

South Dakota Board of Regents

Policy Manual

SUBJECT: System Funding

NUMBER: 5:19

1. Allocation of General Fund Appropriations and University Tuition

A. State Appropriations

1. The Board of Regents receives state appropriations to support the universities, the medical school, the special schools, the Agricultural Experiment Station, the Cooperative Extension Service, the Animal Disease Research and Diagnostic Laboratory, the Board Office, the Regents Information System, to fund system pools, and targeted appropriations for purposes determined by the Legislature.
2. Appropriations for the universities including the medical school become part of the system operating pool.

B. University Tuition

1. Tuition for university courses “directly supported by moneys appropriated from the general fund” (SDCL 13-55-23) is divided between the system tuition and fee fund which receives 80 percent and the Higher Education Facilities Fund (SDCL 13-53-15 and Policy 6:3) which receives 20 percent.
2. Tuition revenue deposited into the system tuition and fee fund, up to the annual budget, becomes part of the system operating pool.

2. System Operating Pool

- A. The System Operating Pool. The system operating pool receives state appropriations for the universities and the medical school and 80 percent of tuition paid for university courses directly supported by moneys appropriated from the general fund.
- B. University of South Dakota School of Medicine. The School of Medicine’s base budget resources are allocated from the system operating pool.
- C. Utilities. Resources for utilities are allocated directly from the system operating pool.

- D. Reinvestment Through Efficiencies. Resources identified through the 1995 reinvestment through efficiencies program, including increases to maintain purchasing power, are allocated from the system operating pool. Reinvestment resources are expended to support the system goals approved by the Board (*January 1996*). University spending plans are approved annually by the Board.
- E. Salary Competitiveness. Resources allocated for the salary competitiveness plan adopted by the Board (*March 1998, Minutes, pp. 722-731*) are allocated from the system operating pool and expended for salaries as directed by the Board.
- F. University Base Budgets. After the School of Medicine, utilities, Reinvestment, and Salary Competitiveness resources are deducted, 95 percent of the remaining system operating pool resources are allocated to the university base budgets.
- G. State Policy Incentive Funds. After the School of Medicine, utilities, Reinvestment, and Salary Competitiveness resources are deducted, 5 percent of the remaining system operating pool resources are allocated to the following state policy incentive funds.
 - 1. Incentive Fund 1 – Access for Qualified South Dakotans;
 - 2. Incentive Fund 2 – Economic Growth Programs;
 - 3. Incentive Fund 3 – Academic Quality;
 - 4. Incentive Fund 4 – Collaboration;
 - 5. Incentive Fund 5 – External Funds.

3. University Base Budgets and Enrollment Bases

A. Base Budgets

- 1. The university base budgets support general administrative functions and instructional activities and provide resources to support the state higher education policy goals.
- 2. Base budget resources may be used for any purpose consistent with Board policy, Board action, and statute.

B. Student Enrollment Base

- 1. Each university's student enrollment base is its Fall 1997 student full time equivalent enrollment in courses directly supported by moneys appropriated from the general fund. Full time equivalent is calculated using the tuition rate paid for the credit hours.
- 2. Each university's student enrollment base is to remain in place until the Board approves another base.

C. Base Funding Adjustments

1. If a university's enrollment is between 96 percent and 104 percent of its enrollment base, no base budget funds will be added or subtracted for the following year.
2. If a university's enrollment is below 96 percent of its enrollment base, funds will be removed from its base for the following year. Funds will be removed at the system instructional support per full time equivalent student ("student FTE") amount for each student FTE below 96 percent. Funds removed will be allocated to universities with growth above 104 percent of their enrollment base in the subsequent year or placed into a reserve pool.
3. If a university's enrollment is above 104 percent of its enrollment base, funds will be added to its base for the following year. Tuition funds will be added at the system instructional support per student FTE amount for each student FTE above 104 percent. If sufficient funds are not available from universities below 96 percent of their enrollment base or from additional tuition revenue the reserve pool, a proportional amount will be added.

4. State Policy Incentive Funds

- A. The state policy incentive funds were developed to encourage and reward university action in areas of particular interest to the State and its citizens. Incentive fund resources are earned by the universities based on performance toward targets approved by the Board.
- B. Approval of Targets
 1. Incentive Fund 1 – Access for Qualified South Dakotans. Targets are approved at the first regularly scheduled meeting after March 1. Targets are approved for the fall term.
 2. Incentive Fund 2 – Economic Growth Programs. Targets are approved at the first regularly scheduled meeting after March 1. Targets are approved for the fall term.
 3. Incentive Fund 3 – Academic Quality. Target levels are constant and are based on each student achieving at the expected level on the proficiency examination based on his or her ACT score.

