ND STATE BOARD OF HIGHER EDUCATION

Minutes—February 23, 2007
Mandan, North Dakota

The State Board of Higher Education met February 23, 2007, at the Seven Seas Inn and Conference Center. The Board president called the meeting to order at 8:30 a.m. CT. Members present:

Mr. John Q. Paulsen, president
Ms. Beverly Clayburgh, vice president
Ms. Sue Andrews
Mr. Bruce I. Christianson
Ms. Pam Kostelecky
Mr. Nicholas Rogers
Mr. Richie Smith
Dr. John Pederson, Faculty Advisor

Staff members present:

Mr. Eddie Dunn, Chancellor/Vice Chancellor for Strategic Planning
Mr. H.P. Seaworth, General Counsel/Executive Secretary
Ms. Debra Anderson, Public Affairs Director
Ms. Cathy McDonald, Director of Finance
Ms. Sheila Tibke, SBHE Administrative Secretary/Financial Aid Assistant

Chancellor Search

Mr. Smith, chair of the Chancellor Search Committee, expressed appreciation to Ms. Cathy McDonald for all her help with the search and thanked the members of the search committee. Other members of the search committee are:

Pam Kostelecky, SBHE member
John Q. Paulsen, SBHE member
John Pederson, SBHE faculty advisor
Don Hedger, CEO, Killdeer Mountain Manufacturing
Dennis Hill, Executive VP/General Manager, ND Association of Rural Electric Coops
Don Morton, Site Leader for Fargo Campus, Microsoft
Paul Steffes, CEO, Steffes Corporation
Joe Chapman, NDSU president
Joe McCann, WSC president
David Fuller, MiSU president
Charles Kupchella, UND president
Robert Haskins, NDSA president
Eddie Dunn, ND University System chancellor

The State Board of Higher Education interviewed Dr. Paul Keys for the position of chancellor.

Messages and Priorities

Chancellor Dunn presented a draft document of recommended key messages and priorities for use by the University System in providing testimony on HB1003 to the Senate Appropriations Committee. The Legislative Agenda Task Force, at the request of the Chancellor, drafted the recommended messages and priorities. Chancellor Dunn said these key messages are consistent with the Board's budget request and the central message of developing human capital. He said the Cabinet endorsed this document at its February 22, 2007, meeting.

It was moved by Andrews and seconded by Kostelecky to approve the draft document with the addition of a bullet indicating that the retirement of the *ConnectND* debt will allow student fees to be stabilized. Andrews, Christianson, Kostelecky, Rogers, Smith, Clayburgh, and Paulsen voted aye. The motion carried. Exhibit A.

Chancellor Search continued

The State Board of Higher Education interviewed Mr. Bill Goetz for the position of chancellor.

Following the interviews, **it was moved** by Smith and seconded by Andrews that the State Board of Higher Education extend an offer to Mr. Bill Goetz for the position of chancellor of the North Dakota University System. The annual salary will be $170,000 with an $11,000 vehicle allowance, a $20,000 housing/hosting allowance, and a two-year contract. Andrews, Christianson, Kostelecky, Rogers, Smith, Clayburgh, and Paulsen voted aye. The motion carried.

It was moved by Kostelecky, seconded by Clayburgh, and unanimously carried to adjourn the meeting. The meeting adjourned at 12:25 p.m.

Executive Secretary

President

March 15, 2007

Date

-DRAFT-
NDUS Cabinet Recommended Priorities for Senate Consideration
February 23, 2007

I. OVERVIEW HEARING – Messages and Priorities

Key Messages:

- The single most important factor that will determine the long-term success of North Dakota will be the availability of human capital. The primary developer and source of that capital is the University System.

