NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

HIGHER EDUCATION COMMITTEE

Tuesday, August 30, 2011
Roughrider Room, State Capitol
Bismarck, North Dakota

Representative Bob Skarphol, Chairman, called the meeting to order at 8:30 a.m.

Members present: Representatives Bob Skarphol, Thomas R. Beadle, Lois Delmore, Mark A. Dosch, Kathy Hawken, Joe Heilman, Nancy Johnson, RaeAnn G. Kelsch, 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

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

See Appendix A for additional persons present.

At the request of Chairman Skarphol, Mr. Allen H. Knudson, Legislative Budget Analyst and Auditor, reviewed the *Supplementary Rules of Operation and Procedure of the North Dakota Legislative Management*.

EXPANSION OF COMMITTEE DUTIES

Chairman Skarphol announced that Representative Al Carlson, Chairman, Legislative Management, assigned the following additional duties to the Higher Education Committee:

1. Examine alternative funding methods for higher education that reward outcomes, such as increasing the percentage of degrees awarded, increasing the percentage of on-time graduations, increasing the percentage of degrees awarded to low-income students, or increasing first-year student retention.
2. Review options for a funding methodology that is based on the actual cost of delivering an educational program.
3. Review options to develop a system of weighted student funding that incorporates a three-tiered funding philosophy and rewards the number of degrees awarded to students that are employed in the state following graduation.
4. Assume that historic spending levels are the initial indicator of the actual cost of educating students.

A copy of the letter assigning the additional duties is attached as Appendix B.

Representative Martinson expressed concern regarding the assigned duty to "assume that historic spending levels are the initial indicator of the actual cost of educating students." He said historical spending levels may not be an appropriate indicator to use in developing a new funding formula.

Senator Flakoll suggested that a review of historic funding levels may include an evaluation of program costs at institutions rather than a review of total funding provided to each institution.

HIGHER EDUCATION STUDY

Higher Education Performance Funding

Chairman Skarphol called on Dr. Mark Schneider, Vice President for New Education Initiatives, American Institutes for Research, Washington, D.C., to present information (Appendix C) regarding higher education performance funding methods.

Dr. Schneider said higher education performance funding is used to reward higher education institutions for meeting performance indicators. He said approximately half the states in the country consider performance factors when determining higher education funding levels. He said implementing a performance funding system is affected by the following three issues:

1. Selecting performance indicators.
2. Defining "success" for each of the indicators.
3. Ensuring adequate funding is available for the performance funding program.

Dr. Schneider said performance indicators are generally selected from four main areas, including student success while in college, student learning, student success in the labor market, and program costs. He said performance indicators need to take into account the changing demographics of college students and be understandable by higher education stakeholders.

In response to a question from Senator Flakoll, Dr. Schneider said joint agreements with neighboring states may be needed to obtain relevant data for institutions located near state borders.

In response to a question from Representative Skarphol, Mr. William G. Goetz, Chancellor, North Dakota University System, said the Western Interstate Commission for Higher Education is implementing a pilot program for a data exchange system between selected states.

In response to a question from Representative Skarphol, Dr. Schneider said he would provide the committee with examples of potential performance indicators which may be implemented. He said it is the responsibility of state officials to determine which indicators are appropriate.

In response to a question from Senator Nething, Dr. Schneider said it is important to ensure that data

being gathered for performance measures is objective. He said some performance indicators may use data which is subjective and not as reliable.

In response to a question from Representative Monson, Dr. Schneider said state longitudinal data systems may be used to obtain data for performance indicators. He said data from various state agencies is useful in determining student success in the workforce following college.

Chairman Skarphol said the committee would receive information at a future meeting regarding the ability of the statewide longitudinal data system to access information from other state agencies, including Job Service North Dakota and the Tax Department.

In response to a question from Representative Skarphol, Mr. Randall Thursby, Chief Information Officer, North Dakota University System, Fargo, said the state has been developing a statewide longitudinal data system. He said it is important for the statewide longitudinal data system to create links among different sets of data to allow for the rapid acquisition of pertinent information.

In response to a question from Senator Nething, Mr. Thursby said portions of the statewide longitudinal data system will be available by 2013. He said it is important for stakeholders to provide expected outcomes for the system.

In response to a question from Representative Johnson, Dr. Schneider said performance indicators may need to be adjusted for differences in admissions policies and student preparedness at higher education institutions. He said some institutions may have an open admissions policy which increases the number of students needing developmental education.

In response to a question from Senator Grindberg, Dr. Schneider said online course costs are a factor in higher education funding. He said online course costs should be evaluated to determine efficiency.

