

## HIGHER EDUCATION COMMITTEE

The Higher Education Committee was assigned responsibilities in two areas.

Section 19 of 1999 House Bill No. 1003 directed a study of higher education funding including input from the Governor, State Board of Higher Education, executive branch, University System campuses, and representatives of business and industry. In addition, pursuant to North Dakota Century Code (NDCC) Section 15-10-14.2, the committee was assigned the responsibility to receive reports from the State Board of Higher Education with respect to the status of the University System, including the progress in meeting goals and objectives.

Section 22 of 1999 Senate Bill No. 2013 directed a study of the role, mission, operation, and privatization of the Division of Independent Study, including educational services provided by the division to out-of-state students.

Committee members were Senators David E. Nething (Chairman), Tim Flakoll, Tony Grindberg, Ray Holmberg, Ed Kringstad, Elroy N. Lindaas, Ken Solberg, Steve Tomac, and Rich Wardner and Representatives Ole Aarsvold, Al Carlson, Jack Dalrymple, Eliot Glassheim, Nancy Johnson, Myron Koppang, Ed Lloyd, Andrew G. Maragos, Bob Stefonowicz, Gerald O. Sveen, and Janet Wentz. Senator Rod St. Aubyn was also a member of the committee until he resigned from the Legislative Assembly on August 30, 2000.

The committee submitted this report to the Legislative Council at the biennial meeting of the Council in November 2000. The Council accepted the report for submission to the 57th Legislative Assembly.

## HIGHER EDUCATION FUNDING STUDY

Section 19 of 1999 House Bill No. 1003 directed a study of higher education funding. The study was to solicit input from the Governor, State Board of Higher Education, executive branch, University System campuses, and representatives of business and industry and address:

- The expectations of the University System in meeting the state's needs in the 21st century;
- The funding methodology needed to meet these expectations and needs; and
- The appropriate accountability and reporting system for the University System.

In addition, pursuant to NDCC Section 15-10-14.2, the committee was assigned the responsibility to receive reports from the State Board of Higher Education with respect to the status of the University System, including progress in meeting goals and objectives.

### Background

The North Dakota University System consists of 11 institutions under the control of the State Board of Higher Education. The system served approximately 36,400 students (headcount enrollment) during the 1998-99 academic year which represents approximately 28,200 full-time equivalent (FTE) students. Total spending provided by the 1999 Legislative Assembly for higher education institutions, including the University System office, totaled \$1,042,330,303, of which \$328,813,637 was from the state general fund. The legislative appropriations for the 11 institutions, the University System office, and the Forest Service include 3,263.18 FTE positions for the 1999-2001 biennium.

### Higher Education Roundtable

A Higher Education Roundtable consisting of the 21 members of the Higher Education Committee and 40 representatives from the State Board of Higher Education, business and industry, higher education institutions including tribal colleges and private colleges, and the executive branch was formed to address the expectations and needs of the University System in meeting the state's needs in the 21st century. The University System contracted with Mr. Dennis Jones, President, National Center for Higher Education Management Systems, Boulder, Colorado, and Dr. Charles Schwahn, Schwahn Leadership Associates, Custer, South Dakota, for consulting services and to facilitate roundtable discussion and recommendations.

The University System received financial support for the Higher Education Roundtable from the Western Interstate Commission for Higher Education and the Western Policy Exchange, supported by funding from the Kellogg and Ford Foundations.

The Higher Education Roundtable with assistance from the facilitators conducted meetings in Jamestown, Carrington, and Rugby and completed the following:

1. Discussed shifts, trends, and future conditions that impact the state of North Dakota and the University System.

2. Discussed realities relating to the state of North Dakota and the University System.
3. Developed a vision and expectations for the University System.
4. Developed recommendations concerning higher education in North Dakota.
5. Developed accountability measures and success indicators that correspond with the expectations for the University System.

### **Shifts, Trends, and Future Conditions**

The Higher Education Roundtable received information from the facilitators regarding the following shifts, trends, and future conditions that are redefining life, opportunities, challenges, organizations, and careers and impacting the state of North Dakota and the University System:

- Change is our only constant.
- Quality is an entrance requirement.
- Lifelong learning is required of everyone.
- Customers demand value.
- Quality and success are transitory.
- Competence must be considered as capital, knowledge as power.
- The anywhere, anytime workplace is here.

### **North Dakota Realities**

The Higher Education Roundtable received information from the facilitators regarding the following realities facing the state of North Dakota and the University System:

- North Dakota's population is static in size, getting older, and becoming more concentrated in Fargo, Grand Forks, Bismarck, and Minot.
- North Dakota has higher college participation rates than all the surrounding states except Minnesota and Iowa.
- The number of North Dakota high school graduates is projected to decline by more than 1,000 over the next 12 years.
- The proportion of the state's tax revenue allocated to higher education is well above the national average while the overall level of total support provided on a per student basis, which includes tuition and state appropriations, is well below the national average.
- The share of the cost being borne by students has increased considerably in recent years, although tuition relative to family income is not above the national average.

### **North Dakota University System Expectations**

The Higher Education Roundtable, based on its discussions of the shifts, trends, future conditions, and realities facing the state of North Dakota, by consensus, identified that the University System should:

1. Serve an expanded client base, including nontraditional students, lifelong learners, communities, businesses and industries, and should provide rewards and incentives for doing so.
2. Be accessible to clients, considering alternative methods of delivery.
3. Be affordable based upon the client's ability to pay.
4. Be customer-centered and have procedures to "connect" to its customers.
5. Be a high-quality system that emphasizes learner outcomes, high-quality faculty and staff, and current technology.
6. Function as a system where the resources of the system are used to respond to customer needs and the funding mechanism encourages this behavior.
7. Strive to eliminate borders, including the recruitment of out-of-state students, distance education development, and global thinking.
8. Be flexible, responsive, entrepreneurial, and accountable.

### **North Dakota University System Goal**

The Higher Education Roundtable by consensus identified the goal of the University System to be "to enhance the economic vitality of North Dakota and the quality of life of its citizens through a high-quality, more responsive, equitable, flexible, accessible, entrepreneurial, and accountable University System."

