

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
Personal Services	0	0	0	0	0	0	0	0.00 %
Operating Expenses	0	0	372,593	0	0	372,593	372,593	0.00 %
Transfers	196,011,069	209,242,994	213,300,080	213,114,682	405,254,063	426,414,762	21,160,699	5.22 %
Total Costs	\$196,011,069	\$209,242,994	\$213,672,673	\$213,114,682	\$405,254,063	\$426,787,355	\$21,533,292	5.31 %
General Fund	175,672,463	188,097,631	193,196,312	192,638,759	363,770,094	385,835,071	22,064,977	6.07 %
State/Other Special Rev. Funds	20,338,606	21,145,363	20,476,361	20,475,923	41,483,969	40,952,284	(531,685)	(1.28)%
Total Funds	\$196,011,069	\$209,242,994	\$213,672,673	\$213,114,682	\$405,254,063	\$426,787,355	\$21,533,292	5.31 %

Program Description

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

Program Highlights

Appropriation Distribution Program Major Budget Highlights
<ul style="list-style-type: none"> • Although there is no constitutional or statutory requirement for the legislature to provide state funds for higher education, historically the legislature has appropriated state funds to cover a portion of the general operating budgets of the educational units and research/public service agencies • Statewide present law adjustments are the primary drivers of the proposed program increase • The executive budget states that it has a Governor’s Tuition Cap Agreement with the Montana University System for the 2017 biennium • The executive increases state funds \$21.5 million in the 2017 biennium from the 2015 biennium to cover a portion of the projected cost increases in the general operating budgets
Major LFD Issues
<ul style="list-style-type: none"> • The proposed Governor’s Tuition Cap Agreement lacks the formality and substance of the tuition cap agreement reached between the Governor’s Office and MUS in 2013 and adopted by the 2013 Legislature. At the time this narrative was written in mid-December, the executive had not produced a written plan and the MUS had indicated an official agreement is being discussed at this time • The natural resource operations account is over-allocated and may impact appropriations for the Bureau of Mines

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 - Appropriation Distribution					
Program	Legislative Appropriation	Legislative Approp OTO	Consolidation Biennial Approp	ofProgram Transfers	Total Executive Implementation
Transfers	\$207,645,400	\$1,900,000	(\$139,099)	(\$166,670)	\$209,239,631
Agency Total	\$207,645,400	\$1,900,000	-\$139,099	-\$166,670	\$209,239,631

A program transfer in FY 2014 and appropriation consolidation from FY 2015 into FY 2014 in this program 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 less than the FY 2015 Legislative Appropriation. The reason for the difference is due to the increase in personal services regarding HB 13.

Program Narrative*Higher Education Funding*

One of the policy choices the Montana legislature makes during its biennial 90-day session is how much of the MUS budget request it will fund from state funds. Similar to other state agencies, in September 2014 the MUS education units and agencies submitted their 2017 biennium budget request for education and general operating costs funded from the current unrestricted fund (the university-equivalent of the state general fund). For the educational units, the education and general operating costs are funded with state funds (general fund and the six-mill levy) and student tuition. The legislature establishes the state appropriations during the legislative session. The Board of Regents establishes the final budget, including tuition rates, after the legislature adjourns. The Board of Regents is the sole authority in setting the tuition rates for the MUS. Tuition is not controlled or appropriated by the legislature. Tuition revenue fills the "gap" between the Board of Regent approved expenditure budget for educational units and the state funds appropriated by the legislature.

While the Montana Constitution grants governance authority to the Board of Regents, the power to appropriate state funds remains with the legislature. With this "power of the purse" comes the authority to attach policy decisions and accountability measures to the funding.

State funds are an important component of university funding because:

- State general fund support is the second largest source of current unrestricted revenue for the MUS, after tuition
- General fund appropriations in House Bill 2 provide the vehicle with which the legislature may have a public policy impact upon the MUS
- Montana Supreme Court decisions say that the Regents' power to govern must be harmonized with the legislature's power to appropriate, set public policy, and ensure accountability of state revenue and expenditures

The legislature considers many factors to develop the MUS appropriation including:

- Projected student enrollment
- Base year and actual expenditures and funding
- State funds available
- Legislative priorities
- Governor's recommendation
- Board of Regents' priorities
- Shared policy goals

Lump Sum Appropriation

Since the 1995 legislative session, the legislature has combined the appropriation for the six four-year campuses, five colleges of technology, and most of the Office of the Commissioner of Higher Education into a single, biennial lump-sum appropriation. Appropriations for the remaining units are contained in line items in the general appropriations act (HB 2).

