

HIGHER EDUCATION STUDY - BACKGROUND MEMORANDUM

STUDY RESPONSIBILITIES

The Legislative Council has assigned the following studies to the 2009-10 interim Higher Education Committee:

1. Section 31 of 2009 Senate Bill No. 2003 provides for a Legislative Council study of the options for funding higher education institutions, including a review of funding based upon student completion rates.
2. Section 32 of 2009 Senate Bill No. 2003 provides for a Legislative Council study of the impact of tuition waivers on higher education institutions under the control of the State Board of Higher Education. The study must review the types of tuition waivers available, the number of tuition waivers granted, and the value of tuition waivers.
3. Section 9 of 2009 Senate Bill No. 2038, as approved by the 2009 Legislative Assembly, provides for a study of various issues affecting higher education. The study requires the use of at least six educational summit meetings to discuss topics that may include:
 - Alternative uses of institutions and changes to institutional missions.
 - Issues affecting two-year campuses.
 - Tuition affordability, including a review of tuition reciprocity agreements.
 - Accessibility of higher education.
 - Workforce needs.
 - Contributions to economic development.
 - Utilization and capacity of higher education institution facilities.
 - Quality of education being delivered.
 - Revenue-neutral policies that would aid in the reduction of student loan debt

As part of the study, the committee chairman may invite topic experts, representatives of the North Dakota University System, the private sector, and students to participate in the summit meetings to provide information to the committee as determined necessary to assist the committee in conducting its study.

A copy of Sections 31 and 32 of Senate Bill No. 2003 and Section 9 of Senate Bill No. 2038 are attached as [Appendix A](#) and [Appendix B](#), respectively.

BACKGROUND

The University System consists of 11 higher education institutions under the control of the State Board of Higher Education. Of the 11 institutions, 2 are doctoral-granting institutions, 2 are master's-granting institutions, 2 are universities that offer baccalaureate degrees, and 5 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 2009-11 biennium for higher education institutions and the University System office are \$796,060,507, of which \$593,296,143 is from the general fund. The following is a summary 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	\$593,296,143 ²	\$202,764,364 ²	\$796,060,507

¹The 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.

²The 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.

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

The University System reported a total degree credit headcount enrollment of 43,442 students and a total degree credit full-time equivalent (FTE) enrollment of 36,096 students in the fall 2008 enrollment report. The following is a summary of University System degree credit headcount and FTE fall enrollments for 2000 through 2008:

Institution	Headcount Enrollment								
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Bismarck State College	2,744	3,044	3,168	3,430	3,546	3,370	3,477	3,591	3,788
Dickinson State University	2,012	2,101	2,326	2,461	2,479	2,516	2,572	2,670	2,730
Lake Region State College	902	1,308	1,340	1,473	1,464	1,471	1,508	1,520	1,657
Mayville State University	776	755	746	817	897	912	832	769	789
Minot State University	3,081	3,515	3,625	3,825	3,851	3,798	3,712	3,424	3,432
Minot State University - Bottineau	451	526	609	620	602	523	605	637	655
State College of Science	2,425	2,292	2,439	2,468	2,481	2,457	2,490	2,417	2,545
North Dakota State University	9,894	10,538	11,146	11,623	12,026	12,099	12,258	12,527	13,229
University of North Dakota	11,031	11,764	12,423	13,034	13,187	12,954	12,834	12,559	12,748
Valley City State University	1,090	1,005	1,022	998	1,033	1,035	1,037	982	1,019
Williston State College	687	748	770	871	937	947	912	731	850
Total	35,093	37,596	39,614	41,620	42,503	42,082	42,237	41,827	43,442

Institution	FTE Enrollment ¹								
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Bismarck State College	2,267	2,473	2,542	2,747	2,800	2,602	2,651	2,792	2,937
Dickinson State University	1,698	1,746	1,940	1,992	2,034	2,031	2,059	2,158	2,294
Lake Region State College	524	664	682	738	738	738	750	764	784
Mayville State University	686	662	658	700	761	722	652	586	563
Minot State University	2,647	2,911	2,969	3,021	3,022	3,063	2,928	2,730	2,720
Minot State University - Bottineau	419	416	475	473	447	386	399	402	440
State College of Science	2,428	2,247	2,253	2,323	2,271	2,223	2,171	2,097	2,041
North Dakota State University	9,003	9,621	9,950	10,294	10,692	10,752	10,890	11,221	11,794
University of North Dakota	9,837	10,466	11,061	11,704	11,815	11,531	11,381	10,967	11,137
Valley City State University	969	896	921	879	956	899	844	807	824
Williston State College	585	617	651	704	709	702	648	551	562
Total	31,063	32,719	34,102	35,575	36,245	35,649	35,373	35,075	36,096

¹In 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. Objectives of the base operating funding component are to:

1. Establish peer institutions for each higher education institution based on the criteria established by MGT of America, Inc., during the 2005-06 interim study on higher education. At a minimum, the peer institutions are to be reviewed every four years.
2. Review national IPEDS data on unrestricted state and local appropriations and net tuition revenues (total tuition revenue less scholarships, waivers, and discounts) on a per FTE student basis for each of the peer institutions.
3. Establish a base operating funding benchmark for each higher education institution based on the review of the state and local appropriations and net tuition revenues per student information.
4. Establish share funding percentages to reflect that higher education funding is to be a shared responsibility between the state and students.
5. Determine the recommended base operating funding levels for each institution by considering the base operating funding benchmark, enrollment, and the recommended shared funding percentages.
6. Develop budget requests to move all institutions to 100 percent of their benchmarks.
7. Allocate a portion of increased state general fund appropriations to parity and to resolve equity differentials. Parity and equity will be distributed as follows:
 - a. Parity - Funding for new and continuing salary and health insurance costs.
 - b. Equity - No less than 15 percent of total new funding available.
 - c. Parity - Funding for operating inflation, including utility cost increases.
 - d. Equity - Any remaining funding.
 - e. Equity funds are to be distributed based on a weighting methodology that provides funding to all campuses funded at less than their benchmarks but with more to those furthest away from the benchmarks calculated on the average of:
 - (1) Variable weighting of percentage distance from peers with more weighting given to those institutions furthest from their peer benchmark.
 - (2) Simple weighting of dollar distance from peers.
8. Assure that state general fund appropriations are not reduced for any institution from the previous biennium until such time that the institution exceeds 105 percent of its peer benchmark or enrollment declines are sufficient to cause a reevaluation of its benchmark.

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. The State Board of Higher Education's goal for incentive funding is to receive an amount equivalent to 2 percent of the total University System state general fund appropriation.

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 State Board of Higher Education's goal for capital asset funding is for each of the institutions to phase in full funding of the Office of Management and Budget buildings and infrastructure formula over a 10-year period (by the 2013-15 biennium) and to address the current deferred maintenance backlog over approximately a 14-year period (by the 2015-17 biennium). 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 \$100,000. 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 carry 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.

The following table summarizes funding provided for each funding component in the University System 2009-11 legislative appropriations:

Base funding	\$528,340,203
Incentive funding (science, technology, engineering, and mathematics teacher initiative)	1,500,000
Capital asset maintenance (deferred maintenance)	19,954,424 ¹
Total general fund appropriation	\$549,890,127²

¹ Does not include deferred maintenance funding of \$45,576 appropriated to the North Dakota Forest Service or funding that may be used for deferred maintenance that was not originally designated for deferred maintenance.

² Does not include appropriations to the North Dakota Forest Service, funding for major capital projects, and other funding identified as one-time funding.

The following table provides information regarding the estimated outstanding deferred maintenance at the beginning of the 2009-11 biennium and funding for deferred maintenance provided in the 2009-11 legislative appropriations:

	Outstanding Deferred Maintenance - Beginning of 2009-11 Biennium	2009-11 Deferred Maintenance Funding
Bismarck State College	\$1,865,837	\$340,637
Lake Region State College	513,829	93,807
Williston State College	2,092,409	382,002
University of North Dakota	39,321,193	7,178,674
North Dakota State University	29,336,494	5,355,817
State College of Science	5,664,520	1,034,143
Dickinson State University	9,104,548	1,662,171
Mayville State University	10,462,684	1,910,120
Minot State University	3,259,722	595,111
Valley City State University	7,147,707	1,304,921
Minot State University - Bottineau	531,430	97,021
North Dakota Forest Service	249,643	45,576
Total	\$109,550,016	\$20,000,000¹

¹ Does not include deferred maintenance reductions resulting from capital projects, deferred maintenance balance increases during the 2009-11 biennium, or funding used for deferred maintenance that was not originally designated for deferred maintenance.

HIGHER EDUCATION TUITION WAIVERS

Tuition and fee waivers are provided to students of higher education institutions based on statutory requirements, State Board of Higher Education policy, and institution policy. The following waivers are provided pursuant to statutory requirements:

- North Dakota Century Code (NDCC) Sections 15-10-18.2 and 15-10-18.3 provide tuition and

fee waivers to dependents of resident veterans who were killed in action, died of service-related causes, or were prisoners of war. The waiver is continued until the student obtains a bachelor's degree or certificate of completion with a maximum completion time of 45 months or 10 semesters.

- North Dakota Century Code Sections 15-10-18.4 and 15-10-18.5 provide tuition and fee waivers for survivors of firefighters, emergency medical services personnel, or peace officers who died as a direct result of injuries received in the performance of official duties. The waiver is continued until the student obtains a bachelor's degree or certificate of completion with a maximum completion time of 45 months or 10 semesters.
- Qualifying members of the National Guard may have up to 25 percent of tuition costs waived pursuant to NDCC Chapter 37-07.1. The waiver is valid as long as the National Guard member maintains satisfactory performance and meets the qualification requirements of rules adopted by the Adjutant General.

State Board of Higher Education policy requires institutions to provide the following waivers:

- Tuition and fees of the student member of the State Board of Higher Education.
- Tuition and student activity fees for eligible University System employees for up to three academic classes per calendar year.