### **Task Force Process**

To assist the University System in meeting the established goal, six task forces composed of Higher Education Roundtable members were formed to study the following key areas or "cornerstones" that emerged from Higher Education Roundtable

discussions:

- Economic Development Connection - Direct connections and contributions of the University System to the economic growth and social vitality of North Dakota.
- Education Excellence - High-quality education and skills development opportunities that prepare students to be personally and professionally successful, readily able to advance and change careers, be lifelong learners, good citizens, leaders, and knowledgeable contributing members of an increasingly global and multicultural society.
- Flexible and Responsive System - A University System environment responsive to the prioritized needs of its clients and that serves as a model of a flexible, empowering, competitive, entrepreneurial, and rewarding organization for a new economy in a rural state.
- Accessible System - A University System that is proactively accessible to all areas of North Dakota and seeks students and customers from outside the state. It provides students, business, industry, communities, and citizens with access to educational programs, work force training opportunities, and technology access and transfer.
- Funding and Rewards - A system of funding, resource allocation, and rewards which assures quality and is linked to the expressed high-priority needs and expectations of the University System.
- Sustaining the Vision - A structure and process that assures the University System for the 21st century remains connected, understood, relevant, and accountable to the present and future research, education, and public services needs of the state and its citizens.

The task forces, chaired by legislative committee members, met in early 2000 and with the assistance of the facilitators developed, by consensus, the following recommendations:

### **Economic Development Connection**

1. High-potential primary sector business alliances and partnerships should be actively pursued.
2. Planning and working relationships with local and state development organizations should be strengthened.
3. Program offerings and delivery capabilities should be developed to close the gap between the demand for individuals with technical educational knowledge and skills and the number of such graduates available within the state and nation.
4. Educational programs on the topic of entrepreneurship should be offered at every institution within the University System.
5. Institutions should utilize partnering entities to ensure that state-of-the-art technology is being used.
6. Partnerships with the tribal college should be established to deliver training to the reservations.
7. Opportunities should be developed which take advantage of the underemployed and unemployed work force on the reservations.
8. The development and operation of the statewide technology infrastructure should be viewed as a public utility.
9. Support for the work force training delivery system that was enacted by the 1999 Legislative Assembly should be continued.
10. Entrepreneurial behavior should be encouraged at each level of the University System.
11. The budget process, appropriation process, and audit function should be modified to be consistent with the direction of the roundtable.
12. Accountability measures must be agreed upon.
13. Technology must be viewed as a key component of the new economy and added to the "four-part economy" proposed in the Vision 2000 report.
14. High-potential research and development opportunities should be identified.
15. Campuses should be encouraged to maximize the potential of the "global" marketplace to the institution, the students, and North Dakota.

### **Education Excellence**

Students and learning:

1. Institutions must be assertive in attracting, recruiting, registering, and retaining quality students.
2. There should be a clear tie between learner outcomes, workplace needs, and the values and attitudes required for living a full and rewarding life.
3. Students should experience the workplace as part of their quality education.
4. Colleges and universities should clearly identify course and program learner outcomes; instructors should teach those outcomes; and students should be required to demonstrate the outcomes.
5. Students should exit programs with the skills and attitudes to be lifelong learners.
6. Colleges and universities should partner with kindergarten through grade 12 in the development and implementation of education standards.

Faculty and teaching:

1. The University System should make teaching in the University System attractive so campuses can employ and retain a faculty of highest quality.
2. Faculty should regularly involve employers in determining learner outcomes.
3. Skills, attitudes, and strategies of the entrepreneur should be infused into courses and programs.
4. There should be indicators of quality and excellence for all learning experiences.
5. Faculty members and institutions should move from an accountability system focused on process and input to one focused on ends or outcomes.
6. Faculty members should continue to update their knowledge, skills, and teaching strategies.
7. Institutions and their faculties should be provided with state-of-the-art equipment and technology.
8. Colleges and universities should create a culture of continuous improvement.
9. Continuous improvement strategies should not be limited to instructional programs but include all aspects of university operations.
10. Courses and degree programs should focus on the economic and social needs of North Dakota as well as individual needs.
11. Colleges and universities should utilize information technology to provide easy access for rural populations, nontraditional students, out-of-state learners, and lifelong learners.
12. The University System and its campuses should maximize technology opportunities to improve instruction.

Research function:

1. The University System and its faculties should accept the charge to be a critical force in the economic well-being of North Dakota.
2. Research should be allowed to create business opportunities for researchers and entrepreneurs.
3. Research grants should be focused on the economic, social, and educational needs of North Dakota.
4. Faculty should be strongly encouraged, supported, and rewarded in their pursuit of research grants.
5. Students should gain practical research skills.
6. College and university faculty should serve as lifelong learning role models.

Service obligation:

1. Faculty and institutions should apply their knowledge and expertise to meet the real-world economic and social needs of North Dakota and its people.
2. Institutions should continue to provide high-quality cultural activities to the community.
3. The University System should be attractive and available to nontraditional students, and learner outcomes should be based on practical employment needs of the student.
4. The University System and campuses should take responsibility to keep academic programs current and to discontinue programs that are no longer meeting a need.
5. The citizens of North Dakota should be able to view tangible forms of faculty and institution services provided to communities and to the state.
6. Institutions should serve the state by expanding their work force training services to business and industry.

### **Flexible and Responsive System**

Concerning the culture, policies, and practices of the University System:

1. The State Board of Higher Education, the executive branch, the legislative branch, the business community, and campuses should make conscious efforts to build trusting relationships.
2. The University System and individual campuses should create policies, practices, and a culture that encourages and rewards entrepreneurial thinking.
3. Campus leaders should be given more control over and responsibility for their budgets.
4. Campuses should move from a seat time-based credentialing system to a results-based system of credentialing.
5. The University System should provide training necessary to improve the staff's ability to deliver up-to-date learning.
6. The formula for budget allocation should be changed to a system that encourages and rewards the meeting of the needs of nontraditional students, businesses, and industries.
7. The University System should not lose its focus on the traditional college student.
8. The University System should ensure that any movement toward flexibility and responsiveness be met with an equally strong commitment to quality.

Concerning customer/client/learner focus:

1. The University System through the use of technology should allow individuals to "learn anything, from anywhere, in any way, at any time."
2. The University System should create a "seamless" organization from the perspective of the student.

3. On-campus programs should be customer/learner focused, flexible, and responsive.

Concerning the University System's relationship to the business community:

1. Colleges and universities should identify their customers, customer needs, and delivery systems available to meet the needs.
2. Faculty and staff of the University System should continually update their knowledge, skills, and strategies to meet the needs of their customers/clients.

