



## BOARD OF REGENTS

306 EAST CAPITOL AVENUE, SUITE 200  
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OFFICE OF THE EXECUTIVE DIRECTOR

November 30, 2022

Representative Chris Karr, Lead Co-Chair, Joint Committee on Appropriations  
Senator Jean Hunhoff, Co-Chair, Joint Committee on Appropriations

### **Response to Letter of Intent Regarding Institutional General Fund Appropriation Allocations**

Dear Representative Karr and Senator Hunhoff:

Attached you will find the required analysis regarding institutional General Fund appropriation allocations as requested in the Letter of Intent dated May 19, 2022. The analysis includes an update on progress towards an institutional funding model that includes consideration of the following at each institution:

- Specific, targeted general fund allocations in past legislative sessions;
- High cost programming;
- Resident and non-resident student enrollment;
- Graduate and undergraduate enrollment; and
- Any other applicable criteria deemed necessary.

The Board would welcome an opportunity to discuss the report in more detail during its budget hearing with the Joint Committee on Appropriations in January.

Should you have further questions, please let us know.

Sincerely,

Dr. Brian Maher

Attachments:

Analysis of General Fund appropriation allocations



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#### Timeline of Work to Date:

- **March 2020 through December 2020** – The COVID-19 pandemic significantly impacted teaching modalities across the globe. Social distancing recommendations resulted in many courses at BOR institutions being moved from face-to-face instruction to a distance or hybrid model. The resulting change in modality came at a financial cost to students. At that time, state statute required off-campus (online) delivery of coursework be assessed at a higher tuition rate than face-to-face courses; so, when BOR campuses moved coursework online, students had to pay more for them. The Board of Regents determined a review of the existing tuition and fee structure should be undertaken.
- **July 2020** – Senate Bill 55 (SB55), an act to require the Board of Regents to assemble a task force to study the operations and functions of the institutions of higher education under the Board's authority, becomes law.
- **August 2020** – The Board approves a process for implementing SB55, appoints SB55 task force members, and establishes subcommittees. Subcommittees are:
  - Administration: Assigned aspects of SB55 that involve the possible combining of administration at all levels of operation within an institution; the possible combining of operations and functions across multiple institutions; the possible combining of the administration of programs across multiple institutions; and any other possible cost-effective measures the task force determines are worthy of examination.
  - Academic: Assigned aspects of SB55 that involve a review of the duplication of program offerings; a review of the academic majors with low enrollments and low numbers of graduates; and any other possible cost-effective measures the task force determines are worthy of examination.
  - Infrastructure/Ancillary: Assigned aspects of SB55 that involve a review of functions outside the core missions of teaching, learning, and research; a review of the operations and functions provided as an efficiency through the central office of the Board of Regents; a review of the viability of the university centers; and any other possible cost-effective measures the task force determines are worthy of examination.

