Agency Budget Comparison

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

Agency Budget Comparison Budget Item	Base Fiscal 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	93.88	93.88	93.88	93.88	93.88	93.88	0.00	0.00%
Personal Services	5,328,130	6,661,069	6,103,504	6,102,483	11,989,199	12,205,987	216,788	1.81%
Operating Expenses	4,548,981	6,555,917	5,900,347	5,858,393	11,104,898	11,758,740	653,842	5.89%
Local Assistance	11,139,820	11,030,955	12,116,807	12,110,271	22,170,775	24,227,078	2,056,303	9.27%
Grants	15,713,709	21,627,099	16,554,595	16,653,171	37,340,808	33,207,766	(4,133,042)	(11.07%)
Benefits & Claims	30,617,909	40,508,723	40,617,909	40,617,909	71,126,632	81,235,818	10,109,186	14.21%
Transfers	179,600,026	182,383,158	192,419,834	194,193,866	361,983,184	386,613,700	24,630,516	6.80%
Debt Service	43,480	43,480	67,033	67,033	86,960	134,066	47,106	54.17%
Total Costs	**$246,992,055**	**$268,810,401**	**$273,780,029**	**$275,603,126**	**$515,802,456**	**$549,383,155**	**$33,580,699**	**6.51%**
General Fund	179,551,398	179,553,762	195,939,995	197,324,993	359,105,160	393,264,988	34,159,828	9.51%
State Special	19,827,019	21,274,458	20,459,142	20,966,168	41,101,477	41,425,310	323,833	0.79%
Federal Special	47,540,878	67,906,142	57,304,659	57,236,531	115,447,020	114,541,190	(905,830)	(0.78%)
Other	72,760	76,039	76,233	75,434	148,799	151,667	2,868	1.93%
Total Funds	**$246,992,055**	**$268,810,401**	**$273,780,029**	**$275,603,126**	**$515,802,456**	**$549,383,155**	**$33,580,699**	**6.51%**

Agency Description

Agency Mission: To serve students through the delivery of high quality, accessible postsecondary educational opportunities, while actively participating in the preservation and advancement of Montana's economy and society.

For additional information please refer to the agency profile.

Agency Highlights

Montana University System – Office of the Commissioner of Higher Education

Major Budget Highlights

- The Governor proposes a $33.6 million, 6.5% biennial HB 2 budget increase for the Montana University System
- Budgets for both the MUS educational units and the community colleges would increase in the proposed executive budget
  - The executive recommends funding the educational units' budget increases using a state percent share that reflects the proportion of resident and Western Undergraduate Exchange students to total student enrollment, approximately 82%. Student enrollment at the educational units is projected to increase in the 2015 biennium.
  - The executive recommends a 7.5% biennial budget increase for the educational units and research/public service agencies.
  - The executive used the statutory funding formula for the community colleges and includes a 9.3% biennial increase. Student enrollment at community colleges is projected to decline in the 2015 biennium
- Financial assistance to Tribal Colleges would remain flat in the 2015 biennium
- The executive budget includes a new proposal that would restore $2,587,890 general fund each year in the Student Assistance Program for the Governor's Best and Brightest Scholarship and Quality Educator Loan Forgiveness programs. Federal funds of a like amount would be removed.

Legislative Action Issues

- 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 2006 and adopted by the 2007 Legislature. At the time this narrative was written in mid-December, the executive had not produced a written plan and the MUS had indicated there was no official agreement.
- The Legislative Finance Committee studied the community college funding formula during the 2013 biennium interim and has proposed statutory changes (HB 25) to address the report findings that impact the funding formula

Agency Discussion

Agency Personal Services Narrative

The Office of the Commissioner of Higher Education is not subject to the broadband pay plan referenced in 2-18-201 MCA or with its associated pay rules. OCHE complies with the compensation policies and procedures adopted by the Montana Board of Regents of Higher Education. OCHE strives to improve the ability of the Montana University System to recruit and retain capable employees to serve Montana students, within limited resources. One-third of the Montana University System workforce is in a classified pay plan that has limited use of established career ladders, while two-thirds of the workforce is employed on fixed-term annual employment contracts that are renewable or non-renewable in accordance with BOR policy. OCHE uses limited pay adjustments for current employees to retain capable employees to serve Montana students. The system is competitive in hiring clerical and technical-level support positions and not as competitive hiring professional and managerial positions.