### **Accessible System**

1. The State Board of Higher Education should designate or establish learner centers throughout the state to provide educational access to underserved areas.
2. Campuses must develop alternative delivery opportunities that are responsive to the needs of all students.
3. The University System must develop and offer programs that are responsive to the needs of the state and are consistent with market trends of the future.
4. Tribal and private colleges should be partners with the University System in meeting educational access needs of the state.
5. Communities and the private sector should partner with the University System to meet local training and educational needs.
6. State government should be responsible for ensuring that affordable broadband high-speed Internet access is available to all citizens throughout North Dakota.
7. The University System should partner with kindergarten through grade 12 to ensure that students leave school systems with the knowledge and skills necessary to function effectively as college students.
8. The funding practices should be modified to encourage multicampus collaboration, to recognize the constituents served, to encourage new delivery methods, and to balance funding so student costs remain affordable to North Dakota citizens.
9. The State Board of Higher Education should review and modify tuition rates to remain competitive in the global marketplace and expand the client base.
10. The University System should modify its administrative information systems and fiscal practices to support the expanding client base and alternative education delivery methods.
11. The State Board of Higher Education and the campuses should modify their procedures to support the values of the roundtable.
12. The State Board of Higher Education should recommend a fiscal accountability report that is consistent with the new funding model and the values of the roundtable.
13. The University System should take a leadership role in creating an easily accessible directory of education, research, and other higher education services.

### **Funding and Rewards**

1. The State Board of Higher Education and the chancellor should develop and recommend to the Legislative Assembly a financing plan to address the gap between current funding levels and resources needed to implement the recommendations of the roundtable, a resource allocation model, and mechanisms to demonstrate both performance and fiscal accountability. The funding plan should reflect a shared funding responsibility among all payers and make allowance for the need for institutions to fund plant asset depreciation.
2. The resource allocation model should be comprised of a base-funding component, an incentive/performance component, and an asset-funding component.
3. The Legislative Assembly should work with the University System to reach agreement on the proposed funding mechanism.
4. The Office of Management and Budget and the Legislative Assembly should revise the budget request process.
5. The executive and legislative branches should modify the budget and appropriation process.
6. The State Board of Higher Education should establish revenue structures and rates so that affordability of access to the University System is maintained, the campuses' abilities to serve students are enhanced, and the utilization of the state's investment is maximized.
7. The Legislative Assembly should provide lump sum base and strategic appropriations to the State Board of Higher Education and the institutions.
8. The executive and legislative branches should remove all income that is in addition to the state general fund appropriation from the specific appropriation process and modify processes to provide campuses budgetary flexibility.
9. The State Board of Higher Education should adopt the recommendations outlined in the "Sustaining the Vision" cornerstone.
10. The State Board of Higher Education should develop a consistent set of limited financial reporting measurements that will be used to measure the financial accountability of the campuses.
11. The Legislative Assembly and the State Auditor's office should revise the audit process.
12. The State Board of Higher Education should develop procedures that grant flexibility in the use of resources as long as an

institution meets or exceeds expectations established by the board.

13. The State Board of Higher Education and campuses should revise board and institution policies and procedures to reflect the vision of the roundtable.
14. Campuses should allocate funds for maintenance of physical assets based on priorities established by individual campuses.

### **Sustaining the Vision**

1. There should be a mechanism established for sustaining the work of the roundtable through an annual roundtable meeting.
2. The University System should take the initiative in arranging roundtable meetings with state agencies and other organizations.
3. The University System should develop or modify communication feedback systems to obtain essential information for monitoring and measuring progress on accountability measures.
4. The State Board of Higher Education should review the University System's current strategic plan (six-year plan) and redefine as necessary to incorporate the recommendations of the roundtable.
5. The University System should provide an annual performance and accountability report.
6. The State Board of Higher Education should provide a status report on higher education in the state to the Legislative Assembly.
7. The State Board of Higher Education and the chancellor's office should develop and implement a plan for communicating the results and recommendations of the roundtable.

The Higher Education Roundtable accepted the task force reports at its April 2000 meeting in Rugby and forwarded the recommendations to the Higher Education Committee for its consideration.

### **Higher Education Roundtable Recommendations Requiring Legislative Action**

The committee reviewed the recommendations in the Higher Education Roundtable report which may require legislative action. The recommendations were in six areas--funding issues, information technology infrastructure, reporting and audit issues, research, sustaining the vision, and work force training. Following are summaries of the recommendations:

#### **Funding Issues**

- Modify and simplify the budget request and appropriation process to provide campus budgetary flexibility.
- Modify funding practices to encourage and reward multicampus collaboration and the meeting of the needs for students, businesses, and industries.
- Assist in making teaching in the University System attractive so campuses can employ and retain high-quality faculty, including providing state-of-the-art equipment and technology.
- Remove strong oversight and move from a means accountability system to an ends accountability system.
- Provide lump sum base and strategic appropriations to the State Board of Higher Education and institutions.
- Remove all income that is in addition to the state general fund from the appropriation process.
- Continue to approve the construction of new facilities and the major renovation of existing facilities.

#### **Information Technology Infrastructure**

- View the development and operation of the technology infrastructure as a public utility thereby ensuring affordable broadband, high-speed Internet access is available to all citizens in North Dakota.

#### **Reporting and Audit Issues**

- Reach agreement on financial and performance accountability measures.
- Revise the audit process.

#### **Research**

- Maximize research and development funding opportunities such as Experimental Program to Stimulate Competitive Research (EPSCoR) whereby funds are available to assist in research projects in North Dakota.

### **Sustaining the Vision**

- Make a conscious effort to build trusting relationships.
- Provide the legislative changes to allow for the conversion from a "long-range plan" to a "strategic plan."

- Assist the State Board of Higher Education in scheduling a joint session of the Legislative Assembly during each legislative session at which the board can provide a status report on higher education in North Dakota.

### **Work Force Training**

- Provide support for the work force training delivery system.

