



LEGISLATIVE FINANCE COMMITTEE

61st Montana Legislature

Room 110 Capitol Building * P.O. Box 201711 * Helena, MT 59620-1711 * (406) 444-2986 * FAX (406) 444-3036

SENATE MEMBERS

KEITH BALES
STEVE GALLUS
DAVE LEWIS
RICK RIPLEY
DAVID WANZENRIED
CAROL WILLIAMS

HOUSE MEMBERS

LLEW JONES--Chair
WILLIAM GLASER
CYNTHIA HINER
GALEN HOLLENBAUGH
JON SESSO
JANNA TAYLOR

DIANE MCDUFFIE, Secretary
AMY CARLSON, Director

MINUTES

Please note: These are summary minutes. Testimony and discussion are paraphrased and condensed. Committee tapes are on file in the offices of the Legislative Services Division. **Exhibits for this meeting are available upon request. Legislative Council policy requires a charge of 15 cents a page for copies of the document.**

Please note: These minutes provide abbreviated information about committee discussion, public testimony, action taken, and other activities. The minutes are accompanied by an audio recording. For each action listed, the minutes indicate the approximate amount of time in hours, minutes, and seconds that has elapsed since the start of the meeting. This time may be used to locate the activity on the audio recording.

An electronic copy of these minutes and the audio recording may be accessed from the Legislative Branch home page at <http://leg.mt.gov>. On the left-side column of the home page, select *Committees*, then *Interim*, and then the appropriate committee.

To view the minutes, locate the meeting date and click on minutes. To hear the audio recording, click on the Real Player icon. Note: You must have Real Player to listen to the audio recording.

COMMITTEE MEMBERS PRESENT

REP. LLEW JONES, Chair
SEN. DAVID WANZENRIED
SEN. CAROL WILLIAMS
REP. WILLIAM GLASER
REP. GALEN HOLLENBAUGH

INVITED EDUCATION AND LOCAL GOVERNMENT INTERIM COMMITTEE MEMBERS AND OTHER LEGISLATIVE GUESTS PRESENT

SEN GILLAN
SEN GEBHARDT
SEN BRANAE
SEN PETERSON
SEN HAWKS
REP FLEMING
REP ARNTZEN
REP HOLLANDSWORTH
REP O'HARA

STAFF PRESENT

SUSIE LINDSAY, Secretary
BARB SMITH, Lead Staff
JIM STANDAERT, Senior Fiscal Analyst
PAM JOEHLER, Senior Fiscal Analyst
ROGER LLOYD, Senior Fiscal Analyst
JARET COLES, Staff Attorney

Visitors

Visitors' list, Attachment #1.

00:00:01 REP GLASER called the meeting to order. He explained that Chairman Jones would not be present. The secretary noted the roll.

00:00:41 AMY CARLSON, Legislative Fiscal Analyst, discussed the general fund status chart. (EXHIBIT 1)

00:07:31 BARBARA SMITH, Fiscal Analyst explained the committee on how the reference book committee process will work..

00:09:19 JIM STANDAERT, Senior Fiscal Analyst began the school funding slide show. He explained that the options for altering K-12 funding is done by the Legislative Fiscal Division. The Office of Public Instruction (OPI) did provide some slides for his presentation, which are clearly identified and those are all are informational. He continued with his slide show which explained school funding in depth, as well as, incorporating the options in the reference book. (EXHIBIT 2 & 3)

00:41:36 SEN GEBHARDT asked about the excess reserves and if they would be over the 10% threshold.

00:41:49 MR. STANDAERT responded. He then continued with his presentation.

00:56:30 SEN GEBHARDT asked how the other natural resources like bentonite and platinum apply to state school funding.

00:57:00 MR STANDAERT responded then continued with his presentation.

01:36:22 REP FLEMING pointed out that distances of twenty miles or less between high schools is not over roads, as some do not have roads between the communities.

01:36:58 MR STANDAERT agreed. He continued with his presentation.

01:39:56 JEREMY GERSOVITZ, Staff Attorney, gave a report on the Columbia Falls law suit that decided that the state school funding system must be based upon the costs of meeting the

standards that govern the operation of the state's schools. (EXHIBIT 4)