In response to a question from Representative Skarphol, Dr. Schneider said measuring the number of degrees awarded annually recognizes the growth of an institution. He said increases in the number of degrees awarded can be measured by number or percentage increase.

In response to a question from Senator Schneider, Dr. Schneider said there is concern that institutions may lower program completion standards or limit admissions to increase the percentage of students completing a program. He said it may be more appropriate to measure the number of students completing a program rather than the percentage of students that complete a program.

In response to a question from Representative Hawken, Dr. Schneider said consideration should be given to charging students higher tuition rates for taking more credits than required to complete a program. He said the benefit to the state for students taking excess credits should be determined.

In response to a question from Representative Delmore, Dr. Schneider said performance indicators may need to be adjusted based on the economic conditions and job market in different parts of the state and region.

In response to a question from Senator Flakoll, Dr. Schneider said federal student enrollment records may not accurately reflect student success at an institution. He said performance indicator data should be based on student unit records that account for issues such as student transfers between institutions.

Representative Skarphol said any changes to the higher education funding system need to be the result of a collaborative effort of all higher education stakeholders. He said the number of performance funding indicators should be limited.

Mr. Grant Shaft, President, State Board of Higher Education, Grand Forks, said a review of alternative funding methods for higher education is needed. He said performance funding should be a component of a new funding system.

Representative Skarphol said faculty members at higher education institutions should be involved in reviewing higher education funding methods. He said it is important for legislators to understand how different higher education funding methods affect each campus.

In response to a question from Senator Taylor, Mr. Shaft said a starting point for higher education funding is needed if a new funding method is developed. He said the current funding level of higher education may be used as a starting point for a new funding method.

In response to a question from Representative Skarphol, Mr. Shaft suggested a small group be formed to review potential higher education funding methods.

Representative Martinson said it may be more appropriate for the State Board of Higher Education to develop a funding method for higher education rather than a large group consisting of various stakeholders.

In response to a question from Senator Grindberg, Mr. Shaft said a comprehensive review of potential higher education funding methods will take time. He said an interim funding method could be used while a long-term funding system is being developed.

Senator Flakoll said it is important to have expert resources available to assist in the process of developing a new higher education funding method.

Mr. Goetz said 2011 House Bill No. 1003 included a section of legislative intent regarding the 2013-15 biennium budget request of the University System. He said the section provides that the budget request may not include funding to limit student tuition rate increases or funding to be distributed to campuses based on a peer funding comparison.

The committee recessed for lunch at 11:30 a.m. and reconvened at 12:30 p.m.

In response to a question from Representative Delmore, Dr. Schneider said the percentage of total higher education funding distributed based on performance varies by state. He said a larger percentage of performance funding provides more

incentive for institutions to meet performance indicators.

HIGHER EDUCATION STUDY BACKGROUND INFORMATION

At the request of Chairman Skarphol, the Legislative Council staff presented a memorandum entitled *Higher Education Study - Background Memorandum* relating to the following studies assigned to the Higher Education Committee:

1. Section 3 of 2011 House Bill No. 1033 provides for a Legislative Management study of higher education which may include a review of higher education funding mechanisms and higher education budget methods.
2. Section 1 of 2011 House Bill No. 1036 provides for a Legislative Management study of developmental education. The study must include a review with the Department of Public Instruction and University System of the secondary schools attended by students requiring developmental education, the reasons students need developmental education, efforts to reduce the number of developmental education students, the alignment of elementary and secondary education standards, curriculum and textbooks with higher education admissions standards, and the best practices for alleviating developmental education.
3. Section 2 of 2011 Senate Bill No. 2351 provides for a Legislative Management study of mandatory student fees and student fees for optional services at higher education institutions, including the manner in which the fees are determined, identified, and justified, and whether the programs and services supported by the fees should instead receive funding from tuition charges or another funding source.

The Legislative Council staff reviewed information regarding the University System long-term finance plan and resource allocation model, student fee types charged by higher education institutions, University System developmental education policies, and related legislation approved by the Legislative Assembly in 2011.

The Legislative Council staff presented the following proposed study plan for the committee's consideration relating to its higher education study:

1. Review the University System long-term financing plan and the impact of the state's changing demographics on the plan.
2. Receive and review information regarding alternative funding mechanisms and budget methods for higher education.
3. Review options for providing higher education funding based on a three-tiered funding philosophy.
4. Review developmental education issues with representatives of the University System and Department of Public Instruction, including the reasons why students need developmental education and the alignment of elementary and secondary education with higher education admission standards.
5. Receive and review information regarding efforts to reduce the number of developmental education students and best practices for alleviating developmental education at higher education institutions.
6. Receive and review information regarding the types of student fees charged by higher education institutions, including how fee amounts are determined and whether other funding sources should be used in place of the student fees.
7. Receive testimony from other interested persons regarding the committee's study of higher education.
8. Develop recommendations and any bill drafts necessary to implement the recommendations.
9. Prepare a final report for submission to the Legislative Management.

