

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

HIGHER EDUCATION COMMITTEE - FINANCIAL ACCOUNTABILITY MEASUREMENTS SUBCOMMITTEE

Tuesday, July 11, 2000
Harvest Room, State Capitol
Bismarck, North Dakota

Senator David E. Nething, Chairman, called the meeting to order at 9:00 a.m.

Members present: Senator David E. Nething, Representative Ole Aarsvold, Rod A. Backman, John Ettl, Bruce Furness, Gary Hagen, John Korsmo, Robert R. Peterson, Senator Larry J. Robinson, Senator Ken Solberg, Donna Thigpen, Senator Steve Tomac, Representative Francis J. Wald

Members absent: Representative Al Carlson, Bill Goetz

Others present: See Appendix A

Chairman Nething said all subcommittee members received a copy of the memorandum prepared by Legislative Council staff entitled *Summary of North Dakota University System Accountability Measurements*. He called on Mr. Jim W. Smith, Legislative Budget Analyst and Auditor, for a brief description of the memorandum.

Mr. Smith said Legislative Council staff, in preparation of the proposed financial accountability measurements, expected the subcommittee may also have an interest in nonfinancial accountability measurements contained in the Higher Education Roundtable report. Therefore, Legislative Council staff prepared a memorandum entitled *Summary of North Dakota University System Accountability Measurements* which lists all accountability measurements in the Higher Education Roundtable report by cornerstone. The memorandum also identifies whether or not the accountability measurements are addressed in the proposed financial accountability measurements memorandum prepared for the subcommittee.

Chairman Nething said for those subcommittee members who did not participate in the Higher Education Roundtable, the Higher Education Committee has accepted the Higher Education Roundtable report. He said one of the recommendations from the Higher Education Roundtable was for the State Board of Higher Education, the Legislative Assembly, and the executive branch to come to a resolution on financial accountability measurements.

Chairman Nething said the goal of the subcommittee is to develop financial accountability measurements for the North Dakota University System which would allow the Legislative Assembly the comfort to implement the flexibility recommended in the Higher

Education Roundtable report. He said the subcommittee was formed to take advantage of the expertise of individuals who may be impacted by the accountability measurements.

Chairman Nething introduced the subcommittee members by the organizations represented:

- Higher Education Committee - Representatives Ole Aarsvold and Al Carlson; Senators Ken Solberg and Steve Tomac
- Legislative Council - Representative Francis J. Wald and Senator Larry J. Robinson
- Higher Education - Mr. John Korsmo, Board Member, State Board of Higher Education; Dr. Donna Thigpen, President, Bismarck State College; Dr. Gary Hagen, Vice President for Academic Affairs, Mayville State University; and Dr. John Ettl, Vice President for Academic Affairs, University of North Dakota
- Private sector - Mr. Bruce Furness, Mayor, Fargo
- Executive branch - Mr. Bill Goetz, Chief of Staff, Governor's office; Mr. Robert R. Peterson, State Auditor; and Mr. Rod A. Backman, Director, Office of Management and Budget

The Legislative Council staff presented a memorandum entitled *Financial Accountability Measurement Practices in Other States*. The memorandum provides information regarding some of the higher education measurement practices found in other states which were reviewed by Legislative Council staff as background in preparation of the proposed financial accountability measurements for the North Dakota University System. The memorandum indicates many states link accountability measurements for higher education to higher education goals, and many accountability measurements are not financial in nature but are related to student successes, access, and program reviews. Similar nonfinancial measurements are found in the Higher Education Roundtable report.

In response to a question from Mr. Peterson, Chairman Nething said the goals for the North Dakota University System are the expectations and recommendations contained in the Higher Education Roundtable report.

In response to a question from Senator Robinson regarding which accountability measurements the Legislative Assembly should be concerned with and which the State Board of Higher Education should be concerned with, Senator Nething said the Legislative Assembly should only be concerned with accountability measurements which are financially critical.

