The State Board of Higher Education Budget and Finance Committee met by conference call on Friday, March 13, 2015, at 9:00 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:
  Mr. Don Morton, Chairman
  Mr. Grant Shaft
  Dr. Kevin Melicher
  Ms. Janice Hoffarth, non-voting

Other NDUS participants:
  Dr. Larry C. Skogen, Interim Chancellor
  Mr. Dave Clark, BSC
  Ms. Tamara Barber, BSC
  Ms. Alice Brekke, UND
  Mr. Doug Dawes, VCSU
  Mr. Dennis Gladen, NDSCS
  Mr. Brian Foisy, MiSU
  Dr. Dean Bresciani, NDSU
  Mr. Bruce Bollinger, NDSU
  Dr. John Richman, NDSCS
  Dr. Tisa Mason, VCSU
  Ms. Laura Pfeifer, DCB
  Dr. Lori Reesor, UND
  Ms. Laura Glatt, NDUS
  Ms. Robin Putnam, NDUS
  Mr. Rick Tonder, NDUS
  Ms. Brenda Zastoupil, NDUS
  Ms. Robin Putnam, NDUS
  Ms. Billie Jo Lorius, NDUS
  Ms. Marietta Kemmet, NDUS

Mr. Morton convened the meeting at 9:01 a.m.

Chair Morton asked that an additional agenda item be added to the agenda. Ms. Brekke has been asked to provide the committee an update on a meeting held with students on the Pathways Tuition Model. Mr. Shaft moved, seconded by Dr. Melicher to add the item to the agenda. Shaft, Melicher and Morton voted aye. The motion carried.

February 13, 2015 meeting minutes
Mr. Shaft moved, seconded by Chair Morton, to approve the February 13, 2015, minutes. Melicher, Shaft, and Morton voted aye. The motion carried.

FY14 Campus Financial Review
Ms. Putnam reviewed the FY14 campus annual financial review report. The purpose of the report is to provide the committee with a financial analysis of each institution’s financial health as of June 30, 2014. Ms. Putnam noted that the 2014 SHEEO report, which is referenced on pages 12-13, has not been issued yet. When it becomes available, an updated report will be
sent to committee members containing the FY14 data. Ms. Putnam highlighted the Composite Financial Index of CFI, both including and excluding discretely present component units.

<table>
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<tr>
<th>Institution</th>
<th>Component units(s) included</th>
<th>FY2014</th>
<th>FY2013</th>
<th>FY2014</th>
<th>FY2013</th>
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<tr>
<td></td>
<td>NDSU Research Foundation</td>
<td></td>
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<tr>
<td></td>
<td>NDSU Team Makers Club</td>
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<tr>
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At June 30, 2014, none of the institutions had a CFI in the “Below” range or in the “In” range for two consecutive years, as established by the HLC. However, she pointed out that DSU’s CFI was 0.79 when the foundation balances were included, which would put it in the “In” zone for FY14. Excluding the foundation, DSU’s CFI would be well in the “Above” zone at 4.45.

Ms. Putnam reviewed DSU, LRSC NDSCS, WSC and VCSU status, as they were required to file improvement plans last year. She noted they were the same or improved, but indicated that WSC’s overall financial status is of concern and should be carefully monitored.

MiSU’s financial position is good. Several of their ratios are strong or very strong. However, operating income margin has been negative for the past four years, the 2011 flood and the tight housing market in Minot have negatively impacted enrollment for the last four years. A plan for MiSU should be considered to address the negative operating income margin trend.

Ms. Putnam called attention to the most recent Moody’s and Standard & Poor’s rating of NDSU and UND debt. Both were very favorable.
Mr. Shaft moved, seconded by Dr. Melicher to accept FY14 Campus Financial report and require MiSU to present a plan for consideration to address negative operating income margin trends. Shaft, Melicher and Morton voted aye. The motion carried.

2014 Semi-Annual Budget Report and approve WSC Bookstore deficit reduction plan
Ms. Glatt reviewed the December 31, 2014, Semi-Annual Budget and the schedule of campus leases. She said the report is produced twice a year, at calendar year-end and fiscal year-end. This report is for the period ending December 31, 2014 and it identifies variances or irregularities in several areas including revenues, deficit fund balances, capital projects, and lawsuits. She highlighted particular areas of the report with the committee.

