

Montana State Legislature

2011 Session

Exhibit

9

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HB _____

Legislative Budget Analysis 2013 Biennium

Volume 7—Agency Budgets

Education (Section E)
Long-Range Planning (Section F)



January 2011

Legislative
Fiscal Division



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Legislative Budget Analysis

2013 Biennium



Volume 7 – Agency Budgets

Presented to the Sixty-Second Legislature

Submitted by the
Legislative Fiscal Division

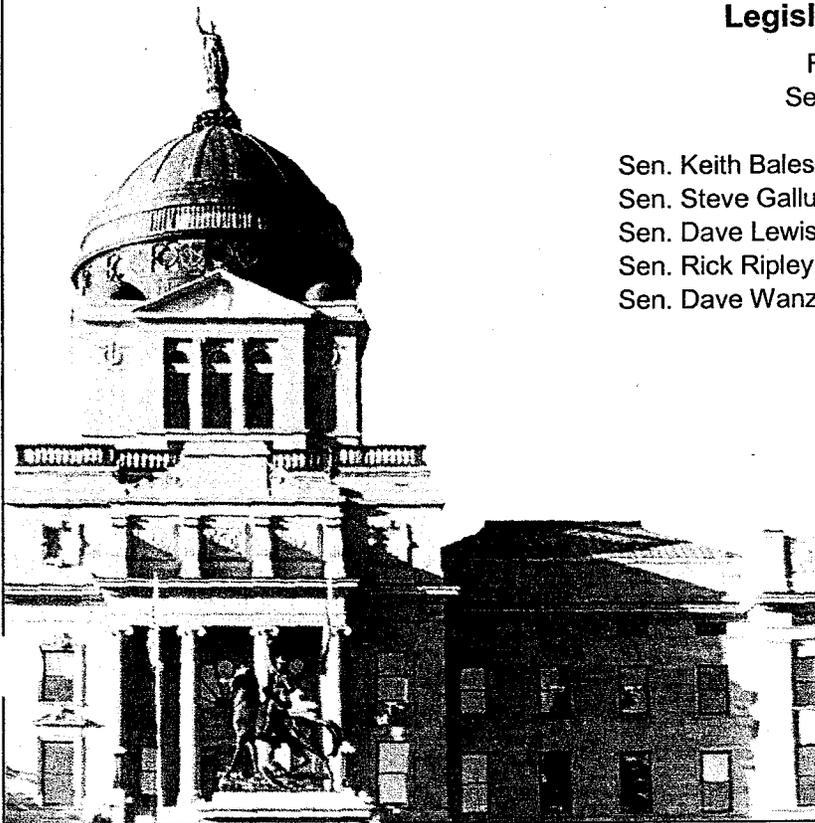
Amy Carlson, Legislative Fiscal Analyst

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AGENCY SUBCOMMITTEE GROUPINGS

The following sections (A through F) provide a detailed explanation and analysis of the executive budget for each agency and agency program that contains appropriations in HB 2. The agencies are grouped by functional categories that mirror agency groups by appropriations subcommittee. The groups are summarized below. Programs funded with proprietary funds are not funded in HB 2, but an explanation and analysis of these programs are included in each agency narrative for the purpose of legislative rate-setting.

GENERAL GOVERNMENT (Section A)

- Legislative Branch
- Consumer Counsel
- Governor's Office
- Secretary of State
- Commissioner of Political Practices
- State Auditor
- Revenue
- Administration
- Commerce
- Labor and Industry
- Military Affairs

HEALTH AND HUMAN SERVICES (Section B)

- Public Health and Human Services

NATURAL RESOURCES AND TRANSPORTATION (Section C)

- Fish, Wildlife, and Parks
- Environmental Quality
- Transportation
- Livestock
- Natural Resources and Conservation
- Agriculture

JUDICIAL BRANCH, LAW ENFORCEMENT, AND JUSTICE (Section D)

- Judicial Branch
- Crime Control Division
- Justice
- Public Service Regulation
- Office of Public Defender
- Corrections

EDUCATION (Section E)

- Office of Public Instruction
- Board of Public Education
- School for the Deaf and Blind
- Montana Arts Council
- State Library Commission
- Montana Historical Society
- Commissioner of Higher Education
- Community Colleges
- University Units and Colleges of Technology
- Agricultural Experiment Station
- Montana Extension Service
- Forestry and Conservation Experiment Station
- Bureau of Mines & Geology
- Fire Services Training School

LONG-RANGE PLANNING (Section F)

- Long-Range Building Program
- State Building Energy Conservation
- Long-Range Information Technology Program
- Treasure State Endowment Program
- Treasure State Endowment Regional Water System
- Renewable Resource Grant & Loan Program
- Reclamation & Development Grant Program
- Cultural and Aesthetic Grant Program
- Quality School Facilities Program

Where can you find each section in the *Legislative Budget Analysis 2013 Biennium*, Volumes 3-7?

- Volume 3 contains Section A
- Volume 4 contains Section B
- Volume 5 contains Section C
- Volume 6 contains Section D
- Volume 7 contains Sections E & F
- Volume 8 is on the LFD website

AGENCY BUDGET ANALYSIS (ROAD MAP)

The purpose of the "Agency Budget Analysis" (LFD Volumes 3 through 7) is to provide a resource for legislators and members of the public to understand and allow for action on state agency budgets. It is designed to be a working document for use by the joint appropriations subcommittees. It does this by:

- Detailing components of the executive budget
- Raising budget and other issues for legislative consideration

This section provides a roadmap for using the Agency Budget Analysis volumes by discussing each component.

