

# NORTH DAKOTA LEGISLATIVE MANAGEMENT

## Minutes of the

### HIGHER EDUCATION COMMITTEE

Tuesday, March 2, 2010  
Roughrider Room, State Capitol  
Bismarck, North Dakota

Representative Bob Skarphol, Chairman, called the meeting to order at 9:00 a.m.

**Members present:** Representatives Bob Skarphol, Lois Delmore, Mark A. Dosch, Kathy Hawken, Brenda Heller, Dennis Johnson, Nancy Johnson, Joe Kroeber, Darrell D. Nottestad, Kenton Onstad, Ken Svedjan, Clark Williams; Senators John M. Andrist, Tim Flakoll, Karen K. Krebsbach, Elroy N. Lindaas, Dave Nething, David O'Connell, Larry J. Robinson, Tom Seymour

**Members absent:** Representatives RaeAnn G. Kelsch, Bob Martinson; Senators Tony S. Grindberg, Ray Holmberg

**Others present:** Representatives Merle Boucher and Gary Kreidt, members of the Legislative Management, were also in attendance.

See attached [appendix](#) for additional persons present.

**It was moved by Senator Nething, seconded by Representative D. Johnson, and carried on a voice vote that the minutes of the January 19-20, 2010, meeting be approved as distributed.**

#### HIGHER EDUCATION STUDY

Mr. William G. Goetz, Chancellor, North Dakota University System, said higher education needs to address student affordability, access, and retention. He said it is important to have open communication between the State Board of Higher Education and the Legislative Assembly.

#### Long-Term Finance Plan

Ms. Laura Glatt, Vice Chancellor for Administrative Affairs, North Dakota University System, presented information regarding the University System long-term finance plan. She said the State Board of Higher Education adopted the following five recommendations for the plan in January 2010:

1. Conduct an evaluation of peer institutions that are currently used by campuses to develop peer funding benchmarks.
2. Proceed with the development of a limited number of performance measures to be used for incentive or performance funding beginning with the 2013-15 biennial budget request.
3. Incorporate an investment funding component into the 2011-13 biennial budget request.
4. Utilize the most current student enrollment data available for funding allocations.

5. Modify the long-term finance plan to allocate a minimum amount of equity funding to all campuses funded at less than 110 percent of their peer benchmark.

Ms. Glatt said the University System engaged MGT of America, Inc., to complete a review of the appropriateness of peer institutions currently being used. She said the review was completed in February 2010 and determined that no changes were needed to peer institutions.

In response to a question from Representative Skarphol, Ms. Glatt said the long-term finance plan was developed as a result of the 1999-2000 Higher Education Roundtable report. She said the report suggested that institutions be compared to similar institutions in the country for funding purposes.

In response to a question from Representative Skarphol, Ms. Glatt said the long-term finance plan has an equity funding component that is affected by student enrollment at an institution. She said increasing student enrollment at an institution may produce a greater per student funding gap compared to the institution's peer funding benchmark.

In response to a question from Senator Flakoll, Ms. Glatt said the University System biennial budget request includes a funding pool for campus equity allocations. She said establishing a minimum equity allocation reduces the amount of funding available to campuses that are furthest from their peer benchmark.

In response to a question from Representative Skarphol, Ms. Glatt said the funding gap between an institution and a peer benchmark is evaluated both in terms of total dollar difference and percentage funding difference. She said the equity funding allocation is weighted to provide more funding to institutions furthest from their peer benchmark.

In response to a question from Senator Flakoll, Ms. Glatt said she would provide additional information regarding the funding difference between institutions and their peer benchmarks in previous years.

In response to a question from Representative Williams, Ms. Glatt said unique programs at an institution are considered as part of the selection process of peer institutions.

In response to a question from Representative Williams, Ms. Glatt said the long-term finance plan is used to distribute operating funds to campuses and does not provide funding to campuses for infrastructure.

In response to a question from Senator Andrist, Ms. Glatt said campuses have certain fixed costs regardless of student enrollment. She said the enrollment of nonresident students aids campuses in providing funds for the fixed costs.

Senator Andrist expressed concern regarding the high general fund per student costs at certain campuses.