In response to a question from Senator Schneider, Ms. Laura Glatt, Vice Chancellor for Administrative Affairs, North Dakota University System, said the University System is in the process of developing a mechanism to publish student fee data on its website in accordance with North Dakota Century Code Chapter 15-10.3. She said she would provide information to the committee regarding current student fee charges at each of the campuses, including whether the fees are mandatory or optional, and the amount of revenue generated by each fee.

In response to a question from Representative Skarphol, Ms. Glatt said she would provide the committee with information regarding student fee increases approved for each campus for the fall 2011 semester.

In response to a comment from Representative Kelsch, Ms. Glatt said each campus has a cost calculator tool on its website that allows prospective students to determine the estimated costs of attending the institution. She offered to provide a demonstration of the cost calculator tool at a future meeting.

Senator Holmberg expressed concern regarding the length of time needed by the University System to implement new policies and procedures.

Dr. Michel Hillman, Vice Chancellor for Academic and Student Affairs, North Dakota University System, distributed a schedule (Appendix D) detailing students with an on-campus presence during the fall 2010 semester at each higher education institution. He said Section 21 of House Bill No. 1003 provides legislative intent that the fall enrollment report of the University System only include information regarding full-time students with an on-campus presence.

Senator Grindberg suggested the committee discuss at a future meeting the appropriate reporting of fall enrollment data to be in compliance with legislative intent included in House Bill No. 1003 regarding the University System fall enrollment report.

In response to a question from Representative Kelsch, Dr. Hillman said he would provide the committee with information regarding the number of resident and nonresident students requiring developmental education at each institution.

COMMON COURSE NUMBERING

Ms. Lisa Johnson, Director of Articulation and Transfer, North Dakota University System, Bismarck, presented information (Appendix E) regarding common course numbering. She said University System Procedure 403.7.3 requires courses to have a common course number, title, and generic description if the course is accepted as "common" by academic discipline groups. She said there are 52 academic discipline groups that include University System campus representatives and some groups also include representatives of tribal and private colleges. She said approximately 600 courses are commonly numbered with the majority of commonly numbered courses being 100 or 200 level courses.

In response to a question from Representative Skarphol, Ms. Johnson said common course numbering does not differentiate between online courses and traditional classroom courses.

In response to a question from Representative Kelsch, Ms. Johnson said problems may still exist for transferring credit to another institution for a completed course. She said credit for an upper level course may be more difficult to transfer to another institution than credit for a lower level course.

In response to a question from Senator Nething, Ms. Johnson said each campus can accept credit for previously completed courses taken by a student at another institution. She said learning outcomes of a course are the main criteria in determining whether an institution will accept credit for a course completed at another institution.

Representative Williams said credit for completed courses should be easily transferred between institutions.

JOINT INFORMATION TECHNOLOGY BUILDING

Mr. Goetz provided an update on the status of the joint University System and University of North Dakota information technology building project. He said a project steering committee has been appointed that has representation from campuses, the University System office, and the State Board of Higher Education. He said the steering committee is reviewing the scope of the project as well as a project timeline.

In response to a question from Senator Holmberg, Mr. Thursby said the joint information technology building is expected to be completed in 2013.

In response to a question from Representative Skarphol, Mr. Thursby said the University System is reviewing options to relocate the System Information Technology Services staff to the joint information technology building.

In response to a question from Representative Skarphol, Mr. Paul LeBel, Vice President for Academic Affairs, University of North Dakota, Grand Forks, said a grant proposal was submitted for federal funding to construct a research facility adjacent to the joint information technology building. He said the grant application was not successful.

In response to a question from Senator Flakoll, Mr. Thursby said the joint information technology building will have a redundant power system to prevent the electrical system from having a single failure point.

NORTH DAKOTA STATE UNIVERSITY TUITION RATE INCREASE

Dr. Dean L. Bresciani, President, North Dakota State University (NDSU), Fargo, presented information (Appendix F) regarding the tuition rate increase approved by the State Board of Higher Education for NDSU for the 2011-12 academic year. He said NDSU received approval from the State Board of Higher Education to increase tuition by 8.8 percent for the 2011-12 academic year. He said NDSU has experienced enrollment growth in the past 11 years which has resulted in increased institutional costs. He said additional funding is needed to meet basic program needs associated with the enrollment growth.

