

# **Report from the Task Force to Study the Implementation of Higher Education Funding Policy**

**A Report Required Under Session Laws 2005, Chapter 107**

**January 15, 2006**

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## Executive Summary

Chapter 107 enacted in the 2005 session contains appropriations for the 2006-07 biennium to for the Minnesota State Colleges and Universities and the University of Minnesota, a variety of grant programs to students and related policy changes. A section in the act required a study of specific parts of the funding for the two public systems. The language in the bill was as follows:

*[ADVISORY TASK FORCE ON PUBLIC POSTSECONDARY FUNDING.]*

*The Higher Education Services Office shall convene an advisory task force to study the current postsecondary funding policy under Minnesota Statutes, 135A.01 to 135A.034. The task force must include the chief financial officers of the University of Minnesota and the Minnesota State Colleges and Universities and the commissioner of finance, or their designees. The task force may include other members as selected by the Higher Education Services Office. The task force must study and make specific recommendations on alternatives to the methods currently used by the postsecondary systems to implement the provisions of Minnesota Statutes, 135A.031, subdivision 4. The task force must submit its recommendations to the legislature and the governor by January 15, 2006. The task force expires on June 30, 2007.*

As directed in the language a Task Force was convened by the Minnesota Office of Higher Education. Membership on the Task Force included senior finance and budget personnel from both systems, a representative of the Commissioner of the Minnesota Department of Finance and several other appointees familiar with higher education funding issues. As a part of the evaluation process, background information was prepared, data on historical appropriations and instructional costs was assembled and meetings were held to evaluate the issues raised in the legislation.

The Task Force recommends the following for consideration by policy makers:

1. It is recommended that the funding policy statement in section 135A.01 be repealed but that a new statement be developed that more clearly addresses the needs and missions of both systems.
2. It is recommended that all remaining language in 135A.031, except subdivision seven, be repealed in order to retain statutory consistency with recommendation 1. It is also recommended that sections 135A.032 and 135A.033 be repealed to retain similar consistency.
3. It is recommended that M.S. 135A.031, subdivision 7 be retained but changed to have the data be reported to the Office of Higher Education with specific reference to 136A, which requires a data advisory group to determine the relevance of the data request. The Department of Finance would also receive the data as part of the budget process.
4. It is recommended that both systems be allowed to separately develop and submit the respective budget priorities to the legislature and the executive branch and that the

relevant statutory language in 135A.034 on budget priorities be amended to be consistent with the changes in the policy statement.

5. It is recommended that new goals for higher education be developed in conjunction with an accountability plan for higher education in the state currently being developed by the Office of Higher Education.

# Members of the Task Force

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## **Staff Contributions**

The Task Force recognizes the following staff members at the Office of Higher Education for their technical contributions to this report: Gerald Setter, Jack Rayburn, Tricia Grimes and Cheryl Maplethorpe. The Task Force also thanks Doug Berg, House Fiscal Staff, who provided historical data on legislative appropriations.

# Introduction

This report is issued under a legislative directive enacted in the 2005 session in Chapter 107, the bill appropriating funds for higher education. A Task Force was formed and staffed by the Minnesota Office of Higher Education, and a number of meetings were held between August 1 and December 1, 2005 to consider the directive.

Funding for the two public higher education systems in the state, the Minnesota State Colleges and Universities and the University of Minnesota, is a key component of the biennial budget process. The combined biennial appropriation for the two systems from all sources for fiscal years 2006 and 2007 is \$2.81 billion. Together the systems enrolled 196,778 students on a full-year equivalent basis in 2004-05.

There are many demographic and social factors, public expectations and economic conditions that drive higher education funding needs. At the University of Minnesota, research activities are significant. In both systems, outreach or public service and enrollment growth are important cost drivers. Costs related to enrollment growth can be particularly acute. When more students of diverse backgrounds with varying skill levels and educational needs enroll, increased higher expenditures are required.

