

Agency Proposed Budget

The following table summarizes the total executive budget proposal for the agency by year, type of expenditure, and source of funding.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	100.06	0.00	4.00	104.06	0.00	4.00	104.06	104.06
Personal Services	4,652,921	708,297	366,077	5,727,295	729,005	366,186	5,748,112	11,475,407
Operating Expenses	6,571,778	106,334	1,781,910	8,460,022	63,077	513,236	7,148,091	15,608,113
Equipment	18,742	0	225,000	243,742	0	225,000	243,742	487,484
Local Assistance	7,590,416	763,397	0	8,353,813	929,556	0	8,519,972	16,873,785
Grants	13,151,418	1,529,847	2,018,556	16,699,821	2,446,292	2,628,551	18,226,261	34,926,082
Benefits & Claims	21,967,240	0	18,700,000	40,667,240	0	21,800,000	43,767,240	84,434,480
Transfers	148,037,141	12,345,648	7,208,983	167,591,772	16,447,036	674,000	165,158,177	332,749,949
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$201,989,656	\$15,453,523	\$30,300,526	\$247,743,705	\$20,614,966	\$26,206,973	\$248,811,595	\$496,555,300
General Fund	149,076,830	12,473,424	6,846,236	168,396,490	17,307,884	1,875,785	168,260,499	336,656,989
State/Other Special	14,296,001	2,265,692	2,099,662	18,661,355	2,598,634	99,662	16,994,297	35,655,652
Federal Special	38,616,825	714,407	20,913,693	60,244,925	708,448	23,790,867	63,116,140	123,361,065
Proprietary	0	0	440,935	440,935	0	440,659	440,659	881,594
Total Funds	\$201,989,656	\$15,453,523	\$30,300,526	\$247,743,705	\$20,614,966	\$26,206,973	\$248,811,595	\$496,555,300

Agency Description

The Office of the Commissioner of Higher Education (OCHE) is the state-level administrative organization of the Montana University System (MUS). The Montana Constitution, Article X, Section 9, grants governance authority over the MUS to the Board of Regents (Regents), with seven members appointed by the Governor. The Constitution charges the Board with hiring a Commissioner of Higher Education (CHE) who serves as its executive staff.

All state funds appropriated by the legislature to the Regents for the support of the MUS are channeled through OCHE.

The Montana University System is comprised of:

- The Regents
- The CHE, his/her staff, and several system-wide programs administered from OCHE
- The University of Montana, with:
 - Four-year campuses in Missoula, Butte, and Dillon
 - Two-year campuses in Missoula, Butte, and Helena
 - Two research/public service agencies in Missoula and Butte
- Montana State University, with:
 - Four-year campuses in Bozeman, Billings, and Havre
 - Two-year campuses in Billings and Great Falls
 - Three research/public service agencies in Bozeman and Great Falls
- Two-year community colleges in Kalispell, Glendive, and Miles City. Governance of the community colleges is divided between the Regents and the board of trustees of each community college district

To fund the MUS, the OCHE budget is organized into the following programs:

- OCHE Administration Program includes the CHE, his/her staff, and all state-level administrative costs related to the MUS not accounted for in other OCHE programs.
- Student Assistance Program includes both state and federal funding of interstate student exchange programs and student aid programs administered at the state level, including Work Study programs.
- Improving Teacher Quality Program includes federal funding that supports continuing education and teaching skills development for K-12 public school teachers.

- Community College Assistance directs state funding to support the cost of educating students at Montana’s three community colleges.
- MUS Group Health Insurance and includes administration of self-insured group insurance plans for university system employees.
- Talent Search Program includes two federal grant programs that provide academic support to targeted at-risk youth at the secondary school level to encourage post secondary education upon high school graduation, as well as the American Indian/Minority Achievement (AIMA) program.
- Self-funded Workers Compensation Program provides workers compensation coverage for all MUS employment units and employees.
- Workforce Development Program provides support for vocational and technical education, primarily federal funding.
- Appropriation Distribution is where the transfer of state funds to the university educational units and the research/public service agencies is recorded.
- Tribal College Assistance directs funding assistance to support education costs of non-beneficiary Montana students (non-tribal members) attending the seven federal tribal community colleges.
- Guaranteed Student Loan Program provides administration of and guarantor services for the federally funded student loan program for students attending post secondary schools in Montana.
- Board of Regents Administration Program supports travel, per diem and other operational costs for the board.

Since the 1995 legislative session, the legislature has combined the appropriation for the university educational units (all campuses of Montana State and the University of Montana) and most of OCHE into a single, lump-sum appropriation. Thus, the legislature determines the size of this budget, but the Regents make the ultimate allocation to the various educational units and campuses.

Specific line item appropriations continue for Community College Assistance, Tribal College Assistance, the research/public service agencies, and for a few special programs.

Agency Highlights

Montana University System/Commissioner of Higher Education Major Budget Highlights	
◆	The executive budget includes \$25.6 million general fund to support present law adjustments for the university units as part of the College Affordability Program (CAP) to cap university unit tuition rates at their current level through the 2009 biennium
◆	The executive budget increases general fund and six mill levy funding by \$6.5 million to support the following workforce development related programs: <ul style="list-style-type: none"> ● \$4.0 million one-time-only for new equipment acquisition for two-year degree programs ● \$1.5 million one-time-only for program development that addresses high-demand workforce occupational training programs ● \$1.0 million one-time-only for new equipment acquisition for the five public service/research agencies
◆	The executive budget increases student assistance \$4.0 million general fund in order to expand the Governor’s Postsecondary Scholarship Program
◆	Community college assistance increases \$1.7 million general fund
◆	Tribal college assistance, to support non-beneficiary (non-tribal member) Montana students increases to \$900,000 general fund over the 2009 biennium, representing an overall increase of \$500,000

<ul style="list-style-type: none"> ◆ Federal authority is increased \$45.5 million for the following <ul style="list-style-type: none"> • \$4.1 million federal funding for the GEAR UP program that targets at-risk youth with program to access higher education • \$41 million federal funding to support projected increases in Guaranteed Student Loan activity
Major LFD Issues
<ul style="list-style-type: none"> ◆ The legislature may want to consider adding accountability measures, using a companion bill to HB 2, to the following specific new proposals in the university system budget: <ul style="list-style-type: none"> • the \$1.5 million transferability initiative • the \$900,000 distance learning initiative • for proposed expansions to student assistance grant/scholarship programs, including the new proposal that funds tuition waivers ◆ An interim study by the Legislative Finance Committee recommends revisions to the statutory funding formula for the community colleges (contained in SB 12) such that the legislature may want to calculate the community college budget using this recommended formula and make this contingent upon passage and approval of SB 12 ◆ Given that the executive CAP proposal is based upon public policy decisions, rather than statutory formulas, the legislature may want to consider other funding levels to address concerns about access and affordability of higher education

Agency Discussion

Goals and Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy.

As part of its appropriations deliberations the legislature may wish to review the following:

- Goals, objectives and year-to-date outcomes from the 2007 biennium
- Goals and objectives and their correlation to the 2009 biennium budget request

Any issues related to goals and objectives raised by LFD staff are located in the program section.

LFD COMMENT	<p>In July 2006, the Regents unanimously adopted the “2006-2010 Strategic Plan” for the Montana University System and Commissioner of Higher Education. This strategic plan is posted on the Regents’ website at: http://bor.montana.edu/board/StrategicPlanDraft_final.pdf</p> <p>That plan is anchored by a set of three overarching, fundamental goals for the university system, including:</p> <ul style="list-style-type: none"> • Increase the overall educational attainment of Montanans through increased participation, retention, and completion rates in the MUS. • Assist in the expansion and improvement of the state’s economy through the development of high value jobs and the diversification of the economic base. • Improve institutional and system efficiency and effectiveness. <p>Under each of these fundamental goals, there are a series of measurable objectives and strategic initiatives, most of which include benchmarks of past performance by the university system, comparison to peer states/institutions, and benchmarks set for measuring future success.</p> <p>It is apparent that this strategic plan is intended to apply to each university unit and all programs under the control of the Regents and the CHE.</p>
--------------------	--

Impact of Proposed Executive Budget

The impact of general fund spending in the executive budget is illustrated in the figure below, which demonstrates the funding levels for each of the major functional areas of the MUS and shows the percent change from the 2007 biennium.

Montana University System - Impact of 2009 Biennium Executive Budget Across Functional Areas General Fund and Six Mill Levy Revenue Only					
Budget Item	Actual FY 2006	Budgeted FY 2007	Exec. Budget FY 2008	Exec. Budget FY 2009	% Change 07-09 Bien.
Education Services					
University Educational Units	\$123,579,694	\$126,316,668	\$140,871,656	\$138,339,836	11.73%
Resident Student Enrollment	26,422	26,756	26,756	26,756	0.63%
State Funds/Student	\$4,677	\$4,721	\$5,265	\$5,170	11.04%
Community College Assistance	\$7,474,371	\$8,553,518	\$8,237,813	\$8,399,972	3.81%
Resident Student Enrollment	2,217	2,770	2,411	2,411	-3.3%
State Funds/Student	\$3,371	\$3,088	\$3,417	\$3,484	6.8%
Tribal College Assistance	\$400,000	\$419,816	\$450,000	\$450,000	9.78%
Non-Beneficiary Students	298	298	298	298	0.00%
State Funds/Student	\$1,342	\$1,409	\$1,510	\$1,510	9.78%
Research/Public Service Agencies	\$20,049,133	\$21,111,542	\$20,981,105	\$21,079,330	2.2%
Student Grants/Assistance					
WICHE/WWAMI/MN Dental	\$4,794,116	5,239,984	\$5,197,136	\$5,382,581	5.44%
Number of Students	166	171	168	169	0.00%
State Funds/Student	\$28,880	\$30,643	\$30,935	\$31,850	5.48%
Gov's Postsecondary Scholarships	\$476,834	\$1,023,166	\$2,005,000	\$2,990,000	233.00%
Number of Students *	463	943	1,185	2,910	191.25%
State Funds/Student	\$1,030	\$1,085	\$1,692	\$1,027	28.59%
Baker Grants	\$2,018,775	\$2,034,869	\$2,018,775	\$2,018,775	-0.40%
Number of Students *	2,794	3,908	3,908	3,908	16.62%
State Funds/Student	\$723	\$521	\$517	\$517	-16.90%
State Work Study Program	\$862,489	\$862,989	\$862,989	\$862,989	0.03%
Number of Students *	815	815	811	811	-0.49%
State Funds/Student	\$1,058	\$1,059	\$1,064	\$1,064	0.52%
State Match to Federal Grants	\$1,157,291	\$1,141,696	\$687,791	\$687,791	-40.17%
Number of Students *	3,363	3,363	3,363	3,363	0.00%
State Funds/Student	\$344	\$339	\$205	\$205	-40.17%
Teacher Loan Forgiveness Program	\$0	\$0	\$350,000	\$700,000	100%
Administration/Special Programs					
Board of Regents/OCHE	\$1,958,488	\$2,402,246	\$3,591,251	\$2,539,159	40.58%
Minority Achievement	\$82,685	\$82,192	\$72,871	\$72,905	-11.58%
Workforce Development	\$91,092	\$102,584	\$91,092	\$91,092	-5.93%
Total General Fund & Six Mill Levy	<u>\$162,944,968</u>	<u>\$169,291,270</u>	<u>\$185,417,479</u>	<u>\$183,614,430</u>	<u>11.08%</u>

Sources: OCHE Operating Budget FY 2007 (Schedules 10 & 16, Schedule 3 for CC's, CHE102 for Tribal) and 2009 Biennium Executive Budget

Figures for all years exclude Miscellaneous Sub-Programs at University Units

As the table illustrates, the overall increase in general fund and six mill levy spending for the 2009 biennium is \$36.7 million, an increase of 11 percent. The most significant biennial increases occur in the following programs:

- University educational units receive a \$29.3 million increase, primarily for present law adjustments that are part of the Governor’s College Affordability Plan to cap tuition rates for Montana resident students. This represents an 11 percent increase in funding despite projections that student enrollment will increase at less than one percent
- The Governor’s Postsecondary Scholarship program increases by \$3.5 million and is projected to provide awards to more than 4,000 students

- Community College Assistance increases by \$600,000 before statutory reversions are applied, or a total of \$1.7 million after those reversions
- OCHE Administration increases \$1.8 million, primarily due to funding for the student transferability initiative

On the other hand, there are general fund decreases in:

- Funding for student financial aid programs separate from the Governor's Postsecondary Scholarships, which will decrease by about \$940,000
- The Minority Achievement Program, which experiences an 11 percent decrease; but, this is attributable to an administration shift of support staff, there is not expected to be any change in program service delivery

Governance and Legislative Appropriations Authority

Although the Regents are organizationally placed in the executive branch, the Montana Constitution grants the Regents broad governing authority over the MUS. Article X, Section 9, of the Montana Constitution provides "the government and control of the Montana University System is vested in the Board of Regents, which shall have full power, responsibility, and authority to supervise, coordinate, manage, and control the...system." The powers and duties of the seven-member Board of Regents are further described in 20-25-301, MCA.

On the other hand, while the Montana Constitution grants governance authority to the Board, the power to appropriate state funds remains with the legislature. The MUS receives funding from a variety of government sources, including state general fund and revenue from the six-mill property tax levy. These funds must be appropriated by the legislature. With this "power of the purse" typically comes the authority to attach policy decisions to the funding.

The product of higher education is, for the most part, the delivery of services to private individuals who pay directly for these services in a contractual manner. So the university system is also supported with "private revenue" that individuals contract for, specifically tuition for educational instruction, residence hall fees for housing, meal allowance for food service, ticket prices for athletic and arts events, etc. The legislature does not have any appropriations authority over these private revenue funds that go to the university system.

Within this constitutional configuration and diverse revenue sources, therefore, a tension exists between Board autonomy that comes with governance authority and the power that comes from the legislative appropriation of state funds. Through a series of legal decisions, this tension has been reconciled as follows:

- The Montana legislature cannot do indirectly, through fiscal appropriation, what it is not permitted to do directly by the Constitution. In other words, the appropriation of state funds cannot be used to blatantly drive university governance policy, as governance is the constitutional role of the Board of Regents
- Legislative appropriation power does not extend to private funds received by state government that are restricted by law, trust agreement, or contract, such as student tuition and the other fees listed above
- Legislative appropriation power does, however, allow the legislature to establish requirements that the university system must comply with, including audit, accounting, and other fiscal accountability measures
- The legislature also may establish conditions on appropriated funds and, if the Board of Regents accepts the funds, then it also accepts those conditions

(**Source:** For more information about this Constitutional structure and history, see *The Structure of Higher Education in Montana: Meandering the Murky Line*, Montana Legislative Services Division, September 1999. Memo available at: <http://leg.state.mt.us/content/publications/services/legal/opinions/regents.pdf>)

**LFD
ISSUE**

A primary interim project by the Postsecondary Education Policy and Budget (PEPB) subcommittee in 2005-2006 was to identify the means and mechanism to introduce accountability measures to the state budget for the university system in an effort to help bridge the split between Regents' governance and legislative appropriation authority. The PEPB, which is a subcommittee of the interim Education and Local Government Committee, is in a unique position to help bridge these roles as subcommittee membership includes legislators, regents, and a representative from the Governor's office, as well as ex-officio membership of the Commissioner of Higher Education.

The means by which PEPB developed budgeting accountability measures as part of this project was to further develop a shared policy goals document that was jointly signed and agreed to by the Board of Regents and the legislature. These shared policy goals have gone on to serve as the foundation for the Strategic Plan 2006-2010 for the university system and they essentially provide a framework upon which specific budget accountability measures may be built into the state budget process.

Upon that foundation of shared policy goals, the PEPB considered a series of budget initiatives for the 2009 biennium budget that the Board of Regents sent forth to the Governor for consideration in the executive budget. A number of these budget initiatives were recommended by PEPB for state funding, but what is most unique, is that PEPB built these recommendations into discreet budget initiative packages that include specific, measurable performance and accountability measures that come from the shared policy goals and university system strategic plan.

Budget initiative packages that were recommended by PEPB for the 2009 biennium budget include the following eight:

Montana University System			
Postsecondary Education Policy and Budget Subcommittee (PEPB) - Recommended Budget Initiatives for 2009 Biennium			
Initiative Title	Biennial Amount	Appropriation	
		Conditions	PEPB Recommended Initiative Description
Keep Tuition More Affordable for Students	\$12 - 15,000,000	Restricted, Biennial, OTO	To fund present law adjustments so that the Regents would keep tuition rate increases at no more than 5 percent at four-year campuses and at no increases for two-year campuses
Improve Student Affordability	\$2,500,000	Restricted, Biennial, OTO	To support financial aid/student assistance programs for university unit campuses
Transferability and Integrated Student Data System	\$1,500,000	Restricted, OTO	To support improvements to the transferability and student data systems
Coordinate/Improve Distance Learning	\$900,000	Restricted, OTO	To support the expansion and coordination of the distance learning program across the university system
Improve Indian Education For All	\$500,000	Restricted, OTO	To support improvements to the Indian Education For All program in the university educational units of the MUS
Healthcare Worker Education - WWAMI Expansion	\$1,000,000	Restricted	To support an increase of up to 10 WWAMI slots for Montana resident students (restricted such that funding not used for WWAMI slots can only be used to fund other need-based student financial aid programs)
Healthcare Worker Education	\$3,000,000	Restricted, Biennial, OTO	To support the Healthcare Worker Education program in order to support funding individual initiatives to expand healthcare training programs
One-Time Investments in Infrastructure and Program Development	\$8,000,000	Restricted, Biennial, OTO	To support the investments in infrastructure and program development as follows: \$5 million for MUS Equipment and Technology \$1.5 million for deferred maintenance at Montana's three community colleges \$1.5 million to expand critical programs in workforce training and program development in high-demand fields

Each of these initiatives were intentionally written as one-time-only (OTO) appropriations as the PEPB also recommended specific, measurable accountability measures for each appropriation that would need to be met by the

**LFD
ISSUE (CONT.)**

university system in order to trigger ongoing, sustainable funding. Three unique budget mechanisms were considered to create the accountability measure based upon performance of stated objectives or deliverables. These three budget mechanisms include:

- ◆ That appropriated funds, if accepted by the university system, would require a report to be submitted to some interim legislative committee (e.g. PEPB) that specifically addresses how that funding accomplished the specific accountability measure deliverables outlined by the legislature
- ◆ That funds are appropriated to the university system in HB 2 as one-time-only (OTO) funds, but during the interim the university system is required to submit a report to an interim legislative committee that addresses how those OTO funds were used to accomplish the specific list of accountability measure deliverables. If that interim legislative committee is satisfied with the deliverables, then they are given authority to recommend to the executive budget office that those OTO funds are to rollover into the base year funding for the subsequent budget. In essence, in return for accomplishing deliverables, OTO funding could become ongoing funding
- ◆ That funds are appropriated to the university system in HB 2 for the first fiscal year of the biennium with additional funding appropriated in the second year, but the second year funding is "contingent" upon the university system submitting a report to some interim legislative committee that addresses how the first year funding was used to accomplish the specific list of accountability measure deliverables. If that interim committee is satisfied with the deliverables, then they are given the authority in the companion bill to recommend to the executive budget office that the "contingency" has been met so that the second fiscal year funds may be released

Among these three budget mechanisms, the PEPB was comfortable with the first two, but not quite as comfortable that second year contingency funding in the biennium budget was a workable budget accountability mechanism for the university system. Specifically, there was concern as to whether the university system would have sufficient time and opportunity to meet measurable goals in just one year. Thus, the PEPB was supportive of the concept of second year contingency funding as a mechanism to make accountability measures operational, but only if it is reasonable to expect that the deliverables can be fully completed in that first year of the biennium.

Legislative Option

Therefore, should the legislature wish to carry forward the work of the PEPB subcommittee into the 2009 biennium budget, they may want to consider making one or more of these budget accountability mechanisms operational by correlating specific DP appropriations to specific accountability benchmarks and budget mechanisms in a companion bill to HB 2. Once again, the accountability measures drafted and recommended by PEPB are drawn directly from the shared policy goals and the 2006-2010 Strategic Plan for the university system.

Legislative legal staff have recommended that making these accountability measures operational through a separate companion bill to HB 2 would be the most appropriate method as it would eliminate potential legal issues about the validity of certain language additions to HB 2.

The companion bill to HB 2, therefore, could be drafted to include both the specific accountability measures and the corresponding budget mechanisms listed above and thus introduce direct performance accountability to the state budget for the Montana University System, achieving the public policy goal pursued by PEPB that would make clear what public policy objectives state government would like to achieve with state funding for higher education.

Throughout the remainder of this LFD analysis for the MUS, a number of LFD Issues are raised to give the legislature the opportunity to consider accountability measures correlated to specific budget sections.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow. Funding for each of the 11 programs is discussed in detail in the individual program narratives that follow this section.

Total Agency Funding 2009 Biennium Executive Budget						
Agency Program	General Fund	State Spec.	Fed Spec.	Proprietary	Grand Total	Total %
01 Administration Program	\$ 6,003,908	\$ -	\$ -	\$ 881,594	\$ 6,885,502	1.39%
02 Student Assistance Program	23,826,727	200,000	465,830	-	24,492,557	4.93%
03 Improving Teacher Quality	-	-	780,000	-	780,000	0.16%
04 Community College Assistance	16,637,785	-	-	-	16,637,785	3.35%
06 Talent Search	145,776	-	8,938,832	-	9,084,608	1.83%
08 Work Force Development Pgm	182,184	-	12,616,827	-	12,799,011	2.58%
09 Appropriation Distribution	288,897,007	35,455,652	-	-	324,352,659	65.32%
11 Tribal College Assistance Pgm	900,000	-	-	-	900,000	0.18%
12 Guaranteed Student Loan Pgm	-	-	100,559,576	-	100,559,576	20.25%
13 Board Of Regents-Admin	63,602	-	-	-	63,602	0.01%
Grand Total	<u>\$ 336,656,989</u>	<u>\$ 35,655,652</u>	<u>\$ 123,361,065</u>	<u>\$ 881,594</u>	<u>\$ 496,555,300</u>	100.00%

Six-Mill Levy Revenue – Legislative Referendum Legislation (LC 0345)

The Montana University System has been funded in part by a statewide six-mill levy on real estate and personal property since the late 1940’s. As the funding table above from the executive budget illustrates, funding from six mill levy revenue is \$17.7 million in FY 2008 and \$16 million in FY 2009.

Since 1988, the average annual revenue to the university system from the six-mill levy has been \$13.8 million, which represents approximately 10.8 percent of all state funded appropriations to the university system.

LFD COMMENT	<p>Since its inception in the late 1940’s, the six-mill levy has been placed before the people of Montana every 10 years for a vote of approval in the form of a statewide referendum enacted by the legislature. This process was selected because the Montana Constitution of 1889 prohibited any statewide levy above 2-mill without voter authorization.</p> <p>The legislative referendum, by necessity, involves three specific steps that occur over a three year period and that historical three-step process and the six-mill levy, if it is to continue, requires legislative action in the 2007 session. Specifically, for the levy to continue beyond the sunset date of FY 2009 there would need to be a vote of the people in the 2008 statewide election with a ballot referendum question about continuing the six-mill levy.</p> <p>Therefore, the Education and Local Government Interim Committee, by committee bill draft, has put forth SB 16 for legislative consideration in the 2007 session. This bill, if it is passed and approved, would place the following question on the statewide general election ballot in November of 2008:</p> <ul style="list-style-type: none"> • FOR imposing a levy of 6 mills for the support of the Montana university system • AGAINST imposing a levy of 6 mills for the support of the Montana university system <p>The figure below illustrates the history of this three-step legislative referendum process.</p>
--------------------	--

**LFD
COMMENT (CONT.)**

Montana University System Statewide Six Mill Levy - Historical Background			
Step One: Legislative Referendum	Step Two: Popular Vote on Statewide General Election Ballot		Step Three: Appropriation Made to MUS
	Vote	Number of Mills - Number of Years	
1947 Session - HB 148 Fall 1948 - Ref. 51		6 Mill for 10 years	For: 77,820 (61%) Against: 50,167 For: 89,251 (51.5%)
1957 Session - HB 461 Fall 1958 - Ref. 61		6 Mill for 10 years	Against: 82,002 For: 127,625 (59%)
1967 Session - HB 129 Fall 1968 - Ref. 65		6 Mill for 10 years	Against: 89,396 For: 181,920 (67%)
1977 Session - SB 130 Fall 1978 - LR 75		6 Mill for 10 years	Against: 88,641 For: 227,638 (64%)
1987 Session - HB 193 Fall 1988 - LR 106		6 Mill for 10 years	Against: 127,259 For: 199,871 (61%)
1997 Session - SB 133 Fall 1998 - LR 113		6 Mill for 10 years	Against: 125,656 1999 Session - SB 79

There is one procedural change to the six mill levy process that is included in SB 16, however. In the past, the legislative referendum was a vote “to authorize the legislature to impose a levy of 6 mills for the support of the Montana university system.” Under that process, each time the vote was approved by the people of Montana it would require a subsequent legislative action to impose that levy and place the revenue into HB 2.

Under SB 16, that subsequent legislative step would be eliminated so that if the popular vote would be FOR the levy, no additional legislative action would be required to impose the levy or place the revenue into the budget. Rather, legislative staff would take that action based directly upon the results and the authority of the popular vote.

Biennium Budget Comparison

The following table compares the executive budget request in the 2009 biennium with the 2007 biennium by type of expenditure and source of funding. The 2009 biennium consists of actual FY 2006 expenditures and FY 2007 appropriations.

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	Present Law Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Biennium Fiscal 06-07	Total Exec. Budget Fiscal 08-09
FTE	100.06	4.00	104.06	100.06	4.00	104.06	100.06	104.06
Personal Services	5,361,218	366,077	5,727,295	5,381,926	366,186	5,748,112	10,650,741	11,475,407
Operating Expenses	6,678,112	1,781,910	8,460,022	6,634,855	513,236	7,148,091	9,120,417	15,608,113
Equipment	18,742	225,000	243,742	18,742	225,000	243,742	18,750	487,484
Local Assistance	8,353,813	0	8,353,813	8,519,972	0	8,519,972	15,805,933	16,873,785
Grants	14,681,265	2,018,556	16,699,821	15,597,710	2,628,551	18,226,261	27,916,912	34,926,082
Benefits & Claims	21,967,240	18,700,000	40,667,240	21,967,240	21,800,000	43,767,240	60,267,569	84,434,480
Transfers	160,382,789	7,208,983	167,591,772	164,484,177	674,000	165,158,177	302,796,803	332,749,949
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$217,443,179	\$30,300,526	\$247,743,705	\$222,604,622	\$26,206,973	\$248,811,595	\$426,577,125	\$496,555,300
General Fund	161,550,254	6,846,236	168,396,490	166,384,714	1,875,785	168,260,499	305,684,403	336,656,989
State/Other Special	16,561,693	2,099,662	18,661,355	16,894,635	99,662	16,994,297	28,936,001	35,655,652
Federal Special	39,331,232	20,913,693	60,244,925	39,325,273	23,790,867	63,116,140	91,956,721	123,361,065
Proprietary	0	440,935	440,935	0	440,659	440,659	0	881,594
Total Funds	\$217,443,179	\$30,300,526	\$247,743,705	\$222,604,622	\$26,206,973	\$248,811,595	\$426,577,125	\$496,555,300

New Proposals

The “New Proposals” table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals	-----Fiscal 2008-----					-----Fiscal 2009-----					
	Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 68 - Add One Fire Trainer at FSTS	09	0.00	108,983	0	0	108,983	0.00	74,000	0	0	74,000
DP 1051 - Improve Transferability and Student Data OTO	01	2.50	1,291,099	0	0	1,291,099	2.50	253,901	0	0	253,901
DP 1052 - Coordinate and Enhance Distant Learning - OTO	01	1.00	450,000	0	0	450,000	1.00	450,000	0	0	450,000
DP 1053 - Create Internal Service Fund for Fiscal and Admin	01	0.00	(120,146)	0	(221,014)	99,775*	0.00	(118,416)	0	(221,014)	101,229*
DP 1054 - Improve OCHE IT Network and Security	01	0.00	10,000	0	0	10,000	0.00	10,000	0	0	10,000
DP 1251 - GSL Increased Claims Payments	12	0.00	0	0	13,000,000	13,000,000	0.00	0	0	15,000,000	15,000,000
DP 1252 - GSL Increased Collection Costs	12	0.00	0	0	5,700,000	5,700,000	0.00	0	0	6,800,000	6,800,000
DP 1253 - GSL Federal Fund Reserve Recall	12	0.00	0	0	382,813	382,813	0.00	0	0	0	0
DP 1254 - GSL Guarantee Servicing System	12	0.00	0	0	0	0	0.00	0	0	150,000	150,000
DP 1255 - Transfer 1 FTE from MGSLP to Stud. Assist.	12	(1.00)	0	0	(42,894)	(42,894)	(1.00)	0	0	(42,907)	(42,907)
DP 1301 - Restore Base -Per Diem	13	0.00	6,300	0	0	6,300	0.00	6,300	0	0	6,300
DP 2060 - MT Family Ed Savings Prg Growth	02	1.00	0	99,662	0	99,662	1.00	0	99,662	0	99,662
DP 2061 - Governor's Scholarship Program Expansion	02	0.00	250,000	0	0	250,000	0.00	500,000	0	0	500,000
DP 2063 - Quality Educator Loan Forgiveness Program	02	0.50	350,000	0	0	350,000	0.50	700,000	0	0	700,000
DP 3001 - Incr. Improving Teacher Quality Grants -	03	0.00	0	0	35,134	35,134	0.00	0	0	45,134	45,134
DP 6052 - Increase Federal Gear-Up Grants & Scholarships	06	0.00	0	0	2,059,654	2,059,654	0.00	0	0	2,059,654	2,059,654
DP 9053 - Equip and Tech in High Demand Fields MUS & CC OTO	09	0.00	2,000,000	2,000,000	0	4,000,000	0.00	0	0	0	0
DP 9054 - Wrkfce Train. in High Demand Fields MUS & CC -OTO	09	0.00	1,500,000	0	0	1,500,000	0.00	0	0	0	0
DP 9055 - Research Agencies Equipment - OTO	09	0.00	1,000,000	0	0	1,000,000	0.00	0	0	0	0
Total		4.00	\$6,846,236	\$2,099,662	\$20,913,693	\$30,300,526*	4.00	\$1,875,785	\$99,662	\$23,790,867	\$26,206,973*

Agency Issues

State Percent Share and the Historical Impact on the University Educational Units

One of the budget formulas historically used to determine the state general fund appropriation for the university system is the state percent share formula. Essentially, this formula has been used to set the level of present law adjustments for the university educational units as well as determine the state share of funding for whatever pay plan is approved by the legislature. The figure below illustrates ten years of history of the funding mix for the university educational units and the trends for the various revenue sources, including the state percent share.

Historical Funding and State Percent Share - Educational Units Only											
Montana University System											
Fiscal Years 1998 - 2007											
Budgeted Revenue											Annual Percent
by Source	1998 Budgeted	1999 Budgeted	2000 Budgeted	2001 Budgeted	2002 Budgeted	2003 Budgeted	2004 Budgeted	2005 Budgeted	2006 Budgeted	2007 Budgeted	Change
General Fund	\$87,464,402	\$89,087,185	\$94,922,977	\$95,844,703	\$104,849,450	\$101,347,323	\$107,186,837	\$101,381,233	\$111,395,004	\$112,552,060	2.84%
Student Tuition	100,240,444	109,576,801	108,577,974	112,934,296	120,897,552	147,022,505	158,086,393	172,721,055	188,215,243	206,049,651	8.34%
Six-Mill Levy	13,864,000	14,319,118	14,809,000	15,280,000	11,868,912	12,036,912	12,235,000	12,362,999	13,385,001	13,679,000	-0.15%
Other	2,448,861	3,134,954	2,313,795	2,504,907	3,002,673	2,970,384	5,946,357	6,355,565	2,558,151	2,007,205	-2.19%
Total	\$204,017,707	\$216,118,058	\$220,623,746	\$226,563,906	\$240,618,587	\$263,377,124	\$283,454,587	\$292,820,852	\$315,553,399	\$334,287,916	5.64%
Total State Support	101,328,402	103,406,303	109,731,977	111,124,703	116,718,362	113,384,235	119,421,837	113,744,232	124,780,005	126,231,060	2.47%
State Percent Share	49.7%	47.8%	49.7%	49.0%	48.5%	43.1%	42.1%	38.8%	39.5%	37.8%	-3.00%

Sources: BOR Operating Budgets (Summary of Funding) FY 1988 - 1995
 OCHE Submission to Legislative Audit Division (Cost of Education Historical Summary) FY 1996-2006
 2007 - Board of Regents 2007 Biennium Budget Plan (projected)

As the figure above illustrates, since 1998 student tuition has been the fastest growing revenue source for the university educational units, growing at about 8.3 percent per year, while overall state support has been growing 2.47 percent per year. In the meantime, the state percent share has gone from 49.7 percent in 1998 to 37.8 percent in 2007, continuing a long-term decline that started in 1988 when the state percent share was 74.6 percent.

In the 2009 biennium, the executive budget chooses not to use this historic state percent share formula to determine the level of present law adjustments for the university educational units. Rather, the formula proposed by the executive is to use the ratio of Montana resident students as a percent of all students attending university unit campuses, which is approximately 84.7 percent.

This formula and the impact upon the budget is discussed as part of Program 09, Appropriation Distribution.

