

AGENDA

December 3, 2008

Agenda Item

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APPROVAL ITEMS

1. Approval of Actions to Meet an 8% Budget Reduction for FY 2009 1
 - Reduce employer contribution rate for the PPO and HMO health insurance plans from 75% to 70%
 - Waive policy 704.021 on mandatory student fee
 - Institute a temporary, mandatory fee of \$100 per semester at research universities, \$75 at comprehensive universities, and \$50 at access institutions.

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1. Actions to Meet an 8% Budget Reduction for FY 2009

Recommended: That the Board approve three actions to help institutions meet an 8% budget reduction for FY 2009. The first action is to reduce the employer contribution rate for the PPO and HMO health insurance plans from 75% to 70% effective January 2009. The second action is to waive policy 704.021 on mandatory student fees. The third action is to charge a temporary, mandatory fee for all students in the amounts of \$100 per semester at the research universities, \$75 at the comprehensive universities, and \$50 at the access institutions, effective spring semester 2009.

Background: The slowing economy caused state revenue collections to decline 1.1% for FY 2008, resulting in a deficit of approximately \$600 million for the state, which was covered by the state's reserve balance. For FY 2009, revenue collections were down 2% through October compared with FY 2008. From a budget standpoint, the shortfall is much greater when one considers that the FY 2009 budget for the state is based on a projected increase of approximately 4% over FY 2008 revenues. The economic indicators continue to cause considerable concern for the rest of FY 2009 and FY 2010.

In accordance with the instructions from the Governor's Office of Planning and Budget (OPB), the Board approved reduction plans in concept for three levels of potential cuts at 6%, 8% and 10%. In October 2008, the Board took action on a 6% reduction for the University System totaling \$136 million. It appears necessary that institutions must plan for an 8% reduction given current and projected economic conditions. An 8% reduction amounts to \$182 million for the University System, which represents an additional \$40 million in reductions for institutions and approximately \$6 million for line items. The conceptual plan approved by the Board in August includes three steps to help meet cuts in excess of 6%. The first step is to increase deferred maintenance for FY 2009, which for six months will yield approximately \$12 million. This step does not require specific action by the Board. The second and third steps are to reduce the employer contribution rate to the PPO and HMO health insurance plans and to institute a temporary mandatory fee, both of which are explained below:

- **Reduce the employer contribution rate for the PPO and HMO health insurance plans from 75% to 70%:** The employer contribution for the PPO and HMO plans is currently set at 75% for January 2009, with the exception of the High-Deductible Health Plan, which has an employer contribution of 90%, and the indemnity plan, which caps the employer contributions at the level of the PPO plan. To meet the budget reduction target, the employer contribution rate is recommended to be reduced to 70% for the PPO and HMO plans. The employer contribution for the indemnity plan will mirror the reduced contribution amount for the PPO plan. The employer share will continue at 90% for the High-Deductible Health Plan. The new rates will be effective in January 2009. This measure is expected to meet approximately \$8 million of the reduction for the six-month period in FY 2009. The additional cost to the employees will range from a low of \$16.78

per month for individual coverage (Blue Choice HMO plan) to a high of \$65.58 per month for family coverage (PPO plan), if the employee elects to stay in the same plan. The additional cost to a retiree with Medicare will range from \$12.78 per month for individual coverage (PPO plan) to \$31.48 per month for retiree and spouse with Medicare (Kaiser HMO plan). Alternatively, the employee or retiree can select a lower cost health insurance plan to the employee, such as the High-Deductible Health Plan, when open enrollment is re-opened between December 3 and December 15, 2008. The revised premiums are in Appendix I.

- **Institute a Temporary, Mandatory Fee of \$100, \$75 and \$50 per semester for research universities, comprehensive universities and access institutions, respectively:** In accordance with the Board's commitment to keep education affordable while ensuring academic quality, students will be charged an additional fee for spring semester 2009. This step is expected to meet \$20 million of the total reduction of \$182 million for FY 2009. The normal process for mandatory fee requests begins with institutional steps involving student participation and a request from the President of each institution. This new fee is different in that it is being applied system-wide to meet institutional budget reductions, and therefore requires a waiver of Board policy related to mandatory student fees. (704.021 Mandatory Student Fees).