

Agency Proposed Budget

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

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	90.05	0.50	12.00	102.55	0.50	12.00	102.55	102.55
Personal Services	4,330,416	(183,633)	553,587	4,700,370	(183,110)	552,676	4,699,982	9,400,352
Operating Expenses	4,088,819	222,024	674,563	4,985,406	214,208	674,655	4,977,682	9,963,088
Equipment	0	0	0	0	0	0	0	0
Local Assistance	6,395,234	989,185	0	7,384,419	1,355,290	0	7,750,524	15,134,943
Grants	10,748,488	2,239,721	0	12,988,209	2,244,211	0	12,992,699	25,980,908
Benefits & Claims	19,921,785	8,936,000	0	28,857,785	11,170,000	0	31,091,785	59,949,570
Transfers	141,415,047	4,274,677	4,613,066	150,302,790	4,004,886	4,650,462	150,070,395	300,373,185
Total Costs	\$186,899,789	\$16,477,974	\$5,841,216	\$209,218,979	\$18,805,485	\$5,877,793	\$211,583,067	\$420,802,046
General Fund	140,778,703	4,515,044	4,933,066	150,226,813	4,428,299	4,970,462	150,177,464	300,404,277
State/Other Special	13,101,000	1,210,001	25,000	14,336,001	1,504,000	25,000	14,630,000	28,966,001
Federal Special	33,020,086	10,752,929	883,150	44,656,165	12,873,186	882,331	46,775,603	91,431,768
Total Funds	\$186,899,789	\$16,477,974	\$5,841,216	\$209,218,979	\$18,805,485	\$5,877,793	\$211,583,067	\$420,802,046

Agency Description

The Office of the Commissioner of Higher Education (OCHE) is the state-level administrative organization of the Montana University System (MUS). The Montana Constitution, Article X, Section 9, grants governance authority over the MUS to the Board of Regents (Board), with seven members appointed by the Governor. The Constitution charges the Board with hiring a Commissioner of Higher Education who serves as its executive staff.

All state funds appropriated by the legislature to the Board of Regents for the support of the Montana University System are channeled through the Office of the Commissioner of Higher Education.

The Montana University System is comprised of:

- The Board of Regents (Board)
- The Commissioner of Higher Education (CHE), his/her staff, and several system-wide programs administered from the Office of the Commissioner of Higher Education
- The University of Montana, with:
 - Four-year campuses in Missoula, Butte, and Dillon
 - Two-year campuses in Missoula, Butte, and Helena
 - Two research/public service agencies in Missoula and Butte
- Montana State University, with:
 - Four-year campuses in Bozeman, Billings, and Havre
 - Two-year campuses in Billings and Great Falls
 - Three research/public service agencies in Bozeman and Great Falls
- Two-year community colleges in Kalispell, Glendive, and Miles City. Governance of the community colleges is divided between the Board of Regents and the board of trustees of each community college district

To fund the Montana University System, the OCHE budget is organized into the following programs:

- CHE Administration Program includes the Commissioner of Higher Education, his/her staff, and all state-level administrative costs related to the MUS not accounted for in other OCHE programs.
- Student Assistance Program includes both state and federal funding of interstate student exchange programs and student aid programs administered at the state level, including Work Study programs.
- Improving Teacher Quality Program includes federal funding that supports continuing education and teaching skills development for mathematics and science teachers.

- Community College Assistance directs state funding to support the cost of education at Montana’s three community colleges.
- MUS Group Health Insurance and Self-funded Workers Compensation Program includes administration of self-insured group insurance plans for MUS employees.
- Talent Search Program includes two federal grant programs that provide academic support to targeted at-risk youth at the secondary school level to encourage post secondary education upon high school graduation.
- Workforce Development Program provides support for vocational and technical education, primarily federal funding.
- Appropriation Distribution is where the transfer of state funds to the university educational units and the research/public service agencies is recorded.
- Tribal College Assistance directs funding assistance to support education costs of non-beneficiary students (non-tribal members) attending the seven tribal community colleges.
- Guaranteed Student Loan Program provides administration of and guarantor services for the federally funded student loan program for students attending post secondary schools in Montana.
- Board of Regents Administration Program supports travel, per diem and operational costs for the board.

Since the 1995 legislative session, the legislature has combined the appropriation for the university educational units (all campuses of Montana State and the University of Montana) and most of the Office of the Commissioner of Higher Education into a single, lump-sum appropriation. Line item appropriations continue for Community College Assistance, Tribal College Assistance, the research/public service agencies, and for a few special programs.

Agency Highlights

Montana University System Major Budget Highlights
<ul style="list-style-type: none"> • The executive budget includes \$9.9 million general fund for new proposals related to the “Shared Leadership for a Stronger Montana Economy” project • The executive budget adds 12.50 FTE for programs in the Office of the Commissioner of Higher Education (OCHE) including: <ul style="list-style-type: none"> • 9.00 FTE in the federally funded Guaranteed Student Loan program • 2.00 FTE in the administration program to support the Shared Leadership initiatives • Federal authority is increased \$20 million to support anticipated growth in the loan volume of the Guaranteed Student Loan program • Federal authority is increased \$3.3 million as new federal grants are anticipated for academic support programs in the Talent Search program • Community college assistance increases \$2.3 million general fund primarily due to projected enrollment increases, although the funding level per student decreases • The executive budget includes \$6.7 million of present law adjustment increases for moderate resident enrollment increases and operations costs at the university educational units

Agency Discussion

Under the joint direction of the Governor’s Office for Economic Opportunity and the Commissioner for Higher Education (CHE), the “Shared Leadership for a Stronger Montana Economy” project has been a major focus of the Board of Regents. While this project includes ideas and input from the legislative sub-committee on Post-secondary

Education Policy and Budget (PEPB), the primary drivers have been and continue to be the Governor's office and the CHE. The three prioritized initiatives of the Shared Leadership project have also become the primary driver of new proposals in the executive budget for the Montana University System, accounting for \$9.9 million general fund budgeted for new proposals. For a more extensive discussion about Shared Leadership, see the LFD Comments that are in the narrative for Program 09 Appropriation Distribution, where most of the initiatives are budgeted.

Impact of Proposed Executive Budget

The impact upon general fund spending in the executive budget is illustrated in the figure below, which demonstrates the funding levels for each of the major functional areas in the Montana University System and shows the percent change from the 2005 biennium.

General fund spending per resident student in the university educational units increases almost 8 percent, although enrollment is projected to decrease marginally. This occurs because most of the funding increases are not targeted directly toward support for the cost of education for students, but rather at support for new initiatives of the Shared Leadership Project.

On the other hand, community college enrollment is projected to increase at a steady rate, while general fund spending per student actually decreases by almost 1 percent in the executive budget.

The professional education student exchange program increases almost 4 percent general fund, although two fewer student slots are funded, as tuition rates at the out-of-state colleges and universities continue to increase, driving the student support fee paid with general fund higher each year of the biennium.

Administrative funding to support the Board of Regents and the Office of the Commissioner of Higher Education increases by more than 25 percent, with the major cost driver being 2.00 FTE related to the Shared Leadership initiatives.

Despite several years of tuition increases, there is no state funding increase in the financial need-based student grant programs, though work-study funding increases almost 4 percent.

Figure 1
Montana University System - Impact of 2007 Biennium Executive Budget Across Functional Areas
General Fund Only