University Tuition and Mandatory Fee Rates

The figure below illustrates the mandatory tuition and fee rates for the various educational institutions of the Montana University System, specifically the four-year degree and two-year degree schools, as well as the three community colleges.

Montana University System											
Mandatory Resident Student Tuition and Fee Rates for Educational Units and Community Colleges											
(1998 - 2006)											
Campus Type	1998	1999	2000	2001	2002	2003	2004	2005	2006	Annual Average Increase	Overall Increase
Four-year Campuses	\$2,629	\$2,834	\$2,952	\$3,062	\$3,428	\$3,956	\$4,124	\$4,500	\$4,942	8.2%	88.0%
Two-year Campuses	2,049	2,228	2,274	2,288	2,522	2,670	2,710	2,932	3,036	5.0%	48.2%
Community Colleges	1,423	1,473	1,605	1,619	1,797	1,891	2,122	2,318	2,502	7.3%	75.8%

Source: Montana University System - Inventory and Validation of Fees Report (1997-2006)
 Four-year and Two-year campuses use weighted-average...Community Colleges use average rates

As this figure demonstrates, the tuition and fee rates paid by Montana students for postsecondary education at all institutions have increased at a steady rate since 1998.

LFD COMMENT The level of tuition and fees paid by Montana resident students to attend university system schools has historically been of great interest to the legislature, particularly as part of public policy considerations about access and affordability of higher education in Montana.

The executive budget proposal includes the College Affordability Plan (CAP) that would provide approximately \$25.5 million of general fund to support present law adjustments for the university educational unit campuses. The objective of the CAP, as stated by the Governor, is to provide sufficient state funding so that tuition rates for Montana residents students would not increase at the unit campuses during the 2009 biennium.

The CAP program is discussed in detail as part of Program 09, Appropriation Distribution.

In considering the CAP and the goal of capping student tuition, however, it is important that the legislature bear in mind the legal authority of the legislature vis-à-vis the Montana Board of Regents, particularly in the area of student tuition. The Montana Supreme Court, in the Board of Regents v. Judge decision in 1975, made clear that the legislature cannot attempt to control, either directly or indirectly, the amount of tuition that is charged to students, as tuition revenue is considered to be private funds and as such are at the sole discretion of the Montana Board of Regents.

Therefore, despite the goal of capping student tuition in the 2009 biennium and providing significant state funding to achieve that goal, there is no legal or constitutional authority that would authorize the legislature to cap student tuition by means of the state budget and an appropriation in HB 2. At best such an arrangement would appear to be an agreement between the legislature and the Board of Regents that would not be binding or enforceable.

Long Range Building Program Funding

Long Range Building Program cash funds are appropriated in HB 5 rather than in HB 2. The figure below illustrates that the executive budget proposes that the Montana University System would receive \$53.4 million long range building program cash funding for 14 projects across the campuses and research/public service agencies.

Long Range Building Program - 2009 Biennium Montana University System (MUS) Executive Recommendations - Cash Projects						
Executive Ranking of 76 Projects	Project	Long Range Building Program Funds	State Special Funds	Federal Special Funds	University Other Funds	Total
4	Code Compliance/Deferred Maintenance - MUS	\$4,000,000				\$4,000,000
9	Systems Improvements - MT Tech COT	925,000				925,000
13	Steam Distrib. System Upgrade (Phase 2) - UM Missoula	2,000,000			1,000,000	3,000,000
14	Renovate Clapp Building - UM Missoula	821,000				821,000
15	Renovate Armory Gym - MSU Northern	400,000			3,250,000	3,650,000
17	Renovate Main Hall - UM Western	4,500,000				4,500,000
18	Renovate McMullen Hall - MSU Billings	1,924,500				1,924,500
22	Stabilize Masonry - MSU Bozeman	2,600,000				2,600,000
24	Deferred Maint. & Acquisition - MSU/AES Statewide	400,000			500,000	900,000
25	Classroom/Laboratory Upgrades - MUS	2,000,000				2,000,000
30	Utility Infrastructure Improvements - MSU Bozeman	500,000			50,000	550,000
34	Supplement UM Helena COT Expansion	1,350,000			135,000	1,485,000
37	Renovate Gaines Hall - MSU Bozeman	28,500,000				28,500,000
40	Law School Addition, UM Missoula	3,450,000			5,050,000	8,500,000
55	Incr. Authority - Museum of the Rockies - MSU Bozeman				3,500,000	3,500,000
56	School of Education Building - UM Missoula				7,500,000	7,500,000
57	HHP Physiological and Nutritional Lab - UM Missoula				4,500,000	4,500,000
58	New Parking Structure - UM Missoula				5,000,000	5,000,000
59	General Spending Authority - MSU All Campuses				5,000,000	5,000,000
60	General Spending Authority - UM All Campuses	0			4,000,000	4,000,000
	Total	\$53,370,500			\$39,485,000	\$92,855,500

This information is presented in this section for informational purposes only but for more information and detail about the Long Range Building Program see LFD analysis Section F.

Language

Establish Biennial Lump Sum Appropriation

The executive recommends language in HB 2 that establishes a biennial lump sum appropriation by combining the appropriation for the following programs:

“Items designated as OCHE Administration (01), Student Assistance (02), Improving Teacher Quality (formerly Dwight D. Eisenhower) (03), Talent Search (06), C.D. Perkins(Workforce development) (08), Appropriation Distribution (Educational units) (09) [excluding Agriculture Experiment Station, Extension Service, Forest and Conservation Experiment Station, Bureau of Mines and Geology, Bureau Ground Water Program, Fire Services Training School, Guaranteed Student Loan (12), and the Board of Regents (13) are a single biennial lump-sum appropriation.”

Appropriation of all Funds; Budget Transfers

The executive recommends language in HB 2 that addresses appropriation of all funds in the university system and the requirements for budget transfers.

“General fund, state and federal special revenue funds appropriated to the board of regents are included in all Montana University System programs (5100). All other public funds received by units of the Montana university system (other than plant funds appropriated in House Bill No. 5, relating to long-range building) are appropriated to the board of regents and may be expended under the provisions of 17-7-138(2). The board of regents shall allocate the appropriations to individual university system units, as defined in 17-7-102(13), according to board policy.”

Access to Banner Information System and Human Resource Data

The executive recommends HB 2 language requiring the university system to provide the Office of Budget and Program Planning and the Legislative Fiscal Division access to the university system information system, Banner.

“The Montana university system, except the office of the commissioner of higher education and the community colleges, shall provide the office of budget and program planning and the legislative fiscal division banner access to the entire university system's banner information system, except for information pertaining to individual students or individual employees that is protected by Article II, sections 9 and 10, of the Montana constitution, 20-25-515, or the Family Educational Rights and Privacy Act of 1974, 20 U.S.C. 1232g. The Montana university system shall provide the electronic data required for human resource data for the current unrestricted operating funds into the MBARS system. The salary and benefit data provided must reflect approved board of regents operating budgets.”

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	17.90	1.00	3.50	22.40	1.00	3.50	22.40	22.40
Personal Services	1,576,675	(32,039)	318,066	1,862,702	(22,535)	318,165	1,872,305	3,735,007
Operating Expenses	487,330	75,402	1,307,808	1,870,540	48,174	271,965	807,469	2,678,009
Equipment	11,243	0	225,000	236,243	0	225,000	236,243	472,486
Grants	0	0	0	0	0	0	0	0
Total Costs	\$2,075,248	\$43,363	\$1,850,874	\$3,969,485	\$25,639	\$815,130	\$2,916,017	\$6,885,502
General Fund	1,854,234	43,363	1,630,953	3,528,550	25,639	595,485	2,475,358	6,003,908
Federal Special	221,014	0	(221,014)	0	0	(221,014)	0	0
Proprietary	0	0	440,935	440,935	0	440,659	440,659	881,594
Total Funds	\$2,075,248	\$43,363	\$1,850,874	\$3,969,485	\$25,639	\$815,130	\$2,916,017	\$6,885,502

Program Description

The Office of the Commissioner of Higher Education (OCHE) Administration Program includes: 1) general administration of the university system; 2) academic, financial, and legal administration; 3) labor relations and personnel administration; and 4) student assistance administration. Article X, Section 9, of the Montana Constitution requires that the Board of Regents appoint the commissioner and prescribes his/her powers and duties.

2007 Biennium New Initiative Update

A significant new initiative during the 2007 biennium included a one-time-only appropriation of \$300,000 to support development and implementation of a statewide/system wide plan for delivery of distance education. Each individual college and university unit has created its own unique distance learning programs. So this initiative was intended to create a unified plan so that all programs have a single “portal” and all courses are fully transferable for students at all units. New distance education staff was hired in the fall of 2005, and a statewide plan and system is being developed, with goals and measurable objectives, including a focus on eliminating equipment duplications. The executive proposes restoring and increasing the appropriation for this program in the 2009 biennium (see DP 1052 below).

Program Highlights

OCHE Administration Program Major Budget Highlights	
<ul style="list-style-type: none"> ◆ The executive budget includes: <ul style="list-style-type: none"> • A one-time-only general fund increase of \$1.5 million to support a program intended to improve the transferability of credits between the campuses of the university system • A one-time-only general fund increase of \$900,000 to continue funding for the coordination and expansion of the distance learning programs for the university system • In response to a legislative audit, an additional \$201,000 of proprietary funding as part of an agency indirect cost recovery plan • \$20,000 general fund for the 2009 biennium to support improved information technology network maintenance and security services for OCHE 	

Major LFD Issues	
<ul style="list-style-type: none"> ◆ The legislature may want to consider adding accountability measures, using a companion bill to HB 2, to the following specific new proposals in the university system budget: <ul style="list-style-type: none"> • the \$1.5 million transferability initiative • the \$900,000 distance learning initiative ◆ The legislature may want to consider reducing 0.50 FTE from the OCHE administration program, eliminating a position funded in the 2007 biennium but never filled and for which there are no plans to fill the position in the 2009 biennium 	

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the Governor. Funding is primarily general fund. However, in the base year there was some federal revenue to support administrative overhead for federal grant programs administered by other OCHE programs (e.g. Talent Search, GEAR UP, and Perkins). Going forward, in the 2009 biennium, OCHE intends to implement an indirect cost recovery process. So federal funding will be replaced with proprietary revenue of \$882,000, representing the administrative costs charged to federal grant awards for OCHE administrative support services.

Program Funding Table Administration Program						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000 Total General Fund	\$ 1,854,234	89.3%	\$ 3,528,550	88.9%	\$ 2,475,358	84.9%
03000 Total Federal Special Funds	221,014	10.7%	-	-	-	-
03080 Che Indirect Cost Recovery	221,014	10.7%	-	-	-	-
06000 Total Proprietary Funds	-	-	440,935	11.1%	440,659	15.1%
Grand Total	<u>\$ 2,075,248</u>	<u>100.0%</u>	<u>\$ 3,969,485</u>	<u>100.0%</u>	<u>\$ 2,916,017</u>	<u>100.0%</u>

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

	-----Fiscal 2008-----					-----Fiscal 2009-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					(2,937)					6,954
Vacancy Savings					(62,950)					(63,347)
Inflation/Deflation					2,369					2,758
Fixed Costs					29,677					(9,004)
Total Statewide Present Law Adjustments					(\$33,841)					(\$62,639)
DP 1000 - Moving Expenses (OTO)	0.00	30,000	0	0	30,000	0.00	0	0	0	0
DP 1002 - Rent Increase	0.00	13,356	0	0	13,356	0.00	54,420	0	0	54,420
DP 1020 - Move 1 FTE from Minority Achievement to Administ.	1.00	33,848	0	0	33,848	1.00	33,858	0	0	33,858
Total Other Present Law Adjustments	1.00	\$77,204	\$0	\$0	\$77,204	1.00	\$88,278	\$0	\$0	\$88,278
Grand Total All Present Law Adjustments					\$43,363					\$25,639

**LFD
ISSUE**

The Family Education Savings Program is a tax-favored college savings plan managed for the university system by a private contractor. The program allows families to contribute to a college fund that will earn non-taxable interest. When the funds are needed to pay for postsecondary education expenses, they may be withdrawn with no tax liability.

Due to the popularity of this program and the associated workload increase for OCHE staff, the legislature approved a 0.50 FTE administrative position to support the Family Education Savings program in the 2007 biennium budget. This legislative action appropriated \$50,000 state special revenue and the 0.50 FTE as part of this program, OCHE Administration.

During the 2007 biennium, however, in the base year FY 2006, the administrative support for the Family Education Savings Program was transferred to existing staff in Guaranteed Student Loan (GSL). The 0.50 FTE authorized by the legislature was never filled in either this program or GSL; rather, the funding alone was transferred to GSL. Since this appropriation and this expenditure was recorded as a personal services expense that was not tied to an explicit FTE position (as none was filled) this type of fiscal transaction is “zero-based” so that the funding must be requested once again as a new proposal in the 2009 biennium budget.

And, in a decision package in the Student Assistance program, the executive restores and increases the funding for administrative support of the Family Education Savings Program and accomplishes this with a 1.00 FTE transfer from GSL to Student Assistance. But the 0.50 FTE created in the 2007 biennium remains in OCHE Administration, with no intention for this to be utilized.

Legislative Option

Given that the OCHE Administration Program is not providing the administrative support for the Family Education Savings Program, but rather that function has been managed by existing FTE in GSL and funded in FY 2006 with a reimbursement payment, the legislature may want to consider eliminating 0.50 FTE from the OCHE Administration Program in order to eliminate the associated state funding for the position that was not filled in the 2007 biennium and will not be used going forward.

Given that the transfer of funding for the administrative duties intended to be performed by this 0.50 FTE and the 1.00 FTE switch from GSL are budgeted in Student Assistance, this issue is repeated in that program as well.

DP 1000 – Moving Expenses (OTO) - The executive budget includes a \$30,000 one-time-only general fund increase for moving expenses to support the anticipated relocation of the OCHE office during FY 2008.

DP 1002 - Rent Increase - The executive budget adds \$67,776 general fund for projected rent increases that are expected to result from the planned move of OCHE during FY 2008.

**LFD
COMMENT**

During the 2007 biennium, the OCHE offices were relocated because the building owner, Student Assistance Foundation (SAF), needed additional office space. As a result, OCHE move to a temporary location pending the securing of a new permanent facility. GSL, however, which had a long-term lease separate from the other OCHE programs, remained in the SAF building.

**LFD
COMMENT
CONT.**

At the same time, the University of Montana – Helena College of Technology, which was approved for \$7.5 million of bonding by the legislature, began to design its own building expansion and it was decided to include sufficient space to house OCHE together with the GSL program staff so that all OCHE staff could once again be co-located.

Just prior to building construction, however, the federal budget reconciliation included funding formula changes that affected the federal revenue for operations funding to the GSL program. As a result of this federal funding reduction, the GSL program could no longer afford the projected rent increase that would come with the new building adjacent to the UM – Helena College of Technology. Therefore, the plans for building a new office building for OCHE and GSL were abandoned.

Since that time, SAF has announced plans to build a new building that would meet all of its needs and include sufficient office space required by OCHE. Therefore, it is the intention of OCHE to move into the new MHESAC building upon completion and leave their current, temporary office during FY 2008.

These two decision packages (DP 1000 and DP 1002) would fund the projected rent increase for this new office and the costs of moving.

**LFD
ISSUE**

Given the changing nature of the OCHE building location and the uncertainty of future moves, should the legislature approve these two decision packages for a rent increase and moving costs, they may want to make them a restricted appropriation so that the general fund would only be available for a rent increase and moving costs as stated in the decision packages, and not used for other administrative costs, in the event that the rent increase is smaller than projected and/or the OCHE office does not move as currently projected.

DP 1020 - Move 1 FTE from Minority Achievement to Administ. - The executive budget moves \$67,706 general fund from the Talent Search program to the OCHE administration program, as well as a 1.00 FTE administrative support staff position.

**LFD
COMMENT**

During the 2007 biennium there was a minor administrative support staff reorganization at OCHE in an attempt to more efficiently utilize the time of existing support staff. As part of that reorganization, a 1.00 FTE position was moved from the American Indian Minority Achievement (AIMA) Program (part of the Talent Search program) and into this program.

The staff person filling that position still provides administrative support for the AIMA program, but by relocating to the OCHE administration program, this position also provides administrative support as needed by other programs.

This decision package represents no additional FTE staff but rather represents a budget shift so that budgeting more accurately reflects actual program allocations of staff. There is a corresponding “negative” decision package in the Talent Search program (see DP 6053).

New Proposals

Program	-----Fiscal 2008-----					-----Fiscal 2009-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1051 - Improve Transferability and Student Data OTO 01	2.50	1,291,099	0	0	1,291,099	2.50	253,901	0	0	253,901
DP 1052 - Coordinate and Enhance Distant Learning - OTO 01	1.00	450,000	0	0	450,000	1.00	450,000	0	0	450,000
DP 1053 - Create Internal Service Fund for Fiscal and Admin 01	0.00	(120,146)	0	(221,014)	99,775 *	0.00	(118,416)	0	(221,014)	101,229 *
DP 1054 - Improve OCHE IT Network and Security 01	0.00	10,000	0	0	10,000	0.00	10,000	0	0	10,000
Total	3.50	\$1,630,953	\$0	(\$221,014)	\$1,850,874 *	3.50	\$595,485	\$0	(\$221,014)	\$815,130 *

DP 1051 - Improve Transferability and Student Data OTO - The executive budget increases general fund by \$1.5 million for the 2009 biennium to fund a comprehensive, system-wide program to improve the transferability of student coursework between the campuses of the university system. This proposal includes an additional 2.50 FTE. This proposal includes approximately \$70,000 over the biennium to specifically support enhancements to dual enrollment programs as part of the student transferability initiative.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: In response to a legislative performance audit (Transfer of Credits: Montana University System, December 2004, Legislative Audit Division) the Montana Board of Regents adopted a series of policies to better address the transferability of credits between the educational units. This new proposal is intended to address the remaining and most difficult aspects of this issue; the application of a transfer student’s coursework to the degree requirements at his/her new institution.

Having researched similar efforts in other states to identify best practices, this proposal is based upon a “faculty program council” model so that faculty would evaluate course offerings throughout the university system to determine equivalencies for each specific set of courses, enabling appropriate transferability of coursework and associated credits.

Goals: The two primary goals of this initiative are:

- o To improve transferability in the Montana University System, focusing on academic programs or course offerings that are available at several campuses and that have the most transfer students
- o To develop a comprehensive, sophisticated database for the Montana University System that is integrated with other state agency data systems.

These initiative program goals are based upon the university system Strategic Plan 2006 – 2010, specifically the overarching goal to “improve institutional and system efficiency and effectiveness.”

Performance Criteria: Progress will be measured as follows:

- o Development of transfer pathways in 22 different academic program areas
- o Creation of a more sophisticated database that is integrated with the data systems of other State agencies, particularly the student education information data system being developed by the Office of Public Instruction
- o A 25 percent increase in the number of secondary educational credits that are accepted for college credit in the Montana University System (e.g. dual credit, advanced placement, tech prep, etc.)
- o Alignment of K-12 graduation standards and post-secondary proficiency standards in composition, mathematics, and science.

Milestones:

- Summer 2007: Identification of 22 program areas
- October 2007: Recruitment and selection of additional FTE staff for OCHE
- October 2007 and October 2008: Selection of faculty members for program councils
- June 2008 and June 2009: Program councils complete work
- June 2008: Completion of the first stage of a more comprehensive database
- June 2008: Completion of the initial assessment model
- January – June 2009: Collection and presentation of data for assessment model
- June 2009: Refinement of the new database
- June 2009 Completion of the initial integrated data system with other state agencies

FTE and Funding: The initiative includes a request for 2.5 additional FTE for OCHE as follows:

- Develop comprehensive and refined data warehouse and implement the required assessment models (one-time-only \$350,000)
- Faculty program council expenses (one-time-only \$500,000)
- Management and sustainability with 2.5 FTE (ongoing for personal services, operating expenses, and faculty council expenses \$625,000)

Obstacles: The following obstacles are identified:

- Faculty buy-in and collaboration. Interaction between faculty in similar disciplines, but from different institutions, rarely occurs in the Montana University System, primarily because there has been no compelling reason to do so. But faculty consensus on this project is the key to its success
- Integration of existing data bases throughout state agencies, since those data bases were developed independently and control of the data system will be a concern for all participants
- The process never ends as academic disciplines are constantly changing and evolving, especially in highly technical fields. As a consequence, coursework is always changing, and many of the decisions made about transferability during the 2009 biennium may be outdated in future years.

Risk: The ongoing costs of this new program are such that campuses will have to fund the faculty program areas out of their own resources, which may be a significant burden for the smaller institutions; and the system will have to scale back its efforts to one or two program areas a year. Those program areas would be selected, based on the transfer activity between the campuses and the number of similar programs throughout the system.

**LFD
ISSUE**

The new proposal plan includes measurable goals and objectives, including time-bound milestones. It is not clear, however, that the plan includes components that would create incentive for faculty buy-in for the program, which is also listed as the primary obstacle to program success.

The Postsecondary Education Policy and Budget subcommittee (PEPB), which reports to the Interim Education and Local Government Committee, deliberated about this decision package in mid-2006 when it was first proposed by the Board of Regents as a budget initiative for the 2009 biennium.

PEPB, as part of its interim project to develop a mechanism to bring accountability measures into the state budget for the university system, recommended this initiative for the 2009 biennium, but also recommended including specific performance measures that legislative legal staff recommend should be part of a companion bill to HB 2.

**LFD
ISSUE
CONT.**

The specific PEPB recommendation includes (note that the dollar figures have changed slightly between the July presentation and the proposed executive budget, as well as the level of detail for the program components, but the proposal is essentially the same otherwise):

- ◆ Improve Transferability and Student Data (restricted, OTO)

The PEPB recommends a restricted, one-time-only general fund appropriation of \$1.475 million to support improvements to the transferability and student data systems as follows:

- \$645,000 biennial appropriation to support development of a Data Warehouse and implementation of the required assessment models
- \$600,000 biennial appropriation to support the management of the project
- \$115,000 in FY 2008 to support faculty program council expenses
- \$115,000 in FY 2009 to continue support for faculty program council expenses, contingent upon the Office of the Commissioner of Higher Education providing a report, to be presented to the PEPB by May 15, 2008 that demonstrates the following:
 - transfer pathways have been created in 22 different program and subject areas
 - that the number of potential secondary educational credits accepted by the university system (e.g. dual enrollment, running start, advanced placement, tech prep, etc.) has been increased by 25 percent

Subject to a report to the PEPB by August 2008 that demonstrates progress toward the following accountability measures, the ongoing funding requirements to manage this transferability program (stated above as \$625,000) should be released from OTO status and become part of the subsequent base budget:

- ◆ that appeals of transfer credit decisions have been reduced by 50 percent from the baseline year of 2006-2007
- ◆ that K-12 graduation standards and post-secondary proficiency standards in composition, mathematics and science will be aligned
- ◆ that articulation agreements between all university units, community colleges and tribal colleges are in place for the 22 transfer pathways
- ◆ that retention and completion rates for students that have transferred between campuses are the same as rates for students that have not transferred between campuses

The bulleted accountability measures are based upon the PEPB shared policy goals, the Montana Board of Regents 2006-2010 Strategic Plan, and the budget initiative goals and objectives submitted by OCHE.

Legislative Options

The legislature may want to consider the following options related to DP 1051:

- ◆ Option One – Approve the decision package as proposed by the executive
- ◆ Option Two – Approve the decision package and include some or all of the PEPB recommended accountability measures in a companion bill to HB 2
- ◆ Option Three – Do not approve the decision package

For more detail and information about the PEPB accountability measures interim project and recommendations, please see the LFD Issue above in the Agency Discussion section.

DP 1052 - Coordinate and Enhance Distant Learning - OTO - The executive restores and increases the one-time-only funding to support coordinating and expansion of the distance learning/online educational programs for the university system. This one-time-only proposal is for \$900,000 and 1.00 FTE for the 2009 biennium with funding allocated as follows:

○ Central course management and expand the “gateway” for all courses	=	\$450,000
○ Develop new on-line courses in high-demand areas	=	\$100,000
○ Develop on-line application, records, and financial aid processes	=	\$75,000
○ Develop learning outcomes assessment	=	\$25,000
○ Develop on-line student support and advising system	=	\$100,000
○ Create single tuition and fee statements for on-line courses	=	\$75,000
○ Administrative costs	=	\$75,000

**LFD
COMMENT**

The legislature approved a new initiative in the 2007 biennium to expand and better coordinate distance education throughout the university system. That initiative was funded with \$300,000 general fund and appropriated as one-time-only funding. This decision package restores that funding, once again as one-time-only, and increases the appropriation by \$600,000. For more information about this program, see the “2007 Biennium New Initiative Update” section above.

**LFD
ISSUE**

The Postsecondary Education Policy and Budget subcommittee (PEPB), which reports to the Interim Education and Local Government Committee deliberated about this decision package in mid-2006 when it was first proposed by the Board of Regents as a budget initiative for the 2009 biennium.

PEPB, as part of its interim project to develop a mechanism to bring accountability measures into the state budget for the university system, recommended this initiative for the 2009 biennium, but also recommended including specific performance measures that legislative legal staff recommend should be part of a companion bill to HB 2.

The specific PEPB recommendation includes the following:

- ◆ Coordinate and Improve Distance Learning (restricted, OTO) - PEPB recommended a restricted, one-time-only general fund appropriation of \$900,000 to support the expansion and coordination of the distance learning program across the university system as follows:
 - \$450,000 in FY 2008 to support this program and to continue work on the “Montana Distance Learning Gateway”
 - \$450,000 in FY 2009 to continue program support, contingent upon the Office of the Commissioner of Higher Education providing a report presented to PEPB by May 15, 2008 that demonstrates the following:
 - An increase of students enrolled in distance learning education courses
 - An increase in the number of distance learning courses and programs that are offered
 - An increase in the number of new credit and non-credit distance education programs that are intended to serve primarily workers in need of career training and employers in need of specially skilled workers

The bulleted accountability measures are based upon the PEPB shared policy goals, the Montana Board of Regents 2006-2010 Strategic Plan, and the budget initiative goals and objectives submitted by OCHE.

Legislative Options

The legislature may want to consider the following options related to DP 1052:

- ◆ Option One – Approve the decision package as proposed by the executive
- ◆ Option Two – Approve the decision package and include some or all of the PEPB recommended accountability measures in a companion bill to HB 2 such that FY 2009 funding would be contingent upon performance
- ◆ Option Three – Do not approve the decision package

For more detail and information about the PEPB accountability measures interim project and recommendations, please see the LFD Issue above in the Agency Discussion section.

DP 1053 - Create Internal Service Fund for Fiscal and Admin - The executive budget increases funding for the administration program by \$201,004 for the 2009 biennium, which would be budgeted as proprietary funding, as this represents indirect cost recoveries from several federal grant programs for which the OCHE staff provides administrative support. This proprietary funding would be used, in part, to replace general fund expenditures for administrative costs. The indirect costs rate is currently set at 2.8 percent, subject to legislative review and approval in HB 576.

**LFD
COMMENT**

In response to a Legislative Audit Division financial compliance audit for the fiscal years ended June 30, 2005, OCHE has created and implemented an agency indirect cost plan for the 2009 biennium. That audit determined that OCHE was not recording indirect cost recoveries from some federal grant awards to the appropriate fund or account, as required by statute. By not following statute, OCHE was not using federal indirect cost recoveries to supplant general fund for administrative functions that support those federal grant functions.

As a result of this practice, the audit also recommends that OCHE reimburse the state's general fund for the \$756,060 of indirect cost recoveries that were improperly recorded as federal revenue. In response to this audit recommendation that would require a reimbursement, OCHE has transferred the funds remaining in that disallowed federal account to the general fund, representing a \$114,000 reimbursement. In addition, OCHE has asserted that during the years where federal funds were improperly recorded, there have been more than \$700,000 of general fund reversions by OCHE of unexpended appropriations, which would more than account for the audit recommendation reimbursement. There was a preliminary agreement with the audit division and committee that these two actions would satisfy the audit findings.

Going forward, it is intended that the new OCHE indirect cost recovery plan will ensure that federal grant awards will provide federal revenue, budgeted as proprietary funding, to support the indirect administrative costs of those grants, rather than general fund.

This indirect cost recovery plan and the proposed rate of 2.8 percent will be reviewed by the legislature in HB 576.

**LFD
ISSUE**

According to the indirect cost recovery plan submitted by OCHE and the budget figures proposed by the executive, the total proprietary revenue from this proposal would be \$881,594 in the 2009 biennium, representing indirect cost recoveries from federal grant programs for which OCHE provides administrative support.

According to the legislative audit requirements, this plan is intended to properly record these cost recoveries as proprietary funding rather than federal revenue, and then this proprietary revenue is to be used to replace general fund revenue in supporting the administrative functions for these federal grants.

In the proposed executive budget, however, the proprietary funding only replaces \$442,028 of federal revenue and \$238,562 of general fund, which leaves an additional new proprietary revenue balance of \$201,004 for this program. The executive budget does not propose any new functions for this additional revenue nor does the executive budget use this additional proprietary funding to replace general fund.

At the time of the printing of this LFD analysis, OCHE was reworking the entire indirect cost plan with the intention of submitting an updated plan.

Legislative Options

Given these budget anomalies and the concerns about this indirect cost recovery plan, the legislature may want to consider not approving this decision package as submitted, but rather request an update from OCHE on the revisions to this indirect cost plan, with a specific request to account for whether the plan would result in additional revenue and whether that revenue would be used to replace general fund or for program expansion.

DP 1054 - Improve OCHE IT Network and Security - The executive budget includes \$20,000 general fund for the 2009 biennium to fund information technology network maintenance and security services for OCHE, specifically for development of a network security plan and program that would be compatible with the state information technology infrastructure.

**LFD
COMMENT**

In 2006, OCHE experienced a serious security breach of its information technology network in Helena that effectively shut the system down while the breach was identified and corrected. In the meantime, it is apparent that no sensitive, confidential information was hacked into, but OCHE does have such information as part of their normal operations.

Therefore, this decision package is intended to address and remedy this problem that occurred recently.

Language

Audit Costs for the Commissioner of Higher Education

The executive budget recommends HB 2 language that identifies audit costs for specific programs in the university system budget:

“Total audit costs for the OCHE Administration Program are estimated to be \$41,124.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	0.00	0.00	1.50	1.50	0.00	1.50	1.50	1.50
Personal Services	46,662	(15,762)	84,605	115,505	(14,662)	84,628	116,628	232,133
Operating Expenses	338	0	38,877	39,215	0	38,859	39,197	78,412
Local Assistance	108,000	8,000	0	116,000	12,000	0	120,000	236,000
Grants	9,073,420	1,565,186	576,180	11,214,786	2,481,631	1,176,175	12,731,226	23,946,012
Total Costs	\$9,228,420	\$1,557,424	\$699,662	\$11,485,506	\$2,478,969	\$1,299,662	\$13,007,051	\$24,492,557
General Fund	8,970,505	1,582,086	600,000	11,152,591	2,503,631	1,200,000	12,674,136	23,826,727
State/Other Special	25,000	(24,662)	99,662	100,000	(24,662)	99,662	100,000	200,000
Federal Special	232,915	0	0	232,915	0	0	232,915	465,830
Total Funds	\$9,228,420	\$1,557,424	\$699,662	\$11,485,506	\$2,478,969	\$1,299,662	\$13,007,051	\$24,492,557

Program Description

There are two distinct components to the Student Assistance program (governed by Title 20, Chapters 25 and 26, MCA):

- The grant, loan, and work-study programs consist of financial need-based criteria for student awards as well as the merit-based component of the Governor's Postsecondary Scholarship Program, as follows:
 - The federal Leveraging Educational Assistance Partnership (LEAP) grant is matched by the state Baker grant program
 - The federal Supplemental Leveraging Educational Assistance Partnership (SLEAP) grant is matched by the Montana Higher Education Grant (MHEG) program
 - The federal Supplemental Educational Opportunity Grant (SEOG) grant program sends funds directly to MUS campuses and is matched by state general fund
 - The Perkins Federal Loan program sends funds directly to MUS campuses and is matched by state general fund
 - The Work Study Program is funded 70 percent from general fund with a 30 percent employer match
 - The Governor's Postsecondary Scholarship Program has both a need-based and merit component, both of which are supported entirely by general fund (20-26-601, MCA)
- The interstate student exchange and assistance programs have no financial need-based criteria for participants, and are entirely general fund programs that include:
 - The Western Undergraduate Exchange/Western Regional Graduate Program allows students from 14 participating states to enroll in designated postsecondary schools and pay reduced tuition rates that are less than the non-resident rate. These programs are part of the MUS membership agreement with the Western Interstate Commission for Higher Education (WICHE)
 - The WICHE Professional Student Exchange Program enables Montana students to enroll in 8 professional graduate studies programs in 13 participating states at reduced tuition rates as Montana pays negotiated support fees to subsidize students, who pay reduced tuition
 - The Washington, Wyoming, Alaska, Montana, and Idaho Cooperative Program (WWAMI) enables Montana students to attend the University of Washington School of Medicine at a reduced tuition rate as Montana pays a negotiated support fee to subsidize students
 - The Minnesota Dental Program enables Montana students to attend the University of Minnesota Dental School at a reduced tuition rate as Montana pays a negotiated support fee to subsidize students

2007 Biennium New Initiative Update

A significant new initiative during the 2007 biennium, the Governor’s Postsecondary Scholarship Program, provided \$1.5 million for academic scholarships for Montana residents, with some awards based upon financial need and some upon academic merit. Each award is renewable for each year of the student’s two-year or four-year degree. In academic year 2006, a total of 463 scholarship awards were made, with an additional 480 awards and 463 renewals on track for academic year 2007. All \$1.5 million is schedule to be allocated in awards. The executive proposes additional funding for this program in the 2009 biennium (see Decision Package 2002 under present law adjustments and Decision Package 2061 under new proposals below).