BUDGET TIERS

The section is constructed based on the statutory requirement that the budget be presented in three tiers:

1. Base budget;
2. Present law budget; and
3. New proposals.

(For a further explanation of these tiers and how they are derived, see page 1 of the "Reference" section, or the publication entitled "Understanding State Finances and the Budgeting Process", available through the Legislative Fiscal Division and on the Internet at http://leg.mt.gov/content/publications/fiscal/leg_reference/Understanding_State_Finances.pdf). The analysis is presented in a manner to allow the legislature to see and act on each present law adjustment and new proposal made to the base budget to derive the executive budget, by summarizing and raising issues with those adjustments.

LEGISLATIVE FISCAL DIVISION (LFD) ISSUES AND COMMENTS

While LFD staff has written the entire analysis document, parts are meant strictly to explain what is in the executive budget in a way that does not justify or advocate the executive position.

The heart of the analysis is in two areas:

1. The LFD issues and comments provided on the proposed budget. If the LFD analyst has raised an issue with anything contained in the executive budget or with any other aspect of agency operations and expenditures, it is included as an "LFD Issue". The analyst may also provide additional information to aid the legislature in its decision making under the heading "LFD Comment". All issues and comments are clearly identified in the narrative; and
2. Other issues and options. In order to provide the legislature with alternatives to the executive budget, as well as budget-making flexibility, LFD staff has provided other issues and options for consideration by the legislature.

COMPONENTS OF THE AGENCY BUDGET ANALYSIS

For all multiple program agencies, the narrative is divided into two parts:

1. The agency narrative; and
2. The program narrative.

Agency Narrative

The agency narrative provides an overview of the executive budget and other issues and options for that agency. Since the legislature appropriates at the program level, only issues raised in the analysis with an agency-wide or multiple-program impact are discussed at this level. All other discussion occurs within the relevant program narratives.

Each agency narrative has the following components.

1. The **Main Table** shows the adjusted actual expenditures and appropriations of the current biennium and the executive request for the upcoming biennium by year. The reader can use this table to get a general idea of the size and funding of the agency, and compare the upcoming biennium totals to the current biennium.
2. The agency organizational chart follows, with contact information, and funding and FTE information for each unit of the agency in the chart. If the agency spends statutory or proprietary funds, they are listed separately
3. Two tables compare sources and funding and types of expenditures as proposed by the executive for the upcoming biennium to the current biennium.
4. **Agency Description** is a brief description of the agency, along with its mission statement.
5. **Agency Highlights** is a table showing the principal factors influencing the budget and any related discussion. It is designed to aid the reader in gaining an understanding of the overall agency budget or significant budget areas.
6. **Agency Discussion** provides additional information or overarching discussion. In addition, if the previous legislature funded any new initiatives of an agency-wide nature, a brief update is provided. For each agency, a recap of any agency-wide goals and objectives monitored by the Legislative Finance Committee during the interim, are listed and discussed as appropriate, as are any goals the LFC recommends the legislature review during the legislative session.
7. **5% Reduction Plan** provides a table and discussion on the statutorily required plan by agencies to reduce base expenditures by 5%. The LFC recommends that the starting point be the adjusted base minus this plan.
8. **Personal Services** provides the legislature with pertinent data on personal services that would allow the legislature to identify and address those factors impacting personal services expenditures and related policy issues. Factors addressed in this section include market salaries and obstacles to achievement of market goals. The program sections address other, program specific questions.
9. **Funding** is a table and related discussion that shows the total biennium funding, by program and fund type, proposed by the Governor.
10. **Statutory Appropriations** is a table showing any statutory appropriations received by the agency, in order to provide a more complete picture of total appropriations.
11. **Budget Summary by Category** summarizes the executive budget by base budget, statewide present law adjustment, other present law adjustments, and new proposals proposed by the Governor for each year of the biennium.
12. If included by the executive, a discussion of the following two types of proposals is included, each with LFD comments as appropriate:
 - **Supplemental Appropriations** discusses supplemental appropriations recommended by the Governor for current fiscal year, or supplemental appropriations approved in the last fiscal year.
 - **Reorganizations** details any major reorganization that took place in the current biennium or is proposed by the executive for the upcoming biennium
13. **Language** includes any agency-wide language proposed by the executive.
14. **Executive Recommended Legislation** is a listing and discussion of any legislation with a likely fiscal impact proposed by the executive and pertinent to the agency. This section is designed to

alert the legislature to other legislation not included in HB 2 that could have a bearing on the agency budget and operation.

15. **Agency Issues** is a discussion by the LFD analyst of any identified agency-wide or multi-program issues. Otherwise, all discussions of adjustments and attendant issues are included in the relevant program narratives.
16. **Elected Officials New Proposals** lists new proposals advocated by agencies headed by either an elected official or the Board of Regents but not included in the executive budget.

Note: The main and budget summary tables, the agency description, mission, and the highlights and funding tables are included in each agency narrative. However, the other components are "optional", indicating they are included only if circumstances warrant.

Program Narrative

Narratives detailing each agency program follow the agency narrative. The program narrative contains the following components.

