The State Board of Higher Education Budget and Finance Committee met at the University of North Dakota, Gorecki Alumni Center, Burgum Suite, on Wednesday, April 16, 2014, at 8:30 a.m. CT.

SBHE Budget and Finance Committee members participating:
- Duaine Espegard, Chairman
- Grant Shaft
- Kari Reichert, participated via conf. call
- Janice Hoffarth, non-voting, absent

Others participating:
- Larry Skogen, Chancellor
- Laura Glatt, Vice Chancellor for Administrative Affairs
- Rick Tonder, Director, Facility Planning
- Robin Putnam, Director of Financial Reporting
- Linda Donlin, Director of Communications and Media Relations
- Terry Meyer, Administrative Support Manager
- Kathryn Rand, Dean, UND Law School
- Alice Brekke, VP, Finance & Operations, UND
- Bruce Bollinger, VP, Finance & Administration, NDSU
- John Richman, President, NDSCS
- Ray Nadolny, President, WSC
- Mr. Greg Lardy, chair of the NDSU Animal Science Department
- Kirsten Diederich, President, SBHE
- Representative Mark Sanford

Mr. Espegard convened the meeting at 8:30 a.m.

March 6, 2014 Minutes
It was moved by Mr. Shaft, seconded by Ms. Reichert to approve the March 6, 2014, minutes. Shaft, Reichert, and Espegard voted aye. The motion carried.

FY13 Campus Financial Review report
Ms. Putnam reviewed the FY13 campus annual financial review report. The purpose of the report is to gain an understanding of the financial health of each institution, and to identify trends for the timeframe FY2010 through FY2013. The purpose isn’t to compare ratios of institutions to one another but to compare them to the industry standard. The standards are general industry standards, other than the CFI Index, which was added this year for the first time. The CFI Index is utilized by the Higher Learning Commission (HLC).
She described the financial health of each campus as contained on pages 20-22 in the report summary. She indicated that the following campuses have overall good ratios and financial position: BSC, DCB, MaSU, MiSU, NDSU, and UND. The report notes that additional long-term debt at BSC, LRSC, VCSU and WSC should be carefully considered.

The Committee requested follow-up reports from DSU, LRSC, NDSCS, VCSU and WSC in light of emerging trends.

Ms. Putnam indicated she will update the SHEEO funding comparisons when the new SHEEO report is released and will distribute an updated version to the committee.

The Composite Financial Index (CFI) information by campus (which includes combined campus and foundation information) is included in this report for the first time and is required by the Higher Learning Commission (HLC), as explained by Ms. Putnam. The CFI creates one overall financial measurement of an institution’s health based on four core ratios: primary reserve ratio, net income ratio, viability ratio and the return on net assets ratio. When HLC evaluates the CFI for accreditation review purposes they have three zones, “Above,” “In,” and “Below” In FY2013, all NDUS campuses, with the exception of LRSC, fell into the “Above” zone. LRSC fell in the “In” zone. If LRSC remains in the “In” zone for two or more consecutive years, a financial panel review would be triggered.

<table>
<thead>
<tr>
<th>Institution</th>
<th>Component unit(s) included in CFI</th>
<th>FY2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>VCSU¹</td>
<td></td>
<td>3.98</td>
</tr>
<tr>
<td>NDSU</td>
<td></td>
<td>3.90</td>
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<tr>
<td>UND</td>
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<td>3.90</td>
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<tr>
<td>NDSCS</td>
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<td>3.36</td>
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<tr>
<td>WSC</td>
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<td>2.39</td>
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<tr>
<td>MiSU</td>
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<td>2.37</td>
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<tr>
<td>BSC</td>
<td></td>
<td>1.89</td>
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<tr>
<td>MaSU</td>
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<td>1.78</td>
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<tr>
<td>DCB</td>
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<td>1.75</td>
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<tr>
<td>DSU</td>
<td></td>
<td>1.18</td>
</tr>
<tr>
<td>LRSC</td>
<td></td>
<td>0.91</td>
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Note: LRSC’s FY2012 CFI was 3.4. The decline between FY12 and FY13 is attributable to an increase in debt load to construct the wind tower, a reduction in revenue due to an enrollment decline and use of reserves.

¹In FY2013, a timing difference occurred related to the refinancing of the 2003 VCSU Kolstoe Bonds. The refinance was substantially completed by June 30th but the repayment from the refinance occurred on July 1, 2014. GASB accounting standards required both the original debt and the new debt to be reflected in VCSU’s general ledger at June 30, 2013. Excluding the impact of the timing difference, the FY2013 CFI would have been 3.87.

