

Overview of the NDUS Budget Methodology

Presented to Interim HE Committee, January 2012

Before the Long-Term Finance Plan (LTF Plan)

- Prior to 2001, multiple budget formulas in place:
 - I. Instructional: faculty, libraries and other instructional support, including instructional equipment
 - II. Support Services: Student services and administrative support (e.g. admissions, financial aid, registrar, accounting, etc)
 - III. Equipment
 - IV. Physical plant

Formula Factors

- Instruction Formula: Based on faculty to FTE student ratios by level of instruction and faculty salaries, with minimum staffing allowance; libraries and other instructional costs funded on a fixed amount per FTE student, based on level of instruction
- Support (student services and admin.): Base, plus incremental increases based on headcount enrollments
- Equipment: Based on inventory valuation and replacement cycles
- Physical Plant: Based on acres maintained, HC enrollment, number of facilities, type construction and estimated useful life, campus security staffing, etc.

Drivers of Change

- Complex and difficult to understand and explain
- All significantly underfunded
- Included minimum staffing levels at smaller campuses, recognize lack of economies of scale
- Led to comparisons of dissimilar institutions within the NDUS, creating internal and external challenges
- Equity funding provided in 91-93, 95-97 and 97-99 to select campuses
- Legislature grew weary of equity arguments between campuses

Recap of Funding Model Studies

- 99-01: Interim HE Committee, involving the Roundtable
- 2001: New LTF Plan model adopted
- 2003-05: Budget reductions
- 2005-07: Interim HE Study (MGT of America)
- 2007-09: Interim HE Study (Dennis Jones)
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2000 Roundtable on Higher Education

- 1999 Legislation: Interim study of expectations, funding methodology and accountability system.
- Interim study conducted through the Roundtable on Higher Education
- Roundtable made several recommendations, including funding and rewards

Roundtable Funding Model Recommendation

A funding mechanism structured around three primary budgetary components is recommended:

1. Base funding used to sustain the academic capacity of each campus. The adequacy of the base funding for each institution is measured by comparison to other external benchmarks (i.e. **peers in other states**)

Funding Model Components cont'd

2. Incentive funding which creates incentives and/or rewards in furtherance of the State's and Roundtables's priorities (allocated at the discretion of the SBHE)
3. Asset funding which supports the maintenance of the physical assets of the System

LTF Plan Development 1999-2001

- Interinstitutional committee created, including representation from UND, NDSU and each sector to develop Long-Term Finance Plan (LTF), based on guiding principles approved by SBHE (see attached).
- Dennis Jones assisted with peer selection based on SBHE approved criteria.
- Over 60 meetings in the development of the plan and peers, including Council and Cabinet involvement.
- Campuses had an opportunity to review and recommend changes to peers. In the end, all campuses supported the peer selections for their campus.
- Intended to be a fair and equitable approach for allocating resources, regardless of level of new funding provided

Peer Selection Criteria

Some of the peer selection criteria were:

- Carnegie classification
- Degree Awarded (assoc., bacc., master's)
- Degree Program mix (natural science, education engineering)
- Total FTE students
- Total headcount enrollment
- Percent part-time enrollment
- Research expenditures
- Public institutions only (except VCSU and MaSU)
- City size
- **No aspirational peers**
- For NDSU, all land grant campuses
- For UND, include medical schools

Long-Term Finance (LTF) Plan Components

- 1.) ***Base Operating Funds (support instruction, research and public service)***
 - Parity: funds to **continue current programs and services**, including salary increases, benefits (health, retirement) increases, and utility and other operating inflationary increases-see attached
 - Equity: funds to move each campus closer to their peer benchmark (resource allocation model-see attached)

Long Term Finance Plan Components cont'd

2.) Capital Assets (repair and replacement and deferred maintenance)

- Current repair and replacement of facilities and infrastructure (utilize OMB statewide formula)
- Deferred maintenance
- Major capital projects

Long Term Finance Plan Components cont'd

- 3.) Incentive Funds-Allocated to SBHE for special initiatives which support System and state priorities.
 - 2% of NDUS state appropriation (for 11-13 would be roughly equivalent to \$12 million)

LTF Plan- A Shared Commitment

Campus	State Share Target	State Share Actual	Student Share Target	Student Share Actual (07-09)
UND, NDSU	60%	38-42%	40%	58-62%
MiSU	65%	53%	35%	47%
DSU, MaSU, VCSU	70%	46-65%	30%	35-54%
Two-year campuses	75%	47-68%	25%	32-53%

- Establish ND policy, not accept default of peer states (east: private high cost, high aid; west: low cost, little aid)
- Recognize difference in breadth of programs and services between NDUS campuses
- All ND citizens should have financial access to at least a two-year campus
- Based on this shared model, students through tuition pick up a portion of the parity and equity costs

Timeline

- LTF plan and campus peers approved by SBHE in November 2001.
- SBHE used plan for first time in allocating \$3.7 million or 80% of 2001 special appropriation earmarked for “equity and special needs”
- Next used in developing 2003-05 budget request. No progress on equity funding in 03-05 as there was a budget cut.

