

September 9, 2015

MEMORANDUM

TO: State Board of Regents
FROM: David L. Buhler
SUBJECT: Fiscal Year 2016-17 USHE Budget Request

Background

State statute requires the State Board of Regents to “recommend a combined appropriation for the operating budgets of higher education institutions for inclusion in a state appropriations act” with the “dual objective” of considering higher education needs yet also being “consistent with the financial ability of the state” (U.C.A. 53B-7-101(1a,4i)). Statute requires “an equitable distribution of funds among the respective institutions” (U.C.A. 53B-7-101(4)(b)(ii)), and to “recommend to the Legislature ways to address funding any inequities for institutions as compared to institutions with similar missions” (U.C.A. 53B-7-101(1bi-v,2f)).

Issue

Formulation of the FY 2016-17 USHE operating budget request for approval by the State Board of Regents has involved substantial consultation and discussion with the Council of Presidents. The following attachments detail five main components: (1) Employee Compensation; (2) Access and Affordability; (3) Market Demand Programs; (4) Performance Funding; and (5) Statewide Programs – Cyber Security and the Regents’ Scholarship. The total USHE request is \$77,052,700 or 9.1% increase. If the Legislature fully funds this operating budget request, it is estimated we will need a first tier tuition increase of 2.5 percent (to be set in March 2016).

Attached are the following documents:

- 1) Operating Request Narrative
- 2) Operating Request Summary
- 3) Access and Affordability Detail
- 4) Market Demand Funding Allocation
- 5) Cyber-Security Narrative

Commissioner's Recommendation

Following presentation and discussion at the Board meeting, the Commissioner recommends approval of the FY 2016-17 Budget Request. It is further recommended that the Board authorize the Commissioner to make any subsequent technical adjustments related to compensation and to update the request for Access and Affordability by February 1, 2016 based on an updated cost study and actual end-of-semester enrollments for Fall 2015.

David L. Buhler
Commissioner of Higher Education

DLB/GLS/BLS

**UTAH SYSTEM OF HIGHER EDUCATION
UNIFIED BUDGET REQUEST NARRATIVE
FISCAL YEAR 2016-17
September 9, 2015**

Background

The Board of Regents and the Utah System of Higher Education (USHE) are focused on increasing the number of Utah adults who benefit from a post-secondary education. The statutory authority for the Board of Regents in recommending a unified budget to the Governor and Legislature provides that the request shall meet a “dual objective” of being consistent with the needs of higher education institutions and within “the financial ability of the state” (U.C.A. 53B-7-101-4b).

Introduction

In preparing his recommendation, the Commissioner consulted with the Council of Presidents in July and on September 1; this recommendation is advanced with the benefit of their input and with their support. It is focused on supporting the strategic objectives of the Board of Regents and Utah System of Higher Education:

- Affordable Participation
- Timely Completion
- Innovative Discovery

FY 2016-17 USHE Request

The components of the 2015-16 budget request are:

1. Employee Compensation
2. Access and Affordability
3. Market Demand Programs
4. Performance Funding
5. Statewide Programs

Each is detailed below.

1. Compensation

Total compensation comprises base salary, medical benefits (health and dental), and salary-related benefits (unemployment, Social Security, retirement, workers compensation, disability and basic life insurance). By agreement with the Utah Legislature, 75 percent of incremental increases in salaries and salary-related benefits is funded with tax funds; the remaining 25 percent is funded through increased tuition. (Medical benefit increases are benchmarked to increases in the State PEHP plan.) A high priority

of the Utah System of Higher Education is to have the resources to provide fair and competitive compensation for employees—faculty and staff. This is the top priority in the 2016-17 budget request.

The Board of Regents requests an increase equivalent to 3 percent of salaries to be used for performance-based salary increases totaling \$24,474,400 (75 percent of cost). The Board also requests an increase to cover an estimated 7.6 percent increase in health and dental insurance premiums, totaling \$7,859,200 (75 percent of cost; based on an early estimate of PEHP premium increases and will be updated when additional information is available).

2. Access and Affordability

Utah's demographics are changing. It is imperative we increase the number of Utahns who access higher education—particularly low-income and underserved communities—to ensure our state continues to thrive economically and all Utahns enjoy a high quality of life. Keeping up with increases in enrollment growth is essential if we are to have both the necessary capacity (such as course sections, faculty, support services, information technology, etc.) without unduly relying on tuition. Ensuring college is accessible and affordable is a top priority for Utah as a young, rapidly growing state.

Earlier this year USHE Business Affairs Council (BAC) and Budget Officers (BOSS) considered options for a new enrollment growth funding model. Their principle recommendation was that we find a way to simplify the request from the previous model (cost study). The cost study has different funding levels for both five course levels and each institution. (The most recent cost-study was in 2013; it will be updated in November 2015.)

