NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

HIGHER EDUCATION COMMITTEE

Monday and Tuesday, July 30-31, 2012
Teton Grill, Stevens Hall, Williston State College
Williston, North Dakota

Representative Bob Skarphol, Chairman, called the meeting to order at 9:00 a.m. on Monday, July 30, 2012, at the entrance to Stevens Hall, Williston State College.

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

Members absent: Representatives Dennis Johnson, RaeAnn G. Kelsch

Others present: Stanley W. Lyson, State Senator, Williston

Patrick Hatlestad, State Representative, Williston

Gary R. Sukut, State Representative, Williston

See Appendix A for additional persons present.

It was moved by Senator Flakoll, seconded by Senator Holmberg, and carried on a voice vote that the minutes of the June 13, 2012, meeting be approved as distributed.

TOUR OF ENERGY-IMPACTED AREAS

The committee conducted a bus tour of the Williston area. Mr. Brad Bekkedahl, Vice President and Finance Commissioner, Williston City Commission, and Mr. Tom Rolfstad, Executive Director, Williston Economic Development, distributed information (Appendix B) and provided comments regarding the impact of energy development in the Williston area. The committee toured several areas of Williston, including the east industrial parks, downtown Williston, residential and commercial development to the west and north of the city, water treatment and distribution facilities, medical facilities, a temporary truck bypass route to the north and west of the city, and areas surrounding the airport.

While on the tour, Mr. Wayne Biberdorf, State Energy Impact Coordinator, Williston, provided an overview of the site operations of a drilling rig currently operating within the city.

The committee recessed for lunch at 12:00 noon and reconvened at 1:00 p.m. in the Teton Grill, Stevens Hall, Williston State College.

HIGHER EDUCATION STUDY

Performance Audit on Student Fees

Mr. Gordy Smith, Audit Manager, State Auditor's office, presented the report (Appendix C) on the performance audit of fees charged at North Dakota State University (NDSU) and the University of North Dakota (UND). He said the objective of the performance audit was to determine if fees are appropriately established and used by NDSU and UND.

Mr. Smith said the performance audit contains 24 recommendations. Based on the performance audit, he said, the State Auditor's office determined NDSU and UND have inappropriately used fee money. He said improvements are needed with the establishment of fees, and the State Board of Higher Education should ensure an effective process for fee establishment, monitoring, and use of fee money.

In response to a question from Senator Holmberg, Mr. Smith said significant cash balances are being maintained in certain funds in which fee money is deposited. He said either the State Board of Higher Education or individual higher education institutions need to determine what is considered an excessive amount of reserves for student fee revenue.

In response to a question from Representative Hawken, Mr. Smith said no fraudulent activities involving student fees were found during the audit.

In response to a question from Senator Flakoll, Mr. Smith said a large cash balance in a student fee fund may indicate that student fees are being carried in reserve and are not being used for the benefit of the students who paid the fees.

Senator Flakoll said a large cash balance in a student fee fund does not indicate that an institution is ineffectively monitoring student fee revenue. He said many state government funds have large cash balances due to the purpose of the fund. He said it is common for students to pay fees for capital improvements but not receive any benefit because a student may graduate from an institution prior to the completion of the capital improvement.

Representative Martinson said the performance audit report provides the opinion of the State Auditor's office regarding the use of student fees at UND and NDSU. He said people may have varying opinions regarding the proper use of student fee revenue. He said the audit should have focused more on

determining if fraudulent activities regarding the use of student fees were occurring at the institutions.

Mr. Smith said the purpose of financial statement audits and performance audits is to provide an opinion regarding whether information is being presented fairly or if operations can be improved. He said audits are not performed exclusively to determine if fraudulent activities are occurring. He said performance audits of North Dakota University System institutions provide recommendations for process improvements, and the State Board of Higher Education may choose whether to implement the recommendations.

In response to a question from Senator Taylor, Mr. Smith said the Legislative Assembly in 2011 approved a bill to implement statutory limitations regarding student fee increases. He said State Board of Higher Education approval is needed to increase mandatory fees between academic years by more than one percent of the average full-time, on-campus, undergraduate tuition rate at the institution.

