

**BOARD OF REGENTS
MINUTES OF THE MEETING
Board of Regents Central Office (Teleconference)
Pierre, South Dakota
December 15, 2015**

The Board of Regents convened by teleconference at 9:30 a.m. (central time)/8:30 a.m. (mountain time) on December 15, 2015 with the following members in attendance:

ROLL CALL:

Randy Schaefer – PRESENT
Bob Sutton – PRESENT
Terry Baloun – PRESENT
John Bastian – PRESENT
Harvey Jewett – PRESENT
Kathryn Johnson – PRESENT
Joe Schartz – PRESENT
Kevin Schieffer – PRESENT
Jim Morgan – PRESENT

Also present were Mike Rush, Executive Director and CEO; Monte Kramer, System Vice President of Finance and Administration; James Shekleton, General Counsel; Guilherme Costa, General Counsel Designate, Janelle Toman, Director of Communications; Leah Ahartz, Budget Manager; Molly Weisgram, System Director of Student Affairs and Executive Administrative Assistant to the CEO and Board; and other members of the regental system, public at-large, and media.

Regent President Randy Schaefer called the public meeting of the Board of Regents to order and declared a quorum present.

APPROVAL OF THE AGENDA

IT WAS MOVED by Regent Baloun, seconded by Regent Schartz to approve the agenda as published.

ROLL CALL:

Schaefer - AYE
Sutton - AYE
Baloun - AYE
Bastian - AYE
Jewett - AYE
Johnson - AYE
Morgan - AYE
Schartz - AYE
Schieffer - AYE

The MOTION CARRIED.

GOVERNOR'S FY17 BUDGET RECOMMENDATIONS

Leah Ahartz, BOR Budget Manager, provided a summary of Governor Daugaard's budget address for fiscal year 2017.

The Governor's budget proposal provides funding to support a tuition freeze for resident, on-campus students. The tuition freeze will be supported by repurposing \$2.9 million currently being used to pay off two BOR bonds totaling \$35.5 million. The Governor would use one-time money to pay off the bonds. Additionally, the Governor is proposing one-time funds of \$2.1 million to increase the Need-Based Scholarship Endowment. The \$2.1 million comes from general funds. Along with this, Governor Daugaard recommends that the BOR deposit \$1.4 million into the endowment from FY16 health savings. Another one-time, non-general fund special appropriation was also proposed in the amount of \$1,575,000 for the Animal Disease Research and Diagnostic Laboratory (ADR&DL) design study.

Regent Jewett received clarification that the bonds being paid off to fund the tuition freeze are BOR bonds. Dr. Monte Kramer explained that the money to fund the freeze would come from funds currently being used to pay off a HEFF bond (\$700,000) and University Support Fee bond (\$2.2 million). Those bonds are scheduled to be paid in 15 years. Dedicating the bond payments to ongoing expenses would commit those funds to the base funding.

Regent Johnson asked about the \$2.1 million for the need-based scholarship. In response to her question, it was clarified that this is a one-time general funds appropriation. In addition, the Governor recommends that the board direct \$1.4 million from its health savings to the needs-based scholarship. This would add \$3.5 million to the endowment, raising the endowment total to 5 million.

To provide an explanation of how the health savings will work, Dr. Kramer said that because the state will not bill the campuses the full amount, the state wants the money back. Therefore, we will have to pull the money out of campus budgets as a one-time transaction.

Regent Jewett expressed concern about the year-to-year perspective on healthcare savings. He believes we should build up the fund so that we can subsidize future increases. Dr. Kramer understands the concept of building a reserve but part of the reason the state keeps adjusting year-to-year is that they cannot bill federal funds differently than other funds, so they cannot over-recover on the health funds.

Regarding base general funding, Ms. Ahartz provided an overview of the Governor's recommendations. These include a proposed increase of \$5,104,509 in base general funds for FY17 for Higher Education Facility Funds (HEFF), South Dakota Opportunity Scholarship (SDOS) funds, National Guard and State Employee Tuition Support, the Center for the Prevention of Child Maltreatment, and the REED Network Equipment Replacement funds. This amount includes a transfer in base funds in the amount of \$230,098 from the Department of Military that will likely require legislative action.

