet spent on buildings. There was large effort in the budget process to not use one-time dollars to fund recurring expenses and so only \$1.5 million of reserve balances were utilized in the I & G part of the budget.

Regent Gallegos inquired about funds that go to the UNM Foundation in the form of a donation. Mr. Cullen said the budget has \$4.8 million going to the Foundation in the form of a donation. It is a payment that each and every unit on campus makes, relative to their budget whereby 0.5% of each unit's budget is redirected to the Foundation.

Regent Koch asked if there would be discussion on Health Insurance. Regent Koch asked for the total amount paid by the University for medical insurance. Michael Duran said the total amount paid on health insurance is approximately \$70 million. Regent Koch said \$70 million is a significant number and should be looked at. Currently, all businesses are looking at how to reduce their health insurance burdens. Regent Koch said he was not prepared to vote on the budget until health insurance plan options could be presented to the Regents. Mr. Duran said some changes were made to the benefit plan where deductibles and out-of-pockets were increased. Regent Koch said he wanted to see more options before approving the FY15 budget; he didn't want to wait until FY16 to look at more options. Regent Koch said the University is self-insured, and the Regents need to look at all the plan options to see if costs to the University can be lowered.

Student Regent Overton said that after researching the proposal, she did not support putting the pre-65 retirees back in to the pool with active employees, after learning that the decision the University made last year in taking them out of the pool was in line with industry standards. Regent Overton supports exploring other options that could reduce their premiums, like a wellness health benefits program. She asked if Administration and the pre-65 Retirees would support exploring a wellness health benefits program.

- Regent Fortner proposed not taking action at the meeting, but to reconvene on Friday.

Andrew Cullen introduced the Branch Campus' proposals. Three of the four campuses, Gallup, Taos, Valencia, propose no change to tuition and fees for both resident and non-resident students. The Los Alamos Branch proposes a 4.6% and 4.9% increase for resident and non-resident tuition and fees, respectively. Los Alamos has a number of contracting grants that are expiring that have been used to fund core operations at the school, and the proposed increase would back fill the expected shortfall for FY15.

Regent Fortner said tuition is less expensive at the Branch Campuses, and he asked about the number of non-residents at the branch campuses. Mr. Cullen mentioned the branch campuses are dominated

by resident students rather than non-residents. Regarding the Branch Campus' revenue base, more of it is based on tuition and so any compensation increases that the branches follow along with provide even more challenges to the Branch Campuses and are more impactful on students at the branch level.

Three Differential Tuition requests were addressed: the Anderson School of Management requests a new undergraduate differential tuition of \$10 per student credit hour (SCH) and an increase of \$10 per SCH at the graduate level, bringing the resident and non-resident graduate differential tuitions to \$183.70 and \$190.10 per SCH, respectively; a \$24 per SCH increase for the School of Architecture & Planning Graduate program bringing the total to \$74.63 per SCH; and a new differential of \$150 per SCH for Department of Speech & Hearing graduate program. All three schools sited justification for the differential tuitions to be higher than average cost of their graduate programs.

Regent James asked how the differential tuition numbers are derived. Provost responded currently these numbers come from the college after they analyze their own costs and other similar program costs, and the differential tuitions cover above average costs the colleges incur to provide the degrees. To arrive at the fee, the colleges look at the total amount of funds they will need and then back in to the fee based on an estimate of the number of students projected to attend. The funds go directly to the colleges. Historically, the tuition differential requests went directly to the Board of Regents and did not go through the Strategic Budget Leadership Team (SBLT); however, this year Andrew Cullen recommended these requests go through the SBLT. Regent Quillen asked if the additional funds would be used to hire faculty; all three of the programs mentioned funds would be used for faculty or staffing needs, the School of Architecture and Planning also mentioned the funds would be used for lab equipment renewals and replacements.

Regent Hosmer inquired if we know what tuition increases are being implemented in other universities in the State. President Frank said he spoke to Presidents at other research institutes; NMSU is following the 'linearizing tuition' model that UNM used last year, so NMSU's tuition income will go up over 6%. Regent Quillen emphasized a difference where NMSU will offer a significant decrease to tuition for 12 credits and under. President Frank said the other universities (excepting information from Northern and Highland) are talking about 5% to around or slightly above 6% increase in tuition. This being informal information, either in the name of proposals or what they thought their regents would accept.