In response to a question from Representative Svedjan, Ms. Glatt said parity funding included in the University System biennial budget request will vary between bienniums due to changes in enrollment, utilities, and number of facilities.

In response to a question from Representative Skarphol, Ms. Glatt said funding increases provided to campuses are generally designated for certain areas such as salary increases and utilities. She said a campus may internally reallocate funding within a line item based on the needs of a campus.

In response to a question from Representative Dosch, Ms. Glatt said the State Board of Higher Education considers potential increases in operating costs when evaluating capital projects.

In response to a comment from Representative Skarphol, Mr. Goetz said it is important to consider the historical amount of funding provided for higher education when reviewing recent higher education funding increases. He said since 1981, the percentage increase in funding for higher education has been less than the percentage increases for other areas of state government.

Ms. Glatt said the State Board of Higher Education is completing a comprehensive tuition model study this year which will consider items such as per credit-hour tuition charges, residency categories, and tuition waivers.

In response to a question from Representative Skarphol, Ms. Glatt said certain student fees need to be approved by the State Board of Higher Education while institutions may internally approve other mandatory or nonmandatory student fees. She said program fees generally benefit the program charging the fee while tuition paid by students in a program may not be exclusively used for the program.

In response to a question from Senator Flakoll, Ms. Glatt said students enrolled in online courses generally pay a different tuition and fee rate than on-campus students. She said part-time students pay prorated student fees based on the number of credit-hours the student is enrolled in.

Mr. Jon Backes, Vice President, State Board of Higher Education, Minot, provided information regarding potential changes to the long-term finance plan. He said a task force studying the long-term finance plan determined that it was not necessary to make significant changes to the way funding is distributed to campuses. He said funding for higher education can be based on program areas that need to continue and investments that need to be made to enhance higher education.

Mr. Richie Smith, President, State Board of Higher Education, Wahpeton, said many higher education

systems in the country review the North Dakota long-term finance plan in an effort to improve their current funding methods. He said the state is currently ranked as the fourth most productive higher education system in the country. He said the State Board of Higher Education is continually looking for ways to improve the higher education system.

In response to a question from Representative Dosch, Mr. Backes said the long-term finance plan is used to allocate funds to institutions. He said goals to increase programs to meet the needs of the state are generally included in the State Board of Higher Education strategic plan.

Representative Hawken suggested the committee work with the State Board of Higher Education to develop a vision for higher education to be considered by the 2011 Legislative Assembly.

Mr. Backes said the State Board of Higher Education and Legislative Assembly should work together to develop any recommended changes that are needed for higher education funding methods.

### Higher Education Budget

Ms. Glatt presented information regarding the sources of revenue and major expenditure areas for higher education. She presented the following information regarding fiscal year 2010 budgeted revenue sources for the University System:

| Revenue Source                   | Funding<br>(in Millions) | Percentage of<br>Total Funding |
|----------------------------------|--------------------------|--------------------------------|
| General fund                     | \$315.44                 | 29.6%                          |
| Tuition                          | 212.94                   | 20.0%                          |
| Grants and contracts             | 166.24                   | 15.6%                          |
| Other current funds <sup>1</sup> | 371.56                   | 34.8%                          |
| Total                            | \$1,066.18               | 100.0%                         |

<sup>1</sup>Includes auxiliary operation, investments, endowments, and other funding.

Ms. Glatt presented the following information regarding fiscal year 2010 budgeted expenditures for the University System:

| Expenditure Category | Expenditures<br>(in Millions) | Percentage of Total<br>Expenditures |
|----------------------|-------------------------------|-------------------------------------|
| Salaries             | \$592.44                      | 55.7%                               |
| Operating            | 283.28                        | 26.7%                               |
| Equipment            | 20.50                         | 1.9%                                |
| Other                | 156.53                        | 14.7%                               |
| Debt service         | 10.75                         | 1.0%                                |
| Total                | \$1,063.50                    | 100.0%                              |

