

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

2037

2001 SENATE APPROPRIATIONS

SB 2037

2001 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2037

Senate Appropriations Committee

Conference Committee

Hearing Date January 15, 2001

Tape Number	Side A	Side B	Meter #
Tape #2	x		13.6 -43.6
Committee Clerk Signature <i>Janice Pietsch</i>			

Minutes:

Senator Nething opened the hearing on SB2037.

Craig Caspers, President of the State Board of Higher Education (SBHE) testified in support of SB2037; also SB2038 and SB2040 (a copy of written testimony is attached).

Senator Solberg: Are you familiar with the funding framework in South Dakota?

Craig Caspers: No sir, I'm not.

Larry Isaak, Chancellor of the North Dakota University System (NDUS) testified in support of SB2037 (a copy of his written testimony is attached).

Senator Heitkamp: Does this bill allow you to raise tuition and keep the dollars?

Chancellor Isaak: Correct.

Senator Heitkamp: Is it possible for an institution to go higher than SBHE has approved for tuition?

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Chancellor Isaak: SBHE approves the basic tuition on an annual basis; early in spring so that the rates can go into effect during fall semester. Some exceptions would be in the area of distance learning -- which would be nothing less than resident tuition, with Chancellor approval.

Senator Heitkamp: Fees not here?

Chancellor Isaak: That's correct.

Ellen-Earle Chaffee, President of Mayville State and Valley City State Universities, testified in support of SB2037 (a copy of her written testimony is attached).

Joseph Chapman, President of North Dakota State University, testified in support of SB2037. He indicated it would provide leverage for programs; NDSU always keeps the students central to all decisions. The amount of resources, or lack of resources, including grants --- all give us more flexibility to manage our funds in a more business like manner. For example: the success of our technology park. Keeping the tuition allows us more flexibility when planning new programs, adding additional sections...this all fits the flavor of our campus.

Senator Nething: Flexibility, but with accountability, standards considered? You, as the head of the institution feel comfortable with it; but how would this line up with faculty and staff -- think it is in fairness to them -- do they agree to meeting those standards?

President Chapman: Many of our faculty and staff indicate that they feel this is an empowering process; they like the flexibility and are comfortable with the accountability part. Only positive remarks have been heard on campus; they indicate they would enjoy showing what they can do.

Senator Nething: Responsibility? High when you consider if one institution "blows it" it's gone for the whole system, problems there?

President Chapman: We/they are well aware of that fact. We have our own internal auditing process and are very serious about the accountability of our actions.

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Dale O. Anderson, President, GNDA, testified in support of SB2040. As he had indicated when testifying on SB2003 and the Roundtable report -- this is a critical part of moving forward. The University System working with businesses is the key to everyone's success. We are very supportive of the System's efforts.

Senator Bowman: Believe this will allow the University System to help in adapting to the growth of North Dakota? Working in partnerships with industries and businesses? Flexibility can fill the need? Give the appropriate tools to do the job? Will it complement other efforts?

Dale O. Anderson: Recommendations have critical ingredients for developing a strong economy in North Dakota; partnerships which have the same vision -- knowing the rules by which all play by. Each will complement the other, and we support it.

Hearing closed as no more requests to testify, for or against SB2037.

→ Full Committee - February 7, 2001 (Tape 1, Side B, Meter No. 19.5-22.6)

Senator Nething reopened the hearing on SB2037.

Senator Nething, Chair of the Higher Education Subcommittee, indicated SB2037 and SB2038 were considered in the SB2003 appropriation.

No questions, nor discussion.

Senator Solberg moved a DO NOT PASS; seconded by Senator Bowman; motion carried.

Roll Call Vote: 11 yes, 0 no, 3 absent and not voting. Senator Solberg accepted the floor assignment.

FISCAL NOTE
 Requested by Legislative Council
 12/22/2000

REVISION

Bill/Resolution No.: SB 2037

Amendment to:

1A. State fiscal effect: *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	1999-2001 Biennium		2001-2003 Biennium		2003-2005 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$0	\$0	\$0	\$0
Appropriations	\$0	\$0	\$0	(\$767,000,000)	\$0	\$0

1B. County, city, and school district fiscal effect: *Identify the fiscal effect on the appropriate political subdivision.*

1999-2001 Biennium			2001-2003 Biennium			2003-2005 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. Narrative: *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

3. State fiscal effect detail: *For information shown under state fiscal effect in 1A, please:*

A. Revenues: *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

B. Expenditures: *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

Slight reduction in accounting and reporting costs since funds no longer need to be submitted to and drawn down through the Office of Management and Budget.

