

HIGHER EDUCATION PERFORMANCE AND ACCOUNTABILITY MEASURES REPORT - BACKGROUND MEMORANDUM

STUDY RESPONSIBILITY

Section 18 of 2001 Senate Bill No. 2003 directs a study of the State Board of Higher Education's implementation of the performance and accountability measures report required by 2001 Senate Bill No. 2041. Senate Bill No. 2041 establishes a North Dakota University System and requires the system to develop a strategic plan and provide an annual performance and accountability report.

In addition, the committee has been assigned the Legislative Council responsibility to receive a report on the State Board of Higher Education's progress toward establishing a long-term enrollment management plan and related implementation procedures (Section 15 of 2001 Senate Bill No. 2003). A copy of Sections 15 and 18 of Senate Bill No. 2003 is attached as Appendix A.

BACKGROUND

The North Dakota University System consists of 11 institutions under the control of the State Board of Higher Education. The system served approximately 37,656 students (headcount enrollment) during the 2000-01 academic year. This represented approximately 29,608 full-time equivalent students.

Total spending provided by the 2001 Legislative Assembly for higher education institutions, including the University System office, totaled \$447,321,037, of which \$366,953,836 was from the general fund and \$80,367,201 from special funds. The legislative appropriations for the 11 institutions, the University System office, and the Forest Service include 3,088.39 FTE positions for the 2001-03 biennium.

Special Revenue Funds

The 2001 Legislative Assembly removed tuition income and local funds from the appropriation process by providing a continuing appropriation for higher education institutions' special revenue funds, including tuition income and local funds, effective through June 30, 2003.

Line Item Consolidation

The 2001 Legislative Assembly consolidated the University System office salaries and wages, operating, and equipment line items into one line item--operations and the line items for the 11 institutions into two--operations and capital assets.

Funding Pools

The 2001-03 biennium appropriation includes a total of \$31,567,243 from the general fund for the following funding pools:

Equity and special needs pool	\$4,628,824
Technology pool	26,938,419
Total pools	\$31,567,243

The equity and special needs pool is to be allocated as determined by the State Board of Higher Education to address equity and parity funding needs and to support new initiatives or program costs consistent with board and statewide needs.

The technology pool includes funding for University System equipment, technology and network costs, costs associated with the implementation of the statewide information technology network, and costs associated with the operation of the Interactive Video Network (IVN), On-line Dakota Information Network (ODIN), and Higher Education Computer Network (HECN). The funding is to be allocated as determined by the State Board of Higher Education based on historic funding, the North Dakota University System information technology plan, the statewide network plan, and base funding for the HECN, IVN, and ODIN operations.

PREVIOUS LEGISLATIVE HIGHER EDUCATION STUDIES

The higher education system has been studied on numerous occasions by the Legislative Council committees.

1981-82 Higher Education Study Commission

The Higher Education Study Commission was charged with the responsibility to review the structure of higher education in North Dakota, including public and private institutions of higher education, vocational education, and continuing education. The commission's recommendations included that the three community colleges in the state be brought under the governance of the state, which was adopted by the 1983 Legislative Assembly, a resolution identifying statewide goals for postsecondary education, and legislation authorizing the State Board of Higher Education to enter into agreements with regional education compacts.

1983-84 Budget A Committee

The Budget A Committee during the 1983-84 interim conducted a study of the financing of higher education in North Dakota and accepted the State Board of Higher Education's offer to organize task forces to study higher education funding in the following areas:

1. Access to postsecondary education.
2. Faculty compensation.
3. Program staffing.
4. Instruction and academic support costs.
5. Equipment.
6. Computers.
7. Facility maintenance.
8. Research.
9. Student services and institutional support.
10. Facilities adequacy.

These recommendations were used by the State Board of Higher Education, the Executive Budget office, and the 1985 Legislative Assembly in developing appropriations for the 1985-87 biennium.

1985-86 Budget Committee on Higher Education

This committee studied the feasibility of various means and methods of developing an alternative structure for higher education, studied admissions and tuition policies for foreign and nonresident students, and reviewed the impacts of tuition reciprocity agreements. Recommendations included that state-funded student financial aid be increased, student tuition be limited to projected increases in the consumer price index, that Minnesota students attending North Dakota institutions be charged tuition equal to what a Minnesota tuition rate would be at a comparable Minnesota institution, and proposed changes to the constitution regarding the membership of the screening committee for the State Board of Higher Education members, board member terms, and size of the board.

