

HIGHER EDUCATION COMMITTEE

The Higher Education Committee was assigned, pursuant to Section 23 of Senate Bill No. 2003 (2005), a study of higher education funding and accountability, including a review of the progress made in implementing the Higher Education Roundtable recommendations relating to the North Dakota University System meeting the state's expectations and needs, the funding methodology needed to meet those expectations and needs, and the appropriate accountability and reporting system for the University System. The study was to include an evaluation by an independent consultant selected by the Legislative Council of the roundtable recommendations and goals and objectives of the University System, the long-term financing plan for the University System, the University System's prioritization of higher education funding, including the resource allocation mechanism addressing equity funding issues, and the accountability mechanisms.

In addition, the committee was assigned the responsibility to receive reports from the State Board of Higher Education on the status of the board's review of the long-term financing plan pursuant to Section 17 of Senate Bill No. 2003 (2005) and the responsibility to receive a report from the State Board of Higher Education before July 1, 2006, regarding implementation of a policy requiring all institutions to assess faculty and teaching assistant English communication skills pursuant to North Dakota Century Code (NDCC) Section 15-10-42.

Committee members were Senators Ray Holmberg (Chairman), Tim Flakoll, Tony Grindberg, Nicholas P. Hacker, Ed Kringstad, Elroy N. Lindaas, Dave Nething, and David O'Connell and Representatives Ole Aarsvold, Larry Bellew, Tom Brusegaard, Lois Delmore, Mary Ekstrom, Kathy Hawken, Nancy Johnson, Andrew G. Maragos, Bob Martinson, Darrell D. Nottestad, Mark S. Owens, Earl Rennerfeldt, and Steven L. Zaiser.

The committee submitted this report to the Legislative Council at the biennial meeting of the Council in November 2006. The Council accepted the report for submission to the 60th Legislative Assembly.

BACKGROUND

The University System consists of 11 institutions under the control of the State Board of Higher Education. The system served approximately 52,129 students (headcount enrollment) during the 2003-04 academic year. Total appropriations by the 2005 Legislative Assembly for the 2005-07 biennium for higher education institutions and the University System office totaled \$565,710,001, of which \$387,157,893 was from the general fund. This included:

- Block grant appropriations to each of the higher education institutions for operations and capital assets and \$178,552,108 from special funds, including \$175 million for capital improvement projects.
- Funding of \$2 million from the general fund for an equity pool. Section 9 of Senate Bill No. 2003

(2005) provided that the funding must be used to address equity at higher education institutions and other campus needs as determined by the State Board of Higher Education. The board could not select a formula for distributing the equity funding until January 1, 2006.

The legislative appropriations for the 11 institutions, the University System office, and the Forest Service include funding for 2,194.42 full-time equivalent (FTE) general fund positions for the 2005-07 biennium. Tuition and fees are not specifically appropriated by the Legislative Assembly as statutory authority is provided for the continuing appropriation of these funds.

Previous Legislative Higher Education Studies and Related Legislation

1999-2000 Study

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 those 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 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 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 six bills for consideration by the 2001 Legislative Assembly:

1. Senate Bill No. 2037 (2001), which was amended into Senate Bill No. 2003 (2001), provided a continuing appropriation for all higher education institutions' special revenue funds, including tuition income and local funds, and allowed institutions to carry over at the end of the biennium unspent general fund appropriations. The legislation was effective through June 30, 2003.
2. Senate Bill No. 2038 (2001), which was amended into Senate Bill No. 2003 (2001), 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 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. The legislation was effective through June 30, 2003.

3. Senate Bill No. 2039 (2001), as passed, 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 \$385,000.
4. Senate Bill No. 2040 (2001), which failed to pass, would have 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.
5. Senate Bill No. 2041 (2001), as passed, included the committee's recommendation 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.
6. Senate Bill No. 2042 (2001), as passed, included the committee's recommendation 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.

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

2001-02 Study

The Higher Education Committee during the 2001-02 interim studied the State Board of Higher Education implementation of the performance and accountability measures recommendations. The committee, through the use of 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 and private colleges, and the executive branch, reviewed plans for and accomplishments relating to the recommendations of the 1999-2000 Higher Education Roundtable, reviewed the state's New Economy Initiative and its linkage to the Higher Education Roundtable cornerstones and recommendations, and developed high-priority action items concerning higher education in North Dakota. The committee also reviewed the University System long-term financing plan and resource allocation model approved by the State Board of Higher Education and the University System first annual performance and accountability report.

The committee recommended four bills for consideration by the 2003 Legislative Assembly:

1. House Bill No. 1039 (2003), which was amended into House Bill No. 1003 (2003), provided for the extension of the continuing appropriation authority for higher education institutions' special revenue funds, including tuition. The legislation was extended through June 30, 2005.
2. House Bill No. 1040 (2003), which was amended into House Bill No. 1003 (2003), provided for the extension of the University System's authority to carry over at the end of the biennium unspent general fund appropriations. The legislation was extended through June 30, 2005.
3. House Bill No. 1041 (2003), which was amended into House Bill No. 1003 (2003), continued the requirement that the budget request for the University System include budget estimates for block 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. The legislation was extended through June 30, 2005.
4. House Bill No. 1042 (2003), which failed to pass, would have amended NDCC Section 15-10-14.2 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. The 2003 Legislative Assembly amended House Bill No. 1003 to provide legislative intent that the University System performance and accountability report include an executive summary and specific information regarding education excellence, economic development, student access, student affordability, and financial operations.

2003-04 Study

The Higher Education Committee during the 2003-04 interim studied higher education to further refine the expectations of the University System in meeting the state's needs in the 21st century, the funding methodology needed to meet those expectations and needs, and the accountability system and reporting methodology for the University System. The committee, through the use of a Higher Education Roundtable consisting of the 16 members of the Higher Education Committee and 45 representatives from the State Board of Higher Education, business and industry, higher education institutions, including tribal and private colleges, and the executive branch, reviewed the status of higher education in North Dakota, developed meaningful recommendations for enhancing the economy and other appropriate issues concerning higher education in North Dakota, reviewed the progress made, current status, and further actions needed to

enhance the economic and social vitality of the state and make the state more attractive for new business and business expansion; reviewed the impact of the Higher Education Roundtable on higher education in the state; and developed recommendations for action by the Legislative Assembly, the University System, the executive branch, and the private sector. The committee also reviewed the University System long-term financing plan and resource allocation model approved by the State Board of Higher Education and the University System third annual performance and accountability report.

The committee recommended four bills for consideration by the 2005 Legislative Assembly:

1. Senate Bill No. 2034 (2005), as passed, provided for the continuation of the continuing appropriation authority for higher education institutions' special revenue funds, including tuition, through June 30, 2007.
2. Senate Bill No. 2035 (2005), as passed, provided for the continuation of the requirement that the budget request for the University System include budget estimates for block 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 through June 30, 2007.
3. Senate Bill No. 2036 (2005), as passed, provided for the continuation of the University System's authority to carry over at the end of the biennium unspent general fund appropriations through June 30, 2007.
4. Senate Concurrent Resolution No. 4002 (2005), which failed to pass, directed the Legislative Council to study during the 2005-06 interim the State Board of Higher Education performance and accountability measures included in the report required by NDCC Section 15-10-14.2.

