HIGHER EDUCATION FUNDING REVIEW COMMITTEE

The committee was assigned the following responsibilities by the Legislative Management:

- Study funding methods for higher education in the state pursuant to Section 45 of Senate Bill 2003 (2025). The study was required to include the higher education funding formula; the University System Capital Building Fund; permanent funds distributions; property tax allocations; oil and gas gross production and oil extraction tax revenue allocations; other statutory funds for higher education and research; and other funding appropriated to institutions and entities under the control of the State Board of Higher Education (SBHE).
- Receive a report from the SBHE pursuant to Section 38 of Senate Bill 2003 regarding the transfer of appropriation authority from the operations to the capital assets line items within subdivisions 2 through 14 of Section 1 the bill.
- Receive a report from the Department of Commerce regarding workforce development grants awarded to a tribally controlled community college, pursuant to Section 15 of Senate Bill 2018 (2025).
- Receive a biennial report from the SBHE regarding the use of funding in the University System Capital Building Fund, the source of matching funds, and each institution's 5-year plan for capital construction spending, pursuant to North Dakota Century Code Section 15-54.1-02.

Committee members were Senators Ronald Sorvaag (Chairman), Scott Meyer, Jamie Selzler, and Jonathan Sickler; Representatives Karla Rose Hanson, Mike Nathe, and Steve Swiontek; and Citizen Members Bruce A. Bollinger, Erica Buchholz, Odella Fuqua, Keith Johnson, Joann Kitchens, and Krista Lambrecht.

Senator Josh Boschee served on the committee until his resignation on August 4, 2026. Citizen Member Rebecca Collins served on the committee until May 28, 2026. Citizen Member Karla Mongeon-Stewart served on the committee until July 6, 2026.

BACKGROUND

North Dakota University System Information

The North Dakota University System consists of 11 higher education institutions under the control of the SBHE. Of the 11 institutions, 2 are doctoral-granting institutions; 3 are master's-granting institutions; 1 is a dual-mission institution offering master's, bachelor's, and technical degrees; 1 is a polytechnic institution offering bachelor's, associate's, and technical degrees; and 4 are colleges that offer associate's and technical degrees. In addition, the North Dakota Forest Service is administratively under North Dakota State University (NDSU).

The University System reported fall 2025 total headcount enrollment of 47,522 students and a total full-time equivalent (FTE) enrollment of 36,148 students, compared to fall 2024 headcount enrollment of 45,806 students and FTE enrollment of 34,781 students.

Constitutional Provisions

Subsection 5 of Section 6 of Article VIII of the Constitution of North Dakota directs the Legislative Assembly to provide adequate funds for the proper carrying out of the functions and duties of the SBHE. Subdivisions d and e of subsection 6 of Section 6 of Article VIII of the Constitution of North Dakota provide:

d. It shall be the duty of the heads of the several state institutions hereinbefore mentioned, to submit the budget requests for the biennial appropriations for said institutions to said state board of higher education; and said state board of higher education shall consider said budgets and shall revise the same as in its judgment shall be for the best interests of the educational system of the state; and thereafter the state board of higher education shall prepare and present to the state budget board and to the legislature a single unified budget covering the needs of all the institutions under its control. "Said budget shall be prepared and presented by the board of administration until the state board of higher education organizes as provided in subsection 6a." The appropriations for all of said institutions shall be contained in one legislative measure. The budgets and appropriation measures for the agricultural experiment stations and their substations and the extension division of the North Dakota state university of agriculture and applied science may be separate from those of state educational institutions.

e. The said state board of higher education shall have the control of the expenditure of the funds belonging to, and allocated to such institutions and also those appropriated by the legislature, for the institutions of higher education in this state; provided, however, that funds appropriated by the legislature and specifically designated for any one or more of such institutions, shall not be used for any other institution.

