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2003 HOUSE APPROPRIATIONS

HB 1041

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2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 1041

House Appropriations Committee
Education and Environment Division

☐ Check here for Conference Committee

Hearing Date January 21, 2003

Tape Number	Side A	Side B	Meter #
1	X		
Committee Clerk Signature <i>Celste Keller</i>			

Minutes:

Chairman Martinson opened the hearing on HB 1041. All members of the committee were present.

Roxanne Weste Fiscal Analyst for Legislative Council, went through HB 1041.

Chancellor Larry Isaak testified in favor of HB 1041. Please see prepared testimony.

Rep. Wald On the bottom of page 2, it says the decision is still left to each legislature. Am I to assume that that means that the 05-07 would have to go through this same exercise?

Chancellor Isaak No, what I am referring to there is whether the appropriations are made by campus or lump sum to the board. In 97 part of the appropriation was lump sum to the board for allocation at that time. After that, the legislation in 99-01 appropriated everything by campus. The governor of this session has proposed lump summing everything to the board. The legislature is going to decide whether it does that or does it by campus. I would imagine the 05,

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Education and Environment Division

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07, 09 and so forth, that's an issue that may or may not come up, but there is a decision made to appropriate by campus or lump sum to the board by every session.

Rep. Aarsvold The concern I have about this legislation has to do with how we, as the elected representatives of the people out there, respond to questions about the impact of this on their individual institutions.

Chancellor Isaak HB 1041, passing it does not mean that you are passing a bill that says you are lump summing appropriations to the board. It just says you are going to appropriate in two line items, one for Operations and Capital Assets. You still do that by each institution if you wanted to do that. In terms of the lump sum issue, the board has taken a position to support that proposal that has been made by the governor. The board has a long term financing plan that it spent a lot of time developing that it was asked to develop that puts objectivity into the allocation of those funds. It does provide to keep a certain level of parity for every institution. In the end there is an objective process of allocating the funds that the board would put into place to do.

Rep. Wald On your yellow handout on page 2, it states eliminating restrictions on pay practices. Could you expand on that?

Chancellor Isaak That is not in any of these bills. That was in a bill last session. None of that is embodied in 1041 and 1042. There was a specific bill introduced on that issue last session that did not pass, and OMB has another bill in this session to clarify some of the reporting procedures that state agencies have to use on reporting of bonuses and incentives. It is our recommendation to do away with that legislation because it sends a signal as they are called an irregularity in statute. It doesn't provide a lot of incentive to manage things when people have to take on

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additional work load and so forth and then you have to come back to the legislature and report that as an irregularity. That is what that line referred to, it is not legislation.

Rep. Wald Do you recall the bill number last session and what was the rationale?

Chancellor Issak I don't recall, but I could look that up and let you know.

Roxanne Weste directed the committee to look at the memorandum she handed out on page 2, for the bill the chancellor was referring to.

Chairman Martinson closed the hearing on HB 1041.

**Measure
Actions**

**Go to
HB 1041
Versions**

Select New Measure No.

**Go to Major
Topics Index**

**2003
Legislative
Information**

HJ - House
Journal
SJ - Senate
Journal

Introduced by Legislative Council
A BILL for an Act to amend and reenact sections 54-44.1-04 and 54-44.1-06 of the Nor
Century Code, relating to budget requests and block grant appropriations for the Nor
university system; and to declare an emergency.
01/07 House Introduced, first reading, (emergency), referred Appropriations **HJ 2**
01/21 House Committee Hearing 08:30
02/05 House Request return from committee **HJ 339**
Withdrawn from further consideration **HJ 339**

http://www.state.nd.us/lr/assembly/58-2003/bill_actions/BA1041.html

7/17/2003

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2003 TESTIMONY

HB 1041

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**Testimony on
HB 1039, 1040, 1041, and 1042
Larry A. Isaak, Chancellor
North Dakota University System
January 21, 2003**

What Do the Bills Do?