Long-Term Financing Plan and Resource Allocation Model

The 1999-2000 Higher Education Roundtable recommended the State Board of Higher Education and the chancellor develop a long-term financing plan and resource allocation model. As a result, the State Board of Higher Education contracted with the National Center for Higher Education Management Systems for assistance with the development of such a plan and model. The board reviewed the recommendations of the National Center for Higher Education Management Systems and adopted a long-term financing plan consisting of base operating funding, incentive funding, and capital asset funding components. The following is a description of the long-term financing plan and resource allocation model prior to suggested changes as a result of the consultant's recommendations:

Base Operating Funding Component

The base operating funding component of the long-term financing plan provides funding to each higher education institution to support core campus functions, such as instruction, research, and public service. The funding for each institution is based on the institution's current state general fund appropriation with general fund appropriation increases to address parity and equity. Objectives of the base operating funding component are to:

1. Establish peer institutions for each higher education institution based on agreed-upon selection criteria, including institution type, city size, Carnegie classification code, land-grant institution or medical school, total FTE students, total headcount enrollment, a percentage of part-time headcount, degrees awarded, degree program mix, and research expenditures.
2. Review national Integrated Postsecondary Education Data Systems (IPEDS) data on unrestricted state and local appropriations and net tuition revenues (total tuition revenue less scholarships, waivers, and discounts) on a per FTE student basis for each of the peer institutions.
3. Establish a base operating funding benchmark for each higher education institution based on the review of the state and local appropriations and net tuition revenues per student information. The benchmarks are to be reestablished every six years and, in the intervening years, are to be inflated by a percentage amount equivalent to the consumer price index.
4. Establish shared funding percentages to reflect that higher education funding is to be a shared responsibility between the state and students.
5. Determine the recommended base operating funding levels for each institution by taking into consideration the base operating funding benchmark, enrollment, and the recommended shared funding percentages.
6. Develop budget requests to move institutions currently funded at less than 85 percent of peer institution funding to 85 percent by the 2007-09 biennium and all institutions to 95 percent of peer institution funding by the 2013-15 biennium.
7. Allocate no more than 80 percent of all new state funding to parity and inflation and no less than 20 percent of the new funds to equity. The equity funding is to be distributed on a weighted average of each institution's gap differential to its peer comparator institutions.
8. Assure that state general fund appropriations are not reduced for any institution from the previous biennium until such time that the institution exceeds 105 percent of its peer benchmark or enrollment declines are sufficient to cause a reevaluation of its benchmark.

Incentive Funding Component

The incentive funding component of the long-term financing plan includes funding for the State Board of Higher Education to support state and system priorities consistent with the goals of the Higher Education Roundtable. The State Board of Higher Education goal for incentive funding is to have funding equivalent to 2 percent of the total University System state general fund appropriation by the 2007-09 biennium.

Capital Asset Funding Component

The capital asset funding component of the long-term financing plan provides funding to each of the higher education institutions for maintenance and replacement of facilities and infrastructure. The State Board of Higher Education goal for capital asset funding is for each of the institutions to phase in full funding of the Office of Management and Budget buildings and infrastructure formula over a 10-year period (by the 2011-13 biennium) and to address the current deferred maintenance backlog over approximately a 14-year period (by the 2015-17 biennium). The funding provided to each of the institutions would be left to the discretion of the institution with appropriate approvals by the State Board of Higher Education for projects greater than \$100,000. Institutions would be given the authority to allocate funds for repair and replacement priorities for both deferred maintenance and regular repair and replacement projects as determined by the institution. Institutions would be allowed to carry unspent capital asset funding from one biennium to the next in order to complete projects started in one biennium but not completed until the next and to accumulate funds to complete large projects that require multiyear funding. The capital asset funding component will be applied to new state buildings built on campuses; however, no new operating funds will be added to the base operating budget for operating costs if the operating base is already at the benchmark target.

Performance and Accountability Report

North Dakota Century Code Section 15-10-14.2 requires the University System to provide an annual performance and accountability report regarding performance and progress toward the goals outlined in the University System strategic plan and related accountability measures. Section 20 of Senate Bill No. 2003 (2005) provides that the performance and accountability report as required by Section 15-10-14.2 is to include an executive summary and identify progress on specific performance and accountability measures in the areas of education excellence, economic development, student access, student affordability, and financial operations. The following is a summary of the performance and accountability measures identified in Section 20 of Senate Bill No. 2003 (2005):

1. Education excellence, including:
 - a. Student performance on nationally recognized exams in their major fields compared to the national averages.
 - b. First-time licensure pass rates compared to other states.

- c. Alumni-reported and student-reported satisfaction with preparation in selected major, acquisition of specific skills, and technology knowledge and abilities.
 - d. Employer-reported satisfaction with preparation of recently hired graduates.
 - e. Biennial report on employee satisfaction relating to the University System and local institutions.
 - f. Student graduation and retention rates.
2. Economic development, including:
 - a. Enrollment in entrepreneurship courses and the number of graduates of entrepreneurship programs.
 - b. Percentage of University System graduates obtaining employment appropriate to their education in the state.
 - c. Number of businesses and employees in the region receiving training.
3. Student access, including number and proportion of enrollments in courses offered by nontraditional methods.
4. Student affordability, including:
 - a. Tuition and fees on a per student basis compared to the regional average.
 - b. Tuition and fees as a percentage of median North Dakota household income.
 - c. Cost per student in terms of general fund appropriations and total University System funding.
 - d. Per capita general fund appropriations for higher education.
 - e. State general fund appropriation levels for University System institutions compared to peer institutions general fund appropriation levels.
5. Financial operations, including:
 - a. Cost per student and percentage distribution by major function.
 - b. Ratio measuring the funding derived from operating and contributed income compared to total University System funding.
 - c. Ratio measuring the amount of expendable net assets as compared to the amount of long-term debt.
 - d. Research expenditures in proportion to the amount of revenue generated by research activity and funding received for research activity.
 - e. Ratio measuring the amount of expendable fund balances divided by total expenditures and mandatory transfers.
 - f. Ratio measuring net total revenues divided by total current revenues.

The State Board of Higher Education has adopted 9 performance and accountability measures, in addition to the 21 measures required by the 2005 Legislative Assembly, to provide guidance in establishing effective policy for the 11 system institutions. The following is a summary of the performance and accountability

measures adopted by the State Board of Higher Education:

1. Workforce training information, including levels of satisfaction with training events as reflected in information systematically gathered from employers and employees receiving training.
2. Noncompleters satisfaction - Levels of satisfaction and reasons for noncompletion as reflected in a survey of individuals who have not completed their program or degree.
3. Student goals - Levels and trends in the number of students achieving goals and the institution meeting the defined needs and goals as expressed by students.
4. Levels of satisfaction with responsiveness as reflected through responses to evaluations of companies receiving training.
5. Student participation - Levels and trends in rates of participation of:
 - a. Recent high school graduates and nontraditional students.
 - b. Individuals pursuing graduate degrees.
6. Student enrollment information, including:
 - a. Total number and trends in full-time, part-time, degree-seeking, and non-degree-seeking students being served.
 - b. The number and trends of individuals, organizations, and agencies served through noncredit activities.
7. Higher education funding - A status report on higher education financing as compared to the long-term financing plan.
8. Ratio of incentive funding to total University System state general fund appropriations.
9. Ratio of University System state general fund appropriations to total state general fund appropriations.

