

MINUTES
PEPB/BOR Subcommittee Meeting
Wednesday, March 24, 2004
University of Montana-Western campus
Swysgood Technology Center – Great Room
1:00 p.m.

Attending: Senator Barkus, Senator Ryan, Regent Mercer, Representative Dickenson, Regent Hur, Regent Semmens, Senator Shea, Pam Joehler, Commissioner Stearns, Mike Foster, David Gibson, Eddy McClure, Rod Sundsted, Geoff Gamble, Karl Ulrich, George Dennison, Richard Roehm, (Margo Heberling - fill in to record minutes)

SENATOR BARKUS called the meeting order. Attendees introduced themselves.

A motion was made by SENATOR SHEA to approve the minutes of the last meeting. REP. DICKENSON requested a correction listing her as Senator Dickenson in one of her comments. Minutes were unanimously approved as corrected.

A motion was made by REGENT SEMMENS to approve the agenda. Agenda was unanimously approved.

SENATOR BARKUS told the committee that they are appropriated for one additional meeting. Prior to this additional meeting they will need to prioritize the initiatives and think about resolutions for possible legislation.

DAVID GIBSON made a presentation titled “Shared Leadership for a Stronger Montana Economy”. (Document # 1) During this presentation he outlined where this committee is in the process of determining initiatives, what areas have been affirmed and the teams involved in the areas. The following were the six areas to be addressed.

- Improve Access to 2-year and 4-year Education
- Improve and Expand Worker Training
- Increase Technology Transfer and Research Commercialization
- Expand Entrepreneurship & Small Business Development
- Promote Collaboration Between the University System and Government
- Use University Resources to Generate Direct Economic Growth in Montana

He distributed the “Economic Leadership Project Team Master Data” (Doc. #2). This document lists the participants in each of the six teams for determining recommended initiatives. Mr. Gibson asked the committee to review this list to see if anyone was omitted. These teams will continue to meet to develop recommendations, prioritize them, and complete a one-page summary for each. Teams will make no more than 4 recommendations each. The leadership group, legislature and the Governor may provide advice. At the May BOR meeting these groups will present the Regents with the 20-24 recommended initiatives. Issues to be addressed now are recommendations for any additional participants that have been omitted, what level of analysis for the May BOR meeting, how best to communicate with PEPB Subcommittee and BOR leading up to the

May meeting, what is the best process for prioritizing, and who needs to be present and/or presenting at the May BOR meeting.

REGENT MERCER suggested that Mark Semmens has been working on initiatives for BOR format. Perhaps he could meet with David Gibson and a volunteer from the legislative group on format design to give to individual groups. This same group could meet in May before the BOR and invite others. This committee should not try to prescreen the initiatives but let the groups decide what 20-24 to send forward. Then this committee can screen from those.

SENATOR SHEA stated that she had looked over the list of members for the Economic Leadership Budget Project team is a diverse group, but noted there were no members from Butte.

DAVID GIBSON stated there may be omissions and that he would find someone from Butte.

SENATOR SHEA suggested Gilmore(?)

REGENT SEMMENS stated that the University Budget Development process was going through the process of developing initiatives as well. Because there are so many coming forward he would like to have that process dovetail into the PEPB process. He wanted the group to know that they are not being redundant, and that they are not pursuing parallel paths. REGENT SEMMENS feels that the 6 general areas are right and good areas and that subset of those areas is just that. He does not wish to get into something so overwhelming.

DAVID GIBSON wanted to clarify these statements. It was his group's intention to have 6 areas to make it more manageable, in smaller bites. They would then come up with the initiatives in each area. The boundaries of the areas would then blur, and they may dissolve areas. But he understands this is not what Regent Semmens wants.

REGENT SEMMENS said he would like to see the approximately 20-24 initiatives, but would be disappointed if one of the areas went away.

DAVID GIBSON said he would have to think about how to do this and may do some recategorizing.

SENATOR BARKUS stated that he thinks the process is moving smoothly.

