

**MINUTES OF THE
HIGHER EDUCATION APPROPRIATIONS SUBCOMMITTEE**

Room 210 East Senate Building, State Capitol Complex
January 28, 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. Evan J. Vickers
Rep. Kim Coleman
Rep. Fred C. Cox
Rep. Jon Cox
Rep. Jack R. Draxler
Rep. Don L. Ipson
Rep. Kay L. McIff
Rep. Carol Spackman Moss
Rep. Mark A. Wheatley

Members Absent: Sen. Jerry W. Stevenson
Rep. Daniel McCay

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 8:20 a.m.

2. Opening Remarks

Co-Chair Urquhart welcomed committee members. He mentioned the historic funding last year involving equitable base-line funding, which is part one of a two-step process. The hope is that the second step will be to initiate performance-based funding for the Utah System of Higher Education (USHE). The committee has a broad agreement to determine what performance-based funding means for the complex USHE system. He stated that the focus for the Utah College of Applied Technology (UCAT) system will be equity funding, similar to last year.

Co-Chair Grover reflected on the committee's great work last year. He expressed gratitude to the USHE institutions and UCAT for their great accomplishments. He was pleased that committee members and associates had stayed true to their goals and worked through proper channels to present a unified budget. He welcomed the new committee members and encouraged members to be actively involved especially with the institutions in their district, to ask prodding questions, and to look for efficiencies. He said that this makes the higher education budget stronger as it is presented to the Executive Appropriations Committee (EAC).

House Vice-Chair Stanard mentioned the great progress the committee made to make performance based funding work.

3. Welcome and Introductions

Co-Chair Urquhart welcomed the new members to the committee. He mentioned some of the challenges in higher education, but one of the strengths is the opportunity to use technology to help control costs and improve delivery of education. He then asked committee members to introduce themselves.

4. Introduction of H.B. 1 Higher Education Base Budget Bill

Mr. Pratt explained that all of the material for the committee is available on line. He demonstrated how to find this information.

<http://le.utah.gov/asp/interim/Commit.asp?Year=2015&Com=APPHEd>

He discussed the higher education budget tools available.

<http://le.utah.gov/interim/2015/pdf/00000498.pdf>

He explained that there are some general videos available on youtube.

www.youtube.com/user/UtahLegislature.

Mr. Pratt briefly explained H.B. 1 – the Higher Education Base Budget Bill

<http://le.utah.gov/interim/2015/pdf/00000261.pdf>

Mr. Pratt showed the link to the Compendium of Budget Information (COBI) for higher education. He showed that from this page it is possible to drill down to each institution.

http://www.le.utah.gov/lfa/reports/cobi2015/ctte_27.htm

Mr. Pratt showed the base budget bills linked to COBI. He discussed how to submit a request for appropriation, stating that forms are available in the fiscal analysts' office. These are requests for funding that does not require a bill. This year there is an area that asks for the statewide public purpose of the request. This purpose may be a factor in the determination of whether or not it is approved. All appropriations need to be made to a state agency. Mr. Pratt stated that these forms are due by noon on February 5, 2015 and that the ones that are assigned to the Higher Education Subcommittee will be presented on February 11th.

Mr. Pratt explained that materials for each committee meeting are available. For example, the link for the materials for this meeting is shown below.

<http://le.utah.gov/asp/interim/Commit.asp?Year=2015&Com=APPHEd>

Mr. Pratt further explained H.B. 1, the Higher Education Base Budget Bill, stating that there are links inside the bill which correspond to the COBI for each institution. He stated that most of the funding for higher education comes from either the Education and General Fund or Dedicated Credits, and a few other funding sources. Mr. Pratt reported that there is an amendment forthcoming to make a correction to Item 56 on H.B. 1.

Mr. Pratt explained that last year the committee approved funding for fiscal year 2015 (FY2015) which goes from July 1, 2014 to June 30, 2015. The ongoing funding level for FY 2015 is what is included in the base budget for FY 2016. Mr. Pratt stated that the other change from the current year's budget to this base budget bill deals with tuition. After each general session the Board of Regents and the UCAT Board of Trustees meet and approve tuition increases. This additional amount is included in the FY 2016 base budget.