Program Highlights

Student Assistance Program Major Budget Highlights
<ul style="list-style-type: none"> ◆ The executive budget includes four significant increases to general fund in the 2009 biennium as follows: <ul style="list-style-type: none"> • \$3.3 million to fund additional scholarship awards in the Governor’s Postsecondary Scholarship program, authorized by 20-26-601, MCA • \$750,000 to expand the awards authorized by the Governor’s Postsecondary Scholarship program statute, 20-26-601, MCA • \$1.05 million to fund a new teacher loan forgiveness program, that would require an authorizing statute • \$775,000 to fund increases of student support fees for the WICHE/WWAMI/MN Dental professional student program ◆ The executive budget increases state special revenue \$200,000 and 1.00 FTE in the 2009 biennium to support program expansion for the Family Education Savings Program
Major LFD Issues
<ul style="list-style-type: none"> ◆ The legislature may want to consider including accountability measures, in a companion bill to HB 2, as recommended by the interim legislative subcommittee PEPB, for proposed expansions to student assistance grant/scholarship programs ◆ The WWAMI medical school program that reserves student slots specifically for Montana resident students has offered Montana up to ten additional slots, the executive budget does not recommend accepting any of these but the legislature may wish to consider adding up to ten new slots for WWAMI ◆ The legislature may want to consider restoring some or all of the general fund that is eliminated in the executive budget for the Montana Higher Education Grant (MHEG) program in order to preserve the federal funding match for that program ◆ The Family Education Savings Program is being administered without the additional 0.50 FTE appropriated in the last legislative session, rather with a different 1.00 FTE, so that the legislature may want to consider eliminating that 0.50 FTE position

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000 Total General Fund	\$ 8,970,505	97.2%	\$ 11,152,591	97.1%	\$ 12,674,136	97.4%
01100 General Fund	8,970,505	97.2%	11,152,591	97.1%	12,674,136	97.4%
02000 Total State Special Funds	25,000	0.3%	100,000	0.9%	100,000	0.8%
02846 Family Ed Savings Admin Fee	25,000	0.3%	100,000	0.9%	100,000	0.8%
03000 Total Federal Special Funds	232,915	2.5%	232,915	2.0%	232,915	1.8%
03164 State Student Incentive Grant	232,915	2.5%	232,915	2.0%	232,915	1.8%
Grand Total	\$ 9,228,420	100.0%	\$ 11,485,506	100.0%	\$ 13,007,051	100.0%

Funding for student assistance programs is included in the lump sum appropriation for the Montana University System (MUS). Federal funds are granted to the states as an incentive and are required to be matched by general fund dollars. The match formulas vary from program to program as the federal component of the SEOG and Perkins programs match every general fund dollar with three federal dollars, while the LEAP and SLEAP federal programs provide just a dollar-for-dollar match. In both LEAP and SLEAP, state general fund appropriations (the MHEG and Baker programs) have historically far exceeded the one-to-one match requirement, as federal appropriations have not kept pace with state appropriations for these two programs. The Governor’s Postsecondary Scholarship program has no matching funds. The figure below illustrates the funding levels for each of these student assistance grant programs for the 2007 biennium and the proposed executive funding level for the 2009 biennium.

Grant Program	Actual FY 2006	Op Plan FY 2007	Exec. Budget FY 2008	Exec. Budget FY 2009	Biennial % Change
Funded with State Funds:					
Baker Grants	\$2,018,775	\$2,034,869	\$2,018,775	\$2,018,775	-0.4%
MT Higher Education Grant (MHEG)**	491,913	494,627	21,913	21,913	-95.6%
SEOG*	516,005	497,196	516,005	516,005	1.9%
Perkins Loan *	149,873	149,873	149,873	149,873	0.0%
State Work Study	862,989	862,989	862,989	862,989	0.0%
Governor's Postsecondary Scholarships	476,834	1,023,166	1,755,000	2,490,000	183.0%
Gov.Scholarships Expansion (New Proposal)	0	0	250,000	500,000	100.0%
Subtotal State Funds	<u>\$4,516,388</u>	<u>\$5,062,720</u>	<u>\$5,574,555</u>	<u>\$6,559,555</u>	<u>26.7%</u>
Federal Matching Funds:					
SLEAP Grant Program (Baker Match)	143,694	139,566	\$143,694	\$143,694	
LEAP Grant Program (MHEG Match)	89,221	82,944	\$89,221	\$89,221	
Subtotal Federal Funds	<u>\$232,915</u>	<u>\$222,510</u>	<u>\$232,915</u>	<u>\$232,915</u>	<u>2.3%</u>
Total Funds	<u>\$4,749,303</u>	<u>\$5,285,230</u>	<u>\$5,807,470</u>	<u>\$6,792,470</u>	<u>25.6%</u>

* Represents the state match. The federal matching funds are distributed directly to university campuses.
** Includes \$470,000 one-time-only MHEG appropriation in FY2006...but not restored in FY 2008 & FY 2009

LFD ISSUE As the above figure indicates, the executive budget for the 2009 biennium reduces funding for the MT Higher Education Grant (MHEG) program by \$470,000 general fund each fiscal year. The FY 2006 base year expenditures included a one-time-only appropriation of \$470,000. In order to accurately present the base year spending level, the executive removed this OTO from the base, as required by statute. Subsequently, that funding was not restored in a decision package so what remains in each fiscal year of the 2009 biennium is \$21,913 general fund.

LFD ISSUE CONT. The MHEG program is used to provide the minimum of a one-to-one state match that is required by the federal LEAP grant program. The current federal funding level for LEAP is \$89,221 each year of the 2009 biennium so that the reduction of the MHEG appropriation to \$21,913 would also lead to a loss of \$67,308 per year of federal LEAP funding. The MHEG – LEAP program grants provide the most flexibility for awarding grants to the lowest income students in Montana.

Legislative Option

Given this potential loss of \$134,616 of federal student assistance funding, the legislature may want to consider the following options:

- Option One – Amend the budget to restore \$134,616 general fund to the MHEG program in order to meet the minimum required federal funding match level
- Option Two – Amend the budget to restore the full \$940,000 reduction from the 2007 biennium (\$470,000 per year)
- Option Three – Ask OCHE if other state funding could be used for the match
- Option Four – Take no action on this issue

The WICHE/WWAMI/MN Dental programs are completely state general fund, as is the Governor’s Postsecondary Scholarship Program. Work-study is 70 percent general fund with a 30 percent employer match as employers also pay employee benefits. The employers’ portion of the work-study program is not included in HB 2.

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

	-----Fiscal 2008-----					-----Fiscal 2009-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					(46,662)					(46,662)
Total Statewide Present Law Adjustments					(\$46,662)					(\$46,662)
DP 2001 - WWAMI/WICHE/MN Dental	0.00	295,020	0	0	295,020	0.00	480,465	0	0	480,465
DP 2002 - Governor's Postsecondary Scholarship Program	0.00	1,278,166	0	0	1,278,166	0.00	2,013,166	0	0	2,013,166
DP 2053 - Reimb. GSL for Services Related to Student Assist.	0.00	30,900	0	0	30,900	0.00	32,000	0	0	32,000
Total Other Present Law Adjustments	0.00	\$1,604,086	\$0	\$0	\$1,604,086	0.00	\$2,525,631	\$0	\$0	\$2,525,631
Grand Total All Present Law Adjustments					\$1,557,424					\$2,478,969

LFD COMMENT The statewide present law adjustment for personal services in the figure above is required to “zero-out” personal service expenditures that were not tied to a specific FTE. Rather, costs associated with the administration of the Governor’s Postsecondary Scholarship and the Family Education Savings program were paid in this program as a transfer payment to the GSL program, where existing FTE staff performed the administrative functions. Therefore, the transfer payment for personal services that are not tied to an FTE position are zeroed out in this adjustment.

For more detail, see LFD Issue below for DP 2053 and for DP 2060.

DP 2001 - WWAMI/WICHE/MN Dental – The executive budget increases general fund by \$775,485 in the 2009 biennium to fund both first-year and continuing student slots at the projected tuition levels for the WICHE, WWAMI and MN Dental professional student exchange programs.

WICHE/WWAMI/MN Dental Program					
Present Law Adjustments - 2009 Biennium Executive Budget (DP 2001)					
	FY 2006	FY 2008	FY 2009	Present Law Adjustments	
	Actuals	Projected	Projected	FY 2008	FY 2009
WICHE Annual Dues	\$108,000	\$116,000	\$120,000	\$8,000	\$12,000
WICHE Student Support	1,773,083	1,891,500	1,976,600	118,417	203,517
WWAMI Student Support	2,865,033	3,024,836	3,115,581	159,803	250,548
MN Dental Student Support	\$156,000	\$164,800	\$170,400	\$8,800	\$14,400
Total	<u>\$4,902,116</u>	<u>\$5,197,136</u>	<u>\$5,382,581</u>	<u>\$295,020</u>	<u>\$480,465</u>

LFD COMMENT The present law increase in the professional student interstate exchange programs (WICHE/WWAMI/MN Dental) is caused solely by rising tuition rates at participating universities. As tuition rates increase, state support fees paid on behalf of Montana students increase. For the 2009 biennium, state support fees increase an average of \$1,708 per student slot in FY 2008 and \$2,772 per student slot in FY 2009, as compared to base year FY 2006 fees. On the other hand, the number of slots for Montana students remains essentially the same (337 in the biennium), with no program expansion for additional students.

State support fees, based upon tuition rates, are negotiated by an interstate council upon which Montana is represented by the Commissioner of Higher Education and members of the legislature. Once negotiated and agreed upon, the legislature has no further control over these support fees so that any changes in expenditure levels in this program would require adjustments to the number of student slots that would be funded in the biennium.

The total costs for these programs are detailed in the following figure, which illustrates the number of student slots by profession and the state support fee for each.

**LFD
COMMENT
CONT.**

2009 Biennium Budget Request WICHE/WWAMI/Minnesota Dental Programs Office/Commissioner of Higher Education												
Program	Fiscal Year 2008						Fiscal Year 2009					
	Support Fee	New (1st Year) Students	Cost	Continuing Students	Cost	Total	Support Fee	New (1st Year) Students	Cost	Continuing Students	Cost	Total
WICHE												
Administrative Dues			\$116,000			\$116,000			\$120,000			\$120,000
Student Assistance:												
Medicine	\$26,500	6	159,000	18	\$477,000	636,000	\$27,400	6	164,400	18	\$493,200	657,600
Osteopathic Medicine	17,600	2	35,200	4	70,400	105,600	18,200	1	18,200	6	109,200	127,400
Dentistry	20,600	1	20,600	3	61,800	82,400	21,300	1	21,300	3	63,900	85,200
Veterinary Medicine	26,300	9	236,700	27	710,100	946,800	27,200	9	244,800	27	734,400	979,200
Podiatry	12,300	1	12,300	1	12,300	24,600	12,700	0	0	2	25,400	25,400
Optometry	14,100	1	14,100	3	42,300	56,400	14,600	1	14,600	3	43,800	58,400
Occupational Therapy	10,700	1	10,700	1	17,833	28,533	11,100	1	11,100	1	18,500	29,600
<small>(Includes 1 @ clinical rate \$17,833 for FY 08 and \$18,500 for FY 09)</small>												
Public Health	6,700	1	6,700	1	4,467	11,167	6,900	1	6,900	1	6,900	13,800
<small>(Includes 1 extended degree @ \$4,467 for FY 08)</small>												
Subtotal (WICHE Student Support)		22	495,300	58	1,396,200	1,891,500		20	481,300	61	1,495,300	1,976,600
Total WICHE (Including Dues)						2,007,500						2,096,600
Minnesota Dental	20,600	2	41,200	6	123,600	164,800	21,300	2	42,600	6	127,800	170,400
WWAMI	\$50,414	20	0	60	3,024,836	3,024,836	51,926	20	0	60	3,115,581	3,115,581
Total WICHE/WWAMI/MN		<u>44</u>	<u>\$652,500</u>	<u>124</u>	<u>\$4,544,636</u>	<u>\$5,197,136</u>		<u>42</u>	<u>\$643,900</u>	<u>127</u>	<u>\$4,738,681</u>	<u>\$5,382,581</u>

Notes:
 1) Rates for all continuing therapy students are calculated at 1 2/3 the annual support fee to include support for two clinical rotations. (\$17,833 for FY 2008; \$18,500 for FY 2009)
 2) The WWAMI support fee is calculated as an average per continuing student. Actual support varies by program year.
Source: Office of the Commissioner of Higher Education - 2009 Biennium Budget Submission

The state support fee represents a subsidy to support Montana resident students who are accepted for professional education at the participating institutions, but the students are still required to pay tuition, above the support fee, to attend these programs. The figure below lists student tuition rates for these professional exchange programs for the 2005-2006 academic year, the most recent year for which this data is available.

Professional Student Exchange Program WICHE/WWAMI Annual Student Tuition Rates Academic Year 2005 - 2006	
Professional Education Program	Average Annual Student Tuition Rate
WICHE Medicine	\$20,766
WICHE Dentistry	27,016
WICHE Veterinary Med.	15,146
WICHE Occupat. Therapy	12,533
WICHE Optometry	13,874
WICHE Podiatry	12,190
WICHE Osteopathic Med.	19,232
WICHE Public Health	9,895
MN Dental	29,724
WWAMI Medicine	19,483

**LFD
ISSUE**

During the FY 2006 base year, \$110,000 general fund appropriated by the legislature to the professional student interstate exchange programs was not spent. This is not unusual, as the budget is based upon the assumption that some specific number of students will successfully follow through with these multi-year education programs. If any of these students decide to withdraw or do not maintain academic standards, then the appropriated funds will exceed actual program expenditures, as is the case in FY 2006.

On the other hand, the Student Assistance Program also supports other student financial aid programs that provide funding to students for both need-based and academic merit criteria. According to the financial aid offices at both Montana State University and the University of Montana, after the applicable funding formula for financial aid is completed each academic year, the funding criteria indicate that many Montana resident students still demonstrate an unmet financial need in paying for their post-secondary education.

Legislative Options

Therefore, should the legislature continue to fund the WICHE/WWAMI/MN Dental Program in the 2009 biennium, the legislature may want to consider restricting this decision package and entire appropriation, as was done in the 2007 biennium with a HB 2 line-item and language, so that any unexpended general fund that may result from a change in student enrollment in the professional exchange program would remain within the Student Assistance Program and be directed toward other student financial assistance programs. The legislature may want to restrict this to a specific student assistance program (e.g. MHEG or MTAP) or leave this to the discretion of the Commissioner of Higher Education.

**LFD
ISSUE**

The interstate professional student exchange programs, including the WWAMI program, emphasizes that among their program goals and objectives they serve the following public policy goals:

- To provide state financial assistance that supports expanded postsecondary educational opportunities for Montana resident students, in particular in academic and professional education fields that are not available through the MUS or at private universities in Montana. Rather than building a medical school, a dental school or a veterinary medical school, it is more cost effective to subsidize Montana student access to existing institutions.
- To increase the number of professional practitioners in critical professions (doctors, dentists, veterinarians, etc.) in Montana, where there is a shortage of these specialists in many parts of the state. Montana residents who receive advanced degrees in these professions are the most likely to choose to practice in Montana.

Therefore, particular to the WWAMI program, state funding is intended to serve the dual goals to provide student access and affordability to a medical degree that is not offered by Montana schools, and to expand the number of physicians practicing in communities across Montana, especially underserved rural communities.

Montana has participated in the WWAMI program since 1975 and in that 30 year history the state has been allocated 20 student slots each year. In that same 30 years, the Montana population and the undergraduate student population has increased by 30 percent so that in 1975 there was one WWAMI slot for every 32,000 citizens and today there is one slot for every 46,000 citizens. As a result, in the past six years there have been an average 67 qualified Montana applicants each year to WWAMI for the 20 available student slots. Two-thirds of the qualified Montana applicants are turned away.

In regard to achieving the public policy goal of increasing the number of healthcare professionals in underserved communities in Montana, the return rate of Montana residents and others who participate in the WWAMI program and subsequently set-up a practice in Montana is approximately 52 percent. In other words, for the 80 WWAMI slots funded by the legislature each biennium, the historical average indicates that 42 WWAMI program physicians will come to Montana to practice medicine.

**LFD
ISSUE
CONT.**

A related program, the Montana Rural Physician Incentive Program (MRPIP), created in 1993, is also designed to bring physicians to Montana to serve rural, underserved communities. This program provides student loan repayment funding, up to \$45,000, for physicians who relocate to Montana. The revenue to support this repayment program is a surcharge that WICHE /WWAMI physician students pay, in addition to their tuition, to create the incentive program funding pool.

Since its inception, 92 physicians have applied to MRPIP, 78 were approved, and about 60 are practicing medicine in under-served communities in Montana. In FY 2006 a total of \$201,472 in loan payments were made by MRPIP on behalf of practicing rural physicians. The program brought in just over \$217,000 of revenue from student surcharges. Any significant expansion to this program, therefore, would require additional funding from student fees, either by increasing the fee level or increasing the number of student slots paying the fee.

In 2006, the WWAMI program (at the University of Washington) offered to expand the number of student slots that would be set-aside for Montana resident students, up to 10 additional students per year. Such an offer is rarely extended as the Montana slots have remained at 20 since 1975. As part of the Workforce Development Committee of the Board of Regents, the university system developed a budget initiative entitled Statewide Plan for Healthcare Worker Education (based upon a Board of Regents report dated March 2006) that stated, in part:

- Montana faces a severe shortage of allied health professionals, due to increased demand, an aging workforce, and an aging society. Current projections indicate [Montana] will need about 6,100 additional health professionals in the workforce to meet the needs of Montana citizens by 2010. Also...46 of 56 counties are, in whole or in part, designated as Health Professional Shortage Areas.
- [In order to] expand physician education to increase the number of physicians in Montana, with particular emphasis on increasing the number of primary care physicians practicing in rural areas:
 - Increase the number of WWAMI student slots by up to ten additional slots per year

Legislative Option

Therefore, if the legislature would be interested in the opportunity to expand Montana student access and affordability to a medical degree that is not offered by the Montana University System and to expand the two programs that are in place to address the shortage of physicians practicing in Montana, and the legislature believes that the goals and accomplishments discussed above about the WWAMI program and the MRPIP program are an effective means toward these public policy goals, then the legislature may want to consider funding up to ten additional student slots made available by the WWAMI program for Montana resident students.

The cost of each additional student slot would be \$102,340 in the 2009 biennium and that increased funding level would continue into subsequent biennium budgets, including the present law cost increases related to rising tuition rates at participating schools.

If the decision to fund additional WWAMI slots would be made, the legislature may also want to consider requiring a report, in a companion bill to HB 2, that would be made to an interim committee of the legislature that addresses progress on the goals and objectives stated above (access and affordability to a medical school education, the return rate of WWAMI participants to practice in Montana, the waiting list of qualified Montana applicants, and the participation rates of the MRPIP program) in order to provide program evaluation and accountability opportunities for this funding.

DP 2002 - Governor's Postsecondary Scholarship Program - The executive budget adds \$3.3 million in the 2009 biennium budget in order to fund additional scholarship awards as part of the Governor's Postsecondary Scholarship Program, approved as HB 435 by the 2005 Legislature and codified at 20-26-601, MCA.

LFD COMMENT Given that this decision package represents a significant expansion of an existing program that almost triples the legislative appropriation in the 2007 biennium, this decision package should be presented as a new proposal rather than as a present law adjustment in the executive budget.

LFD ISSUE The legislature approved a HB 2 appropriation for the Governor’s Postsecondary Scholarship in the 2007 biennium budget. This new program was created by statute, at 20-26-601, MCA, which includes a specific itemization of the maximum number of scholarships authorized as well as the type of degree program, the annual amount of each award, and the origin of eligible applicants (e.g. an award for each high school). The figure below illustrates these various categories and criteria, and includes the annual cost for the program (note that since the program provides annual scholarship to students in two-year and four-year programs, the full cost of the program will not occur until the fourth year, which is FY 2009). After that, the annual cost would remain stable under the current statute:

Governor's Postsecondary Scholarship Program (20-26-601, MCA)							
Merit Based Component - Includes 4-year and 2-year							
				2007 Biennium		2009 Biennium	
MCA Section	Award Category	Number of Awards	Amount Per Award	FY 2006 Total	FY 2007 Total	FY 2008 Total	FY 2009 Total
(2)(a)	4-Year Degree Program - At Large	40	\$2,000	\$80,000	\$160,000	\$240,000	\$320,000
(2)(b)	4-Year Degree Program - Each High School	185	1,000	185,000	370,000	555,000	740,000
(2)(c)	2-Year Degree Program - Each High School	185	1,000	185,000	370,000	370,000	370,000
(2)(d)	2-Year Degree Program - At Large	70	1,000	70,000	140,000	140,000	140,000
Total		480		\$520,000	\$1,040,000	\$1,305,000	\$1,570,000
Need Based Component - Includes 2-year Degree Programs Only							
				2007 Biennium		2009 Biennium Plan	
MCA Section	Award Category	Number of Awards	Amount Per Award	FY 2006 Total	FY 2007 Total	FY 2008 Total	FY 2009 Total
(2)(e)	At Large Students (including Non-traditional)	180	\$1,000	\$180,000	\$360,000	\$360,000	\$360,000
(2)(f)	Health Sciences Degree Programs	100	1,000	100,000	200,000	200,000	200,000
(2)(g)	Technology Degree Programs	220	1,000	220,000	440,000	440,000	440,000
Total		500		\$500,000	\$1,000,000	\$1,000,000	\$1,000,000
Full Funding Level Authorized by Statute (20-26-601, MCA)				\$1,020,000	\$2,040,000	\$2,305,000	\$2,570,000
HB 2 - 2007 Biennium Actual and 2009 Biennium Executive Present Law Budget (DP 2002)				\$500,000	\$1,000,000	\$1,755,000	\$2,490,000
Executive New Proposal for Expansion of Postsecondary Scholarship Program (DP 2061)						\$250,000	\$500,000
Total Additional Statutory Authority Remaining/(Exceeded) for Scholarship Appropriation in 2009 Biennium						\$300,000	(\$420,000)

During the 2005 session, the legislature did not fund this program up to the statutory authorized level. Rather, the legislature appropriated \$500,000 in FY 2006 (statute allows up to \$1.02 million) and \$1 million in FY 2007 (statute allows up to \$2.04 million).

For the 2009 biennium, the executive budget, through this present law adjustment, proposes an increase in the program each year of the biennium. The proposed increase does not reach the maximum appropriation level authorized by the statute. Rather, the statute would allow an additional \$550,000 appropriation in FY 2008 and an additional \$80,000 appropriation in FY 2009.

In a separate decision package below, DP 2061, the executive budget would expand the Governor’s Postsecondary Scholarship Program even more, exceeding the statute such that the Governor has requested legislation to expand the number of scholarships allowed in the statute. For more information, see the LFD issue below that accompanies DP 2061.

**LFD
ISSUE
CONT.**

In the meantime, regarding this proposal to increase the budget by \$3.3 million general fund for scholarship expansion, the legislature may want to consider how effective this program has been. Neither the authorizing statute nor the HB 2 appropriation set out measurable accountability goals for this program beyond the distribution of the enumerated scholarships. Therefore, there are no existing benchmarks for establishing either the definition or the attainment of effectiveness and success.

According to the first-year report of the Advisory Council for this program, 480 scholarships were awarded expending all \$500,000 of funding appropriated for FY 2006. These allocations include the following characteristics:

- Every Montana County had at least one scholarship recipient, with Flathead County receiving the most at 44 student awards, while nine counties received one student award
- Among the student recipients, 78.2 percent were Caucasian, 14.6 percent were Native American
- Female students received 61.6 percent of the scholarships, males received 38.4 percent
- The average age of the merit-based scholarships was 19
- In the need-based aid awards, the average age for those allocated to technology fields was 28, while need-based health profession awards averaged 25 years of age
- The need-based scholarship recipients had an average expected family contribution (EFC) [the student assistance indicator of ability to pay for postsecondary education] amount of less than \$1,000, while the median EFC for the merit-based recipients was \$2,886
- Every educational unit campus and college of technology received at least 19 student scholars funded by this program; each of the three community colleges received at least 19; and six of the seven tribal colleges received at least 23 student scholars

From this or other data, the legislature may want to evaluate the effectiveness of this program. For additional information, see the First Annual Report of the Advisory Council, August 12, 2006.

Legislative Option

The legislature may want to consider including accountability measures, as part of a companion bill to HB 2, as part of this program in order to create more certain, measurable criteria for program evaluation and expansion. As discussed below, the interim PEPB recommended a series of accountability measures and a process for these that relate specifically to student assistance programs intended to increase access and affordability.

For more information about this concept and the PEPB recommendations, see LFD Issue below associated with DP 2061.

DP 2053 - Reimb. GSL for Services Related to Student Assist. - The executive budget includes \$62,900 general fund for the 2009 biennium to provide a reimbursement of personal services costs in the GSL program where administrative support is provided for a number of student assistance programs, including the High School Honors Fee Waiver, the Governor's Postsecondary Scholarship Program, the Montana Higher Education Grant, and the Baker Grant.

**LFD
COMMENT**

The program administrator for the Governor's Postsecondary Scholarship Program reports that the overall costs to administer this statutory program alone in FY 2006 are in excess of \$90,000. It is projected that \$40,000 of these are one-time start up costs so that the ongoing administrative cost would be \$50,000 per year. Among the program expenditures in FY 2006 are almost \$14,000 for promotional and public services announcements costs.

In addition, other FY 2006 administrative expenses in the GSL program charged to student assistance programs include:

- MUS Honors Scholarship Program - \$19,176
- State Grant Programs (MHEG and Baker) - \$9,404

LFD COMMENT CONT.

In the 2007 biennium, the legislature appropriated \$44,000 general fund for the administrative costs associated with the Governor’s Postsecondary Scholarship Program, but no additional funding for other student assistance programs. This decision package represents a biennial increase of \$18,900.

New Proposals

Program	Fiscal 2008					Fiscal 2009				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 2060 - MT Family Ed Savings Prg Growth										
02	1.00	0	99,662	0	99,662	1.00	0	99,662	0	99,662
DP 2061 - Governor's Scholarship Program Expansion										
02	0.00	250,000	0	0	250,000	0.00	500,000	0	0	500,000
DP 2063 - Quality Educator Loan Forgiveness Program										
02	0.50	350,000	0	0	350,000	0.50	700,000	0	0	700,000
Total	1.50	\$600,000	\$99,662	\$0	\$699,662 *	1.50	\$1,200,000	\$99,662	\$0	\$1,299,662 *

DP 2060 - MT Family Ed Savings Prg Growth - The executive budget includes \$200,000 state special revenue in the 2009 biennium for the administration of the Montana Family Education Savings Program, transferring 1.00 FTE from the GSL program for this function. The state special revenue funding comes from program fees paid by participants in the savings plan program. The savings plan has in excess of \$150 million in total assets.

LFD ISSUE

The Family Education Savings Program is a tax-favored college savings plan managed for the university system by a private contractor. The program allows families to contribute to a college fund that will earn non-taxable interest. When the funds are needed to pay for postsecondary education expenses, they may be withdrawn with no tax liability.

Due to the popularity of this program among Montana families and the associated workload increase for OCHE staff, the legislature approved a 0.50 FTE administrative position to support the Family Education Savings program in the 2007 biennium budget. This legislative action appropriated \$50,000 of state special revenue in the 2007 biennium and the 0.50 FTE as part of the OCHE Administration program.

During the 2007 biennium, however, in the base year FY 2006, the administrative support for the Family Education Savings Program was transferred to existing staff in Guaranteed Student Loan (GSL). The 0.50 FTE authorized by the legislature was never filled; rather, the funding alone was transferred to GSL. Since this appropriation and this expenditure was recorded as a personal services expense that was not tied to an explicit FTE position (as none was filled) this type of fiscal transaction is “zero-based” so that the funding must be requested once again as a new proposal in the 2009 biennium budget.

And indeed, in this decision package, the executive restores and increases the funding for administrative support of the Family Education Savings Program and accomplishes this with a 1.00 FTE transfer from GSL to Student Assistance. But the 0.50 FTE created in the 2007 biennium remains, with no intention for this to be utilized.

**LFD
ISSUE
CONT.**Legislative Option

Given that the OCHE Administration Program is not providing the administrative support for the Family Education Savings Program, but rather that function has been managed by existing FTE in GSL and funded in FY 2006 with a reimbursement payment, the legislature may want to consider eliminating 0.50 FTE from the OCHE Administration Program in order to eliminate the associated state funding for the position that was not filled in the 2007 biennium and will not be used going forward.

Since that 0.50 FTE position currently resides in OCHE Administration, budget program 01, this issue is repeated in that program as well.

DP 2061 - Governor's Scholarship Program Expansion - The executive budget increases general fund by \$750,000 in the 2009 biennium to expand the availability of financial need based scholarships that respond to workforce demands by targeting more scholarships to the high demand occupations in healthcare, technology and the building trades. These high demand occupations scholarships would support students attending the Colleges of Technology, community colleges, and tribal colleges. In addition, the executive proposes increases in four-year merit scholarships for graduating Montana high school students.

**LFD
ISSUE**

The Postsecondary Education Policy and Budget subcommittee (PEPB), which reports to the Interim Education and Local Government Committee, deliberated about a very similar decision package in mid-2006 that would expand need-based student assistance when it was first proposed by the Board of Regents as a budget initiative for the 2009 biennium.

PEPB, as part of its interim project to develop a mechanism to bring accountability measures into the state budget for the university system, recommended this initiative for the 2009 biennium, but also recommended including specific performance measures that legislative legal staff recommend should be part of a companion bill to HB 2.

The specific PEPB recommendation includes (note that the dollar figure has changed between the July presentation and the proposed executive budget, but the new proposal is very similar in its intent objectives):

- Improve Affordability (restricted, biennial, OTO)
- The PEPB recommends a restricted, biennial, one-time-only general fund appropriation of \$2.5 million to support the financial aid/student assistance program at university educational units across the Montana University System. This one-time-only appropriation may become an ongoing, sustainable appropriation in the subsequent 2011 biennium budget, contingent upon a report to the PEPB by August 2008 that demonstrates progress toward the following accountability measures:
- Completion of a comprehensive plan that coordinates all student financial aid components (e.g. Baker, MHEG, Pell, SEOG, Governor's Scholarships, MPACT, tuition waivers, etc.) so that all programs comprise an integrated system of student aid that can accomplish the Shared Policy goals of affordability
- That this comprehensive, integrated student aid program has increased the average state funded need-based aid award to each student by \$70 per capita (from \$71 to \$141), which is equal to a 100% increase
- That this comprehensive, integrated student aid program will increase retention and completion rates for the targeted need-based aid students by a negotiated and agreed upon percentage

The bulleted accountability measures are based upon the PEPB shared policy goals, the Montana Board of Regents 2006-2010 Strategic Plan, and the budget initiative goals and objectives submitted by OCHE. Given that the funding level of this proposal has been reduced, the benchmark above of per capita student funding would need to be changed as well.

**LFD
ISSUE**Legislative Options

The legislature may want to consider the following options related to DP 2061:

- Option One – Approve the decision package as proposed by the executive
- Option Two – Approve the decision package and include some or all of the PEPB recommended accountability measures in a companion bill to HB 2
- Option Three – Do not approve the decision package

**LFD
ISSUE**

This new proposal, if approved, would exceed the statutory funding authority for the Governor's Postsecondary Scholarship Program (20-26-601, MCA) by \$420,000 general fund in FY 2009 (see figure above associated with DP 2002). In the meantime, the executive has requested legislation that would expand the statutory authority and allow this level of funding for this program.

Therefore, should the legislature approve this decision package such that the funding level would exceed the authority of 20-26-601, MCA, they may want to consider making this appropriation contingent upon the passage and approval of the legislation proposed by the Governor that had not yet been assigned a bill number at the time of this writing.

DP 2063 - Quality Educator Loan Forgiveness Program - The executive budget increases general fund by \$1.05 million and 0.50 FTE in the 2009 biennium to create a loan forgiveness program that would support teachers serving in critical shortage areas of the state, as defined by subject area or geography by the Board of Public Education and the Office of Public Instruction.

**LFD
ISSUE**

This new proposal by the executive includes a number of criteria that would be required to define applicant eligibility as well as the subject areas and geography of the state that are to be defined as underserved by teaching professionals.

Therefore, in order to make this decision package operational, the executive has requested legislation that is currently LC 813. This legislation would codify in statute the requisite criteria and processes to make this decision package operations.

Therefore, in the process of making the decision about this proposal, the legislature may want to request a report about the bill draft (LC 813) including:

- What are the specific eligibility criteria for applicants
- What are the specific underserved subject areas and geographic locations in Montana
- What are the length of service and other requirements that applicants/teachers must meet to remain eligible
- What are the specific goals and objectives of the program and what are the specific benchmarks and accountability measures that would be used to define effectiveness and success

Should the legislature approve this executive proposal, they may want to consider making this appropriation contingent upon the passage and approval of LC 813, and the legislature may also want to consider requiring that a report to an interim committee of the legislature, such as the PEPB, be delivered by a specific date that addresses the above bulleted issues and accountability measures. Such a report requirement would be part of a companion bill to HB 2.