4. Incentive Fund 4 – Collaboration. Targets are approved at the first regularly scheduled meeting after March 1. Targets are approved for the academic year (fall and spring).
 5. Incentive Fund 5 – External Funds. Targets are approved at the first regularly scheduled meeting after October 1. Targets are approved for the fiscal year beginning July 1 (for example, targets set in October 1999 are for FY 2001 which begins July 1, 2000.)
- C. Incentive fund resources allocated based on performance toward approved targets may be used for any purpose consistent with Board policy, Board action, and statute. Any incentive fund resources not earned by the universities are allocated for specific purposes determined by the Board.

5. Incentive Fund 1 – Access for Qualified South Dakotans

- A. This incentive fund allocates resources based upon growth in enrollments of students classified as South Dakota residents. (See Policy 3:2 Resident and Nonresident Classification of Students.)
- B. Fall enrollments are used to allocate Incentive Fund 1 resources.
1. Enrollments in courses directly supported by moneys appropriated from the general fund are taken from the tenth day enrollment extract. (See Policy 2:24 Enrollment Reporting.)
 2. Enrollments in all other courses are taken from the end of term extract. (See Policy 2:24 Enrollment Reporting.)
- C. Enrollments are expressed as “full time equivalent” (FTE) students and are calculated based on the tuition rate paid for the credit hours.
1. Undergraduate tuition rate. The number of undergraduate credit hours is divided by 15 to obtain undergraduate FTE.
 2. Graduate tuition rate. The number of graduate credit hours is divided by 12 to obtain graduate FTE.
 3. Law tuition rate: The number of law credit hours is divided by 15 to obtain Law FTE.
- D. Credit hours generated by courses approved for the externally supported tuition rate (Policy 5:5 Tuition and Fees) are excluded from the FTE for the purposes of this incentive fund.

- E. Students with a first major in programs operated by the School of Medicine are excluded from the University of South Dakota's resident enrollment FTE for incentive fund purposes.

Discussion

As of June 1998 the following School of Medicine programs were excluded from enrollments for incentive fund purposes:

- *Medicine, MD (CIP code: 51.1201)*
- *Anatomy, Biochemistry, Microbiology, Physiology/Pharmacology, MA/Ph.D. (CIP codes: 51.1301; 51.1302; 51.1308; 51.1313)*
- *Physical Therapy, MS (CIP code: 51.2306)*
- *Occupational Therapy, MS (CIP code: 51.2308)*
- *Physician Assistant Studies, BS (CIP code: 51.0807)*

- F. Improvement is measured from one fall term to the next.
1. The first baseline year is FY98 (Fall 1997).
 2. The first performance year is FY99 (Fall 1998).
 3. Improvement between Fall 1997 and Fall 1998 will be used to allocate resources for the FY00 budget.
 4. Fall 1998 enrollments will be used as the baseline to determine targets for Fall 1999.

6. Incentive Fund 2 – Economic Growth Programs

- A. Resources are allocated based upon growth in the total number students who major in any of the designated programs (*June 1998, Minutes, pp. 2026-2027 & 2829-2855*). The Board may approve additional programs.
- B. The Board will approve growth targets using the total enrollment in all of a university's economic growth programs.
1. A student who is seeking a degree, who has declared one of the approved majors, and who is enrolled is included in the total.
 2. Program enrollment is determined using the end of term extract. (See Policy 2:24 Enrollment Reporting.)
- C. Improvement is measured by comparing the total headcount enrollment in all of a university's economic growth programs from one fall term to the next.
1. The first baseline year is FY98 (Fall 1997).

2. The first performance year is FY99 (Fall 1998).
3. Improvement between Fall 1997 and Fall 1998 will be used to allocate FY00 resources.
4. Fall 1998 enrollments will be used as the baseline to determine targets for Fall 1999.

