The State Board of Higher Education Budget and Finance Committee met at the North Dakota University System Office, on Tuesday, June 17, 2014 at 1:00 p.m. CT.

SBHE Budget and Finance Committee members participating:

Duaine Espegard, Chairman
Grant Shaft, by conf. call
Kari Reichert, by conf. call
Janice Hoffarth, non-voting, by conf. call

Other participants:
Larry Skogen, Interim Chancellor
Tamara Barber, Interim Executive Vice President, BSC
Gordon Binek, VP College Advancement and Executive Director, BSC Foundation
Dave Clark, Interim President, BSC
Doug Darling, President, LRSC
Kirsten Diederich, President, SBHE
Jane Grinde, Human Resource Manager, NDUS CTS
Cathy McDonald, Director of Finance, NDUS
Terry Meyer, Administrative Support Manager
John Richman, President, NDSCS
Rick Tonder, Director, Facility Planning, NDUS
Sharon Schwartzbauer, Accountant, NDUS
Cynthia Wager Goulet, Assistant General Counsel, NDUS

Mr. Espegard convened the meeting at 1:00 p.m.

June 4, 2014 Minutes
Mr. Shaft moved, seconded by Ms. Reichert, to approve the June 4, 2014 minutes. Shaft, Reichert, and Espegard voted aye. The motion carried.

2015-17 Biennial Operating Budget Request
Interim Chancellor Skogen reviewed the revised budget request proposal highlighting the differences from what was presented at the June 4 committee meeting. After receiving better cost estimates, the request for PAR & Starfish has been reduced to $1,910,000. SBHE members and Higher Education Funding Committee members are interested in quickly completing the space utilization and inventory evaluation, the amount of the request has been increased to $750,000 for a turn-key solution. $500,000 has been added for open educational resources initiative. As part of the continuation to fund tuition waivers for medical students that serve the rural areas, an increase of $996,843 in base funding has been added.

At the May SBHE meeting, the SBHE received presentations from Northern Crops Institute, Upper Great Plains Transportation Institute and NDSU Experiment Station and Extension
on their 2015-17 biennial budget requests. The committee is asked to recommend approval of these budgets to the SBHE.

Mr. Espegard said Chair Diederich, Interim Chancellor Skogen and himself met with Governor Dalrymple to review the budget request. There was discussion to bring campuses to the average of the two highest within each tier instead of the highest level within each tier. Interim Chancellor Skogen said that scenario was considered and he reviewed that information with the committee. More detail will be shared with committee members. He said that the average of the two highest affects the two year campuses the most and reduces the overall request from $49M to $43M.

**Mr. Shaft moved**, seconded by Ms. Reichert, to review and recommend approval of the Chancellor’s proposed 2015-17 Biennial Operating Budget Request. Shaft, Reichert, and Espegard voted aye. The motion carried.

**FY15 NDUS Office budget**

Interim Chancellor Skogen reviewed the 2014-15 NDUS Office annual budget for the NDUS Office. Overall base average salary increases will be three percent and increases are based on (1) market rates weighted at 25% based on market data, (2) performance weighted at 75% based on annual employee performance evaluation, (3) to provide a minimum of 3% or $100 per month, whichever is greatest, and (4) no salary adjustment scheduled for FY15 for four fixed term positions as follows: Chancellor, Chief of Staff, VC for Academic and Student Affairs and Director of Strategic Planning.

New positions budgeted for FY15 are (1) one internal control/risk assessment position, (2) one attorney position, and (3) two audit positions. He highlighted the student grant programs as well as the system grant programs and system projects.

Interim Chancellor Skogen reviewed the 13-14 market data (CUPA-HR University System Offices) proposed salary ranges for chancellor, vice chancellor for academic and student affairs, vice chancellor for administrative affairs, vice chancellor for institutional research and IT, and general counsel, chief of state, ethics officers, and chief auditor with committee members.

**Mr. Shaft moved**, seconded by Ms. Reichert, to recommend approval of proposed FY15 NDUS Office budget. Furthermore, recommend approval of 2014-15 salary ranges for Chancellor, Vice Chancellors and other system senior officers consistent with SBHE policy 705.1. Shaft, Reichert, and Espegard voted aye. The motion carried.

