

Program Budget Comparison

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

Program 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
Local Assistance	11,014,820	10,905,955	11,985,807	11,973,271	21,920,775	23,959,078	2,038,303	9.30%
Total Costs	\$11,014,820	\$10,905,955	\$11,985,807	\$11,973,271	\$21,920,775	\$23,959,078	\$2,038,303	9.30%
General Fund	11,014,820	10,905,955	11,985,807	11,973,271	21,920,775	23,959,078	2,038,303	9.30%
Total Funds	\$11,014,820	\$10,905,955	\$11,985,807	\$11,973,271	\$21,920,775	\$23,959,078	\$2,038,303	9.30%

Program Description

The Community College Assistance program distributes funds appropriated by the legislature to support Montana’s three community colleges:

- o Dawson Community College located in Glendive
- o Flathead Valley Community College located in Kalispell and Libby
- o Miles Community College located in Glendive

Each community college district has an elected board of trustees who has governance authority over the college. The trustees are subject to the supervision of the Board of Regents, as directed by Title 20, Chapter 15, MCA.

Program Highlights

Community College Assistance Major Budget Highlights
<ul style="list-style-type: none"> ◆ The executive proposes a 9% state funding increase for the 2015 biennium ◆ Statute requires the use of a formula to estimate the state’s contribution towards the projected cost of education. The statutory formula factors are: <ul style="list-style-type: none"> • Resident and total student full-time equivalent enrollment • The cost of education, which is rebased biennially • The state percent share ◆ The executive budget funds the state share of the cost of education at 50.8%, which is the same percentage used by the 2011 Legislature ◆ Community college enrollments are projected to decline in the 2015 biennium

Major LFD Issues
<ul style="list-style-type: none"> ◆ 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. The Joint Appropriations Subcommittee on Education may wish to <ul style="list-style-type: none"> • Review the proposed legislation • Vote whether to recommend the 2013 Legislature pass HB 25 as proposed, or with recommended changes • Require the 2017 biennium state appropriation be calculated according to the statutory changes contained in HB 25 if passed by the 2013 Legislature ◆ The LFD analysis of the executive budget identified several issue areas for discussion by the subcommittee, including policy changes adopted by the executive and technical errors

Program Discussion

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

Resident student enrollment is an integral factor in the funding formula. The resident student enrollment at all three community colleges has decreased significantly since the 2011 Legislature. In FY 2012, the actual resident student enrollment reported by the community colleges was 2,471 FTE compared to the enrollment projection of 2,858 used by the 2011 Legislature. Resident student enrollment for FY 2013 is also on a downward track. As a result, it is very likely that the community colleges will be required to revert state general fund due to not meeting the resident student FTE projections. See the section “Enrollment Reversions” later in this narrative for more information.

For the first time the executive budget has included Western Undergraduate Exchange² (WUE) student FTE in the state share calculation for community colleges. The impact of this policy change is discussed later in the narrative under *Legislative Fiscal Division Analysis of the Executive Budget Recommendation*.

Statutory Funding Formula

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

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

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

² WUE is a regional tuition-reciprocity agreement that enables students from WICHE states to enroll in participating two- and four-year public institutions at 150 percent of the enrolling institution’s resident tuition.

- Projected Resident Student Enrollment – the aggregated resident FTE count that the three colleges project for each year of the proposed biennial budget
- Variable Cost of Education per Student – the total variable costs for the base year divided by the actual FTE student enrollment for the base year (both derived from CHE operating budget)
- Fixed Cost of Education – the total fixed costs for the base year (derived from CHE operating budget)
- State Percent Share – the percent of the fixed+variable cost calculation that the legislature decides, as a matter of public policy, to support with a state appropriation.

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

**LFD
ISSUE**
LFC Interim Study and Recommendations
Legislative Finance Committee Interim Study and Recommendations
Purpose of Interim Study

When the Legislative Finance Committee recommended changing the community college funding formula to the 2007 Legislature, it also charged its staff to review the formula after three biennia to determine if the cost of education (COE) calculation under the revised formula was still valid to use for the state appropriation calculation. The review examined:

- The cost of education – what it is, how it has changed since the funding formula was revised, and what influences the cost of education
- Rebasing – what it is, why this feature was added when the formula was revised, and what has been the impact of rebasing
- The allocation between fixed and variable cost of education components – is the current allocation still valid?