Ms. Glatt presented the following schedule detailing University System expenditures by function for fiscal year 2009:

| Function                     | Expenditures  | Percentage of Total<br>Expenditures |
|------------------------------|---------------|-------------------------------------|
| Instruction                  | \$284,057,894 | 32.1%                               |
| Academic support             | 61,703,804    | 7.0%                                |
| Student services             | 39,283,360    | 4.4%                                |
| Institutional support        | 84,195,458    | 9.5%                                |
| Physical plant               | 56,853,434    | 6.4%                                |
| Scholarships and fellowships | 28,693,667    | 3.2%                                |
| Auxiliary services           | 110,972,988   | 12.6%                               |
| Public service               | 47,428,890    | 5.4%                                |
| Research                     | 125,916,949   | 14.2%                               |
| Depreciation                 | 45,478,142    | 5.2%                                |
| Total                        | \$884,584,586 | 100.0%                              |

Senator Andrist said it is important for members of the Legislative Assembly to be made aware of financial problems encountered by institutions.

In response to a question from Representative Skarphol, Ms. Glatt said she would provide the committee with information regarding the reasons for the differences among campuses of funding allocated by major function areas.

Senator Flakoll said it is important to encourage institutions to obtain external sources of funding.

### Auxiliary Funds

Ms. Glatt provided information regarding the use of funds on campuses for auxiliary operations. She said funds generated by auxiliary services operations may be used for other purposes on campuses.

Ms. Glatt provided information on the use of funding from the general fund for auxiliary operations. She presented the following schedule detailing direct general fund support for auxiliary operations during fiscal year 2009 and the estimated support for fiscal year 2010:

| Institution                   | Description   | 2009        | 2010        |
|-------------------------------|---|-------------|-------------|
| University of North Dakota    | Athletics   | \$1,061,126 | \$1,114,183 |
| North Dakota State University | Athletics   | \$499,199   | \$519,167   |
| Dickinson State University    | Athletics   | \$26,684    | \$26,684    |
| Minot State University        | Athletic dome maintenance                                       | \$100,000   | \$55,000    |
| Valley City State University  | Offset auxiliary services revenue loss during spring 2009 flood | \$54,000    |             |

### Deferred Maintenance

Ms. Glatt presented information regarding funding provided for capital asset maintenance on campuses. She said the capital assets appropriation for the University System includes base funding repairs as well as one-time funding for major capital projects. She said one-time deferred maintenance funding is also provided to campuses for maintenance costs.

Ms. Glatt said the replacement value of state-funded facilities and infrastructure at University System institutions is \$1.46 billion. She said the 2009 Legislative Assembly provided \$6.7 million of base funding to the University System for regular repairs and maintenance. She said industry standards suggest that funding of 2 percent to 3 percent of infrastructure replacement values be provided for maintenance and repairs. She said using a maintenance funding formula that provides institutions with 2 percent to 3 percent of the replacement value of infrastructure would provide the University System with \$58 million to \$88 million per biennium for infrastructure maintenance and repair.

In response to a question from Senator Flakoll, Ms. Glatt said University System budget instructions provide that leased buildings are not to be included in a campus inventory of buildings for repair and replacement funding.

In response to a question from Senator Andrist, Ms. Glatt said some campus capital projects provide for the elimination of older buildings when new capital projects are completed.

Chairman Skarphol asked Ms. Glatt to provide additional information regarding the differences in functional uses of buildings among the campuses.

In response to a question from Representative Dosch, Ms. Glatt said it is the responsibility of the State Board of Higher Education and Legislative Assembly to determine facilities constructed on campuses. She said the State Board of Higher Education prioritizes capital project requests from campuses and the Legislative Assembly approves the projects. She said many capital projects do not add additional building space at a campus but are a renovation of existing space.

Senator Lindaas said some capital projects can significantly reduce the amount of deferred maintenance on a campus while improving energy efficiency.

### Faculty and Staff Positions

Ms. Glatt distributed a schedule from February 2009 detailing vacant faculty and staff positions at University System institutions. She said funds saved from vacant positions are commonly used to hire adjunct faculty, temporary staff, or provide overload payments to staff to perform the duties relating to the vacant position.

In response to a question from Representative Dosch, Ms. Glatt distributed a schedule of total University System employees. She said in October 2009 there were a total of 17,578 full-time and part-time University System employees, including 5,682 student employees.