- **October 2020** – First meeting of the SB55 task force in Rapid City where subcommittee goals are developed.
- **November 2020** – Second meeting of the SB55 task force in Vermillion. Subcommittees continue their work throughout the fall of 2020 and early spring of 2021.
- **December 2020** - A Tuition & Fee workgroup consisting of representatives from all six campuses – members of the Academic Affairs Council, Business Affairs Council, and Student Affairs Council – was established to review a new tuition and fee structure that would attempt to remain revenue neutral to the system. This would likely result in a blended tuition rate, which would necessitate a legislative change to the required “self-support” rate for off-campus (online) courses.
- **January 2021 through March 2021** - Senate Bill 27 was introduced at the request of the Board of Regents, during the 2021 Legislative Session, in an effort to create better cost structures that would directly affect affordability for students. With the successful passage of Senate Bill 27, statutory references to self-support tuition rates associated with off-campus (online) delivery of public university coursework were removed. This did not include, however, courses taught at Black Hills State University – Rapid City or, what was then known as, the Community College for Sioux Falls.
- **March 2021 through December 2021** – The Tuition & Fee workgroup continued its efforts toward a new tuition and fee structure. Guiding principles of the workgroup were:
  - Simplify the current tuition and fee structure to increase transparency.
    - There are three different resident, three non-resident, Child of Alumni, South Dakota Advantage, Minnesota Reciprocity, and a myriad of other rates for face-to-face undergraduate tuition, yet only one rate for distance education, regardless of residency or institution.
    - Special Discipline Fees are only charged on certain course prefixes that are offered face-to-face with rates varying between institutions.
    - Work towards a single rate for residents vs. non-residents at all six institutions, if possible.
      - For example – a resident rate of \$280 per credit hour regardless of institution or method of delivery and a non-resident rate of \$375 per credit hour regardless of institution or method of delivery.
  - Maintain a higher rate for non-resident students.
    - While the current distance rate is the same, regardless of residency, the workgroup should review that practice.
    - Revisit the South Dakota Advantage rates and whether to continue or expand that practice.
  - Ensure the new pricing structure is revenue neutral.
    - While an absolute zero may not be mathematically achievable across all institutions, the group should work towards this goal.
  - Review competitiveness with peers, including the online market.
  - Keep an eye on potential, unintended consequences of a new pricing structure.

- Be aware of incentivizing behavior through such a revised structure (ex. shuffling more students to online vs. face-to-face).
- Total institutional funding should be considered as part of the analysis.

At this point, initial analysis indicated a move to a single rate of \$280 per credit hour for residents and \$375 per credit hour for non-residents (regardless of modality) would result in a net revenue gain to the system of \$474,000 – but campus impacts would range from a loss of nearly \$1,000,000 at BHSU to a gain of \$1,100,000 at SDSU. This was a result of the varying mixes in campus enrollment – resident/non-resident students and on-campus/off-campus delivery. Campuses with a higher percentage of off-campus credit hours saw significant negative impacts to revenue through this proposal.

Additionally, the continued self-support rate requirement at the Centers was projected to be extremely detrimental to enrollment at those locations if the other off-campus courses were going to be offered at a lower rate.

- **April 2021** – Third meeting of the SB55 task force in Spearfish.
- **May 2021** – Fourth meeting of the SB55 task force in Sioux Falls. Draft of SB55 task force report with findings and recommendations is produced.
- **June 2021** – Fifth meeting of the SB55 task force in Brookings. SB55 task force report is reviewed and finalized. Recommendations from the task force that are of particular interest to the tuition and fee/general fund allocation discussion are:
  - Recommendation #8: Use Improved Data Analysis for Review of Institutional Staffing and Expenditures. The task force recommended the use of improved data to analyze institutional staffing and expenditure levels since a rigorous examination of staffing and expenditures at each institution and within departments/administrative units is crucial to finding greater efficiencies. To answer this directive, the university system joined the HelioCampus Benchmarking Consortium, which is a vendor-provided service that brings a large number of colleges and universities together for the purpose of providing comparable data. They provide standardized measurements that consider student enrollment, staffing levels, and expenditures by department and service area.
  - Recommendation #9: Review Current Institutional Funding Models and Recommend Modifications to Ensure Funding is Equitable and Sustainable. The task force recommended that the Board appoint a workgroup with representation from all six institutions and the central office to review the system’s funding structure. They further acknowledged that there were funding inequities within the university system and both the tuition and fee structure, and general fund allocations needed to be analyzed in a more integrated approach.
- **August 2021** – As part of its market research, the Tuition & Fee workgroup contacted other state systems of higher education for examples of tuition and fee structures that may be used to inform the

process in South Dakota. Two were used as discussion points related to the goals of simplicity and transparency:

- The state of Kansas recently undertook a similar process and shared the experience simplifying their rate structure.
- The state of Iowa shared information on their structure, which is not simple, but is very transparent.

