NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

HIGHER EDUCATION COMMITTEE

Wednesday, January 18, 2012
Roughrider Room, State Capitol
Bismarck, North Dakota

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

Members present: Representatives Bob Skarphol, Thomas R. Beadle, Lois Delmore, Mark A. Dosch, Kathy Hawken, Joe Heilman, Dennis Johnson, Nancy Johnson, RaeAnn G. Kelsch, Bob Martinson, David Monson, Mark Sanford, Clark Williams; Senators Tim Flakoll, Tony Grindberg, Karen K. Krebsbach, Dave Nething, Larry Robinson, Mac Schneider, Ryan M. Taylor

Member absent: Senator Ray Holmberg

Others present: Jim W. Smith, Legislative Council, Bismarck

Representative Al Carlson, Chairman of the Legislative Management, was also in attendance.

See Appendix A for additional persons present.

It was moved by Representative Delmore, seconded by Senator Robinson, and carried on a voice vote that the minutes of the November 3-4, 2011, meeting be approved as distributed.

HIGHER EDUCATION STUDY

Higher Education Performance Funding Methods

Chairman Skarphol called on Mr. Travis Reindl, Postsecondary Education Program Director, National Governors Association, Washington, D.C., for a presentation (Appendix B) and committee discussion regarding higher education performance funding methods. Mr. Reindl said performance funding methods use metrics to determine the success of higher education institutions in meeting specified goals. He said performance funding metrics allow stakeholders to:

- Understand student and college success.
- Identify specific challenges and opportunities for improvement.
- Review progress over time.
- Hold students, colleges, and the state accountable to the public.

Mr. Reindl said performance funding metrics focused on student completion may measure success based on progress or outcomes. He said common performance funding metrics focused on student completion include the following:

Progress-Based Metrics	Outcome-Based Metrics
• Remediation entry and success • Success in first-year college courses • Credit accumulation • Retention rates • Course completion	• Degrees awarded annually • Graduation rates • Transfer rates • Time required and credits taken to complete a degree

In response to a question from Senator Flakoll, Mr. Reindl said metrics measuring student completion at an institution may need to be adjusted for students transferring from that institution and completing their education at another institution.

Representative Delmore said student completion metrics should be adjusted for unique student groups, such as older-than-average students who may be enrolled part time and unable to complete a program in four years. She said metrics should not discourage institutions from enrolling students from traditionally underserved demographic groups.

Mr. Reindl said performance funding metrics can also be based on efficiency and effectiveness. He said common efficiency and effectiveness metrics address the following areas:

- Meeting workforce needs.
- Student output relative to input.
- Return on investment.
- Quality of student learning.

Mr. Reindl said stakeholders should address the following questions when reviewing potential changes to higher education funding and governance:

1. Is there a clear sense of where North Dakota wants to be related to having an educated population?
2. Is there a clear connection between higher education outcomes and the needs of the state's economy both currently and in the future?
3. Does North Dakota have the staffing and technology to not just collect information but to make it actionable?
4. Is there a sense among key stakeholders that change is needed?

In response to a question from Representative Skarphol, Mr. Reindl said it is important to review trends over a period of time to determine if there is an improvement or decline in higher education performance. He said the cause of the improvement or decline in performance should be researched.

In response to a question from Representative Skarphol, Mr. Reindl said some performance funding metrics can be used for all institutions while other performance funding metrics should be focused on institution type and mission. He said funding distributions should be based on a limited number of metrics, but additional metrics without an associated funding component can be used to measure performance.

In response to a question from Representative N. Johnson, Mr. Reindl said certain broad performance measures, such as student completion, are used in several states. However, he said, the specific metric used may vary by each state. He said some states may use course completion as a metric while other states use program completion as a metric.

In response to a question from Representative Monson, Mr. Reindl said the definition of an underserved student varies based on the demographics of a state. He said examples of students that may be underserved include minority students, low-income students, or older-than-average students. He said it is important to provide incentives to institutions to continue to enroll and provide support for underserved students.

In response to a question from Senator Flakoll, Mr. Reindl said student behavior needs to be monitored to determine if student performance is changing. He said institutions should provide additional services to students that have declining academic performance.

