

**North Dakota State Board of Higher Education**

October 18, 2022, Budget and Finance Committee Meeting Minutes

The State Board of Higher Education Budget and Finance Committee met via Teams/conf. call on October 18<sup>th</sup>, at 2:30 p.m. CT.

Chair Mihalick called the meeting to order at 2:30 p.m. CT.

SBHE Budget and Finance Committee members participating:

Mr. Tim Mihalick, Chair  
Mr. Nick Hacker (exited at 3:45 p.m.)  
Mr. Jeffry Volk  
Ms. Danita Bye  
Mr. Kevin Black  
Mr. Michael Linnell, non-voting advisor

Other participants:

Chancellor Hagerott  
Mr. David Krebsbach, NDUS  
Ms. Rebecca Collins, BSC  
Mr. Jerry Rostad, NDUS  
Mr. Steve Benson, MaSU  
Ms. Jane Grinde, NDUS  
Mr. Brent Winiger, MiSU  
Mr. Bruce Bollinger, NDSU  
President Shirley, MiSU  
Ms. Brenda Zastoupil, NDUS  
Ms. Karla Stewart, UND  
Mr. Keith Johnson, NDSCS  
Mr. Darin King, CTS  
Mr. Rick Tonder, NDUS  
Ms. Krista Lambrecht, WSC  
Mr. Rick Tonder, NDUS  
Ms. Lisa Johnson, NDUS  
Ms. Tammy Dolan, NDUS  
Mr. Godsoe - Bond, Schoeneck & King  
Mr. Pierce - Bond, Schoeneck & King

President Armacost, UND  
Dr. John Miller, DSU  
Ms. Jamie Wilke, NDUS  
President Darling, LRSC  
Ms. Gina Haugen, NDSU  
Dean Carmen Simone, DCB  
Ms. Erica Buchholz, VCSU  
Mr. Mike Pieper, UND  
Ms. Ericka Buchholz, VCSU  
Mr. Darin King, CTS  
President Van Horn, MaSU  
Ms. Amber Hill, MaSU  
Ms. Terry Meyer, NDUS  
Ms. Dina Cashman, NDUS  
Mr. Mark Jirik, NDSU  
Mr. Terry Nelson, UND  
Ms. Jamie Wilke, NDUS  
Ms. Cynthia Rott, NDSU

1. **Agenda**

Volk moved, Bye seconded, to approve the agenda with an amendment to add a discussion on financial reports provided to the Board for review.

Black, Volk, Bye, Hacker, and Mihalick voted yes.

2. **Meeting Minutes**

Noted - UND item five in the minutes has an attachment that was approved at committee and the full Board will reflect the updated document.

Black moved, Bye seconded, to approve the September 21, 2022, Meeting Minutes.

Black, Volk, Bye, Hacker, and Mihalick voted yes.

3. **NDSU Capital Building Fund Appropriation Line**

Volk moved, Bye seconded, to ratify Chancellor's approval of \$2,899,596 and \$2,250,000, respectively, transfer of the NDUS System Office Tier II and Tier III capital building fund appropriation line to the [NDSU capital building fund appropriation line](#).

Black, Volk, Bye, Hacker, and Mihalick voted yes.

The committee discussed the possibility of legislation limiting campuses to use tiered funding for specific projects, such as academic buildings, they also discussed the importance of planning for future deferred maintenance. The discussions will continue as session gets closer and NDUS testimony is provided to the legislators.

4. **NDUS Retirement Plan**

Chair Mihalick stated that the budget Finance Committee on met and discussed the NDUS retire plan on September 21<sup>st</sup> and attached are recommendations to discuss; the memo provided to the committee last month as been broke down into two parts (item 4a):

- a. Bond, Schoeneck, & King, Recommendations - [action item](#)
  - Attached memo from September meeting broke down into two memos, as directed by BFC.
  - The second memo contains the scope of future work/action needed.
  - Due diligence and making sure the plans are correct and administering them properly.
  - If Institutions should complete review or bond counsel, noting the plans do cover all the separate institutions and are consistent amongst the institutions as to what is provided.
  - Clarification - one plan document that exists at the system office (for each retirement plan).
  - The current engagement letter with Bond, Schoeneck, & King encompasses ncludes the scope of reviewing all the plans. If there are issues that need to be raised, corrections, and/or modifications to any of the plans, there could be extra costs. In item C, it allows the use of some capital credits to fund additional work, if needed.
  - Bond, Schoeneck, & King were retained in June 2022 to assist with a plan review. Mr. Godsoe offered to draft an informal solicitation/review of qualifications, an RFQ.
  - Having one company/person or two separate as the recorder keeper and investment advisor review.
  - Options for hiring a plan record keeper; do the recorder keeper review prior to investment advisor.
  - Remaining independent fiduciaries in next steps and decision making.