**TIAA-CREF Revenue Credit disbursement**

Ms. Jane Grinde, NDUS CTS Human Resource Manager also serves the NDUS as the retirement plan oversight coordinator. Her duties are to provide staff support to the vice chancellor for administrative affairs in managing the NDUS Defined Contribution Retirement Plan in providing fiduciary oversight. As background, in May 2011 TIAA-CREF announced it was changing the way in which they priced their products and services based on the size of the account and plan performance and the NDUS plan was moved to the highest class—premier class. This resulted in a reduction in fund expenses for the NDUS plan. Since then another class was created called institutional class, which is the highest level plan
classification. In the accounts that are in that highest level classification, they have been generating a revenue credit based on plan performance in participating accounts. The revenue credit generated since June 2014 is over $1.3M. The revenue credit account may only be used 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. The Retirement Plan Oversight Committee has been charged with recommending a disbursement plan for this revenue credit account. The committee recommends a pro-rata distribution to only those TIAA-CREF participants that generated the revenue credit allocated based on participants accumulation.

**Ms. Reichert moved**, seconded by Mr. Espegard to recommend approval of TIAA-CREF Revenue Credit disbursement as follows: Provide an annual set aside of a small portion for operational costs (about 3% of total revenue credit balance) (to be reviewed annually), with the balance be distributed pro-rata based on accumulated balances, to only those TIAA-CREF participants that generated the revenue credit balance. Reichert, Shaft, and Espegard voted aye. The motion carried.

**Retirement plan Investment Policy Statement**
Ms. Grinde indicated that one of the fiduciary responsibilities of the Retirement Plan Oversight Committee is to create and recommend an Investment Policy Statement, commonly referred to as an IPS. This helps to establish and record investment processes and decision-making as it relates to the defined contribution retirement plans for the NDUS. The Draft IPS has been approved by the Retirement Plan Oversight Committee, reviewed by legal counsel and presented at the June 11 Chancellor’s Cabinet. Mr. Espegard asked if this was a yearly requirement, in which Ms. Grinde said the committee will review the IPS on an annual basis and any changes would be presented to the SBHE for approval.

**Mr. Espegard moved**, seconded by Mr. Shaft to recommend approval of the retirement plan Investment Policy Statement. Shaft, Reichert and Espegard voted aye. The motion carried.

**13-15 Deferred Maintenance Funding Allocation**
Interim Chancellor Skogen said in SB2003, the NDUS appropriation bill, included $10M in deferred maintenance funding, one-half of which could not be distributed until completion of the facility master plan. At the June 26 SBHE meeting, the board will be asked to accept the NDUS Master Plan and Space Utilization Study. Earlier this fiscal year, $5M was distributed to campuses based on OMB’s extra ordinary repair formula.

Due to a safety issue at VCSU to address a recently retired Science Building, the first $275,000 is proposed to be allocated to VCSU. The remaining $4,725,000 would be allocated to the 11 institutions based on the combined average of deferred maintenance (based on 25% sample and 100% of Type I and II facilities based on extrapolated amounts) outlined in the Paulien Facility Master plan. Interim Chancellor Skogen recommends the remaining $5M be disbursed as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Amount</th>
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<tr>
<td>BSC</td>
<td>$271,791</td>
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Mr. Shaft moved, seconded by Ms. Reichert to recommend approval to allocate the remaining $5 million in 13-15 deferred maintenance funds as proposed above, provided that the SBHE accept the NDUS Master Plan and Space Utilization Study at its June 26, 2014 meeting. Reichert, Shaft and Espegard voted aye. The motion carried.

**BSC’s land lease agreement with the Student Housing, LLC**
The committee first reviewed BSC’s request at its May 21 committee meeting. Interim President Dave Clark said due to BSC’s current debt load, the college foundation was asked, acting through their Student Housing – LLC, to construct new student housing. The accounting rules are very explicit and if the lease meets any of the criteria, BSC would have to record ownership of the asset itself and with the current debt load, that isn’t feasible. He said BSC has a good relationship with the foundation and currently have two capital leases with the foundation: the National Energy Center of Excellence, and the mechanical maintenance building in Mandan. There is history working with the Foundation to support the college and the programs.