The first performance and accountability report was published in December 2001 and the report has been published each subsequent year. The most recent report was published in December 2005 and may be viewed on the Internet at www.ndus.nodak.edu/reports/details.asp?id=465.

HIGHER EDUCATION FUNDING AND ACCOUNTABILITY STUDY

Consultant Services and Methodology

The committee developed a request for proposal for conducting a higher education funding and accountability study and authorized the request for proposal be sent to 26 potential consultants. The request for proposal provided that the study include a comprehensive review of the following items, identify findings, and make recommendations to be implemented by the University System and to assist the Legislative Assembly and the executive branch in monitoring of and budgeting for the University System:

1. Evaluate the long-term financing plan for the University System and determine:
 - a. If the current method of funding for the University System and the method of determining and evaluating equity among

the institutions is appropriate and, if so, the appropriateness of the peer institutions selected and the need to update peer institution funding comparisons.

- b. If the long-term financing plan is realistic based on historic funding increases and forecasted economic growth in North Dakota.
 - c. If the current State Board of Higher Education method of setting priorities is appropriate.
 - d. If the long-term financing plan adequately addresses the use of various sources of revenues and allocations and the need for funding initiatives at the state's institutions.
 - e. If the current method of funding for the University System is not appropriate, develop an alternative method of funding using existing resources for the University System, including the allocation of funding to institutions and a comparison of the proposed allocation of funding to institutions to the funding provided for the 2005-07 biennium.
2. Describe the state of higher education in the United States and how North Dakota compares in finance and performance, national higher education trends, other states' per capita higher education funding, and trends in funding higher education from nonstate revenue sources.
 3. Evaluate previous Higher Education Roundtable recommendations, including:
 - a. Status of implementation of the recommendations.
 - b. Strengths and weaknesses of the recommendations as implemented.
 - c. Appropriateness of the recommendations to meet the expectations and needs of students, citizens, higher education entities, and the Legislative Assembly.
 4. Evaluate the accountability measures and benchmarks in terms of appropriateness and adequacy.
 5. Provide findings, identify alternatives and options, and make recommendations for the state of North Dakota to proceed with appropriate implementation of roundtable recommendations, the long-term financing plan, and the accountability measures.

The Legislative Council received proposals from five entities interested in conducting the higher education funding and accountability study. The Council received presentations of the proposals from representatives of the entities and selected and contracted with MGT of America, Inc., a consulting company based in Tallahassee, Florida. MGT of America, Inc., began its work in September 2005 and concluded the study with the presentation of a final report to the Higher Education Committee in March 2006.

MGT of America, Inc., completed interviews with public and private stakeholders, including the State Board of Higher Education, higher education officials,

students, executive branch officials, legislators, and the private sector; reviewed documentation; and gathered external benchmarking information.

Study Findings and Recommendations

The MGT of America, Inc., final report for the higher education funding and accountability study included information regarding the state of higher education, Higher Education Roundtable, accountability measures, peer institutions, and the University System long-term financing plan. The report may be viewed on the Internet at www.legis.nd.gov/council/documents/herereport.html.

State of Higher Education

MGT of America, Inc., identified the following conditions relating to the state of higher education in the United States and how North Dakota compares in finance and performance, national higher education trends, per capita higher education funding, and trends in funding higher education from nonstate revenue sources:

- The mix of population by age level for North Dakota is close to the averages for Minnesota, Montana, South Dakota, and the national averages.
- The percentage of North Dakota high school graduates going directly to college is 73.7 percent compared to the national average of 56.6 percent.
- North Dakota has a 47.5 percent bachelor's degree graduation rate compared to the national average of 54.3 percent and a 36.2 percent associate degree graduation rate compared to the national average of 30.6 percent.
- North Dakota's personal income per capita for 2004 was \$29,247 compared to \$36,173 for Minnesota, \$27,666 for Montana, \$30,617 for South Dakota, and the national average of \$33,041.
- North Dakota's state tax collections per capita for 2000 was \$2,675 compared to \$3,694 for Minnesota, \$2,363 for Montana, \$2,300 for South Dakota, and the national average of \$3,100.
- North Dakota allocated 17.3 percent of its general fund budget to higher education for fiscal year 2003-04 compared to 7.3 percent for Minnesota, 10.2 percent for Montana, 12.6 percent for South Dakota, and the national average of 10.8 percent.
- North Dakota's general fund higher education spending per capita was \$258 for fiscal year 2003-04 compared to \$213.02 for Minnesota, \$155.34 for Montana, \$167.18 for South Dakota, and the national average of \$198.69.
- North Dakota's tuition net dollars (state appropriations and tuition and fees less student aid) per FTE student for fiscal year 2003-04 was \$5,528 compared to the national average of \$6,013.
- Total higher education revenues per FTE student, including higher education appropriations and net tuition revenues are:

	Higher Education Appropriations Per FTE Student	Net Tuition Revenue Per FTE Student	Total Higher Education Revenues Per FTE Student
North Dakota	\$4,345	\$2,945	\$7,290
Minnesota	\$5,584	\$3,963	\$9,547
Montana	\$3,915	\$3,873	\$7,788
South Dakota	\$4,408	\$4,560	\$8,968
National average	\$5,737	\$3,187	\$8,924

- Net tuition revenues as a percentage of total higher education revenues for fiscal year 2003-04 was 40.4 percent for North Dakota compared to 41.7 percent for Minnesota, 49.7 percent for Montana, 50.8 percent for South Dakota, and the national average of 35.7 percent.
- The percentage increase in higher education appropriations per FTE student from 1990-91 to 2003-04 was 49 percent for North Dakota compared to 32.3 percent for Minnesota, 35.6 percent for Montana, 88.1 percent for South Dakota, and the national average of 62.1 percent.
- Higher education appropriations per FTE student from 1991-2004, using constant 2004 dollars adjusted by a higher education cost adjustment, declined by 21.4 percent for North Dakota compared to the national average decline of 11.9 percent.
- North Dakota state appropriations for higher education increased from \$183.5 million for fiscal year 2000 to \$201.5 million for fiscal year 2003, then dropped to \$200.4 million for fiscal years 2004 and 2005 before increasing to \$215.3 million in fiscal year 2006.
- For the 10-year period 1995-2005, North Dakota higher education appropriations increased 1.7 percent per year compared to the national average of 2.1 percent.

Higher Education Roundtable

MGT of America, Inc., evaluated the Higher Education Roundtable and its recommendations and determined that there is a general consensus that the Higher Education Roundtable has met the needs and expectations of the various constituencies and the roundtable is perceived to be extremely successful at improving the quality of higher education, integrating higher education into the economy, and bringing business and industry to the table as partners. MGT of America, Inc., determined that of the Higher Education Roundtable's 147 recommendations--50 are fully implemented, 94 are partially implemented, and 3 are not implemented. Lack of adequate funding for faculty and staff salaries, lack of progress toward perceived equity in the distribution of resources among campuses, and lack of a commitment to appropriating 21 percent of the state's budget to higher education are thought of as weaknesses in the recommendations as implemented.

