Committee Minutes

Date: **February 9, 2000**
Time: **9:23 a.m.**
Room: **105-A - SH**

The Senate Committee on **Education** held a hearing on the following:

SB 366 **requiring an external financial audit of the university system of New Hampshire when the university system requests an appropriation that exceeds the prior appropriation by more than one percent.**

Members of Committee present: ***Senator McCarley***
Senator Eaton
Senator Disnard
Senator Johnson
Senator Squires

The Chair, **Senator Caroline McCarley,** opened the hearing by calling on the prime sponsor of the bill, Senator Krueger, as the first speaker.

Senator Patricia Krueger, D. 16: Before I begin my very brief testimony on this bill, I wanted to let you know two things. One, this piece of legislation was modeled on legislation that I came in contact with at an **ALEC** Conference.

It was adopted by other states – not punitively, which it might look like at first glance – but, more to insure the fact that students that were attending the university systems, were more cognizant of the need for tuition increases.

Second of all, I wanted you to know that I, myself, was an administrator at **Keene State College** for 5 years, received my masters prior to that at **Keene State College** and two of my children have undergraduate degrees from the

University of New Hampshire and one has a masters' degree. I am well aware of the budget constraints of the University system. I not very long ago participated in the presentation by the **Chairman of the Board, Bruce Keough** and I was impressed with everything about the University itself and the entire system and what the entire system is doing to try to educate the young people and older adults in the **State of New Hampshire**.

That being said, the reason for the introduction of this bill was to insure the fact that the public has disclosure when – in fact – the university system has a request that exceeds the prior appropriation year more than one percent allowing cost of living increases. It is very difficult for the general public to get behind increases unless they're fully aware of this.

When an increase in anyone's budget – whether it be private enterprise, the state budget....As part of that, the university system, it would seem to me to be more apropos that when there is an increase, to have an outside audit because then you're providing the public with information. In fact, research will show – as far as this particular piece of legislation goes – that when enacted, the universities in question actually were able to garner more support.

So, I just want the people that will follow to clearly understand the motive behind it.

Certainly, in any budget, there are areas where savings can be found. At the same time, I must add that I also believe that there are areas that are so under funded – either within the state budget, the university system budget, etc. And, I'm not sure then an outside audit would not give more clarity to all of these concerns.

That's all I have to say.

Senator George F. Disnard, D. 8: Senator, I was intrigued when you said the ALEC group – where you picked up some information. What percent of the university system budgets in those states does the state pay?

Senator Patricia Krueger, D. 16: That's a very good question, Senator. I think that being a state system, obviously, the commitment made by the states varies greatly. But, the percentage tuition versus foundation grant,

etc., versus state commitment, I would have to agree with you because I can hear the implication in your question – that our commitment is very low.

Senator George F. Disnard, D. 8: Thank you for recognizing that that commitment is very low. That we only pay 25% or 26% of the cost of the university system.

I noticed in the fiscal note, it could go over one hundred/one hundred and fifty thousand dollars minimum. Are you suggesting that the state pay for this?

Senator Patricia Krueger, D. 16: Well, yes I am.

Senator George F. Disnard, D. 8: Would you submit an amendment for that?

Senator Patricia Krueger, D. 16: Well, I think it is in here.

Senator George F. Disnard, D. 8: Excuse me. I'm sorry. I didn't see that .

Senator Patricia Krueger, D. 16: No, I expect that the state will and I think that maybe the state would find it very interesting what an external audit might find in the university system. I think, and maybe in fact, the state would be embarrassed because of the lack of financial commitment that it has been able to offer the university system.

I don't think that there's anyone that believes that the university is struggling. Right now, within its own ranks, there are contract problems, etc. But, the general perception out there always – whether it's the university system, a state system, a school system – you just heard it in the prior testimony – that there is not enough justification for asking tax payers to spend more.

I would suspect that something like this would be an asset. And, in fact, in some cases (I would add), has been utilized by other universities throughout the country proving the point that in some cases, they needed to do some housekeeping in some ineffective areas and there were places where the case was to be made for increased spending.

Also, sometimes it hard for a university system to look critically at some of its areas or have an internal review. Sometimes there are departments that don't pay.....Well, none of them really pay for themselves, but definitely don't pay for themselves, but they are critical to improving the offerings that the university might have.

An audit like this would take that into consideration.

Senator Caroline McCarley, D. 6: Follow up, Senator Disnard?

Senator George F. Disnard, D. 8: No, I get it. Thank you.