Mr. Shaft asked if the campus considered entering into the lease as is, but then has a separate agreement, or optional agreement, that would provide the campus the ability to buy, for a set sum, at the end of the lease. Ms. Barber replied that it would get the campus into the same situation since it is the substance of the transaction that triggers the capital lease classification.

Mr. Shaft moved, seconded by Ms. Reichert to recommend approval to authorize BSC to enter into a land lease agreement with the Student Housing, LLC (a wholly owned subsidiary of the Bismarck State College Foundation) to enable the construction by the Student Housing, LLC, of apartment units on the BSC campus to provide housing for BSC students, and approve terms of the land lease agreement between BSC and the Student Housing, LLC. Reichert, Shaft and Espegard voted aye. The motion carried.

**LRSC’s mandatory student activity fee**
President Doug Darling reported that the City of Devils Lake is planning a sales tax increase this fall to fund a wellness and convention center. The City of Devils Lake has been working with the campus to locate the wellness center on the LRSC campus and attach it to the main building. The sales tax would fund the construction cost for the wellness, the city would own and the park board would operate the wellness center. LRSC students want to be full members and utilize the facility. LRSC would use the facilities for athletic events. A feasibility study has been completed and it will be presented to the Devils Lake voters this fall in a special election asking for a ½ cent sales tax increase. LRSC’s student government has been involved in the process and supports the increase of $6 per credit hour effective fall 2016. If the sales tax is approved this fall, pre-construction planning would take place winter 2015 and groundbreaking spring 2015 with completion summer 2016.

**Mr. Shaft moved**, seconded by Ms. Reichert to recommend approval to increase LRSC’s mandatory student activity fee from $300 to $480, an increase of $6 per credit hour, up to a maximum of 15 credits per semester, effective Fall 2016; and, based on student demand provide an exemption from the 1% limitation outlined in NDCC 15-10.3-03. Further, that the increase is contingent upon passage of a Devils Lake city-wide vote for a ½ cent sales tax increase to fund construction and operation of a wellness center/activity facility to be located on campus and appropriately executed lease documents. Reichert, Shaft and Espegard voted aye. The motion carried.

**Pathways Plan Tuition Model**
Interim Chancellor Skogen briefed committee members on the draft Pathways Plan Tuition Model report. First, trying to set the same tuition rates at all institutions, under the current Governor’s funding model is difficult; and, secondly, trying to blend the rates that are laid out in Pathways is going to require tremendous increases in tuition. Interim Chancellor Skogen will be recommending the following:

Consistent with the overarching goal of increased simplicity and transparency, each campus individually (and where necessary, collectively) develop a tuition model that is consistent with the following primary Pathways Plan principles:

- per credit hour, except at UND and NDSU where a flat rate will be assessed at either 14 or 15 semester hours
- blend together tuition and non-mandatory fees, to the greatest extent possible; ensure consistency across the NDUS in blending (or not) of fees.
- recognizes and creates special differential tuition rates for unique programs, where needed, to address high cost or unique programs
- establishes a single combined rate incorporating all degree eligible delivery modes, including on-campus and on-line rate
- assess tuition based on residency as follows:
  - Residents-1.0
  - Minnesota-established per reciprocity agreement
  - Contiguous states and Canadian Provinces of Manitoba and Saskatchewan)-1.25
  - MHEC and WICHE consortiums- 1.5
  - Other out of state students and International (including other Canadian provinces)- 1.75
✓ over time, minimizes the fiscal impact to the “typical” institutional student and institutional revenue collections

Limited exceptions to the principles above will be considered, on a case-by-case basis, as outlined in a documented business case.

Interim Chancellor Skogen said he will recommend that campuses work on a transition plan and those plans be submitted to the NDUS Office by not later than March 1, 2015 with the goal to complete implementation of the tuition model not later than fall 2017. The overarching purpose is to have simplified tuition models.

There will be three reports on Pathways presented at the June 26 SBHE meeting addressing the various issues.

Meeting adjourned at 1:55 p.m.