- 01:45:47 REP HOLLANDSWORTH asked Mr Standaert questions about property reappraisals. He wanted to know if counties will have a 2.5% increase in property appraisals.
- 01:47:01 MR STANDAERT agreed.
- 01:47:19 REP GLASER commented that the 1993 legislature came up with the formulas for BASE and ANB and the numbers represent funding schools based on school sizes in 1988. He stated that the decrement has no actual.
- 01:49:52 BREAK
- 02:11:24 REP GLASER called the meeting back to order.
- 02:11:36 MR STANDAERT further clarified the budget amendment process. He stated that a school board approves any budget amendments then sends the request to OPI, which then rubber stamps those amendments.
- 02:12:21 PAM JOEHLER stated that she would provide a short presentation on higher education. She included a higher education legal analysis by Eddy McClure in her presentation. She further explained how the governance structure in Montana for higher education is different than the other education agencies. (EXHIBITS 5,6,7,8 & 9)
- 02:45:33 SEN GEBHARDT asked what the acronym OCHE meant.
- 02:45:48 MS JOEHLER responded.
- 02:46:02 REP GLASER explained the process of the reference book and then asked Ms Joehler to explain the options in the cultural educational section.
- 02:47:48 MS JOEHLER provided an overview of the options in the cultural category. The first option impacts the historical society. It eliminates general fund support for the publication program at the society. This would provide a savings of \$285,000 to the general fund. The agency transferred general fund and FTE to this program for 2010 and 2011. Originally the legislature appropriated about \$99,000 each year for the publication's program. (EXHIBIT 10)
- 02:50:47 MS JOEHLER explained the next option to consolidate the three cultural agencies into one agency. She stated that the legislature could reduce the funding to the agencies. The savings could be found by having one director and a centralized administration. The total amount budgeted from all funds for administrative salaries and benefits in the cultural education agencies is about \$627,000 annually.
- 02:53:25 SEN GEBHARDT asked if the agencies were consolidated if the services would change.
- 02:53:49 MS JOEHLER stated that services wouldn't be reduced it would be managerial changes.

02:54:39 REP GLASER reiterated that these are options,. He encouraged the public to comment.

02:56:03 ARNIE FITZBAUGH, Executive Director of the Montana Arts Council, stated that the arts council is opposed to consolidation. She stated that two previous legislatures thought to consolidate the agencies to cut costs. In order to do that statute changes would be large. The total Arts Council's general fund budget is \$400,000. She explained why a director for one agency would not work. She further explained that as director of the Arts Council 80-90% of her job is spent on programs, therefore this option would drastically effect services to the public.

02:59:00 RICHARD SIMMS, Director of Montana Historical Society, stated that the historical society is not in favor of consolidating into one agency. They do not think it would be effective.

03:00:22 DARLENE STAFFELDT, State Librarian, stated that research would be needed to see if consolidation of cultural agencies would work. She is not sure where the savings would be. The managers all work to the hilt and there is still work that needs done.

03:02:07 REP GLASER reiterated that the committee hasn't made any decisions and only have a book of potential options. The staff has not made any recommendations.

03:03:39 MS SMITH stated that any statute changes would be placed into a companion bill.

03:04:24 REP GLASER invited other legislators to join at the table. He also explained the legal particulars of voting during a LFC subcommittee. The meeting adjourned at 4:10 p.m. until 8:00 a.m. the following day.

00:00:00 CHAIRMAN JONES resumed the meeting at 8:05 a.m. on August 18, 2010. The secretary noted the roll.

00:00:37 MS SMITH, explained the process from the previous day and asked the committee members if they wanted to change the process in any way.

00:01:38 CHAIRMAN JONES stated that the process will stay like the agenda.

00:02:21 DENISE JUNEAU, Superintendent of Schools, stated that she is not prepared to address individual options, but rather prefers to do an overview of the Office of Public Instruction at the end.

00:02:48 JIM STANDAERT, Senior Fiscal Analyst, stated that he provided an overview of the eighteen OPI options when he presented his slide show the previous day and thought it wasn't necessary to repeat the options. (EXHIBIT 1)

00:04:19 SUPERINTENDENT JUNEAU, stated that her office provided a spreadsheet that showed how the options would affect OPI. (EXHIBIT 2) She reiterated the Columbia Falls law suit. She stated that implementing these options would be a step backwards from this law suit. She explained the benefits of full time kindergarten. She stated that all the options are premature and would set back education by years. She stated that the

Governor's budget is not ready yet. She stated that she is willing to work with the legislative staff to identify options to remove guaranteed tax based aid from school districts that receive windfalls from non levy revenue sources such as the example Mr. Standaert provided to the committee. In addition, OPI is willing to look at redistribution of oil and gas surpluses that flow to a limited amount of school districts could be addressed. She stated that OPI requested, but did not receive from the Education and Local Government Interim Committee to proceed with a bill draft to clarify distributions among budgeted funds. OPI would like to amend 15-36-332-5a MCA to address oil and gas monies. A new bill proposal would prevent school districts from depositing excess funds into the flex account. Further, she explained that the one time only (OTO) of \$62 million for 2010 and 2011 needs to remain as it was taken by the 2009 legislature to be used for the general fund and given back to OPI in the form of OTO American Recovery and Reinvestment Act money.