Findings

- The COE has increased 44.4% from FY 2006 to FY 2011, higher than state government and the educational units of the Montana University System
- Rebasing the COE each biennium has contributed significantly toward overall budget increases at the community colleges
- The revision of the funding formula resulted in specific costs at the community colleges being funded twice – once through mandatory and/or permissive mill levies for a specific purpose (i.e. retirement levy), and an additional 50% (approximately) by the state appropriation
 - Because the levies are required to be used for the specified purpose, this duplicated funding from the state appropriation becomes unrestricted revenue, is used for the general operations of the community college, and drives up the cost of education
 - The duplicated funding has occurred since the implementation of the new formula and has resulted in an estimated cumulative \$3.0 million of state general fund being appropriated for costs covered 100% by local levies
- Using the same cost category definitions as the 2005-2006 study, the cost of education for the three community colleges are, on average, 75% fixed and 25% variable.

**LFD
ISSUE CONT.**Issue and Legislative Finance Committee Recommendation

The review took issue with the duplicated funding and developed options for the Legislative Finance Committee to consider when addressing the issue.

The options included:

- Prepare bill draft for the 2013 Legislature that will incorporate the statutory changes necessary to eliminate the duplicate funding at the community colleges
- Recommend to the 2013 Legislature that the mill levy revenue from the retirement, audit, and medical mill levies in the FY 2012 COE base (and subsequent biennia) be recognized in the calculation of the state appropriation beginning with the 2015 biennium.
- Recommend to the 2013 Legislature that the mill levy revenue from the retirement, audit, and medical mill levies in the FY 2012 COE base be recognized, but recommend that the adjustment hold the community colleges harmless through FY 2012 – effectively allowing the duplicated payment that has already been included in the base remain in the base moving forward, but disallow all future increases in these levies beyond the FY 2012 actual levy amount.

The Legislative Finance Committee approved the first and third options. HB25 is the proposed bill draft that amends statute to address the duplicated payment issue and holds the community colleges harmless through FY 2012. See the appendix for a copy of HB25.

As the legislative committee most familiar with community college funding and responsible for recommending the level of state funding for the community colleges, the Joint Appropriations Subcommittee on Education may wish to:

- Review the proposed statutory changes contained in HB 25
- Vote whether to recommend the 2013 Legislature pass HB 25
 - As proposed in the bill draft
 - With recommended changes
- Require the 2017 biennium state appropriation be calculated according to the statutory changes contained in HB 25 if passed by the 2013 Legislature

Executive Budget Recommendation

The executive budget would increase ongoing state funding for the community colleges by 9.3% in the 2015 biennium. The executive used the statutory community college funding formula to develop its 2015 biennium proposed budget for the community colleges.

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

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

Student Enrollment

The executive developed its own projection of student enrollment to be used in the funding formula rather than the estimate submitted by the community colleges. The executive included both resident and WUE students and estimates 2,235 FTE in FY 2014 and 2,235 FTE in FY 2015.

**LFD
COMMENT**

The executive included 76 WUE FTE students in its enrollment projections each year of the 2015 biennium. The number of Montana resident FTE students included in the executive budget enrollment projections each year totaled 2,159. This resident FTE projection is 312 FTE lower than FY 2012 actual resident FTE enrollment. The table shows a history of resident student FTE enrollment at each community college since FY 2000.

Community College Resident Enrollment History
FY 2000 Actual through FY 2015 Projected

FY	Dawson	Flathead	Miles	Total
2000	384	1,157	452	1,993
2001	363	1,144	494	2,001
2002	388	1,269	495	2,152
2003	363	1,380	455	2,198
2004	392	1,605	489	2,486
2005	442	1,407	513	2,362
2006	442	1,332	442	2,216
2007	353	1,223	442	2,018
2008	344	1,310	405	2,059
2009	382	1,516	398	2,296
2010	380	2,020	425	2,825
2011	327	2,053	372	2,752
2012	274	1,845	352	2,471
2013*	380	2,010	418	2,808
2014*	222	1,622	315	2,159
2015*	222	1,622	315	2,159
2002 - 2012				
Annual Avg				
Growth	-3.4%	3.8%	-3.4%	

*FY 2013 legislative appropriation, FY 2014 - 2015 projected in Executive Budget

Cost of Education

The executive used the community colleges' actual FY 2012 costs reported to the Board of Regents as the cost of education base, adjusted for OTO appropriations (legislative audit costs) and non-allowed revenue from the voted mill levy at Dawson Community College.