## Background

Prior to changes made in the 2005 session, *Minnesota Statutes 2004*, 135A.031, subdivision 4 required an adjustment for every two percent change in estimated full-year equivalent enrollment.<sup>1</sup> The adjustment was to be made to sixty-five percent of each system's instructional service base. The law partially defines what is meant by instructional services base. It also defines which students are to be included in the measure of full-year equivalent. The statute also provides for adjustments for inflation and allows for an increase in the appropriation of up to one percent if systems meet performance standards.

The overarching policy that informs all of these provisions is found in M.S. 135A.01 which states:

*“It is the policy of the legislature to provide stable funding, including recognition of the effects of inflation, for instructional services at public postsecondary institutions and that the state and students share the cost of those services. The legislature intends to provide at least 67 percent of the instructional services costs for each postsecondary system. It is also the policy of the legislature that the budgetary process serves to support high quality public postsecondary education.”*

There are two central points that are important to understanding the recommendations of the committee. The first, found in M.S. 135A.031, subdivision 4 is the meaning of the adjustment to the base required under law. The second is the policy statement of intent to provide at least 67 percent of instructional services costs.

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<sup>1</sup> See Appendix 3 for the changes.

Defining the enrollment adjustment to the instructional services base required in M.S. 135A.031 subdivision 4 was the initial focus of the Task Force. This focus was due in part to the perceived motivation for the statutory change. This adjustment must be evaluated from two distinct vantage points in the budget process. The first is the base or starting point, and the second is the final appropriation that results from legislative deliberation. *Minnesota Statutes* 16A.11, subdivision 3 defines the starting point for all appropriations in the state budget as:

*“...the appropriation base is the amount appropriated for the second year of the current biennium.”*

This definition is important for both the general fund forecast developed by the Department of Finance and the budget recommendations made by the Governor. For each forecast, the Department of Finance begins with the base number and makes a series of adjustments. These adjustments may reflect provisions in an earlier appropriation that indicated the appropriation was made on a one-time basis, other adjustments to the base required by current law or policies of the Commissioner of Finance. These adjustments are included in the forecast presented in November prior to a budget session. The adjustment for enrollment changes in higher education has been the most significant base adjustment related to higher education in the last two budget cycles. In 2003 the base enrollment adjustment was \$35.6 million for the MnSCU system and \$14.9 million for the University of Minnesota. By 2005 the base enrollment adjustment grew to a combined \$205 million.<sup>2</sup>

In presenting budget recommendations to the Legislature, the Governor may propose an amount different from the adjusted base presented in the forecast. This amount will reflect the priorities of the Governor and may recognize enrollment changes in part, whole or not at all. The recommendations may also reflect other changes that concur with requests made by the systems or add to these requests. The Legislature has the constitutional power to make the appropriations for higher education. The legislative process has resulted in appropriations that are typically shaped initially by the forecast and the Governor’s recommendations, but that may differ significantly from both. The reality has been that the phrase “requires an adjustment” only applies to the starting point, or base number. The final appropriations have never matched these figures.

The dramatic increase in the adjustment in the 2005 session was one motivation for repeal of the adjustments for enrollments effective June 30, 2007. This change was in the House bill and adopted by the conference committee.<sup>3</sup> The bill also included a study to evaluate this change.

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<sup>2</sup> Chapter 135A also requires base adjustments for performance and inflation, but these have never been included in the higher education budgets.

<sup>3</sup> See H.F. 1385 for the specific language.



The language in the bill was as follows:

*[ADVISORY TASK FORCE ON PUBLIC POSTSECONDARY FUNDING.]*

*The Higher Education Services Office shall convene an advisory task force to study the current postsecondary funding policy under Minnesota Statutes, 135A.01 to 135A.034. The task force must include the chief financial officers of the University of Minnesota and the Minnesota State Colleges and Universities and the commissioner of finance, or their designees. The task force may include other members as selected by the Higher Education Services Office. The task force must study and make specific recommendations on alternatives to the methods currently used by the postsecondary systems to implement the provisions of Minnesota Statutes, 135A.031, subdivision 4. The task force must submit its recommendations to the legislature and the governor by January 15, 2006. The task force expires on June 30, 2007.*

The directive requires two important evaluations.