Legislative Appropriations

Legislative appropriations for the 2025-27 biennium for higher education institutions, the Forest Service, and the University System office total $3,382,028,053, of which $884,921,221 is from the General Fund. The following is a history of legislative appropriations for higher education since the 2017-19 biennium:

Biennium	General Fund	Special Funds	Total
2017-19	$679,438,630	$2,059,950,275	$2,739,388,905
2019-21	$660,517,805	$2,400,897,468	$3,061,415,273
2021-23	$703,453,294	$2,117,621,160	$2,821,074,454
2023-25	$868,522,227	$2,450,467,042	$3,318,989,269
2025-27	$884,921,221	$2,497,106,832	$3,382,028,053

The following is a summary of ongoing and one-time General Fund appropriations for the University System since the 2017-19 biennium:

General Fund Appropriations			
Biennium	Ongoing Appropriations	One-Time Appropriations	Total
2017-19	$613,242,154	$66,196,476	$679,438,630
2019-21	$648,667,805	$11,850,000	$660,517,805
2021-23	$686,328,526	$17,124,768	$703,453,294
2023-25	$811,682,526	$56,839,701	$868,522,227
2025-27	$871,471,221	$13,450,000	$884,921,221

STUDY OF HIGHER EDUCATION FUNDING

The committee studied funding methods for higher education in the state pursuant to Section 45 of Senate Bill 2003 (2025), including:

- The higher education funding formula;
- The University System Capital Building Fund;
- Permanent funds distributions;
- Property tax allocations;
- Oil and gas gross production and oil extraction tax revenue allocations;
- Other statutory funds for higher education and research; and
- Other funding appropriated to institutions and entities under the control of the SBHE.

Higher Education Funding Formula

The Legislative Assembly, through Senate Bill 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 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.

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		
	2021-23	2023-25	2025-27
North Dakota State University and University of North Dakota	$61.81	$73.15	$79.57
Dickinson State University, Mayville State University, Minot State University, and Valley City State University	$92.60	$103.76	$111.55
Bismarck State College, Dakota College at Bottineau, Lake Region State College, North Dakota State College of Science, and Williston State College	$98.84	$110.38	$119.91

For the 2025-27 biennium, the Legislative Assembly provided an appropriation of $699.9 million from the General Fund for the higher education funding formula, an increase of $60.7 million from the calculation for the 2023-25 biennium. The University System reported 2027-29 biennium formula funding for University System institutions is projected to increase by $18.1 million, or 2.6 percent, from the 2025-27 biennium, including increases for Bismarck State College ($5 million), the North Dakota State College of Science ($5.9 million), Minot State University ($4.1 million), and the University of North Dakota (UND) and UND School of Medicine and Health Sciences (SMHS) ($5 million), and decreases for Dakota College at Bottineau ($130,463) and NDSU ($6.7 million).

The SBHE expressed support for the vision, implementation, and enhancement of the funding formula over the past decade, and noted the formula provides predictability for institutions to budget and plan for the future. The committee was informed the formula was developed based on the cost of instruction and it ensures a consistent process of funding across the University System. The board noted the funding formula has been adjusted to adapt to the workforce needs of the state, including the adjustment of credit weighting for career and technical education courses and other high-demand programs such as computer science, dental hygiene, and law enforcement.

Representatives of the SBHE reported the board studied the formula during the 2023-25 biennium. Recommendations resulting from the board's study included the removal of an averaging function in the determination of base rates and the development of incentives to reward institutional participation in public-private partnerships. The board suggested the committee consider designing a funding mechanism to drive desired outcomes, including the provision of incentive funding for high-demand programs and certificate and degree completion. The board also expressed support for the provision of additional transparency, education, and clarity regarding the funding formula calculation.

The committee was informed Section 15-18.2-05 provides separate base rates for the two doctoral research universities, the four 4-year universities, and the five 2-year colleges. The calculated individual rates are equalized to provide the same rates to similar institutions. The 2013 Legislative Assembly, in an effort to not cause harm to any institution due to the initial adoption of the funding formula, equalized the rates for each group by using the higher calculated rate for the two doctoral research universities, averaging the top two calculated rates for the 4-year universities, and averaging the top two calculated rates for the 2-year colleges. The 2013 Legislative Assembly provided separate base rates for Minot State University and Williston State College to avoid any reduction in funding for the institutions. The 2013 Legislative Assembly then provided for a 5 percent annual inflationary increase to the base rates, rather than adding funding for individual legislative priorities such as salary and fringe benefit increases. A percentage-based systemwide inflationary increase allowed the Appropriations Committees to avoid re-equalizing the rates for the institutions. Beginning with the actions of the 2015 Legislative Assembly, the four 4-year universities all began receiving the same base rate and the five 2-year colleges all began receiving the same base rate. Also beginning in 2015, the Legislative Assembly determined the base rates necessary to increase funding for campus salaries and fringe benefits, and then equalized the base rates using the average for each institutional group. This averaging equalization calculation was continued through the 2023 legislative session. This method of base rate equalization resulted in increased funding for certain institutions and reduced funding for others, as compared to the calculated funding necessary for salaries and fringe benefits increases. To avoid reductions in funding for certain institutions due to the averaging process, the 2025 Legislative Assembly equalized the rates at the highest calculated base rate for each group, rather than the average.

