

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

2398

2007 SENATE EDUCATION

SB 2398

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2398

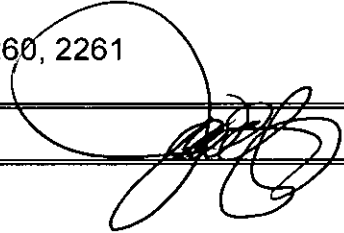
Senate Education Committee

☐ Check here for Conference Committee

Hearing Date: January 30, 2007

Recorder Job Number: 2260, 2261

Committee Clerk Signature



Minutes:

Chairman Freborg opened the hearing on SB 2398, a bill relating to a performance and accountability report by the board of higher education. All members were present.

Senator Heitkamp introduced the bill. He said he should go to work with the United Nations because he has UND and NDSU in the room this morning and something tells him they agree on the bill. This bill was meant to put everyone in the room and have a discussion. We gave away some control with the round table. Higher education is being asked to be an economic developer for the state, they are not just education any more. He was approached by an individual writing for a grant. If you were writing for a grant, what percentage gets tacked onto the grant that you have to go out and procure. That was a concern for the person writing the grant. If its 45% is, that too much, are administration fees getting to be too much? The people in the room know the answers. We are calling for a report that includes detailed analysis of costs not related to the classroom. We have been able to get good paying jobs through our University System, good jobs but what is the cost? He is not going after the football coaches, how do you pay for jobs that pay over \$100,000. It is good to have the discussion. Senator Heitkamp went through the bill (meter 5:10). Certain bills are put in to gain information and

have discussions. This committee will do with this bill what should be done and leave the room with as much information as can be gathered.

Senator Flakoll asked if the contact person was complaining about using some research dollars to pay for administrative costs yet the intent of the bill is to get rid of research dollars?

Senator Heitkamp said we first have to find out if we are tacking on 42%, why? You can't solve the problem until you find out why. Is there 42% more work added to the University System due to that grant?

Senator Flakoll said with the importance of the research corridor, in section 2 we are going to really hammer them for doing the research.

Senator Heitkamp said he agrees. It's there to grab attention. When you hear of the fiscal note, that is not the intent of the bill.

Senator Flakoll said the new recreation facility at UND, a \$20 million facility, essentially funded by student dollars with not a lot of classroom activity that goes on there, how would that play out in the bill?

Senator Heitkamp that is a valid question. You are going to hear it in relation to food service, to snow removal, to moving steam through the lines. They are doing what we begged them to do. The only reason the bill was introduced was this individual pleaded her case, maybe 42% is a problem.

Senator Taylor asked if we will get to 2 University Systems, one for economic development and one for teaching our students?

Senator Heitkamp said it's already happened. It's not such a big problem at the other campuses. He believes in the round table. With a budget as big as the University System there are plenty of opportunities for things to fall through the cracks.

Chairman Freborg asked if he heard Senator Heitkamp say if we get answers we can kill the bill?

Senator Heitkamp said he is not convinced this bill is good policy. He is convinced Chairman Freborg will have a chance to talk to them.

Keith Bjerke, Vice President for University Relations, NDSU, testified in opposition to the bill.
(Written testimony attached)

Senator Gary Lee said in section 1, is this information already available and publicly available, outside of salaries.

Mr. Bjerke said all salaries are public record. Which salaries are not classroom related would be extra work.

Senator Taylor said he has friends in extension that work $\frac{1}{4}$ classroom and $\frac{3}{4}$ extension, is that publicly available?

Mr. Bjerke said all records are an open book. Bruce Bollinger is the keeper of the key. There is a separation of budgets and that is taken very seriously, Bruce accounts for every dollar.

The College of Ag is part of 1003, the extension and research part is 1020.

Senator Taylor asked about departments beyond agriculture.

Mr. Bjerke said they have many avenues of fund generation, all are accounted for.

Phil Boudjouk, Vice President for Research at NDSU, testified in opposition to the bill. The indirect cost rate for grants is 42%, there is a comparable rate at UND. It is a challenge every researcher has to meet at every university in the country. It is less than at MIT where it runs 85 – 90%. We are at a competitive advantage. Each grant and contract issued at NDSU goes through his office. 42% of the indirect cost goes back to the department of the successful faculty member. The chair negotiates with the successful faculty member what portion goes back to him or her. The number is what NDSU is allowed to bill for based on an external audit.