In response to a question from Representative Dosch, Mr. Reindl said performance funding metrics can be differentiated for academic and research components at research institutions.

In response to a question from Representative Skarphol, Mr. Reindl said a portion of existing higher education funding can be reallocated for performance funding distributions rather than providing additional funding. He said the percentage of the overall higher education budget allocated to performance distributions varies significantly between states that use performance funding distributions.

In response to a question from Representative Sanford, Mr. Reindl said broad goals should be set for higher education so all institutions are able to contribute to the goals. He said additional goals may be set for individual institutions that align with the overall goals for higher education.

In response to a question from Representative N. Johnson, Mr. Reindl said some states allow institutions to select their performance metrics. He said this allows institutions to use metrics that are the most applicable to the institution type and mission.

In response to a question from Representative Skarphol, Mr. Reindl said the state should consider several items while developing a performance funding method, including changes in higher education leadership and the higher education governance structure. He said consideration should also be given to the amount of time and staff resources that are required for the development and implementation of a performance funding system. He said a new funding method may need to be phased in over two bienniums with the development of the methodology occurring during one biennium and implementation during the next biennium.

In response to a question from Representative Delmore, Mr. Reindl said performance funding metrics should be reviewed periodically to confirm that the metrics are still aligned with state needs and goals. However, he said, the metrics should remain fairly constant so institutions have time to make adjustments to improve performance related to the metrics.

Representative Delmore said institutions should be involved in the development of performance metrics. She said metrics should be tested prior to implementation to ensure the metrics are applicable to institutions.

In response to a question from Representative Williams, Mr. Reindl said the development of a performance funding method should include discussion among individuals with a strong understanding of the current higher education system as well as individuals with new ideas. He said any goals developed for higher education should be reflective of the current needs of the state.

In response to a question from Senator Grindberg, Mr. Reindl said the state of Indiana has partnered with the Western Governor's University to improve education access in Indiana through online courses. He said students enrolled in the university are eligible for state financial aid.

In response to a question from Representative Skarphol, Mr. Reindl said cost-savings should not be the only goal of implementing a performance funding method. He said goals should focus on priority areas such as student access and completion.

Representative Skarphol said higher education stakeholders in the state agree that higher education reform is needed, but the reasons for needing reform differ among stakeholders.

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

North Dakota University System Long-Term Finance Plan

Ms. Laura Glatt, Vice Chancellor for Academic Affairs, North Dakota University System, Bismarck, presented an overview (Appendix C) of the University System's long-term finance plan. She said the long-term finance plan was adopted in 2001 and contains the following components:

1. Base operating funding - Includes parity funding to continue current programs and equity funding to move each institution closer to its peer benchmark.
2. Capital assets funding - Includes funding for the repair and replacement of facilities and

infrastructure, for deferred maintenance, and for major capital projects.

3. Incentive funding - Funding provided to the State Board of Higher Education for initiatives to support University System and state priorities.

Ms. Glatt said equity funding is distributed under the current finance plan through a peer benchmark comparison system. She said the per student funding provided to each University System institution is compared to the per student funding provided to peer institutions. She said equity funding distributions are allocated to institutions based on a weighted system to provide more funding to institutions that are furthest from their peer benchmarks.

Ms. Glatt said $36.8 million of equity funding has been distributed to institutions from the 2001-03 biennium through the 2011-13 biennium as follows:

Institution	Equity Funding Allocations (Amounts Shown in Millions)
Bismarck State College	$2.4
Lake Region State College	1.1
Williston State College	0.6
University of North Dakota (UND)	12.2
North Dakota State University (NDSU)	15.4
State College of Science	0.5
Dickinson State University	1.9
Mayville State University	0.5
Minot State University	1.2
Valley City State University	0.5
Dakota College at Bottineau	0.5
Total	$36.8

Ms. Glatt said the University System 2013-15 biennium budget request will not include a request for equity funding. She said legislative intent included in 2011 House Bill No. 1003 requires the State Board of Higher Education to submit its 2013-15 budget request without an equity funding component.

