

## HIGHER EDUCATION FUNDING AND ACCOUNTABILITY STUDY - FINAL REPORT SUMMARY INFORMATION

Section 23 of 2005 Senate Bill No. 2003 directs a study of higher education funding and accountability, including a review of the progress made in implementing the Higher Education Roundtable recommendations relating to the North Dakota University System meeting the state's expectations and needs, the funding methodology needed to meet these expectations and needs, and the appropriate accountability and reporting system for the North Dakota University System. The study is to include an independent consultant's evaluation of:

1. The roundtable recommendations and the goals and objectives of the North Dakota University System.
2. The long-term financing plan for the North Dakota University System, including a review of the peer institutions selected and updated funding comparisons.
3. The North Dakota University System's prioritization of higher education funding, including the resource allocation mechanism addressing equity funding issues and the funding for initiatives at North Dakota's colleges and universities.
4. The accountability mechanisms.

A request for proposal (RFP) for providing consulting services for the higher education funding and accountability study was approved by the Higher Education Committee and sent to potential consultants on July 13, 2005. The RFP was based on Section 23 of 2005 Senate Bill No. 2003 and provided that the higher education funding and accountability study include a comprehensive review of the long-term financing plan for the North Dakota University System, the state of higher education in the United States and North Dakota, Higher Education Roundtable recommendations, and accountability measures and benchmarks. The RFP required approximately 50 percent of the consultant's time was to be allocated to the evaluation of the long-term financing plan.

The Legislative Council received five proposals in response to the RFP. The Legislative Council, at its September 8, 2005, meeting, selected MGT of America, Inc., as the consultant for conducting the higher education funding and accountability study provided for in Section 23 of 2005 Senate Bill No. 2003.

The following is a summary of the requirements provided for in the RFP for the higher education funding and accountability study and the corresponding MGT of America, Inc., final report page references, observations and findings, and recommendations.

Request for Proposal Requirements	MGT of America, Inc., Final Report Page References	MGT of America, Inc., Observations and Findings	MGT of America, Inc., Recommendations
Evaluate the <b>long-term financing plan</b> for the North Dakota University System and determine: <ul style="list-style-type: none"> <li>• If the current method of funding for the University System and the method of determining and evaluating equity among the institutions is appropriate and, if so, the appropriateness of the peer institutions selected and the need to update peer institution funding comparisons</li> </ul>	Pages ES-8 through ES-19 Pages 5-1 through 5-11 and pages 6-4 through 6-15	Because of difficulties implementing ConnectND, the North Dakota University System does not, in MGT's opinion, have the capability of collecting, retrieving, and using all the data needed to support a funding formula. (Page ES-15) The current method of funding using peer comparisons is the most appropriate base funding methodology at this time. (Page ES-15) The North Dakota University System is to do a survey of the North Dakota State University peer institutions to be able to	Page ES-9 and pages 5-3 through 5-11 provide the following <b>peer institutions</b> recommendations: <ul style="list-style-type: none"> <li>• Establish peer lists of no fewer than 15 institutions (Peer Recommendation 1)</li> <li>• Use peer institutions as recommended by MGT of America, Inc., for the purposes of determining adequate funding levels for North Dakota higher education institutions (Peer Recommendation 2)</li> </ul>

Request for Proposal Requirements	MGT of America, Inc., Final Report Page References	MGT of America, Inc., Observations and Findings	MGT of America, Inc., Recommendations
<ul style="list-style-type: none"> <li>• If the long-term financing plan is realistic based on historic funding increases and forecasted economic growth in North Dakota</li>   <li>• If the current State Board of Higher Education method of setting funding priorities is appropriate</li>   <li>• If the long-term financing plan adequately addresses the use of various sources of revenues and allocations and the need for funding initiatives at the state's institutions</li> </ul>	<p>Pages ES-16 through ES-18 Pages 6-15 through 6-17</p> <p>Pages ES-11 through ES-19 Pages 6-4 through 6-17</p> <p>Page ES-12 Pages 6-8 through 6-10</p>	<p>remove agriculture extension and experiment station expenditures. (Page 6-20)</p> <p>If higher education funding were based on historical funding patterns, and if the recommendations of the Higher Education Roundtable to maintain higher education's share of the general fund budget at 21 percent, then the long-term finance plan is realistic although it will take more than 10 years to meet the current targets. (Page ES-17)</p> <p>However, at the current rate of increase, the funding targets will not be achieved. (Page ES-18)</p> <p>The manner in which funds are allocated between parity and equity increases the disparity, and therefore, increases the inequity in the allocation of resources. (Page ES-12)</p> <p>The long-term finance plan adequately addresses the use of various sources of revenues. However, the long-term finance plan does not adequately address the need for funding initiatives at the state's institutions. In particular, the long-term finance plan does not provide new program start-up funding, funding for state-of-the-art equipment and technology, or other items that are consistent with the Higher Education Roundtable recommendations. (Page ES-12)</p> <p>Although the long-term finance plan adequately addresses the use of various sources of revenues, the state has not provided its share of resources in the base funding component, the incentive funding component, or the capital asset funding component. (Page ES-12)</p>	<p>Pages ES-18 and ES-19 and pages 6-13 through 6-17 provide the following <b>long-term financing plan</b> (LTFP) recommendations:</p> <ul style="list-style-type: none"> <li>• Determine the count of students for the base funding component of the plan by using an average of the two most current years' fall enrollment--25 percent based on student headcount and 75 percent based on full-time equivalent students. (LTFP Recommendation 1)</li> <li>• Use the peer institutions recommended by MGT of America, Inc., to update the peer funding comparisons. Keep the same set of peer institutions for at least two bienniums unless there are major changes that suggest a peer group may need revision. (LTFP Recommendation 2)</li> <li>• Update the data for the peer institutions by using the most current Integrated Postsecondary Education Data System (IPEDS) data available at the time the biennial budget request is prepared. Collect information on appropriations and net tuition revenues for agriculture programs from peer institutions. (LTFP Recommendation 3)</li> <li>• Revise the method of allocating parity and equity so that a minimum of 80 percent of the new funding is allocated to equity and 20 percent to parity. Further allocate 20 percent of the parity dollars in inverse proportion to the percentage of peer funding so that institutions that are the furthest from peer funding would be the greatest relative parity and equity increase. (LTFP Recommendation 4)</li> </ul>