These bills permanently place in state statute legislation that was passed by the 57th Legislative Assembly. The legislation enacted in 2001 sunsets June 30, 2003. The bills were introduced by the interim Legislative Council Higher Education Committee. In order to continue these practices, the legislation must be re-enacted and placed in state statute. The bills provide for the following:

- **HB1039:** Tuition revenues would be appropriated in the same way all other institutional funds such as grants and contracts, auxiliary revenues and private funds are appropriated.
- **HB1040:** Permits the carryover of unexpended funds from one biennium to the next, a provision that has been in place for several biennia.
- **HB1041:** Provides for appropriations in two line items for operations and capital assets; and for specific strategies or initiatives. -
- **HB1042:** Permanently places in state statute the accountability measures enacted by the 2001 legislature.

History

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 specific recommendations:

"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."**

HB1039

All income, including tuition revenues, 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 1-4 of HB1039 as follows:

"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."

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 detail, in the NDUS's and state's annual comprehensive financial statement (CAFR).

In addition, several of the fiscal accountability measures adopted by the legislature provide information on these sources of funds. Examples include:

- the amount and trends of funding from all financial sources;
- operating and contributed income ratio;
- trend reports on the distribution of expenditures by function;
- status of long-term finance plan;
- allocation and use of incentive funding.

HB1040

This bill continues carry-forward of appropriations. It also requires that:

"...the North Dakota University System shall report on the amounts and uses of funds carried over from one biennium to the next to subsequent appropriations committee of the legislative assembly."

HB1041

This bill continues the current 2001-03 appropriation bill format of two line items- Operations and Capital Assets. Funds can either be appropriated by campus as was done in 2001-03, or, in a block grant to the SBHE for allocation to the campuses as proposed by the governor in HB1003. That decision is still left to each legislature. The main purpose of the bill provides that appropriations will be made in two line items either to the campus or board. It also provides that appropriations be made for initiative funding.

HB1042

This bill continues the requirement for an annual accountability report and specifies the accountability measures. The NDUS has prepared and presented annual accountability measure reports for 2001 and 2002 to the legislative assembly or higher education interim committee. It will continue to publish annual accountability measures consistent with those measures outlined in the legislation and present these to the legislature as a benchmark of performance.

What Are the Benefits of this Legislation?

Most, if not all, of the campuses testified during their appropriation hearings to the importance and benefit of continuing this "flexibility with accountability" legislation. Many of the campus presidents have said that this legislation is even more necessary during the upcoming biennium because of even tighter state budgets. During the past interim, the Legislative Council Higher Education Committee visited every campus. During these visits, the committee asked every president what was the most important thing the 2003 legislature could do to benefit their campus not related to the level of appropriations. Every president said that continuing the legislation embodied in these bills was the most important.

Here are some of the benefits that this legislation is providing:

- Faculty salaries increased an average of 4.8 percent in 2001-02 and 2002-03 when only 3 percent and 2 percent respectively, was appropriated by the legislature.
- Campuses that have growing enrollments are able to hire faculty and add class sections on a timely and responsive basis since tuition revenues are available immediately rather than waiting for lengthy approval processes.
- Campuses are better able to manage expenditures over an extended period of time (biennium to biennium), rather than rushing to "spend" or "lose" the appropriation by the end of the biennium.
- Campuses are better able to manage spending priorities and allocate resources to high priority needs, without burdensome approval processes.
- Campuses are attracting more non-state revenue sources from federal grants and private partnerships.
- The SBHE is focusing more of its efforts and resources on high-priority state or system needs and long-term direction.
- Campuses are better able to respond to donors and proceed with timely (and often less costly) construction.
- Campuses are developing many more private sector partnerships through entities such as research and technology parks.
- Campuses are better able to maximize their revenues and manage their enrollment targets.
- Significant staff time is being saved in development of budgets.

Taken together, the increased flexibility is seen as a visible sign of building a trusting relationship and also a sign of support for campuses to be more entrepreneurial.