Representatives of University System institutions reported the existing higher education funding formula emphasizes academic productivity and progression toward completion, rather than enrollment. The committee was informed the funding formula structure supports equity across diverse institutional missions and program types. The University System institutions noted the current formula relies on historical completed credit-hours, and while the resulting timing delay provides stability for institutions with flat or declining enrollment and ensures funding based on audited credit-hours, it presents challenges during periods of rapid enrollment growth. The institutions contended funding delays during enrollment increases may lead to immediate cost pressures without corresponding state support, potentially resulting in budget deficits, faculty shortages, and strained student services. The University System representatives stated the consensus among the campuses was that the current formula, even with a timing delay, is the best way to ensure accurate funding based on credit-hour generation. The committee was informed the institutions were interested in exploring a performance-based incentive within the formula to reward completion of degrees and certificates, prioritizing credentials in high-demand fields identified by Job Service North Dakota and the Workforce Development Council.

Committee members noted the weighting factor of 34.5 for medical doctorate program credits completed at UND SMHS is significantly higher than the next highest weights of 14.0 for UND School of Law and pharmacy program credits. Representatives of UND SMHS noted potential alternative funding models for the Medical Doctorate Program, including a fixed funding model, using 2027-29 biennium calculated funding levels as a base level, or a hybrid funding model using a combination of a funding formula and fixed funding.

Higher Education Funding Formulas in Other States

The committee was informed other states use various approaches to provide state funding to public higher education institutions, with some states using a formula and others simply allocating funds to institutions as determined by the legislature. Funding formulas in other states generally are based on factors that include incremental change (a percentage change based on the prior year's funding), enrollment (normally tied to the number of FTE students, with some variations for a student's credential level or field of study), or performance (based on student outcomes). In selecting a funding formula approach, there are tradeoffs in terms of reducing volatility, promoting funding equity among campuses, and meeting state higher education goals. Incremental funding models generally reduce funding fluctuations for institutions, but may continue any existing resource disparities. Incremental funding models also do not consider institutional performance. Enrollment-based models generally are advantageous for growing institutions; however, enrollment-based models are prone to funding volatility and may be only partially aligned with state higher education goals. Performance-based models may align with state goals and can be designed to take completion into account; however, the models can increase funding volatility and resource disparities among institutions.

The committee was informed that in fiscal year 2021, every 2-year system in the Midwest had a funding formula, but some 4-year systems did not use a formula. The two most common funding approaches used for public 4-year institutions in the Midwest were incremental-only models and incremental-plus-performance models. In contrast, incremental models frequently were combined with enrollment and performance funding models for 2-year campuses. In fiscal year 2020, approximately half of Midwestern states based a portion of funding on student outcomes. Every Midwestern state with a performance-based-funding system, except North Dakota, rewarded universities for the number of science, technology, engineering, and mathematics or health care credentials awarded. Four Midwestern states with performance-based-funding models also rewarded universities based on timely graduation.

The committee received information regarding higher education funding systems in Nevada, Montana, Utah, and Indiana. Nevada's funding formula has not been enacted in statute, but rather as a budget policy approved by the legislature. The Nevada funding formula is a "distribution" formula that determines the allocation of base funding, but does not establish a required level of base funding. The base formula is allocated primarily using successfully completed student credit-hours for only Nevada resident students. Credit-hours are weighted by academic discipline cluster, and upper-division and graduate courses are given additional weight to support the universities' research missions. Nevada's performance funding for institutions is determined using degrees and certificates awarded, transfer student success, efficiency (determined using the number of credentials awarded per 100 FTE students), and credentials conferred in economic development interest areas including science, technology, engineering, and mathematics; allied health; business and management; and skills certificates.