- First, it requires a Task Force to study and make recommendations on alternatives to implementing 135A.031, subdivision 4, the adjustment for enrollment.
- Second, it also required the Task Force to study the broader “current postsecondary funding policy under Minnesota Statutes, 135A.01 to 135A.034.”

The directive to study the broader policy language led the Task Force to look beyond a simple evaluation of the enrollment adjustment. As historical appropriation data was studied and compared to the actual instructional spending by the systems, significant questions were raised about the underlying policy. An analysis of the data revealed a significant discrepancy between the instructional costs calculated by the systems and the instructional cost identified in the appropriation session law, which is a derived number based on the final appropriation and not the real instructional costs.

## **The Process**

The Office of Higher Education was required to convene a task force with certain named people from the two public systems and other members as appropriate.<sup>4</sup> The list of the membership is on page five of this report. Two former Commissioners of Finance were active members of the Task Force.

Three meetings were held by the Task Force following the session. These occurred on August 30, September 29, and November 2. These were public meetings and were attended by legislative staff and other interested parties.

At the initial meeting of the Task Force, the current statutory language, changes made during the 2005 session, and the study directive were discussed. It was determined that the initial goal of the group was to address how the appropriation base for public post-secondary systems should be developed, how this base should be used in the budget forecast process, and how the base is used as the starting point for budget deliberations.

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<sup>4</sup> The agency was renamed in the appropriation bill from the Higher Education Services Office.

## Issues and Discussions

Prior to the 2005 session there were three elements that were identified in statute as factors in adjusting the higher education base. These were adjustments for enrollment changes, inflation and performance. Adjustments for enrollment change were eliminated last session with a delayed effective date and the other two are not operable.<sup>5</sup>

Although the Legislature repealed the adjustment for enrollment changes, there were initial concerns whether this was the appropriate change. There were discussions regarding the continuation of what could be characterized as “current service levels” for higher education in the forecast base. This concern may be reflected legislatively in the requirement that the group “make specific recommendations on alternatives to the methods currently used by postsecondary systems to implement the provisions of M.S. 135A.031, subdivision 4”. This subdivision is the current law reference to enrollment changes.

While there is no statutory definition of current service levels, the concept of forecasted programs may come closest to addressing the issue. The Department of Finance has generally included programs with open appropriations (E-12, tax aids and credits, others), those with a legal entitlement (certain human service programs) or those with statutory language designating that they be included in the forecast. The Department of Finance has never created a general definition of “current services”.

### **Explanation of Tables (pp. 10 and 11)**

To inform the discussion and improve the analysis, the two public systems were asked to provide information on a variety of measures. The two systems, with the help of legislative staff, each submitted a spreadsheet indicating the relationship between state funding and instruction spending over the last decade or so. The two tables on the following pages each contain four parts.

- The first part of the table shows the relationship between the general fund appropriation, tuition revenue, and instructional costs for 1998 and 2003. (These two years were chosen due to data limitations. While MnSCU evaluates the instructional costs at each of its campuses annually, the University of Minnesota stopped doing annual studies in 1998 and only recently completed a study for 2003.)
- The second part of the table shows the relationship between the general fund appropriation for basic operations and tuition between 1996 and 2005. Although this is not the funding relationship addressed by the policy, this relationship was considered important for contextual purposes. This percentage is not the same as the measure required under the statute which focuses on just instructional costs. The total appropriations include funding for non-instructional costs as well. While this relationship for both systems was around 67 percent in the late 1990’s, by 2005 it had dropped to 52 percent.

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<sup>5</sup> See 16A.103 “*Expenditure estimates must not include an allowance for inflation*”. As mentioned above, adjustments for performance funding have never been implemented.