In September 2015 institutions reported their estimated enrollment changes to the Commissioner's Office for Fall 2015 by course level. The cost study dollar amounts from the most recent study (2013) were adjusted as an estimate based on the 2015-16 appropriations.

It is recommended that the Board use the average cost by course level and by institutional type (research universities, regional universities, and community colleges) based on the most recent cost study with adjustments for enrollment changes and appropriations. This simpler model also has the advantage of rewarding institutions whose costs are below average for their institutional type within USHE. This is detailed in Attachment 3.

To provide continued access to higher education at an affordable cost for students, the Board of Regents requests funding of Access and Affordability based on the average cost by course level and institution type. The September estimate is that this will total \$9,205,100. It is recommended that the Board authorize the Commissioner to update this request by February 1, 2016 using actual numbers for 2015 fall end of semester enrollments and the updated cost study.

3. Market Demand Programs

Workforce needs as expressed by employers across virtually every industry are becoming ever more prominent. USHE institutions play a crucial role in making sure Utahns are prepared for the economy of tomorrow. A new category in this year's funding request is intended to help institutions address the most pressing market demands by expanding existing or creating new academic programs. This category, "Market Demand Programs," includes \$6 million to complete last year's graduate program support initiative for Utah and Utah State on a 60/40 split respectively, with an additional \$4 million for the other six institutions allocated based on 50 percent share of student FTE and 50 percent share of state tax funds. Institutions would have discretion to propose to the Board of Regents in January 2016 how these funds would be used to help meet market demands in our state.

The Board of Regents requests \$10 million for institutions to use to help meet critical market demands in Utah's economy (\$6 million to support graduate programs at the two research universities, \$4 million for the regional universities and community colleges based on their share of taxpayer funding and FTE students).

4. Performance Funding

The budget includes \$15 million for performance funding, using the model adopted by the Board of Regents on July 31, 2015, and based on SB 232. Under the provisions of SB 232, institutions may receive new funding for outputs in these areas:

- Degrees and certificates granted
- Services provided to traditionally underserved populations
- Responsiveness to workforce needs
- Graduation efficiency
- Graduate research for research universities

The Board of Regents request \$15 million to fund Performance Funding as provided in S.B. 232 enacted in 2015 and per the model adopted by the Board on July 31, 2015.

5. Statewide Programs

5-A. Enhanced Cyber Security

Capable and well-equipped cyber attackers probe academic and corporate computer networks to find vulnerabilities they can exploit, including identity theft, harvesting personal information, or stealing valuable research or clinical data. The Chief Information Officers (CIOs) of institutions within USHE are recommending \$2.5 million in funding to better equip our institutions to protect against attacks on institutional information technology networks.

5-B. Full Funding of Regents' Scholarship

The Utah Legislature has enacted the Regents' Scholarship (2008) to encourage high school students to take a rigorous course of study to better prepare for college. An estimated \$8,014,000 is needed to fully fund the scholarship in order to replace \$2.5 million in one-time funding and to accommodate an estimated 25 percent growth in applications (the scholarship grew by 22 percent in 2015). The Legislature will be provided updated information in February (after the application deadline) of the amount of new funding necessary to fully fund the scholarship, and the amount of awards if no new funding is provided.

The Board of Regents requests a total of \$10,514,000 in new ongoing funding for statewide programs as follows:

- **\$2.5 million in ongoing funding to the Board of Regents to be used to improve information technology security at the eight institutions.**
- **\$8.014 million in ongoing funding to the Board of Regents to replace one-time funds and cover expected growth in the Regents' Scholarship.**

Conclusion

Support for Utah's public colleges and universities are critical to Utah's success as a state. Data are clear: Post-secondary educational attainment is linked to higher wages, lower levels of poverty and unemployment, greater civic engagement and community volunteerism, and an overall higher quality of life. In order to realize the results of this brighter future, investment in Utah's higher education must be made today.

In January 2014 the Board of Regents approved a ten-year operating budget estimate to meet Utah's college attainment goal, averaging approximately \$67 million annually in increased operating state tax funds. This year's request (not including the Regents' scholarship, which was not part of this projection) is \$69 million. Funding of this request will further the Board of Regents' strategic objectives of Affordable Participation, Timely Completion, and Innovative Discovery.

