Program Proposed Budget Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Local Assistance	103,000	5,000	0	108,000	9,000	0	112,000	220,000
Grants	8,537,206	397,555	0	8,934,761	622,787	0	9,159,993	18,094,754
Total Costs	**$8,640,206**	**$402,555**	**$0**	**$9,042,761**	**$631,787**	**$0**	**$9,271,993**	**$18,314,754**
General Fund	8,451,220	365,768	0	8,816,988	595,000	0	9,046,220	17,863,208
Federal Special	188,986	36,787	0	225,773	36,787	0	225,773	451,546
Total Funds	**$8,640,206**	**$402,555**	**$0**	**$9,042,761**	**$631,787**	**$0**	**$9,271,993**	**$18,314,754**

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:
  - 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 interstate student exchange and assistance programs have no financial need-based criteria for participants, and are completely state general fund programs which 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

Program Highlights

Student Assistance Program
Major Budget Highlights

- The executive budget increases general fund spending by $0.96 million in the 2007 biennium to support 335 student slots in the WICHE/WWAMI/MN Dental professional student exchange programs as follows:
  - In FY 2006 state support fees increase an average of $1,750 per student slot
  - In FY 2007 state support fees increase an average of $2,231 per student slot

Funding

The following table shows the program funding, by source, for the base year and for the 2007 biennium as recommended by the Governor. Funding for student assistance programs is included in the lump sum appropriation for the Montana University System.

Program Funding Table
Student Assistance Program

Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01000 General Fund	$ 8,451,220	97.8%	$ 8,816,988	97.5%	$ 9,046,220	97.6%
03000 Federal Spec. Rev. Funds	188,986	2.2%	225,773	2.5%	225,773	2.4%
Grand Total	$ 8,640,206	100.0%	$ 9,042,761	100.0%	$ 9,271,993	100.0%

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) far exceed the one-to-one match requirement, as federal appropriations have not kept pace with state appropriations for these two programs.

The WICHE/WWAMI/MN Dental programs are completely state general fund. 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 executive. "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 2006					Fiscal 2007				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 4 - WWAMI/WICHE/MN Dental	0.00	365,768	0	0	365,768	0.00	595,000	0	0	595,000
DP 21 - Additional Federal Funds for Student Assistance	0.00	0	0	36,787	36,787	0.00	0	0	36,787	36,787
Total Other Present Law Adjustments	**0.00**	**$365,768**	**$0**	**$36,787**	**$402,555**	**0.00**	**$595,000**	**$0**	**$36,787**	**$631,787**
Grand Total All Present Law Adjustments					$402,555					$631,787

DP 4 - WWAMI/WICHE/MN Dental - The executive budget adds $0.96 million general fund authority in the 2007 biennium to fund both new and continuing student slots at the increased tuition levels for the WICHE, WWAMI and MN Dental professional student exchange programs.

Figure 1
WICHE/WWAMI/MN Dental Program
Present Law Adjustments - 2007 Biennium Executive Budget

				Present Law Adjustments	
	FY 2004	FY 2006	FY 2007	FY 2006	FY 2007
WICHE Annual Dues	$ 103,000	$ 108,000	$ 112,000	$ 5,000	$ 9,000
WICHE Student Support	1,619,800	1,777,634	1,865,966	157,834	246,166
WWAMI Student Support	2,791,866	2,970,800	3,104,500	178,934	312,634
MN Dental Student Support	132,000	156,000	159,200	24,000	27,200
Total	$4,646,666	$5,012,434	$5,241,666	$365,768	$595,000

LFD COMMENT

The present law increase in the professional student interstate exchange programs (WICHE/WWAMI/MN Dental) is almost completely caused by rising tuition at the participating universities. As tuition rates increase the state support fees paid on behalf of Montana students also rise. For the 2007 biennium, state support fees increase an average of $1,750 per student slot in FY 2006 and $2,231 per student slot in FY 2007, as compared to base year FY 2004 fees. On the other hand, the number of slots for Montana students is decreased by 2 in the 2007 biennium executive budget, from 337 to 335.

The 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 more control over these fees so that any changes in expenditures levels in this program would require adjustments to the number of student slots that will be funded in the biennium.