State Board of Higher Education policy also encourages institutions to use tuition waivers to promote cultural diversity, to promote enrollment of graduate students and research, and for other purposes consistent with the mission of the institution.

The following table provides information regarding the number of tuition waivers granted at all University System institutions during the 2007-08 academic year:

North Dakota University System 2007-08 Academic Year Waivers		
Type of Waiver	Number of Waivers	Value of Waivers
National Guard	547	\$343,620
Dependents of veterans killed or missing in action	186	438,014
Dependents of law enforcement, firefighters, and medical services personnel killed in duty	0	0
Graduate assistant	2,295	9,842,998
Staff and spouse/dependent	1,359	1,789,077
Foreign student	946	4,748,641
Senior citizen	12	8,298
Cultural diversity	1,074	3,100,188
Institutional waivers ¹	1,025	1,854,901
Miscellaneous ²	1,237	2,021,277
Total	8,681	\$24,147,014

¹Includes waivers for athletics, academics, and other campus priorities.

²Includes waivers for the North Dakota/Minnesota reciprocity agreement, room and board waivers at the State College of Science, the waiver for the student member of the State Board of Higher Education, and other miscellaneous waivers.

The table below summarizes the number of waivers provided at each University System institution for the 2007-08 academic year:

Waivers by Institution for the 2007-08 Academic Year		
Institution	Number of Waivers	Value of Waivers
Bismarck State College	156	\$126,109
Dickinson State University	787	2,889,152
Lake Region State College	153	226,706
Mayville State University	150	149,204
Minot State University	876	1,275,051
Minot State University - Bottineau	42	49,147
State College of Science	635	607,818
North Dakota State University	3,326	11,179,622
University of North Dakota	2,275	7,133,400
Valley City State University	190	411,554
Williston State College	91	99,251
Total	8,681	\$24,147,014

Attached as [Appendix C](#) is a detailed list of tuition waivers granted at each institution for the 2007-08 academic year.

2009 RELATED LEGISLATION

Senate Bill No. 2003 - Transfer Authority

Section 17 of Senate Bill No. 2003 allows the State Board of Higher Education to authorize higher education institutions 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.

Senate Bill No. 2003 - Full-Time Equivalent Positions

Section 20 of Senate Bill No. 2003 provides the State Board of Higher Education with the authority 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 the Office of Management and Budget prior to the submission of the 2009-11 budget request.

Senate Bill No. 2003 - Tuition Rate Increases

Section 30 of Senate Bill No. 2003 provides that the State Board of Higher Education is to limit any annual tuition increase for students attending institutions under its control for the 2009-10 and 2010-11 academic years to not more than 4 percent for each year unless the board receives prior Budget Section approval.

Senate Bill No. 2003 - Higher Education Governance Study

Section 33 of Senate Bill No. 2003 provides for a study of the feasibility and desirability of creating a department to oversee early childhood, elementary, secondary, and postsecondary education. This study was not prioritized by the Legislative Council.

Senate Bill No. 2003 - Higher Education Student Trust Fund Study

Section 34 of Senate Bill No. 2003 provides for a study of the establishment of a higher education student trust fund. The Legislative Council assigned this study to the 2009-10 interim Workforce Committee.

Senate Bill No. 2038 - Study of Using Higher Education to Meet Economic and Workforce Needs

Section 6 of Senate Bill No. 2038 provides for a study of how higher education can further contribute to developing and attracting the human capital to meet North Dakota's economic and workforce needs. The Legislative Council assigned this study to the 2009-10 interim Workforce Committee.

Senate Bill No. 2389 - Minot State University - Bottineau Name Change

Senate Bill No. 2389 changes the name of Minot State University - Bottineau to Dakota College at Bottineau. The change is effective August 1, 2009.

STUDY PLAN

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

1. Receive and review information regarding options available that may build a more cost-effective system, including a more appropriate mix of institutions, new types of providers, effective collaboration among institutions, and a more efficient use of existing resources.
2. Hold at least six educational summit meetings to discuss specific higher education topics which may include alternate uses of institutions and changes to institutional

missions, issues affecting two-year campuses, tuition affordability, accessibility of higher education, workforce needs, contributions to economic development, utilization and capacity of higher education institution facilities, quality of education being delivered, revenue-neutral policies that would aid in the reduction of student loan debt, or any other topic identified by the committee.

3. Receive and review information regarding changes to the academic production function, including programs of cost-effective size and a reengineering of curricula and course delivery.
4. Receive and review information regarding a history of the number, value, and types of tuition waivers granted in the University System.
5. Review the University System long-term financing plan and the impact of the state's changing demographics on the plan.
6. Review the appropriateness of the higher education cornerstones and develop goals for each.
7. Receive and review information regarding options available to provide funding to higher education institutions based on student completion rates.
8. Receive testimony from other interested persons regarding the committee's study of higher education.
9. Develop recommendations and any bill drafts necessary to implement the recommendations.
10. Prepare a final report for submission to the Legislative Council.

ATTACH:3