NCHEMS

OECD IMHE-HEFCE PROJECT ON INTERNATIONAL COMPARATIVE HIGHER EDUCATION FINANCIAL MANAGEMENT AND GOVERNANCE

FINANCIAL MANAGEMENT AND GOVERNANCE IN HEIS: UNITED STATES

Aimes C. McGUINNESS, Jr.
National VCenter for Higher Education Management Systems
P.O. Box 9752
Boulder, Colorado 80301-9752

TABLE OF CONTENTS

LIST OF FIGURES

INTRODUCTION

Purpose

1. The purpose of this paper is to describe and analyze the role of governments in the United States in ensuring the viability of higher education institutions and enhancing the effectiveness of institutional financial governance and management. The report is one of several national reports prepared for a project of the Organisation for Economic Co-operation and Development (OECD) Institutional Management in Higher Education Program (IMHE) and the Higher Education Funding Council for England (HEFCE).[1] The paper is written primarily for a non-U.S. audience and is intended to provide information for comparison with approaches of other nations to similar issues. The views expressed in this report are those of the author and not of the sponsoring organizations.

2. The other countries participating in the OECD/IMHE/HEFCE project prepared national reports. Because of the complexity of the U.S. higher education system, the decision was made to provide both a national overview as well as case studies of two states for the purpose of international comparison. The decision to focus on states for detailed description and analysis rather than the U.S. as a whole was based on the fact that in the U.S. it is at the state level that the financial governance relationships between higher education institutions and government are most pronounced and relevant for the purpose of international comparison. The federal government plays important but narrowly defined roles (e.g., in establishing basic Constitutional protections and legal requirements in areas such as civil rights, the environment, employment policy, and in funding student financial assistance and research). Nevertheless, the federal government does not generally become directly involved in issues related to institutional viability and financial management and governance.

Sections of the paper

3. The paper has four sections. The first section provides a national overview of the relationship between government and higher education in the U.S., including the differences between the federal and state roles and the differences among the 50 states. The second and third sections present case studies of financial management policies and systems in two states, Kentucky and North Dakota. These sections follow to the extent possible the outline as required by the OECD/IMHE/HEFCE project for comparing these states with the other countries participating in the study. The fourth section presents a comparison and analysis of the approaches to state policy and institutional financial management of the two case study states and overall conclusions from the study.

---

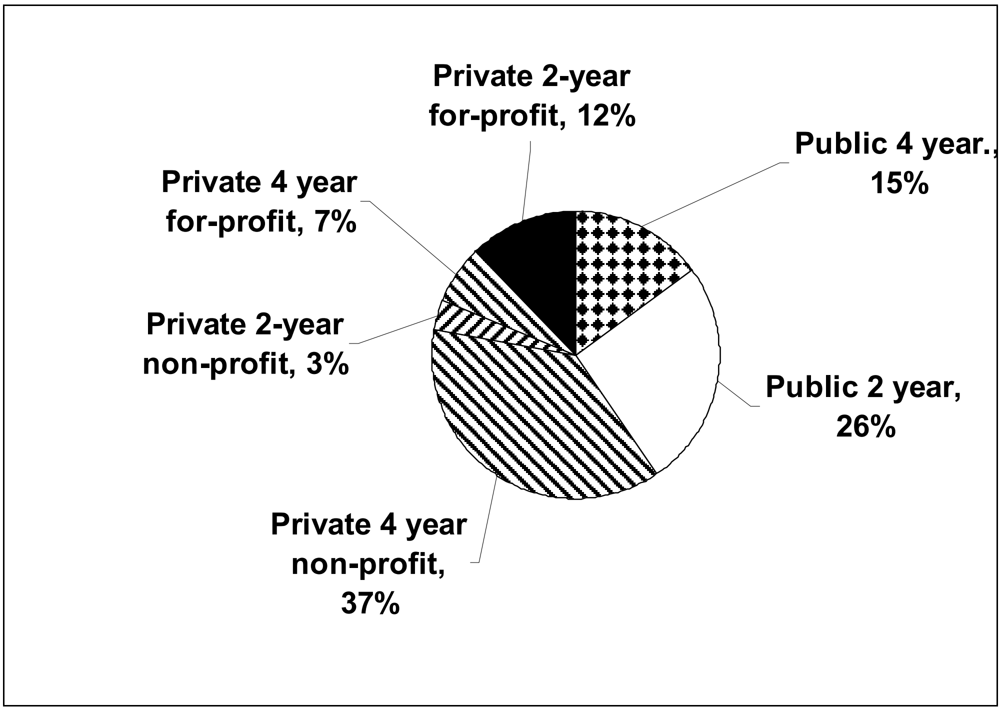
[1] Other participating countries include Australia, Germany, Ireland, Japan, Sweden, The Netherlands, and the U.K. (England).

NATIONAL OVERVIEW

Institutions and students

4. A total of 4 182 institutions enroll 14.8 million students in the U.S. Approximately 59% of the institutions are private (either private non-profit or for profit) and 41% are public (institutions responsible to and funded primarily by state and local governments).

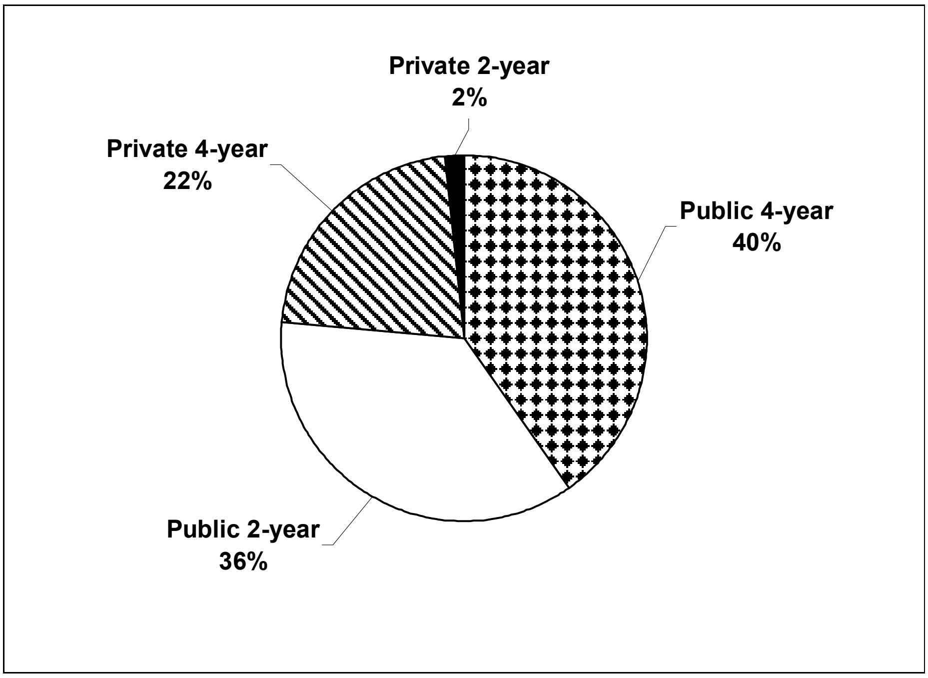
Figure 1. Percentage of institutions by control, Fall 1999



Source: National Center for Education Statistics, *Digest of Education Statistics: 2001,* Table 244.

5. Most students (76%) are enrolled in public institutions and almost of half these students are enrolled in public 2-year community and technical institutions.

Figure 2. Enrollments by control of institution, Fall 1999

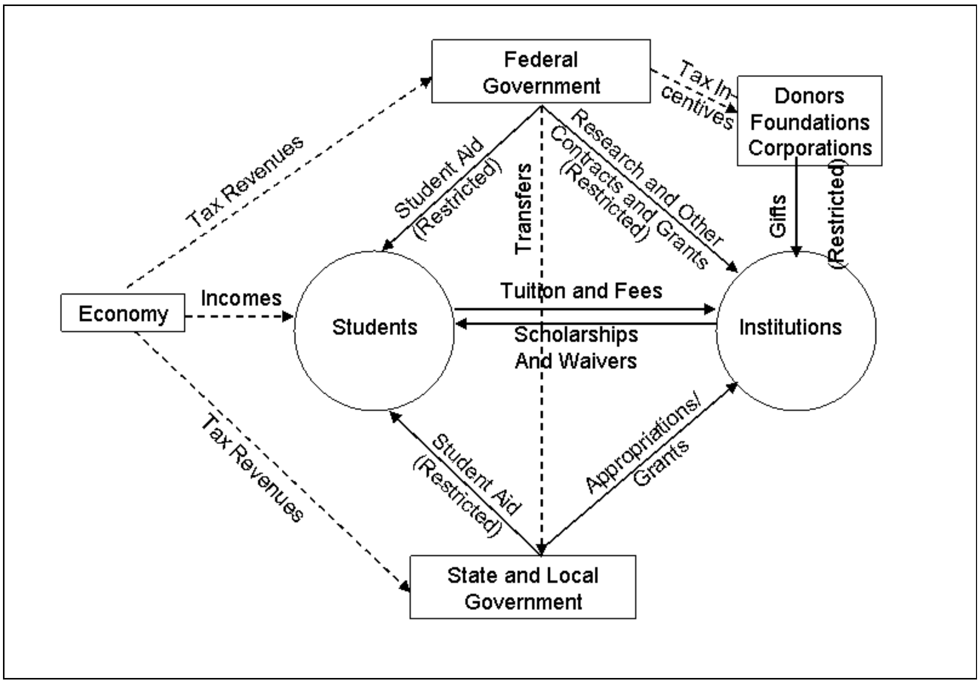


Source: National Center for Education Statistics, *Digest of Education Statistics: 2001*, Table 173.

Overall financing system

6. As depicted in Figure 3, higher education in the U.S. is financed from multiple revenue sources. The figure illustrates the major funding sources, their relationships to either students or institutions, and whether the funds are restricted or unrestricted. Public institutions receive most of their unrestricted revenue from two sources: state appropriations and student tuition and fees. Most other funding sources, such as federal contracts and grants or gifts from major donors, are smaller percentages of overall revenues and inevitably come with strings attached.

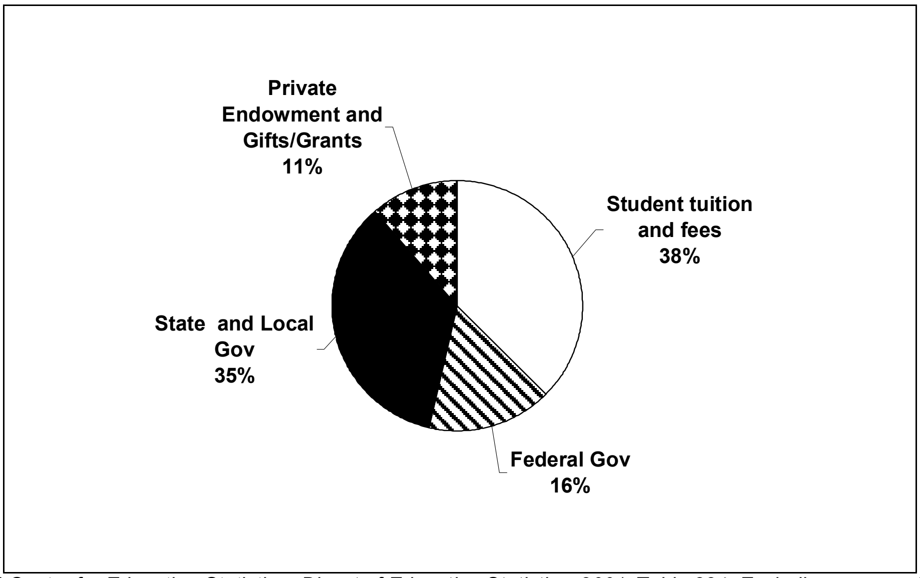
Figure 3. Schematic view of financing higher education in the U.S



Source: Adapted from Jones, D.P. (2003) Financing in Sync: Aligning Fiscal Policy with State Objectives.

7. Overall, the largest sources of current fund revenue to U.S. higher education institutions include 38% from student payment of tuition and fees, 16% from the federal government, and 35% from states.

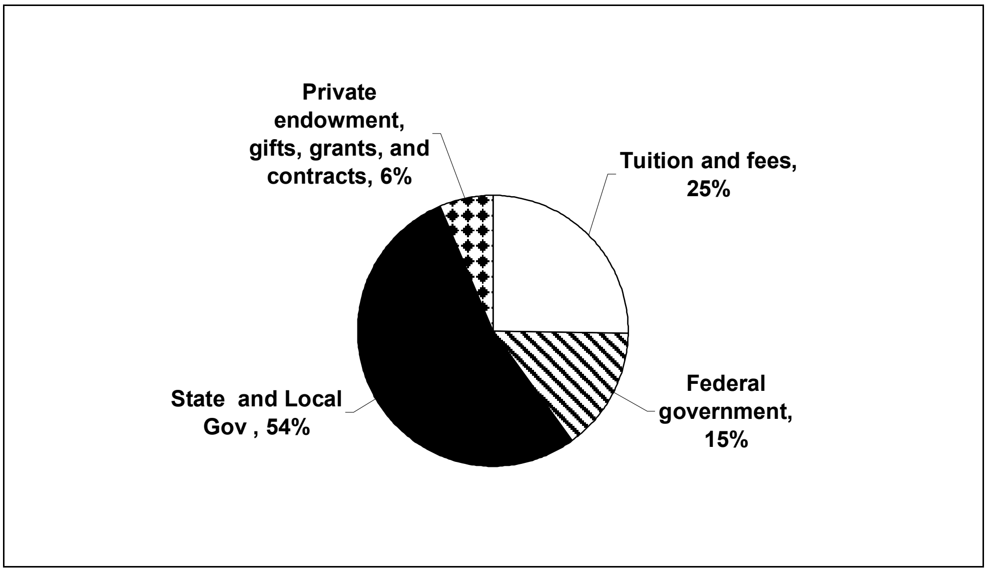
Figure 4. Sources of Current Fund Revenue, Degree-Granting Institutions, 1995-96



Source: National Center for Education Statistics, *Digest of Education Statistics: 2001,* Table 334. Excluding revenue from sales and services, auxiliaries, hospitals and other sources.

8. Public institutions understandably receive a higher proportion of their current fund revenue from state and local sources (54%) and a smaller percentage from tuition and fees and private sources. Nonetheless, compared to public institutions in many other countries, U.S. public institutions receive a higher proportion of their revenue from student tuition and fees and private sources.

Figure 5. Sources of Current Fund Revenue, Public Degree-Granting Institutions, 1995-96



Source: National Center for Education Statistics, *Digest of Education Statistics: 2001*, Table 332. Excluding sales and services, auxiliaries, hospitals and other revenue.

Differences between federal and state roles

9. The federal role differs distinctly from that of the states. Since the historic decision in the federal Education Amendments of 1972 to reject direct general-purpose federal aid to institutions, the federal government has emphasized giving aid directly to students. In this respect, the federal government has been impartial about a particular provider's ownership and control (public, private, or proprietary), assuming other conditions are met. The federal government thus tends to emphasize a strict separation between the government's role as "overseer" of the "public interest" and the institutional role of providing services.

10. In contrast to the federal government, states primarily finance higher education through direct subsidy of public institutions. In this respect, states play a dual role of "overseer" of the "public interest" and "provider of higher education services". States also provide aid to students ranging from large programs in states such as New York to small programs in states such as Alabama. But only Illinois, Maryland, Michigan, New Jersey, New York and Pennsylvania provide grants to private not-for-profit institutions for the purposes of general institutional subsidy (ECS, 1990).

11. Federal funding to institutions is either through students in the form of student financial assistance or restricted funding for research and other purposes. State funding and revenue from student tuition and fees tend to be the major unrestricted sources of institutional revenues that can be used at the discretion of the institution (i.e., they are unrestricted).

12. Although the private higher education sector is an important provider of educational services in the U.S. and in several states, this paper will focus primarily on the state role related to the financial management of public institutions because this role is most relevant to the experience of other nations.

Differences among the states

13. In addition to the obvious differences in size, population and enrollments, the 50 states differ significantly not only in how they finance higher education but also in their approach to issues of institutional financial management. The following are examples of several of the more important differences.

Differences in overall performance of state higher education systems

14. *Measuring Up,* the state-by-state report card on state performance in higher education published every other year by the National Center for Public Policy and Higher Education, assigns grades to states based on their performance in comparison to the best performing states on five measures:

- Preparation: How well are students in each state prepared to take advantage of college?
- Participation: Do state residents have sufficient opportunities to enroll in college-level programs?
- Affordability: How affordable is higher education for students and families in each state?
- Completion: Do those who enroll make progress toward and complete their certificates and degrees in a timely manner?
- Benefits: What economic and civic benefits does each state receive from the education of its residents?

15. In future report cards states will be graded on a sixth measure: Learning: What do we know about student learning as a result of education and training beyond high school?

16. The national report card grades states on the performance of the higher education system as a whole in terms of its impact on the state's population and economy. The report card does not grade institutions, but the grades reflect indirectly each state's combined institutional capacity and the alignment of that capacity with state priorities. The important point is that differences in state performance are related to differences in *state policies* (financing, regulation, accountability, and structure/governance).[2] The grades for each state are presented in Appendix A.

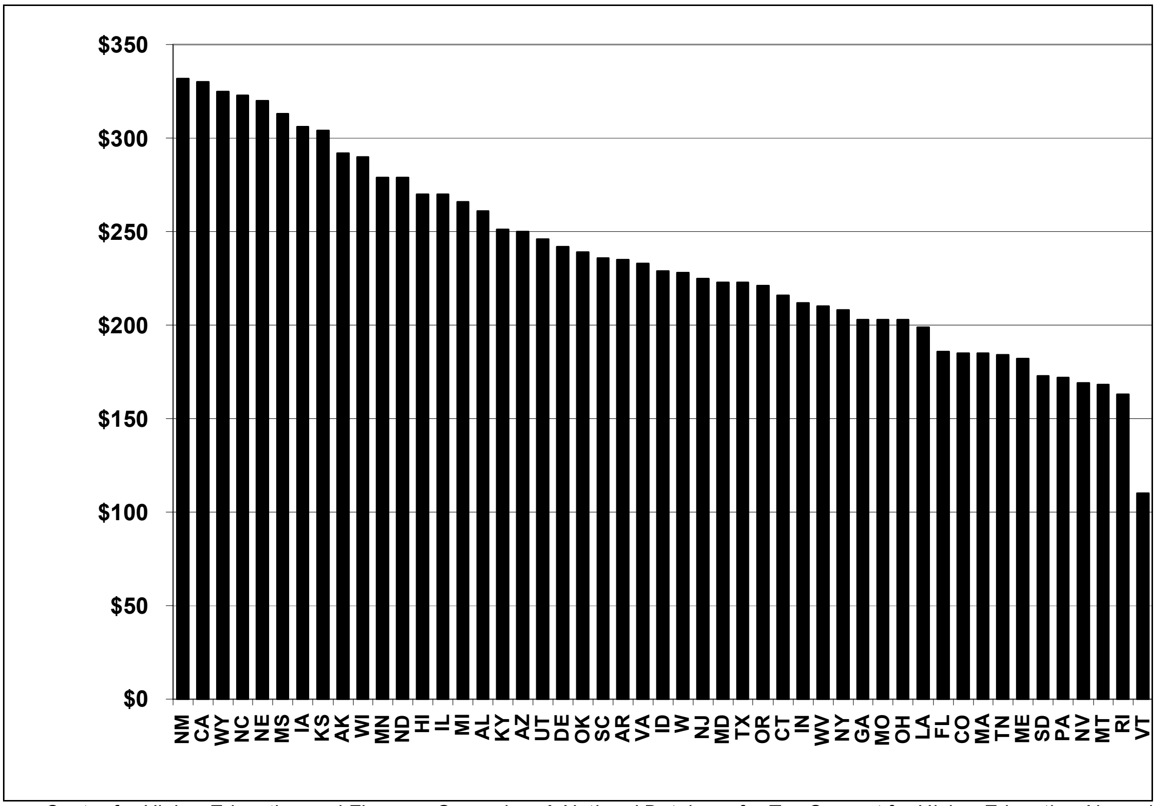
---

[2] National Center for Public Policy and Higher Education (2002) *Measuring Up 2002: The State-by-State Report Card for Higher Education*. San Jose: NCPPHE, November 2002.

