

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

HIGHER EDUCATION COMMITTEE

Wednesday, July 30, 2008

Plains Room, Memorial Union, North Dakota State University
Fargo, North Dakota

Representative Ken Svedjan, Chairman, called the meeting to order at 9:00 a.m.

Members present: Representatives Ken Svedjan, RaeAnn G. Kelsch, Matthew M. Klein, Jasper Schneider, Bob Skarphol, John D. Wall, Clark Williams; Senators Ray Holmberg, Elroy N. Lindaas, Dave Oehlke, Tracy Potter, Larry J. Robinson

Members absent: Representatives Lois Delmore, Kathy Hawken, Bob Martinson; Senators Karen K. Krebsbach, Dave Nething

Others present: Tony Grindberg, State Senator, Fargo

Jim W. Smith, Legislative Council, Bismarck

Representative Rick Berg, member of the Legislative Council, was also in attendance.

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

It was moved by Senator Robinson, seconded by Representative Kelsch, and carried on a voice vote that the minutes of the June 26, 2008, meeting be approved as distributed.

Mr. Keith D. Bjerke, Vice President for University Relations, North Dakota State University, welcomed the committee to the campus. He said major issues facing the campus include deferred maintenance, competitive faculty and staff salaries, and student costs.

HIGHER EDUCATION STUDY

Chairman Svedjan called on Mr. Dennis Jones, President, National Center for Higher Education Management Systems, to review higher education policy areas for finance and governance.

Higher Education Financing

Mr. Jones said criteria for developing a state higher education funding model include sustaining the viability of all North Dakota University System institutions, enhancing the collaboration and transparency of decisionmaking, and reinforcing the focus on the system of institutions. He said a higher education funding model may include several components, including base funding, investment funding, noncapital asset maintenance, incentive funding, and new capital funds.

Mr. Jones said base funding should be used for ongoing expenses and may include annual increases based on the higher education cost adjustment calculation. He said the state share of base funding

may vary depending on the type of institution. Mr. Jones said special reviews of base funding may be needed for smaller institutions.

Mr. Jones suggested state funds provide the following portion of base funding increases:

Institution Type	Percentage of Base Funding Increases Provided by State Funds
Research	60
Comprehensive	65
Four-year	70
Two-year	75

In response to a question from Senator Potter, Mr. Jones said increases in base funding would require more state funds to be used as well as an increase in revenue collected from tuition.

In response to a question from Representative Skarphol, Mr. Jones said research institutions may need to obtain a larger percentage of base funding increases from tuition revenue. He said obtaining more revenue from tuition would more closely align the research universities with peer institutions in other states.

In response to a question from Representative Berg, Mr. Jones said the higher education cost adjustment calculation is a method of identifying the cost increases incurred by higher education institutions similar to the consumer price index and previous indicators used for determining higher education funding increases. Mr. Jones said he would provide the committee with additional information regarding the higher education cost adjustment calculation.

Mr. Jones said investment funds can be used for the creation of new educational programs, including online programs, learning centers, and additional student services capacity. He said two-year programs could also be offered at four-year institutions.

Mr. Jones said proposed initiatives for investment funding should be prioritized by the University System and approved individually by the Legislative Assembly. He said once an investment funding proposal is approved, the funded amount should be made part of the base funding amount for the institution. He said the Higher Education Roundtable could be used to discuss proposed initiatives before the University System submits its budget request.

In response to a question from Senator Oehlke, Mr. Jones said collaboration between two-year and

four-year campuses could be used to offer two-year programs at four-year institutions. He said a four-year campus could also develop two-year programs.

In response to a question from Representative Berg, Mr. Jones said it would be appropriate to provide funding for workforce initiatives from investment funds.

In response to a question from Representative Svedjan, Mr. Jones said enrollment increases will provide institutions with additional tuition revenue. He said campuses with declining enrollment may need to be reviewed separately.

Representative Svedjan said more time may be needed during legislative sessions to discuss higher education policy.

Mr. William G. Goetz, Chancellor, North Dakota University System, said more collaboration may be needed between higher education and private industry to allow new programs to be developed quickly to meet industry demand.

