

Program Budget Comparison

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

| Program Budget Comparison | | | | | | | | |
|---------------------------|---------------------|---------------------|---------------------|---------------------|-----------------------|-----------------------|------------------|-------------------|
| Budget Item | Base Fiscal 2014 | Approp. Fiscal 2015 | Budget Fiscal 2016 | Budget Fiscal 2017 | Biennium Fiscal 14-15 | Biennium Fiscal 16-17 | Biennium Change | Biennium % Change |
| Local Assistance | 12,889,160 | 13,917,071 | 13,515,295 | 13,506,647 | 26,806,231 | 27,021,942 | 215,711 | 0.80 % |
| Total Costs | \$12,889,160 | \$13,917,071 | \$13,515,295 | \$13,506,647 | \$26,806,231 | \$27,021,942 | \$215,711 | 0.80 % |
| General Fund | 12,889,160 | 13,917,071 | 13,515,295 | 13,506,647 | 26,806,231 | 27,021,942 | 215,711 | 0.80 % |
| Total Funds | \$12,889,160 | \$13,917,071 | \$13,515,295 | \$13,506,647 | \$26,806,231 | \$27,021,942 | \$215,711 | 0.80 % |

Program Description

This program distributes funds appropriated by the Legislature in support of the three community colleges: Miles Community College, Dawson Community College, and Flathead Valley Community College. Each community college district has an elected board of trustees. The regents have statutory authority to control the community colleges in Title 20, Chapter 15, MCA.

Program Highlights

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| Community College Assistance Program Major Budget Highlights |
| <ul style="list-style-type: none"> • The executive budget funds the state share of the cost of education at 50.8%, which is the same percentage used by the 2013 Legislature • Community college enrollments are projected to decline in the 2017 biennium |
| Major LFD Issues |
| <ul style="list-style-type: none"> • The executive is counting WUE students in the formula for determining total support, rather than only resident students as per recent legislative policy |

Program Discussion -

The following table highlights the differences between the FY 2015 appropriations as shown in the main table and the FY 2015 legislative appropriations used for purposes of the budget base.

| FY 2015 Appropriation Transactions - Community College Assistance | | | | |
|---|---------------------------|---------------------|---------------|--------------------------|
| Program | Legislative Appropriation | Legislative Approps | Program Total | Executive Implementation |
| Local Assistance | \$13,363,323 | \$500,000 | \$57,111 | \$13,920,434 |
| Agency Total | \$13,363,323 | \$500,000 | \$57,111 | \$13,920,434 |

A program transfer into the community college program in FY 2014 occurred related to the OTO/biennial Workforce Development appropriation.

Comparison of FY 2014 Actual Expenditures to FY 2015 Legislative Appropriation

Actual FY 2014 expenditures are \$474,163 less than the FY 2015 Legislative Appropriation. The reason for the difference is due to an increase in personal services costs in FY 2015 due to annualization of increases enacted by the 2013 Legislature in HB 13.

Funding Sources and Formula

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, a retirement levy, an optional voted levy, and other miscellaneous funds. Only the state general fund appropriation is appropriated in HB 2 and it is the only revenue source for the general operating budgets of the community colleges that the legislature has control over. The funding formula and methodology for the state general fund appropriation to the community colleges is outlined in statute at 20-15-310, MCA.

Resident student enrollment is an integral factor in the funding formula. The resident student enrollment at all three community colleges has decreased significantly since the 2013 Legislature. In FY 2014, the actual resident student enrollment reported by the community colleges was 2,068 FTE compared to the enrollment projection of 2,288 used by the 2013 Legislature. Resident student enrollment for FY 2015 is also on a downward track. If the community colleges do not meet the resident student FTE projections for the 2015 biennium they may be required to revert state general fund. See the section "Enrollment Reversions" later in this narrative for more information.

The executive budget included Western Undergraduate Exchange (WUE) student FTE in the state share calculation for community colleges. The impact of this policy change is discussed later in the narrative under *Legislative Fiscal Division Analysis of the Executive Budget Recommendation*.

Statutory Funding Formula

The 2007 Legislature amended the statutory funding formula that the legislature uses to establish the state appropriation for the state's community colleges. The revisions were based upon an interim study undertaken by the Legislative Finance Committee during 2005-2006. The changes made to the funding formula were effective beginning in FY 2008.