1989-90 Higher Education System Review Committee

The Higher Education System Review Committee during the 1989-90 interim reviewed the constitutional provisions relating to the powers of the Legislative Assembly and the State Board of Higher Education, reviewed preliminary drafts of the State Board of Higher Education seven-year plan and recommended constitutional amendments removing the names, locations, and missions of the institutions of higher education from the state constitution and removing the provision restricting the transfer of funds between higher education institutions and references to the Commissioner of Higher Education. These constitutional amendments were not adopted. During the 1989-90 interim, the State Board of Higher Education began implementing a one-university system headed by a chancellor. Under the

chancellor system, the institution presidents are no longer directly responsible to the State Board of Higher Education but to the chancellor, and the chancellor is directly responsible to the board.

1991-92 Higher Education Study Committee

During the 1991-92 interim, the Higher Education Study Committee met with the State Board of Higher Education and the Governor to discuss ideas and issues regarding the future of the system of higher education in North Dakota pursuant to North Dakota Century Code (NDCC) Section 15-10-14.2. The committee reviewed the major initiatives implemented by the State Board of Higher Education in accordance with the seven-year plan goals. The committee observations and recommendations concluded that the plan as it progresses needs to become more specific, North Dakota's open enrollment policy for higher education must be continued, duplication of programs must continue to be monitored, and opportunities made available by the use of technology and teaching must be capitalized on.

During subsequent interims, the Legislative Council met with the members of the State Board of Higher Education and the Governor pursuant to the requirements contained in NDCC Section 15-10-14.2. As discussed earlier, the most recent report on the North Dakota University System strategic plan for 1998-2004 was received by the Legislative Council in November 1998.

1999-2000 Higher Education Committee

The Higher Education Committee during the 1999-2000 interim studied higher education funding, including 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. The committee through the use of 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 discussed shifts, trends, and realities that impact the state of North Dakota and the University System and developed expectations for the University System, recommendations concerning higher education in North Dakota, and accountability measures and success indicators that correspond with the expectations for the University System. A listing of recommendations from the Higher Education Roundtable is attached as Appendix B.

The committee recommended the following bills regarding higher education funding:

- Senate Bill No. 2037 (2001) 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 (provisions amended into Senate Bill No. 2003).
- Senate Bill No. 2038 (2001) to require the budget request for the University System to 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 and the appropriation for the University System to 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 (provisions amended into Senate Bill No. 2003).
- Senate Bill No. 2039 (2001) 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 (approved with a limit of \$385,000).
- Senate Bill No. 2040 (2001) 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 (was not approved by the 2001 Legislative Assembly).
- Senate Bill No. 2041 (2001) 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 (approved by the 2001 Legislative Assembly).
- Senate Bill No. 2042 (2001) 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 (approved by the 2001 Legislative Assembly).

The committee also recommended financial and nonfinancial accountability measurements to be reported annually at the University System level. A listing of the financial accountability measurements is attached as Appendix C, and a listing of nonfinancial accountability measurements is attached as Appendix D.

2001 LEGISLATIVE ASSEMBLY - RELATED LEGISLATION

Section 19 of Senate Bill No. 2003 provides that the State Board of Higher Education's performance and accountability report as required by Senate Bill No. 2041 should include an executive summary and information regarding:

1. Education excellence, including:
 - a. Student performance on nationally recognized exams in their major fields compared to the national averages.
 - b. First-time licensure pass rates compared to other states.
 - c. Alumni-reported and student-reported satisfaction with preparation in selected major, acquisition of specific skills, and technology knowledge and abilities.
 - d. Employer-reported satisfaction with preparation of recently hired graduates.
 - e. Biennial report on employee satisfaction relating to the University System and local institutions.
 - f. Ratio of faculty and staff to students.
 - g. Student graduation and retention rates.
2. Economic development, including:
 - a. Enrollment in entrepreneurship courses and the number of graduates of entrepreneurship programs.
 - b. Percentage of University System graduates obtaining employment appropriate to their education in the state.
 - c. Number of businesses and employees in the region receiving training.
3. Student access, including:
 - a. 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.
 - b. Number and proportion of enrollments in courses offered by nontraditional methods.
4. Student affordability, including:
 - a. Tuition and fees on a per student basis compared to the regional average.
 - b. Tuition and fees as a percentage of median North Dakota household income.
 - c. Cost per student in terms of general fund appropriations and total University System funding.

- d. Administrative, instructional, and other cost per student.
 - e. Per capita general fund appropriations for higher education.
 - f. State general fund appropriation levels for University System institutions compared to peer institutions general fund appropriation levels.
5. Financial operations, including:
- a. Percentage of total University System funding used for instruction, research, and public service.
 - b. Percentage of total University System funding used for institutional support, operations, and maintenance of physical plant.
 - c. Ratio measuring the funding derived from operating and contributed income compared to total University System funding.
 - d. Ratio measuring the size of the University System's outstanding maintenance as compared to its expendable net assets.
 - e. Ratio measuring the amount of expendable net assets as compared to the amount of long-term debt.
 - f. Research expenditures in proportion to the amount of revenue generated by research activity and funding received for research activity.
 - g. 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 related debt.