Differences in financing policy

17. States differ significantly in their capacity and effort to finance higher education.[3] One indicator of these differences is state appropriations per capita as shown in Figure 6. State funding ranges from a high of more than USD 325 per capita to a low of less than USD 100 per capita.

Figure 6. State General Fund Appropriations for Higher Education Per Capita, 2002

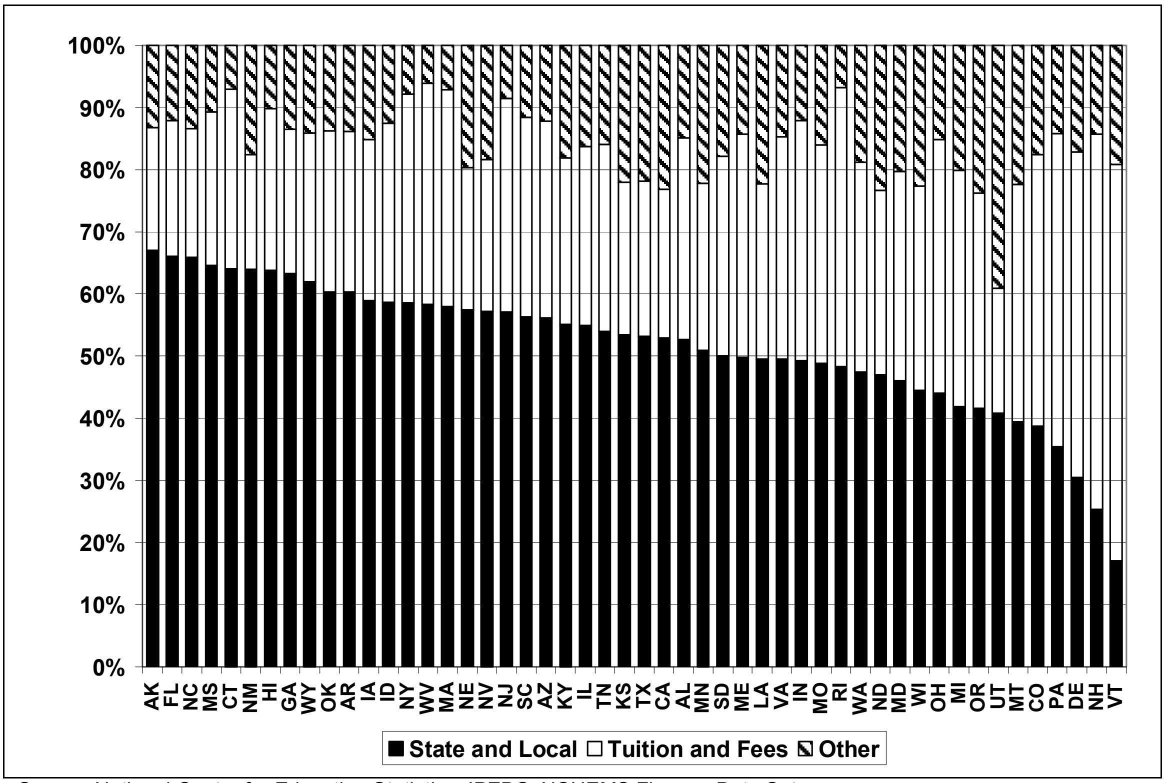


Source: Center for Higher Education and Finance. *Grapevine: A National Database for Tax Support for Higher Education*. Normal, IL: Illinois State University. http://www.coe.ilstu.edu/grapevine/table10.html.

18. As a reflection of the differences in the level of state funding, states differ significantly in the shares of funding of public institutions borne by state and local governments, students and other sources. Public institutions in most states depend heavily on non-state sources. Figure 7 illustrates the differences in these shares across the states for public 4-year institutions.

[3] States differ significantly in their tax capacity and tax effort. See the website, www.higheredinfo.org for additional information on state-by-state variations.

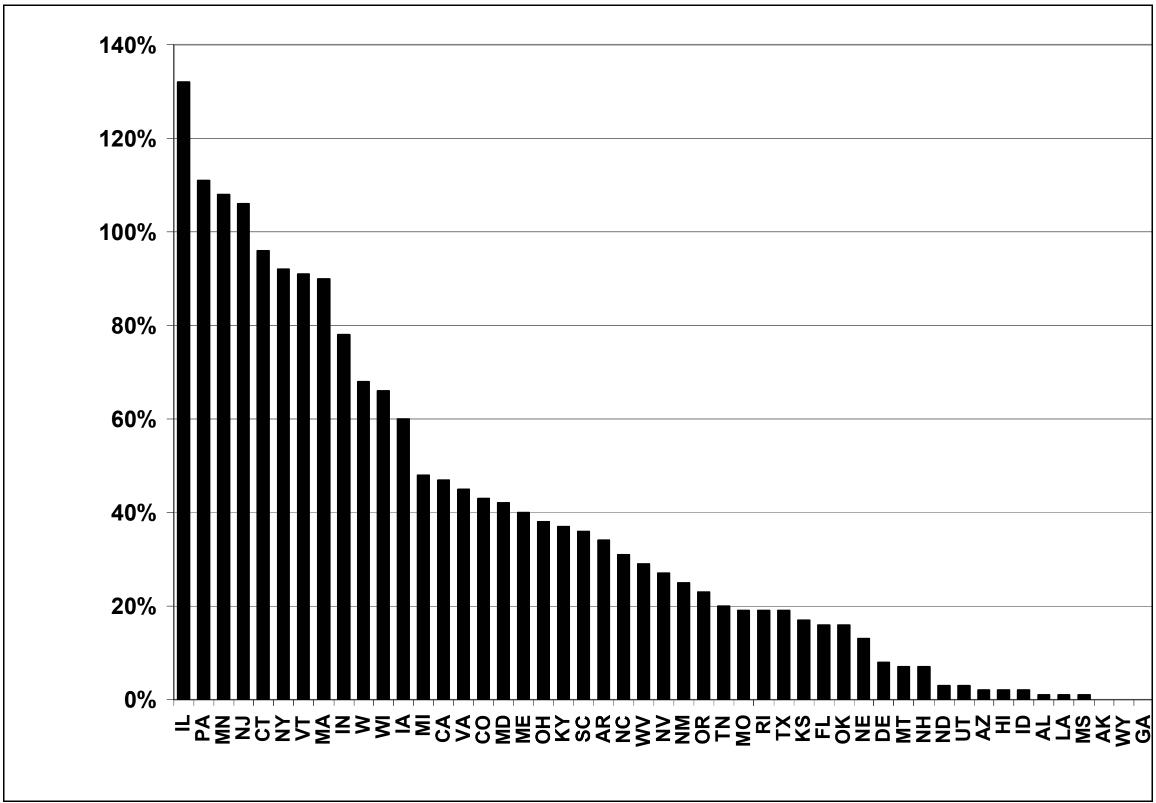
Figure 7. Sources of Funding for Core Instructional Missions at Public 4-Year Institutions by State, 1999-2000



Source: National Center for Education Statistics, IPEDS, NCHEMS Finance Data Set.
Note: "Funding for core instructional mission" is defined as generally unrestricted revenue from tuition and fees, state and local appropriations and other sources. "Other" includes private grants and contracts, endowment, and sales and services but does not include auxiliary services such as food service and student housing. Federal grants and contracts are not included because these are generally restricted.

19. Another indicator of state differences is the level of state commitment to need-based student financial aid targeted at low-income students. Many states that provide relatively low levels of state appropriations to institutions and therefore rely heavily on tuition and fees also provide state funding for need-based student financial aid. Differences in level of effort in this respect are illustrated in Figure 8.

Figure 8. State Grant Aid Targeted to Low-Income Families as Percent of Federal Pell Grant Aid to Low-Income Families, 2000-01



Source: National Center for Public Policy and Higher Education, Measuring Up 2002, based on data from Office of Postsecondary Education. Title IV/Pell Grant End of Year Report, 2000-01. Washington, D.C.: U.S. Department of Education, 2002, Table 21, and Kristen DeSalvatore, National Association of State Student Grant and Aid Programs 32nd Annual Survey, 2000-01 Academic Survey Report. Albany, NY: National Association of State Student Grant and Aid Programs, 2002, Table 1.
Note: States with limited need-based student financial aid may provide access through low-tuition and may also have other non-need-based student financial aid programs.

State structures and relationships between government and institutions

20. The general pattern, as well as tradition, in the United States is that state governments (meaning the governor, executive branch administrative and fiscal agencies, and the state legislature) treat public higher education differently from other state agencies, such as state transportation departments.

21. Each state has a unique state structure and relationship between government and higher education. The differences among states reflect, among other points, the differences in the general governmental structure (e.g., different legal responsibilities of the executive and legislative branches), political culture, and history. Most states have established an entity (e.g., state board of higher education, state board of regents, or higher education commission) explicitly charged with statewide policy for higher education.

22. Despite the complexity of the differences, the approaches taken by states can be understood in terms of the variations in the authority and responsibility of state higher education entities for key policy tools and processes such as budget review and approval, review and approval of academic

programs, public accountability, and the extent to which these entities are directly involved in institutional operations (governance). The following is an overview of these variations.[4]

Coordination versus governance

23. The distinction between *governance* and *coordination* is fundamental to an understanding of the higher education structures that exist in each state and the assignment of responsibility for decision-making on budget/financing and for institutional financial management. Some structures are established to *govern institutions* while others are established to *coordinate the state postsecondary education system or sectors* (e.g., a system of locally governed community colleges).

Governing boards

24. The term *governance* has a particular meaning when applied to the authority and responsibility of governing public boards of colleges and universities. There is a strong historical and legal tradition in American postsecondary education of institutional autonomy – a high degree of freedom from external intervention and control. Institutional autonomy is a *relative*, not an *absolute*, concept to be tempered by the broader interests of the public and society.[5] A basic responsibility of governing boards is to oversee the delicate balance between institutional autonomy and public accountability.

25. All states assign responsibility for governing public colleges and universities to one or more boards most often composed of a majority of lay citizens representing the public interest. The names of these boards vary, but "board of trustees" and "board of regents" are the most common. The responsibilities of these boards are similar to those of boards of directors for non-profit corporations. Public institution governing boards were modeled after the lay boards of private colleges and universities. Private college boards usually govern a single institution. In contrast, public institution boards most often govern several public institutions. In fact, 65% of the students in American public postsecondary education attend institutions whose governing boards cover multiple campuses.

26. Common responsibilities of public governing boards include:

- Governing a single corporate entity, including all the rights and responsibilities of that corporation as defined by state law and, if a system board, encompassing all institutions within a system. Individual institutions within the board's jurisdiction usually do not have separate corporate status, although governing boards may have subsidiary corporations for hospitals, foundations, or other purposes.

---

[4] The following section on state structures is drawn from A. C. McGuinness, Jr. (2002). State Postsecondary Education Governance Database. Education Commission of the States http://www.ecs.org/clearinghouse/31/02/3102.htm

[5] R.O. Berdahl (1971). *Statewide Coordination of Higher Education*. Washington, D.C.: American Council on Education, p. 9.

- Appointing, setting the compensation for, and evaluating both system and institutional chief executives.
- Strategic planning, budgeting (operating and capital), and allocating resources between and among the institutions within the board's jurisdiction.
- Ensuring public accountability for effective and efficient use of resources to achieve institutional missions.
- Maintaining the institution's assets (human, programmatic and physical) and ensuring alignment of these assets with institutional mission.
- Developing and implementing policy on a wide range of institutional concerns (e.g., academic and student affairs policies) without approval of external agencies or authorities.
- Awarding academic degrees.
- Advocating for the needs of the institutions under the board's jurisdiction to the legislature and governor.
- Establishing faculty and other personnel policies, including approving awarding of tenure and serving as the final point of appeal on personnel grievances.

27. There are a number of ways to categorize public governing boards, but the approach suggested by Clark Kerr and Marian Gade in *The Guardians: Boards of Trustees of American Colleges and Universities* is particularly useful.[6] They categorize public governing boards as follows:

- ***Consolidated governance systems.*** One board governs all public two- and four-year institutions, or one board covers all four-year campuses with separate arrangements for two-year institutions.
- ***Segmental systems.*** Separate boards govern distinct types of campuses, e.g., research universities, comprehensive colleges and universities, community colleges. This may include separate boards for postsecondary technical institutes or colleges and adult education, as well.
- ***Campus-level boards.*** Governing boards have full, "autonomous" authority over a single campus that is not part of a consolidated governing board or multi-campus system. Several states combine consolidated governance and campus-level boards. For example, in North Carolina and Utah, campus-level boards have authority delegated by the central board and can make some decisions on their own. The State University of New York, the University of Maine System and the University System of Maryland also have campus boards, though they are largely advisory

[6] C. Kerr and M. Gade. (1989). *The Guardians: Boards of Trustees of American Colleges and Universities: What They Do and How Well They Do It.* Washington, D.C.: Association of Governing Boards of Universities and Colleges [AGB], pp. 116, 128-129.

Coordinating Boards

28. A number of states have established *coordinating* boards responsible for key aspects of the state's role in postsecondary education. Some coordinating boards have the responsibility for the state-wide coordination of many policy tools or functions (e.g., planning and policy leadership, institutional missions, program review and approval, and budget development and resource allocation). Other coordinating boards are responsible for only a single sector such as community colleges.

29. The important point is that coordinating boards do *not* govern institutions, in the sense defined above (e.g., appoint institutional chief executives or set faculty personnel policies). Specifically, coordinating boards:

- Appoint, set compensation for, and evaluate *only* the agency executive officer and staff, but not the institutional chief executives. In several states, the governor is the final appointing authority for the agency executive, but usually with recommendations from the coordinating board.
- Do *not* have corporate status independent of state government.
- Focus more on *state and system needs and priorities* than on advocating the interests of a particular institution or system of institutions.
- Plan primarily for the *state postsecondary education system as a whole.* In most coordinating board states, this planning includes both public and private institutions, and in some states, for-profit institutions.
- May or may not review and make recommendations on budgets for the state system as a whole rather than only for one part of that system. A few coordinating agencies recommend consolidated budgets for the whole public system. Others simply make recommendations to the governor or legislature on individual institutional or segmental budgets. Most coordinating boards have responsibility to implement budget policy only for funds appropriated specifically to the agency for operations, special initiatives, or reallocation to the institutions for performance, incentives, or other purposes.
- May or may not review or approve proposals for new academic programs and may or may not have authority to require institutions to review existing programs.
- *Are not* involved directly in setting or carrying out human resource or personnel policies, except to carry out legislative mandates for studies of issues such as faculty workload and productivity or tenure policy.

Classification of states

30. Figure 9 displays all states according to three broad categories: consolidated governing boards, coordinating boards, and planning/service agencies. The figure organizes states according to the extent of the boards' formal authority for academic policy and budget. Reading from left to right, the boards in the states on the left have more formal authority in these policy domains than those to the right. Consolidated governing boards have broad authority for both academic policy and budget related to the institutions under their authority. The states with

coordinating boards are divided according to regulatory boards with program approval authority and advisory boards with only program review authority. Within these two categories, the states are grouped according to the boards' authority in the budget process.

- Twenty-three states plus the District of Columbia and Puerto Rico are consolidated governing board states. These states organize all public higher education under one or two statewide governing boards. None of these states has established a statewide coordinating agency with significant academic policy or budgetary authority between the governing board and state government. Nine of these states organize all public higher education under a single governing board. The other 14 states have two boards: most often a board for universities and a board for community colleges and/or technical colleges. In several of these states, the second board is a coordinating board for community and/or technical colleges.
- Twenty-four states are coordinating board states.
  - Twenty-two of these states have regulatory coordinating boards with academic program approval authority. Fifteen of these boards have significant budgetary authority, six have limited budget authority, and one has no role in the budgetary process.
  - Two states have advisory boards with no program approval authority and only authority to review and recommend budgets.
  - One consolidated governing board state (Alaska) has an advisory board with limited authority to review and make recommendations on budgets.
- Three states (Delaware, Michigan and Pennsylvania) have planning/service agencies but no other boards between the governing boards for each institution and state governments. Three other states plus District of Columbia and Puerto Rico have planning/service agencies between their consolidated governing boards and state government. In Minnesota, New Hampshire and Oregon, these agencies perform functions such as administration of student aid and institutional licensure and authorization. In Vermont, the Vermont Higher Education Council is a non-statutory voluntary planning entity.
- Five states (Florida, Idaho, Michigan, New York and Pennsylvania) have state boards with formal legal authority for all levels of education (early childhood education through higher education). Nevertheless, as illustrated in Figure 9, the formal authority of these boards for higher education varies significantly. Only in Idaho and New York does the state board have significant program and/or budgetary authority related to all higher education. A Constitutional amendment approved by Florida voters in November 2002 removes the responsibility for universities from the previous P-20 (early childhood through graduate education) State Board of Education and creates a new Board of Governors with governing responsibility for the state universities. The state universities continue to have local boards. The State Board of Education continues to have responsibility for coordinating the locally governed community colleges.