The committee was informed that Montana "froze" resident undergraduate tuition rates in 9 of 13 years between 2007 and 2019. Montana determines performance funding, which accounts for approximately 8 percent of the state's higher education appropriation, using student retention, degree completion, graduation rates, enrollment of under-represented groups, and research expenditures.

The committee was informed that in 2025, Utah reduced instruction budgets by 10 percent for each of the state's eight public higher education institutions, amounting to $60.5 million. To reclaim the funding, the Utah legislature directed the campuses to craft 3-year plans for reducing certain academic programs and administrative expenses, and to redirect the funding to high-demand programs. The University of Utah's trustee board approved plans to discontinue 81 courses and degree programs in response to the new state law. The programs being considered for elimination range from a bachelor's degree in chemistry teaching to a doctoral degree in theater. Most of the eliminated academic programs are graduate programs and approximately one-fourth are in the university's College of Humanities. The Utah System of Higher Education indicated the funds could be reinvested in programs that meet the state's workforce needs, lead to high-wage careers, teach students "durable skills" such as critical thinking and problem solving, or focus on services to increase student retention.

The committee was informed that Indiana required public colleges to seek approval from the Indiana Higher Education Commission to continue degree programs that do not graduate a sufficient number of students to meet certain thresholds. If the commission does not grant approval, colleges must eliminate those programs. Six of Indiana's higher education institutions are moving to collectively eliminate or consolidate over 400 academic programs, including the consolidation of 232 programs, suspension of 101 programs, and elimination of 75 programs. The programs under consideration account for 19 percent of all degree offerings at the state's public higher education institutions.

Consideration of New Funding Formulas

The committee considered multiple alternative funding formulas, including amendments to the funding formula to provide performance funding for degree completions, research, and on-campus enrollment, and new funding formulas primarily based on student enrollment with additional performance funding available for degree completions and research. In review of the various formula proposals, committee members expressed concern regarding the potential

changes in funding and incentive structure for certain academic programs, including whether the changes may discourage institutions from offering or increasing enrollment in certain high-demand fields. Committee members noted a new formula should not result in the same funding as the current formula for each institution and economies of scale may need to be recognized in the formula. Committee members also suggested the committee consider certificate completions and the net tuition received by campuses, including the impact of tuition waivers. The committee did not recommend a new higher education funding formula.

Recommendation

The committee recommends the Legislative Assembly consider the following potential higher education funding concepts:

- Provide base funding using a formula based on fall census-date FTE enrollment.
- Provide performance or incentive funding based on degree completions.
- Provide performance or incentive funding based on research expenditures.
- Include an economic size factor to assist smaller institutions.
- Establish a separate funding mechanism for UND SMHS.
- Establish a separate formula or separate rates within the formula for UND and NDSU.
- Ensure all institutions are held harmless for the 2027-29 biennium for any reductions in funding related to the adoption of a new formula.
- Institute a flat rate for dual credit.

Remote Nonresident Enrollment

The University System provided a report to the committee regarding remote nonresident students, including the impact on the higher education funding formula of credits completed by remote nonresident students. An out-of-state online student is defined by the University System as a student who completes all coursework online, is not a legal resident of, or has no address in North Dakota, and is not affiliated with the military. Approximately one-half of online-only students live outside the state and many are enrolled in courses with students that reside on campus or in the state. The University System reported the development of online platforms also benefits on-campus students, and a reduction of out-of-state online students would reduce tuition payments originating from out of state and increase local costs. The committee was informed the impact of out-of-state online students on the higher education funding formula calculation for the 2025-27 biennium appropriation was approximately $22 million, excluding students from contiguous states. Approximately 65.5 percent of credits completed by out-of-state online students, excluding those from contiguous states, enrolled in University System institutions were completed through UND.

The committee took no action regarding credits completed by out-of-state online students and the impact on higher education funding.