Budget Item	Actual FY 2004	Budgeted FY 2005	Exec. Budget FY 2006	Exec. Budget FY 2007	% Change 05-07 Bien.
Education Services					
University Educational Units	\$106,288,857	\$101,381,233	\$112,321,182	\$111,732,802	7.89%
Resident Student Enrollment	26,828	27,337	26,918	27,188	-0.11%
State Funds/Student	\$3,962	\$3,709	\$4,173	\$4,110	7.98%
Community College Assistance	\$6,292,234	\$6,359,773	\$7,276,419	\$7,638,524	17.89%
Resident Student Enrollment	2,322	2,369	2,716	2,847	18.6%
State Funds/Student	\$2,710	\$2,685	\$2,679	\$2,683	-0.6%
Tribal College Assistance	\$0	\$96,500	\$96,500	\$0	0.0%
Non-Beneficiary Students	-	375	375	-	0.0%
State Funds/Student	\$0	\$257	\$257	\$0	0.0%
Research/Public Service Agencies	\$18,619,312	\$18,395,709	\$19,554,713	\$19,616,699	5.8%
Student Grants/Assistance					
WICHE/WWAMI/MN Dental	\$4,646,666	\$5,217,010	\$5,012,434	\$5,241,666	3.96%
Number of Students	167	170	166	169	-0.59%
State Funds/Student	\$27,824	\$30,688	\$30,195	\$31,016	4.61%
Baker Grants	\$2,034,869	\$2,035,070	\$2,034,869	\$2,034,869	0.00%
Number of Students *	3,862	3,862	3,869	3,908	0.70%
State Funds/Student	\$527	\$527	\$526	\$521	-0.69%
State Work Study Program	\$862,989	\$803,322	\$862,989	\$862,989	3.58%
Number of Students *	805	805	807	815	0.70%
State Funds/Student	\$1,072	\$998	\$1,070	\$1,059	2.87%
State Match to Federal Grants	\$906,696	\$916,562	\$906,696	\$906,696	-0.54%
Number of Students *	3,323	3,323	3,329	3,363	0.70%
State Funds/Student	\$273	\$276	\$272	\$270	-1.23%
Administration/Special Programs					
Board of Regents/OCHE	\$1,673,174	\$1,455,640	\$1,970,836	\$1,949,580	25.30%
Talent Search	\$83,140	\$85,923	\$99,761	\$100,531	18.47%
Workforce Development	\$90,091	\$88,478	\$90,414	\$93,108	2.77%
Total General Fund	<u>\$141,498,028</u>	<u>\$136,835,220</u>	<u>\$150,226,813</u>	<u>\$150,177,464</u>	<u>7.93%</u>

* Student projections for FY 2006 and FY 2007 use the same percentage growth used for present law adjustments
Sources: OCHE Operating Budget FY 2005 and 2007 Biennium Executive Budget

Governance and Legislative Appropriations Authority

Although the Board of Regents is organizationally placed in the Executive Branch, the Montana Constitution grants the Board broad governing authority over the Montana University System (MUS). Article X, Section 9, of the Montana Constitution provides “the government and control of the Montana University System is vested in the Board of Regents, which shall have full power, responsibility, and authority to supervise, coordinate, manage, and control the...system.” The seven-member Board of Regents powers and duties are further described in 20-25-301, MCA.

While the Montana Constitution grants governance authority to the Board of Regents, the power to appropriate state funds remains with the legislature. The Montana University System is funded through a combination of government money, in particular state general fund and revenue from the six-mill property tax levy, as well as federal program funds. Such funds must be appropriated by the legislature. With this “power of the purse” typically comes the authority to attach policy decisions to the funding.

On the other hand, higher education consists to a primary degree of the delivery of services to private individuals who pay directly for these services in a contractual manner. So the university system is also supported with “private revenue”

that individuals contract for, including tuition payments for educational instruction, residence hall fees for housing, meal allowance fees for food service, ticket price for athletic and arts events, etc. The legislature does not have appropriations authority over these private revenue funds.

Within this constitutional configuration, therefore, a tension exists between the Board autonomy that comes with governance authority and the power that comes from the legislative appropriation of state funds. Through a series of legal decisions, this tension has been reconciled as follows:

- The Montana legislature cannot do indirectly, through fiscal appropriation, what it is not permitted to do directly by the Constitution. In other words, appropriation of state funds cannot be used to blatantly drive MUS governance policy, as governance is the constitutional role of the Board of Regents
- Legislative appropriation power does not extend to private funds received by state government that are restricted by law, trust agreement, or contract, such as student tuition and the other fees listed above
- Legislative appropriation power does, however, allow the legislature to establish requirements of MUS compliance with audit, accounting, and fiscal accountability measures
- The Montana legislature may establish conditions on the appropriated funds and, if the Board of Regents accepts the funds, then it also accepts the conditions

(Source: For more information about this Constitutional structure and history, see The Structure of Higher Education in Montana: Meandering the Murky Line, Montana Legislative Services Division, September 1999. Memo available at: <http://leg.mt.gov/content/publications/services/legal/opinions/regents.pdf>)

**LFD
ISSUE**

State appropriations to the Montana University System (MUS) constitute a significant portion of the state's general fund budget and this appropriation constitutes a significant portion of the MUS operating budget (43 percent or \$118 million in the base FY 2004). Despite the significance of this funding, it is not always clear that there are direct linkages between policy goals that the legislature articulates and the appropriations that follow. In other words, often it is not clear precisely what outcomes the legislature is seeking from the MUS in return for hundreds of millions of dollars of state funding.

In the absence of a clear set of universal outcome goals, conflicts often emerge between funding and policy. An example of this disconnect can be seen in the executive budget, where Shared Leadership for a Stronger Montana Economy targets significant funding in some programs to improve access to and the quality of two-year post-secondary education programs. At the same time, however, in separate programs, the executive budget decreases state funding per student at the two-year community colleges and continues non-beneficiary student funding at the two-year tribal community colleges at the same level, which is 9 percent of the annual statutory ceiling.

The appropriation authority that the legislature has over this significant base of funding for the university system, together with the Montana Supreme Court acknowledgement that "the legislature may establish conditions on the appropriated fund and, if the Board of Regents accepts the funds, then it also accepts the conditions", lays the foundation for increased legislative fiscal oversight and accountability in relation to the Montana University System.

Upon this foundation the legislature may build a methodology through which state policy goals that are linked to specific outcome objectives can play a larger role in legislative funding decisions for the Montana University System. Such a methodology could essentially establish a process where the legislature identifies the outcomes it wishes to "purchase" from the university system through the appropriation of state funds.

The Shared Leadership project initiatives are a preliminary but incomplete step toward just such a system of clear and direct accountability. They are preliminary because the initiatives do indeed begin to link public policy goals of the legislature, such as economic development, to the functions of the university system. But at this early stage of its development, the Shared Leadership project is incomplete in linking outcomes accountability to state funding because the initiatives themselves lack clear accountability measures for the legislature to use to evaluate the impact of these initiatives.

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On the other hand, during the 2001-2002 interim, the Post Secondary Education Policy and Budget sub committee (PEPB) recommended a set of policy goals and related accountability measures that are outlined in the following figure:

Figure 2

<i>PEPB-Recommended Policy Goals and Accountability Measures</i>	
Policy Goal	Accountability Measure
Prepare students for success through quality education	<ul style="list-style-type: none"> • Completion Rates • Retention Rates
Promote access and affordability	<ul style="list-style-type: none"> • Affordability compared to other states • State Support as a percent of personal income and per capita income
Deliver efficient, coordinated services	<ul style="list-style-type: none"> • Transferability among institutions • Percent of expenditures in instruction, administration, athletics, etc.
Be responsive to market and employment needs and opportunities	<ul style="list-style-type: none"> • Job placement rates by field or program • Growth in FTE enrollment, certificates, and degrees conferred in 2-yr education
Contribute to Montana’s economic and social success	<ul style="list-style-type: none"> • Research and Development receipts and expenditures • Technology transfers (licensing and commercialization)
Collaborate with the K-12 school system and other postsecondary education systems	<ul style="list-style-type: none"> • Collaborative programs with K-12, Community Colleges, and Tribal Colleges and private colleges (when appropriate). • Average SAT or ACT scores of first time full time MUS freshmen
Source: <u>Public Postsecondary Education Policy Goals, Accountability Measures & Reporting</u> , prepared for the Education and Local Government Committee and the 58 th Legislature, by the Joint Subcommittee on Postsecondary Education Policy and Budget, August 21, 2002	

In July 2004 these policy goals and accountability measures were once again recommended by PEPB and approved at a joint meeting with the Board of Regents. Therefore, there exists common ground between legislators and the board as to the outcomes that should result from the appropriation of state funding to the Montana University System. These measures are also preliminary, however, in that they lack the benchmarks that are needed to define successful outcomes and measure progress toward future success.

LFD ISSUE CONT. Therefore, building from this foundation and these shared policy goals with the Board of Regents, the legislature may want to consider requesting an interim study by the Post-secondary Education Budget and Policy Committee that refines the accountability measures to include benchmarks from which outcome goals may be set for funding decisions, and link this process with the Shared Leadership project so that common outcome goals and accountability measures can be established for these project initiatives that will allow legislative fiscal oversight and evaluation criteria.

The results of such an interim study could potentially be used to facilitate future HB 2 funding as demonstrated in the example below:

Policy Goal (see table above):

To prepare students for success through a quality post-secondary education

Accountability Measure of that Policy Goal (see table above):

A measure of a quality post-secondary education is a higher percentage of graduation/completion rates and a higher percentage of retention rates

Potential Budget Impact of this Policy Goal and Accountability Measure:

In the future the legislature may want to consider a restricted, one-time-only (OTO) appropriation whereby the educational units and community colleges would receive an additional appropriation in the second year of the biennium if they meet a specific target percentage for the graduation/completion rate and/or for the retention rate during the first year of the biennium

This example is only meant to illustrate how these policy goals and accountability measures could be used to drive appropriations and potentially provide a more direct and clear link between the policy goals of the legislature and the funding decisions in HB 2 appropriations. Such a funding scheme would not be feasible in the 2007 biennium given that the policy goals and accountability measures have not been fully developed to include measurable benchmarks and targets that can define success.