COMMISSIONER STEARNS said in their meetings which included Ron Sundsted, they were working on budget initiatives for the May meetings. They would like to see a convergence of efforts. The initiative team may use the single page but should keep in mind that they may have to refine this with cost benefit/return on investment information. Remember that this is shared leadership. She does not wish to give the impression that the university system is only doing this to prepare budget initiatives for the legislature.

She would make the point that this should dovetail with the collaboration. This collaboration is good, and the shared leadership is long term beyond this biennium. We should not make these two processes exactly the same, but as much as possible should use the same framework and format.

DAVID GIBSON summarized what he thought should happen next.

- Teams would flesh out the 6 areas
- They would determine the 4 initiatives
- The first week of May the steering committee would ask for comments of priorities
- The second week of May they would do mailings to the BOR
- Two weeks later the BOR meet and would vote on the initiatives

There was no other formal review process that is built in. He is not comfortable that this is what the board would need

REGENT MERCER stated that there are representatives from the Governor, the legislature and the regents here now. He would propose a three-member subcommittee of David Gibson from the Executive branch, and Mark Semmens from the Board of Regents, and someone from the legislative branch. They would review the one page sheet and the same analysis sheet from inside the university system and see if they can merge them. Also if the calendar allows, this small group and people from the public could go through the 24 initiatives and prioritize them, not the BOR. Will that fit in the timetable?

Pam Joehler stated that the subcommittee must report in June or late August and the full committee by September 15th. She also stated that travel expenses are available to travel a couple more times.

REGENT MERCER stated that the same group should meet prior to the BOR, on Wednesday, May 19th to make decisions at that time, to make the best report after prioritizing.

COMMISSIONER STEARNS thought that the three-member subcommittee was a good idea. PEPB could meet in Great Falls on Wednesday, May 19th on the way to Havre to BOR.

REGENT SEMMENS thought the group was doing a great job. This group should prioritize, but keep in mind what is worthwhile in pursuing. Also keep in mind the financial commitment of the initiatives. The commitment could be any where from \$1 million to \$12 million. As they are reviewing them would it be effective with a smaller amount of financial backing? Some may not be feasible without the financial commitment.

SENATOR BARKUS wanted to clear up the 3-person committee. Can the committee agree on that? Is anyone having any thoughts?

DAVID GIBSON said that after discussion the small committee should come to the BOR/PEPB with final recommendations. That small committee might be expanded to 4-5 people from 3.

REGENT SEMMENS said he thought the smaller group of 3 was to review the structure and format of the initiatives, not to prioritize.

REGENT MERCER thought that it would be OK for the small group to prioritize.

SENATOR RYAN said that Senator Barkus would be a good choice for the legislative representative in the small group. He will have to carry the ball back to the legislature. That committee should set up the format. Prior to the May meeting they will need to communicate between the university system, the legislature and the regents. What are the effects of the initiatives? We don't want to put a priority on something without the funding. Need to know the economics of each recommendation; is it affordable? What are the cost benefits?

DAVID GIBSON said that communication is the key. How and when does the group prioritizing the initiatives do that? There are approximately 6 weeks; what level of communication do you want? We don't want to hit a roadblock because there was not enough communication.

SENATOR RYAN suggested that they should receive the 24 initiatives prior to the meeting. He would review and then call to see how it would work. For example, if it was directed at a university he would call and ask them how it affected them.

REGENT MERCER said he felt it was the obligation of the committee members between groups to prioritize the initiatives.

SENATOR BARKUS would like the format of the document done immediately. He called for comment on format. There were no comments.

REGENT SEMMENS stated that in terms of format the subcommittee should get together after this meeting to coordinate. He also had a couple of thoughts he would like to share.

- Committee members need to be aware of the amount of state resources that is committed. Say is it is worker training how much will come from industry, how much from the students. Identify how state funds leverage other funds.
- Identify benefits, and give specific examples of dollars in return that people can relate to, whether in the form of higher wages or number of additional workers.

It is important for lawmakers and others to understand this isn't academic fluff. They need specific examples of the return on investment and how it will be generated.