Dual Credit

The interim Education, the interim Higher Education Funding Review, and the interim Higher Education Institutions Committees each were assigned a study that required a review of dual credit in the state. A dual-credit course is a one-semester college course taken through a 2- or 4-year institution of higher education for which the student earns one-half unit of high school credit. North Dakota's dual-credit program allows students in grades 10 through 12 to take college courses and receive college credit that also may be used to meet high school graduation requirements. Tuition, fees, books, and other costs are the student's responsibility. Classes are taught by approved instructors, either face-to-face in the classroom, online, through the Center for Distance Education, or through an interactive video network. The Higher Learning Commission requires teachers of dual-credit courses to have a master's degree or higher in the discipline or subfield in which the teachers will be teaching. If the individual holds a master's degree or higher in a discipline or subfield other than that in which the individual will be teaching, a minimum of 18 graduate credit-hours must be completed in the academic field in which the individual will be teaching.

State Board of Higher Education policy 469 authorizes 9 of the 11 institutions under the board's control, excluding UND and NDSU, to offer dual credit to high school students. Before September 2025, the policy authorized UND and NDSU to offer dual credit only when the course being offered can be offered only by that institution or when either institution is required to offer dual credit to fulfill a legislative mandate. The policy was amended by the board in September 2025 to authorize NDSU to offer dual credit in Cass County and to authorize UND to offer dual credit in Grand Forks County.

Representatives of the University System reported students enrolled in dual-credit courses are charged a standardized, systemwide tuition and fee rate, regardless of the University System institution from which the student is receiving the college credit. For the 2024-25 academic year, dual-credit students were charged a subsidized rate of $83.89 per credit if the course was taught by an instructor paid by the high school, or an unsubsidized rate of $148.42 per credit if the course was taught by an instructor paid by the University System institution.

The committee coordinated with the Higher Education Institutions Committee to reduce duplication and ensure a consistent approach to funding for dual credit in the state. The Higher Education Institutions Committee reported that the committee recommends the Legislative Assembly implement a flat rate to determine state aid for subsidized dual-credit student credits completed. The committee included this recommendation in its recommended list of potential higher education funding concepts noted previously in this report.

Low-Completion Programs

The University System provided a report regarding low-completion programs at institutions under the control of the SBHE. The committee was informed certain low-completion academic programs may be continued at an institution due to workforce demand or interdependency with other academic programs. The SBHE approved a policy relating to low-producing programs, which are defined as academic programs that generate relatively low levels of graduates. The University System reported the policy is intended to support academic quality, responsible stewardship of public resources, workforce responsiveness, regional service, and institutional mission alignment. The committee was informed the University System intends to produce an annual list of low-producing programs using a rolling 5-year review period to identify programs that do not meet minimum thresholds of 10 graduates for undergraduate degree programs and 5 graduates for graduate degree programs. The University System reported campuses have eliminated 112 academic programs since 2019, including 38 programs in 2026.

The committee discussed the potential of withholding funding from University System institutions and incentivizing programmatic changes, potentially including the elimination of certain low-value programs, similar to actions taken in Utah. The committee discussed the value of implementing the reductions legislatively during the appropriations process, rather than through the establishment of new statutory provisions. The committee did not make a recommendation regarding the withholding of funding to incentivize programmatic changes at the institutions.

University System Capital Building Fund Program

The Legislative Assembly established a University System Capital Building Fund Program for the 2019-21 biennium in Sections 29 and 30 of House Bill 1003 (2019), including one-time appropriations of $17 million from Bank of North Dakota profits and $2 million from the General Fund, which were to be matched by other institutional funds. An additional $11.1 million from the General Fund was appropriated in the capital assets line item of each institution for extraordinary repairs. The $11.1 million must be matched by each institution with $1 of matching funds from operations or other sources for each $1 of appropriated extraordinary repairs funding used for a project, excluding NDSU and UND, which must provide $2 of matching funds from operations or other sources for each $1 of appropriated extraordinary repairs funding used for a project. This amount was considered Tier I of the program.

The Legislative Assembly continued the program for the 2021-23 biennium in Sections 6, 7, and 14 of Senate Bill 2003 (2021), including a transfer of $19 million from the Strategic Investment and Improvements Fund (SIIF) to the University System Capital Building Fund. The allocations by school remained the same as for the 2019-21 biennium and continuing appropriation authority was established to spend from the fund in Section 15-54.1-01. Section 15-54.1-02 requires the SBHE to report to the Legislative Management regarding the use of funding in the University System Capital Building Fund, the source of matching funds, and each institution's 5-year plan for capital construction spending.