Multiple simulations of the impact to students under revised scenarios were generated. None of these scenarios included Special Discipline or General Activity Fees due to their specific/varying nature. Common results were:

- Resident students taking all their courses in person would see an increase in total cost.
  - Students, regardless of residency status, taking all their courses online would see a decrease in total cost.
  - Non-resident students would see an increase in their total cost at all levels.
- **November 2021** – Final report and findings of the SB55 task force are presented to the Governor and the Joint Committee on Appropriations.
  - **December 2021** - The Tuition & Fee workgroup further expanded their analysis by including all fees in their calculations – General Activity Fee and Special Discipline Fee – since failure to do so could result in shifting course enrollments between online and face-to-face in ways that were not intended. Various models were run, still with an eye to revenue neutrality, and regional market data from thirty-nine institutions was analyzed. In every scenario, BHSU experienced significant losses in revenue while every other campus experienced revenue gains.

At this point, the Board determined that there was not a tuition and fee solution that would result in revenue neutrality for the system, without negatively impacting BHSU, and General Fund allocations should be taken into consideration. Subcommittees were established to delve into the various aspects of this revised project directive:

- General Fund Historical Distribution – Review past levels of general fund distribution and methodology and review requirements to realign general funds.
- Competitive Pricing Comparison – Review surrounding states and program competitors to ensure the BOR is competitively priced.
- Pricing Structures – Look at various pricing structures (online vs. face-to-face, by credit or banded tuition, single or varied price across all institutions) and make recommendations on strengths and weaknesses of each (may merge with the Competitive Pricing Comparison committee once initial work is completed).
- Tuition Modeling – Run data models to determine fiscal impact of changes to structure.
- Technical and Execution – Determine Banner programming, set-up, and maintenance requirements to implement committee recommendations, as well as roll out to campuses, current, and future students once structure is determined.

- **January 2022 to March 2022** - House Bill 1024 was introduced at the request of the Board of Regents during the 2022 South Dakota Legislative Session to remove the statutory requirement of the self-support rate at the university centers. With the successful passage of House Bill 1024, the Board was afforded the ability to set appropriate tuition rates at Black Hills State University – Rapid City and the newly rebranded University of South Dakota – Sioux Falls. Additional focus on the health sciences becomes a mission of both locations.
- **April 2022** – The Board determined that with so many variables being introduced through SB55 work, the impact of campus missions, and the new Freedom Scholarship, it would be prudent to ensure any proposed pricing changes aligned with the BOR’s strategic goals for enrollment growth and did not adversely affect campus or BOR initiatives. As a result, an RFP was issued that requested a consultant develop and conduct a comprehensive price sensitivity analysis to determine the impact of pricing strategies on new student demand and assist in developing an economic model to measure student price sensitivity and the impact of tuition and fee structures on enrollment behavior.

Tuition & Fee subcommittees, as identified in December 2021, continued to meet, and work on their specific areas.

- **May 2022** – Three vendors responded to the RFP, and EAB was selected to lead the project.

The General Fund Historical Distribution subcommittee provided information tracing specific, targeted, campus General Fund allocations back to 1984, adjusted for inflation, with the goal of determining if the allocation of state funds is equitable and incorporating that information into the tuition and fee pricing structure. A history of prior BOR funding structures, decisions made that impacted allocations, and various metrics to analyze general fund distributions were also discussed.

- **June 2022** - The Texas A&M university system provided information on how their general fund allocation matrix is structured. Their model uses the expenses reported at the Texas A&M institutions, as stated in their annual financial statements, to produce a relative weight matrix that is used to calculate the Instruction and Operations formula funding for their system. Variables such as the level of course taught (lower, upper, masters, doctoral, professional), faculty teaching type (tenured vs non-tenured), and discipline (liberal arts, science, etc.) are used to calculate general fund allocations utilizing a three-year average.

Other methods of general fund allocations were discussed such as: basic funding per student FTE, the Delaware Cost Study (instructional costs from 120+ higher education institutions across the country), and a Revenue Gap Analysis. The Board requested additional information on what implementation of a model like Texas A&M would look like for South Dakota, in addition to utilizing data from the Delaware Cost Study to create a second matrix for comparison purposes.