Accountability Measures

MGT of America, Inc., evaluated the University System accountability measures and benchmarks in terms of appropriateness and adequacy. MGT of America, Inc., determined that the University System has 30 accountability measures--21 mandated by the Legislative Assembly and 9 mandated by the State Board of Higher Education. The accountability measures are linked to the Higher Education Roundtable and are similar to accountability measures used by other states and higher education systems. The University System publishes an annual performance and accountability report summarizing the status of the accountability measures for the system as a whole.

Recommendations - MGT of America, Inc., made the following recommendations regarding the University System accountability measures and benchmarks:

- Establish benchmarks and goals for each measure.
- Include data for each higher education institution in summary fashion in the University System annual performance and accountability report.
- Reduce the number of accountability measures.
- When the number of accountability measures is reduced, retain those measures for five or six years.
- Include a measure of faculty productivity that is appropriate for each institution.

Peer Institutions

MGT of America, Inc., evaluated the appropriateness of the peer institutions used in the University System long-term financing plan. MGT of America, Inc., defined a "peer institution" as a college or university that is most like another college or university based on similarities on a group of variables. MGT of America, Inc., used a statistical approach to determine appropriate peer institutions for the University System. Under the approach, institutions were compared using over 150 variables relating to size, location, type of institution, staffing, program mix, degrees awarded by program, and student body composition, and those institutions with similar scores were considered to be potential peer institutions.

Recommendations - MGT of America, Inc., made the following recommendations regarding the University System peer institutions:

- Establish peer lists of no fewer than 15 institutions.
- Use peer institutions as recommended by MGT of America, Inc., for the purposes of determining adequate funding levels for North Dakota higher education institutions.

Long-Term Financing Plan

MGT of America, Inc., evaluated the long-term financing plan of the University System and determined the long-term financing plan was developed at the direction of the Higher Education Roundtable with input from all 11 University System higher education institutions and assistance from an outside consultant. The plan, which was approved by the State Board of

Higher Education in 2001, is to serve the dual mission of providing access to high-quality higher education for citizens of North Dakota and to enhance the role of higher education in the economy of the state. MGT of America, Inc., noted the long-term financing plan has three components:

- Base operating funds - These funds are designed to support core campus functions, such as instruction, research, and public service. Base operating funds are allocated to institutions in two pools--parity and equity. Parity funds are funds needed to continue current programs and services and include funds for salary increases, benefit changes, and inflationary increases for items such as utilities and fuel costs. Equity funds are funds needed to move a campus closer to the peer benchmark level of funding.
- Capital asset funds - These funds are used for the repair and replacement of facilities, based on age of each facility, replacement value, and the deferred maintenance backlog at each campus.
- Incentive funds - These funds are intended to provide the State Board of Higher Education with some flexibility to fund special initiatives that support state and system priorities and are consistent with the goals of the Higher Education Roundtable.

Findings - MGT of America, Inc., identified the following key findings regarding the long-term financing plan:

- The current funding for the University System institutions is not equitable and the disparity has increased since the 1999-2001 biennium. There are several reasons why disparity in funding has increased, including that the Legislative Assembly has appropriated only limited additional revenues with which to address inequities and that the manner in which funds are allocated between parity and equity increases the disparity.
- The long-term financing plan does not adequately address the need for funding initiatives at the higher education institutions, such as new program startup funding, funding for state-of-the-art equipment and technology, or other items that are consistent with the roundtable recommendations.
- Although the long-term financing plan adequately addresses the use of various sources of revenues, the state has not provided its share of resources in the base operating funding, capital asset funding, and incentive funding components. As a result, students have shouldered a significantly greater share, deferred maintenance has increased, and there has been little funding available for incentive funding to address system and state priorities consistent with the Higher Education Roundtable goals.

MGT of America, Inc., recognized there are some built-in inefficiencies in a system with 11 institutions to serve a state with fewer than 700,000 residents, and there are some unique characteristics of the North Dakota higher education institutions which make a

funding formula appropriate for the system. MGT of America, Inc., noted Lake Region State College, Mayville State University, Minot State University - Bottineau, Valley City State University, and Williston State College cannot take advantage of economies of scale and could benefit from a fixed base allocation with a variable amount per student above the base. MGT of America, Inc., concluded because of the difficulties implementing the ConnectND system, the University System does not at this time have the capability of collecting, retrieving, and using data on student enrollments by course, discipline, and level needed to support a funding formula; therefore, the current method of funding using peer comparisons is the most appropriate base funding methodology at the present time.

Recommendations - MGT of America, Inc., made the following recommendations regarding the long-term financing plan for the University System:

- Determine the count of students for the base funding component of the plan by using an average of the two most current years' fall enrollment--25 percent based on student headcount and 75 percent based on FTE students.
- Use the peer institutions recommended by MGT of America, Inc., to update the peer funding comparisons. Keep the same set of peer institutions for at least two bienniums unless there are major changes that suggest a peer group may need revision.

- Update the data for the peer institutions by using the most current IPEDS data available at the time the biennial budget request is prepared. Collect information on appropriations and net tuition revenues for agriculture programs from peer institutions.
- Revise the method of allocating parity and equity so that a minimum of 80 percent of the new funding is allocated to equity and 20 percent to parity. (Currently, no more than 80 percent of all new state funding is allocated to parity and no less than 20 percent of the new funds to equity.) Further, allocate the 20 percent of parity dollars in inverse proportion to the percentage of peer funding so that institutions that are the furthest from peer funding would get the greatest relative parity and equity increase.
- Increase state funding to the University System to reach a goal of 21 percent of the state general fund budget.
- Establish more realistic targets for the percentage of peer funding.

Clarification of Recommendations

The committee submitted six requests to MGT of America, Inc., for clarification of recommendations and explanation of supporting information relating to the final report for the higher education funding and accountability study. The requests for clarification and the MGT of America, Inc., responses are summarized as follows:

Requests for Clarification of Recommendations and Explanation of Supporting Information	MGT of America, Inc., Responses
Should the funding model include components related to tuition collections or should the model focus strictly on state support?	The model should include components related to net tuition collections. Every state has its own policies on tuition and state support for higher education institutions. Some states have low state support and high tuition rates, and other states have high state support and low tuition rates.
Could a funding model be developed that would distribute state funds based on the student headcount enrollment or FTE enrollment?	The University System long-term finance plan determines the total per student support for a higher education institution from the combination of state appropriations and tuition and fees. The long-term finance plan also includes a specified percentage that is expected to be contributed by students through net tuition and fees. MGT of America, Inc., recommended a funding model that distributes the equity component of funding on a combination of headcount enrollment and FTE enrollment. A model could be developed that would distribute state funds based solely on student headcount enrollment or FTE enrollment. However, such a model would not be desirable because the model would not consider the unique characteristics of each higher education institution.
Please expand on the MGT of America, Inc., reasoning for excluding agricultural research experiment and extension from North Dakota State University?	MGT of America, Inc., did not recommend excluding agricultural research experiment and extension from North Dakota State University. The MGT of America, Inc., final report for the higher education funding and accountability study provides that adjustments are not made for agricultural research experiment and extension because similar adjustments could not be made for the peer institutions without a special survey of the peer institutions which could not be completed within the timeframe of the study. To use the model in determining and comparing funding levels, it is recommended the University System survey the peer institutions for North Dakota State University to be able to remove agricultural

