Prepared by the North Dakota Legislative Council staff for the Higher Education Committee
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HIGHER EDUCATION STUDY - BACKGROUND MEMORANDUM

STUDY RESPONSIBILITIES

The Legislative Management has assigned the following studies to the 2011-12 interim Higher Education Committee:

1. Section 3 of 2011 House Bill No. 1033 provides for a Legislative Management study of higher education which may include a review of higher education funding mechanisms and higher education budget methods.
2. Section 1 of 2011 House Bill No. 1036 provides for a Legislative Management study of developmental education. The study must include a review with the Department of Public Instruction and North Dakota University System of the secondary schools attended by students requiring developmental education, the reasons students need developmental education, efforts to reduce the number of developmental education students, the alignment of elementary and secondary education standards, curriculum and textbooks with higher education admissions standards, and the best practices for alleviating development education.
3. Section 2 of 2011 Senate Bill No. 2351 provides for a Legislative Management study of mandatory student fees and student fees for optional services at higher education institutions, including the manner in which the fees are determined, identified, and justified, and whether the programs and services supported by the fees should instead receive funding from tuition charges or another funding source.

A copy of Section 3 of House Bill No. 1033, Section 1 of House Bill No. 1036, and Section 2 of Senate Bill No. 2351 are attached as Appendix A, Appendix B, and Appendix C, respectively.

The chairman of the Legislative Management expanded the duties of the Higher Education Committee to include the following:

1. Examine alternative funding methods for higher education that reward outcomes, such as increasing the percentage of degrees awarded, increasing the percentage of ontime graduations, increasing the percentage of degrees awarded to low-income students, or increasing first-year student retention.
2. Review options for a funding methodology that is based on the actual cost of delivering an educational program.
3. Review options to develop a system of weighted student funding that incorporates a three-tiered funding philosophy and rewards the number of degrees awarded to students that are employed in the state following graduation.
4. Assume that historic spending levels are the initial indicator of the actual cost of educating students.

Attached as Appendix D is a copy of the letter from the chairman of the Legislative Management expanding the committee duties.

BACKGROUND

The University System consists of 11 higher education institutions under the control of the State Board of Higher Education. Of the 11 institutions, two are doctoral-granting institutions, two are master's-granting institutions, two are universities that offer baccalaureate degrees, and five are colleges that offer associate and technical degrees. Each institution is unique in its mission to serve the people of North Dakota.

Total legislative appropriations for the 2011-13 biennium for higher education institutions and the University System office are $764,603,553, of which $655,785,794 is from the general fund. The following is a history of higher education legislative appropriations:

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[1]	$165,419,701[1]	$637,455,938
2009-11	$593,355,047[2]	$202,764,364[2]	$796,119,411
2011-13	$655,785,794[3]	$108,817,759	$764,603,553

[1]The 2007 Legislative Assembly provided one-time funding of $35,965,383, of which $28,382,068 is from the general fund and $7,583,315 is from the permanent oil tax trust fund, for the 2007-09 biennium.

[2]The 2009 Legislative Assembly provided one-time funding of $69,633,248, of which $59,233,248 is from the general fund and $10,400,000 is from the permanent oil tax trust fund, for the 2009-11 biennium.

[3]The 2011 Legislative Assembly provided one-time funding of $59,292,152 from the general fund for the 2011-13 biennium.

NOTE: The special funds amounts for the 1997-99 biennium reflect the appropriation of tuition income and the 1999-2001 biennium reflect the appropriation of tuition and local funds.

The University System reported a total degree credit headcount enrollment of 48,120 students and a total degree credit full-time equivalent (FTE) enrollment of 38,913 students in the fall 2010 enrollment report. The following is a summary of University System degree credit headcount and FTE fall enrollments for 2001 through 2010:

Headcount Enrollment										
Institution	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Bismarck State College	3,044	3,168	3,430	3,546	3,370	3,477	3,591	3,788	4,020	4,177
Dickinson State University	2,101	2,326	2,461	2,479	2,516	2,572	2,670	2,730	2,767	2,668
Lake Region State College	1,308	1,340	1,473	1,464	1,471	1,508	1,520	1,657	1,702	1,913
Mayville State University	755	746	817	897	912	832	769	789	887	982
Minot State University	3,515	3,625	3,825	3,851	3,798	3,712	3,424	3,432	3,649	3,866
Dakota College at Bottineau	526	609	620	602	523	605	637	655	748	863
State College of Science	2,292	2,439	2,468	2,481	2,457	2,490	2,417	2,545	2,651	2,833
North Dakota State University	10,538	11,146	11,623	12,026	12,099	12,258	12,527	13,229	14,189	14,407
University of North Dakota	11,764	12,423	13,034	13,187	12,954	12,834	12,559	12,748	13,172	14,194
Valley City State University	1,005	1,022	998	1,033	1,035	1,037	982	1,019	1,083	1,285
Williston State College	748	770	871	937	947	912	731	850	949	932
Total	37,596	39,614	41,620	42,503	42,082	42,237	41,827	43,442	45,817	48,120