That is their government accepted rate. Every institution must go through it. The data for it is publicly available. The return of almost half of the indirect cost dollars to the department is the most generous turn back he knows of, Montana is in the 25% range, University of California keeps it all. These funds are used to renovate labs, repair small equipment, update software. The overhead is what the chair has available to hire an extra undergrad during the summer, travel, that is the real life of a researcher. Equipment is not allowed to be purchased from grant money. Research universities live and die on the indirect costs. There is not a faculty member in this country that writes grants without indirect costs. 42% is very much on the low side.

Senator Flakoll asked how many research dollars does NDSU bring in?

Dr. Boudjouk said research expenditures at NDSU for the last 3 years have been over \$100 million. At UND their research expenditures are a bit less, in the \$45 – 50 million range. Non teaching expenditures at NDSU are \$165 million. To talk about a corresponding decrease in those costs is very troublesome. NDSU is the top research institution in the five state area of the Dakotas, Idaho, Montana and Wyoming. They would take a really hard hit.

Senator Flakoll said if there were no indirects, to perform those functions, you would have to look for other sources to cover those costs?

Dr. Boudjouk said they would need significant dollars. Assistant professors get almost 100% of the costs to start their career, those are indirect costs, the start up packages to put a new faculty member into a new lab with the right kind of equipment.

Senator Taylor said if an external audit sets the 42% and we are at an advantage, what parameters go into that?

Dr. Boudjouk said they do a complete inventory of all lab equipment, the amount of square footage under research capable space, level of instrumentation, all justifies the rate.

Senator Taylor asked how long is the rate locked in? Is the 42% because North Dakota has made some investment in research?

Dr. Boudjouk said they expect it to last about 3 years.

Eddie Dunn, Chancellor, North Dakota University System, testified in opposition to the bill.

(Written testimony attached)

Senator Taylor said not all of us have universities in our districts but we all have students. Is tuition helping to pay for COE, job creation? In layman's terms, how do we justify tuition increases?

Dr. Dunn said he has spent a good deal of his life in the classroom, in research and extension.

The University System has to do a good job of keeping separate the costs of teaching and the

costs of research. The key is sufficient funding to support the core functions of the university.

If you don't there is pressure on tuition rates, it's difficult to meet salary needs and to maintain a facility that is attractive to students.

Phil Harmeson, Senior Associate to the President had to attend a funeral and submitted written testimony. (Written testimony attached)

Representative Boucher was unable to attend and sent written testimony, (Written testimony attached)

Chairman Freborg closed the hearing on senate bill 2398.

Senator Flakoll moved a Do Not Pass on SB 2398, seconded by Senator Gary Lee.

Senator Taylor said we know the intent of the bill, it could have been more palatable without section 2, it still would have been significant accounting. He will support the do not pass.

Senator Flakoll said if you look at the big picture, the campuses would be hurt by doing research. When you look at some of the expectations of the campuses and the greater good, we have to be careful that they can stay on the cutting edge. There is a known expectation on

the part of those who fund grants that there will be a portion of the funds that go to support the administrative functions of the university.

The motion carried 5 – 0. Senator Flakoll will carry the bill.

FISCAL NOTE

Requested by Legislative Council

01/26/2007

REVISION

Bill/Resolution No.: SB 2398

1A. State fiscal effect: *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						(\$29,500,000)
Expenditures			\$110,000		(\$10,881,000)	(\$29,500,000)
Appropriations			\$110,000		(\$10,881,000)	

1B. County, city, and school district fiscal effect: *Identify the fiscal effect on the appropriate political subdivision.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. Bill and fiscal impact summary: *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

Adds additional accountability measure reporting. Requires reduction in nonclassroom expenses by at least same percentage tuition is increased.

B. Fiscal impact sections: *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Funding for a new accountability reporting position and revenue loss and expenditure reduction from nonclassroom reductions.

3. State fiscal effect detail: *For information shown under state fiscal effect in 1A, please:*

A. Revenues: *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

Reduction in revenues of \$29.5 million, resulting from reduced expenditures, and related revenues, in such areas as auxiliaries (e.g. food service, residence halls) and research grants and contracts. Reduction is based on an assumed 5% per year tuition increase.