Requests for Clarification of Recommendations and Explanation of Supporting Information	MGT of America, Inc., Responses
How did MGT of America, Inc., arrive at the conclusion that because of the difficulties implementing the ConnectND system, the University System does not have the capability of collecting, retrieving, and using all the data needed to support a funding formula?	research experiment and extension expenditures. MGT of America, Inc., understands the North Dakota Century Code prevents the commingling of funds appropriated, especially for the agricultural programs at North Dakota State University; however, MGT of America, Inc., also recognizes certain expenditures are made by North Dakota State University that benefit the agricultural programs and are not charged to these programs. Based upon conversations with staff at each of the higher education institutions and the University System office, MGT of America, Inc., determined the ConnectND system had serious deficiencies and problems with storing and retrieving data. A funding formula envisioned by MGT of America, Inc., requires data, such as student credit-hours by level and discipline, program costs, building condition, staffing levels, outside funded research, and library holdings. Although the ConnectND system has the capability to handle the necessary data elements, data on program costs was not available at the time of the study.
Some representatives of the University System have testified that the system does have the capability of collecting, retrieving, and using data needed to support a funding formula methodology. If this is correct, would MGT of America, Inc., recommend the University System use a funding formula methodology instead of a peer funding comparison methodology?	A system having the capability of collecting, retrieving, and using data does not mean the system is operational or the data is available. At the time of the study, MGT of America, Inc., determined the ConnectND system did not have the capability of generating the necessary data and reports for the 2007 Legislative Assembly. When data can be stored, retrieved, and used at the level of detail and analysis required for a funding formula, MGT of America, Inc., would support a funding formula for the University System.
At one time, representatives of MGT of America, Inc., stated that it does not seem appropriate for a large campus, such as the University of North Dakota, to have the same voting power as a small campus, such as Minot State University - Bottineau. What are the MGT of America, Inc., recommendations in this area?	MGT of America, Inc., understands each higher education institution has one vote on matters before councils and committees of the University System. This is a decision made by the University System, and MGT of America, Inc., makes no recommendations in this area.

Equity Funding Issues

As a followup to committee concerns regarding equity funding issues, the committee received information from representatives of the University System regarding the allocation of the 2005-07 biennium \$2 million equity pool and representatives of North Dakota State University and the University of North Dakota regarding issues relating to equity funding for those institutions.

2005-07 Equity Pool

The 2005-07 Legislative Assembly provided funding of \$2 million from the general fund for an equity pool to address equity at higher education institutions and other campus needs as determined by the State Board of Higher Education. Section 9 of Senate Bill No. 2003 provided the State Board of Higher Education could not select a formula for distributing the equity funding until January 1, 2006.

The committee learned on January 19, 2006, the State Board of Higher Education distributed the equity pool as follows:

Bismarck State College	\$400,000
Lake Region State College	400,000
University of North Dakota	300,000
North Dakota State University	900,000
Total	\$2,000,000

North Dakota State University

The committee learned the Agricultural Experiment Station and the Extension Service have statewide missions and responsibilities. The entities are part of the North Dakota State University system but are separate agencies from the academic functions of the North Dakota State University campus. North Dakota Century Code Section 4-05.1-02 provides that funds appropriated to the Agricultural Experiment Station may not be commingled with funds appropriated to North Dakota State University, and appropriation requests to defray expenses of the Agricultural Experiment Station must be separate from appropriation requests to defray expenses of North Dakota State University. Section 4-08-10 provides that funds appropriated to the Extension Service may not be commingled with funds appropriated to North Dakota State University, and appropriation requests to defray expenses of the Extension Service must be separate from appropriation requests to defray expenses of North Dakota State University. The funds for the Agricultural Experiment Station and the Extension Service are managed separately from the academic teaching programs of North Dakota State University.

The committee learned North Dakota State University contacted its peer institutions and received information regarding funding associated with agricultural experiment and extension activities. The information research was forwarded to MGT of America, Inc., and the State Board of Higher Education. The State Board

of Higher Education voted to exclude funding for the Agricultural Experiment Station and the Extension Service from North Dakota State University in the long-term financing plan.

University of North Dakota

The committee learned the University of North Dakota is a doctoral institution with a law school as well as a School of Medicine and Health Sciences. The doctoral institution status and the presence of a medical school were both determining factors in the identification of peer institutions for the university. The UND School of Medicine and Health Sciences receives a biennial general fund appropriation that is used to fund the programs of the medical school. The biennial appropriation does not include funds for physical plant support, such as utilities, custodial services, and maintenance; institutional support for centrally provided services, such as accounting and payroll services; and student and academic support for centrally provided services, such as registrar, financial aid, campus computing, and student health. Although the appropriation for the medical school is separately budgeted and tracked within the University of North Dakota, both financial statement and IPEDS reporting reflect data for the legal entity as a whole. There is no way to accurately separate the university and medical school costs since there are students paying university tuition who take courses taught at the medical school and there are also students paying tuition for programs in the medical school taking other university courses.

The committee learned the State Board of Higher Education voted to include funding for the UND School of Medicine and Health Sciences with the University of North Dakota in the long-term financing plan.

State Board of Higher Education - Review of Long-Term Financing Plan and Response to the MGT of America, Inc., Recommendations

The committee was assigned, pursuant to Section 17 of Senate Bill No. 2003 (2005), the responsibility to receive reports from the State Board of Higher Education on the status of the board's review of the long-term financing plan. The committee learned the State Board of Higher Education established a Long-Term Financing Plan Review Committee comprised of volunteer representatives from Bismarck State College, Lake Region State College, University of North Dakota, North Dakota State University, State College of Science, Minot State University, and Valley City State University. The committee refined the long-term financing plan guiding principles, reviewed the recommendations of MGT of America, Inc., and forwarded recommendations to the State Board of Higher Education.

The committee learned the State Board of Higher Education supported several of the recommendations included in the MGT of America, Inc., final report for the higher education funding and accountability study. The following is a summary of the State Board of Higher Education implementation of the recommendations included in the MGT of America, Inc., final report:

MGT of America, Inc., Recommendations	North Dakota University System Status
<p>Accountability measures and benchmarks Establish benchmarks and goals for each measure</p> <p>Include data for each higher education institution in summary fashion in the University System annual performance and accountability report</p> <p>Reduce the number of accountability measures</p> <p>When the number of accountability measures is reduced, retain those same measures for five or six years.</p> <p>Include a measure of faculty productivity that is appropriate for each institution</p>	<p>Benchmarks for each accountability measure will be established and included in the annual performance and accountability report issued in January 2008. Sufficient data is available to determine trends and evaluate progress; therefore, the State Board of Higher Education will set targets for some or all of the accountability measures in future performance and accountability reports.</p> <p>Accountability information for each higher education institution is currently compiled and provided to the State Board of Higher Education. A summary of the information will be included in the annual performance and accountability report or provided as a supplement to the report.</p> <p>A matrix of the 30 existing accountability measures has been developed and will be used to identify accountability measures that higher education stakeholders believe need to be retained and those measures considered to be less valuable. A survey of the stakeholders, including representatives of the Legislative Assembly, executive branch, higher education institutions, private sector, State Board of Higher Education, and the University System office, will be conducted for the purpose of recommending changes to the measures prior to the 2007 Legislative Assembly.</p> <p>The recommendation will be adopted by the State Board of Higher Education when the other revisions to the measures have been completed and are considered by the board.</p> <p>The Academic Affairs Council is in the process of reviewing possible measures of faculty productivity appropriate for the various types of institutions within the University System.</p>