Representative Skarphol said the State Board of Higher Education should regularly review policies to determine the appropriateness of student fees and whether changes are needed. He said the audit report on student fees provides recommendations to the board of areas that should be reviewed.

Dr. Dean L. Bresciani, President, North Dakota State University, Fargo, presented testimony (Appendix D) regarding the performance audit. He said the university has created a student fee advisory board for review and approval of mandatory student fees. He said the university is planning to simplify and make more information available regarding the collection and use of tuition and student fees. He said the university has received approval from the State Board of Higher Education to initiate a student success tuition model that will encourage students to take full 15-credit course loads. He said the tuition model will also eliminate most program and course fees by consolidating them into a single tuition charge.

Mr. Luke Brodeur, Student Body President, North Dakota State University, Fargo, presented testimony (Appendix E) regarding the student fee advisory board. He said the student fee advisory board is actively involved in evaluating and monitoring fees charged to students. He said the Student Senate supports the student success tuition model being proposed at the university.

In response to a question from Representative Heilman, Mr. Brodeur said the student success tuition model increases the transparency of a student's total educational costs. He said many students were previously not aware of additional fees being charged to students who enrolled in certain programs.

Dr. Robert Kelley, President, University of North Dakota, Grand Forks, presented testimony (Appendix F) regarding the performance audit. He said the university will continue to review, clarify, and improve campus policies and practices relating to the use of fees. He said the university is planning to address the recommendations identified in the performance audit report as follows:

- Strengthen the process for documenting travel expenses.
- Establish written guidelines requiring departments to file reports annually with the budget office on program and course fee cash balances.
- Conduct a comprehensive review of all course and program fees to identify areas where improvement can be made to ensure appropriate monitoring of fees.
- Upgrade training of administrative staff in all university departments and units on issues related to management of student fees.

In response to a question from Representative Skarphol, Dr. Kelley said a differentiated tuition model may encourage students to enroll in certain programs due to cost differences between programs.

In response to a question from Senator Holmberg, Dr. Kelley said it may not be appropriate to combine certain program fees with tuition. He said some programs, such as aviation, have program fees that are used for specific program purposes.

Mr. Duaine Espegard, President, State Board of Higher Education, Grand Forks, provided comments regarding the use of student fees on campuses. He said the board plans to have more oversight regarding student fees charged at each campus. He said increasing the University System's internal audit function will help ensure campus compliance with student fee policies.

Dr. Hamid Shirvani, Chancellor, North Dakota University System, said the fee system for the entire University System will be reviewed over the next three months. After the review, he said, a proposal will be submitted to the State Board of Higher Education regarding the fee structure.

In response to a question from Senator Flakoll, Mr. Smith said approximately 4,000 man hours were required for the student fees performance audit.

In response to a question from Representative Hawken, Mr. Smith said the State Auditor's office does not charge state agencies for performance audits. He said the performance audit function is supported through the office's general fund appropriation.

Impact of Energy Development on Education and the City of Williston

Mr. E. Ward Koeser, Mayor, City of Williston, welcomed the committee to Williston. He said Williston is one of the fastest-growing communities in the nation. He said Williston has been working to plan for growth and to have the proper infrastructure in place for future development.

In response to a question from Senator Robinson, Mr. Koeser said Williston has approximately 20,000 residents. He said the population is expected to increase to 30,000 residents in three years.

Mr. Biberdorf provided comments to the committee regarding the effect of energy development on western North Dakota. He said innovative ideas and additional funding will be needed to address the needs resulting from energy development.

Dr. Viola LaFontaine, Superintendent, Williston Public School District, provided comments to the committee regarding the impact of energy development on elementary and secondary education in Williston. She said the school district is experiencing a dramatic increase in student population. She said the school district is reopening a previously closed elementary school and adding portable classrooms to accommodate the increase in the number of students. She said the school district is also reviewing options to build new schools.

In response to a question from Senator Robinson, Dr. LaFontaine said the Williston Public School District is in the process of hiring 52 new teachers for the upcoming school year.

In response to a question from Representative Williams regarding the effect of teacher salaries on teacher qualifications, Dr. LaFontaine said most new teachers hired by the school district have less than two years of teaching experience.