Figure 9. Authority of State Boards of Higher Education, 2002 (November)

Consolidated Governing Boards		Coordinating Boards					Planning/Service Agencies
		Regulatory Coordinating Boards Boards with Program Approval Authority			Advisory Boards Boards with No Program Approval Authority – Only Authority to Review and Recommend		(Four states have agencies in addition to governing boards)
One Board for All Public Institutions	Two Boards Encompassing All Public Institutions	Consolidated or Aggregated Budget	Budget Review and Recommendation	No Statutory Budget Role	Consolidated or Aggregated Budget	Budget Review and Recommendation	No Statutory Budget or Program Approval Roles
Alaska (b) Hawaii Idaho (a) Kansas (d) Montana Nevada North Dakota Rhode Island South Dakota DC (b) Puerto Rico (b)	Arizona Florida (m)(c) Georgia (c) Iowa (c) Maine (c) (e) Minnesota (g) Mississippi (c) New Hampshire (b)(c) North Carolina Oregon (j) Utah Vermont (l) Wisconsin Wyoming	Alabama Arkansas Colorado (f) Indiana Illinois Kentucky Louisiana Maryland Massachusetts (k) Missouri Ohio Oklahoma South Carolina Tennessee West Virginia	Connecticut Nebraska New Jersey Texas (f) Virginia (f) Washington	New York (a)		Alaska (b)* California New Mexico (h)	Delaware Michigan (a) Minnesota (g)* New Hampshire (b)(c)* Pennsylvania (a) (i) Vermont (l)* DC (b)* Puerto Rico (b)*
States = 9, plus DC and PR	States = 14	States = 15	States = 6	States = 1	States = 0	States = 2 , plus (1)	States = 3, plus (3, DC and Puerto Rico)

NOTES: States listed in more than one column are noted with an asterisk "*" with the total number of duplicates at the bottom of the column. (a) State board/agency responsible for all levels of education (P/K-16). (b) State has both consolidated governing board(s) and coordinating or planning/service agency. (c) One of the two boards is a statewide coordinating or governing body for community colleges and/or postsecondary technical institutions. (d) Kansas Board of Regents is a consolidated governing board for universities and coordinating board for locally governed community colleges and Washburn University. (e) Maine Maritime Academy is the only public institution with its own governing board outside a system. (f) Coordinating board develops the formula that is the basis for institutional allocations. (g) Minnesota Higher Education Service Corporation has no statutory planning authority. (h) New Mexico Commission's program approval authority is limited to graduate programs. (i) Pennsylvania State Board of Education's program approval authority is limited to specific areas (e.g., teacher education). Board also must approve new campuses or sites. Department of Education has budget responsibility for community colleges and regulatory responsibilities regarding for-profit institutions. (j) Oregon's agency is within the Office of the Governor (k) Massachusetts Board of Higher Education is coordinating board for public system and governing board for community colleges and state colleges. (l) Vermont has no statutory planning/coordinating entity. Vermont Higher Education Council is voluntary. (m) Constitutional amendment passed in November 2002 creates a Board of Governors for Universities separate from the State Board of Education. State Board of Education, through a chancellor for community colleges, coordinates locally governed community colleges.

Differences in budgeting and financing relationships between states and institutions

31. Within the broad categories of states with coordinating or governing boards, states differ fundamentally in the legal status accorded to public colleges and universities and, as a consequence, in the nature of the budgeting and financing relationships. Figure 10 presents a matrix illustrating how these differ according to four different levels of state control of institutions on a continuum from high to low:

Figure 10. Levels of State Control and Institutional Legal Status

High Control	A. Institution as State Agency	Higher education institutions are treated in a manner similar to other state agencies such as the transportation/highway department
	B. State-Controlled Institution	The distinctiveness of higher education institutions from other state agencies is recognized, but most of the budget and financing policies applied to other state agencies are also applied to higher education
	C. State-Aided Institution	Higher education institutions have a legal status according them substantial autonomy from state government. State provides base, categorical, and capital funding but with expectation of substantial non-state funding (tuition, private giving, etc.).
Low Control	D. Corporate Model for Institutional Governance	As in model C, institutions have a legal status (e.g., public corporation) according them substantial autonomy. The expectation of state funding is less certain and may be allocated not in grants to the institution but in the form of vouchers or grants to students to offset tuition charges

An elaboration of the differences in financing, budgeting, and accountability policies for each of these models is shown in Appendix B.[7]

[7] The discussion and classification is based on D.J. Curry, N.M. Fischer and T. Jons. (1982) "State Policy Options for Financing Higher Education and Related Accountability Options, Finance Issue Paper no. 2. Olympia, Washington: Washington Council for Postsecondary Education, as quoted in D.P. Jones (1984). *Higher Education Budgeting At the State Level: Concepts and Principles*. Boulder, Colorado: NCHEMS, p. 27.

32. The four categories of institutional legal status in Figure 10 represent theoretical types. In practice, no state currently treats all of its public institutions as if they were in either of the two extremes: institution as state agency or institution as an independent corporation.[8] There are three common patterns:

- Pattern A: Different sectors are accorded different levels of independence from state procedural controls. For example, both the University of California and the California State University System are treated as "state-aided" institutions, although each is subjected to specific regulations that treat the institutions as "state-controlled." The University of California is established in the State Constitution and has a higher level of independence from state procedural controls than the California State University which is established in state statutes and until the early 1990s was closely linked to state budget, personnel, and purchasing requirements. In contrast to the two university systems, the California Community Colleges are governed by extensive state statutory and regulatory policies and in many respects are treated as "state-controlled" institutions.
- Pattern B: All public universities are established as public corporations ("state-aided") but are subject to detailed state oversight in specific areas such as capital construction or personnel. The two cases included in this paper, North Dakota and Kentucky, are examples of this pattern–the North Dakota University System (NDUS) as a single university system and Kentucky with each university as a separate public corporation. In both cases, the institutions are subject to specific state procedural controls related to capital construction and other areas. As another example, the University of Wisconsin System is organized as a public corporation but is subject to detailed oversight by the Wisconsin State Department of Administration on all capital projects and all classified (non-professional) personnel are included in the state civil service system.
- Pattern C: Most public institutions are established as public corporations ("state aided"), but specific institutions are accorded greater independence from state procedural controls as the result of deliberate state actions to decentralize governance and diversify revenue sources. The University System of Maryland, for example, is accorded a degree of independence as a public corporation ("state aided"), but St. Mary's College of Maryland was granted increased autonomy in return for meeting specific accountability requirements. The State of Colorado has implemented a similar policy through which institutions may enter into "compacts" with the State in return for increased autonomy.[9]

33. In the U.S., universities are often accorded "substantive" autonomy within the bounds of state-defined missions and accountability requirements; but at the same time, they are required to conform to state regulatory/procedural requirements. As state funding is becoming a smaller share of these

[8] Robert Berdahl makes an important distinction between "substantive" autonomy, meaning autonomy on matters of standards, curriculum, faculty appointments, and similar matters, and "procedural" autonomy, meaning autonomy from state procedural controls.

[9] See R.O. Berdahl, "Balancing Self-Interest and Accountability: St. Mary's College of Maryland," and other chapters in T. J. MacTaggart and Associates (1998). *Seeking Excellence Through Independence*. San Francisco: Jossey-Bass Publishers.

institutions' revenues, some are urging that the institutions be given "corporate" status as reflected in the "low control" end of the continuum in Figure 10.[10] See Appendix C for a listing of other common state procedural controls.

Current context

Fiscal crisis in the states

34. The states are facing the most serious fiscal crisis in more than a decade. The crisis is fueled by the faltering national economy, contractions in manufacturing and high technology sectors, and escalating health care costs. Exacerbating the situation are the reductions in taxes enacted by a number of states in the boom years of the 1990s. As of January 2003, two-thirds of the states were reporting budget gaps totaling USD 25.7 billion or 5.2% of the original appropriation. Projections are that the situation will be worse in 2004.[11]

35. Because their constitutions require states to balance their budgets, states are making draconian cuts in budgets and higher education is being hit hard. In budgets adopted for the 2002-2003 fiscal year, aggregate appropriations for higher education rose only 1.2%, according to a survey by the Center for the Study of Education Policy at Illinois State University. That figure is about a quarter of the 4.6% increase last year and the smallest such rise since the 1992-3 fiscal year, which saw a 0.9% drop. The increase also failed to keep pace with the inflation rate, which was 2% for the 12 months ending in October 2002.[12]

36. As states are cutting appropriations, tuition and fees are increasing dramatically. For example, tuition and required fees for state residents attending comprehensive state colleges and universities increased an average of 1% from 2001-2002 to 2002-2003 and an average of 27.5% over five years.[13]

Trend toward decreasing share of revenue from public sources

37. The immediate fiscal crisis reflects a long-term trend in the U.S. of government contributing a decreasing share of higher education revenue . Figure 11 shows the changes in the percentage of higher education revenue contributed by all levels of government (federal, state, and local) and by non-governmental sources (student tuition and fees, private grants and contracts, sales of services, endowments, etc.). From a point in the mid-1970s when the shares were roughly the same, the share

[10] Berdahl, R.O. (1971). Statewide Coordination of Higher Education. Washington, D.C.: American Council on Education, p. 11. Discussion of procedural and substantive autonomy, pp. 10-12.

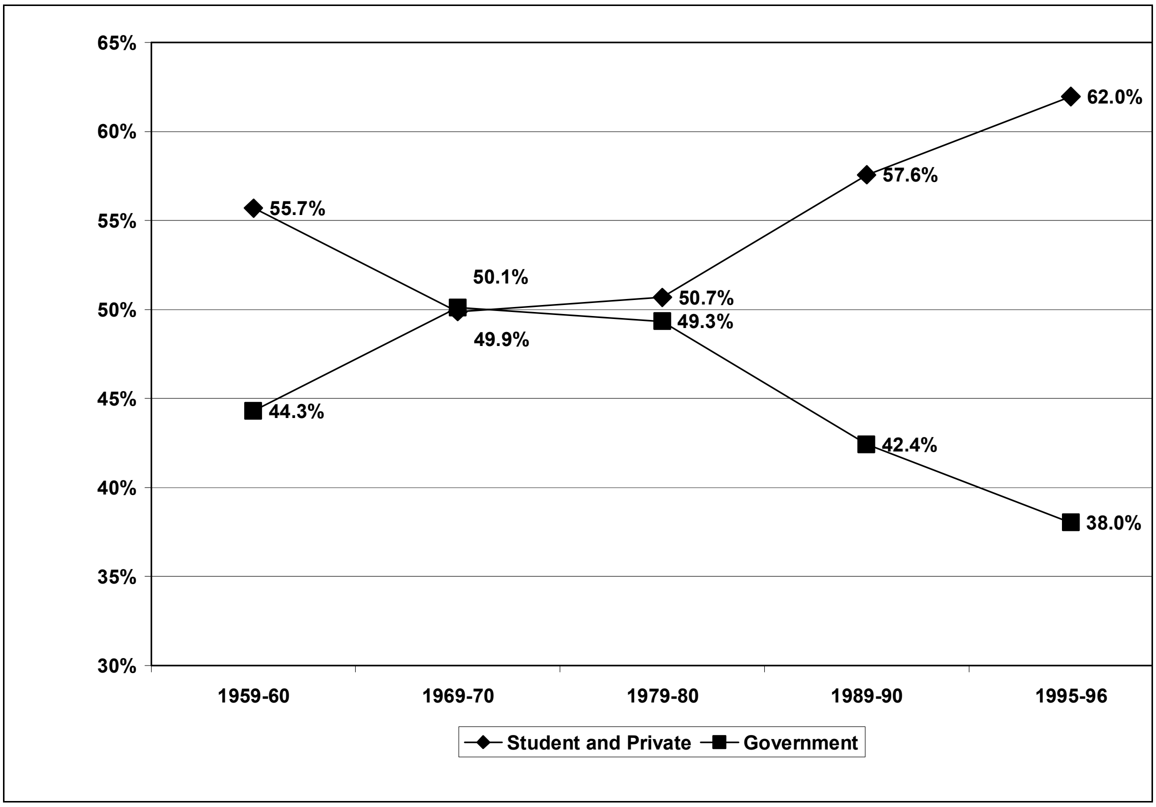
[11] National Conference of State Legislatures. (2003) State Budget Update: February 2003. Denver, CO: National Conference of State Legislatures, p. 1.

[12] Michael Arnone, "State Spending on Colleges Increases At Lowest Rate in Decade," *Chronicle of Higher Education*, Vol. 49, Issue 16, December 13, 2002, p. A28 See full results of survey by the Center for the Study of Education Policy, Illinois State University: http://coe.ilstu.edu/grapevine

[13] Washington Higher Education Coordinating Board, 2003 Washington State Tuition and Fee Report. Olympia, Washington: HECB, January 2003, Table 5.

borne by government has steadily decreased. This trend has continued over the past eight years as economic conditions have worsened.

Figure 11. Revenue from Government (Federal, State, and Local) and Student and Non-Governmental Sources, U.S. Higher Education Institutions, 1959-60 to 1995-96



Source: National Center for Education Statistics, *Digest of Education Statistics*, 2001, table 334.

38. State funding for higher education rebounded following the recession in the early 1990s but projections for the next decade suggest that many states will face structural deficits for some time to come. Even when the economy recovers, higher education is likely to feel a continued squeeze in state funding.[14] These trends are raising fundamental questions about the states' commitment to higher education as a public good and their future role in oversight and funding of public higher education.[15]

[14] Dennis Jones, "State Shortfalls Projected Throughout the Decade," *Policy Alert*. San Jose, California: National Center for Public Policy and Higher Education, February 2003.

[15] See Jeffrey Selingo, "The Disappearing State in Public Higher Education," *Chronicle of Higher Education*, Vol. 49, Issue 25, February 28, 2003, p. A22.

Changes in the basic assumptions about the role of government

39. Throughout the U.S. a gradual shift is taking place in the basic assumptions about the role of government in higher education. These changes are summarized in Figure 12. The changes are by no means being implemented consistently across the states. Some states remain firmly grounded in the practices of the past–especially in the regulatory practices of the 1960s and 1970s when many of the state higher education agencies were formed. Others are moving step-by-step from policies aimed at "coordinating higher education" to a new leadership stance in which the policy tools of finance, accountability, and regulation are being used to align the state's capacity with public priorities.

Figure 12. Changes in Underlying Assumptions about the State Role in Higher Education

A shift from:	**To**:
Rational planning for static institutional models	Strategic planning for dynamic market models
Focus on providers, primarily public institutions	Focus on clients, students/learners, employers, and governments
Service areas defined by geographic boundaries and monopolistic markets	Service areas defined by the needs of clients served by multiple providers
Tendency toward centralized control and regulation through tightly defined institutional missions, financial accountability, and retrospective reporting	More decentralized management using policy tools to stimulate desired response (e.g., incentives, performance funding, consumer information)
Policies and regulation to limit competition and unnecessary duplication	Policies to "enter the market on behalf of the public" and to channel competitive forces toward public purposes
Quality defined primarily in terms of resources (inputs such as faculty credentials or library resources) as established within higher education	Quality defined in terms of outcomes and performance as defined by multiple clients (students/learners, employers, government)
Policies and services developed and carried out primarily through public agencies and public institutions	Increased use of non-governmental organizations and mixed public/private providers to meet public/client needs (e.g., developing curricula and learning modules, providing student services, assessing competencies, providing quality assurance)

Source: Aims C. McGuinness, Jr., *Reflections on Postsecondary Education Governance Changes*. Denver, Colorado: Education Commission of the States, July 2002. http://www.ecs.org/clearinghouse/31/02/3102.htm

Shifting focus from institutional viability to public priorities

40. The focus of state financing policy is shifting from a traditional focus on institutional viability–on *building and maintaining institutional capacity*–to a focus on targeted funding policies to *utilize institutional capacity* to achieve state purposes. Institutional viability remains an important state funding priority–not as an end in itself but as a means for maintaining capacity to address state priorities. As illustrated in Figure 13, state financing policies have traditionally emphasized primarily creating and maintaining institutional capacity. The principal approaches to budgeting and

resource allocation have been either "base-plus" funding (taking the previous year's funding and adjusting it for increased costs and other variables) or formulas based on a combination of costs and a measure of workload such as enrollment or credit hours. Policies regarding student financing have traditionally focused on establishing tuition and student aid policies designed to maximize institutional revenues.

41. In the new environment, states continue to be concerned with the objective of *capacity building*, but they are increasingly concerned also with *capacity utilization*, that is, on investment or performance funding of institutions or targeted aid to students as illustrated in Figure 13.[16]

[16] Dennis P. Jones, *Financing in Sync: Aligning Fiscal Policy with State Objectives, paper prepared for Western Interstate Commission for Higher Education, February 10, 2003.*

Figure 13. State Alternatives for Financing Higher Education

POLICY OBJECTIVES	POLICY FOCUS	
	Institutions	**Students**
Capacity Building Building core capacity	– Base Plus – Formulas	Tuition and Aid Policy Focused on Revenue Generation
Capacity Utilization/ The Public Agenda Utilizing capacity to achieve stated goals	Performance Funding Special purpose/initiative funding Strategic investment funds	Tuition and Aid Policy Focused on Attainment of Specified Outcomes – Need-Based – Merit-Based

Source: Dennis P. Jones. (2003) *Financing in Sync*. Paper prepared for the Western Interstate Commission on Higher Education, February 2003.

Selection of state cases

42. Because of the great variations across the U.S. in the state role in overseeing institutional financial management, two states with significantly different demographic, economic, governmental, and higher education contexts –Kentucky and North Dakota– were selected for in-depth analysis. Basic facts about each of these states are presented in Figure 14. These states were also selected because they are widely recognized as leading in implementing reforms intended to link higher education to the future of the state economy and quality of life and in new approaches to state policy leadership, financing, and institutional management.

Figure 14. Basic Facts on Case Study States

	Kentucky	North Dakota
Population (e)	4 065 556	634 448
Gross State Product (a)	USD 113 539 000 000	USD 16 991 000 000
Projected percent change in Population 2000-15 (b)	5.9%	6.3%
Projected percent change in high school graduates (c)	-1.1%	-22.4%
Appropriation for higher education per USD 1,000 of personal income (d)	USD 10	USD 12
Appropriation for higher education per capita (d)	USD 251	USD 279
Percent change in appropriation for higher education over 10 years, in constant dollars (d)	70%	33%
Per capita personal income, 1999 (e)	USD 18 093	USD 17 769
State higher education structure	Statewide policy/coordinating board and decentralized institutional governance	Statewide university system with centralized institutional governance
Scores on Measuring Up 2002(f)		
Preparation	C-	B
Participation	C-	B
Affordability	C	D
Completion	C	B
Benefits	C-	C+

Sources: (a) Bureau of Economic Analysis. Gross State Product for States. Regional Accounts Data. Washington, D.C.: U.S. Department of Commerce, 2001. http://www.bea.gov. (b) U.S. Bureau of the Census, *State Population Estimates, 2001*. Time Series of State Population Estimates, Table ST-2001EST-01. (c) Western Interstate Commission on Higher Education. *Knocking at the College Door: Projections of High School Graduates by State and Race/Ethnicity, 1996-2012*. Boulder, Colorado: 1998. (d) Center for Study of Education Policy, Illinois State University. *Grapevine: A National Database of Tax Support for Higher Education*. Normal, Illinois: Illinois State University. (e) U.S. Bureau of the Census, 2000 Census. (f) National Center for Public Policy and Higher Education (2002) *Measuring Up 2002: The State-by-State Report Card for Higher Education.* San Jose: NCPPHE, November 2002. http://www.measuringup.highereducation.org. See http://www.higheredinfo.org for additional state-by-state data.

KENTUCKY

Constitutional position of public higher education in Kentucky

Institutions and enrollments

43. The Kentucky higher education system[17] includes eight state-supported universities, the Kentucky Community and Technical College System with 16 districts and 62 campuses, one free-standing public community college, and 21 private (independent) colleges.

