MINUTES OF THE
HIGHER EDUCATION APPROPRIATIONS SUBCOMMITTEE

WEDNESDAY, FEBRUARY 4, 2004, 2:00 P.M.
Room 223, State Capitol Building

Members Present:	Rep. Bradley T. Johnson, Co-Chair Sen. Bill Hickman Sen. Peter Knudson Sen. Ron Allen Rep. Margaret Dayton Rep. Brad Dee Rep. Kory M. Holdaway Rep. Gregory H. Hughes Rep. Patricia W. Jones Rep. Susan Lawrence Rep. LaWanna "Lou" Shurtliff Rep. Stephen H. Urquhart
Members Excused:	Sen. David Gladwell, Co-Chair
Members Absent:	Rep. Katherine M. Bryson
Staff Present:	Boyd A. Garriott, Senior Legislative Fiscal Analyst Debra Headden, Legislative Fiscal Analyst Rolayne Day, Secretary
Public Speakers Present:	Pres. Michael Benson, Snow College Linda Dunn, Exec. Dir. Utah Campus Compact Scott Gutting, Pres. Energy Strategies Trenton Kemp, Utah Student Assoc. Pres. Happiness Peterson, Utah Student Assoc. Dr. David Pershing, Senior VP, UU John Sutherland, Utah Tech. Advisory Board Jamie Sorenson, UU Bennion Center Dean H. Scott Hinton, USU Engineering Dr. Brent Miller, VP Research, USU Dr. Paul Godfrey, BYU Marilyn Davies, UU Engineering Pres. A. Lorris Betz, UU Mike Glenn, Utah Energy Office Dr. Ron Godfrey, VP, USU Jeff Birks, Utah Energy Office Richie Wilcox, UVSC Student Chalmers Gail, Norris, USHE

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

Committee Co-Chair Johnson called the meeting to order at 2:10 p.m., excused Co-Chair Gladwell, and announced that Sen. Knudson would be acting co-chair for the Senate.

1. Utah Campus Compact Initiative—Pres. Michael Benson, Snow College, introduced people from the Utah Campus Compact (UCC). UCC is comprised of college and university presidents and their campuses who are committed to foster in students the values and skills of citizenship through active involvement in academically based and co-curricular civic and community service. Executive Director Linda Dunn said students take what they have learned and make it real as they become involved in community issues. Dr. Paul Godfrey, BYU Marriott School of Management, said it is a high-payoff investment. In the business field, for example, it makes students better business people and reinforces that professionals can serve their communities and make them better places. Dr. Godfrey said students in one of his business ethics classes developed a database to capture key information about the clients of a Community Action Center. UU Student Jamie Sorenson has found that combining education with the civic component makes the education mean more. Students gain a sense of responsibility and they learn that they can change people's life.

Ms. Dunn said UCC is at a critical crossroad and they need additional funding to carry on the work. Pres. Benson said up to this point, the UU and BYU have funded the director's position. They need to get permanent funding and have asked the Legislature to fund a challenge grant of $100,000 a year for three years.

Rep. Holdaway applauded the effort and asked about some of the national organizations they are affiliated with. Ms. Dunn said they are affiliated with the National Campus Compact out of Brown University and with the Education Commission of the States.

2. Engineering Initiative and Engineering Loan Forgiveness Program—Members of the Technology Advisory Board and others in support of the Engineering Initiative introduced themselves. Analyst Boyd Garriott said this is one of the most successful enterprises the Legislature has engaged in. Schools were required to match the appropriation by the Legislature, and the result has been a great success. Page 27 in the Budget Book details ongoing and one-time funding as well as each school's contributions. There has been a 25% increase in baccalaureate degrees systemwide as well as an increase in masters and doctoral graduates. If money becomes available, the Analyst recommends funding the Engineering Initiative at $1 million. The ongoing budget is protected, but there will most likely be no new funding.