- The Roundtable on Higher Education charged the NDUS with becoming a major player in stimulating growth in the ND economy. Its success in doing so is evidenced by the growth the state is currently experiencing. In order to sustain and enhance the NDUS level of contribution to this end, additional investments are needed. The recent interim legislative study confirmed that NDUS campuses are funded, on the average, at 50% of their peers. Another study by the National Center for Higher Education Management Systems (NCHEMS) shows North Dakota having one of the five most efficient university systems, only behind Utah, Massachusetts, Colorado, and California when comparing performance to funding per FTE student.

- The University System appreciates the overall level of funding provided in the executive budget. The total amount is significant when the one-time funding is taken into consideration.

- The NDUS continues to support the **base** funding level included in the budget request. In fact, the only adjustment to the executive budget the University System believed was necessary was to shift some of the one-time funding already in the budget to base-funding to support the core functions of the

colleges and universities, which would have restored the base budget to the requested level.

- The University System requested an additional $63 million in base funding. The executive budget included $52 million. The House reduced the base increase by $7 million to $45, and added $12 million in one-time funding primarily for special projects.

- At the heart of the core functions, which base funding supports, are faculty and staff salaries and benefits essential for attracting and retaining dedicated, effective faculty and continuing to provide high-quality education for students in a nationally and globally competitive environment.

- One-time funding and special projects are always attractive and appreciated. However, at the February 15 Chancellor's Cabinet meeting, there was consensus among the presidents that if the special projects come at the expense of base funding, the results will not be in the long-term best interest of students or higher education in North Dakota. Base funding is the priority. It is the foundation that makes everything else possible.

- The number-one priority of the colleges and universities is support of the SBHE's budget request. The two highest priorities within that request are: (a) faculty and staff salary increases of 5% per year and maintaining the current level of health insurance benefits, and (b) holding tuition increases to no more than 5% per year during the 07-09 biennium. Both of these priorities can be accomplished within the funding level included in the SBHE's budget request.

- The University System is sensitive to the Governor's and the legislator's concern for on-going funding commitments that are sustainable. In light of that concern, the University System has discussed and understands the fact that if or when state revenues are more scarce, the budget for the University

System will likely be reduced accordingly, based on the NDUS share of the state general fund budget.

- Continuing "flexibility with accountability", as called for by the Roundtable, is needed if the NDUS is to be responsive to meeting the needs of students, business and industry and the State of ND.

Priorities:

The number-one priority of the colleges and universities is support of the SBHE's budget request. Below is a list, in priority order, of adjustments to the House budget the Senate is asked to consider:

1.) Restore $4.2 million in state general funds to provide 5% annual salary increases for faculty and staff, as originally included in the Executive Budget.
2.) Fund the state health insurance plan at the level needed to maintain the current level of benefits for all state employees.
3.) Add $920,000 in base funding and $9.7 million in one-time funding for CND, to fund additional staff, implement the ten recommendations to stabilize the system, retire CND debt and provide for a grants and contracts solution.
4.) Add $400,000 in base funding and $375,000 in one-time funding to complete the build out of the Northern Tier Network and cover the ongoing maintenance costs for one year of the biennium.
5.) Add $200,000 to SBHE Contingency and Capital Improvement Emergency fund for a total of $496,482 for the biennium, the current 05-07 funding level.
6.) Add $1,791,174 to the SBHE Initiative fund to restore funding to the 05-07 funding level.
7.) Add $308,000 in funding to allow the addition of a full-time CTEC Director.
8.) Add $200,000 to the Operations Pool to restore funding to the 05-07 funding level of $344,559.

Closely linked to the level of funding included in the budget request is the ability to hold tuition increases to no more than 5% per year during the 07-09 biennium.