Budget Comparison

Overall, the executive budget proposes to increase the HB 2 budget $33.6 million, or 6.5%, from the 2013 biennium to the 2015 biennium.

Biennial budget increases are due primarily to the executive's recommendation for

- Present law increases for the Montana University System educational units and community colleges
- Present law increases for the professional student exchange programs and the quality educator loan forgiveness program in the Student Assistance Program
- Increased authority for federal education grants
- Present law increases for costs of the Montana Guaranteed Student Loan program.

The executive budget proposes a $2.0 million, 9.3% biennial increase for the community college budgets in the 2015 biennium. The executive used the statutory funding formula (Section 20-15-310, MCA) to estimate the state appropriation for the community colleges. This funding formula uses enrollment projections and base year, ongoing costs to estimate the total community college budget for the upcoming biennium, and the state percent share that determines the state appropriation. The state percent share is a policy choice of the legislature. The executive recommends a state percent share of 50.8% each year of the 2015 biennium. This is the state share percentage used by the 2011 Legislature for the 2013 biennium.

The executive budget proposes a $26.5 million, 7.5%, biennial increase for the university campus and agency budgets in the 2015 biennium. In contrast to the community colleges, the executive budget methodology for estimating the university campus and agency budgets is neither formula-based nor enrollment-based. Instead, the executive budget uses the standard "base-plus" budget methodology that is used for most other state agencies in Montana. Funding to cover the state portion of the budget adjustments is added or subtracted to the state appropriation in the base budget year. The state portion for the budget adjustments, or state percent share, is a policy choice of the legislature. The executive budget

recommends an average state percent share of 82%, which reflects the proportion of resident and Western Undergraduate Exchange[1] (WUE) students to total student enrollment.

The executive budget proposes level funding for tribal college assistance in the 2015 biennium. State funding to tribal colleges in Montana is provided in Section 20-25-428, MCA. This statute requires the Board of Regents to provide assistance to tribal colleges "subject to a line item appropriation" by the legislature, up to a maximum of $3,024 per year for each non-beneficiary student FTE. The statute does not establish a minimum appropriation level. If non-beneficiary student enrollment remains at the same level as it was in FY 2012 (about 340 FTE), the state assistance that would be transferred to tribal colleges is $2,477 per non-beneficiary student each year.

The executive budget includes a new proposal that would restore $2,587,890 general fund each year in the Student Assistance Program for the Governor's Best and Brightest Scholarship and Quality Educator Loan Forgiveness programs. The 2011 Legislature, upon recommendation of the Governor, used a one-time federal fund balance in the Guaranteed Student Loan program to replace general fund in the Student Assistance Program for the 2013 biennium. A like amount of federal funds would be removed from the program in FY 2014 and FY 2015.

Impact of proposed executive budget

The impact of state funding in the executive budget is illustrated in the table on the following page, which demonstrates the funding levels for each of the major functional areas of the MUS and shows the percent change from the 2013 biennium.

[1] The Western Undergraduate Exchange Program allows students from 14 participating states to enroll in designated postsecondary schools and pay a reduced tuition rate of 150% of resident tuition at two- and four-year college programs outside of their home state.

Montana University System - Impact of 2015 Biennium Executive Budget Across Functional Areas
General Fund and State Special Revenue Only

