

(Draft – Awaiting Formal Approval)
**MINUTES OF THE
HIGHER EDUCATION APPROPRIATIONS SUBCOMMITTEE**
Room 210 East Senate Building, State Capitol Complex
February 9, 2015

Members Present: Sen. Stephen H. Urquhart, Co-Chair
Rep. Keith Grover, Co-Chair
Rep. Jon E. Stanard, House Vice Chair
Sen. Jim Dabakis
Sen. Ann Millner
Sen. Aaron Osmond
Sen. Howard A. Stephenson
Sen. Jerry W. Stevenson
Sen. Evan J. Vickers
Rep. Kim Coleman
Rep. Fred C. Cox
Rep. Jon Cox
Rep. Jack R. Draxler
Rep. Don L. Ipson
Rep. Daniel McCay
Rep. Kay L. McIff
Rep. Carol Spackman Moss
Rep. Mark A. Wheatley

Staff Present: Mr. Spencer Pratt, Fiscal Manager
Ms. Angela Oh, Economist/Statistician
Ms. Lorna Wells, Secretary

Note: A copy of related materials and an audio recording of the meeting can be found at www.le.utah.gov.

1. Call to Order

Co-Chair Urquhart called the meeting to order at 8:11 a.m.

2. Report of 2014 General Session Intent Language

Mr. Pratt stated that last year's intent language was approved to look at performance metrics for USHE and UCAT. He reviewed this intent language.

<http://le.utah.gov/interim/2015/pdf/00000876.pdf>

a. Utah System of Higher Education (USHE) David L. Buhler, Commissioner, presented the report from the Commissioner's office. <http://le.utah.gov/interim/2015/pdf/00000929.pdf>

b. Utah College of Applied Technology (UCAT) Rob Brems, UCAT President, discussed the intent language for UCAT and how UCAT has responded to that intent language.

<http://le.utah.gov/interim/2015/pdf/00001132.pdf>

3. Issue Briefs

a. Operations and Maintenance (O&M) -USHE - Mr. Pratt discussed the USHE O&M State -Funded Facilities Issue Brief. <http://le.utah.gov/interim/2015/pdf/00001004.pdf> He recommends the committee approve a one-time reduction of \$730,600 in FY 2015 and an additional \$1,036,200 in FY 2016 for O&M funding that is currently in ongoing base budgets at Utah State University and Weber State University. This reduction reflects the expected timing of the completion of three USU buildings – the Business Building (Logan), the Brigham City Academic Building, and the Central Instruction Building (Price) and the Science Building at Weber State University

b. Operations and Maintenance-UCAT – Mr. Pratt discussed the UCAT O&M Issue Brief. <http://le.utah.gov/interim/2015/pdf/00001134.pdf> He recommends the committee approve a one-time reduction of \$228,100 in FY 2016 for O&M funding that is currently in Southwest ATC's base budget. This reduction reflects the expected completion of its Allied Health Building

4. Infrastructure and General Government (IGG) Appropriations Subcommittee Presentation

Rep. Gage Froerer discussed some of the common issues with IGG & Higher Education particularly with O&M of existing facilities. The current formula for O&M funding is outdated. State agencies find it more practical to build new buildings because of the higher O&M funding. These agencies have to subsidize older buildings and are not receiving the funds necessary to maintain them. He cited the 50-year old Browning Center at Weber State University which only receives \$15,000 in O&M annually. He reported that after 15-20 years the actual initial cost of the building is less than the required O&M funding. They are proposing to create a task force that will evaluate the O&M formula through interim study.

Rep. Fred Cox said that in the past O&M was about 1.1 percent of the actual cost of the building. He asked if there was a sense of the increase that would be required. Rep. Froerer answered that the 1.1 percent is capital improvement money which is not related to O&M. He said the O&M funding formula is determined when a request is made for a new building.

