

**Montana University System – Commissioner of Higher Education**  
**2007 Biennium Executive Budget Overview**

***Presentation to Education Appropriations Subcommittee***  
***Friday, January 21, 2005***

EXHIBIT 8  
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HB \_\_\_\_\_

Madam Chair, members of the subcommittee, now that you have heard from the Board of Regents and heard a high-level overview of the upcoming priorities and goals for higher education in the 2007 biennium, I would like to take some time to give you an overview of the executive budget and the legislative fiscal analysis of that budget.

I would like to structure this discussion by paging through the 80-page analysis that begins on page E-75 of volume 4, and in your binder is tabbed with tab titled Commissioner of Higher Education. As we page through I will briefly explain what the executive budget is doing, I will distinguish between Martz and Schweitzer budget items [and I am now handing you an addendum analysis of the Schweitzer budget changes for higher education], and I will discuss the Comments and Issues that I have raised for your consideration in each of these analyses. For reference you may also want to have available the tabs that have the Martz budget for the university system ...though the LFD analysis follows the executive budget, some of the decision package descriptions may be worded differently.

My comment sections in the analysis are meant to provide you with background information so that you may better understand a particular budget item. My issue sections in the analysis are intended to point out areas where I identify significant options that the legislature may want to consider in making budget decisions.

In addition to the budget analysis book and the two executive budgets, you will want to refer to a number of other handouts that provide additional or background information to some of the budget matters, issues and comments in the analysis...you have these handouts in the packet Diana assembled.

Now, the university system budget is organized into eleven distinct programs...that is how the analysis is organized and that is how I will structure this overview...it may be easiest for us to handle questions as they arise specific to each of the programs...rather than waiting until the end and trying to circle back to earlier programs.

Therefore, starting on page E-75 and the cover page of the Schweitzer analysis...the first section in the analysis gives you a system-wide overview of the structure of the Montana University System and the content of the entire budget, all eleven programs. Start by reviewing the Agency Description.

Next, the Agency Proposed Budget table gives you the total budget numbers for each fiscal year and for the 2007 biennium.

The overall highlights of the budget include, as shown on page E-76 all of the major budget activities and how these relate to policy.

Figure 1 on page E-78 compares the 2007 biennium budget with the 2005 biennium budget.

The first major LFD Issue, on page E-79, raises the issue that, given the shared-authority over the university system, with the Board of Regents the governing authority and the legislature the state-funding appropriation authority, often there is no clear outcome goal between the funds the

legislature approves and what results the legislature would like to see accomplished with those funds. But two interims ago, the Postsecondary Education Policy and Budget subcommittee (PEPB) recommended a set of accountability measures, on page E-80...and for two biennia the PEPB and the board of regents have signed an agreement that these measures establish outcome goals (you have a copy of this Agreement in your handouts).

While these accountability measures are a good start, they lack benchmarks, the "industry standards" of what is considered excellent, good or poor achievement...looking at these measures...the Issue I raise for your consideration, is that the 2005 legislature charge the PEPB with completing the accountability measures process with benchmarks and recommending a process whereby these measures could be used by the legislature in making funding decisions.

Related to this charge to PEPB, is LFD Comment on Page E-84...the legislature has stated many times in the past that access to higher education by Montana residents is an important policy goal...and, of course, the tuition charged by the university system determines, to a large degree, the level of access. Under the constitution, which gives governance authority to the board of regents, however, the legislature has no authority to set tuition rates.

But, once again using the Accountability measures as a foundation, the legislature may want to consider charging PEPB with looking at alternative ways to build the university system budget, in particular a formula that may give the legislature a more clear idea of the impact state funding decisions will have on university tuition...such as a funding formula that establishes the cost of education of each student and the legislature builds the budget by identifying what percentage of that cost the state can fund for each Montana resident student. In this way, the legislature would have a clearer understanding of the relationship between HB 2 appropriations and the subsequent tuition levels set by the board of regents. In addition, with a clearer funding formula this may give the legislature more influence on tuition rates without straying beyond the issue of constitutional control...looking at the example illustrated on Page E-84.

Therefore, in the overview section, the primary LFD Comments and Issues relate to a legislative option to charge PEPB, during the next interim, to complete the accountability measures to a point where they could be used for a performance-based budget building model, including incentive funding, and that PEPB would use these measures to consider alternative funding models, such as a cost of education model, that would give the legislature more certainty about what outcomes they are getting for state funding, what public policy goals are furthered by funding the university system.

On the issue of projected tuition rate increases that will result from the HB2 budget you will discuss, the Martz budget projected that their proposal, including their HB13 proposal of 3% per year increases for state pay plan, would only require 2% per year tuition increases. The Board of Regents have a different projection...specifically the Regents project that the Martz HB2 plus Martz HB13 would require tuition increases of approximately 4.3% each year of the 2007 biennium (see pages E-83 and E-84).

Under the Schweitzer HB2 changes, there should be no impact on the tuition rates, under the Schweitzer HB13 there may be some additional increases...that I have not had the chance to analyze...but, going forward, I will try to give you updates on the likely tuition rate increases that would occur under the various decision package scenarios you will be considering in executive action. But at this point, likely tuition increases would be about 4.3% per year.

Finally, in this overview section, there are some executive language recommendations that the subcommittee will need to consider...on page E-87...this is all standard, boilerplate language, but we will need executive action on these items.

Any questions on this overview section....

Program 1, Administration of the Commissioner of Higher Education, begins on page E-88...this program funds the overall administrative functions of the Office of the Commissioner of Higher Education...which includes system level support for the university units as well.

Looking at the program-funding table on page E-88, you can see what is going on in the Martz executive budget, both the budget tables and highlights table describes the major activity. The Schweitzer budget has made significant changes...if you turn to the second page of the Schweitzer analysis there is a review of these changes.