Timeline, cont'd

05-07 Interim Legislative Higher Education Committee

- Hired MGT of America to review finance model, including peers
- Many of MGT recommendations adopted by SBHE in Spring 2006. Newly revised model used in 07-09 budget.

MGT Recommendations

“MGT determined that the current method of funding using peer comparison is the most appropriate based funding methodology at this time.” *(It should be noted that MGT would have preferred a program cost based funding approach, but recognized that program cost data was not available)*

- Identified set of public peers based on 150 variables.
- Each campus chose 15 from list of “valid” peers: 10 from the top 20 most similar and 5 from anywhere on list.
- In order for a campus to be a “valid” peer, it could not be aspirational.
- Campus input and agreement on final selections.

MGT Recommendations cont'd

- Average two most recent years enrollment: 25% headcount and 75% FTE
- Use most current IPEDS data in setting benchmarks
- Establish minimum distribution of funding between parity and equity.
- Establish more realistic targets for percentage of peer funding to be obtained.
- Other

NDSU Ag Research and Extension and UND SOMHS

In May 2006, the SBHE approved the *exclusion* of Ag Research and Extension from NDSU and its peers' finances. Also, approved *inclusion* of SOMHS in UND and its peers' finances.

- Nearly impossible to remove medicine from UND and peers.
- Model intends to define funding in support of instructional mission. Ag Res. and Ext. funding is not primarily instructional, whereas SOMHS is.
- Rely on NDSU and each campus peer to provide reliable information to remove Ag.

2007-09 Interim HE Committee Study

- Contracted with Dennis Jones for review of higher education
- Jones recommended move away from current peer-based model and move to new model
- No committee action on proposal

2007-09 Interim- Jones Model

- **Base:** current funding (with some possible exceptions) + annual HECA increases; utilize state/student shares
- **Investment funds:** Base funding to create new “programmatic assets (e.g. programs, research, services, etc) and system priority needs; defined as a percent of state appropriation
- **Maintenance of (Non)Capital Assets:** Base funding primarily for retaining faculty and staff
- **Incentive Funding:** One-time pay for performance for meeting state priorities; defined as a percent of state appropriation
- **Capital:** New building or renovation projects; regular renewal funding; defined as a percent of plant assets

2009-10 SBHE LTF Plan and Tuition and Fee Task Force

- Members: Backes, Smith and Chancellor. UND, VCSU and BSC finance officers regular participants.
- Recommendations adopted by SBHE in January 2010:
 - 1.) Enter into limited contract with MGT for review of select peers. Completed, no changes recommended
 - 2.) Proceed with incentive funding: limited number of performance measures and related funding as part of 13-15 budget

2009-10 SBHE LTF Plan and Tuition and Fee Task Force, cont'd

- 3.) Incorporate upfront investment funding into 11-13 budget
- 4.) Use most current enrollment data in resource allocation model, so funding follows students more quickly
- 5.) Recognize smaller campuses lack economies of scale: minimum equity allocation of \$100,000 or 10% of total equity funding, whichever is greater for any campus at less than 110% of benchmark

Used modified model in developing 11-13 budget request

Equity Allocations to Date

- \$36.7 million over five biennia from 01-03 to 11-13 – nothing in 03-05 due to budget reductions
- Discretionary funding to be used to support campus priorities
- Equity allocated based on weighted average dollar distance and percentage distance from peers, with each further weighted to provide more funding to those campuses furthest from their peer benchmark (see attached)

Equity Allocations by Campus

01-03 through 11-13

Campus	Dollar Allocation	Percent of Total
BSC	\$2.4 million	6%
LRSC	\$1.1 million	3%
WSC	\$0.6 million	2%
UND (including SOMHS)	\$12.2 million	33%
NDSU	\$15.4 million	42%
NDSCS	\$0.5 million	1%
DSU	\$1.9 million	5%
MaSU	\$0.5 million	1%
MiSU	\$1.2 million	3%
VCSU	\$0.5 million	1%
DCB	\$0.5 million	1%
TOTAL	\$36.7 million	

Changes in Peer Position Based on Equity Allocation 01-13 through 11-13

Campus	01-03 peer position *	11-13 peer position *	Enrollment Change
BSC	50%	58%	38%
LRSC	48%	54%	34%
WSC	72%	84%	-5%
UND(including OMHS)	66%	61%	16%
NDSU	55%	45%	32%
NDSCS	84%	97%	3%
DSU	69%	56%	21%
MaSU	93%	93%	28%
MiSU	74%	82%	5%
VCSU	97%	103%	6%
DCB	67%	86%	22%