C. Appropriations: *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

Tuition and miscellaneous income currently appropriated as estimated income; and local funds, including room and board revenues, gifts, financial aid, federal grants and contracts, and other income, appropriated in a special line item would be retained at the campus level and not be specifically appropriated by the

legislature. Rather these non-state general fund sources of revenues would be appropriated through a continuing appropriation. Unexpended funds at the end of the biennium would remain at the campus. This is consistent with the specific recommendation of the Roundtable as follows: "Executive and Legislative branches:

- a. Remove all income, including tuition, which is in addition to the state general fund appropriation, from the specific appropriation process.
- b. Modify processes to provide campuses budgetary flexibility by: removing restrictions on the use of carryover funds from one biennial period to the next."

Allowing campuses to retain revenues locally creates additional operating flexibility and will allow campuses to be more entrepreneurial and able to maximize the use of all funds.

(01-03 amounts reflect tuition, miscellaneous income, local funds and carryover, except major capital projects funded from other fund sources, included in the 01-03 needs-based budget request submitted by the State Board of Higher Education.)

Name:	Laura Glatt	Agency:	North Dakota University System
Phone Number:	328-2060	Date Prepared:	01/04/2001

FISCAL NOTE

Requested by Legislative Council
12/14/2000

Bill/Resolution No.: SB 2037

Amendment to:

1A. State fiscal effect: *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	1999-2001 Biennium		2001-2003 Biennium		2003-2005 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$0	\$0	\$0	\$0
Appropriations	\$0	\$0	\$0	\$0	\$0	\$0

1B. County, city, and school district fiscal effect: *Identify the fiscal effect on the appropriate political subdivision.*

1999-2001 Biennium			2001-2003 Biennium			2003-2005 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. Narrative: *Identify the aspects of the measure which cause fiscal impact and include any comments relevant your analysis.*

No fiscal impact. Tuition revenues currently appropriated as estimated income and local funds, including room and board revenues; gifts, financial aid and federal grants and contracts, appropriated in a special line item would be retained at the campus level. These non-state general fund sources would be appropriated through a continuing appropriation. Unexpended funds at the end of the biennium would remain at the campus. This is consistent with the specific recommendation of the Roundtable as follows: "Allowing campuses to retain revenues locally creates additional operating flexibility and will allow campuses to be more entrepreneurial and able to generate additional revenues."

3. State fiscal effect detail: *For information shown under state fiscal effect in 1A, please:*

A. Revenues: *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

B. Expenditures: *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

Slight reduction in accounting and reporting costs since funds no longer need to be submitted to and drawn down through the Office of Management and Budget.

C. Appropriations: *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

Name:	Laura Glatt	Agency:	North Dakota University System
Phone Number:	328-2960	Date Prepared:	12/18/2000

Date: 2-7-01

Roll Call Vote #: 1

2001 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2137

Senate Appropriations Committee

Subcommittee on _____

or

Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Not Pass

Motion Made By Sen Solberg Seconded By Sen Burman

Senators	Yes	No	Senators	Yes	No
Dave Nething, Chairman	✓				
Ken Solberg, Vice-Chairman	✓				
Randy A. Schobinger	✓				
Elroy N. Lindsas	✓				
Harvey Tallackson	✓				
Larry J. Robinson	✓				
Steven W. Tomac					
Joel C. Heitkamp	✓				
Tony Grindberg	✓				
Russell T. Thane					
Ed Kringstad					
Ray Holmberg	✓				
Bill Bowman	✓				
John M. Andrist	✓				

Total Yes 11 No 0

Absent 3

Floor Assignment Senator Solberg

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)
February 7, 2001 11:25 a.m.

Module No: SR-22-2569
Carrier: Solberg
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2037: Appropriations Committee (Sen. Nothing, Chairman) recommends DO NOT PASS (11 YEAS, 0 NAYS, 3 ABSENT AND NOT VOTING). SB 2037 was placed on the Eleventh order on the calendar.