Funding

The following table shows program funding, by source, for the base year and for the 2007 biennium budget as recommended in the executive budget. Funding for each of the 11 programs is discussed in detail in the individual program narratives that follow this section.

Total Agency Funding					
2007 Biennium Executive Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
01 Administration Program	\$ 3,831,446	\$ 50,000	\$ -	\$ 3,881,446	1%
02 Student Assistance Program	17,863,208	-	451,546	18,314,754	4%
03 Dde Mathematics & Sci Ed Act	-	-	725,892	725,892	0%
04 Community College Assistance	14,914,943	-	-	14,914,943	4%
06 Talent Search	200,292	-	6,210,061	6,410,353	2%
08 Work Force Development Pgm	183,522	-	12,194,602	12,378,124	3%
09 Appropriation Distribution	263,225,396	28,916,001	-	292,141,397	69%
11 Tribal College Assistance Pgm	96,500	-	-	96,500	0%
12 Guaranteed Student Loan Pgm	-	-	71,849,667	71,849,667	17%
13 Board Of Regents-Admin	88,970	-	-	88,970	0
Grand Total	<u>\$ 300,404,277</u>	<u>\$ 28,966,001</u>	<u>\$ 91,431,768</u>	<u>\$ 420,802,046</u>	<u>100%</u>

Biennium Budget Comparison

The following table compares the executive budget request in the 2007 biennium with the 2005 biennium by type of expenditure and source of funding. The 2005 biennium consists of actual FY 2004 expenditures and FY 2005 appropriations.

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	Present Law Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Biennium Fiscal 04-05	Total Exec. Budget Fiscal 06-07
FTE	90.55	12.00	102.55	90.55	12.00	102.55	90.05	102.55
Personal Services	4,146,783	553,587	4,700,370	4,147,306	552,676	4,699,982	8,448,822	9,400,352
Operating Expenses	4,310,843	674,563	4,985,406	4,303,027	674,655	4,977,682	23,494,682	9,963,088
Equipment	0	0	0	0	0	0	19,790	0
Local Assistance	7,384,419	0	7,384,419	7,750,524	0	7,750,524	12,865,007	15,134,943
Grants	12,988,209	0	12,988,209	12,992,699	0	12,992,699	25,409,983	25,980,908
Benefits & Claims	28,857,785	0	28,857,785	31,091,785	0	31,091,785	43,080,542	59,949,570
Transfers	145,689,724	4,613,066	150,302,790	145,419,933	4,650,462	150,070,395	278,185,561	300,373,185
Total Costs	\$203,377,763	\$5,841,216	\$209,218,979	\$205,705,274	\$5,877,793	\$211,583,067	\$391,504,387	\$420,802,046
General Fund	145,293,747	4,933,066	150,226,813	145,207,002	4,970,462	150,177,464	277,986,004	300,404,277
State/Other Special	14,311,001	25,000	14,336,001	14,605,000	25,000	14,630,000	26,329,999	28,966,001
Federal Special	43,773,015	883,150	44,656,165	45,893,272	882,331	46,775,603	87,188,384	91,431,768
Total Funds	\$203,377,763	\$5,841,216	\$209,218,979	\$205,705,274	\$5,877,793	\$211,583,067	\$391,504,387	\$420,802,046

New Proposals

The “New Proposal” table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

Program	-----Fiscal 2006-----					-----Fiscal 2007-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Family Education Savings Staff										
01	0.50	0	25,000	0	25,000	0.50	0	25,000	0	25,000
DP 8 - Extension Cropping Specialist										
09	0.00	0	0	0	0	0.00	65,600	0	0	65,600
DP 11 - GSL Default Reduction and Outreach										
12	0.00	0	0	500,000	500,000	0.00	0	0	500,000	500,000
DP 12 - Add 9 FTE to GSL										
12	9.00	0	0	354,350	354,350	9.00	0	0	353,518	353,518
DP 16 - Livestock Specialist										
09	0.00	65,600	0	0	65,600	0.00	65,600	0	0	65,600
DP 20 - Add 0.5 FTE Accountant for GEAR-UP Grant										
06	0.50	0	0	28,800	28,800	0.50	0	0	28,813	28,813
DP 40 - Business & Econ. Dev Outreach - OTO										
01	2.00	180,000	0	0	180,000	2.00	180,000	0	0	180,000
DP 51 - Distant Learning Initiative -OTO										
09	0.00	500,000	0	0	500,000	0.00	500,000	0	0	500,000
DP 60 - 2-Yr Education-Develop Common Curriculum										
09	0.00	600,000	0	0	600,000	0.00	600,000	0	0	600,000
DP 61 - MT Tech Economic Development Resource Center -OTO										
09	0.00	50,000	0	0	50,000	0.00	50,000	0	0	50,000
DP 63 - Increase Supply of Health Care Workers - OTO										
09	0.00	500,000	0	0	500,000	0.00	500,000	0	0	500,000
DP 66 - FSTS Plan-Add One Trainer										
09	0.00	93,500	0	0	93,500	0.00	59,535	0	0	59,535
DP 67 - Integrated Weed Mgmt & Biotechnology										
09	0.00	159,966	0	0	159,966	0.00	159,967	0	0	159,967
DP 68 - Technical Assistance to Small Oil & Gas Operators										
09	0.00	72,000	0	0	72,000	0.00	74,880	0	0	74,880
DP 69 - Coal and Coalbed-Methane Technology Program										
09	0.00	72,000	0	0	72,000	0.00	74,880	0	0	74,880
DP 77 - Workforce System Data Collection and Mang. -OTO										
01	0.00	140,000	0	0	140,000	0.00	140,000	0	0	140,000
DP 78 - Equipment - 2 Year Programs - OTO										
09	0.00	2,500,000	0	0	2,500,000	0.00	2,500,000	0	0	2,500,000
Total	12.00	\$4,933,066	\$25,000	\$883,150	\$5,841,216	12.00	\$4,970,462	\$25,000	\$882,331	\$5,877,793

Agency Issues

Executive Pay Plan and Retirement Funding

Separate from HB 2, the proposed executive budget for HB 13 (state employee pay plan) includes a 3 percent per year salary increase for state employees (including MUS employees) together with an increase in the state contribution toward employee health insurance each year of the biennium. While the legislature will consider the pay plan issues separate from HB 2 appropriations, the total package of these two bills has a unique impact on the Montana University System, specifically on the tuition rates at the university educational units.

The 2007 biennium executive budget for HB 13 proposes that state general fund would support 43 percent of the pay plan at the university educational units, which is the level used to determine 2005 biennium pay plan costs. This percentage would leave 57 percent of pay plan costs to be funded by other revenue sources, primarily tuition. The executive proposals for HB 2 and HB 13 recommend that university educational units would only need to increase tuition by 2 percent in FY 2006 and an additional 3 percent in FY 2007.

The 43 percent state share calculation represents the percentage of the university educational units funding in base year 2004 that comes from state revenue, primarily general fund and the six-mill property tax levy. This calculation drives the executive budget for pay plan level funding to the education units and has a subsequent impact on student tuition, essentially funding 57 percent of HB 13 primarily with tuition dollars.

University Tuition Rates

At the November 2004 meeting of the Board of Regents, the Budget Committee considered the impact that the executive budget would have on tuition rates in the 2007 biennium. The board discussed four scenarios and identified the impact that each would have on university educational unit tuition levels:

- The first budget scenario assumes state funding at a level that includes the base year plus present law adjustments, it does not include HB 13. Under this scenario tuition increases are projected at 1.4 percent in FY 2006 and 1.3 percent in FY 2007.

LFD COMMENT

The present law adjustment calculations included in this scenario include inflationary rates and factors that are not included in the state budget process, but are unique to the Montana University System. The largest of these unique adjustments include a base increase for tuition/fee waivers, as well as projected utility costs based upon actual rates rather than projected inflationary rates.

As a result of these differences, the MUS present law adjustment calculation is moderately higher than the state present law adjustment.

- The second budget scenario projects the specific cost of the executive proposal for HB 13, the state employee pay plan. Under the executive budget for HB 13, tuition increases are projected by OCHE at 2.9 percent for FY 2006 and 3.1 percent for FY 2007. Tuition revenue would primarily fund the remaining 57 percent of pay plan costs after the state share calculation funds 43 percent.
- The third budget scenario contemplates a number of university campus-based initiatives that range from new academic programs to expanding programs to new geographic areas. Under this scenario, if the Board of Regents were to approve all initiatives, tuition increases are projected at 7.4 percent in FY 2006 and 2.3 percent in FY 2007.