MGT of America, Inc., Recommendations	North Dakota University System Status
<p>Peer institutions Establish peer lists of no fewer than 15 institutions</p> <p>Use peer institutions as recommended by MGT of America, Inc., for the purposes of determining adequate funding levels for North Dakota higher education institutions</p> <p>Long-term financing plan Determine the count of students for the base funding component of the plan by using an average of the two most current years' fall enrollment--25 percent based on student headcount and 75 percent based on FTE students</p> <p>Use the peer institutions recommended by MGT of America, Inc., to update the peer funding comparisons. Keep the same set of peer institutions for at least two bienniums unless there are major changes that suggest a peer group may need revision.</p> <p>Update the data for the peer institutions by using the most current IPEDS data available at the time the biennial budget request is prepared. Collect information on appropriations and net tuition revenues for agriculture programs from peer institutions.</p> <p>Revise the method of allocating parity and equity so that a minimum of 80 percent of the new funding is allocated to equity and 20 percent to parity. Further allocate the 20 percent of the parity dollars in inverse proportion to the percentage of peer funding so that institutions that are the furthest from peer funding would get the greatest relative parity and equity increase.</p> <p>Increase state funding to the University System to reach a goal of 21 percent of the state general fund budget</p> <p>Establish more realistic targets for the percentage of peer funding</p>	<p>The University System has adopted a new set of 15 peers per higher education institution as part of the University System 2007-09 budget request.</p> <p>The University System has adopted the peer institutions as recommended by MGT of America, Inc., as part of the University System 2007-09 budget request with the following exceptions:</p> <ul style="list-style-type: none"> • Dickinson State University - Substituted University of Science and Arts of Oklahoma for University of Pittsburgh-Bradford. • Valley City State University - Substituted Virginia Military Institute for University of Pittsburgh-Bradford. • Williston State College - Substituted Nicollet Area Technical College for University of Pittsburgh-Titusville. <p>Comparable financial information was not available for the Pittsburgh campuses. The three replacement campuses were selected based on the original criteria established by MGT of America, Inc.</p> <p>The University System has adopted and implemented the recommendation as part of the University System 2007-09 budget request.</p> <p>The University System has adopted and implemented the recommendation as part of the University System 2007-09 budget request.</p> <p>The University System has adopted and implemented the recommendation as part of the University System 2007-09 budget request. The peer institutions for North Dakota State University were surveyed to gather financial information needed to remove agricultural research experiment and extension activities from the benchmark calculation.</p> <p>The University System has adopted and implemented as part of the University System 2007-09 budget request the following parity and equity allocation methodology:</p> <ol style="list-style-type: none"> 1. Parity - Funding for new and continuing salary and health insurance costs. 2. Equity - No less than 15 percent of the total new funding available. 3. Parity - Funding for operating inflation, including utility cost increases. 4. Equity - Any remaining funding. <p>The University System has adopted a new equity allocation methodology based on the average of:</p> <p>Variable weighting of percentage distance from peers with more weighting given to those institutions furthest from their peer benchmark.</p> <p>Simple weighting of dollar distance from peers.</p> <p>The University System has adopted a 2007-09 budget request equivalent to 21 percent of the projected total 2007-09 state general fund budget.</p> <p>The University System is in the process of developing targets based on future state economic forecasts.</p>

The committee learned the State Board of Higher Education also adopted the following additional recommendations relating to the University System long-term financing plan which were not included in the MGT of America, Inc., final report for the higher education funding and accountability study:

- Maintain the current state and student funding shares.

- Continue to provide parity funding to higher education institutions should the institutions exceed their peer benchmark.
- Continue to calculate utility cost increases as part of the overall operating inflationary adjustments.
- Retain the same parity funding components.

- Calculate benchmark averages consistently by dividing the sum of the peer revenues by the sum of the peer enrollments.
- Recognize IPEDS reporting changed with the implementation of Governmental Accounting Standards Board Statement Nos. 34 and 35 making historical comparisons impossible.
- Remove direct appropriations for agricultural research experiment and extension from North Dakota State University and its peers but include direct appropriations for the UND School of Medicine and Health Sciences in the University of North Dakota and its peers.

HIGHER EDUCATION ROUNDTABLE

A Higher Education Roundtable consisting of the 21 members of the Higher Education Committee and 44 representatives from the State Board of Higher Education, business and industry, higher education institutions, including tribal and private colleges, and the executive branch was reconvened during the 2005-06 interim to reflect on what has been accomplished, ask questions, and decide on potential action by the Legislative Assembly, executive branch, higher education, and private sector.

The Higher Education Roundtable met on February 15, 2006, to:

1. Receive a preliminary report from a representative of MGT of America, Inc., on the higher education funding and accountability study.
2. Receive information on Operation: Intern, "soft skills" areas of education and training, and centers of excellence.
3. Develop recommendations for action by the Legislative Assembly, University System, executive branch, and private sector.

Operation: Intern

The Higher Education Roundtable received information from the Governor's office regarding Operation: Intern. The roundtable learned Operation: Intern is an effort by the Governor's office to link students to job and career opportunities in North Dakota

by creating awareness and promoting development of internships. Under Operation: Intern, an internship toolkit was distributed to businesses across the state and a job and internship posting system--*ndinterns.com*--has been created to provide information needed to start an internship program and link businesses and students. Results include:

- An increase in the postings and the usage of *ndinterns.com*.
- A number of individual communities developing projects to continue promotion and development of local efforts to fund and coordinate internships.
- An increase in the number of higher education cooperative education programs.

"Soft Skills" Areas of Education and Training

The Higher Education Roundtable received information from the University System regarding the "soft skills" areas of education and training. The roundtable learned definitions of "soft skills" vary widely but are generally understood to include ability to communicate effectively, analytical thinking, problem-solving skills, team-building skills, listening skills, and self-awareness. The University System is formally involved in several initiatives that promote the development of "soft skills" in the academic environment, and the workforce training system provided 45,874 hours of "soft skills" training in fiscal year 2005.