7. Incentive Fund 3 – Academic Quality

- A. Student Population for Incentive Funding. All students who take the proficiency examination (Policy 2:24 Proficiency Examinations) and have an ACT score (Policy 2:3 System Undergraduate Admissions) will be considered in the allocation of incentive fund resources.
- B. Each year's cohort is to be considered separately for incentive funding purposes. The cohort's achievement on the ACT and the proficiency examination is compared. Improvement is measured by the gains in achievement or "value added" for each cohort.
- C. Determination of Incentive Fund Resources
 1. The proficiency examination has four components:
 - a. Reading;
 - b. Writing;
 - c. Mathematics;
 - d. Science Reasoning.
 2. Comparing a student's ACT and proficiency examination scores produces five categories. Within each of the four proficiency examination components, a university's percentage of students in the categories is weighted.
 - a. Lower than expected gains between ACT and the proficiency examination, weighted -2.0.
 - b. Slightly lower than expected gains between ACT and proficiency examination, weighted -1.5.
 - c. Expected gains between ACT and proficiency examination, weighted 1.0.
 - d. Slightly higher than expected gains between ACT and proficiency examination, weighted 1.5.

- e. Higher than expected gains between ACT and proficiency examination, weighted 2.0.
3. Within each of the four proficiency examination components, the weighted percentages will be added to get a weighted total percentage.
4. The Reading, Writing, Mathematics, and Science Reasoning weighted total percentages will be averaged (summed and divided by four).
5. The average of the four weighted total percentages is multiplied by the university's contribution to the incentive fund to determine the percentage of its contribution that it has earned.

Example:

Computation of the weighted percentages:

ACT-CAAP Comparison Category	Weights	Reading		Writing	
		%	% x Wt	%	% x Wt
<i>Lower than expected</i>	-2.0	2%	-4.00%	1%	-2.00%
<i>Slightly Lower than expected</i>	-1.5	7%	-10.50%	14%	-21.00%
<i>Expected</i>	1.0	59%	59.00%	62%	62.00%
<i>Slightly Higher than expected</i>	1.5	21%	31.50%	20%	30.00%
<i>Higher than expected</i>	2.0	11%	22.00%	5%	10.00%
Weighted Total Percentage			98.00%		79.00%

Computation of average weighted percentage:

CAAP Test Area	Weighted Percentage	
<i>Reading</i>	98.00	<i>See Reading columns above.</i>
<i>Writing</i>	79.00	<i>See Writing columns above.</i>
<i>Mathematics</i>	70.00	<i>(Not shown above)</i>
<i>Science Reasoning</i>	100.50	<i>(Not shown above)</i>
<i>Sum of weighted percentages</i>	347.5	
<i>Divide by 4 to get average</i>	86.88	

Allocation of Resources: The university would receive 86.88 percent of its contribution to the incentive fund.

- D. In order to avoid disruptions to the university budgeting processes, proficiency examinations taken in one fiscal year will determine the allocation of resources for the following year.

1. The results of the proficiency examinations taken in FY98 (Spring 1998) were used to allocate incentive fund resources for the FY00 budgets.
2. The results of the proficiency examinations taken in FY99 (Fall 1998 and Spring 1999) will be used to allocate incentive fund resources for the FY01 budgets.

8. Incentive Fund 4 – Collaboration

- A. Resources are allocated based on growth in enrollments in certain courses and students:
 1. Courses for which the faculty is shared by two or more universities for the purposes of instruction.
 2. Courses for which a university provides its facilities to another university for the purpose of providing instruction.
 3. Enrollments of South Dakota high school students with opportunities to earn university credit.
- B. Shared Faculty
 1. When one university's faculty member provides instruction to students from one or more other regental universities, the enrollments are included in each university's collaborative enrollment total for incentive funding purposes.

Examples:

BHSU provides a Tourism course to NSU via RDTN. BHSU students register for a BHSU section. NSU students register for an NSU section. The enrollment in both sections is included in each university's collaborative enrollment total for incentive funding purposes.

USD provides an Education course to its own students and via ISDN to students seeking an SDSU degree. USD students register for a USD section. SDSU students register for an SDSU section. The enrollments in both sections are included in each university's collaborative enrollment total for incentive funding purposes.

NSU teaches a French course using WebCT to its own students and to students at SDSU and USD. Each university's students register for its own section. The enrollments in all three sections are included in each university's collaborative enrollment total for incentive funding purposes.

USD and SDSU offer a team-taught Biological Sciences seminar using the Rural Development Telecommunications Network. Each university's students register for its own section. The enrollments in both sections are included in each university's collaborative enrollment total for incentive funding purposes.