The Legislative Assembly continued the program for the 2023-25 biennium in Section 11 of House Bill 1003 (2023), including a transfer of $24 million from SIIF to the University System Capital Building Fund. The Legislative Assembly also provided for certain institutions to use money from the University System Capital Building Fund without securing any matching funds for projects, including Lake Region State College ($1,000,000), Williston State College ($637,947), Mayville State University ($2,330,087), Valley City State University ($1,025,082), and Dakota College at Bottineau ($1,000,000).

The Legislative Assembly continued the program for the 2025-27 biennium in Sections 10, 11, and 28 of Senate Bill 2003 (2025), including a transfer of $26.5 million from SIIF to the University System Capital Building Fund. The transfer of $26.5 million from SIIF was allocated to the institutions as follows:

	Tier II		Tier III	
	SIIF	Institution Match ($1 to $1)	SIIF	Institution Match (Varied)
Bismarck State College	$770,505	$770,505	$700,000	$700,000
Dakota College at Bottineau	201,537	201,537	700,000	700,000
Lake Region State College	233,263	233,263	700,000	700,000
North Dakota State College of Science	1,214,738	1,214,738	700,000	700,000
Williston State College	322,154	322,154	700,000	700,000
Dickinson State University	516,884	516,884	700,000	700,000
Mayville State University	332,070	332,070	700,000	700,000
Minot State University	906,412	906,412	700,000	700,000
Valley City State University	452,403	452,403	700,000	700,000
North Dakota State University	4,695,895	4,695,895	2,600,000	5,200,000
University of North Dakota	5,354,139	5,354,139	2,600,000	5,200,000
Total	$15,000,000	$15,000,000	$11,500,000	$16,700,000

Representatives of the University System acknowledged the value of the University System Capital Building Fund for addressing deferred maintenance, but noted certain revisions could improve the program or make the program more accessible, including the removal of matching funds requirements for Tier I and the combination of Tiers II and III of the program. The University System also expressed support for expanding allowable uses of the University System Capital Building Fund to include any extraordinary repairs and deferred maintenance projects that do not increase overall campus square footage. The committee was informed limitations on the source of local matching funds for capital projects, included in Section 15-10-12.3, also are a concern, as certain campuses would benefit from the ability to use tuition and fee revenues as matching funds.

The University System reported major uses of the University System Capital Building Fund have included:

- The construction of a polytechnic building at Bismarck State College.
- The construction of the Hofstad Ag Center and replacement of a wind turbine gearbox at Lake Region State College.
- The remodel of Stevens Hall and construction of a medical health care building at Williston State College.
- The renovation of the Chester Fritz Library at UND.
- Residence hall repairs at NDSU.
- The remodel of the Gene Haas Center for Advanced Manufacturing at the North Dakota State College of Science.
- The renovation of Old Main at Mayville State University.
- Student Center repairs at Minot State University.
- The renovation of McCarthy Hall at Valley City State University.
- The renovation of Old Main at Dakota College at Bottineau.
- Various deferred maintenance and extraordinary repairs projects, including mechanical and electrical upgrades, building exterior repairs, paving and area lighting, and utilities and infrastructure repairs.

Committee Consideration and Recommendation

The committee considered a bill draft that would have combined Tiers II and III of the University System Capital Building Fund and removed restrictions on which facility projects are eligible to use money in the fund; would have transferred $37.6 million from SIIF to the University System Capital Building Fund and allocated the funds based on campus square footage; and would have eliminated certain restrictions on the sources of local matching funds for capital projects to allow revenue from grants, tuition, and fees to be used as matching funds by the campuses. Committee members expressed concern regarding the potential use of the University System Capital Building Fund for athletic facilities.

The committee recommends the Legislative Assembly consider the following higher education funding concepts relating to capital projects and the University System Capital Building Fund:

- Provide funding for Tier I, which may be used only for deferred maintenance and extraordinary repairs, outside of the higher education funding formula.
- Combine Tiers II and III, which may be used for deferred maintenance, extraordinary repairs, or capital projects specifically authorized by the Legislative Assembly to use funding from the fund.