Section 24 of Senate Bill No. 2003 amends NDCC Section 15-10-12 to provide a continuing appropriation of higher education institutions' special revenue funds, including tuition and local funds through June 30, 2003. This was originally a provision in 2001 Senate Bill No. 2037 as introduced.

Section 25 of Senate Bill No. 2003 amends NDCC Section 54-44.1-04 to require budget requests for the University System to include budget estimates for block grants for a base-funding component and for an initiative-funding component and a budget estimate for an asset-funding component. This legislative action, which was originally a provision in 2001 Senate Bill No. 2038, as introduced, is only effective through June 30, 2003.

Section 26 of Senate Bill No. 2003 amends subsection 7 of NDCC Section 54-44.1-06 to require the appropriation for the University System to include block grants to the State Board of Higher Education for a base-funding appropriation and for an initiative-funding appropriation and an appropriation for asset funding. This legislative action, which was originally a provision

in 2001 Senate Bill No. 2038, as introduced, is only effective through June 30, 2003.

Section 27 of Senate Bill No. 2003 amends NDCC Section 54-44.1-11 to allow institutions of higher education to carry over at the end of the biennium unspent general fund appropriations through June 30, 2003. This was originally a provision in 2001 Senate Bill No. 2037, as introduced.

Senate Bill No. 2039, which was introduced as a recommendation from the 1999-2000 Higher Education Committee, allows 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 \$385,000.

Senate Bill No. 2041, which was introduced as a recommendation from the 1999-2000 Higher Education Committee, recognizes the institutions of higher education under the control of the State Board of Higher Education as the North Dakota University System. The bill also requires the University System to develop a strategic plan that defines University System goals and objectives, to provide a performance and accountability report, and to report to the Legislative Assembly during each regular legislative session regarding the status of higher education in the state.

Senate Bill No. 2042, which was introduced as a recommendation from the 1999-2000 Higher Education Committee, removes language regarding the powers of the State Board of Higher Education and duties and responsibilities of higher education institutions which are no longer considered necessary.

Senate Bill No. 2136 revises the definition of "resident student" for tuition purposes to include an individual who has owned or whose parent has owned real property in the state at least one year before the beginning of the academic term.

OTHER RELATED LEGISLATIVE ACTION

The Legislative Council's Legislative Audit and Fiscal Review Committee during its March 2001 meeting requested that the North Dakota University System and the State Auditor's office take the appropriate action to ensure that the fiscal year 2002 audit of the North Dakota University System is available for presentation to the Legislative Audit and Fiscal Review Committee by December 1, 2002, to assist in the preparation of the performance and accountability report.

STUDY PLAN

The following is a proposed study outline for the committee's consideration in its study of the State Board of Higher Education's implementation of the performance and accountability measures report required by 2001 Senate Bill No. 2041:

1. Receive information from a higher education roundtable representing business, industry, the State Board of Higher Education, the institutions of higher education, higher education students, the executive branch, and private and tribal higher education institutions regarding the implementation status of the 1999-2000 interim Higher Education Roundtable recommendations and possible future actions.
2. Receive information from representatives of the State Board of Higher Education, the University System office, and higher education institutions on the status of the State Board of Higher Education's implementation of the performance and accountability measures report, including information on proposed performance and accountability measures, the level of reporting, and the timeframe for annual report publication.
3. Receive information from representatives of the State Board of Higher Education regarding the status of implementation of recommendations from the 1999-2000 interim Higher Education Roundtable report, including the establishment of a long-term financing plan and a resource allocation model, the selection of peer institutions, and the use of peer institution comparisons.
4. Conduct a budget tour and site visit at each of the higher education institutions and receive information from campus representatives regarding the status of implementation of recommendations from the 1999-2000 interim Higher Education Roundtable reports, enrollment status and long-term enrollment plans, capital improvement needs, and workforce training activities, where appropriate.
5. Receive testimony from other interested persons regarding higher education performance and accountability measures for the North Dakota University System.
6. Receive a report by the State Board of Higher Education as required by Section 15 of 2001 Senate Bill No. 2003 regarding the board's progress toward establishing a long-term enrollment management plan and related implementation procedures, including information regarding current student enrollments.
7. Develop recommendations and any bill drafts necessary to implement the recommendations.
8. Prepare a final report for submission to the Legislative Council.

ATTACH:4