Academic Perspective

Provost Chaouki Abdallah spoke about taking the position as Provost less than three years ago, after which time the Regents endorsed and funded the 5-year academic strategic plan that he presented to the Board. The plan was subsequently endorsed the following year with some goal modifications that put focus on fixing salary inequities and retaining faculty. The results of those decisions are: almost 4% more graduates per year, about 125 students; a renewed focus on the first-year challenges at UNM; a thriving Honors College; more academic and financial support for undergraduate and graduate students; more need-based funding and a more dynamic academic core. The first year investment in the academic plan was almost \$4 million in new funding coming after almost 20% reduction in I&G base over the years 2009 to 2011. The second year investment in the plan added \$3 million more to academics, and the budget request this year is for around \$2 million in new funds. This request is in line with the original plan introduced almost 3 years ago, but the fund requests have been suitably adjusted downward to suit current demands and challenges. Provost quoted former Stanford President, Gerhard Casper, "the University is a wonderful, but fragile institution." The goals that President Frank and this Board have set for UNM are also wonderful but also very fragile, they include graduating well-educated students in larger numbers and on time, something that will have more impact on the economy of our state than most patents and companies will ever provide. The costs of achieving these goals may be growing but is dwarfed by the cost of not achieving them. Regent Hosmer has recently spoken about the effectiveness versus efficiency dilemma; in the last three years, we have been effective, and now we are turning our attention to being more efficient. I

request to the Regents today to consider that the cost of providing faculty and staff compensation is both effective and efficient, while the cost of retaining faculty is less effective and not so efficient, and the cost of replacing faculty is very expensive and not always effective. With a focus on the short-term, we may become efficient in the present only to sacrifice our future. Like a racecar driver, it is better to focus on the road and not on the walls. Three years ago you set us on a path to rebuild the academic strength of this institution, today is the best time to keep us on that track.

Regent Quillen said she had spent a lot of time reading letters written to Regents from faculty and staff that outlined compensation issues like salary inequities and compensation compression, and her conclusion is that it does not seem like a sustainable model to always count on increased student tuition to solve the University's problems. Provost said tuition is not seen as the sole solution, an example is the ROM initiative will produce some \$3 million that can be reallocated. Additionally, spending modifications occur to address issues like salary compressions and inversions. For instance, the academic plan was adapted to hire not 20 faculty but only 10, and used about \$1.0 to \$1.5 million so solve some salary inequities. We compare ourselves to our peer institutions. At the end of the day, the value of the degree is what is important. When comparing to other universities, tuition at UNM is still low compared to the value of education one receives. The cost or total amount may be going up, but looking at it on a per student basis, cost has been about \$11,000 constant within the U.S. for the last ten years. This is combination of state dollars and tuition spent on educating students, and it is more meaningful to look at the dollars on a per student basis. Since the number of students has been increasing at UNM, the amount spent per student is about \$9,000, compared to about \$11,000 at the national level. Part of the academic plan is to provide more support to the students, more advisors, implemented software, more financial aid, not just hire faculty, with the goal of graduating more students who are better prepared. We can save money today, but if we continue a plan where every year we do something reasonable, then in five years we will not have to do something drastic.

President Frank referred to a bar graph showing Statewide NM funding per Full Time Equivalent (FTE) (see Attachment C) from 1987 to 2012. The graph shows public FTE enrollment, educational appropriations and total educational revenue per FTE, depicting the proportion of State dollars paid toward the cost of education decreasing through the years versus the proportion of net tuition paid. Also shown is an increase in student enrollment through the years.

Regent Quillen urged the need to think outside the box to come up with long-term solutions so students will not have to shoulder the burden of rising costs.

Regent James said the trend of reduced state funding is a good thing and is something that has been going on nationwide for the past 30 to 40 years. Since roughly only 30% of individuals in the U.S. have higher education degrees, States' subsidies to higher education causes 70% of the population who do not earn college degrees to actually be contributing to funding of higher education. It will take some time and conversations with the public to inform them of the challenges the University faces with reduced financial support from the State and increased complexities and costs in healthcare, but it is important the public understand the directions the University is taking. The changes last year were necessary, but the changes need to be gradual.