   The second component is the loan repayment program. Students apply for a loan and for each year they work in the state up to four years, the state pays back 25% of their loan. There are no resources to keep funding the loan program although it certainly helps students. Analyst Debra Headden said the money is appropriated to the Board of Regents, but the Advisory Board determines where that money goes. The Legislature needs to allow the Analysts to place the Board's recommendations in the appropriations bill.

   John Sutherland, Technology Initiative Board, said the Engineering Initiative is integral to growing the State's economy. There has been broad impact in terms of technology, innovation, and job creation since the Initiative began in 2001. It is a partnership among education, the state, and industry. Engineering buildings at the UU and USU have been funded through private donations as a result of the Engineering Initiative, and institutions have been able to hire key faculty. They have also successfully eliminated bottlenecks in the system. There is a 65% retention of the graduates staying and working in Utah. Mr. Sutherland noted that a 1% growth in the budget results in a 2% growth in enrollments. They request an additional $2 million in funding.

   Questions and comments were heard from Reps. Dayton, Holdaway, and Jones, Marilyn Davies, UU Engineering, and H. Scott Hinton, USU Dean of Engineering.

3. Reimbursed Overhead for Research and Development—Analyst Debbie Headden said reimbursed overhead is an indirect rate charged for research performed by higher education for state and local government agencies. Utah Code says that the USHE can retain net reimbursed overhead to support institutional research and development. Higher education must account for those expenditures, and they are shown in Appendix D. For FY 2004, the reimbursed overhead budget was $88.5 million with $86.6 million at the University of Utah and Utah State University. Included in the total is carry-forward funding of $12.8 million (Appendix D).

   Dr. Brent Miller, USU V.P. for Research, discussed a handout showing how reimbursed overhead (also called Recovered Facilities & Administration Funds—FA) have been used at USU. The federal government sets the F&A amounts institutions are allowed to recover. F&A funds have been used to improve the research infrastructure that, in turn, leads to new research and development. USU recovered $19.4 million in F&A funds in 2003 mostly in federal and private funding. Dr. Miller discussed how that money was spent as shown on the handout. Over half of the money is recovered through the Space Dynamics Lab which receives no state funding at all. They have also paid construction bonds for the newly completed Optics and Calibration building. USU uses the money to create jobs and to develop enterprises at the research park that currently house 53 businesses and employs nearly 2,000 people, mostly USU students. Hi Track Software is one example of a business that has been grown at USU's research park. It is the most widely-used newborn infant screening system. Dr. Miller discussed other successes from the use of reimbursed overhead funds. F&A funds have been used to acquire faculty and to support current faculty. Student support is also funded to help the best students conduct research projects with faculty mentors. Reimbursed overhead has allowed USU to send more experiments into space than any other institutions in the country.

Mr. Garriott asked what the spin-off companies have returned to the State. Dr. Miller said State law instructs universities to grow companies. The university then owns any resulting patents that they lease to the companies. When the companies are successful, the university earns royalties. USU recovers patent and legal costs, and then shares royalties with the inventor (⅓) and the department (⅓) leaving the university ⅓ of the royalties. Dr. Miller said HJR 12 addresses equity ownership .

University of Utah Pres. Lorris Betz discussed a handout showing the growth of research at the UU ince 1984 when the State decided to begin giving reimbursed overhead funds back to the institutions. The UU has been able to leverage the money quite effectively in five different areas for a total of $53 million in FY 2003. The areas are: Faculty "start ups" and retention (34.6%) , facilities and equipment (22.5%), programs (20.7%), compliance and infrastructure (12.2%), and graduate student support (10.1%). Reimbursed overhead funds can also be used to better compensate faculty who's salaries are 75% of peer institution salaries.

Payoffs come in several areas: (1) graduate students get hands-on training, (2) it fosters a breeding ground for tomorrow's R&D leaders, (3) undergraduates conduct research or do creative work under faculty supervision, and (4) $250 million a year flows into the State's economy. Many disclosures, applications, and patens are issued as a result of the overhead investment, and several spin-off companies generate 4,700 jobs—$600 million in annual revenue—and more opportunities for graduate and undergraduate students. In addition, though harder to measure, biological research has led to a longer and a higher quality of life and we are safer.