Figure 15. Estimated Headcount Enrollment, Fall 2002

Institutions	**2002 Fall Estimated Enrollment**
Eastern Kentucky State University	15 376
Kentucky State University	2 253
Morehead State University	9 303
Murray State University	10 003
Northern Kentucky State University	13 700
University of Kentucky	25 890
University of Louisville	21 000
Western Kentucky State University	17 770
Total State-Supported Universities	**115 295**
Lexington Community College	8 300
Kentucky Community and Technical College System	66 370
Total State-Supported Institutions	**189 965**
Private (independent) institutions	**24 099***

Source: Kentucky Council on Postsecondary Education. Estimated Headcount Enrollment, September 22, 2002.
Note: Private independent sector enrollment is for 2000-01.

Legal status of public institution governance

44. There are eight institutional governing boards for the state-supported universities and a governing board for the Kentucky Community and Technical College System. The governing boards are bodies corporate charged with the responsibility for the overall management and control of the institutions. The governing boards are responsible for the appointment of the president and faculty, management of all institutional finances, and responsibility for setting all policies. Both by

[17] Kentucky uses the term "postsecondary education" to refer to its higher education system primarily because of the emphasis of the role of a wide range of providers from adult education through research universities in improving the education attainment and quality of life of the state's population and in improving the state's economy.

law and tradition, the Kentucky institutional governing boards have substantial independent authority and responsibility for institutional financial management. The language of the authorizing statute is as follows:

1. The government of each of the state universities and the Kentucky Community and Technical College System is vested in its respective board of regents. Each board of regents, when its members have been appointed and qualified, shall constitute a body corporate, with the usual corporate powers, and with all immunities, rights, privileges, and franchises usually attaching to the governing bodies of educational institutions. Each board may:
    a) Receive grants of money and expend the same for the use and benefit of the university or college;
    b) Adopt bylaws, rules, and regulations for the government of its members, officers, agents, and employees, and enforce obedience to such rules;
    c) Require such reports from the president, officers, faculty, and employees as it deems necessary and proper from time to time;
    d) Determine the number of divisions, departments, bureaus, offices, and agencies needed for the successful conduct of the affairs of the university or college; and
    e) Grant diplomas and confer degrees upon the recommendation of the president and faculty.
2. Each board of regents shall periodically evaluate the institution's progress in implementing its missions, goals, and objectives to conform to the Strategic Agenda. Officers and officials shall be held accountable for the status of the institution's progress….

   The board of regents shall assure that the budget planning and implementation processes are consistent with the adopted Strategic Agenda and biennial budget and with the missions of the institutions within the system.[18]

45. The institutional governing boards are composed primarily of citizen members who are appointed by the Governor from nominations submitted by the Governor's Postsecondary Nominating Committee. Other members include *ex officio* members and certain designated or elected members (e.g., faculty and student representatives).

State-level structure

Council on Postsecondary Education (CPE)

46. The Council on Postsecondary Education (CPE) is the statewide coordinating board for the higher education system in the Commonwealth of Kentucky. The Council is an independent board reporting to the governor and is responsive to the legislature. As a *coordinating* board, the Council does not *govern* institutions. As indicated above, governance, including responsibility for institutional financial management, is the responsibility of the institutional governing boards.

[18] Kentucky Revised Statutes (KRS) 164.350

47. The Council was established by House Bill 1 (HB 1) in May 1997 and replaced the Council on Higher Education which was originally established in 1934. The 1997 reform legislation gave the Council new membership and stronger coordinating powers. The Council consists of 16 members, including 13 citizens appointed by the governor from persons nominated by the Governor's Postsecondary Nominating Committee and confirmed by the House and Senate members, 1 faculty member and 1 student member, and the state's commissioner of education as a nonvoting *ex-officio* member.

48. Among the powers of the restructured Council on Postsecondary Education are the following[19]:

- Develop and implement the Strategic Agenda with the advice and counsel of the Strategic Committee on Postsecondary Education.
- Develop a system of public accountability related to the Strategic Agenda by evaluating the performance and effectiveness of the state's postsecondary system.
- Review, revise, and approve the missions of the state's universities and the Kentucky Community and Technical College System.
- Determine tuition and approve the minimum qualifications for admission to the state postsecondary educational system.
- Devise, establish, and periodically review and revise policies to be used in making recommendations to the Governor for consideration in developing recommendations to the General Assembly for appropriations to the universities and the Kentucky Community and Technical College System.
- Devise, at the sole discretion of the Council, policies that provide for allocation of funds among the universities and the Kentucky Community and Technical College System.
- Lead and provide staff support for the biennial budget process.
- Review and approve all capital construction projects covered including real property acquisitions, regardless of the source of funding for projects or acquisitions.
- Eliminate, at its discretion, existing programs or make any changes in existing academic programs at the state's postsecondary educational institutions, taking into consideration these criteria: (a) Consistency with the institution's mission and the Strategic Agenda; (b) Alignment with the priorities in the strategic implementation plan for achieving the Strategic Agenda; (c) Elimination of unnecessary duplication of programs within and among institutions.
- Develop a financial reporting procedure to be used by all state postsecondary education.

Strategic Committee on Postsecondary Education

49. The 1997 reform legislation also created the Strategic Committee on Postsecondary Education (SCOPE). The committee is comprised of members of the Council on Postsecondary Education and representatives of the legislative and executive branches of state government. This important advisory body meets quarterly to consider a variety of issues affecting postsecondary education.

[19] Excerpts from KRS 164.020

SCOPE provides a forum for bringing key issues to the public's attention, particularly key budget issues, in advance of legislative sessions. Among other things, the committee receives a budget planning report in the fall of each odd-number year in advance of the biennial budget session. This report affords the governor an opportunity to advise SCOPE about the financial condition of the Commonwealth and the likely funds the executive branch will recommend to the General Assembly be appropriated for postsecondary education. This venue also affords an opportunity for the council to advise SCOPE about how the projected postsecondary education funds should be allocated based on its priorities.[20]

Funding of public higher education institutions in Kentucky

50. Actual revenue for state-supported higher education institutions was USD 2.8 billion in 2000-01 of which 33.2% came from the State General Fund.

Figure 16. Actual Revenue by Source, Kentucky State-Supported Institutions, 2000-01 (in thousands)

Revenue Source	Revenue (thousands)	% by Source
State General Fund	USD 937 455	33.2%
Tuition and Fees	USD 438 719	15.6%
Federal	USD 314 507	11.2%
Other Agency*	USD 633 158	22.5%
Auxiliary/Hospital	USD 495 859	17.6%
Total	USD 2 819 698	100.0%

Source: Council on Postsecondary Education, *Actual Revenue by Source Kentucky State-Supported Institutions*.http://www.cpe.state.ky.us/keyind/www/facts/CompTables/Rev.pdf
Notes: Includes unrestricted and restricted revenue. "Auxiliary/Hospital" for the University of Kentucky and University of Louisville include intercollegiate athletics. * "Other Agency" funding includes local appropriations, government grants and contracts, private gifts and grants, indirect cost reimbursement, investment income, endowment income, and sales and services of educational activities.

[20] KRS 164.004

51. In 2000-01, actual expenditures of Kentucky state-supported institutions (from all revenue sources) totaled USD 2.8 billion of which 25.7% was expended for instruction, 8.5% for research and 11.3% for public service.

Figure 17. Actual Expenditures by Program (in thousands), Kentucky State-Supported Institutions, 2000-01

Category of Expenditure	Expenditures (in thousands)	%
Instruction	USD 715 844	25.7%
Research	USD 237 418	8.5%
Public Service	USD 313 671	11.3%
Academic Support	USD 206 058	7.4%
Other Education and General Expenditures	USD 782 486	28.1%
Auxiliary/Hospital	USD 529 369	19.0%
Total Expenditures	USD 2 784 846	100.0%

Source: Council on Postsecondary Education, *Actual Expenditures by Program, Kentucky State-Supported Institutions*
http://www.cpe.state.ky.us/keyind/www/facts/CompTables/EXP.pdf
Notes: “Academic Support” includes libraries. “Other Education and General Expenditures” includes expenditures for student services, operation and maintenance, scholarships and fellowships, and transfers.

Financial management of state-supported institutions

52. In 1982, Kentucky enacted far-reaching changes in the relationship of state government and public higher education regarding financial management. Prior to these changes, the state had highly centralized control. The state department of finance controlled all procurement for higher education, including capital projects. Almost all university funds, including student fees, were accounted for centrally and most paychecks and vendor payments were written centrally.[21]

53. The 1982 Act afforded institutions the option to elect to assume responsibility for basic operations related to financial management (accounting, purchasing, capital construction, etc.).[22] All state-supported institutions exercised this option. Instead of retaining and disbursing funds centrally as in the past, the secretary of the Finance and Administration Cabinet now issues warrants authorizing the Treasurer of the Commonwealth of Kentucky to pay to the treasurer of each institution any amounts due by virtue of the state appropriations for that institution.[23] Institutions are no longer audited by the Auditor of Public Accounts but are required to engage an independent certified public accountant to conduct an annual audit. The auditor’s opinion, with findings and recommendations, must be forwarded to the Governor, the secretary of the Finance and

[21] J.K. Folger and A.C. McGuinness, Jr. (1994) *Catalog of Changes: Incentives for Quality and Management Flexibility in Higher Education*. Denver: Education Commission of the States.

[22] KRS 164A.560

[23] KRS 164A.555

Administration Cabinet, the Auditor of Public Accounts, the director of the Legislative Research Commission, the president of the Council of Postsecondary Education, and members of the governing board.[24]

54. The independent audit is the principal means for external institutional accountability for financial management of current operations. However, capital projects and expenditures, regardless of the source of funding for these projects, are subject to more extensive external scrutiny. The Capital Projects and Bond Oversight Committee, a committee within the General Assembly's Legislative Research Commission, oversees all ongoing capital projects for all state government, including those at higher education institutions.

Budget process and allocation of funds among institutions

55. The 1997 Postsecondary Reform Act brought about a fundamental change in the budget and funds allocation process for Kentucky's state-supported institutions. Prior to the 1998-2000 biennium, Kentucky used a funding model that had its origins in the early 1980s and was modified periodically in the intervening period. In the broadest terms, the change was from a "cost-reimbursement" model to a "strategic investment" approach linked to state priorities. The 1984-86 appropriations recommendations described the funding formula as:

> … [A] method of calculating an equitable, adequate, and proper need level at a specific institution during a specific time period. It takes into account variables such as number of students, square feet of space, and levels of instruction, research, and service, and applies to them established factors such as rates per credit hour for instruction, maintenance and operation amounts per square foot, and relative complexity of institutions and of activities in areas such as libraries.[25]

56. Prior to the 1998-2000 biennium, the recommendations to the Governor and General Assembly were based on a formula calculation such as described above with a series of technical adjustments (e.g., for changes in debt service). The funding model also provided for performance funding linked to the Council's system strategic plan.

57. As the result of enactment in May 1997 of the Kentucky Postsecondary Education Reform Act (House Bill 1) Kentucky changed to a "base plus strategic investment" funding policy.

58. Beginning in the 1998-2000 biennium, the Council on Postsecondary Education's budget recommendations included – in essence – these components:

- The base budgets for the previous fiscal year, plus a "current services" (inflationary) increase and technical adjustments (e.g., for changes in debt service)
- Recommendations for funding of trust funds under the newly enacted Strategic Investment and Incentive Funding Program. The original trust funds were:

[24] KRS 164A.570

[25] Council on Postsecondary Education. (2000) *Kentucky Postsecondary Education: Funding History: 1980-2002*, Frankfort: CPE, Appendix B, p. 2

- Research Challenge Trust Fund
- Regional University Excellence Trust Fund
- Physical Facilities Trust Fund
- Technology Incentives Trust Fund
- Student Financial Aid and Advancement Trust Fund

59. The policy tool of trust funds was a critical element of the 1997 Postsecondary Education Improvement Act designed to provide the Council on Postsecondary Education with the leverage of financial incentives to drive reform toward the Strategic Agenda and the long-term goals defined by the Reform Act. Appropriations to these trust funds are made directly to the Council on Postsecondary Education, which is responsible for establishing criteria for the distribution of funds to the institutions. As described in the new statute:

> "It is the intent of the General Assembly to make appropriations, including general fund appropriations, each fiscal biennium to each of the individual trust funds in the funding program in a form and manner consistent with the Strategic Agenda adopted by the Council on Postsecondary Education. Appropriations made to individual trust funds in the Strategic Investment and Incentive Funding Program shall not lapse at the end of a fiscal year but shall be carried forward in the respective trust fund accounts and shall be available for allotment for their respective purposes in the next fiscal year."[26]

60. For the 2002-2004 biennium, the Council developed a "benchmark funding" methodology for adjusting institutional base funding using comparisons of "public funding" (state appropriations plus tuition and fees) per full-time equivalent (FTE) for each Kentucky institution with a carefully selected set of peer institutions in other states.

61. The 2002-2004 budget recommendations therefore included[27]:

- Base funding
- "Benchmark" funding adjustments to the base
- Adjustments for current services and other technicalities
- Funding for the original six trust funds as well as four other new initiatives:
  - Adult Education and Literacy Trust Program
  - Science and Technology Trust Fund
  - Endowment Match Program ("Bucks-for-Brains") providing state matching on a one-to-one basis with funds generated from external sources to endow chairs, professorships,

---

[26] KRS 164.7911

[27] Commonwealth of Kentucky, Strategic Committee on Postsecondary Education, "Points of Consensus among University Presidents, KCTCS President, and the Council President Concerning the 2002-2004 Funding Methodology," January 8, 2001.

and fellowships and to advance the Commonwealth's Strategic Agenda and university missions

– Funding for Enrollment Growth and Retention to advance the Council's Action Agenda (these funds were included within three of the original six trust funds).

62. As described in the next section of this report, the recent severe economic downturn across the U.S. and in Kentucky is resulting in serious constraints on funding for higher education in Kentucky. Although several elements of the new funding strategy (e.g., the Enrollment Growth and Retention Program) are not funded in the revised 2002-2004 state appropriations, the basic framework remains intact.

Ownership of assets

63. As a public corporation, each institution is the owner of its assets. As indicated above, the Commonwealth of Kentucky, through the Council on Postsecondary Education and the Capital Projects and Bond Oversight Committee, oversees the capital development process at each institution. Subject to certain statutory requirements, in most cases the governing boards of the institutions have authority to purchase, sell, and lease facilities and land without approval from a state agency.

Staff employment

64. The staff (faculty, administrators, support staff, and others) of each state institution are employees of that institution and are subject to the policies established by the governing board. Within certain statutory requirements, the governing board is the final authority on human resource/personnel decisions at the institution.

Current policy context

Postsecondary education reform

65. Kentucky's postsecondary reform initiative is widely recognized as one of the most far-reaching, significant state-level higher education reforms of the past quarter century in the United States. [28, 29] It is recognized as such because it reflects:

- A Strategic Agenda with long-term goals (2020) focused on the future of the state's quality of life and economy.
- More than a decade of continuity of education reform beginning with the Kentucky Education Reform Act of 1990 (KERA).
- Alignment of finance policy with the Strategic Agenda – not only a commitment of the Governor and General Assembly to substantial increases in funding but also the use of financing policy (e.g., investment funds and incentives) to stimulate change and improvement.
- Balance among the components of reform (adult education, community and technical colleges, comprehensive universities, virtual university, and research universities).
- Quality and commitment of leadership at every level of the system.
- Creativity and intellectual rigor of reform resulting in models that are being replicated elsewhere in the country.
- A clear focus on accountability with concrete goals and measurable results.

66. The question in Kentucky, as in many other states, is if the reforms can be sustained in bad as well as good economic times and over changes in leadership.

Assessment of the system

67. In 1996, the Governor's Task Force on Higher Education made an assessment of higher education in Kentucky to assist the task force in shaping recommendations.[30] Some of the major findings of that assessment were as follows:

- System performance
  - Low education attainment.

---

[28] The following is an excerpt from A. C. McGuinness, Jr. (2002). *An Assessment of Postsecondary Education Reform in Kentucky*. Lexington: Prichard Committee for Academic Excellence. http://www.prichardcommittee.org/

[29] The National Governors Association (NGA) Center for Best Practices (2001) *Postsecondary Education Reform in Kentucky*. Washington, D.C: National Governors Association. http://www.nga.org/center/1,1188,,00.html

[30] Commonwealth of Kentucky, Task Force on Postsecondary Education (1997) *An Assessment of Postsecondary Education in Kentucky*, Frankfort, March 1997.

- High levels of "leakage" at every transition point – low rates of retention, transfer, and degree completion.
- A highly fragmented, uncoordinated and under-funded network of community colleges, technical institutes, and two-year programs at universities.
- Lack of coordination and collaboration among universities.
- Comparatively poor research competitiveness, especially in areas critical to the New Economy.

- Major barriers to improvement
  - A system driven by the interests of institutions and their political networks and not by the needs of the state's people and economy. The system was plagued by political and turf battles among institutions, especially between the major state university and the comprehensive universities.
  - Lack of leadership: Lack of an effective structure for statewide policy leadership to achieve common goals and coordinate efforts of its diverse institutions.
  - No linkage with statewide mission.
  - Lack of strategic financial planning: Financing policy and the allocation formula had lost their credibility and were not linked to a strategic agenda.
  - Lack of strategic planning for technology.
  - Financial barriers for students. Future planning for student aid was not linked to planning by CHE.

68. Above all, the 1997 assessment found pervasive lack of confidence that Kentucky could overcome long-standing cultural and political barriers that historically had thwarted efforts to improve the quality and responsiveness of the state's higher education system. A common response to the question, "Why not?" was "This is Kentucky – we don't do that here."

Enactment of House Bill 1

69. Using the Assessment as the case for reform, Governor Paul E. Patton, led the process concluding in the enactment of the Postsecondary Education Improvement Act (HB 1) of 1997.[31] HB 1 established the basic framework for reform, including:

- Goals to be achieved by 2020
- A policy leadership structure through the Council on Postsecondary Education (CPE) to provide strategic direction and overall coordination of the system, and the Strategic Committee on Postsecondary Education (SCOPE) to engage the Governor, the leaders of the General Assembly, and the CPE in a shared commitment to sustaining reform

[31] House Bill 1, Postsecondary Education Reform Act, enacted in the 1997 First Extraordinary Session of the Kentucky General Assembly

- Strategic investment and incentive funding linked to a Strategic Agenda designed to move the system toward the goals for 2020
- The Kentucky Virtual University
- The Kentucky Community and Technical College System

70. Following the enactment of HB 1 in 1997, the General Assembly acted on several other critical elements of reform, including:

- The “Bucks-for-Brains” endowment match (1998)
- Incentive funding linked to the Action Agenda and enrollment and retention
- SB 1, Adult Education, enacted in 2000
- The Kentucky Innovation Act, enacted in 2000, creating the Kentucky Innovation Commission and the Office of the New Economy

71. Beyond the new statutes, the key to the momentum of reform has been the leadership exhibited by both political leaders and educators in the implementation phases of the reform:

- The Governor has consistently placed postsecondary reform at the top of his agenda in terms of budget priorities, and the quality of appointments to the CPE and governing boards, and in advocacy for reform.
- The Governor and the Executive Branch team (in collaboration with the President of the CPE, SCOPE, and the university presidents) have played pivotal roles in designing and negotiating the details of a new financing policy.
- The CPE has emerged as one of the most respected policy leadership and coordinating boards in the nation because of the vision, creativity, and quality of its work, and its leadership in key areas such as shaping a Strategic Agenda and public accountability process.