Senator Caroline McCarley, D. 6: Further questions for **Senator Krueger**? *(No Response).*

Merle Schotanus, Vice Chairman – Financial Affairs Committee – University System: *(SEE ATTACHED WRITTEN TESTIMONY #1).*

Senator Caroline McCarley, D. 6: Any questions for **Mr. Schotanus**? *(No Response).*

Thank you. Chancellor Bill Farrell?

Chancellor William Farrell – University System: Let me begin by saying that I, and I believe all the trustees of the University System, would agree with **Senator Krueger's** remark that applying this committee – and, indeed, the general court – with as much information as we possibly can, is a good thing. Not only because we're supposed to do it, but because we think it is in our interest to do it. *(SEE ATTACHED WRITTEN TESTIMONY #2)*

Senator Caroline McCarley, D. 6: Thank you. Questions for the Chancellor? *(No Response).*

Dick Bouley?

Dick Bouley, Representing the American Association of University Professors: We are also in opposition to this bill. We think it is a

needless expense. If there is money available from the general fund, I think it could be used in those ways.

I just don't see any real purpose in spending money for this extra audit and we would like to be on record as in opposition.

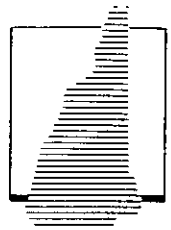
Senator Caroline McCarley, D. 6: Thank you. Questions for **Mr. Bouley**? ***(No Response).***

That's the last speaker on **366**, so I will close the hearing.

Hearing adjourned at 9:48 a.m.

Respectfully submitted,
Rosalie Brooks Patch, secretary

#1



THE BOARD OF TRUSTEES

Testimony by Merle Schotanus, Vice Chairman of the Financial Affairs Committee of the Board of Trustees of the University System, re. Senate Bill 366, "requiring an external Audit of the University System ...," at a Hearing Before the Senate Education Committee at 9 a.m., February 9, 2000, in State House Room 105.

Madame Chairwoman and Members of the Education Committee:

My name is Merle Schotanus, and I am Vice Chairman of the University System Board of Trustees' Financial Affairs Committee.

RSA 187-A:16 charges the Board of Trustees with, and I quote, "the management and control of all the property and affairs of the University System ." The financial affairs of our institutions are clearly a most important part of that responsibility.

A well-informed understanding of the facts surrounding the financial health and needs of our institutions is essential if we are to have the support of the Legislature -- and the people of New Hampshire – in financing the programs and the future directions of their University and State Colleges.

Concerns about steady increases in higher education operating costs . . . about the affordability of our colleges and universities . . . and about the impacts these costs have on the ability of young people to go college . . . are shared not only by the Trustees but by legislators, governors, educators, parents, students and citizens throughout New Hampshire and across the nation.

We appreciate that these concerns place a special obligation upon the Trustees to account fully and frankly to the Legislature and to the general public on our use of State funds, tuition income, and all other revenues we receive.

We use a number of tools to provide the Legislature and the people of New Hampshire with detailed financial information about our institutions.

- RSA 187-A:25-a directs the Trustees to engage an independent, external auditing firm to conduct an annual audit of the financial operations of the University System. Currently, this State-mandated audit of the financial condition of the University System is performed by PricewaterhouseCoopers (PwC), one of the five largest and most respected auditing firms in the country.

Upon completion of their audit, we publish an Annual Financial Report, copies of which, by law, are submitted to the Governor and to the Legislative Fiscal Committee along with the full comments of the external auditors (as directed in RSA 187-A:25-a). We also produce a condensed edition of this Annual Financial Report, copies of which are widely distributed and are available to anyone who wishes one.

- In addition to this annual audit, RSA 187-A:22 requires the Trustees to provide the Governor and the Legislative Fiscal Committee – at the close of each quarter of the fiscal year -- a Report detailing expenditures in major categories for each institution of the University System. By law, this quarterly report compares the budgeted and actual expenditures in the current year to those at the end of the same quarter in the prior year.

- These annual audits are compiled under the supervision of the Trustees' Audit Committee, whose membership and responsibilities are spelled out in RSA 187-A:25-a. Each audit is submitted to the Audit Committee and examined in considerable detail.

- Each biennium, the Trustees and the Chancellor and Presidents of the institutions appear before, initially, the Governor's Budget Committee and, subsequently, before the House and Senate Education and Finance Committees to explain, justify and receive guidance with respect to the University System's operations, proposed budgets, and requests for state funding. These sessions provide opportunity for legislators to question and discuss any matter related to the University System finances and operations.