### **Constitutional Issues Related to Higher Education Roundtable Recommendations**

The committee received information regarding constitutional issues relating to its study of higher education funding and the history of changes in the appropriation of special funds. The committee learned Section 6 of Article VIII of the Constitution of North Dakota provides that the State Board of Higher Education has "full authority over the institutions under its control with the right, among its other powers, to prescribe, limit, or modify the courses offered at the several institutions." Section 6 of Article VIII further provides that the "said state board of higher education shall have the control of the expenditure of the funds belonging to, and allocated to such institutions and also those appropriated by the legislature, for the institutions of higher education in this state; provided, however, that funds appropriated by the legislature and specifically designated for any one or more of such institutions, shall not be used for any other institution."

There have been no judicial decisions concerning the proposal to provide a lump sum or block grant appropriation to the State Board of Higher Education rather than individual institution appropriations. However, legislation passed in 1965 which attempted to authorize the construction of buildings on college campuses and leave it to the discretion of the State Board of Higher Education to determine which facilities and at which locations the buildings were to be constructed was challenged and taken to the Supreme Court. The Supreme Court decision stated the State Board of Higher Education is not vested with legislative powers, and the Legislative Assembly may not delegate legislative powers to the State Board of Higher Education. Supreme Court decisions indicate the Legislative Assembly may delegate certain responsibilities to other governmental entities if there are reasonably clear guidelines that provide adequate standards and procedural safeguards. The Supreme Court has also held that the Legislative Assembly cannot refuse to fund a constitutionally mandated function. Therefore, delegating to the State Board of Higher Education the authority to determine which institutions are to receive appropriated funds cannot be used in a manner that results in not funding one of the constitutionally created institutions.

In regard to continuing appropriations and changes in the appropriation of special funds, the committee learned Section 12 of Article X of the Constitution requires all public moneys to be deposited with the State Treasurer and disbursed only pursuant to a legislative appropriation. As a general rule, continuing appropriations have not been favored. A recent court decision upheld a continuing appropriation and determined that continuing appropriations do not violate Article X, Section 12 or unconstitutionally bind future legislatures.

The Legislative Assembly does, however, have a history of legislative review and appropriation of special funds. Special fund appropriations have been added for various agencies and institutions to provide legislative control and oversight and to provide for a more all-inclusive statement of agency costs and of total state appropriations. Federal funds were first appropriated for the Department of Transportation and the University of North Dakota Medical Center for the 1967-69 biennium. Federal funds received by the Social Service Board and the Department of Public Instruction were first appropriated for the 1975-77 biennium. The funds from the state tuition fund were first appropriated for the 1979-81 biennium. The agricultural commodity groups were removed from the appropriation process in the 1993-95 biennium, and for the 1997-99 biennium, higher education local funds were appropriated for the first time. The 1999 Legislative Assembly provided an appropriation for three "funding pools" to the North Dakota University System which were to be allocated based on guidelines established by the Legislative Assembly as contained in 1999 House Bill No. 1003.

### **Financial Accountability Measurements**

To assist in the development of financial accountability measurements for the University System, a subcommittee of the committee, the Financial Accountability Measurements Subcommittee, was formed that included some committee members, the chairmen of the Legislative Audit and Fiscal Review Committee and the Information Technology Committee, and private sector, higher education, and executive branch representatives. The development of acceptable financial accountability measurements was determined to be the key to allowing the University System the flexibility recommended in the Higher Education Roundtable report.

The Financial Accountability Measurements Subcommittee reviewed information regarding higher education measurement practices in other states and learned many states tie higher education accountability measurements to higher education goals, and many accountability measurements are related to student successes, access, and program reviews. The subcommittee developed financial accountability measurements, or annual performance indicators, for the University System in the areas of financing and financial management, faculty and staff excellence, research and development, and financial and statutory compliance. The performance indicators were linked to the expectations or performance standards for the University System

included in the Higher Education Roundtable report. The committee accepted the recommended measurements that are discussed in the recommendation section of this report.

## **North Dakota University System Testimony Regarding the Higher Education Roundtable Report**

The committee received testimony from a representative of the University System identifying the following State Board of Higher Education policy changes, statutory changes, campus changes, and changes to the higher education funding methodology to implement the roundtable recommendations:

State Board of Higher Education policy changes:

- Review institution missions to add special emphasis on technical education and work force development, entrepreneurship programs, and partnerships with tribes and opportunities for American Indians.
- Revise salary policies to encourage salary increases and other incentives based on outcomes.
- Update purchasing policies to permit greater flexibility.
- Review patent and copyright policies to encourage high-potential research.
- Review policies to streamline the program approval, termination, evaluation, and student proficiency processes, eliminate unnecessary reporting, provide institutions with greater flexibility to meet changing demands, and shift the focus to a results-based or outcomes-based accountability system.
- Review tuition policies to enhance ways to attract students.

Statutory changes:

- Recognize the University System as a unified system of higher education.
- Amend statutes relating to the powers of the State Board of Higher Education and institution missions to support a responsive, flexible, entrepreneurial, and accountable University System.
- Amend statutes relating to budget requests to eliminate excessive detail relating to the University System.
- Provide for lump sum appropriations to the State Board of Higher Education or to University System institutions, or both. Amend statutes to provide that tuition and other institution revenue are not specifically appropriated but are subject to a continuing appropriation and may be spent as approved by the State Board of Higher Education and to permit institutions to carry over funds from one biennium to the next.
- Amend statutes relating to the higher education system review and the six-year plan to provide for annual roundtable meetings, strategic planning, and a review involving both public and private sector leaders.
- Amend statutes relating to "fiscal irregularities" and appropriation measures to remove additional reporting requirements and restrictions on performance-based compensation or other incentives.
- Amend statutes relating to patents and copyrights to encourage more high-potential research.
- Amend statutes relating to buildings and capital improvements financed with private funds to clarify when the State Board of Higher Education may authorize improvements or renovations without Budget Section approval.

The committee learned the college and university presidents who were members of the roundtable provided suggestions to the University System on steps to be taken at the campus level to implement the roundtable recommendations. The State Board of Higher Education endorsed the Higher Education Roundtable report and has set nine objectives for its implementation. One of the objectives is to combine the University System's strategic plan and the Higher Education Roundtable report. The University System included in its 2001-03 biennium needs-based budget request two special funding pools--a public agenda and collaborative initiatives pool and an institutional innovation pool. The public agenda and collaborative initiatives pool would be allocated to fund initiatives and reward collaboration that reflects the theme of the roundtable report. The institutional innovation pool would be allocated to campuses to provide seed money for the implementation of the roundtable recommendations.