Centers of Excellence

The Higher Education Roundtable received information from the Centers of Excellence Commission regarding the centers of excellence initiative. The roundtable learned a center of excellence is defined as a hub of research and development around which related businesses expand and dynamic new businesses cluster. To be designated a center of excellence, an application must be approved by the Centers of Excellence Commission, State Board of Higher Education, North Dakota Economic Development Foundation, and Budget Section. The centers of excellence applications approved are:

Round 1		
Bismarck State College	Energy Center of Excellence	\$3,000,000
Lake Region State College	Dakota Center of Optimized Agriculture	450,000
University of North Dakota	National Center for Hydrogen Technology	2,500,000
North Dakota State University	Center for Advanced Electronics Design and Manufacturing	3,000,000
Total - Round 1		\$8,950,000
Round 2		
Williston State College	Petroleum Safety Technology Center	\$400,000
University of North Dakota	Center for Unmanned Aerial Vehicle and Simulation Applications	1,000,000
	Center for Life Sciences and Advanced Technology	3,500,000
North Dakota State University	Center for Agbiotechnology: Oilseed Development	2,000,000
	Center for Surface Protection	2,000,000
Valley City State University	Enterprises Application Model	1,000,000
Total - Round 2		\$9,900,000
Round 3		
Dickinson State University	Center for Entrepreneurship and Rural Revitalization	\$1,150,000
Grand total		\$20,000,000

Discussion Groups

The Higher Education Roundtable convened four discussion groups. Each of the groups was to consider three of the following points:

- How the accountability measures or the assessment system should be refined.
- Strategies that can be used to attract and retain the best and brightest graduates.
- The connection between the performance of the University System and the rewards and incentives provided to the University System.

- How access to higher education should be increased.
- How the state should not only sustain the momentum of the Higher Education Roundtable but take it to an even higher level of performance.
- How the centers of excellence initiative should be improved.

The discussion groups developed by consensus the following recommendations:

Discussion Group A

How access to higher education should be increased	Improve college affordability Invest in technology to increase access Enhance kindergarten through grade 12 and higher education partnerships
Strategies that can be used to attract and retain the best and brightest graduates	Define what is meant by best and brightest Enhance internships by creating financial incentives for business participation, reducing administrative burdens, and increasing mentoring opportunities Enhance information sharing on job openings in the state Enhance North Dakota business name recognition among students
How the state should not only sustain the momentum of the Higher Education Roundtable but take it to an even higher level of performance	Enhance the role of the private sector Encourage Higher Education Roundtable members to educate those not participating in the roundtable

Discussion Group B

How the accountability measures or the assessment system should be refined	Streamline the accountability measures and develop goals associated with the measures. In streamlining the measures, consider the final report for the higher education funding and accountability study and operational definitions of roundtable cornerstones.
The connection between the performance of the University System and the rewards and incentives provided to the University System	Encourage rewards and incentives for collaboration between higher education institutions and for meeting the needs of the state
How the centers of excellence initiative should be improved	Consider the hiring of a technical review of the centers of excellence applications and the providing of funding to match benchmarks associated with the projects

Discussion Group C

Strategies that can be used to attract and retain the best and brightest graduates	Create programs in high demand that only accept the best and the brightest students Enhance scholarship opportunities
How access to higher education should be increased	Encourage collaboration and increase distance education offerings
How the state should not only sustain the momentum of the Higher Education Roundtable but take it to an even higher level of performance	Operate the roundtable in a private sector environment instead of a public sector environment Provide a more specific agenda that addresses areas of conflict

Discussion Group D

Strategies that can be used to attract and retain the best and brightest graduates	Attract the best and the brightest faculty by improving faculty salaries Consider a student loan forgiveness program for students staying in the state Consider more entrepreneurial ways to attract and retain students
The connection between the performance of the University System and the rewards and incentives provided to the University System	Incentives and rewards should be continued Develop and maintain funding benchmarks Continue the centers of excellence initiative
How the centers of excellence initiative should be improved	Determine ways to help small campuses better compete Consider expanding the timeframe for expenditures

Additional Comments

The committee learned the private sector members of the Higher Education Roundtable held a separate meeting to further discuss those things they believed the University System was doing well and those things that still required improvement. The private sector identified two specific areas of performance that were exceptional:

- The successful increase of research money generated by the various higher education institutions.
- The role of the private sector in guiding the Higher Education Roundtable and allowing its voice to be heard.

The committee learned the private sector was adamant and unanimous that the Higher Education Roundtable and the state have not lived up to the original agreement with campus leadership to provide additional funding to those institutions if the campus leadership would agree to embrace and respond to the changes recommended by the Higher Education Roundtable.

FACULTY AND TEACHING ASSISTANT ENGLISH COMMUNICATION SKILLS

The committee was assigned, pursuant to NDCC Section 15-10-42, the responsibility to receive a report from the State Board of Higher Education before July 1, 2006, regarding implementation of a policy requiring all institutions to assess faculty and teaching assistant English communication skills. The Education Committee was also assigned this responsibility and received a report on this issue.

Statutory Provisions

North Dakota Century Code Section 15-10-13.1 provides that any professor, instructor, teacher, assistant, or graduate assistant at a state institution of higher education must exhibit written and verbal proficiency in the English language. Any deficiency must be remedied by special training or coursework provided by the institution.

North Dakota Century Code Section 15-10-42 requires the State Board of Higher Education to create a policy for all institutions under its control relating to the assessment of faculty and teaching assistant communication skills, including the ability to speak English clearly and with good pronunciation, the notification to students of opportunities to file complaints, the process for responding to student complaints, and the resolution of reported communication problems.

State Board of Higher Education and Higher Education Institutions' Policies

The committee learned State Board of Higher Education Policy 609, which was revised by the board in June 2005, provides that each institution is required to establish a process for verifying communication skills, including written English language proficiency and ability to speak English clearly and with good pronunciation, of all personnel whose appointments include classroom instruction. Each institution is to:

- Develop the process and standards for validating and assessing proficiency through an inclusive process that recognizes the needs of departments, programs, students, and faculty.
- Determine proficiency prior to employment.
- Provide a means of continuously improving communication proficiency of all instructors to meet or exceed defined standards.
- Establish a process for students and personnel affected by this policy to register concerns or file complaints and a process for notifying students of the policy and complaint process.
- Periodically review the effectiveness of the policy and provide reports to the board upon request.
- Establish procedures to ensure compliance with Section 504 of the Rehabilitation Act of 1973 and the Americans with Disabilities Act as well as federal and state constitutions and laws. The procedures are to include a mechanism to identify otherwise qualified personnel who may be unable to demonstrate requisite proficiency due to a disability or because of race, religion, or other protected characteristic.

The committee received copies of individual higher education institutions' policies on communication proficiency and learned higher education institutions' communication proficiency policies are included in student handbooks.

English Proficiency Complaints

The committee learned the University System requests higher education institutions to forward any English proficiency complaints to the University System office following every fall and spring semester. As of July 2006 there were four reported English proficiency complaints--one at Bismarck State College, one at the State College of Science, and two at North Dakota State University. Two of the complaints were filed by students and the other two were filed by parents. The complaints were resolved and a followup with the complainant was completed by the higher education institutions.

OTHER REPORTS

Professional Student Exchange Program Study

The committee received information from the University System regarding a professional student exchange program study conducted by the State Board of Higher Education. The committee learned the State Board of Higher Education directed the chancellor to conduct a study regarding access options and other solutions to help meet the needs of the state in dentistry, optometry, and veterinary medicine; the admissions selection process; and long-term funding for the professional student exchange program and the program at Kansas State University. The State Board of Higher Education has adopted the following recommendations and will introduce legislation in the 2007 legislative session to facilitate the recommendations:

- Meeting North Dakota's workforce needs be the primary factor in making annual allocations and biennium funding decisions between the three

professional programs. Student demand and interest in each of the three professional programs should be the secondary factor.

