

HIGHER EDUCATION FUNDING FORMULA REVIEW COMMITTEE

The Higher Education Funding Formula Review Committee was assigned to study the higher education funding formula pursuant to House Bill No. 1029 (2019). The study was to include the appropriateness of certain credit-hour weighting factors and the potential or need for additional weighting factors. The Higher Education Funding Formula Review Committee was to report to the interim Higher Education Committee regarding the study.

Committee members were Representatives Mark Sanford (Chairman), Tracy Boe, and Bob Martinson, Senators Ray Holmberg, Karen K. Krebsbach, and Larry J. Robinson, and citizen members Bruce A. Bollinger, Rebecca Collins, Tammy Dolan, Jed Shivers, and Brent Winiger.

BACKGROUND

The Legislative Management has established a higher education committee each interim since 1999. These committees have reviewed higher education funding, expectations of the North Dakota University System, and accountability and reporting measures for the University System. The committees, at times, gathered input through the use of a higher education roundtable, which consisted of members of the higher education committee and representatives from the State Board of Higher Education, business and industry, the executive branch, and higher education institutions, including tribal and private colleges.

University System Information

The University System consists of 11 higher education institutions under the control of the State Board of Higher Education. Of the 11 institutions, 2 are doctoral-granting institutions, 2 are master's-granting institutions, 2 are universities that offer baccalaureate degrees, and 5 are colleges that offer associate and technical degrees.

The University System reported fall 2019 total degree credit headcount enrollment of 44,938 students and a total degree credit full-time equivalent (FTE) enrollment of 35,353 students, compared to fall 2018 headcount enrollment of 45,882 students and FTE enrollment of 36,603 students.

State Appropriations

Legislative appropriations for the 2019-21 biennium for higher education institutions and the University System office totaled \$2,999,878,919, of which \$660,517,805 was from the general fund. Of the total general fund appropriation amount, \$11,850,000 was considered one-time funding. The following is a history of legislative appropriations for higher education since the 1997-99 biennium:

Biennium	General Fund	Special Funds	Total
1997-99	\$306,825,098	\$323,595,863	\$630,420,961
1999-2001	\$334,449,287	\$713,538,799	\$1,047,988,086
2001-03	\$366,953,836	\$80,367,201	\$447,321,037
2003-05	\$364,029,938	\$110,546,775	\$474,576,713
2005-07	\$387,157,893	\$178,552,108	\$565,710,001
2007-09	\$472,036,237	\$165,419,701	\$637,455,938
2009-11	\$593,355,047	\$202,764,364	\$796,119,411
2011-13	\$657,838,539	\$108,817,759	\$766,656,298
2013-15	\$910,632,494	\$177,980,941	\$1,088,613,435
2015-17	\$837,849,212	\$66,644,264	\$904,493,476
2017-19	\$679,438,630	\$2,059,950,275	\$2,739,388,905
2019-21	\$660,517,805	\$2,339,361,114	\$2,999,878,919

NOTE: The special funds amounts for the 1997-99 biennium reflect the appropriation of tuition income. The special funds amounts for the 1999-2001, 2017-19, and 2019-21 bienniums reflect the appropriation of tuition and local funds.

The following is a summary of ongoing and one-time general fund appropriations for the University System since the 2007-09 biennium:

Biennium	General Fund Appropriations		Total
	Ongoing Appropriations	One-Time Appropriations	
2007-09	\$443,654,169	\$28,382,068	\$472,036,237
2009-11	\$534,062,895	\$59,292,152	\$593,355,047
2011-13	\$606,525,437	\$51,313,102	\$657,838,539
2013-15	\$679,271,846	\$231,360,648	\$910,632,494
2015-17	\$681,876,059	\$155,973,153	\$837,849,212
2017-19	\$613,242,154	\$66,196,476	\$679,438,630
2019-21	\$648,667,805	\$11,850,000	\$660,517,805

Education Funding Methods

Long-Term Financing Plan and Resource Allocation Model (2001-03 Biennium Through 2011-13 Biennium)

The 1999-2000 Higher Education Roundtable recommended the State Board of Higher Education and the chancellor of the University System develop a long-term financing plan and resource allocation model. As a result, the board contracted with the National Center for Higher Education Management Systems for assistance with the development of the plan and model. The board reviewed the recommendations of the National Center for Higher Education Management Systems and adopted a long-term financing plan consisting of base operating funding, incentive funding, and capital asset funding components. The following is a description of the long-term financing plan and resource allocation model that was used for the 2001-03 biennium to the 2011-13 biennium.