Chairman Skarphol asked Ms. Glatt to provide detail regarding the number of University System employees by functional areas, including instruction, administration, research, academic support, facilities, and auxiliary services.

### Online Course Revenue

Ms. Glatt presented information regarding State Board of Higher Education policies for online course tuition and fee charges. She said board policy requires institutions to charge online students a tuition rate that is not less than the regular resident tuition rate. She said institutions may charge a distance learning access fee to students taking online courses.

In response to a question from Senator Lindaas, Ms. Glatt said online course tuition and fees are the same for resident and nonresident students.

The committee recessed for lunch at 12:00 noon and reconvened at 1:00 p.m.

### University System Financial Statement Audit

Mr. Gordy Smith, Audit Manager, Performance Audit Section, State Auditor's office, provided information regarding the University System's financial statement audit for the period ending June 30, 2009. He said the North Dakota State University Foundation,

which is a component unit of the University System financial statements, received a qualified opinion from an external private accounting firm relating to pledges receivable recorded by the foundation. He said the audit report being prepared by the State Auditor's office on the University System financial statements is being delayed until the qualified opinion is resolved on the North Dakota State University Foundation audit.

Mr. G. Smith reviewed University System financial statements for the period ending June 30, 2008. He suggested committee members review areas of future University System financial statements, including revenues, debt, notes to the financial statements, maturity dates of debt, and functional expense classification.

A copy of the information presented by Mr. G. Smith is on file in the Legislative Council office.

In response to a question from Representative Skarphol, Mr. G. Smith said compensated absence liability is accrued annual leave and a portion of accrued sick leave of employees.

In response to a question from Senator O'Connell, Mr. G. Smith said when possible, the State Auditor's office will work with an agency to correct misstatements and to avoid issuing a qualified opinion on the agency's financial statements.

### **Student Assistants**

Mr. Goetz provided information regarding the use of student assistants on campuses. He said student assistants are generally either research assistants or teaching assistants. He said student assistants are normally limited to 20 hours of work per week.

Dr. R. Craig Schnell, Provost, North Dakota State University, Fargo, provided comments regarding the use of student teaching assistants. He said student teaching assistants generally teach entry-level courses in communications, mathematics, and computer science. He said North Dakota State University has 138 student teaching assistants that teach approximately 10 percent of the courses offered. He said some teaching assistants provide faculty support through grading papers, proctoring examinations, and assisting with laboratory sessions.

In response to a question from Senator Flakoll, Dr. Schnell said student teaching assistants are classified as one-tenth of a full-time equivalent position for reporting purposes.

Mr. Paul Lebel, Provost, University of North Dakota, Grand Forks, said the University of North Dakota has 341 student teaching assistants. He said approximately 30 percent of students teaching courses are considered the course instructor for reporting purposes.

### **Area Health Education Center**

Ms. Mary Amundson, Principal Investigator, North Dakota Area Health Education Center, Grand Forks, provided information regarding the North Dakota Area Health Education Center program administered by the University of North Dakota School of Medicine and Health Sciences. She said the program is designed to

improve access to health care services in medically underserved areas throughout the state by addressing the distribution, diversity, supply, and quality of health care professionals. She said the program works with other organizations and state agencies to accomplish program goals.

Dr. Bill Krivarchka, Director, Eastern North Dakota Area Health Education Center, Mayville, provided comments regarding the program. He said the program supports community partnerships in an effort to provide a balance of health care resources and professionals. He said the program is trying to encourage more students to seek careers in health occupations.

In response to a question from Representative Skarphol, Dr. Krivarchka said local funding of \$800,000 is needed for the program to match available federal funds.

In response to a question from Representative Nottestad, Dr. Krivarchka said the program assists rural communities with providing opportunities for health care professionals. He said it is important for communities to provide financial support to attract health care professionals.