Ms. Glatt pointed out that the CFI score includes the financial statement component units/foundations. She said this creates some presidential concern since presidents have little, if any, control over the activities of the foundation, but it may impact the CFI score. Mr. Bollinger said it is required by HLC guidelines that the campus foundations be included in the CFI information, so while internally we can look at scores with and without foundations, for HLC they have to be included.

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After further discussion, the committee asked Ms. Putnam to provide the CFI information both including and excluding the foundations.

**It was moved** by Mr. Shaft, seconded by Ms. Reichert to accept the Campus Financial Review report and ask DSU, LRSC, NDSCS, VCSU, and WSC to develop a plan of action to address the issues raised in the report and bring those plans of action back to the committee for review Reichert, Shaft, and Espegard voted aye. The motion carried.

**HR Policy 4 – probationary**
Ms. Glatt said *HR Policy 4 – probationary* from the human resource manual impacts broadbanded employees. The proposed revisions are a clarification to require a probationary period of no less than six months at time of hire. The probationary period could be extended longer than six months, but cannot be less than six months. She said there has been a policy in place for a period of time, but the campuses have each been interpreting the policy differently, so these revisions are only to add clarification to ensure consistency across the System.

**It was moved** by Mr. Shaft, seconded by Mr. Espegard to recommend approval of the proposed changes to HR Policy 4 – probationary to the SBHE. Shaft, Reichert, and Espegard voted aye. The motion carried.

**2014-15 State Grant Award Amount and Budget**
Mr. Espegard said the State Grant Advisory Board is recommending the following for the 2014-15 academic year.

1. **State Grant Award Amount:** Increase the amount of the ND State Grant from $1,648 to the maximum allowed by statue, $1,650 per eligible student.
2. **2014/15 Budgets:** To establish initial eligibility for applicants by the NDUS, the following budgets are recommended for 2014/15. These budgets, represent a 4% increase over the 2013/14 budgets based on average tuition/fees, room/board, books, miscellaneous expenses as defined by the 2013-14 Career Outlook publication.
   a. Four-Year Research Universities $19,674
   b. Four-Year Public Universities $17,088
   c. Two-Year Public Universities $13,712
   d. Tribal Colleges $13,712
   e. Private Institutions $25,358

**It was moved** by Mr. Shaft, seconded by Ms. Reichert to recommend the state grant changes to the SBHE. Reichert, Shaft, and Espegard voted aye. The motion carried.
15-17 Biennial Budget
Mr. Espegard noted that the Committee will take up the 15-17 biennial budget request at their next meeting and indicated that he would like to see a focus on student affordability, especially as it relates to tuition, in the next budget.

Update from UND on Deficits reported in December 2013 Semi-Annual Budget Report
Mr. Espegard asked Ms. Brekke to address variances in housing and dining and the EERC deficit which were included in the Dec. 2013 Semi-Annual Budget Report reviewed at the last committee meeting.

With regard to increasing private sector availability of student housing, Ms. Brekke said it is not UND’s intent to compete with the private sector for apartment housing. Although she acknowledged that there may be limited on-campus apartment needs associated with educational and programming needs of some students. She said that although UND has had periodic residence housing master plans, it needs to be updated again and will be pursued following conclusion of the national search that is currently underway for a new Residence Life Director.

Ms. Brekke pointed out that that housing and dining aren’t operating at a deficit, they have adjusted their spending to align with revenues and number of students being served. She said the housing/dining variance in the report is a variance between annual projections made at the beginning of the fiscal year and an updated annual estimate as of December 31st.

Ms. Brekke pointed out that EERC had a deficit reduction plan approved in Sept. 2013; however, it is not tracking according to plan. EERC finished June 30, 2013 with an operating deficit that was a bit over $1 million. The reduction plan anticipated an increase in the deficit of $300,000 in FY14 and then in FY15 they would begin a repayment plan. EERC has made a small staffing reduction and had a number of factors in place to increase awards to support the staffing levels, but have not reached these goals.

As of Dec. 31, 2013 the deficit is anticipated to grow another $500,000, instead of $300,000 as expected in the deficit reduction plan. In late January 2014, the EERC Director requested that President Kelley provide a greater proportion of indirect cost recovery back to the EERC to address the deficit. To date, the President has not acted on the request as it has broader financial implications for the university.