1. The **Main Table** contains the same information as the agency main table for each program of the department, including adjusted actual expenditures and appropriations of the current biennium and the executive request for the upcoming biennium, by year.
2. **Program Description** is a short description of the program and its functions.
3. **Program Highlights** is a table showing the principal factors influencing the budget and any related discussion.
4. **Program Narrative** details any points of overall program discussion by the LFD analyst. If the previous legislature funded any new initiatives, a brief update is provided.
5. **5% Reduction Plan** provides a program level discussion of any elements of the agency submitted 5% reduction plan that pertain to the program.
6. **Funding** details program funding as proposed by the executive, and any issues raised by the LFD analyst.
7. **Program Reorganization** details any program reorganizations that took place in the current biennium or that are proposed by the executive for the upcoming biennium.
8. **Budget Summary by Category** summarizes the executive budget by base budget, statewide present law adjustment, other present law adjustments, and new proposals proposed by the Governor for each year of the biennium.
9. The **Executive Present Law Adjustments Table** delineates the major present law adjustments included by the executive, by fiscal year and funding source. The table is divided into two sections:
 - o Statewide present law adjustments, which include most personal services adjustments, the executive's vacancy savings recommendation, and adjustments due to fixed costs and inflation
 - o Other present law adjustments proposed by the executive
10. **Executive Present Law Adjustments** discusses each adjustment proposed by the executive in more detail. The section begins with a discussion that addresses personal services expenditures and policy issues specific to the program, including market rate, vacancies, how the legislatively applied vacancy savings was met, pay changes made outside of any legislative pay changes, and the number of employees eligible for full retirement and the related unfunded liability. This discussion is followed by a description of each adjustment proposed by the Governor. The LFD analyst writes the adjustment descriptions based upon justifications submitted by the executive. It should be noted that it is the responsibility of the LFD analyst to explain a requested change, but not to advocate for or attempt to justify that request. If the LFD analyst has raised an issue with the adjustment, it is presented when the adjustment is discussed.
11. The **New Proposals Table** shows each new proposal requested by the executive, by fiscal year and funding source.

12. **New Proposals** discusses each new proposal in more detail. If the LFD analyst has raised an issue with the proposal it is presented with that new proposal. As with present law adjustments, the LFD has written these explanations based upon submissions by the executive. For certain new proposals (and significant present law adjustments), a discussion submitted by the agency (with editing for clarity and brevity by LFD staff) is included that discusses goals, performance criteria, milestones and timetables, and other information designed to provide the legislature with information with which to evaluate the proposal. LFD staff provides any comments or issues with the submission.
13. **Language** recreates any program specific language proposed by the executive, with LFD comments as appropriate.
14. **Executive Recommended Legislation** is a listing and discussion of any legislation with a likely fiscal impact proposed by the executive and pertinent to the program.
15. **Other Issues** contains any issues identified by the LFD analyst unrelated to a specific present law adjustment or new proposal.

The legislature does not appropriate enterprise funds (which fund operations that provide goods or services to the public on a user charge basis) or internal services funds (which fund operations that provide goods and services to other entities of state government on a cost-reimbursement basis). However, the executive must review enterprise funds and the legislature approves all internal service rates. If the program includes a function supported by either an enterprise fund or an internal service fund, a separate section within the relevant program provides the following:

1. A **Fund Balance Table** shows actual and projected rates, revenues, expenditures, and fund balance through the upcoming biennium; and
2. **Narrative** contains a discussion of the function, a description and explanation of the rate requested, and a discussion of any significant present law adjustments or new proposals impacting the requested rate. The LFD analyst addresses any issues and comments as appropriate.

STATEWIDE PRESENT LAW ADJUSTMENTS

“Statewide Present Law Adjustments” are those adjustments applied to each agency based upon either: 1) factors beyond the individual agency control; or 2) other underlying factors. Because of the global application of these factors and the need for consistency among agencies, these adjustments are included in the “statewide” section of the present law table to alert subcommittees and other decision makers that, if adjustments are made to these costs, adjustments should be made to the underlying factors upon which the adjustments are based. The Legislative Finance Committee (LFC) will make a recommendation on these and other adjustments to appropriations leadership.

Personal Services

Personal services costs are derived by taking a “snapshot” of state employee positions and the factors determining compensation rates at a particular point in time. A number of underlying factors will make the upcoming biennium personal services costs different from actual base year costs. The most important are:

Current Biennium Pay Plan and Other Benefits

If the legislature passed a pay plan that is implemented over the biennium, the base year will not reflect all of the costs that must be paid by the agencies when the pay plan is fully implemented. For example, if the legislature provides a percentage increase midway through the first year and another midway through the second year, base year costs will only reflect ½ of the costs of the first increase.

In addition, any changes made to benefits that an agency must pay directly to or in support of an employee, such as pension, or unemployment and workers' compensation insurance, are automatically reflected in the present law personal services.

Vacancy Savings

Vacancy savings is a reduction in personal services costs that results when positions are not filled for the entire year. Vacancy savings will fluctuate within agencies and programs from year to year. In order to provide the legislature with the opportunity to make all policy decisions regarding vacancy savings, each position is funded as if the position were filled for the entire year, regardless of any vacancy savings that may have occurred in the base year.

Termination Pay

Costs incurred by agencies due to termination of employment, such as accrued sick or annual leave, are not included in present law.

Other Adjustments to Pay

All other changes to salaries authorized during the biennium through the "snapshot" date (July of the base year) are included in present law.

Any adjustments to personal services from sources within the control of the executive, such as overtime, new or deleted positions, or proposed transfers, should not be included in the statewide adjustments. If the LFD analyst has identified any of the adjustments in the statewide adjustment line, they are discussed as an LFD issue or comment.

Vacancy Savings

Any vacancy savings proposed by the executive is included, which results in a reduction of personal services costs. If the executive proposes a vacancy savings rate different from the previous rate, it should be included in a decision package.

Inflation/Deflation

The executive budget has inflated or deflated certain operating expenses. Each agency budget is automatically adjusted to add inflation to or subtract deflation from the relevant expenditure items. Therefore, changes to inflation/deflation amounts in the agencies can only be made through an adjustment to the actual expenditure against which the inflation/deflation is applied, rather than to the inflation/deflation factor, itself.

Note: A complete listing of expenditure categories inflated or deflated in the executive budget has been included in the "Reference" section.

Fixed Costs

Fixed costs are costs charged to agencies to fund the operations of certain centralized service functions of state government (such as information technology, messenger services, and legislative audit). Costs charged to the individual agency budgets are based upon the cost in the service agency and the method used to allocate those costs. These fixed costs are automatically added to each agency budget, as appropriate. Any changes to these allocations must be made through a change to the service agency budget, or to the allocation method used by the service agency. The General Government and Transportation Subcommittee will review the fixed costs proposals.