- 00:16:50 BOB VOGEL, Montana School Board Association, stated that his membership thinks the budget options are dumb ideas. However, they put together some information for review. He reiterated the Columbia Falls suit decision. He stated their willingness to work with the legislature.
- 00:18:51 RENEE RASMUSSEN, Wibaux Superintendent of Schools, explained how oil money is used in her school. She stated that oil revenues are volatile. She tried to alleviate tax burdens by not asking for a levy and hoping the oil money would be there. So far this year it has been good, but they can't always count on that. She further stated that with oil money comes unforeseen costs. She cited an example of trying to build an addition onto her bus garage and having the bids come in at a higher rate simply because an oil community expects to be paid higher wages.
- 00:28:59 DAVE PUYEAR, Montana Rural Education Association, stated that the association is willing to work with the legislature. He stated that the association would like to have a more open process. He would like to see all the constituencies at the table to open communications. He stated that the governor's new budget has not been provided yet, so it is difficult to do anything today with the options.
- 00:32:50 SEN WANZENRIED asked Mr Coles about the options in the OPI section if the legislature could get into an adequacy law suit simply by discussing the options. He asked if speaking to the options in this committee could later be used in court.
- 00:33:48 JARET COLES, Staff Attorney, stated that discussing the district courts actions regarding the Columbia Falls decision poses no risk. Relating facts from that case are simply facts. If the committee discussed specifics of that opinion or speculate on what a court may do about an option he doesn't see a risk, maybe if a specific discussion took place on a specific option, but it would have to be assessed at that time.
- 00:35:14 SEN WANZENRIED asked about an equity law suit if property tax increases.
- 00:35:44 MR COLES responded. He stated that it is a valid point, however some districts may not raise property taxes. In addition, more legal analysis would need to be done on all these options as each one is complex.

00:36:56 MR STANDAERT stated that the less you depend on the state the more you depend on the property tax system, which is a dis-equalized process.

00:37:31 SEN WANZENRIED asked Mr Standaert to continue with that point.

00:37:51 MR STANDAERT responded.

00:38:08 SEN WANZENRIED fears a risk of equity law suit and wants to have legal staff give the risks at the next follow up meeting.

00:39:06 MR COLES would put together a summary for the next meeting. He thinks basic issues could be done in a timely fashion.

00:40:01 SEN WANZENRIED reminded the committee that some of these issues were in the past and expensive to fix years ago.

00:40:36 SEN PETERSON asked for more elaboration and detail on OPI \$31 million dollar jobs package. He wants to know if federal maintenance of effort procedure will be required with this money. He wants to know the process of how the money comes to the state and the procedure to accept that money.

00:41:49 SUPERINTENDENT JUNEAU stated that the application was posted to the Governor last week and he has two weeks to sign it. The money will either go through the regular school funding formula or through TITLE 1. She believes there will be a maintenance of effort issue.

00:43:03 MS SMITH stated that the process is through the Governor's office in application form. She further explained the maintenance of effort certification. The funding is for compensation benefits for direct education or to rehire or hire employees for early childhood education. It may not be used for higher education costs, nor can the money be used at the district level for administrative costs. The guidance provides many examples of what it can be used for like salaries, performance bonuses, or retirement by local school districts and the state can't mandate how the money is used. She has a spreadsheet she will get to the members and OPI on this particular data.

00:45:26 CHAIRMAN JONES commented that the process was started early to promote openness. He explained that the LFC directed the LFD staff to put together options. The committee is open and wants input from the public. He asked for specific cost savings options that come from the community.

00:47:52 MR PUYEAR stated that they all want to work with the committee. He stated that after receiving 17 options in the mail that he wants the community be part of the process from the beginning not part way through. He wanted to be brought to the table from the very beginning.

00:49:14 SUPERINTENDENT RASMUSSEN offered an option to allow school districts that have money left over to place those funds in an account to spend. She wanted earmarks looked at, but she stated that non levy revenue can be transferred from fund to fund. She

used that money to help with teacher's salaries. She asked if the guaranteed fund could be used for school districts to create efficiencies within the local school budgets.

- 00:51:54 SEN PETERSON stated that he is sitting in on the meeting because he represents the largest district in the state, which means 109 school districts or 1/4 of school districts are in his district. He stated that from OPI we are told it is premature and on the other hand OPI is glad we are doing it. He stated that everyone already knows how the Governor's budget will look like. He invited anyone to the table to discuss cost savings options. He stated that he could host a summit to invite more people if that is needed. He reiterated that it is not premature, but rather it is good thoughtful planning.
- 00:56:06 REP HOLLENBAUGH stated that he would like some suggestions and recommendations from the different constituency groups that represent the education budget.
- 00:57:10 REP JONES asked for a letter from those interest groups with recommendations.
- 00:57:32 MR PUYEAR stated that the process would take time. He invited the committee members to join them at an upcoming meeting. He wants to begin again with a clean slate. He wants the committee to come with open arms with no particular agendas set or list of options only then could an open discussion happen.
- 01:00:15 SUPERINTENDENT JUNEAU, stated that she respects the comments. She stated that no discussion of the \$72 million dollar hole has been discussed and yet 18 budget cuts were plopped down and it makes it difficult for a working relationship. The office will work with the 20 schools that obtain oil and gas funding. She offered to go out to Ms Rasmussen's school in Wibaux to find solutions with oil rich schools. She represents 422 districts and interested in all the schools. She would like to co-host a summit with Sen Peterson and discuss how difficult budgeting is for those schools that have a boom and bust economy. She is open to more options, but she thinks it is unfair to not address the OTO funding.
- 01:04:07 SEN WANZENRIED commented that he is glad the committee is doing this, but we don't know where we are going. He stated that waiting until the 3rd week in March during the session then the cuts will affect things they don't have fully researched. He is not sure where the revenues will be, but he likes the idea to set all options aside and start back at zero. However, he would like a hierarchy. He is challenging the constituency groups to come back with ideas and rank them in order of preference.
- 01:07:04 REP GLASER stated that the list was asked for by the LFC and Mr. Standaert did not put together the list without direction from the LFC. The list is options not proposals and the list is short. The list needs to be longer. In addition, Mr Purer and his community is to come up with other options. He indicated that a long list of options is better. In addition, the legislature needs to find out how much revenue the state will have, plus look at what comes from the federal government. He reiterated that these are options not proposals.
- 01:14:57 REP O'HARA defended Mr Standaert's work and stated that Mr. Standaert just did the work at the request of the committee. He further understands that the process takes time and everyone's opinion is valid. He agreed with Sen Wanzenried's idea of prioritizing

