

October 27, 2005

The Honorable Dave Heineman
Governor
State of Nebraska
P.O. Box 94848
Lincoln, NE 68509-4848

Dear Governor Heineman:

The University of Nebraska respectfully submits for your consideration two items for potential deficit funding:

1. Higher than anticipated energy costs
2. Environmental clean-up costs associated with the Ag Research and Development Center near Mead

Further details on these items are included in the enclosed materials. The request amounts represent our best estimate at this time of projected costs for the 2005-2007 biennium.

The cooperation of your staff in forming and monitoring these requests is appreciated. In the energy costs area, we would appreciate your allowing us flexibility to modify this request as specific information concerning rates, usage, and climate matters become better known.

Thank you for your consideration.

Sincerely,



James B. Milliken
President

Enclosure

JBM/ck/dt

Form Number 500

Agency Adjustment Summary

State of Nebraska - Administrative Services - Budget Division

| | |
|--------|--|
| | PAGE NUMBER |
| | CODE & DESCRIPTION |
| AGENCY | 51 University of Nebraska Utilities & Mead ARDC |
| | |

| EXPENDITURE ACCOUNT | ADJUSTMENTS | |
|--|-------------|-------------|
| | 2005-2006 | 2006-2007 |
| Permanent F.T.E. Positions | | |
| 511100 Permanent Salaries - Wages | | |
| 511200 Temporary Salaries - Wages | | |
| 511600 Per Diem Payments | | |
| 511900 Supplemental (One-time payments) | | |
| All Other Salaries | | |
| Sub-Total Salaries | 0 | 0 |
| 515100 Retirement Plans Expense | | |
| 515200 OASDI Expense | | |
| 515400 Life and Accident Insurance Expense | | |
| 515500 Health Insurance Expense | | |
| All Other Personal Services | | |
| Sub-Total Benefits | 0 | 0 |
| 510000 Personal Services | 0 | 0 |
| 520000 Operating Expenses | 1,178,649 | 5,751,870 |
| 523100 Utilities | 6,447,489 | 6,447,489 * |
| 570000 Travel Expenses | | |
| 580000 Capital Outlay | | |
| 590000 Government Aid | | |
| Total Expense | 7,626,138 | 12,199,359 |
| Means of Financing | | |
| General Fund | 7,626,138 | 12,199,359 |
| Cash Fund | | |
| Federal Fund | | |
| Revolving Fund | | |
| Total Funding | 7,626,138 | 12,199,359 |

*Assumes energy costs in 2006-2007 will remain at projected 2005-06 levels. Asking for continuation of funding from 2005-2006.

Form Number 510

Program Adjustment Narrative

State of Nebraska - Administrative Services - Budget Division

| | PAGE NUMBER | |
|---------|-------------|--|
| | | |
| AGENCY | CODE | DESCRIPTION |
| AGENCY | 51 | University of Nebraska Including NCTA |
| PROGRAM | | State-Aided Including Revolving |
| REQUEST | | Utilities |

Provide the following information: A) Description of Request; B) Rationale for Request; C) Impact of Request; D) Statutory Change, if Required.

Description of the Request

The Energy Information Administration (EIA) projects large jumps in heating bills this winter and continued high energy prices in 2006 due to the continuing impact of hurricanes Katrina and Rita on the nation's energy production. Depending on the severity of the upcoming 2005-2006 winter season, the University could potentially realize a (\$3.4) million to (\$9.8) million deficit in its utility budget if EIA projections hold true. Assuming a normal upcoming winter season, the University projects a (\$6.45) million deficit in its 2005-2006 utility budget based on EIA energy increase projections.

The University respectfully asks for your consideration in funding this deficit request. The University will closely monitor the energy situation and severity of the winter and update its utility projections accordingly. Assuming energy prices will remain elevated, we ask for continuation of this funding for 2006-2007 as well.

