

# HIGHER EDUCATION FUNDING FORMULA STUDY - BACKGROUND MEMORANDUM

## STUDY RESPONSIBILITIES

Pursuant to House Bill No. 1029 (2019), the 2019-20 interim Higher Education Funding Formula Review Committee shall study the higher education funding formula. The study must 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 is to report to the interim Higher Education Committee regarding the study.

## PREVIOUS AND CURRENT HIGHER 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 North Dakota 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 prior to the 2013-15 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 of the higher education institutions for maintenance and replacement of facilities and infrastructure. The funding provided to each of the institutions was left to the discretion of the institution with appropriate approvals by the State Board of Higher Education for projects greater than \$250,000. Institutions were 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 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 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 then adjusted for:
  - a. A credit completion factor which is 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 then 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 method, funding for major capital projects is appropriated separately from the formula. In addition to appropriating funding for specific capital projects, the 2019 Legislative Assembly established a capital building fund program for the 2019-21 biennium, including one-time appropriations of \$17 million from Bank of North Dakota profits and \$2 million from the general fund which are to be matched by other institutional funds.

During the 2017-18 interim, the University System reported to the interim Higher Education Committee that potential adjustments to the funding formula may include:

- Removing the expiration date on North Dakota Century Code Section 15-18.2-06, to provide a minimum amount payable of 96 percent of the previous biennium formula funding;
- Providing equalization payments to adjust for funding received by certain campuses from permanent land trust funds; and
- Providing performance funding to reward institutions that improve in various areas, including job placement, professional licensure examination pass rates, certificates or degrees awarded for high-demand jobs, research, graduation and retention rates, and enrollment and completion by various at-risk demographic groups.

The 2019 Legislative Assembly allowed Section 15-18.2-06, relating to the minimum amount payable, to expire on June 30, 2019. The 2019 Legislative Assembly did not provide equalization payments or performance funding to University System institutions; however, changes were made to certain instructional program classification factors to increase funding for credits completed at the University of North Dakota School of Law and to remove funding for the University of North Dakota School of Medicine and Health Sciences residency program from the formula.