The general fund appropriation level is determined, as defined by 20-15-310, MCA, by a three-factor funding formula that is a calculation of the cost of education, the student enrollment level, and the state percent share of funding that is determined by the legislature as a matter of public policy. This formula is stated mathematically and the factors are defined as follows:

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

Statute requires the use of a formula to estimate the state's contribution towards the projected cost of education. The statutory formula factors are:

- Projected Resident Student Enrollment – the aggregated resident 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 CHE operating budget)
- Fixed Cost of Education – the total fixed costs for the base year (derived from CHE operating budget)
- State Percent Share – the percent of the fixed + variable cost calculation that the legislature decides, as a matter of public policy, to support with a state appropriation

The total cost of education is rebased each biennium from the actual base year expenditures reported by the community colleges in the annual operating budgets submitted to and approved by the Montana Board of Regents. These base year expenditures are adjusted for one-time-only expenditures, revenues statutorily excluded such as a voted mill levy and, if applicable, an estimate for any FTE reversion required by Section 17-7-142, MCA.

2017 Biennium Budget

The executive budget would increase ongoing state funding in the 2017 biennium for the community colleges by .4% when compared to the 2015 biennium. The executive used the statutory community college funding formula to develop its 2017 biennium proposed budget for the community colleges.

As stated earlier, the components of the statutory funding formula include:

- Student enrollment
- The cost of education
- The state percent share of the cost of education

Student Enrollment

The executive developed its own projection of student enrollment to be used in the funding formula rather than the estimate submitted by the community colleges. The executive included both resident and WUE students, and estimates 2,042 FTE in FY 2016 and 2,042 FTE in FY 2017.

Cost of Education

The executive used the community colleges' actual FY 2014 costs reported to the Board of Regents as the cost of education base, adjusted for the following:

- OTO appropriations (legislative audit, workforce development, and performance based dual enrollment)
- Non-allowed revenue from the voted mill levy at Dawson Community College
- Excess mill levy revenue from local property taxes that exceeded the FY 2012 agreed upon amount
- Special appropriations for Banner support costs at Dawson Community College and Miles City Community College. These special support costs were added back as a non-formula adjustment as they did not impact the cost of education across all three community college campuses

State Percent Share

The executive applied the same state percent share percentage as used by the 2013 Legislature – 50.8%

Other Adjustments

The executive also made two adjustments outside of the funding formula

- The state's share of legislative audit costs for the 2017 biennium were added totaling \$82,499
- The ongoing Banner support for operational costs at Dawson Community College and Miles City Community College

Legislative Fiscal Division Analysis of Executive Budget Recommendation

The LFD has identified one issue with the executive budget recommendation, resulting in a cumulative biennial general fund calculation that is \$232,728 lower than the executive budget.

LFD Calculating the State General Fund Appropriation

ISSUE

Section 20-15-310 (2)(a)(i) states: multiply the variable cost of education per **student** [emphasis added] by the full-time equivalent student count and add the budget amount for the fixed cost of education [...]

Historically, the legislature has interpreted **student** as full-time equivalent resident students only and applied this interpretation to the funding formula. The Governor is recommending funding the community colleges using the sum of full-time equivalent resident students and western undergraduate exchange (WUE) students, which would add 80 FTE each year to the formula factor. The inclusion of WUE students follows executive policy.

The legislature may wish to:

1. Continue to do as they have done in the past – include full-time equivalent resident students only
2. Adopt executive recommendation – include both full-time equivalent resident students and WUE students
3. Change statute to clarify that only full-time equivalent resident student enrollment is used in calculating the state general fund appropriation

See the tables below that outline the fiscal impacts from the above options.