- The third part of the table shows enrollment changes under the statutory definition of enrollment between 1998 and 2004. These figures may differ from other numbers published by each system for different reasons, but they are consistent with the specific language of the statute.
- The fourth part of the table shows the appropriations for instructional services for each system and the relationship to instructional costs. The percentage is shown for the two years the data is available, 1998 and 2003.

Once the data was before the group the discussion moved into the broader policy questions. The current sections of law dealing with higher education funding, M.S. 135A.01 to 135A.034, focus on instructional expenditures. Historically these have been the main concern of the Legislature. The most important provision of the policy asserts the intent of the Legislature to provide funds to cover 67 percent of instructional costs. In 1998 this figure was close for MnSCU at 63.8 percent but covered only 46 percent at the U of M. By 2003, the annual instructional appropriation as a percent of instructional costs had dropped to 54 percent at MnSCU and only 38 percent at the University of Minnesota. Both figures are significantly lower than the 67 percent called for in the policy statement, and more importantly, although only two years are available, the trend suggested is quite negative.

One clear conclusion reached by the group was the disconnection between the policy stated in the law and actual practice in the appropriation process. It is important to note that these percentages are a function of the way the appropriation for instruction is determined by the Legislature. As such, they reflect this process as much as they do the policy commitment. Nonetheless, the disconnection between policy and reality is stark. These important facts led to the Task Force recommendations concerning the repeal of current funding policy.

**Minnesota State Colleges and Universities Data  
Funding Policy Implementation Task Force  
(all figures in millions)**

**1 Appropriations, Tuition, Instructional Costs**

	FY1998	FY2003
Total General Fund	499.7	592.3
Total Tuition Revenue	244.8	392.0
Instructional Cost*	714.6	963.0

\* from Instructional Cost Study done by MnSCU

**2 State Aid to Tuition**

	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005
Total General Fund Appropriation	465.5	475.2	499.7	548.2	549.3	579.7	601.6	592.3	559.6	546.4
Total Tuition	219.2	233.9	244.8	238.9	265.2	289.2	335.4	392.0	449.0	509.5
Appropriation as % of Appropriation + Tuition	68.0%	67.0%	67.1%	69.6%	67.4%	66.7%	64.2%	60.2%	55.5%	51.7%

**3 Enrollment**

Measured by Statutory Definitions

	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004
Undergraduate	100,197	93,903	100,592	104,465	110,627	116,432	119,124
Graduate/Professional	4,163	3,777	3,947	4,024	4,045	4,151	4,396
Marginally Funded (PSEO/MC)	2,031	2,265	2,417	2,445	2,860	3,063	3,228
Total Formula Enrollment	106,391	99,945	106,956	110,934	117,532	123,646	126,748

**4 Appropriations for Instructional Costs**

(figures provided by legislative staff)

	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005
Instructional Appropriation as % of Instructional Cost	424.1	433.9	455.9	503.2	483.5	512.2	530.6	523.1	500.1	486.9
			63.8%					54.3%		

**University of Minnesota Data  
Funding Policy Implementation Task Force  
(all figures in millions)**

**1 Appropriations, Tuition, Instructional Costs**

	<u>FY1998</u>	<u>FY2003</u>
Total General Fund O&M Appropriation*	470.9	544.4
Total Tuition Revenue	217.8	346.1
Instructional Cost**	628.1	847.5

\* excludes state specials

\*\* from Instructional Cost Study done by U of M

**2 State Aid to Tuition**

	<u>FY1996</u>	<u>FY1997</u>	<u>FY1998</u>	<u>FY1999</u>	<u>FY2000</u>	<u>FY2001</u>	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>
Total General Fund O&M Appropriation*	395.4	395.4	470.9	501.9	510.2	531.0	554.2	544.4	483.9	486.7
Total Tuition	196.5	211.7	217.8	240.4	243.3	258.8	313.6	346.1	399.2	442.0
Appropriation as % of Appropriation + Tuition	66.8%	65.1%	68.4%	67.6%	67.7%	67.2%	63.9%	61.1%	54.8%	52.4%