Budget Item	Actual Base FY 2012	Budgeted FY 2013	Exec. Budget FY 2014	Exec. Budget FY 2015	Change 13-15 Bien.	% Change 13-15 Bien.
Education Services						
University Educational Units	$150,918,989	$151,821,230	$164,132,825	$165,986,983	$27,379,589	9.04%
Resident + WUE Student Enrollment	31,586	31,553	32,007	32,359	1,227	1.94%
State Funds/Student	$4,778	$4,812	$5,128	$5,130	$668	6.96%
Community College Assistance	$11,014,820	$10,905,955	$11,985,807	$11,973,271	$2,038,303	9.30%
Resident Student Enrollment	2,471	2,440	2,159	2,159	(593)	-12.1%
State Funds/Student	$4,458	$4,470	$5,552	$5,546	$2,170	24.3%
Tribal College Assistance	$842,085	$842,085	$842,085	$842,085	$0	0.00%
Non-Beneficiary Students	340	340	340	340	-	0.00%
State Funds/Student	$2,477	$2,477	$2,477	$2,477	$0	0.00%
Research/Public Service Agencies	$23,741,275	$23,796,841	$23,347,247	$23,267,121	($923,748)	-1.9%
Student Grants/Assistance						
WICHE/WWAMI/MN Dental	$5,305,988	$5,998,446	$5,522,640	$5,676,753	($105,041)	-0.93%
Number of Students	166	165	166	166	1	0.30%
State Funds/Student	$31,964	$36,354	$33,269	$34,197	($852)	-1.25%
Gov's Postsecondary Scholarships	$279,000	$446,206	$2,372,000	$2,372,000	$4,018,794	554.16%
Number of Students	1,573	1,810	1,546	1,547	(290)	-8.57%
State Funds/Student	$177	$247	$1,534	$1,533	$2,644	623.67%
Baker Grants	$2,018,774	$2,018,775	$2,018,774	$2,018,774	($1)	0.00%
Number of Students	2,241	2,400	2,400	2,400	159	3.43%
State Funds/Student	$901	$841	$841	$841	($60)	-3.43%
Montana Higher Education Grants	$617,590	$612,117	$617,590	$617,590	$5,473	0.45%
Number of Students	964	975	975	975	11	0.57%
State Funds/Student	$641	$628	$633	$633	($2)	-0.13%
State Work Study Program	$863,003	$862,989	$863,003	$863,003	$14	0.00%
Number of Students	749	750	750	750	1	0.07%
State Funds/Student	$1,152	$1,151	$1,151	$1,151	($2)	-0.07%
Teacher Loan Forgiveness Program	$0	$0	$738,000	$738,000	$1,476,000	n/a
Number of Recipients	167	246	246	246	79	19.13%
State Funds/Recipient	$0	$0	$3,000	$3,000	$6,000	n/a
MSH/MSP Nursing Loan Reimbursement Pgm	$56,237	$36,307	$56,237	$56,237	$19,930	21.54%
Number of Recipients	19	19	19	19	-	0.00%
State Funds/Recipient	$2,960	$1,911	$2,960	$2,960	$1,049	21.54%
Administration/Special Programs	$3,345,656	$3,112,270	$3,527,929	$3,504,344	$574,347	8.89%
Total General Fund & State Special Rev.	$199,003,417	$200,453,221	$216,024,137	$217,916,161	$34,483,660	8.63%

Sources: SABHRS FY 2013 ongoing appropriations; student service data from OCHE, November and December 2012
FY 2012 Actual and 2015 Biennium Executive Budget from MBARS

Figures for all years exclude Motorcycle Safety Sub-Program

As the table illustrates, the total agency increase in general fund and other state revenue spending for the 2015 biennium is $34.5 million, a 8.6% increase. The most significant biennial increases in state funds occur in the following programs:

- State funding for the Governor's Postsecondary Scholarships would be restored in the proposed executive budget. While state funds are increased, the total cost of this program would remain level, as the state funds would offset the federal funds
- Community college funding increases 9.3% overall, while student enrollment is projected to decline and the state funds per student increases 24%
- State funds allocated to the university units increases 9.0% in the proposed 2015 biennium executive budget. State funded enrollment is projected to increase 2% and the state funds per student increases 7%

Legislative Committee Bills and Recommendations

The Legislative Finance Committee has recommended statutory changes to address an issue with the community college funding formula that has resulted in overpayment of state funds. HB 25 is the proposed bill draft that amends statute to address this issue. See the appendix for a copy of HB 25.

5% reduction plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. A summary of the entire 2015 biennium 5% plan submitted for this agency is in the appendix.

IT Systems

State agencies have identified information technology (IT) systems that are critical to the state as a whole or to the agency. Further, state agencies have assessed the age of the systems to establish whether the system is:

- New
- Emerging
- Mature
- Declining
- Obsolete

The Legislative Finance Committee recommended that House Appropriations and Senate Finance and Claims Committee leadership direct the Long Range Planning Subcommittee to meet jointly with each of the appropriate joint appropriations subcommittees to discuss priorities related to critical IT systems, and that state agencies be prepared to discuss:

- Current plans to address obsolescence
- Costs to replace the system
- Costs of maintaining the current system
- Risks associated with both retaining the current system and replacing the system

LFD staff will be prepared to discuss issues related to those systems that have been determined to be either critical to the state as a whole or to the agency and either declining or obsolete. Issues include security, continuity of operations, and funding.