Mr. Furness said the subcommittee should determine which financial accountability measurements will allow the Legislative Assembly to provide flexibility to the North Dakota University System without relinquishing its financial responsibilities.

Dr. Hagen said the University System is currently in the design phase of Project Apollo, which is a computer data warehousing project. He said determining accountability measurements for the University System at this time could allow information critical to accountability measurements to be stored in and easily accessed from the data warehouse computer system.

Dr. Thigpen said both the North Dakota University System's six-year plan and the Higher Education Roundtable report identify specific goals for the North Dakota University System. She said the North Dakota University System may be more diverse than other states' university systems due to the fact both two-year and four-year institutions are part of the University System. She also said accountability measurements should focus on outcomes rather than how outcomes are achieved.

Representative Aarsvold said because of the diverse nature of the North Dakota University System, the selection of peer institutions is critical to allow accurate comparisons.

The Legislative Council staff presented a memorandum entitled *Proposed Financial Accountability Measurements for the North Dakota University System*, a copy of which is attached as Appendix B. The memorandum is a summary of proposed financial accountability measurements for the North Dakota University System which were developed with input from the North Dakota University System office. The memorandum lists proposed expectations or performance standards for the North Dakota University System and identifies corresponding performance indicators or associated measurements.

The subcommittee discussed the expectations or performance standards by category.

FINANCING AND FINANCIAL MANAGEMENT EXPECTATIONS

Mr. Backman said the performance indicator "percentage of higher education budget appropriations is in funding pools or in lump sum appropriations" does not correspond with the expectation that the North Dakota University System develop a long-term financing plan. He said it would appear to be more of a goal than a performance indicator.

Dr. Thigpen said lump sum appropriations is not a goal for the North Dakota University System but a method of achieving the goal of increased flexibility.

Senator Tomac said it may be beneficial to include information in the performance indicators regarding the amount of debt higher education institutions are incurring including the amount supported and allowed to incur. He also said in the area of tuition and fees, it would be important to receive information regarding student affordability and quality of education.

Mr. Korsmo said if the University System as a whole is going to be held accountable instead of individual institutions, the subcommittee should focus on accountability measurements which would reflect concerns at the systemwide level. He also said the subcommittee could develop accountability measurements which would transfer or reallocate the responsibility of operation of the University System back to the State Board of Higher Education.

Dr. Ettling said it may be appropriate to add a performance indicator relating to the progress made in closing the gap between the funding level which higher education deems necessary and the actual higher education funding level.

In response to a question from Mr. Peterson regarding timeframes for trend information, Mr. Smith said perhaps presenting trend information for at least a five-year timeframe would be appropriate.

Senator Robinson said a six-year time period may be more beneficial because it would include information for three bienniums and relate to the University System six-year plan.

In response to a question from Senator Nething regarding trend information timeframes, Mr. Larry Isaak, Chancellor, North Dakota University System, said the University System has no set timeframes for trend information. He said an appropriate timeframe could be between 5 and 10 years.

Mr. Furness said timeframes for trend information depend on the performance indicator and the nature of the trend information. He said for some performance indicators, 10 years of information may be appropriate, and for some it may not be.

Chairman Nething said it appears as though an appropriate timeframe for trend information is between 6 and 10 years. He requested Legislative Council staff incorporate trend information timeframes into the proposed financial accountability measurements memorandum.

In response to questions from Senator Solberg and Senator Robinson regarding the use of peer institution comparisons in determining the amount of funding for higher education, Chairman Nething said the Legislative Assembly will determine the amount of funding for higher education, and the State Board of Higher Education will be responsible for determining peer institutions for each of the higher education institutions and the level or percentage the higher education institutions should be funded in comparison to their peer institutions. He also said the State Board of Higher Education would be responsible for ensuring the institutions are funded on an equitable basis.

In response to a question from Mr. Peterson regarding whether or not funding levels should be the only comparison with peer institutions, Chairman Nething said it may or may not be appropriate, but that would be a decision for the State Board of Higher Education. He requested Legislative Council staff revise the performance indicator which states "funding levels of institutions as compared to peer institutions" to include the phrase "or other selected indicators."

