The State Board of Higher Education Budget and Finance Committee met by conference call on Wednesday, May 21, 2014, at 8:30 a.m. CT. The call originated in the NDUS office, 10th floor of the State Capitol, Bismarck, ND.

SBHE Budget and Finance Committee members participating:
   Duaine Espegard, Chairman
   Grant Shaft
   Kari Reichert
   Janice Hoffarth, non-voting

Other participants:
   Larry Skogen, Interim Chancellor
   Dave Clark, Interim President, BSC
   Bruce Bollinger, VP, Finance & Administration, NDSU
   Dean Bresciani, President, NDSU
   Doug Darling, President, LRSC
   Kirsten Diederich, President, SBHE
   Tammy Dolan, OMB
   Brian Foisy, VP, Administration and Finance, MiSU
   Laura Glatt, Vice Chancellor for Administrative Affairs
   Cathy McDonald, Director of Finance, NDUS
   Terry Meyer, Administrative Support Manager
   Ed Murphy, North Dakota State Geologist, North Dakota Geological Survey
   Robin Putnam, Director of Financial Reporting, NDUS
   Maryann Olson, Project and Contract Planning Specialist, NDUS
   John Richman, President, NDSCS
   Steve Shirley, President, VCSU
   Rick Tonder, Director, Facility Planning, NDUS

Mr. Espegard convened the meeting at 8:35 a.m.

2015-17 Biennial Operating Budget Request Presentation
Interim Chancellor Skogen presented a revised budget request proposal to committee members. He said the intent is to present and discuss the changes today and schedule another committee meeting later to finalize.

The Chancellor reported that the NDUS is working with the Bank of North Dakota on a Gap Scholarship for low and middle income families. The Chancellor is confident that we are going to be able to help address student affordability through this initiative, through funding available at the Bank.
With regard to tuition rates, Rep. Sanford has expressed his desire to get NDUS two-year college tuition rates at or below regional averages. The request includes a state funding request that would permit rates to be frozen in the 15-17 biennium.

Ms. Reichert asked if there are any scholarships available or being looked at to attract students to keep them in the state. Chancellor Skogen said currently about 65 percent of the students stay in the state and there are a number of loan forgiveness programs available to students to entice them to stay. Ms. Glatt added that there is data that suggests that if you keep students in state to pursue their postsecondary degree, they are more likely to stay in state after graduation; whereas, if they leave the state to pursue their degree, they are unlikely to return to the state. So, these programs, although not tied to requiring them to stay in state, they are more likely to stay.

**It was moved** by Mr. Shaft, seconded by Ms. Reichert, to recommend that Part V on Student Affordability of the Revised 15-17 Biennial Budget Request move forward to the SBHE for consideration. Shaft, Reichert, and Espegard voted aye. The motion carried.

Chancellor Skogen reviewed Part I – Base Budget Request, which is a proposed increase to cover the state share of the cost to continue salary, utility cost increases, and operating inflation. With regard to the funding formula, the Chancellor said that the $49M funds actual credit hour production and includes what use to be called, “equity,” which brings all institutions to the highest level within each tier, excluding the $2.5 million base adjustment made by the legislature at WSC and MiSU. Committee members expressed concern about how the model affects DSU, which would actually experience a budget reduction. Chancellor Skogen said the funding formula includes a hold harmless mechanism at 96% of the current budget. This reduction takes DSU to 96%, but the reduction would be even more without the hold harmless provision. He said that while he would not advise proposing changes to the model, there are perhaps other ways to address the DSU situation through a special initiative or targeted funding. Mr. Espegard suggested to Chancellor Skogen that he visit with President Coston prior to the next committee meeting to seek his input about DSU special needs.

Chancellor Skogen reviewed Part II – Optional Base Budget Request items, which are system-wide requests. Chancellor Skogen addressed the PAR and Starfish request, which is proposed to provide a system-wide software solution for institutions to identify at risk students and ensure mechanisms are in place to prevent failure, in order to increase retention, graduation rates, and increase completion. Chancellor Skogen mentioned that he is also looking at another option to fund this initiative, and if so, this could be removed from the list. In response to a question about EPSCoR match funding, President Bresciani said that EPSCOR has about a 1:7 or 1:8 match for state dollars to federal and private dollars.