- Maintain the current allocation of slots between the three professional programs. Allocate new slots based on the factors outlined above.
- Maintain all current professional program options available through the Western Interstate Commission on Higher Education, Minnesota, Kansas, and Iowa. Review all program options every three to five years to explore other ways to improve the partnership and communication to provide expanded opportunities for North Dakota and North Dakota students.
- Pursue conversations and negotiations with Kansas and Iowa in an attempt to establish fixed price contracts and other additional benefits for North Dakota students, such as internship and externship opportunities.
- Create a new state-funded community matching loan forgiveness program, primarily targeted at rural or underserved communities, to provide an incentive to encourage graduates to return to North Dakota to practice. If a community loan forgiveness program is not implemented and funded, a repayment program provision should be implemented in each of the three professional programs as a means of encouraging students to

return to North Dakota to practice following graduation.

- Any funds collected as a result of a repayment provision be used to fund additional slots according to the guidelines previously outlined.
- Recommend the consolidation of the appropriation for the Kansas State University program with the appropriation for the professional student exchange program in the 2007-09 biennial budget request.
- Evaluate the effectiveness of North Dakota's involvement in the selection process at Kansas State University prior to the 2009 Legislative Assembly. If judged at that time to not be adding sufficient value, recommend the Legislative Assembly eliminate the requirement.

North Dakota University System 2007-09 Budget Request

The committee received information from the University System regarding the University System budget request for the 2007-09 biennium. The committee learned the State Board of Higher Education has adopted a budget request for the 2007-09 biennium that includes at least \$63 million of additional state funding. The additional funding included in the University System budget request for the 2007-09 biennium is summarized as follows:

Required general fund increases		
Increase in capital bond payments	\$2,100,000	
Common information services pool - Parity costs	2,096,200	
University System office - Parity costs	450,200	
Forest Service - Parity costs and 5 percent increase over parity	410,600	
Student financial aid increase	2,850,000	
Capital assets increase	4,000,000	
Total - Required general fund increases		\$11,907,000
Other ConnectND needs		
Permanent funding - Replace funding from board initiatives pool	\$1,500,000	
Permanent funding - Replace technology bond revenue	920,000	
Funding for critical business function solutions	1,700,000	
Total - Other ConnectND needs		4,120,000
Campus parity and equity		
Campus parity	\$33,852,000	
Campus equity	10,000,000	
Total - Campus parity and equity		43,852,000
Additional needs		
Board initiative funding enhancement	\$500,000	
Wide area network growth	250,000	
Standards-based interface to ConnectND system	161,000	
Competitive research - Experimental Program to Stimulate Competitive Research (EPSCoR)	310,000	
External student recruiting initiative	700,000	
Northern Tier Network annual maintenance	900,000	
On-line Dakota Information Network web programmer position	150,000	
New academic startup for programs for economic growth	150,000	
Total - Additional needs		3,121,000
Grand total		\$63,000,000

NOTE: The following is a summary of the higher education institutions' current equity positions and equity positions reflecting the \$63 million of additional state funding being requested for the 2007-09 biennium:

Institution	Current Equity Position	Equity Position Reflecting \$63 Million of Additional State Funding
Bismarck State College	51%	58%
Lake Region State College	46%	52%
Williston State College	62%	69%
University of North Dakota	50%	57%
North Dakota State University	41%	47%
State College of Science	87%	95%
Dickinson State University	47%	55%
Mayville State University	71%	78%
Minot State University	66%	73%
Valley City State University	81%	89%
Minot State University - Bottineau	71%	78%

The committee learned the State Board of Higher Education has identified the following additional requests for one-time funding for the University System for the 2007-09 biennium:

Deferred maintenance	\$10,000,000
Collaboration project - Phase 1	1,000,000
Campuses network refurbishment	2,000,000
Northern Tier Network	2,000,000
Total	\$15,000,000

Minnesota Proposed Free Tuition Program

The committee received a report from the University System regarding the potential impact of the Minnesota free tuition program on the University System. The committee learned Governor Tim Pawlenty has proposed a free college tuition program--Academic Competitiveness Highlighting Individual Excellence and Valuing Education (ACHIEVE)--for top students in the state of Minnesota. Under the program, Minnesota high school students who graduate in the top 25 percent of their class or post a comparable ACT score and have a family annual adjusted gross income of \$150,000 or less could attend their first two years of public college for free. Students' third and fourth years of college would also be free if they major in a mathematics or science field. The proposed program will be introduced to the Minnesota Legislature in January 2007. If passed, the earliest implementation of the program for Minnesota students would be the fall of 2007. The proposed program is estimated to cost approximately \$112 million for the 2007-09 biennium.

The committee learned if the proposed free tuition program is implemented in Minnesota, the University System estimates approximately 400 to 600 Minnesota students enrolled in North Dakota colleges and universities could decide to remain in Minnesota to access the free tuition program. This would result in the direct loss of approximately \$5.5 million in tuition and fees, room, and board revenues for the University System. The estimated total state impact of the proposed program for one year is approximately \$27.5 million.

The committee learned the University System estimates the cost of implementing a similar free tuition program in North Dakota to be \$10 million to \$12 million for the 2007-09 biennium. The estimate includes costs

associated with freshman and sophomore students and does not include costs for junior and senior students who are majoring in a mathematics or science field as those costs would not be incurred until the third and fourth years of implementation (2009-11 biennium).

BUDGET TOURS

During the interim, the Higher Education Committee functioned as a budget tour group of the Budget Section and visited Bismarck State College, Dickinson State University, Lake Region State College, Mayville State University, Minot State University, Minot State University - Bottineau, North Dakota State University, State College of Science, University of North Dakota, Valley City State University, Williston State College, Forest Service, Main Research Center, Dickinson Research Center, North Central Research Center, and Williston Research Center. The committee received information regarding campus initiatives and programs, enrollment, responses to the main themes that emerged from the June 2004 Higher Education Roundtable meeting, funding challenges and opportunities for state investment, and the status of any capital improvements for the 2005-07 biennium and anticipated 2007-09 capital improvement needs. The tour group minutes are available in the Legislative Council office and will be presented to the Appropriations Committees during the 2007 Legislative Assembly.

The committee learned over the past four years Mayville State University has accumulated debt of approximately \$1 million. A plan for a balanced budget and debt retirement has been developed and endorsed by the State Board of Higher Education. The debt retirement plan provides for the elimination of the accumulated debt by the end of the 2009-10 fiscal year by eliminating the vice president of enrollment management position, eliminating the men's and women's soccer programs, reducing tuition waivers, eliminating four staff positions, and delaying the hiring of open faculty and staff positions.

COMMITTEE RECOMMENDATIONS

The committee recommends:

- House Bill No. 1030 to provide for the continuation of the continuing appropriation authority for higher

education institutions' special revenue funds, including tuition, through June 30, 2009.

- House Bill No. 1031 to continue the requirement that the budget request for the University System include budget estimates for block 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 an asset funding through June 30, 2009.

- House Bill No. 1032 to provide for the continuation of the University System's authority to carry over at the end of the biennium unspent general fund appropriations through June 30, 2009.