2001 TESTIMONY

SB 2037

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**Testimony on SB 2037, 2038, and 2040
To the Senate Appropriations Committee
by Mr. Craig Caspers,
Vice-president of the State Board of Higher Education
January 15, 2001**

Good morning, Mr. Chairman and members of the Senate Appropriations Committee. I am here to present testimony on behalf of the Board of Higher Education on Senate Bills 2037, 2038 and 2040.

The Board of Higher Education endorses these three bills and recommends your favorable action. As you know these bills are the result of the recommendations of Higher Education Roundtable and the Legislative Council Higher Education Committee.

The Board has enthusiastically endorsed the Roundtable report and has taken action to aggressively implement the recommendations assigned to the Board. We encourage the Legislature to enact the interim committee's bills allowing the Board and University System to continue implementing the Roundtable recommendations.

The Executive Summary of the Roundtable report said this:

"While the report contains many specific recommendations, the overarching themes call for:

- *The NDUS to cease thinking of itself as a ward of the state and to take greater responsibility for its own future.*
- *The legislative and executive branches of government to free-up and unleash the potential of the NDUS -to change the budget-building, resource allocation, and audit practices to reflect the new compact between the state and the University System.*
- *The private sector to meet the NDUS half-way in establishing mutually beneficial partnerships and to provide mentors and learning opportunities for a new generation of North Dakota entrepreneurs.*
- *All parties to keep alive the spirit of the Roundtable, continuing the dialogue...."*

These three bills embody recommendations of the Roundtable related to budgeting and fiscal practices. The Board believes that these bills are timely to permit the Board and University System to carry out the new relationship of "flexibility with accountability" recommended by the Roundtable.

The Board is committed to the themes of the Roundtable and this new relationship. The Board's understanding about this relationship is demonstrated by the Board's action in setting its objectives after the Roundtable report was issued. The Board's first objective is to implement the Roundtable recommendations on accountability. The Board is pleased that the interim committee and Legislative Council adopted a set of accountability measures for both fiscal and non-fiscal performance. We are pleased because this allows the System and campuses to focus and report on an established set of accountability measures adopted by the Legislature. We believe these measures will help build the trusting relationship referred to in the Roundtable report.

Chancellor Isaak will provide further detailed testimony about what these bills mean to the University System and its campuses. Once again, thank you for your consideration of these bills and for allowing the Board to work with you on the Roundtable during the interim. We encourage your favorable action on these bills.

Senate Appropriations Committee
Hearing on SB 2037
January 15, 2001

Ellen-Earle Chaffee, President
Mayville State and Valley City State Universities

Mr. Chairman, members of the committee, thank you for the opportunity to speak in support of Senate Bill 2037. The bill is a great credit to the work of the interim Higher Education Committee, and we are most grateful for that. The state seems to be saying that it wants something different from higher education now and is willing to make that possible by changing its own past practices, as well as expecting change from us. This is an extraordinary approach, and we appreciate it very much. We may have been blind in the past, without realizing it. Working together, we can change that.

Tiger Woods spotted Stevie Wonder in the golf club. He walked over and said "Stevie is that really you? You are my favorite singer of all time." Stevie Wonder felt his face and said, "Tiger? The feeling is mutual; you are one of my golfing heroes. Let's play golf sometime." Tiger looked puzzled but agreed. "Maybe we should make it interesting," said Stevie. "How about a million dollars on the game?" Tiger couldn't help but think about the easy money. "When would you like to play?" he said. "Any night you want," Stevie replied.

Talking with business leaders, I have often found myself in Stevie Wonder's position. Some of us have to manage in the dark. When I make a major transformation in how my company does business, I have to assume that we can spend no more nor less on salaries than we did before. When we start a new enterprise within our business, we cannot use our own profits as venture capital with any degree of flexibility or timeliness. I cannot assume that we can spend our profits on our top priorities, nor even that our profits will stay in the company. When I want a business unit to be self-supporting, it cannot do so by operating within the organization's primary domain of for-credit instruction. Our ability to capture profits and use them productively is so limited that many people are not persuaded that getting more profit would be a good thing. My point is this: Don't expect handsprings from someone whose hands are tied. When business people tell me, "You should operate more like a business," I tell them, "Any night you want."

The Higher Education Committee knew these things. Once upon a time, the restrictions made sense because the state had other goals. With this bill, you would turn on the lights for the kind of management you want and need in the 21st century.

