

Program Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Transfers	384,641,597	388,246,827	3,605,230	0.94 %
Total Expenditures	\$384,641,597	\$388,246,827	\$3,605,230	0.94 %
General Fund	345,520,012	347,055,470	1,535,458	0.44 %
State/Other Special Rev. Funds	39,121,585	41,191,357	2,069,772	5.29 %
Total Funds	\$384,641,597	\$388,246,827	\$3,605,230	0.94 %
Total Ongoing	\$384,641,597	\$388,246,827	\$3,605,230	0.94 %
Total OTO	\$0	\$0	\$0	0 %

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 the university system units. This program includes state funding for the Montana University System educational units, the Family Practice Rural Residency programs located at MSU Billings in Billings and University of Montana in Missoula, and the Motorcycle Safety Program located at MSU Northern in Havre.

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. In FY 2017, the state general fund supports 38.5% of the general operating budget for the educational units • The executive budget proposes funding the educational units at the same level of state funding each year of the 2019 biennium as the FY 2017 base budget - \$193.03 million each year and reducing state percent share to approximately 37.0% • The executive has not requested a tuition cap agreement
Major LFD Issues
<ul style="list-style-type: none"> • The executive budget proposes expenditures from the six-mill levy account that exceed the projected revenue available in this account by the end of the biennium • The executive's proposal is \$25.5 million less than the MUS budget request for the 2019 biennium

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
Transfers	190,296,488	190,565,383	194,076,214	194,118,683	194,128,144
Total Expenditures	\$190,296,488	\$190,565,383	\$194,076,214	\$194,118,683	\$194,128,144
General Fund	170,735,858	171,004,753	174,515,259	173,820,985	173,234,485
State/Other Special Rev. Funds	19,560,630	19,560,630	19,560,955	20,297,698	20,893,659
Total Funds	\$190,296,488	\$190,565,383	\$194,076,214	\$194,118,683	\$194,128,144
Total Ongoing	\$190,296,488	\$190,565,383	\$194,076,214	\$194,118,683	\$194,128,144
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

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 revenues. Similar to other state agencies, in September 2016 the MUS education units and agencies submitted their 2019 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 education 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 (Board) 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 Regents approved expenditure budget for education 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 the “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 HB 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:

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

Since the 1995 legislative session, the legislature has combined the appropriation for the six four-year campuses and five two-year campuses into a single, biennial lump-sum appropriation.

Executive Request

The executive budget proposes funding the educational units and Family Practice Rural Residency program at the same level of state funding each year of the 2019 biennium as the FY 2017 base budget. The proposed budget for the MUS educational units is \$193.0 million each year of the biennium. Motorcycle Safety program received a 9.8% increase or \$104,399 in the 2019 biennium due to present law adjustments for standard cost increases.

LFD ISSUE

The executive proposal is \$25.5 million less than the MUS budget request

The following summarizes the MUS budget request and the executive's 2019 biennium budget proposal for the MUS.

The Board of Regents has projected a total current unrestricted operating budget for the educational units before any pay plan increases of \$499,632,841 for FY 2018 and \$503,168,132 for FY 2019. The Board requested state funds totaling \$204.4 million in FY 2018 and \$207.1 million in FY 2019 to support its current unrestricted operating budget in the 2019 biennium. This request increases state funding by \$29.3 million in the 2019 biennium when compared to the 2017 biennium.

The executive budget request includes state funds totaling \$193.0 million in each year of the 2019 biennium proposed budget.

The executive’s proposal leaves a shortfall from the MUS budget request of \$25.5 million for the 2019 biennium. If the legislature adopts the executive’s proposal without further adjustments, the MUS will face two options for the 2019 biennium:

- Increase tuition to levels as required to fully fund the proposed operating budget
- Reduce the educational units' operating budgets

Legislative options:

- Adopt the executive's proposed budget
- Fund a present law increase to the 2017 appropriated budget
- Fund the budget request of the MUS

Adopting the executive proposed budget would reduce the state percent share of funding to 37.0%. State percent share for FY 2017 is 38.5%.

Funding a present law increase would decrease the impact to the students in terms of a tuition increase. The LFD calculated a present law adjustment based on a 38.5% state percent share, taking into account the types of cost adjustments that the legislature has previously funded for the university system. This estimate would increase the appropriation \$2.7 million each year of the biennium, for a total biennial increase of \$5.4 million and reduce state percent share to 37.5%. Detail of this estimate is found in the appendix.