\* excludes state specials

**3 Enrollment**

Measured by Statutory Definitions

	<u>FY1998</u>	<u>FY1999</u>	<u>FY2000</u>	<u>FY2001</u>	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>
Undergraduate	33,827	35,815	34,204	35,079	36,921	39,613	39,283
Graduate/Professional	14,650	14,075	14,385	15,168	16,101	16,688	17,484
Marginally Funded (PSEO/MC)	300	345	368	364	402	290	400
Total Formula Enrollment	48,777	50,235	48,957	50,611	53,424	56,591	57,167

**4 Appropriations for Instructional Costs**

(figures provided by legislative staff)

	<u>FY1996</u>	<u>FY1997</u>	<u>FY1998</u>	<u>FY1999</u>	<u>FY2000</u>	<u>FY2001</u>	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>
Instructional Appropriation as % of Instructional Cost	290.4	298.0	288.9	311.8	310.9	332.2	323.9	319.5	245.3	247.9
										37.7%

# Recommendations

Based on the data provided here, and the discussion that occurred in the meetings, the Task Force adopted the following recommendations and rationale.

1. The Task Force recommends that the funding policy statement in section 135A.01 be repealed but that a new statement be developed that more clearly addresses the needs and missions of both systems. It is clear from the data that this funding policy of covering 67 percent of instructional costs is not being met. The discrepancy is so large that it is unlikely in the current budget environment the goal will be met in the foreseeable future. Second, from the perspective of the University of Minnesota, the policy does not address two significant parts of its mission, research and public outreach. A large and growing part of the University of Minnesota's budget is devoted to these two goals.
2. The Task Force recommends the repeal of any remaining language in 135A.031, except for subdivision seven. The Task Force reviewed the language specific to the enrollment adjustment. Because nearly all of the remaining language in this section as well as in 135A.032 and 135A.033 is no longer relevant, language in these sections should be repealed as well. The University of Minnesota felt this adjustment was not relevant to its operations and budgeting. In fact, the adjustment was counterproductive to its strategies for obtaining additional funding from the Legislature. The MnSCU representatives also agreed that the language should not be reinstated.
3. The Task Force recommends that subdivision 7 be retained but changed to have the data be reported to the Office of Higher Education with specific reference to 136A which requires a Data Advisory Group to determine the relevance of the data request. M.S. 135A.031, subdivision 7 contains reporting requirements for expenditures and enrollments.
4. The Task Force recommends that both systems be allowed to separately develop and submit the respective budget priorities to the Legislature and the executive branch. The remaining relevant section is 135A.034 on budget priorities. Further, that section would be amended to be consistent with the changes in the policy statement.
5. The Office of Higher Education is currently working on an accountability plan for higher education in the state. The Task Force recommends that new goals for higher education be developed in conjunction with that plan. The plan could be used to inform future funding discussions.

# Appendix 1

This appendix contains the recommended changes in statute marked by the usual strike-out and insert method. When whole subdivisions are repealed they are shown here as totally struck-out in order to convey with clarity to the reader the intent.

## **135A.01 Funding policy.**

~~It is the policy of the legislature to provide stable funding, including recognition of the effects of inflation, for instructional services at public postsecondary institutions and that the state and students share the cost of those services. The legislature intends to provide at least 67 percent of the instructional services costs for each postsecondary system. It is also the policy of the legislature that the budgetary process serves to support high quality public postsecondary education.~~

## **135A.01 Funding policy.**

~~It is the policy of the legislature to provide stable funding, including recognition of the effects of inflation, for instructional services at public postsecondary institutions and that the state and students share the cost of those services. The legislature intends to provide at least 67 percent of the instructional services costs for each postsecondary system. It is also the policy of the legislature that the budgetary process serves to support high quality public postsecondary education.~~