72. The Kentucky Community and Technical College System (KCTCS), created in one of the most hotly contested legislative battles in recent Kentucky history, has developed into a dynamic, responsive, coordinated network providing access and links to the economy and quality of life of every region in Kentucky.[32]

Assessment of the progress in reform

73. Kentucky has made significant progress since the 1997 Assessment. To a striking degree, the reforms have addressed most of the issues identified just five years earlier and established the foundation for step-by-step progress over the next decade and beyond.

[32] See website for Kentucky Community and Technical College System, www.kctcs.net, for more information on this system.

74. The CPE's use of five questions to frame the indicators of progress toward reform has become a model for states across the U.S.[33] The five questions are:

1. Are more Kentuckians ready for postsecondary education?
2. Are more students enrolling?
3. Are more students advancing through the system?
4. Are we preparing Kentuckians for life and work?
5. Are Kentucky's communities and economy benefiting?

75. The latest report uses a system of traffic lights (green for "good progress," yellow for "some progress," and red for "no progress") to signal the status of reform. The report assigns green lights to questions 2, 3 and 5, reflecting progress toward goals set for 2002, and yellow lights to question 1, reflecting mixed performance on some indicators of preparation for postsecondary education. Indicators for the 4th question are still under development (see Appendix D for full list of indicators).

76. Remarkable progress is being made on several of the major problems identified in the 1997 Assessment:

- Improving per capita income
- Reducing the percentage of the population with less than a high school credential
- Increasing overall enrollments by 19.9%
- Increasing total R&D spending per capita

Despite these improvements, progress has not been as rapid in other areas.

- Increasing percentage of the adult population with at least a bachelor's degree
- Reducing the large number of young adults age 18 to 24 who do not have a high school diploma
- Improving retention and completion rates
- Improving degree production at all levels of postsecondary education

Challenge of sustaining reform

77. The message from these results is clear: While Kentucky is making progress, it will take a sustained commitment over a 10 to 20 year period to raise the standard of living of *all* Kentucky to

[33] See Council on Postsecondary Education website, www.cpe.state.ky.us, for five questions and related indicators and performance data. A report on the status of education reform as a whole is available on the following website: http://www.e4ky.org/default.htm

.

levels at or above the national average. The danger is that temporary setbacks or a failure to demonstrate short-term results will lead to discouragement and cynicism about reform.

78. Kentucky faces a number of challenges to sustain reform and counter tendencies to drift back to the policies and practices of the past. An assessment of the reform emphasized that, if the momentum of reform is to be continued, Kentucky must:

- Sustain the focus on the future of Kentucky's population and economy (e.g., the "five questions" used by the Council on Postsecondary Education)
- Broaden and deepen engagement of the state's business, legislative, and civic leaders in reform
- Engage institutional leaders – both presidents and governing boards – in collective responsibility to sustain reform
- Sustain the link between financing policy and the Strategic Agenda
- Strengthen strategic leadership and governance
- Clarify the roles and missions of the comprehensive universities in postsecondary reform
- Increase incentives for partnerships among institutions and with the elementary and secondary education system (K-12)
- Recognize the role of independent institutions in postsecondary reform

Critical transition period

79. Kentucky is in a critical period of both transition in leadership and severe economic conditions similar to those facing states throughout the U.S. [34] Governor Paul Patton, who has been the champion of reform, is in the final months of his term. A newly appointed president of the Council on Postsecondary Education will assume his position in April 2003. Action just completed on the appropriations for the 2002-2004 biennium demonstrates a commitment of the General Assembly to funding of education, although critical elements of the reform agenda (e.g., the Enrollment and Retention Program originally proposed in 2002) did not receive funding because of the state's fiscal crisis and other considerations. Action on the budget, which usually would have occurred in early 2002, was delayed because of political controversies unrelated to higher education. The approved budget[35] includes:

- A 2.6% recurring budget reduction for fiscal year FY 2002-2003 – a reduction applied to all state government because of revenue short-falls
- A continuing commitment to benchmark funding adjustments to institutions' base budgets
- Authorization for funding of some of the Trust Fund initiatives including:

---

[34] Michael Arnone (2003*)* Revamping of Kentucky College System Faces a 'Make-or-Break Moment.' *The Chronicle of Education*, March 14, 2003, pp. A23-A24.

[35] Commonwealth of Kentucky, Council on Postsecondary Education, Budget Updates, March 2003. http://www.cpe.state.ky.us/announce/announce_budget_rec.asp

– Authorization of USD 120 million in taxable bonds to fund the Endowment Match Program (“Bucks-for-Brains”)

– Funding (at levels below requested amounts) for the Technology, Financial Aid and Advancement, and Science and Technology Trust Funds and the Adult Education and Literacy Incentives Program

80. The appropriations bill provides for a slight increase in funding for the second year (2003-2004) of the biennium, but the prospects for continued serious budget short-falls make these figures problematic. The overall assessment, however, is that the General Assembly demonstrated a commitment to sustaining reform despite the serious fiscal conditions.

Description of policy instruments

Principal policy instruments

81. As described in the previous two sections of this report, the principal policy instruments employed in Kentucky are:

- A Strategic Agenda linking higher education to the future of the state’s economy and quality of life. Governor Patton’s driving aim of reform was to increase the state’s per capita income to a level at or above the national average.[36] The basic thrust of this agenda is clearly enunciated in the Council on Postsecondary Education’s mission: “One mission, better lives,” and in the five questions used to guide reform:
  - Are more Kentuckians ready for postsecondary education?
  - Are more students enrolling?
  - Are more students advancing through the system?
  - Are we preparing Kentuckians for life and work?
  - Are Kentucky’s communities and economy benefiting?
- Financing policy linked directly to the Strategic Agenda–primarily through the Strategic Investment and Incentive Funding Programs.
- Decentralized governance of institutions through which the governing boards of state-supported institutions are assigned substantial responsibility and are held accountable both for effective management (including financial management) of their institutions and for performance related to the Strategic Agenda.
- Accountability linked to institutional and system performance related to the Strategic Agenda. Each institution’s performance is monitored in terms of the indicators related to each of the five questions listed above. Accountability is linked directly to funding policy.
- A policy leadership and coordinating entity, the Council on Postsecondary Education, which is the single point of accountability for leading reform, with responsibility to develop

[36] From 1990 to 2000, Kentucky’s per capita income increased from 77.3% to 83.8% of the U.S. average – the fifth highest rate of increase (62.2%) in the U.S. The state’s rank moved up from 43 to 41 among the fifty states.

and gain a consensus around a Strategic Agenda and with sufficient authority in the key areas of financing and accountability to provide the leverage for change in the largely decentralized system.

- A forum, the Strategic Committee for Postsecondary Education, to obtain the commitment of the state's principal policy leaders, the Governor and the leadership of the General Assembly, to the development of the Strategic Agenda and a long-term financing strategy to support that Agenda.

Changes in financing policy

82. As described in the first section of this report, the deregulation in 1982 gave the institutional governing board significant management flexibility. In theory, the legislation gave the governing boards the responsibility for effective management of institutional assets as well as all sources of revenue (state, tuition and fees, and non-state) to carry out their missions. Balancing institutional autonomy, the Council on Higher Education, the state coordinating board that preceded the current council, had limited regulatory authority in areas such as mission and academic program approval, review of existing programs for low-productivity and unnecessary duplication, and approval of new campuses and off-campus sites. The previous Council had responsibility for making budget recommendations to the Governor and General Assembly, but these were primarily based on the agreed-upon "cost-reimbursement" funding formula, a formula that allocated state appropriations to institutions based primarily on historical cost data and measures of workload (primarily enrollment). The focus was on an *institutional* goal of "adequate and equitable" funding. The funding methodology's primary incentive was for institutions to increase enrollments as a means of maximizing state revenue. Except for limited performance funding implemented in the early 1990s, the funding methodology contained few explicit connections to a *Public Agenda*–to the Council's strategic plan or state policy objectives. *In other words, the previous Council had limited leverage in financing policy to pursue a Public Agenda and to reinforce its planning and regulatory authority*.

83. Prior to 1997, the focus of state policy was primarily on the allocation and utilization of *public funds* (state appropriations and state-approved tuition and fee revenue), but not on the full range of revenue available to institutions to carry out their missions. Likewise, institutional governing boards tended to look to the state government as the primary source of funding rather than assume full responsibility for effective financial management and utilization of *all* existing institutional resources (both public and non-public) in undertaking new programs and initiatives.

84. The intent of the Postsecondary Education Reform Act of 1997 (H.B. 1) was to shift the emphasis from an *institutional agenda* to a *Public Agenda*– to make an explicit link between financing policy and the State's Strategic Agenda as a means for the State to gain leverage in the direction of state priorities on the largely decentralized system. The Act made this change by intentionally shifting the focus of the funding methodology from "cost-reimbursement" to "strategic investment." The effect of this was to:

- Reinforce the responsibility and authority of the institutional governing boards for leading an *institutional agenda* consistent with the institution's mission and the Strategic Agenda and for effective management of *all* institutional assets and resources to those ends, and

- Change the focus of the state (the Governor, General Assembly, and Council on Postsecondary Education) from primarily attention to *capacity building* (detailed issues of institutional costs and expenditures) to a greater emphasis on strategic questions of *capacity utilization* (questions about how the state could invest a portion of the public funding to "purchase" attention of the institutions to the priorities defined in the Strategic Agenda).

85. Referring back to Figure 13 on state alternatives for financing higher education, the new Kentucky policies established a balance between policies to strengthen the core general support of institutions and policies designed to advance state priorities.

Financing policy and institutional viability

86. "Benchmark" funding is a key element of Kentucky's new financing policy designed to ensure adequate core institutional capacity. "Benchmark" funding is intended to ensure that over time the base funding of each institution is comparable on a per student basis to the level of a carefully selected group of peer institutions in other states. In the biennial budget recommendations summarized in section *"Budget process and allocation of funds among institutions"* above, the components included not only base funding but also "benchmark" funding adjustments to the base.

87. At the beginning of the 1997 reforms, it was clear that there were significant disparities among the state-supported institutions in unrestricted operating revenue per student. Despite evidence of these disparities, the General Assembly had been unable to make the kinds of *differentiated* funding decisions needed to narrow these disparities. The Postsecondary Education Reform Act replaced the previous funding policy and made explicit the policy goal of narrowing disparities in base funding between Kentucky institutions and peer institutions in other states. Once the new statute was enacted, the Council on Postsecondary Education led a process of identifying national peer institutions for each Kentucky institution and then identifying the differences in the level of funding of each Kentucky institution and its peers. The comparison focuses on "public funds," meaning state appropriated funds plus revenue for state-mandated tuition and fees. The policy objective is to move each Kentucky institution to an established level (e.g., the peer institution at the 55th percentile of funding compared to other peers for the 2000-02 biennial budget request).[37]

88. As indicated above, the "benchmark funding" designed to ensure adequate institutional capacity is only one component of the financing policy. The other policies are designed to ensure that this capacity is utilized in line with state priorities. The responsibility for managing this capacity is delegated to the institutional governing boards.

[37] Council on Postsecondary Education (2000). *A Case Study Using Eastern Kentucky University: Explanation of the 2000-02 Council on Postsecondary Education's Base Budget Recommendation Using the Benchmark Funding Approach and the 55th Percentile Funding Target*. Frankfort, Kentucky: CPE. October 25, 2000.

State policy instruments and institutional financial management

Division of responsibility

89. State policy in Kentucky places responsibility for institutional financial management and, by definition, issues of institutional financial viability squarely in the hands of the institutional governing boards. Both by statutory authority and tradition, the Council on Postsecondary Education and other state agencies such as the Secretary of the Finance and Administration Cabinet, do not become directly involved in issues of institutional financial management. As described in the first section of this report, the institutions are required to submit annual independent audit reports to several state entities, including the Council on Postsecondary Education. Nevertheless, in practice these reports are not analyzed.

Principal policy instruments

90. The principal policy instruments employed by the State to affect institutional behavior are *indirect* policy tools of:

- The process for appointing members of the governing boards
- Training and technical assistance for developing institutional governing boards
- Financing policy linked to accountability for accomplishing the goals in the Strategic Agenda and institutional missions.

Board appointments

91. As described in the first section of this report, Kentucky is one of only two states in the U.S. that has a statutory body, the Governor's Postsecondary Education Nominating Committee, responsible for screening and nominating candidates for board membership to the Governor. Each Governor has a responsibility to exercise great care in making board appointments, including underscoring the role of each member in carrying out the governing board's responsibility for institutional financial management.

Board development and training

92. Recognizing the limited *direct* State role in institutional management, state law mandates that the Council on Postsecondary Education undertake a program of training and development for governing boards and members. With the support of the Council, the Governor sponsors an annual conference for trustees at which issues such as the board's role in financial management are addressed. For example, the 2002 trustees' conference focused on the topic, "Understanding Key Information and Performance Indicators Regarding Institutional Budgets and Finances". Conference sessions included an orientation on how to read and use institutional financial statements in a new format mandated by the Governmental Accounting Standards Board (GASB). The conference then provided board members with information on using ratio analysis based on the KPMG publication, *Ratio Analysis in Higher Education*.[38] Each board was then engaged in a group problem-solving

[38] KPMG (2002). *Ratio Analysis in Higher Education: New Insights for Leaders of Public Institutions*

exercise using ratios to assess alternatives for a major policy decision facing an institution, the establishment of a new academic program.

93. The Council on Postsecondary Education in 2002 joined with the Prichard Committee on Academic Excellence, a private, non-profit, non-partisan citizens' advisory organization, to establish the Institute for Effective Governance. The institute will provide an ongoing means for orienting new board members, conducting training sessions on special topics, and conducting the annual Governor's conference.[39]

94. A recent case in which questions arose about the financial management of one of the state-supported institutions presents a clear illustration of the division of responsibility between the State and institutional governing boards on questions of institutional financial management–if not viability. Institutional constituencies and community members made allegations about mismanagement by the institution's president. These allegations were reported to the key state officials but also were reported in the local news media. Because the institution's governing board was responsible for institutional financial management as well as for appointing, evaluating, and, if necessary, dismissing the president, the focus of the Governor, the Council on Postsecondary Education, and other state entities was on actions that would support and strengthen the capacity of the governing board to assume *its* responsibilities. State officials consciously resisted pressure to intervene directly in a manner that would have taken over or undermined the authority and responsibility of the governing board. The policy tools summarized above were the principal ones employed in this case:

- The authority of the state to require the institution to obtain and submit an independent audit.
- Appointment (or, as necessary, replacement) of board members.
- Training and technical assistance. In this case, the Council on Postsecondary Education and the governing board jointly engaged a consultant to examine the institution's management. The Council's focus was only on issues within its purview such as mission, academic programs, and consistency with the Strategic Agenda.

Monitoring institutional accountability for mission and fulfilling the Strategic Agenda

95. From the State perspective, institutional viability in Kentucky is directly linked to the fundamental question of whether an institution is fulfilling its state-mandated mission and accomplishing the goals in the Strategic Agenda. For this reason, the Council on Postsecondary Education concentrates on institutional performance on the key indicators (e.g., "five questions"), not on indicators of financial management that are more appropriately the tools to be used by institutional governing boards. In fact, none of the key indicators used by the Council to monitor

[39] The Prichard Committee for Academic Excellence is a non-partisan, non-profit, independent citizens' advocacy group. Since 1983, the committee, made up of volunteer parents and citizens from around Kentucky, has worked to improve education in the Commonwealth at all levels. The Prichard Committee has provided a strong, independent voice for sustaining reform in Kentucky over the past 20 years despite periodic changes in political leadership.

institutional performance are "financial management" either for individual institutions or for the system as a whole. Most of the indicators are designed to monitor the impact of the higher education system on:

- The education attainment of the population
- Student preparation for higher education, participation, affordability, retention and graduation
- The state's quality of life (e.g., civic participation) and economy

96. Accountability measures for individual institutions differ depending on their missions. For example, some institutions such as the community colleges have a greater role in adult education and workforce development. The comprehensive universities play significant roles in teacher preparation and other links with reform of elementary and secondary education. The research universities are assessed in terms of the quality and competitiveness of their research and the connections of their research agendas with the future of the Commonwealth.

97. In summary, the principle underlying Kentucky's approach to accountability is that a *viable state-supported institution* is an institution that is accomplishing its mission and serving public purposes. The state focus is on the *ends to be achieved (what)*; responsibility for *how to achieve these ends* is clearly delegated to the institutional governing boards.

NORTH DAKOTA

Constitutional position of public higher education in North Dakota

Institutions and enrollments

98. The North Dakota University System (NDUS), enrolling 39 614 students in Autumn 2002, has been a unified higher education system since 1990. The system includes two doctoral granting universities, one master's degree-granting university, three universities that offer bachelor's degrees and five two-year colleges that offer associate and trade/technical degrees. Ten private and tribal[40] institutions enroll 6 058 students.

Figure 18. Fall Headcount Enrollment, Fall 2002

Institutions	2002 Autumn Enrollment
Bismarck State College	3 168
Dickinson State University	2 326
Lake Region Community College	1 340
Mayville State University	746
Minot State University	3 625
Minot State University-Bottineau	609
ND State College of Science	2 439
North Dakota State University	11 146
University of North Dakota	12 423
Valley City State University	1 022
Williston State College	770
Total – University of North Dakota System	39 614
Private and tribal colleges	6 058
Total	45 672

Source: North Dakota University System, 2002 Fall Enrollment, North Dakota Institutions of Higher Education. www.ndus.nodak.edu

Legal status of public institution governance

99. North Dakota is a "governing board state" in that it has a single state-wide governing board for all public institutions. In contrast to a "coordinating board state" such as Kentucky, institutional governance in North Dakota is highly centralized.

[40] Tribal institutions are institutions that are governed by Native American tribes.

100. The State Board of Higher Education was established in 1939 and functions as the constitutional governing body for North Dakota's public higher education institutions. In 1990, the Board of Higher Education created the North Dakota University System whereby all 11 institutions are accountable to a chancellor appointed by the board. The chancellor is the chief executive officer of the North Dakota University System. The board consists of eight members. Seven members represent the general public and are appointed by the governor and confirmed by the senate and serve 4-year terms. The Governor makes these appointments for each position from a list of three names, selected by action of four of the following five persons: the president of the North Dakota education association, the chief justice of the Supreme Court, the superintendent of public instruction, the president pro tempore of the senate, and the speaker of the house of representatives. The Governor appoints as the eighth member a full-time resident student in good academic standing at an institution under the jurisdiction of the state board. The student serves a one-year term.[41]

101. All institutions within the North Dakota University System, including their geographic location, are named in the State Constitution. The Constitution states that, "All colleges, universities, and other educational institutions, for the support of which lands have been granted to this state, or which are supported by a public tax, shall remain under the absolute and exclusive control of the state."[42] A Constitutional Amendment to remove the institutions from the State Constitution--presumably to provide more flexibility in determining the numbers and locations of institutions--was defeated in 1998.

