State Board of Higher Education  
Budget and Finance Committee  
October 17, 2014

The State Board of Higher Education Budget and Finance Committee met by conference call on Friday, October 17, 2014, at 1:30 p.m. CT. The call originated in the NDUS office, 10th floor of the State Capitol, Bismarck, ND.

SBHE Budget and Finance Committee members participating:
   Mr. Don Morton, Chairman  
   Dr. Kirsten Diederich  
   Mr. Grant Shaft  
   Ms. Janice Hoffarth, non-voting

Other NDUS participants:
   Dr. Larry C. Skogen, Interim Chancellor  
   Ruth Ballon, Accounting Specialist, WSC  
   Tamara Barber, Interim Executive VP, BSC  
   Steve Benson, VP, Business Affairs, MaSU  
   Bruce Bollinger, VP, Finance and Administration, NDSU  
   Alice Brekke, VP, Finance and Operations, UND  
   Dean Bresciani, President, NDSU  
   Dave Clark, Interim President, BSC  
   D.C. Coston, President, DSU  
   Margaret Dahlberg, Interim President, VCSU  
   Laurie Furuseth, CFO, Interim VP for Business Services, WSC  
   Dennis Gladen, VP, Administrative Affairs, NDSCS  
   Laura Glatt, Vice Chancellor for Administrative Affairs, NDUS  
   Chelsea Gleich, Communication Specialist, NDUS  
   John Richman, President, NDSCS  
   Cynthia Rott, Budget Directory, NDSU  
   Murray Sagsveen, Chief of Staff, NDUS  
   Rick Tonder, Director, Facility Planning, NDUS  
   Terry Meyer, Administrative Support Manager, NDUS

Mr. Morton convened the meeting at 1:35 p.m.

**September 15 meeting minutes**

**Dr. Diederich moved**, seconded by Mr. Shaft, to approve the **September 15, 2014, minutes**. Shaft, Diederich and Morton voted aye. The motion carried.

**Bismarck State College update on enters into a land lease agreement with the Gateway to Science**

Mr. Clark provided an update on the development of state land that is anticipated in the Spring 2015 and said no action is necessary at this time. The City of Bismarck has deeded seven acres of land specifically for the construction of the Gateway to Science (GTS), located west of the MDU Resources Community Bowl on the campus of BSC. Furthermore,
there’s a restriction on the property that if the property is not used for this purpose it would revert back to the City. BSC anticipates entering into a ground lease in 2015 with the GTS for use of the property to construct the new Center. The project consists of the science museum that would be approximately 65,000 square feet with an estimated cost of $40 million, which includes an endowment for sustainability. Gateway to Science is in the process of a funding raising campaign for those dollars. They received a $5 million state grant BSC’s intent is to seek SBHE approval of the land lease in Winter/Spring 2015. The lease will contain a clause that no BSC funds will be used for the construction or operation of the GTS.

**Review and Recommend** [VCSU Vangstad Auditorium and Classroom Building project](#)

Mr. Tonder said VCSU’s request is for recommended ratification of the Chancellor’s interim action for VCSU to proceed with the Vangstad Auditorium and Classroom Building project at an estimated cost of $3,607,929 to be funded by $3,454,643 state capital assets funds and $153,286 in SBHE capital project contingency funds; further authorize transfer of $153,286 from SBHE capital contingency pool to VCSU. The initial bids came in over budget, so the project was compressed and rebid, which was successful. With the addition of the $153,286 in contingency funds, the scope of the project will be enhanced from its reduced scope.

**Dr. Diederich moved**, seconded by Mr. Shaft to recommend the SBHE ratify Chancellor Skogen’s interim authorization for [VCSU to proceed with the Vangstad Auditorium and Classroom Building project](#) at an estimated cost of $3,607,929 to be funded by $3,454,643 state capital assets funds and $153,286 in SBHE capital project contingency pool funds; further authorize transfer of $153,286 from SBHE capital contingency pool to VCSU. Diederich, Shaft and Morton voted aye. The motion carried.