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<ul style="list-style-type: none"> <li>If the current method of funding for the University System is not appropriate, develop an alternative method of funding using existing resources for the University System, including the allocation of funding to institutions and a comparison of the proposed allocation of funding to institutions to the funding provided for the 2005-07 biennium</li> </ul>	Pages ES-15 through ES-26 Pages 6-17 through 6-24	The current method of funding using peer comparisons is the most appropriate base funding methodology at this time. (Page ES-15)	<ul style="list-style-type: none"> <li>Increase state funding to the University System to reach a goal of 21 percent of the state general fund budget. (LTFP Recommendation 5)</li> <li>Establish more realistic targets for the percentage of peer funding. (LTFP Recommendation 6)</li> </ul>
Describe the <b>state of higher education</b> in the United States and how North Dakota compares in finance and performance, national higher education trends, other states' per capita higher education funding, and trends in funding higher education from nonstate revenue sources	Pages ES-2 through ES-4 Pages 2-1 through 2-20	North Dakota's higher education system differs significantly from those in other states: <ul style="list-style-type: none"> <li>North Dakota has the highest college continuation rates in the nation, a rate that is 130 percent of the national average.</li> <li>North Dakota residents have a lower ability to pay, as per capita personal income is 11 percent below the national average.</li> <li>North Dakota had \$425 less per capita income from tax collections than the national average per capita.</li> <li>North Dakota appropriated to higher education a 60 percent greater share of the state general fund budget than the national average.</li> <li>North Dakota expended \$258 per capita on higher education, compared to the national average of \$199, or 30 percent more per capita.</li> <li>North Dakota net state dollars per FTE student, \$5,528, is 8 percent below the national average of \$6,013 per FTE student.</li> </ul>	No recommendations
Evaluate previous <b>Higher Education Roundtable recommendations</b> , including: <ul style="list-style-type: none"> <li>Status of implementation of the recommendations</li> <li>Strengths and weaknesses of the recommendations as implemented</li> </ul>	Pages ES-4 and ES-5 Pages 3-2 through 3-8  Pages ES-4 and ES-5 Pages 3-9 and 3-10	The Higher Education Roundtable recommendations are perceived to have been instrumental in improving the quality of public higher education in North Dakota, integrating higher education into the economy, and making higher education an economic engine and driver of the economy. (Page ES-5)	No recommendations

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<ul style="list-style-type: none"> <li>Appropriateness of the recommendations to meet the expectations and needs of students, citizens, higher education entities, and the Legislative Assembly</li> </ul>	Pages ES-4 and ES-5 Pages 3-9 and 3-10	There is general agreement among most stakeholder groups that the Higher Education Roundtable's recommendations and the implementation of those recommendations have met the needs and expectations of the various North Dakota constituents. (Page ES-5)	
Evaluate the <b>accountability measures and benchmarks</b> in terms of appropriateness and adequacy	ES-5 through ES-8 Pages 4-1 through 4-13	<p>The largest overall deficiency of the North Dakota University System accountability measures is the lack of quantifiable goals and outcomes for each specific measure. It is difficult to measure the University System's success if there are no defined goals for the system to achieve. In addition, many of the measures do not have benchmarks against which progress can be measured. (Page ES-7)</p> <p>The measures are revised every two years. Changing measures makes it difficult to track progress. (Page ES-7)</p> <p>Because the data are presented for the University System as a whole and not for the individual institutions, it is difficult for the faculty and staff of one institution to feel any ownership of or responsibility for achieving progress on that measure. Accountability systems used by other states typically report the measure for each institution in the system for which the measure is appropriate so that institutional progress can be tracked. (Page ES-7)</p>	Pages ES-7 and ES-8 and pages 4-12 and 4-13 provide the following <b>accountability measures and benchmarks</b> (AMB) recommendations: <ul style="list-style-type: none"> <li>Establish benchmarks and goals for each measure. (AMB Recommendation 1)</li> <li>Include data for each higher education institution in summary fashion in the University System annual performance and accountability report. (AMB Recommendation 2)</li> <li>Reduce the number of accountability measures. (AMB Recommendation 3)</li> <li>Once the number of accountability measures is reduced, retain those same measures for five or six years. (AMB Recommendation 4)</li> <li>Include a measure of faculty productivity that is appropriate for each institution. (AMB Recommendation 5)</li> </ul>