102. The Constitution specifies in detail the powers and duties of the State Board.[43] For example, the Constitution specifies that the State Board shall:

- Have full authority over the institutions under its control with the right, among its other powers, to prescribe, limit, or modify the courses offered at the several institutions.
- Have full authority to organize or reorganize within Constitutional and statutory limitations, the work of each institution under its control, and do each and everything necessary and proper for the efficient and economic administration of said state educational institutions.
- Prescribe for all institutions standard systems of accounts and records and shall biennially, and within six months immediately preceding the regular session of the legislature, make a report to the governor, covering in detail the operations of the educational institutions under its control.

103. The Constitution also further specifies the budget process and the responsibilities of the State Board for overseeing all institutional expenditures.

- The heads of institutions are to submit budget requests for the biennial appropriations to the State Board of Higher Education.

---

[41] Constitution of North Dakota, Article VIII, section 6.2.a.

[42] Constitution of North Dakota, Article VIII, sections 5 and 6.

[43] Constitution of North Dakota, Article VIII, section 6, paragraph 6. http://www.state.nd.us/lr/cencode/Const.pdf

- The State Board considers and may revise the institutional budgets "as in its judgment is in the best interests of the education system of the state."
- The State Board then prepares and presents to the legislature a single unified budget for all the institutions under its control.
- The appropriations for all the institutions are included in one legislative measure.
- The State Board controls the expenditure of all institutional funds.

Funding of public higher education institutions in North Dakota

104. Total revenue for public higher education institutions was USD 566.4 million in 2000-01 of which 32.2% was from State appropriations.

Figure 19. Revenue by Source, North Dakota Public Institutions, 2000-01 (thousands of dollars)

Revenue Source	Universities	% by Source	2-Year Institutions	% by Source	Total	% by Source
Tuition and Fees	97 486	20.0%	17 012	21.7%	114 498	20.2%
Federal Appropriations	5 147	1.1%	3 991	5.1%	9 138	1.6%
State Appropriations	161 198	33.0%	26 840	34.2%	188 037	33.2%
Federal Grants and Contracts	79 873	16.4%	13 731	17.5%	93 605	16.5%
State Grants and Contracts	3 920	0.8%	981	1.3%	4 902	0.9%
Private Gifts Grants & Contracts	27 119	5.6%	2 746	3.5%	29 865	5.3%
Endowment Income	4 312	0.9%	449	0.6%	4 761	0.8%
Sales and Services	40 790	8.4%	2 304	2.9%	43 094	7.6%
Auxiliaries Enterprises	57 354	11.8%	9 697	12.4%	67 051	11.8%
Other Sources	10 821	2.2%	639	0.8%	11 460	2.0%
Total	488 020	100.0%	78 391	100.0%	566 411	100.0%

Source: National Center for Higher Education Management Systems Finance Data Set National Center for Education Statistics, IPEDS Finance Survey

Expenditures per full-time equivalent student

105. Education and general expenditures[44] per full-time equivalent student in 2000-01 averaged USD 13 568 at the public universities and USD 9 010 at two-year institutions. As might be expected

[44] Education and general expenditures include the institutions' expenditures for core instruction, research, and service missions and do not include auxiliary enterprises (e.g., food service, bookstores, or dormitories) or capital expenditures.

because of differences in mission, the universities had a higher percentage of total education and general expenditures for research and the two-year institutions had a higher percentage of expenditures for instruction.

Figure 20. Education and General Expenditures per Full-Time Equivalent Student,* North Dakota Public Institutions, 2000-01

Category of Expenditure	Universities	%	2-Year Institutions	%
Instruction	USD 6 126	37.1%	USD 4 283	46.8%
Research	2 765	16.7%	2	0.0%
Public Service	1 235	7.5%	8	0.1%
Academic Support	1 576	9.5%	587	6.4%
Student Services	776	4.7%	550	6.0%
Institutional Support	1 176	7.1%	1 029	11.2%
Plant Operations and Maintenance	1,502	9.1%	1 179	12.9%
Scholarships and Fellowships**	1 303	7.9%	1 451	15.8%
Transfers	71	0.4%	66	0.7%
Total Education and General Expenditures	16 530	100.0%	9 155	100.0%

Source: National Center for Higher Education Management Systems Finance Data Set, National Center for Education Statistics, 2000-01.
Notes: *"Full-time equivalent students" is calculated as full-time headcount enrollment plus one-third part-time headcount enrollment.
**"Scholarships and fellowships" including federal Pell grant funding for student financial assistance.

Funding mechanisms

State appropriations for current operations and maintenance of capital assets

106. Overall, one-third of the funding for current operations at North Dakota University System (NDUS) institutions comes from state appropriations. Considering only state appropriations and student shares (net tuition or tuition less student aid, waivers, etc.), the State share of funding institutions ranges from a high of 72.2% (at a two-year institution) to a low of 52.2% at a university.[45] The Legislative Assembly appropriates funds to the NDUS for the system office and for each of the institutions. The NDUS allocates funding to each institution in three broad categories:

- Base funding, including state appropriations plus an estimated amount of revenue generated from tuition (net tuition or tuition less available student aid) determined by a share (percentage) of costs to be borne by students. The shares differ according to the mission of the institution (e.g., higher for universities and lower for two-year institutions). Base funding includes allowances for salary increases and other cost increases. Prior to the 2001-2003 biennium, the Legislative Assembly specified the appropriations for each institution

[45] North Dakota University System (2002) *2nd Annual Accountability Measures Report.* Bismarck: North Dakota University System, p. 36.

by line-item. Beginning in the 2001-2003 biennium, appropriations are made in a block grant to each institution through the Board of Higher Education. Institutions are authorized to carry over unexpended appropriations from year-to-year; they are also authorized to retain tuition revenue, including revenue generated in excess of the shares used in the budget process.

- Benchmark funding, an amount determined to be necessary according to the NDUS long-term finance plan to move each institution's funding (state appropriations and net tuition per full-time equivalent student (FTE)) closer to funding per FTE at "benchmark" institutions.
- Incentive funding to institutions for specific initiatives linked to the objectives in the report of the Roundtable for the North Dakota Legislative Council Interim Committee on Higher Education*, A North Dakota University System for the 21st Century.*
- Capital asset funding, an appropriation for maintenance of assets, excluding major capital projects.
- Special legislative initiatives. For example, in 2001-2003, the Legislative Assembly provided funding for a technology funding pool from the general fund to be allocated by the State Board of Higher Education.

Capital funding

107. Capital projects at institutions within the North Dakota University System are typically funded through bonded indebtedness. The Legislative Assembly authorizes two different kinds of debt for capital projects:

- Projects for the core education, research, and service missions of institutions. The Legislative Assembly authorizes the North Dakota Building Commission to finance these projects through the issuance of state general obligation bonds and other available funds.
- Projects for self-supporting purposes, such as residence and dining halls (auxiliary enterprises). The Legislative Assembly authorizes the State Board of Higher Education to issue self-liquidating, tax-exempt bonds. These are not state general obligation bonds and debt service is financed through revenue generated by the relevant function (e.g., student fees for use of facilities).

Institutional governance and management

108. As indicated above, the Board of Higher Education is the governing body for all the institutions within the North Dakota University System. The chancellor is the chief executive officer of the System. The president, the chief executive officer of each institution, is appointed by and serves at the pleasure of the State Board of Higher Education. The institutional president is accountable to the State Board of Higher Education through the Chancellor for the financial management of his or her institution. No institutional-level governing body exists between each institution and the chancellor and the State Board of Higher Education.

109. The North Dakota Board of Higher Education Policy Manual defines the responsibilities of the board, chancellor, and presidents for financial affairs. The section on budget management and control defines the responsibilities of the institutional presidents:

a. Allocate institution resources in a manner consistent with expected Board outcomes and pertinent laws, rules, policies, and governing accounting policies and procedures, and, within limits established by this policy, reallocate resources within the institution. Annual budgets are approved at the institutional level, not functional or departmental level. Institutions may make budget revisions if the revisions are adequately documented and the president or other institution officer who is delegated that authority has approved the revisions. Institutions may spend income collected from non-general fund and non-tuition income sources provided the president or other institution officer who is delegated that authority has approved the expenditures;

b. Ensure that the Board's budget guidelines for a given fiscal year are incorporated into the institution budget and are carried out operationally;

c. Be accountable for all funds, property, equipment, and other facilities assigned or provided to the institution to ensure that all are used consistent with laws, policies, or other specific requirements;

d. Periodically report budget and other fiscal status to the Board, consistent with the format and intervals as established by the Board, to alert the Board to significant budget and fiscal variances;

e. Adequately plan and make necessary budget or spending adjustments to avoid unusual deficit fund balances at fiscal year end;

f. Ensure that monitoring procedures are in place to ensure that the campus operates within the annual budget as approved, except as otherwise permitted by this policy; and

g. Ensure that all institution officers and employees act in a manner that is consistent with established university system priorities.[46]

Asset ownership, management and reporting

110. All assets of the North Dakota University System are owned and managed by the North Dakota Board of Higher Education. Reporting mechanisms are summarized earlier in this paper.

Staff employment

111. All staff of the North Dakota University System are employed according to policies established by the Board of Higher Education.[47] The Board delegates substantial responsibility to the institutional presidents for human resource management at the institutional level. The presidents have authority to "Approve all personnel actions, except the award or change in tenure status, involving all faculty members and other institution employees".[48]

---

[46] North Dakota University System, *North Dakota Board of Higher Education Policy Manual*, sec. 802.6, Budget Management and Control.

[47] North Dakota University System, *North Dakota Board of Higher Education Human Resource Policy Manual.*

[48] North Dakota University System, *North Dakota Board of Higher Education Policy Manual,* section 305.1.

Current policy context

Higher education reform

Reform background

112. Over the past decade, the relationship between the legislature and executive branches of State government, the private sector, and the University System has changed in fundamental ways. This relationship grew out of the recommendations from the 1999-2000 Roundtable on Higher Education.[49]

113. The 1999 North Dakota Legislative Assembly passed a resolution directing a study be conducted which would:

> *…address the expectations of the North Dakota University System in meeting the state's needs in the twenty-first century, the funding methodology needed to meet these expectations and needs, and an accountability system and reporting methodology for the University System.*

114. An interim committee on higher education was formed to conduct the study. This group of 21 legislators was augmented by an additional 40 leaders from government, education, and the private sector to form the Roundtable.

115. This group reviewed trends specific to North Dakota–trends that at the very least are disquieting. They looked into the future and saw a state that, in the absence of overt action, would continue to:

- Lose population, especially young people and adults in the prime working years of their lives.
- Fall farther and farther behind the rest of the country in per capita income, threatening the ability of its citizens to maintain their quality of life.
- Be unable as a state to compete in the new information-based economy.

116. These leaders refused to accept this view of the future of their state as inevitable. They are firm in their belief that North Dakota and its citizens deserve better. They quickly came to a consensus that bold steps were needed to change the downward trajectory of the state – steps that must be pursued with the utmost urgency. There was also agreement that the longer the current trends continue, the more difficult it will be to reverse them. Out of this consensus arose the Roundtable's expectations for the North Dakota University System – that the NDUS would focus its considerable assets and talents on:

- Promoting the expansion and diversification of the state's economy, and;

---

[49] North Dakota University System (2002). *2nd Accountability Measure Report.* Bismarck: North Dakota University System, December 2002, p. i.

- Enhancing the quality of life of the citizens of the state.

117. Their broad expectation is that the NDUS (as a system, not as a collection of campuses) become the prototype land-grant institution of the twenty-first century, and that it be:

- Academically competitive, nationally and internationally.
- Engaged at every level with the needs and problems of the state and its citizens.
- Accessible and responsive to all citizens of the state, both individual and corporate.

118. The Roundtable called for a new form of relationship between the NDUS and the state, a relationship based on trust and common purpose. The basis of this new relationship was stated by the Roundtable as "flexibility with accountability": the NDUS must have freedom of action to pursue the agreed-upon agenda, but it must also be accountable for both resources used and results obtained. In return for these new-found freedoms, the NDUS had to be able to demonstrate accountability for performance.

Overall goal and six "cornerstones"

119. The Roundtable defined an overall goal and six "cornerstones" and accountability measures related to each.

- Goal: To enhance the economic vitality of North Dakota and the quality of life of its citizens through a high quality, more responsive, equitable, flexible, accessible entrepreneurial, and accountable University System.
- The Cornerstones around which specific actions and related accountability measures were developed included:
  - Economic Development Connection
  - Education Excellence
  - Flexible and Responsive System
  - Accessible System
  - Funding and Rewards
  - Sustaining the Vision

120. In July 2000, the State Board of Higher Education adopted the Roundtable's expectations and recommendations and moved aggressively toward implementation. Actions included:

- Developing a Long-Term Finance Plan and Resource Allocation Model[50]
- Changing Board policies and procedures to decentralize management responsibility to the institutions

[50] See North Dakota Board of Higher Education (2002) *Strategic Plan*, "Long-Range Finance Plan,", p. 17-21.

Senate Bill 2003

121. The 2001 Legislative Assembly acted on many of the Roundtable recommendations in Senate Bill 2003, granting the University System "flexibility with accountability," including among other points[51]:

- Reduced significantly the number of line items in the state appropriation to the NDUS System and to the institutions. Instead of appropriating funds for separate line items of salaries and wages, operating expenses, and equipment, the Legislature appropriated a single amount for "operations," delegated responsibility to the State Board of Higher Education for establishing salaries and wages, and provided additional flexibility at both the System and institutional levels for managing state appropriations.
- Increased the flexibility of the State Board of Higher Education and the institutions in the management of non-state resources.
- Provided for carry-over of unexpended state appropriations from one biennium to the next and authorized institutions to retain tuition revenues.
- Provided additional flexibility on personnel position controls and other State procedural requirements.
- Changed the requirements for preparation of budget for the NDUS to include block grants for the base funding component and for an initiative funding component for specific strategies or initiatives.
- Defined by legislative intent the accountability measures to be used by the State Board of Higher Education in 5 categories:
  - Education excellence
  - Economic development
  - Student access
  - Student affordability
  - Financial operations

122. Based on these legislatively mandated accountability measures, the State Board of Higher Education developed an Annual Accountability Measures Report, the second edition of which was published in December 2002.[52]

[51] State of North Dakota, 57th Legislative Assembly, Senate Bill No. 2003, Chapter 28.

[52] North Dakota State Board of Higher Education (2002). *2nd Annual Accountability Measures Report*, November 2002. http://www.ndus.nodak.edu/reports/details.asp?id=465

Description of policy instruments

123. The principal policy instruments relevant to institutional management include the report of the Roundtable and the NDUS Strategic Plan and the link of both financing policy and accountability to the goals of the Strategic Plan. These are summarized below.

Roundtable report and strategic plan

124. As described in the previous section, the Roundtable emphasized the link between the strength of the North Dakota University System and a "bright future" for the State of North Dakota. The State Board of Higher Education adopted the Roundtable's expectations and recommendations and moved aggressively toward implementation. Prior to the Roundtable, the State Board of Higher Education had a Strategic Plan for the period of 1998-2004. The State Board concluded that all the major components of the previous plan could be incorporated in the six cornerstones as enunciated in the *Roundtable Report*. Nevertheless, the emphasis of the *Roundtable Report* was fundamentally different. In essence, the report shifted from an internal focus on the NDUS and the institutions toward an external focus on the future of North Dakota. The State Board, therefore, adopted new statements of Vision and Mission as follows:

- Vision: The North Dakota University System is the vital link to a brighter future.
  - A brighter future for:
    - Our students
    - The citizens of North Dakota
    - All those we serve
  - A brighter future through:
    - A University System where students have the opportunity to receive the education necessary to be professionally and personally successful
    - High quality, innovative learning opportunities tailored to the needs of students and other clients and readily accessible to all learners in the state
    - The creation of strategic alliances with economic entities in the state and being a major player and primary engine in impacting the economic and demographic trends
    - A University System which is a solid investment for the state and is seen as such by its citizens
- Mission: To enhance the quality of life for all those we serve and the economic and social vitality of North Dakota through the discovery, sharing, and application of knowledge.[53]

[53] North Dakota State Board of Higher Education, *Strategic Plan*, November 2002, p. 4.

__Long-term finance plan linked to the strategic plan__

Principles

125. To support the long-range goals of the *Roundtable Report* as elaborated in the *Strategic Plan*, the State Board of Higher Education (SBHE) adopted a Long-Term Finance Plan and Resource Allocation Model based on the following principles[54]:

- Funding for higher education should be a shared responsibility of the state (through state general fund appropriations), students (through tuition), and campuses (through efficiency and generating other revenues).
- Campuses should be encouraged to generate additional revenues.
- Campuses should be encouraged to diversify their revenue sources.
- Campuses, faculty, and staff should be rewarded and recognized for behavior consistent with the Roundtable principles (i.e. flexible, responsive, entrepreneurial, accountable, and collaborative).
- Campuses should be given the flexibility to set price; however, the SBHE should continue to be accountable for maintaining affordability for North Dakota citizens. The board would continue to approve a base tuition rate for each campus, with campuses given increased flexibility to charge additional tuition for targeted courses/programs (e.g. high demand, high cost, etc.) and discounting policies.
- Campuses should retain their current state general fund appropriations as base operating funds and biennial appropriations should be provided to address parity or inflationary operating cost increases (i.e., cost-to-continue salary increases from the previous biennium, operating and utility inflation, and new compensation and benefits adjustments) to this base.
- Equity differentials, based on peer comparators, should be regularly addressed in appropriations based on agreed-upon targets (i.e., benchmark, state/student share, phased approach to reaching benchmarks) and outlined in the finance plan.
- The state should invest in activities that support statewide priorities through separate initiative appropriations to the SBHE. Funds should be allocated from the board initiative appropriation to encourage and reward collaboration between campuses.
- Campuses should be held accountable for the outcomes of the goals and objectives outlined in their campus strategic plans and Roundtable campus alignment plans.
- The campuses' unique missions should be recognized in establishing base operating funding, and adequate funds should be provided to maintain institutional capacity to achieve their missions.
- Campuses should be given the flexibility to allocate resources consistent with the priorities established in their campus strategic plans.

[54] North Dakota State Board of Higher Education, *Strategic Plan*, p. 17.

- The SBHE should request and the legislature should provide dedicated appropriations for the maintenance and replacement of state assets (facilities and infrastructure).

126. Following from the principles, the State Board's budget request for the 2003-2005 biennium included three components:

- Base operating budget
- Capital asset funding
- Special initiative funding to support state priorities (2 percent of the total North Dakota University System state general fund appropriation, phased-in over six years)

Financing policy and institutional viability

127. The North Dakota financing policy addresses the issue of institutional financial viability primarily through the means of "equity" funding. As indicated in the principles summarized above, the long-term financing plan calls for the state to appropriate funds for equity differentials, based on peer comparators and agreed-upon targets (i.e., benchmark, state/student share, phased approach to reaching benchmarks). In a methodology similar to that employed in Kentucky, North Dakota identified peer institutions in other states for each of the institutions, identified the differential funding levels, and then established benchmarks for funding per student to be achieved over a multi-year period. The long-term plan establishes a goal of moving all institutions currently below 85% of their peer benchmarks to 8% within six years, and then moving all institutions below 95% of their peer benchmarks to 9% within 12 years. Progress toward this goal is monitored in the annual accountability process (see section below).