President Frank commented UNM has one of the lowest based tuitions in the country, however the quality of faculty at UNM is extremely high. Even compared to Kent State, with a base tuition rate of around \$9,000, the quality of its faculty is not as high as that at UNM. Student Regent Overton attests to the quality of UNM's faculty having received her education here and so supports compensation increases, but not necessarily covered with tuition increases. She wanted to see more options. President Frank mentioned the 1% ROM and the effort to create \$3 million in efficiencies from the departments.

CONSTITUENTS AND PUBLIC COMMENT (specific to agenda items)

Carol Stephens, representing pre-65 retirees, appreciates Regent Koch's comments and the opportunity to meet with actuaries. She would like President Frank and the Regents to continue to follow their words of transparency.

Barbara Gabaldon, representing pre-65 retirees, said she was disappointed that the Health Benefits would be pushed under the table. She would like transparency of the Regents and Administration.

Nicola Trivison, with District 1199 NM representing UNM Hospitals employee, there used to be a 2.7% increase every year. In regards to nurse turnover at the hospitals, it is above the national average, it costs about \$20 Million per year to replace those nurses.

Bill Brown, administrative director for District 1199 NM, requested that UNMH act on good faith in Union negotiations for increased compensation for UNMH staff.

Carinna Rodriguez, graduate student in Department of Speech and Hearing Sciences, spoke in favor of the Differential Tuition proposed by the Department of Speech and Hearing Sciences.

Saimie Ragsdale, graduate student in Department of Speech and Hearing Sciences, spoke in favor of the Differential Tuition proposed by the Department of Speech and Hearing Sciences. Would like the department to be able to hire an audiologist and to be able to have other specialists on board. Also, comparing costs of this program to other comparable

Dean Doug Browne, Dean of the Anderson School of Management (ASM), spoke about some areas that had not been addressed that would actually reduce costs to students. The reduction in the number of student credit hour requirement to obtain a degree from 128 to 120 credit hours will save the students money. Another area for savings to the student are faculty transitioning more and more to the use of electronic books. The market for faculty at ASM is national and salaries at other comparable universities are as much as \$66,000 more. In Arizona, tuitions are about 30% more on the undergraduate level. In business school, our tuitions are 31% less than those of our neighbors.' Overall, the value of our education is going to erode significantly if we cannot hang on to our good faculty and also attract new faculty.

Bianca Encinias, graduate student in School of Architecture and Planning, spoke in opposition to tuition increases including the differential tuition increases. She also said the University should not be opening offices in China and Mexico, but should be focusing on the students in and from the New Mexico school system.

Maria Elena Corrale, a student, spoke against the differential tuition increases. They are proposed and imposed too rapidly. She wants more transparency.

Glen Effertz, a pre-65 retiree, spoke about the increase to the health benefit costs and the decision to create a pre-65 pool, which with fewer people in the pre-65 retiree pool will cause the premiums to go up.

Doris Williams, President of United Staff United Union (USUNM), respectfully asked for UNM to match the 1.5% compensation increase funded by the State so that the total compensation increase would be 3%.

Comments from Regents' Advisors

Faculty Senate, President Richard Holder, President Holder applauded the budget process and is happy about the proposed 3% raise for faculty. It would be nice to get more but he understands, after

serving on the SBLT, that more of an increase would entail a significant tuition increase to support that. Faculty compensations are still running 10-12% below those of peer institutions. He appreciates the fragility of our institution.

Staff Council, President Gene Henley, President Henley spoke in favor of the budget and encouraged the Regents to pass which would allow for staff a 2% compensation increase. He also sat on the SBLT and appreciates the process and the opportunity to serve.

GPSA President, Priscila Poliana, President Poliana stated that she appreciates the comments from Regent Quillen, Regent Overton and Regent James on not putting the burden on students. She understands that some programs have a need for more funding but overall it is best to find efficiencies and avoid a tuition increase.

- Regent Fortner called for a break in the meeting. The meeting broke at 12:07 pm. and reconvened at 12:27 pm.

HSC BUDGET PRESENTATION FY15

Dr. Paul Roth, Chancellor for UNM Health Sciences, addressed the Health Sciences System pragmatic assumptions that went into developing the budget. Chancellor Roth reviewed the Health System, which consists of all the University's Hospitals including, UNMH, Sandoval Regional Medical Center (SRMC), Adult Psychiatric Hospital, Carrie Tingley, Child Psychiatric Hospital and the Cancer Center.