In response to a question from Representative Delmore regarding transient students, Dr. LaFontaine said there were approximately 500 new students that enrolled in the school district during the last academic year. She said of the total, approximately 200 students have left the district.

In response to a question from Senator Taylor, Dr. LaFontaine said approximately $10 million of additional funding will be needed for the upcoming academic year to address needs related to the increase in student enrollment. She said approximately $3 million of the funding will be provided by the state, and the remaining $7 million will need to be provided from the existing school district budget.

In response to a question from Representative Skarphol, Dr. LaFontaine said approximately 2,718 students are currently enrolled in the Williston Public School District. She said approximately 2,150 students were enrolled in the school district three years ago.

In response to a question from Senator Taylor, Dr. LaFontaine said school district employees have a difficult time obtaining child care services. She said the lack of available child care services has contributed to employee turnover.

Mr. Matt Grimshaw, Chief Executive Officer, Mercy Medical Center, Williston, and Dr. Joshua Wynne, Dean, University of North Dakota School of Medicine and Health Sciences, Grand Forks, provided comments regarding the health care needs of western North Dakota. Mr. Grimshaw said Mercy Medical Center is one of the fastest-growing medical centers in the country. He said clinic visits have increased 35 percent in the past year, and emergency room visits have doubled. He said it is difficult to recruit employees, and recent employee turnover has averaged 40 percent.

Dr. Wynne said the UND School of Medicine and Health Sciences is working with stakeholders to determine the health care needs of western North Dakota and how the medical school can help address those needs. He said the medical school has held focus groups in western North Dakota communities to determine the health care needs of the citizens.

Dr. Wynne said the UND School of Medicine and Health Sciences has adjusted admissions policies to reflect the provider needs of North Dakota. He said the medical school has determined that students from rural areas are more likely to practice medicine in a rural area following medical school. He said the medical school is reviewing options to further expand the medical services school class size and the number of available residencies.

In response to a question from Representative Delmore, Mr. Grimshaw said there is an increased need for training for emergency medical services responders. He said many emergency medical services responders in western North Dakota are volunteers.

Mr. Darin Krueger, Director, Williston Parks and Recreation District, provided comments regarding the impact of energy development on the park district. He said there has been an increase in the number of users of parks and recreation facilities in Williston. He said the purpose of the parks and recreation facilities is to improve the quality of life of residents.

Mr. Krueger said the park district is proposing to construct a wellness facility on the campus of Williston State College. He said the proposed facility is 243,000 square feet with a total cost estimated to be $73 million. He said the facility would be paid for from the proceeds of a one-cent city sales tax.

In response to a question from Representative Skarphol, Mr. Krueger said a maintenance plan for the facility would be created, and future maintenance costs would be paid from reserve funds.

The committee recessed at 4:55 p.m. and reconvened at 9:00 a.m. on July 31, 2012.

Comments by the Chancellor of the North Dakota University System

Dr. Shirvani said he is developing a plan for the future of the University System that includes the following five initiatives:

1. Access - Delineate admissions standards and student preparedness expectations at each institution.
2. Quality - Align secondary education completion requirements to postsecondary education preparation expectations. Parents need to know how students perform in college based on secondary education preparation.
3. Affordability - Increase awareness of affordability and expand the needs-based scholarship program. Place an emphasis on helping adult students who have completed

some college but do not have a college degree.

4. Learning - Review developmental education, including determining which institutions offer developmental education courses.
5. Accountability - Assess institution accountability and develop a plan regarding the use of tuition waivers.

Dr. Shirvani said he will provide information at the next committee meeting regarding details to implement the plan.

In response to a question from Representative Delmore, Dr. Shirvani said the proposed plan will address developmental education needs of adult students.

In response to a question from Senator Holmberg, Dr. Shirvani said he is reviewing options to develop a report to detail the success of secondary schools in preparing students for college.

Representative Hawken said teacher education programs at higher education institutions need to be reviewed to determine the quality of elementary and secondary education teacher preparation.

In response to a question from Representative Sanford, Dr. Shirvani said higher education institutions need to have clear missions and measures to determine institution success in fulfilling its mission. He said it is important to have open communications between all higher education stakeholders.