In response to a question from Senator Holmberg, Dr. Bresciani said NDSU limited its marketing efforts and has been more selective in admitting students for the fall 2011 semester.

Senator Holmberg asked Dr. Bresciani to provide the committee with information for the past three years regarding the total number of students applying for admission to NDSU and the number of students that were denied admission.

Representative Martinson said legislators were assured during the 2011 legislative session that tuition rates would not increase by more than 2.5 percent annually during the 2011-13 biennium at any higher education institution. He said the State Board of Higher Education should have more thoroughly reviewed the NDSU tuition rate increase request prior to approving it. He said future Legislative Assemblies may need to consider limiting tuition rate increases at higher education institutions.

Dr. Bresciani said he expected NDSU to receive funding for the 2011-13 biennium at a level similar to what was included in the executive budget recommendation. He said reduced funding provided by the Legislative Assembly resulted in a need to increase tuition at a higher rate.

Representative Hawken said changes need to be made to the higher education funding model. She said there was discussion during the 2011 legislative

session regarding whether tuition rate increases should be limited for the 2011-13 biennium, but specific information was not provided regarding individual campus needs for tuition rate increases.

In response to a question from Senator Nething, Dr. Bresciani said a 2.5 percent tuition rate increase at NDSU for the 2011-12 academic year is estimated to generate $1.6 million of revenue annually. He said the 8.8 percent tuition rate increase is estimated to generate $5.4 million of revenue annually, or $4.1 million more than the 2.5 percent increase.

Senator Schneider expressed concern regarding the amount of tuition rate increases over the past 10 years and the ability to maintain college affordability.

Dr. Bresciani said it is important to recognize that North Dakota's two research institutions have a greater impact on the economy of the state than the other University System institutions. He said the research institutions attract more nonresident students and many nonresident students remain in North Dakota following college.

Representative Dosch expressed concern that the State Board of Higher Education was unaware of the financial condition of NDSU. He said members of the board should have been aware of funding concerns at the institution prior to the tuition rate increase request.

Dr. Bresciani said the University System office did not request each institution to provide its final 2011-12 tuition rate increase request until after the close of the 2011 legislative session.

Representative Dosch suggested the committee receive information regarding general fund support provided for NDSU for the past 10 years.

In response to a question from Representative Skarphol, Dr. Bresciani said the NDSU Student Government unanimously supported the 8.8 percent tuition rate increase. He said the Student Government consists of 32 students representing the student body.

Representative Skarphol said the 2011-13 biennium executive recommendation included $6,557,283 for NDSU for equity distributions and for student affordability. He said the final allocation of equity and student affordability funding for NDSU was $6,005,607 which represents a reduction of $551,676 from the executive recommendation. He said an 8.8 percent tuition rate increase is estimated to generate $4.1 million more funding annually than a 2.5 percent tuition rate increase.

Dr. Bresciani said the additional funding received from the tuition rate increase is only being used to maintain existing programs and is not being used for new initiatives.

In response to a question from Representative Skarphol, Dr. Bresciani said he was unaware of any discussion during the 2011 legislative session regarding tuition rate increase limitations.

Representative Skarphol said information presented by NDSU to the Senate Appropriations Committee during the 2011 legislative session stated that student affordability funding would be used to limit tuition rate increases to 2.5 percent annually during the 2011-13 biennium.

In response to a question from Representative Dosch, Dr. Bresciani said the 8.8 percent tuition rate increase was applied to all applicable tuition residency categories.

In response to a question from Senator Flakoll, Senator Holmberg said the Legislative Assembly provided a $15.2 million funding pool to the State Board of Higher Education to be distributed to campuses for equity and student affordability. He said it appears the University System office requested each campus to provide tuition rate increase requests prior to the State Board of Higher Education determining the final allocation of the equity and student affordability funding pool.

Representative Martinson said Section 6 of House Bill No. 1003 required distributions from the equity and student affordability funding pool distributions to be made to campuses based on existing funding distribution formulas.

Representative Heilman said the Legislative Assembly did not specifically limit tuition rate increases at campuses for the 2011-13 biennium. He said the Legislative Assembly should clearly articulate expectations of the University System to the State Board of Higher Education and campuses.

DICKINSON STATE UNIVERSITY ENROLLMENT REPORTING ISSUES

Mr. Shaft provided an update (Appendix G) on student enrollment reporting issues at Dickinson State University. He said the University System conducted an internal audit of enrollment reporting at Dickinson State University. He said the audit determined that there were discrepancies in enrollment reporting as a result of improper conduct of university employees.