Base operating funding component - The base operating funding component of the long-term financing plan provided funding to each higher education institution to support core campus functions, such as instruction, research, and public service. The funding for each institution was based on the institution's current state general fund appropriation with general fund appropriation increases to address parity and equity. Parity funding was to be used to continue current programs and services, including salaries, benefits, and inflationary increases. Equity funding was to be distributed to institutions based on a funding comparison to peer institutions.

Incentive funding component - The incentive funding component of the long-term financing plan included funding for the State Board of Higher Education to support state and system priorities consistent with the goals of the Higher Education Roundtable.

Capital asset funding component - The capital asset funding component of the long-term financing plan provided funding to each higher education institution for maintenance and replacement of facilities and infrastructure. The funding provided to each institution was left to the discretion of the institution with appropriate approvals by the State Board of Higher Education for projects greater than \$250,000. Each institution was given the authority to allocate funds for repair and replacement priorities for both deferred maintenance and regular repair and replacement projects as determined by the institution. Institutions were allowed to continue unspent capital asset funding from one biennium to the next to complete the projects started in one biennium but not completed until the next and to accumulate funds to complete large projects that require multiyear funding. The capital asset funding component was applied to new state buildings on campuses; however, no new operating funds were added to the base operating budget for operating costs if the operating base was already at the benchmark target.

Adjusted Student Credit-Hour Funding Method (2013-15 Biennium Through 2019-21 Biennium)

The Legislative Assembly, through Senate Bill No. 2200 (2013), adopted a new higher education funding method beginning with the 2013-15 biennium based on an adjusted student credit-hour calculation. The calculation involves multiplying a base amount per student credit-hour by an adjusted student credit-hour calculation for each institution. The resulting equalized base budget is then adjusted for inflation to determine total funding for an institution.

The adjusted student credit-hour amount for an institution is determined as follows:

1. Completed student credit-hours are determined for each institution. A completed credit-hour is one for which a student met all institutional requirements and obtained a passing grade.
2. A weighted completed student credit-hour calculation is determined by multiplying each institution's completed student credit-hours by an instructional program classification factor. The factor amount for each program classification is based upon historical costs of instruction in each program.
3. The weighted completed student credit-hour amount for each institution is adjusted for:
 - a. A credit completion factor based on total credits completed at an institution. Institutions that have a lower credit-hour output receive a greater weighting factor.
 - b. An institutional size factor based on the square footage of facilities at an institution. Institutions that have a large amount of infrastructure may receive an additional factor adjustment.

The adjusted student credit-hours are multiplied by a base per-credit amount which varies based on institution type. The following is a summary of the base rates for each institution:

Institutions	Biennial Base Rate Per Credit-Hour		
	2015-17	2017-19	2019-21
North Dakota State University, University of North Dakota	\$72.63	\$58.65	\$60.87
Dickinson State University, Mayville State University, Minot State University, Valley City State University	\$107.33	\$86.95	\$90.98
Bismarck State College, Dakota College at Bottineau, Lake Region State College, North Dakota State College of Science, Williston State College	\$114.88	\$93.03	\$97.06

Through June 30, 2019, the calculation of funding through the adjusted student credit-hour funding method was to ensure an institution would not receive less than 96 percent of the state funding to which the institution was entitled during the previous biennium. The minimum amount payable requirement resulted in an additional \$710,879 appropriation for Minot State University for the 2019-21 biennium, \$2,309,626 for Dickinson State University for the 2017-19 biennium, and \$972,723 for Dickinson State University for the 2015-17 biennium. The minimum amount payable requirement was not continued by the 2019 Legislative Assembly for use in the funding formula calculation for the 2021-23 biennium.

Under the adjusted student credit-hour funding formula, funding for extraordinary repairs is included in the base amount determined by the formula; however, funding for major capital projects is appropriated separately from the formula. The Legislative Assembly appropriated \$11,117,046 from the general fund for extraordinary repairs under the adjusted student credit-hour funding formula. This funding is considered Tier I funding and must be matched by the institutions with \$2 from operations or other sources for each \$1 of appropriated extraordinary repairs funding used for a project.