Senator Grindberg said approximately 10 years ago the Higher Education Roundtable allowed the University System the flexibility to grow North Dakota economy, which it has done. He asked Dr. Shirvani about quality versus quantity and how higher education completion statistics in California compared to North Dakota. Dr. Shirvani said California has a high number of students that take remedial education courses when entering college. He said California has a three-tiered higher education system, and remedial education is taught primarily at two-year institutions. He said North Dakota has an opportunity to address student preparation to allow students to come to college prepared. He said several factors cause students to need remedial education, including curriculum, lack of secondary education courses, and the quality of teacher education programs.

In response to a question from Representative Martinson, Dr. Shirvani said he is reviewing the current staffing levels of the University System office. He said he recently reassigned a senior staff member, and additional personnel changes may occur in the future. He said additional costs due to personnel reorganizations have been paid through savings from vacant staff positions.

In response to a question from Representative Skarphol, Dr. Shirvani said State Board of Higher Education policy requires a one-year notice prior to terminating certain senior-level staff positions. He said he will be reviewing the policy and providing any recommendations for changes.

Representative Martinson suggested the committee receive information regarding the current staffing levels of the University System office, including job descriptions of positions.

Representative Skarphol said the Legislative Audit and Fiscal Review Committee has requested the State Auditor's office to conduct a performance audit on the staffing levels and operations of the University System office.

Effect of Energy Development on Williston State College

Dr. Ray Nadolny, President, Williston State College, presented information (Appendix G) regarding the effect of energy development on the college. He said it is difficult for new employees to find housing in the Williston area. He said approximately 15 percent of institution employees currently live on campus.

Dr. Nadolny said the campus may request funding for the 2013-15 biennium for additional security and counseling positions. He said the campus may also request funding to increase employee salaries to remain competitive with other area employers.

In response to a question from Senator Robinson, Dr. Nadolny said employee turnover has been a major concern for the campus. He said noncompetitive salary levels are the main reason for employee turnover.

Update on Personnel Issues at Dickinson State University

Dr. D. C. Coston, President, Dickinson State University, presented information (Appendix H) regarding personnel changes at the university. He said several employees in leadership positions have resigned or retired. He said two early retirement agreements were approved that continue health insurance benefits to the retired employees for a limited time.

Dr. Coston said course grading practices at the university have been reviewed and found to be consistent with other similar institutions. He said the university is focusing on ensuring proper academic rigor, and a process has been implemented to analyze course grading practices.

University System Unrestricted Net Assets

Dr. Kelley presented information (Appendix I) regarding unrestricted net assets of UND. He said "net assets" are defined as total assets minus total liability. He said net assets are classified as one of the following:

1. Capital assets.
2. Restricted assets.
3. Unrestricted assets.

Dr. Kelley said unrestricted net assets are not designated for a specific use by an external party but may be obligated for specific purposes within the university.

Dr. Kelley said various financial ratios are used to determine the financial status of an institution. He reviewed various financial ratios for UND, including a viability ratio, current ratio, and working capital ratio.

In response to a question from Senator Robinson, Chairman Skarphol asked the Legislative Council staff to provide information to the committee regarding financial ratios of other University System institutions.

Dr. Bresciani provided comments regarding unrestricted net assets of NDSU. He said NDSU has approximately $59.6 million of unrestricted net assets. He said most of the unrestricted net assets at the institution are obligated for campus operations.

Dr. Shirvani presented information (Appendix J) regarding unrestricted net assets of the University System. He said unrestricted net assets consist of various assets, including cash, investments, accounts receivable, notes receivable, and inventories. He said unrestricted net assets may be obligated for auxiliary reserves, for quasi-endowment purposes, and for infrastructure improvement reserves.

OTHER BUSINESS

Senator Grindberg suggested the committee receive information regarding the cost to increase the amount of scholarships provided to students through the North Dakota academic and career and technical education scholarship programs.

Chairman Skarphol announced the committee is tentatively scheduled to meet on September 27, 2012, in Bismarck. He said the committee may also meet on October 16, 2012, in Bismarck if needed.

No further business appearing, Chairman Skarphol adjourned the meeting at 11:15 a.m.

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Brady A. Larson
Senior Fiscal Analyst

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Allen H. Knudson
Legislative Budget Analyst and Auditor

ATTACH:10