

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

HIGHER EDUCATION COMMITTEE

Tuesday and Wednesday, November 17-18, 2015

Chautauqua Gallery, Main Building, Lake Region State College, 1801 College Drive North
Devils Lake, North Dakota

Representative Mark Sanford, Chairman, called the meeting to order at 1:00 p.m. on Tuesday, November 17, 2015.

Members present: Representatives Mark Sanford, Thomas Beadle, Tracy Boe, Lois Delmore, Mark A. Dosch, Richard G. Holman, Dennis Johnson, Matthew M. Klein, Bob Martinson, Lisa Meier, David Monson, Kylie Oversen, Mike Schatz, Cynthia Schreiber Beck, Roscoe Streyle; Senators Tim Flakoll, Ray Holmberg, Karen K. Krebsbach, Carolyn C. Nelson, David O'Connell, Larry J. Robinson

Member absent: Representative Kathy Hawken

Others present: Curt Hofstad, State Representative, Devils Lake
Dave Oehlke, State Senator, Devils Lake
Alex J. Cronquist, Legislative Council, Bismarck
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 October 12-13, 2015, meeting be approved as distributed.

Chairman Sanford announced the committee is tentatively scheduled to meet on Tuesday and Wednesday, February 2 and 3, 2016, in Fargo. He said this is a change in dates from what was previously announced.

HIGHER EDUCATION STUDY Higher Education Finance

Ms. Alice C. Brekke, Vice President for Finance and Operations, University of North Dakota, presented information ([Appendix B](#)) regarding higher education finance issues. She said sources of revenue for higher education institutions include general fund appropriations, tuition and fees, grants and contracts, auxiliary enterprises, and donations. Ms. Brekke presented the following information regarding the percentage of total institutional revenue by major source at Lake Region State College and the University of North Dakota during fiscal year 2014:

Revenue Source	Lake Region State College	University of North Dakota
General fund appropriations	36.2%	23.5%
Tuition and fees	21.2%	29.8%
Grants and contracts	23.9%	23.8%
Sales and services - Educational	6.7%	11.1%
Auxiliary enterprises	8.7%	7.8%
Other	3.3%	4.0%
Total	100.0%	100.0%

Ms. Brekke said higher education expenditures are generally included in one of the following categories:

- Salaries and benefits;
- Operating;
- Equipment;
- Capital projects; and
- Scholarships and waivers.

Ms. Brekke presented the following information regarding the percentage of institution expenses by type at Lake Region State College and the University of North Dakota during fiscal year 2014:

Expense Type	Lake Region State College	University of North Dakota
Salaries and wages	63.8%	68.1%
Operating expenses	21.7%	20.5%
Data processing	2.7%	1.1%
Depreciation	5.5%	5.0%
Scholarships and fellowships	2.6%	1.5%
Cost of sales and services	3.8%	3.8%

Ms. Brekke presented the following information regarding the percentage of operating expenses by function at Lake Region State College and the University of North Dakota during fiscal year 2014:

Function	Lake Region State College	University of North Dakota
Instruction	41%	41%
Academic support	11%	7%
Student services	8%	9%
Institutional support	14%	7%
Physical plant	7%	7%
Scholarships and fellowships	3%	2%
Auxiliary enterprises	10%	7%
Public service	0%	5%
Research	0%	10%
Depreciation	6%	5%

Ms. Brekke said higher education institutions measure financial performance by monitoring financial ratios and financial reports. She said an institution may also undergo a financial review when issuing bonds for a capital project.

In response to a question from Chairman Sanford, Ms. Brekke said the amount of mandatory fees paid by a student varies by institution. She said many institutions have special mandatory fees for campus building projects such as wellness centers. She said students generally approve of building project fees through action by the institution's student government or by a vote of the entire student body.

In response to a question from Representative Streyle, Ms. Brekke said most fee increases for building projects become effective immediately even though students will not benefit from the project for several years. She said she will provide the committee with information regarding the number of students voting when building project fee increases are being considered.