Co-Chair Urquhart told Rep. Froerer that the IGG committee will have the cooperation and help of the higher education committee. He asked Rep. Froerer if the task force would be able to examine how buildings for higher education are funded. Currently the goal is to get the biggest, best building and put in the least amount of institutional funds possible. The Legislature could do a better job by requiring the institutions to stretch those dollars further. For example, institutions would get a set amount of money per FTE, and then they would have to use that money on capital facilities.

Rep. Froerer said that this is a great suggestion. The committee tries to take politics out of these decisions as much as possible. He reported that the Building Board has done a great job at looking at critical needs and removing politics. He felt that if the task force could come up with a formula that doesn't hurt the smaller institutions and is a fair system that would be the goal. He said that this would probably have to be done on a year to year basis. He stated that higher education has done a great job of maintaining their older buildings by utilizing some existing funds and putting it into O&M. Co-Chair Urquhart said it would be good to de-politicize this and

make it more formulaic so that the emphasis from the Legislature is on what takes place inside the buildings.

Issue Briefs (Continued)

b. Reallocations

1. Utah State University Mr. Pratt explained the reallocations requested by USU. <http://le.utah.gov/interim/2015/pdf/00001006.pdf> He emphasized that this is not new money, but they are moving existing funds from one line item to another.

2. Salt Lake Community College Mr. Pratt discussed the reallocations requested by SLCC. <http://le.utah.gov/interim/2015/pdf/00001008.pdf>

3. Utah System of Higher Education Mr. Pratt explained the reallocations requested by USHE. <http://le.utah.gov/interim/2015/pdf/00001016.pdf>

c. Vehicle Expansion

1. USHE Mr. Pratt discussed the 25 vehicle expansion requests from U of U, UVU, and SLCC. <http://le.utah.gov/interim/2015/pdf/00001010.pdf>

2. UCAT Mr. Pratt said that UCAT has requested one additional vehicle. <http://le.utah.gov/interim/2015/pdf/00001136.pdf>

d. Funding Transfer from State Auditor

Mr. Pratt explained that the Auditor has requested that General Funds be transferred from his office to the higher education institutions. They would then be billed by the audit and pay the bill from the transferred funds. The Auditor identified an amount of \$662,500 as the cost of these higher education audits. <http://le.utah.gov/interim/2015/pdf/00001012.pdf> The Governor has recommended the transfer of \$712,500 from the Auditor's budget to each institution as shown on the schedule shown. Mr. Pratt reported that the EAC approved a reduction of \$712,500 from the Auditor's budget and only approved a \$404,000 transfer to the institutions.

Sen. Millner clarified that some money was moved to the institutions but that it would not cover the full cost of the audits and asked why the policy to keep the money in the Auditor's office should be changed. Mr. Pratt said that the auditor requested the transfer. Co-Chair Urquhart mentioned they would speak with the auditor and report back to the committee.

e. Land Exchange Distribution Account Revenue Reduction

Mr. Pratt explained the Land Exchange Distribution Account Revenue Reduction. He said the Division of Finance has reduced the FY 2015 and FY 2016 estimates for the Land Exchange Distribution account which affects the USU Water Research Laboratory. Mr. Pratt is recommending a FY 2015 Supplemental for the Laboratory. <http://le.utah.gov/interim/2015/pdf/00001014.pdf>

6. USHE FY 2016 Budget Request

Comm. Buhler explained the base budget request from the Board of Regents. He discussed the impact of a two percent budget cut; it would be the equivalent of 277 less instructional staff; 1,814 fewer course sections; funding for 2,825 fewer FTE students; it would also translate to about a 2.5 percent tuition increase.

Rep. Fred Cox mentioned the Board of Regents had reported previously that there would be a 2.5 percent tuition increase before the two-percent budget cut was mandated.

Comm. Buhler said that this was correct, because the 2.5 percent assumes the required share for the three percent increase in the compensation package. He stated that if the two percent cut were made without any new money, the tuition increase may be five percent. Comm. Buhler discussed the return on investment from higher education. He addressed why additional funding has been requested. He discussed the predicted future enrollment growth.

He reported that in July 2013, the Board of Regents adopted five completion strategies based on Complete College America. In January 2015, the Board approved three and five year metric goals for each of the institutions for each of the five strategies.