**LFD
COMMENT**

At the November 2004 meeting, the Board of Regents did not take any action on the proposed university campus-based initiatives but only heard reports from each campus head. The board intends to continue discussion about these initiatives and make a final decision on which of these will be approved at the January 2005 Board of Regents meeting.

The intention is that the regents will come to the legislature during the 2005 session with a list of approved initiatives to seek state funding for some or all of these initiatives. Those that are approved by the board but not funded by the legislature may or may not be implemented as they would likely drive tuition rates higher.

A primary objective of this revised budgeting process is to allow the Regents to more clearly demonstrate the impacts of state funding levels and student tuition rates.

- The fourth scenario aggregates all of the above, thus representing the present law adjustments together with the executive HB 13 proposal and contemplates approval of all university initiatives. Under this scenario tuition increases 11.7 percent in FY 2006 and 6.7 percent in FY 2007.

**LFD
COMMENT**

Tuition levels are set solely by the Board of Regents, as part of the constitutional authority granted under the Montana Constitution, and the legislature has no authority to set or directly influence tuition rates. The process of setting tuition, however, is clearly influenced by the level of state funding that is appropriated by the legislature. The tuition rate at each of the university educational units and the community colleges is the primary factor that determines the level of access that Montana residents have to post-secondary education. Tuition rates in large measure determine affordability.

Assuming that access to and affordability of a post-secondary education for Montana residents is a public policy goal, the legislature may want to monitor the impact that state funding levels will likely have upon tuition rates at the university education units and the community colleges.

This may be done by considering the budget scenarios above and trying to link appropriation decisions to specific outcome goals and objectives such as the following example:

Policy Goals (see PEPB recommendations table above):

To promote access to and affordability of post-secondary education

Accountability Measure of the Policy Goals (see PEPB recommendations table above):

A measure of access and affordability will be to compare tuition rates to surrounding states and consider state support for the university system as a percent of personal income and per capita income

Potential Budget Impact of this Policy Goal and Accountability Measure:

The legislature may want to consider basing state funding appropriations to the university educational units upon a formula whereby a cost of education calculation is determined and the legislature makes a public policy decision to fund a specific percentage of that cost each biennia, within the budget constraints that exist. The specific gap that would remain between the cost of education and the state funding level would, to a large part, determine the tuition level and other revenue that would be required to fund the university operating budgets.

Under such a formula, the legislature would have a clearer illustration each biennium of the impact that state funding appropriations would have upon tuition levels and thus have more impact on the access and affordability of post-secondary education in Montana.

**LFD
COMMENT
CONT.**

This example is only meant to illustrate how the PEPB policy goals and accountability measures could be used to drive appropriations and potentially provide a more direct and clear link between the policy goals of the legislature and the funding decisions in HB 2 appropriations. Such a funding scheme would not be feasible in the 2007 biennium, however, given that the policy goals and accountability measures have not been fully developed to include measurable benchmarks and targets that can define success.

For more discussion on the potential of the accountability measures, see the LFD Issue above under the section on Governance and Legislative Appropriations Authority.

**LFD
ISSUE**

As stated, while the legislature has no authority to set tuition rates, as university governance is solely under the authority of the Board of Regents, the appropriations authority does allow the legislature to set conditions on appropriated funds. If the board accepts the funds they also accept the conditions on those funds.

Therefore, should the legislature have a policy goal that tuition rates remain low, the legislature may want to consider a special, restricted, one-time-only (OTO) appropriation to the university educational units, either in addition to or carved out of the current appropriation, that provides incentive funds in the event that tuition rates remain at or below a target level set by the legislature during a specified period of time. If the tuition rate targets are met, the state funds are released to the university educational units. If the tuition targets are not met, the funds are subject to reversion to the general fund at the end of FY 2007.

Among the ways such an option could be implemented is that the legislature could identify the campus-based initiatives that would merit state funding support, and the tuition-based incentive funding could be targeted for these, should the target tuition rates be met. This would ensure that there is an identified need or program that merits additional funding and provides the legislature with additional opportunity to link public policy goals with program outcomes at the university units.

In the absence of meritorious campus-based initiatives, the legislature could link the tuition-based incentive funding to an increase in the state share of funding HB 13, the state employee pay plan. Specifically, that should the tuition rate goal be met, the state would agree to fund a higher percentage of the HB 13 costs, a percentage above what is appropriated in HB 2 upon reaching the target.

Long Range Building Program Funding

Although Long Range Building Program funds are appropriated in HB 5 rather than in HB 2, the figure below illustrates that the executive budget proposes that the Montana University System would receive \$16 million long range building program funding for 22 projects across the campuses and research/public service agencies.

Figure 3
Montana University System Share of Long Range Building Program (HB 5)

Agency	Project Description	Funding Sources				Total
		LRBP	State Special	Federal Special	Other Funds	
MUS	ADA/Code/Deferred Maintenance Projects	1,400,000	0	0	0	1,400,000
MUS	Upgrade Steam Distribution System, UM-Missoula	5,935,000	0	0	3,060,000	8,995,000
MUS	Upgrade HVAC Systems, MSU-Northern	524,000	0	0	0	524,000
MUS	Heating System Improvements, MSU-Billings	245,000	0	0	0	245,000
MUS	Mining & Geology Building Renovation, UM-Butte	920,000	0	0	0	920,000
MUS	HVAC System Repairs/Upgrades, MSU-GFCOT	650,000	0	0	0	650,000
MUS	Upgrade Health Sciences HVAC System, UM-Missoula	970,000	0	0	0	970,000
MUS	Renovate Domestic Water System, UM-Dillon	183,100	0	0	0	183,100
MUS	Classroom/Laboratory Upgrades	1,000,000	0	0	0	1,000,000
MUS	Facility Repairs & Improvements, MSU-Billings	545,000	0	0	0	545,000
MUS	Heating Plant, MSU-Bozeman	950,000	0	0	0	950,000
MUS	Renovate HVAC Systems - Science Complex UM-Missoula	610,000	0	0	0	610,000
MUS	Water/Sewer Repairs and Maintenance, MSU-Bozeman	750,000	0	0	750,000	1,500,000
MUS	Upgrade Primary Electrical Distribution, MSU-Bozeman	250,000	0	0	250,000	500,000
MUS	Facility Repairs and Improvements, MSU-AES	480,000	0	0	0	480,000
MUS	Campus Improvements, MSU-Northern	640,000	0	0	300,000	940,000
MUS	General Spending Authority, UM-All Campuses	0	0	0	7,000,000	7,000,000
MUS	New Construction - Consolidate Campus, UM-MCOT	0	0	0	24,500,000	24,500,000
MUS	New Gallery Space, UM-Missoula	0	0	0	6,000,000	6,000,000
MUS	New Forestry Complex, UM-Missoula	0	0	0	20,000,000	20,000,000
MUS	General Spending Authority, All MSU Campuses	0	0	0	7,000,000	7,000,000
MUS	VisComm Black Box Theater, MSU-Bozeman	0	0	0	2,750,000	2,750,000
Total MUS Long Range Building Funds		\$16,052,100	\$0	\$0	\$71,610,000	\$87,662,100

For more information about the Long Range Building Program, see Section F in Volume 4 (this volume) of the Legislative Budget Analysis 2007 Biennium.

Language

Establish Biennial Lump Sum Appropriation

The executive recommends language in HB 2 that establishes a biennial lump sum appropriation by combining the appropriation for the following programs:

“Items [OCHE Administration (01), Student Assistance (02), Improving Teacher Quality (formerly Dwight D. Eisenhower) (03), Talent Search (06), C.D. Perkins (Workforce development) (08), Appropriation Distribution (Educational units) (09), Guaranteed Student Loan (12), and the Board of Regents (13)] are a single biennial lump-sum appropriation.”

Appropriation of all Funds; Budget Transfers

The executive recommends language in HB 2 that addresses appropriation of all funds in the university system and the requirements for budget transfers.

“General fund money and state and federal special revenue funds appropriated to the board of regents are included in all CHE 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.”

Standard Accounting Practices

The executive recommends HB 2 language requiring the university system to use standard accounting practices at all units.

“In addition to the requirements in 17-1-102(4), all university system units, except the office of the commissioner of higher education, shall account for expenditures consistently within programs and funds across all units and shall use the standards of accounting and reporting, as described by the national association of college and university business officers, as a minimum for achieving consistency.”