Language

The executive recommends the following HB 2 language to restrict the appropriation for the WICHE/WWAMI/MN Dental program

“WICHE/WWAMI/MN Dental Program is restricted such that any surplus funding may be transferred only to other student financial aid programs in Program 02.”

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Personal Services	12,686	(12,686)	0	0	(12,686)	0	0	0
Operating Expenses	5,056	1	0	5,057	1	0	5,057	10,114
Grants	344,809	0	35,134	379,943	0	45,134	389,943	769,886
Total Costs	\$362,551	(\$12,685)	\$35,134	\$385,000	(\$12,685)	\$45,134	\$395,000	\$780,000
Federal Special	362,551	(12,685)	35,134	385,000	(12,685)	45,134	395,000	780,000
Total Funds	\$362,551	(\$12,685)	\$35,134	\$385,000	(\$12,685)	\$45,134	\$395,000	\$780,000

Program Description

Improving Teacher Quality is a federally funded grant program providing awards to fund partnerships between higher education and high-need K-12 school districts in order to provide professional development and teacher training that improves teaching methods and teaching skills in the classroom. Starting in federal FY 2002, what had been the Eisenhower Mathematics & Science Education program (for K-12 teachers of math and science) was expanded to include all academic areas and the program was renamed, now known as the Improving Teacher Quality program.

As part of the federal No Child Left Behind program, Improving Teacher Quality targets teacher training in “high-need school districts”, defined as those where:

- o Not less than 20 percent of the students served are from families with household income that is below the poverty line; and
- o A high percentage of teachers are without degrees in the academic areas and/or grade levels that they are teaching, or who hold less than standard teacher certification from OPI.

The federal grant requires that a partnership be developed that includes a postsecondary school of education, a postsecondary college of arts and sciences, and at least one “high need school district.” In the past year, Improving Teacher Quality grants have provided skills training for K-12 teachers in Montana through educational partnerships with the following university system institutions:

- o MSU Billings
- o UM Missoula
- o Great Falls College of Technology and MSU Northern
- o MSU Bozeman
- o UM Western (Dillon)
- o Flathead Valley Community College

Program Highlights

Improving Teacher Quality Program Major Budget Highlights
<p>◆ The executive budget increases federal authority \$80,000 in the 2009 biennium in order to provide the authority necessary to expend the full amount anticipated each year for this federal grant award</p>

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the Governor. Funding is entirely from federal revenue, Title II grant funds.

Program Funding Table							
Improving Teacher Quality							
		Base	% of Base	Budget	% of Budget	Budget	% of Budget
Program Funding		FY 2006	FY 2006	FY 2008	FY 2008	FY 2009	FY 2009
03000	Total Federal Special Funds	\$ 362,551	100.0%	\$ 385,000	100.0%	\$ 395,000	100.0%
	03183 Ed For Econ Security Grant	362,551	100.0%	385,000	100.0%	395,000	100.0%
Grand	Total	\$ 362,551	100.0%	\$ 385,000	100.0%	\$ 395,000	100.0%

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2008-----					-----Fiscal 2009-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					(12,686)					(12,686)
Inflation/Deflation					1					1
Total Statewide Present Law Adjustments					(\$12,685)					(\$12,685)
Grand Total All Present Law Adjustments					(\$12,685)					(\$12,685)

LFD COMMENT	Personal Services Statewide Present Law Adjustment
	All personal services expenditures for the Improving Teacher Quality program are backed out of the FY 2006 base budget for each year of the 2009 biennium as the staff support for this program is provided in the OCHE Administration program (budget program 01). The personal services costs are then charged against the federal Improving Teacher Quality grant.

New Proposals

New Proposals										
-----Fiscal 2008-----					-----Fiscal 2009-----					
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 3001 - Incr. Improving Teacher Quality Grants - 03	0.00	0	0	35,134	35,134	0.00	0	0	45,134	45,134
Total	0.00	\$0	\$0	\$35,134	\$35,134 *	0.00	\$0	\$0	\$45,134	\$45,134 *

DP 3001 - Increase Federal Grant Authority – The executive budget adds \$80,268 of federal funding authority to the Improving Teacher Quality program for the 2009 biennium, in order to provide authority at the funding level anticipated each year for this federal grant.

LFD COMMENT	The executive budget anticipates that this federal grant funding will remain stable and steady through the 2009 biennium, as this Title II grant is renewed annually.
--------------------	---

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Local Assistance	7,482,416	755,397	0	8,237,813	917,556	0	8,399,972	16,637,785
Total Costs	\$7,482,416	\$755,397	\$0	\$8,237,813	\$917,556	\$0	\$8,399,972	\$16,637,785
General Fund	7,482,416	755,397	0	8,237,813	917,556	0	8,399,972	16,637,785
Total Funds	\$7,482,416	\$755,397	\$0	\$8,237,813	\$917,556	\$0	\$8,399,972	\$16,637,785

Program Description

The Community College Assistance program distributes funds appropriated by the legislature to support Montana’s three community colleges:

- Miles Community College located in Miles City
- Dawson Community College located in Glendive
- Flathead Valley Community College with campuses located in Kalispell and Libby

Each community college district has an elected board of trustees who have governance authority over the college, but the trustees are subject to the supervision of the Board of Regents, as directed by Title 20, Chapter 15, MCA.

The funding formula and methodology for the state general fund appropriation to the community colleges is outlined in statute at 20-15-312, MCA. The general operating budgets of the community colleges are funded from a state general fund appropriation, student tuition and fees, a mandatory property tax levy, an optional voted levy, and other miscellaneous revenue funds. Only the state general fund is appropriated in HB 2.

Program Highlights

The state appropriation for the community colleges is a separate line item and is not part of the lump sum appropriation to the Montana University System educational units.

Community College Assistance Program Major Budget Highlights
<ul style="list-style-type: none"> ◆ The executive budget recommends an overall increase of \$1.7 million in the 2009 biennium budget as follows: <ul style="list-style-type: none"> • \$2.1 million general fund for present law adjustments, based upon an 8.8 percent student enrollment increase over the base year • \$1.32 million reduction to the base as a result of required reversions as community college student enrollment did not meet projections • \$900,000 of additional general fund that is recommended outside the statutory funding formula

Major LFD Issues
<ul style="list-style-type: none"> ◆ An interim study by the Legislative Finance Committee recommends revisions to the statutory funding formula for the community colleges (contained in SB 12) that would: <ul style="list-style-type: none"> • Rebase the cost of education factor so that it accurately reflects the actual costs to educate Montana resident students • Include a fixed and variable cost calculation to the formula • Retain the state percent share factor that allows the legislature to apply public policy goals to the state funding level • Maintain a clear, simple and transparent budget formula ◆ The legislature may want to calculate the community college budget using this recommended formula and make this contingent upon passage and approval of SB 12 ◆ The legislature may want to ask the community colleges to submit a clear and concise budget plan that the colleges propose would allow a cap on resident student tuition rates during the 2009 biennium ◆

Program Narrative

The general fund appropriation for the community colleges is based upon a three-factor funding formula as follows:

- The cost of education per FTE student
- Annual FTE student enrollment projections
- The state percent share of funding

Using this formula, these three factors are multiplied and the result is the HB 2 appropriation level for state general fund. For example, in the 2007 biennium budget, the factors approved by the legislature in this equation look like the following for the FY 2006 base year:

- \$5,203 – cost of education per FTE
- x
- 2,631 – projected FTE student enrollment
- x
- 53% - state percent share
- \$7,255,219 – Total State Appropriation

In approving this budget, however, the 2005 Legislature was concerned about the community college funding formula, in particular the integrity of the cost of education factor, and inserted language in HB 2 requesting that a funding study be conducted during the interim with the goal of proposing a revision to the formula that would recalibrate the cost of education factor. That interim study was completed with the oversight of the Legislative Finance Committee (LFC), which unanimously recommended a new funding formula that will be considered by the legislature as SB 12.

The major conclusion of that funding study was that, “based upon the [formula] history, it is a reasonable conclusion, as surmised during the 2005 session, that the cost of education factor in the community college funding formula has lost relevance and does not appear to bear much relationship to the actual cost of educating Montana resident students at the three community colleges.” As a result, the study expressed concern that the formula lacks transparency such that “it appears that legislators are funding a state percentage of an irrelevant number.”

Therefore, based upon the study conclusions, the LFC recommended the following revisions to the funding formula:

- That the community college funding formula should be revised starting with a process to rebase the cost of education (COE) factor of the formula in order that it more accurately reflects the actual cost of education. The

COE should be calculated based upon actual figures averaged across the community colleges for FY 2006, which would then serve as the base year for the 2009 biennium budget

- That the model to rebase the COE should start with cost of education data from the Commissioner of Higher Education (CHE) form 201, which each college is statutorily required to complete in establishing annual operating budgets. CHE 201 includes a separate accounting schedule for the current unrestricted operating funds, segregating these funds from others, including restricted, auxiliary, and capital funds
- That the calculation to rebase the COE should be made each biennium using the CHE 201, thus eliminating the need to make a special adjustment calculation of the base COE factor, which was done in the past and has led to problems in the formula
- That this new CHE 201 model should also include a calculation that establishes both a fixed cost of education component and a variable cost of education component, which together would comprise the new COE factor
- That this fixed/variable costs calculation should be reviewed and updated every third biennium (every 6 years)

As a result of these revisions, the LFC recommended the following for the community college funding formula, which is proposed in SB 12, and is stated mathematically and defined below:

$$[(\text{Projected Student Enrollment} \times \text{Variable Cost of Education per Student}) + \text{Fixed Cost of Education}] \times \text{State Percent Share} = \frac{\text{State General Fund Budget}}{\text{State General Fund Budget}}$$

- Projected Student Enrollment = the aggregated FTE count that the three colleges project for each year of the proposed biennial budget
- Variable Cost of Education per Student = the total variable costs for the base year divided by the actual FTE student enrollment for the base year (both derived from base-year CHE 201 form)
- Fixed Cost of Education = the total fixed costs for the base year (derived from base-year CHE 201 form)
- State Percent Share = the percent of the CHE 201 derived fixed + variable costs calculation that the legislature decides, as a matter of public policy, to support with a state appropriation. The state percent share factor is the mechanism through which the legislature would exercise public policy in this formula, as the percent level established is purely a matter of the public policy decision the legislature makes based upon available state revenue and the amount of funding the legislature determines that state government should support Montana resident students attending community colleges

Presently, in HB 2 for the 2007 biennium using the old formula, the legislature has established the state percent share at 53 percent. It is important to recall, however, that the study conclusions above note that the cost of education factor to which that 53 percent state percent share is applied is “an irrelevant number that does not reflect the actual cost of education” at the community colleges.

Therefore, under the LFC recommendation in SB 12, the proposed new formula would accurately reflect the cost of education and then allow the legislature to apply public policy by setting the state percent share against that accurate cost data in order to determine the state appropriation level. It is through this factor that public policy is most directly applied to the community college assistance program, as this indicates the level of support that the legislature determines that state government should support the cost of education for Montana resident students, based upon available state revenue.

With an accurate cost of education factor and a formula that rests upon the public policy decision of the state percent share level, the SB 12 formula meets the LFC goal of transparency and simplicity, it is a formula that is easily understood.

As the legislature works through the executive budget proposal and ultimately determines the legislative budget for the community college program, the primary decision point will be whether to use the LFC recommended formula in SB 12 or follow the old formula in the executive proposed budget.

Executive College Affordability Plan (CAP)

Elsewhere in the executive budget for the Montana University System, the Governor’s College Affordability Plan (CAP) aspires to cap tuition increases during the 2009 biennium at the university educational unit campuses of the University of Montana and Montana State University. The CAP is discussed in detail in Program 09 of this LFD budget analysis.

In the community college assistance program, the executive budget states “it is anticipated that the funds provided in the three decision packages, along with pay plan funding, will be sufficient for the community colleges to offer zero tuition increases for resident students.”

Specific to the community colleges, however, the extensive CAP process, calculations, and negotiations used with the university educational units were not replicated for the community colleges. Rather, there was a limited discussion over a fairly brief period of time.

The difference in this process is important as the university educational units have agreed that full funding for the CAP would allow tuition rates to remain frozen, while the community colleges do not agree with the executive and, on the contrary, do not believe that the proposed executive budget would be sufficient to allow a tuition cap at Montana’s three community colleges.

For more information and legislative options related to the CAP as it relates to the community colleges, see the LFD issue at the end of the community college budget analysis section below.

Funding

The following figure shows program funding, by source, for the base year and for the 2009 biennium as recommended by the Governor.

Program Funding Table Community College Assist						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000 Total General Fund	\$ 7,482,416	100.0%	\$ 8,237,813	100.0%	\$ 8,399,972	100.0%
01100 General Fund	<u>7,482,416</u>	<u>100.0%</u>	<u>8,237,813</u>	<u>100.0%</u>	<u>8,399,972</u>	<u>100.0%</u>
Grand Total	<u>\$7,482,416</u>	<u>100.0%</u>	<u>\$8,237,813</u>	<u>100.0%</u>	<u>\$8,399,972</u>	<u>100.0%</u>

The Community College Assistance program is funded entirely with general fund. The general fund appropriation level is determined, as defined by statute, by the three-factor funding formula that is a calculation of the cost of education, the resident student enrollment level, and the state percent share of funding that is determined by the legislature as a matter of public policy.

The community colleges use the higher education fund structure to account for revenues and expenditures, the same fund structure used by the educational units and higher education agencies.

Present Law Adjustments

The “Present Law Adjustments” figure shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the figure correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2008-----					-----Fiscal 2009-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 4000 - Community Colleges - Reversion Adjustment	0.00	(659,162)	0	0	(659,162)	0.00	(659,162)	0	0	(659,162)
DP 4001 - Community Colleges - Enrollment Adjustment	0.00	964,559	0	0	964,559	0.00	1,126,718	0	0	1,126,718
DP 4003 - Community Colleges - Base Funding	0.00	450,000	0	0	450,000	0.00	450,000	0	0	450,000
Total Other Present Law Adjustments	0.00	\$755,397	\$0	\$0	\$755,397	0.00	\$917,556	\$0	\$0	\$917,556
Grand Total All Present Law Adjustments					\$755,397					\$917,556

DP 4000 - Community Colleges - Reversion Adjustment - The executive budget adjusts the FY 2006 expenditures downward by \$659,162 each year of the biennium in order to reflect the enrollment reversion that is required because community college student enrollment projections were not met during the base year.

LFD COMMENT

According to statute, 17-7-142, MCA, if the projected student enrollment falls short in any given year, the community colleges must revert, or pay back, the general fund that was appropriated for the difference between the projections and the actual. That statute allows this reversion to be calculated based upon either the difference between the projection and the actual enrollment for that year, or the difference between the projection and the actual enrollment average for the prior three years, whichever is lower.

The public policy objective of this reversion statute is to provide fiscal incentive for accurate enrollment projections by removing the opportunity for additional funding that would be based upon over projecting enrollment.

Therefore, in the base year FY 2006, while the student enrollment projections in HB 2 are 2,631 FTE, the actual student enrollment was only 2,216 FTE, so that a general fund reversion is required. That reversion level, calculated in accordance with the statute, is \$659,162 total based upon the following amount from each college:

- Dawson to revert: \$201,334 (73 FTE student enrollment shortfall)
- Miles to revert: \$220,640 (80 FTE student enrollment shortfall)
- Flathead Valley to revert: \$237,188 (86 FTE student enrollment shortfall)

The executive budget accurately calculates the statutory general fund reversion and applies this to the FY 2006 expenditure level in order to establish the precise and accurate state funding level for that year. It is important to have this adjusted calculation in order to provide an accurate funding level comparison from the prior biennium to the proposed biennium budget. This may be helpful to the legislature in making the public policy decision about the state percent share and the ultimate level of the state appropriation. But the reversion calculation has no impact upon the 2009 biennium budget calculation itself, so it is important that the reversion not be used to make the funding formula seem complicated or complex.

While virtually all of state government is funded using a “base plus” budget model, where base year expenditures are the foundation upon which present law adjustments and new proposals are built, the community college program uses a statutory funding formula built upon three very specific factors; 1) student FTE enrollment; 2) the cost of education; and, 3) the state percent share. Each biennium those three factors are defined, multiplied, and the state appropriation level is set. There is no base plus model at work under this formula.

In the case of the statutory reversion, the actual general fund fiscal transaction occurs during the 2007 biennium, and it is critical to ensure that this transaction in fact occurs.

LFD COMMENT CONT.	Thus, the legislature should be aware that the FY 2006 funding level for the community colleges is actually \$6,823,254, after the statutory reversion, and this actual level provides a baseline to assist the public policy decision about the level of the 2009 biennium budget funding level. Beyond that baseline comparison, the 2007 biennium statutory reversion level is not part of the three-factor statutory funding formula and has no impact upon the calculation.
--------------------------	--

DP 4001 - Community Colleges - Enrollment Adjustment – The executive budget updates resident enrollment projections for the 2009 biennium, rebases the cost of education, and recommends a state percent share for each year of the biennium such that the executive budget increases general fund \$2.1 million in the 2009 biennium for additional community college funding assistance. The executive recommends the following for each of the three factors for the community college funding formula:

- Student enrollment at 2,411 FTE each year of the biennium, based upon actual FY 2006 enrollment or a three-year historical average, whichever is higher for each college
- Cost of education at \$7,300 each year of the biennium
- State percent share at 44 percent in FY 2008 and 45 percent in FY 2009

Community Colleges Present Law Adjustment (DP 4001) Annual Resident Student FTE Enrollment	FY 2006		FY 2008		FY 2009		Annual Enrollment Growth Over 2006 Actual	
	Actual	Projected	Projected	Projected	FY 2008	FY 2009		
Dawson Community College	442	445	445	445	3	9		
Miles Community College	442	491	491	491	49	49		
Flathead Balley Comm. Coll.	<u>1,332</u>	<u>1,475</u>	<u>1,475</u>	<u>1,475</u>	<u>143</u>	<u>146</u>		
Total Resident FTE	<u>2,216</u>	<u>2,411</u>	<u>2,411</u>	<u>2,411</u>	<u>195</u>	<u>195</u>		
Total Annual Budget Level		<u>\$7,788,622</u>	<u>\$7,950,555</u>	<u>\$7,950,555</u>	8.8%	8.8%		
FY 2006 Base (reversion removed)	\$6,823,254							
Discrepancy with Formula Calculation		(\$809)	(\$583)	(\$583)				
2009 Biennium Executive Present Law Adjustment		\$964,559	\$1,126,718	\$1,126,718				

As the figure above demonstrates, the three-factors drive the appropriation level total and the present law adjustment decision package levels are simply calculated as the difference between the formula results and the FY 2006 expenditure level. This calculation is outside the actual statutory funding formula in an effort to fit the formula into a “base plus” budget model.

LFD COMMENT

The executive budget applies the statutory three-factor funding formula for the community college assistance program using those factors listed above in DP 4001, which results in a total budget recommendation displayed:

Community College Assistance Program - 2009 Biennium								
Old Formula Calculation with Executive Proposed Factors - General Fund								
Budget Item Factors	Fiscal Year 2008				Fiscal Year 2009			
	Dawson	Flathead Valley	Miles	Total	Dawson	Flathead Valley	Miles	Total
Projected Resident Student FTE	445	1,475	491	2,411	445	1,475	491	2,411
Total \$ per FTE (Cost of Education)	\$7,300	\$7,300	\$7,300	\$7,300	\$7,300	\$7,300	\$7,300	\$7,300
State % Share of Cost of Education	44.25%	44.25%	44.25%	44.25%	45.17%	45.17%	45.17%	45.17%
State \$ per FTE	\$3,230	\$3,230	\$3,230	\$3,230	\$3,298	\$3,298	\$3,298	\$3,298
Calculated Total Funding Budget	<u>\$1,437,552</u>	<u>\$4,764,918</u>	<u>\$1,586,152</u>	<u>\$7,788,622</u>	<u>\$1,467,440</u>	<u>\$4,863,986</u>	<u>\$1,619,130</u>	<u>\$7,950,555</u>
Discrepancy With Formula Calculation		(\$576)		(\$233)		(\$258)		(\$325)
DP 4002 - Executive Proposal	150,000	150,000	150,000	450,000	150,000	150,000	150,000	450,000
Total Three-Factor Calculation	<u>\$1,587,552</u>	<u>\$4,914,342</u>	<u>\$1,736,152</u>	<u>\$8,238,046</u>	<u>\$1,617,440</u>	<u>\$5,013,728</u>	<u>\$1,769,130</u>	<u>\$8,400,297</u>
Actual Executive Budget Proposal				\$8,237,813				\$8,399,972

The executive has determined each of these factors as follows:

- Student FTE enrollment projections included in the executive budget are based upon the three-year average student enrollment rates from 2003, 2004 and 2005 for Miles and Flathead Valley, with an additional growth rate of approximately .76 percent. That same growth rate was used for Dawson, however, the starting point for Dawson is based upon 2006 actual enrollment rather than the three-year average
- The cost of education factor of \$7,300 in the executive budget is based upon the operating budgets submitted by the community colleges for the FY 2006 base year. This calculation does not include a fixed/variable costs calculation
- State percent share is purely a public policy decision that is recommended by the Governor in the executive budget, which the legislature can accept or, as a matter of legislative public policy, change

It should be noted that the executive calculations with the three-factors include an unexplained deduction from the Flathead Valley Community College budget, and the final budget number includes a small discrepancy with the actual three-factor funding formula calculation.

LFD ISSUE

The community colleges submitted enrollment projections to the executive and the Legislative Fiscal Division that contrast with the executive projection as follows:

Legislative Option

Under the community college funding statute, the legislature has the authority to determine the level of student FTE enrollment that would be funded by the state appropriation in the community college assistance program.

Community College Assistance Program						
Student Enrollment Projections for 2009 Biennium						
Community Colleges	Executive Enrollment Projections		College Enrollment Projections		Annual Variation Colleges/Executive	
	FY 2008	FY 2009	FY 2008	FY 2009	FY 2008	FY 2009
Dawson	445	445	480	515	35	70
Flathead	1,475	1,475	1,380	1,450	(95)	(25)
Miles	<u>491</u>	<u>491</u>	<u>500</u>	<u>525</u>	<u>9</u>	<u>34</u>
Total	<u>2,411</u>	<u>2,411</u>	<u>2,360</u>	<u>2,490</u>	<u>(51)</u>	<u>79</u>

**LFD
ISSUE
CONT.**

The executive enrollment projections appear to be based upon an inconsistent calculation, specifically that a three-year average is applied to determine the projection for two of the schools while a single year, 2006 actual enrollment, is used for the third. In addition, that three-year average is drawn from 2003, 2004, and 2005, despite the availability of the most recent 2006 year actual enrollment figures. The .76 percent growth rate applied also seems somewhat arbitrary in that the average annual enrollment growth rate from 2003 to 2005 is 3.66 percent.

Therefore, given the apparent inconsistent calculation applied by the executive and the discrepancy that exists between the executive and the college enrollment projections, the legislature may want consider asking the colleges for a more detailed explanation of their projection, including any updates since those above from October, and then consider the following options:

- Option One - accept the executive recommendation for FTE student enrollment
- Option Two – accept the community college projections for FTE student enrollment
- Option Three – determine a different figure for FTE student enrollment

A reminder that the reversion statute discussed above (see LFD Issue under DP 4000) creates the incentive for accurate enrollment projections by the colleges by eliminating any surplus state appropriation if enrollment projections are too high and not met by actual student enrollment.

**LFD
ISSUE**

Given that the state appropriation level for community college assistance is based upon a statutory three-factor funding formula, that this statute requires that the legislature approve and list each of these factors as part of HB 2, and that the LFC has recommended revisions to that formula that are included in SB 12, the legislature may want to consider the following options at this point:

- Option One – Accept the executive present law funding formula recommendation and move on to address each of the three factors that determine the state appropriation level in the context of old formula
- Option Two – Accept the LFC recommended funding formula in SB 12 and move on to address each of the three factors that determine the state appropriation level in the context of this new funding formula

If the legislature approves Option Two and accepts the funding formula recommended by the LFC and proposed in SB 12, then this section will provide direction toward the remaining decisions to be made for the community college assistance program. The following figures provide an illustration of the new formula and the impact it would have on the 2009 biennium budget, and provide the legislature with public policy options.



Using the executive enrollment projections, the figure below illustrates the new funding formula such that the total appropriation level would be essentially the same as the executive budget target:

Community College Assistance Program								
2009 Biennium Budget Using SB 12 Proposed Formula - At Executive Budget Target								
Includes a Fixed/Variable Cost Calculation at a 75/25 Ratio								
Budget Item Factors	Fiscal Year 2008				Fiscal Year 2009			
	Dawson	Flathead		Total	Dawson	Flathead		Total
		Valley	Miles			Valley	Miles	
Projected Resident Student FTE	445	1,475	491	2,411	445	1,475	491	2,411
Fixed Cost of Education	\$2,226,476	\$7,135,977	\$3,280,161	\$12,642,614	\$2,226,476	\$7,135,977	\$3,280,161	\$12,642,614
Variable Cost of Education per FTE	\$1,815	\$1,815	\$1,815	\$1,815	\$1,815	\$1,815	\$1,815	\$1,815
State % Share of Cost of Education	45.8%	45.8%	45.8%	45.8%	46.7%	46.7%	46.7%	46.7%
Calculated Total Funding Budget	<u>\$1,388,462</u>	<u>\$4,490,590</u>	<u>\$1,908,837</u>	<u>\$7,787,889</u>	<u>\$1,417,287</u>	<u>\$4,583,817</u>	<u>\$1,948,465</u>	<u>\$7,949,570</u>
DP 4003 - Executive Proposal	150,000	150,000	150,000	450,000	150,000	150,000	150,000	450,000
Total General Fund Budget	<u>\$1,538,462</u>	<u>\$4,640,590</u>	<u>\$2,058,837</u>	<u>\$8,237,889</u>	<u>\$1,567,287</u>	<u>\$4,733,817</u>	<u>\$2,098,465</u>	<u>\$8,399,570</u>

** Biennial appropriation

As this figure indicates, using the new formula to meet the total appropriation level proposed in the executive budget, the state percent share would be set at 45.8 percent in FY 2008 and at 46.7 percent in FY 2009. Once again, the difference that is occurring between the old formula and the SB 12 proposed formula is that the proposed new formula is based upon the actual cost of education for Montana resident students and includes a fixed and variable costs calculation.

Significantly, as this figure illustrates, the more accurate cost of education factor that includes a fixed and variable cost component would actually result in a higher state percent share level in order to meet the executive budget target, as the new formula more accurately states the cost of education and at a rate that is lower than the proposed executive budget.

Using the new SB 12 formula, the state percent share would actually increase above the executive proposal and the cost of education would be a more accurate figure. In terms of a comparison to the prior biennium, it is important to note that the 2007 biennium budget lists the state percent share as 53 percent, but the legislative decision to fund at 53 percent of the cost of education was based upon a cost of education factor that the LFC study determined was “irrelevant.”

Finally, the figure below illustrates what the cost of each one-percent change to the state percent share would be upon the total state appropriation level. This figure is provided to give the legislature the opportunity to consider various options for the state percent share under the new funding formula:

Community College Assistance Program								
2009 Biennium Budget Using SB 12 Proposed Formula - Cost of One Percent State Share								
Includes a Fixed/Variable Cost Calculation at a 75/25 Ratio								
Budget Item Factors	Fiscal Year 2008				Fiscal Year 2009			
	Dawson	Flathead		Total	Dawson	Flathead		Total
		Valley	Miles			Valley	Miles	
Projected Resident Student FTE	445	1,475	491	2,411	445	1,475	491	2,411
Fixed Cost of Education	\$2,226,476	\$7,135,977	\$3,280,161	\$12,642,614	\$2,226,476	\$7,135,977	\$3,280,161	\$12,642,614
Variable Cost of Education per FTE	\$1,815	\$1,815	\$1,815	\$1,815	\$1,815	\$1,815	\$1,815	\$1,815
State % Share of Cost of Education	1%	1%	1%	1%	1%	1%	1%	1%
Budget Cost of 1% State Share	<u>\$30,342</u>	<u>\$98,134</u>	<u>\$41,714</u>	<u>\$170,190</u>	<u>\$30,342</u>	<u>\$98,134</u>	<u>\$41,714</u>	<u>\$170,190</u>

**LFD
ISSUE
(CONT.)**

As illustrated above, each one-percent change in the state percent share level has an annual impact of \$170,190 upon the state general fund appropriation to the community colleges.

Legislative Options

Therefore, if the legislature would like to base the community college assistance appropriation upon the LFC recommended formula in SB 12 rather than the old formula in the executive budget, the legislature may want to consider not approving DP 4001 but rather approving a new DP, contingent upon the passage and approval of SB 12, with one of the following funding options:

- Option One – Approve the new funding formula factors, including a state percent share level that brings the total appropriation level in line with the executive budget recommendation, as illustrated in the figure above
- Option Two – Approve the new funding formula factors but set a different state percent share level in accordance with public policy goals

DP 4003 – Community Colleges – Base Funding - The executive budget recommends an additional \$150,000 general fund appropriation to each of the three community colleges for each year of the 2009 biennium, for a total appropriation of \$900,000. This funding would not be contingent upon enrollment.

**LFD
COMMENT**

In the 2007 biennium the legislature approved an appropriation of this amount (\$900,000) as a one-time-only decision package that was titled “community college special assistance funding.” According to HB 2 language:

This appropriation was approved in this manner, outside the statutory three-factor funding formula “as a block grant allocation...because the legislature has concerns about the cost of education factor [in that formula]. The legislature requests that the legislative finance committee make it a high priority to look at the community college funding formula and statutes and report to the 2007 legislature on recalibrating the cost of education factor.”

It was this appropriation and the attached language that resulted in the interim study and the recommended changes from the Legislative Finance Committee that is discussed above for the community college funding formula statute, as proposed in SB 12.

**LFD
ISSUE**

Given that this decision package proposal (DP 4003) clearly states that it is not based upon the community college funding statute, 20-15-312, MCA, which dictates the funding methodology for the state general fund appropriation, nor is the proposal based upon any specified present law adjustment, this decision package should be considered a new proposal rather than a present law adjustment.

In addition, if the legislature agrees with the total appropriation outcome that this decision package adds to the community college funding level, rather than approve this decision package, the legislature may want to simply adjust the state percent share level upward in the funding formula so that the total appropriation reaches the level that this decision package would establish. The figure below illustrates this option:

Community College Assistance Program								
2009 Biennium Budget Using SB 12 Proposed Formula -DP 4003 As Part of Formula								
Includes a Fixed/Variable Cost Calculation at a 75/25 Ratio								
Budget Item Factors	Fiscal Year 2008				Fiscal Year 2009			
	Dawson	Flathead Valley	Miles	Total	Dawson	Flathead Valley	Miles	Total
Projected Resident Student FTE	445	1,475	491	2,411	445	1,475	491	2,411
Fixed Cost of Education	\$2,226,476	\$7,135,977	\$3,280,161	\$12,642,614	\$2,226,476	\$7,135,977	\$3,280,161	\$12,642,614
Variable Cost of Education per FTE	\$1,815	\$1,815	\$1,815	\$1,815	\$1,815	\$1,815	\$1,815	\$1,815
State % Share of Cost of Education	48.5%	48.5%	48.5%	48.5%	49.3%	49.3%	49.3%	49.3%
Calculated Total Funding Budget	<u>\$1,471,600</u>	<u>\$4,759,476</u>	<u>\$2,023,133</u>	<u>\$8,254,210</u>	<u>\$1,495,874</u>	<u>\$4,837,983</u>	<u>\$2,056,505</u>	<u>\$8,390,361</u>
Total General Fund Budget	<u>\$1,471,600</u>	<u>\$4,759,476</u>	<u>\$2,023,133</u>	<u>\$8,254,210</u>	<u>\$1,495,874</u>	<u>\$4,837,983</u>	<u>\$2,056,505</u>	<u>\$8,390,361</u>

** Biennial appropriation

It is important to note that with this state percent share adjustment option, the total appropriation level would be essentially unchanged, but the specific allocations to each of the three colleges would be affected as opposed to the lump sum appropriation methodology that is outside the statutory funding formula.

The state percent share adjustment, however, keeps the state appropriation and the process within the statutory parameters of the funding formula, maintaining the legislative policy goals of transparency and simplicity.

**LFD
ISSUE**

As stated above [see *Executive College Affordability Plan (CAP) section*], there was an abbreviated discussion between the community colleges and the executive budget office to apply the CAP budget program to the community colleges in order to keep resident student tuition rates at the colleges frozen during the 2009 biennium.

While the executive budget states the belief that the proposed funding levels would allow a tuition cap, the community colleges have expressed a concern that the proposed funding levels are not sufficient.

Therefore, if a tuition cap is a concern and there is legislative interest in the opportunity to apply the CAP proposal to the community colleges, the legislature may want to request that the colleges present a clear, concise and simple proposal to the legislature, that is within the parameters of the community college funding formula, that the colleges believe would allow them to maintain resident student tuition rates at their current level during the 2009 biennium.

Such a process and discussion would allow the legislature to consider potential funding levels that may address the public policy goals related to a tuition cap.

Executive Recommended Language

State statute requires the legislature to determine the budget amount per full-time student for the community colleges and for the appropriations act (HB 2) to declare the percent of budget per student FTE that the appropriation is intended to represent. The executive recommends the following HB 2 language to comply with statute:

“The budget amount for each full-time equivalent student at the community colleges, including Summitnet, is \$7,300 each year of the 2009 biennium. The general fund appropriation for OCHE -- Community College Assistance provides 47 percent of the budget amount for each full-time equivalent student in FY 2008 and 51 percent of the budget amount for each full-time equivalent student in FY 2009. The remaining percentage of the budget amount for each full-time equivalent student must be paid from funds other than those appropriated for OCHE -- Community College Assistance (04).”