The State Board of Higher Education and every campus president appreciates your past support of this important legislation. The Roundtable required each partner (the NDUS, the private sector, and the legislative and executive branches) to take bold steps in order to achieve the vision of the Roundtable, which is:

"to enhance the economic vitality of North Dakota and the quality of life of its citizens through a high quality, more responsive, equitable, flexible, accessible, entrepreneurial, and accountable University System."

It has been exciting to watch the significant progress in moving ahead the Roundtable vision and corresponding recommendations by all of the partners involved. This significant progress and model has resulted in national attention and recognition for North Dakota. There is an excitement, energy and new way of thinking at the campus level that the campuses shared with you last week. This energy and the resulting activity has created economic benefit for the state and better access for its citizens. Much of this progress can be credited to the bold actions you took last session in enacting this legislation. That was the stimulus. We ask for your continued support in permanently re-enacting this legislation. It will send a strong endorsement of the creative and entrepreneurial direction that is taking place on all of the campuses for the betterment of the entire state.

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January 2003

EXCERPT FROM THE 2001-02 INTERIM HIGHER EDUCATION COMMITTEE FINAL REPORT

HIGHER EDUCATION PERFORMANCE AND ACCOUNTABILITY MEASURES STUDY

Section 18 of 2001 Senate Bill No. 2003 directed a study of the State Board of Higher Education's implementation of the performance and accountability measures report. Senate Bill No. 2041 (2001) established a North Dakota University System and required the system to develop a strategic plan and provide an annual performance and accountability report.

1999-2000 Study

The higher education system has been studied on numerous occasions by Legislative Council committees. The Higher Education Committee during the 1999-2000 interim studied higher education funding, including the expectations of the University System in meeting the state's needs in the 21st century, the funding methodology needed to meet these expectations and needs, and the appropriate accountability and reporting system for the University System. The committee through the use of a Higher Education Roundtable consisting of the 21 members of the Higher Education Committee and 40 representatives from the State Board of Higher Education, business and industry, higher education institutions, including tribal colleges and private colleges, and the executive branch discussed shifts, trends, and realities that impact the state of North Dakota and the University System and developed expectations for the University System, recommendations concerning higher education in North Dakota, and accountability measures and success indicators that correspond with the expectations for the University System.

The committee recommended the following bills regarding higher education in North Dakota:

- Senate Bill No. 2037 (2001), which, as introduced, provided a continuing appropriation for all funds in higher education institutions' special revenue funds, including tuition, and allowed institutions to carry over at the end of the biennium unspent general fund appropriations.
- Senate Bill No. 2038 (2001), which, as introduced, required the budget request for the University System to include budget estimates for block grants for a base funding component and for an initiative funding component for specific strategies or initiatives and a budget estimate for an asset funding component for renewal and replacement of physical plant assets at the institutions of higher education

and required the appropriation for the University System to include block grants to the State Board of Higher Education for a base funding appropriation and for an initiative funding appropriation for specific strategies or initiatives and an appropriation for asset funding for renewal and replacement of physical plant assets.

- Senate Bill No. 2039 (2001), which, as introduced, allowed the State Board of Higher Education to authorize campus improvements and building maintenance projects that are financed by donations, gifts, grants, and bequests if the cost of the improvement or maintenance is not more than \$500,000.
- Senate Bill No. 2040 (2001), which, as introduced, allowed the University System to provide bonuses, cash incentive awards, and temporary salary adjustments without reporting the activity to the Office of Management and Budget as a fiscal irregularity.
- Senate Bill No. 2041 (2001), which, as introduced, recognized the institutions under the control of the State Board of Higher Education as the North Dakota University System and required the University System to develop a strategic plan that defines University System goals and objectives and to provide an annual performance and accountability report regarding performance and progress toward the goals and objectives.
- Senate Bill No. 2042 (2001), which, as introduced, amended and repealed statutes relating to the powers of the State Board of Higher Education and the duties and responsibilities of institutions under the control of the State Board of Higher Education which are no longer appropriate.