Explanation of Salaries and Benefits (priorities 1 and 2)

- At the heart of the core functions are faculty and staff. Competitive salaries and benefits are necessary to attract and retain dedicated, effective faculty and staff to continue to provide high-quality education for students in a nationally and globally competitive environment.
- Faculty salaries lag regional averages from 22-34%, depending on the type of campus and national averages by 31-41%. Staff salaries lag regional averages on the average by 3-18%, with some classifications of employees 25-35% behind the market. ND is ranked 49th to 51st among the states in public faculty salaries, again depending on type of campus. Regional and national salaries are an important benchmark since campuses must compete in the national marketplace for faculty and key staff positions.
- Nearly one-half of the NDUS faculty and one-third of the staff are over the age of 50. Twelve percent of faculty and six percent of staff are older than 60 years of age. Filling retirement vacancies will be extremely difficult given the level of wages in ND and the expected national worker shortage.
- Maintaining the current level of health insurance and other benefits is critical to recruiting and retaining faculty and staff. Given the substantially lower salaries paid in ND, the health insurance plan is one additional tool for recruiting employees, especially in the medium-to-low-end positions.
- A large portion of a 4% annual salary increase will be needed to offset increasing co-payments and deductibles. For example, for an employee earning between $20,000-25,000 per year, 50-65% of their salary increase will be used on increasing medical costs. For an employee earning $40,000 almost one-third of their salary increase will go toward covering increasing health insurance costs. It is difficult for employees to understand this loss of benefits and reduced level of salary increases during times of state financial prosperity.

- Faculty and staff have been asked to do with less during times of state fiscal constraint, with the promise that they would be rewarded when state funding improves. Now is that time
- The Roundtable also suggested that if higher education--faculty and staff--helped more significantly contribute to growing the state's economy, they would share in the benefits. They have stepped up to the plate and should be rewarded accordingly.

Explanation of ConnectND (priority 3)

- Adequate funding is needed to stabilize and enhance the CND system. Without it, campuses--its students and employees--will continue to be frustrated with the performance of the system. Also, the states is at substantial risk in several areas—grants and contracts reporting requirements, security (unauthorized access to information) and system performance (loss of system capabilities during critical times). Doing nothing for two years is not an option. Oracle will discontinue support for the current versions of the software used by the NDUS within the next two years. In the absence of a "fix" campuses will have to continue to indirectly absorb costs as they staff to meet the underserved needs, because doing without certain functions is not a viable alternative.
- Students cannot be asked to pick up more of the cost of this project.
- Retirement of the CND debt will likely allow student fees to be stabilized for the next four years.
- An investment in CND would help ALL campuses and ALL students.

Explanation of Northern Tier Network (priority 4)

- Additional one-time funding is needed to complete the build out of the network from north/south and east/west across the State of North Dakota, linking ND into the next generation of research capacity. Without it, ND will experience increasing difficulty competing and obtaining grant funding, as agencies, particularly at the federal level,

require use of the network to be considered eligible for funding. Without the base funding to cover the ongoing maintenance costs, campuses such as UND and NDSU, will have to absorb those costs within their already constrained budgets.

Explanation of SBHE Contingency and Capital Improvement Emergency, Initiative and Operations funds (priority 5, 6, and 8)

- With a total state-funded plant and infrastructure value in excess of $1.2 billion and given the deferred maintenance condition of campus facilities ($117 million) and the levels of "extra-ordinary repairs" funding provided to the campuses (300+ year replacement cycle), a more substantial contingency fund is needed to address unexpected needs. Contingency funding of $250,000 per year is equivalent to .02% of plant value.
- The Roundtable strongly recommended, as part of the long-term finance plan, that the SBHE be provided flexible funding. Consistent with past practice, the NDUS would anticipate having a competitive application process whereby campuses could submit proposals for SBHE Initiative funding which: 1.) promote collaboration and cooperation between campuses; 2.) promote the agenda of the state; and, 3.) is consistent with the principles of the Roundtable. Examples of such programs could include: Nursing education consortium for a simulated clinical laboratory for nursing students across the state; 2.) collaborative efforts between select campuses for out-of-state and out-of-country recruiting; 3.) delivery of two-year programs in underserved areas such as Fargo and Grand Forks; 4.) joint administrative efforts, especially at smaller campuses, to help reduce cost.
- Most, if not all, of the funding would ultimately be used to assist the various institutions with priorities and needs.