Rationale for Request

On October 12, 2005, the Energy Information Administration (EIA) released their "Short-Term Energy Outlook" report which examined energy price projections for the upcoming winter heating season. This winter, heating expenditures are projected to increase for all fuel types compared to year-ago levels. Prices for petroleum products and natural gas will remain high due to tight international supplies of crude and hurricane-induced supply losses. The EIA projects natural gas expenditures to increase from 39.7% to 85.2% depending on the severity of the winter heating season.

The University has projected (at a U-Wide level) 2005-06 utility expenses by taking 2004-05 actual expenses and trending them forward based on expenditure percentage increases as projected by the EIA Short Term Energy Outlook report. The percentage increases used are based on the Midwest region and offers ranges based on a warm/normal/cold winter.

Energy market projections are subject to considerable uncertainty. Price projections are particularly uncertain, because small shifts in either supply or demand, which are both relatively insensitive to price changes in the current market environment, can necessitate large price movements to restore balance between supply and demand. The University will closely monitor the energy situation and severity of the winter and update its utility projections accordingly.

Impact of Request

Utility rate increases are an unavoidable cost increase for the University and State government. Funding for the projected large increases were not included in the University's 2005-2006 operating budget. If funding is not provided, fewer resources will be available for the University's primary instruction, research, and service missions. Funding from existing programs would need to be redirected to fund these expenses, thus programs and services provided to University students and Nebraska residents may be impacted.

Statutory Change Required

No statutory change is required.

Form Number 520

Program Adjustment Request

State of Nebraska - Administrative Services - Budget Division

| | |
|---------|---------------------------|
| | PAGE NUMBER |
| | CODE & DESCRIPTION |
| AGENCY | 51 University of Nebraska |
| PROGRAM | |
| REQUEST | Utilities |

| EXPENDITURE ACCOUNT | APPROPRIATIONS | | ADJUSTMENTS | |
|--|----------------------|----------------------|------------------|------------------|
| | 2005-2006 | 2006-2007 | 2005-2006 | 2006-2007 |
| Permanent F.T.E. Positions | | | | |
| 511100 Permanent Salaries - Wages | 620,781,614 | 620,781,614 | | |
| 511200 Temporary Salaries - Wages | | | | |
| 511600 Per Diem Payments | | | | |
| 511900 Supplemental (One-time payments) | | | | |
| All Other Salaries | | | | |
| Sub-Total Salaries | 620,781,614 | 620,781,614 | 0 | 0 |
| 515100 Retirement Plans Expense | 39,422,939 | 39,422,939 | | |
| 515200 OASDI Expense | 40,080,289 | 40,080,289 | | |
| 515400 Life and Accident Insurance Expense | 393,901 | 393,901 | | |
| 515500 Health Insurance Expense | 67,430,196 | 67,430,196 | | |
| All Other Personal Services | 4,974,906 | 4,974,906 | | |
| Sub-Total Benefits | 152,302,231 | 152,302,231 | 0 | 0 |
| 510000 Personal Services | 773,083,845 | 773,083,845 | 0 | 0 |
| 520000 Operating Expenses | 638,354,839 | 664,381,678 | | |
| 523100 Utilities | 26,024,925 | 26,024,925 | 6,447,489 | 6,447,489 * |
| 570000 Travel Expenses | 6,458,271 | 6,458,271 | | |
| 580000 Capital Outlay | 20,202,660 | 20,202,660 | | |
| 590000 Government Aid | 22,824,530 | 22,824,530 | | |
| Total Expense | 1,486,949,070 | 1,512,975,909 | 6,447,489 | 6,447,489 |
| Means of Financing | | | | |
| General Fund | 428,159,202 | 454,186,041 | 6,447,489 | 6,447,489 |
| Cash Fund | 235,824,496 | 235,824,496 | | |
| Federal Fund | 255,477,426 | 255,477,426 | | |
| Revolving Fund | 362,783,823 | 362,783,823 | | |
| Trust Fund | 204,704,123 | 204,704,123 | | |
| Total Funding | 1,486,949,070 | 1,512,975,909 | 6,447,489 | 6,447,489 |

Note: 2006-2007 University Budget is unknown at this time. Figures above reflect the 2005-2006 budget plus the 2006-2007 general fund enacted during the 2005 Legislative Session. As a placeholder, the funding increase has been parked in the operating expense line on the expenditure budget.