Dr. David Pershing, Senior Vice President, talked about the Center for the Integration of Accidental Fires and Explosions that partners with Thiokol Corporation. Overhead funds were used to start this research by hiring faculty, buying equipment, etc. With an investment of $400,000, they have received $20 million in grants to do the research.

Questions and discussion was heard from Sen. Hickman, Reps. Urquhart, Jones, Shurtliff, and Johnson, Pres. Betz, and Dr. Pershing.

4. Technology Initiative—Ms. Headden said one of the Regents' priorities is $1.1 million of on-going funding for software licensing and $1.5 million in one-time funding for equipment upgrades. The Analysts recommend that higher education continue to use the base support of $2.4 million and allocate institution specific costs to colleges and universities. In addition, the Analyst further suggests that the USHE may benefit by leveraging resources—such as UNIX computing platforms, database licenses, and other statewide software contracts—already in place at the State's Division of Information Technology Resources.

5. Fuel and Power—Ms. Headden said that natural gas and electricity rates have increased significantly. Because higher education has more square footage than any other State agency, the Legislature appropriated one-time funding of $3.1 million in FY 2001 and $4.4 million in 2002. She discussed a handout showing historical comparisons of volume and cost per gross square foot. While funding has remained stable, fuel and power rates have risen steadily. The USHE is requesting $11.1 million for FY 2005 and a supplemental appropriation for FY 2004 of $10.4 million. In addition, intent language was adopted directing the USHE to take efficiency measures to reduce fuel and power costs. With no funding increases, institutions have not been able to keep up with efficiencies they would like to implement.

   The analysts pulled together a work group from various industries, state agencies, and the Commissioner's Office to explore ways to deal with the rise in energy costs. The group came up with six recommendations for investigation: (1) Explore whether natural gas production from the School Trust Lands can be sold to public schools and institutions of higher education at cost; (2) Create a state Energy Management Group to manage the procurement process, develop long term energy efficient projects to manage and control energy usage, and negotiate a single contract for all State entities that are eligible for the direct purchase of natural gas, (3) Evaluate whether the State is better served by in-house or third party contracts for the direct purchase of natural gas, (4) Request natural gas utilities to offer a discounted tariff for the State entities that purchase cost-of-service gas, (5) Investigate whether the State could be exempt from paying the utility franchise tax levied by municipalities, and (6) Request electric service providers to offer a "State" electricity tariff that is discounted from the current rates the State pays for power.

In addition, the Analysts recommend intent language as follows for FY 2005:

It is the intent of the Legislature that the State Board of Regents be directed to closely supervise the fuel and power budgets with the intent of promoting greater energy efficiency on each campus. It is also the intent of the Legislature that the Board of Regents report during the interim to the Subcommittee on Higher Education on the implementation of long-term plans to control and manage energy costs. It is further the intent of the legislature, that the energy work group consisting of members from higher education, the Office of the legislative Fiscal Analyst, and the Governor's office of Planning and Budget continue to develop a viable plan to manage the energy costs for all State entities including higher education and public education, and report to the Higher Education Appropriations Subcommittee in the interim.

The Analysts recommend that, if additional funding is found, $2 million in State funding for FY 2005 be appropriated to help address the fuel and power problem. Mr. Garriott said the schools are paying the fuel and power bills, so the money comes from internal reallocations in a variety of areas. At some point in time they need to pay back these areas. It becomes more complicated because the UU and USU have borrowed from power funding to pay for infrastructure so the savings from the new facilities goes to amortize the debt.