Note: A complete listing of all fixed costs is included in the "Reference" section

EDUCATION

Section E

JOINT SUBCOMMITTEE OF HOUSE APPROPRIATIONS AND SENATE FINANCE AND CLAIMS COMMITTEES

-----Agencies-----

Office of Public Instruction
Board of Public Education
School for the Deaf and Blind
Montana Arts Council
State Library Commission
Montana Historical Society

Montana University System (MUS)
Commissioner of Higher Education
Community Colleges
University Units & Colleges of Technology
Agricultural Experiment Station
Montana Extension Service
Forestry & Conservation Experiment Station
Bureau of Mines & Geology
Fire Services Training School

-----Committee Members-----

House

Representative Roy Hollandsworth (Chair)
Representative Ryan Osmundson
Representative Robert Mehlhoff

Senate

Senator Debby Barrett
Senator Bob Hawks
Senator Llew Jones
Senator Bradley Hamlett

-----Fiscal Division Staff-----

Jim Standaert
Pam Joehler
Barbara Smith

Proposed (Unified Budget) Budget

The following table summarizes the executive proposed table by agency and funding source.

Unified Budget	Base FY 2010	Approp. FY 2011	Exec. Request FY 2012	Exec. Request FY 2013	Biennium FY 10 - 11	Biennium FY 12 -13	Biennium \$ Change	Biennium % Change
Full Time Equivalent (FTE)	461.16	461.16	446.93	446.93	461.16	446.93	(14.23)	-3.09%
3501 Office of Public Instruction	721,810,430	896,204,525	852,668,705	861,439,301	1,618,014,955	1,714,108,006	96,093,051	5.94%
5101 Board of Public Education	384,383	413,221	400,937	406,707	797,604	807,644	10,040	1.26%
5102 Commissioner of Higher Education	240,230,561	264,902,841	266,519,723	276,050,842	505,133,402	542,570,565	37,437,163	7.41%
5113 School for the Deaf & Blind	6,278,484	6,385,358	6,351,366	6,318,450	12,663,842	12,669,816	5,974	0.05%
5114 Montana Arts Council	1,274,192	1,280,792	1,461,300	1,450,058	2,554,984	2,911,358	356,374	13.95%
5115 Montana Library Commission	4,671,608	4,668,378	5,136,697	4,117,321	9,339,986	9,254,018	(85,968)	-0.92%
5117 Montana Historical Society	4,202,780	4,545,008	4,556,910	4,533,241	8,747,788	9,090,151	342,363	3.91%
Total Proposed Budget By Agency	\$978,852,438	\$1,178,400,123	\$1,137,095,638	\$1,154,315,920	\$2,157,252,561	\$2,291,411,558	\$134,158,997	6.22%
01000 General Fund	719,477,679	885,772,254	856,314,462	863,042,676	1,605,249,933	1,719,357,178	114,107,245	7.11%
02000 State Special Revenue Funds	22,137,796	20,908,530	69,389,213	71,423,751	43,046,326	140,812,964	97,766,638	227.12%
03000 Federal Special Revenue Funds	236,345,011	270,630,473	210,474,398	218,933,298	506,975,484	429,407,696	(77,567,788)	-15.30%
06000 Proprietary Funds	891,952	1,088,866	917,565	916,195	1,980,818	1,833,760	(147,058)	-7.42%
Total Proposed Funding	\$978,852,438	\$1,178,400,123	\$1,137,095,638	\$1,154,315,920	\$2,157,252,561	\$2,291,411,598	\$134,159,037	6.22%

Agency Description

The fourteen-member Board of Education (BOE), under authority of Article X, Section 9 of the Montana Constitution, is composed of the Board of Regents of Higher Education (BOR) and the Board of Public Education (BOPE). It is responsible for long-range planning, and for coordinating and evaluating policies and programs for the state's educational systems. The Board of Education is constitutionally required to submit a unified budget request for the state's education system.

Agency Discussion

By statute, the Board of Education is to review and unify the budget requests of the following educational entities:

- Commissioner of Higher Education
- Board of Public Education
- Office of Public Instruction
- Montana School for the Deaf and Blind
- Montana Library Commission
- Montana Arts Council
- Montana Historical Society

The unified budget request is then submitted to the Office of Budget and Program Planning by the state agencies for inclusion in the Governor's executive budget. The drafters of the constitution included the unified budget submittal so that the funding allocations to the various components of the educational system were "threshed out together, so that when the legislature was asked for an amount, there would have been some agreement reached between all phases of education." A unified budget request allows the BOE to determine the total amount of the biennial budget request for the educational system and the amount of the total that they would recommend allocating to each portion of the budget. BOE can prioritize the long range policies for the educational system within the budget. In periods of scarce resources, a unified budget request allows the BOE to determine which programs will be reduced, increased, or postponed until additional resources are available. It also allows BOE to review the various programs and requests for additional funding in the education system as a whole and further its related policies by reflecting them in the budgets requested by the agencies.

The proposed (unified) budget shows the state agency budgets that are required by statute to be part of a BOE submitted unified budget. However, the BOE did not provide a unified budget proposal request to the 2011 Legislature to review.

Rather, the executive proposed a unified budget that does not include the cultural education agencies. Per 2-15-151, MCA the cultural agencies are also allocated to the BOE for the purpose of planning and coordination.

**LFD
ISSUE**
Definition of the Unified Budget

The Montana Constitution requires that a unified budget be submitted for the state's education system. By statute, the legislature has chosen to include the cultural agencies in this definition. This statute has not been updated since 1985. The legislature has the option of revising the definition of the unified budget to remove the cultural agencies from this definition. In doing this, the legislature would examine a unified budget including the Board of Public Education, the Office of Public Instruction, the Commissioner of Higher Education and the School for the Deaf and Blind. A committee bill would be needed to implement this change.