LFD COMMENT CONT.

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 a reduced tuition charge to attend these programs. The Figure below details the student tuition rates for most of these professional exchange programs for the 2003-2004 academic year, the most recent year for which this data is available.

Figure 3
Professional Student Exchange Program
WICHE/WWAMI Annual Student Tuition
Academic Year 2003-2004

Professional Education Program	Annual Student Tuition Rate
WICHE Medicine	$ 14,449
WICHE Dentistry	18,509
WICHE Veterinary Med.	12,934
WICHE Occupat.Therapy	10,551
WICHE Optometry	11,287
WICHE Podiatry	10,404
WICHE Osteopathic Med.	15,029
WICHE Public Health	4,835
WWAMI Medicine	12,448

LFD ISSUE

During FY 2005, the Office of the Commissioner of Higher Education (OCHE) requested, and the executive approved, a $108,000 program transfer of general fund authority out of the Student Assistance WICHE/WWAMI/MN Dental Program and into the OCHE Administration Program to support a new 1.00 FTE position for a data warehouse administrator. While this program transfer followed all legal procedures and process requirements, it raises some policy issues for legislative consideration.

The FY 2005 appropriation for this student assistance program was $108,000 over the actual expenses of supporting students in the professional student exchange program. Such an occurrence is not unusual, as the budget is based upon the assumption that some specific number of students will follow through with the multi-year education programs funded in student assistance. If any of those students decide to withdraw or do not maintain the academic standards, then the appropriated funds will exceed the actual program expenditures.

That is the case in FY 2005, as less than the budgeted number of students in the 2005 biennium budget have maintained their participation in the program so that there is an unexpended fund balance, which OCHE and the executive have transferred to a different program.

LFD ISSUE CONT.

On the other hand, the Student Assistance Program (02) also supports student financial aid programs, including the Montana Higher Education Grants (MHEG) and the Baker grant programs, which provide financial need-based grants to Montana resident students that meet low-income criteria. According to the financial aid offices at both Montana State University and the University of Montana, after the federal-state funding formula for financial aid is completed in 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.

Therefore, should the legislature continue to fund the WICHE/WWAMI/MN Dental Program in the 2007 biennium, the legislature may want to consider the following options:

- Option A - restrict this appropriation so that any unexpended general fund that may result from a change in student enrollment in the professional exchange program would be required to remain within the Student Assistance Program (02) and be redirected to the other student financial aid programs
- Option B – restrict this appropriation so that any unexpended general fund would be subject to reversion
- Option C – take no action at this time

LFD ISSUE

The interstate student exchange and professional student exchange programs emphasize that among their program goals and objectives they also 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.

Providing access to these professional schools, the first goal above, is simply a matter of funding slots and subsidizing student tuition at whatever fiscal level the legislature decides each biennium. In the 2007 biennium the executive budget recommends providing access for 335 resident students.

Increasing the number of professional practitioners in Montana, the second policy goal, is not quite so straightforward, and compared to other states that participate in WICHE, Montana is not doing well in this regard. Montana has one of the lowest practicing alumni return rates among the participating states. Only 53 percent of Montana residents subsidized by state support to attend WICHE professional schools return to Montana to practice their chosen field. The average return rate among the 13 states is 63 percent; Montana ranks eleventh.

LFD ISSUE CONT.

At the same time, the Montana Department of Labor and Industry projects a growing need for practitioners in these critical professions, including dentists, occupational therapists, optometrists and veterinarians. In fact, Montana delegates to WICHE select the professional programs that will be supported based in large part on the projected need for practitioners in these areas across Montana. The Figure below illustrates Montana employment projections in these critical health related professions.