The following summarizes the MUS budget request and the executive's 2017 biennium budget proposal for the MUS

The Board of Regents (Board) has projected a total current unrestricted operating budget before any pay plan increases of \$522,289,652 for FY 2016 and \$526,009,075 for FY 2017. The Board requested state funds totaling \$221.1 million in FY 2016 and \$220.8 million in FY 2017 to support its current unrestricted operating budget in the 2017 biennium. This request increases state funding by \$41.9 million in the 2017 biennium when compared the 2015 biennium.

The Governor included state funds totaling \$212.6 million in FY 2016 and \$212.1 million in FY 2017 for the MUS in his 2017 proposed budgets.

The Governor's proposal leaves a budget shortfall of \$17.2 million for the 2017 biennium that was not addressed. If the legislature adopts the Governor's proposal without further adjustments, the MUS will face two options for the 2017 biennium:

1. Increase tuition
2. Reduce the Board's operating budgets

See the tables below for more detail regarding the MUS budget request and the executive's 2017 budget proposal for the MUS.

Unit Request	CUR FY 2014 ACTUAL	CUR FY 2015 OP PLAN	CUR FY 2016 REQUEST	CUR FY 2017 REQUEST
MSU	\$ 179,511,212	\$ 189,090,681	\$ 195,489,986	\$ 196,717,837
MSU-B	\$ 42,289,456	\$ 43,321,469	\$ 45,249,356	\$ 45,541,225
MSU-NORTHERN	\$ 15,766,994	\$ 16,831,139	\$ 17,062,025	\$ 17,152,681
MSU-GF COT	\$ 11,151,581	\$ 11,627,353	\$ 12,103,603	\$ 11,943,911
UM	\$ 154,662,647	\$ 160,196,971	\$ 167,154,471	\$ 168,453,729
UM-TECH	\$ 31,184,511	\$ 32,851,848	\$ 33,214,305	\$ 33,861,693
UM-WESTERN	\$ 13,800,155	\$ 14,372,046	\$ 15,163,959	\$ 15,241,878
UM-HELENA COT	\$ 7,410,125	\$ 7,991,964	\$ 8,577,580	\$ 8,610,629
Less: one-time-only appropriations	\$ (1,183,591)	\$ (1,183,591)	\$ -	\$ -
Total	\$ 454,593,090	\$ 475,099,880	\$ 494,015,285	\$ 497,523,583
State Funding Requested				
General Fund	\$ 150,848,744	\$ 161,023,970	\$ 173,757,875	\$ 173,262,116
State Special	\$ 19,032,726	\$ 19,599,752	\$ 19,032,726	\$ 19,032,726
Tuition/Other	\$ 288,438,538	\$ 295,659,749	\$ 301,224,684	\$ 305,228,741
Less: one-time-only appropriations	\$ (1,183,591)	\$ (1,183,591)	\$ -	\$ -
Total	\$ 457,136,417	\$ 475,099,880	\$ 494,015,285	\$ 497,523,583
Executive Budget Recommendation				
General Fund	N/A	N/A	\$ 167,162,832	\$ 166,619,939
State Special	N/A	N/A	\$ 19,032,726	\$ 19,032,726
Tuition/Other	N/A	N/A	\$ -	\$ -
Total	\$ -	\$ -	\$ 186,195,558	\$ 185,652,665
Difference from Request to Recommendation				
General Fund	N/A	N/A	\$ (6,595,043)	\$ (6,642,177)
State Special	N/A	N/A	\$ -	\$ -
Tuition/Other	N/A	N/A	\$ -	\$ -
Total	\$ -	\$ -	\$ (6,595,043)	\$ (6,642,177)

