MICROFILM DIVIDER

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

ROLL NUMBER

DESCRIPTION

2038

2001 SENATE APPROPRIATIONS

SB 2038

2001 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2038

Senate Appropriations Committee

☐ Conference Committee

Hearing Date January 15, 2001

Tape Number	Side A	Side B	Meter #
Tape #2	x		43.6 - 54.4
Tape #2		x	0.0 - 15.9
Committee Clerk Signature	Connie Pietsch		

Minutes:

Senator Nething opened the hearing on SB2038.

Craig Caspers, Vice President of the State Board of Higher Education (SBHE), testified in support of SB2038 (a copy of his written testimony is attached).

Larry Isaak, Chancellor, North Dakota University System (NDUS), testified in support of SB2038 (a copy of written testimony is attached).

Senator Bowman: Wonder if you could provide documentation regarding allocation of tuition fees -- doing it much in the same manner as the commodity groups do with their check-off fees?

Chancellor Isaak: We will have the responsibility to do annual reports.

Senator Tomac: Accounting when? Additional bills to be heard? How do we handle?

Senator Nething: We can handle them any way the Committee wishes -- we can do legislative intent on SB2003 -- a single effort, apply to all entities -- or we can do a delayed bill, review the effect and intent prior to becoming law.

Senator Tomac: Will we/have we heard all accountability bills?

Senator Nething: Yes.

Senator Bowman: I understand flexibility, but not sure what this bill does -- perhaps it is minimal -- OMB could ask for more details on request?

Senator Nething: Yes, also the Budget Section. Could pass this bill to go into effect 2 years from now.

Senator Tomac: Concern: Would appreciate full detail on income (tuition and fees) how it was/will be spent - appears accountability not tied in on this bill?

Chancellor Isaak: SB2041 (to be heard in Senate Education Committee) ties the Roundtable Report and the Strategic Planning of the SBHE, along with the reporting of same, together. Our annual report also ties into the Roundtable report. Details of the fiscal and auditing reporting lines can be found in the book we provided you at a previous hearing (SB2003).

Senator Solberg: There are 3 funds to SBHE: Base, Assets, and. Initiatives are flexible. Has the SBHE decided distribution process? Do the excelling receive, those who just sit, don't receive? Have you begun the process of determining awards? Using incentives?

Chancellor Isaak: Yes, this year we used line item dollars (from the general fund) -- spending after much planning: to provide startup funds for new programs, do the common course numbering, accessing the web sites, provide an associate arts degree on line, and data warehouse improvement. All of these were for the benefit of the system -- for all campuses. Future plans include the possibility of providing funds to individual campuses who have put some of their own money into a project (we would match -- very much like a grant process). The SBHE has begun creating the criteria.

Senator Bowman: Possible to provide us with a summarization of activities -- a few sheets as opposed to many sheets?

Chancellor Isaak: As we go through this process, we will continue to refine things. Non-fiscal issues could be provided in total numbers for the system, with a breakdown by institutions if requested. The number of trends - system or campus expectations vary; we will need to define the programs - work on how to report same -- which will result in the information that you wish, in the format you'd like.

Senator Robinson: In the area of initiative funds -- how does the SBHE respond to campus requests -- a summarization of why the campus initiative was supported?

Chancellor Isaak: Part of the non-fiscal accounting. See trends and the overall of trends meeting achievement -- again, the ends not the means.

Senator Robinson: The process then is subjective?

Chancellor Isaak: Yes.

Joseph McCann, President of Williston State College, testified in support of SB2038. An example he shared: when new or existing businesses approach the college/university, this gives the president the support and flexibility to access incentive dollars and provide the training (which is done effectively by the community colleges already) and the business credits they may desire/need. It provides a partnership - to respond in a timely manner. It is flexibility within the college budget that can provide better partnerships with the community's industries and businesses.

Joseph Chapman, President of North Dakota State University (NDSU), testified in support of SB2038. He indicated NDSU will provide whatever information, in whatever form desired, information regarding the dollars provided without question. The flexibility makes us more

responsive, take flexibility and accountability seriously. The Research Technology Park is a perfect example of having the flexibility needed: there are currently two buildings under construction, and one business that plans to build this spring. It enables the university to act in a more businesslike manner.

No additional testimony, for or against, hearing on SB2038 closed by Senator Nething.

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

Senator Nething reopened the hearing on SB2038.

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 Bowman accepted the floor assignment.

Date: 2-7-01

Roll Call Vote #: 1

2001 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2038

Senate Appropriations Committee

☐ Subcommittee on _____
or
☐ Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Not Pass

Motion Made By Sen Bowman Seconded By Sen Solberg

Senators	Yes	No	Senators	Yes	No
Dave Nething, Chairman	✓				
Ken Solberg, Vice-Chairman	✓				
Randy A. Schobinger	✓				
Elroy N. Lindaas	✓				
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 Bowman

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

REPORT OF STANDING COMMITTEE

SB 2038: Appropriations Committee (Sen. Nething, Chairman) recommends **DO NOT PASS** (11 YEAS, 0 NAYS, 3 ABSENT AND NOT VOTING). SB 2038 was placed on the Eleventh order on the calendar.

2001 TESTIMONY

SB 2038

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.