Biennial Changes in the Proposed Unified Budget

The proposed unified budget request totals \$2.3 billion for the 2013 biennium. The request is \$134.2 million higher than the 2011 biennium. The general fund supports 75% of the unified budget in the 2013 biennium. State special revenue accounts for 6.1% and federal funds provides 18.7% of the unified budget. Key issues driving the budget are the following:

- The \$96.1 million increase for OPI represents inflationary adjustments of 1.53% in FY 2012 and 1.9% in FY 2013, adjustments for ANB entitlements, and increases to cover higher than average trust land revenues due to the leasing of Otter Creek coal tracts.
- The \$37.4 million increase for the Commissioner of Higher Education is primarily due to the executive's recommendation for increased funding for the state's community colleges and an increased state percent share for university units' present law adjustments, increased assistance for tribal colleges, reinstating some of the one-time-only appropriations included in HB 645 passed by the 2009 Legislature, and two new initiatives requested by the Governor for dual enrollment and the university units.

The unified budget also incorporates the funding changes associated with American Reinvestment and Recovery Act (ARRA) State Fiscal Stabilization Funds (SFSF) that were appropriated in HB 645 by the 2009 Legislature. HB 645 allowed the university system and the Office of Public Instruction to fund certain of these expenditures with general fund the for 2013 biennium. The funding switch for MUS is \$59.1 million and for OPI the switch is \$29.2 million.

The general fund increase of \$114.0 million is attributed to:

- \$91.6 million for MUS, of which \$59.5 million is the ARRA/general fund switch, and the remaining \$31.5 million increase for increased state funding for community colleges, university units, and tribal colleges.
- \$22.1 million for OPI, which is the net of the ARRA/general fund switch, inflationary increases, decreases in trust land revenues, and the executive proposal to fund quality educator payments with state special revenue.
- Small increases in general fund to the Board of Public Education, the School for the Deaf and Blind, and the Historical Society, offset by decreases in general fund in the Montana Arts Council and the Montana Library Commission.

For detailed discussion on agency budgets within the unified budget, see the funding section of each agency.

Utilizing Shared Policy Goals to Allocate Resources

The 2009 Legislature approved SJR 8 to urge the Board of Regents, Commissioner of Higher Education, Superintendent of Public Instruction, and the Board of Public Education to work with the Education and Local Government Interim committee (ELG) to develop K-20 shared policy goals and accountability measures for the purpose of program evaluation and as a guide for legislative funding decisions. During the interim, representatives from each group worked with a subcommittee of the ELG to develop such goals. The shared policy goals and accountability measures were agreed to at the August 2010 meeting of the ELG. Each component, K-12, K-20, and the Montana University System, has a set of policy goals and accountability measures that relate to the unified budget.

The agreement is actually an understanding that the statewide public education policy goals and related accountability measures will be used as a policy goal setting and assessment tool for policymakers, the state education boards and agencies, and the general public in evaluating the achievement of the policy goals; and that will be used, in conjunction with 20-9-309, MCA, as a guide to drive decision making and funding mechanisms for the state funding that is appropriated to the K-20 public education system by the legislature.

The Legislative Finance Committee recommends that the shared policy goals and accountability measures be considered during the appropriations process. For this purpose, the K-12 and the MUS shared policy goals and accountability measures are included in the agency overview of the Office of Public Instruction and the Office of the Commissioner of Higher Education. The K-20 is discussed here.

K-20 Shared Policy Goals and Accountability Measures		
Shared Policy Goal	Objectives	Accountability Measure
Align high school outcomes with college readiness expectations to facilitate the transition from high school to college	Decrease remediation rates of freshman entering the Montana University System from Montana public high schools	Remediation rates of freshman entering the Montana University System from Montana public high schools steadily decrease. [Measure -- 5 year trend data]
Increase college participation of Montana high school graduates	Increase the percentage of Montana high school graduates who participate in accredited postsecondary education	Increase the percentage of Montana high school graduates enrolling in college. --All postsecondary --MUS [Measure -- 5 year trend data]
Expand distance learning opportunities	Create easy access to distance learning opportunities through the development of a virtual academy and through improvements to current virtual college capabilities	Montana high school students who participate in distance learning --Higher Ed baseline distance learning enrollment currently available. --High School baseline distance learning enrollment not currently available, but will be collected starting Fall 2010 [Measure -- 5 year trend data]
Utilize K-20 data to improve student access and achievement	Link K-12 and Higher Education data systems	By June 30, 2013, the electronic link between MUS data and OPI data will be established.

The K-20 shared policy goal, focus on aligning outcomes in the K-12 system to facilitate increased participation in and outcomes of the postsecondary system. The underlying focus with these items is the ability to coordinate and share appropriate data to report on the desired accountability measure. The reporting then will allow policy makers to adjust public policy to achieve desired outcomes. The executive has requests that impact the shared policy goals, such as:

- A request to continue funding for the Montana Digital Academy
- Authority for data sharing initiatives funding through federal grants
- Allocations to the MUS that impact college affordability
- Funds for assessments to increase college readiness of high school students

The legislature has the opportunity to discuss the unified budgets in conjunction with the shared policy goals. Appropriations decisions made by the legislature may impact the ability of the state agencies to achieve the shared goals. The legislature may wish to include in the appropriations discussions deliberations on the impact of funding decisions on these shared goals, and if necessary propose to alter the shared goals to reflect the legislatively approved funding levels.

