



# North Dakota Legislative Council

Prepared for the Higher Education Committee  
 LC# 23.9061.01000  
 August 2021

## HIGHER EDUCATION STUDY- BACKGROUND MEMORANDUM

### STUDY RESPONSIBILITIES

The Legislative Management assigned the 2021-22 interim Higher Education Committee to:

- Study higher education student affordability pursuant to Section 25 of Senate Bill No. 2003 (2021), including all forms of financial assistance available for students enrolled at institutions of higher education in the state;
- Study the higher education funding formula pursuant to Section 27 of Senate Bill No. 2003 (2021), including instructional program classification factors; and
- Study the professional student exchange program pursuant to Section 3 of Senate Bill No. 2140 (2021).

### BACKGROUND

The North Dakota 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, 4 are colleges that offer associate and technical degrees, and 1 is a polytechnic institution that offers associate, technical, and certain baccalaureate degrees.

### Appropriations

Legislative appropriations for the 2021-23 biennium for higher education institutions, the Forest Service, and the University System office total \$2,693,795,565, of which \$703,353,526 is from the general fund. The following is a history of legislative appropriations for higher education since the 1997-99 biennium:

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	\$165,419,701	\$637,455,938
2009-11	\$593,355,047	\$202,764,364	\$796,119,411
2011-13	\$657,838,539	\$108,817,759	\$766,656,298
2013-15	\$910,632,494	\$177,980,941	\$1,088,613,435
2015-17	\$837,849,212	\$66,644,264	\$904,493,476
2017-19	\$679,438,630 <sup>1</sup>	\$2,059,950,275	\$2,739,388,905
2019-21	\$660,517,805	\$2,400,897,468	\$3,061,415,273
2021-23	\$703,353,526	\$1,990,442,039	\$2,693,795,565

**NOTE:** The special funds amounts for the 1997-99 biennium reflect the appropriation of tuition income. The special funds amounts for the 1999-2001, 2017-19, 2019-21, and 2021-23 bienniums reflect the appropriation of tuition and local funds.

<sup>1</sup>The 2017-19 biennium general fund amount includes \$53.6 million of supplemental funding appropriated by the 2019 Legislative Assembly.

The following is a summary of ongoing and one-time general fund appropriations for the University System since the 2007-09 biennium:

General Fund Appropriations			
Biennium	Ongoing Appropriations	One-Time Appropriations	Total
2007-09	\$443,654,169	\$28,382,068	\$472,036,237
2009-11	\$534,062,895	\$59,292,152	\$593,355,047
2011-13	\$606,525,437	\$51,313,102	\$657,838,539
2013-15	\$679,271,846	\$231,360,648	\$910,632,494

General Fund Appropriations			
Biennium	Ongoing Appropriations	One-Time Appropriations	Total
2015-17	\$681,876,059	\$155,973,153	\$837,849,212
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	\$17,025,000	\$703,353,526

The University System is authorized 6,533.99 full-time equivalent (FTE) positions for the 2021-23 biennium, 75.88 FTE positions fewer than the 2019-21 biennium authorized level.

### STUDENT AFFORDABILITY

Pursuant to Section 25 of Senate Bill No. 2003 (2021), the 2021-22 interim Higher Education Committee shall study higher education student affordability, including all forms of financial assistance available for students enrolled at institutions of higher education in the state.

#### Student Financial Assistance Grants

The Legislative Assembly provided \$23,917,306 from the general fund for student financial assistance grants. The maximum grant award amount under the program is \$2,200 per year. To qualify, a student must be a resident undergraduate student who has graduated from a North Dakota high school and is attending a qualified postsecondary institution in North Dakota. The award of grants is based on student need. The following is a summary of funding for student financial assistance grants:

Biennium	Maximum Grant Award	Legislative Appropriations			Total
		General Fund	Federal Funds	Other Funds	
1995-97	\$600	\$2,032,478	\$400,000	\$1,350,000	\$3,782,478
1997-99	\$600	\$1,495,000	\$410,986	\$2,574,400	\$4,480,386
1999-2001	\$600	\$1,735,881	\$140,000	\$2,574,400	\$4,450,281
2001-03	\$600	\$2,670,881	\$214,000	\$1,338,150	\$4,223,031
2003-05	\$600	\$2,730,215	\$200,000		\$2,930,215
2005-07	\$1,000	\$3,332,402	\$172,000		\$3,504,402
2007-09	\$1,000	\$5,823,497	\$164,000		\$5,987,497
2009-11	\$1,500	\$19,025,594	\$348,428		\$19,374,022
2011-13	\$1,500	\$19,025,594	\$348,428		\$19,374,022
2013-15	\$1,650	\$21,245,679			\$21,245,679
2015-17	\$1,950	\$23,886,160			\$23,886,160
2017-19	\$1,950	\$21,917,306			\$21,917,306
2019-21	\$2,200	\$23,917,306			\$23,917,306
2021-23	\$2,200	\$23,917,306			\$23,917,306