==135A.031

## **135A.031 Appropriations for instructional services.**

~~Subdivision 1. **Determination of appropriation.** The direct appropriation to each board for instructional services shall equal 67 percent of the estimated total cost of instruction for the University of Minnesota, the state universities, and the community colleges, and, for technical colleges, at least 67 percent of the estimated total cost of instruction.~~

~~Subd. 2. **Appropriations for certain enrollments.** The state share of the estimated expenditures for instruction shall vary for some categories of students, as designated in this subdivision.~~

~~(a) The state must provide at least 67 percent of the estimated expenditures for:~~

~~(1) students who resided in the state for at least one calendar year prior to applying for admission or dependent students whose parent or legal guardian resides in Minnesota at the time the student applies;~~

~~(2) Minnesota residents who can demonstrate that they were temporarily absent from the state without establishing residency elsewhere;~~

~~(3) residents of other states or provinces who are attending a Minnesota institution under a tuition reciprocity agreement;~~

~~— (4) students who have been in Minnesota as migrant farmworkers, as defined in the Code of Federal Regulations, title 20, section 633.104, over a period of at least two years immediately before admission or readmission to a Minnesota public postsecondary institution, or students who are dependents of such migrant farmworkers; and~~

~~— (5) persons who: (i) were employed full time and were relocated to the state by the person's current employer, or (ii) moved to the state for employment purposes and, before moving and before applying for admission to a public postsecondary institution, accepted a job in the state, or students who are spouses or dependents of such persons.~~

~~— (b) The definition of full year equivalent for purposes of the formula calculations in this chapter is twice the normal value for the following enrollments:~~

~~— (1) students who are concurrently enrolled in a public secondary school and for whom the institution is receiving any compensation under the Postsecondary Enrollment Options Act; and~~

~~— (2) students enrolled under the student exchange program of the Midwest Compact.~~

~~— Subd. 3. **Determination of instructional services base.**~~

~~The instructional services base for each public postsecondary system is the sum of: (1) the state share; and (2) the legislatively estimated tuition for the second year of the most recent biennium; and (3) adjustments for inflation, enrollment changes as calculated in subdivision 4, and performance as calculated in subdivision 5.~~

~~— Subd. 4. **Adjustment for enrollments.** (a) Each public postsecondary system's instructional services base shall be adjusted for estimated changes in enrollments. For each two percent change in estimated full year equivalent enrollment, an adjustment shall be made to 65 percent of the instructional services base. The remaining 35 percent of the instructional services base is not subject to the adjustment in this subdivision.~~

~~— (b) For all purposes where student enrollment is used for budgeting purposes, student enrollment shall be measured in full-year equivalents and shall include only enrollments in courses that award credit or otherwise satisfy any of the requirements of an academic or vocational program.~~

~~— (c) The enrollment adjustment shall be made for each year of the subsequent biennium. The base enrollment year is the 1995 fiscal year enrollment. The base enrollment shall be updated for each two percent change in estimated full-year equivalent enrollment. If the actual enrollment differs from the estimated enrollment, an adjustment shall be made in the next biennium.~~

~~— Subd. 5. **Adjustment for performance.** Each public~~



~~postsecondary system's instructional services base shall be adjusted, up to one percent, if the system meets the performance standards established by the system's governing board as part of the biennial budget document.~~

~~Subd. 6. **Adjustment for change items.** The instructional services base may be adjusted for change items as determined by the governor and the legislature after adjustments for inflation, enrollments, and performance.~~

Subd. 7. **Reports.** Instructional expenditure and enrollment data for each instructional category shall be submitted to the Office of Higher Education and the Department of Finance and included in the biennial budget document. The specific data shall be submitted only after the Director of the Office of Higher Education has consulted with a data advisory task force to determine the need, content and detail of the information.