Full-Time Equivalent Enrollment[1]										
Institution	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Bismarck State College	2,473	2,542	2,747	2,800	2,602	2,651	2,792	2,937	3,160	3,208
Dickinson State University	1,746	1,940	1,992	2,034	2,031	2,059	2,158	2,294	2,187	2,068
Lake Region State College	664	682	738	738	738	750	764	784	868	921
Mayville State University	662	658	700	761	722	652	586	563	662	704
Minot State University	2,911	2,969	3,021	3,022	3,063	2,928	2,730	2,720	2,832	3,002
Dakota College at Bottineau	416	475	473	447	386	399	402	440	490	540
State College of Science	2,247	2,253	2,323	2,271	2,223	2,171	2,097	2,041	2,076	2,217
North Dakota State University	9,621	9,950	10,294	10,692	10,752	10,890	11,221	11,794	12,577	12,708
University of North Dakota	10,466	11,061	11,704	11,815	11,531	11,381	10,967	11,137	11,306	12,018
Valley City State University	896	921	879	956	899	844	807	824	833	957
Williston State College	617	651	704	709	702	648	551	562	573	570
Total	32,719	34,102	35,575	36,245	35,649	35,373	35,075	36,096	37,564	38,913

[1]In order to be more consistent with common practice in enrollment reporting, the State Board of Higher Education changed the definition of undergraduate FTE to 15 credit hours from 16 credit hours in August 2006. In order to provide a consistent basis for comparing 2006 enrollments to prior years, the prior year FTE enrollments have been recalculated based on the new definition.

LONG-TERM FINANCING PLAN AND RESOURCE ALLOCATION MODEL

The 1999-2000 Higher Education Roundtable recommended the State Board of Higher Education and the chancellor develop a long-term financing plan and resource allocation model. As a result, the State Board of Higher Education 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 board approved changes to the long-term financing plan and resource allocation model in May 2006. The following is a description of the current long-term financing plan and resource allocation model:

Base operating funding component - The base operating funding component of the long-term financing plan provides funding to each higher education institution to support core campus functions, such as instruction, research, and public service. The funding for each institution is based on the institution's current state general fund appropriation with general fund appropriation increases to address parity and equity. Parity funding is to be used to continue current programs and services, including salaries, benefits, and inflationary increases. Equity funding is 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 includes 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 provides funding to each of the higher education institutions for maintenance and replacement of facilities and infrastructure. The funding provided to each of the institutions would be left to the discretion of the institution with appropriate approvals by the

State Board of Higher Education for projects greater than $250,000. Institutions would be 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 are allowed to continue unspent capital asset funding from one biennium to the next in order 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 will be applied to new state buildings built on campuses; however, no new operating funds will be added to the base operating budget for operating costs if the operating base is already at the benchmark target.

Section 20 of 2011 House Bill No. 1003 (Appendix E) provides legislative intent regarding the 2013-15 biennium budget request of the University System. The section provides for the University System to develop a budget request that does not include a funding component for student affordability to limit student tuition increases or a funding component for equity distributions to institutions based on a peer institution comparison. The section does provide that the budget request may be based on a funding method that incorporates a tiered system of funding distributions based on institution type or other funding method that addresses the needs of the University System.

DEVELOPMENTAL EDUCATION

Developmental courses at higher education institutions are designed to prepare students to successfully complete regular academic courses. State Board of Higher Education policy defines developmental education courses as University System courses numbered less than 100, as well as English 100 and Math 101 and 102.

Students may choose to enroll in developmental education courses or may be required to complete a developmental education course based on the results of a standardized test score. Effective by the fall 2012 semester, State Board of Higher Education policy requires students to enroll in an appropriate developmental education course if the student has not achieved an ACT English sub-test score of 19 or higher or an ACT mathematics test score of either 21 or 22 or higher, depending on the institution where the student is enrolled. Board policy also recommends that students achieve an ACT reading sub-test score of 21 or higher and an ACT science score of 24 or higher. These score levels generally provide that a student has a 75 percent chance of earning a college course grade of "C" or higher and a 50 percent chance of earning a college course grade of "B" or higher. Attached as Appendix F is the State Board of Higher Education policy regarding the placement of students in college courses. Individual institutions may also adopt policies regarding the placement of students into courses.

The State Board of Higher Education developed a plan in 2010 to address developmental education which is summarized as follows:

- Continue to work with other educational and governmental entities to define expectations for students at all grade levels.
- Explore options for students' assessment tests.
- Implement a definition of remedial courses and develop uniform placement standards by fall 2012.
- Encourage campuses to develop partnerships, including community colleges meeting the remedial needs of students on university campuses.
- Use the data warehouse and state longitudinal data system to provide status reports on the success of students.
- Use technology infrastructure funding to develop programs to be used by students in developmental education courses.