In response to a question from Senator Tomac regarding how the Legislative Assembly will decide on the higher education funding level, Chairman Nething said the 2001-03 biennial budget request for the North Dakota University System will be introduced and presented on an institutional basis as in the past. However, the appropriation made by the 2001 Legislative Assembly for the University System could be in a different format.

In response to a question from Mr. Peterson regarding whether or not the accountability measurements will be audited, Mr. Backman said once the list of accountability measurements is finalized, the Legislative Assembly should indicate which performance indicators need to be reviewed or audited.

Senator Nething said it may be possible to develop a definition of which performance indicators need to be reviewed or audited.

Dr. Thigpen said if the Legislative Assembly holds the State Board of Higher Education accountable, there must be some level of trust that the information provided by the system is correct.

In response to a concern raised by Representative Aarsvold regarding the criteria on which the State Board of Higher Education will judge individual institutions, Chairman Nething said the State Board of Higher Education will be responsible for determining whether or not the systemwide financial accountability measures would be appropriate for evaluating individual institutions and expanding or redefining the measurements as necessary.

The committee recessed at 12:00 noon for lunch and reconvened at 12:45 p.m.

CAPITAL RENEWAL AND REPLACEMENT EXPECTATIONS

In response to a question from Senator Tomac regarding the construction of new buildings on campuses, Mr. Smith said the performance indicators listed were developed with the assumption that there would be legislative appropriations for major new projects.

In response to a question from Senator Nething regarding the expectations for capital renewal and replacement, Mr. Isaak said the expectations correspond with recommendations from the Higher Education Roundtable report that states a resource allocation model should be developed which consists of an asset funding component that would provide for regular investment in the renewal and replacement of equipment and physical assets and that the Legislative Assembly continue to approve the construction of new facilities and the major renovation of existing facilities.

Senator Tomac said he is concerned with the possibility that moneys appropriated for deferred maintenance may be used for other purposes. He also said he does not believe the performance indicators listed would prevent the reallocation of deferred maintenance appropriations.

Chairman Nething requested the Legislative Council staff revise the performance indicators listed for capital renewal and replacement to reflect the requirement that funds appropriated for deferred maintenance be used only for that purpose.

In response to a question from Senator Solberg regarding deferred maintenance schedules, Mr. Isaak said institutions have deferred maintenance schedules, and institutions' budget requests for deferred maintenance are a percentage of the total amount of deferred maintenance. He said once an institution's appropriation for deferred maintenance has been approved, the institution is responsible for determining the priority projects to be funded.

In response to a question from Representative Wald regarding deferred maintenance, Ms. Laura Glatt, Vice Chancellor for Academic Affairs, North Dakota University System, said the University System deferred maintenance total for state-funded buildings is approximately \$70 million. She also said the \$70 million does not include deferred maintenance for auxiliary buildings which is paid for from student room and board fees.

In response to a question from Senator Tomac regarding higher education's process to vacate a building and associated long-term planning, Mr. William B. Isaacson, President, State Board of Higher Education, said the board has formed a strategic and long-range planning committee which will be responsible for developing a systemwide plan for all institutions. He said currently the same investment strategy is used for all institutions. He said the strategic and long-range planning committee will examine

each of the institutions and determine which of the following investment strategies is appropriate—invest and grow, maintain, harvest, and exit. He also said the exit strategy is not a viable option for any of the institutions.

Senator Tomac suggested revising the performance indicators for capital renewal and replacement to include information regarding the state's limitation on general fund lease payments associated with capital construction projects provided for in North Dakota Century Code Section 54-17.2-23.

FACULTY AND STAFF EXCELLENCE EXPECTATIONS

Mr. Furness suggested adding a performance indicator which would provide information regarding the quality of faculty such as the percentage of faculty with a doctoral degree.