See the figure below for more detail regarding the MUS budget request and the executive's 2019 budget proposal for the MUS.

Figure 14

Unit Request	CUR	CUR	CUR	CUR
	FY 2016 ACTUAL	FY 2017 OP PLAN	FY 2018 REQUEST	FY 2019 REQUEST
MSU	\$204,831,870	\$225,142,454	\$216,905,590	\$219,411,457
MSU-B	\$ 41,031,033	\$ 42,323,102	\$ 42,670,623	\$ 42,934,341
MSU-NORTHERN	\$ 16,746,526	\$ 17,913,295	\$ 17,412,774	\$ 17,539,741
MSU-GF COT	\$ 11,556,622	\$ 11,994,223	\$ 12,873,541	\$ 12,928,047
UM	\$156,534,938	\$152,580,483	\$149,649,308	\$149,669,923
UM-TECH	\$ 34,600,881	\$ 35,709,854	\$ 36,892,415	\$ 37,157,407
UM-WESTERN	\$ 14,268,706	\$ 14,681,971	\$ 14,771,117	\$ 15,021,350
UM-HELENA COT	\$ 7,220,531	\$ 8,417,372	\$ 8,457,473	\$ 8,505,866
TOTAL	\$486,791,107	\$508,762,754	\$499,632,841	\$503,168,132
State Funding Requested				
General Fund	\$170,216,492	\$173,995,893	\$184,692,891	\$186,808,451
State Special	\$ 19,032,726	\$ 19,032,726	\$ 19,727,000	\$ 20,313,500
Tuition/Other	\$309,570,797	\$316,034,136	\$295,212,950	\$296,046,181
Total	\$498,820,015	\$509,062,755	\$499,632,841	\$503,168,132
Executive Budget Recommendation				
General Fund	N/A	N/A	\$173,301,619	\$172,715,119
State Special	N/A	N/A	\$ 19,727,000	\$ 20,313,500
Tuition/Other	N/A	N/A	\$ -	\$ -
Total	\$ -	\$ -	\$193,028,619	\$193,028,619
Difference from Request to Recommendation				
General Fund	N/A	N/A	\$ (11,391,272)	\$ (14,093,332)
State Special	N/A	N/A	\$ -	\$ -
Tuition/Other	N/A	N/A	\$ -	\$ -
Total	\$ -	\$ -	\$ (11,391,272)	\$ (14,093,332)

CUR = Current Unrestricted

Funding

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

Commissioner of Higher Education, 09-Appropriation Distribution Funding by Source of Authority						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	347,055,470	0	0	3,483,739	350,539,209	89.17 %
02111 Accommodation Tax Account	0	0	0	1,394,000	1,394,000	3.27 %
02443 University Millage	40,040,500	0	0	0	40,040,500	94.02 %
02944 Motorcycle Safety Training	1,150,857	0	0	0	1,150,857	2.70 %
State Special Total	\$41,191,357	\$0	\$0	\$1,394,000	\$42,585,357	10.83 %
03043 SW Workforce-Career Tech	0	0	0	0	0	0.00 %
Federal Special Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %
Total All Funds	\$388,246,827	\$0	\$0	\$4,877,739	\$393,124,566	

Funding for this program is predominately general fund. State special revenue from six-mill property tax levy funds a portion of the university educational units. Program fees and an allocation from drivers' 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.

**LFD
ISSUE**

Six-Mill Levy Account is Over-Allocated in the Executive Budget

The executive budget proposes expenditures from the six-mill levy account that exceed the projected revenue available in this account by the end of the biennium. Six-mill levy is the first state revenue source for the educational units with the remainder of HB 2 funded by general fund. If six-mill levy revenue is reduced without replenishment from general fund, the educational units' proposed budget is reduced. Figure 15 presents a summary of the account for the 2019 biennium. The joint appropriation subcommittees on education may wish to discuss this before making a final appropriation decision related to this state special revenue account.