In addition to appropriating funding for specific capital projects, the 2019 Legislative Assembly established a capital building fund program for the 2019-21 biennium. The Legislative Assembly appropriated \$10 million from Bank of North Dakota profits as Tier II funding under the capital building fund program. The Tier II funding is appropriated directly to each institution and must be matched by the institutions with \$1 from operations or other sources for each \$1 from Bank of North Dakota profits. The Legislative Assembly appropriated \$9 million, including \$7 million from Bank of North Dakota profits and \$2 million from the general fund, as Tier III funding under the capital building fund program. The Tier III funding is appropriated to the University System office, to be allocated to the institutions as matching funds are committed and must be matched by the institutions with \$2 from operations or other sources for each \$1 appropriated as Tier III funding. After an institution has matched 75 percent of the funding appropriated from the general fund as Tier I for institution extraordinary repairs and subject to State Board of Higher Education approval, each institution may use money from Tier II and Tier III of its capital building fund for extraordinary repairs and deferred maintenance projects that do not exceed \$700,000 and do not increase the square footage of a building. In addition, the Legislative Assembly authorized the use of capital building fund money for specific capital projects at Lake Region State College, the North Dakota State College of Science, Minot State University, Valley City State University, and Dakota College at Bottineau.

Preliminary 2021-23 Biennium Funding Formula Calculations

The 2021-23 biennium higher education funding formula calculations will be based on student credit-hours completed during the 2017-19 biennium. The preliminary calculations for the 2021-23 biennium based on current law indicate 7,582,996 adjusted student credit-hours were completed at institutions during the 2017-19 biennium. This represents a decrease of 567, or 0.0 percent, in completed adjusted student credit-hours from the 2015-17 biennium.

The following preliminary funding formula calculations are based on current law for the 2021-23 biennium:

Institution	2019-21 Biennium Base Funding	2021-23 Biennium Preliminary Funding Formula Calculation	Increase (Decrease)	
Bismarck State College	\$31,068,227	\$27,911,447	(\$3,156,780)	(10.2%)
Dakota College at Bottineau	7,740,826	9,134,608	1,393,782	18.0%
Lake Region State College	12,945,280	13,442,616	497,336	3.8%
North Dakota State College of Science	36,542,022	34,679,441	(1,862,581)	(5.1%)
Williston State College	10,067,743	9,782,774	(284,969)	(2.8%)
Dickinson State University	18,393,063	19,226,621	833,558	4.5%
Mayville State University	16,420,616	18,242,764	1,822,148	11.1%
Minot State University	39,896,693	39,966,149	69,456	0.2%
Valley City State University	22,658,933	21,798,535	(860,398)	(3.8%)
North Dakota State University	132,714,983	132,685,887	(29,096)	(0.0%)
University of North Dakota	202,539,508	202,951,415	411,907	0.2%
Total	\$530,987,894	\$529,822,257	(\$1,165,637)	(0.2%)

FUNDING FORMULA REVIEW

The committee received testimony from representatives of the University System regarding the higher education funding formula. The University System office conducted a survey of institutions and determined concerns with the formula include:

- The formula does not provide funding for program startup or expansion costs;
- The instructional program factor uses the national classification of instructional programs (CIP) code to differentiate between academic programs, which may not adequately reflect differences in costs between certain courses;

- The formula does not differentiate between online and face-to-face courses;
- The credit completion factor may penalize institutions with increasing enrollment;
- The formula does not account for geographic differences in cost of living;
- The minimum amount payable factor was allowed to expire; and
- Systemwide programs provided by a single campus may not be adequately funded through the formula.

The University System reported the CIP code will be changing in 2020 to shift certain veterinary programs from the health sciences discipline cluster to the agriculture discipline cluster, which would result in reduced funding for certain institutions. The University System reported changes to veterinary programs in the CIP code would result in a reduction of approximately \$418,852 through the higher education funding formula using current weighted credit-hours and funding rates, including \$374,168 for North Dakota State University, \$20,392 for Bismarck State College, and \$24,292 for Dickinson State University.

