

**MINUTES OF THE
HIGHER EDUCATION APPROPRIATIONS SUBCOMMITTEE**

Room 210 Senate Building, State Capitol Complex
THURSDAY, JANUARY 26, 2012 8:00 A.M.

Members Present: Sen. Stephen H. Urquhart, Senate Chair
Rep. Michael T. Morley, House Chair
Rep. Jack R. Draxler, House Vice Chair
Sen. Scott Jenkins
Sen. Stuart Reid
Sen. Ross I. Romero
Sen. Jerry Stevenson
Rep. Patrice Arent
Rep. Bradley M. Daw
Rep. Becky Edwards
Rep. Don Ipson
Rep. Kay L. McIff
Rep. Dean Sanpei
Rep. R. Curt Webb
Rep. Mark A. Wheatley

Members Excused: Sen. Scott Jenkins
Sen. John L. Valentine

Members Absent: Rep. Douglas Sagers

Staff Present: Mr. Spencer Pratt, Fiscal Manager
Lorna Wells, Secretary

A list of visitors and a copy of handouts are filed with the Committee minutes.

1. **Call to Order.** Co-Chair Urquhart called the meeting to order at 8:20 a.m.
2. **Ellen Siminoff, CEO, Shmoop.com** Ms. Siminoff was a founding partner of Yahoo. As a parent, she turned her interests to education. The goal of Shmoop is to make education interesting, available, and affordable. Shmoop is a digital publishing company which prepares guides for high school students. They offer many different subjects as well as test preparation. They are 100% web- based. They keep all materials engaging and affordable.

Ms. Siminoff specifically discussed the work that Shmoop does with the ACT test. They start each student with their own dashboard so they can choose their areas of need. They have a diagnostic program to see where students are; so they can review, refresh and focus on weak areas, utilizing rigorous drills. She demonstrated how they "show" the topic rather than just "tell about" the subject. They present topics in a way that relates to today's students. They have three full-length interactive ACT exams. They simulate the entire ACT experience including the time constraint on the web.

The Shmoop program allows feedback and explanations for every problem which helps parents and teachers assist students. There is a progress chart to show how students have improved. They have guides which supplement current course work. They invite friendly competition between students.

This is called the Shmooints Leaderboard. Ms. Siminoff discussed the detailed reporting tools for parents, teachers and students.

Rep. Arent asked if the class offerings will these be expanded. She also asked for an explanation about Shmooints.

Ms. Siminoff replied that Shmooints are like points. Students earn Shmooints as they complete various activities and tests. Approximately 30 to 40 new pieces of new content are added each month. They will be adding AP Statistics and AP Physics very soon. She mentioned that exams are added and modified each year. She reported that all of the ACT test preparation materials have been translated into Spanish.

Co-chair Urquhart mentioned that high school students in Utah need to be better prepared for college. He mentioned situations unique to Utah where students leave for missions, perhaps get married and have children earlier, which makes not completing college more common. One suggestion would be to make sure that students are better prepared before entering college. He asked Ms. Siminoff about Shmoop's experience in dealing with high school students and getting them college-ready.

Ms. Siminoff said that it is very important to determine where students currently are. By assessing current levels, the student, parents and teachers can readily identify areas that may be lacking. The ACT covers a broad group of subjects and so it is a good exam to use as a basis. The results of ACT and SAT exams have proven to be a sound predictor of college success. As early as the freshmen year in high school, skill gaps can be determined so that when they are seniors they are better prepared. The on-line environment is great because of the flexibility and the reporting that is available.

Rep. Draxler asked Ms. Siminoff to explain the fact that she had earlier said that Shmoop was free, but the current web site talks about pricing. He also asked where the funding source comes from.

Ms. Siminoff reported that many pieces of the site are free, there are free text books and free content. There is a cost associated with the test prep materials. Students can pay as individuals, but many districts have licenses for these materials. These licenses are offered at very competitive rates. The Shmoop business model is three fold: there is paid advertising, an e-book application which is sold through sources such as Amazon. There is no venture funding. Ms. Siminoff and her husband own almost 100% of the company, except for a few share options.

Co-Chair Urquhart discussed that fact that textbooks are extremely expensive. There are many sources for open textbooks and e-textbooks. He invited Mr. Eric Frank from Flat World Knowledge to come and report to the Committee.

3. **Eric Frank, Flat World Knowledge.** Mr. Frank stated that Flat World Knowledge is a 4-year old venture capital backed start-up company. Their goal is to drive costs down and student success up. Education is part of the American Dream. Technology is allowing education to be delivered in new ways. He discussed the skyrocketing prices of books. Research shows that over 70 percent of students attempt courses without purchasing the textbooks. He reported that 34 percent of students have stated they are withdrawing from a course because of fees and textbook costs. Students plan for tuition costs but they are often very unprepared for the additional fees and costs of textbooks. Community Colleges are holding the line on tuition costs; but the net student price has increased. Affordability at college cannot be achieved without looking at the textbook situation.

Mr. Frank explained four goals of the company. 1) To publish great textbooks--they have professionally developed books, using the nation's top authors. 2) To have open licensing--faculty can re-use textbooks, revise, remix and redistribute. Faculty can rearrange material or create their own material, inserting their own elements, text, videos, etc. 3) To give students choices--textbooks are available in many different file formats, they are very accessible. Students can get web-hosted textbooks for free. They can purchase lower-cost black and white formats, or purchase full-color textbooks. 4) To drive costs down--the average price for traditional textbooks is about \$100. The average price for Flat World Books is \$20. Flat world offers content licensing to colleges; they can bundle this for a lower price because of the volume.