My examples are not small or hypothetical. We HAVE learned to golf in the dark. Universal use of technologies is a national success story that cost over \$3 million to launch and well over \$1 million per year to maintain on each campus without one penny of additional state funding. The Center for Innovation in Instruction is a half-million-dollar a year statewide operation. The Kathryn Center for Lifelong Learning is the state's

leading experience-based soft skills training program. Technology education is in the wings, a budding program with national leadership potential to provide all youth with the information technology skills they need in the new economy. Project management is a program with an almost endless market in North Dakota government and business, but we have thus far been unable to find adequate growth strategies and resources.

If you give us the flexibility envisioned in 2037, would campuses become more entrepreneurial, businesslike, and competitive? Or might we become less accountable, more likely to take unwise risks? At least two factors lead me to the optimistic conclusion. First, the legislature and Board are well into the process of defining a set of expectations and a solid accountability program. Second, you are getting these positive behaviors to some extent now, in the dark. It may take us a little while to learn to operate in the sunshine of more direct cause/effect management, but it is as obvious to me as the laws of physics that we will be able to play a better game.

This bill does not represent full daylight, but it is a dawn. Other changes are needed, several of which are also on this session's legislative agenda or that of the State Board of Higher Education. If you pass this bill, we will know you mean business. We will have:

- **Less unproductive work:** Less bureaucracy to deal with when tuition collections are not as predicted.
- **Faster action:** More capability to act quickly to address problems or opportunities.
- **More significant action:** More self-generated "venture capital" to launch new ventures of greater scale and importance; more focus on management and results and less on jumping through hoops.
- **More market responsiveness:** The incentive to increase tuition revenues, coupled with the removal of uncertainty about whether the institution itself will benefit from those revenues, creates a far more capitalistic environment for the campuses and hence, a higher level of response to market demands.
- **More initiative and imagination in institutional action:** Establishing a direct cause/effect relationship between actions and benefits sets us on the path of doing more of the actions that bring benefits.

Thank you for your leadership in proposing this bill and for the opportunity to speak with you today.

**Testimony on SB2037 to
Senate Appropriations
Chancellor Larry Isaak, North Dakota University System
January 15, 2001**

What will the bill do?

SB2037 will permit the State Board of Higher Education (SBHE) and campuses to budget for tuition income similar to the budgeting process that currently exists for student fees, room and board charges, grants and contracts, endowment income, and all other income. All of these funds will be appropriated through a continuing appropriation (page 2, lines 12-13 of SB2037) to the SBHE and the income would remain at the institution that earned it. The bill also provides permanent carryover authority for unspent appropriations from one biennium to the next (page 2, lines 23-24 of SB2037). The carryover provision has been part of biennial appropriation bills enacted by the Legislature for several biennia.

Roundtable Report-Interim Higher Education Committee Recommendation:

The Higher Education Roundtable adopted the following major theme as part of the Roundtable cornerstone on funding and rewards:

"In managing the resources available to them, the SBHE, Chancellor and Presidents should have flexibility with accountability. The rules and regulations governing use and management of resources should:

- a. Delegate responsibility and authority for use of resources to the NDUS in exchange for adherence to agreed-upon procedures for demonstrating accountability;*
- b. Encourage institutions to act entrepreneurially in pursuit of resources from private sector and sources outside the state;*
- c. Reward collaboration between and among institutions where appropriate;*
- d. Extend rewards to units and employees on campuses, which demonstrate exemplary performance consistent with these principles. "*

In keeping with this theme, the Roundtable made the following recommendation:

"Executive and Legislative branches:

- a. Remove all income, including tuition, which is in addition to the state general fund appropriation, from the specific appropriation process;*
- b. Modify processes to provide the campuses budgetary flexibility by:
-removing restrictions on the use of carryover funds from one biennial period to the next.
-allowing the campuses to determine the renewal and replacement projects to be funded on the individual campuses within their own institutional resources.
-eliminating restrictions on pay practices.
-providing maximum spending flexibility within base funding appropriations.*
- c. Continue to approve the construction of new facilities and the major renovation of existing facilities. "*

2001-03 budget:

The 2001-03 budget request submitted by the SBHE included tuition. This was done since the Roundtable Report and recommendations had not been finalized. However, the Board clearly supports the direction outlined by the Roundtable and this bill. This proposed change is also consistent with the budget as proposed by Governors Schafer and Hoeven. SB2003, as introduced, removes all income from the specific appropriation, except for those amounts related

to major capital projects. These would continue to be appropriated by the legislature consistent with Roundtable recommendation (c.) above.