Dr. Kramer explained that the recommendation to support the National Guard and state employee tuition support relates to our request to roll the university support fee (USF) into tuition. This will require changes to the HEFF statute such that the campuses will not lose 20%

of their USF money to HEFF. The BOR will be proposing a legislative change to HEFF, dictating that approximately 12-13% of tuition dollars be dedicated to HEFF. He reinforced that legislation will be needed to support this change.

Ms. Ahartz explained the Governor's recommendation for salary policy, which included a 2.7% salary policy and a 0.5% salary enhancement. In response to a question from Regent Jewett, Dr. Kramer said that the Governor is recommending that they fund half of the amount requested for salary enhancement since our request was for a 1% increase to salary enhancement.

Regent Jewett said that a 0.5% salary competitiveness increase will not make us whole. He believes we need to do a better job of showing the necessity of recruiting and hiring nationally, which will require that we pay a nationally competitive wage.

Regent Baloun agrees with this sentiment. He emphasized that we need to track our competitiveness with our tuition cost as well. Despite imperfections, this still benefits our students and our competitiveness so we will support and move on.

Dr. Kramer emphasized the fact that the Governors' office expects that the regents will support the tuition freeze.

Regent Baloun asked for clarity about the REED Network. He asked for assurance that although the Governor is only recommending roughly \$250,000 per year for this purpose, the total cost of the replacement of over \$1 million would be funded. Dr. Kramer explained that the routers would be replaced in FY17 and paid for over the next five years. The BOR will be billed \$250,000 per year, and the money will be put in our base budget each year for five years to pay for it.

A copy of the Governor's FY17 Budget Recommendations can be found on pages ___ to ___ of the official minutes.

SOUTH DAKOTA STATE UNIVERSITY HARDING HALL FUNDING PROPOSAL

Dr. Kramer reviewed the discussion held at the December 2-3, 2015, board meeting regarding SDSU's Harding Hall Renovation and Addition Facility Program Plan. At that time, SDSU requested approval of a funding plan to fully renovate Harding Hall. The original request was to use a total of \$7.0 million of maintenance and repair funding through FY20, as well as \$5.0 million of local funds, for a total project cost of \$12.0 million. The board expressed interest in moving forward with this project but was concerned about the commitment of maintenance and repair money to fully rehab a building and add new space.

Since that meeting, board staff have worked with SDSU to identify the specific deferred maintenance and repair projects that will be completed as part of the Harding Hall renovation and addition. Completion of the project will remove at least \$3.3 million of deferred maintenance and repair from the backlog at SDSU. This funding would be leveraged by local funds of \$5.0 million and private funds of \$3.7 million. Under this revised proposal, HEFF maintenance and repair dollars of \$1,800,000 already set aside from FY15 & FY16, and \$1,500,000 from FY17 would be committed to the project. Using this approach, SDSU would not be committing money

beyond FY17, nor would they be using maintenance and repair money to expand the footprint or rehab the entire building.

Additionally, Dr. Kramer explained that he reviewed this approach with the Bureau of Finance and Management, and they felt this was an appropriate way to get this done. They indicated that they could support this.

Regent Jewett pointed out that we cannot create an internal obligation to bring reserves below 10%. He emphasized that the 10% of uncommitted cash will be important to monitor.

In response to a question by Regent Schieffer about the precedent the board is setting, Dr. Rush explained that he is comfortable with this as precedent considering the proposal has pre-identified, legitimate maintenance and repair projects to fund. Additionally, by leveraging private funds, our maintenance and repair funds will go further and get more done.

IT WAS MOVED by Regent Schieffer, seconded by Regent Morgan to approve SDSU's Facility Program Plan to do a complete renovation and addition to Harding Hall at an estimated cost of \$12,000,000. Funding for this project will include \$3.3M of HEFF maintenance and repair, \$5.0M of local funds, and \$3.7M or more from private donations. The \$5,000,000 of local funds will come from university support fees captured in the university's Strategic Investment and Risk Management funds. This commitment cannot create any internal obligations to bring reserves below 10% and the uncommitted cash must be maintained above 10% for all years involved.

ROLL CALL:

Schaefer - AYE
Sutton - AYE
Baloun - AYE
Bastian - AYE
Jewett - AYE
Johnson - AYE
Morgan - AYE
Schartz - AYE
Schieffer - AYE

The MOTION CARRIED.