### **Tuition Waivers**

Ms. Glatt provided the committee with information regarding students who receive tuition waivers. She said during the 2008-09 academic year, 15 percent of University System students received a full or partial tuition waiver worth a total value of approximately \$27 million. She said the students receiving a full or partial tuition waiver paid over \$16 million in tuition, almost \$10 million in room and board costs, and over \$6 million of mandatory fees. She provided the following details regarding tuition waivers provided during the 2008-09 academic year:

- Of the 7,707 students who received tuition waivers, 52 percent of tuition waivers (4,027) were provided to resident students, 24 percent of tuition waivers (1,804) were provided to in-country nonresident students, and 24 percent of tuition waivers (1,876) were provided to foreign students.
- Full tuition waivers were provided to 2,283 students.
- Of the 30,139 resident students enrolled at University System institutions, 87 percent (26,112) received no tuition waiver, 9 percent (2,818) received a partial tuition waiver, and 4 percent (1,209) received a full tuition waiver.
- Of the 2,959 international students enrolled at University System institutions, 37 percent (1,083) received no tuition waiver, 44 percent (1,300) received a partial tuition waiver, and 19 percent (576) received a full tuition waiver.

Ms. Glatt provided a report regarding 2008 University System graduates who received a tuition waiver and remained in the state one year after graduation. She said 63.6 percent of students receiving a tuition waiver were either employed in the

state or reenrolled in college one year after graduation.

In response to a question from Representative Onstad, Ms. Glatt said campus budgets include an estimate for the value of tuition waivers to be granted during an academic year. She said consideration needs to be given to the additional revenue generated for auxiliary services by students receiving a tuition waiver.

In response to a question from Senator Flakoll, Ms. Glatt said the statewide longitudinal data system will assist in determining the number of students who reside in the state following graduation from college. She said additional data analysts may be needed to evaluate the information collected through the system.

### Student Enrollment

Dr. Michel G. Hillman, Vice Chancellor for Academic and Student Affairs, North Dakota University System, provided an overview of the University System enrollment management service plan. He said the plan was created as a result of legislative intent included in 2001 Senate Bill No. 2003. He said the plan was adopted by the State Board of Higher Education in November 2002 and includes the following six goals:

1. Increase the talent pool in North Dakota.
2. Increase access to academic programs and degrees throughout the state.
3. Expand the state's population base.
4. Increase the diversity of students enrolled at University System institutions.
5. Enhance, support, and empower campuses to achieve their campus enrollment and retention goals.
6. Increase the resources available for investment in the initiatives and strategies selected by the State Board of Higher Education to support campuses in achieving their enrollment and retention goals.

In response to a question from Representative Skarphol, Dr. Hillman said the enrollment management and service plan references a study indicating that enrollment caps at certain institutions will not shift student enrollment to underenrolled state institutions. Chairman Skarphol asked Dr. Hillman to provide additional information regarding the study used to determine the effect of using enrollment caps in a higher education system.

Senator Robinson expressed concern that the enrollment management and service plan has not been recently updated.

Mr. Goetz said a State Board of Higher Education mission review task force is reviewing campus missions. He said the task force will consider the following:

1. The relevancy of the current institution missions and consistency with the University System's strategic plan.
2. The economic needs of the state and region.
3. The view of the University System as a total resource unit.
4. The maintenance and enhancement of academic quality.
5. The use of review objectives that include understanding campus goals and market niches, increasing collaboration, and improving University System knowledge of campus needs.
6. The changing definition of a "student."

A copy of the information presented by representatives of the University System is on file in the Legislative Council office.

### COMMITTEE DISCUSSION

Mr. Goetz offered to present the new State Board of Higher Education strategic plan to the committee at a future meeting.

Mr. Backes said it is important to use tuition waivers to attract nonresident students to the state. He said the current nonresident tuition rate at University System institutions does not attract many nonresident students.

Chairman Skarphol said 2009 House Bill No. 1460 created a state institution alternative use grant program to allow communities to receive funding to convert a state institution to a private use. He said the committee may need to review the program at a future meeting.

Chairman Skarphol said the Higher Education Committee will meet jointly with the Workforce and Education Committees on March 31, 2010. He said the Higher Education Committee will have a regular meeting on April 1, 2010.

The committee adjourned subject to the call of the chair at 3:15 p.m.

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Brady A. Larson  
Fiscal Analyst

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Allen H. Knudson  
Legislative Budget Analyst and Auditor

ATTACH:1