B. Expenditures: *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

Increased state expenditures of \$110,000 in 07-09 and \$119,000 in 09-11 to provide for a new accountability reporting position. With the current measures, plus (5) contained in SB2398 and (9) in HB1027 there would be a total of 45 measures. There is not adequate staff to absorb the additional reporting requirements. Reduction in expenditures of \$11,000,000 in general fund in 09-11; and reduction of \$29.5 million (and related non-general fund revenue), resulting from reduced revenues and expenditures in such areas as auxiliaries (e.g. food service, residence halls) and research grants and contracts. Reduction is based on an assumed 5% per year tuition increase in 07-09.

C. Appropriations: *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Increase in state appropriations of \$110,000 in 07-09 and \$119,000 in 09-11 related to new position and reduction in state general fund appropriations by \$11,000,000 in 09-11 for non-classroom expenses (5% per year), including areas such as utilities, facility upkeep, and student services, if these funds cannot be relocated to the classroom.

Name:	Laura Glatt	Agency:	NDUS
Phone Number:	328-4116	Date Prepared:	01/26/2007

FISCAL NOTE
Requested by Legislative Council
01/24/2007

Bill/Resolution No.: SB 2398

1A. State fiscal effect: *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues				(\$28,000,000)		(\$29,500,000)
Expenditures			(\$9,890,000)		(\$10,881,000)	
Appropriations			\$110,000		\$119,000	

1B. County, city, and school district fiscal effect: *Identify the fiscal effect on the appropriate political subdivision.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. Bill and fiscal impact summary: *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

Adds additional accountability measure reporting. Requires reduction in nonclassroom expenses by at least same percentage tuition is increased.

B. Fiscal impact sections: *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Funding for a new accountability reporting position and revenue loss and expenditure reduction from nonclassroom reductions.

3. State fiscal effect detail: *For information shown under state fiscal effect in 1A, please:*

A. Revenues: *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

Reduction in revenues of \$28 and 29.5 million, resulting from reduced expenditures in such areas as auxiliaries (e.g. food service, residence halls) and research grants and contracts. Reduction is based on an assumed 5% per year tuition increase in 07-09.

B. Expenditures: *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

Increased state appropriation of \$110,000 in 07-09 and \$119,000 in 09-11 to provide for a new accountability reporting position. With the current measures, plus (5) contained in SB2398 and (9) in HB1027 there would be a total of 45 measures. There is not adequate staff to absorb the additional reporting requirements.

C. Appropriations: *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Reduction in state appropriations by \$10,000,000 in 07-09 and \$11,000,000 in 09-11 for non-classroom expenses, including areas such as utilities, facility upkeep, and student services, if these funds cannot be relocated to the classroom.

Name:	Laura Glatt	Agency:	NDUS
Phone Number:	328-4116	Date Prepared:	01/25/2007

Date: 1/30/07
Roll Call Vote #: 1

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2398

Senate Education Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Not Pass

Motion Made By Sen. Flakoll Seconded By Sen. Lee

Senators	Yes	No	Senators	Yes	No
Senator Freborg	✓		Senator Taylor	✓	
Senator Flakoll	✓		Senator Bakke	✓	
Senator Gary Lee	✓				

Total Yes 5 No 0

Absent 0

Floor Assignment Sen. Flakoll

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2398: Education Committee (Sen. Freborg, Chairman) recommends DO NOT PASS
(5 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2398 was placed on the
Eleventh order on the calendar.

2007 TESTIMONY

SB 2398

Testimony of Keith Bjerke
Vice President for University Relations
North Dakota State University
Senate Education Committee,
Layton Freborg, Chair
SB 2398

Mr. Chairman and members of the committee, my name is Keith Bjerke and I am the Vice President for University Relations at North Dakota State University. I am here to urge your opposition to Senate Bill 2398.

In my personal experience since 2001 in North Dakota higher education, I have witnessed a total transformation of the expectations and possibilities for higher education, in general, and for research universities, in particular. North Dakota has long supported the educational mission of North Dakota State University, but education is only one of our three missions. Research and public service round out our three-fold mission and each is important to the citizens of our state.

I am discussing our three-fold mission because this bill suggests that only those who engage in classroom teaching contribute in a positive way. But that is clearly not the case. Increasingly, North Dakota is looking to university research and service to build our state's economy. Higher education is expected to be entrepreneurial and to harness the power of new discovery. We are expected to form private sector partnerships, such as those already established through the Red River Valley Research Corridor and the Centers of Excellence program. We are expected to create the jobs that will help retain our state's young people.