Figure 15

Six-Mill Levy (02443)				
Fund Balance Projection, 2019 Biennium				
	2016 Actuals	2017 Estimate	2018 Estimate	2019 Estimate
Beginning Fund Balance	799,928	(19,558)	(371,984)	(356,384)
Disbursements ²	19,032,726	19,032,726	19,727,000	20,313,500
Revenue Projections ¹				
Department of Revenue	17,837,493	18,510,300	19,572,600	20,065,600
OCHE	<u>171,496</u>	<u>170,000</u>	<u>170,000</u>	<u>170,000</u>
Total Revenue	18,008,989	18,680,300	19,742,600	20,235,600
Adjustments	204,251	-	-	-
Ending Fund Balance	<u>(19,558)</u>	<u>(371,984)</u>	<u>(356,384)</u>	<u>(434,284)</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 reimbursement to the MUS defined contribution retirement plan authorized by HB 95 passed by the 2007 Legislature

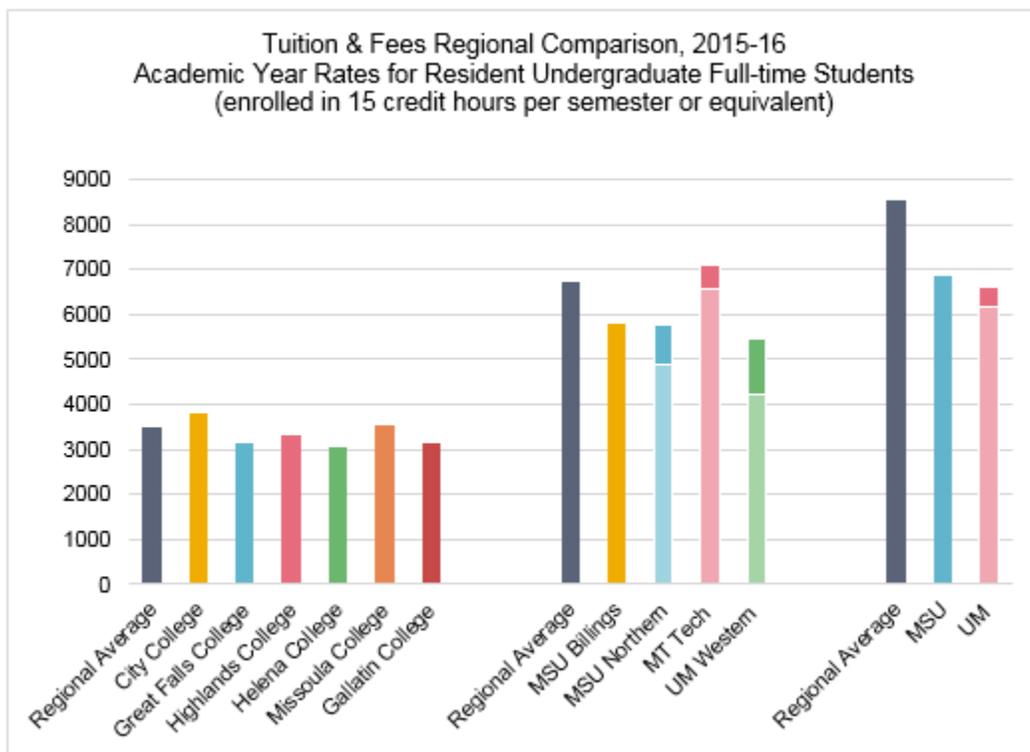
LFD COMMENT

The Board of Regents is the sole authority in setting tuition rates for the MUS. Tuition is not controlled or appropriated by the legislature. However, the Regents, legislature, and executive have worked together to create affordable postsecondary educational opportunities for the residents of Montana.

During the 2009 biennium, the Board of Regents and the legislature agreed to “cap” resident student tuition rates. The College Affordability Plan was the beginning of the tuition freeze era in varying magnitudes starting in FY 2008. The 2011 biennium brought a partial tuition freeze agreement, resident tuition rates for the two flagship campuses increased by 3 percent while all other units remained constant. Tuition rates for the four-year campuses increased in FY 2012 and FY 2013 by 5 percent each year. The two-year colleges continued to freeze tuition rates. The most recent tuition cap agreement was agreed to during the 2015 session. The executive and Regents have not negotiated a tuition freeze for the 2019 biennium.

The figure below is a comparison of tuition levels at the two-year colleges, four-year regional universities, and flagship, research doctoral universities to their peers in the WICHE region. Tuition is an integral factor in funding the universities. Since the inception of the tuition freeze, the percentage growth in state funds has exceeded the growth in tuition. The regional peers have experienced higher tuition increases over the past 10 years. For more detailed information visit http://mus.edu/data/tuition_and_fees/tuition_and_fees.asp.