any options that come from community members.

- 01:17:40 SEN GEBHARDT stated that the advantage to reviewing the funding formula and eliminating inefficiencies within the formula or carry forwards that may save money. It may not cover the entire funding issues, but it may ease the burden.
- 01:18:55 REP HOLLANDSWORTH stated that as soon as the session ended the legislature knew of the revenue shortfall. He urged the education entities to offer options that they are willing to cut.
- 01:20:36 CHAIRMAN JONES further clarified that the LFC committee would add to options but not remove the options. He reiterated the hope to add options.
- 01:24:02 SEN GEBHARDT stated that the inefficiencies in the formula should be identified for the legislature by OPI and educational constituencies.
- 01:25:19 REP ARNTZEN stated that as a legislative guest to the committee her job is just to listen to options. However, she wants more options.
- 01:26:13 SEN WANZENRIED asked what the process is to get more options. He wants to know if new items will be submitted in writing. He thinks an obvious sum of money that no one wants to talk about is the flex fund. He wants to add this to the list.
- 01:27:17 CHAIRMAN JONES wants the additional options in writing sent to the LFD staff by the September meeting.
- 01:28:47 MS SMITH stated that a second date could be used as a workgroup meeting for those new ideas.
- 01:28:53 SEN WANZENRIED asked about the \$72 million that Superintendent Juneau mentioned. He wanted to know what will be cut unless that will be added back to the education budget.
- 01:29:36 SUPERINTENDENT JUNEAU stated that \$62 million dollars was removed from the state general fund and replaced with federal stimulus money. \$10 million dollars was cut from the at-risk payment. This created a \$72 million dollar funding cliff. She wants to know how this will move forward. The \$31 million OTO federal funds this year will help, but will not cover the full amount. OPI's perspective is that their budget needs to be made whole before they can begin to look at perspective cuts.
- 01:33:11 SEN BRANAE stated that he is mostly listening, but would like to discuss ways to increase revenue. There are ways to find revenue.
- 01:34:40 REP JONES invited the agencies to bring revenue suggestions to the option book.
- 01:35:51 BREAK
- 02:09:42 REP JONES brought the meeting back to order. He stated that some options were

brought to the committee's attention to add to the list. First, the word "eliminate", like for example block grants, is suggested to be removed until a specific trigger amount is reached. So potentially eliminate may be the wrong word, so perhaps the wording could be changed. In addition, when people bring items to the table they wish to remain anonymous. Hard copies given to the LFD could remain anonymous. Finally, he reiterated that the committee understands the problems and would like to see beyond the problems and just want solutions.

- 02:14:11 REP ARNTZEN stated that she heard a lot about openness. She doesn't think September 9 meeting will give the education community enough time to bring back additional options.
- 02:15:06 MS SMITH suggested September 17 as an alternate date.
- 02:16:31 SEN PETERSON stated that he is responding to the education community. He suggested a forum to offer them a chance to speak, as well as, urging Legislature representatives to attend the Burton K Wheeler conference on education in Helena. In addition, One Montana will meet on August 31 in Bozeman.
- 02:17:55 SEN HAWKS stated education will be discussed at the Rural Communities Asset Summit in MSU in Colbertson Hall on August 31. He believes it is a two day conference.
- 02:18:42 REP HOLLANDSWORTH asked about triggers and how that legislative process would work during session.
- 02:19:09 MS SMITH replied.
- 02:19:40 REP HOLLANDSWORTH followed up.
- 02:19:54 CHAIRMAN JONES stated that there are possibilities for gathering more educational opportunities. He asked educational community members if that would work.
- 02:21:03 SUPERINTENDENT JUNEAU stated that possibly attend the Burton K Wheeler or other meetings, but OPI first needed to meet with other constituency folks to make a plan. (EXHIBIT 3)
- 02:22:01 REP JONES rescheduled to September 17, then any other options could be given by the 10th of September to be included.
- 02:22:49 DARRELL RHODES, School Administrators of Montana, offered support to work with others education community members around Montana especially the school superintendents group as well as the county superintendents group. He mentioned the dates of those groups meetings and invited LFD staff to attend.
- 02:24:27 REP JONES stated that the LFC meets again on October 7 & 8.
- 02:24:57 REP HOLLANDSWORTH asked Superintendent Rasmussen from Wibaux to further

explain the ramifications of oil and gas redistribution.