Agency Goals and Objectives

Goals and objectives for the agency can be found in the appendix.

Funding

The following table shows agency funding by source of authority, as proposed by the executive. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Commissioner Of Higher Education Funding by Source of Authority 2015 Biennium Budget					
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	$393,264,988	$0	$2,721,082	$395,986,070	53.7%
State Special Total	41,425,310	-	1,564,336	42,989,646	5.8%
Federal Special Total	114,541,190	-	-	114,541,190	15.5%
Proprietary Total	151,667	183,643,900	-	183,795,567	24.9%
Current Unrestricted	-	-	-	-	0.0%
Other Total	-	-	-	-	0.0%
Total All Funds	$549,383,155	$183,643,900	$4,285,418	$737,312,473	
Percent - Total All Sources	74.5%	24.9%	0.6%		

Nearly three-fourths of the funding proposed by the executive for the agency would be appropriated in HB 2, one-fourth of the proposed funding does not require an appropriation as the funds are enterprise funds, and the remaining one-half of one percent is statutory appropriation authority.

HB 2 funds are primarily general fund. Also included is state special revenue primarily from the six-mill levy, and federal funds from various federal education grant programs and program fees earned in the Montana Guaranteed Student Loan Program.

Non-Budgeted Proprietary Funds

The agency administers two programs funded by enterprise funds:

- MUS Self-Funded Workers Compensation
- MUS Group Health Insurance

The legislature does not appropriate enterprise funds or approve rates for the programs. Instead, the legislature reviews the funds and identifies any concerns with the financial position of the funds. Revenues, expenditures, and fund balances for the enterprise funds for the current and projected biennia are detailed in financial schedules included in the appendix.

Statutory Appropriations

The Montana University System has three statutory appropriations that are distributed through the Office of the Commissioner of Higher Education:

- A 2.5% allocation from the lodging facility use tax for travel research conducted at the University of Montana
- 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
- Special fees paid by medical students in the professional student exchange programs are deposited to the Montana Rural Physician Incentive Program account and distributed to qualified physicians practicing in rural or medically underserved areas or serving underserved populations for medical school debt repayment, up to $100,000 over 5 years. Statute also allows funds to be used to pay for the expenses of administration, up to 10% of the annual fee assessment

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	179,551,398	179,551,398	359,102,796	91.31%	246,992,055	246,992,055	493,984,110	89.92%
Statewide PL Adjustments	(394,881)	(985,574)	(1,380,455)	(0.35%)	859,288	816,523	1,675,811	0.31%
Other PL Adjustments	14,194,115	16,169,806	30,363,921	7.72%	25,876,127	27,741,940	53,618,067	9.76%
New Proposals	2,589,363	2,589,363	5,178,726	1.32%	52,559	52,608	105,167	0.02%
Total Budget	**$195,939,995**	**$197,324,993**	**$393,264,988**		**$273,780,029**	**$275,603,126**	**$549,383,155**	

Language and Statutory Authority

The following language is proposed by the executive for inclusion in HB 2:

"Items designated as OCHE Student Assistance (02), Improving Teacher Quality (03), Educational Outreach and Diversity (06), Workforce Development (08), Appropriation Distribution Transfers (09) [excluding Agriculture Experiment Station, Extension Service, Forest and Conservation Experiment Station, Bureau of Mines and Geology, Bureau Ground Water Program and Fire Services Training School] Guaranteed Student Loan (12), and the Board of Regents (13) are a single biennial lump-sum appropriation.

General fund money, state and federal special revenue and proprietary fund revenue appropriated to the board of regents are included in all Montana university system programs. All other public funds received by units of the Montana university system (other than plant funds appropriated in House Bill No. 5, relating to long-range building) are appropriated to the board of regents and may be expended under the provisions of 17-7-138(2). The board of regents shall allocate the appropriations to individual university system units, as defined in 17-7-102(13), according to board policy.

The Montana university system, except the office of the commissioner of higher education and the community colleges, shall provide the office of budget and program planning and the legislative fiscal division banner access to the entire university system's banner information system, except for information pertaining to individual students or individual employees that is protected by Article II, sections 9 and 10, of the Montana constitution, 20-25-515, or the Family Educational Rights and Privacy Act of 1974, 20 U.S.C. 1232g.

The Montana university system shall provide the electronic data required for entering human resource data for the current unrestricted operating funds into the Montana Budgeting and Reporting System (MBARS). The salary and benefit data provided must reflect approved board of regents operating budgets.