- Finally, the Board of Trustees and our institutions work closely with the Legislature's special Public Higher Education Study Committee — a permanent committee charged with on-going examination of "the goals, purposes, organization and financing of the University System" for the purpose of making recommendations to the General Court.

We believe the Legislature has already put in place effective tools – the annual audit, quarterly reports, legislative committee hearings, and so forth -- to scrutinize the financial conditions of the University System institutions. But if the collective wisdom of this Committee and the Legislature finds that an additional audit would provide compelling and convincing proof of our effectiveness in the use of state funds, then we would certainly be willing participants in such a process.

We do have some questions about Senate Bill 366. This legislation sets out certain conditions under which the Legislature would be required to undertake an additional audit of each institution within the University System.

I would ask that your deliberations give careful attention to the conditions cited in SB 366 that would trigger an additional external audit. SB 366 would require an additional audit:

Number 1— Whenever an institution of the University System requests a state appropriation that exceeds by more than one percent any moneys received in the prior fiscal year, except for "cost-of-living increases," and

Number 2 — Whenever an institution of the University System "requests authorization" for a tuition increase that exceeds the previous fiscal year's tuition by more than one percent.

Each condition poses some significant issues.

Provision Number 1, for instance, establishes cost-of-living increases as a base for triggering an additional external audit. We would point out that the detailed process under which the Trustees develop the University System's biennial request for state appropriations begins a full year before the start of the approaching biennium. Additionally, the instructions of the Governor and the Legislature currently require that our request for state funding must be completed and in the hands of the Legislative Budget Office by October 1 preceding the next biennium.

Provision Number One, however, would require that some official authority predict -- many months in advance -- precisely what the national consumer price index (or "cost-of-living") increase will be during each year of the next biennium.

We do not know of any governmental or private agency which can — or would —make firm projections of changes in the Consumer Price Index or more appropriately the Higher Education Price Index, for future years.

Provision Number Two of SB 366 would mandate a special audit whenever a University System institution "requests authorization" for tuition increases exceeding one percent.

Under the powers granted in RSA 187-A, the Board of Trustees determines the tuition charged by each institution of the University System. The matter of setting tuition rates is – and always has been – an essential responsibility of the Trustee. If the Trustees are to "have the management and control of all the property and affairs of the University System," as the law states, then authority over tuition rates is central to that control.

Moreover, the Board of Trustees requires that, at a minimum, tuition and fees charged to out-of-state must cover the full costs of their education. This policy has been in place for several decades and was established at the request of previous legislatures. We have no indications that this Legislature or the people of New Hampshire wish to change the policy.

The policy necessitates an increase in out-of-state tuition each year that educational expenses increase. Given the economic circumstances of the past half-century and what can be foreseen in the coming years, annual increases in out-of-state tuition are almost inevitable if our out-of-state students are to continue to pay their full costs. This means that provision Number Two of SB 366 would automatically trigger a special audit each year.

In closing, let me express to the members of this Committee our appreciation for your close, direct involvement in overseeing the financial health and well-being of our institutions. We believe that existing State law and Trustee policy do provide significant opportunities for the Legislature to effectively monitor, scrutinize and verify the financial facts surrounding the decisions of our Board and our institutions.

But if in your final judgment that is not the case, then let us work together to make the improvements that would seem helpful to you and to the University System.

Thank you.

#2

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Testimony by University System Chancellor William J. Farrell re. Senate Bill 366, "requiring an external audit of the University System . . .," at a Hearing Before the Senate Education Committee at 9 a.m., February 9, 2000, in State House Room 105.

Members of the Senate Education Committee:

I am William J. Farrell, Chancellor of the University System of New Hampshire.

As Trustee Merle Schotanus has indicated, the University System is prepared to engage in any effort that will help the General Court have full knowledge of our financial operations and our uses of the funds we receive from the State and the tuition paid by our students.

Mr. Schotanus has described the audit processes already in place to provide assurance to the Legislature that the Trustees are accountable for the prudent and effective uses of these funds. He has also mentioned the key concerns the Trustees have with regard to the language and implications of Senate Bill 366.

I think it is important to note that the financial records of the University System follow what is known as the Generally Accepted Accounting Principles (GAAP) used by business, industry and government to provide consistent, reliable financial reporting systems.

In addition, our accounting systems also follow the financial accounting and reporting procedures established by the National Association of College and University Business Officers to enable an "apples-to-apples" comparative analysis of expenditures among comparable higher education institutions.

Mr. Schotanus has explained the external audit of the University System's financial books performed by PricewaterhouseCoopers each year. This audit and our Annual Financial Report provide valuable and useful information for detailed examination of our expenditures, and to verify the financial condition of our institutions.