To do all of this, higher education has been granted greater flexibility with accountability. We have taken this flexibility and more than doubled our research expenditures. We have been successful because of the specialized work of the researchers and administrators who make advanced research programs possible. Their efforts compliment the work of their colleagues in the classroom by adding resources to the university.

Institutions across the nation including NDUS institutions are moving forward in advocating transformative education, a holistic process of learning which considers the whole campus as a learning community that places the student at the center of the learning experience. This concept substantiates the work of teaching and non-teaching educators as partners in the broader campus curriculum. This new concept, Learning Reconsidered, is a blueprint for action for the integrated use of all higher education's resources in the education and preparation of the whole student. It is also a new way of understanding and supporting learning and development as intertwined, inseparable elements of the student experience.

Senate Bill 2398 would penalize universities for having the non-teaching personnel required to maintain and expand education, research and service programs.

If all that was expected of higher education was that we teach, then perhaps this bill would have merit. But you have told us in clear terms that you expect more of us. At NDSU and across the North Dakota University System, we have made great progress in creating new jobs. But we have much more work to do. Senate Bill 2398 is a threat to university research and service programs.

Testimony before Senate Education Committee On SB 2398

**By Chancellor Eddie Dunn
North Dakota University System**

January 30, 2007

Chairman Freborg and members of the Senate Education Committee. For the record, I am Eddie Dunn, Chancellor of the North Dakota University System. Thank you for the opportunity to provide testimony on SB 2398.

Upon the recommendation of all 11 colleges and universities in the North Dakota University System, the SBHE has taken a position in opposition to SB 2398. Others will speak to the concerns they have with the specific provisions of the bill. I will confine my comments to the additional accountability measures that would be required by this legislation.

The Roundtable on Higher Education – which is a collaborative effort involving over 20 legislators, a number of private sector representatives, college presidents, the State Board of Higher Education, the Executive Branch and public and Tribal colleges – spent the better part of the 1999-01 interim legislative period examining the trends and opportunities impacting North Dakota.

One of the primary reasons the Roundtable was formed was to address the issue of the lack of a common vision and a clear set of expectations for higher education coupled with a specific set of agreed-upon accountability measures. The accountability measures developed by the Roundtable have been adopted by the legislature and have also been reviewed and refined as necessary each legislative session. I have attached the latest form that was used by the 2005-07 interim Higher Education Committee for that review.

The University System also publishes an Annual Accountability Measures Report and reviews it with the House and Senate Appropriations Committees during legislative years and with the interim Higher Education Committee during non-legislative years.

The main point I would like to make is, there currently are 31 accountability measures that have been agreed upon and which are used to assess the performance of the colleges and universities in the University System. The Roundtable members anticipated there will likely be a tendency to add more accountability measures. Therefore, one of the 12 key principles adopted by the Roundtable addresses that issue by including a statement in its report which reads: "Limit the freedom of other parties to expect accountability outside the domains established and agreed upon." I have

attached a report titled, "Summary of Key Principles of the Roundtable on Higher Education," which references that recommendation.

The North Dakota Roundtable model, with its accountability measuring system, has received several national honors and is being used as a model for other states. This collaborative effort has resulted in impressive performance improvements by the colleges and universities within the NDUS. We would encourage the committee to resist adding more measures to a system that is working extremely well.

Thank you again for the opportunity to provide comments. I would be happy to respond to questions.

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Form for Use by Key Stakeholders in Identifying Accountability Measures to be Retained, Revised, Deleted or Added

July 8, 2006

Stakeholder Group: _____ (SBHE, Executive Branch, Legislature, NDUS, Campuses, or Private Sector)

Identification #	Title of Accountability Measure	Source of Measure		Recommendation			
		Legis. Mandated	SBHE Mandated	Recomm. Retaining	Recomm. Revising	Recomm. Deleting	Recommend Adding (Please Specify)
	Cornerstone 1: Economic Development Connection						
ED1	Enrollment in entrepreneurship courses and the number of graduates of entrepreneurship programs	Legis 2.a.					
ED2	Percentage of University System graduates obtaining employment appropriate to their education in the state	Legis 2.b.					
ED3	Number of businesses and employees in the region receiving training	Legis. 2.c.					
ED4	Research expenditures in proportion to the amount of revenue generated by research activity and funding received for research activity	Legis 5.d.					
ED5	Workforce training information, including levels of satisfaction with training events as reflected in information systematically gathered from employers and employees receiving training		SBHE-1				
	Cornerstone 2: Education Excellence						
EE1	Student performance on nationally recognized exams in their major fields compared to the national averages	Legis 1.a.					
EE2	First-Time Licensure Pass Rates compared to other states	Legis 1.b.					