Shared Policy Goals and Accountability Measures – the Future

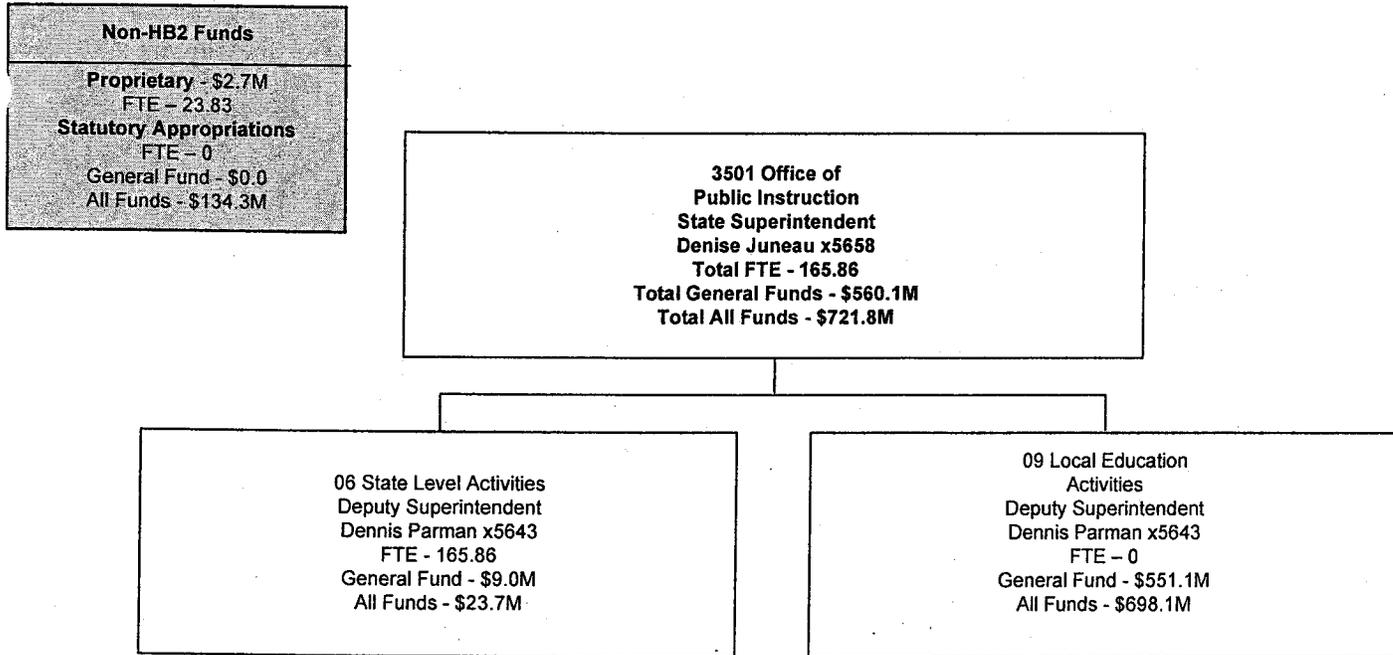
Shared policy goals are a function of planning over time to achieve a specific outcome. In order to analyze the impact of shared policy goals and accountability measures, the activity needs to continue past the 2013 interim, as, without the time commitment, the process loses its value. The legislature may wish to formalize the development and management of the shared policy goals and accountability measures by adjusting the responsibilities of the Education and Local Government interim committee. Current statute, 5-5-224, MCA directs the interim committee to consider the progress of the university system toward its long range goals, but not those of the Office of Public Instruction. The legislature may wish to consider adding the responsibility of the shared policy goals for K-20 to this committee. To do this the subcommittee may wish to request a committee bill.

Agency Budget Comparison

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

Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	165.86	165.86	165.86	165.86	165.86	165.86	0.00	0.00%
Personal Services	9,958,949	11,582,397	10,676,905	10,674,244	21,541,346	21,351,149	(190,197)	(0.88%)
Operating Expenses	14,806,100	21,595,012	16,036,171	16,067,292	36,401,112	32,103,463	(4,297,649)	(11.81%)
Equipment & Intangible Assets	11,839	50,426	11,839	11,839	62,265	23,678	(38,587)	(61.97%)
Local Assistance	564,594,849	713,487,529	685,768,117	690,860,253	1,278,082,378	1,376,628,370	98,545,992	7.71%
Grants	132,029,203	147,998,651	139,766,183	143,416,183	280,027,854	283,182,366	3,154,512	1.13%
Transfers	409,490	1,490,510	409,490	409,490	1,900,000	818,980	(1,081,020)	(56.90%)
Total Costs	\$721,810,430	\$896,204,525	\$852,668,705	\$861,439,301	\$1,618,014,955	\$1,714,108,006	\$96,093,051	5.94%
General Fund	560,053,258	722,904,404	650,266,733	654,798,000	1,282,957,662	1,305,064,733	22,107,071	1.72%
State Special	975,513	979,051	48,018,021	48,610,569	1,954,564	96,628,590	94,674,026	4,843.74%
Federal Special	160,781,659	172,321,070	154,383,951	158,030,732	333,102,729	312,414,683	(20,688,046)	(6.21%)
Total Funds	\$721,810,430	\$896,204,525	\$852,668,705	\$861,439,301	\$1,618,014,955	\$1,714,108,006	\$96,093,051	5.94%

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description

Mission Statement: The Montana Office of Public Instruction provides vision, advocacy, support and leadership for schools and communities to ensure that all students meet today's challenges, and tomorrow's opportunities.

The Superintendent of Public Instruction is an elected official authorized by Article VI, Section 1, of the Montana Constitution. The Office of Public Instruction (OPI) distributes funding to school districts and provides services to Montana's school-age children and to teachers in approximately 427 school districts. The staff provides technical assistance in planning, implementing, and evaluating educational programs in such areas as teacher preparation, teacher

certification, school accreditation, school curriculum, school finance, and school law. The staff also administers a number of federally-funded programs and provides a variety of information services, including the information systems necessary to assess student achievement and the quality of Montana's elementary and secondary school system.