* Assumes energy costs in 2006-2007 will remain at projected 2005-2006 levels. Asking for continuation of funding from 2005-2006.

**University of Nebraska
2005-06 Utility Deficit Projections
as of October 24, 2005**

| | NU 2004-05 Actuals | 2005-06 Utility Projections Based On Energy Information Admin (EIA) Projections ¹ | | | EIA Projected % Change in Expenditures from Last Winter ¹ | | |
|----------------------------------|--------------------------|---|-----------------------|---------------------------|---|---------|--------------------|
| | | Warm Winter | Average Winter | Cold Winter | Warm | Average | Cold |
| | | | | | | | |
| Fuel Oil | \$ 1,446,030 | \$ 1,675,949 | \$ 2,034,564 | \$ 2,485,726 | 15.9% | 40.7% | 71.9% |
| Natural Gas | 4,753,600 | 6,640,779 | 7,658,050 | 8,803,667 | 39.7% | 61.1% | 85.2% |
| Steam | 7,977,984 | 11,145,244 | 12,852,532 | 14,775,226 | 39.7% | 61.1% | 85.2% ² |
| Electricity | 13,492,921 | 13,223,063 | 13,924,694 | 14,626,326 | -2.0% | 3.2% | 8.4% |
| Chilled Water | 5,006,759 | 4,906,624 | 5,166,975 | 5,427,327 | -2.0% | 3.2% | 8.4% ³ |
| Water and Sewer | 1,653,501 | 1,653,501 | 1,653,501 | 1,653,501 | - | - | - |
| All Other | 376,453 | 376,453 | 376,453 | 376,453 | - | - | - |
| Subtotals | 34,707,248 | 39,621,613 | 43,666,769 | 48,148,226 | | | |
| Expenditure Credits | (8,897,504) | (10,157,344) | (11,194,355) | (12,343,215) ⁴ | | | |
| Total Purchased Utilities | <u>25,809,744</u> | <u>29,464,269</u> | <u>32,472,414</u> | <u>35,805,011</u> | | | |
| FY 2005-06 Utility Budget | | <u>26,024,925</u> | <u>26,024,925</u> | <u>26,024,925</u> | | | |
| Deficit | | <u>\$ (3,439,344)</u> | <u>\$ (6,447,489)</u> | <u>\$ (9,780,086)</u> | | | |
| Deficit as % of Budget | | <u>-13.2%</u> | <u>-24.8%</u> | <u>-37.6%</u> | | | |

¹ Source: Energy Information Administration (Official Energy Statistics from U.S. Government). Midwest region values used.
<http://www.eia.doe.gov/emeu/steo/pub/wf01.html>

² Natural gas is major component of steam generation, thus, the natural gas increase was used to project 2005-06 steam increases

³ It was assumed electric chillers would be used to generate chilled water, thus the electricity increase was used to project 2005-06 chilled water increases

⁴ Expenditure credits estimated to be 25.6% of gross utility expenditures based on 2004-2005 ratio

Form Number 510

Program Adjustment Narrative

State of Nebraska - Administrative Services - Budget Division

| | PAGE NUMBER |
|---------|---|
| | DESCRIPTION |
| AGENCY | 51 University of Nebraska |
| PROGRAM | 781 |
| REQUEST | Ag Research and Development Center Near Mead Remedial Investigation/Feasibility Study and Removal Actions Program |

Provide the following information: A) Description of Request; B) Rationale for Request; C) Impact of Request; D) Statutory Change, if Required.