Agency Request	CUR FY 2014 ACTUAL	CUR FY 2015 OP PLAN	CUR FY 2016 REQUEST	CUR FY 2017 REQUEST
ES	\$ 5,823,328	\$ 5,952,514	\$ 6,260,357	\$ 6,266,924
AES	\$ 13,341,663	\$ 13,712,986	\$ 15,108,987	\$ 15,293,512
FIRE	\$ 695,630	\$ 717,378	\$ 734,352	\$ 733,333
BM&G	\$ 4,825,380	\$ 4,946,947	\$ 4,804,279	\$ 4,804,155
FCES	\$ 1,246,950	\$ 1,353,055	\$ 1,366,392	\$ 1,387,568
Less: one-time-only appropriations	\$ (400,000)	\$ (400,000)	\$ -	\$ -
Total	\$ 25,532,951	\$ 26,282,880	\$ 28,274,367	\$ 28,485,492
State Funding Requested				
General Fund	\$ 25,146,239	\$ 25,798,587	\$ 28,274,367	\$ 28,485,492
State Special	\$ 802,748	\$ 884,293	\$ -	\$ -
Less: one-time-only appropriations	\$ (400,000)	\$ (400,000)	\$ -	\$ -
Total	\$ 25,548,987	\$ 26,282,880	\$ 28,274,367	\$ 28,485,492
Executive Budget Recommendation				
General Fund	N/A	N/A	\$ 25,514,114	\$ 25,499,454
State Special	N/A	N/A	\$ 915,731	\$ 914,968
Total	\$ -	\$ -	\$ 26,429,845	\$ 26,414,422
Difference from Request to Recommendation				
General Fund	N/A	N/A	\$ (2,760,253)	\$ (2,986,038)
State Special	N/A	N/A	\$ -	\$ -
Total	\$ -	\$ -	\$ (2,760,253)	\$ (2,986,038)

**LFD
COMMENT**

Proposed Tuition Cap Agreement -- No Written Agreement and Commitment is Unclear

The executive budget proposes a Tuition Cap Agreement for the 2017 biennium. However, unlike the tuition cap agreement forged in the 2013 session, the current proposal:

- Has no written document identifying:
 - The scope of the proposed agreement (i.e. general operations, pay plan, pensions)
 - Clear and measurable goals and objectives that are time-bound
 - Clearly stated milestones
 - Total estimated cost of the agreement
 - What the expectations are for 2017 biennium tuition rates
- Has not been agreed to by the university system

As of December 15, 2014 the executive has no written agreement with the university system outlining the proposed tuition cap.

Given that there is no statutory requirement regarding the state percent share of funding for the various university system budget components (e.g. present law adjustments, pay plan, pensions) and that the state percent share is solely a matter of public policy, the legislature may want to consider other state percent share levels for any of these budget components. (Note: pay plan and pension costs are discussed in Volume 1.) For a further discussion of the impact of the state percent share of funding on tuition rates, see the LFD comment "Tuition Impact" in the Educational Units Subprogram later in this program narrative.

**LFD
COMMENT**PERFORMANCE FUNDING UPDATE

What is performance funding:

- A voluntary commitment by memo of understanding by the Montana University System to incorporate a performance funding component into the allocation model used by the Board of Regents to distribute state funds to the MUS education units.

Where the 2013 Legislature left town:

- As part of the tuition cap agreement from the 2013 session, approximately one-half of the FY 2015 present law adjustment (\$7.5 million) was designated for performance funding and distributed based upon progress toward increasing college completions and other related outcomes. The Board of Regents committed to develop a short-term model with one or two key metrics aimed at meeting the requirements of the tuition cap agreement and distribute the funds accordingly. The Board of Regents also committed to develop a long-term model for potential allocation of funds in FY 2016 and FY 2017.

Goals of performance funding:

- Utilize performance funding as a strategy to help reach a long-term goal of increasing the percentage of the population with a higher education credential from 40% to 60%. More specifically, the primary objective is to improve student learning (retention) and attainment (completion) outcomes.