Co-Chair Urquhart encouraged committee members to become very familiar with COBI and with HB 1 as well as the other meeting materials available on line.

Co-chair Urquhart introduced Rob Brems, UCAT President. He expressed appreciation for the support of the committee and welcomed the new members. Pres. Brems introduced the UCAT Campus presidents.

Co-Chair Urquhart introduced David Buhler, the Commissioner of Higher Education, Spencer Jenkins, Assistant Commissioner for Public Affairs, Board of Regents Chair Dan Campbell and Vice-Chair France Davis. Comm. Buhler introduced other staff members and institution presidents. Comm. Buhler also introduced Richard (Biff) Williams, the new president of Dixie State University.

5. Introduction of Compendium of Budget Information (COBI), links to H.B. 1, and Trend Analyses

Mr. Pratt explained that COBI provides background information, historical information, and financial information for higher education as well as each institution. He mentioned that this link will also give information from the other appropriation subcommittees.

<http://www.le.utah.gov/lfa/reports/cobi2015/COBI2015.htm>

Mr. Pratt explained how to utilize the charts, which show the funding sources. The General Fund accounts for 25 percent; Education Fund about 28 percent and Dedicated Credits about 43 percent. Mr. Pratt reported that the entire higher education budget is about \$2 billion with about 75 percent used for personnel services.

Mr. Pratt clarified that the Issues tab gives some base budget recommendations, the Background tab gives a small paragraph about each institution, as well as some of the issues that this subcommittee has addressed in higher education in the past few years. Mr. Pratt explained that the Financials tab gives historical information on the operating budget by agency. The table will give actual dollar amounts, and also allows you to drill down for more details. Additional information includes FTE's and vehicles at each institution. Mr. Pratt used an example to show that as you drill down to a specific institution, you can see the Budget Effectiveness Review information, Performance Measures and a link to Intent Language specific to that institution.

Budget Effectiveness Review – Ms. Oh explained that the EAC asked all appropriations subcommittees to participate in a budget effectiveness review with a soft target of finding two percent in savings. The main reasons for this review were to report and evaluate existing programs, to stress test the existing budget and to find real savings. Last year a similar exercise was performed and about \$70 million in savings was realized. EAC stated that it is very likely that the subcommittees that find efficiencies will be able to reallocate the funding in their budget and use them as budget priorities for FY 2016. The base budget amount for higher education is \$872 million. Two percent is \$17.4 million.

The analysts identified some potential options that the subcommittee might wish to consider. For UCAT, there are four options: 1) reduction in central marketing and messaging; 2) reduction or elimination of low-demand programs at individual campuses; 3) reduction of custom-fit appropriations or a combination of changing the employer/state contribution ratio; and 4) reduction of equipment appropriations for all campuses. For USHE, there are three main options: 1) replace state funding with reimbursed overhead; 2) limiting higher education tuition waivers; and 3) reduction of distinctive mission funding for FY 2015. There are also two other smaller options – eliminating funding for the Center on Aging, and eliminate funding for the Utah Medical Education Council.

6. Legislative Auditor General Report 2014-E. “A follow-up of selected Legislative recommendations for Higher Education Operations and Maintenance.”

Mr. Kade Minchey, Audit Supervisor and Mr. Matthias Boone, Audit Staff presented the auditor's report. Mr. Minchey explained that the first audit was performed in 2011 <http://le.utah.gov/interim/2015/pdf/00000480.pdf>. They were asked in 2011 to determine if Operations & Maintenance (O&M) funds were being used according to their original purpose within the higher education system. The report concluded that inadequate funding information limits transparency and accountability. Several recommendations were made for ways to improve this accountability. The audit subcommittee asked for a follow-up report regarding this issue. The work is ongoing but the first follow-up report was released in December 2014. Hard copies of this report were distributed. <http://le.utah.gov/interim/2015/pdf/00000238.pdf>

Mr. Minchey explained that this follow-up deals with three of those items. The Legislature has acted on some of the recommendations, and some have not yet been implemented.

