

## HIGHER EDUCATION - BACKGROUND MEMORANDUM

### STUDY RESPONSIBILITY

Section 24 of 2003 House Bill No. 1003 directs a study of higher education, a copy of which is attached as Appendix A. The study, which may include the use of a Higher Education Roundtable format, should further refine the expectations of the North Dakota 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.

### BACKGROUND

The North Dakota University System consists of 11 institutions under the control of the State Board of Higher Education. The system served approximately 39,614 students (headcount enrollment) during the 2002-03 academic year. This represented approximately 32,107 full-time equivalent (FTE) students.

Total spending appropriated by the 2003 Legislative Assembly for higher education institutions, including the University System office, totaled \$472,088,193, of which \$361,541,418 was from the general fund and \$110,546,775 from special funds. The legislative appropriations for the 11 institutions, the University System office, and the Forest Service include funding for 2,400.38 FTE positions for the 2003-05 biennium.

### PREVIOUS LEGISLATIVE HIGHER EDUCATION STUDIES AND RELATED LEGISLATION 1999-2000 Study

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

The committee recommended the following bills regarding higher education funding:

- Senate Bill No. 2037 (2001), which, as introduced, provided a continuing appropriation for all funds in higher education institutions' special revenue funds, including tuition, and allowed institutions to carry over at the end of the biennium unspent general fund appropriations.
- Senate Bill No. 2038 (2001), which, as introduced, required the budget request for the University System to include budget estimates for block grants for a base-funding component and for an initiative-funding component for specific strategies or initiatives and a budget estimate for an asset-funding component for renewal and replacement of physical plant assets at the institutions of higher education and the appropriation for the University System to include block grants to the State Board of Higher Education for a base-funding appropriation and for an initiative-funding appropriation for specific strategies or initiatives and an appropriation for asset funding for renewal and replacement of physical plant assets.
- Senate Bill No. 2039 (2001), which, as introduced, allowed the State Board of Higher Education to authorize campus improvements and building maintenance projects that are financed by donations, gifts, grants, and bequests if the cost of the improvement or maintenance is not more than \$500,000.
- Senate Bill No. 2040 (2001), which, as introduced, allowed the University System to provide bonuses, cash incentive awards, and temporary salary adjustments without reporting the activity to the Office of Management and Budget as a fiscal irregularity.
- Senate Bill No. 2041 (2001), which, as introduced, recognized the institutions under the control of the State Board of Higher Education as the North Dakota University System and 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.
- Senate Bill No. 2042 (2001), which, as introduced, amended and repealed statutes relating to the powers of the State Board of Higher Education and the duties and responsibilities of institutions under the control of the State Board of Higher Education which are no longer appropriate.

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

### 2001 Legislation

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

- Provide that the State Board of Higher Education's annual performance and accountability report as required by Senate Bill No. 2041 (2001) include an executive summary and specific performance and accountability measures regarding education excellence, economic development, student access, student affordability, and financial operations.
- Provide a continuing appropriation for higher education institutions' special revenue funds, including tuition income and local funds. This legislative action, which was originally a provision in Senate Bill No. 2037 (2001), as introduced, was effective through June 30, 2003.
- Require the budget estimates for higher education to include block grants for a base-funding component and for an initiative-funding component and a budget estimate for an asset-funding component. This legislative action, which was originally a provision in Senate Bill No. 2038 (2001), as introduced, was effective through June 30, 2003.
- Require the appropriation for the University System to include block grants to the State Board of Higher Education for a base-funding appropriation and for an initiative-funding appropriation and an appropriation for asset funding. This legislative action, which was originally a provision in Senate Bill No. 2038 (2001), as introduced, was effective through June 30, 2003.
- Allow higher education institutions to carry over at the end of the biennium unspent general fund appropriations. This legislative action, which was originally a provision in Senate Bill No. 2037 (2001), as introduced, was effective through June 30, 2003.

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

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

The 2001 Legislative Assembly adopted Senate Bill No. 2041, which was recommended by the 1999-2000 interim Higher Education Committee, to recognize the

institutions under the control of the State Board of Higher Education as the North Dakota University System and to require the University System to develop a strategic plan which defines University System goals and objectives and to provide an annual performance and accountability report regarding performance and progress toward the goals and objectives.

The 2001 Legislative Assembly also adopted Senate Bill No. 2042, which was recommended by the 1999-2000 interim Higher Education Committee, to amend and repeal statutes relating to the powers of the State Board of Higher Education and the duties and responsibilities of institutions under the control of the State Board of Higher Education which were no longer appropriate.