		Source of Measure		Recommendation			
Identification #	Title of Accountability Measure	Legis. Mandated	SBHE Mandated	Recomm. Retaining	Recomm. Revising	Recomm. Deleting	Recommend Adding (Please Specify)
EE3	Alumni-reported satisfaction with preparation in selected major, acquisition of specific skills, and technology knowledge and abilities	Legis 1.c.					
EE4	Student-reported satisfaction with preparation in selected major, acquisition of specific skills, and technology knowledge and abilities	Legis 1.c.					
EE5	Employer-reported satisfaction with preparation of recently hired graduates	Legis 1.d.					
EE6	Student graduation and retention rates	Legis 1.f.					
EE7	Non-completers satisfaction – levels of satisfaction and reasons for non-completion as reflected in a survey of individuals who have not completed their program or degree		SBHE-2				
EE8	Student goals – levels and trends in the number of students achieving goals – institution meeting the defined needs/goals as expressed by students		SBHE-3				
	Cornerstone 3: Flexible and Responsive System						
FRS1	Biennial report on employee satisfaction relating to the university system and local institutions	Legis 1.e.					
FRS2	Levels of satisfaction with responsiveness, as reflected through responses to evaluations of companies receiving training (combined 1.c., 1.d., and 7.e.)		SBHE-4				

Identification #	Title of Accountability Measure	Source of Measure		Recommendation			
		Legis. Mandated	SBHE Mandated	Recomm. Retaining	Recomm. Revising	Recomm. Deleting	Recommend Adding (Please Specify)
	Cornerstone 4: Accessible System						
AS1	Number and proportion of enrollments in courses offered by non-traditional methods						
AS2	Tuition and fees on a per-student basis compared to the regional average	Legis 3.a.					
AS3	Tuition and Fees as a percentage of median North Dakota Household Income	Legis 4.a.					
AS4	Student enrollment information, including: (a) Total number and trends in full-time, part-time, degree-seeking and non-degree-seeking students being served and (b) The number and trends of individuals, organization, and agencies served through noncredit activities	Legis 4.b.					
AS5	Student participation-levels and trends in rates of participation of (a) Recent high school graduates and nontraditional students, and (b) Individuals pursuing graduate degrees		SBHE-5				
	Cornerstone 5: Funding and Rewards						
FR1	Cost per student in terms of general fund appropriations and total University System funding		SBHE-6				
FR2	Cost per student and percentage distribution by major function (combined 4.d., 5.a., 6.e., and 5.b. from 2004 report)	Legis 4.c.					
		Legis 5.a.					

Identification #	Title of Accountability Measure	Source of Measure			Recommendation			
		Legis. Mandated	SBHE Mandated	Recomm. Retaining	Recomm. Revising	Recomm. Deleting	Recommend Adding (Please Specify)	
FR3	Per Capita General Fund Appropriations for Higher Education							
FR4	State General Fund Appropriation levels for University System institutions compared to peer institutions' general fund appropriation levels.	Legis 4.d.						
FR5	Ratio measuring the funding derived from operating and contributed income compared to total University System funding	Legis 4.e.						
FR6	Ratio measuring the amount of expendable net assets as compared to the amount of long-term debt	Legis 5.b.						
FR7	Ratio measuring the amount of expendable fund balances divided by total expenditures and mandatory transfers	Legis 5.c.						
FR8	Ratio measuring net total revenues divided by total current revenues	Legis 5.e.						
FR9	Higher education financing- a status report on higher education financing as compared to the Long-Term Finance Plan	Legis 5.f.						
FR10	Ratio of incentive funding to total NDUS state general fund appropriations		SBHE-7					
FR11	Ratio of NDUS state general fund appropriation levels to total state general fund appropriations		SBHE-8					
	SUBTOTALS	22	9					
	GRAND TOTAL		31					

Summary of Key Principles
Of the Roundtable on Higher Education
(Extracted from Roundtable Report of May 25, 2000)
March 23, 2006

I. THE FUNDAMENTAL PRINCIPLE OF THE ROUNDTABLE (I.E., THE ESSENCE OF THE AGREEMENT AMONG THE STAKEHOLDERS) IS:

In addition to providing educational excellence, the colleges and universities are charged with being a primary engine for expanding the economy of North Dakota, and in turn, are to share accordingly in the benefits of that expansion.