In response to a question from Representative Klein, Ms. Brekke said federally sponsored research grants include an indirect cost rate that provides funding for institution administrative and overhead costs. She said the rate varies by campus and function but generally averages approximately 40 percent. She said the rates are negotiated for periods of time that may range from two to five years.

In response to a question from Representative Streyle, Ms. Brekke said funding for state scholarship programs is not included in institution totals for general fund appropriations. She said state scholarships are paid to an institution on behalf of a student and are included in tuition revenue totals.

In response to a question from Representative Schreiber Beck, Ms. Brekke said an institution accounts for tuition and fee revenue separately. She said she will provide the committee with a breakdown of tuition and fee revenue by institution.

In response to a question from Representative Beadle, Ms. Brekke said revenue an institution receives from intellectual property royalties is categorized as "other" revenue.

In response to a question from Representative Streyle, Ms. Brekke said institutions must recognize depreciation for financial reporting purposes. She said the amount reported does not relate to funding set aside for future capital repairs and replacement.

In response to a question from Representative Boe, Ms. Brekke said she will provide the committee with information regarding the amount of funding placed into reserves by institutions for future capital needs including how the amounts compare to depreciation expense reported by the institutions.

In response to a question from Representative Klein, Ms. Brekke said the percentage of an institution's operating expenses utilized by function may be affected by the size of an institution. She said all institutions must provide a basic level of services for students and larger institutions are able to utilize economies of scale when providing services.

In response to a question from Chairman Sanford, Ms. Brekke said research grant proposals generally include detail regarding whether grant funds will be used for compensation of a professor or others performing the research. She said various institutional entities will review a grant proposal prior to submission to ensure adequate facilities and resources are available to perform the research.

In response to a question from Representative Holman, Ms. Brekke said federal rules generally limit the amount of research activity that can be conducted by a professor. She said institution policies and procedures also include provisions regarding faculty workload with respect to consulting services provided by the faculty member.

In response to a question from Representative Streyle, Ms. Brekke said each private entity that provides grant funding determines program guidelines for the use of grant funds for salaries. She said it is important for professors to be guaranteed a base salary level to allow for consistent compensation levels that do not have extreme fluctuations between academic years.

In response to a question from Representative Dosch, Ms. Brekke said approximately 70 percent of research funding at University System institutions is from federal grants. She said she will provide the committee with information regarding recent and potential future changes in federal grant funding.

In response to a question from Chairman Sanford, Ms. Brekke said the University of North Dakota recently was subject to a bond rating review as part of a dining hall project. She said the institution received a favorable rating.

In response to a question from Senator Robinson, Ms. Brekke said bond rating reviews are conducted on individual institutions and not on the University System as a whole. She said reviews of institution finances by the State Auditor's office also determine the financial stability of the institution.

In response to a question from Representative Boe, Ms. Brekke said bond rating reviews generally note the relationship between higher education institutions and the state for repayment obligations. However, she said, the reviews are conducted on individual institutions and not the state.

In response to a question from Senator Holmberg, Ms. Brekke said some bonding projects, such as the University of North Dakota parking ramp project, provide for set bond payments for a specified number of years and then provide for an increased bond payment for the remainder of the bond. She said institutions are constantly reviewing options to refinance bonds and other debt to provide for lower interest rates.

In response to a question from Representative Dosch, Ms. Brekke said she will provide the committee with information regarding selected financial ratios for each University System institution and the bond rating for each institution.

In response to a question from Representative Streyle, Ms. Brekke said the University of North Dakota is projecting a cash shortfall of approximately \$5 million for the current fiscal year. She said this represents approximately 1 percent of the institution's budget. She said the administration of the institution is working with departments and staff in reviewing options to address the budget shortfall.

In response to a question from Senator Robinson, Ms. Brekke said the University of North Dakota is conducting a strategic review of potential areas to reduce funding to address the institution's budget shortfall. She said the institution is also reviewing the need to reduce base funding for departments and options to increase institution revenues.