2. Sioux Falls Center for Public Higher Education Rotated Courses. The enrollments in Sioux Falls sections of courses that are rotated among the universities participating in the Sioux Falls Center for Public Higher Education (SFCPHE) are included in the collaborative enrollment total for all universities participating in the SFCPHE rotation for that course.
 - a. If all three universities (DSU, SDSU, and USD) are on the rotation schedule for a course, the Sioux Falls section enrollments are included in the collaborative enrollments for all three universities.
 - b. If only two are on the rotation schedule, the Sioux Falls section enrollments are included in the collaborative enrollments only for the listed universities.
3. Cooperative Master's degrees in Education in Sioux Falls. The Board authorized South Dakota State University to deliver its M.Ed. in Curriculum and Instruction in Sioux Falls in cooperation with the University of South Dakota's M.A. in Elementary or Secondary Education with support from Black Hills State University, Dakota State University, and Northern State University. The Board authorized the University of South Dakota to offer its M.A. in Elementary or Secondary Education with an emphasis in Instructional Enhancement in Sioux Falls in cooperation with South Dakota State University's M.Ed. in Curriculum and Instruction with support from Black Hills State University, Dakota State University, and Northern State University (*May 1995*). The enrollments in the Sioux Falls sections offered as part of the cooperative master's programs in Education are included in the collaborative enrollment total for all five universities.

C. Shared Facilities

1. This collaboration involves the use of another university's classrooms or laboratories and related support. When one university teaches a course on another university's main campus, the enrollments in the section are counted as collaborative for both universities.

Examples:

If SDSU teaches a graduate Education course in a classroom on the SDSM&T main campus, the enrollments in the section are included in each university's

collaborative enrollments for incentive funding purposes even if no SDSM&T students are enrolled.

If USD teaches a graduate Education course in a classroom on the SDSU main campus, the enrollments in the section are included in each university's collaborative enrollments for incentive funding purposes even if no SDSU students are enrolled in the section.

If BHSU teaches a course on the SDSM&T main campus, the enrollments in the section are included in each university's collaborative enrollments for incentive funding purposes even if no SDSM&T students are enrolled.

2. Enrollments in an outreach course (Policy 2:13 Telecommunicated Instruction for College Credit) delivered using the RDTN to another university's RDTN studio are not included for incentive funding purposes.

Discussion:

In these circumstances the university is simply using the Network, and the university where the course is received has no involvement with the course. The Network is responsible for scheduling and selling time to its customers. Network studios are scheduled through RDTN, and their availability depends on decisions made by the Network and its customers. Changes in Network policies or demand for Network services are outside the control of the universities. Furthermore, when studios were provided, each university made a commitment to the Network to provide basic support to all RDTN customers including other universities.

D. South Dakota High School Students

1. Any high school student is included in the university's collaborative enrollments for incentive funding purposes, provided that:
 - a. The student is classified as a South Dakota resident (Policy 3:2 Resident and Nonresident Classification of Students).
 - b. The student's "high school" status is indicated in the student information system.
 - c. The code for the student's high school is indicated in the student information system.
2. The location of a high school student's enrollment and the method of delivery are irrelevant.

3. The decision of the student's school district to award credit toward the high school diploma is irrelevant for incentive funding purposes because this is outside the control of the university.

E. Terms and Extracts

1. Academic year data (fall, spring) are used. The first baseline year is FY98 (Fall 1997 and Spring 1998 terms). The first performance year is FY99 (Fall 1998 and Spring 1999 terms)
2. The tenth day extract is used for fall courses directly supported by moneys appropriated from the general fund. The end-of-term extract is used for all other fall courses. The tenth day extract is used for spring term courses.

F. Improvement is measured using collaborative enrollments (shared faculty, shared facility, resident high school students) expressed as full time equivalent (FTE) students for an academic year. FTE are calculated using the tuition rate paid for the credit hours.

1. Undergraduate tuition rate. The number of credit hours is divided by 30 to obtain undergraduate FTE.
2. Graduate tuition rate. The number of credit hours is divided by 24 to obtain graduate FTE.
3. Law tuition rate: The number of credit hours is divided by 30 to obtain Law FTE.