128. North Dakota has several comparatively small institutions located in rural communities. The costs per student at these institutions are higher because of their size and locations. The state has debated from time to time closing one or more of these institutions, but, after extensive debate, the voters defeated a Constitutional amendment in 1998 that would have removed the institutions from the State Constitution and potentially opened the way for institutional closures. A broad consensus was reached through the Roundtable and other forums that the institutions were critical to the future of the small communities in which they were located and to the future economy and quality of life of the state as a whole. Prior to the benchmark funding process, it was difficult to make the case that the small institutions required a higher level of funding per student than the larger universities. However, once peers of a similar size and program structure were established, the case could be made for equity differential funding for these institutions to bring them closer to their peer benchmarks.

129. As in the case of Kentucky, North Dakota employs special initiative funding to leverage the use of the core institutional capacity in a manner consistent with state priorities.

Accountability measures

Accountability reports

130. The State Board of Higher Education adopted 37 performance and fiscal accountability measures including those mandated by the Legislature in Senate Bill 2003 and additional measures

developed by the State Board (see Appendix E for full list of measures). The State Board uses several of these measures to monitor the status of the Long-Term Finance Plan and the financial conditions of the system and individual institutions. A summary of these measures is as follows[55]:

- How well are NDUS campuses funded compared to the Long-Term Finance Plan? Measure: Higher education financing–a status report on higher education financing as compared to the Long-Term Finance Plan. This measure is intended to demonstrate progress toward achieving the funding goals of the Long-Term Finance Plan, including the following components:
  - Operating fund benchmark per full-time equivalent (FTE) student. An operating fund benchmark per FTE student, comprised of state appropriations and net tuition revenues, was established for each NDUS campus, based on a selected group of peer institutions.
  - State/student share targets. Recognizing that there is a shared funding responsibility among higher education stakeholders, state/student share target ratios were established for each type of NDUS campus.
  - Capital asset funding targets. The capital asset funding model calls for funding all campuses at 100% of a building and infrastructure formula established by the North Dakota Office of Management and Budget (OMB), phased in over 10 years, plus 100 percent funding of outstanding deferred maintenance, phased in over 14 years.
- How well does North Dakota fund NDUS campuses, compared to peer institutions? Measure: State general fund appropriation levels for the NDUS institutions compared to peer institutions' general fund appropriation levels. Over time, this measure is intended to demonstrate progress toward achieving the Long-Term Finance Plan goal of moving all institutions currently below 85% of their peer benchmarks to 85% within six years, and then moving all institutions below 95% of their peer benchmarks to 95% within 12 years.
- How was incentive funding used in relationship to the objectives identified in the *Roundtable Report*? Measure: Incentive funding, including the allocation and use of incentive funding. This measure reports on the allocation and use of the Board Initiative Block Grant, an appropriation to the State Board to carry out objectives identified in the *Roundtable Report*.
- How do trends in state general fund appropriations compare to trends in the state's economy? Measure: State general fund appropriation levels and trends as compared to changes in the state's economy and total state general fund appropriations. To compare state general fund appropriations with changes in the state's economy, changes in personal income and gross state product are used as state economic indicators.
- To what extent do North Dakota taxpayers provide financial support for NDUS students? Measure: Per capita general fund appropriations for higher education. This measure is intended to demonstrate whether the state, on an individual per capita basis, is providing an increasing or decreasing amount of funding for higher education over time.

---

[55] North Dakota State Board of Higher Education, *2nd Annual Accountability Measures Report*, December 2002, pp. 33-51.

- What proportion of the per-student cost is covered by general fund appropriations? Measure: Cost per student in terms of general fund appropriations and total NDUS funding. This measure represents whether the NDUS's annual state general fund and total fund revenues on a per-student basis are increasing or decreasing. The measure also indicates whether the state is contributing a larger or smaller proportion of the total cost over time.
- How much does the NDUS spend annually per student? Measure: Administrative, instructional and other costs per student. This measure represents changes in total costs per full-time equivalent (FTE) student by category of expense. These categories and their components are:
  - Core services: instruction, research, and public service
  - Support services and student aid: academic support, student services, and scholarships and fellowships
  - Administration and physical plant: institutional support and operations and maintenance of the physical plant
- What proportion of higher education resources are dedicated to its core services? Measure: Percentage of total University System funding used for instruction, research, and public service. This measure represents whether resources used to support core services are consuming an increasing or decreasing share of total institutional resources. Core services include expenses for instruction, research, and public service; these costs are linked directly to the core mission of the campuses.
- What proportion of higher education resources are dedicated to support services and aid to students? Measure: Percentage of total NDUS funding used for academic support, student services, and scholarships and fellowships. This measure represents whether resources used for support services and aid to students are consuming an increasing or decreasing share of total institutional resources. "Support services" includes academic support and student services which also support the mission of the institution. Aid to students includes scholarships and fellowships.
- What proportion of higher education resources are dedicated to general support services? Measure: Percentage of total NDUS funding used for institutional support and operations and maintenance of physical plant. This measure represents whether resources used for general support expenses are consuming an increasing or decreasing share of total institutional resources. The category of general support services includes institutional support and operations and maintenance of the physical plant. Institutional support is made up of the administrative units at the eleven campuses and includes, for example, the president's office, the business office, and the budget and accounting offices. Physical plant includes all staffing and operating expenses related to the operation of the physical plant, such as custodians and utilities.
- What percent of NDUS revenues are self-generated? Measure: Ratio measuring the funding derived from operating and contributed income compared to total NDUS funding. This measure represents the portion of the University System's overall funding that is self-generated, either internally from fees for services or externally from contributions. The total includes revenue sources that are restricted in use by the donor, grant, or other source.

- Is the NDUS able to cover its debts? Measure: Ratio measuring the amount of expendable net assets as compared to the amount of long-term debt. This ratio measures one of the basic factors of financial health — the availability of expendable net assets to cover debt should the NDUS need to settle its obligations at the end of the fiscal year.
- Is the NDUS able to fund outstanding deferred maintenance needs? Measure: Ratio measuring the size of the NDUS's outstanding maintenance as compared to its expendable net assets. This ratio shows whether the NDUS has sufficient expendable net assets to fund outstanding deferred maintenance needs from its own capital from operations.
- Are major capital projects completed within budget? Measure: Report on 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.

131. The State Board monitors performance at both the system and institutional levels. As suggested in the brief descriptions summarized above, several of the measures apply to the system as a whole. An accountability report is prepared for each institution on the measures that can be applied campus-by-campus.

Monitoring fiscal health

132. In addition to following performance with the measures summarized above, the Budget and Finance Committee of the State Board of Higher Education is responsible for monitoring the fiscal health of the NDUS as well as individual institutions. The individual institutions are required to report to the committee semi-annually if any one of the following conditions exists[56]:

- A variance (+/-) of USD 100 000 or 2% or more, whichever is greater, is expected between original and revised biennial tuition revenue estimates.
- A negative variance of 4% or more is expected between original and revised annual revenue estimates for total auxiliaries (student housing, food service, etc.).
- Campus anticipates an individual deficit fund balance of USD 50 000 or more (for smaller campuses) and USD 100 000 or more for the larger campuses that will be reportable at the fiscal year end.
- Campus does not anticipate meeting annual bond reserve requirements.
- Campus is a party to a legal action.
- A variance of 5% (+/-) in residence hall occupancy rates (Spring and Fall) over the previous year is expected and/or realized.
- Actual expenditures for specifically appropriated or Board approved capital projects are projected to exceed legislative or Board authorization, there is a change in funding sources for the project, or there is a major change in the scope of the project.
- Campus anticipates the need for a deficiency appropriation from the legislature.

[56] North Dakota University System, Semi-Annual Budget Reporting to the SBHE Budget and Finance Committee for FY 03 – Period Ending December 31, 2002.

- Other events have a significant impact on campus revenues and expenses.

ANALYSIS AND CONCLUSION

Comparison of Kentucky and North Dakota

Differences

133. In addition to obvious differences of size, economy, and geography, Kentucky and North Dakota are structured in fundamentally different ways that have implications for financial management.

- Kentucky decentralizes institutional governance within the framework of statewide policy leadership and coordination. As a result, responsibility for institutional financial management is assigned to the governing boards of state-supported institutions, not to a statewide board or an agency of state government. The state-level entity, the Council on Postsecondary Education, does not routinely monitor the financial health/viability of individual institutions.
- North Dakota assigns responsibility for institutional governance to a single statewide board, the State Board of Higher Education and public higher education is organized within a single university system. Within this centralized system, the State Board of Higher Education delegates responsibility for day-to-day institutional financial management to the institutional presidents. In contrast to the state-level entity in Kentucky, the State Board of Higher Education does monitor the financial health/viability of each institution and the system as a whole.

Similarities

134. Despite these differences, there are a number of important similarities in their approaches to reform and higher education financing policy.

Shifts to a Public Agenda linking higher education to the future of the state and established means for public accountability for measurable progress toward goals

135. Both states changed the focus of state policy in the late 1990s from an earlier emphasis on funding institutions (creating and maintaining capacity) to an emphasis on funding higher education as a means to address critical state priorities (utilization of capacity). As underscored earlier in this report, maintaining and strengthening capacity remained a high priority, but funding "on the margin" was deliberately aimed at achieving a closer relationship between capacity and state priorities. Common characteristics included:

- Developing and building consensus around a Public Agenda. In Kentucky, the 1997 Task Force on Higher Education followed by the enactment of House Bill 1 (HB 1), the 1997 Postsecondary Education Reform Act, set forth long-term goals for the Commonwealth designed to raise per capita personal income in the State to a level at or above the national average. The Council on Postsecondary Education developed an Action Agenda under the theme "Better Lives" using the "five questions" to frame accountability for the system and each institution. The report of the Roundtable in North Dakota was framed by serious concerns about the future of the State and the critical role that higher education must play in ensuring a "Bright Future."

- Shaping state agendas through groups representing a cross section of states' political, business, civic, and higher education leadership. The Kentucky Task Force on Higher Education was chaired by the Governor and included leaders from the executive and legislative branches and higher education leaders, as well as representatives of the State's business and civic leadership. The HB 1 established the Council on Postsecondary Education and the Strategic Committee on Postsecondary Education (SCOPE) to ensure continuity of reform over a multi-year period across changes in political leadership. The North Dakota Roundtable involved not only important legislative leaders and the Governor but also a broad spectrum of key civic, business and higher education leaders. The State Board of Higher Education reconvenes the Roundtable each year to receive the accountability report and to review the status of reforms.
- Using long-term, measurable goals, indicators and benchmarks to monitor progress. Both states emphasize the use of information for public accountability.
- Establishing mechanisms to sustain attention to the Public Agenda. As indicated above, the CPE and SCOPE in Kentucky and the State Board of Higher Education and the Roundtable in North Dakota are charged with the responsibility to sustain reform.

Implementation of new funding methodologies linking funding to a public agenda

136. Both states implemented new funding models with similar components:

- Base funding adjusted by "equity"/benchmark funding aimed at ensuring adequacy of base funding defined through peer comparisons
- Special purpose/initiative funding to advance state priorities.

137. The Kentucky Strategic Investment funds are more complex than the North Dakota funding for the State Board of Higher Education initiatives, but the general intent to advance state priorities is the same. The basic framework for Kentucky's financing policies (e.g., the Strategic Investment Funds) is defined by law while the North Dakota State Board of Higher Education shapes specific initiatives and includes these within the Annual Accountability Report.

138. Both states have plans or agreements on financial policy that spell out the relative priority of each component and how the components should relate to each other–provided that state budgetary support is available. The North Dakota State Board of Higher Education has incorporated the Long-Term Financing Plan within the Strategic Plan for the North Dakota University System. The "Points of Consensus" developed by SCOPE in Kentucky and agreed to by all major stakeholders, represented an understanding of priorities and how the components should relate to each other. Although the budget crisis in Kentucky has had an impact on this agreement, the basic framework remains intact.

Implementation of public accountability/reporting systems to monitor system and institutional performance

139. Both Kentucky and North Dakota have implemented public accountability systems. Reflecting the difference in authority and responsibility for institutional financial management, the North Dakota State Board of Higher Education monitors institutional financial health, whereas the Kentucky Council on Postsecondary Education does not. Instead, the Council emphasizes training of governing boards on their financial oversight responsibilities and holds the institutions accountable for accomplishing their missions and for their performance related to the CPE's Action Agenda.

Long-term concerns/risks

140. The reforms in both states are in their early stages. Both are intended to bring about changes over a multi-year period. As reflected in accountability reports and other assessments, the states are making progress toward reform goals, but only time will tell if they will affect goals such as raising per capita income. The following are several of the concerns/risks.

Sustaining attention to both capacity maintenance and capacity utilization

141. Both states face a challenge of maintaining the balance between funding to maintain capacity and funding for capacity utilization in the public interest. The reports that led to the reforms, the 1997 Assessment in Kentucky and the North Dakota Roundtable Report, made a compelling case that a failure to change–that is, to simply continue business-as-usual–would put at risk in the long term not only the higher education system, but also the states' quality of life and economy. Nevertheless, especially in periods of fiscal crisis such as both states are currently experiencing, the institutions will insist on support for (if not protection of) base funding at all costs, including if necessary abandoning funding for change. This means that institutions will lobby state leaders to abandon budgetary support for both "benchmark" funding to move institutions closer to their peers and special initiative funding for state priorities. Such efforts have already been attempted in Kentucky, but despite these pressures and severe fiscal constraints, the Governor and General Assembly agreed to a budget for the 2002-2004 biennium which retains the basic framework of reform.

142. While the budget process for the 2003-2005 biennium in North Dakota was still underway at the time this paper was written, it appears that the North Dakota Legislative Assembly will continue the basic commitments made in 2001 to support the Roundtable recommendations. The 2001 legislation, SB 2003, called for statements of legislative intent (e.g., regarding a "lump sum" appropriation to the State Board of Higher Education according to a limited number of budget lines, budget carry-over authority, etc.) to be enacted into statute in 2003. The current expectation is that this will not occur but that these provisions will be continued in effect for the next biennium through language of intent in the appropriations bill.

Monitoring and supporting effective institutional governance and financial management

143. As pointed out above, the North Dakota State Board of Higher Education has more direct responsibility for monitoring institutional viability and financial management than the Kentucky

Council on Postsecondary Education. In the likely protracted period of state budget constraints, institutions will face extraordinary fiscal pressures that could threaten their viability–and, thereby, their capacity to contribute to state priorities. Even more likely, institutional leaders may make short-term decisions to curb expenditures or raise revenues that are directly contrary to public priorities. Examples would be decisions to deny access to students from high priority target groups (e.g., low-income students) or to raise tuition and fees without offsetting student financial aid. Under these circumstances, an argument could be made that the Kentucky Council on Postsecondary Education (CPE) should add to its monitoring process indicators related to system and institutional financial health similar to those used in North Dakota (see North Dakota case). The risk of such a move would be that it would draw the CPE directly into institutional governance and a conflict with the statutory authority and responsibility of the institutional governing boards. It could also draw the CPE away from its primary mission of leading the Strategic Agenda and sustaining the momentum of reform.

Conclusion

144. The purpose of this paper was to describe and analyze the role of governments in the U.S. in ensuring higher education institutional viability and enhancing the effectiveness of institutional financial governance and management. Because of the complexity of the variations among the states, it was decided to focus on two states--Kentucky and North Dakota--as case studies of the state/institutional relationship. These states are somewhat typical of two kinds of state/institutional relationship in the U.S. About half the states have "coordinating board" structures similar to Kentucky with decentralized institutional governance coordinated by a policy board. The other states govern most, if not all, of their public institutions through one or more centralized boards such as the North Dakota State Board of Higher Education. In both types of states, maintaining institutional financial viability (basic institutional capacity) is important–not as an end in itself, but as a *means* to achieve public purposes. The trend, as illustrated by Kentucky and North Dakota, is for states to provide institutions with a base level of support and then to rely upon *institutional governing boards* to assume responsibility for institutional financial management and ensuring institutional viability. At the same time, states are increasingly shaping public agendas emphasizing the role of higher education in serving public purposes and are using funding "on the margin" (strategic investment, initiative or other special purpose funding) to leverage the *utilization* of institutional capacity to serve these purposes.

SELECTED REFERENCES

Berdahl, R.O. (1971). *Statewide Coordination of Higher Education*. Washington, D.C.: American Council on Education.

Burke, J.C. and Minassians, H. (2002). *Performance Reporting: The Preferred "No Cost" Accountability Program*. Sixth Annual Report. Albany, N.Y.: The Nelson A. Rockefeller Institute of Government.

Callan, P.M. and Finney, J.E. (1997). *Public and Private Financing of Higher Education: Shaping Public Policy for the Future*. Washington, D.C.: American Council on Education, Oryx Press.

Center for Study of Higher Education Policy (2003). *Grapevine: A National Database of State Tax Support for Higher Education*. Normal, Illinois: Illinois State University. http://www.coe.ilstu.edu/grapevine/Welcome.htm

Commonwealth of Kentucky, Council on Postsecondary Education (2000). *Kentucky Postsecondary Education Funding History: 1980-2002*. Frankfort: Council on Postsecondary Education. http://www.cpe.state.ky.us/keyind/www/index/index.asp

Commonwealth of Kentucky, Council on Postsecondary Education (2003). *2020 Vision: An Agenda for Kentucky's System of Postsecondary Education*. Frankfort: Council on Postsecondary Education.

Commonwealth of Kentucky, Legislative Research Commission, Task Force on Postsecondary Education (1997). *Kentucky Postsecondary Education: An Assessment.* Frankfort: Legislative Research Commission.

Education Commission of the States (ECS) (1990). *The Preservation of Excellence in American Higher Education: The Essential Role of Private Colleges and Universities*. Report of the ECS Task Force on State Policy and Independent Higher Education. John Ashcroft and Clark Kerr, chairmen. Denver, Colorado: ECS.

Education Commission of the States (2002). *State Postsecondary Education Structures Database*. Denver: ECS. http://www.ecs.org/clearinghouse/31/02/3102.htm

Kerr, C. and Gade, M. (1989). *The Guardians: Boards of Trustees of American Colleges and Universities: What They Do and How Well They Do It*. Washington, D.C.: Association of Governing Boards of Universities and Colleges.

Jones D.P. (2003). "Financing in Sync: Aligning Fiscal Policy with State Objectives." Paper Prepared for Western Interstate Commission for Higher Education. Boulder: WICHE. http://www.wiche.edu

Jones, D.P. (1984). *Higher-Education Budgeting At the State Level: Concepts and Principles*. Boulder: National Center for Higher Education Management Systems http://www.nchems.org

Jones, D.P. (2003). "State Shortfalls Projected Throughout the Decade: Higher Education Budgets Likely to Feel Continued Squeeze." *Policy Alert*. San Jose: National Center for Public Policy and Higher Education, February 2003. http://www.highereducation.org

Lamb, J.A. (1986). *An Analysis of the Structure of 1985 State Budget Formulas for Public Higher Education with a Comparison of 1973, 1979, and 1985 Data*. Doctoral dissertation, The University of Tennessee, 1986. Ann Arbor: University Microfilms International.