Mr. Minchey explained that Page 2 states that the Legislature should require that an O&M funding plan be in place prior to building construction. Page 3 gives some recent examples of situations where this funding plan was not in place. Historical data is not available to show other examples. Recommendation #1 on Page 9 recommends that O & M funding plan be required in statute. Some examples of the statutory language are given on Pages 5 and 6.

A second major theme of the report is on Page 6 and states that the Legislature should direct the Board of Regents to maintain a funding record for all buildings. Page 8 provides some suggested statutory language to implement this recommendation. The last recommendation is on Page 8 which states that the Legislature should consider directing the fiscal analyst's office to create an appropriation unit to better track O&M funding.

Sen. Vickers asked if some of these solutions have been discussed with the institutions.

Mr. Minchey answered that when the Legislature approves new buildings, the process works very well. The problem occurs when institutions obtain other funding sources to construct a building and then come back later for O&M funding for non-state approved buildings. Mr. Minchey mentioned that the IGG subcommittee has also been involved.

Co-Chair Urquhart mentioned that a better approach may be to allocate a specific amount of money for capital facilities at each institution and allow the institutions to manage these resources. This may mean more impetus to build smaller buildings and motivation to seek private funding.

7. USHE Issue Briefs

a. Issue Brief – 2015 General Session – USHE Historical Funding

Mr. Pratt discussed historical funding explaining that 30 years ago state funding for higher education was around 70 – 80 percent for all institutions; it is now about 50 percent. Over the years, state funding has decreased and the percentage spread among institutions has increased. <http://le.utah.gov/interim/2015/pdf/00000062.pdf> He clarified that the biggest disparity was around 2010. He explained that the Legislature-approved equity funding has resulted in a tighter cluster. Mr. Pratt stated that the downward trend of state funding of higher education is occurring across the country.

Co-Chair Urquhart commented that this is a significant trend that shows how much tuition has come to mean for higher education. The committee needs to think of ways to hold the line at a 50/50 state funding and tuition. He mentioned that the reduced state funding is due to the escalation of Medicaid funding which requires state funding. Another issue is that inflationary costs of higher education are four times that of normal inflation. Co-Chair Urquhart stated that Utah has done a better job than most, but this is a big challenge of this committee.

b. Issue Brief – USHE Mission, Enrollment and Funding Mr. Pratt said that two of the factors that determine funding in higher education are an institution's mission and the number of students that attend the institution. In recent years, there have been mission changes especially at Dixie State University and at Utah Valley University. Both of these institutions received an ongoing appropriation in conjunction with that mission change. These changes have also meant an influx of additional students. <http://le.utah.gov/interim/2015/pdf/00000068.pdf>

Mr. Pratt explained that this Issue Brief shows the Education and General Line Item which is the main budget for each institution. There is a historical view of the total appropriated state funds, tuition and fees that were appropriated and those figures are shown on a per FTE basis. This shows how the funding per student has increased or decreased over time. When FY 2015 information is added to this data, the equity funding should have an impact on these statistics.

Mr. Pratt indicated that the Issue Brief shows several years of historical appropriations. He mentioned that enrollment runs counter-cyclical to the economy; when the economy is good, enrollments dip; when the economy is poor, enrollments increase. He also discussed the impact on many institutions when the L.D.S. Church lowered the missionary age. He reported that because the students who left the institutions should now be returning, enrollments should rebound from that shortly.

Mr. Pratt reported that many years ago enrollment was a line item for additional funding in higher education. That hasn't been the case for some time, so enrollment growth isn't funded by state funding, but it is funded with tuition dollars.

c. Issue Brief – USHE Tuition

1. Tuition and fees Mr. Pratt reported that the Tuition and Fees Issue Brief provides a historical view of first tier and second tier tuition increases at each institution for the past 15 years. <http://le.utah.gov/interim/2015/pdf/00000068.pdf> Mr. Pratt explained that first tier is across all institutions and second tier is institution specific. In the past, first-tier increases have been from one to five percent; and second tier have been from 0 up to 27 percent. The chart shows dollar amounts for residents and non-residents. The specific fees that are charged is also depicted.