Option 1 –

| Community College Assistance Program - LFD Calculation of General Fund Appropriation for the 2017 Biennium Using Statutory Funding Formula | | | | | | | | | |
|---|------------------|------------------|------------------|---------------------|------------------|------------------|------------------|-------------------|---------|
| Includes a Fixed/Variable Cost Calculation at a 75/25 Ratio | | | | | | | | | |
| Fiscal Year 2016 | | | | | Fiscal Year 2017 | | | | |
| Budget Item Factors | Dawson | Flathead Valley | Miles | Total | Dawson | Flathead Valley | Miles | Total | |
| Projected Resident Student FTE | 212 | 1,477 | 273 | 1,962 | 212 | 1,477 | 273 | 1,962 | |
| Variable Cost of Education per FTE | \$2,863 | \$2,863 | \$2,863 | \$2,863 | \$2,863 | \$2,863 | \$2,863 | \$2,863 | \$2,863 |
| Fixed Cost of Education | 2,926,660 | 12,818,465 | 3,942,882 | 19,688,006 | 2,926,660 | 12,818,465 | 3,942,882 | 19,688,006 | |
| Variable Cost of Education | 607,018 | 4,229,085 | 781,679 | 5,617,782 | 607,018 | 4,229,085 | 781,679 | 5,617,782 | |
| Total Cost of Education | 3,533,678 | 17,047,549 | 4,724,561 | 25,305,788 | 3,533,678 | 17,047,549 | 4,724,561 | 25,305,788 | |
| State % Share of Cost of Education | 50.8% | 50.8% | 50.8% | 50.8% | 50.8% | 50.8% | 50.8% | 50.8% | 50.8% |
| Calculated Total Funding Budget | <u>1,795,108</u> | <u>8,660,155</u> | <u>2,400,077</u> | <u>12,855,340</u> | <u>1,795,108</u> | <u>8,660,155</u> | <u>2,400,077</u> | <u>12,855,340</u> | |
| Other Funding: | | | | | | | | | |
| Legislative Audit | 32,512 | 26,162 | 23,825 | 82,499 | 0 | 0 | 0 | 0 | 0 |
| Banner | 83,244 | 0 | 83,244 | 166,488 | 83,244 | 0 | 83,244 | 166,488 | |
| Total General Fund Budget | <u>1,910,864</u> | <u>8,686,317</u> | <u>2,507,146</u> | <u>13,104,328</u> | <u>1,878,352</u> | <u>8,660,155</u> | <u>2,483,321</u> | <u>13,021,828</u> | |
| Total Biennial Appropriation: | | | | | | | | | |
| Calculated Total Funding Budget | | | | <u>\$25,710,681</u> | | | | | |
| Other Funding | | | | <u>\$415,475</u> | | | | | |
| Total General Fund Budget | | | | <u>\$26,126,156</u> | | | | | |

Option 2 –

| Community College Assistance Program - Executive Calculation of General Fund Appropriation for the 2017 Biennium Using Statutory Funding Formula Includes a Fixed/Variable Cost Calculation at a 75/25 Ratio | | | | | | | | | |
|---|------------------|------------------|---------------------|-------------------|------------------|------------------|------------------|-------------------|---------|
| Fiscal Year 2016 | | | | | Fiscal Year 2017 | | | | |
| Budget Item Factors | Dawson | Flathead Valley | Miles | Total | Dawson | Flathead Valley | Miles | Total | |
| Projected Resident & WUE Student FTE | 261 | 1,482 | | 299 | 2,042 | 261 | 1,482 | 299 | 2,042 |
| Variable Cost of Education per FTE | \$2,863 | \$2,863 | \$2,863 | \$2,863 | \$2,863 | \$2,863 | \$2,863 | \$2,863 | \$2,863 |
| Fixed Cost of Education | 2,926,660 | 12,818,465 | 3,942,882 | 19,688,006 | 2,926,660 | 12,818,465 | 3,942,882 | 19,688,006 | |
| Variable Cost of Education | 747,320 | 4,243,401 | 856,125 | 5,846,845 | 747,320 | 4,243,401 | 856,125 | 5,846,845 | |
| Total Cost of Education | 3,673,979 | 17,061,865 | 4,799,007 | 25,534,852 | 3,673,979 | 17,061,865 | 4,799,007 | 25,534,852 | |
| State % Share of Cost of Education | 50.8% | 50.8% | 50.8% | 50.8% | 50.8% | 50.8% | 50.8% | 50.8% | 50.8% |
| Calculated Total Funding Budget | <u>1,866,382</u> | <u>8,667,428</u> | <u>2,437,895</u> | <u>12,971,705</u> | <u>1,866,382</u> | <u>8,667,428</u> | <u>2,437,895</u> | <u>12,971,705</u> | |
| Other Funding: Legislative Audit | 32,512 | 26,162 | 23,825 | 82,499 | 0 | 0 | 0 | 0 | 0 |
| Banner | 83,244 | 0 | 83,244 | 166,488 | 83,244 | 0 | 83,244 | 166,488 | |
| Total General Fund Budget | <u>1,982,138</u> | <u>8,693,590</u> | <u>2,544,965</u> | <u>13,220,692</u> | <u>1,949,626</u> | <u>8,667,428</u> | <u>2,521,139</u> | <u>13,138,193</u> | |
| Total Biennial Appropriation: | | | | | | | | | |
| Calculated Total Funding Budget | | | <u>\$25,943,409</u> | | | | | | |
| Other Funding | | | <u>\$415,475</u> | | | | | | |
| Total General Fund Budget | | | <u>\$26,358,884</u> | | | | | | |