**LFD
COMMENT**

The executive did not adjust the cost of education for anticipated reversions at all three community colleges. In addition it did not remove budget amended expenditures at Dawson Community College and used actual revenue collections instead of actual expenditures at Miles Community College. See the narrative under *Legislative Fiscal Division Analysis of the Executive Budget Recommendation* for more discussion

State Percent Share

The executive applied the same state percent share percentage as used by the 2011 Legislature – 50.8%

Other Adjustments

The executive also made two adjustments outside of the funding formula

- The state's share of legislative audit costs for the 2015 biennium were added totaling \$73,852
- The executive continued general fund reductions that were implemented by the 2011 Legislature

Legislative Fiscal Division Analysis of Executive Budget Recommendation

The LFD has identified four issues with the executive budget recommendation, resulting in a cumulative biennial general fund calculation that is \$785,052 higher than the executive budget. The issues are listed below:

- Issue 1 – The executive budget includes a present law adjustment to remove legislative audit costs from the FY 2014 and FY 2015 adjusted base budget. However, the actual adjustment included in the proposed budget is in FY 2014. The adjustment should also have been made for FY 2015. The adjustment would reduce the executive budget \$61,316.

- Issue 2 – There are two differences in formula assumptions used by the executive in comparison to the LFD calculations
 - Issue 2a – The executive budget overstates the cost of education base, which increases both fixed and variable cost components of the funding formula
 - Actual revenue instead of actual expenditures were used at one community college
 - The estimated FTE enrollment reversions were included for only two of the three community colleges
 - One-time costs associated with a budget amendment were not deducted from the reported FY 2012 costs
 - Adjusting the cost of education base for these items would reduce the executive budget \$123,430 for the biennium
 - Issue 2b – The executive budget projects 2,159 resident student FTE while the LFD calculation projects 2,341 resident student FTE. Using the LFD enrollment projection would add \$427,886 general fund to the executive budget in the 2015 biennium
 - Issue 3 -- The executive budget includes an adjustment totaling a negative \$720,592 for the biennium (included in DP 402) that is intended to continue the 2013 biennium general fund reduction assessed by the 2013 Legislature. However, this reduction was already reflected in the FY 2012 base state funding. Consequently, continuing the general fund reduction through a budget adjustment is essentially removing it twice.
 - Issue 4 -- The executive's inclusion of WUE students in the resident student FTE projection increases the state appropriation calculated by the formula. The inclusion of WUE students in the FTE projection is a policy change from previous budget requests. The additional state general fund in the executive budget resulting from including WUE students is \$178,680 for the 2015 biennium.

The table below summarizes the fiscal impact of each issue identified above.

Reconciliation of Executive Budget to LFD Calculated Budget -- Community Colleges 2015 Biennium				
Budget Item	Dawson	Flathead	Miles	Total
2015 Biennium Proposed Executive Budget	\$3,480,254	\$15,861,206	\$4,617,618	\$23,959,078
1 - Executive removed audit from budget base in first year only	(\$19,668)	(\$23,202)	(\$18,446)	(\$61,316)
2 - Differences in Formula Assumptions				
2a - Cost of Education overstated in Executive Budget	(99,050)	(18,184)	(6,196)	(123,430)
2b - Resident Student FTE projection lower in Executive Budget	47,020	317,388	63,478	427,886
3 - 2013 Biennium GF Reduction double counted in Executive Budget	134,660	408,940	176,992	720,592
4 - WUE students funded in Executive Budget	(108,148)	(11,756)	(58,776)	(178,680)
Total Reconciling Items	(\$45,186)	\$673,186	\$157,052	\$785,052
2015 Biennium LFD Calculated Budget	\$3,435,068	\$16,534,392	\$4,774,670	\$24,744,130

The Legislative Fiscal Division calculations for the community college funding formula and the overall differences from the executive budget are presented below:

Community College Assistance Program -LFD Calculation of General Fund Appropriation for the 2015 Biennium Using Statutory Funding Formula									
Includes a Fixed/Variable Cost Calculation at a 75/25 Ratio									
Budget Item Factors	Fiscal Year 2014				Fiscal Year 2015				Total Biennial Approp.
	Dawson	Flathead Valley	Miles	Total	Dawson	Flathead Valley	Miles	Total	
Projected Resident Student FTE	242	1,757	342	2,341	242	1,757	342	2,341	
Variable Cost of Education per FTE	\$2,314	\$2,314	\$2,314	\$2,314	\$2,314	\$2,314	\$2,314	\$2,314	
Fixed Cost of Education	\$2,793,481	\$12,185,385	\$3,885,830	\$18,864,695	\$2,793,481	\$12,185,385	\$3,885,830	\$18,864,695	
Variable Cost of Education	\$559,988	\$4,065,698	\$791,388	\$5,417,074	\$559,988	\$4,065,698	\$791,388	\$5,417,074	
Total Cost of Education	\$3,353,469	\$16,251,083	\$4,677,218	\$24,281,769	\$3,353,469	\$16,251,083	\$4,677,218	\$24,281,769	
State % Share of Cost of Education	50.80%	50.80%	50.80%	50.80%	50.80%	50.80%	50.80%	50.80%	
Calculated Total Funding Budget	<u>\$1,703,562</u>	<u>\$8,255,550</u>	<u>\$2,376,026</u>	<u>\$12,335,139</u>	<u>\$1,703,562</u>	<u>\$8,255,550</u>	<u>\$2,376,026</u>	<u>\$12,335,139</u>	\$24,670,278
Other Funding:									
Legislative Audit	<u>\$27,940</u>	<u>\$23,296</u>	<u>\$22,616</u>	<u>\$73,852</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$73,852
Total General Fund Budget	<u>\$1,731,502</u>	<u>\$8,278,846</u>	<u>\$2,398,642</u>	<u>\$12,408,991</u>	<u>\$1,703,562</u>	<u>\$8,255,550</u>	<u>\$2,376,026</u>	<u>\$12,335,139</u>	\$24,744,130