HSC is assuming a 6% growth next year and are building the primary care base through more advanced medical homes, expanding pharmacy programs, advanced tertiary programs, and emphasis to optimize the SRMC. FY15 financial assumptions include a 6% growth in revenues, additional reductions in expenses, and increased revenue because of lean methodologies and patient processing. They are reviewing ways to improve the revenue cycle which includes documenting, processing, billing and collecting the charges associated with the delivery of health care. HSC will also participate as one of the options for UNM employee health care this upcoming enrollment and is working closely with Maritain and Aetna. They are also building assumptions into the budget for increased compensation. There will be increased costs in medical supplies, volume, and the medical inflationary rate in the U.S. Finally, the SRMC is predicted to be very stable.

The most important factor in making budget assumptions for FY15 is the Accountable Care Act (ACA) at both the federal and state level. There is no experience with how Medicare will be reimbursed based on the new ACA requirements. There are questions surrounding the Medicaid Expansion and the Health Insurance Exchange. The State Coverage Insurance was an example of a lost funding stream due to the implementation of the ACA. There will be reductions in revenue streams; however, in FY15, Uncompensated Care is estimated to have an increased reimbursement of \$69 million and Commercial Insurances a slight increase in revenues of \$5.5 million. Chancellor Roth discussed the changes in payers due to healthcare reform and the projected reimbursement for FY15. Uncompensated Care Costs are projected to be at \$114 million. Commercial Insurance is likely to have a slight increase. Many unknowns may affect the budget next year. As the HSC begins seeing actual revenues coming in, they can adjust their program to reduce expenses associated with any potential reductions in revenue streams.

For the fifth year in a row, there will be no tuition rate increase. The HSC has received additional state funding to increase class size in nursing. The state has sustained support from the tobacco settlement, which accounted for support for research and primary care funding. There is an anticipated increase of 3.4% for the research facility and administration overhead for grants and contracts. Built into the budget are a 3% faculty compensation increase and a 1.5% staff compensation increase. If the Regents approve a 2% compensation increase for staff they can easily absorb that. They also negotiate with Unions in good faith at the Hospital level. Anticipated costs are for compensation relating to the ERB employer portion is 0.75% increase, the employee increase is

0.6%. VEBA will be another 0.25% increase at the employee level. Group Health Insurance increase is 7.25%, and no increases in HSC Utilities.

Ava Lovell presented the FY15 HSC budget. Overall FY15 budgeted revenues at almost \$1.7 billion or a 6.8% increase over FY14. The biggest unknown in revenues is through Medicaid. HSC is planning on using reserves of just under 0.4% or \$6.6 million on the academic side. For Uncompensated Care they are projecting \$114 million. The UNM Health System is all of the University's clinical operations. For revenues they are predicting a 6.9% overall increase and they are working on efficiencies with the SRMC and 4th Street Clinic. The expenses for the Health System are roughly \$1.2 billion with a 6.8% increase. There will be compensation increases, purchase service increases and physician service increases. The bottom line projection for FY14 is a \$1.2 million loss. They have built in compensation increases for faculty and staff into the budget. For the Academic Enterprise budget for FY15 all units will break even or use balances, such as the HSC Library, College of Pharmacy, and HSC Research. Overall, the HSC Academic Enterprise will use \$6.6 million of reserves and HSC All Components will use \$6.5 million of reserves for one-time items.

In response to Regent inquiry, the Cancer Center clinical side is embedded in the Health system but the education and research side is under the School of Medicine. Project Search is funded for next fiscal year.

- Regent Fortner announced the meeting would reconvene at 12:00 Noon, Friday, March 28, 2014 in the SUB Ballroom C, for further discussion, consideration and approval of the FY15 budget. He asked for a motion.

The motion to table the agenda item, to Approve FY15 Compensation and Tuition and Fee Rates until the reconvened meeting on Friday, March 28, 2014, was unanimously approved by a quorum of Regents present and voting (1st Gallegos, 2nd Koch).

Regent James commented in support of compensation increases but expressed concern about doing so on the backs of the students. He noted the need to consider the other added burdens imposed on employees, like VEBA and also on students in the potential reduction of financial aid from Lottery Scholarship funds.


VOTE TO ADJOURN

The motion to adjourn the meeting passed unanimously (1st James, 2nd Overton).