Access to Banner Information System

The executive recommends HB 2 language requiring the university system to provide the Office of Budget and Program Planning and the Legislative Fiscal Division access to the university system information system, Banner.

“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 human resource data for the current unrestricted operating funds into the MBARS system. The salary and benefit data provided must reflect approved board of regents operating budgets.”

Program Proposed Budget

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

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	15.40	0.50	2.50	18.40	0.50	2.50	18.40	18.40
Personal Services	1,241,468	(78,960)	170,437	1,332,945	(78,880)	170,345	1,332,933	2,665,878
Operating Expenses	389,454	54,389	174,563	618,406	33,053	174,655	597,162	1,215,568
Total Costs	\$1,630,922	(\$24,571)	\$345,000	\$1,951,351	(\$45,827)	\$345,000	\$1,930,095	\$3,881,446
General Fund	1,630,922	(24,571)	320,000	1,926,351	(45,827)	320,000	1,905,095	3,831,446
State/Other Special	0	0	25,000	25,000	0	25,000	25,000	50,000
Total Funds	\$1,630,922	(\$24,571)	\$345,000	\$1,951,351	(\$45,827)	\$345,000	\$1,930,095	\$3,881,446

Program Description

The Office of the Commissioner of Higher Education (OCHE) Administration Program includes: 1) general administration of the university system; 2) academic, financial, and legal administration; 3) labor relations and personnel administration; and 4) student assistance administration. Article X, Section 9, of the Montana Constitution requires that the Board of Regents appoint the commissioner and prescribes his/her powers and duties.

Program Highlights

OCHE Administration Program Major Budget Highlights
<ul style="list-style-type: none"> • The executive budget includes \$640,000 general fund to support the economic development priorities recommended jointly by the Shared Leadership Project of the Postsecondary Education Policy and Budget Subcommittee, and the Board of Regents as follows: <ul style="list-style-type: none"> • 2.00 FTE for business and economic development outreach • Development of a statewide workforce program data collection and management system • The executive budget adds 1.00 FTE for a Data Warehouse Administrator • The executive budget adds 0.50 FTE for administration of the Family Education Savings program, funded with state special revenue

Funding

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended by the Governor.

Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01000 General Fund	\$ 1,630,922	100.0%	\$ 1,926,351	98.7%	\$ 1,905,095	98.7%
02000 State/Other Special Rev. Funds	-	-	25,000	1.3%	25,000	1.3%
Grand Total	<u>\$ 1,630,922</u>	<u>100.0%</u>	<u>\$ 1,951,351</u>	<u>100.0%</u>	<u>\$ 1,930,095</u>	<u>100.0%</u>

State special revenue funds support only the costs associated with the Family Education Savings program; general fund supports all other activities.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative 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 2006					Fiscal 2007				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					(60,700)					(60,513)
Vacancy Savings					(47,233)					(47,237)
Inflation/Deflation					(2,505)					(2,347)
Fixed Costs					(18,106)					(39,600)
Total Statewide Present Law Adjustments					(\$128,544)					(\$149,697)
DP 2 - Potential Rent Increase for CHE (Restricted)	0.00	75,000	0	0	75,000	0.00	75,000	0	0	75,000
DP 3 - Data Warehouse - CHE	1.00	51,521	0	0	51,521	1.00	51,396	0	0	51,396
DP 29 - Statewide FTE Reduction	(0.50)	(22,548)	0	0	(22,548)	(0.50)	(22,526)	0	0	(22,526)
Total Other Present Law Adjustments	0.50	\$103,973	\$0	\$0	\$103,973	0.50	\$103,870	\$0	\$0	\$103,870
Grand Total All Present Law Adjustments					(\$24,571)					(\$45,827)

DP 2 - Potential Rent Increase for CHE (Restricted) - The Office of the Commissioner of Higher Education has been informed by the building owners (Montana Higher Education Student Assistance Corporation) that they need the space OCHE currently occupies. Therefore, it is likely that by the 2007 biennium, OCHE will be forced to move into higher priced quarters. OCHE currently pays approximately \$7/square foot. The current market price is approximately of \$14/square foot.

LFD ISSUE	Although facing a potential move, OCHE does not request funding for moving expenses. OCHE staff report that there have been discussions with the building owner, MHESAC, about providing moving assistance in the event that MHESAC does ask OCHE to move, but there does not appear to be any certainty on whether the move will occur and if MHESAC will assist with costs. If DP 2 is approved, the legislature may want to consider doing so with language restricting the use of the funds only in the event that OCHE does move and only if OCHE faces an actual increase in rent cost.
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DP 3 - Data Warehouse - CHE - The executive budget adds 1.00 FTE to the commissioner’s office, funding this Data Warehouse Administrator position with general fund. This position would also assist to support the Shared Leadership initiative on workforce system data collection and management.

LFD COMMENT	<p>Within the Montana University System (MUS) there are three separate data warehouse sites that maintain similar yet distinct data information. These include the Montana State University units, the University of Montana units, and the Office of the Commissioner of Higher Education programs.</p> <p>Citing the need for system-wide reporting, the need to share data as students transfer through the university system, and the need for integrated data analysis, an MUS data warehouse was created in order to integrate the three distinct sites. The hardware and software equipment for this warehouse was funded through a student computer fee and it was intended that ten percent of this fee would be used to fund ongoing costs, including personal services. Students across the system issued a protest about this computer fee so that the Board of Regents eliminated the fee, which effectively eliminated the funding to support the position. The position was then funded by the Board of Regents from the university unit’s lump sum appropriation.</p> <p>Therefore, the executive budget includes general fund specifically for this 1.00 FTE University System Data Warehouse Administrator and shifts the funding from the university educational unit’s lump sum appropriation into the Administration Program through this present law adjustment decision package.</p>
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DP 29 - Statewide FTE Reduction - The executive budget reduces personal services by 0.50 FTE (\$45,074) in the 2007 biennium. This continues the FTE reduction adjustment implemented by the legislature in the 2003 session.

LFD COMMENT	<p>Officials at the Office of the Commissioner of Higher Education (OCHE) indicate that if DP 29 is approved, OCHE would likely request that the Board of Regents take state funding from the lump-sum appropriation to backfill this 0.50 FTE funding reduction, due to concerns that vacancy savings would not be generated to a significant enough degree because of expanded programs and services, such as the Shared Leadership project, the Data Warehouse project, and the Family Education Savings program.</p>
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New Proposals

Program	FTE	-----Fiscal 2006-----				-----Fiscal 2007-----				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Family Education Savings Staff										
01	0.50	0	25,000	0	25,000	0.50	0	25,000	0	25,000
DP 40 – Shared Leadership - Business & Econ. Dev Outreach - OTO										
01	2.00	180,000	0	0	180,000	2.00	180,000	0	0	180,000
DP 77 - Shared Leadership - Workforce System Data Collection and Mang. -OTO										
01	0.00	140,000	0	0	140,000	0.00	140,000	0	0	140,000
Total	2.50	\$320,000	\$25,000	\$0	\$345,000	2.50	\$320,000	\$25,000	\$0	\$345,000

DP 1 - Family Education Savings Staff - The executive budget adds 0.50 FTE, funded by state special revenue, for administrative staff to support the Family Education Savings program, which the legislature authorized and the Regents have been operating for 5 years.

**LFD
COMMENT**

The Family Education Savings program is a tax-favored college savings plan managed by the College Savings Bank. The program allows families to contribute to a college fund that will earn non-taxable interest. When the funds are needed to pay for college expenses, they may be withdrawn with no tax liability. As of December 31, 2003 the program has 10,152 accounts with more than \$101 million on deposit.

The workload related to this program has increased in the Office of the Commissioner of Higher Education (OCHE), due to the growth and popularity of the program, in particular from nonresident customers who are charged an application fee. Therefore, the executive budget adds 0.50 FTE to assist with administrative oversight.

While a private contractor operates the plan and manages accounts for the Board of Regents, OCHE reports that the administrative oversight that is required has grown beyond the capacity of current staff. The following are among the duties and responsibilities that this new 0.50 FTE position would assist with:

- Staffing the Montana Family Education Savings Program oversight committee, including administrative requirements of the open meetings laws (committee is composed of 3 public and 4 private representatives)
- Respond to requests for information and citizen/participant inquiries
- Monitor changes in federal regulations, SEC determinations and other rules changes that will impact the program
- Issue and analyze requests for proposal for the selection of investment services and program management services
- Contracting for trust services
- Review, provide input, and assist the Department of Revenue in the development of revenue rules for the program

The position would be funded from state special revenue generated by nonresident application fees.