A copy of the South Dakota State University Harding Hall Funding Proposal can be found on pages ___ to ___ of the official minutes.

2016 BOARD SPONSORED LEGISLATION

Dr. Kramer reviewed the board's December 3, 2015, request to add two bills as part of the 2016 legislative package. One bill relates to the construction of a new Math and Science Facility at Northern State University and the other bill authorizes the BOR to contract for the renovation and construction of an addition to Harding Hall at South Dakota State University.

He further referred to an additional piece of necessary legislation related to the HEFF statutes. As mentioned earlier in the meeting, legislation related to the amount of HEFF dollars that are allocated from tuition should change from 20% to roughly 12-13% due to the intention to roll the University Support Fee into tuition.

IT WAS MOVED by Regent Baloun, seconded by Regent Schieffer to authorize the Executive Director to submit the proposed bills for the NSU Math and Science Facility and the SDSU Harding Hall Renovation and Addition, to prepare additional legislation that may be required, and to make such modifications or, following its introduction, amendments to the bills as may be in his best judgment prudent, provided that such modifications or amendments shall not change the fundamental purpose of the authorized legislation, and, after consulting with the Board President and other members of the Board, to submit such additional legislation as may be necessary and proper.

ROLL CALL:

Schaefer - AYE
Sutton - AYE
Baloun - AYE
Bastian - AYE
Jewett - AYE
Johnson - AYE
Morgan - AYE
Schartz - AYE
Schieffer - AYE

The MOTION CARRIED.

A copy of the 2016 Board Sponsored Legislation can be found on pages ___ to ___ of the official minutes.

GOVERNOR'S RECOMMENDATION FOR ADR&DL PLANNING FUNDS

Dr. Kramer reviewed the information provided to the board at the December 2-3, 2015 meeting regarding the proposed legislative request for \$2.21 million to complete the design of the new Animal Disease Research and Diagnostic Laboratory (ADR&DL) facility. On December 8, 2015, Governor Daugaard proposed in his FY17 budget address funding for the ADR&DL in the amount of \$1,575,000. This amount of funding would allow the design work to be completed through the schematic design phase and into the beginnings of the design development. At that point, a projected cost of the facility can be estimated with roughly an 85-88% confidence rate. He noted that if the project is considered to be doable and within reach as a state priority, the constituent group may want to move forward with the completion of the design development phase. If that were the case, there would need to be additional planning funds of \$635,000. The funding source would be from cash balances within ADR&DL that were accumulated from testing fees. This would bring the total amount of funding from ADR&DL operations to \$1,167,000.

IT WAS MOVED by Regent Jewett, seconded by Regent Morgan to authorize the spending of no more than \$635,000 additional from ADR&DL operations to support the planning for the new facility.

ROLL CALL:

Schaefer - AYE
Sutton - AYE
Baloun - AYE
Bastian - AYE
Jewett - AYE
Johnson - AYE
Morgan - AYE
Schartz - AYE
Schieffer - AYE

The MOTION CARRIED.

A copy of the Governor's Recommendation for ADR&DL Planning Funds can be found on pages ___ to ___ of the official minutes.

Recognizing SDSU President David Chicoine

Regent President Schaefer acknowledged President Chicoine's recent announcement of his decision to step away from the presidency at the end of the academic year but to maintain his appointment to the faculty at SDSU. Regent President Schaefer recognized President Chicoine for his strong leadership at SDSU. He said SDSU is a nationally recognized institution of excellence in academics and research, and he said President Chicoine has set the bar high for service to South Dakota and to the Brookings community. On behalf of the Board, he said thank you and he looks forward to President Chicoine's continuing service as a member of SDSU's academic community.

ADJOURN

IT WAS MOVED by Regent Schartz, seconded by Regent Bastian to adjourn the meeting of the full board at 10:25 a.m.

ROLL CALL:

Schaefer - AYE
Sutton - AYE
Baloun - AYE
Bastian - AYE
Jewett - AYE
Johnson - AYE
Morgan - AYE
Schartz - AYE
Schieffer - AYE

The MOTION CARRIED. Meeting adjourned.