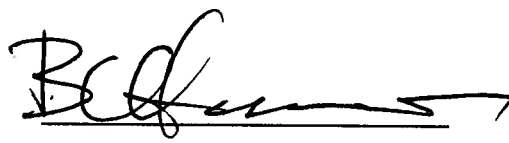
The meeting adjourned at 12:54 pm.

Approved:

Attest:



Jack L. Fortner, President



Bradley C. Hosmer, Secretary/Treasurer

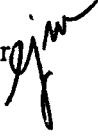
Minutes originated by: Mallory Reviere and Sara Gurule
Minutes finalized by: Mallory Reviere



Attachment A

University Controller
1 University of New Mexico
MSCO1 1300
Albuquerque, NM 87131

TO: Gene Gallegos, Chair Regent's Audit Committee

FROM: Elizabeth Metzger, University Controller 

DATE: March 25, 2014

RE: FY 2014 Audit - External Auditor Selection

This memo is to request the Audit Committee's approval of KPMG LLP and Moss Adams LLP as the external auditors for the University of New Mexico's fiscal year 2014 financial audit, subject to approval from the Higher Education Department and the State Auditor's Office.

Proposals were solicited on February 7, 2014 on behalf of the Financial Services Division for financial statements and compliance audits for the years ending 6/30/2014, 6/30/2015, and 6/30/2016.

Proposals and evaluation criteria were distributed to the 5-member evaluation committee on March 7, 2014. The committee consisted of the Lead Financial Officers for UNM Foundation, KNME, UNM Hospitals, Health Sciences Center, and the Main Campus. In accordance with appropriate selection criteria established for the procurement, the written proposals were evaluated for responsiveness to mandatory requirements.

The evaluation committee recommends awarding the contract to the combined proposal of KPMG LLP and Moss Adams LLP as the highest ranked offer. The total 3-year proposal cost is \$2,800,935 plus NM GRT. The total 3-year proposal for the previous audit contract was \$2,610,000 plus NM GRT. The costs to perform the services are a reduction of 2.2% for FY2014 from FY2013. FY2015 is a 4.1% increase over FY2014 and FY2016 is a 4.0% increase over FY2015.

The proposed audit fees for KPMG LLP and Moss Adams LLP for fiscal year 2014 are \$896,729 plus NM GRT.

The annual financial audit fees are paid by the units being audited, as follows: Main Campus, HSC Campus (excluding UNM Hospitals), UNM Hospitals, and the University of New Mexico component units including The University of New Mexico Foundation, Inc., The Robert O. Anderson Schools of Management Foundation, STC.UNM, The University of New Mexico Lobo Club, Lobo Development Corp., Lobo Energy, Inc., SRMC, The UNM Medical Group, and The University of New Mexico Alumni Association. Three small special purpose audits are also required: KNME Television and KUNM Radio stations' Corporation for Public Broadcasting audits and reports and the UNM Intercollegiate Athletics program NCAA review and report. Finally, a small state agency, the New Mexico Sentencing Commission is also included under the UNM audit contract.