Fiscal impacts regarding option three would fall under the outcome of continuing current practice, option one.

The inclusion of WUE students, as the executive recommends, would increase the community college request for the 2017 biennium by \$232,728 over the amount that would result if the legislature adopted a “resident students only” policy as they have done for the community colleges in previous legislatures.

The table below shows total community college student enrollment by resident FTE, WUE student FTE, and non-resident student FTE.

Enrollment Reversions

Section 17-7-142, MCA states that a reversion calculation is effective only in those years when the legislature funds resident enrollment growth based upon resident enrollment projections and requires a reversion if the resident enrollment projections are not met.

| Community Colleges Student FTE Enrollment Fiscal 2002 - Fiscal 2017 | | | | | | | | |
|--|------------|----------------------|---------------|-------------------|--------------------------|-------------------|--------------------------|--------------------------------|
| FY | | Resident Student FTE | Annual Change | % WUE Student FTE | Non-Resident Student FTE | Total Student FTE | Resident as a % of Total | Resident + WUE as a % of Total |
| 2009 | Actual | 2,296 | 11.5% | 44 | 128 | 2,468 | 93.0% | 94.8% |
| 2010 | Actual | 2,825 | 23.0% | 47 | 139 | 3,011 | 93.8% | 95.4% |
| 2011 | Actual | 2,752 | -2.6% | 87 | 138 | 2,977 | 92.4% | 95.4% |
| 2012 | Actual | 2,471 | -10.2% | 78 | 169 | 2,718 | 90.9% | 93.8% |
| 2013 | Actual | 2,269 | -8.2% | 70 | 128 | 2,467 | 92.0% | 94.8% |
| 2014 | Actual | 2,068 | -8.9% | 92 | 132 | 2,292 | 90.2% | 94.2% |
| 2015 | Projected* | 2,288 | 10.6% | 93 | 125 | 2,506 | 91.3% | 95.0% |
| 2016 | Projected* | 1,962 | -14.2% | 80 | 116 | 2,158 | 90.9% | 94.6% |
| 2017 | Projected* | 1,962 | 0.0% | 80 | 116 | 2,158 | 90.9% | 94.6% |

*FY 2015 legislative appropriation; FY 2016 - 2017 LFD projection

A reversion is not anticipated at this time for the 2015 biennium, as the reversion calculation allows for resident enrollment to be either the base year actuals (FY 2014) or the three-year rolling average (FY 2012, FY 2013, and FY 2014), whichever is higher. Even though actual community college resident enrollment in FY 2014 was less than the FTE resident enrollment estimate used to establish the FY 2014 appropriation, and the Fall FY 2015 enrollment reports indicate further enrollment declines at the community colleges, the three-year rolling average allowed for a higher resident enrollment indicating a reversion is unlikely. A final reversion calculation will take place late in FY 2015 and the reversion would be made at the end of the biennium, if necessary.

The legislature included the following language in HB 2.

"The average budgeted amount for each full-time equivalent student at the community colleges, including is \$6,332 for each year of the 2017 biennium. The general fund appropriation for OCHE -- Community College Assistance provides 50.8% in FY 2016 and 50.8% in FY 2017 of the budget amount for each full-time equivalent student each year of the 2017 biennium. 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."