Ms. Brekke a review in mid-March suggests the deficit may actually grow by $750,000 compared to the original $300,000 that was projected. These projections were also showing an additional deficit for FY15. So rather than being in a position of repayment of the deficit, EERC will be further in debt. She noted she meets monthly with EERC staff and both her and President Kelley have emphasized the need for additional permanent changes to bring revenues and spending into alignment. The Committee asked UND to bring a new EERC deficit reduction plan back to the next committee meeting.
**System Master Plan Update**
Mr. Tonder provided an update on the status of the 2014 NDUS Master Plan. The draft deferred maintenance information will be available April 15 and a partial draft master plan available around May 1. The draft plan will be presented to the committee at the May meeting with a final report to the committee and SBHE in June. This will assist with the SBHE’s development of the capital project priority list.

Mr. Shaft suggested to Chairwoman Diederich that the full board should have a discussion on how this master plan process will help facilitate the Board’s development of the capital project priority list. Ms. Diederich agreed.

**Capital Project Oversight Guidelines**
Mr. Tonder said an important part of his role in capital project oversight is to provide consistency and compliance with policy and statute. At the Sept. 2013 SBHE meeting, the board approved project management oversight guidelines, as required by 2013 legislation. He said in addition to consistency and compliance, he is working on the items below to better ensure projects remain within scope and budget:

- develop common contractual requirements for architects and contractors;
- upgrading and updating the architect and engineering manuals;
- develop a contract manual.

Mr. Shaft said his concern is about the front-end of the process and finding ways to ensure a more solid cost estimate at the time the project comes to the SBHE and legislature. Mr. Tonder agreed, but indicated that it can be very costly to develop these solid estimates, which are generally not known until bids are in hand. Campuses are reluctant to invest that amount of money in a project that may or may not move forward and be funded. Mr. Shaft suggested that perhaps instead of campuses asking for 2-3 projects each biennium, they focus on a few with better cost estimates. Mr. Tonder said he believes the master plan under development will provide some guidance on this issue.

Ms. Glatt suggested that one alternative may be to develop more solid cost estimates on projects once the SBHE sets its capital project priority list, but before they are considered by the Governor and/or legislature for funding.

Ms. Reichert asked whether the facility master plan is tied to the NDUS Strategic Plan. Mr. Tonder said that the master plan consultant has examined the NDUS Strategic Plan and ND workforce needs to help determine future facility needs. With regard to a question about short-term vs. long-term needs, Mr. Tonder said the master plan will address both, including needs over the next twenty years. Rep. Sanford said it is important that the NDUS remain nimble in addressing workforce needs.

In response to a concern raised by Mr. Shaft about whether adequate preparation and funding is available for non-state funded projects considered by the SBHE as part of the capital project process, Ms. Glatt indicated that due to the authorization process required for some of these, they need to be put into the hopper early, which makes it difficult. She
said it would be helpful to work with the legislature to identify a means for interim approval of some projects that emerge that were not anticipated in advance of or during the legislative session. In the absence of this, some projects have to wait another two years increasing cost, and limiting our ability to respond to needs.

Ms. Glatt reminded the committee that one of the BFC responsibilities, according to policy, is to consider projects with a major change in scope or amount. She said it would be helpful to have committee guidance on what is considered “major” for purposes of this section.

**Capital Project Performance Audit Recommendation 1-6**
Ms. Glatt reviewed recommendation 1-6 in the April 5, 2010 Performance Audit Report on University System Capital Projects. There are two issues in this recommendation: First, projects that come to the board for approval (request for authorization to proceed, request to increase previously authorized project amount, etc.), the auditor’s office suggested that the minutes don’t reflect any changes so they question whether the board is adding value to the process. Secondly, the report addresses the need for project management to ensure that when estimates and projects move forward there is sufficient knowledge and expertise applied to those projects.

Ms. Glatt asked committee members about their continued interest (or not) in approving some or all projects, and if they receive adequate information to make informed decisions. Mr. Shaft said he is not concerned that projects are being approved. He said as a lay board they rely on the staff to ensure that projects that are placed on the agenda have been properly vetted. He said he believes the SBHE should still be involved in project approval. Chancellor Skogen said he certainly sees the board adding value to the process. Chair Espegard said he recognizes the staff work that goes into each project before it is considered by the SBHE and does not see a need to change that process. Further, the other recommendation of the State Auditor’s Office has been addressed with the addition of Mr. Tonder.