Three institutions (DSU, MiSU, UND) estimated FY15 tuition income will be less than originally estimated. Each institution is adjusting their spending to fit within those revenue changes. NDSCS and NDSU are reporting an expected positive variance in auxiliary revenues by the end of the fiscal year, where they are expecting to be up over their original projection.

Regarding deficit fund balances Ms. Glatt highlighted certain items due to their nature or newness as follows:

- Two new deficits reported by DCB: (1) Adult Farm Management program and (2) Adult Farm Mgt. Tech program. DCB plans to transfer distance education fee revenue or CTE grant funding to cover these deficits by yearend, until they have time to adjust their tuition and fees in those programs or other costs long term to bring them back into balance.
- Ms. Glatt reported that Ms. Brekke updated the committee on the UND EERC deficits four months ago and laid out a plan to reduce the deficit over a 10-year period, which the committee approved. Ms. Brekke will bring back to the committee at the next meeting a more in-depth report on progress that is being made and possibly any requested adjustments needed going forward.
- The deficit for the Citation Cost Center Aerospace continues to rise over time. UND is looking at how to address this and will bring back a revised budget deficit reduction plan on how to address the citation deficit at the next meeting.
- The WSC bookstore deficit is fairly new and there has been some reduction over the last six months. It is recommended that WSC eliminate the deficit and have a plan in place to have it eliminated by June 30, 2018.
- The other WSC athletics deficit was previously reported. By the end of this fiscal year, the WSC foundation will transfer gift funds to eliminate this deficit.
- Ms. Glatt reported that all of the other deficits have plans in place and/or trending appropriately.

Ms. Glatt noted that there were recent concerns about whether WSC would meet the required 1.15x annual debt service requirement as prescribed in their bond indenture. The office has been working with WSC, and will continue to work with it, on trying to resolve this matter. If there is something of concern long-term, this will be brought back to the committee.
The report provides information related to outstanding lawsuits and Ms. Glatt referred the committee to the legal division for any questions.

It was disclosed there are two capital projects at DCB which have exceeded spending authority. They are: (1) generator project, which the SBHE addressed at a recent meeting; and (2) Thatcher Hall, which is on the agenda later today.

Deficiency appropriation requests noted are currently moving through the legislative process.

Individual campuses have noted issues they are aware of that may have a significant impact on their revenue or expenses. BSC notes the oil related activity in the western part of the state, DSU highlights the receivership status of the foundation, and UND the impact of off campus private apartment developers.

Mr. Shaft said UND has a valid concern in Grand Forks. He continues to be a supporter of requiring freshman students to reside on campus. There are studies that show if an institution engages freshmen students early on, they are more successful at a university. As UND wrestles with the definition of ‘off campus,’ he encourages UND to be mindful of how best to keep freshman students engaged and connected to the campus so they are successful. Mr. Shaft also noted the added parking challenges on campus as a result of commuter students.

In response to Dr. Melicher’ s question on the occupancy rate at UND, Ms. Brekke said she didn’t have those figures readily available but will get that information to committee members. Ms. Brekke said a housing study is currently in progress, and UND is looking at another housing master plan. There was one done in 2005, which was updated in 2010. With new housing leadership in place at UND, it is time to revisit the housing master plan.

Dr. Melicher moved, seconded by Mr. Shaft to accept the December 31, 2014, Semi-Annual Budget Report and approve WSC Bookstore deficit reduction plan. Shaft, Melicher and Morton voted aye. Motion approved.

