TOPIC: DRAFT POLICY REGARDING INFLATION ADJUSTMENT TO NCHEMS ALLOCATION MODEL

**PREPARED BY:** DAVID SKAGGS & DIANE LINDNER

## I. BACKGROUND

The Commission last year endorsed the effort to develop a new model for the allocation of state general fund support among the ten higher education governing boards based on what has come to be called the NCHEMS-gap model. NCHEMS refers to the National Center for Higher Education Management Systems, which in 2006 conducted the well-known study that found that the state's institutions then lagged behind their national peers in total state support and tuition revenue per student FTE by about $840 million (not including Health Sciences Center).

The NCHEMS peer analysis was updated in terms both of peer institutions and estimated comparable revenues last year, and each of our institutions approved the revised peers for their and their sister state institutions, and that agreement was ratified by the Commission. The revenue gap between each of our institutions and their peers was then to become the basis for an allocation of FY2009 general funds and subsequent years' state support in order to move each of our institutions to parity with their national peers over time. The length of time to reach peer parity would (and will) depend on the additional revenues that could be realized each year through appropriations, tuition or possible new funding sources.

During the early part of this year, efforts to resolve many of the details of the NCHEMS-gap model with the institutions' Chief Executive Officers (CEOs) led to the decision to defer implementation until the preparation of the FY2010 budget. We agreed that it was important for several policy matters imbedded in the model to be disaggregated and addressed as separate policy matters by the Commission.

The Department is obliged to submit its initial budget requests for FY 2010 to the Office of State Planning & Budgeting August 1, 2008, and in order to meet that objective several of these policy questions need to be resolved in order to go forward with the NCHEMS-gap model. One of those is whether the "pure" NCHEMS-gap approach should be modified to take some account of inflationary pressures experienced by all institutions regardless of their position relative to their peers. In the meantime, the Joint Budget Committee decided to reject the Commission's recommendation of an interim, across-the-board percentage increase for FY2009 and to implement in the Long Bill a version of the NCHEMS-gap model, which included such an inflation adjustment.

The process agreed to with the CEOs for the consideration and approval of these policy components of the NCHEMS-gap model is for the Commission's Policy Committee to work with staff to develop a proposal. That will be reviewed with the CEOs and then by the Commission in a study session. Action to adopt a policy would follow at a subsequent

Commission meeting. This will be the first occasion for the Commission to address one of these policies in study session. The study session is meant to be an opportunity to receive additional input from the institutions and the public and to have informal discussion among the Commissioners.

The draft policy has been reviewed and approved by the Commission's Policy Committee and, with some acquiescence, by the CEOs.

## II. SUMMARY

The policy for discussion, included as Attachment A to this study session item, would establish as part of the NCHEMS-gap model, an initial allocation of general funds to each governing board calculated by the rate of inflation estimated by the State Office of Planning & Budgeting for the fiscal year in question applied to its previous fiscal year allocation. General funds remaining after the inflation adjustment would then be allocated according to NCHEMS-gap calculations, the details of which are the subject of other draft policies.

## ATTACHMENT A

*Draft policy regarding "upfront" inflation adjustment to NCHEMS-gap allocation model.*

The Commission recognizes that each institution will incur increases in costs each year for various budget items, like utilities and classified staff salaries, which have to be accommodated in their budgets. In order to account to some extent for such inflationary or mandated costs, in developing the general fund budget allocation in the budget process each year each institution should initially receive an adjustment at the rate of the then current estimate by the Office of State Planning & Budgeting for inflation in the coming budget year.