In response to a question from Representative Martinson, Ms. Glatt said the data used for peer benchmark comparisons is obtained from the federal Department of Education. She said the data provided is generally several years old due to the amount of time required to compile and report the data.

In response to a question from Representative Carlson, Ms. Glatt said equity funding provided to institutions has been used to enhance existing programs and to start new programs in response to the needs of private business and industry.

Representative Carlson said emphasis needs to be placed on how additional funding for higher education will benefit the state. He said return on investment should be the primary consideration in determining if additional funding is provided for higher education. He said performance funding metrics should be developed prior to providing additional funding for higher education.

In response to a question from Representative Skarphol, Ms. Glatt said institution budget requests are based on specific institution strategies that relate to the overall University System strategic plan. She said the institutions and University System office report annually on progress in meeting the goals outlined in the strategic plan.

Mr. Bruce Bollinger, Vice President for Finance and Administration, North Dakota State University, Fargo, provided comments regarding the current University System long-term finance plan. He said NDSU agrees with the concept of developing a new funding model that is not based upon a peer funding comparison. He said NDSU does not believe that it receives an equitable amount of funding compared to its peers.

In response to a question from Representative Martinson, Mr. Bollinger distributed a schedule (Appendix D) detailing higher education general fund per student appropriations to each University System institution since 2001. He said NDSU receives less general fund support per student than most other University System institutions.

Representative Carlson requested additional information from the Legislative Council staff regarding the number of students at each institution that have an on-campus presence and the number of students at each institution that are distance education students.

Senator Nething suggested the committee receive information regarding the number and value of tuition waivers provided by each University System institution.

Ms. Alice Brekke, Vice President for Finance and Operations, University of North Dakota, Grand Forks, provided comments (Appendix E) regarding the current long-term finance plan. She said UND previously expressed concerns with the finance plan and whether certain programs and related funding should be included in peer comparisons.

UPDATE ON HIGHER EDUCATION ISSUES

Mr. Grant Shaft, President, State Board of Higher Education, Grand Forks, provided an update (Appendix F) on the status of the State Board of Higher Education's Maximizing Results Through Efficiencies initiative, the status of the development of the University System budget request for the 2013-15 biennium, and the status of the development of a performance funding method.

State Board of Higher Education's Maximizing Results Through Efficiencies Initiative

Mr. Shaft said the State Board of Higher Education is developing a Maximizing Results Through Efficiencies initiative to allow the University System to meet the needs of students and the state while improving education quality, access, and affordability. He said the initiative is not intended to reduce budget levels but to improve the University System's responsiveness to state needs and to demonstrate the

University System's commitment to achieving those needs. He said objectives of the initiative include:

1. Improving student retention and success.
2. Improving student access to programs and services.
3. Improving quality of student experience.
4. Controlling student costs.
5. Reducing complexity across the system and within individual campuses.
6. Providing effective and efficient delivery of instructional and administrative services.
7. Reinvesting savings into the system to enhance student success, strengthen programs tied to state needs, and retain high-quality faculty and staff.

Mr. Shaft presented the following schedule detailing selected proposed efficiencies:

Initiative	Selected Efficiencies
Cost-effective information technology system	• Develop a learning management system with a consistent software approach and shared curriculum content • Implement lecture capture software • Develop a document imaging scanning system with common software and hosting • Develop a unified communication system to deliver a consistent set of services and integrate various communications components
Academic process	• Reengineer general education curriculum to support collaborative processes • Review low-enrollment programs for potential elimination • Expand the availability of program credits through prior learning experiences • Align high school graduation requirements with preparation for college and work • Improve graduation rates by establishing differentiated admissions requirements for regional and research universities
Other	• Consolidate certain legal services into one office • Engage independent architect and engineer review services to analyze state funding capital project requests

In response to a question from Representative Carlson regarding the selection process for a new chancellor, Mr. Shaft said the State Board of Higher Education's Chancellor Search Committee has chosen six finalists who will have preliminary interviews in February. He said the number of finalists will then be reduced to three, and final interviews will take place in March. He said the pay range for the chancellor position is from $212,000 to $350,000 per year.