In response to a question from Representative Meier, Ms. Brekke said representatives of institution departments are being requested to submit suggestions for areas to reduce funding in each department. She said institution vice presidents will be reviewing the suggestions and working with departments to identify areas to reduce costs and increase efficiencies.

Representative Streyle said all institutions should be reviewing options to increase operating efficiencies. He said actual general fund revenues for the biennium are below the legislative forecast which will result in fewer resources being available for state agencies and higher education institutions in the future.

Issues Affecting Two-Year Institutions

Dr. Doug Darling, President, Lake Region State College, presented information ([Appendix C](#)) regarding the College Technical Education Council. He said the council was established in 1992 to improve the coordination and cooperation among the Department of Career and Technical Education, secondary schools, and postsecondary schools offering vocational technical education in the state. He said the council is comprised of representatives from the two-year University System institutions.

In response to a question from Representative Streyle, Dr. Darling said four-year institutions review program offerings through the Academic Affairs Council.

In response to a question from Representative Delmore, Dr. Darling said representatives of two-year institutions work with area high schools to offer dual-credit courses to high school students.

In response to a question from Chairman Sanford, Dr. Darling said Lake Region State College works with other institutions and entities to provide programs at remote locations. He said the institution will only offer a program remotely if it is determined there is sufficient demand to make the program financially viable.

In response to a question from Chairman Sanford, Dr. Darling said the Higher Learning Commission is updating its policies relating to the qualifications of faculty at community colleges. He said the commission is proposing to require faculty members to have specialization in sub-degree areas. For example, he said, a faculty member could not teach a western civilization history course if the faculty member's degree was in eastern civilization. He said the proposed rule change would negatively affect dual-credit course instructors who generally do not have sub-degree specialization.

In response to a question from Representative Streyle, Dr. Darling said two-year institutions are working with the Higher Learning Commission to address issues related to the new policies. He said institutions are also working to assist faculty members in obtaining specialized degrees.

In response to a question from Representative Streyle, Dr. Darling said nursing programs in the area are not meeting current workforce demands. He said a major challenge for nursing programs is obtaining sufficient clinical education opportunities for students.

Dr. Darling presented information ([Appendix D](#)) regarding the mission and activities of Lake Region State College. He said the mission of the institution is to "enhance the lives and community vitality through quality education." He said the institution focuses on academic education, technical training, workforce training, education outreach opportunities, and life-long learning.

Dr. Darling said the Fall 2015 headcount enrollment at Lake Region State College was 1,918 students and the full-time equivalent enrollment was 980 students. He said the institution had 535 full-time students and 1,383 part-time students.

In response to a question from Representative Delmore, Dr. Darling said 16 percent of credits taken by students at Lake Region State College during the Fall 2015 semester were through dual-credit courses. He distributed a document ([Appendix E](#)) providing detailed information regarding the enrollment of the institution.

In response to a question from Representative Holman, Dr. Darling said most associate's degree programs offered by the institution also have an option to obtain a certificate instead of a degree.

In response to a question from Representative Delmore, Dr. Darling said the institution continues to work with tribal colleges to provide various course offerings.

The committee conducted a tour of various facilities on the campus of Lake Region State College including the main campus building and the technical center. While on the tour, the committee viewed facilities and equipment used in various academic programs, including the nursing, wind technology, and automotive programs.

The committee recessed at 5:00 p.m. and reconvened at 9:00 a.m. on Wednesday, November 18, 2015.

Update on University System Issues

Dr. Mark R. Hagerott, Chancellor, North Dakota University System, provided an update regarding issues affecting the University System. He said Mr. Ed Schafer has accepted the position of interim president of the University of North Dakota. He said a search committee has been formed to find a permanent president for the institution.

Dr. Hagerott said a University System task force is being formed to review system cybersecurity issues. He said the task force will compliment the Governor's cybersecurity task force.

Dr. Hagerott said the University System office is currently being reorganized. He said the office will seek Budget Section approval in December 2015 to use a \$1 million contingent general fund appropriation for office reorganization efforts.