DAVID GIBSON would like to make sure the one and two page documents are consistent. He suggested they should be melded together to form an approximately 1.5

page document. The form modification should include how to measure progress, with hard limits or verbiage. Should be able to do that without controversy.

REPRESENTATIVE DICKENSON understands that the 3-person subcommittee of our subcommittee look at 24 - 1.5 pages and makes it concise with as much information in it as we can get. And then the 3-person group makes sure each follows the format and has the information that's needed. And then do they come back with recommendations on prioritizing of the initiatives? Would that be more efficient?

SENATOR BARKUS stated that the three-person group would look at the format and the larger group would have the priorities available prior to the next meeting.

SENATOR RYAN asked if we are talking about how we are to advance agriculture and the benefits to the community?

REGENT SEMMENS said he suspects the technology tech transfers directly correlates to Montana agriculture. It will encompass agriculture. That's important.

SENATOR RYAN stated that the first question on this was what critical players do we have to bring in? The May discussions should consider bringing in the representatives from the Lt. Governor candidates. We won't have a new governor in place by the time this moves forward. They need to see how the process works so that they will be on board.

SENATOR BARKUS replied that without objection they should be invited.

REGENT MERCER likes the idea of separate groups to come up with 3-4 priorities. This 3-person group can have discussions about themselves about priorities before the meetings. Then they can come with all recommendations.

COMMISSIONER STEARNS said they could do that to a degree. Initiative teams will meet and when an initiative is decided on they can shoot preliminary drafts out electronically to all BOR and PEPB members for review. Before the formal presentations they could have their input on these initiatives.

DAVID GIBSON would like to invite all in the committee to talk to the Project team for discussion.

SENATOR BARKUS stated that if it were without objection the David Gibson, Mark Semmens and himself would be the three-person team. When will this team get together?

DAVID GIBSON stated that they were running up to the wire on this. Should meet the second week of May, between getting the stuff compiled and getting it out to the Regents.

COMMISSIONER STEARNS asked if they were going to wait that long to meet. Why don't they meet in about 10 minutes?

DAVID GIBSON said the discussion would be when they get things back from the area groups. They will check to make sure the forms are filled out consistently.

REGENT SEMMENS would like the 2 formats emailed to he and Sheila. Is the 3-person team going to review the 24 proposals for format?

DAVID GIBSON asked if they were to do format verification?

SENATOR RYAN said if it comes in and doesn't fit the format does the committee then send it back to have them redo it? David Gibson, Pam Joehler and Sheila will do that.

SENATOR BARKUS stated that he appreciated the openness demonstrated by the Board of Regents and the University, by University president George Dennison and by COMMISSIONER STEARNS to discuss this sensitive issue.

(Document #3) In response to the publicity surrounding the deficit and accounting errors at the U of M Commissioner Stearns met with Regent Mercer and they discussed a shared leadership approach. They spoke with stakeholders who they feel would want to be included in the decision of what the next steps would be. They must be perceived as thorough, independent and credible. They would work on an independent, special or inquiry panel. They spoke to Rod Sunstead of the Audit Committee. He indicated the Legislative committee wanted to add the athletic deficit issue to the agenda at the next committee meeting. They spoke with the Budget office to determine a member for the panel. They also identified possible members from the legislative fiscal division, the legislative audit division, Fred Van Valkenberg regarding a criminal investigation, the faculty of UM, and the Grizzly Scholarship Association. They want to make sure everyone is included so that there is no need to convene more panels. Page 2 of the handout contains a list of members of the special panel with their strengths in regard to the contributions to the panel. It was noted that this list did not contain anyone from the Legislative Auditor's Office. Commissioner Stearns and Regent Mercer spoke with the head of the legislative audit division. He felt it was inappropriate for his office to have a member on the committee, but recommended Terry Iverson from MSUB. She has declined the position. The panel was launched yesterday on the UM campus. Commissioner Stearns feels very privileged to have Diane Barz on the panel. Commissioner Stearns has asked the panel to prepare a report for the Board of Regents meeting in May. President Dennison welcomed them and told them that everyone on the UM staff has been instructed to give them any information they needed.