In response to a question from Representative Martinson, Mr. Shaft said the State Board of Higher Education needs to determine the role of the University System office and chancellor. He said the State Board of Higher Education should focus on broad policy issues while allowing each institution president to have control over institution operations.

Representative Dosch expressed concern regarding the State Board of Higher Education conducting a national search for the chancellor position as well as national searches for institution president positions. He said there are several qualified candidates for these positions within the state.

Mr. Shaft said the State Board of Higher Education wants to ensure that the best possible candidate is hired for these positions and a national search may be required to find the most qualified candidate.

Development of the University System 2013-15 Budget Request

Mr. Shaft said the State Board of Higher Education is developing a new higher education funding model to begin during the 2015-17 biennium. He said a transition funding model is being reviewed to use in the development of the University System budget request for the 2013-15 biennium. He said the 2013-15 biennium transition funding model:

- Is based on 2011-13 biennium approved funding levels for each institution.
- Includes funding for cost-to-continue and inflationary components.
- Supports new initiatives focused on statewide priorities.
- Requires institutions to provide a 10 percent match from existing funds for state priority initiatives.
- Minimizes tuition rate increases.

In response to a question from Representative Skarphol, Mr. Shaft said consideration may be given to allow institutions to raise funding from outside sources for the 10 percent match requirement for state priority initiatives.

In response to a question from Representative Martinson, Ms. Glatt said additional state funding may be required during the 2013-15 biennium to limit tuition rate increases at University System institutions.

In response to a question from Representative Monson, Ms. Glatt said institutions may have natural tuition revenue growth or declining tuition revenue during the 2013-15 biennium due to enrollment increases or decreases.

Representative Dosch said a large number of University System students are from out of state. He suggested increasing tuition rates but providing additional scholarship funding for resident students.

In response to a question from Representative Carlson, Mr. Shaft said the 2013-15 biennium budget request will use current base funding levels as a starting point. He said the budget request will not address peer funding differentials that are associated with the current long-term finance plan.

In response to a question from Representative Carlson, Mr. Shaft said the State Board of Higher Education is willing to develop performance-based measures. However, he said, the Legislative Assembly and executive branch officials should be a part of the development of the measures.

Representative Carlson said the development of a performance funding method should focus on the return on investment of funding for higher education. He suggested the State Board of Higher Education develop a performance funding proposal for consideration during the 2013 legislative session.

Development of a Performance Funding Method

Mr. Shaft provided the committee with an update on the development of a higher education performance funding method by the State Board of Higher Education. He said the board has identified the following potential measures:

Policy Area	Measure	Institutions Measured
Student completion	Associate degrees, bachelor's degrees, and undergraduate certificates awarded annually	All institutions
	Graduate degrees awarded annually	Minot State University and Valley City State University
	Graduate and professional degrees awarded annually	UND and NDSU
Student outcomes	Graduates employed in their field or enrolled in a graduate or professional program within one year of graduation	All institutions
Student retention	First-year student retention	Four-year institutions
	First semester student retention	Two-year institutions

In response to a question from Representative Skarphol, Mr. Shaft said selected performance funding measures will be implemented during the 2013-15 biennium on a trial basis without any related funding. He said funding will be requested as part of the 2015-17 biennium budget request for performance funding distributions.

Senator Flakoll said the Governor's task force on higher education funding has been reviewing various funding methods. He suggested a representative of the task force provide an update to the committee in April 2012.

COMMITTEE DISCUSSION AND STAFF DIRECTIVES

The Legislative Council staff distributed the following memos in response to committee requests made at the November 3-4, 2011, committee meeting:

- *Higher Education Committee Member Survey of Higher Education Reform Issues*.
- *North Dakota University System Office System Governance Funding - Survey of the Effect of Funding Reductions for the 2011-13 Biennium*.
- *North Dakota University System 2009-11 Biennium Financial Information*.

Chairman Skarphol announced the committee is tentatively scheduled to meet on April 17-18, 2012, and May 15, 2012.

No further business appearing, Chairman Skarphol adjourned the meeting at 3:30 p.m.

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Brady A. Larson
Senior Fiscal Analyst

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Allen H. Knudson
Legislative Budget Analyst and Auditor

ATTACH:6