"Community College transfers includes \$23,553 in FY 2016 and \$23,553 in FY 2017 that must be transferred to the energy conservation program account and used to repay the state building revolving fund for energy improvements for Miles CC."

"The general fund appropriation for OCHE -- Community College Assistance is calculated to fund education in the community colleges for an estimated 2,095 resident FTE students each year of the 2017 biennium. 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."

"Total audit costs are estimated to be \$162,400 for the community colleges for the biennium. The general fund appropriation for each community college provides 50.8% of the total audit costs in the 2017 biennium. The remaining 49.2% of these costs must be paid from funds other than those appropriated for OCHE -- Community College Assistance -- Legislative Audit. Audit costs charged to the community colleges for the biennium may not exceed \$64,000 for Dawson, \$46,900 for Miles and \$51,500 for Flathead Valley community colleges."

Funding

The following table shows proposed program funding by source from all sources of authority.

| Commissioner of Higher Ed, 04-Community College Assistance Funding by Source of Authority | | | | | | |
|--|---------------------|-----------------------------|----------------------------|----------------------|----------------------|--|
| Funds | HB2 | Non-Budgeted Proprietary | Statutory Appropriation | Total All Sources | % Total All Funds | |
| 01100 General Fund | 27,021,942 | 0 | 0 | 27,021,942 | 100.00 % | |
| State Special Total | \$0 | \$0 | \$0 | \$0 | 0.00 % | |
| Federal Special Total | \$0 | \$0 | \$0 | \$0 | 0.00 % | |
| Proprietary Total | \$0 | \$0 | \$0 | \$0 | 0.00 % | |
| Total All Funds | \$27,021,942 | \$0 | \$0 | \$27,021,942 | | |

The Community College Assistance program is funded entirely with general fund in HB 2. 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.

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

| Budget Item | -----General Fund----- | | | | -----Total Funds----- | | | |
|---------------------|-------------------------------|-------------------------------|----------------------------------|----------------------|-------------------------------|-------------------------------|----------------------------------|----------------------|
| | Leg. Budget Fiscal 2016 | Leg. Budget Fiscal 2017 | Leg. Biennium Fiscal 16-17 | Percent of Budget | Leg. Budget Fiscal 2016 | Leg. Budget Fiscal 2017 | Leg. Biennium Fiscal 16-17 | Percent of Budget |
| 2015 Budget | 13,363,323 | 13,363,323 | 26,726,646 | 98.91 % | 13,363,323 | 13,363,323 | 26,726,646 | 98.91 % |
| PL Adjustments | 151,972 | 143,324 | 295,296 | 1.09 % | 151,972 | 143,324 | 295,296 | 1.09 % |
| New Proposals | 0 | 0 | 0 | 0.00 % | 0 | 0 | 0 | 0.00 % |
| Total Budget | \$13,515,295 | \$13,506,647 | \$27,021,942 | | \$13,515,295 | \$13,506,647 | \$27,021,942 | |

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating

expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

| | -----Fiscal 2016----- | | | | | -----Fiscal 2017----- | | | | |
|--|-----------------------|------------------|---------------|-----------------|------------------|-----------------------|------------------|---------------|-----------------|------------------|
| | FTE | General Fund | State Special | Federal Special | Total Funds | FTE | General Fund | State Special | Federal Special | Total Funds |
| DP 98 - LEG. Personal Services Present Law | 0.00 | 0 | 0 | 0 | 0 | 0.00 | 0 | 0 | 0 | 0 |
| DP 99 - LEG. Present Law | 0.00 | 151,972 | 0 | 0 | 151,972 | 0.00 | 143,324 | 0 | 0 | 143,324 |
| Grand Total All Present Law Adjustments | 0.00 | \$151,972 | \$0 | \$0 | \$151,972 | 0.00 | \$143,324 | \$0 | \$0 | \$143,324 |

DP 98 - LEG. Personal Services Present Law -

There are no personal services present law adjustments as the funding appropriated for this program is immediately transferred to the community colleges.

DP 99 - LEG. Present Law -

The following outlines various components of the changes included in the LGPL adjustments.

The executive would increase general fund authority in FY 2016 and FY 2017. The increase would be funded at the state share of 50.8% of the total cost of education for FY 2016 and FY 2017.