President Dennison distributed the Questions and Answers document (Document #4) regarding the deficit to the committee. The review panel will answer these questions and his staff will help the system in any possible way.

REGENT MERCER stated that he appreciates the hard work of the Commissioner in this matter. He wanted this committee to know the Regents have been very sensitive to negative balances and is trying to bring this under control. They were caught by surprise by this information. The adversarial barriers have been broken down between the legislative system and the Board of Regents. He appreciates that this hasn't affected the partnership of this group. He is pleased that the legislative branch and the executive branch agreed to participate in the review of the problem in athletics. He doesn't want this to be a university problem or a Board of Regents problem but feels this is a Montana problem and all are involved. Everyone needs to work together to solve these problems. There is time saved and expertise gathered in the review. Each area would have looked at it, and it may not have been a productive use. What is productive is the way we are working together. He thanked the committee for the opportunity to present this today. They welcome any questions the committee might have today.

SENATOR RYAN asked if the Board of Regents anticipates that this is not a system wide problem? After the review the public will know that the funds are being handled appropriately. Is that the goal?

REGENT MERCER said he would wait for the report and see what the panel recommends. There will be a public analysis and public recommendations. This will apply to the entire MUS system. If they do not already have a system in place they want them to implement it. He is sure that when the story broke all senior people asked their staff what their status was. He stated that this is a chronic problem throughout higher education in respect to the ability for athletics to be self-funding. They want no deficits; they want sound financial planning so that these are covered. This may result in getting have funds from other sources, or they may have to cut back. They were told the deficit was gone, when in fact it was not. These are the usual deficits where expected revenue just doesn't come in in order to match the spending that was planned. There is the whole aspect of accounting errors; "we hope to sell 100 seats, but we only sell 20. Not only did we not sell 100 seats but also there are accounting adjustments that make it look like we've got more money. Other campuses should bring forward any similar problems now.

SENATOR RYAN said they talk about budget projections. Here's the shape we are in. It's done with the governor's budget and the legislative budget. They get numbers that don't match. It happens all the time when dealing with projections. They want to be careful to make sure they don't damage the shared leadership, to not sink with the details. He has confidence the University of Montana will get to the bottom of this. The committee has done an excellent job of this. They don't want the University system to die on the cross because of this.

SENATOR SHEA asked for clarification of the last page of Document #4. The deficit elimination plan is \$1 million and the deficit prevention plan is \$1 million?

President Dennison explained that the over expenditure was \$570 thousand, and the 2 accounting errors brings it to \$1 million. The overall deficit is \$500 thousand. The campus will not raise tuition to relieve deficit, but they have suggested an increase in

athletic fees to assure that this doesn't happen in the future. What is proposed in the deficit elimination plan is that they will deal with the deficit without increasing tuition.

SENATOR SHEA asked who would pay the athletic fee and is it automatic.

President Dennison explained that it is a mandatory fee that all full time students pay. It is currently \$30 per semester, but there is a proposal on the table to increase that to \$60. It is still under discussion. They will be withdrawing that proposal and continue the discussion with students.

SENATOR SHEA asked if the student were not promoting this idea.

President Dennison stated that the students are discussing what can be done, with different types of increases. What the students have proposed is that they may begin charging students to go to the games.

SENATOR SHEA stated that the student have no recourse in paying an increase in the athletic fee. It is a hike in tuition.

President Dennison said it is an increase in the cost of attendance, not a tuition increase. These funds are dedicated.

REGENT MERCER stated the student feel it is coming out of their pockets. It is either negligence or malfeasance, but they feel they should not have to pay for the wrongs of others.

Representative Dickenson said we are publicly fighting a battle that we are using money wisely. When this happened she hoped this would not have an impact on perception. President Dennison is to be commended for his openness and getting to this right away. She supports the university and higher education system and the athletic aspect of it. Though there were probably improprieties it is clear and commendable that what higher Ed is doing through these programs is benefiting the communities and the state.