**Reconsideration 15-17 NDUS capital budget request for the NDSCS Fargo Expansion Phase I**

Mr. Morton asked that this item be revisited by the committee. He recently met with the president and academic dean of MN State-Moorhead on a different matter. In that meeting, he talked about a statement made earlier by Dr. Richman that once North Dakota students go east they don’t return to North Dakota. Mr. Morton said the MN data provided to him points out that over the last three years, over 74 percent (666 students) of MN State Moorhead grads have been hired by North Dakota companies. And, as you look at the four MN State colleges schools that are reasonably close to North Dakota’s border, over the last three years, 41 percent (909 students) of those students are currently employed in North Dakota.

President Richman highlighted several points as follows:

- The goal is to increase program accessibility for the adult population with a focus on Fargo, West Fargo given the significant population growth that the Fargo and West Fargo region is experiencing. Even with all the great higher educational opportunities available in the Greater Fargo-West Fargo area and Moorhead, this region of the state has the largest percentage of the state’s current job openings as reported at the SBHE retreat this summer.
- The FMWF Chamber sees the NDSCS Expansion project adding to the region’s educational opportunities, not competing and is desperately needed to reduce the
workforce shortage. As for student affordability, when a student goes out of state for their education, even with reciprocity, that student will pay more. In addition, that student going out of state leaves behind potential state funding that could lower their educational costs in the form of state grants, scholarships and loans. Also, we currently charge NDSCS-Fargo students a distance delivery fee. This fee assists in covering the overhead expenses of the facility (rent, utilities, maintenance, etc.). When NDSCS-Fargo becomes a state-owned and state operated facility, this distance delivery fee can be reduced and possibly eliminated.

- NDSCS-Wahpeton campus is currently under capacity and has initiatives underway to increase retention and another to attract more students to the NDSCS-Wahpeton campus. Once both of these initiatives are fully implemented, the NDSCS-Wahpeton campus will be at, or near, capacity.

- NDSCS’s targeted student in Fargo is the adult student (25-49 ages). These students cannot and or will not drive the 50 miles to get their education. Businesses have told us that they cannot and will not send their employees 50 miles for education and or training. As indicated at the SBHE retreat, it is this population that is growing and needs educational opportunities to advance their careers.

- The NDSCS-Fargo expansion plan will better align our academic programing with that of the area high schools and other 2-year colleges.

Mr. Morton said there is pressure from the western part of the state to add two-year programs, but as President Richman pointed out, you need the necessary population, and if you don’t have adequate population, you can’t start a program; and, right now, the population is in the eastern part of the state. Dr. Diederich said the board still hasn’t addressed the issue of having two-year programs in the western part of the state; and, how do we accomplish that.

No action was taken by the committee.

**Review and Approve UND EERC deficit reduction plan**
Ms. Brekke said the deficit reduction plan will remain in draft form since it is a work in progress with many moving parts. EERC reported the FY15 baseline budget was set June 2014 estimating a $943,958 projected deficit. Consultants were brought in to conduct an assessment, which is contained in the Huron report. This is a starting point for additional self-review and critical analysis. Beyond engaged discussion and planning internal and external to the campus, (1) EERC has committed to finding an additional $100,000 in savings, and (2) conversations are taking place on preserving capacity and expertise, as EERC, due to the nature of their business, cannot cut their way into an positive outcome. Projections include estimated annual savings in FY16 and FY17 $500,000 from EERC and/or the University from cooperative efforts and internal streamlining.

Mr. Morton said there are some encouraging signs for improvement and at this point, the committee will continue to monitor and ask UND to report back every six months.

**Review and Approve WSC Athletics Deficit plan** (semi-annual budget plan)
Ms. Glatt said WSC had a reported deficit of $299,806 in athletics, related to fundraising
goals of the Booster Club and transfer of funds. The Foundation and Booster Club have recently supported a gift equal to the amount of the deficit and the deficit will be eliminated before June 30, 2015 through those gift funds.

**Dr. Diederich moved**, seconded by Mr. Shaft to approve asking UND to report back to the committee on the EERC deficit every six months, with the intent to close out the deficit by June 30, 2017; further, approve WSC’s athletic deficit fund reduction plan. Shaft, Diederich and Morton voted aye. The motion carried.