Figure 4
Montana Employment Projections
Selected Health Professions - (1998 - 2008)

Professions	1998 Employment	2008 Projected	Growth	Annual Openings
Dentists	1150	1350	200	40
Occupational Therapists	250	300	50	10
Optometrists	400	450	50	10
Physician and Surgeons *	1850	2300	450	70
Veterinarians	550	650	100	20
Total			850	150

* Physician/Surgeons includes podiatrists and osteopaths

Source: Montana Department of Labor and Industry (Office of Research & Analysis)

If you correlate the Labor and Industry data identifying the annual openings and employment needs in these critical professions with the 53 percent WICHE alumni return rate, the result is that during the 2007 biennium the WICHE program can only be expected to contribute 23 practitioners per year (43 student slots per year at 53 percent return) to fill 150 projected openings per year. It is not clear, therefore, that the professional student exchange program is achieving the public policy goal to increase the number of these practitioners in Montana to the extent the legislature may wish.

With this public policy goal in mind, however, the legislature created the Rural Physician Incentive Program (20-26-1501, MCA). This program is funded by a statutory appropriation with state special revenue from a surcharge on WICHE/WWAMI medical students. Under the program, OCHE will repay up to $45,000 of student debt for physicians who choose to practice in under-served rural Montana communities for a one-to-five year period.

Current data from OCHE indicates that since its inception in 1993, the Rural Physician Incentive Program has attracted 73 applications from physicians, of which 63 were approved and 53 are still practicing medicine in under-served Montana communities. This is an 84 percent retention rate of physicians who have been accepted into the program and drawn to practice medicine in rural Montana. The average annual cost of this program to Montana state government has been $154,000 during the five-year period 2000-2004, funded by state special revenue generated from a student surcharge.

Thus, the Rural Physician Incentive Program has shown some success in attracting professional practitioners to meet critical needs in underserved Montana communities.

LFD ISSUE CONT.

Considering the low alumni return rate in the WICHE program within the context of the projected need for 150 practitioners per year in Montana, the legislature may want to consider the following:

- Option A - expand the Physician Incentive program to include support for and enrollment by the other health care professionals that graduate from the WICHE program.
- Option B - create a similar but separate program, modeled on the Physician Incentive Program, that would provide student loan repayment for these other professional practitioners in these critical need areas that choose to practice in medically underserved communities of Montana.
  - Based upon the last five years of data from the Rural Physician Incentive Program, it may be projected that a new or expanded program would cost approximately $150,000 per year, which could be funded through the assessment of a student surcharge, as the physician program has done.
- Option C – take no action at this time.

DP 21 - Additional Federal Funds for Student Assistance - The executive budget adds $73,574 additional federal authority in the 2007 biennium for anticipated increases in federal funds for student grants. These funds would be used as the federal match portion in the state matched Baker Grant program.

LFD COMMENT

No federal award letter has been received yet for the 2007 biennium so this present law request is based upon an assumption of funding at the FY 2005 level. The present law amount requested is equal to FY 2005 federal funding less FY 2004 base year expenditures, to ensure appropriate federal authority.

The Figure below details these federal/state funded grant, loan and work study programs, showing the executive budget allocations to each of these unique programs in the 2007 biennium and comparing these to the FY 2004 base.

Figure 5
Student Assistance - State/Federal Grant and Work Study Programs
Fiscal 2004 through 2007

Grant Program	Actual FY 2004	Op Plan FY 2005	Exec. Budget FY 2006	Exec. Budget FY 2007	Biennial % Change
Funded with State Funds:					
Baker Grants	$2,034,870	$2,035,067	$2,034,869	$2,034,869	0.0%
MT Higher Education Grant (MHEG)	229,422	229,422	229,422	229,422	0.0%
SEOG *	527,401	537,564	527,401	527,401	-1.0%
Perkins Loan *	149,873	149,576	149,873	149,873	0.1%
State Work Study	862,989	803,322	862,989	862,989	3.6%
Subtotal State Funds	$3,804,555	$3,754,951	$3,804,554	$3,804,554	0.7%
Federal Matching Funds:					
SLEAP Grant Program (Baker Match)	72,628	136,578	$136,578	$136,578	
LEAP Grant Program (MHEG Match)	116,358	89,195	$89,195	$89,195	
Subtotal Federal Funds	$188,986	$225,773	$225,773	$225,773	8.9%
Total Funds	$3,993,541	$3,980,724	$4,030,327	$4,030,327	1.1%

* Represents the state match. The federal matching funds are distributed directly to university campuses.