Explanation of CTEC Director (priority 7)

- Currently the Vice Chancellor for Strategic Planning holds both the Vice Chancellor and CTEC Director positions. It is not practical for one person to

adequately fulfill both job responsibilities, without several key items going undone. This includes such things as: helping address the issue of an under-developed community college system in North Dakota; further developing mechanisms for identifying emerging workforce development and workforce training needs and opportunities in a collaborative manner; becoming more accessible to potential students in urban areas of the state, especially to adult, part-time and dual credit students, and; continuing to develop and support mechanisms that assure a smooth transition for students as they pursue their college education in the state.

Explanation of holding tuition to no more than 5%

- Providing a high quality education is the NDUS' primary responsibility. Funding for instruction and directly related other costs are from two primary sources: state general fund and tuition income. Other fees and revenues, such as bookstores, dining services, housing, and grants and contracts, are dedicated to the purpose for which they are generated, and therefore, are not available for direct support of instruction. These two sources are inter-dependent, a change to one has a direct and material impact on the other. In recent years, students have absorbed a significant share of the cost increases, given the declining or stable state general fund appropriations, needed to offset inflationary cost increases. This cannot continue as students and their families already assume a substantial share of the cost of their education, forcing them to assume more debt, work more which extends their time-to-degree and lessening their ability to be more engaged in expanded learning and civic activities.
- In the recent past, ND had a significant price advantage over other states, which assisted with student recruiting. Although ND's tuition and fee rates at the four-year campuses are still less than the regional and national averages, the gap has narrowed significantly. Two-year campus rates continue to be higher than the regional and national average rates. Likewise, tuition and fees generally consume a larger share of disposable income here in ND, then elsewhere.

Impacts

- Even with overall increases in the budget, some campuses will have to make spending reductions elsewhere in the budget to cover increasing costs (i.e. inflation and utility cost increases) coupled with limited tuition rate increases of five percent per year. Other campuses will have minimal new funding available to invest in new programs or services which require ongoing financial support, due to insufficient base funding increases.

II. INSTITUTIONAL HEARINGS

In addition to the information requested by Senate Appropriations, including accomplishments, budget, enrollment and needs and opportunities, campuses have agreed to reinforce the following:

Key Messages

- Human Capital and NDUS role
- Roundtable charge and related importance of "flexibility with accountability"
- Opportunities for investment
- Importance of base funding
- Number one priority is SBHE budget request, and within that faculty and staff salaries and benefits, CND and the ability to keep tuition rates to five percent per year.

Priorities

Support requested "base" funding restoration priorities as follows.

1.)restore 5% annual salary increases

- ➢ Provide examples and information unique to your campus on recruitment and retention challenges, salary compression, and needed rewards.

2.) maintain health insurance at current plan levels

- ➢ Provide examples and information unique to your campus on recruitment and retention challenges and impact on employees.

3.) CND funding to stabilize and enhance system and grants and contracts solution

- Provide examples of what is working and related benefits and what is not working well and the challenges that creates for your campus and students.

4.) Northern Tier Network

- As appropriate, reinforce the importance to the research enterprise.

5., 6. , 8) SBHE contingency, initiative and operations funds

- When identifying campus needs and opportunities, point out that this could be one alternative source of funding used to support campus, multi-campus or system initiatives

7.) CTEC Position

- Stress the importance of the work of CTEC, as appropriate, and the need for full-time leadership.

Impacts

- Outline the amount of new base funding, if any, remaining after taking into account parity cost increases, assuming 4% annual salary increases. If base funding is not adequate to cover parity cost increases, describe impacts.
- Outline proposed new programs/services which could be added with adequate funding and are in response to business and industry needs. Explain what has already been done to reallocate resources to meet these needs, and why reallocation is not a viable alternative.

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