Reporting requirements:

All income would continue to be deposited with the Bank of North Dakota. All income would also continue to be disclosed as part of the biennial budget process as required on page 2, lines 5-8 of SB2037 as follows which is already in current statute: "Biennial estimates of revenue and expenditures of the other funds by source of funds must be presented at the same time biennial budget requests for appropriations from the special revenue fund and state general fund are prepared and submitted to the office of the budget pursuant to section 15-10-15."

All NDUS income would also continue to be subject to an annual financial audit performed by the State Auditor's Office and would be disclosed in the state's annual comprehensive annual financial statement (CAFR).

In addition, several of the fiscal accountability measures adopted by the interim higher education committee require disclosure of these funds. Examples include:

- the amount and trends of funding from all financial sources;
- trend reports on the distribution of expenditures by function
- other financial information including: debt, assets and end-of-the-year fund balances.

The NDUS intends to publish annual accountability reports that present trend data for in each of the fiscal and performance accountability measures adopted by the Interim Committee, including those listed above.

What do other states do?

Approximately two-thirds of the other states allow their higher education institutions to retain and manage their tuition collections at either the institution or Board level.

Florida	Illinois	New Mexico	Minnesota
Hawaii	Indiana	Ohio	Iowa
Oklahoma	Oregon	Kentucky	Rhode Island
South Dakota	Louisiana	South Carolina	Wisconsin
Maryland	Tennessee	Alabama	Mississippi
Vermont	Alaska	Missouri	Washington
Arkansas	Nebraska	Wyoming	Delaware
New Hampshire	Georgia	New Jersey	

Why Is this important?

1. *Flexible and Responsive:* Currently, tuition income collections are subject to traditional line item (e.g. salaries, operating expenses, etc.) controls. Shifts between line items require State Board of Higher Education approval. Additional income collections beyond original appropriations for tuition income and other sources of revenues (e.g. federal funds, auxiliary revenues) are subject to spending approval by the Board and/or Budget Section, depending on the levels of additional collections. Many times, additional collections are the result of increased enrollments. Campuses must be able to move quickly to add new class sections and cover other increased costs associated with these increased enrollments. Campuses may also need to move funds quickly between line items in order to respond to other challenges (e.g. equipment or steam line breaks) or

opportunities (e.g. matching funds on grants). These events do not always correspond to the next regularly scheduled meeting of the Board or the Budget Section.

2. *Entrepreneurial Behavior*: Currently, there is usually a concern about the impact of increased tuition collections on the general fund appropriation level. Rather, the Roundtable report called on the campuses to seek increased external funding without any disincentives to doing so.

How would appropriations be set in the future?

The Roundtable Report calls for a new resource allocation model or funding mechanism comprised of three components: base, incentive and asset funding. The legislation to enact this recommendation is in SB2038. However, a discussion of this is important as it relates to SB2037 and 2038.

The Roundtable report says the base-funding component would be "used to sustain the academic capacity of each campus". The Report states that the adequacy of the base funding for each institution should be measured by comparison to other external benchmarks (i.e., peer institutions in other states). In addition, the Report also calls for the development of long-term financing plans for each campus. These plans will outline the level of state support and levels of additional non-state revenues the campuses will be expected to generate.

These two tools will provide the information to guide the Board on its state general fund budget requests, campus allocations and the Governor and Legislature's general fund budgets for the University System. This model assumes that campuses will be allowed to generate and retain income as provided in SB2037.

Mr. Chairman, I believe that the Roundtable report and interim committee's recommendations resulting in SB2037 will assist in the development of the University System to carry out the six cornerstones recommended by the Roundtable for the University System of the twenty-first century. These cornerstones focused on flexibility and responsiveness, an economic development connection, educational excellence and access. On behalf of the University System, I ask for your favorable action on SB2037. To give an indication of how this bill affects specific campuses, I have asked two presidents, President Chapman and President Chaffee, to give brief testimony. Thank you for your hard work on behalf of the students and all we serve.

W:\sb2037 testimony