Testimony on SB2038 to
Senate Appropriations Committee
Chancellor Larry Isaak, North Dakota University System
January 15, 2001

What will the bill do?
SB2038 will provide block grant appropriations to the State Board of Higher Education(SBHE) for the entities of the North Dakota University System(NDUS). These block-grant appropriations will be made in three categories: base funding, initiative funding and asset funding. The SBHE will have the authority to allocate these funds to the various campuses and entities within the NDUS. The SBHE supports this bill and the additional flexibility it provides to the Board and campuses.

Consistent Higher Education Roundtable Report:
The Higher Education Roundtable adopted the following major themes as part of their cornerstone on funding and rewards:

- *"The funding methodology utilized to allocate resources to the NDUS should:*
  a. ***Promote the objectives of the state** of North Dakota and the values and priorities presented in this report and as reflected in the cornerstones;*
  b. ***Sustain the capacity of the institutions** within NDUS to fulfill their respective missions, including continuing to provide a strong liberal arts education;*
  c. ***Maintain the physical assets** in which the state has invested.*

- *The State Board of Higher Education is the body primarily responsible for directing the actions of the NDUS. As such, it:*
  a. *Should be charged **with diversifying and expanding the sources of revenues** available to the System;*
  b. *Should have **broad authority to manage the revenues of the System;***
  c. *Should have access **to resources to invest in strategies, which advance the recommendations presented in this report;***
  d. *Must protect **the State from contingent liabilities** created by it or its constituent institutions."*

In keeping with this theme, the Roundtable made the following general solution and specific recommendations:

"GENERAL SOLUTION:

- *A funding mechanism structured around three primary budgetary components is recommended:*
  a. ***Base funding** used to sustain the academic capacity of each campus. The adequacy of the base funding for each institution is measured by comparison to other external benchmarks (i.e., peer institutions in other states);*
  b. ***Incentive funding** which creates incentives and/or rewards in furtherance of the State's and Roundtable's priorities*
  c. ***Asset funding** which supports the maintenance of the physical assets of the State's University System."*

Recommendations:

- ***The SBHE and the Chancellor develop, build consensus about, and recommend to the legislature and executive branches, details of:***

a. *A financing plan to address the gap between current funding levels and the resources needed to fully meet the expectations expressed in this report and of the State. The plan should reflect a shared funding responsibility between students, the State, the private sector, donors, local governments, communities, and the campuses. This financing plan should make allowance for the need for institutions to regularly fund plant asset depreciation from operating budgets;*
b. *A resource allocation model comprised of the three components identified in the General Solution: base, incentive, and asset funding;*
c. *Mechanisms designed to demonstrate both performance and fiscal accountability.*

- ***Executive and legislative branches modify the budget and appropriation processes so they are consistent with the directions identified in this report** (i.e., flexible, responsive, entrepreneurial and accountable).*

- ***The Legislature:***
  a. ***Provide a lump sum general fund base appropriation to the Board and/or to the institutions;***
  b. Provide a lump sum appropriation to the Board for the Board to invest in specific strategies to promote the agenda outlined in this report and also of the State.
- ***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.*

<u>Current and Proposed Appropriation Process:</u>
SB2003, as introduced, continues to provide separate appropriations to each System entity (subdivisions 2-14), reduced to two line items: operations and capital assets. In addition, the bill provides block grant funding to the Board, in subdivision 1, for system governance, student grant programs, campus-based programs and contingencies and board initiatives. These dollars would be allocated by the Board based upon the broad legislative intent outlined in the bill in sections 8-10 of SB2003.

SB2038 provides that appropriations be made in three categories: 1)base funding, 2) asset funding and 3)incentive funding. The Board would allocate base funding to the campuses and entities. Base funding would be allocated based upon the resource allocation model, which is under development. The model is directly linked to the peer comparators and the long-term financing plans that I discussed in my testimony on SB2037.

Asset funding could be allocated based on the statewide extra-ordinary repair formula in place, the status of deferred maintenance at each campus and other relevant factors. Incentive funding would be invested in those campuses and projects that are best able to accomplish the statewide objectives outlined in the Roundtable Report.

Campuses would have the flexibility to allocate base funding resources based on campus priorities to salary increases, new programs and services, technology, operating and utility inflationary costs and equipment replacement. This provides the campuses the ability to respond to rapidly changing demands.

This additional flexibility is critically important for two primary reasons:

1. It provides the funding flexibility the Board needs to invest incentive funding into those efforts that can best meet the needs of the state.
2. It provides campus presidents with flexibility to manage highly complex and rapidly changing organizations. It allows them to invest resources into those areas of the institution to leverage state resources to produce the intended outcomes outlined in the Roundtable Report.

We support and appreciate the recommendations made by Governors Schafer and Hoeven in the appropriations structure presented in SB2003. Their recommended appropriations structure provides more flexibility for campuses by reducing the number of line items, and, also provides partial block granting of funds to the Board. Their recommendations also provide an appropriation to the Board for Board initiatives in keeping with the Roundtable recommendations. We ask for your thoughtful consideration and favorable action on SB2038, which fully implements the block granting finance recommendations in the Roundtable Report. I have asked Presidents McCann and Thigpen to comment on this bill from a campus perspective. Thank you again for your support and hard work on behalf of the entire University System.

W:\testimony on SB2038