Agency Highlights

Office of Public Instruction Major Budget Highlights	
<ul style="list-style-type: none"> ◆ The Governor proposes to increase this agency's budget by 5.9% when compared to the previous biennium. ◆ State level activities decreases by 9.6% due to adjustments made to federal authority to equal anticipated funding ◆ The executive proposes an increase in OPI's distribution to schools program of \$276.7 million in state funds in the 2013 biennium when compared to base expenditures in FY 2010. The increase is \$101.6 million when compared to the 2011 biennium. <ul style="list-style-type: none"> • The difference between the doubled base and biennial increases is due to the provision of one-time funding for the Otter Creek leases and from the federal government in FY 2010, both of which replaced general fund in that year only ◆ Of this amount, present law general fund spending would increase \$269.7 million in the 2013 biennium. New proposals would reduce general fund spending by \$87.4 million, and state special revenue account spending would increase by \$94.4 million. The biennial present law increases in general fund spending from the doubled FY 2010 base are: <ul style="list-style-type: none"> • \$29.2 million to replace spending that was supplied by federal American Reinvestment and Recovery Act (ARRA) funds in FY 2010 • \$169.3 million to replace spending that was supplied by the guarantee fund using coal bonus payments made by Arch Coal Co in FY 2010 (Otter Creek) • \$26.2 million to bring general fund spending up to levels consistent with FY 2011 entitlements • \$29.6 million to reflect an inflationary increase in entitlements equivalent to 1.9% in FY 2012 and 1.5% in FY 2013 • \$10.0 million for the at-risk payment • \$3.0 million to maintain special education spending • \$2.4 million for additional spending on HB 124 block grants, transportation, and other general fund spending ◆ The executive budget also increases federal spending by \$19.1 million primarily in school foods, Title 1, and special education. This is offset by a \$29.2 million reduction in federal ARRA funds ◆ The executive budget contains two new proposals that switch funding for K-12 programs from the general fund to state special revenue accounts, one proposal to increase the quality educator payment by inflation, and one proposal to increase special education by inflation. These proposals are: <ul style="list-style-type: none"> • Remove \$17.2 million in school facility reimbursements from the general fund and pay for this program from the school facility and technology fund using streambed rental monies • Remove \$76.7 million in quality educator payments from the general fund and pay for this program from a new Teach Montana state special revenue account, which would receive oil and gas revenues 	

<p>that have been diverted from school district coffers; this would also require GTB funding in the amount of \$3.8 million for school districts that lose oil and gas revenues</p> <ul style="list-style-type: none"> • Increase the quality educator payment by inflation in FY 2013 for an additional cost to the Teach Montana account of \$0.6 million • Increase special education for the biennium by \$2.7 million to reflect inflation
Legislative Action Issues
<ul style="list-style-type: none"> ◆ Major LFD Issues <ul style="list-style-type: none"> • The executive underestimates K-12 general fund costs for the 2013 biennium by \$14.0 million. Of this amount, new cost data shows \$7.5 million is due to higher than predicted costs to pay for spending consistent with FY2011 entitlement levels. The remaining increase in general fund cost, \$6.5 million, is the result of lower revenue estimates for the guarantee account as chosen by the Revenue and Transportation Interim Committee. • The executive proposes to use the school facility and technology account to pay for school facility reimbursements instead of the general fund. The revenue in the school facility and technology account during the 2013 biennium will depend on the riverbed rents paid by Avista and PPL. The PPL portion of these payments is in litigation at the US Supreme Court and it is unknown when the case will be resolved. If PPL wins the case, these revenues will be unavailable to pay for school facility reimbursements. • The executive proposes to create a new Teach Montana state special account to pay for the quality educator payment, an amount of approximately \$38.0 million per year, and pay for this payment by diverting 90% of oil and natural gas revenues currently distributed to school districts in 32 counties. This action is contingent on passage of LC 360. In the latest year in which data is available, school districts received \$33.6 million in oil and gas revenues, not enough to pay for one year's quality educator payment. • The executive improperly increases the special education appropriation by the attendant GTB increase which is properly BASE Aid, in both its present law adjustment and new proposal for special education. • The MT Digital Academy is required to provide a report to the legislature regarding its first biennia of operations. ◆ Interim Committee Recommendations <ul style="list-style-type: none"> • The Legislative Finance Committee recommends that the budget starting point be the adjusted base minus 5%

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:

- o Goals, objectives and year-to-date outcomes from the 2011 biennium
- o Critical agency goals, objectives, and anticipated outcomes and their correlation to the executive's budget request for the 2013 biennium

2011 Biennium Goals

The following provides an update of the goals monitored by the LFC during the 2011 biennium:

- o Improve teacher effectiveness and comply with Elementary and Secondary Education Act (ESEA) requirements to address inequities in the distribution of highly qualified teachers
 - The agency identified areas of critical teacher shortage, determining student loan assistance payments to eligible teachers and facilitating payments to those teachers. The program continues to address difficult to fill positions through the annual data collection process.
- o Establish a longitudinal data system for the P-20 education system in Montana
 - This goal included application to the US Department of Education for funding support that was subsequently not awarded. The agency utilized grant funds from the Montana Student Assistance Foundation to contract with the National Student Clearinghouse to provide a student tracking system to the agency, the Commissioner of Higher Education, and accredited high schools. This will allow the state to determine the percentage of high school graduates who enroll in post secondary education.
- o Improve academic content standards and student academic achievement standards
 - The agency received approval for revised standards for mathematics and communication arts from the Board of Public Education during the 2011 biennium. The agency continues to participate in the Common Core State Standards Initiative – a state-led process to develop and implement common English-language arts and math standards.
- o Enhance the quality of academic assessments
 - The agency provided professional development activities on the use of test results, conducted pilot testing of four online writing assessment programs to determine potential utilization, and submitted evidence for CRT testing approval in science to the US Department of Education. The agency is also participating as a governing state in the SMARTER Balance Assessment Consortium, a group of 32 states awarded funds to establish a comprehensive assessment system to produce data that can be used to gauge the effectiveness of instruction.
- o Develop valid and reliable assessments for children with disabilities and limited English proficiency
 - The Office of Public Instruction has received three grant awards to study test designs for a statewide Criterion-Referenced Test (CRT) based on modified achievement standards. These grants are collaborations with other states, universities, and testing and research entities. Montana is the lead state in these collaborations. Activities include analysis of the appropriateness and effectiveness of accommodations for students with disabilities and provision of professional development on how to use such accommodations.
- o Support struggling schools
 - The agency received a \$9.8 million School Improvement Grant to provide technical assistance and resources to four school systems that have been identified as Persistently Lowest-Achieving Schools utilizing the federal formula. The agency hired personnel to manage this grant and has also hired instructional coaches, school board coaches, community liaisons, transformation leaders, and a community youth coordinator to work in the school communities of Frazer, Lame Deer, Lodge Grass and Pryor.