#### Professional Student Exchange Program

The Legislative Assembly provided \$3,699,342 from the general fund for the professional student exchange program. The program assists North Dakota students enrolling in professional programs not offered in the state, including dentistry, optometry, and veterinary medicine. The Legislative Assembly also repealed statutory repayment provisions relating to the professional student exchange program. The following is a summary of funding for the professional student exchange program:

Biennium	General Fund	Student Loan Trust Fund	Total
1995-97	\$1,326,756		\$1,326,756
1997-99	\$1,389,801		\$1,389,801
1999-2001	\$1,310,716		\$1,310,716
2001-03	\$1,560,716		\$1,560,716
2003-05	\$1,678,300		\$1,678,300
2005-07	\$1,864,780	\$262,500	\$2,127,280
2007-09	\$2,199,566	\$523,380	\$2,722,946
2009-11	\$2,346,130	\$990,970	\$3,337,100
2011-13	\$2,856,131	\$465,307	\$3,321,438
2013-15	\$3,809,708	\$465,307	\$4,275,015
2015-17	\$3,476,447	\$465,307	\$3,941,754
2017-19	\$3,234,035	\$465,307	\$3,699,342
2019-21	\$3,699,342		\$3,699,342
2021-23	\$3,699,342		\$3,699,342

**Scholars Program**

The Legislative Assembly provided \$1,807,115 from the general fund for the scholars program. The scholars program provides full-tuition scholarships to resident students who score in the upper fifth percentile of North Dakota ACT Aspire test takers and enroll in an undergraduate program in the state. The following is a summary of funding for the scholars program:

Biennium	General Fund	Special Funds	Total
1995-97	\$496,403		\$496,403
1997-99	\$473,786	\$185,500	\$659,286
1999-2001	\$520,730	\$185,500	\$706,230
2001-03	\$770,730		\$770,730
2003-05	\$816,386		\$816,386
2005-07	\$862,077		\$862,077
2007-09	\$1,478,566		\$1,478,566
2009-11	\$2,113,584		\$2,113,584
2011-13	\$2,113,584		\$2,113,584
2013-15	\$2,113,584		\$2,113,584
2015-17	\$2,113,584		\$2,113,584
2017-19	\$1,807,115		\$1,807,115
2019-21	\$1,807,115		\$1,807,115
2021-23	\$1,807,115		\$1,807,115

**Native American Scholarship Program**

The Legislative Assembly provided \$555,323 from the general fund for Native American scholarships. The following is a summary of funding for the Native American scholarship program:

Biennium	General Fund
1995-97	\$200,000
1997-99	\$204,000
1999-2001	\$204,082
2001-03	\$204,082
2003-05	\$204,086
2005-07	\$251,988
2007-09	\$380,626
2009-11	\$381,292
2011-13	\$574,267
2013-15	\$649,267
2015-17	\$649,267
2017-19	\$555,323
2019-21	\$555,323
2021-23	\$555,323

**Career and Technical Education and Academic Scholarships**

The Legislative Assembly provided \$16,216,749 from the general fund for career and technical education (CTE) and academic scholarships for the 2021-23 biennium, an increase of \$4.2 million from the 2019-21 biennium appropriation of \$12,016,749. To be eligible for a scholarship, a student must be a resident of the state, complete the requirements for a high school diploma, and meet program requirements for one of the programs. Any student that meets the requirements for a CTE scholarship or an academic scholarship is to receive a scholarship of \$750 per semester, or \$500 per quarter, for each period the student is enrolled at a North Dakota higher education institution and maintains eligibility up to a maximum amount of \$6,000.

**Higher Education Challenge Grants Program**

The Legislative Assembly provided \$11.15 million from the general fund for higher education challenge grants, \$1.5 million more than the 2019-21 biennium appropriation of \$9.65 million. The 2021 Legislative Assembly made statutory changes to allow the University of North Dakota School of Medicine and Health Sciences to participate in the program. The 2021 Legislative Assembly also added abortion-related restrictions to the program's eligibility requirements. The following is a summary of funding for the higher education challenge grants program:

Biennium	General Fund	Student Loan Trust Fund	Total
2013-15	\$29,000,000		\$29,000,000
2015-17	\$21,000,000	\$2,500,000	\$23,500,000
2017-19	\$2,000,000		\$2,000,000
2019-21	\$9,650,000		\$9,650,000
2021-23	\$11,150,000		\$11,150,000

### **Other Student Financial Assistance**

In addition to the state financial assistance programs, many institutional scholarship programs provide student financial assistance. Funding for most of the scholarships are provided by foundations or donors for various purposes, such as athletics or fine arts scholarships. Approximately \$32.6 million of institutional scholarships were awarded in the 2018-19 academic year.