The table below summarizes the number of students enrolled in developmental education courses at each higher education institution during fall 2010:

Institution	Students Enrolled in Developmental Courses (Fall 2010)
Bismarck State College	602
Dakota College at Bottineau	82
Lake Region State College	154
State College of Science	548
Williston State College	122
Dickinson State University	124
Mayville State University	82
Minot State University	264
North Dakota State University	498
University of North Dakota	187
Valley City State University	67
Total	2,730

Attached as Appendix G is detailed information regarding student enrollment in developmental education courses at higher education institutions.

STUDENT FEES

A student fee is a charge paid by students above normal tuition rates. Fees may be charged for various purposes, including student activities, technology costs, program costs, building projects, and other campus services. State Board of Higher Education policy provides for the following types of fees:

Fee Type	Purpose	Approval Level
Student activity fee	Used to support student activities, including student clubs and organizations. Funds raised by the fee are to be administered by the student government of the institution.	Approved by student government and the institution president

Fee Type	Purpose	Approval Level
University or college fee	Used to support activities that benefit the student body, including debt retirement, student union operations, and athletics	The fee is set by the institution president after receiving input from the student body.
North Dakota Student Association fee	Supports the activities of the North Dakota Student Association	Approved by the State Board of Higher Education
Application fee	Charged to students applying to an institution for enrollment in an undergraduate program, graduate program, or professional program	Approved by the chancellor
Technology fee	Used to support campus networking or technology purposes	Approved by the chancellor
ConnectND fee	Supports the operation of administrative, financial, and student information systems	Approved by the State Board of Higher Education
Program fees	Charged to students enrolled in specific courses. The funding is used to support programs that have exceptional and critical needs that do not receive adequate funding from other sources. The fee revenue must be allocated for the primary benefit of students enrolled in the program.	Approved by the State Board of Higher Education after receiving student input
Course fees	Charged to students enrolled in specific courses to address unique costs of the course	Approved by the institution president
Distance-learning access fee	Charged to students taking online courses	Approved by the institution president unless the fee exceeds the resident per credit tuition charge for the course which requires approval of the chancellor
Other fees	Charged for parking, use of laptop computers, and other incidental costs necessary to facilitate the operation of the institution	Approved by the institution president

North Dakota Century Code Chapter 15-10.3 (Appendix H), as enacted by 2011 Senate Bill No. 2351, provides certain criteria for increasing student fees. The chapter provides that through June 2013 mandatory fees at an institution, other than program-specific fees, may not increase from one academic year to the ensuing academic year by more than 1 percent of the resident undergraduate tuition rate at the institution unless an exemption is granted by the State Board of Higher Education due to documented extraordinary circumstances or student demand.

An institution requesting an increase of a mandatory student fee must provide the State Board of Higher Education with the following information:

- The estimated revenues to be generated by the fee increase.
- The specific purpose to which the generated revenue will be allocated.
- Other anticipated tuition and fee increases.
- A delineation of fee increases during the preceding five-year period and the revenues collected as a result of each increase.
- The extent to which students were allowed to participate in the decisionmaking process that preceded and resulted in the request for a fee increase.
- The approximate number of students that would be assessed the fee each year.

The State Board of Higher Education is to review the information provided and approve or disapprove the request for the fee increase.

Chapter 15-10.3 also requires the State Board of Higher Education to publish information on its website regarding student fees charged by institutions. The information is to include the amount of mandatory fees each institution charges, including a breakdown of the fees by purpose or service; the amount of program-specific fees that each institution charges; and the amount of fees for optional purposes or services that each institution charges, including a breakdown of the fees by purpose or service.

2011 RELATED LEGISLATION

House Bill No. 1003 - Transfer Authority

Section 12 of House Bill No. 1003 allows the State Board of Higher Education to authorize a higher education institution to transfer spending authority from the operations line item to the capital assets line item. Any transfers are to be reported to the Office of Management and Budget (OMB).

House Bill No. 1003 - Full-Time Equivalent Positions

Section 13 of House Bill No. 1003 authorizes the State Board of Higher Education to adjust FTE positions as needed, subject to the availability of funds, for institutions and entities under its control. The University System is to report any adjustments to OMB prior to the submission of its 2013-15 budget request.

House Bill No. 1033 - University System Budget Request and Appropriation

This bill continues the requirement that the budget request for the University System include budget

estimates for block grants for a base funding component and for an initiative funding component and a budget estimate for an asset funding component and the requirement that the appropriation for the University System include block grants for a base funding appropriation and for an initiative funding appropriation and an appropriation for an asset funding component through July 31, 2013. The bill also provides for a Legislative Management study of higher education.