### 2001-02 Study

The Higher Education Committee during the 2001-02 interim studied the State Board of Higher Education's implementation of the performance and accountability measures report. The committee through the use of a Higher Education Roundtable consisting of 22 members of the Higher Education Committee and 44 representatives from the State Board of Higher Education, business and industry, higher education institutions, including tribal colleges and private colleges, and the executive branch 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's long-term financing plan and resource allocation model approved by the State Board of Higher Education and the University System's first annual performance and accountability report. A listing of high-priority action items from the Higher Education Roundtable is attached as Appendix C.

The committee recommended the following bills regarding higher education funding:

- House Bill No. 1039 (2003), which as introduced provided for the continuation of the continuing appropriation authority for higher education institutions' special revenue funding, including tuition.
- House Bill No. 1040 (2003), which as introduced provided for the continuation of the University System's authority to carry over at the end of the biennium unspent general fund appropriations.
- House Bill No. 1041 (2003), which as introduced 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.
- House Bill No. 1042 (2003), which as introduced required 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.

### 2003 Legislation

The 2003 Legislative Assembly amended House Bill No. 1003 to:

Provide that the State Board of Higher Education's performance and accountability report as required by North Dakota Century Code (NDCC) Section 15-10-14.2 should include an executive summary and information regarding:

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. Ratio of faculty and staff to students.
    - g. 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:
    - a. Proportion of residents of the state who are within a 45-minute drive of a location at which they can receive educational programs from a provider.
    - b. 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. Administrative, instructional, and other costs per student.
    - e. Per capita general fund appropriations for higher education.
  - f. State general fund appropriation levels for University System institutions compared to peer institutions general fund appropriation levels.
5. Financial operations, including:
    - a. Percentage of total University System funding used for instruction, research, and public service.
    - b. Percentage of total University System funding used for institutional support, operations, and maintenance of physical plant.
    - c. Ratio measuring the funding derived from operating and contributed income compared to total University System funding.
    - d. Deferred maintenance ratio measuring the size of the University System's outstanding maintenance as compared to its expendable net assets.
    - e. Viability ratio measuring the amount of expendable net assets as compared to the amount of long-term debt.
    - f. Research expenditures in proportion to the amount of revenue generated by research activity and funding received for research activity.
    - g. New construction and major renovation capital projects for which specific appropriations are made, including budget to actual comparison, use of third-party funding, and related debt.

This legislative action, which was originally a provision in 2003 House Bill No. 1042, as introduced, is effective through June 30, 2005.

- Provide a continuing appropriation of higher education institutions' special revenue funds, including tuition and local funds through June 30, 2005. This legislative action, which was originally a provision in 2003 House Bill No. 1039, as introduced, is effective through June 30, 2005.
- Require the budget requests 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. This legislative action, which was originally a provision in 2003 House Bill No. 1041, as introduced, is effective through June 30, 2005.
- Require the appropriation for the University System to include block grants to the State Board of Higher Education for a base-funding appropriation and for an initiative-funding appropriation and an appropriation for asset funding. This legislative action, which was originally a provision in 2003 House Bill No. 1041, as introduced, is effective through June 30, 2005.
- Allow institutions of higher education to carry over at the end of the biennium unspent general fund appropriations through June 30, 2005. This

was originally a provision in 2003 House Bill No. 1040, as introduced.

### **STUDY PLAN**

The following is a proposed study outline for the committee's consideration in its study of higher education:

1. Receive information from business, industry, the State Board of Higher Education, the institutions of higher education, higher education students, the executive branch, and private and tribal higher education institutions regarding:
  - a. The implementation status of the 1999-2000 interim Higher Education Roundtable recommendations and the 2001-02 interim Higher Education Roundtable high-priority action items.
  - b. The refinement of the expectations of the North Dakota 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.

(Consider a Higher Education Roundtable process.)

2. Receive a report from representatives of the State Board of Higher Education, the University System office, and higher education institutions on the State Board of Higher Education's implementation of the performance and accountability measures report required by NDCC Section 15-10-14.2.
3. Conduct a budget tour and site visit at each of the higher education institutions and receive information from campus representatives regarding the status of implementation of recommendations from the 1999-2000 interim Higher Education Roundtable report and the high-priority action items from the 2001-02 interim Higher Education Roundtable, enrollment status and long-term enrollment plans, tuition rates, and capital improvement needs.
4. Receive testimony from other interested persons regarding the committee's study of higher education.
5. Develop recommendations and any bill drafts necessary to implement the recommendations.
6. Prepare a final report for submission to the Legislative Council.

ATTACH:3