LFD COMMENT

The 2007 biennium executive budget continues state funding for grants, loans, and work-study awards to students at the same level as the FY 2004 base. There is no state funding increase or decrease.

In FY 2004, $2.2 million state general fund was expended for grant awards to MUS students in the combined federal/state grant programs that include LEAP/SLEAP/MHEG/Baker grants. In FY 2003 those same federal/state programs awarded $2.6 million state general fund. The table below illustrates how these state funds were allocated by student/family income level to MUS students in both FY 2003 and FY 2004:

Figure 6
Student Assistance Program
LEAP/SLEAP/MHEG/Baker Grant Programs - FY 2003 and 2004
Average State Funded Student Grant Awards - By Income Level

Income Level	State General Fund Expended		Number of Grants Awarded		Average Grant Award Amount	
	2003	2004	2003	2004	2003	2004
$0 to $19,999	$ 956,198	$ 850,520	$ 2,199	$ 1,760	$ 435	$ 483
$20,000 to $39,999	775,764	644,087	1,470	1,110	528	580
$40,000 and above	903,468	689,512	1,512	992	598	695
Totals	$ 2,635,430	$ 2,184,119	$ 5,181	$ 3,862	$ 509	$ 566

Source: OCHE Annual Reports to US Department of Education (2003 and 2004)

The data figure table above illustrates what appears to be an odd distribution of state funding for student grant awards, as the average state grant award gets larger as the student/family income level gets higher.

This distribution occurs because state funded grant awards are the final award component that the university financial aid offices allocate in putting together the total financial aid-funding package for students. At this final point in the process, students will have received their federal grant award (primarily the Pell Grant funds), any private scholarship/grant awards (such as Rotary Club awards), and the institutional awards that are made by each college or university. Since the federal grant awards are distributed solely on need-based criteria, as are some of the private and institutional awards, by the time the state funded grant awards are made, those students with the greatest financial need will have received larger financial aid packages. Therefore, the state awards will be made at the point in the process where the total unmet need is a function of student/family income level minus the federal/private/institutional aid awarded. Since the lower income students will likely have received greater award packages to that point, their state grant award tends to be smaller as their unmet need at that point will likely have been reduced to a greater degree.

Once the entire grant award package is assembled, the financial aid offices will work with students to close the unmet financial need gap with student loans. According to data from the OCHE student assistance office, through academic year 2003, the average student loan debt is $19,980 for Montana resident students who receive a degree from the Montana University System that is in part funded by student loans.

LFD ISSUE

According to data from the National Association of State Student Grant and Aid Programs (NASSGAP) 34th Annual Survey Report (Academic Year 2002-2003), the national average for state financial aid grant awards is $467 per FTE student. In Montana, that average is $79 per resident FTE student, ranking Montana 38th among the 48 states participating in the national survey.

LFD ISSUE CONT.

The executive budget projects that enrollment growth at the university educational units will average 0.6 percent per year during the 2007 biennium. At the same time, the executive budget increases state funding for all student financial aid by a like amount at .66 percent. The only category that experiences growth, however, is the State Work Study program, which grows by 3.58 percent, while all others are level funded.

On the other hand, the executive budget also includes $9.9 million general fund to support the three Shared Leadership initiatives, one of which reads:

- Promote and enhance access to postsecondary education. This initiative is intended to lower the barriers to postsecondary education in Montana. It combines strategies of outreach to younger students and at-risk students to build a commitment to higher education, as well as lowering the economic barriers through increased financial assistance opportunities.

For its part, the legislative subcommittee on Postsecondary Education Budget and Policy (PEPB) has, for the second consecutive interim, approved a set of policy goals and accountability measures, one of which reads:

- Policy goal is to promote access and affordability, as measured by affordability compared to other states and state support as a percent of personal income and per capita income.

A funding increase to the primary state financial need based student grant programs (Montana Higher Education Grant (MHEG) and the Baker Grant) that is equal to the projected increase in student enrollment would total $27,171 over the 2007 biennium.

A funding increase to MHEG and Baker Grant that is equal to the projected increase in tuition (assuming present law adjustments and the executive pay plan proposal in HB 13) would total $196,994 over the 2007 biennium.