

**SB2033**

Senate Education Committee

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Tammy Dolan, Vice Chancellor for Administrative Affairs

701.328.4116 | [tammy.dolan@ndus.edu](mailto:tammy.dolan@ndus.edu)

Chair Schaible and Committee Members: My name is Tammy Dolan, and I am the Vice Chancellor for Administrative Affairs at NDUS. I'm here today in support of SB2003 and to request minor amendments.

Historically, higher education capital projects and extraordinary repair projects were requested individually, with State Board of Higher Education approval, and considered by the legislature on a case-by-case basis for general fund appropriations. In 2019, the Legislature approved House Bill 1003 which created a funding mechanism called the Capital Building Fund. Dollars could be used for certain named capital projects, as well as extraordinary repair projects determined by the institution. To access this fund, institutions were required to provide matching dollars from their operations or other sources. The following chart details the 2019-21 NDUS capital building fund.

Tier I Extraordinary Repairs				Tier II Capital Building Fund			Tier III Capital Building Fund			Totals
Institution	Base Funding Formula allocated to Extraordinary Repairs (General Funds)	2 for 1 Institution Match (Special Funds)	Tier I Appropriation & Required Match	Institution Match at 1 to 1 (Special Funds)	\$10M BND Funds	Tier II Totals	Capital Building Fund (GF-\$2M & BND \$7M)	2 for 1 Match	Tier III Totals	
BSC	417,673	835,346	1,253,019	425,693	425,693	851,386	500,000	1,000,000	1,500,000	3,604,405
DCB	114,007	228,014	342,021	106,064	106,064	212,128	500,000	1,000,000	1,500,000	2,054,149
LRSC	155,367	310,734	466,101	177,375	177,375	354,750	500,000	1,000,000	1,500,000	2,320,851
NDSCS	1,012,379	2,024,758	3,037,137	500,695	500,695	1,001,390	500,000	1,000,000	1,500,000	5,538,527
WSC	197,801	395,602	593,403	137,947	137,947	275,894	500,000	1,000,000	1,500,000	2,369,297
DSU	409,078	818,156	1,227,234	268,862	268,862	537,724	500,000	1,000,000	1,500,000	3,264,958
MASU	358,992	717,984	1,076,976	240,029	240,029	480,058	500,000	1,000,000	1,500,000	3,057,034
MISU	899,620	1,799,240	2,698,860	572,801	572,801	1,145,602	500,000	1,000,000	1,500,000	5,344,462
VCSU	408,319	816,638	1,224,957	309,137	309,137	618,274	500,000	1,000,000	1,500,000	3,343,231
NDSU	2,732,244	5,464,488	8,196,732	2,899,596	2,899,596	5,799,192	2,250,000	4,500,000	6,750,000	20,745,924
UND	4,411,566	8,823,132	13,234,698	4,361,801	4,361,801	8,723,602	2,250,000	4,500,000	6,750,000	28,708,300
<b>TOTAL</b>	<b>11,117,046</b>	<b>22,234,092</b>	<b>33,351,138</b>	<b>10,000,000</b>	<b>10,000,000</b>	<b>20,000,000</b>	<b>9,000,000</b>	<b>18,000,000</b>	<b>27,000,000</b>	<b>80,351,138</b>

Over the interim, both the Higher Education Funding Formula Committee and Higher Education Committee studied this new funding mechanism. The committees made a few revisions to the original language and ultimately recommended a statutory fund be created, rather than keeping it only in session law. Senate Bill 2033, as drafted by the interim committees, codifies the capital building fund for NDUS institutions of higher education to use for capital and extraordinary repair projects.

**Section 1** of the bill creates the University System Capital Building Fund (CBF) and delineates eligible uses and matching requirements. The CBF would consist of three funding tiers, each with different match requirements. Tier I – which is funded in the NDUS’ biennial appropriation bill at \$11.7 million – can be used for extraordinary repair & deferred maintenance projects. Institutions must match each state dollar with two dollars from operations or other sources.

Tier II & III dollars would be used for projects specifically authorized by the legislature. Additionally, these funds could be used for extraordinary repair and deferred maintenance projects that do not increase building square footage, but only after the institution has matched & committed 75% of its Tier I amount. Tier II funds require a 1:1 match, while Tier III requires a 2:1 match. Matching dollars can come from operations or other sources but cannot be from the remaining tiers or state funding provided for specific capital projects.

To promote long-term capital planning and provide adequate time to raise matching dollars, institutions would have 3.5 biennia, or about 5.5 years, to utilize their CBF allocation. Any uncommitted dollars as of January 1<sup>st</sup> of the 3<sup>rd</sup> biennium after the original appropriation would be pooled and reallocated to other NDUS institutions. Any institution that has fully matched and committed its own CBF allocation could apply for money from the pool, subject to State Board of Higher Education (SBHE) approval. A 2:1 match requirement would apply to pooled dollars.

Legislative appropriations would be transferred into the CBF and appropriated on a continuing basis. The SBHE, working through the Chancellor’s Office, would manage the fund, verify match requirements have been met and approve institutional disbursements. Any interest or fund earnings would remain in the fund and become part of the distribution pool. The bill authorizes the SBHE to invest the fund

balance through the State Investment Board if necessary. Biennial reports of fund status, matching fund sources and long-term capital planning are required.

**Section 2** of the bill transfers remaining funds from the 2019-21 appropriation into the CBF at the end of the biennium. **Section 3** provides a \$19 million appropriation for the 2021-23 biennium, of which \$2 million is from the State General Fund and \$17 million is Bank of North Dakota profits. This is the same level provided in the current biennium. Funds are split between Tier II (\$10 million) and Tier III (\$9 million.) NDSU & UND each receive \$2.25 million. The other nine institutions receive \$500,000 allocations.

**Section 4** allows institutions to use CBF dollars for three capital projects: UND Gamble Hall, NDSU Dunbar Hall and NDSU Agriculture Products Development Center. These projects were approved in 2019 House Bill 1003 and are in various stages of development. However, ability to use CBF dollars was inadvertently forgotten and would be corrected by this section. The emergency clause in **Section 5** enables the new law to be used in the current biennium.

The NDUS supports the passage of SB2033 and requests consideration of two amendments:

1. Often it is cost-effective for institutions to use performance contracts, public-private partnerships and other allowable financing methods to accomplish significant extraordinary repair projects. **The NDUS requests that debt service on these agreements count towards the match requirements for tier funds.**
2. Match requirements serve to multiply the impact of state investments; however, it is becoming increasingly difficult for institutions to obtain match dollars, particularly in the current economy. In fact, as of September 2020 institutions had utilized less than 25% of available funding due to the inability to meet match requirements. **The NDUS requests that the match requirement be reduced to 1:1 for all tiers or eliminated entirely.**

Thank you for your time & consideration of SB2033 and our proposed amendments. I will gladly answer any questions you may have.