Dr. Thigpen said such an indicator may not be appropriate for all individual institutions. She said a performance indicator regarding the success of faculty and staff recruiting efforts would be more beneficial.

Mr. Backman said both suggestions are not financial in nature, and similar accountability measurements are included in the Higher Education Roundtable report.

RESEARCH EXPECTATIONS

In response to a question from Senator Nething, Dr. Ettling said the stated expectations and performance indicators appear appropriate for doctoral institutions such as North Dakota State University and the University of North Dakota.

Dr. Thigpen said the expectations and performance indicators would not be applicable to Bismarck State College because the institution does not generate research dollars. She said one of the recommendations in the Higher Education Roundtable report is for institutions to behave in a more entrepreneurial manner, so it may be beneficial to add a performance indicator which would focus on the amount of external funds generated.

Dr. Hagen said not all higher education institutions participate in research projects. He said some institutions such as Mayville State University do participate in grant writing.

Mr. Isaak said the amount of external funds generated is covered by the performance indicator in the financing and financial management section which requires the North Dakota University System to report on the amount and trends of funding from all financial sources. He also said there are related nonfinancial research and entrepreneurial measurements in the Higher Education Roundtable report.

Senator Tomac said research is not only the traditional research but also development activities.

Chairman Nething requested the Legislative Council staff revise the research heading to include

development and to add any associated performance indicators regarding development activities.

FINANCIAL AND STATUTORY COMPLIANCE EXPECTATIONS

In response to a question from Senator Solberg, Mr. Peterson said many of the comments made under expectations and performance indicators are elements of the State Auditor's office new audit method. He said he is concerned with the second expectation which states the University System, State Auditor's office, and the Legislative Audit and Fiscal Review Committee should develop performance audit standards. He said the State Auditor's office follows performance audit standards established by the Inspector General of the United States under government auditing standards. He also said the phrase "agreed-upon" in the second expectation would infringe upon auditor judgment and impair independence.

In response to Mr. Peterson's concerns, Senator Solberg suggested changing the word "develop" to "use" and deleting the phrase "agreed-upon" from the second expectation statement.

In response to a question from Mr. Peterson regarding whether or not this would be an annual or biennial performance audit, Mr. Smith said the expectation and corresponding performance indicators should refer to biennial audits.

Chairman Nething requested Legislative Council staff make the suggested changes to the second expectation for financial and statutory compliance.

With no further suggestions, Chairman Nething said the proposed financial accountability measurements for the North Dakota University System will be forwarded to the Higher Education Committee. He said the committee will have the opportunity to review the proposed financial accountability measurements. He said the committee will be asked to make the financial accountability measurements part of the Higher Education Roundtable report which will be forwarded to the Legislative Council. If the report is accepted by the Legislative Council, the report will be forwarded to the Legislative Assembly.

In response to a question from Representative Wald regarding how the Higher Education Roundtable report will be implemented, Senator Nething said the accountability measurements may be implemented as legislative intent in the Higher Education appropriations bill draft or in a resolution draft. He also said any statutory changes required for implementation of the Higher Education Roundtable recommendations will be introduced to the Legislative Assembly in bill form.

In response to a question from Representative Wald regarding conflicts with the North Dakota University System's six-year plan and the Higher Education Roundtable report, Mr. Isaak said the State Board of Higher Education will be reviewing an

analysis of the differences between the two plans during its July 2000 retreat. He said there appear to be no conflicts between the two reports.

Mr. Peterson said information regarding other states' accountability and performance measurement practices can be found in a 1994 report from the Education Commission of the States.

It was moved by Senator Robinson, seconded by Representative Wald, and carried on a voice vote that the Financial Accountability Measurements Subcommittee accept the proposed financial accountability measurements for the North Dakota University System as amended and forward the recommendations to the Higher Education Committee for its consideration.

The committee adjourned at 2:30 p.m. subject to the call of the chair.

Roxanne Hobza
Fiscal Analyst

Jim W. Smith
Legislative Budget Analyst and Auditor

ATTACH:2