DP 40 – Shared Leadership - Business & Econ. Dev Outreach - OTO - The executive budget funds 2.00 FTE in the Office of the Commissioner of Higher Education to support new projects for the Montana University System involving economic growth and development across Montana.

**LFD
COMMENT**

The 2.00 FTE requested are an outgrowth of the “Shared Leadership for a Stronger Montana Economy” project that was jointly coordinated by the legislature’s Postsecondary Education Policy and Budget Committee (PEPB) and the Board of Regents. This project is the subject of a House Joint Resolution that will be introduced in the 2007 legislative session.

The two new positions include:

- Associate Commissioner of Economic Development and Outreach, with the following responsibilities:
 - Provide direction to and coordination of the Shared Leadership initiative
 - Communicate and connect the MUS mission to professional, business, governmental, civic and community groups
 - Produce technical and informational materials to support collaborative economic development efforts, including technology-based initiatives
 - Anticipate opportunities and challenges that face the MUS and the State of Montana; propose and implement strategic partnerships; develop strategies, action initiatives and communications
 - Strengthen the MUS dialog with and assistance to/from Montana citizens, business leaders, legislators, and policy makers at all levels
- Executive Level Administrative Assistant

**LFD
COMMENT
CONT.**

The Shared Leadership Project identifies three priority initiatives and recommends implementation by the Commissioner of Higher Education together with the Governor's Office of Economic Development. Those three initiatives are specific to the role that higher education can play to strengthen the Montana economy, including:

- Workforce Training and Education. This initiative focuses on four actions:
 - Strategic direction and overall system coordination (business, industry, government and the university involved)
 - Standardize two-year college programs in high demand occupation areas
 - Create a career pathways system
 - Develop better workforce system data management
- Promote and Enhance Access to Postsecondary Education. This initiative is intended to lower the barriers to postsecondary education in Montana. It combines strategies of outreach to younger students (middle school level) and at-risk students to build a commitment to higher education upon graduation, as well as lowering the economic barriers through increased financial assistance opportunities.
- Distance Learning. This initiative involves coordinating on-line delivery of education across all units of the Montana University System. A primary goal is to increase access to higher education for rural students, non-traditional students and workers seeking job training course work.

The Shared Leadership Project also identified three additional initiatives that are to be implemented as an adjunct to the above priorities. These include:

- Montana University System – Business Partnerships. This initiative calls for expanding the partnerships between the university system and Montana's private sector businesses. Specifically, an effort to identify partnership opportunities for university knowledge and technology to benefit existing businesses will be explored
- Montana University System and Government Collaboration. This initiative is intended to provide a means for the university system to become more engaged in helping state government leadership with problem-solving, specifically, through outreach and networking
- Montana University System – Montana Promotion Partnership. This initiative is designed to increase revenues to both the university system and the state economy through better collaboration of Montana's marketing resources, specifically joint projects between the Montana Promotion Division in the Department of Commerce and the university system to increase non-resident student enrollment and non-resident alumni investment

In DP 40, OCHE intends to use the 2.00 FTE to coordinate the statewide activities that these initiatives will entail, working under the leadership of the Commissioner for Higher Education and the oversight of the Leadership Team, whose membership includes legislative leadership. The executive funds these 2.00 FTE as a one-time-only (OTO) expenditure so that these costs would not be part of the base year in the next biennium but would need to be budgeted once again as a new proposal.

The university system and executive budget related to the shared leadership initiatives also include:

- \$1 million for Distance Education to support development and implementation of an integrated distance learning (online education) system that includes all units of the university system together with K-12 program partnerships
- \$2.6 million for Workforce Development to support a common two-year postsecondary education curriculum for high demand employment programs, to increase rural healthcare workers, and to support the economic development resource center at Montana Tech in Butte

For a discussion of the Shared Leadership initiatives, including legislative options for oversight and expenditure outcome accountability, which would include these positions, please see Program 09 of this narrative.

DP 77 – Shared Leadership - Workforce System Data Collection and Mang. -OTO - The executive budget includes funding for an integrated data management system to support workforce development programs. This proposal is a one-time-only (OTO).

**LFD
COMMENT**

The executive budget provides \$280,000 general fund in the 2007 biennium to support the development and implementation of an integrated data management system to collect, evaluate and analyze data across the approximately forty workforce development programs in the university system, K-12 education, and other state and local government agencies. The stated goals of this initiative include:

- To allow Montana to identify and track system-wide indicators and to effectively manage coordination and change among the programs in the workforce development system
- To establish a data repository of existing performance data to meet state reporting requirements, evaluate programs, facilitate research, and provided longitudinal capacity
- To establish an independent unit and advisory group that is charged with improving data accuracy
- To provide a basis for common outcome measures, comparisons, and discussion of issues across all workforce programs and operations

The existing workforce development system in Montana consists of various programs that reside, among others, in the Montana University System, in the Office of Public Instruction at the K-12 level, in the Department of Labor & Industry, and in the Department of Commerce. Many of these programs are funded primarily with federal grants such as the Carl Perkins vocational education grants, the Workforce Investment Act, the Wagner-Peyser Job Service program, and others. Historically, these various programs have had difficulty sharing data and integrating services at both the local and statewide levels.

In order to improve data management within and among workforce programs, the United States Department of Labor has funded a national project, the Integrated Performance Information for Workforce Development System Planning. As a participant, Montana has pulled together a working group with representatives from among the forty workforce development programs. The Montana working group has started to identify the data system problems that have inhibited program and service collaboration among workforce programs.

This decision package initiative is targeted to address some of the system wide concerns raised by this inter-agency, statewide working group.

For a discussion of the Shared Leadership initiatives, including legislative options for oversight and expenditure outcome accountability, which would include this proposal, please see Program 09 of this narrative.

Language

Audit Costs for the Commissioner of Higher Education

The executive budget recommends HB 2 language that identifies audit costs for specific programs in the university system budget:

“Total audit costs for the Office of the Commissioner of Higher Education are estimated to be \$47,337.”

Program Proposed Budget

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

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Local Assistance	103,000	5,000	0	108,000	9,000	0	112,000	220,000
Grants	8,537,206	397,555	0	8,934,761	622,787	0	9,159,993	18,094,754
Total Costs	\$8,640,206	\$402,555	\$0	\$9,042,761	\$631,787	\$0	\$9,271,993	\$18,314,754
General Fund	8,451,220	365,768	0	8,816,988	595,000	0	9,046,220	17,863,208
Federal Special	188,986	36,787	0	225,773	36,787	0	225,773	451,546
Total Funds	\$8,640,206	\$402,555	\$0	\$9,042,761	\$631,787	\$0	\$9,271,993	\$18,314,754

Program Description

There are two distinct components to the Student Assistance program (governed by Title 20, Chapters 25 and 26, MCA):

- The grant, loan, and work study programs consist of financial need-based criteria for student awards:
 - The federal Leveraging Educational Assistance Partnership (LEAP) grant is matched by the state Baker grant program
 - The federal Supplemental Leveraging Educational Assistance Partnership (SLEAP) grant is matched by the Montana Higher Education Grant (MHEG) program
 - The federal Supplemental Educational Opportunity Grant (SEOG) grant program sends funds directly to MUS campuses and is matched by state general fund
 - The Perkins Federal Loan program sends funds directly to MUS campuses and is matched by state general fund
 - The Work Study Program is funded 70 percent from general fund with a 30 percent employer match
- The interstate student exchange and assistance programs have no financial need-based criteria for participants, and are completely state general fund programs which include:
 - The Western Undergraduate Exchange/Western Regional Graduate Program allows students from 14 participating states to enroll in designated postsecondary schools and pay reduced tuition rates that are less than the non-resident rate. These programs are part of the MUS membership agreement with the Western Interstate Commission for Higher Education (WICHE)
 - The WICHE Professional Student Exchange Program enables Montana students to enroll in 8 professional graduate studies programs in 13 participating states at reduced tuition rates as Montana pays negotiated support fees to subsidize students, who pay reduced tuition
 - The Washington, Wyoming, Alaska, Montana, and Idaho Cooperative Program (WWAMI) enables Montana students to attend the University of Washington School of Medicine at a reduced tuition rate as Montana pays a negotiated support fee to subsidize students
 - The Minnesota Dental Program enables Montana students to attend the University of Minnesota Dental School at a reduced tuition rate as Montana pays a negotiated support fee to subsidize students

Program Highlights

Student Assistance Program Major Budget Highlights
<ul style="list-style-type: none"> • The executive budget increases general fund spending by \$0.96 million in the 2007 biennium to support 335 student slots in the WICHE/WWAMI/MN Dental professional student exchange programs as follows: <ul style="list-style-type: none"> • In FY 2006 state support fees increase an average of \$1,750 per student slot • In FY 2007 state support fees increase an average of \$2,231 per student slot

Funding

The following table shows the program funding, by source, for the base year and for the 2007 biennium as recommended by the Governor. Funding for student assistance programs is included in the lump sum appropriation for the Montana University System.