The committee learned the current higher education funding formula model was developed by the University System in collaboration with the Office of Management and Budget and the Legislative Council in the 1960s and was refined through a legislative study during the 1983-84 interim. The funding model is in large part driven by the number of traditional students enrolled and does not account for nontraditional enrollments such as on-line students or for the high-fixed cost of operations at some of the campuses. During recent bienniums, funding has been on an incremental basis with the formula calculations made but not used in determining budget requests.

The committee learned a new funding model could be developed consisting of three components--base funding, initiative funding, and asset funding. The base funding would be funding used to sustain the academic mission of an institution and could be provided as a lump sum appropriation to the campuses or the State Board of Higher Education. The level of funding would be based on external benchmark comparisons. Benchmark comparisons would replace the current per student cost comparisons made within the system as those comparisons tend to compare institutions with different missions and costs. The initiative funding would be funds allocated by either the Legislative Assembly or the State Board of Higher Education to support the

priorities of the Higher Education Roundtable. The asset funding would be funding for the renewal and replacement of physical plant assets.

### **Statewide Information Technology Network**

The committee received information from a representative of the Information Technology Department regarding the status of the statewide information technology network. The committee learned the Information Technology Department issued a request for proposals (RFP) for the statewide information technology network in March 2000. The RFP was comprised of four parts-- transport and local access, customer premises equipment, Internet access, and video bridging and scheduling. The department will award contracts for each portion of the RFP. The implementation of the transport and local access portion that involves connecting 194 cities and 552 physical locations across the state was separated into two phases. The first phase of the implementation expected to be completed by December 2000 involves 64 cities and 218 physical locations and is anticipated to cost approximately \$3 million. The Information Technology Department has financed \$2 million of the anticipated cost with a three-year loan that will be repaid during the 2001-03 and 2003-05 bienniums using funds received from agency billings, and the remaining \$1 million will be paid by using funds collected from 1999-2001 biennium agency billings. The second phase of the implementation which connects the remaining locations will be completed during the 2001-03 biennium. The 2001-03 biennium statewide information technology budget request, which includes implementation and reoccurring transport and local access costs, is approximately \$21 million and is primarily funded from the general fund with a possibility of receiving an e-rate credit of \$3.5 million. The budget may be recommended in various agency budgets including the Information Technology Department, the University System, and the Department of Public Instruction.

### **University System's Strategic Plan 1998-2004**

The University System completed a strategic plan for the six-year period 1998-2004 in accordance with NDCC Section 15-10-14.2. The purpose of the plan was to continue the process of developing a public agenda for higher education in North Dakota and articulate the proposed vision, mission, goals, and funding needs for the University System to the year 2004. The plan detailed the following seven goals of the University System:

1. Education excellence - To strive for excellence and improve quality learning for students which ensures knowledge and competency in their chosen discipline and emphasizes strong communications skills, analytical thinking, use of technology, and interpersonal skills.
2. Technology and access - To emphasize enhanced use of technology to improve access to programs and services and as a regular component for instructional services and research.
3. Relevant programs - To align programs and services with student interests and with current and future needs of business, communities, and the state, including cultural, social, and citizenry components.
4. Leadership in research - To provide leadership in addressing the high-priority research and development needs and opportunities of the state.
5. Learning environment - To provide an up-to-date and innovative environment for students, employees, and the public and an environment that supports learning, research, and public service.
6. Documented performance - To document the performance and effectiveness of the University System.
7. Collaboration - To improve educational opportunities and services among the campuses, kindergarten through grade 12, and other entities through cooperation and collaboration.

Pursuant to NDCC Section 15-10-14.2, the committee met with the Governor to receive a report from a representative of the State Board of Higher Education regarding the progress toward meeting the goals and objectives in the University System's strategic plan. The report provided information regarding University System and individual campus successes toward the implementation of the goals specifically identified in the University System's strategic plan. The committee learned the seven initial goals identified in the University System's strategic plan were expanded into 23 University System and 313 individual campus strategies which were reviewed and approved by the State Board of Higher Education and include specific measurements, indicators, and timelines.

### **Committee Recommendations**

The committee accepted the Higher Education Roundtable May 2000 report and the recommendations of the Financial Accountability Measurements Subcommittee, and recommends the following bills:

- [Senate Bill No. 2037](#) to provide a continuing appropriation for all funds in higher education institutions' special revenue funds including tuition and to allow institutions to carry over at the end of the biennium unspent general fund appropriations.
- [Senate Bill No. 2038](#) relating to the requirements of the University System's budget request and appropriation. The budget request for the University System would include budget estimates for block grants for a base-funding component and for an initiative-funding component for specific strategies or initiatives and a budget estimate for an asset-funding component

for renewal and replacement of physical plant assets at the institutions of higher education. The appropriation for the University System would include block grants to the State Board of Higher Education for a base-funding appropriation and for an initiative-funding appropriation for specific strategies or initiatives and an appropriation for asset funding for renewal and replacement of physical plant assets.

- [Senate Bill No. 2039](#) to allow the State Board of Higher Education to authorize campus improvements and building maintenance projects that are financed by donations, gifts, grants, and bequests if the cost of the improvement or maintenance is not more than \$500,000. Buildings financed by donations, gifts, grants, and bequests would continue to require Budget Section approval.
- [Senate Bill No. 2040](#) to allow the University System to provide bonuses, cash incentive awards, and temporary salary adjustments without reporting the activity to the Office of Management and Budget as a fiscal irregularity.
- [Senate Bill No. 2041](#) to recognize the institutions under the control of the State Board of Higher Education as the North Dakota University System, and to require the University System to develop a strategic plan which defines University System goals and objectives and to provide an annual performance and accountability report regarding performance and progress toward the goals and objectives.
- [Senate Bill No. 2042](#) to amend and repeal statutes relating to the powers of the State Board of Higher Education and the duties and responsibilities of institutions under the control of the State Board of Higher Education which are no longer appropriate.

The committee recommends the financial and nonfinancial accountability measurements be reported annually at the University System level, the State Board of Higher Education be responsible for expanding and refining the measurements to evaluate the individual institutions of higher education, that trend information be presented for a 6- to 10-year period depending on the nature of the performance indicator and the information presented, and that the areas be audited as deemed necessary by the Legislative Assembly.