Description of the Request

The University is requesting one-time general funds totaling \$1.18 million in fiscal year 2005-2006 and \$5.75 million in 2006-2007 to assist with remedial investigation and cleanup expenses related to the Ag Research and Development Center (ARDC) near Mead Nebraska. Project costs are estimated based on information known to date.

Rationale for Request

The federal government produced munitions at the former Nebraska Ordnance Plant (NOP) during World War II and the Korean Conflict on a 17,000 acre site near Mead. Explosive and solvent contamination from those operations resulted in the NOP becoming a Superfund Site in 1990, which contamination cost is not contained in this deficiency request.

The University acquired approximately 9,600 acres of the former NOP from 1962 to 1971 for use as the ARDC. In the 1970s, UNL and UNMC legally disposed of chemical and low-level radioactive waste at the ARDC.

EPA is requiring the University to conduct a remedial investigation/feasibility study (RI/FS) to determine the extent of contamination and removal actions necessary to address buried waste. Only after the EPA selects the method(s) of remediation will costs be known. Total project time is estimated at three years.

MACTEC Engineering and Consulting, Inc. (MACTEC) has been selected as the consultant on the project. MACTEC's agreement with the University is a three year agreement on a time and materials basis due to the uncertainties surrounding the RI/FS.

Impact of Request

Funding for these expenses was not included in the University's 2005-2006 operating budget. If funding is not provided, fewer resources will be available for the University's primary instruction, research, and service missions. Funding from existing programs would need to be redirected to fund these expenses, thus programs and services provided to University students and Nebraska residents may be impacted.

Statutory Change Required

No statutory change is required.

Form Number 520

Program Adjustment Request

State of Nebraska - Administrative Services - Budget Division

| | |
|---------|---|
| | PAGE NUMBER |
| | CODE & DESCRIPTION |
| AGENCY | 51 University of Nebraska |
| PROGRAM | |
| REQUEST | Ag Research and Development Center Near Mead Remedial Investigation/Feasibility Study and Removal Actions Program |

| EXPENDITURE ACCOUNT | APPROPRIATIONS | | ADJUSTMENTS | |
|--|----------------------|----------------------|------------------|------------------|
| | 2005-2006 | 2006-2007 | 2005-2006 | 2006-2007 |
| Permanent F.T.E. Positions | | | | |
| 511100 Permanent Salaries - Wages | 620,781,614 | 620,781,614 | | |
| 511200 Temporary Salaries - Wages | | | | |
| 511600 Per Diem Payments | | | | |
| 511900 Supplemental (One-time payments) | | | | |
| All Other Salaries | | | | |
| Sub-Total Salaries | 620,781,614 | 620,781,614 | 0 | 0 |
| 515100 Retirement Plans Expense | 39,422,939 | 39,422,939 | | |
| 515200 OASDI Expense | 40,080,289 | 40,080,289 | | |
| 515400 Life and Accident Insurance Expense | 393,901 | 393,901 | | |
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| All Other Personal Services | 4,974,906 | 4,974,906 | | |
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| 523100 Utilities | 26,024,925 | 26,024,925 | | |
| 570000 Travel Expenses | 6,458,271 | 6,458,271 | | |
| 580000 Capital Outlay | 20,202,660 | 20,202,660 | | |
| 590000 Government Aid | 22,824,530 | 22,824,530 | | |
| Total Expense | 1,486,949,070 | 1,512,975,909 | 1,178,649 | 5,751,870 |
| Means of Financing | | | | |
| General Fund | 428,159,202 | 454,186,041 | 1,178,649 | 5,751,870 |
| Cash Fund | 235,824,496 | 235,824,496 | | |
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| Revolving Fund | 362,783,823 | 362,783,823 | | |
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| Total Funding | 1,486,949,070 | 1,512,975,909 | 1,178,649 | 5,751,870 |

Note: 2006-2007 University Budget is unknown at this time. Figures above reflect the 2005-2006 budget plus the 2006-2007 general fund enacted during the 2005 Legislative Session. As a placeholder, the funding increase has been parked in the operating expense line on the expenditure budget.