**LFD
ISSUE**

The executive language recommendation states that the state percent share is 47 percent in FY 2008 and 51 percent in FY 2009. On the other hand, the executive budget decision package and the calculation itself states that the state percent share is 44 percent and 45 percent respectively. In addition, the language recommendation omits the qualifying statement regarding pay plan funding, specifically that the state percent share is based upon the budget before pay plan, if any, is included.

Therefore, the legislature may want to replace the 47 percent and 51 percent with the appropriate state percent share levels that are approved by the legislature and insert wording that qualifies that the budget amount is before pay plan, if any, is to be included.

General Fund Subject to Reversion

The executive recommends the following HB 2 language that makes the community college appropriation, which is based upon student enrollment projections, subject to reversion if actual enrollment does not reach the projected enrollment figures.

“The general fund appropriation for OCHE -- Community College Assistance (04) is calculated to fund education in the community colleges for an estimated 2,411 resident FTE students in both fiscal year 2008 and fiscal year 2009. If total resident FTE student enrollment in the community colleges is greater than the estimated number for the biennium, the community colleges shall serve the additional students without a state general fund contribution. If actual resident FTE student enrollment is less than the estimated numbers for the biennium, the community colleges shall revert general fund money to the state in accordance with 17-7-142, MCA.”

Audit Costs Allocation

The executive recommends the following HB 2 language to provide for audit costs in the 2009 biennium.

“Total audit costs are estimated to be \$57,600 for the community colleges for the biennium. The general fund appropriation for each community college provides 47 percent of the total audit costs in the 2009 biennium. The remaining 53 percent of these costs must be paid from funds other than those appropriated for OCHE – Community College Assistance – Legislative Audit. Audit costs for the biennium may not exceed \$18,500 for Dawson, \$16,600 for Miles, and \$18,500 for Flathead Valley community college.”

**LFD
ISSUE**

The executive budget does not provide line-item funding for the costs of the legislative audit in the 2009 biennium, as has been done in prior state budgets for the community college assistance program, thus reducing the typical appropriation level for this program by the cost of the legislative audit at the state percent share level.

Legislative Option:

Therefore, the legislature may want to consider the following options:

- Option One – approve the executive language together with a restricted, biennial line item appropriation that would fund the legislative audit at 47 percent state share
- Option Two – approve the executive language together with a restricted, biennial line item appropriation that would fund the legislative audit at the same state percent share listed in the funding formula approved by the legislature

Program Description

The Board of Regents, through the Office of the Commissioner of Higher Education (OCHE), provides faculty and staff with group health benefits through the Montana University System (MUS) Group Insurance Program, which includes a flexible spending account option. The commissioner is authorized by Board of Regents’ policy to administer the program as a self-insured, group insurance plan. All university system employees and eligible dependents are offered medical, pharmacy, dental, vision, and group life insurance, as well as long-term disability and long-term care benefits. Retirees and their enrolled dependents are eligible to continue medial and pharmacy coverage on a self-pay basis.

Program Highlights

MUS Group Health Insurance Program Major Budget Highlights
<ul style="list-style-type: none"> ◆ The executive budget projects an increase of \$34 million of medical insurance claims payments in the 2009 biennium, which represents an 11.6 percent increase each year from the FY 2006 base year through FY 2009 ◆ The executive budget includes an increase of \$94,657 of proprietary funding to add 1.00 FTE for a quality assurance/internal auditor position for the MUS Group Insurance program

Funding

This program is an enterprise fund in which the funding sources include

- Employer-paid contribution toward insurance premiums
- Employee-paid contribution toward insurance premiums
- Employee payments to flexible spending accounts
- Interest earnings on the program fund

Program Expenditures

Expenditures include administration of the program (with a total of 3.65 FTE in FY 2006) and insurance claims payments. Program administration expenditures (personal services) are projected to increase at a rate of 1 percent each year from the base year FY 2006 through FY 2009. Insurance claims payments are projected to increase at a rate of more than 11 percent each year from the base year FY 2006 through FY 2009.

The primary drivers of these expenditure increases include the following:

- An erosion of discounted rates by health care providers to the insured population, which increases the cost of claims payments
- Increasing medical costs for the high cost population segment of the total insured population
- Additional 1.00 FTE for a quality assurance/internal auditor position

Proprietary Rate Explanation

The legislature has defined the rates and fees for the MUS employee benefits program to mean the state contribution and the employee contribution toward employee group benefits that is necessary to maintain the benefit plan on an actuarially sound basis. Starting in FY 2007, the annual state contribution available per employee is \$6,684, while the average insurance premium for an individual MUS employee is \$6,185, depending upon the various plan options selected. Insurance premiums for MUS employees with spouse and children average \$8,733 annually, again depending upon the various plans and options offered. This is \$2,049 more per year than the state contribution.

The health, dental and vision plan options for university system employees is equivalent to the plan options for other State of Montana employees, though the plans have different third-party administrators.

Employee premiums depend upon the plan selected and whether the contributor is a current employee, an employee

dependent, or a retiree. Payments to a flexible spending account are at the discretion of the employee, subject to a \$10 monthly minimum for those who choose to enroll.

The figure below illustrates the revenue and expenditure history for the MUS Group Insurance program for the past three fiscal years together with budgeted figures for the next three fiscal years. The projected number of members who will participate in the MUS Group Insurance Program during the 2009 biennium is approximately 18,000.

2009 Biennium Report on Internal Service and Enterprise Funds								
Fund	Fund Name	Agency #	Agency Name			Program Name		
6008	MUS Group Insurance	51020	Commissioner of Higher			MUS Group Insurance		
			Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:								
Fee revenue								
	Subsequent Injury Fund Assessment		-	-	-	-	-	-
	Revenue from Fee B		-	-	-	-	-	-
	Revenue from Fee C		-	-	-	-	-	-
	Revenue from Fee D		-	-	-	-	-	-
	Revenue from Fee E		-	-	-	-	-	-
	Revenue from Fee F		-	-	-	-	-	-
	Net Fee Revenue		-	-	-	-	-	-
	Investment Earnings		136,845	409,840	1,094,811	1,000,000	1,000,000	1,000,000
	Securities Lending Income		-	-	-	20,000	20,000	20,000
	Premiums		42,219,354	47,731,723	54,136,616	59,550,277	63,123,243	66,910,637
	Other Operating Revenues		406,424	263,410	508,347	500,000	500,000	500,000
	Total Operating Revenue		42,762,623	48,404,973	55,739,774	61,070,277	64,643,243	68,430,637
Operating Expenses:								
	Personal Services		156,542	159,291	335,103	300,000	300,000	300,000
	Other Operating Expenses		39,521,073	40,357,590	51,803,500	59,574,025	65,531,427	72,084,569
	Total Operating Expenses		39,677,615	40,516,881	52,138,603	59,874,025	65,831,427	72,384,569
	Operating Income (Loss)		3,085,008	7,888,092	3,601,171	1,196,252	(1,188,184)	(3,953,932)
Nonoperating Revenues (Expenses):								
	Gain (Loss) Sale of Fixed Assets		-	-	-	-	-	-
	Federal Indirect Cost Recoveries		-	-	-	-	-	-
	Other Nonoperating Revenues (Expenses)		-	-	-	-	-	-
	Net Nonoperating Revenues (Expenses)		-	-	-	-	-	-
	Income (Loss) Before Operating Transfers		3,085,008	7,888,092	3,601,171	1,196,252	(1,188,184)	(3,953,932)
	Contributed Capital		-	-	-	-	-	-
	Operating Transfers In (Note 13)		-	-	-	-	-	-
	Operating Transfers Out (Note 13)		-	-	-	-	-	-
	Change in net assets		3,085,008	7,888,092	3,601,171	1,196,252	(1,188,184)	(3,953,932)
	Total Net Assets- July 1 - As Restated		7,910,008	10,995,016	18,883,108	22,484,279	23,680,531	22,492,347
	Prior Period Adjustments		-	-	-	-	-	-
	Cumulative effect of account change		-	-	-	-	-	-
	Total Net Assets - July 1 - As Restated		7,910,008	10,995,016	18,883,108	22,484,279	23,680,531	22,492,347
	Net Assets- June 30		10,995,016	18,883,108	22,484,279	23,680,531	22,492,347	18,538,415
	60 days of expenses (Total Operating Expenses divided by 6)		6,612,936	6,752,814	8,689,767	9,979,004	10,971,905	12,064,095
Requested Rates for Internal Service Funds								
Fee/Rate Information								
	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09		
Fee Group A								
Rate 1 (per unit)	-	-	-	-	-	-	-	
Rate 2 (per unit)	-	-	-	-	-	-	-	
Rate 3 (per unit)	-	-	-	-	-	-	-	
Fee Group B								
Rate 4 (per unit)	-	-	-	-	-	-	-	
Rate 5 (per unit)	-	-	-	-	-	-	-	
Rate 6 (per unit)	-	-	-	-	-	-	-	
Rate 7 (per unit)	-	-	-	-	-	-	-	
Fee Group C								
Rate 8 (per unit)	-	-	-	-	-	-	-	
Rate 9 (per unit)	-	-	-	-	-	-	-	
HB 2 Language: Because certain employee benefit plans require a large number of individual premiums for a variety of benefit options, because the portion of these premiums paid by the state is statutorily established in 2-18-703, and because the employee-paid portion of these premiums must be adjusted from time to time to maintain employee group benefit plans on an actuarially sound basis, the legislature defines rates and fees for Montana University System employee benefit programs to mean the state contribution toward employee group benefits provided for in 2-18-703, and the employee contribution toward employee group benefits necessary to maintain the employee group benefit plans on an actuarially sound basis.								
Source: OCHE Proprietary Fund Table - November 3, 2006								

**LFD
COMMENT**

As the figure above illustrates, the MUS group health insurance fund is currently projecting an operating income loss during each year of the 2009 biennium.

Drivers of the projected cost increases that are leading to the negative income cash flow include the following:

- Higher rates charged to the health insurance plan by healthcare providers, who have been reducing the discount rates for insured patients
- Increased administrative cost rates charged by the contract third-party administrator (the third-party administrator processes all insurance claims on behalf of the MUS group plan, pays the healthcare providers, and then bills the plan on a monthly basis)
- Increased utilization rates and healthcare costs from the “high cost” population insured by the health plan
- The university system employee population tends to work to an older age and continue on the MUS health plan, rather than move to Medicare and Medicare supplemental insurance plans

In response to these specific cost drivers, the program administrator will be implementing the following efforts during the 2009 biennium to attempt to rein in these cost increases:

- Re-bid the contract for a third-party administrator in an attempt to decrease administrative costs
- More aggressively negotiate discount rates from healthcare providers, in particular for the high cost patients in high cost illness categories
- Increase and improve disease management programs, utilizing case managers, that target the middle cost patient members in specific disease categories
- Increase and improve wellness programs that target the low cost patient members

Despite these annual operating deficits each year, the fund has adequate reserves to manage these losses and projects an ending fund balance of \$18.5 million by the end of the 2009 biennium. This is well above the \$12 million needed to maintain 60-days of operating capital.

Language

The executive recommends the following HB 2 language associated with this program:

“Because certain employee benefit plans require a large number of individual premiums for a variety of benefit options, because the portion of these premiums paid by the state is statutorily established in 2-18-703, and because the employee-paid portion of these premiums must be adjusted from time to time to maintain employee group benefit plans on an actuarially sound basis, the legislature defines rates and fees for Montana university system employee benefit programs to mean the state contribution toward employee group benefits provided for in 2-18-703, and the employee contribution toward employee group benefits necessary to maintain the employee group benefit plans on an actuarially sound basis.”

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	19.95	(1.00)	0.00	18.95	(1.00)	0.00	18.95	18.95
Personal Services	755,774	163,127	0	918,901	165,676	0	921,450	1,840,351
Operating Expenses	652,091	5,907	52,412	710,410	7,634	52,412	712,137	1,422,547
Grants	603,613	0	1,407,242	2,010,855	0	1,407,242	2,010,855	4,021,710
Transfers	300,000	0	600,000	900,000	0	600,000	900,000	1,800,000
Total Costs	\$2,311,478	\$169,034	\$2,059,654	\$4,540,166	\$173,310	\$2,059,654	\$4,544,442	\$9,084,608
General Fund	82,687	(9,816)	0	72,871	(9,782)	0	72,905	145,776
State/Other Special	0	0	0	0	0	0	0	0
Federal Special	2,228,791	178,850	2,059,654	4,467,295	183,092	2,059,654	4,471,537	8,938,832
Total Funds	\$2,311,478	\$169,034	\$2,059,654	\$4,540,166	\$173,310	\$2,059,654	\$4,544,442	\$9,084,608

Program Description

Talent Search is primarily a federally funded program intended to decrease the dropout rate of low-income and at-risk students at the secondary school level, and to increase their enrollment in post-secondary education. The Talent Search program has three components providing services to the target populations:

- o Gaining Early Awareness & Readiness for Undergraduate Programs (GEAR-UP) is an early intervention and scholarship program that provides mentoring, counseling and outreach to build academic success that will lead to post secondary education enrollment and achievement. The program provides these services to an entire cohort of students at participating schools starting in seventh grade, and the program services follow that cohort through high school completion.
- o Montana Educational Talent Search (METS) creates a long-term academic contract with middle school students that subsequently provide academic support, skills building, and counseling to encourage the planning, preparation and pursuit of a post secondary education.
- o American Indian/Minority Achievement (AIMA) is responsible for American Indian and minority recruitment and retention in the university system, oversight for the campus diversity plans, and AIMA works to implement Indian Education for All programs in the university system. An overall objective of the program is to work with the campuses of the MUS in order to increase recruitment, enrollment, and graduation rates of American Indian and other minority students.

Program Highlights

Talent Search Program Major Budget Highlights
<ul style="list-style-type: none"> ◆ The executive budget increases federal authority by \$4.1 million for the biennium reflecting renewal of a five-year federal grant awarded to the GEAR UP program

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the Governor.

Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	FY 2006	FY 2006	FY 2008	FY 2008	FY 2009	FY 2009
01000 Total General Fund	\$ 82,687	3.6%	\$ 72,871	1.6%	\$ 72,905	1.6%
01100 General Fund	82,687	3.6%	72,871	1.6%	72,905	1.6%
03000 Total Federal Special Funds	2,228,791	96.4%	4,467,295	98.4%	4,471,537	98.4%
03042 2Nd Gear Up Grant	705,690	30.5%	3,549,522	78.2%	3,552,278	78.2%
03411 Gear Up Trio Scholarship	242,588	10.5%	295,000	6.5%	295,000	6.5%
03806 Talent Search	518,891	22.4%	622,773	13.7%	624,259	13.7%
03958 Gear-Up Grant	761,622	32.9%	-	-	-	-
Grand Total	\$ 2,311,478	100.0%	\$ 4,540,166	100.0%	\$ 4,544,442	100.0%

The METS program is funded 100 percent from federal funds and there is no match requirement. The American Indian/Minority Achievement program is funded 100 percent from state general fund. GEAR-UP is funded by a federal grant that requires a 50 percent non-federal fund match, which is provided through allowable in-kind services.

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2008-----				-----Fiscal 2009-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					236,674					239,336
Vacancy Savings					(39,699)					(39,802)
Inflation/Deflation					4,356					6,016
Fixed Costs					1,551					1,618
Total Statewide Present Law Adjustments					\$202,882					\$207,168
DP 6053 - Move 1 FTE from Minority Achiev. to Administration	(1.00)	(33,848)	0	0	(33,848)	(1.00)	(33,858)	0	0	(33,858)
Total Other Present Law Adjustments	(1.00)	(\$33,848)	\$0	\$0	(\$33,848)	(1.00)	(\$33,858)	\$0	\$0	(\$33,858)
Grand Total All Present Law Adjustments					\$169,034					\$173,310

LFD COMMENT	Personal Services Statewide Present Law Adjustment
	The statewide present law adjustment for personal services, at a total of about \$329,000 for the biennium, represents a biennial increase of 22 percent over the base year in the Talent Search program. This includes the reduction for the budgeted vacancy savings rate of 4 percent.
Major factors contributing to this increase appear to be:	
<ul style="list-style-type: none"> • Salaries increased at a rate of approximately 11 percent for the 19.95 FTE from FY 2006 to the proposed FY 2008 budget, compared to about 7 percent authorized in the 2007 biennium pay plan • This program experienced an overall vacancy rate of 22.9 percent during FY 2006 <ul style="list-style-type: none"> • 1.50 FTE positions had a 100 percent vacancy rate and were not filled • 2.00 FTE positions had a vacancy rate of 60 to 90 percent 	

DP 6053 – Move 1.00 FTE From Minority Achievement Program to OCHE Administration - The executive budget moves \$67,706 general fund from the Talent Search program to the OCHE administration program to fund a 1.00 FTE administrative support staff position that was moved, decreasing the general fund budget for this program by \$67,706.

LFD COMMENT During the 2007 biennium the Office of the Commissioner (OCHE) reorganized the allocation of their secretarial support staff in an effort to better utilize staff time to support all programs provided by OCHE. As part of that administrative reorganization, 1.00 FTE (an administrative support staff position) was moved from the Talent Search program into the OCHE Administrative Program, where their job includes providing “pooled” administrative support for the Talent Search program, as before, in addition to other programs.

The staff person filling this position still provides administrative support for the AIMA program, but by relocating to the OCHE administration program, this position also provides administrative support as needed by other programs.

This reorganization represents no additional FTE staff but rather represents a budget shift only so that budgeting more accurately reflects actual program allocation of staff. There is a corresponding decision package in budget program 01 that adds this same FTE position to that program (see DP 1020).

New Proposals

Program	FTE	Fiscal 2008				Fiscal 2009				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6052 - Increase Federal Gear-Up Grants & Scholarships 06	0.00	0	0	2,059,654	2,059,654	0.00	0	0	2,059,654	2,059,654
Total	0.00	\$0	\$0	\$2,059,654	\$2,059,654 *	0.00	\$0	\$0	\$2,059,654	\$2,059,654 *

DP 6052 - Increase Federal Gear-Up Grants & Scholarships - DP 6052 - Increase GEAR UP Grants and Scholarships – The executive budget increases federal funding authority \$4.1 million in the biennium for the Gaining Early Awareness and Readiness for Undergraduate Program (GEAR UP), which is administered within the Office of the Commissioner of Higher Education. The program won reauthorization of this federal grant for another five years via competitive grant process from the U.S. Department of Education. The increased federal authority would be used to fund additional grants to Montana schools and scholarships for Montana students.

**LFD
COMMENT**

The reauthorized grant and additional funding (a total of \$18 million of federal funding over 6 years) would be used to expand the GEAR UP program to additional schools across Montana. In the first year of the new grant (authorized during the interim by a budget amendment), four additional schools are being served with early intervention services aimed at building academic skills through mentoring and counseling for students. The program has set a goal of increasing services to two additional schools in the current fiscal year (FY 2007).

With the overarching outcome goal of increasing post secondary education participation and success rates, the GEAR UP program utilizes the following strategies with students and parents:

- Early college and career awareness
- Financial aid awareness, planning and scholarship opportunities
- Improved academic support and rigor

Of those students participating in GEAR UP who graduated from high school in 2005 and whose whereabouts are known, 238 out of 358 students, or 66 percent have enrolled in a post secondary education institution. This compares to a rate of 57 percent of all Montana high school graduates in 2004 who continued on to post secondary education (data source is the National Council of Education Statistics [IPEDS]).

**LFD
ISSUE**

Since the time of the award of this six-year \$18 million federal grant (September 2005), the federal Department of Education has reduced the allowable indirect cost rate from 8 percent to 3 percent. This change will affect the size of the grant award in years three through six, reducing the amount of funding by about \$140,000 per year that will be available for administrative support provided to the program by staff at the Office of the Commissioner of Higher Education.

Therefore, going forward, the GEAR UP program may be faced with reducing program services to something less than what was anticipated in the new grant, asking the Commissioner of Higher Education to provide the same level of administrative support with reduced federal funding for these support services, or seeking other funds in order to maintain the level of administrative support.

Program Description

The Montana Board of Regents created the Montana University System (MUS) Self-Funded Workers' Compensation Program in April 2003, as authorized by the Workers' Compensation Act at 39-71-403, MCA. This program, which became effective in July 2003, provides workers' compensation insurance coverage for all university system employees as well as employees of the Office of Commissioner of Higher Education. The self-funded program was established with a \$2 million reserve that was raised through a revenue bond with a five-year payoff schedule that is built into the premiums charged to each employer unit.

Funding

The self-funded workers compensation program is an enterprise fund in which the funding sources include:

- Employer-paid premiums
- Interest earnings on the invested program reserve funds

Program Expenditures

Expenditures include claims, reinsurance premiums, debt service, and administrative operating expenses.

Premiums (revenue) are estimated to increase at a rate of 3.7 percent per year from FY 2006 through FY 2009, while operating expenditures are estimated to increase at a rate of 5.3 percent during that same time period.

Proprietary Rate Explanation

Premium rates for the program are based upon commonly accepted actuarial principles developed by a qualified actuary and reviewed by an oversight committee comprised of university system representatives and the administrator of the State of Montana Risk Management and Tort Defense Division. Rates in the early years of this self-funded program are based on historical data (7 years) of MUS claims experience and reserving practices of the State Fund, which insured the MUS during that period.

The rates and fees for the workers compensation program are defined as those premiums charged to the employer units of the Montana University System that are necessary to fund the operations and the claims payment obligations.

2009 Biennium Report on Internal Service and Enterprise Funds								
Fund	Fund Name	Agency #	Agency Name	Program Name				
6082	MUS Self-Funded Workers	51020	Commissioner of Higher	MUS Self-Funded Workers Comp				
			Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:								
Fee revenue								
Subsequent Injury Fund Assessment								
			-	-	-	-	-	-
Revenue from Fee B								
			-	-	-	-	-	-
Revenue from Fee C								
			-	-	-	-	-	-
Revenue from Fee D								
			-	-	-	-	-	-
Revenue from Fee E								
			-	-	-	-	-	-
Revenue from Fee F								
			-	-	-	-	-	-
Net Fee Revenue								
			-	-	-	-	-	-
Investment Earnings								
			775	69,469	167,654	90,000	112,000	139,000
Securities Lending Income								
			-	-	-	-	-	-
Premiums								
			2,424,455	2,916,509	3,543,348	3,577,000	3,758,000	3,948,000
Other Operating Revenues								
			-	-	-	-	-	-
Total Operating Revenue								
			2,425,230	2,985,978	3,711,002	3,667,000	3,870,000	4,087,000
Operating Expenses:								
Personal Services								
			-	-	-	-	-	-
Other Operating Expenses								
			2,552,553	2,849,415	2,977,390	3,167,000	3,320,000	3,481,000
Total Operating Expenses								
			2,552,553	2,849,415	2,977,390	3,167,000	3,320,000	3,481,000
Operating Income (Loss)								
			(127,323)	136,563	733,612	500,000	550,000	606,000
Nonoperating Revenues (Expenses):								
Gain (Loss) Sale of Fixed Assets								
			-	-	-	-	-	-
Federal Indirect Cost Recoveries								
			-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)								
			-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)								
			-	-	-	-	-	-
Income (Loss) Before Operating Transfers								
			(127,323)	136,563	733,612	500,000	550,000	606,000
Contributed Capital								
			-	-	-	-	-	-
Operating Transfers In (Note 13)								
			-	-	-	-	-	-
Operating Transfers Out (Note 13)								
			-	-	-	-	-	-
Change in net assets								
			(127,323)	136,563	733,612	500,000	550,000	606,000
Total Net Assets- July 1 - As Restated								
			-	(127,323)	9,240	742,852	1,242,852	1,792,852
Prior Period Adjustments								
			-	-	-	-	-	-
Cumulative effect of account change								
			-	-	-	-	-	-
Total Net Assets - July 1 - As Restated								
			-	(127,323)	9,240	742,852	1,242,852	1,792,852
Net Assets- June 30								
			(127,323)	9,240	742,852	1,242,852	1,792,852	2,398,852
60 days of expenses (Total Operating Expenses divided by 6)								
			425,426	474,903	496,232	527,833	553,333	580,167
Requested Rates for Internal Service Funds								
Fee/Rate Information								
			Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Fee Group A								
Rate 1 (per unit)								
			-	-	-	-	-	-
Rate 2 (per unit)								
			-	-	-	-	-	-
Rate 3 (per unit)								
			-	-	-	-	-	-
Fee Group B								
Rate 4 (per unit)								
			-	-	-	-	-	-
Rate 5 (per unit)								
			-	-	-	-	-	-
Rate 6 (per unit)								
			-	-	-	-	-	-
Rate 7 (per unit)								
			-	-	-	-	-	-
Fee Group C								
Rate 8 (per unit)								
			-	-	-	-	-	-
Rate 9 (per unit)								
			-	-	-	-	-	-
HB 2 Language (proposed): The legislature defines rates for the Montana University System self funded workers compensation program to mean the amount necessary to maintain the plan on an actuarially sound basis.								
Source: OCHE Self Funded Workers Comp Proprietary Table - Submitted November 10, 2006								

LFD COMMENT	The target reserve fund balance for the MUS Self-funded Workers' Compensation program is based upon an actuarial analysis and projections rather than the 60 days operating expense model (see Net Assets – June 30 line in the above figure.) The actuarial target for this program is 25 percent, specifically that Net Assets will be equal to 25 percent of total assets.
------------------------	---

Language

The executive recommends the following HB 2 language associated with this program:

“The legislature defines rates for the Montana University System self-funded workers compensation program to mean the amount necessary to maintain the plan on an actuarially sound basis.”

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	5.01	0.00	0.00	5.01	0.00	0.00	5.01	5.01
Personal Services	263,822	43,597	0	307,419	44,953	0	308,775	616,194
Operating Expenses	184,570	501	0	185,071	612	0	185,182	370,253
Grants	2,729,576	(85,339)	0	2,644,237	(85,339)	0	2,644,237	5,288,474
Transfers	3,262,045	0	0	3,262,045	0	0	3,262,045	6,524,090
Total Costs	\$6,440,013	(\$41,241)	\$0	\$6,398,772	(\$39,774)	\$0	\$6,400,239	\$12,799,011
General Fund	91,092	0	0	91,092	0	0	91,092	182,184
Federal Special	6,348,921	(41,241)	0	6,307,680	(39,774)	0	6,309,147	12,616,827
Total Funds	\$6,440,013	(\$41,241)	\$0	\$6,398,772	(\$39,774)	\$0	\$6,400,239	\$12,799,011

Program Description

The federal Carl D. Perkins Vocational and Applied Technology Education Act provides funds to support vocational education (career training and technical education) at the secondary and post secondary levels. The Board of Regents is the state agency that administers these funds. Section 20-7-329, MCA provides that the Board of Regents contract with the Superintendent of Public Instruction to administer and supervise the K-12 vocational education programs, while OCHE provides administrative support for vocational programs at the postsecondary education level.

Thus, OCHE coordinates these primarily federally funded vocational education efforts through two grant programs:

- o Carl Perkins formula and competitive grants, which fund equipment, faculty and other support directly to vocational education programs in two-year postsecondary institutions; and
- o Tech Prep Grants, which are allocated across five regions in Montana to support planning, collaboration and integration of the vocational education infrastructure and curricula at the secondary and postsecondary institutions in each region.

Program Highlights

Workforce Development Program Major Budget Highlights
<ul style="list-style-type: none"> ◆ The executive budget reduces federal authority by \$170,678 in the 2009 biennium to reflect completion of a two-year incentive grant for health care worker programs ◆ All other proposed changes reflected in this program budget are for statewide present law adjustments ◆ Through a 2007 biennium budget amendment that will be in HB 4 and then an administrative appropriation during the 2009 biennium budget, the executive budget provides \$2.7 million of federal funding authority to the Workforce Development Program in FY 2008 and FY 2009 as part of the federal WIRED grant awarded to the Montana Department of Labor and Industry

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the Governor.

		Program Funding Table Work Force Development					
Program Funding		Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000	Total General Fund	\$ 91,092	1.4%	\$ 91,092	1.4%	\$ 91,092	1.4%
	01100 General Fund	91,092	1.4%	91,092	1.4%	91,092	1.4%
03000	Total Federal Special Funds	6,348,921	98.6%	6,307,680	98.6%	6,309,147	98.6%
	03043 Sw Workforce-Health Care Prov	224,975	3.5%	-	-	-	-
	03215 Carl Perkins Federal Funds	5,585,846	86.7%	5,813,188	90.8%	5,814,655	90.9%
	03951 Tech Prep Grant	538,100	8.4%	494,492	7.7%	494,492	7.7%
Grand	Total	<u>\$ 6,440,013</u>	<u>100.0%</u>	<u>\$ 6,398,772</u>	<u>100.0%</u>	<u>\$ 6,400,239</u>	<u>100.0%</u>

This program is funded primarily from federal revenue, from the Carl D. Perkins Vocational and Applied Technology Act, but this federal grant also requires a general fund match to demonstrate state support for administrative costs. The state administrative match rate for this grant is 5 percent of the total federal grant award, which is split between higher education and K-12 public education at a ratio of 38/62 percent. The general fund in this program, therefore, reflects the required state funding match for the higher education portion of the total federal grant award, which is approximately 1.6 percent state funding to federal funding.

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2008-----					-----Fiscal 2009-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					56,406					57,818
Vacancy Savings					(12,809)					(12,865)
Inflation/Deflation					570					661
Fixed Costs					(69)					(49)
Total Statewide Present Law Adjustments					\$44,098					\$45,565
DP 801 - Decrease Grant Funding	0.00	0	0	(85,339)	(85,339)	0.00	0	0	(85,339)	(85,339)
Total Other Present Law Adjustments	0.00	\$0	\$0	(\$85,339)	(\$85,339)	0.00	\$0	\$0	(\$85,339)	(\$85,339)
Grand Total All Present Law Adjustments					(\$41,241)					(\$39,774)

LFD COMMENT

Personal Services Statewide Present Law Adjustment

The statewide present law adjustment for personal services, at a total of \$88,550 for the biennium, represents a biennial increase of 16.8 percent over the base year in the Workforce Development program, which includes the budgeted vacancy savings rate of 4 percent.

The major factor contributing to this increase is that salaries increased at a rate of 15.7 percent for the 5.00 FTE from FY 2006 to the proposed FY 2008 budget, compared to about 7 percent authorized in the 2007 biennium pay plan.

DP 801 - Decrease Grant Funding – The executive budget reduces federal funding authority \$170,678 in the 2009 biennium as a two-year federal incentive grant for health care worker programs will end in FY 2007. This federal funding program was a pass-through grant from the Montana Department of Labor and Industry.

**LFD
COMMENT**

The two-year federal incentive grant from the U.S. Department of Labor was not renewed or reauthorized at the federal level, so this funding will not continue into the 2009 biennium. This grant was targeted to improve workforce development programs at two-year post secondary education institutions, specifically for healthcare worker training and education.

In Montana, grant funds were used to create healthcare pathway models leading to a two-year degree in nursing and other allied health professions as well as development of data management systems that would support expanding the number of students and graduating professionals in these high-demand health care professions. The program targets communities in Montana that are underserved in the healthcare profession.

Without continuing support of federal funding, it will become the responsibility of each two-year institution to support ongoing costs of these programs.

**LFD
ISSUE**

The Carl D. Perkins Vocational and Applied Technology Act has been reauthorized as part of the federal budget process for federal FY 2007. The reauthorized funding level is stable for Montana during the 2009 biennium, despite some minor reductions overall to the federal funding level, so there will be no fiscal impact on these programs in Montana going forward.

However, the reauthorized program includes a requirement for an updated statewide plan and compliance with some additional federal performance/accountability measures, in particular in the Tech Prep grant program. As of the date of this writing, it is not clear what the impact of these additional federal requirements will be on program delivery in Montana, but there is preliminary discussion about combining the two federal programs (Perkins and Tech Prep) in order to facilitate compliance with the new requirements. Combining these programs, however, would potentially lead to a reduction in the federal funding level for the Tech Prep program.

Specific to the Perkins program, the new performance standards will require better alignment in the educational curricula between K-12 and post secondary education, specific to vocational programs, in an effort to improve total program efficiency between the secondary and postsecondary education levels. There is preliminary concern about the capacity of rural schools to achieve these federal curriculum alignment standards.

The legislature may want to ask the Commissioner of Higher Education for an update on these federal program changes and their potential impact on federal funding levels going forward into the 2009 biennium budget. Specifically:

- ◆ The status of the statewide vocational education plan required by the federal Perkins and Tech Prep grants
- ◆ The impact of curriculum alignment and curriculum standards required by the federal grant programs upon the rural Montana school districts

**LFD
COMMENT**

During FY 2006, Montana received a multi-year federal “WIRED” grant from the U.S. Department of Labor that includes approximately \$3.6 million over three-years to support two-year postsecondary education institutions in Montana to develop curricula leading to degree programs in a range of high demand workforce occupations. The grant targets rural communities and supports an additional 1.00 FTE in the Office of the Commissioner of Higher Education (OCHE).

**LFD
COMMENT
CONT.**

During the first year of the WIRED grant program, four grants were awarded to Fort Peck Community College, Dawson Community College (Glendive), Miles Community College, and MSU-Northern (Havre). Each of these is a one-year grant but all are eligible for renewal upon successful completion of performance objectives.