Program Funding Table Student Assistance Program						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01000 General Fund	\$ 8,451,220	97.8%	\$ 8,816,988	97.5%	\$ 9,046,220	97.6%
03000 Federal Spec. Rev. Funds	<u>188,986</u>	<u>2.2%</u>	<u>225,773</u>	<u>2.5%</u>	<u>225,773</u>	<u>2.4%</u>
Grand Total	<u>\$ 8,640,206</u>	<u>100.0%</u>	<u>\$ 9,042,761</u>	<u>100.0%</u>	<u>\$ 9,271,993</u>	<u>100.0%</u>

Federal funds are granted to the states as an incentive and are required to be matched by general fund dollars. The match formulas vary from program to program as the federal component of the SEOG and Perkins programs match every general fund dollar with three federal dollars, while the LEAP and SLEAP federal programs provide just a dollar-for-dollar match. In both LEAP and SLEAP, state general fund appropriations (the MHEG and Baker programs) far exceed the one-to-one match requirement, as federal appropriations have not kept pace with state appropriations for these two programs.

The WICHE/WWAMI/MN Dental programs are completely state general fund. Work-study is 70 percent general fund with a 30 percent employer match as employers also pay employee benefits. The employers' portion of the work-study program is not included in HB 2.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary 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.

	-----Fiscal 2006-----					-----Fiscal 2007-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 4 - WWAMI/WICHE/MN Dental	0.00	365,768	0	0	365,768	0.00	595,000	0	0	595,000
DP 21 - Additional Federal Funds for Student Assistance	0.00	0	0	36,787	36,787	0.00	0	0	36,787	36,787
Total Other Present Law Adjustments	0.00	\$365,768	\$0	\$36,787	\$402,555	0.00	\$595,000	\$0	\$36,787	\$631,787
Grand Total All Present Law Adjustments					\$402,555					\$631,787

DP 4 - WWAMI/WICHE/MN Dental - The executive budget adds \$0.96 million general fund authority in the 2007 biennium to fund both new and continuing student slots at the increased tuition levels for the WICHE, WWAMI and MN Dental professional student exchange programs.

Figure 1
WICHE/WWAMI/MN Dental Program
Present Law Adjustments - 2007 Biennium Executive Budget

	FY 2004	FY 2006	FY 2007	Present Law Adjustments	
				FY 2006	FY 2007
WICHE Annual Dues	\$ 103,000	\$ 108,000	\$ 112,000	\$ 5,000	\$ 9,000
WICHE Student Support	1,619,800	1,777,634	1,865,966	157,834	246,166
WWAMI Student Support	2,791,866	2,970,800	3,104,500	178,934	312,634
MN Dental Student Support	<u>132,000</u>	<u>156,000</u>	<u>159,200</u>	<u>24,000</u>	<u>27,200</u>
Total	<u>\$4,646,666</u>	<u>\$5,012,434</u>	<u>\$5,241,666</u>	<u>\$365,768</u>	<u>\$595,000</u>

LFD COMMENT

The present law increase in the professional student interstate exchange programs (WICHE/WWAMI/MN Dental) is almost completely caused by rising tuition at the participating universities. As tuition rates increase the state support fees paid on behalf of Montana students also rise. For the 2007 biennium, state support fees increase an average of \$1,750 per student slot in FY 2006 and \$2,231 per student slot in FY 2007, as compared to base year FY 2004 fees. On the other hand, the number of slots for Montana students is decreased by 2 in the 2007 biennium executive budget, from 337 to 335.

The state support fees, based upon tuition rates, are negotiated by an interstate council upon which Montana is represented by the Commissioner of Higher Education and members of the legislature. Once negotiated and agreed upon, the legislature has no more control over these fees so that any changes in expenditures levels in this program would require adjustments to the number of student slots that will be funded in the biennium.

**LFD
COMMENT
CONT.**

The total costs for these programs are detailed in the following table, which illustrates the number of student slots by profession and the state support fee for each.

Figure 2

WICHE/WWAMI/Minnesota Dental Programs
Office/Commissioner of Higher Education

PROGRAM	FISCAL YEAR 2006						FISCAL YEAR 2007					
	Support Fee	New		Continuing		Total	Support Fee	New		Continuing		Total
		Students	Cost	Students	Cost			Students	Cost	Students	Cost	
WICHE												
Administrative Dues						\$108,000						\$112,000
Professional Student Assistance:												
Medicine	\$25,100	6	\$150,600	19	\$476,900	\$627,500	\$25,600	6	\$153,600	20	\$512,000	\$665,600
Osteopathic Medicine	16,600	2	33,200	4	66,400	99,600	17,000	1	17,000	5	85,000	102,000
Dentistry	19,500	1	19,500	2	39,000	58,500	19,900	1	19,900	3	59,700	79,600
Veterinary Medicine	24,900	9	224,100	27	672,300	896,400	25,400	9	228,600	27	685,800	914,400
Podiatry	11,600	1	11,600	0	0	11,600	11,900	0	0	1	11,900	11,900
Optometry	13,300	1	13,300	3	39,900	53,200	13,600	1	13,600	3	40,800	54,400
Public Health	6,300	1	6,300	0	0	6,300	6,500	1	6,500	1	6,500	13,000
Occupational Therapy	9,200	1	9,200	1	15,334	24,534	9,400	1	9,400	1	15,666	25,066
(Includes 1 continuing @ clinical rate FY 06 \$15,334; FY 07 \$15,666)												
Subtotal		22	\$467,800	56	\$1,309,834	\$1,885,634		20	\$448,600	61	\$1,417,366	\$1,977,966
Minnesota Dental	19,500	2	39,000	6	117,000	156,000	19,900	2	39,800	6	119,400	159,200
WWAMI	53,567	20	0	60	3,214,000	2,970,800	55,173	20	0	60	3,310,400	3,104,500
Total WICHE/WWAMI/MN		44	\$506,800	122	\$4,640,834	\$5,012,434		42	\$488,400	127	\$4,847,166	\$5,241,666

Notes:

- 1) Rates for all continuing occupational therapy students are calculated at 1 2/3 the annual support fee to include support for two clinical rotations. (\$15,334 FY 2006; \$15,666 FY 2007)
- 2) The WWAMI support fee is calculated as an average per continuing student. Actual support varies by program year.

**LFD
COMMENT CONT.**

The state support fee represents a subsidy to support Montana resident students who are accepted for professional education at the participating institutions, but the students are still required to pay a reduced tuition charge to attend these programs. The Figure below details the student tuition rates for most of these professional exchange programs for the 2003-2004 academic year, the most recent year for which this data is available.

Figure 3
Professional Student Exchange Program
WICHE/WWAMI Annual Student Tuition
Academic Year 2003-2004

Professional Education Program	Annual Student Tuition Rate
WICHE Medicine	\$ 14,449
WICHE Dentistry	18,509
WICHE Veterinary Med.	12,934
WICHE Occupat. Therapy	10,551
WICHE Optometry	11,287
WICHE Podiatry	10,404
WICHE Osteopathic Med.	15,029
WICHE Public Health	4,835
WWAMI Medicine	12,448

**LFD
ISSUE**

During FY 2005, the Office of the Commissioner of Higher Education (OCHE) requested, and the executive approved, a \$108,000 program transfer of general fund authority out of the Student Assistance WICHE/WWAMI/MN Dental Program and into the OCHE Administration Program to support a new 1.00 FTE position for a data warehouse administrator. While this program transfer followed all legal procedures and process requirements, it raises some policy issues for legislative consideration.

The FY 2005 appropriation for this student assistance program was \$108,000 over the actual expenses of supporting students in the professional student exchange program. Such an occurrence is not unusual, as the budget is based upon the assumption that some specific number of students will follow through with the multi-year education programs funded in student assistance. If any of those students decide to withdraw or do not maintain the academic standards, then the appropriated funds will exceed the actual program expenditures.

That is the case in FY 2005, as less than the budgeted number of students in the 2005 biennium budget have maintained their participation in the program so that there is an unexpended fund balance, which OCHE and the executive have transferred to a different program.

**LFD
ISSUE CONT.**

On the other hand, the Student Assistance Program (02) also supports student financial aid programs, including the Montana Higher Education Grants (MHEG) and the Baker grant programs, which provide financial need-based grants to Montana resident students that meet low-income criteria. According to the financial aid offices at both Montana State University and the University of Montana, after the federal-state funding formula for financial aid is completed in each academic year, the funding criteria indicate that many Montana resident students still demonstrate an unmet financial need in paying for their post-secondary education.