Mr. Frank discussed their many different institution partners. They have served 270,000 students with purchased materials. They have probably served over three times that many students with their free materials. Mr. Frank stated that they estimate that there is a 10 to 15 percent increase in course completion rates when students are using Flat World Books.

Co-Chair Urquhart asked if saving students money actually boosts retention. Mr. Frank answered that if a student doesn't have access to a textbook, they often do much worse in a class. They often fall behind and then drop out. If 100 percent of the students have the textbook available, there is immediate improvement. There is a full-scale study currently taking place in the State of Ohio.

Sen. Stevenson asked Mr. Frank if there was a way to break out the 34% showing separate percentages for fees and textbooks. He stated that fees are like taxes. He thought that fees are probably a larger piece than textbooks.

Mr. Frank reported that he doesn't have specific data on this and can't give an accurate answer. He said that 600 students who were interviewed stated they planned for tuition but were very surprised by fees and the cost of textbooks. They don't have enough money, even though most students are working.

Mr. Frank said that if there is a demand for lower textbook costs, then supply will follow. He reported that they currently have 15 - 16 colleges licensing content from them. Ohio will be their largest customer by Fall Semester. These schools will have a faculty committee evaluate and select the top textbook title. They will then encourage or require the use of that book. This can be an academic freedom issue. Often times full-time tenured faculty can use whatever they want, and perhaps adjunct would be required to utilize this textbook.

Co-Chair Urquhart mentioned to the audience that as the Higher Education institutions make presentations to the Committee, he would like them to address the textbook issue. He didn't bring these guests to necessarily advertise for these companies, but more to demonstrate the innovation that is now available in the marketplace.

Rep. Draxler asked how textbooks are contracted to be written? He also asked how they deal with the issue of a faculty member wanting to use a textbook that they have authored? Mr. Frank stated that they develop a short list of ten experts in that field. They then try to convince these faculty to sign an exclusive contract. They are paid a royalty of 20 percent. The industry average is about 13 percent. However, many of these textbooks get shared, rented, or resold. The author generates no income for these. There is very little, if any, reuse of Flat World Books, so the author generates a more consistent royalty income. In answer to the second question, if they have use their own book in course, then that

is not something Flat World usually deals with, however this a very low percentage. Most faculty members adopt a mainstream publisher.

4. **Subcommittee Overview - Spencer Pratt.** Mr. Pratt stated that all of the budget briefs will be available at the next meeting. Each Higher Education Institution will have a separate Budget Brief. The format for each will be the same. House Bill 4 is the Base Budget for higher education. That is the current year's ongoing appropriations with some minor changes. If nothing else passes, institutions could continue at the current level for FY 2013.

- a. Utah System of Higher Education. Mr. Pratt distributed copies of the entire Utah System of Higher Education (USHE). The FY 2013 Utah System of Higher Education base budget is \$1,321,626,000. Mr. Pratt discussed the analyst's recommendations for funding for FY 2013. Mr. Pratt showed the recommendation's from the Governor in the amount of \$16,072,000 on-going and \$5,400,000 one-time for various initiatives in the System of Higher Education.

Page 3 is the Area of Expenditure in the separate line item entitled Education and General (E&G) for the entire system for the past seven years. Page 4 is intent language regarding the return on tax payer investment. Page 5 is a summary of all of the funding: FY 2011 actual data, FY 2012 appropriated funds, FY 2012 revised and then the FY 2103 recommendations.

Rep. Draxler asked if Page 5 if includes the analyst's recommendations but not the Governor's recommendation. Mr. Pratt stated that was correct.

Rep. McIff asked about the process by which the adjustments are made from last year to this year. He also asked if these adjustments are approved by the Board of Regents?

Mr. Pratt reported that FY 2012 was the appropriated amount following the legislative session. Shortly after that, the Board of Regents met and approved a 1st and 2nd tier tuition increase, and made some other adjustments. These adjustments are reflected in the FY 2012 Revised column. The second blue column pulls out all of the one-time funding. The first blue column includes the additional tuition revenue approved by Board of Regents; the 2nd column is the FY 2013 recommendation from the Analyst.

Rep. Wheatley asked for clarification on the pass-through charges.

Mr. Pratt stated that is mostly those items that are appropriated to the Board of Regents that are then passed through to the institutions and other entities.

Rep. Morley asked if this is basically the base budget bill, which is intended to be the beginning of the base budget process. Priorities can be added to this as recommended by the Committee.

Mr. Pratt stated this is correct. There are eight Base Budget Bills. House Bill 4 deals with Higher Education. The Committee members will be voting on all eight of these bills.

Rep. Daw asked if there is any indication when Executive Appropriations might have additional allocations available to the Committee.

Co-Chair Urquhart said he doesn't know right now. He assumes they will know later next week. Then the Committee will get some numbers and be able to prioritize items.

Rep. Sanpei stated that he is supportive of this Base Budget knowing that it is a starting place and that the Committee can then make other recommendations.

5. Other business.

Mr. Pratt distributed copies of a handout entitled "Comparison of FY 2013 Base Budget to FY 2012 estimated budget." Mr. Pratt stated that this chart can be used to compare the FY 2012 Estimated Column to House Bill 4.

Rep. Daw asked if the Budget Book would be available from the dropbox application instead of the binders. Many of the Committee members would prefer this. Mr. Pratt mentioned that all of the budget items will be available through the legislative web site.

5. Adjournment.

MOTION: Rep. Morley moved to adjourn. The motion passed unanimously. Co-Chair Urquhart adjourned the meeting at 9:35 a.m.

Minutes were reported by Lorna Wells, Secretary.

Sen. Stephen H. Urquhart, Senate Chair

Rep. Michael T. Morley, House Chair