The committee also recommended financial and nonfinancial accountability measurements to be reported annually at the University System level.

2001 Legislation

The 2001 Legislative Assembly amended Senate Bill No. 2003 to:

- Provide that the State Board of Higher Education's annual performance and accountability report as required by Senate Bill No. 2041 (2001) include an executive summary and specific performance and accountability measures regarding education excellence, economic development, student access, student affordability, and financial operations.

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- Provide a continuing appropriation for higher education institutions' special revenue funds, including tuition income and local funds. This legislative action, which was originally a provision in Senate Bill No. 2037 (2001), as introduced, is effective through June 30, 2003.
- Require the budget estimates for higher education to include block grants for a base funding component and for an initiative funding component and a budget estimate for an asset funding component. This legislative action, which was originally a provision in Senate Bill No. 2038 (2001), as introduced, is effective through June 30, 2003.
- Require the appropriation for the University System to include block grants to the State Board of Higher Education for a base funding appropriation and for an initiative funding appropriation and an appropriation for asset funding. This legislative action, which was originally a provision in Senate Bill No. 2038 (2001), as introduced, is effective through June 30, 2003.
- Allow higher education institutions to carry over at the end of the biennium unspent general fund appropriations. This legislative action, which was originally a provision in Senate Bill No. 2037 (2001), as introduced, is effective through June 30, 2003.

The 2001 Legislative Assembly amended Senate Bill No. 2039, which was recommended by the 1999-2000 Interim Higher Education Committee, to allow the State Board of Higher Education to authorize campus improvements and building maintenance projects that are financed by donations, gifts, grants, and bequests if the cost of the improvement or maintenance is not more than \$385,000.

The 2001 Legislative Assembly did not approve Senate Bill No. 2040, which was recommended by the 1999-2000 Interim Higher Education Committee, to allow the University System to provide bonuses, cash incentive awards, and temporary salary adjustments without reporting the activity to the Office of Management and Budget as a fiscal irregularity.

The 2001 Legislative Assembly adopted Senate Bill No. 2041, which was recommended by the 1999-2000 Interim Higher Education Committee, to recognize the institutions under the control of the State Board of Higher Education as the North Dakota University System and to require the University System to develop a strategic plan which defines University System goals and objectives and to provide an annual performance and accountability report regarding performance and progress toward the goals and objectives.

The 2001 Legislative Assembly also adopted Senate Bill No. 2042, which was recommended by the 1999-2000 Interim Higher Education Committee, to amend and repeal statutes relating to the powers of the State Board of Higher Education and the duties

and responsibilities of institutions under the control of the State Board of Higher Education which were no longer appropriate.

Higher Education Roundtable

A Higher Education Roundtable consisting of the 22 members of the Higher Education Committee and 44 representatives from the State Board of Higher Education, business and industry, higher education institutions, including tribal colleges and private colleges, and the executive branch was reconvened during the 2001-02 interim to discuss the implementation status of the 1999-2000 Higher Education Roundtable recommendations and future high-priority action items. The University System contracted with Mr. Dennis Jones, President, National Center for Higher Education Management Systems, Boulder, Colorado, for consulting services and to facilitate roundtable discussion and the development of action items.

The Higher Education Roundtable with assistance from the facilitator:

1. Reviewed plans for and accomplishments relating to the recommendations of the 1999-2000 Higher Education Roundtable.
2. Reviewed the state's New Economy Initiative and its linkage to the Higher Education Roundtable cornerstones and recommendations.
3. Developed high-priority action items concerning higher education in North Dakota.

Accomplishments

The Higher Education Roundtable received information from the State Board of Higher Education, higher education institutions, and the executive branch regarding plans for and accomplishments relating to the recommendations of the 1999-2000 Higher Education Roundtable.

The State Board of Higher Education has developed a University System vision statement and changed the University System mission statement to provide that the University System continue to provide high-quality education to students and assume a major responsibility for enhancing the economy of North Dakota. The board has also developed a new University System strategic plan based on the recommendations from the 1999-2000 Higher Education Roundtable, approved a long-term financing plan and resource allocation model, and published the first annual performance and accountability report in January 2002.