**Review and Approve MaSU Food Services Deficit plan**
Mr. Bensen said MaSU experienced a situation where there was a deficit of $148,462 in the food service plan on 6/30/14, as a result of a housing occupancy decline. The reduced revenue was compounded by a $41,000 increase in operating costs primarily from recognizing accumulated bad debts of $25,000 and increase cost of goods sold of $16,000. MaSU requested to eliminate the deficit in no more than five years. There was committee discussion on reducing the time period from five years to three years.

**Mr. Shaft moved**, seconded by Dr. Diederich to approve MaSU Food /Service Deficit plan, with an expectation that the deficit will be eliminated in no more than three years. Diederich, Shaft and Morton voted aye. The motion carried.

**Review and Approve Financial Plans from DSU, LRSC, NDSCS, VCSU and WSC in follow-up to FY13 NDUS Financial Review-campus officials**
Ms. Glatt said each year the NDUS office prepares a financial review report. The most recent was based on 6/30/13 financial statement information. The report identified some negative trends in some ratios at various campuses. Campuses were asked to prepare a plan to address these trends.

**Dickinson State University**

President Coston said:
- DSU has reduced the number of FTE employees by approximately 30 from FY2012 to FY2015 through retirements, reorganizations, and attrition saving approximately $2M annually.
- DSU experienced reduced student enrollment which resulted in a reduction in tuition collections with the net tuition revenue declining from approximately $9M in FY2010 to $6.4M in FY2014.
- Extra adjustments in compensation have added approximately $1.4 million in personnel costs per biennium. In doing all of that, DSU’s financial condition is slightly better than last year, increasing DSU CFI for the institution alone from 4.19 to 4.33.

As a result of the new Governor’s funding formula, DSU will receive more than $1M less appropriated funds during the 15-17 biennium.

DSU made a commitment to seek to increase student enrollment, to bring in 25 percent
more students than Fall 2013, which they exceeded that goal.

Mr. Sagsveen reported that President Coston and Interim Chancellor Skogen have been involved in discussions with DSU and DSU Foundation regarding DSU Foundation financial challenges. He said, this began to surface in September 2013 when there was a qualified audit of the foundation for the year ended June 30, 2013. Also, in September/October 2013 three DSU Foundation Board members resigned from the board. That led to conference calls and meetings, along with an open records request to both the Foundation and DSU that led to an Attorney General’s Opinion stating that the foundation had to turn over the records. In June 2014, the NDUS engaged a separate limited scope audit, through an external third party auditor. The questions included the use of endowment funds as collateral for loans and use of revenue from endowment funds for operating purposes. He said he is waiting to receive the final audit report.

An additional issue surfaced last month. Chancellor Skogen and Mr. Sagsveen met with the DSU Foundation Executive Committee to express concerns. On September 30th, he received a copy of an arbitration ruling that requires the DSU Foundation to pay more than $1.2 million to the other party in the arbitration proceedings. Mr. Sagsveen said that in early October Vice Chancellor Glatt and Mr. Sagsveen met with representatives of the State Auditor’s Office to brief them on these issues. Further, on October 10, Mr. Sagsveen met with an attorney in Minneapolis who specializes in tax-exempt entities to discuss the issues related to the foundation. On October 10, the Foundation Executive Director resigned and an interim Executive Director has been appointed. Chancellor Skogen and President Coston have been consulting on a regular basis with the chair of the DSU Foundation to make sure that the foundation recovers from the financial situation. It needs to be addressed promptly so the DSU Foundation financial situation does not negatively affect the DSU accreditation or CFI score for the campus. Mr. Sagsveen also noted that on August 28, 2014, DSU and the NDUS Office received a letter from the DSU Foundation giving notice that the Foundation was withdrawing from the operating agreement with DSU. The DSU Foundation also claims DSU owes the Foundation $474,000 under that agreement. Mr. Sagsveen will continue to work on resolution of that issue as well. Mr. Sagsveen will continue to keep the committee informed on the status of these issues.

Lake Region State College
Ms. Glatt said the June 30, 2014 tentative financial statements suggest an improvement in the operating income margin at LRSC. LRSC’s long-term debt liabilities and their ratio have not improved substantially, which is due to the wind tower debt. LRSC is aware of the concern about entering into any more long-term debt until that ratio improves.