Operating Budget Request Summary

ESTIMATED FY 2016-17 STATE TAX FUNDS BEGINNING BASE BUDGET \$845,439,000

USHE BUDGET PRIORITIES (On-Going Increase) \$77,052,700

1. Compensation (75%) ^{1, 2}		\$32,333,600
A. 3% Performance Based Compensation	24,474,400	
B. 7.6% Health Premium Increases ³	7,859,200	
2. Access & Affordability	9,205,100	9,205,100
3. Market Demand Programs	10,000,000	10,000,000
4. Performance Funding	15,000,000	\$15,000,000
5. Statewide Programs		\$10,514,000
A. Cyber Security	2,500,000	
B. Regents' Scholarships	8,014,000	
Total USHE Budget Priorities		\$77,052,700
USHE Budget Priorities Percent Increase		9.1%

¹ State funded portion (75%) of a 1% salary and related benefits is \$8,158,800; health \$1,034,900; dental \$54,100; URS \$277,850.

² If fully funded tuition increase match would require 2.5%.

³ Early estimate of 7.6% used until updates available this fall.

**USHE FY 2017 BUDGET REQUEST
MARKET DEMAND PROGRAMS
DISTRIBUTION 50% STUDENT FTE AND 50% APPROPRIATIONS**

Institution	FY 2015 FTE Enrollments ¹	% of Degrees & Awards	50% \$ 2,000,000	FY 2016 On-going Appropriated Tax Funds ²	% of On-going Appropriated Tax Funds	50% \$ 2,000,000	Total Program Capacity Funding Allocation ³	% of Total
UU							\$ 3,600,000	36.00%
USU							\$ 2,400,000	24.00%
WSU	13,030	21.85%	\$ 437,100	\$ 76,012,800	21.74%	\$ 434,700	\$ 871,800	8.72%
SUU	5,158	8.65%	\$ 173,000	\$ 33,770,400	9.66%	\$ 193,100	\$ 366,100	3.66%
SC	3,100	5.20%	\$ 103,900	\$ 22,189,400	6.35%	\$ 127,000	\$ 230,900	2.31%
DSU	4,906	8.23%	\$ 164,600	\$ 31,832,100	9.10%	\$ 182,000	\$ 346,600	3.47%
UVU	18,045	30.26%	\$ 605,300	\$ 96,568,200	27.61%	\$ 552,300	\$ 1,157,600	11.58%
SLCC	15,385	25.80%	\$ 516,100	\$ 89,339,600	25.55%	\$ 510,900	\$ 1,027,000	10.27%
Total	59,624	100.0%	\$ 2,000,000	\$ 349,712,500	100.0%	\$ 2,000,000	\$ 10,000,000	100.0%

¹ FY 2015 end-of-year budget related annualized resident FTE enrollments

² FY 2016 on-going appropriated tax funds (all line items)

³ Allocates \$6M for graduate programs at UU and USU (60/40 split) then allocates \$4M to other six based on 50/50 split of student FTE and appropriations

DRAFT - FOR DISCUSSION PURPOSES ONLY - DRAFT
SEPTEMBER 8, 2015 ESTIMATION

UTAH SYSTEM OF HIGHER EDUCATION
FY 2016-17 BUDGET REQUEST
ACCESS & AFFORDABILITY

2015-16 Proportion of Tax Funds			
Course Level	Research Universities	Regional Universities	Community Colleges
Vocational	\$ 2,094	\$ 2,241	\$ 3,103
Lower Division	\$ 2,258	\$ 1,564	\$ 1,668
Upper Division	\$ 4,432	\$ 2,970	\$ 1,542
Basic Graduate	\$ 6,893	\$ 2,924	\$ -
Adv Graduate	\$ 7,524	\$ -	\$ -

2014-15 to 2015-16 FTE Change									
Course Level	UU	USU	WSU	SUU	DSU	UVU	SC	SLCC	Total
Vocational	-	319	253	28	41	209	110	37	997
Lower Division	239	697	59	393	47	464	47	29	1,975
Upper Division	-	287	-	-	5	23	-	-	315
Basic Graduate	134	-	64	46	-	42	-	-	286
Adv Graduate	56	-	-	-	-	-	-	-	56
Total	429	1,303	376	467	93	738	157	66	3,629