Mr. Dan Campbell, Board of Regents Chair, introduced himself, thanked the committee for the support of higher education, and discussed why funding is so critical. He stated the budget priorities were carefully thought out and made in support of the 66 percent by 2020 goal. He reported that it had the unanimous support of the Board of Regents. He said that higher education is highly complex, and that each institution is led by a president who is sensitive to the unique mission of their institution and the students they are serving. He cited a personal example illustrating the value of higher education from his own family.

Chair Campbell reported that the projected growth over the next seven years will be the equivalent of establishing a new UVU. Monies for distinctive mission and student participation are essential to any system, including performance funding. He stated that the means must be provided for institutions to attract and retain additional faculty, provide career and guidance counseling, develop stronger outreach efforts to underserved communities, and to continue to develop and deploy new education delivery methods in order to serve the growing number of students must be educated and graduate if a vibrant state economy is to be sustained.

Co-Chair Urquhart thanked Chair Campbell for his comments and his leadership.

Comm. Buhler thanked the Board of Regents who donate so much time and expertise to higher education. He reported on the performance focused budget priorities. The top priority is a three-percent performance based compensation increase, and an increase in health insurance benefits. He stated in a recent benchmark survey, staff were at 92 percent of median; and faculty were at 89 percent of the median. He explained that about 85 percent of the USHE operating budget is compensation. <http://le.utah.gov/interim/2015/pdf/00001381.pdf>

Co-Chair Urquhart said it is important for committee members to know that the three percent for higher education is not equal to other state employees because the retirement component is not funded out of higher education.

Rep. McKay asked if there was state-by-state salary comparisons and more documentation for the data shown. He also asked about the measurements for performance.

Comm. Buhler will provide more information regarding the benchmark comparison. He said the comparison is made with other institutions by type rather than by state. They compete in a national market which requires continually trying to retain top faculty and staff. He clarified that generally retirement is not part of state funding.

Sen. Stephenson asked for clarification on this data. He asked about the salaries for teachers in K-12 and that their lower salaries might be part of the reason that students come to UHSE unprepared. He stated that it would be important to look at K-16 on the whole.

Comm. Buhler could not address the status of K-12 salaries, but agreed that salaries of all public employees should be market competitive.

Comm. Buhler reported on the budget request of \$15 million for Mission Based Funding: Student Participation Initiatives. <http://le.utah.gov/interim/2015/pdf/00001083.pdf> He explained that this could be used for four areas that are all focused on the student experience.

Pres. Holland from UVU said that this mission based funding is a critical component given the growth of some of the institutions. This is very apparent when making peer comparisons. He said that this funding would work hand in hand with performance based funding.

Comm. Buhler reported on the budget request of \$15 million for Mission Based Funding Distinctive Mission Funding. <http://le.utah.gov/interim/2015/pdf/00001085.pdf> He specified three main areas: technology, improve student completion, and economic development. He gave some examples regarding these areas.

Pres. Huftalin from SLCC explained that USHE is a very diverse system with each institution having different distinct needs to address their student population. She discussed the importance of shortening the time to completion because students are very cost sensitive and time sensitive. SLCC is focused on transforming their applied technology courses into competency-based delivery systems. This funding would allow SLCC to train faculty and create the needed technology infrastructures. This would increase completion rates, decrease completion time, and significantly decrease costs for their students.

Comm. Buhler discussed the Board of Regents performance funding recommendations of \$5 million. They would allocate some of the funding based on graduates. He stated the model is rigorous and transparent, with three system-wide metrics focused on completion, affordability, and access and one or two institutional metrics.

Pres. Pershing from the U of U said the goal is to create a model that will drive the performances that the committee is looking for. This model would help the presidents focus on the criteria that

will help the state. He mentioned that the committee should consider the student participation part of the distinctive mission request is also performance funding.

Rep. Coleman asked about the completion system-wide metric asking how to control the risk of artificially inflating the completion rates. She expressed concern that it might put pressure on faculty not to fail as many students.