SENATOR BARKUS asked if in the process the Commissioner does the Board of Regents have an audit division.

COMMISSIONER STEARNS stated that they have a Director of Accounting and Budget, but not an audit office. Lori Neals checks the reports that come in. Each campus has an internal audit process.

Laurie Neils stated that the campuses submit annual athletic reports. She checks them for reasonableness but does not have access to individual transactions. She relies on her colleagues to submit accurate information.

SENATOR BARKUS wanted to know if other departments are scrutinized.

Laurie Neils states that reports that came in are based on issues arise over the years. Athletics is a problem area, with overspending and deficits. There is a special report that we prepare for the Regents. Chair Mercer has strengthened the emphasis on negative fund balances. They follow the campus reports to make sure they have a plan to reverse the deficits.

SENATOR BARKUS asked if there was to be a change in the Commissioner's office for addressing audits.

COMMISSIONER STEARNS stated that there is no plan for an audit division. There may be more they could do. Her office may ask for 6 month or quarterly reports. They will look at what is cost effective. They will look carefully at the recommendation. They will look at it from a process perspective, not overkill or expense if processes are in place.

SENATOR BARKUS stated that he appreciated President Dennison answering questions.

REGENT SEMMENS made a preliminary PowerPoint presentation (Document #5) titled "The Montana University System, An Investment in Montana's Future" He started the presentation by stating that now is the time to invest in out colleges and universities for the benefit of its citizens and its future. Investors want to know what makes sense. They need a common presentation to have dialog with townspeople and business representatives. This is a preliminary draft of that presentation. REGENT SEMMENS stated that putting together this presentation was a group effort that included Cathy Conover, Lori Neals and Rod Sunstead. Any comments and suggestions regarding this presentation should be sent to the group or the Regent Semmens.

SENATOR BARKUS asked for public comments. He then introduced Bob Marks, Scott Mendenhall and Bill Tash.

Representative Scott Mendenhall – HD 39 addressed the committee. His role is that of MSU Extension Agent of Jefferson County who time is funded 100% for Economic Development. He would commend the shared leadership initiative. He stated that he is in a unique position of being a tenured faculty member at MSU, works with Economic Development, and with Bob Martz. Local economic development happens locally. The challenge is how do you do that. Their system offers the opportunity through Extension to be the feet and legs to carry this out. Every land grant university has an extension service. The basic concept was to take research out to people. They are a source of unbiased research-based information. There is lots of opportunity to look to take shared leadership elsewhere. The USDA, Montana University system, and local counties contribute to funding. They are charged with bringing economic development corporation to serve county, META, RCND Department of Commerce. They are uniquely postured to tap into the issue of economic development. They work collaboratively with the boards of local economic development corporation and committees. Almost every extension office has an extension for economic development. Extension offers a great opportunity to work with economic development.

Former Representative Bob Marks addressed the committee with support of Mr. Mendenhall's statements. He appreciates the committee's initiative to mend fences with the legislature and to address economic development. He served on the Board of Directors for the Jefferson County Economic Development. You can get people together for committees, but you need staff time to do it. They have staff people and network in every county that can coordinate with local development corporations. Economic development committees usually don't have staff available in a volunteer organization to move things forward. The Extension agent can help with that as a low cost way of getting started.

SENATOR BARKUS called for Subcommittee business.

Eddy McClure shared a possible resolution for review (Document #6). She asked if it should go to the Education Development Committee. She is not sure if it is with other legislation to be presented in June or August. This is basically the layout for what they have been doing.

SENATOR BARKUS asked for comments or suggestions.

Pam Joehler handed out copies of articles that were requested by the subcommittee.

The next meeting is set for May 19 in Great Falls.

Chancellor Ulrich extended an invitation to all for a reception at La Cense Montana. A bus will be leaving at 4:15 pm, or there will also be private cars.

Meeting was adjourned at 4:00 p.m.

Approved by the Postsecondary Education Policy and Budget Subcommittee on

(Date)

Senator Greg Barkus, Chairman