II. Other Key Principles:

Other Key Principles, as stated in the Executive Summary and the Cornerstone sections of the Roundtable Report, are:

1. **An Engaged University System:** "Bold steps are needed to change the downward trajectory of the state." And, "The University System must be a proactive participant in shaping the desired future."
2. **New Relationship Based on Trust and Common Purpose:** "There must be relationship between the NDUS and the state which is based on trust and common purpose rather than suspicion and skirmishes over power."
3. **Flexibility with Accountability:** "The basis for the new relationship is flexibility with accountability."
4. **A Unified System:** "The University System is to function as a system, not as a collection of campuses."
5. **Entrepreneurial:** "The System is to operate in a much more entrepreneurial manner" (with tolerance for risk-taking).
6. **All of North Dakota must Benefit:** "All of North Dakota must benefit, not just the urban areas."
7. **Accessible and Responsive:** "The System is to be accessible and responsive to all citizens of the state, both individual and corporate."
8. **Balanced and Affordable:** "Funding provided by the state and from the students must be properly balanced so student costs for postsecondary education remain affordable to all North Dakota citizens."
9. **Grow Together:** "Old solutions – such as closing campuses and redirecting resources – are not adequate to the task. The state and the NDUS must grow together, not contribute to each other's decline."
10. **Limit Accountability Measures:** "Limit the freedom of other parties to expect accountability outside the domains established and agreed upon."
11. **Make Changes to Unleash the Potential:** "Free up and unleash the potential of the NDUS – to change the budget-building, resource allocation, and audit practices to reflect the new compact between the state and the University System."
12. **A New Funding Mechanism:** "Develop a funding mechanism structured around three primary budgetary components:"
 - a. *Base funding* used to sustain the academic capacity of each campus. The adequacy of the base funding for each institution is measured by comparison to other external benchmarks (i.e., peer institutions in other states);
 - b. *Incentive funding* which creates incentives and/or rewards in furtherance of the State's and Roundtable's priorities.
 - c. *Asset funding* which supports the maintenance of the physical assets of the State's University System.

III. GOAL OF ROUNDTABLE:

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.

IV. CORNERSTONES:

The Roundtable concluded the University System for the 21st Century in North Dakota should be built upon six key cornerstones. Those key cornerstones are:

Cornerstone 1: Economic Development Connection – Direct connections and contributions of the University System to the economic growth and social vitality of North Dakota.

Cornerstone 2: Education Excellence – High quality education and skill development opportunities which prepare students to be personally and professionally successful, readily able to advance and change careers, be life-long learners, good citizens, leaders, and knowledgeable contributing members of an increasingly global and multi-cultural society.

Cornerstone 3: Flexible and Responsive System – A University System environment which is responsive to the needs of its various clients and is flexible, empowering, competitive, entrepreneurial, and rewarding.

Cornerstone 4: 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, workforce training opportunities, and technology access and transfer – and does so with the same performance characteristics as described in the “Flexible and Responsive System” Cornerstone.

Cornerstone 5: 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 – assures achievement of the expectations envisioned.

Cornerstone 6: Sustaining the Vision – A structure and process which assures the University System for the 21st century, as described by these cornerstones, remains connected, understood, relevant, and accountable to the present and future research, education, and public service needs of the state and its citizens – sustaining the vision.

University of North Dakota

Phil Harmeson, Senior Associate to the President

Testimony Regarding SB 2398

January 30, 2007

Mr. Chairman and Members of the Committee:

The University of North Dakota would like to make two major points as it strongly urges you to vote a DO NOT PASS committee recommendation on SB 2398

Simply:

- The reporting implications are massive, and
- The consequences could be financially devastating

Language in SB2398 requires (in italics):

"...detailed analysis of cost increases...which are not directly related to classroom instruction."

The accepted definition of instruction function for accounting purposes encompasses about 40 percent of the institution's budget. The remaining 60 percent (about \$210 million) of the institution's budget would be subject to the "...detailed analysis..."