- 02:25:26 SUPERINTENDENT Rasmussen responded.
- 02:28:42 REP JONES asked Mr Standaert to explain the \$72 million that Superintendent Juneau discussed.
- 02:29:10 MR STANDAERT explained that the chart Ms Carlson provided included money for replacing the \$62 million in stimulus funds and that money is in current level services and the \$10 million at-risk is also in the current level services.
- 02:33:24 REP JONES asked if committee members had any questions.
- 02:34:39 MR STANDAERT further explained the chart located on page 51 of his slide presentation from the previous day that shows the federal money that frees up general fund. Of the \$62 million, \$11 million per year, or \$22 million is counted as OTO. It depends on how the legislature looks at it. \$35 million was transferred from the general fund to state special revenues in the K-12 funding to pay for quick start energy grants and energy upgrades distributed by the Department of Commerce for K-12 schools. That \$35 million was used for K-12 infrastructure projects not for other programs. (SEE EXHIBIT 2)
- 02:35:22 REP JONES stated that the Legislative Finance Committee did understand the difficulty in carrying forward funding. The current level funding listed on the chart provided by Ms Carlson does not have to be funded, but it would be very difficult not to fund it.
- 02:35:42 MR STANDAERT stated the chart on page 51 of his slide presentation shows in the dark blue is the amount that would have to be funded without replacing the 2%, without inflation, without replacing the at-risk money, and without replacing the special education maintenance of effort. Three of the current service levels are new proposals and would need to be acted on. The \$35 million includes \$22 OTO, \$10 at-risk and \$1.2 doubled (\$2.5) for special ed. Present law adjustment allows \$32 million for inflation.
- 02:38:17 REP JONES thanked Mr. Standaert and asked for further questions.
- 02:38:38 SEN PETERSON asked Mr Standaert if you take out the new money for education and the facilities money what would the amount in current level services be for OPI.
- 02:39:39 MR STANDAERT stated the amount would be \$40 million.
- 02:40:22 SEN WANZENRIED stated that facilities money is not in BASE aid. The reduction would be for operation of schools and classroom instruction.
- 02:41:18 REP HOLLANDSWORTH asked about the flex fund. He would like an explanation of the fund.
- 02:41:51 REP GLASER stated that the flex fund was originally created for funds can be distributed by a preconceived formula so the legislature can give schools money. The flex

fund has been modified by the local school districts for the schools own needs. Rep Glaser stated that he doesn't think funds can be used for ongoing labor costs.

- 02:44:47 MR STANDAERT clarified that the formula refers to the way available state money is distributed in flex funds, but that formula was only used once in 2003 and that amount was \$4.1 million. Now the fund is \$42 million, even after spending about \$6 million a year. The budget for the flex fund for 2010 is \$45 million, but only \$6 million was spent.
- 02:46:01 REP JONES wanted to know the distribution formula.
- 02:46:12 MR STANDAERT will provide the committee with a spreadsheet that describes the distribution formula.
- 02:46:47 SEN WANZENRIED asked a question about the flexibility fund law on page 62 of the slide presentation from the previous day. He asked Mr. Standaert if the flex fund could be used teachers' salaries. (SEE EXHIBIT 2)
- 02:47:24 MR STANDAERT stated that it could be used for teachers' salaries and/or raises.
- 02:47:40 SEN WANZENRIED asked about page 64 of the slide presentation discusses classroom instruction. He wanted to know if there was information that discussed which categories were included in that and how much is spent in each category. (SEE EXHIBIT 2)
- 02:47:55 MR STANDAERT stated salaries and benefits could be broken out.
- 02:48:11 SEN WANZENRIED asked if those totals are for are salaries and benefits.
- 02:48:27 MR STANDAERT stated that was correct and thought 100% of the money is for salaries and benefits.
- 02:48:40 REP JONES asked Mr. Vogel to comment if he had heard districts would loose flex funds and need to consume them.
- 02:49:03 MR VOGEL responded he is biased about the flex fund, therefore he thinks schools use the fund the way it was intended. He thinks the fund is used by districts as a way to save money for harder times in the future. Now they hear that the state may take away the balances, so they are being encouraged to use that money.
- 02:51:12 REP JONES asked Pam Joehler to begin the higher education section of the reference book options after a break.
- 02:51:31 BREAK
- 03:08:37 REP JONES called the meeting called back to order.
- 03:08:50 PAM JOEHLER, Senior Fiscal Analyst, presented an overview of higher education and provided a document explaining shared policy goals developed by the Education and Local Government Interim Committee (ELG). (EXHIBIT 4)