This grant was awarded to the Montana Department of Labor and Industry during FY 2006 and the funding for the Workforce Development Program in OCHE was authorized through a budget amendment that will be part of HB 4 in the 2007 session. Going forward into the 2009 biennium budget, the federal funding for this OCHE program would be appropriated through an administrative appropriation from the Montana Department of Labor and Industry, should the appropriation be approved by the legislature.

This one-time federal grant extends through federal FY 2008 with the total federal funding for the Workforce Development program in the 2009 biennium to be \$2.7 million.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Expenses	0	0	0	0	0	0	0	0
Transfers	144,438,496	12,345,648	6,608,983	163,393,127	16,447,036	74,000	160,959,532	324,352,659
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$144,438,496	\$12,345,648	\$6,608,983	\$163,393,127	\$16,447,036	\$74,000	\$160,959,532	\$324,352,659
General Fund	130,167,495	10,055,294	4,608,983	144,831,772	13,823,740	74,000	144,065,235	288,897,007
State/Other Special	14,271,001	2,290,354	2,000,000	18,561,355	2,623,296	0	16,894,297	35,455,652
Total Funds	\$144,438,496	\$12,345,648	\$6,608,983	\$163,393,127	\$16,447,036	\$74,000	\$160,959,532	\$324,352,659

Program Description

The Appropriation Distribution Program in the Office of the Commissioner of Higher Education (OCHE) is the conduit through which state funds flow to: 1) the university system educational units, the colleges of technology, and other campus related appropriations; and 2) the research/public service agencies.

The program budget is organized in this section in the order listed below. Present law and new proposal adjustments together with explanations will be included with the following subprograms:

- o Educational Units (Montana State University campuses and University of Montana campuses)
- o Agricultural Experimental Station (AES)
- o Extension Services (ES)
- o Forestry and Conservation Experiment Station (FCES)
- o Montana Bureau of Mines and Geology (Bureau)
- o Fire Services Training School (FSTS)
- o Miscellaneous Subprograms

2007 Biennium New Initiative Update

A significant new initiative during the 2007 biennium includes the one-time-only equipment grant appropriation to fund two-year degree programs at the university educational units and community colleges. This \$3.06 million general fund initiative was allocated to campuses through a competitive grant process administered by OCHE. These grants were targeted to support acquisition of instructional equipment, with emphasis on “high demand” occupations. Funding was provided to 16 different programs at 9 different two-year campuses, with the funds distributed by the end of calendar year 2005.

Program Highlights

Appropriation Distribution Program Major Budget Highlights	
♦	The executive budget proposes the following general fund appropriations in the 2009 biennium as part of the “College Affordability Plan” (CAP) to freeze university tuition rates <ul style="list-style-type: none"> • \$23.3 million for present law adjustments at the university educational unit campuses, based upon Montana resident students • \$1.3 million for present law adjustments at the university educational unit campuses, based upon the regional exchange students • \$1.0 million for high school honors tuition waivers

<ul style="list-style-type: none"> ◆ The executive budget includes \$3.03 million general fund for present law adjustments at the five research/public service agencies ◆ The executive budget includes the following significant new proposals <ul style="list-style-type: none"> • \$4.0 million total (\$2.0 million general fund and \$2.0 million state special revenue) to fund equipment and technology acquisition at unit campuses and community colleges • \$1.5 million general fund for workforce development education programs in high demand occupations • \$1.0 million general fund for equipment acquisition at the five research/public service agencies
Major LFD Issues
<ul style="list-style-type: none"> ◆ Given that the executive CAP proposal is based upon public policy decisions, rather than statutory formulas, the legislature may want to consider other funding levels to address concerns about access and affordability of higher education ◆ The legislature may want to consider adding accountability measures, using a companion bill to HB 2, to the new proposal that funds tuition waivers ◆ Proposed legislation LC 147, if it is passed and approved, would reduce \$240,000 general fund from MSU-Northern, so that the legislature may want to ask the university for an analysis of the program at risk that includes contingency funding options

Program Narrative

The primary themes related to this budget program that supports the university educational units include:

- Affordability of higher education related to resident tuition and proposals to address this, including the executive proposal for a tuition cap
- Legislative mechanisms to build accountability measures into the state budget for the university system, as recommended by the interim PEPB
- Access to higher education, related to affordability, which is addressed through student financial assistance

These primary themes are discussed below and throughout this program, and also the issues related to budget accountability measures are included in the agency level narrative as well as in relation to specific budget decision packages that the PEPB addressed during the interim. Finally, affordability in relation to student financial aid is primarily addressed in the Student Assistance program, but DP 9008 in this program also addresses tuition and fee waivers that relate to affordability.

Tuition Rates and Affordability of Higher Education

Since the close of the 2005 legislative session, the primary public policy discussion that has taken place relative to the university system has been rising tuition rates and the impacts this has upon the accessibility and affordability of postsecondary education for Montana students and families. This discussion has driven much of the Board of Regents’ budget process as well as one of the two major interim projects of the Postsecondary Education Policy and Budget Subcommittee (PEPB) of the legislature. The table below illustrates the tuition and mandatory fees rates at each institution type in the university system, the four-year degree programs, the two-year degree programs, and the community colleges:

Montana University System Mandatory Tuition and Fee Rates for the Educational Units and Community Colleges - Montana Resident Students (1998 - 2006)			
Fiscal Year	Four-Year Campuses	Two-Year Campuses	Community Colleges
1998	\$2,629	\$2,049	\$1,423
1999	2,834	2,228	1,473
2000	2,952	2,274	1,605
2001	3,062	2,288	1,619
2002	3,428	2,522	1,797
2003	3,956	2,670	1,891
2004	4,124	2,710	2,122
2005	4,500	2,932	2,318
2006	4,942	3,036	2,502
Annual Growth Rate	8.2%	5.0%	7.3%
Total Growth 1998-2006	88.0%	48.2%	75.8%

Source: Montana University System, Inventory and Validation of Fees Report (1997-2006) [Units use weighted averages...Community Colleges use averages]

As the table indicates, the mandatory fees and tuition rates have been increasing steadily in all areas over the past decade for resident students, so that the public policy issues of access and affordability of higher education loom large in considering the budget for the university system.

Given that there are essentially just two revenue sources that fund the essential educational mission of the university educational units, tuition and state support, concerns about access and affordability of higher education have focused attention upon the level of state support for the educational units, referred to as the state percent share of funding the cost of education, or “state share.”

Of course, on the other side of the ledger affecting tuition levels is the expenditure level and actual costs of delivering services, in this case of delivering a quality postsecondary education. One of the metrics that has been considered to determine if Montana university educational units are being managed efficiently by the Regents on the expenditure side of the ledger has been a peer-state comparison of the total expenditure level that higher education institutions spend for each FTE student. For this peer-state comparison, which is based upon a database assembled in collaboration between OCHE, the executive budget office, and the LFD, the comparator states include fourteen of the states involved in the Western Interstate Commission on Higher Education (WICHE), excluding California.

According to this database, using the most recent available data from FY 2005, the expenditure level at Montana higher education institutions ranks as follows:

- Among the largest doctoral degree universities (UM-Missoula and MSU-Bozeman) Montana ranks last in the region on expenditure level per student at \$9,922/FTE student, while the regional average is \$13,483
- Among the remaining four-year degree campuses Montana ranks seventh among the thirteen states with an expenditure level of \$9,096/FTE student, while the regional average is \$8,234
- Among the two-year colleges of technology and community colleges, Montana ranks fourth in the region with an expenditure level of \$7,407/FTE student, while the regional average is \$7,171

Therefore, one conclusion that may be drawn from this data is that the overall expenditure level of Montana higher education institutions is mostly in line with peer-states, but there appears to be significantly less expended at the two largest campuses, Missoula and Bozeman. Given that higher education operates in Montana as a system, it appears that the larger campuses may be subsidizing the smaller campuses to some degree.

On the issue of the state percent share, the regional data indicates the following:

- Among the largest doctoral degree universities (UM-Missoula and MSU-Bozeman) the state percent share in Montana is 39 percent, while the regional average is 57 percent
- Among the remaining four-year degree campuses, the state percent share in Montana is 50 percent, while the regional average is 55 percent
- Among the two-year colleges of technology and community colleges, the state percent share in Montana is 64 percent, while the regional average is 71 percent

This is the data backdrop, therefore, that has served to frame much of the interim discussion about access and affordability of higher education in Montana and had an impact on the interim PEPB, the proposed budget submitted to the executive and PEPB by the Board of Regents, and the proposed executive budget. (Data source for the above is the U.S. Department of Education, National Center for Educational Statistics (NCES), fiscal year 2005).

Executive College Affordability Plan (CAP)

Within the framework of this interim discussion, the Board of Regents determined that their 2009 budget priority would be adequate funding to support their base and present law budget, rather than significant new proposals. This priority culminated with a proposal to the PEPB and the executive for a present law increase to state funding of approximately \$10-15 million in the 2009 biennium in order to “limit tuition increases to 5 percent at four-year campuses and 0 percent at two-year campuses.”

In other words, the Board of Regents offered a proposal to the legislature and the executive that in return for a significant present law adjustment for the campuses, the Regents would keep tuition rates increases at these levels. As discussed in the agency overview above, PEPB was supportive of this Board proposal and recommended that the executive consider this funding option for the 2009 executive budget.

At that point, the executive and OCHE engaged in extended budget discussions in order to make operational this Board proposed tuition cap. In order to make this proposal operational, however, there would need to be an agreement upon the present law budget and the level of present law adjustments that state government would fund. Historically, the differences in the definition of the present law budget and adjustment factors has contributed to divergent budget perspectives between state government and the university system.

Ultimately, these negotiations on the present law budget resulted in an agreement between the executive and the university system and it is upon this agreement that the most significant component of the executive budget for the university system in the 2009 biennium is founded. That component is the Governor’s College Affordability Plan (CAP).

Purpose and Specifics of CAP

At the start, CAP has gone beyond the original proposal from the Regents in that the goal of CAP is to “provide the university system funding for the 2009 biennium that results in a zero tuition increase for Montana resident students...for the 2009 biennium.” Once again, the basis of the CAP is that the executive and Board have agreed upon an overall present law budget for the university educational units and the executive proposal would provide a sufficient level of funding for that present law budget that would eliminate the need for tuition increases in each year of the 2009 biennium.

The primary component of the CAP is contained in DP’s 9001 and 9002, where the present law adjustments for the university educational units are calculated and the executive proposal is for an additional \$24.6 million general fund in the 2009 biennium. And the key component of the CAP present law budget is that the state percent share of funding the present law adjustments and the executive pay plan would be 84.7 percent (compared to approximately 39 percent for the pay plan and most present law adjustments in the 2007 biennium). This new level of 84.7 percent is the ratio of total FTE students at the university educational units who are Montana resident students or regional exchange students participating in the Western Regional Undergraduate Exchange (WUE) program. Therefore, CAP fundamentally changes the state percent share of funding for present law adjustments to this new formula and level (for more detail about the present law component of CAP, see the LFD Comment and Issue below associated with DP’s 9001 and 9002).

In addition to this level of funding for present law adjustments, the CAP also includes a commitment by the executive to fund the pay plan for the university at this 84.7 percent state share level as well as the actuarial funding for the PERS and TRS retirement funding proposals that are anticipated to be passed and approved during the 2007 legislative session.

In total, it is estimated that the CAP would provide approximately \$50 million additional general fund for the university system.

Of course, while the outcome goal of CAP is that tuition rates at all university educational units would remain the same throughout the 2009 biennium, the Montana Board of Regents exercise sole authority over tuition rates so that state government, neither the legislature nor the executive, lacks the authority to enforce this goal related to tuition rates. CAP represents, therefore, a proposed agreement between the executive and the Regents, for presentation to the legislature that has no binding legal authority.

Therefore, as the legislature considers each of the components of the CAP and whether to pass and approve each of these, it will be important to understand that there is no legal mechanism to enforce the tuition cap concept. Rather, the CAP program would be, if the legislature were to approve this, a non-binding agreement with the Regents on the matter of resident student tuition rates.

Student Enrollment and General Fund Reversion Under 17-7-142, MCA

As discussed above as part of the executive's "College Affordability Plan" budget, resident student enrollment for the 2009 biennium is assumed to be "flat-lined" so that the proposed state budget includes no present law adjustment to fund increases in resident student enrollment. The result is that the university system would not receive any additional state funding in the event that there are enrollment increases, even if those enrollment increases are sufficient enough to drive up expenditure costs. In addition, under the flat-lined model, the university operating budgets, upon which the executive proposal is designed, do not include any new revenue in the 2009 biennium from student tuition, neither for tuition rate increases that would not take place under the executive budget plan, nor for student enrollment growth.

Therefore, the flat-lined resident enrollment model represents a budgeting risk for the university system campuses both in terms of the elimination of state funding for enrollment increases and elimination of budgeting for additional tuition revenue.

Ameliorating that risk, however, is the variable of non-resident students and the tuition rates that non-resident students pay, which are not capped under the executive proposal. Given that non-resident students pay approximately 140 percent of the cost of education, each non-resident student effectively subsidizes lower tuition levels for resident students. It should be noted that since FY 1992, when the university system started to track non-resident and resident student tuition separately, the non-resident student tuition revenue has increased at an annual rate of 23 percent. Over that same time, resident student tuition revenue has increased at a rate of 3.3 percent annually. Non-resident student tuition, therefore, provides an opportunity to reduce the budgeting risk inhered to the flat-lined resident enrollment model, though that opportunity has limits if non-resident tuition rates increase to the point of pushing enrollment downward.

The table below illustrates the history of student enrollment at the university educational units and includes a comparison of resident student to non-resident student enrollment rates:

Fiscal Year	Resident Student FTE	Annual % Change	Change from Base	Total Student FTE	Resident as a % of Total
FY 95 Actual	23,573			29,876	78.9%
FY 96 Actual	23,557	-0.1%		30,315	77.7%
FY 97 Actual	24,020	2.0%		30,920	77.7%
FY 98 Actual	24,323	1.3%		31,227	77.9%
FY 99 Actual	24,436	0.5%		31,383	77.9%
FY 00 Actual	24,605	0.7%		31,498	78.1%
FY 01 Actual	24,851	1.0%		31,566	78.7%
FY 02 Actual	25,566	2.9%		32,090	79.7%
FY 03 Actual	26,226	2.6%		32,673	80.3%
FY 04 Actual	26,828	2.3%		33,181	80.9%
FY 05 Actual	26,322	-1.9%		32,763	80.3%
FY 06 Actual (Base)	26,422	0.4%		33,089	79.9%
FY 07 Projected	26,756	1.3%		33,540	79.8%
FY 08 Projected	26,756	0.0%	334	33,629	79.6%
FY 09 Projected	26,756	0.0%	334	33,594	79.6%

* Data from the Office of the Commission of Higher Education (May 2006)

As this enrollment table illustrates, resident enrollment as a percentage of total student enrollment has increased slightly since 1995, essentially matching the total enrollment increase. Thus, the additional revenue potential that non-resident students represent would appear to have some limitations regarding the enrollment rates, as the projected non-resident enrollment rate for FY 2009 represents only 535 additional non-resident students over FY 1995 rates.

Finally, what is also apparently driving the willingness for the university system to take this budgeting risk is the enrollment reversion statute at 17-7-142, MCA. That statute requires that the university campuses must revert, or pay back, state general fund when actual resident student enrollment each year falls short of the projections funded in HB 2. Given that resident student enrollment going forward is expected to be stable with little if any significant growth, the reversion requirement places a funding risk on the university campuses. In the current 2007 biennium, the university system is projecting substantial general fund reversions as illustrated below:

- o FY 2006: Enrollment shortfall of 496 FTE students - \$868,480 general fund reversion
- o FY 2007: Enrollment shortfall of 432 FTE students - \$815,616 general fund reversion

Resource Indemnity Trust Funding – Proposed Changes Would Impact University System

An interim legislative study on the Resource Indemnity Trust (RIT) has resulted in a bill draft, LC 0147, which includes changes to the RIT program that would have an impact on two university system programs, the Bureau of Mines at MT Tech in Butte (Bureau), and Montana State University (MSU) – Northern in Havre.

The intention of the study was to address a number of issues identified during the 2005 legislative session including fund utilization that conflicts with statute, confusion regarding trust interest income disposition, coordination of funded programs among multiple agencies, and statutory limits on certain funding allocations.

As a result of this interim study (HJR 36), legislation has been recommended which, if passed and approved, would have the following impacts on the Montana University System:

- o The bill would eliminate two statutory appropriations of RIT interest, one of which is an annual appropriation of \$240,000 to MSU-Northern that funds 2.76 FTE for science and water programs as well as for debt service on laboratory renovations. If passed and approved by the 2007 legislature, this appropriation would be eliminated immediately in each year of the 2009 biennium budget.
- o The bill would also remove the cap on the groundwater assessment fund from which the Bureau of Mines and Geology receives an annual appropriation of \$666,000 for groundwater monitoring programs across Montana, allowing the Bureau to seek additional program funding from this fund to support cost increases generally and/or program or service expansion. If passed and approved by the 2007 Legislature, removing this cap is likely to

have no impact on the 2009 biennium budget for the Bureau, rather it would likely be deferred until the subsequent budget.

For more information about the RIT interim study and the proposed legislation, please refer to the LFD write-up in the Natural Resources and Commerce volume, under the Department of Natural Resources and Conservation (DNRC).

LFD
ISSUE

Given the potential impact that this legislation would have on the MSU-Northern budget, the legislature may want to ask the university system to present a contingency plan that specifically addresses what specific services would need to be reduced or eliminated, what the impact of this service change would be and to whom, why this program would deserve continued funding, and what other funding sources or contingencies exist to replace some or all of this potential reduction (other than state funding).

Based upon this contingency plan from the university system, the legislature may want to consider amending the budget for this program to include a contingency replacement appropriation to backfill the funding reduction that would occur if LC 0147 is passed and approved.

Funding

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended in the executive budget.

Program Funding Table							
Appropriation Distribution							
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009	
01000 Total General Fund	\$ 130,167,495	90.1%	\$ 144,831,772	88.6%	\$ 144,065,235	89.5%	
01100 General Fund	130,167,495	90.1%	144,831,772	88.6%	144,065,235	89.5%	
02000 Total State Special Funds	14,271,001	9.9%	18,561,355	11.4%	16,894,297	10.5%	
02289 Bureau Of Mines Groundwater	666,000	0.5%	666,000	0.4%	666,000	0.4%	
02443 University Millage	13,385,001	9.3%	17,675,355	10.8%	16,008,297	9.9%	
02944 Motorcycle Safety Training	220,000	0.2%	220,000	0.1%	220,000	0.1%	
Grand Total	<u>\$ 144,438,496</u>	<u>100.0%</u>	<u>\$ 163,393,127</u>	<u>100.0%</u>	<u>\$ 160,959,532</u>	<u>100.0%</u>	

While funding for this program is primarily general fund, state special revenue from the 6-mill property tax levy funds the university educational units, Resource Indemnity Trust funds (RIT) support groundwater research programs at the Montana Bureau of Mines, and a state revenue surcharge from motorcycle licenses supports motorcycle safety programs at the MSU-Northern campus in Havre.

The figure below demonstrates how the executive budget funds each component of the appropriation distribution program, including each campus of the university educational units, the research/public service agencies, and a number of line-item program initiatives.

Appropriation Distribution Program (09) -- 2009 Biennium Executive Budget Proposal								
	FY 2006	State Share	New	Executive	State Share	New	Executive	2009
	Base Year	Present Law	Proposals	Budget	Present Law	Proposals	Budget	Biennium
		FY 2008	FY 2006	FY 2008	FY 2009	FY 2009	FY 2009	Total
Educational Units								
UM - Missoula	\$38,505,125	\$3,391,646		\$41,896,771	\$4,955,085		\$43,460,210	\$85,356,981
MSU - Bozeman	39,336,474	2,900,065		42,236,539	3,972,250		43,308,724	85,545,263
UM - MT Tech	10,422,931	588,047		11,010,978	1,009,689		11,432,620	22,443,598
MSU - Billings	15,573,142	1,616,930		17,190,072	1,980,849		17,553,991	34,744,063
MSU - Northern	7,373,359	293,483		7,666,842	550,796		7,924,155	15,590,997
UM - Western	5,270,936	629,780		5,900,716	674,519		5,945,455	11,846,171
Great Falls COT	4,084,065	478,285		4,562,350	651,065		4,735,130	9,297,480
Helena COT	3,013,662	393,726		3,407,388	465,889		3,479,551	6,886,939
Family Practice Residency	319,366			319,366			319,366	638,732
Dental Hygiene Program (GF-COT)	235,000			235,000			235,000	470,000
Motorcycle Safety Program	220,000			220,000			220,000	440,000
Yellow Bay Biological Institute	100,000			100,000			100,000	200,000
MUS High School Honors (OTO)		500,000		500,000	500,000		500,000	1,000,000
Program Equipment/Technology			4,000,000	4,000,000			-	4,000,000
Workforce Train. - High Demand Fields			1,500,000	1,500,000			-	1,500,000
Subtotal	\$124,454,060	\$10,791,962	\$5,500,000	\$140,746,022	\$14,760,142	\$0	\$139,214,202	\$279,960,224
Research/Public Service Agencies								
Ag Experiment Station	\$10,675,387	\$1,081,238		\$11,756,625	\$1,121,361		\$11,796,748	\$23,553,373
Extension Services	5,195,593	355,902		5,551,495	371,833		5,567,426	11,118,921
Forestry Conservation ES	910,245	183,941		1,094,186	193,170		1,103,415	2,197,601
Bureau of Mines	2,404,919	81,141		2,486,060	149,799		2,554,718	5,040,778
Fire Service Training School	598,292	51,464	108,983	758,739	50,731	74,000	723,023	1,481,762
Research/Public Service Agens. - Equip.			1,000,000	1,000,000			-	1,000,000
Bio-Based Institute Base	200,000			200,000			200,000	400,000
Move Bio-based Institute To AES Base		(200,000)		(200,000)	(200,000)		(200,000)	(400,000)
Subtotal	\$19,984,436	\$1,553,686	\$1,108,983	\$22,647,105	\$1,686,894	\$74,000	\$21,745,330	\$44,392,435
Grand Total Program 09	\$144,438,496	\$12,345,648	\$6,608,983	\$163,393,127	\$16,447,036	\$74,000	\$160,959,532	\$324,352,659

Source: SAHBRS data for Base Year Expenditures and the Executive 2009 Biennium Budget

Six-Mill Property Tax Levy

The executive budget projects that the available six-mill levy revenue will grow from \$27.1 million in the 2007 biennium to \$33.7 million in the 2009 biennium. The executive budget has funded the adjusted base for the 2009 biennium with the \$31.7 million of this six-mill levy revenue increase and used this state special revenue to decrease general fund in the base by a like amount. An additional \$3 million of six-mill levy revenue is used to fund one-time-only decision packages for new equipment and technology, as well as for the MUS honors scholarship (see DP 9053 and DP 9008 below). This property tax levy is authorized at 15-10-107, MCA, and 20-25-423, MCA.

LFD ISSUE	<p>Taking into account the ending fund balance and the revenue projections for the six-mill levy account, Revenue and Transportation Committee estimates for the available revenue during the 2009 biennium exceed the executive budget proposal as follows:</p> <ul style="list-style-type: none"> • \$1,889,968 additional six-mill revenue in FY 2008 • \$361,139 additional six-mill revenue in FY 2009 <p><u>Legislative Options</u></p> <p>The legislature may want to consider appropriating some or all of this additional revenue. Options would include:</p> <ul style="list-style-type: none"> • Option One – Appropriate six-mill levy revenue to replace general fund, such that the total university system funding level would remain the same, as an equal amount of general fund would be replaced by six-mill levy revenue • Option Two – Appropriate six-mill levy revenue as additional funding
----------------------	---

LFD ISSUE (CONT.)	<ul style="list-style-type: none"> Option Three – Do not appropriate any additional six-mill levy revenue, but leave this for an ending fund balance at the close of the 2009 biennium <p>If revenue projections for the six-mill funding are not met such that the appropriation would exceed the available revenue, the university system would not receive funding for the amount that was not met.</p> <p>It should be noted that six-mill levy revenue is restricted for appropriation to the university educational units and may not be appropriated for any other use.</p>
------------------------------	---

Tuition Rates

Other than state funding, the only other significant revenue source for the university educational units to fund the cost of education is from student tuition. As discussed above, if metrics about the expenditure levels at the campuses are considered such that cost efficiencies are addressed, the revenue equation becomes a trade-off between the level of state support and student tuition rates.

As discussed earlier, in the past twenty years the level of state percent share of funding support for the cost of education has declined in Montana from 74.6 percent in 1988 to 37.8 percent projected in FY 2007. Tuition, on the other had, has increased from 23.1 percent of funding in 1998 to 61.6 percent projected in FY 2007. While some of this can be accounted for by enrollment growth, which has been about 7 percent overall since 1998, most of this increase is related to the steady increase of student tuition rates.

As the tuition data discussed earlier illustrates, tuition and fee rates have risen at a steady rate in all segments of the university system, at an annual rate of 8.2 percent for the four-year schools, at 5.0 percent per year at the-two year schools, and 7.3 percent per year at the community colleges.

Therefore, tuition rates are directly correlated to the level of state funding that supports ongoing costs of educating Montana students, together with considerations for the efficiency of expenditures and the level of those costs.

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2008-----					-----Fiscal 2009-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 66 - Increased Overhead Costs for Campus Support	0.00	84,482	0	0	84,482	0.00	121,136	0	0	121,136
DP 9001 - Present Law Adjustments - Ed Units (Resident)	0.00	9,767,959	0	0	9,767,959	0.00	13,507,974	0	0	13,507,974
DP 9002 - Present Law Adjustments - Ed Units (WUE)	0.00	524,003	0	0	524,003	0.00	752,168	0	0	752,168
DP 9008 - Tuition Waivers - H.S. Honors Program OTO	0.00	0	500,000	0	500,000	0.00	0	500,000	0	500,000
DP 9020 - Present Law Adjustments - AES	0.00	762,373	0	0	762,373	0.00	769,954	0	0	769,954
DP 9030 - Present Law Adjustments -Extension Services	0.00	398,948	0	0	398,948	0.00	398,763	0	0	398,763
DP 9040 - Present Law Adjustments - Fire Services Training	0.00	45,004	0	0	45,004	0.00	42,544	0	0	42,544
DP 9050 - Present Law Adjustments - Forestry & Cons.	0.00	100,271	0	0	100,271	0.00	108,580	0	0	108,580
DP 9060 - Present Law Adjustments - Bureau of Mines	0.00	51,874	0	0	51,874	0.00	53,287	0	0	53,287

Present Law Adjustments										
	-----Fiscal 2008-----					-----Fiscal 2009-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 9063 - BoM - New Space - Restricted	0.00	22,415	0	0	22,415	0.00	89,660	0	0	89,660
DP 9064 - BoM - Miscellaneous	0.00	6,852	0	0	6,852	0.00	6,852	0	0	6,852
DP 9065 - FSTS - Miscellaneous	0.00	6,010	0	0	6,010	0.00	6,955	0	0	6,955
DP 9066 - FCES - Miscellaneous	0.00	920	0	0	920	0.00	1,840	0	0	1,840
DP 9067 - AES - Miscellaneous	0.00	71,272	0	0	71,272	0.00	83,196	0	0	83,196
DP 9068 - Correction Between FCES and ES	0.00	0	0	0	0	0.00	0	0	0	0
DP 9069 - ES - Miscellaneous	0.00	3,265	0	0	3,265	0.00	4,127	0	0	4,127
DP 9075 - Consolidate BioBased with AES RL	0.00	0	0	0	0	0.00	0	0	0	0
Total Other Present Law Adjustments	0.00	\$11,845,648	\$500,000	\$0	\$12,345,648	0.00	\$15,947,036	\$500,000	\$0	\$16,447,036
Grand Total All Present Law Adjustments					\$12,345,648					\$16,447,036

New Proposals

New Proposals										
	-----Fiscal 2008-----					-----Fiscal 2009-----				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 68 - Add One Fire Trainer at FSTS										
09	0.00	108,983	0	0	108,983	0.00	74,000	0	0	74,000
DP 9053 - Equip and Tech in High Demand Fields MUS & CC OTO										
09	0.00	2,000,000	2,000,000	0	4,000,000	0.00	0	0	0	0
DP 9054 - Wrkfce Train. in High Demand Fields MUS & CC -OTO										
09	0.00	1,500,000	0	0	1,500,000	0.00	0	0	0	0
DP 9055 - Research Agencies Equipment - OTO										
09	0.00	1,000,000	0	0	1,000,000	0.00	0	0	0	0
Total	0.00	\$4,608,983	\$2,000,000	\$0	\$6,608,983 *	0.00	\$74,000	\$0	\$0	\$74,000 *

DP 9055 - Research Agencies Equipment - OTO - The executive budget includes a one-time-only general fund appropriation of \$1.0 million for new equipment acquisitions by the five research/public service agencies. These funds would be disbursed through a competitive grant process administered by OCHE that must give scoring priority to projects that include non-state matching funds.

LFD COMMENT	<p>This decision package proposal is modeled after the 2007 budget initiative discussed above that provided \$3 million for equipment acquisition to the university unit two-year degree programs and community colleges, and, DP 9053 below is a similar proposal for \$4 million that once again targets two-year programs.</p> <p>Each of the research/public service agencies submitted, during the executive planning process, an itemized list of equipment needs and cost estimates. This decision package was developed from that information.</p> <p>The funding for the research/public service agencies would be allocated through a competitive grant process administered by OCHE, working with the Workforce Development Committee of the Board of Regents. It is intended that the funding priority for these equipment grants would be those that enhance programs that address high-demand occupations in the workforce, as well as those that leverage non-state matching funds.</p>
--------------------	--

Sub-Program Details

EDUCATIONAL UNITS -SP 01

Sub-Program Proposed Budget

The following table summarizes the total executive budget proposal for this sub-program by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
Transfers	123,579,694	10,791,962	6,500,000	140,871,656	14,760,142	0	138,339,836	279,211,492
Total Costs	\$123,579,694	\$10,791,962	\$6,500,000	\$140,871,656	\$14,760,142	\$0	\$138,339,836	\$279,211,492
General Fund	110,194,693	8,501,608	4,500,000	123,196,301	12,136,846	0	122,331,539	245,527,840
State/Other Special	13,385,001	2,290,354	2,000,000	17,675,355	2,623,296	0	16,008,297	33,683,652
Total Funds	\$123,579,694	\$10,791,962	\$6,500,000	\$140,871,656	\$14,760,142	\$0	\$138,339,836	\$279,211,492

Sub-Program Description

Sub-program 01 includes the state appropriation for the university educational units and the colleges of technology (Montana State University campuses and University of Montana campuses).

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
-----Fiscal 2008-----					-----Fiscal 2009-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 9001 - Present Law Adjustments - Ed Units (Resident)									
0.00	9,767,959	0	0	9,767,959	0.00	13,507,974	0	0	13,507,974
DP 9002 - Present Law Adjustments - Ed Units (WUE)									
0.00	524,003	0	0	524,003	0.00	752,168	0	0	752,168
DP 9008 - Tuition Waivers - H.S. Honors Program OTO									
0.00	0	500,000	0	500,000	0.00	0	500,000	0	500,000
Total Other Present Law Adjustments									
0.00	\$10,291,962	\$500,000	\$0	\$10,791,962	0.00	\$14,260,142	\$500,000	\$0	\$14,760,142
Grand Total All Present Law Adjustments				\$10,791,962					\$14,760,142

LFD COMMENT As discussed above, 17-7-142, MCA, requires the university system to revert any general fund that is appropriated in HB 2 for resident student enrollment if an enrollment shortfall occurs. According to data for the base year, FY 2006, the university system experienced a resident student enrollment shortfall of 496 students, which requires a total general fund reversion of \$868,480.

Using the base-plus funding for this program, that reversion in the base year FY 2006 should be removed from the base year expenditures in order to accurately build the budget from the actual base.

The executive budget, however, in the two major present law adjustment decision packages (DP 9001 and 9002) has calculated the FY 2006 reversion as part of establishing the overall present law expenditure budget for the university educational unit. Therefore, by including the FY 2006 general fund reversion as part of the present law budget and the resulting present law adjustments, there is no need to for a base reduction decision package in this program.

DP 9001 - Present Law Adjustments - Ed Units (Resident) - The executive budget includes \$23.3 million general fund to support present law adjustments at the university educational units that are attributed to the cost of education for Montana resident students.

DP 9002 - Present Law Adjustments - Ed Units (WUE) - The executive budget includes \$1.3 million general fund to support present law adjustments at the university educational units that are attributed to the cost of education for the students studying in Montana as part of the Western Regional Undergraduate Exchange (WUE) student program.

**LFD
ISSUE**

The above two decision packages, DP 9001 and DP 9002, represent a significant change to both the calculation method for the state percent share of funding of present law adjustments as well as the definition of what specific expenditure factors constitute present law adjustments for the university educational units. These proposed changes are purely a matter of public policy as there is no statutory formula or other legal requirement that determines this calculation.

On the other hand, this calculation represents a significant change in public policy and a significant change in the funding level for the university system. Specifically, the 2007 biennium budget includes a \$6.7 million general fund appropriation for present law adjustments for the university units, while the executive budget for the 2009 biennium includes \$24.6 million.

The LFD issue below will illustrate these changes by demonstrating both the proposed change to the present law adjustment factors and the proposed change to the state percent share to be applied to the present law adjustments.

Therefore, these two decision packages, which represent a significant change in public policy, in the budget calculation mechanism and in the funding level for the university educational units, should be new proposals rather than present law adjustments.