Higher education students may also be eligible for federal financial assistance. The University System reported in July 2019 that its students had received \$205 million in Pell grant, federal supplemental education opportunity grant, and work study money since the 2014-15 academic year.

### **HIGHER EDUCATION FUNDING FORMULA**

Pursuant to Section 27 of Senate Bill No. 2003 (2021), the 2021-22 interim Higher Education Committee shall study the higher education funding formula, including instructional program classification factors.

#### **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 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 2021-23 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. This provision was eliminated by the 2021 Legislative Assembly.

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		
	2017-19	2019-21	2021-23
North Dakota State University, University of North Dakota	\$58.65	\$60.87	\$61.81
Dickinson State University, Mayville State University, Minot State University, Valley City State University	\$86.95	\$90.98	\$92.60
Bismarck State College, Dakota College at Bottineau, Lake Region State College, North Dakota State College of Science, Williston State College	\$93.03	\$97.06	\$98.84

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. The 2021 Legislative Assembly continued funding the capital building fund program with a transfer of \$19 million from the strategic investment and improvements fund to the University System capital building fund.

**Prior Study of the Higher Education Funding Formula**

During the 2019-20 interim, the interim Higher Education Funding Formula Review Committee studied the funding formula and made a number of recommendations which were enacted by the 2021 Legislative Assembly, including:

- Adjusted the credit completion factor to protect institutions with increasing enrollment from a reduction in funding caused by a decrease in the credit completion factor;
- Transferred computer science credits from the core disciplines cluster to the engineering discipline cluster under the instructional program classification factor;
- Eliminated the institutional size factor;
- Increased the instructional program classification factor to increase the weight for CTE credits; and
- Provided legislative intent that the State Board of Higher Education not recognize the change in the national classification of instructional programs (CIP) code to move certain veterinary-related courses from the health sciences cluster to the agriculture cluster.

The 2019-20 interim Higher Education Funding Formula Review Committee also recommended the State Board of Higher Education continue reviewing the institutional size factor of the higher education funding formula and perform biennial reviews of the higher education funding formula beginning with the 2021-23 biennium.

## PROFESSIONAL STUDENT EXCHANGE PROGRAM

Pursuant to Section 3 of Senate Bill No. 2140 (2021), the 2021-22 interim Higher Education Committee shall study the professional student exchange program (PSEP), including:

- The number of program participants enrolled in each discipline;
- The tuition support provided for students enrolled in each discipline;
- The rate at which students participating in the program return to the state;
- The procedures necessary to implement a payback provision and their associated costs;
- An appropriate grace period to allow program participants to return to the state; and
- The educational disciplines to which the payback provision should be applied.

The 2021 Legislative Assembly appropriated \$3.7 million from the general fund for PSEP.

### Prior Study of the Professional Student Exchange Program

The 2013-14 Health Services Committee received a report from the University System regarding a PSEP study conducted by the State Board of Higher Education. The committee learned PSEP provides access to professional programs not offered in the state in veterinary medicine, dentistry, and optometry. The committee learned between 2008 and 2013, the number of applicants in the three professions available through PSEP averaged 61 students per year and 37.8 percent of the applicants were in veterinary medicine, 38.6 percent were in dentistry, and 23.6 percent in optometry. During the 2013-14 academic year, 20 new slots were funded, of which 10 were funded in veterinary medicine, 3 in optometry, and 7 in dentistry. During the 2013-14 academic year, PSEP provided funding for 40 veterinary, 28 dentistry, and 26 optometry students. Some slots were not filled, either because there were not enough applicants or because applicants were not eligible. The University System was reviewing the possibility of reallocating unused funding to provide additional slots in another profession.

The committee received information regarding funding per student provided for participants in PSEP. Within the Western Interstate Commission for Higher Education (WICHE), veterinary students received approximately \$30,600 per student, dentistry students received \$23,900 per student, and optometry students received \$16,400 per student. Non-WICHE students received \$17,930 per student for dentistry students and between \$11,226 and \$26,059 per student for veterinary students.

The PSEP budget for the 2013-15 biennium was approximately \$4.5 million, of which \$3.8 million was from the general fund, \$465,307 was from the student loan trust fund, and \$186,532 was available from carryover. The carryover resulted from optometry and veterinary slots that were not filled for the 2012-13 school year.

### Repayment Provision

The 2017-18 interim Higher Education Committee considered but did not recommend a bill draft to replace PSEP with a dentistry, optometry, and veterinary medicine student loan repayment program. The bill would have required students in professional programs in other states to return to North Dakota to receive student loan repayment funding. The Legislative Assembly, in House Bill No. 1003 (2019), established a PSEP repayment provision requiring dentistry, optometry, and veterinary medicine students to repay the state if they don't return to and work in the state for 3 years. The Legislative Assembly, in Senate Bill No. 2140 (2021), repealed the repayment provision and provided for this study.