2014-15 Student Affordability Report
Ms. Zastoupil provided an overview of how the North Dakota University System compares to regional peers in relation to tuition and fees as well as providing trends on financial aid and other affordability indicators. She noted the newly defined region, used for comparison purposes, as used in the NDUS Strategic Plan. The regional comparisons now reflect the contiguous states as well as WICHE region, with the exception of California, Hawaii, and Alaska. She noted the following highlights:

- Tuition and mandatory fees at NDUS research and four-year universities continues to be less than their regional peers in 2014-15. Two-year campus tuition and fees are all above the regional peers.
- Total cost of attendance, which includes an estimate in tuition, fees, room and board, books, supplies, travel, and other miscellaneous expenses ranges from $15,100 to $19,500.
- Tuition and fees range from 28% to 40% of the total estimated cost of attendance.
• NDUS institutions disbursed 4.34% more in federal grants and loans in 2013-2014 than they did 10 years prior.
• The amount of student loan borrowing increased by over 36% but it is important to note that the Federal Pell Grant funding has only seen slight increases in that 10 year period, while federal loan funding has more than doubled in what the students borrowed for that period of time. Based on the lowest household quintile, which is the 10th percentile, all 11 NDUS institutions rank ahead of their regional counterparts in affordability based on net price.
• The national indebtedness of a bachelor’s degree recipient at $28,400 for 2013 graduates. The NDUS student total loan indebtedness at this same time is at or below the national average.
• In 2013-14 56.2% of undergraduate students received some type of financial aid. Of those students receiving aid, an estimated 49% receive some type of grant, scholarship or waiver.

Ms. Zastoupil provided the committee an update on the Tuition Waiver Report for Academic Year 2013-14. For 2013-14 the NDUS institutions provided tuition waivers totaling $31.9M to over 9,500 students. At the same time, students receiving those tuition waivers still paid campuses over $46.6M in tuition, room and board, and mandatory fees. Of the total degree headcount enrolled in NDUS, which was 55,724, approximately 17.2% received a waiver.

Ms. Glatt noted that almost two-thirds of waivers are provided to North Dakota residents. The data also suggests that almost 80% of the waivers are partial waivers.

President Bresciani said the term ‘tuition waiver’ is a misconception, whereas nationally, the terminology is ‘tuition discounting.’

Dr. Melicher moved, seconded by Mr. Shaft to accept the 2014-15 Student Affordability Report and 2013-14 Tuition Waiver report. Melicher, Shaft and Morton voted aye. Motion approved.

MaSU Health and Physical Education Recreation (HPER) facility, to be funded from the SBHE 13-15 capital contingency fund

Mr. Tonder said this project was approved during the 63rd Legislative Session at $5.510 M. With the escalating construction costs, they were unable to get a base bid that would even fit within the base appropriation plus contingency. MaSU changed directions and selected a construction manager at risk, compressed the scope of work, and brought in a project at $5.510 M. The project was redesigned to reduce it in size by approximately 55% to 17,000 square feet by eliminating an instructional lab, practice facility area, and locker room. The change in project scope resulted in cost reductions sufficient for MaSU to proceed; however, MaSU was able to retain the original functionality and original stated purpose of the project. The additional contingency funding will allow MaSU to restore a portion of the functionality that was lost due to the removal of the instructional lab and practice facility noted above.

Mr. Shaft moved, seconded by Dr. Melicher to approve request to increased authorization from $5,510,000 to $5,754,484, an increase of $244,484 for the MaSU Health and Physical Education
Recreation (HPER) facility, to be funded from the SBHE 13-15 capital contingency fund; and, further authorize transfer of $244,484 from the SBHE capital project contingency fund to MaSU. Shaft, Melicher and Morton voted aye. Motion carried.

Seek an amendment to Engrossed HB 1003
Ms. Glatt said at the last SBHE meeting, the Board was provided an overview of the amendments that were adopted by the House for HB1003. Historically, legislative approval (full legislature or Budget Section) was required for projects costing $385,000 or more, if funded from gifts, grants, or bequests. Per Engrossed HB1003, the statute is being amended to also include projects funded from local institutional sources. Thus, full legislative approval or during the interim, Budget Section approval, will be required for these projects. Anticipating the amended provision remains in the final appropriation bill, the NDUS would like to seek an amendment to have the known local fund projects added at this time. Ms. Glatt said that ultimately some of these projects will be completed, while some may not due to changing needs and resources. Ms. Glatt requested the list be amended to include a late submission from UND for the UND EERC Fuel Storage Facility at $700,000 to be funded from federal funds.