Higher education financial accountability measurements:

Expectations (Performance Standards)	Annual Performance Indicators
<b>Financing and Financial Management</b>	
The University System develop a long-term plan for financing the higher education system that addresses any funding gap between current resources and needs, reflects a shared funding responsibility among the state, students, private sector, donors, local governments, communities, and campuses and allows for the funding of plant asset depreciation.	A status report on higher education financing as compared to the long-term financing plan.
The University System ensure:	
<ul style="list-style-type: none"> <li>• Base funding provided to individual institutions is adequate and provides stable funding consistent with the mission of the campus and is responsive to changing priorities.</li> </ul>	Base funding levels and uses including trends in base funding.
<ul style="list-style-type: none"> <li>• Incentive funding pools meet the guidelines established by the Legislative Assembly, the Higher Education Roundtable recommendations, and State Board of Higher Education priorities.</li> </ul>	Incentive funding information, including: <ul style="list-style-type: none"> <li>• Allocation, use of, and results of incentive funding.</li> <li>• Incentive funding as a percentage of the higher education budget.</li> </ul>
<ul style="list-style-type: none"> <li>• Asset funding provided to individual institutions is used in conjunction with other funds for capital renewal and addressing deferred maintenance.</li> </ul>	Value of institutional buildings, funds spent as compared to depreciation, and the status of deferred maintenance including a comparison of the funds appropriated for deferred maintenance to actual funds spent on deferred maintenance.  Deferred maintenance ratio measures the size of the University System's outstanding maintenance as compared to its expendable net assets:  $\frac{\text{Deferred Maintenance}}{\text{Expendable Net Assets}}$
<ul style="list-style-type: none"> <li>• Funds appropriated by the Legislative Assembly for the construction of new facilities and the major renovation of existing facilities are used in a cost-effective manner</li> </ul>	Report on new construction and major renovation capital projects for which specific appropriations are made, including budget to actual comparison, use of third-party funding, and

and within statutory building authority lease payment limitations.	related debt.
<ul style="list-style-type: none"> <li>Institutions are funded on an equitable basis.</li> </ul>	Funding levels of institutions or other selected indicators as compared to peer institutions.
The University System identify and maximize all financial resources available to support the University System, including:	The amount and trends of funding from all financial sources.
<ul style="list-style-type: none"> <li>Internally generated revenue.</li> </ul>	<p>Operating income ratio measures how inflows from fees for services provided contribute to the University System's overall funding:</p> <p><u>Operating Income</u> Educational and General Expenses</p>
<ul style="list-style-type: none"> <li>Externally generated revenue.</li> </ul>	<p>Contributed income ratio measures how externally generated resources other than debt contribute to the University System's overall funding:</p> <p><u>Contributed Income</u> Educational and General Expenses</p>
<ul style="list-style-type: none"> <li>Revenue generated from the state.</li> </ul>	<p>State general fund appropriation levels and trends as compared to changes in the state's economy and total state general fund appropriations.</p> <p>Trend report on per capita and per student appropriations for higher education.</p>
<ul style="list-style-type: none"> <li>Debt issued to support University System operations.</li> </ul>	<p>The amount of debt incurred and supported in relation to limitation requirements.</p> <p>Debt coverage ratio demonstrates the portion of net income available to meet the debt burden should economic conditions change:</p> <p><u>Adjusted Change in Net Assets</u> Debt Service</p>
<ul style="list-style-type: none"> <li>Tuition and fees.</li> </ul>	<p>Affordability index detailing:</p> <ul style="list-style-type: none"> <li>Tuition and fees on a per student basis and total cost of attendance compared to peer institutions.</li> <li>Tuition and fees as a percentage of median North Dakota household income.</li> <li>Student affordability considering financial aid.</li> </ul>
The University System use moneys appropriated from the general fund and other income, including tuition in a cost-effective manner in meeting the recommendations identified in the Higher Education Roundtable report including the following areas:	Trend reports on the distribution of expenditures by function.
<ul style="list-style-type: none"> <li>Funding for core education services.</li> </ul>	<p>Educational core services ratio provides information regarding the portion of total funds being used for instruction, research, and public service:</p> <p><u>Educational Core Services Expenses</u> Educational and General Income (all funding excluding capital and debt service amounts)</p>
<ul style="list-style-type: none"> <li>Funding for educational support services.</li> </ul>	<p>Educational support services ratio provides information regarding the portion of total funds being used for academic support and student services:</p> <p><u>Educational Support Expenses</u> Educational and General Income (all funding excluding capital and debt service amounts)</p>

<ul style="list-style-type: none"> <li>• Funding for general support services.</li> </ul>	<p>General support ratio provides information regarding the portion of total funds being used for institutional support, operations, and maintenance of physical plant:</p> <p><u>General Support</u> Educational and General Income (all funding excluding capital and debt service amounts)</p>
<ul style="list-style-type: none"> <li>• Investment in equipment and technology.</li> </ul>	<p>Equipment expenditure ratio provides information regarding the portion of equipment inventory replaced:</p> <p><u>Annual Expenditures for Equipment Replacement</u> <u>Equipment Inventory Value</u></p>
<p>The University System be financially sound and viable.</p>	<p>Financial ratios and other financial information which would indicate:</p> <ul style="list-style-type: none"> <li>• Viability ratio measures the ability of expendable net assets to cover debt.</li> <li>• Primary reserve ratio measures the ability to continue to operate without additional net assets.</li> <li>• Return on net assets ratio measures the changes in net assets.</li> <li>• Net income ratio measures surpluses or deficiencies.</li> <li>• Debt, assets, and end-of-year fund balances.</li> </ul>
<p><b>Faculty and Staff Excellence</b></p>	
<p>The University System should strive for a quality-focused, productive, and rewarded faculty and staff.</p>	<p>Faculty and staff trend information, including:</p> <ul style="list-style-type: none"> <li>• Ratio of faculty and staff to students.</li> <li>• Faculty and staff turnover rates and major reasons.</li> <li>• Faculty and staff salary levels, including annual average salary increases and comparisons with peer institutions.</li> </ul>
<p><b>Research and Development</b></p>	
<p>The University System should focus research and development on the economic and social needs of North Dakota, increase public-private North Dakota research and development partnerships, and reward faculty for research and development efforts.</p>	<p>Research and development efforts trend information, including:</p> <ul style="list-style-type: none"> <li>• Total funding received for research, including federal, state, local, and private sources.</li> <li>• Revenue generated or additional funding earned by research and development projects.</li> </ul> <p>Research expenditure ratio measures the amount of research expenditures per faculty FTE:</p> <p><u>Research Expenditures</u> <u>Faculty FTE</u></p>
<p><b>Financial and Statutory Compliance</b></p>	
<p>The University System comply with related state laws and generally accepted accounting principles.</p>	<p>Annual audit report, with an unqualified opinion, that identifies suggested material areas of improvement to the University System's financial operations.</p>
<p>The State Auditor's office use performance audit standards reported in biennial audits that:</p> <ul style="list-style-type: none"> <li>• Represent a balanced approach identifying appropriate financial noteworthy accomplishments and successes.</li> <li>• Address University System compliance with legislative intent.</li> <li>• Concentrate on high-risk areas of institutional operations.</li> </ul>	<p>Biennial audit report reflecting:</p> <ul style="list-style-type: none"> <li>• Budget to actual appropriation statements.</li> <li>• Appropriate financial noteworthy accomplishments and successes.</li> <li>• A reduction in material areas of statutory noncompliance.</li> <li>• University System compliance with suggested significant areas of improvement.</li> </ul>