The Schweitzer budget removes funding for all Shared Leadership initiatives, which reduces the Program 01 budget by \$640,000 general fund and 2.00 FTE in the 2007 biennium...

The only significant LFD issue in program 1 was related to the Shared Leadership program...which you will be hearing more about in greater detail on Monday from the Commissioner...in the meantime I have provided you with an attachment about the project, including the three initiatives that the Martz budget recommended for funding...access, distance learning, and workforce development/2-year education...the Schweitzer budget has removed the Martz Shared Leadership initiatives for funding in the budget...but later, under Program 2 for Student Assistance, the Schweitzer budget funds student financial aid, choosing to focus on the access to education aspect of Shared Leadership...

In Program 1, Shared Leadership recommendations would have funded two new FTE, an Associate Commissioner for Economic Development and an executive assistant. These positions have already been filled as the Board of Regents approved funding from the last biennium to fill these positions starting this month. There is a more comprehensive LFD Issue related to Shared Leadership when we get to Program 09, funding for the university units.

Other than Shared Leadership, the program 1 budget changes include 1.00 FTE for a Data Warehouse Administrator...to manage the new university system-wide database...and 0.50 FTE for administrative support to assist the expanding Family Education Savings program; this is funded with state special revenue. Also, the Commissioner's Office anticipates that they will be asked to move during the upcoming biennium by the building owner, MHESAC, so the budget requests funding for anticipated higher rent costs. Curiously, the budget does not seek funds to support moving costs, but the budget director anticipates getting funding assistance from MHESAC.

The Commissioner's office will have more information about the prospects for office relocation at the hearing next week.

Any questions about Program 01, Administration?

The Student Assistance Program, Program 02, starts on page E-94. There are two components to the Student Assistance Program:

- Financial aid grants, loans and work study programs...explain federal and state components
- The interstate student exchange and assistance programs...known as WICHE/WWAMI/MN Dental...which is all general fund...

- Objectives are to make professional school programs available to Montana students where we do not offer that education degree program...such as medical school, dental school, etc. So state funding subsidizes Montana resident students to attend out-of-state professional schools
- Other objective is that graduates of these programs will return to practice their professional field in Montana so that we have the health practitioners needed

The Martz budget, on page E-94, funds Student Assistance with no new proposals but with present law adjustments only.

The Schweitzer budget, on the next page of the Schweitzer analysis, adds two new proposals to expand the student assistance program by \$5 million general fund, creating a new "Best and Brightest" Scholarship program that has a financial need-based grant program and a merit-based scholarship program.

Any questions on Student Assistance, Program 02?

Program 3 is Improving Teacher Quality, what used to be known as the Dwight Eisenhower Mathematics and Science Education Act program, which starts on page E104, which provides a detailed program description. Looking at the budget table on E-104, you can see that this is a small program that is completely funded by a federal grant.

The only decision package is a present law adjustment to the base year to provide sufficient federal spending authority for the expected amount of the federal grant award.

Any questions about Improving Teacher Quality, Program 03?

Next is Program 04, the Community College Assistance Program, that starts on page E-106 with the program descriptions. Looking at the budget table and the program highlights you can see that this is completely general funded and while there are no new proposals, the present law adjustments add about \$2.3 million in the 2007 biennium.

There is only one decision package in Program 04 because the entire appropriation is based upon a funding formula...although the DP is titled as "Resident Enrollment Growth"...it actually serves to calculate the entire community college funding recommendation based upon the three factors of the funding formula...the cost of education, projected enrollment and the state percentage share of funding.

Any questions about Community College Assistance, Program 04?

Program 05 the university group health plan and workers compensation fund, which begins on page E-112, is entirely funded from an internal service enterprise funds, so this program is presented to this subcommittee for informational purposes only, there will be no executive action here as enterprise funding is a decision of the General Government subcommittee and the rates are set in HB576...but, to give you an opportunity to understand the program.

Again, this subcommittee will not take any executive action on this program, but it is important that you know about these expenditures, and you may want to participate in the rate setting process of HB 576...Are there any questions about Program 05?

Program 06 is the Talent Search Program and begins on page E-116 with the program description and highlights. This is primarily a federally funded program with a small amount of general fund to support the Minority Achievement component.

Are there any questions about Talent Search, Program 06?

The Workforce Development, Program 08, begins on page E-119. Once again, this is almost primarily federal funding with only a small general fund match required

Are there any questions about the Workforce Development Program 08?

Program 09, the Appropriation Distribution Program, which begins on page E-121 and is the sixth page of the Schweitzer section, this is the largest program in the university system budget as this is the "pass-through" program that sends state funds to the university units of MSU and UM, as well as state funds to the public service/research agencies affiliated with the university units.

Any questions then about the Appropriation Distribution Program 09...

Our next topic is Program 11, Tribal College Assistance...which begins on page E-150 in the Martz analysis and is the final page of the Schweitzer analysis, the tribal college assistance funding is all from state general fund. Following the program description there are three decision packages, as the Schweitzer budget adds about \$2.5 million general fund to this program.

Any questions about Tribal College Assistance, Program 11?

The next section is Program 12, the Montana Guaranteed Student Loan Program, which starts on page E-152...Guaranteed Student Loan is a federal program, which is 100% federal funding, that is administered at the state level in the Office of the Commissioner.

Any questions about the Guaranteed Student Loan Program 12?

And our final section is Program 13, the Board of Regents Administration program, which is on page E-155...the Regents administration is entirely general fund support.

Are there any questions about the Board of Regents administration Program 13...

So that completes the Montana University System budget...all of the programs...are there any questions about any part of this budget...about other operations by the university or the Commissioner's office...about the Board of Regents?