Mr. Jones said flexibility in higher education funding is needed to allow campuses to develop new programs quickly. He said Georgia provides funding for these types of program changes.

In response to a question from Representative Wall, Mr. Jones said offering two-year programs at four-year institutions will not duplicate existing programs if different students are engaged. He said two-year campuses could provide instruction on four-year campuses, if feasible.

In response to a question from Senator Oehlke, Mr. Jones said campuses could reallocate funds internally for new programs. He said new programs would still need to be reviewed to determine if they conform to overall system goals.

Representative Berg said higher education policy needs to focus on the overall benefit to the state rather than an individual institution. He expressed concern that institutions compete within the state for students and funding. He said higher education needs to be responsive to the needs of the economy.

In response to a question from Representative Svedjan, Mr. Jones said the state should slowly phase in changes to the higher education financing model. He said the state should have a set of initiatives established prior to making any changes.

Senator Holmberg said the Higher Education Roundtable incurred problems during the last biennium due to concern with peer funding models and the lack of available data for analysis. He said difficulty was also encountered when trying to engage private sector members.

Mr. Jones said institutions need adequate funding to maintain noncapital assets. As part of this, he said, campuses need the ability to retain highly qualified faculty. He said approaches to maintaining noncapital assets include peer-based equity funding and a competitiveness pool. He said funds received by an institution from a competitiveness pool should become part of its base funding amount for the next budget request.

In response to a question from Representative Svedjan, Mr. Jones said the chancellor's office needs to ensure institutions are spending funds appropriately. He said controls can be established to limit spending to specific areas. He said it is important to recognize faculty or staff positions that are critical to the success of an institution.

In response to a question from Representative Skarphol, Mr. Jones said institutions may maintain accountability by reporting the use of any additional funds received.

In response to a question from Representative Berg, Mr. Jones said better data is needed to monitor trends in employment of University System graduates. He said better data is also needed to provide information on reasons faculty members leave system institutions.

In response to a question from Representative Berg, Mr. Jones said criteria can be established to determine if the higher education system is effective. He said capacity to graduate and place students, the amount of research funds received, and the number of faculty leaving can be used as competitiveness measures.

Mr. Jones said incentive funding should be used to reward institutions that accomplish state priorities. He said a separate pool of funds could be used for incentive funding and institutions could only receive funds for meeting clearly specified criteria. He said incentive funding should not become a part of an institution's future base funding.

In response to a question from Representative Skarphol, Mr. Jones said eligibility for receiving incentive funds should be limited to avoid institutions changing the focus of their missions.

In response to a question from Representative Svedjan, Mr. Jones said incentives for research universities can be linked to the number of graduates of professional programs.

Representative Berg said inherent incentives may already exist for institutions. He said institutions receive additional tuition revenue from increasing enrollments.

Mr. Jones said some states focus efforts on having students complete programs that are the least costly to the state.

In response to a question from Representative Svedjan, Mr. Jones said discussions between the State Board of Higher Education and the Legislative Assembly should occur prior to a legislative session. He said the Higher Education Roundtable would be an appropriate forum to discuss higher education priorities.

In response to a question from Representative Skarphol, Mr. Jones said the state may not realize any savings by providing an incentive for students to graduate from a baccalaureate institution in four years. He said the state may be able to increase savings by reducing the number of courses taken by students that are not needed to complete a college program. He said the state may need to focus more

on programs that take less than two years to complete.

In response to a question from Representative Berg, Mr. Jones said options are available for increasing the number of students that graduate from a program during the normal program length. He said funding for institutions can be reduced after a student achieves a certain number of credit-hours of education. He said Indiana has been exploring options for providing program completion incentives.

Mr. Jones said a priority list for new capital projects should be created by the State Board of Higher Education. He said the Legislative Assembly should then review the projects and approve each one individually. He said a formula should be developed for funding the maintenance of existing capital assets. He said institutions should report annually on the use of funds provided for maintenance.

In response to a question from Representative Svedjan, Mr. Jones said a determination needs to be made for the responsibility of maintaining new capital assets. He said it may not be appropriate to use state funds to maintain buildings that were built with private funding.