Pres. Pershing answered that it is very unlikely that faculty would lower their standards. Comm. Buhler said this is why a balanced model with several metrics is very important. Co-Chair Urquhart said these metrics are very easy to measure.

Rep. McCay said that reading between the lines would mean that Pres. Pershing is basically saying, "Trust Us", which doesn't always work well. He is afraid that the reported completion rates will be inflated if they are tied to funding. He said that it is very easy to skew the measurements in way to show more positive results for each institution. He is concerned that the measurements are not giving the most accurate information to the committee.

Pres. Pershing answered that the best guard against this is all of the national accreditation that is required. He said that student participation funding is capacity funding, which would balance this issue and help to ensure that incentives are driven in the right way. Comm. Buhler reported that the numbers are all based on nationally available numbers with a great deal of transparency.

Rep. Fred Cox stated that K-12 always reports on student growth, which is funded by the Legislature. He asked how much of the budget request is for student growth.

Comm. Buhler clarified that growth in higher education has been funded on the lag. The funding for students that came to USHE institutions in Fall of 2015 would not be funded until FY 2016. He said that the last time enrollment growth in higher education was specifically funded was in 2002. He said that the acute equity funding and student participation funding do address growth. Co-Chair Urquhart said that growth is funded but it is significantly on the lag.

Sen. Millner mentioned that other states are moving to performance based funding based on policy decisions. They focus on what is needed to support economic development. Most companies do establish benchmarks and the idea is to get people to perform based on those benchmarks. It is important to establish the right performance metrics to provide incentive for the institutions to do things that are important for the state.

Comm. Buhler explained the budget request for Research/Graduate Programs is \$10 million to be shared between the U of U and USU. <http://le.utah.gov/interim/2015/pdf/00001089.pdf> Pres. Pershing said the most critical area for the two research institutions are at the graduate and research level. He discussed how the funding would be utilized.

Rep. Draxler mentioned earlier slides depicting much better employment for individuals with graduate degrees. He asked about the return on investment at the graduate level and also what percent of the \$10 million would go to each institution.

Comm. Buhler indicated that 60 percent would go to U of U and 40 percent to USU. Pres. Pershing answered that the return on investment to the state is very good especially from income taxes collected. He mentioned that it is important to convince business leaders that there will be enough graduates to keep companies in the state and attract new companies.

Sen. Stephenson said that the request was very general. He would like to see a more finely tuned budget request. Co-Chair Urquhart said that this funding has been piloted for the last few years, and the institutions have made presentations regarding the utilization of funds. Mr. Neal Abercrombie, Director of Government Relations at USU explained that this proposal was in draft format. They are reworking a better proposal and will ensure that it is given to each committee member as soon as possible.

Comm. Buhler discussed the critical needs in the area of cyber security. The Chief Information Officers from the USHE system have prepared a proposal with a request for \$2.1 million to strengthen firewalls and cyber security. <http://le.utah.gov/interim/2015/pdf/00001087.pdf> This would be across the eight institutions and prevent a major system breach.

Comm. Buhler explained the request of \$3 million which would be required to fully fund the Regents' Scholarship. He discussed the tremendous growth in qualified applicants. Co-Chair Urquhart said that scholarship is one of the best ways to have better prepared students enter the USHE system.

Sen Stephenson said that there is a real need for the Higher Education Appropriations Subcommittee and the Public Education Appropriations Subcommittee to have a meeting during the interim to discuss where education needs to go for K-20 in the state. He requests the chairs to make this recommendation to Leadership.

Sen. Dabakis endorsed Sen. Stephenson's idea mentioning that it would be important to have a serious discussion about the population increases over the next ten years and how public and higher education could receive the funding needed. Co-Chair Urquhart said that he would work to make this happen.

7. Performance Based Funding

Co-Chair Urquhart mentioned that a performance based funding model collaboratively prepared by USHE was presented last week. Co-Chair Urquhart mentioned that the chairs have met with several committee members and have developed another possible performance-based funding model. <http://le.utah.gov/interim/2015/pdf/00001151.pdf>

Co-Chair Urquhart explained the important facets of the model. Several committee members asked for clarifying questions about the model.