The following information, which applies to DP's 9001 and 9002, is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: University campuses experience cost increases as all other state agencies face, including inflation, insurance costs and other fixed costs, annualization of the 2007 biennium pay plan, and other personal services costs. Funding these cost increases (present law adjustments) is shared by state government and by students, in the form of tuition, so that whatever amount is not funded by state revenue must be funded through tuition. The "resident student" share of the present law increase is measured as the sum of the portion of Montana resident students served in relation to all students served (currently 79.8 percent) and the portion of WUE students served in relation to all students served (currently 4.9 percent), for a total of 84.7 percent.

Goals: To maintain the FY 2008 and FY 2009 resident tuition rates at the FY 2007 levels at all Montana University System units, with no resident student tuition increase each year of the biennium, in an effort to increase the access to and affordability of higher education for Montana resident students.

Performance Criteria: Meeting this goal shall be measured by comparing FY 2007 resident tuition rates to Board of Regents adopted tuition rates for FY 2008 and FY 2009.

Milestones: The Board of Regents will formally adopt FY 2008 and FY 2009 tuition rates in May of 2007

FTE and Funding: No additional FTE are contemplated for this proposal. General fund is requested for this proposal, as the alternative funding source for these present law expenditure increases is resident student tuition. That portion of the present law increases not funded by general fund will require an increase in resident student tuition.

Obstacles: The availability of general fund dollars is the greatest obstacle to this proposal.

Risk: To the extent that this proposal is not adopted, resident tuition increases would be necessary to maintain the high quality of education at Montana University System campuses.

**LFD
ISSUE** This significant present law proposal includes a plan with clear and measurable goals and objectives that are time-bound, as well as very clear milestones. The primary concern for the legislature with this plan is the risk involved in that the legislature and state government have no authority to enforce the outcome goal of a tuition cap during the 2009 biennium. In the event that unforeseen budget issues arise or other constraints that may lead to tuition increases, the legislature would have no authority to control tuition, despite the clearly stated PEPB shared policy goals that are related to accessibility and affordability of higher education.

**LFD
ISSUE** As discussed briefly above, the foundation of the CAP and these two DP's (9001 and 9002) is that the executive and the university system have reached an agreement on what the present law expenditure budget for the 2009 biennium would be for all of the campuses and have proposed this to the legislature. Once this agreement was reached, the tuition revenue projected for FY 2007, with no increase, was carried over in the executive budget into both FY 2008 and FY 2009 to provide the tuition funding base for each year. The funding gap that remained between the present law expenditure budget and the tuition revenue was then funded with state revenue (general fund and six-mill levy revenue) in the expenditure budget.

In order to reach agreement on the present law expenditure budget that the executive would propose to the legislature, agreement had to be reached on all of the various factors that comprise the present law adjustments. The following figure illustrates these present law factors and the agreed upon levels that are part of the CAP, and compares how those factors are funded by state government in the 2007 biennium:

**LFD
ISSUE (CONT.)**

Montana University System Present Law Adjustment Factors and Rates Comparative between Montana University System and State Government Budgets 2007 and 2009 Biennia				
Present Law Adjustment Factor (PL)	HB2 Funding Status (2007 Biennium)	Original PL Rates Projected by MUS (2009 Biennium)	Acutal PL Rates Used in Executive Budget CAP Proposal (2009 Biennium)	
			FY 2008	FY 2009
State Pay Plan	Yes	3.0%	3.50%	3.50%
Health Insurance	Yes	10.0%	6.00%	6.00%
Other Benefits	Yes	1.5%	16.46%	16.54%
Emp. Merit/Mkt. Adjusts.	Not Funded	0.5%	Part of Pay Plan	Part of Pay Plan
Vacancy Savings	Yes	3.0%	4.0%	4.0%
Insurance (Tort Claims)	Yes	0.0%	0.0%	0.0%
Other State Fixed Costs	Yes	4.0%	4.0%	4.0%
IT Fixed Costs	Partial Funding	6.0%	6.0%	6.0%
Library Acquisitions	Partial Funding	7.0%	7.0%	7.0%
Utility Adjustments	Partial Funding	20.0%	\$14,056,216	\$14,494,969
Other Operating Costs	Not Funded	2.5%	2.5%	2.5%
Contingency Costs	Not Funded	2.5%	Part of Other Op Costs	Part of Other Op Costs
Fee Waivers	Not Funded	6.0%	\$5,435,441	\$6,100,022
Enrollment Growth	Yes	\$3,566,827	No Growth Budgeted	No Growth Budgeted
New Space O & M Costs	Yes	\$1,227,635	\$748,872	\$1,191,154
Faculty Promotion Pool	Not Funded	\$834,224	\$443,197	\$422,027
Faculty Termination Costs*	Not Funded	\$1,254,858	\$2,164,368	\$2,164,368
State Percent Share Model:				
For Present Law Adjusts	80%	80.6%**	84.7%	84.7%
For Pay Plan	39%	42.2%	84.7%	84.7%
For State Employee Retirement	n/a	n/a	84.7%	84.7%
* FY 2008 and 2009 levels represent the FY 2006 actual, and executive agrees to assist if costs exceed this in the 2009 biennium				
** Represents the percentage funding level for those PLA's that state government will fund. Overall, the percentage funding level for all PLA's is projected at 37.7%				
Sources: OCHE System Summary Document (May 2006) - HB2/MBARS for 2007 legislative session - PLA Assumptions Version 14 (2009 Biennium)				

Note: The numbers shown above for “Other Benefits” in FY 2008 and FY 2009 include base amounts not just the annual increase.

As this figure indicates, there are a number of changes to the funding levels proposed for the 2009 present law adjustment budget as opposed to what was funded in the 2007 biennium. In addition, the state percent share model has changed, increasing the amount of state funding to support each of the present law adjustments. Most significant is the proposal to increase the state percent share for the pay plan from 39 percent in the 2007 biennium to 84.7 percent in the 2009 biennium.

Therefore, in the executive proposal for HB 2, the CAP program for keeping resident student tuition rates level throughout the 2009 biennium is based upon this agreement on these present law factors and on the recommended formula for the state percent share. The other significant components, funding for the state pay plan and for state employee retirement programs, will be contemplated in legislation other than HB 2.

All of the present law rates and amounts appear to have a basis in historical expenditure levels and university system policy, based upon prior budgets and present law rate factors for the university units, and the state percent share level is solely a matter of public policy as there is no statutory formula or other legal requirement that governs whether that rate is 39 percent, 80 percent or 84.7 percent.

Legislative Option:

Given that there is no statutory requirement regarding the state percent share of funding for the various university system budget components and that the state percent share is solely a matter of public policy (e.g. present law adjustments, pay plan, retirement funding), the legislature may want to consider other state percent share levels for any of these budget components.

**LFD
ISSUE (CONT.)**

For example, if the legislature wanted to maintain the same state percent share level for present law adjustments that was adopted in the 2007 biennium budget, 80 percent, the way to do that would be to not approve DP 9002 that funds an additional 5 percent state share to support the WUE non-resident exchange students.

In addition, if the legislature would like to affect change to the present law adjustment level in the executive budget, the proposed funding rates and levels in the above figure could be modified as these proposed rates are also a matter of public policy.

**LFD
ISSUE**

The objective of the executive proposal, the College Affordability Plan, is to freeze student tuition rates at their current level through the duration of the 2009 biennium.

Legislative Options:

Given that access to and affordability of higher education for Montana resident students is part of the PEPB shared policy goals between the Board of Regents and the legislature, within what the state budget may afford, the legislature may want to consider other state funding levels for these present law adjustments and the impact that this would have on resident student tuition. Specifically:

- ◆ In order to potentially influence the level of resident student tuition by one-half of one-percent per year in the 2009 biennium, this present law adjustment decision package would need to be adjusted by approximately \$2.46 million over the biennium
 - Based upon the 2006-2007 weighted average tuition/mandatory fee rates, a one-half percent reduction in resident student tuition would save four-year degree students about \$27 per year and two-year degree students would save about \$16 per year
- ◆ In order to potentially influence resident student tuition by one-percent per year in the 2009 biennium, this present law adjustment decision package would need to be adjusted by approximately \$4.91 million over the biennium
 - Based upon the 2006-2007 weighted average tuition/mandatory fee rates, a one percent reduction in resident student tuition would save four-year degree students about \$53 per year and two-year degree students would save about \$31 per year

DP 9008 - Tuition Waivers - H.S. Honors Program OTO - The executive budget funds a portion of the increased cost of tuition waivers associated with the High School Honors Program with \$1 million six mill levy revenue in the 2009 biennium.

**LFD
ISSUE**

The PEPB, which reports to the Interim Education and Local Government Committee, deliberated about a decision package in mid-2006 that would expand student assistance and scholarships when it was first proposed by the Board of Regents as a budget initiative for the 2009 biennium.

PEPB, as part of its interim project to develop a mechanism to bring accountability measures into the state budget for the university system, recommended this initiative for the 2009 biennium, but also recommended including specific performance measures that legislative legal staff recommend should be part of a companion bill to HB 2.

That specific PEPB recommendation includes:

- Improve Affordability (restricted, biennial, OTO)
The PEPB recommends a restricted, biennial, one-time-only general fund appropriation of \$2.5 million to support the financial aid/student assistance program at university educational units across the Montana University System. This one-time-only appropriation may become an ongoing, sustainable appropriation in the subsequent 2011 biennium budget, contingent upon a report to the PEPB by August 2008 that demonstrates progress toward the following accountability measures:
- Completion of a comprehensive plan that coordinates all student financial aid components (e.g. Baker, MHEG, Pell, SEOG, Governor's Scholarships, MPACT, tuition waivers, etc.) so that all programs comprise an integrated system of student aid that can accomplish the Shared Policy goals of affordability

LFD ISSUE (CONT.) The bulleted accountability measure is based upon the PEPB shared policy goals, the Montana Board of Regents 2006-2010 Strategic Plan, and the budget initiative goals and objectives submitted by OCHE. In this instance, PEPB was particularly concerned about the growing number and complexity of multiple student financial assistance programs, including the MUS High School Honors program.

Legislative Options

The legislature may want to consider the following options related to DP 9008:

- Option One – Approve the decision package as proposed by the executive
- Option Two – Approve the decision package and include the above PEPB recommended accountability measure that would require a comprehensive plan in a companion bill to HB 2
- Option Three – Do not approve the decision package

LFD COMMENT The CAP proposal includes this one-time-only funding with the expectation that the university system will restructure the High School Honors Scholarship program in order to make it more rigorous academically and thus reduce the number of awards, also reducing the associated costs of the program.

The funding level recommended in this DP represents approximately 60 percent of the projected cost increase for FY 2008 and 50 percent for FY 2009.

The Regents are considering a draft proposal to restructure the program, and increasing the GPA and SAT/ACT scoring requirements as well as requiring that students take the “rigorous core” course load in high school.

New Proposals

Sub Program	FTE	-----Fiscal 2008-----				-----Fiscal 2009-----				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 9053 - Equip and Tech in High Demand Fields MUS & CC OTO 01	0.00	2,000,000	2,000,000	0	4,000,000	0.00	0	0	0	0
DP 9054 - Wrkfce Train. in High Demand Fields MUS & CC -OTO 01	0.00	1,500,000	0	0	1,500,000	0.00	0	0	0	0
DP 9055 - Research Agencies Equipment - OTO 01	0.00	1,000,000	0	0	1,000,000	0.00	0	0	0	0
Total	0.00	\$4,500,000	\$2,000,000	\$0	\$6,500,000 *	0.00	\$0	\$0	\$0	\$0 *

DP 9053 - Equip and Tech in High Demand Fields MUS & CC OTO - The executive budget proposes a one-time-only appropriation of \$4.0 million in the 2009 biennium, \$2.0 million general fund and \$2.0 million six-mill levy revenue, to support equipment and technology acquisition by the university educational units and community colleges. The funding would be targeted such that \$2.5 million would support healthcare, skilled industries, and high demand programs; while \$1.5 million would support classroom equipment and technology.

LFD COMMENT Once again in the 2009 biennium, the university system and the executive have identified two-year technical programs as a funding priority, particularly in the area of equipment and technology updates. Equipment and technology acquisitions that incorporate the latest upgrades and advances are intended to increase training opportunities and the marketability of program graduates, in particular in high-demand occupations.

As discussed above, the 2007 biennium budget included \$3 million general fund to support equipment acquisition for two-year degree programs. Those funds were allocated through a competitive grant process administered by OCHE, and this proposal would utilize that same process, working through the Workforce Development Committee of the Board of

**LFD
COMMENT (CONT.)**

Regents, with scoring priority going to proposals that leverage non-state matching funds.

It should be noted that during the 2007 biennium equipment grant process, 29 proposals were received that requested a total of \$5.1 million for equipment needs. The grant program funded 16 of those proposals with \$3 million, leaving an additional \$2.1 million without funding.

For the 2009 biennium request, each of the campuses submitted, during the executive planning process, an itemized list of equipment needs and cost estimates. This decision package was developed from that information.

**LFD
ISSUE**

The Montana University System and all of its educational units are defined by statute at 20-25-201, MCA, and this definition does not include Montana's three community colleges. On the other hand, the community colleges are defined by statute at 20-15-101, MCA, and while they are "under the supervision and coordination of the [Board of] regents," the community colleges are not, by statute, part of the university system, but rather are local institutions.

The statewide six-mill property tax levy, meanwhile, is authorized at 15-10-107, MCA, and 20-25-423, MCA, and according to statute, "All revenue from this property tax levy must be appropriated for the support, maintenance, and improvement of the Montana university system."

Therefore, since the community colleges are not statewide institutions defined by statute as part of the university system, and since the six-mill levy is a statewide levy restricted to support of the university system, the community colleges are barred by statute from receiving six-mill levy revenue. This makes this DP problematic as the pool of funds for the equipment grant includes a 50/50 mix of general fund and six-mill levy revenue, and among the eligible applicants are Montana's three community colleges.

Legislative Options

Given the statutory prohibition of appropriating six-mill levy revenue to the community colleges, the legislature may want to consider the following options:

- Option One – remove the six-mill levy revenue (\$2 million) from this appropriation, replace this with general fund from the university educational units' lump sum appropriation, and move this six-mill levy revenue into the lump sum appropriation solely for the university educational units
- Option Two – restrict the proposed line-item appropriation so that the community colleges are not eligible for these grant program funds
- Option Three – do not approve the decision package
- Option Four – restrict the six-mill levy portion of the line item so that community colleges could not receive six-mill funds

DP 9054 - Wrkfce Train. in High Demand Fields MUS & CC -OTO - The executive budget includes a one-time-only general fund increase of \$1.5 million to support new workforce development initiatives, specifically for capital and operational costs that expand program capacity at the university educational units.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: To allow the university system to start-up or expand programs that train workers in high demand occupations, specifically to allow rapid response to Montana employers seeking short-term training opportunities to maintain a competitive workforce.

Goal: To provide Montana businesses with more skilled-workers in high demand occupations and provide students with

expanded opportunities for education that will allow them to earn a good income and remain in the state.

Performance Criteria: Funds will be allocated to campuses by a competitive grant process. Application proposals will be required to describe a new or expanded program for training workers that are in high demand in the Montana economy. A committee comprised of private industry members and representatives from each campus will evaluate proposals based in part on the following criteria:

- Whether the applicant campus has the staff, experience, accreditation (if required), and infrastructure to make the new program successful
- Whether the applicant campus or program has strong industry partnerships
- That graduates of the proposed training program would be employed at a good wage in the state
- Whether matching funds are available, preferably from industry partners, to leverage new program funds
- How the proposed program would be sustained once these the one-time funds are expended
- How the proposed program would support other related programs at the applicant campus or at other campuses around the state

It is projected, based on experience, that the \$1.5 million appropriation would support a minimum of 15 new or significantly expanded programs that would help train at least 200 students during the 2009 biennium.

Milestones: Major milestones for this proposal include:

- April, 2007 - Request for proposals issued to all campuses
- May, 2007 - Proposals due, evaluation committee meets to prioritize applications
- July, 2007 - Funds available for distribution
- September, 2007 - Program development begins
- Fall Semester, 2007 - Programs with short ramp-up time will start training students
- Spring Semester to Fall Semester, 2008 - All new programs in place training students
- December, 2008 - Report to legislature on students trained and industry

FTE: Additional FTE would likely be required at the campus level to support new or expanded training programs. Overall management for distributing grant funding will be handled with existing resources in the Office of the Commissioner of Higher Education.

Obstacles: There are no significant obstacles to administering or executing this new proposal, but for potential challenges at the campus level finding qualified faculty, expanding infrastructure, and selecting students for new programs who are most likely to succeed and remain in Montana. Obstacles will be minimized by funding programs with the greatest industry support, highest student demand, and highest wage potential for graduates, as well as programs at campuses with a strong track record of implementing similar programs.

Risk: Without this funding, there will be very limited ability to expand training programs to educate Montana students for high demand occupations in Montana. The state's businesses will be able, in most instances, to recruit needed workers from out-of-state, albeit at a higher cost.

LFD ISSUE	This new proposal includes measurable objectives and time-bound goals as well as performance criteria, all of which appear to be reasonable given the rhythms of the state budget process and the academic year. In addition, as noted above, OCHE has experience managing a grants allocation program in this manner (see 2007 Biennium New Initiative Update section above). By including a reporting milestone to the legislature (December 2008) the proposal provides an opportunity for legislative evaluation on the value of this program and the value of any subsequent state appropriation.
----------------------	--

Sub-Program Details

AES TRANSFERS - SP 09

Sub-Program Proposed Budget

The following table summarizes the total executive budget proposal for this sub-program by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
Transfers	10,675,387	1,081,238	0	11,756,625	1,121,361	0	11,796,748	23,553,373
Total Costs	\$10,675,387	\$1,081,238	\$0	\$11,756,625	\$1,121,361	\$0	\$11,796,748	\$23,553,373
General Fund	10,675,387	1,081,238	0	11,756,625	1,121,361	0	11,796,748	23,553,373
Total Funds	\$10,675,387	\$1,081,238	\$0	\$11,756,625	\$1,121,361	\$0	\$11,796,748	\$23,553,373

Sub-Program Description

The Agriculture Experiment Station (AES) was established at Montana State University in Bozeman by the Montana legislature in 1893 under Hatch Act authorization enacted by the United States Congress. The station is the agricultural research component of the land-grant university’s three-part mission of teaching, research and service. AES also has a cooperative program at the Fort Keogh Livestock and Range Research Laboratory in Miles City, where livestock production efficiency and rangeland resource research is conducted.

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

	-----Fiscal 2008-----				-----Fiscal 2009-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 66 - Increased Overhead Costs for Campus Support	0.00	47,593	0	0	47,593	0.00	68,211	0	0	68,211
DP 9020 - Present Law Adjustments - AES	0.00	762,373	0	0	762,373	0.00	769,954	0	0	769,954
DP 9067 - AES - Miscellaneous	0.00	71,272	0	0	71,272	0.00	83,196	0	0	83,196
DP 9075 - Consolidate BioBased with AES RL	0.00	200,000	0	0	200,000	0.00	200,000	0	0	200,000
Total Other Present Law Adjustments	0.00	\$1,081,238	\$0	\$0	\$1,081,238	0.00	\$1,121,361	\$0	\$0	\$1,121,361
Grand Total All Present Law Adjustments					\$1,081,238					\$1,121,361

LFD ISSUE Although it is not reflected in a decision package, the executive budget for AES moves \$1.2 million of funding and expenditures from the operating fund to a designated fund, which is not part of HB 2 appropriations. This \$1.2 million is revenue from sales of livestock and crops related to the Livestock and Range Research Laboratory (LARRL) at Fort Keogh, and the expenditures related to operating this program.

LFD ISSUE (CONT.)	<p>The impact of this fund switch is that the state percent share of funding for AES would increase from 76 percent to 83 percent, meaning that state funding would pay an increased level of costs for present law adjustments (approximately \$75,000 per year).</p> <p>On the other hand, moving the LARRL program to a designated fund and off the HB 2 budget would also move 17.00 FTE employees who would no longer be funded with state revenue to support state pay plan increases (approximately \$25,000 per year).</p> <p>This funding switch is not part of a decision package as this sales revenue are not appropriated state funds.</p> <p><u>Legislative Option</u></p> <p>The legislature may want to consider keeping the state percent share for the AES at 76 percent in order to reflect the actual total revenue split in this program, even if the \$1.2 million of sales revenue is moved to a designated fund. This would reduce general fund expenditures by approximately \$75,000 in the 2009 biennium.</p>
------------------------------	--

DP 66 – Increased Overhead Costs for Campus Support – The executive budget increases general fund by \$205,618 in the 2009 biennium to support the state percent share of increased overhead costs charged by MSU-Bozeman to the public service/research agencies as follows

- o AES = \$115,804 (state share is 83 percent)
- o ES = \$88,132 (state share is 69.2 percent)
- o FSTS = \$1,682 (state share is 100 percent)

DP 9020 - Present Law Adjustments – Agriculture Experiment Station (AES) - The executive budget applies statewide present law adjustments for the AES in the 2009 biennium, increasing general fund \$1.5 million, as the state percent share of all AES funding is calculated at 83 percent.

DP 9067 - AES - Miscellaneous - The executive budget includes \$154,468 general fund to support the state percent share of present law cost increase for repair and maintenance, new space costs, as well as base reductions due to increased gasoline costs.

LFD COMMENT	<p>The state percent share calculation for the research/public service agencies remains the ratio between state funding versus other funding sources in that agency during the 2006 base year budget. These other funding sources may include federal revenue, fee-for-service revenue, interest earnings, revenue from product sales, and other unique revenue sources.</p>
------------------------	--

DP 9075 - Consolidate BioBased with AES RL - The executive budget recommends consolidating the miscellaneous sub-program appropriation of \$200,000 general fund for the Bio-based Institute as part of the ongoing budget of the AES, where the institute resides. This DP has no net fiscal impact as it simply consolidates budget reporting levels.

LFD COMMENT	<p>During the 2001 legislative session, the legislature approved a line-item appropriation to support the Institute for Biobased Products at the AES for the 2003 biennium. This line-item DP was approved as a budget amendment by the legislature and has continued since that time as first a line-item and then part of the miscellaneous sub-program.</p> <p>The reason for not consolidating this appropriation would be if the legislature has a public policy reason or legislative interest to monitor this separately and distinct from the AES budget as a whole.</p>
------------------------	--

Sub-Program Details

EXTENSION SERVICE TRF - SP 10

Sub-Program Proposed Budget

The following table summarizes the total executive budget proposal for this sub-program by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
Transfers	5,195,593	355,902	0	5,551,495	371,833	0	5,567,426	11,118,921
Total Costs	\$5,195,593	\$355,902	\$0	\$5,551,495	\$371,833	\$0	\$5,567,426	\$11,118,921
General Fund	5,195,593	355,902	0	5,551,495	371,833	0	5,567,426	11,118,921
Total Funds	\$5,195,593	\$355,902	\$0	\$5,551,495	\$371,833	\$0	\$5,567,426	\$11,118,921

Sub-Program Description

The Extension Service (ES) was established in 1914 as a result of the federal Smith-Lever Act. The Extension Service mission is to disseminate and encourage practical use of research about agricultural production and marketing, family and consumer science, and human resource development. The central office is housed on the MSU-Bozeman campus, but there are 52 county extension offices that serve 55 of Montana’s 56 counties.

2007 Biennium New Initiative Update

Three significant new initiatives at the MSU – Extension Service during the 2007 biennium included the following:

- A cropping specialist program, with a \$65,600 general fund appropriation in addition to a requirement for non-state matching funds. The program, to be integrated with existing programs at the Agriculture Experiment Station, includes 1.0 FTE for a cropping systems specialist position in FY 2007. Non-state matching funds of \$16,400 have been secured from federal funding, and the position is expected to be filled by the end of 2006.
- A livestock specialist program, with a \$131,200 general fund appropriation in addition to a requirement for non-state matching funds. The program, intended to increase educational and technical assistance to the ranching industry, includes 1.0 FTE for a livestock specialist position. Non-state matching funds of \$32,800 have been secured from federal funding. The first search and hiring process was not successful as each of the top three candidates were offered the position but could not come to terms. A second search is underway with the position expected to be filled by the end of 2006.
- A new extension agent for Meagher County, with a \$70,206 general fund appropriation and a requirement for local matching funds. The program is intended to extend and expand ES programs and services to one of the only Montana counties without an agent. The 1.0 FTE extension agent assigned to Meagher County was hired and started work on October 1, 2005. The position is partially matched by local voted mill-levy funds.

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2008-----					-----Fiscal 2009-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 66 - Increased Overhead Costs for Campus Support	0.00	36,439		0	36,439	0.00	51,693	0	0	51,693
DP 9030 - Present Law Adjustments -Extension Services	0.00	398,948		0	398,948	0.00	398,763	0	0	398,763
DP 9068 - Correction Between FCES and ES	0.00	(82,750)		0	(82,750)	0.00	(82,750)	0	0	(82,750)
DP 9069 - ES - Miscellaneous	0.00	3,265		0	3,265	0.00	4,127	0	0	4,127
Total Other Present Law Adjustments	0.00	\$355,902		\$0	\$355,902	0.00	\$371,833	\$0	\$0	\$371,833
Grand Total All Present Law Adjustments					\$355,902					\$371,833

DP 66 – Increased Overhead Costs for Campus Support – The executive budget increases general fund by \$205,618 in the 2009 biennium to support the state percent share of increased overhead costs charged by MSU-Bozeman to the public service/research agencies as follows

- o AES = \$115,804 (state share is 83 percent)
- o ES = \$88,132 (state share is 69.2 percent)
- o FSTS = \$1,682 (state share is 100 percent)

DP 9030 - Present Law Adjustments -Extension Services - The executive budget applies statewide present law adjustments for the Extension Services (ES) in the 2009 biennium, increasing general fund \$797,711, as the state percent share of all ES funding is calculated at 69 percent.

LFD COMMENT	The largest component of this present law adjustment is in personal services costs (for a base of 121.14 FTE employees), where the annual increase over the base is approximately 9 percent in each year of the 2009 biennium. Driving this increase, above the statewide adjustments for annualizing the pay plan and medical insurance, are base year faculty termination costs of almost \$200,000 and approximately \$15,000 of contractual faculty promotions scheduled for the 2009 biennium.
--------------------	---

DP 9068 - Correction Between FCES and ES - The executive budget includes this budget accounting correction that is required as a result of the agency budget submission recording base year expenditures on the wrong reporting level, thus overstating the expenditures for one agency and understating expenditures for the other. This DP has a net funding effect of zero as it simply corrects the budget statement of expenditures between the ES and the FCES. (This DP is repeated in the FCES sub-program as well.)

DP 9069 - ES - Miscellaneous - The executive budget includes \$7,392 general fund to support the state percent share of present law cost increases for repair and maintenance as well as base reductions due to increased gasoline costs.

LFD COMMENT	The state percent share calculation for the research/public service agencies remains the ratio between state funding versus other funding sources in that agency during the 2006 base year budget. These other funding sources may include federal revenue, fee-for-service revenue, interest earnings, revenue from product sales, and other unique revenue sources.
--------------------	---

Sub-Program Details

FCES TRANSFER - SP 11

Sub-Program Proposed Budget

The following table summarizes the total executive budget proposal for this sub-program by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget									
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09	
Transfers	910,245	183,941	0	1,094,186	193,170	0	1,103,415	2,197,601	
Total Costs	\$910,245	\$183,941	\$0	\$1,094,186	\$193,170	\$0	\$1,103,415	\$2,197,601	
General Fund	910,245	183,941	0	1,094,186	193,170	0	1,103,415	2,197,601	
Total Funds	\$910,245	\$183,941	\$0	\$1,094,186	\$193,170	\$0	\$1,103,415	\$2,197,601	

Sub-Program Description

The Forestry and Conservation Experiment Station was established by the legislature in 1937, codified at 20-25-241, MCA, for the scientific investigation of natural resource problems including forestland resources, timber, and relationships between forests and water, pasturage, and recreation. The station is directed by the Dean of the School of Forestry that serves as the research unit of the University of Montana School of Forestry in Missoula.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
	-----Fiscal 2008-----					-----Fiscal 2009-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 9050 - Present Law Adjustments - Forestry & Cons.	0.00	100,271	0	0	100,271	0.00	108,580	0	0	108,580
DP 9066 - FCES - Miscellaneous	0.00	920	0	0	920	0.00	1,840	0	0	1,840
DP 9068 - Correction Between FCES and ES	0.00	82,750	0	0	82,750	0.00	82,750	0	0	82,750
Total Other Present Law Adjustments	0.00	\$183,941	\$0	\$0	\$183,941	0.00	\$193,170	\$0	\$0	\$193,170
Grand Total All Present Law Adjustments					\$183,941					\$193,170

DP 9050 - Present Law Adjustments - Forestry & Cons. - The executive budget applies statewide present law adjustments for the Forestry and Conservation Experiment Station (FCES) in the 2009 biennium, increasing general fund \$208,851, as the state percent share of all FCES funding is calculated at 100 percent.

DP 9066 - FCES - Miscellaneous - The executive budget includes \$2,760 general fund to support the state percent share of present law cost increases for repair and maintenance costs.

DP 9068 - Correction Between FCES and ES - The executive budget includes this budget accounting correction that is required as a result of the agency budget submission recording base year expenditures on the wrong reporting level, thus overstating the expenditures for one agency and understating expenditures for the other. This DP has a net funding effect of zero as it simply corrects the budget statement of expenditures between the ES and the FCES. (This DP is repeated in the ES sub-program as well.)

Sub-Program Details

BUREAU TRANSFERS - SP 12

Sub-Program Proposed Budget

The following table summarizes the total executive budget proposal for this sub-program by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
Transfers	2,404,919	81,141	0	2,486,060	149,799	0	2,554,718	5,040,778
Total Costs	\$2,404,919	\$81,141	\$0	\$2,486,060	\$149,799	\$0	\$2,554,718	\$5,040,778
General Fund	1,738,919	81,141	0	1,820,060	149,799	0	1,888,718	3,708,778
State/Other Special	666,000	0	0	666,000	0	0	666,000	1,332,000
Total Funds	\$2,404,919	\$81,141	\$0	\$2,486,060	\$149,799	\$0	\$2,554,718	\$5,040,778

Sub-Program Description

The Bureau of Mines and Geology (Bureau) is a public service and research agency located at Montana Tech in Butte. The Bureau disseminates information through publications and conducts field and laboratory studies on all mineral resources, metallic and nonmetallic minerals, fuels, and groundwater.

The groundwater assessment programs at the bureau are funded at 15-38-202, MCA, by the Resource Indemnity Trust Fund, which was created, in part, for the purpose of supporting ground water assessment programs specific to areas that may experience environmental damage caused by mineral extraction.

LFD COMMENT	<p>For more information and detail about the Resource Indemnity Trust (RIT) accounts, see the overview for the Department of Natural Resources and Conservation that appears in Natural Resources and Commerce volume, under the Department of Natural Resources and Conservation (DNRC).</p> <p>Included in that RIT analysis section is a detailed overview of proposed legislation, LC 0147, that will make a number of changes to the RIT, including removal of the cap on the groundwater assessment fund that provides \$666,000 annually to the Bureau. That cap prevents the Bureau program from actively seeking additional funding, either to support present law adjustments in the groundwater assessment program or for new proposals that could expand program services. In response to this cap, the legislature approved a one-time-only appropriation of \$99,000 in the 2007 biennium to support equipment purchases and additional travel expenditures.</p> <p>Even if this bill is passed and approved during the 2007 legislative session, it is not anticipated that the removal of the cap will have an impact on the 2009 biennium budget for the Bureau; rather the impact would come in the subsequent 2011 biennium budget.</p>
--------------------	--

2007 Biennium New Initiative Update

A significant new initiative during the 2007 biennium includes the creation of a Coal and Coalbed-Methane Technology Program at the Bureau of Mines, a \$146,880 general fund appropriation in addition to a requirement for non-state matching funds. The new program is intended to assist the industry and regulators with responsible development of coal and coalbed methane in Montana, with the intention that this be adjacent to water quality monitoring programs at the Bureau. The program includes a new 1.0 FTE coal geologist position, which was finally filled in April 2006, after a lengthy national search process. There was difficulty attracting qualified applicants to this unique position, primarily due to a lower than expected salary range. Match funds for the coal geologist position were secured from the US Geological Survey and the US Department of Energy (total match \$31,869). The program is seeking an additional funding match of \$36,720, but it is not expected that there will be problems securing this funding.

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2008					Fiscal 2009				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 9060 - Present Law Adjustments - Bureau of Mines	0.00	51,874	0	0	51,874	0.00	53,287	0	0	53,287
DP 9063 - BoM - New Space - Restricted	0.00	22,415	0	0	22,415	0.00	89,660	0	0	89,660
DP 9064 - BoM - Miscellaneous	0.00	6,852	0	0	6,852	0.00	6,852	0	0	6,852
Total Other Present Law Adjustments	0.00	\$81,141	\$0	\$0	\$81,141	0.00	\$149,799	\$0	\$0	\$149,799
Grand Total All Present Law Adjustments					\$81,141					\$149,799

DP 9060 - Present Law Adjustments - Bureau of Mines - The executive budget applies statewide present law adjustments for the Bureau in the 2009 biennium, increasing general fund \$105,161, as the state percent share of all Bureau funding is calculate at 98.5 percent.

DP 9063 - BoM - New Space - Restricted - The executive budget adds \$112,075 general fund to support new space for the Bureau in the new Petroleum Building.