UNM Main Campus
Budget Recommendation
Fiscal Year 2014-2015
Summary

1.5% T & F
Proposal

Sources of Funds:		
SB 313 State I&G General Fund:		
State Appropriation FY 15 Base	179,862,600	1
Reduction of FY14 Base - 4%	(7,216,180)	2
New Dollars from Outcomes Performance including Research	9,847,598	3
Workload Change for End of Course Student Credit Hours	3,016,389	4
Institutional Share	547,900	5
ERB 0.75% Increase (Funded at approx. 60%)	898,400	6
Compensation 1.5% Increase (Funded at approx. 60%)	2,170,733	7
General Fund Appropriation Sanding -0.275% I&G	(515,621)	8
General Fund Appropriation Sanding -0.275% Compensation	(5,970)	9
Subtotal SB 313 State I&G General Fund - FY 15 Budget	188,605,849	10
Tuition:		
FY 15 Starting Base	133,971,255	11
Tuition Revenue - 1.5% Increase	2,323,343	12
Re-blocking of Graduate Tuition (Anderson, Architecture & Planning, and Public Administration)	(257,000)	13
Unbudgeted Tuition - Estimate	293,225	14
Subtotal Tuition	136,330,823	15
Mandatory Student Fees:		
FY 15 Starting Base	30,255,600	16
Unbudgeted Fees - Estimate	2,171,192	17
FY 14 One-Time Use of Reserves	1,500,000	18
Subtotal Mandatory Student Fees	33,926,792	19
Total Revenues	324,936,672	20
Health Sciences Center Transfers:		
Health Sciences Center FY 15 Base	(16,425,845)	21
Health Sciences Center FY 15 Formula Workload/Outcomes	(1,077,231)	22
Health Sciences Center FY 15 Tuition - Estimate	(225,000)	23
Subtotal Transfers to Health Sciences Center from I&G Base	(17,728,076)	24
Total Sources of Funds:	341,135,388	25
Uses of Funds:		
I&G Allocations and Requests:		
FY 15 Expenditure Base	300,965,645	26
FY 15 Expenditure Base Reduction of 1% - (Internal Reallocation of Funds)	(2,939,200)	27
IT Reduction of Tuition Funding	(1,206,775)	28
FY 15 Funding Requests (Details next page)	11,888,926	29
Subtotal Allocations and Requests	308,708,596	30
Mandatory Student Fee Allocations and Requests:		
FY 15 Expenditure Base	30,255,600	31
IT Increase in Fee Funding	1,206,775	32
FY 15 Funding Requests (Detail next page)	964,417	33
Subtotal Mandatory Student Fee Allocations and Requests	32,426,792	34
Total Uses of Funds	341,135,388	35
Balance	0	36
Current Estimates		
Tuition Waivers for GA/TAs	\$ 34,000	37
Net Tuition and Fee Increase	\$ 1,548,895	38
Compensation Increase (Salaries and Fringe) - Detail Below	\$ 2,488,123	39
Faculty	1,160,581	40
GA/TA	173,481	41
Staff	1,087,974	42
Students	66,087	43
Total 1% Increase - Compensation	2,488,123	44

Notes:

UNM State Appropriation base is \$180,404,500. Extended University receives \$541,900.

Current Estimates are based on actual data through January 2014

\$3M I&G revenue shortfall addressed as follows for FY 15:

\$1.5M one-time use of FY 14 mandatory student fee reserves.

\$1.5M permanent base adjustment of unbudgeted tuition and mandatory student fees.

Assumptions:

ERB increase of 0.75% funded at approximately 60%. UNM to make up the difference. HSC receives ERB funding directly from the State.

Compensation increase of 1.5% funded at approximately 60%. UNM to make up the difference. HSC receives compensation funding directly from the State.



1.5% T & F
Proposal

FY 2014/15 FUNDING REQUESTS			
	I&G	Other	
Strategic Investments			
Compensation Increase - Faculty 3%	3,481,743	-	1
Compensation Increase - Staff/GA/TA 2%	2,522,910	-	2
Veteran's Affairs	100,000	-	3
Information Technologies - Licensing	115,339	-	4
Financial Services FTEs (Bursar's Office, Payroll, Purchasing)	-	-	5
Harwood Museum of Art	-	-	6
Student Activities Center	-	-	7
Center for Academic Program Support (CAPS)	-	-	8
NM Leadership Institute	-	-	9
Staff Council	-	-	10
Research Office Fringe Benefits	-	-	11
Faculty/Lecturer Promotions	240,000	-	12
Distinguished Professors	40,000	-	13
Committed Faculty Hires	408,878	-	14
Interdisciplinary Faculty Hires	461,000	-	15
Minority Faculty Hires	255,000	-	16
Retention Offers	30,000	-	17
Faculty Contracts	100,000	-	18
College Learning Assessment	-	-	19
Starfish Advising Tool	85,000	-	20
Graduate Online Application (OGS)	80,000	-	21
Museum Curators	55,101	-	22
Office of the University Secretary - Graduation Commencements	50,000	-	23
Advisors	140,000	-	24
Fringe (Faculty & Staff)	381,315	-	25
Tuition Waivers	51,000	-	26
Transfer to Student Aid - FY 15 3% Scholarships	-	-	27
Transfer to Student Aid - 20% of Tuition Increase to Need-Based Aid	-	-	28
SFRB Recommendation	-	964,417	29
Performance Investments			
Compensation Increase - 0%	-	-	30
Institutional Operations (Must Funds)			
Group Health Insurance Premium Increase:			
Current Faculty/Staff	625,000	-	31
Retirees - Pre 65 (Miscellaneous Fringe Benefits)	500,000	-	32
Retirees - Post 65 (Miscellaneous Fringe Benefits)	200,000	-	33
GA/TA Premiums	175,000	-	34
VEBA Increase	300,000	-	35
ERB 0.75% Increase - Fringe Benefits Cost Increase	1,491,640	-	36
Insurances - Property and Liability	250,000	-	37
Workman's/Unemployment Comp (25% Rate Reduction)	(250,000)	-	38
Total Funding Requests	11,888,926	964,417	39