With regard to the internal audit budget, Mr. Espegard questioned whether campus assessments would continue in the event the legislature did not fund the request. Ms. Glatt said that is a SBHE decision. Dr. Diederich said the internal audit function needs to be a system office function and that if it isn’t fully funded campuses are not assessed.
Chancellor Skogen covered Part III – Operational One-time requests, not capital related, totaling over $4M. Chancellor Skogen said requests in this area are all IT related.

Ms. Glatt covered Part IV – SMHS Optional Base and One-time requests. She said the request is consistent with the multi-year Health Education Workforce Initiative presented and endorsed by the Governor and Legislature. She said there is some debate about whether the funds are to be included in the base budget or in the one-time budget. The SOMHS supports base funding, while OMB believes that most of the funding will eventually be provided through the funding formula based on SCH. She said there will need to be continued discussion around this issue.

Dr. Diederich asked if it is possible to request an extension on the budget submittal until after the strategic planning process in July, to allow time for the new strategic plan to influence the budget development. Ms. Dolan said the deadline for budgets to be submitted has been extended to August 15 already, but OMB would be willing to consider a deadline of September 15. Mr. Espegard said he doesn’t believe the budget will change significantly based on the outcome of the strategic planning process as most of it is driven by the funding formula and some other “givens” such as the cost to continue. Ms. Dolan said if a budget was submitted in August or possibly September, and if after the budget has been submitted, the board came to OMB and asked for some adjustments, OMB would certainly consider those adjustments.

Ms. Glatt asked that the SBHE keep in mind the time and effort required by campuses to complete the actual technical part of the budget request and to allow sufficient time for that work, around other priorities, such as year-end activities.

Mr. Espegard said the committee will meet within a week to prioritize items and consider any additional requests.

**GASB (Government Accounting Standards Board)**

Ms. Putnam updated committee members on upcoming GASB pronouncements that may impact the NDUS. Those she reviewed are as follows:

- GASB 65 – Items previously reported as assets and liabilities, effective July 1, 2014
- GASB 66 – Technical Correction. Amendment to GASB Statements No. 10 and No. 62, effective June 30, 2013
- GASB 67 – Financial reporting for pension plans (for actual pension plan), effective July 1, 2014
- GASB 68 – Financial reporting for pension plans (for employer’s financial statements), effective July 1, 2015
- GASB 69 – Government Combinations and Disposals for Government Operations, effective July 1, 2014
- GASB 71 – Pension Transition for Contributions Made subsequent to the measurement date, effective July 1, 2015
She also reviewed current GASB projects.

**SBHE policy 703.3 – Retirement**

Ms. Glatt reviewed draft 703.3 NDUS Retirement Plans policy. She said that the policy basically puts into policy historical practice regarding oversight and management of the defined contribution plans, with the exception of the new Retirement Plan Oversight Committee. She said the SBHE would retain authority over substantive plan changes and fiduciary responsibility. She noted that at a future SBHE meeting we will want to provide training to the SBHE about their responsibilities.

**Following discussion, it was moved** by Mr. Shaft, seconded by Ms. Reichert to recommend that policy SBHE policy 703.3 – Retirement move forward to the board for consideration. Reichert, Shaft, and Espegard voted aye. The motion carried.

**Campus Facilities Requests**

**MiSU’s request to phase out the Grow ND plan**

Ms. Glatt presented MiSU’s request to phase out the Grow ND Plan under the planned Pathways tuition model changes, which would require, in part, tuition to be assessed based on residency category. She said that as MiSU has begun planning for implementation in the Spring 2015, they have found it administratively difficult to implement in the middle of an academic year, to allow tracking multiple groups of students. This would include administrative software challenges. Furthermore, there is some question about why MiSU is being asked to implement a change earlier than all other campuses, as some other campuses also charge the resident rate to all students and will face the same changes under Pathways. Ms. Glatt said that developing a reasonable transition plan for MiSU, and all other campuses, will be difficult, until the Pathways tuition model is further into development. The request is to delay the phase out of the MiSU Grow North Dakota Plan, until the Pathways tuition model is approved and a clear transition plan can be identified as part of that plan. If approved, this motion would allow MiSU to continue to charge the resident rate to all students until such time the board takes final action on the pathways tuition model.