Ms Joehler then began with the reference book options located in the higher education section. The first option consolidates administrative and other functions at Dawson Community College and Miles City Community College. Student enrollment is down in both colleges for the past ten years. She stated that a legal analysis would need to be done to research this option. In addition, statute would need to be changed by the legislature. (EXHIBIT 5)

- 03:15:08 REP HOLLENBAUGH asked if the shared policy goals and accountability measures are impacted by option one.
- 03:15:42 MS JOEHLER stated that the shared policy goals relate to two year education in general. However the shared policy goals in that respect really relate more to the substance of two year education, including efficiency and effectiveness that covers the entire university system, not just the community colleges. It was not the intent of the LFC to try at this point to look at the options and the shared policy goals, however it is something staff could do.
- 03:16:45 REP HOLLENBAUGH wants to marry the shared goals to the options to see the effect.
- 03:17:22 REP ARNTZEN stated that in the shared policy and goals if cost efficiencies could not be achieved with consolidation, then it would not be done. She wanted a list for cost efficiencies that could be annotated.
- 03:17:42 MS JOEHLER stated that she does not have that list now, but she could provide one later.
- 03:18:07 REP ARNTZEN wondered if the shared goals could go forward without duplication or if consolidation is needed.
- 03:18:43 SEN GEBHARDT asked if the size of the two year college buildings at Miles City and Glendive necessitates smaller enrollments than at the Flathead Valley Community College campus.
- 03:19:27 MS JOEHLER stated that in her opinion there is capacity available for additional enrollment, but she deferred to the commissioner's office for the answer.
- 03:19:55 MS JOEHLER continued with the next option. This relates to funding of a retirement benefit that was increased. The option relates to how the retirement was funded, not to the benefit itself. The option would eliminate general fund subsidies of 1% of the Optional Retirement Program (ORP) increase for non-state funded positions. The general fund gets deposited into the current unrestricted fund, then the current unrestricted fund is used to pay salaries. The general fund is being used to pay for a benefit that other funds are being used to pay for base salary and other benefits. In FY 2008 about 30% of the salary and benefit costs participating in this retirement program were funded from non-state sources, such as research grants. The general fund bore 100% of the employer cost increase that was authorized in HB 95. In FY 2009 29%, or about \$494,000, of the statutory appropriation was transferred to non-state accounts and used to pay the benefit increase for non-state funded positions. The LFD estimates that about \$1 million in

general fund would be saved if this option were adopted. The increase or benefit cost would be borne by non-state sources, such as research and other self supporting enterprises. Current statute would need to be changed if this option were adopted.

03:24:07 MS JOEHLER continued with the next two options which are similar in nature. She explained the budget impact to the educational units resulting from state funding reduction. She explained the process of operating budget approvals by the Board of Regents (BOR). HB 645 appropriated \$18 million in OTO funding to the educational units for tuition mitigation. It is unlikely to be included in the proposed 2013 biennium executive budget. In the event of a reduction in state appropriated funds, the board has two choices to balance the operating budgets, increase tuition or reduce expenditures. The tuition impact is estimated to be 3.5% annually (to offset the \$18 million in OTO funds). The commissioner's office estimates that each 1.5% annual increase in tuition rates will increase tuition revenue by \$5 million for the biennium. Expenditure levels for the MUS educational units are established by the BOR when it approves annual operating budgets at their September meetings. The operating budgets must be balanced. In the event that the OTO \$18 million is not continued, in order for the BOR to balance the budget without a tuition increase, the BOR would need to implement expenditure reductions. These expenditure reductions could result from program consolidation, program eliminations, changes in programs, etc.

She stated that the next option is very similar in that it addresses and recognizes that there may be a reduction that the BOR is responsible for determining whether or not there is going to be an expenditure reduction or tuition increase. The second option requests the BOR to evaluate system efficiencies and bring forth options for reducing or eliminating a unit, department, section or service provided in the educational units of the Montana University System (MUS) to the legislature for discussion. Neither of the options have a specific amount, but the OTO appropriations in HB 645 and HB 2 encompass more than just the \$18 million tuition mitigation.

03:29:24 MS JOEHLER stated that the final option looks at changing service delivery of Montana State University (MSU) extension service. 55% of MSU extension employees are located throughout the 56 Montana counties and about 45% of employees are located at the MSU campus in Bozeman. The Montana Co-operative Extension Services were originally funded by state general fund, county support and federal Smith-Lever formula funds. In recent years additional federal grants, including grants that support 100% of five federally recognized tribal extension programs have replaced the traditional funding sources. Cooperative extension services in other states have changed the delivery and financing of their outreach services in response to significant state and /or local funding restrictions. These changes may be appropriate for consideration by MSU extension services. State appropriations to the MUS Extension could be reduced if cost efficiencies were obtained from its service delivery system. Additional research would be needed to evaluate the cost effectiveness of the change options.