* Institutional peers changed between 01-03 and 11-13 biennia

FY08 Peer Benchmarks

(Used for 11-13 budget request)

Campus	Per Student Peer Benchmark
BSC	\$9,549
LRSC	\$10,507
WSC	\$10,722
UND (including SOMHS)	\$21,480
NDSU (excluding Ag Res. and Ext.)	\$18,235
NDSCS	\$10,591
DSU	\$12,189
MaSU	\$14,408
MiSU	\$11,890
VCSU	\$13,948
DCB	\$9,523
Before state/student shares applied	

Factors Influencing Equity Position

- State invests significant new resources in equity (\$36.7 million in total from 01-03 through 11-13)
- Including 11-13 funded, NDUS total funding gap to peers is still \$374 million
- Each one percent improvement in the peer average for the System is \$8 million, \$3.0 million each for NDSU and UND

Factors Influencing Equity Position, cont'd

- Enrollment changes: Either at NDUS campus or peers
- Funding changes : Either at NDUS campus or peers
- Small campuses lack economy of scale and must spread fixed costs over fewer students
- Unusual high cost programs

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Performance Funding Process and Timeline

- ❑ November 2011: SBHE acts on process/timeline and defines limited number of metrics, in consultation with others
- ❑ January 2012: Systemwide workgroup appointed
- ❑ July 1, 2013 roll out pilot project
- ❑ Performance funding included in 2015-17 budget request
- ❑ More information later

Typical Higher Education Funding Models

- Performance or incentive funding (rewards for meeting established targets)
- Program cost model (establish funding targets by academic program)
- Peer institution model
- Incremental model (current budget plus %)
- Formula models (faculty, support services, physical plant, equipment, etc.)
- Zero based budget model (justify entire budget)
- Student vouchers (state appropriation allocated to student and student chooses place of attendance)

Other Funding

- LTF plan and resource allocation model addresses the allocation of state general fund appropriations, taking into account student tuition contributions through state/student share allocation.
- Consideration of other funding sources (e.g. grants and contracts, private funds, auxiliary funds, etc.) intentionally set aside in development of LTF Plan in order to prevent creating a disincentive for campuses to be entrepreneurial.

Annual FY11-12 Total Fund Source Budget

• State General Fund	\$340.4	28.2%
• Tuition Income	\$259.4	21.5%
• Grants and contracts	\$213.05	17.6%
• Other current funds*	\$395.80	32.7%

Does not include \$153.3 million budgeted for capital

*other current funds includes auxiliaries, non-auxiliary sales and services (e.g. camps, clinics, workshops, conferences, flight time, parking, rentals, library, etc. investments, etc.)

11-13 State Appropriation Increases Summary

(in millions) – see attached for more detail

• Parity (including \$2.4 retirement incr.)	\$35.0
• Equity	\$ 9.2*
• Affordability	\$ 6.1*
• Facility and Infrastructure Repair	\$ 4.4
• Technology Maintenance	\$ 3.5
• KSU Vet Med	\$ 0.5
• CND database separation	\$ 0.6
• Statewide Nursing Consortium	\$ 1.6
• Master's In Public Health (UND/NDSU)	\$ 1.2
• Student Financial Aid	\$ 7.2
• SOMHS (resident, medical, allied health)	\$ 1.8
• SOMHS (geriatrics training)	\$ 1.1

*(\$1.4 million legislative reduction prorated based on Exec. Rec. allocation between equity (60%) and affordability (40%)

Strategic Plan Goals Drive 11-13 Budget-Operating Budget Process

- October-December, 2009: Campuses submit funding requests linked to SBHE strategic plan goals
- January-February, 2010: Campus and System requests vetted through Cabinet, feedback from stakeholders on priorities
- March 2010: Chancellor recommends list of priority funding requests linked to strategic plan to SBHE
- March 2010: SBHE receives input from each campus
- April 2010: SBHE finalizes budget request
- July 2010: Detailed budget requests submitted to OMB

11-13 Capital Budget Priorities Process (new construction, additions, major remodel or renovation)—see attached

- September 2009: Campus facility master plan instructions released to campuses
- March 2010: Campus master plans submitted, along with prioritized state funded project requests submitted
- April-May 2010: Campus visits and review project requests
- May 2010: Chancellor recommends prioritized list of projects to SBHE
- June 2010: SBHE receives input from each campus and approves final prioritized list

13-15 NDUS Budget Request

- Transitional approach in anticipation of new model under development
- Simple, easy-to-understand
- Initiatives tied to state priorities (e.g. workforce needs, etc.)
- Matched by required internal efficiencies
- Efficiencies agenda—systemwide and individually by campus
- President Shaft will provide more information later on agenda