Enrollment Reversions

Section 17-7-142, MCA states that a reversion calculation is effective only in those years when the legislature funds resident enrollment growth based upon resident enrollment projections and requires a reversion if the resident enrollment projections are not met.³

A reversion is anticipated for the 2013 biennium, as the FY 2012 actual community college resident enrollment was less than the FTE resident enrollment estimate used to establish the FY 2012 appropriation and the Fall FY 2013 enrollment reports indicate further enrollment declines at the community colleges are likely. A final reversion calculation will take place late in FY 2013 and the reversion would be made at the end of the biennium.

HB 2 Language

The executive budget recommends the following HB 2 language for the community colleges.

“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 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 number 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.

³ This statute allows the reversion to be based upon either actual enrollment or the prior three-year average compared to the FTE projection used to establish the appropriation, whichever calculation is most advantageous for the community college.

Audit costs for the biennium may not exceed \$55,000 for Dawson, \$44,520 for Miles, and \$45,858 for Flathead Valley community colleges.”

Funding

The following table shows program funding, by source for the 2015 biennium as recommended by the Governor.

Total Commissioner Of Higher Education Funding by Source of Authority 2015 Biennium Budget - Community College Assistance							
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	MCA Reference	Statutory Category
General Fund	\$23,959,078	\$0	\$0	\$23,959,078	100.0%		
Total All Funds	\$23,959,078	\$0	\$0	\$23,959,078	100.0%		
Percent - Total All Sources	100.0%	0.0%	0.0%				

The Community College Assistance program is funded entirely with general fund in HB 2. The state appropriation for the community colleges is a separate line item and is not part of the lump sum appropriation to the Montana University System educational units.

Budget Summary by Category

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

Budget Item	-----General Fund-----				-----Total Funds-----			
	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	11,014,820	11,014,820	22,029,640	91.95%	11,014,820	11,014,820	22,029,640	91.95%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	970,987	958,451	1,929,438	8.05%	970,987	958,451	1,929,438	8.05%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$11,985,807	\$11,973,271	\$23,959,078		\$11,985,807	\$11,973,271	\$23,959,078	

Present Law Adjustments

The “Present Law Adjustments” table shows the changes to the adjusted base 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. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2014-----					-----Fiscal 2015-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 402 - Community College Assistance	0.00	958,451	0	0	958,451	0.00	958,451	0	0	958,451
DP 403 - Community College Audit Costs (BIEN-OTO)	0.00	73,852	0	0	73,852	0.00	0	0	0	0
DP 404 - Remove Audit from Base	0.00	(61,316)	0	0	(61,316)	0.00	0	0	0	0
Total Other Present Law Adjustments	0.00	\$970,987	\$0	\$0	\$970,987	0.00	\$958,451	\$0	\$0	\$958,451
Grand Total All Present Law Adjustments	0.00	\$970,987	\$0	\$0	\$970,987	0.00	\$958,451	\$0	\$0	\$958,451

DP 402 - Community College Assistance – The executive budget would increase general fund by \$958,451 in FY 2014 and \$ 958,451 in FY 2015. The average of spring and fall semester enrollment at each of the three community colleges was used to calculate the funding increase at the state share of 50.8% of the total cost of education for FY 2014 and FY 2015. For a further discussion, see the “Executive Budget Recommendation” section of this narrative.

DP 403 - Community College Audit Costs (BIEN-OTO) – The executive budget includes the legislative audit costs as a biennial, one-time-only appropriation at a 50.8% state share.

DP 404 - Remove Audit from Base – The executive adjusted the base cost of education to remove the legislative audit costs from the FY 2014 and FY 2015 adjusted base.