Mr. Shaft said a notice to terminate was issued by the chancellor to Dr. Richard McCallum, President, Dickinson State University. He said an administrative hearing on the employment termination will be conducted. He said after the administrative hearing, the State Board of Higher Education will need to make a final determination on whether to terminate Dr. McCallum.

In response to a question from Representative Martinson, Mr. Shaft said some members of the State Board of Higher Education were not aware that the chancellor was going to issue a notice to terminate to Dr. McCallum.

In response to a question from Representative Martinson, Mr. Shaft said the University System office verifies enrollment numbers at each institution. He said there is no concern with inaccurate enrollment numbers at other institutions.

In response to a question from Representative Kelsch, Mr. Shaft said the State Auditor's office is conducting an audit on specific financial areas of Dickinson State University. He said the University

System office is fully cooperating with the State Auditor's office.

In response to a question from Representative Skarphol, Mr. Shaft said other employees of Dickinson State University may have been involved with the enrollment reporting discrepancies at the university.

SELECTION PROCESS FOR A NEW UNIVERSITY SYSTEM CHANCELLOR

Mr. Shaft provided an update on the process to select a new chancellor for the University System. He said the current chancellor is retiring in August 2012, and the State Board of Higher Education would like to have a replacement hired as soon as possible. He said the State Board of Higher Education will need to determine the role of the new chancellor in the University System, including the authority of the position. He said a committee will be formed by the end of September to begin the search process for the position.

Representative Kelsch said the new chancellor should have knowledge of higher education funding formulas and be familiar with the uniqueness of each University System campus. She said the compensation of the new chancellor should correspond with the authority of the position.

Representative Hawken suggested a clear division of responsibilities is needed between campuses and the University System office.

Comments by Other Interested Persons

Mr. Jim Roers, Fargo, provided comments regarding higher education funding. He said funding should be distributed to institutions to ensure that all students have an opportunity to access quality education. He said cost and output should be considered when reviewing higher education funding levels.

Mr. Cameron Knutson, Student Body President, North Dakota State University, Fargo, provided information (Appendix H) to the committee regarding higher education issues. He said NDSU receives less general fund support per full-time equivalent student than most other University System institutions. He said the current higher education funding system has forced NDSU to reduce its programs and services. He said students at NDSU supported the 8.8 percent tuition rate increase approved for the institution for the 2011-12 academic year.

Mr. Robert Vallie, student member, State Board of Higher Education, Fargo, provided comments regarding higher education funding. He said a new higher education funding system should address the needs and concerns of higher education institutions while providing accountability. He said students are willing to assist in addressing higher education issues, including the development of a higher education funding method.

In response to a question from Representative Skarphol, Mr. Vallie said the North Dakota Student Association has been working to develop a higher education funding panel to review higher education funding methods. He said the association has provided the information it has gathered to the Governor's office.

OTHER COMMITTEE RESPONSIBILITIES

At the request of Chairman Skarphol, the Legislative Council staff presented a memorandum entitled *Other Duties of the Higher Education Committee - Background Memorandum*. The Legislative Council staff said the Higher Education Committee has been assigned the responsibility to receive the following reports during the 2011-12 interim:

- A report from the Statewide Longitudinal Data System Committee on the status of the plan for a longitudinal data system.
- A biennial report from the University of North Dakota School of Medicine and Health Sciences Advisory Council regarding the strategic plan, programs, and facilities of the school.
- Annual reports from the State Board of Higher Education regarding North Dakota academic scholarships and career and technical education scholarships.
- Reports from any tribally controlled community college receiving a grant under Chapter 15-70 detailing grant expenditures and recipient demographics.

2010-11 TRIBAL COLLEGE ASSISTANCE GRANTS REPORT

The Legislative Council staff distributed a summary of a report (Appendix I) prepared by the University System office regarding tribal college assistance grants provided during the 2010-11 academic year. A copy of the full report is on file in the Legislative Council office. The Legislative Council staff said a total of $350,000 of grants were awarded during the 2010-11 academic year to five tribal colleges. There were 139.41 full-time equivalent (FTE) nonbeneficiary students enrolled at the five tribal colleges and each college received $2,510.46 for each nonbeneficiary FTE student enrolled at the college.

No further business appearing, Chairman Skarphol adjourned the meeting at 4:00 p.m.

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Brady A. Larson
Fiscal Analyst

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Allen H. Knudson
Legislative Budget Analyst and Auditor

ATTACH:9