

**Testimony**  
 to the  
**Government Finance Committee**  
 by  
**Kirsten Diederich, Chair, State Board of Higher Education**  
**February 12, 2014**

Chairman Delzer and members of the Government Finance Committee, I am Kirsten Diederich, chair of the State Board of Higher Education.

You have requested testimony about UND's purchase of the Research Enterprise and Commercialization (REAC) building on the UND campus. I will provide preliminary remarks, followed by Dr. Robert Kelley, president of UND, and Murray Sagsveen, chief of staff, North Dakota University System office. Chancellor Larry Skogen and UND Vice President for Finance and Operation Alice Brekke are also here to answer any questions committee members may have.

The North Dakota University System has many responsibilities – in addition to educating students not only for careers in today's marketplace but also for careers that do not yet exist. For example, the two research universities, UND and NDSU, are research and development centers of excellence, partnering with aerospace, agriculture, and other commercial interests. Often, this requires the University System to take risks with programs *and buildings to house these programs and the partners who will be developing the programs.*

When we take risks, we must act on the best information for the best reasons with the best intentions at the time. However, as we all know, the best intentions may not lead to the anticipated results. When that happens, we should review the facts, from beginning to end, as a case study to determine how we can continually improve our organization and our programs.

We should approach the REAC building from a case study perspective. If we do, we will learn that:

- The UND president, then Dr. Charles "Chuck" Kupchella, and others had a vision for a number of research and commercialization facilities on the UND campus.
- They formed a nonprofit tax-exempt foundation, the University of North Dakota Research Foundation, to generate enthusiasm, financial support, and partners for the ambitious project.
- The first stage of the project was the Research Enterprise and Commercialization Building, designated REAC1.
- They secured financing, then constructed and furnished the building.
- However, because of the nationwide economic downturn and (in retrospect) over-optimistic projections, the Foundation experienced cash flow challenges.

- UND, now under new leadership, recognized the problem and provided a modest interim subsidy until a long-term solution could be implemented.
- UND determined the best long-term option would be to assume ownership by refinancing the \$9.8 million loan.
- UND then sought, and obtained, approval from the State Board of Higher Education (who delegated approval authority to the Chancellor), the Chancellor, the Legislative Assembly (which approved Senate Bill 2003), and the Governor (who signed Senate Bill 2003).
- Now, UND owns and operates a world-class facility that will better enable UND, the North Dakota University System, and the State of North Dakota to compete in a global environment.

Thank you for inviting representatives of the North Dakota University System to address your Committee about this facility, which is an important component of the University System's overall effort to expand its R & D programs and diversify the economy of the State of North Dakota.

I will answer any questions that the committee members may have – unless the committee prefers holding their questions until after the presentations by President Kelley and Mr. Sagsveen.