Higher education nonfinancial accountability measurements:

Expectations (Performance Standards)	Annual Performance Indicators
<b>Economic Development Connection</b>	
<p>The University System:</p> <ul style="list-style-type: none"> <li>Respond to the current work force needs of employers.</li> </ul>	<p>Trends in the number and percent of businesses and employees in the region receiving training. (Duplicate: see also Accessible System)</p> <p>Levels of satisfaction with training events as reflected in information systematically gathered from employers and employees receiving training.</p>
<ul style="list-style-type: none"> <li>Encourage entrepreneurship.</li> </ul>	<p>Levels and trends in enrollment in entrepreneurship courses and the number of graduates of entrepreneurship programs.</p>
<ul style="list-style-type: none"> <li>Use the colleges and universities as a direct source of economic development in all areas of the state.</li> </ul>	<p>Level and trends in percentage of University System graduates obtaining employment appropriate to their education in state and out of state.</p> <p>Levels and trends in partnerships and joint ventures between University System institutions and the following entities:</p> <ul style="list-style-type: none"> <li>Business and industry.</li> <li>Tribal colleges.</li> <li>Private sector training providers.</li> <li>Other University System institutions.</li> </ul>
<b>Education Excellence</b>	
<p>The University System:</p> <ul style="list-style-type: none"> <li>Ensure students receive a quality education which prepares them to be readily employable, technically skilled, and personally successful.</li> </ul>	<p>Levels and trends in performance of students on nationally recognized exams in their major fields in comparison with national averages.</p> <p>Levels and trends in licensure pass rates in comparison to other states.</p>
<ul style="list-style-type: none"> <li>Ensure faculty are respected practitioners and students of the future who establish ties between learner outcomes and workplace needs.</li> </ul>	<p>Levels and trends in alumni-reported satisfaction with preparation in:</p> <ul style="list-style-type: none"> <li>Major.</li> <li>The acquisition of specific basic and higher-order skills.</li> <li>Level, currency, and relevance of computer technology knowledge and abilities in relation to expectations in the marketplace.</li> </ul> <p>Levels and trends in employer-reported satisfaction with preparation of recently hired college graduates.</p>
<ul style="list-style-type: none"> <li>Encourage institutions and faculty to constantly seek a high-level of program excellence.</li> </ul>	<p>Maintenance of accreditation of programs and institutions by national and regional accrediting bodies and acquisition of additional accreditation where appropriate.</p> <p>Levels and trends in peer review process results for:</p> <ul style="list-style-type: none"> <li>Grants.</li> <li>Publications.</li> </ul> <p>Levels and trends in proportion of students achieving goals - Institution meeting the defined needs/goals as expressed by students.</p>

<b>Flexible and Responsive System</b>	
<p>The University System:</p> <ul style="list-style-type: none"> <li>Encourage, support, and reward risk-taking, innovation, and change.</li> </ul>	<p>Proportion of University System decisionmakers (deans and higher levels) indicating whether "they can operate more flexibly now than in the past."</p>
<ul style="list-style-type: none"> <li>Employ a customer or client focus, study and react to present and future needs of learners and business and industry, and tailor learning experiences to the needs of the learner.</li> </ul>	<p>Total number and trends in full-time, part-time, degree-seeking, and non-degree-seeking students being served.</p> <p>Number and trends regarding individuals, organizations, and agencies served through noncredit activities.</p> <p>Levels of satisfaction with responsiveness as reflected through responses to evaluations and surveys of clients:</p> <ul style="list-style-type: none"> <li>Graduates and program completers.</li> <li>Employers.</li> <li>Business/program advisory councils.</li> <li>Companies and employees receiving training.</li> <li>Work force training boards.</li> <li>Campus presidents' advisory councils.</li> <li>Public school superintendents.</li> <li>Economic development professionals.</li> <li>Other client groups served.</li> </ul> <p>Levels of satisfaction and reasons for noncompletion as reflected in a noncompleters survey.</p>
<b>Accessible System</b>	
<p>The University System:</p> <ul style="list-style-type: none"> <li>Identify and deliver education and research services throughout the state in numerous ways from a variety of providers.</li> </ul>	<p>Levels and trends in the proportion of residents of the state who are within a 45-minute drive of a location at which they can receive educational programs from a provider, including providers from outside the immediate region (and would also have access to academic and student support services at the site).</p> <p>Levels and trends in the number of enrollments in distance learning courses by in-state and out-of-state residents.</p> <p>Levels and trends in the number and proportion of enrollments in courses offered in nontraditional ways (i.e., place, time, and format).</p>
<ul style="list-style-type: none"> <li>Support an expanded client base which includes students, business and industry, and all citizens of the state.</li> </ul>	<p>Levels and trends in rates of participation of:</p> <ul style="list-style-type: none"> <li>Recent high school graduates; nontraditional students (typically part time and older than average).</li> <li>Individuals pursuing graduate degrees.</li> </ul> <p>Trends in the number and percentage of businesses and employees in the region/state receiving training. (Duplicate: see also Economic Development Connection)</p>
<b>Sustaining the Vision</b>	
	<p>The extent to which the recommendations of the 2000 roundtable are implemented and the performance as reflected in the accountability measurements is improved:</p> <ul style="list-style-type: none"> <li>An annual performance and accountability report directly linked to the expectations developed by the roundtable is developed and widely distributed.</li> <li>An annual Higher Education Roundtable meeting(s) is</li> </ul>

The University System establish a mechanism for sustaining the work and implementing the recommendations from the Higher Education Roundtable report.