Higher Education Funding

Ms. Tammy Dolan, Chief Financial Officer, North Dakota University System, provided an overview ([Appendix F](#)) of the higher education funding formula and other higher education funding issues. She said a new higher education funding formula was adopted in 2013 which is based on an adjusted student credit-hour calculation. She said the calculation involves multiplying a base amount per student credit-hour by an adjusted student credit-hour calculation for each institution. She said the resulting equalized base budget is then adjusted for inflation to determine total funding for an institution.

Ms. Dolan said the adjusted student credit-hour amount for an institution is determined as follows:

1. Completed student credit-hours are determined for each institution. A completed credit-hour is one for which a student met all institutional requirements and obtained a passing grade.
2. A weighted completed student credit-hour calculation is determined by multiplying each institution's completed student credit-hours by an instructional program classification factor. The factor amount for each program classification is based upon historical costs of instruction in each program.
3. The weighted completed student credit-hour amount for each institution is then adjusted for:
 - a. A credit completion factor which is based on total credits completed at an institution. Institutions that have a lower credit-hour output receive a greater weighting factor.
 - b. An institutional size factor based on the square footage of facilities at an institution. Institutions that have a large amount of infrastructure may receive an additional factor adjustment.

Ms. Dolan said the 2015 Legislative Assembly provided several one-time general fund appropriations for the University System for the 2015-17 biennium. She said \$2.5 million of one-time funding was appropriated to Williston State College for extraordinary campus needs and \$8.7 million was appropriated for a deferred maintenance funding pool. She said 2015 House Bill No. 1003 requires University System institutions to provide \$2 of matching funds for every \$1 of extraordinary repairs funding used for campus projects.

In response to a question from Senator Flakoll, Ms. Dolan said funding for state scholarships and other financial aid programs is appropriated to the University System office. She said any scholarship funding utilized by a student at an institution would be classified as tuition revenue for the institution.

Senator O'Connell said additional weighting may be needed for remedial education credits completed at two-year institutions to reflect costs of providing the courses.

Ms. Dolan said the higher education funding formula only provides funding for credits successfully completed by a student. She said no funding is provided for credits failed by students.

In response to a question from Senator Nelson, Dr. Lisa Feldner, Vice Chancellor for Information Technology and Institutional Research and Interim Chief of Staff, North Dakota University System, said the University System is monitoring student failure and completion rates to determine if there is evidence of grade manipulation by professors.

Senator Flakoll said a professor would not directly benefit from manipulating student grades. He said any additional funding received by an institution for completed credits is not distributed directly to a department or professor.

Senator O'Connell said the funding formula may encourage institution efforts to keep students in school and complete courses.

In response to a question from Representative Martinson, Ms. Dolan said the institutional size factor adjustment is based on square footage of facilities at an institution compared to the number of credits completed at the institution.

Representative Martinson said it appears the institutional size factor adjustment was originally added to the higher education funding formula to ensure that one University System institution received the same level of funding as was provided through the previous higher education funding method. He questioned whether it is appropriate for one institution to receive more funding than a similar institution that has more students.

Ms. Dolan said the original intent of the higher education funding formula was for no institution to receive less funding through the formula than what was received through the previous funding method. She said the institutional size factor adjustment was added to recognize costs associated with programs that require a significant amount of facilities.

Senator Flakoll suggested the committee receive information regarding the amount of square footage that would be required at each institution in order for the institution to receive a size factor adjustment.

In response to a question from Senator O'Connell, Ms. Dolan said facilities leased by an institution are not included in the institutional size factor calculation.

Senator Flakoll said there is a delay between credits produced by an institution and distributions through the higher education funding formula due to the formula using actual data instead of estimates. He said this is different than the elementary and secondary education funding formula which uses estimates to determine legislative appropriations for state school aid.

Chairman Sanford said the higher education funding formula provides some predictability in budgeting for institutions. He suggested the Legislative Assembly wait to see the outcomes from the formula prior to making any additional adjustments to the formula.