Figure 16



Data Source: MUS Board Governance Framework presented at Sept 2016 Board of Regents meeting

Program Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals. For a description of these categories, please see the glossary section of the Budget Analysis.

Program Budget Summary by Category								
Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	174,515,259	174,515,259	349,030,518	100.57 %	194,076,214	194,076,214	388,152,428	99.98 %
SWPL Adjustments	0	0	0	0.00 %	0	0	0	0.00 %
PL Adjustments	4,019,990	3,433,490	7,453,480	2.15 %	4,756,733	4,766,194	9,522,927	2.45 %
New Proposals	(4,714,264)	(4,714,264)	(9,428,528)	(2.72)%	(4,714,264)	(4,714,264)	(9,428,528)	(2.43)%
Total Budget	\$173,820,985	\$173,234,485	\$347,055,470		\$194,118,683	\$194,128,144	\$388,246,827	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----				-----Fiscal 2019-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 901 - Present Law Adjustment	0.00	766,447	0	0	766,447	0.00	869,260	0	0	869,260
DP 905 - Motorcycle Safety	0.00	0	42,469	0	42,469	0.00	0	51,930	0	51,930
DP 906 - SWPL Educational Units	0.00	3,253,543	694,274	0	3,947,817	0.00	2,564,230	1,280,774	0	3,845,004
Grand Total All Present Law Adjustments	0.00	\$4,019,990	\$736,743	\$0	\$4,756,733	0.00	\$3,433,490	\$1,332,704	\$0	\$4,766,194

**"Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

DP 901 - Present Law Adjustment -

The executive requests an increase in general fund to make the appropriation equal to the FY 2017 appropriation.

DP 905 - Motorcycle Safety -

The executive requests an increase in state special revenue for the motorcycle safety program.

DP 906 - SWPL Educational Units -

The executive requests an increase in general fund for personal services, fixed costs, and inflation and deflation factors. This request is equivalent to SWPL 1, 2, and 3 for all other agencies.

New Proposals -

The "New Proposals" table shows new changes to spending.

New Proposals	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 555 - Appropriation Rebase	0.00	(4,714,264)	0	0	(4,714,264)	0.00	(4,714,264)	0	0	(4,714,264)
Total	0.00	(\$4,714,264)	\$0	\$0	(\$4,714,264)	0.00	(\$4,714,264)	\$0	\$0	(\$4,714,264)

*"Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

DP 555 - Appropriation Rebase -

Under 17-7-111, MCA state agencies are required to submit plans to reduce general fund and certain state special revenue funds by 5%. The executive proposes reductions to the present law budget based on either the 5% reduction plans or FY 2016 reversions.

Other Issues -

LFD COMMENT

During the 2017 biennium the MUS continued their commitment to include a performance funding component in the allocation model used by the Board of Regents to distribute state funds to the education units. As such, \$30.0 million for the biennium was designated by the Regents for performance funding and distribution upon progress toward increasing college completions, retention, success of under-represented student populations, and other metrics. The tables below represent the impact of the performance funding model since FY 2015 and metrics.

Figure 17

Montana University System - Impact of Performance Funding Model			
Campus	FY 2015	FY 2016	FY 2017
MSU Bozeman	2,277,728	4,589,817	4,589,817
Gallatin College	63,140	162,919	162,919
MSU Billings	905,273	744,149	1,504,855
City College	277,005	434,508	434,508
MSU Northern	355,711	534,754	534,754
Great Falls College	414,031	708,103	708,103
UM Missoula	1,682,882	4,074,776	4,074,776
Missoula College	526,095	818,151	818,151
MT Tech	317,596	868,789	738,810
Highlands College	156,574	197,969	197,969
UM Western	324,168	580,576	580,576
Helena College	146,176	524,783	524,783
TOTAL FUNDING	7,446,379	14,239,294	14,870,021

	Flagships MSU & UM	4-year Regional UMW, MT Tech, MSUB, MSUN	2-year Colleges Missoula, Great Falls, Highlands, Helena, City, Gallatin
METRICS			
Undergraduate Degrees & Certificates Awarded	X	X	X
Retention Rates	X	X	X
Graduate-level Degrees & Certificates Awarded	X		
Research Expenditures	X		
Masters-level Degrees & Certificates Awarded		X MT Tech & MSUB	
Dual Enrollment		X UMW & MSUN	X
Remedial Success			X
Credit Accumulation			X

For additional information on the performance funding model visit <http://mus.edu/CCM/performancefunding/default.asp>