What's happened over the interim:

- Upon distribution of state funds in the second year of the 2015 biennium, the MUS decided on two primary metrics for the initial short-term model. These are retention and completion (overall degrees produced).
- The MUS worked with campus faculty and administrators on the long-term model to recommend a list of metrics for the 2017 biennium in addition to retention and completion. These were based on each institutional mission, resulting in different metrics for the two flagship universities, 4-year regional colleges, and 2-year colleges.

New Proposals

The executive budget includes no new proposals for the educational units and research/public service agencies in the 2017 biennium.

Funding

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

Commissioner of Higher Ed, 09-Appropriation Distribution Funding by Source of Authority					
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	385,835,071	0	3,767,304	389,602,375	90.14 %
02111 Accommodation Tax Account	0	0	1,652,540	1,652,540	3.88 %
02185 SB410 ADF GF	0	0	0	0	0.00 %
02289 Bureau Of Mines Groundwater	1,478,927	0	0	1,478,927	3.47 %
02443 University Millage	38,065,452	0	0	38,065,452	89.35 %
02576 Natural Resources Operations SSR Fu	351,772	0	0	351,772	0.83 %
02694 Coal Bed Methane Protection	0	0	0	0	0.00 %
02944 Motorcycle Safety Training	1,056,133	0	0	1,056,133	2.48 %
State Special Total	\$40,952,284	\$0	\$1,652,540	\$42,604,824	9.86 %
Federal Special Total	\$0	\$0	\$0	\$0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$426,787,355	\$0	\$5,419,844	\$432,207,199	

While funding for this program is primarily general fund, state special revenue from the six-mill property tax levy funds the university educational units. Resource Indemnity Trust interest (RIT) and oil and gas and metal mines taxes support research programs at the Montana Bureau of Mines, and program fees and an allocation from driver's license fees support the motorcycle safety program at MSU-Northern in Havre.

Six-Mill Property Tax Levy

The statewide six-mill property tax levy that supports the Montana University System is authorized in 15-10-108, MCA. The tax levy is presented to voters statewide for approval every 10 years. The most recent statewide vote was in 2008.

The six-mill levy revenue is used to fund the education and general operating expenses of the educational units and is the second largest state funding source for the MUS after general fund. The executive budget decreases funding from the six-mill levy from \$38.6 million in the 2015 biennium to \$38.0 million in the 2017 biennium, a 1.5% biennial decrease.

Natural Resource Operations State Special Revenue Account

The 2007 Legislature created the natural resource operations state special revenue account and allocated revenues from the Resource Indemnity Trust Fund, metal mines license tax proceeds, and oil and gas production taxes to the account. Appropriations were authorized by the 2009 Legislature from this account for the Department of Natural Resources and Conservation (DNRC), the Montana Bureau of Mines, the Department of Environmental Quality, and the Water Court in the Judicial Branch. The 2009, 2011, and 2013 Legislatures have appropriated \$175,866 per year of natural resource operations state special revenue for general program support for the Montana Bureau of Mines. A like amount each year is proposed in the 2017 biennium executive budget.

LFD Natural Resource Operations Account is Over-Allocated in the Executive Budget

ISSUE

The executive budget proposes expenditures from the natural resource operations account that exceed the projected revenue available in this account by the end of the biennium. The table below presents a summary of the account for the 2015 biennium. The joint appropriation subcommittees on education and natural resources may wish to consult before making a final appropriation decision on this state special revenue account.

Natural Resource Operations Fund (02576)	
Fund Balance Projection, 2017 Biennium	
Estimated Beginning Fund Balance (7/1/2015)	\$957,033
Revenue Projections ¹	
Interest Earnings	\$0
Metal Mines Tax	\$ 1,904,000
Oil & Gas Tax	<u>\$ 3,932,000</u>
2015 Biennium Revenues	\$5,836,000
Proposed Expenditures ²	
UM Bureau of Mines	(\$351,772)
DNRC	(1,072,673)
DEQ	(4,458,492)
Judiciary-Water Courts	<u>(1,767,014)</u>
Total Expenditures	<u>(\$7,649,951)</u>
Estimated Ending Fund Balance (6/30/2017)	<u>(\$856,918)</u>
¹ LFD estimates	
² Executive general appropriations act proposal	