In response to a question from Representative Monson, Ms. Dolan said program classification factor adjustments are based on data from the actual costs of providing specific programs. She said the formula also uses a volume production factor to recognize efficiencies that may be realized by larger institutions.

Senator Holmberg said the Legislative Assembly provided one-time funding to Williston State College to address extraordinary campus needs. He said increased enrollment at the institution should provide additional funding distributions to the institution through the higher education funding formula.

In response to a question from Senator Holmberg, Ms. Dolan said each University System institution is in the process of identifying funds that may be used for the matching requirements to utilize campus extraordinary repairs funding. She said many institutions have historically used extraordinary repairs funding to pay special assessments charged to the institution.

Chairman Sanford said he believes the intent of the Legislative Assembly was for campuses to use extraordinary repairs funding for campus capital needs and not for special assessment payments.

Representative Monson suggested the Legislative Council staff review bill histories from the 2015 legislative session and note any discussion relating to special assessment payments at institutions.

In response to a question from Representative Dosch, Ms. Dolan said a campus space utilization study is in the process of being completed.

Chairman Sanford said the committee will review the campus space utilization study report at an upcoming meeting.

Representative Streyle suggested the committee receive an update on University System efforts to address data deficiencies and consolidate information technology services. He also suggested the committee receive updates on efforts by the system to update system policies and procedures.

Chairman Sanford distributed a document ([Appendix G](#)) with information from the National Conference of State Legislatures regarding the implementation of higher education performance funding in various states. He asked committee members to review the document and to be prepared to discuss performance funding at a future meeting. He said most states use performance funding as an add-on component to regular higher education funding distributions. He said the 2013 Legislative Assembly appropriated \$5 million for a performance funding pool for the University System. However, he said, the funding was never distributed.

Chairman Sanford distributed a document ([Appendix H](#)) providing an overview of a Delta Cost Project report on higher education administrative costs. He said the document may be useful in the committee's study of higher education administrative costs.

Chairman Sanford said the Chancellor of the University System is appointing a committee to conduct a study of higher education administrative costs. He said the Higher Education Committee will coordinate efforts with the University System committee relating to the study. He said committee members are invited to attend meetings of the University System committee studying administrative costs.

In response to a question from Representative Dosch, Chairman Sanford said one objective of the study of administrative costs is to compare administrative costs at institutions in the state to regional and national averages.

Senator Flakoll said the study should include a review of how adjunct faculty are utilized by an institution. He said several adjunct faculty members may be used to replace one regular faculty member.

Chairman Sanford distributed documents ([Appendix I](#)) summarizing major issues reviewed by the committee including comments provided by committee members. He said the documents will be used to facilitate discussions with the State Board of Higher Education at the next committee meeting. He suggested the committee share its concerns with the board and then ask the board to further research the issues and respond to the issues if needed.

Senator Flakoll suggested providing the State Board of Higher Education with the list of committee issues prior to the joint meeting between the committee and the board.

OTHER BUSINESS

Dr. Kevin Melicher, Member, State Board of Higher Education, provided comments to the committee. He said the board is grateful for the investments made in the University System by the Legislative Assembly. He said the board and the Legislative Assembly may have disagreements over certain issues but the overall focus should be on improving the outcomes of students.

Mr. Greg Stemen, Member, State Board of Higher Education, provided comments to the committee. He said the board is focusing on accountability and is looking forward to working with the Legislative Assembly to improve higher education in the state.

Chairman Sanford acknowledged representatives of higher education student government organizations who were in attendance at the meeting. He said the next Higher Education Committee meeting will focus on student issues and he encouraged student leaders to provide input at the meeting.

Chairman Sanford thanked representatives of Lake Region State College for hosting the committee meeting.

No further business appearing, Chairman Sanford adjourned the meeting at 11:45 a.m.

Brady A. Larson
Assistant Legislative Budget Analyst and Auditor

ATTACH:9