McGuinness, A.C. Jr. (2002). *An Assessment of Postsecondary Education Reform in Kentucky*. Lexington: Prichard Committee for Academic Excellence. http:www.prichardcommittee.org

McGuinness, A. C. Jr. (2002). "Models of Postsecondary Coordination and Governance in the States," "Reflections on Recent Postsecondary Governance Changes," "State Policy and Postsecondary Education," "Governance and Coordination: Distinction and Definitions." Education Commission of the States. http://www.ecs.org/clearinghouse/31/02/3102.htm

National Center for Public Policy and Higher Education (2002). *Measuring Up 2002: The State-By-State Report Card for Higher Education*. San Jose: NCPPHE. http://www.highereducation.org

National Governors Association Center for Best practices (2001). *Postsecondary Education Reform in Kentucky. Issue Brief.* Washington, D.C.: NGA.http://www.nga.org/center/divisions/1,1188,T_CEN_EDS^C_ISSUE_BRIEF^D_2566,00.html

National Information Center for Higher Education Policymaking and Analysis. http://www.higheredinfo.org

Newman, F. (1987). *Choosing Quality: Reducing Conflict Between the State and the University.* Denver: Education Commission of the States.

North Dakota Legislative Council Interim Committee on Higher Education (2000). *A North Dakota University System for the 21st Century*. *The Report of the Roundtable on Higher Education*. Bismarck: State Board of Higher Education. http://www.ndus.nodak.edu/

North Dakota State Board of Higher Education (1997). *Partners for Progress: The Next Steps*. A Bush Foundation Study. Bismarck: North Dakota State Board of Higher Education.

North Dakota State Board of Higher Education (2002). *Strategic Plan: Creating a University System for the 21st Century*. Bismarck: State Board of Higher Education. http://www.ndus.nodak.edu/

North Dakota State Board of Higher Education (2002). *2nd Accountability Report: Creating a University System for the 21st Century*. Bismarck: State Board of Higher Education. http://www.ndus.nodak.edu/

Richardson, R.C., Bracco, K.R., Callan, P.M. and Finney, J.E. (1999). *Designing State Higher Education Systems for a New Century.* Washington, D.C. American Council on Education, Oryx Press.

APPENDICES

AppendixA
State Grades on State Report Card on Higher Education, *Measuring Up 2002*

STATE NAME	Preparation	Participation	Affordability	Completion	Benefits
Alabama	D-	D+	F	A	C
Alaska	B+	D+	D	F	C+
Arizona	D	B-	D-	C+	B-
Arkansas	D+	D+	C	C-	D-
California	C-	B+	A	C+	A-
Colorado	B	B	C-	C+	A
Connecticut	A	A-	C-	B+	A-
Delaware	C+	B	F	B	A
Florida	C+	D+	D-	B+	C
Georgia	C-	F	D	B	D+
Hawaii	C-	B-	D	C	B-
Idaho	C-	C-	D+	B-	C
Illinois	B+	A	B	B-	B-
Indiana	C-	C+	D+	B-	C
Iowa	B	B+	C-	A	C+
Kansas	B	A-	C-	B-	C+
Kentucky	C-	C-	C	C	C-
Louisiana	F	D	D	D+	C-
Maine	B+	C+	F	B	D+
Maryland	B+	B+	D-	B-	A
Massachusetts	A	A	D-	A-	A-
Michigan	B	B+	D+	C	B+
Minnesota	B-	C+	B	B+	A-
Mississippi	D	D	D	C+	C
Missouri	B-	C+	D+	B-	D+
Montana	A-	D+	F	C	C
Nebraska	B	A	D	C+	C
Nevada	D	C+	D+	F	C-
New Hampshire	B	B-	F	A	B
New Jersey	A	A-	C-	B-	B+
New Mexico	D-	A	C-	D	C
New York	B	B	F	B+	C+
North Carolina	B+	C+	C	B	D+
North Dakota	B	B	D	B	C+
Ohio	C+	C+	F	B-	C
Oklahoma	D+	C+	C	C-	C
Oregon	C	D+	F	C	B
Pennsylvania	B-	B-	D+	A	B-

STATE NAME	Preparation	Participation	Affordability	Completion	Benefits
Rhode Island	C	A	F	A	A-
South Carolina	D+	D+	D+	B	C
South Dakota	C	B-	F	B-	D+
Tennessee	D-	D+	D-	C+	D+
Texas	C+	D+	D+	C-	C+
Utah	A	C	B	C+	B
Vermont	B-	C+	F	A	B-
Virginia	B+	B	B-	B	B
Washington	B-	C-	C-	A-	B
West Virginia	C+	C-	F	C-	F
Wisconsin	A-	B	C	B	C+
Wyoming	C-	B-	D	B	D

Source: National Center for Public Policy and Higher Education. http://measuringup.highereducation.org/

Appendix B

Influence of Governance Relationships on Financing, Budgeting, and Accountability

Function	Institution as State Agency	State-Controlled Institution	State-Aided Institution	Corporate Model for Institutional Governance
Financing	1. All funds received deposited in general fund and subject to appropriation control 2. Fees and charges prescribed by legislature 3. Financial responsibility for higher education operations would be vested solely in state government	1. Operating fee collections deposited in state general fund 2. Tuition levels prescribed by legislature 3. Service and activity fees, auxiliary enterprise revenues, etc. treated as "non-budgeted" funds 4. State government is primarily responsible for financing higher education operations	1. All funds raised by institution are retained by the institution 2. Fees and charges established by institutional governing boards 3. Only state general funds are subject to state appropriation 4. Financial responsibility is shared by state and institution	1. Institutions have total control over all funds 2. State appropriations made to third-party state agency for purposes of contracting for services and enrollment opportunities 3. Ultimate financial responsibility vested in corporate institutions
Budgeting	1. The budget request would reflect a spending plan 2. Specific work-load factors would serve as basis for level of institutional request 3. Relative efficiency would be major criterion 4. Legislature would approve spending level for various programs, major activities, and objects of expenditure within programs and activities. Adherence to approved expenditures would be expected	1. Variety of formulas and incremental bases may be employed 2. Detailed budget requests are prepared and submitted by institution, although major funding decisions are based on activity levels, base budgets, or other broad factors 3. Funding bases tend to be perceived as spending plans rather than funding vehicles	1. State support based on a general allocation formula, e.g., USD /FTE resident student 2. Appropriation is on a lump-sum basis	1. Contract amounts determined through negotiation or external indices 2. Basic state-level budget decisions would be number of spaces or levels of services to be "purchased"

Function	Institution as State Agency	State-Controlled Institution	State-Aided Institution	Corporate Model for Institutional Governance
Accountability	1. Accountability would focus on process considerations–adherence to spending plans, personnel policies, etc.– and relatively little attention would be given to effectiveness of services provided	1. Major focus of oversight tends to be on process considerations with relatively little attention being given to effectiveness of services provided	1. Financial records must be auditable 2. Accountability reporting established as a parallel process and tends to focus more on effectiveness	1. Financial records must be auditable 2. Accountability provisions specified in contract that specifies meaning of "satisfactory performance."

Source: D.J. Curry, N.M. Fischer and T. Jons. (1982) "State Policy Options for Financing Higher Education and Related Accountability Options, Finance Issue Paper no. 2.

Appendix C

State Procedural Controls Affecting State-Higher Education Relationships

Regulatory area	Institution as State Agency	State-Controlled Institution	State-related Institutions	Corporate model
Setting tuition and fees	State legislature sets tuition	State board sets tuition	State board sets tuition guidelines; institutions set tuition	Institutions set tuition; no state guidelines
Handling of tuition revenue	Tuition revenue is deposited in the state general fund; institutions receive budget allocations based on expenditure plan	Tuition revenue deducted from state appropriation	An assumed amount of tuition revenue is included in determining the allocation to the institutions; institutions may retain tuition revenue in excess of estimates within defined parameters	Institutions retain tuition revenue
Purchasing – supplies and instructional materials	All purchases (except for small purchases, e.g., less than USD 1,000) must be made through the state purchasing agency	Institutions are authorized to make purchasing up to a certain amount provided that the funds are in the institution's budget but must follow state purchasing procedures (e.g., competitive bids) All purchasing above that amount must be approved by state agency	Higher education system establishes purchasing requirements separate from state government	Individual institutions may make purchases according to their own policies and not subject to state or higher education system requirements

Regulatory area	Institution as State Agency	State-Controlled Institution	State-related Institutions	Corporate model
Purchasing – major equipment	All purchases must be made through the state purchasing agency	Institutions are authorized to make purchasing up to a certain amount provided that the funds are in the institution's budget but must follow state purchasing procedures (e.g., competitive bids) All purchasing above that amount must be approved by state agency	Higher education system establishes purchasing requirements separate from state government	Individual institutions may make purchases according to their own policies and not subject to state or higher education system requirements
Contracts	All contracts must be entered into according to state regulations (e.g., RFPs and competitive bidding) and approved by a state agency (e.g., department of administration)	All contracts beyond a specific amount must be entered into according to state regulations (e.g., RFPs and competitive bidding) and approved by a state agency (e.g., department of administration)	State higher education board establishes regulations for contracting separately from state government	Individual institutions are authorized to enter into contracts without external review by either state higher education board or state agency
Travel	All travel must be approved by state agency, made through a state-approved agency and only through state-approved providers (e.g., airlines). Travel reimbursement is through the state agency	Higher education institutions are authorized to approve travel but must use state-approved travel agencies and providers; reimbursement is through the higher education institution	Institutions are authorized to approve travel and reimburse travel expenses provided they meet state higher education system requirements	Institutions are authorized to make their own travel arrangements and handle their own travel reimbursements according to their own policies

Regulatory area	Institution as State Agency	State-Controlled Institution	State-related Institutions	Corporate model
Automobiles	Higher education officials must use automobiles through the state-operated motor pool	Higher education officials must purchase or lease automobiles through the state and use them according to state regulations	Higher Education system establishes guidelines for purchase/lease of automobiles, but individual institutions may establish their own policies	Individual institutions establish their own policies
Auditing	Pre-audit of institutional expenditures by a state agency	Post-audit of institutional accounts by a state agency	Post-audit of accounts by a specialized higher education entity or independent auditor	Institutions have internal auditing procedures and utilize an independent auditor
Personnel	All higher education personnel, professional and non-professional, are state civil service employees subject to all requirements and benefits of the state civil service	Only the nonprofessional staff are state civil service members; professional (exempt staff) are employed by the higher education system or institution	All higher education employees are employees of the higher education system or institution and are not subject to state personnel requirements	All higher education employees are employees of the higher education system or institution and are not subject to state personnel requirements
Position control	Institutions are subject to state general government position controls (e.g., each institution has a specific authorized number of positions and must get state agency approval to exceed that number) without regard to the source of funding for the position	Institutions are subject to state general government position controls but are provided flexibility in managing positions within state guidelines and approved budgets; position controls apply only to state-funded positions	Higher education system and institutions are authorized to make personnel decisions subject to system regulations but are exempt from state government requirements	Each institution is authorized to make personnel decisions within their budgets and not subject to external higher education system or state oversight or approval

Regulatory area	Institution as State Agency	State-Controlled Institution	State-related Institutions	Corporate model
Salary schedules and rates	Salaries of all higher education personnel are set by state-approved salary schedules and rates as approved by the state legislature	Salary increases for all higher education personnel are established by state legislature in the budget process; institutions are authorized to make specific salary decisions not subject to state salary schedules	Salary rates and increases are established by a higher education system board but individual institutions make specific salary decisions and rates, subject to overall board approval	Individual institutions make decisions regarding salary rates and increases not subject to review external to the institution
Collective bargaining	The state (e.g., the Governor) handles negotiations for all state employee groups including higher education; the state (e.g., the governor and state legislature) decides on and level of salary adjustments and other changes. Institutions are obligated to implement the negotiated agreements (e.g., providing funding for salary increases whether or not additional state funding is earmarked for this purpose)	State higher education board negotiates agreements for all higher education employees with statewide bargaining agents. State board assumes responsibility for including funding for agreements in budget requests and budget allocations to institutions	State authorizes collective bargaining but the decision to have collective bargaining is made institution-by-institution. No statewide collective bargaining agreement and no statewide bargaining agents	No collective bargaining at the state, system or institutional levels

Regulatory area	Institution as State Agency	State-Controlled Institution	State-related Institutions	Corporate model
Capital projects	All capital projects (e.g., new buildings as well as renovation of existing facilities) are under the control of a state building agency (planning, architectural services, contracting and managing the project)	All capital projects must be approved through a state capital project process, but the higher education system has flexibility regarding selection of architects, contractors, etc., within state regulations	Higher education board approves capital projects above a certain cost, and submits proposals to the state for review. State higher education board is responsible for planning, selection of architects, contractors, etc.	Institutions are authorized to undertake capital projects provided that funding is available

Appendix D
Key Indicators of Progress Toward Postsecondary Reform in Kentucky

1. Are more Kentuckians ready for postsecondary education?
Preparation of Adults
1. Percentage of adults at literacy levels one and two
2. Percentage of adults with less than high school diploma or GED
Preparation of Recent High School Graduates
3. Average ACT scores of high school graduates
4. Percentage of high school graduates taking the ACT
5. Number of college-level courses per 1,000 HS juniors and seniors
6. Percentage of high school students completing the ACT core coursework
7. High school test scores
Affordability (Family Ability to Pay)
8. Affordability indicators from Measuring Up
2. Are more students enrolling?
Postsecondary Enrollment
1. Number of undergraduates
2. Number of graduates/professionals
3. Number of students enrolled in KYVU credit courses
4. Number of "new students" enrolled in KYVU credit courses
College Participation
5. Percentage of the adult population enrolled in KY colleges
6. Percentage of the adult population enrolled in KY colleges from target counties
College-Going
7. Percentage of high school freshman enrolling in college within 4 years in any state
8. Percentage of students attending college directly out of high school from target counties
9. College-going rates of GED completers within two years
3. Are more students advancing through the system?
Persistence and Completion
1. One-year retention rates of first-time freshmen
2. One-year retention rates of under-prepared students
3. Number of community and technical college transfers
4. Average number of credit hours transferred
Graduation
5. Percentage of adults with a bachelor's degree or higher
6. Six-year graduation rates of bachelor's degree students
7. Five-year graduation rates of transfer students

4. Are we preparing Kentuckians for life and work?
Undergraduate Student Experience
1. Selected indicators from the National Survey of Student Engagement (NSSE)
Alumni Satisfaction
2. Undergraduate alumni survey results
3. Graduate alumni survey results
Civic Engagement
4. Selected indicators from the undergraduate alumni survey
5. Selected indicators from the National Survey of Student Engagement (NSSE)
Knowledge and Skills
6. Teacher Preparation Programs
7. Foundational skills
5. Are Kentucky's communities and economy benefiting?
Employment of Graduates
1. Percentage of college graduates working in Kentucky - by level
2. The percentage of out-of-state college students who stay in Kentucky after graduation
Employer and Community Satisfaction
1. Employer and community survey–satisfaction with KY graduates and completers
2. Employer and community survey–satisfaction with postsecondary institutions' support
Research and Development
5. Extramural research and public service expenditures per full-time faculty
6. Total extramural research and development expenditures
7. Federal research and development expenditures
8. Endowment in New Economy research priority areas
9. Expenditures from endowment and gifts in New Economy research priority areas
10. Productivity of research space

Source: Commonwealth of Kentucky, Council on Postsecondary Education. http://www.cpe.state.ky.us

Appendix E
North Dakota University System Performance and Fiscal Accountability Measures

No.	Description
1.a.	Student performance on nationally recognized exams in their fields compared to the national averages
1.b.	First-time licensure pass rates compared to other states.
1.c.	Alumni-reported and student-reported satisfaction with preparation in selected major, acquisition of specific skills, and technology knowledge and abilities.
1.d.	Employer-reported satisfaction with preparation of recently hired graduates.
1.e.	Biennial report on employee satisfaction relating to the university system and local institutions.
1.f.	Ratio of faculty and staff to students.
1.g.	Student graduation and retention rates.
2.a.	Enrollment in entrepreneurship courses and the number of graduates of entrepreneurship programs.
2.b.	Percentage of university system graduates obtaining employment appropriate to their education in the state.
2.c.	Number of businesses and employees in the region receiving training.
3.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.
3.b.	Number and trends of enrollments in courses offered by nontraditional methods.
4.a.	Tuition and fees on a per student basis compared to the regional average.
4.b.	Tuition and fees as a percentage of median North Dakota household income.
4.c.	Cost per student in terms of general fund appropriations and total university system funding.
4.d.	Administrative, instructional, and other cost per student.
4.e.	Per capital general fund appropriations for higher education.
4.f.	State general fund appropriation levels for university system institutions compared to peer institutions general fund appropriation levels.
5.a.	Percentage of total university system funding used for instruction, research, and public service.
5.b.	Percentage of total university system funding used for institutional support, operations, and maintenance of physical plant.
5.c.	Ratio measuring the funding derived from the operating and contributed income compared to total university system funding
5.d.	Ratio measuring the size of the university system's outstanding maintenance as compared to its expendable net assets.
5.e.	Ratio measuring the amount of expendable net assets as compared to the amount of long-term debt.
5.f.	Research expenditures in proportion to the amount of revenue generated by research activity and funding received for research activity.

5.g.	Report on 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.
6.a.	Higher education financing – a status report on higher education financing as compared to the long-term financing plan.
6.b.	Incentive funding, including the allocation and use of incentive funding.
6.c.	State general fund appropriation levels and trends as compared to changes in the state's economy and total state general fund appropriations.
6.d.	An equipment expenditure ratio that measures the total funds used for equipment replacement as compared to the total inventory value (report biennial figures).
6.e.	Percentage of total university system funding used for academic support, student services, and scholarships and fellowships.
7.a.	Workforce training information, including levels of satisfaction with training events as reflected in information systematically gathered from employers and employees receiving training.
7.b.	Partnerships and joint ventures—levels and trends in partnerships and joint ventures between university system institutions.
7.c.	Student goals—levels and trends in the number of students achieving goals—institution meeting the defined needs/goals as expressed by students.
7.d.	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, organization, and agencies served through noncredit activities.
7.e.	Client satisfaction—levels of satisfaction with responsiveness as reflected through responses to evaluations and surveys of clients, a) Graduates and individuals completing programs, b) employers, c) Companies and employees receiving training.
7.f.	Non-completers satisfaction—levels of satisfaction and reasons for non-completion as reflected in a survey of individuals who have not completed their program or degree.
7.g.	Student participation—levels and trends in rates of participation of , a) Recent high school graduates and nontraditional students, b) Individuals pursuing graduate degrees.

Source: North Dakota State Board of Higher Education (2002). 2nd *Annual Accountability Report*. Bismarck: State Board of Higher Education, pp. 53-55.