Mr. Pratt said that tuition at each USHE institution is compared with the WICHE (Western Interstate Commission on Higher Education institutions), Rocky Mountain institutions, and peer institutions across the country. In general, tuition is lower at the research and teaching institutions in the state than the WICHE and Rocky Mountain schools; and at the smaller institutions, tuition is higher than their counterparts.

House Vice-Chair Stanard commented that the resident tuition rates for 2000 -2015 is quite alarming. He said that the trend of this growth is a triple increase in 15 years. He is quite concerned that if this growth continues, many people will not be able to afford to go to college.

2. Tuition Waivers Mr. Pratt explained that this is a new Issue Brief. The gross tuition assessed across the USHE system for FY 2013 was \$800 million. Of that, tuition waivers totaled nearly \$90 million. <http://le.utah.gov/interim/2015/pdf/00000072.pdf> Mr. Pratt discussed the fact that there are many purposes of these Legislature-approved waivers. Mr. Pratt reported that if the Legislature were to stop all tuition waivers, there wouldn't be an additional \$90 million in tuition revenue because many of those students are attending because of the waiver. If there was no waiver, many would likely not attend. Some of these waivers were to waive out-of-state tuition to alleviate the loss of tuition because of the L.D.S. Church missionary age change. Mr. Pratt explained the purpose of some of these waivers.

Co-Chair Urquhart asked Comm. Buhler to address this issue and would like to have a comprehensive discussion on this at a later meeting.

Sen. Stephenson mentioned that there is a state law that the waiver cannot exceed 10 percent of the total tuition amount. He asked for information about scholarships. Mr. Pratt indicated that the law states that one type of waiver cannot exceed 10 percent. Mr. Pratt will provide information regarding scholarships.

Co-Chair Urquhart mentioned that many of these are non-resident tuition waivers which are used to bring high-achieving students to the state.

Rep. Ipson mentioned that USU and Dixie grant border waivers to students who live in neighboring states.

Co-Chair Urquhart commented that these waivers are often put in place when state revenue is down; but it is appropriate to re-examine these waivers.

Rep. Draxler stated that eliminating waivers will not necessarily generate tuition revenue. These students will choose to go elsewhere or not at all.

Sen. Stephenson commented that paying tuition has become a very popular benefit offered by many employers. Having tuition rates so low means less revenue. He asked if the Legislature has a policy as to why tuition in Utah is lower than peer institutions.

Co-Chair Urquhart stated that lower tuition is one of greatest strengths of the system in Utah and is very intentional. He said that it also speaks to the great management at the institutions.

Sen. Stephenson expressed concern about the policy of equity funding and the direction that it is going. Co-Chair Urquhart said that equity funding was a required step towards performance based funding. Some institutions had significant increases in enrollment at a time when budgets were cut. This funding was necessary to have institutions at a more consistent level.

Sen. Stephenson asked if the results of the equity funding can be measured. Co-Chair Urquhart stated that at the present time there is not a lot of accountability for existing funding. Student

retention and graduation rates can be measured. Once the base line is established, then there will be competition for future funding tied very specifically to performance.

Sen. Stephenson mentioned that for the two percent cuts in the base budget, the committee could look at degree areas that might be primed to cut funding.

Mr. Neil Abercrombie, USU, Director of Government Relations mentioned that about 40 programs have been eliminated over the past few years at USU.

Sen. Stephenson asked other institutions to report on programs that have been eliminated or could be eliminated.

Co-Chair Urquhart asked Mr. Pratt and the Board of Regents to look at this, but stated it is very difficult to discuss programs that might be eliminated.