Black moved, Volk seconded, to recommend approval for Bond, Schoeneck, & King to move forward and create a process for the Board to select an investment advisor.

Black, Volk, Bye, Hacker, and Mihalick voted yes.

b. Investment Consultants - [informational](#)

- The NDUS retirement plans 401 (a), 457(b), 403(b) and executive compensation 401 (a) are serviced by Teachers Insurance and Annuities Association of America (TIAA) as record keeper. Fiduciary responsibilities of the NDUS retirement plans are defined in SBHE

703.1 Retirement Policy. Currently the NDUS does not seek outside consultants to assist with retirement plan administration or investments. An outside attorney was retained in June 2022 to assist with a plan review.

- NDPERS Defined Benefit plans are invested and monitored through money managers with oversight from the State Investment Board. NDPERS retained Callan in 2021 for investment consulting for two NDPERS sponsored Defined Contribution plans. Callan monitors the DC plan(s) investment offerings as well as provides input on plan design changes.
- The board may direct the system office to hire a consultant directly or seek out consultants via formal RFP process.  
NDCC 54-44.4-02.10 States:  
“... The following commodities and services, however, are not subject to the procurement requirements of this chapter: ...  
10. Employee benefit services, trust-related services, and investment management services obtained by an agency with a fiduciary responsibility regarding those services.”
- Through research and consultation with NDPERS the system office estimates the annual cost to retain investment consultant services to be \$50,000+ per year.
- The NDUS retirement plans earn revenue credits as part of TIAA's plan performance structure. A revenue credit is generated based on plan performance in participating accounts which include the annuity accounts. The revenue credit amount is placed in a suspense account under the terms of each plan which is funded with excess revenue generated from that Plan. The revenue credit may be used either to pay direct, reasonable, and necessary expenses of the plans or to provide benefits for the plan participants and beneficiaries in the form of a revenue credit.
- Estimated \$50,000+ per year to retain an investment consultant.
- Must comply with revenue credit account utilization guidelines for plan administration purposes only. Must follow procurement and state contract guidelines for consulting services.

c. Annual [Distribution of Revenue Credit](#) Balance

The committee discussed the NDSU Retirement Plan administration annual disbursement. Historically the money generated as revenue credits have been returned to the participants, with a portion set aside for operating expenses. The operating portion can be used for specific items, such as the current hiring of an attorney, Mr. John Godsoe, and other plan administration duties; a percentage of the balance or a dollar amount is determined by the budget Finance Committee.

Teachers Insurance and Annuity Association of America (TIAA) sets pricing on the products and services based on the size of their account and plan performance. NDUS is on the highest-level plan classification or R3 classification. This classification results in a reduction of the fund expenses for NDUS, and the revenue credit is generated based on the plan performance in participating accounts, which include the annuity accounts. TIAA will execute the approved revenue credit disbursements, which will be made directly to the participant accounts on a prorated basis. The revenue credit amount is placed in a suspense account under the terms of each plan.

Mr. Godsoe explained that the expenses for accountants, legal counsel, investment managers, and others that help with the administration and plan can be paid with plan assets. That is consistent with the record keeping agreement, which provides that amounts can be used to pay direct reasonable and necessary plan expenses or provide benefits for participants and beneficiaries.

The committee discussed the historical process; in June 2014, the board approved revenue credits pro-rated based on accumulated balances to only those in the TIAA annuity accounts, at that time, the board held back 3% of the revenue balance to be used for administrative. Members reiterated that money is out of revenue and NDUS is rated at the highest level for returns.

The plan reviews will be an expense out of credits within that specific plan and committee members requested additional information on performance and balances to review at a future meeting.

**5. Update on Lease Agreements as of FYE 6/30/2022**

Mr. David Krebsbach presented [lease agreements as of fiscal year ending 6/30/2022](#), after discussion, the committee requested the document be updated and returned for review. Campuses informed the committee that preparing these types of reports are time consuming and show the expenditures that the board has already approved. The committee discussed and requested the campuses review other items that could be reviewed to create better efficiency opportunities. Mr. Krebsbach added that if there are changes made to what the Board requires for reporting/approval processes, the committee will also have to review associated policies and procedures.

**6. Update on OMB Budget Meeting**

Mr. David Krebsbach reported that he met with the Governor's office, along with the Chancellor, and the Governor's office had follow-up questions regarding some of the optional requests. They've sent followed up with questions. Additional questions on about five or six of our items that we were requesting as optional items. The presidents also presented their budgets to the to the group as well.

The committee discussed opportunities for more budget/financial information and/or discussions as the legislative session gets closer. Mr. Krebsbach and the Chancellor are open to one-on-one updates with Board members and other financial information is posted on NDUS website; the committee will continue discussing at a future meeting.

The meeting adjourned at 4:20 p.m. CT.

Approved November 15, 2022.