UNM Branch Campus FY 15 Budget Perspectives

Tuition

Keeping tuition increases to a minimum has been a priority for UNM’s branch campuses. Since the recession and associated budget cuts began in FY 09, branch campus tuition increases on average have been less than the total cuts imposed by the state tuition credit alone:

UNM Branch Campus Tuition/Fee Rates FY 10 - FY 14									
	Gallup		Los Alamos		Taos		Valencia		Tuition Credit
2009-10	60.90	% +/-	53.50	% +/-	57.00	% +/-	55.00	% +/-	5.0%
2010-11	63.25	3.9%	55.50	3.7%	60.35	5.9%	59.75	8.6%	9.0%
2011-12	71.00	12.3%	64.50	16.2%	69.10	14.5%	65.05	8.9%	9.5%
2012-13	71.00	0.0%	67.00	3.9%	71.00	2.7%	65.05	0.0%	0.0%
2013-14	71.00	0.0%	70.50	5.2%	71.00	0.0%	65.05	0.0%	0.0%
TOTAL INCREASE		16.6%		31.8%		24.6%		18.3%	25.3%

For FY 15 three branch campuses – Gallup, Taos and Valencia – are again recommending no tuition and fee increases. UNM-Los Alamos has a number of grants expiring and is adjusting to the lost revenue through a combination of increased tuition and expenditure reductions. The summary of FY 15 tuition and fee proposals under consideration by branch campus local advisory boards is as follows:

UNM Branch Campus Tuition/Fee Rates FY 15 Proposed ¹										
	Resident					Non-Resident				
	Tuition	Fee	Total	Total FT	+/-	Tuition	Fee	Total	Total FT	+/-
UNM - Gallup	60.60	10.40	71.00	852.00	0.0%	160.60	10.40	171.00	1,945.20	0.0%
UNM - Los Alamos ²	69.25	4.50	73.75	895.00	4.6%	199.00	4.50	203.50	2,452.00	4.9%
UNM - Taos ³	68.00	3.00	71.00	867.00	0.0%	176.30	3.00	179.30	2,166.60	0.0%
UNM - Valencia	61.30	3.75	65.05	780.60	0.0%	170.50	3.75	174.25	2,091.00	0.0%

¹ As of 3/11/14, pending final approval of branch advisory boards.
² UNM-Los Alamos's fee schedule is as follows: Activity Fee (per hour), \$1.50; Facility Fee (1-4 hrs.), \$12.00; Facility Fee (5 or more hours, per hour), \$3.00; Print Mangement Fee, \$10 per enrollee, reflected here only in the FT total.
³ UNM-Taos charges a \$15.00 "Student Success" fee for each enrollee, reflected here only in the FT total.



UNM

OFFICE *of the* PRESIDENT

Compensation

UNM branch campuses face challenges to the structure of their compensation packages – e.g., in the disparities between long-term and new employees created by years of no wage increases, or faculty salaries generally – that are similar to those of the main campus. However, with fewer and smaller revenue sources at their disposal, branch campuses have fewer available options to deal with these challenges.