G. Improvement is measured by comparing the growth in collaborative enrollment (FTE) from one fiscal year to the next.

9. Incentive Fund 5 – External Funds

A. Division of the Incentive Fund. This incentive fund is subdivided into four pools of 25 percent for the purposes of allocation. The Board approves targets for each of the four pools:

1. Gifts to the Endowment,
2. Grants and Contracts,
3. Scholarships,
4. Capital Funds.

B. Annual Gifts to the Endowment

1. Definition. Endowment funds (according to FASB SFAS No. 124) are established funds of cash, securities or other assets provided to the

universities' affiliated foundations in perpetuity or for a specified period of time. The three categories of endowment funds include:

- a. Permanently restricted endowments. The principal of the endowment must be maintained permanently (not used, expended, or otherwise exhausted). Only the interest generated by the endowed assets may be expended.
 - b. Term endowments (temporarily restricted funds). The principal of the term endowment must be maintained for a specified term.
 - c. Unrestricted endowments. Unrestricted endowments are funds which the foundation's governing board has earmarked as a board-designated endowment (sometimes called funds functioning as an endowment or a quasi-endowment) to be invested to provide income for a long but unspecified period.
2. Measurement. For the purpose of Incentive Fund 5, the measure will be the amount of gifts received in the year. Gifts to the endowments will be reported from audited financial statements.
 3. Initial base year. There will be no base year given the one-time nature of endowment funds.
 4. Targets. Targets will be expressed as percentage change from the previous year's gifts.

C. Grants and Contracts

1. Definition. For the purpose of Incentive Fund 5, "grants and contracts" refers to those funds received from the federal government, local governments, private foundations, corporations, and individuals.
 - a. Grants of financial aid in the form of grants or loans are excluded.
 - b. Grants and contracts passed through institutions to other agencies are excluded.¹
2. Measurement. The universities' accounting system (FIS) is used to track actual revenues. Regents Information Systems will program these reports to ensure uniform data collection.

¹ In higher education accounting, grants and contracts are known as "restricted non-appropriated current funds." These funds are restricted by the granting agency or donor to be used for specific purposes ordinarily detailed in a proposal submitted by the institution. Income received from sales and services, such as income from continuing education courses, copying, consulting and professional services, day care, workshops, clinics, etc., is excluded.

3. Initial base year. FY98 is the base year for all universities.
4. Targets. Annual targets are expressed as percentage change from the previous year's total grants and contracts. The universities may recommend adjusted baselines due to grants and contracts funded in the base year that they are not eligible to receive in the improvement year.

D. Scholarships

1. Definition. Endowed and current fund scholarships financed by foundations and outside scholarships funded by private individuals, corporations and other third parties are included.
2. Measurement. Scholarship support received by the institutions will be measured from data available on the institutions' financial aid systems. The reports are developed by the Regents Information Systems staff to ensure uniform data collection.
3. FY98 is the initial base year for all universities.
4. Targets. Targets are expressed as the percent change from the base year's amount. The universities may recommend adjustments for scholarships funded in the base year they are not eligible to receive in the improvement year.

E. Capital Funds

1. Definition. Capital funds are resources used to maintain, repair, renovate and construct campus buildings, purchase equipment, and acquire real estate. Capital funds are generally one-time in nature. The institutions receive these funds from capital campaigns conducted by their affiliated foundations, from local governments participating in joint-use facilities, from external foundations, and from individuals donating cash or gifts of real and personal property.²
2. Measurement. Capital funds recorded either in the institutions' plant funds or their respective foundation in the form of cash, real or personal property will be measured. Real or personal property values will be determined using standard methods used by foundations and donors. The universities will report annual capital funds revenue when it is received, not when it is expended. Only actual revenue should be measured. Pledges should not be included. This data should be reported from Foundation or Institutional financial statements, which may or may not be audited at the time of reporting.

² This category of funds is classified as plant funds in higher education financial statements.

3. Base Year. There will be no base year given the one-time nature of capital funds.
4. Targets. The universities will propose annual capital funds targets using their estimates of the expected value of cash, real and personal property to be received in the improvement year.

10. Targeted Appropriations

Targeted appropriations are resources appropriated by the Legislature for specific purposes. These resources are allocated and expended as provided by the Legislature or as the Board directs.

11. Academic Capital Facilities Budget

The Academic Capital Facilities Budget is funded from the Higher Education Facilities Fund. Resources are used to support maintenance and repair, major renovation projects, and new construction for university academic facilities as approved by the Board and the Legislature as required by statute.

SOURCE: BOR, March 1999; BOR, October 2000.