House Bill No. 1034 - University System Unspent Appropriations

This bill allows for the continuation of the University System's authority to continue at the end of the biennium unspent appropriations through July 31, 2013.

House Bill No. 1035 - University System Special Funds Continuing Appropriation

This bill extends the continuing appropriation authority for higher education institutions' special revenue funds, including tuition, through June 30, 2013.

PREVIOUS LEGISLATIVE HIGHER EDUCATION STUDIES

The Legislative Management has established a Higher Education Committee each interim since 1999. These committees have reviewed higher education funding, expectations of the University System, and accountability and reporting measures for the University System. The committees have gathered input through the use of a Higher Education Roundtable, which consists 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.

Since its inception, the Higher Education Roundtable has met 10 times. The table below summarizes the meeting dates of the Higher Education Roundtable from the 1999-2000 interim through the 2009-10 interim:

Interim	Meeting Dates
1999-2000	September 28-29, 1999 (Jamestown) October 29, 1999 (Carrington) April 19, 2000 (Rugby)
2001-02	July 18, 2001 (Mandan) June 12, 2002 (Bismarck)
2003-04	October 21, 2003 (Bismarck) June 15, 2004 (Bismarck)
2005-06	February 15, 2006 (Bismarck)
2007-08	October 8, 2008 (Bismarck)
2009-10	September 13-14, 2010 (Bismarck)

For each interim since 1999-2000, the Higher Education Committee has recommended a number of bills for consideration by the Legislative Assembly. The bills approved by each Legislative Assembly have included the following provisions:

- Provide continuing appropriation authority for higher education institutions' special revenue funds, including tuition, through the end of the next biennium.
- Require the budget request for the University System to include budget estimates for block grants for a base funding component and for an initiative funding component and a budget estimate for an asset funding component, and require the appropriation for the University System to include block grants for a base funding appropriation and for an initiative funding appropriation and an appropriation for asset funding through the end of the next biennium.
- Authorize the University System to continue or carry over at the end of the biennium unspent appropriations through the end of the next biennium.

In addition to the recommended bills, several interim Higher Education Committees have recommended performance and accountability measures for the University System performance and accountability report required pursuant to Section 15-10-14.2.

2009-10 Higher Education Committee

The 2009-10 Higher Education Committee studied issues affecting higher education including options for funding higher education institutions and the impact of tuition waivers on institutions. The committee recommended the following bills which were approved by the Legislative Assembly in 2011:

- House Bill No. 1033 to continue the requirement that the budget request for the University System include budget estimates for block grants for a base funding component and for an initiative funding component and a budget estimate for an asset funding component and the requirement that the appropriation for the University System include block grants for a base funding appropriation and for an initiative funding appropriation and an appropriation for an asset funding component through July 31, 2013.
- House Bill No. 1034 to continue the University System's authority to continue at the end of the biennium unspent appropriations through July 31, 2013.
- House Bill No. 1035 to extend the continuing appropriation authority for higher education institutions' special revenue funds, including tuition, through June 30, 2013.

- House Bill No. 1036 to provide for a Legislative Management study during the 2011-12 interim of ways to alleviate developmental education, efforts to reduce developmental education, and the origin of students needing developmental education.

The committee received reports from the University of North Dakota School of Medicine and Health Sciences regarding the strategic plans, programs, and facilities of the School of Medicine and Health Sciences; the chairman of the American Indian Language Preservation Committee regarding the work of the committee; tribally controlled community colleges receiving a grant under Chapter 15-70 regarding the enrollment of students for which grant funding was received; and the State Board of Higher Education regarding North Dakota academic and career and technical education scholarships, the compensation of higher education instructional personnel, the number of students enrolled in distance education classes, and the number of students enrolled in dual-credit courses.

STUDY PLAN

The following is a proposed study outline for the committee's consideration in its study of higher education:

1. Review the University System long-term financing plan and the impact of the state's changing demographics on the plan.
2. Receive and review information regarding alternative funding mechanisms and budget methods for higher education.
3. Review options for providing higher education funding based on a three-tiered funding philosophy.
4. Review developmental education issues with representatives of the University System and Department of Public Instruction, including the reasons why students need developmental education and the alignment of elementary and secondary education with higher education admission standards.
5. Receive and review information regarding efforts to reduce the number of developmental education students and best practices for alleviating developmental education at higher education institutions.
6. Receive and review information regarding the types of student fees charged by higher education institutions, including how fee amounts are determined and whether other funding sources should be used in place of the student fees.
7. Receive testimony from other interested persons regarding the committee's study of higher education.
8. Develop recommendations and any bill drafts necessary to implement the recommendations.
9. Prepare a final report for submission to the Legislative Management.

ATTACH:8