The University System conducted a review of instructional program costs to ensure the program weighting factors are appropriate and reported the instructional program costs were significantly affected by the budget reductions during the 2015-17 and 2017-19 bienniums. The University System suggested the committee not recommend changes to the instructional program weighting factors based on 2017-19 financial data because the data may not appropriately reflect actual differences in program costs due to the effect of the budget reductions. The University System recommended certain changes to the higher education funding formula based on its review, including:

- Modifying the credit completion factor to establish a historical base factor and a credit growth factor;
- Moving computer sciences and support services credits from the core disciplines cluster to the engineering discipline cluster;
- Directing the State Board of Higher Education to conduct an instructional program cost analysis during the 2021-22 interim using 2019-21 biennium financial data;
- Eliminating the institutional size factor;
- Removing the funding reduction clause related to credits completed by students receiving a law enforcement tuition waiver; and
- Restoring the minimum amount payable clause at 98 percent of the funding appropriated during the prior biennium.

The committee received testimony from representatives of the University System regarding the capital building fund program established by the Legislative Assembly in House Bill No. 1003 (2019). The University System reported the use of funding in each institution's capital building fund is limited to certain projects identified in House Bill No. 1003 (2019) and extraordinary repairs and deferred maintenance projects that do not exceed \$700,000. The committee received testimony from representatives of University System institutions requesting access to capital building fund money for extraordinary repairs and deferred maintenance projects in excess of \$700,000. The University System suggested the committee consider:

- Providing specific carryover authority for capital building fund money;
- Combining Tier II and Tier III capital building fund appropriations into a single capital building fund tier with a \$1 to \$1 matching requirement;
- Eliminating the \$700,000 limit on deferred maintenance and extraordinary repairs projects; and
- Allowing capital building fund money to be spent on deferred maintenance and extraordinary repairs projects that do not increase the overall square footage of all buildings on a campus relative to the total square footage during the prior biennium.

Committee Considerations

The committee considered but did not make recommendations regarding several concerns or suggestions from the University System. With respect to the suggestion of providing funding for program startup or expansion costs, the committee determined special funding for program startup or expansion costs could be addressed on an individual basis. The committee discussed the concern expressed by representatives of the University System relating to differentiating between online and face-to-face courses and determined there was not adequate financial information available to support differentiated funding by course delivery method. The committee discussed issues related to accounting for geographic differences in the cost of living and determined it would not recommend the issue be addressed through the funding formula. The committee also discussed combining Tier II and Tier III capital building fund appropriations into a single capital building fund tier with a \$1 to \$1 matching requirement and determined it would recommend the current matching fund requirements.

The committee suggested the University System report to the Higher Education Committee regarding systemwide programs provided by a single campus that may not be adequately funded through the formula.

The committee, through the Legislative Management Chairman, forwarded three committee recommendations to the State Board of Higher Education for consideration by the Board. Recommendations to the State Board of Higher Education include:

1. Consider not recognizing the change in the CIP code to move certain veterinary-related courses from the health sciences cluster to the agriculture cluster.
2. Consider reviewing the institutional size factor of the higher education funding formula during the 2019-20 interim and performing biennial reviews of the higher education funding formula beginning with the 2021-23 biennium.
3. Consider meeting with legislative leadership regarding the capital building fund program and requested funding for capital projects before each legislative session.

Committee Recommendations

The committee recommends:

1. A bill draft [21.0044.02000] to amend the higher education funding formula to:
 - a. Increase funding for credits completed in career and technical education;
 - b. Modify the credit completion factor to protect institutions with increasing enrollment from a reduction in funding caused by a decrease in the credit completion factor;
 - c. Restore the minimum amount payable clause at 96 percent;
 - d. Eliminate the funding formula reduction attributable to the law enforcement tuition waiver;
 - e. Eliminate the institutional size factor;
 - f. Direct the State Board of Higher Education to conduct an instructional program cost analysis during the 2021-22 interim using 2019-21 biennium financial data;
 - g. Provide legislative intent that the State Board of Higher Education transfer computer science credits from the core disciplines cluster to the engineering discipline cluster; and
 - h. Provide legislative intent that the State Board of Higher Education not recognize the change in the CIP code to move certain veterinary-related courses from the health sciences cluster to the agriculture cluster.
2. A bill draft [21.0021.01000] to establish the capital building fund program in North Dakota Century Code with no funding limitation on deferred maintenance and extraordinary repairs projects. The bill draft also provides specific carryover authority for capital building fund money and authorizes North Dakota State University and the University of North Dakota to use capital building funds for certain capital projects, including Dunbar Hall, the agriculture products development center, and Gamble Hall.