- Allow the funds to be used for deferred maintenance and extraordinary repairs campuswide, including athletics, administrative, auxiliary, and other facilities.
- Enact a matching funds requirement for UND and NDSU to provide $3 for every $2 from the fund.
- Provide for a $1 for $1 matching funds requirement for the other nine institutions.
- Allocate each tier based on square footage of facilities eligible for use of the funding.
- Remove statutory restrictions on the source of matching funds to allow campuses to provide matching funds from state and federal grants and contracts, tuition and fees, endowment or investment income, and institutional sales and services.

Permanent Funds Distributions

Article IX of the Constitution of North Dakota provides all property received by the state from whatever source for any specific educational or charitable institution must remain in a perpetual trust fund for the creation and maintenance of such institution. Sections 12 and 13 of Article IX provide for the establishment of higher education institutions in Grand Forks, Fargo, Valley City, Mayville, Wahpeton, Minot, Dickinson, and in the counties of McHenry, Ward, Bottineau, or Rolette. Senate Bill 2013 (2025) provides for the Board of University and School Lands to distribute money to University System institutions from permanent funds established for the benefit of the institutions as follows:

Institution	2023-25 Distribution	2025-27 Distribution	Increase (Decrease)
North Dakota State University	$7,648,000	$8,770,000	$1,122,000
University of North Dakota	5,986,000	6,948,000	962,000
North Dakota State College of Science	2,259,700	2,570,284	310,584
Valley City State University	1,354,000	1,566,000	212,000
Mayville State University	894,000	1,102,000	208,000
Dakota College at Bottineau	343,700	406,284	62,584
Dickinson State University	343,700	406,284	62,584
Minot State University	343,700	406,284	62,584
Total	$19,172,800	$22,175,136	$3,002,336

The University System reported funding distributed to the institutions from permanent funds is used for general campus operations, including instruction and administration expenses.

Other Major Sources of Higher Education Funding

Property Tax

Section 10 of Article X of the Constitution of North Dakota provides for the annual levy of one mill upon all of the taxable property within the state for UND SMHS. The revenue generated is to be expended as directed by the Legislative Assembly for the development, maintenance, and operations of the school. The school reported it has budgeted the revenue generated from the one mill property tax to be used for the health care workforce initiative, including medical residency costs, simulator costs, and family and community medicine program costs; and for the ND85 initiative, to increase North Dakota resident enrollment in the UND SMHS Medical Doctor and Physician Assistant Programs to 85 percent. The University System office reported UND SMHS received approximately $12 million in property tax revenue during the 2023-25 biennium.

Oil and Gas Tax Allocations

Section 15-11-40 establishes the State Energy Research Center at the UND Energy and Environmental Research Center. Section 57-51.1-07.9 provides for the deposit of 1 percent of oil and gas gross production tax and oil extraction tax revenues in the State Energy Research Center Fund, up to $7.5 million per biennium. All money deposited in the State Energy Research Center Fund and interest earned on the fund balance are appropriated on a continuing basis to the Industrial Commission for distribution to the State Energy Research Center.

Tuition Revenue and Other Local Funds

The SBHE defines tuition as the basic charge assessed to enrolled students, on a per credit-hour basis or at a flat rate assessed at either 12 or 13 semester hours, for classes or programs for which students earn academic credit that may be applied toward a degree. Tuition may be assessed in differential tuition tiers that differ by academic program or course subject based on programmatic needs. Institutions also may charge varying tuition rates based on student residency and the course delivery method. Section 15-10-19.1 defines a resident student for tuition purposes generally as an individual who is a legal resident of the state and has resided in the state for 12 months immediately prior to the beginning of the academic term. In its 2025-26 annual budget report, the University System reported estimated tuition and fee income for the fiscal year to be $475.6 million.

Other local funds appropriated to institutions under the control of the SBHE include revenues generated from various fees, room and board, auxiliary enterprises, sales, gifts, grants, donations, investment income, and other revenues.

TRANSFERS BETWEEN LINE ITEMS

The Legislative Assembly approved Section 38 of Senate Bill 2003 (2025) to allow for the transfer of appropriation authority from the operations line item to the capital assets line item within subdivisions 2 through 14 of Section 1 of the bill. The SBHE is required to report to the Legislative Management regarding any line item transfers made pursuant to the section.