A substantial array of higher education cost data is already available to assess the manner in which colleges and universities use their funds. Trends and valid comparisons can be made for every functional area and each expenditure category of our institutions.

The Trustees and administrators of our institutions make these kinds of comparative cost studies on a regular basis. The analyses consistently demonstrate that the operating expenses of our University and State Colleges are well below those of comparable universities and colleges.

We firmly believe that our financial records are comprehensive and credible. Providing this high degree of accountability is not inexpensive, and I would caution that the costs to the State's General Fund for the additional audits proposed under SB 366 would be substantial — in the range of several hundred-thousand dollars for each audit. Moreover, our institutions would themselves have to invest a substantial amount of extra time and effort to assist the firm conducting such audits.

In light of the number of financial documents and processes already in place to account for University System expenditures, I would suggest that more effective, less costly ways can be identified to help assure the Legislature that the University System is making prudent use of its funds and accurately describing its financial needs.

Because SB 366 focuses on tuition, I would call to the attention of this Committee the extensive conversations we have had with the Governor and the Legislature in recent years regarding this matter. As you know, the University System has but two primary sources of funding — state support, and the tuition revenues provided by its students — for our basic instructional, research and public service programs.

Throughout most of the 1990s, the proportionate share of our operating expenses underwritten by the State has declined, and the share of that expense borne by students has consequently increased.

Our Trustees and our institutions are keenly aware of the serious impacts that rising costs have on students and their parents. We have called attention to the obstacles which high tuition pose for the young people of our state who need the knowledge and skills that a college education provides.

We have been vigorous in our efforts to keep costs down. We have contained and trimmed the operating costs of our institutions in every way that we could without inflicting serious harm on the quality of the educational programs we offer to our students.

We raise tuition charges with the greatest reluctance, and we have vigorously expanded our student financial aid programs to ease the impacts of those increases.

We have labored to keep our institutions affordable and attractive to students. Maintaining that affordability and attractiveness is, after all, essential to the very existence and cost-effectiveness of our institutions.

With the understanding and support of the Governor and the Legislature, we recently embarked on a program to achieve a level of state funding that will enable us to hold tuition increases to within one or two percent above the current Consumer Price Index.

That seems to be the objective that underlies Senate Bill 366. If the mutual efforts of the Legislature and the Trustees can be brought to fruition, is there need to create a much more cumbersome, duplicative and expensive process to accomplish goals to which we have already committed ourselves?

I thank you for your attention and for the opportunity to comment on SB 366.

Speakers

SENATE EDUCATION COMMITTEE

Date 2/9/00 Time 9:00 A.M. Public Hearing on SB 366-FN

Appearing in FAVOR: (Please print) Please check box at left to speak.

Speaking?	Name	Address	Representing
☒	Sen Ken Eastman	Dist 16	
☐			
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Appearing in OPPOSITION: (Please Print) Please check box at left to speak.

☑	(Trustee) Merle Schotanus	Gantham	USNH
☑	(Chancellor) Bill Farrell	Durham	USNH
☑	Dick Bonley	UNH	AAUP
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Committee Report

Date: February 9, 2000 Time: 9:23 a.m.

The Senate Committee on Education held its hearing in Room 105- A - SH, Concord, New Hampshire.

BILL NO.: SB 366 TITLE: requiring an external financial audit of the university system of New Hampshire when the university system requests an appropriation that exceeds the prior appropriation by more than one percent.

Members of the Committee present:

Senator McCarley
Senator Eaton
Senator Disnard
Senator Johnson
Senator Squires

Those appearing in favor:

Name and Address	Representing
See Attached.	

Those appearing in opposition:

Name and Address	Representing
See Attached.	

REPORT OF THE COMMITTEE:

- ☐ Ought to Pass
- ☐ Ought to Pass w/ Amendment
- ☒ Inexpedient to Legislate
- ☐ Interim Study
- ☐ Continued Hearing
- ☐ Postponed Hearing

STATE OF NEW HAMPSHIRE

SENATE

REPORT OF THE COMMITTEE

Date:

THE COMMITTEE ON **Education**

to which was referred **Senate Bill 366-FN**

AN ACT **requiring an external financial audit of the university system of New Hampshire when the university system requests an appropriation that exceeds the prior appropriation by more than one percent.**

VOTE: **5-0**

Having considered the same, report the same with the following resolution:
Resolved, that it is: **INEXPEDIENT TO LEGISLATE.**

Senator Caroline McCarley
For the Committee