Sen. Stephenson asked to have the institutions bring statistics about programs with the lowest placement rates of their graduates. He mentioned the state longitudinal data shows precisely where graduates are after five years. This data is not available to the legislature nor the public.

Co-Chair Urquhart asked each institution to provide information regarding programs and degrees that have the best job placement and which have the lowest job placement;

Rep. Fred Cox stated that often tuition waivers give incentives for students to obtain a higher GPA and also are more likely to complete a program.

Rep. Jon Cox mentioned that he participated in a very difficult process to rank programs as part of the Snow College Strategic Planning Initiative.

Rep. McIff stated that there is a great strength in all education. It is important not to just invest money in training for marketable skills but educating the whole person.

3. Tuition and State Tax Funding Mr. Pratt discussed a report given to the EAC, who then asked that it be presented at this committee. Statistical analyses by State Economists determined that any correlation between new state tax funding for higher education and the level of tuition increases is statistically insignificant. They found that the best predictors of future tuition increases are previous tuition increases, number of full time equivalent students, wage growth, and, at times, inflation. <http://le.utah.gov/interim/2015/pdf/00000074.pdf>

Mr. Pratt stated that following the Legislative Session, the Board of Regents meets to determine tuition increases for the next school year. This means there is a lag of about one year from what is appropriated in the base budget bill and the tuition that is collected. As a result of these analyses, the analysts recommend the Legislature consider including all revenue sources and expenditures in appropriations, giving them the opportunity to make more informed policy decisions. They also recommend that the board submit tuition increases as part of its plan of

financing when it presents its budget. Not only would this facilitate adherence to current statute but it would also more accurately reflect expected revenue, resulting in more closely matching expected tuition with appropriation.

Comm. Buhler responded that the state funding for higher education has a major impact on tuition. It may not line up year to year because of the lag already mentioned. He stated that other funds are all reported to the State even though some of those funds may not be in the appropriations act. He stated that the issue regarding collections versus appropriations is a matter of timing. Decisions are made in February and March on students who will come in August and the following January.

Rep. Wheatley asked Comm. Buhler if there is data on the average student debt. Comm. Buhler answered that it is about \$24,000, he will give an exact amount at a later meeting.

4. Tuition Projections Mr. Pratt explained this new Issue Brief. It is in conjunction with the last report. <http://le.utah.gov/interim/2015/pdf/00000244.pdf> The analysts' office projected tuition using econometric modeling. It utilizes FTE students, previous tuition increases, the State COLA, average quarterly wages, and a constant as the best predictors of future tuition. The analyst predicts that tuition collections will increase by 7.75 percent and recommends that the amounts to be added to H.B. 1 in a supplemental appropriations bill.

Sen. Stephenson asked if this would be a change from the current practice and how would this impact the institutions, is the Legislature expecting the institutions to fulfill these amounts?

Mr. Pratt stated that this is the best predictor of what increase will be collected for next year. This doesn't say the institutions are required to collect a certain amount, but gives a better idea of the amount of tuition that will be collected.

Sen. Stephenson asked if this is a type of tool for effecting the Trustees decisions or is it more of a bookkeeping issue.

Sen. Millner asked what the compelling reason is to make this change.

Mr. Pratt answered it is to put forth the amount that is anticipated to be collected rather than operating on a lag. This allows the Legislature to see more accurately how much of the appropriation is from tuition.

Rep. Coleman asked if there is some analysis as to why tuition costs increase every year.

Co-Chair Urquhart stated that the committee does address this and asked Comm. Buhler to report on tuition increases.

Sen. Stephenson stated that it would be helpful to look at a third party analysis related to tuition. The federal government has made funds readily available which has caused an upward pressure on tuition.

Co-Chair Urquhart answered that there is a great deal of literature regarding higher education.

MOTION: Sen. Dabakis moved to adjourn. The motion passed unanimously.

Co-Chair Urquhart adjourned the meeting at 10:26 a.m.

Sen. Stephen H. Urquhart, Co-Chair

Rep. Keith Grover, Co-Chair