<table>
<thead>
<tr>
<th>Project</th>
<th>Amount</th>
<th>Fund Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>UND Fuel Storage Facility</td>
<td>$700,000</td>
<td>Federal funds</td>
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<tr>
<td>WSC Teton “Marsh” Wetland</td>
<td>$1,500,000</td>
<td>Private funds</td>
</tr>
<tr>
<td>WSC Stevens Hall 2nd floor renovation</td>
<td>$400,000</td>
<td>Private funds</td>
</tr>
<tr>
<td>WSC Frontier Hall repair</td>
<td>$400,000</td>
<td>Local funds</td>
</tr>
<tr>
<td>WSC Crighton Hall renovation</td>
<td>$400,000</td>
<td>Private funds</td>
</tr>
<tr>
<td>NDSU R Lot Phase II reconstruction</td>
<td>$1,600,000</td>
<td>Local funds</td>
</tr>
<tr>
<td>NDSU AR lot reconstruction</td>
<td>$550,000</td>
<td>Local funds</td>
</tr>
<tr>
<td>NDSU Memorial Union Dining expansion</td>
<td>$1,450,000</td>
<td>Local funds</td>
</tr>
<tr>
<td>NDSU RDC Kitchen Renovation &amp; Roof</td>
<td>$2,000,000</td>
<td>Local funds</td>
</tr>
<tr>
<td>NDSU Reed Hall Low Rise Lav Phase V</td>
<td>$1,300,000</td>
<td>Local funds</td>
</tr>
<tr>
<td>NDSU health plan partial boiler tube replace</td>
<td>$400,000</td>
<td>Local funds $200,000 State funds $200,000</td>
</tr>
</tbody>
</table>

Mr. Shaft moved, seconded by Dr. Melicher to approve the amendment to Engrossed HB 1003 with the addition of the $700,000 for the EERC fuel storage on UND campus. Shaft, Melicher and Morton voted aye. Motion carried.

DCB Thatcher Hall Mechanical Upgrades
Mr. Tonder said costs for DCB Thatcher Hall Mechanical Upgrade project have exceeded the available appropriations and legislative authorization. Due to the inexperience of staff on campus at the time, when bids were awarded for the project, the staff person didn’t take into consideration that the design fees also needed to be included as part of the project costs, leading to the cost overrun. Furthermore, contingency pool funding for the Thatcher Hall project were previously allocated to assist with the cost overrun on the DCB generator project. Unable to cover the costs internally, DCB is seeking additional state appropriations for both Thatcher Hall overrun and replacement of a failed water heater, which wasn’t part of the original project.
**Dr. Melicher moved**, seconded by Mr. Shaft to approve increase for DCB Thatcher Hall mechanical upgrades from $769,500 to $798,694, an increase of $29,194 from state appropriated funds. Further, authorize DCB to request a $29,194 general fund appropriation from the 64th legislative assembly for the additional funds for Thatcher Hall Mechanical Upgrades as well as a $36,800 state general fund appropriation for maintenance replacement of a water heater in Thatcher Hall. Melicher, Shaft, and Morton voted aye. Motion carried.

**UND Report on Pathways Tuition Model**

Ms. Alice Brekke said Dr. Lori Reesor has joined her in the event there are questions. Consistent with the directive of the Board to work through and move toward a restructured tuition model, UND has been working for many months toward that end. To stay within the Strategic Plan principles approved by the Board last fall and fine-tuned at the January/February meetings: (1) moving from 12-credit cap on tuition up to a 14- or 15-credit cap, (2) blending tuition and non-mandatory fees, (3) moving to a model for on-campus and on-line rates should be consistent to the greatest extent possible, (4) looking for opportunity where there should be differential tuition rate, and that would effectively be a substitute for charging tuition plus a program fee, and (5) adjustments to the residency rates. In addition to those principles, UND also worked to find a consistent or equitable per credit rate for both full and part-time students. UND was very conscious of the financial incentives that could help encourage timely degree completion, including an emphasis on the 15+ credits per semester, as the most cost effective option based on a four-year degree completion. The Board principles indicated that it should be revenue neutral to the institution and to minimize the impact on the average student. As UND has worked through all of this, UND found it almost impossible to accomplish what the Board asked for.