- **August 2022** – Information related to the general funds available to reallocate were shared with the Board. To determine what was available for reallocation from the FY22 campus general fund budgets,

the General Fund Historical Distribution subcommittee removed utility budgets and any targeted, base, general fund allocations (adjusted for inflation) that were not tied to credit hour generation since FY84.

Utilizing this information, multiple models for General Fund allocation were developed:

- The Texas Model
- The Delaware Model
- Dividing General Funds by student FTE
- Dividing General Funds by student FTE and applying a “Small School Bonus” to adjust for economies of scale at the larger institutions

Under every model there were significant redistributions of General Funds between the campuses with three campuses consistently losing General Funds (NSU, SDSMT, and USD) and three campuses consistently gaining General Funds (BHSU, DSU, and SDSU).

It also became obvious, that when comparing the BOR institutions to peers across the country, there was a significant shortfall in funding, and the level of shortfall needed to be further investigated. BHSU appeared to be the farthest behind peers while SDSMT was closest to their peers.

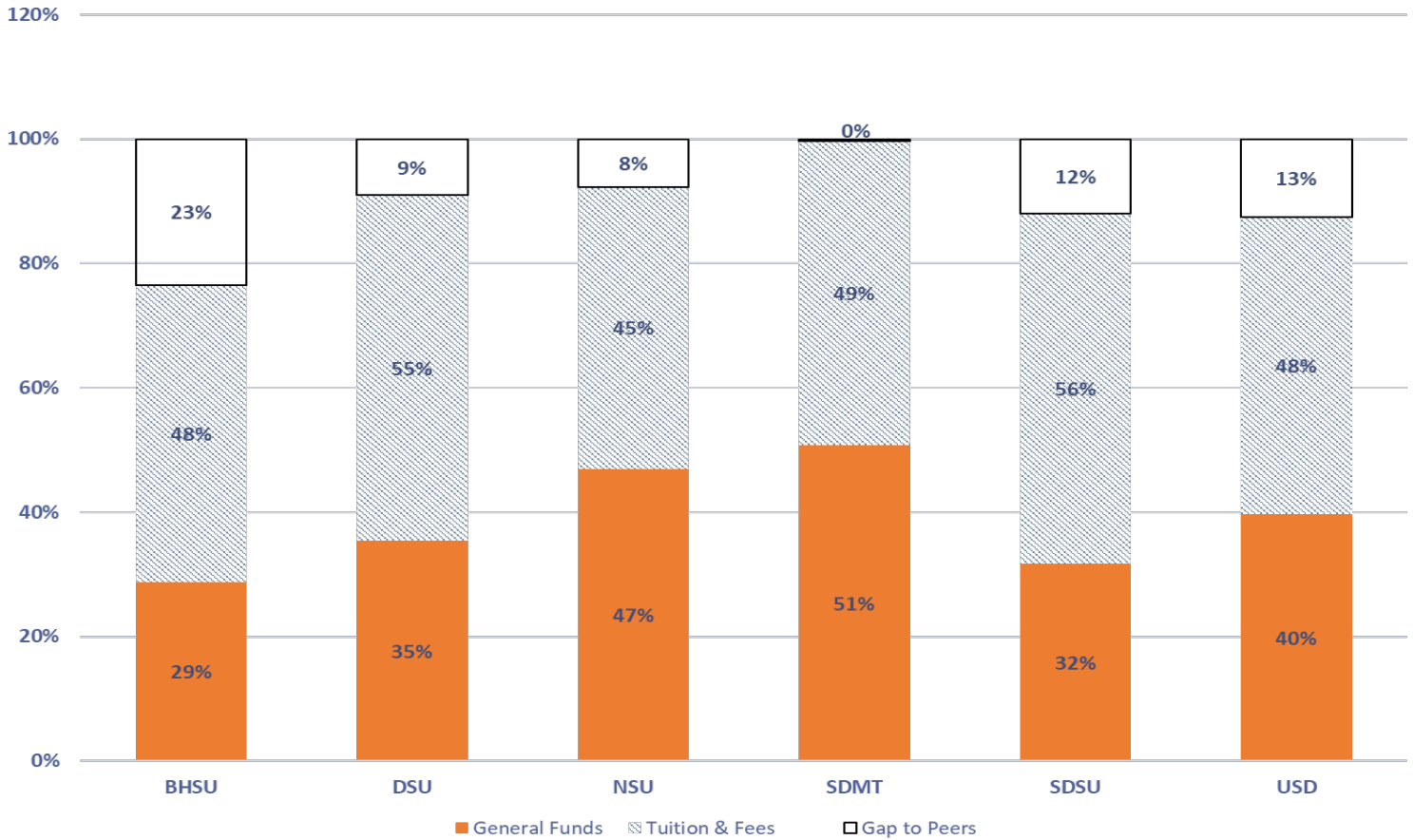
The results of the consultant’s price sensitivity analysis report were also shared, with early takeaways affirming the following:

- As prices fall, enrollments should rise but revenues also fall; as prices rise, enrollments should fall but revenues also rise.
  - Price sensitivity varies by institution.
  - Price sensitivity varies by student demographic group.
  - Related to price sensitivity, the current hybrid model with higher rates for online courses creates an “after the fact” pricing problem.
  - For non-residents, higher-quality students are less likely to enroll than lower quality students.
  - Students applying to institutions early, before October 15<sup>th</sup>, are generally more likely to enroll compared to students applying later.
  - Price changes that are large in scale may introduce unintended consequences.
  - Non-resident students receiving tuition reciprocity or paying the in-state rate are more likely to enroll than students paying the non-resident rate.
- **October 2022** – Based upon Board feedback from the August 2022 meeting, the General Fund Historical Distribution subcommittee turned toward an analysis of funding levels at BOR universities compared to peers. The cost analysis was segmented into two sections:
    - *Instruction* – Utilizing the Delaware Cost Study, costs for instruction specific to classification of instructional programs (or CIP), this analysis includes a breakdown of high-cost programming and graduate/undergraduate enrollment.
    - *Administration* – Benchmarking administrative spending against peers within the HelioCampus consortium data.

Revenues from General Funds and Tuition & Fee Funds were compared to the costs of operation (both instructional and administrative) for peers to determine where any excess or shortfall in funding may exist. In virtually every instance (see Table 1), total resources available for base operations fell short of peers, with BHSU being the furthest behind peers at only 77% of their base operations (a shortfall of over \$9M). Detail behind the calculation of the funding shortfall can be seen in Table 2.

**TABLE 1**

Funding Compared to Peers (assuming Admin costs are the same as peers)



**TABLE 2**

	Current General Funds	FY21 Tuition & Fee Revenue	Total Revenue Available for Base Operations	Total Estimated Peer Resources for Base Operations	Current % of Peers	Gap to 100% of Peers
<i>BHSU</i>	\$11,344,361	\$18,883,060	\$30,227,421	\$39,490,702	77%	\$9,263,281
<i>DSU</i>	\$11,509,467	\$18,004,025	\$29,513,492	\$32,462,177	91%	\$2,948,685
<i>NSU</i>	\$13,085,811	\$12,633,913	\$25,719,724	\$27,862,796	92%	\$2,143,073
<i>SDSMT</i>	\$19,181,729	\$18,518,291	\$37,700,020	\$37,816,596	100%	\$116,576
<i>SDSU</i>	\$50,916,424	\$89,910,571	\$140,826,995	\$160,104,538	88%	\$19,277,543
<i>USD</i>	\$49,231,698	\$59,385,628	\$108,617,326	\$124,175,695	87%	\$15,558,369
	<b>\$155,269,489</b>	<b>\$217,335,488</b>	<b>\$372,604,977</b>	<b>\$421,912,503</b>	<b>88%</b>	<b>\$49,307,526</b>