"Document and describe, for a period covering four bienniums, all full time equivalent positions...which are not classroom instructor positions." (Should that be required the following is the impact on UND:

- Faculty positions total 790
- Currently there are about 1,772 full time positions which are not classroom instructor positions. Documenting and describing these positions over four biennia will be a huge manual effort.

"Include information regarding the necessity for and salary history of all positions that are described (above)...which have a salary in excess of \$100,000."

- Although this will affect far fewer positions due to the salary threshold, compiling information as to the "necessity" of each will be a manual process.

"Describe actions taken by the university system to reduce nonclassroom costs."

Mr. Chairman and members of the committee UND makes a huge effort to establish and maintain instruction as the core function of UND. Based on FY2005 data, UND spent 40 percent of the total expenditures on instruction as compared to the average 26 percent of the total expenditures spent by its peers.

Mr. Chairman and members of the committee under the requirements of 2398 one must ask: What legislative question(s) are we trying to answer and what are we trying to accomplish?

Particularly troubling is the language of the legislative Intent portion of the bill: *"...in preparing a budget for submission to the sixty first legislative assembly, ensure that nonclassroom expenses are reduced by at least the same percentage as tuition is increased."*

If we assume that nonclassroom expenses encompass all functions except instruction, the result of the intent language is to shrink the size/expenditures of the institution. This will occur because about 40 percent of the total institutional expenditures are categorized as instruction. Tuition, not including fees, represents about 20 percent of the revenue. Based on legislative intent a 5 percent increase in tuition affecting about 20 percent of the total would trigger a 5 percent reduction of the remaining 60 percent of the expenses. The result would have a devastating impact on all non-instruction functions including research, public service, academic support, institutional support, physical plant, scholarships/fellowships and auxiliaries.

If legislative intent requires reduced nonclassroom expenditures, one could legitimately ask, how do we offset inflationary increases in items such as salaries, health insurance premiums, utility costs etc. that will occur in all non-instruction functions?

We will be glad to supply this committee with any and all information it may request. However, a bit of background information on F & A might be appropriate.

- F & A (facilities and administrative cost rate) = Indirect Cost
- F & A is based on actual costs and includes building and equipment depreciation, operation and maintenance of physical plant, general administration, departmental administration, sponsored programs administration, library and student services.
- It is critically important that F & A recovery be assigned to support ongoing costs on which the rate calculation is based. For example, as new research space is built, funds are needed to pay the costs associated with the new square footage (operations and maintenance).

- A growing research enterprise also demands the scope and capacity to provide services in areas such as human resources, payroll, accounting, purchasing, safety, internal auditing, legal, asset management and risk management (i.e. general administration).
- A portion of the F & A recovery is allocated back to the departments (rebate). This allocation recognizes the departmental administration and equipment depreciation components of the rate. Each department has an approved statement on file as to how these funds will be utilized in support of research and creative activity.

Thus, if the concern is that F & A money is not being distributed back into the educational enterprise the response is that is clearly not the case at UND. As this testimony indicates, faculty at UND are very cognizant of the reintroduction of recovered F & A into the educational mission of the institution.

In closing, the overriding issues return to the onerous reporting requirements that would be required by this bill as well as the huge financial impact it will have on our institution.

We urge a DO NOT PASS on SB 2398.

Thank you.

**SB 2398 TESTIMONY
SENATE EDUCATION COMMITTEE
CHAIRMAN – SENATOR LAYTON FREBORG**

Good Morning Chairman Freborg and members of the Senate Education Committee.

For the record I am Representative Merle Boucher, House Member from District Nine (9).

SB 2398 addresses the reporting of performance and accountability measures required by the Board of Higher Education.

This legislation would require and request the reporting of costs and cost increases which are not related to the classroom instruction. Simply, the Board of Higher Education would be responsible for identifying non-instructional programs and related costs, staff costs included.

In recent years we have witnessed significant increases in student tuition charges. It is important and appropriate for the legislature to know how much of those increased tuition costs are going directly towards their actual education.

This is an important matter and I urge the Senate Education Committee to give serious support for a DO PASS recommendation.

Thank you, Mr. Chairman and Members of the Committee. I would yield to any questions.

Respectfully submitted:

Merle Boucher, Minority Leader

North Dakota House of Representatives