North Dakota State College of Science
Mr. Gladen reported NDSCS is very stable with a CFI of 3.3 as well as a strong cash flow. NDSCS plans to address the operating income by a two-prong approach: (1) Student Success Plan which is already in progress and, (2) Enrollment to Capacity Plan that will gear up Spring 2015. The Student Success Plan NDSCS proposes to move NDSCS’s retention rate from 62% to 82% and the graduation rate from 52% to 66%. He reported good progress is being made, reported retention of over 70% Fall 2014. With an additional 200 students retained and an additional 200 students in the capacity plan, NDSCS will increase their tuition and fees by about 22%. And, if the Governor’s Funding Model is fully funded,
NDSCS will gain more revenue and will help to move NDSCS to a breakeven point for this particular index.

**Valley City State University**
Interim President Dahlberg reviewed President Shirley's June 18 letter to Chancellor Skogen. The decrease in viability ratio happened between 2010 and 2011 when VCSU obtained bonding to renovate Snoeyenbos Hall. VCSU did refinance to a more favorable rate. VCSU will not pursue any more bonding opportunities until the campus is in a better situation.

She reported that the negative operating income margin happened between 2010 and 2011, which happened because of a change in building depreciation with the renovation of Rhoades Science Center. Their concern is that as they replace and renovate buildings, almost all of the buildings on campus, are fully depreciated at this point. So as VCSU starts to have new buildings on campus again, they will continue to have that negative operating income margin because of the depreciation. If you look at operating income margin, excluding the depreciation, it is positive.

VCSU is focusing heavily on retention and enrollment strategies, in terms of tuition revenue, to support the various programs so they can manage some of the depreciation pieces. She reported that VCSU’s retention rate this year is 70%, which is up from 64% last year and 57% the year before. VCSU enrollment is also looking good the last three semesters. If the Governor’s Funding Model is fully funded, VCSU will be able to build some of their capital reserves as well.

**Williston State College**
Ms. Glatt reported that there were improvements in WSC’s indicators between FY13 and FY14, there was a positive trend in one of the four, a negative trend in two of the four, and a stable trend in the fourth indicator. Certainly while WSC has outlined a number of difficult challenges, the NDUS Office will continue to work with WSC to find solutions. The Chancellor is very aware of the situation and will be recommending a plan of action related to WSC soon.

**Mr. Shaft moved**, seconded by Dr. Diederich to move acceptance of the financial plans for DSU, LRSC, NDSCS, VCSU and WSC. Shaft, Diederich and Morton voted aye. The motion carried.

**Line Item Transfers**
Ms. Glatt said this item is on the agenda only to raise the awareness of committee members. Legislation permits transfers from operating to capital line item. Some campuses are using it with increasing frequency as the try to manage the deferred maintenance backlog.

Dr. Diederich asked if the board will need to respond to the increased number of requests during the legislative session, and; if so, will the response be that the requests have been for deferred maintenance. She asked if the board should be concerned about the increase in the number of requests. Ms. Glatt said she is uncertain whether there will be any concern or question, but it would be appropriate and accurate to explain that it is a means to address the significant backlog of deferred maintenance, especially as campuses get additional
funds through the Governor’s Funding Model, using those and other funds to address high priority institutional needs.

**Review and Recommend Changes to SBHE Policy 805.3 Application Fees**
Ms. Glatt said that SBHE policy and NDUS procedure set uniform and consistent application fees for all 11 institutions. The current policy provides the chancellor the authority to waive the application fee in limited circumstances. Interim Chancellor Skogen has suggested that the waiver authority be delegated more appropriately to institutional presidents.

**Mr. Shaft moved**, seconded by Dr. Diederich to approve changes as proposed to SBHE Policy 805.3 Applications Fees delegating waiver authority from the chancellor to the president. Diederich, Shaft, and Morton voted aye. The motion carried.

**Update on FY14 financial statement preparation**
Ms. Putnam provided a brief overview of FY14 financial statement process and year-end close process. She outlined the timeline; an overview of the process for both campuses and foundations; the challenges with only 1 FTE at the System Office, smaller campuses having multiple responsibilities, controller turnover, and new accounting standards; process improvements that have taken place; and an update on FY14 reporting.

Meeting adjourned at 3:06 p.m.