Representative Skarphol expressed concern with limitations that currently exist for monitoring deferred maintenance expenditures on campuses. He said it is important to know how institutions are spending funds allocated for deferred maintenance and extraordinary repairs.

In response to a question from Senator Robinson, Ms. Laura Glatt, Vice Chancellor for Administrative Affairs, North Dakota University System, said the University System currently has deferred maintenance needs of approximately \$110 million. She said the current deferred maintenance formula results in approximately \$35 million of additional maintenance costs each biennium.

In response to a question from Representative Kelsch, Mr. Jones said outstanding University System deferred maintenance needs can be reduced by providing additional funding. He said it is important to recognize that some maintenance costs can be reduced by removing unusable buildings.

Senator Robinson expressed concern regarding the lack of new capital projects at certain campuses. He said campuses with enrollment concerns may be further hindered by a lack of capital funding.

In response to a question from Senator Lindaas, Mr. Jones said different levels of deferred maintenance exist at institutions. He said institutions need to determine project priorities to ensure critical projects are completed.

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

Higher Education Governance

Mr. Allen H. Knudson, Legislative Budget Analyst and Auditor, presented a memorandum entitled [*Imposition of Additional Qualifications on Members of the State Board of Higher Education*](#). He said in

general, a legislative body is prohibited from imposing additional qualifications upon positions that have qualifications established by the constitution.

Mr. Goetz said the Legislative Assembly needs to have a close working relationship with the State Board of Higher Education and private sector to review higher education policy. He said many of the board's higher education goals are the same as those of the Legislative Assembly. He said the board plans to review higher education objectives, including mission, vision, financial plans, and tuition.

Mr. Goetz said new board members complete an orientation process conducted by the University System office. He said several higher education areas are reviewed, including board structure, demographics, finance, workforce issues, mission, academic affairs, and student affairs. He said board members also have opportunities for professional development by attending national conferences.

In response to a question from Senator Robinson, Mr. Goetz said the board may need to evaluate options for increasing the number of opportunities for board members to visit campuses.

In response to a question from Representative Kelsch, Mr. Goetz said higher education conferences are reviewed in advance to determine which conferences are appropriate for members to attend.

Mr. Jones said the Legislative Assembly should consider reviewing and updating higher education accountability measures. He also said the selection process for State Board of Higher Education members should be updated to encourage more applicants.

In response to a question from Representative Kelsch, Mr. Jones said communication between the Legislative Assembly and State Board of Higher Education is important. He said it may be appropriate for new board member orientation to include a session with the Higher Education Committee chairman.

Representative Kelsch expressed concern regarding the constitutional limits placed on State Board of Higher Education members. She said limiting the number of members that have baccalaureate degrees from an institution may be affecting the quality of applicants for open positions.

In response to a question from Representative Svedjan, Mr. Jones suggested the Legislative Assembly review higher education goals and the higher education accountability report. He said a review of priority areas prior to budget submission each biennium may be beneficial.

Mr. Jones said the State Board of Higher Education should consider developing admissions criteria for each institution, developing a standard placement examination, reviewing institutional roles and missions, and proposing a revised financing model.

Chairman Svedjan announced the Higher Education Roundtable is tentatively scheduled to meet on October 8, 2008. He said invitations are being sent to representatives of education, government, and the private sector.

Representative Skarphol suggested the committee receive information regarding possible financial incentives for students to complete college programs in a designated length of time. Chairman Svedjan asked the Legislative Council staff to provide this information.

Representative Kelsch suggested the committee receive information regarding the cost of recommended finance model proposals. Mr. Jones said he would provide the committee with the information at a future meeting.

The Legislative Council staff distributed documents prepared by the University System office regarding CCbenefits, Inc., services and the history of the North Dakota University System. Copies of the documents are on file in the Legislative Council office.

It was moved by Representative Skarphol, seconded by Representative Kelsch, and carried

on a voice vote that the meeting be adjourned subject to the call of the chair.

Chairman Svedjan adjourned the meeting at 2:45 p.m.

Brady A. Larson
Fiscal Analyst

Allen H. Knudson
Legislative Budget Analyst and Auditor

ATTACH:1