LFD COMMENT	<p>The legislature approved a funding and bonding package of \$14.4 million in HB 5 and HB 540 during the 2005 legislative session for the construction of the Petroleum Building on the campus of MT Tech in Butte. Part of that space is dedicated for the bureau, with completion and occupancy projected for the fourth quarter of FY 2008.</p> <p>As part of HB 5, the 59th Legislature requested a recommendation be made to the 60th Legislature on the level of state support that should be appropriated for ongoing operations and maintenance costs for new buildings. That recommendation is to be based upon that portion of new building space that would support the academic mission of the university system. Of that space used for academics, state funding would support the additional costs at the state percent share level.</p> <p>During the interim, staff from the LFD, the executive budget office, the office of architecture and engineering, and the university system met to develop a procedure and form to project the ongoing state obligation for operations and maintenance costs of newly constructed university buildings. In following this recommended procedure, the operations and maintenance costs projected for the bureau would be \$113,781 for the 2009 biennium. Applying the state percent share of 98.5 percent for the bureau, the executive budget funds this cost at the level of \$112,075.</p>
--------------------	---

DP 9064 - BoM - Miscellaneous - The executive budget includes \$13,704 general fund to support the state percent share of base reductions due to increased gasoline costs.

LFD COMMENT	<p>The state percent share calculation for the research/public service agencies remains the ratio between state funding versus other funding sources in that agency during the 2006 base year budget. These other funding sources may include federal revenue, fee-for-service revenue, interest earnings, revenue from product sales, and other unique revenue sources.</p> <p>The state percent share for the Bureau in the 2009 biennium budget is calculated at 98.5 percent.</p>
--------------------	---

Sub-Program Details

FSTS TRANSFERS - SP 19

Sub-Program Proposed Budget

The following table summarizes the total executive budget proposal for this sub-program by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
Transfers	598,292	51,464	108,983	758,739	50,731	74,000	723,023	1,481,762
Total Costs	\$598,292	\$51,464	\$108,983	\$758,739	\$50,731	\$74,000	\$723,023	\$1,481,762
General Fund	598,292	51,464	108,983	758,739	50,731	74,000	723,023	1,481,762
Total Funds	\$598,292	\$51,464	\$108,983	\$758,739	\$50,731	\$74,000	\$723,023	\$1,481,762

Sub-Program Description

The Fire Services Training School (FSTS), located at the Great Fall College of Technology and authorized at 20-31-102, MCA, works to organize, supervise, and coordinate training and education for state fire services personnel across Montana in accordance with local needs and the standards established by the Board of Regents.

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

	-----Fiscal 2008-----				-----Fiscal 2009-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 66 - Increased Overhead Costs for Campus Support	0.00	450	0	0	450	0.00	1,232	0	0	1,232
DP 9040 - Present Law Adjustments - Fire Services Training	0.00	45,004	0	0	45,004	0.00	42,544	0	0	42,544
DP 9065 - FSTS - Miscellaneous	0.00	6,010	0	0	6,010	0.00	6,955	0	0	6,955
Total Other Present Law Adjustments	0.00	\$51,464	\$0	\$0	\$51,464	0.00	\$50,731	\$0	\$0	\$50,731
Grand Total All Present Law Adjustments					\$51,464					\$50,731

DP 66 – Increased Overhead Costs for Campus Support – The executive budget increases general fund by \$205,618 in the 2009 biennium to support the state percent share of increased overhead costs charged by MSU-Bozeman to the public service/research agencies as follows

- o AES = \$115,804 (state share is 83 percent)00000
- o ES = \$88,132 (state share is 69.2 percent)
- o FSTS = \$1,682 (state share is 100 percent)

DP 9040 - Present Law Adjustments - Fire Services Training - The executive budget applies statewide present law adjustments for the FSTS in the 2009 biennium, increasing general fund \$87,548, as the state percent share of all FSTS funding is calculated at 100 percent.

DP 9065 - FSTS - Miscellaneous - The executive budget includes \$12,965 general fund to support the state percent share of present law cost increases for repair and maintenance, for a lease increase, as well as base reductions due to increased gasoline costs.

New Proposals

Sub Program	-----Fiscal 2008-----					-----Fiscal 2009-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 68 - Add One Fire Trainer at FSTS										
19	0.00	108,983	0	0	108,983	0.00	74,000	0	0	74,000
Total	0.00	\$108,983	\$0	\$0	\$108,983 *	0.00	\$74,000	\$0	\$0	\$74,000 *

DP 68 - Add One Fire Trainer at FSTS - The executive budget adds \$182,983 general fund in the 2009 biennium budget in order to add an additional 1.0 FTE for a fire trainer at the Fire Services Training School.

LFD COMMENT	<p>The FSTS currently has 4.0 FTE trainers that provide regular, annual training for 51 percent of Montana’s community fire and rescue services, according to FSTS data. Volunteer fire fighters comprise 96 percent of community fire services in Montana. The addition of 1.0 FTE would expand that training coverage to 65 percent. The Fire Training Advisory Council, appointed by the Board of Regents to provide oversight, recommends a total of 6.0 FTE trainers to provide an 80 percent level of training, as part of their strategic plan for fire training in Montana. Driving this goal is the impact that the training level of each local fire department has upon the fire and casualty insurance rates of homeowners and businesses in each local community. The higher the level of training, the lower those insurance rates are set.</p> <p>Fire trainers are allocated on a regional basis across Montana, so that the addition of a new trainer would result in a minor reorganization of regional training coverage in order to reach the 65 percent coverage goal.</p> <p>The plan proposed for funding by the executive budget includes 1.0 FTE for a new fire trainer as well as 0.50 FTE starting in FY 2009 for additional administrative support staff. In addition, there are \$58,000 costs for supplies and equipment for this new position.</p>
--------------------	---

Sub-Program Details

MISCELLANEOUS SYSTEM TRANSFERS -SP 24

Sub-Program Proposed Budget

The following table summarizes the total executive budget proposal for this sub-program by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
Transfers	1,074,366	(200,000)	0	874,366	(200,000)	0	874,366	1,748,732
Total Costs	\$1,074,366	(\$200,000)	\$0	\$874,366	(\$200,000)	\$0	\$874,366	\$1,748,732
General Fund	854,366	(200,000)	0	654,366	(200,000)	0	654,366	1,308,732
State/Other Special	220,000	0	0	220,000	0	0	220,000	440,000
Total Funds	\$1,074,366	(\$200,000)	\$0	\$874,366	(\$200,000)	\$0	\$874,366	\$1,748,732

Sub-Program Description

This subprogram budget includes the following proposed annual appropriation levels:

- o Family practice residency program administered at MSU-Bozeman - \$319,366 general fund
- o Motorcycle safety training program located at MSU-Northern in Havre - \$220,000 state special revenue
- o Dental hygiene program at Great Falls COT - \$235,000 general fund
- o Yellow Bay Biological Station at Flathead Lake (affiliated with UM-Missoula) - \$100,000 general fund

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2008					Fiscal 2009				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 9075 - Consolidate BioBased with AES RL	0.00	(200,000)	0	0	(200,000)	0.00	(200,000)	0	0	(200,000)
Total Other Present Law Adjustments	0.00	(\$200,000)	\$0	\$0	(\$200,000)	0.00	(\$200,000)	\$0	\$0	(\$200,000)
Grand Total All Present Law Adjustments					(\$200,000)					(\$200,000)

DP 9075 - Consolidate BioBased with AES RL - The executive budget recommends consolidating the miscellaneous sub-program appropriation of \$200,000 general fund for the Bio-based Institute as part of the ongoing budget of the AES, where the institute resides. This DP has no net fiscal impact as it simply consolidates budget reporting levels.

LFD COMMENT	<p>During the 2001 legislative session, the legislature approved a line-item appropriation to support the Institute for Biobased Products at the AES for the 2003 biennium. This line-item DP was approved as a budget amendment by the legislature and has continued since that time as first a line-item and then part of the miscellaneous sub-program.</p> <p>The reason for not consolidating this appropriation would be if the legislature has a public policy reason or legislative interest to monitor this separately and distinct from the AES budget as a whole.</p>
--------------------	--

Language

Appropriation of Other Revenue to the University Educational Units

The executive recommends the following HB 2 language to establish investment earnings revenue projections for the university educational units:

“Revenue anticipated to be received by the Montana university system units and colleges of technology include interest earnings and other revenues of \$2,136,468 each year of the 2009 biennium. These amounts are appropriated for current unrestricted operating expenses as a biennial lump-sum appropriation and are in addition to the funds shown in OCHE.”

Audit Costs for the University Educational Units

The executive recommends the following HB 2 language to project audit costs for the university educational units:

“Total audit costs are estimated to be \$575,741 for the university system educational units, other than the office of the commissioner of higher education.”

Revenue Projections for Research/Public Service Agencies

The executive budget recommends language in HB 2 that includes revenue projections for various revenue sources for the research/public service agencies:

“Revenue anticipated to be received by the agricultural experiment station includes:

- (1) interest earnings and other revenue of \$60,308 each year of the 2009 biennium;
- (2) federal revenue of \$2,098,417 in fiscal year 2008 and \$2,109,926 in fiscal year 2009.”

“Revenue anticipated to be received by the extension service includes:

- (1) interest earnings of \$20,133 each year of the 2009 biennium; and
- (2) federal revenue of \$2,429,908 in fiscal year 2008 and \$2,437,119 in fiscal year 2009.”

“Anticipated interest revenue of \$692 in each year of the 2009 biennium is appropriated to the forestry and conservation experiment station for current unrestricted operating expenses. This amount is in addition to that shown in OCHE -- Appropriation Distribution Transfers.”

“Anticipated sales revenue of \$36,828 in FY 2008 and \$37,983 in FY 2009 is appropriated to the bureau of mines and geology for current unrestricted operating expenses. This amount is in addition to that shown in OCHE -- Appropriation Distribution Transfers.”

“Anticipated interest revenue of \$943 each year of the 2009 biennium is appropriated to the fire services training school for current unrestricted operating expenses. This amount is in addition to that shown in OCHE -- Appropriation Distribution Transfers.”

Miscellaneous Language Recommendations

The executive budget recommends language to HB 2 to require a transfer to the energy conservation program:

“OCHE -- Appropriation Distribution Transfers includes \$932,200 for the 2009 biennium that must be transferred to the energy conservation program account and used to retire the general obligation bonds sold to fund energy improvements through the state energy conservation program. The costs of this transfer in each year of the biennium are: university of Montana-Missoula, \$104,000 in fiscal year 2008 and \$95,000 in fiscal year 2009; Montana tech of the university of Montana, \$31,800 in fiscal year 2008 and \$31,800 in fiscal year 2009; Montana state university-northern,\$69,200 in fiscal year 2008 and \$60,200 in fiscal year 2009; Montana state university-Bozeman \$58,000 in fiscal year 2008; Montana state university-Billings, \$105,500 in fiscal year 2008 and \$105,500 in fiscal year 2009; and western Montana college of the university of Montana, \$108,650 in fiscal year 2008 and \$108,150 in fiscal year 2009.”

The executive budget recommends language to HB 2 to allocate funds for the Montana natural resource information system:

“The Montana university system shall pay \$88,506 for the 2009 biennium in current funds in support of the Montana natural resource information system (NRIS) located at the Montana state library. Quarterly payments must be made upon receipt of the bills from the state library, up to the total amount appropriated.”

“Yellow Bay Biological Station is restricted to laboratory work associated with Flathead basin water quality monitoring.”

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Grants	400,000	50,000	0	450,000	50,000	0	450,000	900,000
Total Costs	\$400,000	\$50,000	\$0	\$450,000	\$50,000	\$0	\$450,000	\$900,000
General Fund	400,000	50,000	0	450,000	50,000	0	450,000	900,000
Total Funds	\$400,000	\$50,000	\$0	\$450,000	\$50,000	\$0	\$450,000	\$900,000

Program Description

The Tribal College Assistance program provides funding to support a portion of the costs of educating non-beneficiary Montana students (non-tribal members) attending the seven tribal community colleges on the Reservations in Montana. Section 20-25-428, MCA requires the Board of Regents to provide assistance to tribal colleges “subject to a line item appropriation” by the legislature, up to a maximum of \$3,024 per year for each non-beneficiary student FTE. The statute does not establish a minimum appropriation level.

Tribal colleges are under federal jurisdiction to provide post-secondary education for tribal members but the colleges receive no federal funding assistance to support the costs of education for non-beneficiary students. Since student tuition rates typically do not cover the full cost of education, as the federal subsidy allows lower tuition rates, state funding to support non-beneficiary resident students is intended to keep tuition rates lower for these Montana students as well.

The seven accredited tribal colleges in Montana, as federal government and reservation institutions, are not subject to governance or control by either the Montana Board of Regents or the legislature, nor are they required to offer admission to non-beneficiary students.

2007 Biennium New Initiative Update

A significant new initiative during the 2007 biennium, the one-time-only Enhancing Tribal College Programs, provided \$2.0 million general fund to support equipment purchases and the development of tribal history materials for use in Indian Education for All in K-12 schools. As of July 14, 2006, all seven tribal colleges had appointed a project director to coordinate tribal history writing and documentation, as well as coordinate acquisition of prioritized educational equipment so that funding allocations to support both components were completed during FY 2006.

Program Highlights

Tribal College Assistance Program Major Budget Highlights
<ul style="list-style-type: none"> ◆ The executive budget increases the general fund \$250,000 per year to support non-beneficiary student assistance, for a total program appropriation of \$900,000 during the 2009 biennium

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the Governor. Funding is entirely from general fund.

Program Funding Table Tribal College Assistanc						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000 Total General Fund	\$ 400,000	100.0%	\$ 450,000	100.0%	\$ 450,000	100.0%
01100 General Fund	400,000	100.0%	450,000	100.0%	450,000	100.0%
Grand Total	<u>\$ 400,000</u>	<u>100.0%</u>	<u>\$ 450,000</u>	<u>100.0%</u>	<u>\$ 450,000</u>	<u>100.0%</u>

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2008-----					-----Fiscal 2009-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1101 - Biennial Appropriation Adjustment	0.00	(200,000)	0	0	(200,000)	0.00	(200,000)	0	0	(200,000)
DP 1102 - Increase Non-beneficiary Student Assistance	0.00	250,000	0	0	250,000	0.00	250,000	0	0	250,000
Total Other Present Law Adjustments	0.00	\$50,000	\$0	\$0	\$50,000	0.00	\$50,000	\$0	\$0	\$50,000
Grand Total All Present Law Adjustments					\$50,000					\$50,000

DP 1101 - Biennial Appropriation Adjustment - The executive budget backs out \$200,000 general fund expenditures each year of the biennium in order to make the required adjustment to this biennial appropriation of \$400,000, which was fully expended in the base year. This establishes the base year expenditures at \$200,000.

LFD COMMENT The legislature appropriated a total of \$400,000 ongoing general fund for non-beneficiary student assistance to the tribal colleges in the 2007 biennium. As a biennial appropriation, that allows the colleges to spend the money at anytime during the two-year budget cycle, but the allowable base year level would be one-half of that total, or \$200,000. Therefore, this adjustment is needed in order to establish the correct budget base for this program.

DP 1102 - Increase Non-beneficiary Student Assistance - The executive budget increases the general fund appropriation for resident non-beneficiary student assistance a total of \$500,000 in the 2009 biennium budget, in accordance with 20-25-428, MCA.

LFD COMMENT Resident non-beneficiary students are those who are Montana residents but are not enrolled members of a federally recognized Indian tribe. Since the Tribal College Assistance Program was created by the legislature in FY 1996, there has been an average of 310 resident non-beneficiary students each year attending tribal community colleges in Montana. As the figure below demonstrates, there were 298 resident non-beneficiary students in FY 2006:

Resident non-beneficiary students are those who are Montana residents but are not enrolled members of a federally recognized Indian tribe. Since the Tribal College Assistance Program was created by the legislature in FY 1996, there has been an average of 310 resident non-beneficiary students each year attending tribal community colleges in Montana. As the figure below demonstrates, there were 298 resident non-beneficiary students in FY 2006:

Tribal College Assistance Program Non-Beneficiary Resident Students (FY 2006)			
Tribal College	Non-Beneficiary Resident Student FTE	Funding at Statutory Maximum (\$3,024)	Prorated Distribution at Appropriated Level in HB 2
Blackfeet Community College	30.00	\$90,720	\$45,285
Chief Dull Knife Community College	13.65	41,278	20,605
Fort Belknap College	15.73	47,568	23,745
Fort Peck Community College	33.00	99,792	49,814
Little Big Horn College	3.60	10,886	5,434
Salish Kootenai College	186.00	562,464	280,769
Stone Child College	16.13	48,777	24,348
Total	298.11	\$901,485	\$450,000

Source: OCHE Report Dated 11/9/05

As stated above, 20-25-428, MCA sets a maximum appropriation level of \$3,024 per FTE student, but does not set a minimum level. Therefore, the legislature is not obligated by statute to provide any funding for non-beneficiary students under the Tribal Assistance College Program, as the funding level is solely a matter of public policy for legislative determination each biennium.

The FY 2006 base funding level of \$200,000 general fund would support non-beneficiary students at a level of \$645 per student FTE each year of the biennium, based upon the historical average of 310 FTE students per year.

The base funding plus the executive proposal of an additional \$250,000 per fiscal year would support non-beneficiary students at a level of \$1,452 per student FTE each year of the biennium, again using the historical average of 310 FTE students per year.

On the other hand, to fund this program at the statutory maximum, using the historical average of 310 FTE students per year, would require a total appropriation of \$1.87 million or an additional \$974,880 general fund appropriation in the 2009 biennium.

LFD COMMENT In the 2007 biennium, the legislature approved a \$2.0 million one-time-only appropriation to support equipment acquisition and the documentation of tribal history in order to support constitutionally mandated programs in K-12 education under Indian Education for All (see **2007 Biennium New Initiative Update** section above). The appropriation was to be allocated equally among the seven tribal colleges and that allocation plan is illustrated in the table below:

Tribal College Assistance Program				
Tribal History and Equipment Funding Budget (2007 Biennium)				
Tribal College	Total Funding for 2007 Biennium	Personal Service Expenditures	Operating Expenditures	Equipment Acquisition
Blackfeet Community College	\$285,714	\$105,850	\$80,000	\$99,864
Chief Dull Knife Community College	285,714	84,587	85,652	115,475
Fort Belknap College	285,714	127,530	95,041	63,143
Fort Peck Community College	285,714	138,600	85,057	62,057
Little Big Horn College	285,714	184,040	88,206	13,468
Salish Kootenai College	285,714	151,225	103,378	31,111
Stone Child College	285,714	68,750	119,214	97,750
Total	<u>\$1,999,998</u>	<u>\$860,582</u>	<u>\$656,548</u>	<u>\$482,868</u>

Source: OCHE Report Dated 7/14/2006

The colleges are required to submit regular reports on the status of the tribal history projects to the Commissioner of Higher Education. The legislature had inserted language in HB 2 in the 2007 biennium that would require a report to the legislature on this line-item appropriation, but that report language was vetoed by the Governor.

As of this writing the courts have determined that the Governor cannot veto language without also vetoing the associated appropriation. However, there is still a question of whether some of the vetoed language is in fact not appropriate to HB 2, but a final determination has not been made whether this language falls into that category.

All project deliverables are to be completed by June 30, 2007.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	57.20	0.00	(1.00)	56.20	0.00	(1.00)	56.20	56.20
Personal Services	1,994,402	564,960	(42,894)	2,516,468	571,159	(42,907)	2,522,654	5,039,122
Operating Expenses	5,216,892	24,523	382,813	5,624,228	6,656	150,000	5,373,548	10,997,776
Equipment	7,499	0	0	7,499	0	0	7,499	14,998
Benefits & Claims	21,967,240	0	18,700,000	40,667,240	0	21,800,000	43,767,240	84,434,480
Transfers	36,600	0	0	36,600	0	0	36,600	73,200
Total Costs	\$29,222,633	\$589,483	\$19,039,919	\$48,852,035	\$577,815	\$21,907,093	\$51,707,541	\$100,559,576
Federal Special	29,222,633	589,483	19,039,919	48,852,035	577,815	21,907,093	51,707,541	100,559,576
Total Funds	\$29,222,633	\$589,483	\$19,039,919	\$48,852,035	\$577,815	\$21,907,093	\$51,707,541	\$100,559,576

Program Description

The Montana Guaranteed Student Loan Program (GSL) operates under federal regulation with federal funds to guarantee student loans that are made by private lenders to higher education students in Montana. GSL purchases and services student loans that are in default, works with students to prevent default, collects the outstanding balance from the defaulted loans for repayment to the US Department of Education, and provides training and technical assistance to schools and lenders. In addition to servicing the loans, the GSL program also provides counseling and assistance programs to students in an effort to prevent loan defaults. The Montana Guaranteed Student Loan program is authorized under Section 20-26-11, MCA.

Starting in 1979, the Montana Board of Regents accepted responsibility to serve as the “guarantor” of the funds private lenders would loan to Montana students under the federal student loan program. Without a government entity serving as guarantor, there would be little incentive for private lenders to make student loans to young people who typically have a high-risk profile (based upon age, income status, length of employment, and their intention to be full-time students). Therefore, the Board of Regents created the Guaranteed Student Loan (GSL) program and agreed that they would “guarantee” private loans by agreeing to purchase defaulted student loans from private lenders and take responsibility for collecting on these loans.

Program Highlights

Guaranteed Student Loan Program Major Budget Highlights
<ul style="list-style-type: none"> ◆ The executive budget increases federal authority by \$41.5 million over the 2009 biennium to address the following: <ul style="list-style-type: none"> ● \$28 million for a projected increase in claim payments to private lenders to purchase defaulted student loans ◆ \$12.5 million for a projected increase in collection costs and the reimbursement of collected loan funds to the U.S. Department of Education

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the Governor.

Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	FY 2006	FY 2006	FY 2008	FY 2008	FY 2009	FY 2009
03000 Total Federal Special Funds	\$ 29,222,633	100.0%	\$ 48,852,035	100.0%	\$ 51,707,541	100.0%
03400 Guaranteed Std. Loan-Admin.	9,340,701	32.0%	15,587,290	31.9%	16,825,609	32.5%
03401 U.S. Dept Ed / Gsl Recall Acct	19,854,406	67.9%	33,237,219	68.0%	34,854,406	67.4%
03410 Gear Up Essay Scholarship	27,526	0.1%	27,526	0.1%	27,526	0.1%
Grand Total	<u>\$ 29,222,633</u>	<u>100.0%</u>	<u>\$ 48,852,035</u>	<u>100.0%</u>	<u>\$ 51,707,541</u>	<u>100.0%</u>

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

	Fiscal 2008				Fiscal 2009					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					671,600					678,055
Vacancy Savings					(106,640)					(106,896)
Inflation/Deflation					15,468					16,336
Fixed Costs					9,055					(9,680)
Total Statewide Present Law Adjustments					\$589,483					\$577,815
Grand Total All Present Law Adjustments					\$589,483					\$577,815

LFD COMMENT

Personal Services Statewide Present Law Adjustment

The statewide present law adjustment for personal services, at a total of \$1.14 million for the biennium, represents a biennial increase of 28.5 percent over the base year in the Guaranteed Student Loan program (GSL), which includes the budgeted vacancy savings rate of 4 percent.

The major factors contributing to this increase appear to be:

- Salaries increased at a rate of 35 percent for the 57.20 FTE from FY 2006 to the proposed FY 2008 budget, compared to about 7 percent authorized in the 2007 biennium pay plan
- This program experienced an overall vacancy rate of 15.4 percent
- 5.00 FTE positions had a 100 percent vacancy rate and were not filled
- 6.00 FTE positions had a vacancy rate of 60 to 80 percent

Position vacancies can contribute to a disproportionate increase in the personal services adjustment against the base, as all positions identified by the personal services “snapshot” are funded as part of the adjusted base budget, but if those positions are not filled or filled at a rate significantly less than funded, then the actual expenditures will be artificially low compared to the fully funded base level.

New Proposals

Program	FTE	-----Fiscal 2008-----				-----Fiscal 2009-----				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1251 - GSL Increased Claims Payments										
12	0.00	0	0	13,000,000	13,000,000	0.00	0	0	15,000,000	15,000,000
DP 1252 - GSL Increased Collection Costs										
12	0.00	0	0	5,700,000	5,700,000	0.00	0	0	6,800,000	6,800,000
DP 1253 - GSL Federal Fund Reserve Recall										
12	0.00	0	0	382,813	382,813	0.00	0	0	0	0
DP 1254 - GSL Guarantee Servicing System										
12	0.00	0	0	0	0	0.00	0	0	150,000	150,000
DP 1255 - Transfer 1 FTE from MGSLP to Stud. Assist.										
12	(1.00)	0	0	(42,894)	(42,894)	(1.00)	0	0	(42,907)	(42,907)
Total	(1.00)	\$0	\$0	\$19,039,919	\$19,039,919	(1.00)	\$0	\$0	\$21,907,093	\$21,907,093 *

DP 1251 - GSL Increased Claims Payments – The executive budget increases federal spending authority by \$28 million over the 2009 biennium in order to meet projected increases in claim payments that would be made to private lenders in order to purchase defaulted student loans, as required by the program’s role as “guarantor.”

LFD COMMENT

The Montana Guaranteed Student Loan Program (GSL) serves to guarantee private lenders from the risk of financial losses that occur when students, who are considered a high risk group, default on the repayment of their student loans.

Upon loan default by a student, the GSL is required, by federal and state regulations, to purchase that defaulted loan as submitted by private lenders as a “claim” to the guarantee agency, the GSL. The revenue to make these claim payments comes from the U.S. Department of Education, who reimburses the guarantee agency at a rate of 95 percent of the payment level. Upon subsequent collections of defaulted loans, the GSL repays a percentage of this reimbursement to the federal agency (see LFD Comment below related to DP 1252 for additional information on payback to the U.S. Department of Education).

As of FY 2006, the total outstanding loan guarantee portfolio of the GSL has reached \$1.6 billion, meaning that the program is responsible to pay claims submitted from private lenders for any loans in this portfolio that go into default. That outstanding loan portfolio is projected to increase to \$2.8 billion by the end of FY 2009, and the growth is expected to be driven by the following two factors:

- Annual new loan growth of 4 percent resulting from increased student loan borrowing limits, more students borrowing funds to finance higher education, and additional private institutions making student loans that are guaranteed by GSL
- Approximately \$400 million of annual portfolio growth resulting from the guarantee of consolidation loans of the Student Assistance Foundation of Montana (SAF)

Coupled with the size of the outstanding loan portfolio, the current claim rate against this portfolio is 1.11 percent, but this rate is projected to increase to 1.2 percent given the trends in student borrowing, increased loan limits, etc.

Therefore, calculating the projected incremental growth to both the outstanding loan portfolio size and the incremental growth in the default claim rate, the GSL projects the need for an additional \$28 million of federal funding authority in order to be able to pay the claims to private lenders during the 2009 biennium as required by their role as loan guarantee agency.

In accordance with 20-26-1106, MCA, the ultimate fiduciary responsibility for the Montana Guaranteed Student Loan Program lies with the federal government, the U.S. Department of Education, so that all liability for claim payments and collections costs are a federal liability, and do not create a financial risk for the State of Montana.

DP 1252 - GSL Increased Collection Costs - The executive budget increases federal spending authority by \$12.5 million over the 2009 biennium in order to meet projected increases in collection costs that are expected to be driven by the increase in claim payments from the larger outstanding loan portfolio, by changes to the federal higher education act that requires higher repayment levels to the federal government by the GSL program, and by a projected increase in default collections resulting from changing federal regulations of collections processes.

**LFD
COMMENT**

After the GSL program makes collections on defaulted student loans, the federal regulations require that between 77 and 90 percent of those collections be paid back to the U.S. Department of Education. The guarantee agency, in this case the Montana Guaranteed Student Loan Program, is allowed to retain between 10 and 23 percent of the funds they collect in order to sustain ongoing and future operations of their program. The range of percentages in this repayment/retention formula is a function of the type of collection activities associated with specific default collection funds.

Therefore, as the GSL projects a significant increase in their outstanding loan portfolio and growth in the subsequent default collections activity, there will be a corresponding increase in the funds that will need to be paid back to the federal government. These repayments to the federal education department are the primary driver of this projected increase in collections costs.

In addition to the impact of the growth to the portfolio, two changes to the federal student loan regulations that were part of the Higher Education Reconciliation Act of 2005 will also drive up collection costs (that amount to be repaid to the federal government). These two changes include:

- Guarantee agencies will be required to remit 8.5 percent of the outstanding loan principal and interest each fiscal year on the loan consolidation component of their portfolio
- Federal regulations will now allow guarantee agencies to collect more default loans through the process of garnishing wages, increasing the amount that may be garnished from an individual's wages from 10 percent to 15 percent. This increase in collections through garnishment will also increase the collection costs to be repaid to the federal agency

Based upon the projected growth of the outstanding loan portfolio and the impact of these two changes to the federal collections regulations, the GSL projects an increase of \$12.5 million of repayment collection costs in the 2009 biennium.

DP 1253 - GSL Federal Fund Reserve Recall - The executive budget increases federal spending authority by \$382,813 in FY 2008 only in order to meet federal requirements for a reserve recall payment by the GSL program in September 2007.

**LFD
COMMENT**

Amendments in 1998 to the Higher Education Act require that the U.S. Department of Education recall a portion of the reserves from each student loan guarantee agency in accordance with a schedule enumerated in those amendments. The next scheduled reserve fund recall payment date is September 1, 2007 and the portion that will be due from the Montana Guaranteed Student Loan program is \$382, 813.

DP 1254 - GSL Guarantee Servicing System - The executive budget increases federal spending authority by \$150,000 for FY 2009 only due to an anticipated increase in operating costs related to the contract for loan guarantee servicing. The existing contract with the Great Lakes Higher Education Corporation will expire in FY 2008 and the GSL projects that a new contract for these services will be as much as 20 percent higher than the current contract.

DP 1255 - Transfer 1 FTE from MGSLP to Stud. Assist. - The executive budget moves 1.00 FTE, a vacant position, and \$85,801 federal funding to the Student Assistance program, where this staff position will manage the Montana Family Education Savings Program.

**LFD
COMMENT**

The Family Education Savings Program is a tax-favored college savings plan that is managed for the university system by a private contractor. The program allows families to contribute to a college fund that will earn non-taxable interest. When the funds are needed to pay postsecondary education expenses, they may be withdrawn with no tax liability.

This savings plan has an asset balance in excess of \$150 million and has seen considerable growth in the past several years.

The legislature approved 0.50 FTE in the 2007 biennium for an administrative support position for this program. That position was never filled and the executive is proposing to move an existing but vacant 1.00 FTE from the GSL program to the Student Assistance program in order to provide management and administrative support for this program.

For more information about the Family Education Savings Program and this FTE shift, see DP 2060 and the corresponding LFD Issue under the Student Assistance program.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Personal Services	2,900	(2,900)	6,300	6,300	(2,900)	6,300	6,300	12,600
Operating Expenses	25,501	0	0	25,501	0	0	25,501	51,002
Total Costs	\$28,401	(\$2,900)	\$6,300	\$31,801	(\$2,900)	\$6,300	\$31,801	\$63,602
General Fund	28,401	(2,900)	6,300	31,801	(2,900)	6,300	31,801	63,602
Total Funds	\$28,401	(\$2,900)	\$6,300	\$31,801	(\$2,900)	\$6,300	\$31,801	\$63,602

Program Description

The Board of Regents administration program provides secretarial support, travel (mileage, lodging and food) and per diem for board members in order to maintain operations for the Board of Regents. Under Article X, Section 9, Montana Constitution, and Section 20-25-301, MCA, the Board of Regents has full power, responsibility, and authority to supervise, coordinate, manage, and control the Montana University System.

Program Highlights

Board of Regents Administration Program Major Budget Highlights	
◆	The executive budget restores \$6,300 general fund for per diem expenditures for the Board of Regents

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the Governor. Funding is entirely from general fund.

Program Funding Table Board Of Regents-Admin						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000 Total General Fund	\$ 28,401	100.0%	\$ 31,801	100.0%	\$ 31,801	100.0%
01100 General Fund	<u>28,401</u>	<u>100.0%</u>	<u>31,801</u>	<u>100.0%</u>	<u>31,801</u>	<u>100.0%</u>
Grand Total	<u>\$ 28,401</u>	<u>100.0%</u>	<u>\$ 31,801</u>	<u>100.0%</u>	<u>\$ 31,801</u>	<u>100.0%</u>

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2008-----					-----Fiscal 2009-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					(2,900)					(2,900)
Total Statewide Present Law Adjustments					(\$2,900)					(\$2,900)
Grand Total All Present Law Adjustments					(\$2,900)					(\$2,900)

New Proposals

New Proposals	-----Fiscal 2008-----					-----Fiscal 2009-----					
	Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1301 - Restore Base -Per Diem											
13	0.00	6,300	0	0	6,300	0.00	6,300	0	0	6,300	
Total	0.00	\$6,300	\$0	\$0	\$6,300 *	0.00	\$6,300	\$0	\$0	\$6,300 *	

DP 1301 - Restore Base -Per Diem - The executive budget funds per diem payments for the Board of Regents at the statutory rate of \$50 per day. For the biennium the total general fund is \$12,600 to support 7 Regents to attend 12 meetings that run for 3 days at a rate of \$50/day (7 x 12 x 3 x \$50 = \$12,600).

LFD COMMENT	Per diem is a zero-based expenditure item that is removed from base year expenditures (see present law adjustments table above) so that it must be re-established each biennium as a new proposal.
--------------------	--