Funding by Institution										
Course Level	UU	USU	WSU	SUU	DSU	UVU	SC	SLCC	Total	
Vocational	\$ -	\$ 667,986	\$ 566,973	\$ 62,748	\$ 91,881	\$ 468,369	\$ 341,330	\$ 114,811	\$ 2,314,098	
Lower Division	\$ 539,662	\$ 1,573,826	\$ 92,276	\$ 614,652	\$ 73,508	\$ 725,696	\$ 78,396	\$ 48,372	\$ 3,746,388	
Upper Division	\$ -	\$ 1,271,984	\$ -	\$ -	\$ 14,850	\$ 68,310	\$ -	\$ -	\$ 1,355,144	
Basic Graduate	\$ 923,662	\$ -	\$ 187,136	\$ 134,504	\$ -	\$ 122,808	\$ -	\$ -	\$ 1,368,110	
Adv Graduate	\$ 421,344	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 421,344	
Total	\$ 1,884,668	\$ 3,513,796	\$ 846,385	\$ 811,904	\$ 180,239	\$ 1,385,183	\$ 419,726	\$ 163,183	\$ 9,205,084	
Rounded to 100	\$ 1,884,700	\$ 3,513,800	\$ 846,400	\$ 811,900	\$ 180,200	\$ 1,385,200	\$ 419,700	\$ 163,200	\$ 9,205,100	

Timeline:

November 25, 2015: 2014-15 Estimated Appropriated Direct Instructional Expenditures per FTE will be updated with actuals from Cost Study.

January 29, 2016: 2015-16 Estimated Annualized Budget Related End-of-Term Resident Student FTE will be updated using Summer and Fall actuals.

FY17 USHE legislative request – Cyber Security - \$2.5 million

The eight public institutions of higher education in Utah each have their own mission — a distinct charge that sets them apart from the others. There is one area, however, where the mission is singular and clear: Protecting student, patient, research, and other personal or proprietary data. Fortunately, the Chief Information Officers of USHE schools have an outstanding collaborative relationship, and approach their work with a “high tide floats all boats” mentality. The CIOs have seen the need to leverage their common IT needs and resources to benefit students and faculty from Logan to St. George.

Working in concert with the Utah Education and Telehealth Network and state Data Security Management Council, USHE proposes the creation of a central, coordinated effort to help every school fulfill consensus basic information security needs. This effort would be overseen by a USHE Chief Information Security Officer (CISO), who would manage annual IT security assessments and institute regular policy and procedure audits to help institutions better manage risk. This would allow individual campuses to better focus their limited resources on their own targeted needs.

The USHE Chief Information Security Officer would report to the USHE Chief Information Officer, and would work closely with the individual CISOs to:

- Establish agreed upon **statewide minimum security standards**
- Coordinate ongoing, biennial **penetration tests** of campus information systems
- Lead **risk-assessment efforts** to identify systems that are likely targets for attack and provide options to lower the risk to those systems
- Review and make **recommendations regarding campus IT security policies, procedures, and training**
- Identify opportunities for **financial and operational efficiency** across the higher education system in regards to information security
- Cooperate with the state Data Security Management Council to ensure institutions are **aligned with other state governmental agencies** on information security

By working together and with our colleagues in other state agencies, we are stronger and more efficient. In keeping with that sentiment, USHE would also like to establish a joint monitoring/risk-assessment operation to better secure every institution. This critical task is often cost prohibitive for smaller organizations, but by consolidating the effort centrally schools could better understand and react to potential security events. This operation would be overseen by the USHE CISO, who would work with broader state government security groups through the Data Security Management Council.

USHE is seeking an ongoing \$2.5 million to support this request, allocated to fund:

- **The creation of the USHE Chief Information Security Office (\$500,000)**, including a CISO, a risk management expert, and a security tools expert. This includes the cost of salaries and benefits; space and equipment; and a small general budget for training, travel, and other expenses. This office would work closely with other system and state information security professionals.
- **Data breach insurance funding (\$384,000 divided proportionally)** to cover or offset the cost at every institution. Breach insurance covers the expense for individual notifications and credit monitoring, costly forensic analysis to determine whether a breach occurred, media relations, call center, and more.
- **Continued and expanded security audits (\$144,000)**, potentially doubling capacity and allowing institutions to have yearly system penetration and/or risk assessment and policy audits to look for gaps and track improvement.
- **USHE contracts for critical security tools and software (about \$1.5 million)**, many of which are currently being purchased through more expensive individual contracts. The Higher Education Technology Initiative aims to gain efficiency through scale, and this effort would provide institutions with necessary technology at a lower cost and with greater utilization. Likely tools are:
 - Advanced log management
 - Advanced malware protection
 - Data loss prevention
 - Multi-factor authentication solutions
 - Risk management software
 - Next-generation firewalls

College and university information systems are bursting with Social Security numbers, student academic records, medical records, credit card information, and more. The high-level research conducted by the institutions also demands rigorous security controls to protect data and ensure future opportunities through this valuable revenue stream. Purchasing and employing the technology necessary to prevent or quickly detect breaches is a necessary cost of doing business. However, by working together to obtain, deploy, and manage these tools, the Utah System of Higher Education can spend more money on what it is meant to do: Prepare Utahns for a bright and prosperous future.