The average budgeted amount for each full-time equivalent student at the community colleges, including is $6,210 for each year of the 2015 biennium. The general fund appropriation for OCHE -- Community College Assistance provides 50.8% in FY 2014 and 50.8% in FY 2015 of the budget amount for each full-time equivalent student each year of the 2015 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.

The general fund appropriation for OCHE -- Community College Assistance is calculated to fund education in the community colleges for an estimated 2,235 resident FTE students each year of the 2015 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 $145,378 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 2015 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 $55,000 for

Dawson, $44,520 for Miles and $45,858 for Flathead Valley community colleges.

Revenue anticipated to be received by the Montana university system units and colleges of technology includes interest earnings and other revenues of $956,891 for each year of the 2015 biennium.

Revenue anticipated to be received by the agricultural experiment station includes interest earnings and other revenue of $8,500 each year of the 2015 biennium.

Revenue anticipated to be received by the extension service includes interest earnings of $1,500 each year of the 2015 biennium.

Anticipated interest revenue of $800 in each year of the 2015 biennium is appropriated to the forestry and conservation experiment station for current unrestricted operating expenses. This amount is in addition to that shown in OCHE -- Appropriation Distribution Transfers.

Anticipated sales revenue of $40,000 each year in the 2015 biennium is appropriated to the bureau of mines and geology for current unrestricted operating expenses. This amount is in addition to that shown in OCHE -- Appropriation Distribution Transfers.

Anticipated interest revenue of $200 each year of the 2015 biennium is appropriated to the fire services training school for current unrestricted operating expenses. This amount is in addition to that shown in OCHE -- Appropriation Distribution Transfers.

These amounts are appropriated for current unrestricted operating expenses as a biennial lump-sum appropriation and are in addition to the funds shown in OCHE.

Total audit costs are estimated to be $530,974 for the university system educational units, other than the office of the commissioner of higher education.

OCHE -- Appropriation Distribution Transfers includes $578,957 in FY 2014 and $520,957 in FY 2015 that must be transferred to the energy conservation program account and used to retire the general obligation bonds sold to fund energy improvements through the state energy conservation program. The costs of this transfer in each year of the 2015 biennium are as follows: University of Montana-Missoula, $231,832 each year; University of Montana- Western, $41,985 each year; Helena College of Technology, $64,104 each year of the biennium; Montana State University-Bozeman $97,898 in FY 2014 and $39,898 in FY 2015; Montana State University- Billings $33,700 each year; and Montana State University-Northern, $85,885 each year of the biennium.

The Montana university system shall pay $88,506 for the 2015 biennium in current funds in support of the Montana natural resource information system (NRIS) located at the Montana state library. Quarterly payments must be made upon receipt of the bills from the state library, up to the total amount appropriated."

Agency Issues

Proposed Pay Plan

The executive budget includes the Montana University System in the proposed pay plan bill (HB 13). Total funds included in the pay plan bill for the MUS are $22.4 million for the 2015 biennium and represent the executive's recommended state share of the total estimated cost of the proposed pay plan. The non-state portion of pay plan costs would be funded from student tuition. Student tuition is considered private revenue and is not appropriated by the Legislature. The Board of Regents establishes the tuition rates typically every two years following the regular legislative session.

The total estimated cost of the executive's proposed pay plan for the MUS is $57.4 million for the 2015 biennium. Therefore, the executive's proposed pay plan funding for the MUS would provide approximately 39% of the total cost. The non-state portion amount would total $35.0 million and may require a tuition rate increase in the 2015 biennium.

Tuition Cap Agreement

The executive budget proposes a Tuition Cap Agreement for the 2015 biennium and has included $34.1 million additional state funds in the proposed budget for this purpose. (Note: $28.3 million is added to the Appropriation Distribution program for the educational units and $5.8 million is added to the Student Assistance program for scholarships.) The executive budget has a proposal to fund approximately 82% of the present law increases for the education units.

During the budget analysis, the Legislative Fiscal Division inquired of the Office of Budget and Program Planning (OBPP) if there was a written document outlining the proposed tuition cap agreement. The OBPP informed the LFD that there was no written plan. The LFD also inquired of the Office of the Commissioner of Higher Education if there was any kind of tuition cap agreement between the executive and the university system for the 2015 biennium and was informed that there was no agreement.