The University System reported no transfers between line items had been made pursuant to this section as of August 19, 2026.

WORKFORCE DEVELOPMENT GRANTS

Section 15 of Senate Bill 2018 (2025) directs the Department of Commerce to provide a report regarding workforce development grants awarded to a tribally controlled community college by October 1, 2026. The 2025 Legislative Assembly appropriated $750,000 of one-time funding from the General Fund for the purpose of providing workforce development grants to a tribally controlled community college. To be eligible for the grant, a tribally controlled community college must partner with at least one high school in the state for workforce development programs under Section 54-60.2-02.

The 2023 Legislative Assembly appropriated $500,000 for the grant program, the sum of which was awarded by the Department of Commerce to Turtle Mountain Community College. The college reported it would use the funding to support dual-credit course offerings in cybersecurity, emergency medical technician education, medical terminology, and construction education, and to develop certificate programs for prospective emergency medical technicians and medical laboratory assistants.

The Department of Commerce reported Turtle Mountain Community College was the only applicant for the grant and has been awarded the entire $750,000 appropriated for the 2025-27 biennium. The committee was informed the grant funding historically has been expended in its entirety each biennium and Turtle Mountain Community College has a goal of enrolling 210 students under the program, including 150 dual-credit students, 15 students enrolled in corrections and public safety programs, 15 students enrolled in a drone technician program, and 30 students enrolled in health care programs. The college is prioritizing funding to expand dual credit in cybersecurity, medical technology, human services, medical assisting, building construction technology, solar energy, welding, and general education.

OTHER COMMITTEE WORK

Dickinson State University Compliance Investigation

The committee was informed a compliance investigation was initiated at Dickinson State University (DSU) on December 31, 2025, to review financial management deficiencies at the institution. The University System reported an accounting firm, CliftonLarsonAllen LLP, was contracted to complete the investigation after the DSU Vice President for Finance and Administration was placed on administrative leave in December 2025. CliftonLarsonAllen LLP reported that due to persistent staffing shortages, turnover in key accounting positions, and limited internal finance resources, DSU relied heavily on accounting support provided through a shared-services arrangement with UND beginning in 2022. Under this arrangement, UND personnel assisted DSU with year-end close activities, bank reconciliations, general ledger support, journal entries, audit-related tasks, and other accounting functions that DSU was unable to consistently perform internally. CliftonLarsonAllen LLP reported that as shared-services personnel from UND became more involved in DSU's financial operations, the UND personnel repeatedly communicated concerns to DSU leadership, UND, and the University System office regarding a lack of accounting leadership, unresolved reconciliation issues, missing information, delayed responses, and a lack of progress in addressing known deficiencies. By 2025, UND personnel concluded the arrangement was no longer sustainable due to persistent challenges obtaining necessary information and cooperation from DSU.

The University System reported significant work has since been undertaken to strengthen financial management and oversight at DSU, and the institution is operating from a strong position. The investigator, CliftonLarsonAllen LLP, recommended:

- The University System establish a centralized shared-services model administered through the University System office with clearly defined authority, accountability, and reporting responsibilities.
- The University System establish measurable performance expectations for senior finance personnel and conduct documented periodic evaluations.
- DSU establish regular cross-functional meetings involving finance, administration, academic leadership, and operational departments to discuss significant initiatives, budget impacts, contracts, grants, and strategic decisions.

Representatives of DSU informed the committee NDSU finance staff began assisting DSU with accounting functions in December 2025, bank reconciliations have been completed, and DSU undesignated cash reserves are within SBHE guidelines. Representatives of NDSU reported they are acting in a supporting role to DSU leadership, but DSU leadership remains in control of decisionmaking.

The University System office informed the committee the office is working to establish a process that provides adequate oversight for the institutions while allowing for campus autonomy. The University System reported the University System office must be able to assist the smaller campuses with financial services when staff turnover occurs. Representatives of the University System noted the University System office does not intend to increase its staffing, but the University System is considering implementing a dual reporting structure for campus financial staff to report to both the campus president and a position within the University System office to provide more central oversight, including data validation. The University System office reported it is unsure if the other campuses are in compliance with law and SBHE policy because the University System office does not have adequate oversight of the internal processes of the campuses.