Statutory Appropriations

Statutory appropriations do not require reauthorization each biennium, and they do not appear in HB 2. There are two statutory appropriations in this program:

- An allocation of the 4% lodging facility use tax is transferred to the University of Montana for travel research
- General fund is statutorily appropriated for a 1% employer contribution increase to the MUS defined contribution retirement plan authorized by HB 95 passed by the 2007 Legislature

Budget Summary by Category

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

Budget Summary by Category								
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	186,800,037	186,800,037	373,600,074	96.83 %	207,645,400	207,645,400	415,290,800	97.31 %
PL Adjustments	6,396,275	5,838,722	12,234,997	3.17 %	6,027,273	5,469,282	11,496,555	2.69 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	\$193,196,312	\$192,638,759	\$385,835,071		\$213,672,673	\$213,114,682	\$426,787,355	

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.

Present Law Adjustments										
	-----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	6,396,275	(369,002)	0	6,027,273	0.00	5,838,722	(369,440)	0	5,469,282
Grand Total All Present Law Adjustments	0.00	\$6,396,275	(\$369,002)	\$0	\$6,027,273	0.00	\$5,838,722	(\$369,440)	\$0	\$5,469,282

DP 98 - LEG. Personal Services Present Law -

The personal services present law adjustments are part of the lump sum appropriation transferred to the educational units and agencies.

DP 99 - LEG. Present Law -

The executive requests general fund authority to transfer to the Montana University System educational units and agencies for statewide present law adjustments and other requested adjustments.

Sub-Program Present Law Adjustments

Sub-Program Present Law Adjustments – Increases from FY 2015 Legislative Base		
	FY 2016	FY 2017
Ed Units	\$2,947,441	\$2,404,873
ED UNITS TOTAL	\$2,947,441	\$2,404,873
Agricultural Experiment Station	\$1,140,246	\$1,126,717
Extension Service	\$318,018	\$317,543
Forest & Conservation Experiment Station	\$86,770	\$86,777
Bureau of Mines	\$375,388	\$374,554
Fire Services Training School	\$120,678	\$120,086
AGENCIES TOTAL	\$2,041,100	\$2,025,677
ED UNIT/AGENCY TOTAL PRESENT LAW ADJUSTMENTS	\$4,988,541	\$4,430,550

EDUCATIONAL UNITS PRESENT LAW ADJUSTMENTS

LFD COMMENT Present law adjustments for the MUS educational units and agencies are for statewide present law adjustments and other requested adjustments. As noted earlier, the legislature funds a portion of the university budget request. This portion, or state percent share, has varied over the years, depending upon legislative priorities and state revenues available. The 2017 biennium executive budget funds most of the present law adjustments it has included in its budget recommendation. The dollar amounts in the tables in the Budget Analysis are the state share only (unless otherwise noted).

In addition, while the executive states the adjustment is in accordance with the tuition cap agreement, as stated earlier it does not appear that an actual agreement is in place.

**LFD
COMMENT**

Tuition Impact

As previously noted, the university system submits its board-approved biennial budget request to the OBPP in September of each even-numbered year. The executive reviews the request and develops a budget recommendation for the upcoming biennium, which includes the base budget and the anticipated total cost increases or decreases to the base budget (e.g. present law adjustments). The executive then recommends the portion of the present law adjustment that should be borne by the state and appropriated in HB 2. The preceding present law adjustment table is the executive's recommended state share for present law adjustments in the 2017 biennium.

To the extent that this present law adjustment is funded at a lower amount than the executive budget level, student tuition rate increases may be necessary to fill the gap between the projected costs and state funds made available via HB 2.

According to information provided by the university system, a 1% compounded tuition rate increase (1% in the first year and an additional 1% in the second year) for resident and WUE students in the 2017 biennium would yield \$2.4 million tuition revenue over the biennium. For example, if the legislature funded the appropriation distribution program's present law adjustment at \$5.2 million, one-half the amount proposed by the executive, the gap would be \$7.7 million.

AGENCIES PRESENT LAW ADJUSTMENTS

Included in this adjustment are personal services adjustments, vacancy savings, inflation/deflation, fixed costs, and administrative assessments as they relate to the agencies of the Montana University System (MUS).