Senate Bill 2031

Senate Appropriations Committee
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Chair Holmberg and Committee Members: My name is Tammy Dolan, and I am here today to testify in support of Senate Bill 2031. The bill modernizes & improves the higher education funding model in a number of ways, including: modifying weighting factors; eliminating the institutional size factor; adjusting the credit completion factor; reinstituting a minimum amount payable; and deleting certain reductions in the payment rate. Finally, the bill requires the State Board for Higher Education (SBHE) to study the formula & instructional program classification factors and provide findings or recommendations to Legislative Management by June 30, 2022.

Formula History

In a historic move that improved both the transparency and equity of North Dakota higher education funding, the 2013 North Dakota Legislative Assembly established a cost-based funding model for higher education institutions that provides a fixed dollar amount per completed adjusted student credit hour. The process uses only successfully completed student credits hours (SCH), as measured at the end of each biennium. This performance funding model rewards institutions for students' progress towards completion of their academic program.

The formula creates a state general fund appropriation that is used by institutions to cover a portion of ongoing operational costs. The appropriation varies from biennium to biennium based on changes in actual student credit hour production, which is weighted by three factors: instructional program classification, credit completion volume and institutional size. While there have been a few formula changes since 2013, the existing weighting factors were developed utilizing actual costs and data from the 2009-11 biennium and are now more than 10 years old.

The 2019 Legislative Assembly created an Interim Higher Education Funding Formula Committee that conducted an in-depth review of the formula. NDUS fiscal officers worked closely with the committee, assisted with the analysis, and helped identify potential solutions for committee consideration. The committee proposed statutory funding formula changes as follows:

Section 1 creates a lower & upper division for career & technical education (CTE) credits and establishes weighting factors of 3.0 and 5.0, respectively. Cost analysis showed that not only are CTE courses are more costly to produce than the current 2.0 factor provides, some CTE courses cost much more than others. Due to their cost and unique nature, the following courses would be in the upper division: line worker; plumbing; powersports technology; heating, ventilating, air conditioning & refrigeration technology; diesel technology; mechanical systems; and machine tooling. Increasing the CTE weighting factors will result in increased funding for CTE programs which provide skilled employees for the high-need occupations in the state.

Section 2 modifies the credit completion factor to protect institutions with increasing enrollment from a reduction in funding caused by a decrease in the credit completion factor. Subsection 1 increase the thresholds at which the factor decreases. Subsection 2 establishes the 2017-19 credit completion factor as the new base factor. In the future, if credit production would cause an institution's factor to decrease, the credits above the 2017-19 level receive a 1.0 factor. Some unnecessary language is also removed.

Originally, the credit completion factor was developed to recognize efficiencies of scale at larger institutions as compared to smaller institutions. The factor increases as credit production decreases to account for the decreasing efficiencies of scale. The new base factor reflects the institution's credit completion factor used for the 2019-2021 appropriation. Efficiencies of scale for base credits are retained permanently. Funding loss from increased credit production is eliminated. All new credits above the base band receive a 1.00 weighing factor for all institutions.

Section 3 eliminates language that reduced payments to institutions for credits earned by licensed law enforcement officers. NDCC 15-18.2-06.1 provides 25% tuition & fee waiver to licensed law enforcement officers. When the waiver was established in 2017, the legislature also reduced the formula payments for credits earned by 25 percent, thereby cutting institution revenues for those credits by 50%. The interim committee decided the formula reduction should be eliminated.

Section 4 reinstates the 96% minimum amount payable that existed prior to July 1, 2019. The change establishes a funding floor for the general fund appropriation, which serves to slow funding decreases as credit production drops. This provides additional time for an institution to plan and reduce operational costs in response to the lower appropriation. Over time, unless credit production begins to increase, the institution's appropriation will continue to decrease.

Section 5 repeals the institutional size factor which has been a concern of some legislators since formula creation. The factor recognizes extraordinary space needs, particularly for CTE courses such as welding, which drive up the relative cost to educate. If an institution's total square footage divided by the weighted student credit hours was higher than 5.00, the institution received a 1.70 weighting factor. Only North Dakota State College of Science (NDSCS) receives this factor. Therefore, removing factor would reduce NDSCS's funding. Proposed increases in CTE credit weighting factors and restoration of the minimum amount payable clause help to reduce the negative impact from eliminating the institutional size factor.

Section 6 directs the SBHE to study the funding formula, especially the instructional program classification factors, to determine if additional changes are needed. The SBHE must report findings and recommended changes to the Legislative Management by June 30, 2022. The interim legislative committee, in conjunction with the higher education fiscal officers, conducted an extensive study of instructional program factors. Three changes were adopted by the committee and are reflected in Section 7 of the bill. Complexity of the analysis showed that more work is needed, resulting in this study recommendation.

Section 7 provides direction regarding the location of certain courses within the classification of instructional programs in NDCC 15-18.2-02. The instructional program factor uses the U.S. Department of Education's "Classification of Instructional Program (CIP)" codes to differentiate between academic programs. The codes are updated every 10 years. CIP codes are a key component of the funding formula because they are used to organize the student credit hours into discipline clusters. Courses within each discipline cluster have common characteristics and similar relative costs to provide. These relative costs, coupled with level of instruction, were the basis for the weighting factors reflected in the model's instructional program factor. The interim committee chose to provide legislative intent to the NDUS (which assigns CIP codes based on course content) related to the following to items:

- The 2020 CIP codes shifted several veterinary tech & pre-veterinary CIP codes from the Health Sciences discipline cluster to the Agriculture cluster, which has lower weighting factors. Due to the costs of these programs, the committee determined the credits should remain in the Health Sciences cluster.
- Computer & information science courses were originally placed in the Core Discipline cluster and had a 1.0 weighting factor. The interim analysis indicated that actual costs were much higher than for core disciplines, such as English, math or history. The committee determined these credits more accurately belong in the Engineering cluster, which has a 2.5 weighting factor and will generate additional funding for the institutions.

In conclusion, the NDUS strongly supports the funding formula changes in **SB2031** and respectfully requests a **Do Pass**.

Thank you for your time and consideration. I will gladly answer any question you may have.