Sen. Stephenson wanted to make sure to avoid negative unintended consequences and asked what proportion of new funding would be based on this and how existing funding would be impacted. Co-Chair Urquhart said that existing funding would not be impacted. The committee would need to determine what proportion of new funding would go towards performance funding.

Sen. Millner asked if the model was meant to have the institution measured against itself. Co-Chair Urquhart answered that this was definitely the intention

Sen. Dabakis said that this was a great step forward and stated that fine tuning could take place each year. He asked how committed the committee is to this approach in the long-term and would a larger percentage of the funding be performance based.

Co-Chair Urquhart answered that this is a nationwide trend and that there is a solid commitment within the USHE system.

Rep. Draxler said that the matrix was a good place to start and asked what was the next step and how would fine tuning take place.

Co-Chair Urquhart reported that this will be discussed at the final meeting. He said that this model is significantly different than the USHE proposal. The goal of the chairs is to put something in statute but with very broad language about performance funding. He would like to meet with USHE and the Regents to find some common ground. Co-Chair Urquhart will be presenting a related bill in the Education Standing Committee.

After the Legislative Session, the Chairs will work with USHE to work out the details. Comm. Buhler mentioned that he is very concerned about having the institutions competing against each other. Co-Chair Urquhart said that focus would be improvement with perhaps a five-year rolling average. He mentioned the importance of protecting at-risk students, but how they are defined is something that each institution may have to identify. He also reported on protecting high impact programs.

Sen. Stephenson stated the importance of giving students informed choices as they are determining their future college and career paths.

Comm. Buhler said that an institution can increase the number of graduates in two ways: 1) increase the completion rate; or 2) enroll more students. He wanted to ensure that institutions are rewarded for the right measurements. He is concerned about the complexity of the model. He stated that the paradigm of the model is based on institutional improvement, which is very different from the Regents' paradigm which is comparing the institutions to their peers.

Sen. Stephenson mentioned that many states are making significant cuts in higher education. He said that the efficiency of the current USHE system is part of the reason Utah doesn't have that. He asked if Comm. Buhler had looked at other performance based funding models.

Comm. Buhler answered that they did look at other models but their model was quite unique. It focuses on each institution striving to be the best when compared to their Carnegie peers. Comm. Buhler said that Co-Chair Urquhart and he agree that this should be based on new funding.

Sen. Dabakis mentioned that other states' cuts may be a unique way for Utah to attract some talented professors.

Co-Chair Urquhart emphasized that Utah has a really good system and it is important first to do no harm. The current funding is all base budget which is largely driven by formula on the size of institution. The intent is to creating incentives for different performance. He mentioned the importance of having a better connection between public education and higher education.

Sen. Vickers said he was very impressed with the higher education institutions and their success. He said that the legislation has to be clear that this is to stimulate improvement. He applauds the direction that this is taking and sees its value. He mentioned that higher education is extremely vital for economic development.

Co-Chair Urquhart said that only funding for growth is a disservice for students.

Co-Chair Urquhart mentioned the tuition rates have been increasing and it is critical to keep those rates affordable. He stated the ratio of state funding to tuition has been dropping and it is important to keep the line at 50/50. Comm. Buhler agreed that it was very important to keep tuition low. He stated that base budget funding was also critical to the USHE system.

Rep. Fred Cox said if the higher education new budget request is \$80 million but asked if that number included the restoration of the base budget and asked the amount of that restoration.

Mr. Pratt reported that it did not include the budget restoration of \$17.5 million.

Sen. Stephenson commended the UESP plan for families who have means to put the money away for the future. He stated that he is working with Sen. Dabakis on a bill to give a similar benefit to those of lesser means to make sure college tuition is paid with pre-tax dollars.

MOTION: Co-Chair Grover moved to adjourn. The motion passed unanimously.

Co-Chair Urquhart adjourned the meeting 10:45 a.m.

Sen. Stephen H. Urquhart, Co-Chair

Rep. Keith Grover, Co-Chair