03:31:56 PUBLIC COMMENT

03:32:11 SHEILA STEARNS, Commissioner of Higher Education, gave background information.

She thanked Pam Joehler for her work over the years. She stated that shared policy goals have been very productive. She provided a 10 year enrollment spreadsheets. (EXHIBIT 6) She stated that 4-year institutions enrollments are up 3.4%, colleges of technology is 21.2% up and community college enrollment is up 22%, mostly at Flathead Community College, but not all. The overall total is about a 7% increase. The only campus that declined in enrollment is 4-year MSU Billings, but enrollment is up at MSU Billings College of Technology. She stated that the BOR's strategic plan is to focus on the shift for more students to gain general studies into 2-year colleges first as a cost savings method. She commented on College Now a new movement to focus on college completion. Ms Stearns answered Sen Gebhardt's question that Dawson and Miles City have capacity for more students and have good building facilities. Ms Stearns answered Rep Arntzen's question if Miles City and Dawson connects with the shared policy goals. She stated that specific ways that Miles City and Dawson meet shared policy goals and she provided the example of distance learning. She stated that distance learning has quadrupled in last few years. The option to eliminate the general fund subsidy of ORP is an option that the commissioner's office concurs with and supports.

- 03:46:06 REP HOLLANDSWORTH asked about the OTO stimulus money for higher education.
- 03:46:21 COMMISSIONER STEARNS stated that each campus has management plans to deal with the cuts. For example, her office will take a 10% - 15% cut to close that OTO gap.
- 03:47:18 SEN WANZENRIED asked what the balance is to reduce costs with increases in tuition. He wanted to know if any modeling has been conducted to determine the impact of tuition increases.
- 03:47:51 COMMISSIONER STEARNS stated that individual campuses model tuition. However, the Board of Regents (BOR) have explicitly asked the commissioner not to model tuition increases and the BOR will not set tuition until May 2011 following the course of setting tuition every two years on the odd year..
- 03:50:10 SEN WANZENRIED asked if the two year period is too long or if it is fine even with inflation.
- 03:50:48 COMMISSIONER STEARNS stated that Board of Regents have been able to set tuition in this way for several biennium. She is confident when the BOR sets tuition next May that they will be confident in regards to that.
- 03:51:08 MICK ROBINSON, Deputy Commissioner for Finance and Administration, stated that this biennium the BOR approved at Montana State University (MSU) and University of Montana (U of M) a 3% increase in tuition for last academic year, and an additional 3% for the next academic year. Therefore, an increase was approved for each year of the biennium at the May 2009 meeting.
- 03:51:53 SEN WANZENRIED asked about the impact of the quality of education and whether the moratorium is a statement that the state has better management.
- 03:52:18 COMMISSIONER STEARNS stated that largely a moratorium on tuition increases is in

affect until May 2011, but it may not continue. The Board of Regents are committed to cost controls, efficiencies and measured quality. Retention of students often relates to quality. There are specific quality measures and if they drop off the BOR will address.

- 03:53:47 SEN WANZENRIED asked if the BOR will be forthcoming with that information with the legislature during the legislative session or is the Commissioner's office muted by the BOR from having that discussion.
- 03:54:13 COMMISSIONER STEARNS stated that the office will be very candid throughout the session with shared policy goals and how they relate to quality of education, however, to the extent that the BOR draws conclusions on tuition is something that they will say that they are committed to improving student assistance, quality for students and quality in the research program. She stated that her office doesn't feel muted in anyway.
- 03:55:22 REP JONES asked about funding decisions. He wondered if the additional enrollments of 7% to the university system have been difficult to cover expenses. He asked how the additional enrollees are covered beyond the enrollment tuition.
- 03:56:53 COMMISSIONER STEARNS stated that marginal costs are taken into account by fixed variables. This year's 7% growth in enrollment, therefore tuition revenue, have meant that only three units have come to BOR to use those revenues for marginal costs.
- 03:58:55 REP JONES clarified that the 7% increase allowed a benefit in services from tuition revenues.
- 03:59:29 COMMISSIONER STEARNS agreed.
- 03:59:39 REP JONES asked if they forecast for student growth.
- 04:00:00 COMMISSIONER STEARNS responded.
- 04:00:44 REP JONES asked if the increase in enrollment revenues could help the legislature with budget issues.
- 04:01:07 COMMISSIONER STEARNS disagreed and thinks the source is volatile.
- 04:01:49 REP JONES asked if the education community had ideas for the budget.
- 04:02:38 COMMISSIONER STEARNS stated that by minimizing costs, looking at extension services efficiencies and the reform agenda with integrated systems all help reduce costs in the budget.
- 04:04:51 RECESS for LUNCH
- 05:18:28 REP JONES called the meeting back to order.
- 05:18:38 ROGER LLOYD, Senior Fiscal Analyst, presented his report on statutory appropriations. He stated that the 10% reduction figure is a guideline. He gave a general overview of

statutory appropriations including background information. He provided a list of general fund statutory appropriations from FY 2010. Options to reduce statutory appropriations as percent or institute a sunset date or reduce or eliminate them permanently. The program could be moved to HB 2. He explained the first option in the Local Government section. The three ways to deal with statutory appropriations, however there are constitutional issues. Twelve statutes would need to be amended. The next option deals with the tax increment district payments. Cities would have to pick up the cost of that. The county attorney's salaries would be affected by option number two. If this option were used \$700,000 would be saved to the general fund. Finally, the third option would eliminate local government entitlements statutory appropriation. The growth factors would hold the payment at 2009 level. If the payment were decreased, then local governments would increase property taxes. (EXHIBITS 7 & 8)