The roundtable learned the higher education institutions have developed alignment plans that describe the actions the institutions are performing and intending to perform in response to the recommendations of the 1999-2000 Higher Education Roundtable. The institutions are also working collaboratively to deliver high-demand educational programs in rural North Dakota, increase research development efforts,

and increase the number of partnerships with the private sector.

The roundtable learned the Governor's office expects the University System to concentrate on the transfer of research efforts to product development and economic development and improve communications with local communities.

The roundtable learned the 2002 Community College Futures Assembly awarded the Bellwether Award for planning, governance, and finance to the Higher Education Roundtable process. Also, the Higher Education Roundtable process was the winner of the 2002 Midwestern Legislative Conference Innovations Exchange and Awards Program Award.

New Economy Initiative

The Higher Education Roundtable reviewed the New Economy Initiative and its linkage to the Higher Education Roundtable and learned the initiative is a statewide effort to mobilize all North Dakotans to develop new ideas, grow the economy, and create a more prosperous state. The initiative relies on two main tools--industry clusters and action teams. The industry clusters--flexible food manufacturing, tourism, information technology, aerospace, energy and environment, and advanced manufacturing--are to create strategies to increase growth in selected industries, and the action teams are to address the challenges that affect all industries. An important aspect of the initiative is to grow talent to match the new knowledge-based economy.

Task Force Process

The Higher Education Roundtable reconvened the six task forces formed for the 1999-2000 Higher Education Roundtable--Economic Development Connection, Education Excellence, Flexible and Responsive System, Accessible System, Funding and Rewards, and Sustaining the Vision--to develop high-priority action items and identify the stakeholders responsible for achieving the respective high-priority action items.

The task forces, chaired by legislative committee members, developed by consensus the following high-priority action items:

Economic Development Connection

1. Review existing state laws and procedures to determine if the laws and procedures are sufficient to protect the privacy and confidentiality of the information of business and industry in partnership with the North Dakota University System, and if not, request that legislation be developed and provided to the Interim Higher Education Committee. (Responsibility: Economic Development Connection Task Force)
2. Endorse the New Economy Initiative's statewide talent pool strategy and the following related five strategic statements:

- a. Attract and embrace a more diverse workforce that targets innovation and technology and other careers identified by the needs assessment tool.
- b. Utilize the assets of colleges and universities in attracting and retaining a new economy workforce.
- c. Develop an aggressive marketing campaign promoting North Dakota's "quality of place."
- d. Expand workforce training and lifelong learning to match North Dakota's current workforce to new economy opportunities and move to a high-value workforce.
- e. Become a national model for providing rural preschool through postsecondary education and lifelong learning.

(Responsibility: State Board of Higher Education, higher education institutions, Legislative Assembly, executive branch, private sector)

Education Excellence

1. Continue a strong emphasis on making and keeping faculty salaries competitive. (Responsibility: State Board of Higher Education, higher education institutions)
2. Begin to conceptualize and develop an approach to kindergarten through postsecondary education using a roundtable approach. (Responsibility: State Board of Higher Education, higher education institutions, kindergarten through grade 12)
3. Encourage and strongly support emphasis on experiential learning, including the inclusion of students with faculty in applied research and other problem-solving activities. (Responsibility: State Board of Higher Education, higher education institutions)
4. Enhance emphasis on research as a means to attract and retain faculty. (Responsibility: State Board of Higher Education, higher education institutions)
5. Consider the establishment of an enhanced state scholarship program. (Responsibility: State Board of Higher Education, higher education institutions)

Flexible and Responsive System

1. Continue and expand the flexibility granted to the North Dakota University System. (Responsibility: Legislative Assembly, State Board of Higher Education)
2. Colleges and universities and the Department of Commerce must continue to establish strategic alliances with state government, businesses and industries, community groups, and federal entities. (Responsibility: State Board of Higher Education, higher education institutions, executive branch)
3. Examine the balance between competition and cooperation in the North Dakota