2013 Biennium Goals

During the interim the LFC met with the agency to select critical goals and performance measurements for the legislature to consider during the appropriation process. The LFC requested that the shared policy goals be considered through the appropriations process, they are:

- o Prepare students with the knowledge and skills necessary for success in the 21st century global society
- o Improve teaching and student learning by promoting data driven policy decisions and increase access to educational information
- o Improve student achievement in struggling schools
- o Increase public awareness of and engagement in the K-12 educational system recognizing the roles and responsibilities of the state and local education agencies and the legislature

Agency Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- o **Labor Market Experience** – The permanent positions located in Helena have typically had 60-70% of applicants meeting minimum qualifications. Overall, the agency has been successful in filling the positions after listing the vacancy the first time. However, the agency has had difficulty attracting qualified applicants for positions in information technology, compliance monitors, and instructional coordinators. Vacancies in these positions have taken repeated attempts to fill. These positions have been advertised 3 and 4 times before being filled.

Applicants reject job offers less than 10% of the time. Rejected offers were typically because they thought the pay was too low, their current employer counter offered and they accepted, or they decided relocation was cost prohibitive and declined.

The agency has stopped advertising in newspapers. Instead, it relies on the state employment website and the OPI website for listing vacancies and has relied on the applicant pools generated by depending on those websites. The agency has spent considerable time and resources figuring out new recruitment strategies for utilizing one time monies resulting from ARRA and the federal School Improvement Grant.

- o **Pay Philosophy** - OPI has and will continue to advertise its typical vacancy at 93% of the 2006 market. Occasionally, hard-to-fill positions have been listed at a higher percentage after the initial offering failed to attract qualified applicants.
- o **Obstacles** - OPI has experienced great difficulty in attracting and recruiting experienced educators for positions covered by the TRS retirement system.

Agency Overview*5% Reduction Plan*

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The following summarizes the plan submitted for this agency.

Total 5% Reduction Plan Identified by OPI, By Division Included and Not Included in Executive Budget 2013 Biennium					
Program/DP Number/Description	FTE	General Fund	% Of Total	State Special Revenue	% Of Total
State Level Activities					
<i>Included in Executive Budget</i>					
55140 5% General Fund Reduction	0.00	\$229,756	0.4%	\$0	0.0%
Subtotal Included in Executive Budget		\$229,756	0.4%	\$0	0.0%
<i>Not Included in Executive Budget</i>					
Remaining 5% reduction plan		\$666,852	1.2%	\$0	0.0%
State Special Revenue Reduction		0	0.0%	97,552	100.0%
Subtotal Not Included in Executive Budget		\$666,852	1.2%	\$97,552	100.0%
Total State Level Activities		\$896,608	1.6%	\$97,552	100.0%
Local Education Activities					
<i>Included in Executive Budget</i>					
Subtotal Included in Executive Budget		\$0	0.0%	\$0	0.0%
<i>Not Included in Executive Budget</i>					
Local Education Reduction*		\$55,108,718	98.4%	\$0	0.0%
Subtotal Not Included in Executive Budget		\$55,108,718	98.4%	\$0	0.0%
Total Local Education Activities		\$55,108,718	98.4%	\$0	0.0%
Total Reduction Plan					
Included in Executive Budget		\$229,756	0.4%	\$0	0.0%
Not Included in Executive Budget		\$55,775,570	99.6%	\$97,552	100.0%
Total Agency Reduction Plan		\$56,005,326		\$97,552	

The agency's 5% reduction plan includes a \$994,160 reduction for state level activities and \$55,108,718 of local support for the 2013 biennium. The executive included only \$229,756 of this plan in the budget request. If the entire 5% plan was adopted, the executive request would change from a budget increase of 5.94% to an increase of 2.48%.

The agency's plan states that the reduction to K-12 BASE Aid would require a statutory change to reduce some combination of the basic and per-ANB entitlements, the quality educator payment, the at-risk student payment, the Indian Education for all payment and the American Indian achievement gap payment. If such changes were made, school districts would respond by reducing educational services to students and families, seek voter approval to increase local property tax levies and/or use non levy revenue to replace the state funds.

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.

Total Agency Funding 2013 Biennium Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
06 State Level Activities	\$ 20,602,079	\$ 685,195	\$ 29,963,337	\$ 51,250,611	2.99%
09 Local Education Activities	1,284,462,654	95,943,395	282,451,346	1,662,857,395	97.01%
Grand Total	\$ 1,305,064,733	\$ 96,628,590	\$ 312,414,683	\$ 1,714,108,006	100.00%

Statutory Appropriations

The following table shows the total statutory appropriations associated with this agency. Because statutory appropriations do not require reauthorization each biennium, they do not appear in HB 2 and are not routinely examined by the