05:34:25 PUBLIC COMMENT

05:34:41 ALEC HANSEN, League of Cities and Towns, presented a spreadsheet prepared by Harold Blattie from the Montana Association of Counties (MACO) (EXHIBIT 9). Mr Hansen explained the background of the growth factor and the entitlement formula. He would like to see an analysis of local government revenues that were transferred to the state. If these options were suggested, it would become the priority of all to not get it to pass.

05:45:49 SEN GEBHARDT asked Mr Hansen if the percentage of increase meets the increase in needs.

05:46:22 MR HANSEN stated the increases have been minimal and that cities are allowed 1.5% for inflation. However, larger cities have unions with collective bargaining units.

05:47:45 REP O'HARA asked Mr Hansen which proposals the league of cities endorses or suggests.

05:48:18 MR HANSEN replied that he has no ideas at this time.

05:50:55 REP ARNTZEN asked a followup question.

05:51:23 MR HANSEN replied.

05:51:54 SEN WANZENRIED asked Mr Hansen how the system changed and the cities could have collected more tax revenues.

05:52:34 MR HANSEN explained HB 124 and the impact to cities and towns.

05:54:51 SEN WANZENRIED asked Mr Lloyd about the accuracy of his projections.

05:55:15 MR LLOYD further explained that the \$16 million is based on two biennium periods. \$4 million dollars per year.

05:55:59 REP JONES asked a followup question about HB 124.

05:56:52 MR HANSEN responded.

05:58:59 REP JONES asked another follow up question regarding the number of discretionary money.

06:00:17 MR HANSEN stated that most of the money goes to police and fire, which is 70% of budgets. The general operations of the city are water, sewer and garbage. That is 1/2 the money that is outside the general fund. Inside the general fund, 70% is personnel services which is generally police and firefighters. He added that cities get about \$58 million in entitlement benefits, and they collect over \$100 million in property taxes.

06:04:10 REP JONES asked if reappraisals would be coming in.

06:04:33 MR HANSEN stated that the general increase is 58%. He cited Billings as an example that the city can't raise mills if taxable value drops.

06:06:32 REP JONES asked what percentage of average city's budget is the entitlement.

06:07:10 MR HANSEN stated about 25% of general fund budget.

06:08:12 REP JONES asked for direction to the staff. September 17 would be the next meeting date and additional options would be brought by September 10.

06:09:51 SEN WANZENRIED asked staff about consolidation. He wondered if the legislature saved money by consolidating.

06:11:08 SEN GEBHARDT stated that Musselshell Golden Valley Counties consolidated county attorneys and saved 25%.

06:12:46 REP JONES stated that Toole, Pondera, and Glacier counties consolidated their equipment pools and has resulted in savings. It has worked extremely well.

06:13:44 SEN WANZENRIED asked if there were any that did not save money after consolidation. The examples must really save money for success.

06:14:47 REP ARNTZEN asked about FTE impacts.

06:15:33 REP JONES stated that Ms Smith put together FTE growth spreadsheets.

06:16:17 MS SMITH stated she will proofread the spreadsheets and then send them to the members.

06:16:34 REP JONES continued. He liked the chart of the week the fiscal division puts on its website. In the future he would like to see the portion of city and counties budgets that are entitlements and what percentage is the general fund. He would like to see this data over a ten year period.

06:18:20 SEN GEBHARDT would like to see a list of which taxes come to the state for HB 124

plus the distribution of those dollars.

- 06:18:50 REP JONES wants to see whether there is a net positive or net negative.
- 06:19:14 SEN PETERSON also agreed that a chart on HB 124 would be helpful. Also he wants to see some way to show the income and outflow. He also mentioned the agenda for the upcoming Bozeman conference.
- 06:22:51 REP JONES referred to the chart handed out by MACO. He stated that an increase of where we are today is helpful.
- 06:24:11 REP HOLLANDSWORTH stated that OPI told the committee the shift would place the burden to local governments. He wants to make sure the burden is not shifted.
- 06:24:57 SEN WANZENRIED wants staff to produce a report on retirement costs.
- 06:26:01 MS SMITH stated that it would be put together.
- 06:26:15 REP JONES reiterated numbers on MACO chart.
- 06:26:51 MS SMITH summarized what staff has been asked to provide at the next meeting.
- 06:28:18 REP JONES adjourned at the meeting at 3:30 p.m..