- held and accomplishes the purposes indicated in No. 1 of Sustaining the Vision recommendation.
- A status report on the state of the University System is presented to the Legislative Assembly during each legislative session.
  - The University System reports on communications regarding the various recommendations of the roundtable--audiences reached, media used, presenters involved, etc.
  - A checklist is maintained of action steps required and progress attained in meeting the expectations and accountability measurements agreed upon.

The committee anticipates the 2001 Legislative Assembly Appropriations Committees will address the state's support for the implementation of the statewide information technology network, research and development funding opportunities such as EPSCoR, and the work force training delivery system.

## **STUDY OF THE DIVISION OF INDEPENDENT STUDY**

Section 22 of 1999 Senate Bill No. 2013 directed a study of the role, mission, operation, and privatization of the Division of Independent Study including educational services provided by the division to out-of-state students.

### **Background**

The Division of Independent Study, a division of the Department of Public Instruction, was established in 1935 by the North Dakota Legislative Assembly to provide distance education courses for students in kindergarten through grade 12 and adults. The division is regionally accredited through the North Central Association of Colleges and Schools and is a member of the Independent Study Division of the University of Continuing Education Association.

The Division of Independent Study contained two units--the Independent Study Center and the North Dakota Learning Resource Center. The Independent Study Center provides distance education services to elementary, middle, and high schools. The North Dakota Learning Resource Center, which was dissolved as the result of a business operational review, provided services such as educational video distribution, educational resource materials, and curriculum kits to schools for developing the potential of students.

### **Mission and Goals**

The committee learned the Division of Independent Study's mission is to provide personalized distance learning services and educational resources. The division offers courses to students in the traditional print-based correspondence format and through on-line courses on the World Wide Web. The division is involved in three distance education initiatives and its future plans include the conversion of the remaining 132 print-based courses to on-line courses, development of fourth and fifth grade curricula, rewriting courses to meet North Dakota subject area content standards, the introduction of appropriate delivery systems as new technologies are introduced, the writing and offering of an advanced placement geography on-line course, and collaboration with the state University System in the development of dual enrollment courses.

### **Course and Student Enrollments**

The committee learned the division's course enrollments for the 1999-2000 fiscal year were 9,592, an increase of 3.2 percent from the previous fiscal year. The division's student enrollment for the same period was 6,092, an increase of 10 percent from the previous fiscal year. For the 1999-2000 fiscal year, the number of North Dakota students enrolled increased slightly from 1,312 to 1,335 and the number of out-of-state students enrolled increased from 4,241 to 4,757.

### **1999-2001 Appropriation and Student Fees**

The committee learned the division's budget for the 1999-2001 biennium is \$5,474,839, of which \$677,830 is from the general fund, \$4,115,262 is from other funds consisting of fees and material charges, and \$681,747 is federal funds. The division's general fund appropriation has been reduced since the 1991-93 biennium and for the 1999-2001 biennium is approximately 13 percent of the total budget.

The division's tuition rates are \$61 per half-credit course for North Dakota residents and \$73 for nonresidents. The nonresident tuition rate was increased by \$8, from \$65 to \$73, following the 1997 Legislative Assembly.

## **Privatization**

Representatives of the division expressed concerns regarding the privatization of the Division of Independent Study. Without the credibility of being a state institution, the division's programs would not have the same appeal to resident or nonresident students or schools, and course and student enrollments would decrease. Privatization could lead to the elimination of distance education services in North Dakota because decreasing enrollments result in a higher per student delivery cost.

In addition, the committee learned all 29 of the independent study organizations in the United States are public, and all are university-related except for the North Dakota Division of Independent Study. There is one private school, the American School in Chicago, which provides secondary education.

## **Business Operational Review**

The committee learned a business operational review of the Division of Independent Study was conducted during September and October 1999. The consultant reviewed all aspects of the business operations including the areas of administrative offices, business office, production center, support services, and education staff. The operational review concluded the Division of Independent Study is in a position to provide distance education and class conferencing to the school districts of North Dakota which would have far-reaching benefits to the state. The recommendations from the business operational review included the following:

1. Position the division as an education cooperative to support the mission of the Department of Public Instruction.
2. Reorganize the business office to support management and control the business and technical requirements of the operation.
3. Define the organization to include the following divisions--human resource, technology services, support services, and accounting.
4. Reassign the responsibilities of the Learning Resource Center into the mainstream operation of business and education organization.
5. Upgrade the technical applications of support services to both the business operation and the educational programs.
6. Focus delivery of educational services on the primary goal of serving the students of North Dakota.
7. Structure prices to target the reduction of cost for educational services to North Dakota students.
8. Develop business partnerships to support the division's mission by reducing the costs of services and by implementing technology.

The committee learned as a result of the recommendations of the business operational review the division's business office operation was reorganized for efficiency and a general ledger accounting package was installed which provides monthly revenue and expenditure reports to the director. The division's Learning Resource Center discontinued its general rental of 16 millimeter film and videotapes, and the remaining 2.5 FTE positions were reassigned to the division's center operation. The division received a \$25,000 National Geographic grant to develop two semesters of on-line advanced placement geography, and the division partnered with the Fargo Public Schools to develop eight semesters of on-line courses in a number of areas.

## **Committee Conclusion**

The committee makes no recommendations regarding its study of the Division of Independent Study.

## **BUDGET TOURS**

During the interim, the Higher Education Committee functioned as a budget tour group of the Budget Section and visited the University of North Dakota, Mayville State University, Bismarck State College, North Dakota State University, State College of Science, Valley City State University, Main Research Station, and Division of Independent Study. The committee heard of institutional needs for capital improvements and programs and of any problems the entities may be encountering during the interim. The tour group minutes are available in the Legislative Council office and will be submitted in report form to the Appropriations Committees during the 2001 Legislative Assembly.