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University System and provide mechanisms for guidance. (Responsibility: State Board of Higher Education, higher education institutions)

Accessible System

1. Develop partnerships to ensure students leave kindergarten through grade 12 with the knowledge and skills necessary to function effectively as college and university students. (Responsibility: State Board of Higher Education, higher education institutions, kindergarten through grade 12)
2. Encourage higher education institutions to become more approachable and to provide more assistance to enable older than average students to further their education and skills development. (Responsibility: State Board of Higher Education, higher education institutions)
3. Enhance marketing efforts for recruitment purposes, including informing the public and customers of programs available and program successes. (Responsibility: North Dakota University System, Legislative Assembly)

Funding and Rewards

1. Identify strategies for maximizing campus utilization. (Responsibility: State Board of Higher Education, higher education institutions, private sector)
2. Continue to enhance campus entrepreneurship and partner with state and federal government, private sector, and other entities. (Responsibility: State Board of Higher Education, higher education institutions, private sector)
3. Ensure that focus and rewards are consistent with established North Dakota University System and higher education institutions' goals. (Responsibility: State Board of Higher Education, higher education institutions)
4. Continue higher education special revenue funds continuing appropriation authority, higher education budget requests, budget estimates, and appropriation legislation, and higher education appropriation carryover legislation passed by the 2001 Legislative Assembly. (Responsibility: Legislative Assembly, executive branch, private sector)

Sustaining the Vision

1. Continue the roundtable concept by retaining the structure of the membership and holding annual meetings. (Responsibility: Legislative Council)
2. Develop a clear and concise message of the roundtable which explains the roundtable benefits. (Responsibility: North Dakota University System)

3. "Tell the story" by broadening and intensifying the message to the following:

- a. General public,
- b. Business community,
- c. Legislative Assembly,
- d. Media,
- e. North Dakota University System faculty,
- f. Kindergarten through grade 12.

(Responsibility: State Board of Higher Education, higher education institutions, Legislative Assembly, executive branch, private sector)

The Higher Education Roundtable received comments from the facilitator regarding the high-priority action items in the following areas:

- Economic development - Barriers must be identified that make developing partnerships with the University System difficult;
- Education excellence - The state may want to consider the expansion of programs such as the work study program into the private sector instead of implementing an enhanced scholarship program;
- Accessibility - The University System must determine how to deliver higher education to the student instead of how to bring the student to the higher education institution;
- Funding and rewards - Budgetary flexibility is important during times of economic hardship;
- Sustaining the vision - It is important for the roundtable concept to be continued and for the entire state to understand the benefits of the Higher Education Roundtable; and
- Compellition for students - Higher education institutions cannot be successful by competing for the same pool of students. North Dakota has a large untapped market of nontraditional students that could be attracted to institutions or could receive education through nontraditional methods such as interactive video.

The Higher Education Roundtable accepted the task force high-priority action items at its June 2002 meeting and forwarded the action items to the Higher Education Committee for its consideration.

Committee Recommendations

The committee accepted the Higher Education Roundtable high-priority action items discussed earlier in the report and recommends:

- House Bill No. 1039 to provide for the continuation of the continuing appropriation authority for higher education institutions' special revenue funds, including tuition.
- House Bill No. 1040 to provide for the continuation of the University System's authority to carry over at the end of the biennium unspent general fund appropriations.
- House Bill No. 1041 to continue the requirement that the budget request for the University System include budget estimates for block

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Date

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grants for a base funding component and for an initiative funding component and a budget estimate for an asset funding component, and the requirement that the appropriation for the University System include block grants for a base funding appropriation and for an initiative funding appropriation and an appropriation for asset funding.

- House Bill No. 1042 to require the University System performance and accountability report to include an executive summary and specific information regarding education excellence, economic development, student access, student affordability, and financial operations.

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