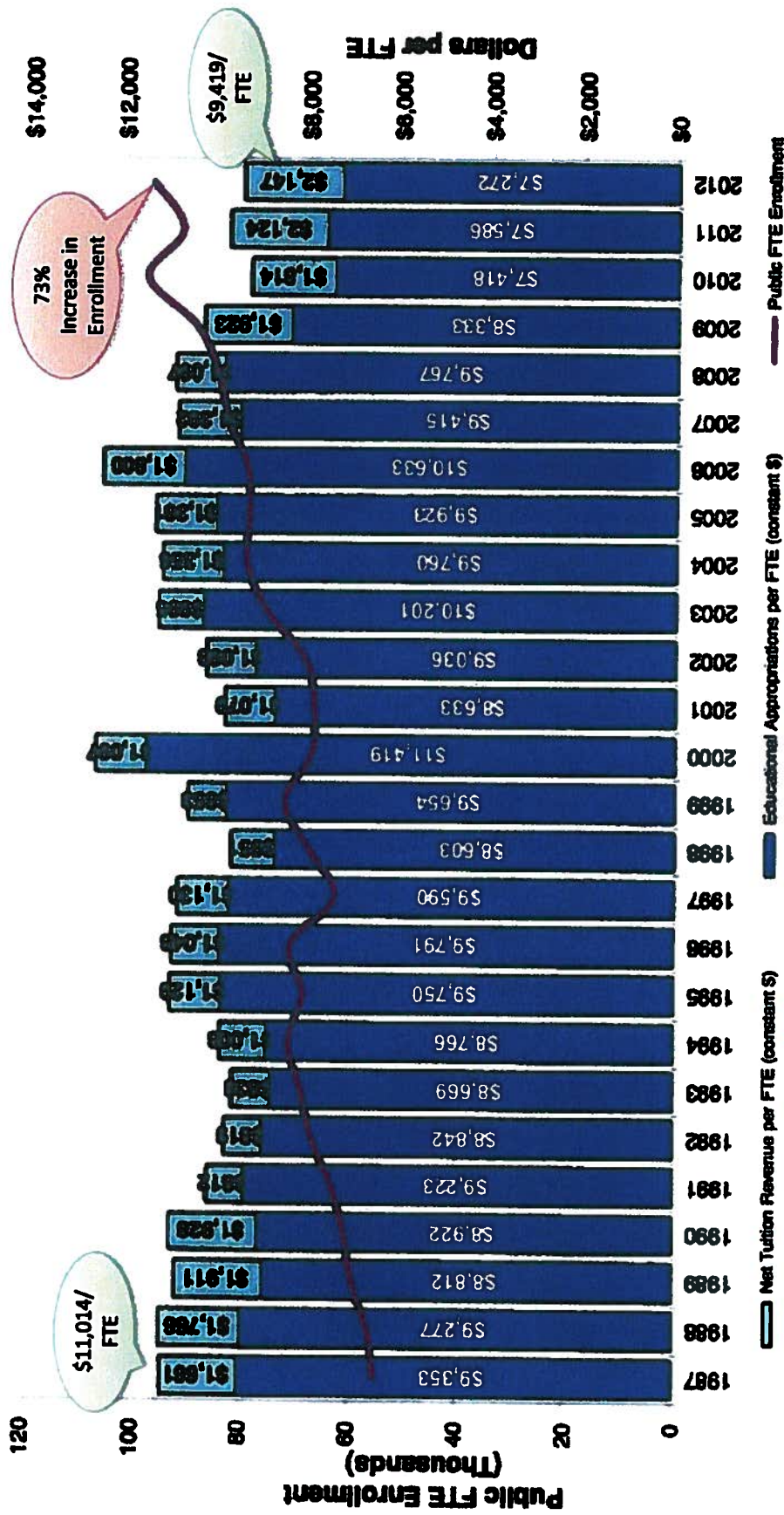
In the main campus budget, with tuition making up approximately 40% of I&G funds, the revenue generated by a 1% tuition increase is approximately equal to the expenditures of a .5% salary increase for faculty and staff. At UNM's branch campuses, tuition only accounts for around 20% of I&G budgets, so the 1% equivalency is less than .3% of a salary increase.

For those reasons branches strongly prefer compensation guidelines that allow them flexibility in the use of their resources to achieve desired ends. Mandated across-the-board salary increases are the hardest for branches to fund; mandated pools (overall compensation increased equal to some fixed percentage of total salaries) are better but also challenging. Establishing criteria for wage and salary adjustments based on available funds would be the best option, from the branch perspective.

11 March 2014

NM Statewide Funding per FTE

Public FTE Enrollment, Educational Appropriations and Total Educational Revenue per FTE, New Mexico -- Fiscal 1987-2012



Note: Constant 2012 dollars adjusted by SHEEO Higher Education Cost Adjustment (HECA). Educational Appropriations include ARRA funds.
Sources: SHEEO