**Campus Facilities Requests**
Mr. Tonder presented NDSCS’s request to increase spending and the allocation of capital contingency funds for the Old Main Renovation project and MaSU’s Campus-wide Drainage Improvement project.

**It was moved** by Shaft, seconded by Reichert, to recommend the SBHE grant increased spending authority for the **NDSCS Old Main Renovation project** from $8,085,879 to $8,444,657, an increase of $358,778 funded through capital projects contingency pool; and to proceed with the project once all approvals have been received. Shaft, Reichert, and Espegard voted aye. The motion carried.

**It was moved** by Shaft, seconded by Reichert, to recommend the SBHE grant increased spending authority for the **MaSU Campus-wide Drainage Improvements project** from $2,153,650 to $2,249,209, an increase of $95,559 funded through capital projects contingency pool; and to proceed with the project once all approvals have been received. Shaft, Reichert, and Espegard voted aye. The motion carried.
Mr. Bollinger said in 2003, at the request of NDSU, the NDSU Development Foundation obtained financing through the issuance of $4,355,000 bonds to construct a climate controlled barn/arena for horse shows and other events, and leased the facility to NDUS until November 2, 2024. Under the terms of that agreement NDSU has the option to now purchase the Equine Center for $1 pending approval from the SBHE. Mr. Greg Lardy, chair of the NDSU Animal Science Department addressed how the campus has been using the building. He said the Equine program came into existence in 2003 and the program has grown to 71 students. One of the unique features of the program is that they offer Equine Assisted Therapy, minor and certificate, something not every program in the country offers. The curriculum not only combines classroom and lab activities, but also significant portion of the training is with the horses in the Equine Center itself, through riding courses, etc. There are other groups, such as rodeo and riding club that use the facilities. The arena is essentially being used daily throughout the academic year.

In response to a question of whether the Equine Center was ever approved by the SBHE when first developed, Mr. Bollinger said it wasn’t. Mr. Espegard said that policy has since been changed and projects such as this involving a lease would now require Chancellor approval, which he believes is appropriate.

In response to a question of whether there are other similar projects that obligate campuses, Chancellor Skogen said a report was recently provided to the Government Finance Committee, at their request, and this will be provided to the Committee.

**It was moved** by Espegard, seconded by Shaft, to recommend the SBHE grant NDSU authority to purchase from the NDSU Development Foundation, for $1, Lot 3, Block 1, North Dakota Horsepark Addition to the City of Fargo, also known as the NDSU Equine Center. Shaft, Reichert, and Espegard voted aye. The motion carried.

Mr. Tonder reviewed the UND Law School renovation and addition project request to increase authority from $11,400,000 to $13,907,448. He said that while the project is eligible for capital project contingency funds, bids are not yet in hand, so a request for contingency funds may be forthcoming at a later date. At this time, UND is seeking authority to solicit private funds for the additional $2,507,448

Dean Rand indicated that the project planning started in 2007, with a state appropriation in 2013. The charts in the meeting materials highlight those aspects of the project scope that are critical to address the reaccreditation concerns. She said the University will be able to proceed with the 15,000 foot addition, and the private funds will allow them to select bid alternates to complete other project components intended to meet accreditation requirements, as the private funds become available.

**It was moved** by Shaft, seconded by Reichert, to recommend the SBHE grant increased legislative spending authority for the UND Law School renovation and addition project from $11,400,000 in state general fund to $13,907,448, of which $11,400,000 is from general fund and $2,508,448 to be paid from private funds. Further, authorize UND to solicit private funds to enable completion of the full scope envisioned for the Law School renovation and addition project. Additionally, authorize UND to seek Budget Section
approval for the increase in spending per NDCC 15-10-12.1, and to proceed with the project once all approvals have been received. Reichert, Shaft, and Espegard voted aye. The motion carried.

**Governor’s model and tuition**
This was delayed to the May SBHE meeting

**HB 1281**
This was delayed to the May SBHE meeting

**Future committee meeting dates**
It was suggested that the committee meet May 19 in Bismarck and the majority of that agenda will be dedicated to discussion of the 2015-17 budget request. The committee suggested two meetings, one to consider the budget proposal, and a second to act on the proposal. Mr. Espegard asked Ms. Glatt to identify dates and work with committee members to determine what works.

Mr. Espegard asked Ms. Glatt to look at the Governor’s funding model and look at the ramifications of adding base funding at WSC and MiSU last session. She will provide this information at the next meeting.

Meeting adjourned at 11:10 a.m.