UND met with Student Government last spring and provided them an overview of the direction, at which time concerns were raised. Through the Fall, UND continued to work and meet with deans, department chairs, student affairs, admissions, enrollment services, etc., trying to gather input and to look to as many avenues as possible to put in place a future-focused model that would help them get to where they want to be as an institution. The last phase of vetting was with students, which happened March 11 and 12, where the group size was small and there was some resistance. Ms. Brekke said some examples, based on credit hour load and residency status, were provided to students. Students expressed concern about the impact on a North Dakota resident student where, in some circumstances, they would be paying more than they are currently paying.

Dr. Lori Reesor, Vice President of Student Affairs, said the overall concern for students is that most of their students are from ND and Minnesota, and based on this model they would potentially see the largest increase. And, they were concerned and wanted the board to understand that this is potentially an outcome of this proposal.

Ms. Brekke said she estimates that an average 15-credit hour ND student would pay about 11 percent more, a MN student would pay somewhere around 9 percent more, a contiguous student would see an 8 percent reduction in cost, MHEC/WICHE student would have a 10 percent increase, and the other U.S. non-resident would have a 30 percent cost reduction, and
an international student would have a 25 percent cost reduction. Almost every student would experience a change, either an increase or reduction.

Mr. Morton said, unfortunately, it is going to take time to get the online and the on campus credits more in line with one another and there are going to be some winners and losers until we get there. The Board also realize that by decreasing out of state tuition that more students come to North Dakota. Another variable is whether a student is taking 12-credits or 15-credits but at the same time we are very conscience that the campuses have the tuition revenue they need. So, there are lots of moving parts.

Dr. Melicher asked if the proposed model, at 15 credits, is consistent with NDUS goal to improve graduation and retention rates. Ms. Brekke said it is and, in fact, students would pay less in total over their academic career if they graduated in four years.

Ms. Brekke said there are a number of other strategies on campus that are ongoing that are working toward improving the retention and graduation rates, and not specific to a change in the tuition model.

Chancellor Skogen said there are two proposed bills to remove the tuition-setting authority from the SBHE. Prior to the Committee meeting, Dr. Melicher and Chancellor Skogen met with Senators, including Senator Holmberg on Engrossed HB1003. Senator Holmberg was already aware of the meeting UND had with students and the impact that the students felt it had on resident students. It is important that the Board have this discussion and decide what they want to do at this time relative to a movement within the Legislature on this issue.

Mr. Shaft said the Board needs to be mindful that when the Board looked at this shifting from 12- to 15-credit hours, one of the primary factors for the Board was pushing the graduation rate up. And, although the Board knew the campus would be able to address graduation rate, that the 12- to 15-credit hour shift would have an impact. The Board needs to balance asking campuses to increase graduation rates with the tuition increase. There is an increase from 12- to 15-credit hours, but when you go from 10 to 8 semesters there are savings. In response to Mr. Shaft’s question asking if this is unique to UND or is this also happening at NDSU, President Bresciani said NDSU crossed this bridge a long time ago and it is no longer an issue at NDSU. Mr. Shaft asked if there is something unique about UND. Ms. Brekke said she wants to be careful in speculating on that question. She did say that in the earliest versions of tuition model discussions, there was a desire for UND and NDSU to essentially end up with the same model and the same rates; both UND and NDSU worked diligently in that regard and it just simply wasn’t possible to get there because of the financial differences between the two campuses. So, it is not a surprise that the institutions have different sets of challenges in trying to implement a changed model.

Ms. Brekke’s goal was is to provide the committee with information. Und students asked a couple of questions about alternatives, which the campus will look into. The other thing is how complicated of a model, over what period of time, and do we have the right tools to manage the model, and those are other considerations they are working through. Timing will become an issue for UND.
Dr. Melicher asked for a comparison of the differences between the UND and NDSU models.

Ms. Hoffarth said the number of graduates in the music department have increased significantly and questions what impact the change in credit hours will have on program enrollment.

Meeting adjourned at 10:39 a.m.