Mr. Shaft questioned Dr. Shirley’s preference on this request. Dr. Shirley said he would rely on the expertise of the MiSU business office, financial office, etc. and would suggest that this request be approved.

Mr. Shaft asked that the minutes reflect that although this delay will be approved, this will be the last time MiSU will be granted an extension of delaying dates for implementing the phase out of the Grow ND plan under the Pathways Plan model.

**It was moved** by Mr. Shaft, seconded by Ms. Reichert, to recommend the SBHE rescind May 2013 action requiring MiSU to begin phase out of the Grow ND plan, pending further resolution and approval of Pathways tuition model implementation. Shaft, Reichert, and Espegard voted aye. The motion carried.
BSC’s land lease agreement with the Student Housing, LLC
Mr. Clark presented the land agreement with the Student Housing, LLC. Interim President Clark said this approach is being used to avoid adding additional debt at the campus, through revenue bonds, at this time due to current debt load; however, he noted the legislature was briefed on this project last session. He said BSC has over 300 beds with all of them occupied and there’s a waiting list of over 200 students for this fall. The requested land lease is for 4.67 acres. LLC should receive project bids in early June with a construction completion date of August 2015.

Mr. Espegard asked if the term of the land lease is 30 years, is that also the length of financing? And secondly, as long as the college is paying for it, will BSC have ownership of the building at the end of the land lease, at no additional cost. Mr. Clark said LLC is likely to do a five year initial financial plan. Because of accounting rules, BSC can’t write into the lease that the property will be turned over to the college. What has been discussed is the possibility that at the end of the initial five year financing BSC’s balance sheet condition has improved and at that time, the campus seek authority to issue revenue bonds to pay for the facility. Mr. Espegard asked if there’s going to be an operating agreement. Mr. Clark said they are waiting on final figures and that could be brought back to the committee, if the committee chooses.

Mr. Shaft said he too has some concerns on what happens to the building at the end of the lease. Mr. Espegard asked President Clark if this request can be delayed until we have more information. Mr. Clark will come back to the committee with additional information along with an operating lease at a future meeting.

The committee delayed action until a later date.

NDSU’s STEM Classroom/Lab Building
Mr. Tonder reviewed the NDSU STEM Classroom/Lab building. It was moved by Mr. Espegard, seconded by Mr. Shaft, to recommend the SBHE ratify Chancellor’s authorization for NDSU to increase spending authority for the new STEM Classroom/Lab building from $28,120,000 to $29,367,709 (4.4371%), an increase of $1,247,709 to be funded from the capital project contingency pool as per SB 2003. Shaft, Reichert and Espegard voted aye. The motion carried.

UND’s NDGS Core and Sample Library
Mr. Tonder reviewed the proposed private development of state land on the UND campus for public use by a third party, the North Dakota Geological Survey.

Ms. Glatt said the development of the additional space would take place in what is currently a parking lot. It is Geological Survey’s intent is to propose a bill to the 2015 Legislature to fund this project, including the cost of replacement parking on the UND campus. Mr. Shaft asked what happens if the legislature doesn’t approve the request, what happens with parking on the campus. Mr. Tonder said it is his recommendation that this be addressed in
the Joint Powers Agreement; and, at the request of Mr. Shaft, Mr. Tonder will revise the proposed motion that the committee will approve today.

**It was moved** by Mr. Shaft, seconded by Ms. Reichert, to recommend the SBHE authorize development of state land for use by the North Dakota Geological Survey for expansion of the Wilson M. Laird Core and Sample Library on the UND campus. Approval is contingent upon development of a joint powers agreement, to be separately approved by the SBHE, which, in addition to other terms and conditions required for the use of this land, specifies that costs for replacement of UND parking surfaces used for construction of the facility be included within the budget of the North Dakota Geological Survey for this project. Furthermore, the project proceeds only when funding for replacement parking is available from the Geological Survey.

Meeting adjourned at 11:00 a.m.