Scott Gutting, President of Energy Strategies, said institutions have done a good job trying to keep costs down. Despite that, statistics show double-digit increases in natural gas and power in the last three years. It is possible for the State to be exempted from the utility franchise tax, but there are consequences that need to be debated. There is room for more efficiency since new technology is developed all the time. Dr. Ron Godfrey, USU, distributed a handout showing that USU will have borrowed $5 million from themselves for fuel and power costs by the end of the year. Rep. Holdaway asked if the institutions could get a price break on an individual basis. Ms. Headden said the UU gets fuel from the well-head, so it is already getting the best price. Mr. Garriott said they would like to put everyone together to help all get a good price break. Dr. Godfrey said it might backfire because some industries have made great strides in efficiencies, but the power companies then charge them a higher price because they don't use as much fuel. Rep. Johnson said to remember that the higher education budget is over $800 million dollars already.

6. Continuation of Tuition Issues Discussion—Trent Kemp, President of the Utah Student Association and the Utah Council of Studentbody Presidents, said students aren't opposed to a tuition increase, but they want the Legislature to do their part. The schools are managing, but barely, and students are concerned about the quality of education. Students agree to pay the recommended tuition increases as long as it goes towards unfunded students and faculty salaries. He noted that students cannot get into an English class today at SLCC because there is a two semester waiting list for all available sections. Rep. Johnson asked what the Legislature should do to raise the money to meet the students' demands. Mr. Kemp said higher education should be a higher priority for the Legislature than it is right now. In today's society, a bachelor's degree is equivalent to a high school diploma of the past. The Legislature puts public education at a higher priority than higher education, and he feels that higher education should be equally as important. UVSC student Richie Wilcox said tuition has increased 60% over the last few years at UVSC. Brent Nelson, SUU student, asked the Committee to look at different opportunities for higher education funding. Students are planning a run on February 17 and 18 from the bottom of the state to the top via each USHE institution with the purpose of drawing attention to higher education's need for more funding. On the 20th, students will run from the University of Utah to the Capitol to present the letter to the House and Senate.

Mr. Garriott discussed a graph on Page 13 of the Budget Book showing tuition increases in Utah compared to the CPI. The average debt to students after graduation is about $15,000. Mr. Garriott said the Committee needs to discuss whether the half percent in tuition that goes for financial aid should be born by students. It is the Analysts' opinion that it is the State's obligation, not the students'. It is the Analysts' recommendation that this be taken out and that the State needs to provide financial aid. He also called attention to a bill on full tuition disclosure by Rep. Bigelow.

Mr. Garriott said high tuitions are forcing high indebtedness on students. Rep. Lawrence said there is inconsistency in the education system. Traditional thinking is that the State is obligated to educate and fund every student in K-12, but not those in higher education. On the other hand, institutions have such open-door policies, it tells the citizens that they can all go to higher education. If all are admitted, they should be funded. Rep. Hughes said that is a worthy

goal, but the average Utah tax payer is in their early 20s. In Wisconsin, the average is 50. Utah doesn't have a tax base that can support a K-16 policy. Parents need to know how critical college preparation is and that it is costly.

Rep. Jones said parents tend to wait until children are in junior high school before planning for college rather than when the child is born. Students need to be in class and take their education seriously. Taxpayers are helping put students in a class, so students need to be there. She feels it is one of the roles of the Higher Education Subcommittee to inform the public of the realities and responsibilities of funding higher education. Mr. Garriott said some states use property taxes to fund higher education; that and other ideas should be discussed. Rep. Johnson said one problem is that the federal government owns so much land in Utah.

Chalmers Gail Norris, USHE, said a lot of state's have put money into financial aid because about half of the students cannot keep up with tuition. The thinking is that these students will eventually make a positive contribution to society and it is a good investment. He said the USHE has set up a Web site (utahmentor.org) to help middle school students begin preparing for college. They are trying to respond to the need for better communication and education for students. The college savings plan is gradually gaining momentum to help more families pay for education. The Commissioner's Office is working on a physical library at the Board of Regents office to help parents and students plan for college.

MOTION: Rep. Shurtliff moved to adjourn.

Committee Co-Chair Johnson adjourned the meeting at 4:58 p.m.

Minutes were reported by Rolayne Day, Secretary.

Sen. Peter Knudson, Acting Committee Co-Chair	Rep. Bradley T. Johnson, Committee Co-Chair