~~==135A.032~~

~~**135A.032 Appropriations for noninstructional services.**~~

~~Subdivision 1. **Determination of noninstructional appropriations base.** The noninstructional services base for each public postsecondary system is the state share for the second year of the most recent biennium plus adjustments for inflation and for performance as specified in subdivision 2. The cost of technical college extension programs shall be included in noninstructional services.~~

~~Subd. 2. **Adjustment for performance.** The noninstructional services base shall be increased, up to one percent, if the system meets the performance standards established by the system's governing board as part of the biennial budget document.~~

~~Subd. 3. **Adjustment for change items.** The noninstructional services base may be adjusted for change items as determined by the governor and the legislature after noninstructional base adjustments for inflation and performance.~~

~~==135A.033~~

~~**135A.033 Performance funding.**~~

~~The governing boards of the University of Minnesota and the Minnesota State Colleges and Universities, in conjunction with their respective campuses, shall each specify performance categories and indicators relating to section 135A.053, subdivision 1, to be used for policy and appropriations decisions, as well as allocations for rewarding campuses that achieve performance levels and assisting campuses that are unable to achieve these levels. Because the mission of each system and type of campus varies, categories and indicators shall vary accordingly.~~

==135A.034

**135A.034 Budget priorities.**

Subdivision 1. **Operating budget.** The governing boards of the University of Minnesota, and the Minnesota State Colleges and Universities shall each develop, for legislative and executive branch acceptance, its highest budget priorities in accordance with statewide objectives for higher education. ~~It is the intent of the legislature to appropriate at least 67 percent of the total cost of instruction after adjusting for inflation and enrollment changes. However, in the event of a budget shortfall, or if funding of inflation is not possible, available funding shall first be applied to the agreed upon budget priorities.~~

## Appendix 2

9.20 Section 1. Minnesota Statutes 2004, section 135A.031,  
9.21 subdivision 3, is amended to read:  
9.22 Subd. 3. [DETERMINATION OF INSTRUCTIONAL SERVICES BASE.]  
9.23 The instructional services base for each public postsecondary  
9.24 system is the sum of: (1) the state share; and (2) the  
9.25 legislatively estimated tuition for the second year of the most  
9.26 recent biennium; and (3) ~~adjustments for inflation, enrollment~~  
9.27 ~~changes as calculated in subdivision 4, and performance as~~  
9.28 ~~calculated in subdivision 5.~~

9.29 [EFFECTIVE DATE.] This section is effective June 30, 2007.

9.30 Sec. 2. Minnesota Statutes 2004, section 135A.031,  
9.31 subdivision 4, is amended to read:

9.32 Subd. 4. [~~ADJUSTMENT FOR ENROLLMENTS FOR BUDGETING.~~] ~~(a)~~  
9.33 ~~Each public postsecondary system's instructional services base~~  
9.34 ~~shall be adjusted for estimated changes in enrollments. For~~  
9.35 ~~each two percent change in estimated full-year equivalent~~  
9.36 ~~enrollment, an adjustment shall be made to 65 percent of the~~  
9.37 ~~instructional services base. The remaining 35 percent of the~~  
9.38 ~~instructional services base is not subject to the adjustment in~~  
9.39 ~~this subdivision.~~

9.40 ~~(b)~~ For all purposes where student enrollment is used for  
9.41 budgeting purposes, student enrollment shall be measured in  
9.42 full-year equivalents and shall include only enrollments in  
9.43 courses that award credit or otherwise satisfy any of the  
10.1 requirements of an academic or vocational program.

10.2 ~~(c) The enrollment adjustment shall be made for each year~~  
10.3 ~~of the subsequent biennium. The base enrollment year is the~~  
10.4 ~~1995 fiscal year enrollment. The base enrollment shall be~~  
10.5 ~~updated for each two percent change in estimated full-year~~  
10.6 ~~equivalent enrollment. If the actual enrollment differs from~~  
10.7 ~~the estimated enrollment, an adjustment shall be made in the~~  
10.8 ~~next biennium.~~

10.9 [EFFECTIVE DATE.] This section is effective June 30, 2007.