Therefore, should the legislature continue to fund the WICHE/WWAMI/MN Dental Program in the 2007 biennium, the legislature may want to consider the following options:

- Option A - restrict this appropriation so that any unexpended general fund that may result from a change in student enrollment in the professional exchange program would be required to remain within the Student Assistance Program (02) and be redirected to the other student financial aid programs
- Option B – restrict this appropriation so that any unexpended general fund would be subject to reversion
- Option C – take no action at this time

**LFD
ISSUE**

The interstate student exchange and professional student exchange programs emphasize that among their program goals and objectives they also serve the following public policy goals:

- To provide state financial assistance that supports expanded postsecondary educational opportunities for Montana resident students, in particular in academic and professional education fields that are not available through the MUS or at private universities in Montana. Rather than building a medical school, a dental school or a veterinary medical school, it is more cost effective to subsidize Montana student access to existing institutions.
- To increase the number of professional practitioners in critical professions (doctors, dentists, veterinarians, etc.) in Montana, where there is a shortage of these specialists in many parts of the state. Montana residents who receive advanced degrees in these professions are the most likely to choose to practice in Montana.

Providing access to these professional schools, the first goal above, is simply a matter of funding slots and subsidizing student tuition at whatever fiscal level the legislature decides each biennium. In the 2007 biennium the executive budget recommends providing access for 335 resident students.

Increasing the number of professional practitioners in Montana, the second policy goal, is not quite so straightforward, and compared to other states that participate in WICHE, Montana is not doing well in this regard. Montana has one of the lowest practicing alumni return rates among the participating states. Only 53 percent of Montana residents subsidized by state support to attend WICHE professional schools return to Montana to practice their chosen field. The average return rate among the 13 states is 63 percent; Montana ranks eleventh.

**LFD
ISSUE
CONT.**

At the same time, the Montana Department of Labor and Industry projects a growing need for practitioners in these critical professions, including dentists, occupational therapists, optometrists and veterinarians. In fact, Montana delegates to WICHE select the professional programs that will be supported based in large part on the projected need for practitioners in these areas across Montana. The Figure below illustrates Montana employment projections in these critical health related professions.

Figure 4
Montana Employment Projections
Selected Health Professions - (1998 - 2008)

Professions	1998 Employment	2008 Projected	Growth	Annual Openings
Dentists	1150	1350	200	40
Occupational Therapists	250	300	50	10
Optometrists	400	450	50	10
Physician and Surgeons *	1850	2300	450	70
Veterinarians	550	650	100	20
Total			850	150

* Physician/Surgeons includes podiatrists and osteopaths

Source: Montana Department of Labor and Industry (Office of Research & Analysis)

If you correlate the Labor and Industry data identifying the annual openings and employment needs in these critical professions with the 53 percent WICHE alumni return rate, the result is that during the 2007 biennium the WICHE program can only be expected to contribute 23 practitioners per year (43 student slots per year at 53 percent return) to fill 150 projected openings per year. It is not clear, therefore, that the professional student exchange program is achieving the public policy goal to increase the number of these practitioners in Montana to the extent the legislature may wish.

With this public policy goal in mind, however, the legislature created the Rural Physician Incentive Program (20-26-1501, MCA). This program is funded by a statutory appropriation with state special revenue from a surcharge on WICHE/WWAMI medical students. Under the program, OCHE will repay up to \$45,000 of student debt for physicians who choose to practice in under-served rural Montana communities for a one-to-five year period.

Current data from OCHE indicates that since its inception in 1993, the Rural Physician Incentive Program has attracted 73 applications from physicians, of which 63 were approved and 53 are still practicing medicine in under-served Montana communities. This is an 84 percent retention rate of physicians who have been accepted into the program and drawn to practice medicine in rural Montana. The average annual cost of this program to Montana state government has been \$154,000 during the five-year period 2000-2004, funded by state special revenue generated from a student surcharge.

Thus, the Rural Physician Incentive Program has shown some success in attracting professional practitioners to meet critical needs in underserved Montana communities.

LFD ISSUE CONT. Considering the low alumni return rate in the WICHE program within the context of the projected need for 150 practitioners per year in Montana, the legislature may want to consider the following:

- Option A - expand the Physician Incentive program to include support for and enrollment by the other health care professionals that graduate from the WICHE program.
- Option B - create a similar but separate program, modeled on the Physician Incentive Program, that would provide student loan repayment for these other professional practitioners in these critical need areas that choose to practice in medically underserved communities of Montana.
 - Based upon the last five years of data from the Rural Physician Incentive Program, it may be projected that a new or expanded program would cost approximately \$150,000 per year, which could be funded through the assessment of a student surcharge, as the physician program has done.
- Option C – take no action at this time.

DP 21 - Additional Federal Funds for Student Assistance - The executive budget adds \$73,574 additional federal authority in the 2007 biennium for anticipated increases in federal funds for student grants. These funds would be used as the federal match portion in the state matched Baker Grant program.

LFD COMMENT No federal award letter has been received yet for the 2007 biennium so this present law request is based upon an assumption of funding at the FY 2005 level. The present law amount requested is equal to FY 2005 federal funding less FY 2004 base year expenditures, to ensure appropriate federal authority.

The Figure below details these federal/state funded grant, loan and work study programs, showing the executive budget allocations to each of these unique programs in the 2007 biennium and comparing these to the FY 2004 base.

Figure 5
Student Assistance - State/Federal Grant and Work Study Programs
Fiscal 2004 through 2007

Grant Program	Actual FY 2004	Op Plan FY 2005	Exec. Budget FY 2006	Exec. Budget FY 2007	Biennial % Change
Funded with State Funds:					
Baker Grants	\$2,034,870	\$2,035,067	\$2,034,869	\$2,034,869	0.0%
MT Higher Education Grant (MHEG)	229,422	229,422	229,422	229,422	0.0%
SEOG *	527,401	537,564	527,401	527,401	-1.0%
Perkins Loan *	149,873	149,576	149,873	149,873	0.1%
State Work Study	<u>862,989</u>	<u>803,322</u>	<u>862,989</u>	<u>862,989</u>	<u>3.6%</u>
Subtotal State Funds	<u>\$3,804,555</u>	<u>\$3,754,951</u>	<u>\$3,804,554</u>	<u>\$3,804,554</u>	<u>0.7%</u>
Federal Matching Funds:					
SLEAP Grant Program (Baker Match)	72,628	136,578	\$136,578	\$136,578	
LEAP Grant Program (MHEG Match)	<u>116,358</u>	<u>89,195</u>	<u>\$89,195</u>	<u>\$89,195</u>	
Subtotal Federal Funds	<u>\$188,986</u>	<u>\$225,773</u>	<u>\$225,773</u>	<u>\$225,773</u>	<u>8.9%</u>
Total Funds	<u>\$3,993,541</u>	<u>\$3,980,724</u>	<u>\$4,030,327</u>	<u>\$4,030,327</u>	<u>1.1%</u>

* Represents the state match. The federal matching funds are distributed directly to university campuses.

LFD COMMENT

The 2007 biennium executive budget continues state funding for grants, loans, and work-study awards to students at the same level as the FY 2004 base. There is no state funding increase or decrease.

In FY 2004, \$2.2 million state general fund was expended for grant awards to MUS students in the combined federal/state grant programs that include LEAP/SLEAP/MHEG/Baker grants. In FY 2003 those same federal/state programs awarded \$2.6 million state general fund. The table below illustrates how these state funds were allocated by student/family income level to MUS students in both FY 2003 and FY 2004:

Figure 6
Student Assistance Program
LEAP/SLEAP/MHEG/Baker Grant Programs - FY 2003 and 2004
Average State Funded Student Grant Awards - By Income Level

Income Level	State General Fund Expended		Number of Grants Awarded		Average Grant Award Amount	
	2003	2004	2003	2004	2003	2004
\$0 to \$19,999	\$ 956,198	\$ 850,520	\$ 2,199	\$ 1,760	\$ 435	\$ 483
\$20,000 to \$39,999	775,764	644,087	1,470	1,110	528	580
\$40,000 and above	903,468	689,512	1,512	992	598	695
Totals	\$ 2,635,430	\$ 2,184,119	\$ 5,181	\$ 3,862	\$ 509	\$ 566

Source: OCHE Annual Reports to US Department of Education (2003 and 2004)

The data figure table above illustrates what appears to be an odd distribution of state funding for student grant awards, as the average state grant award gets larger as the student/family income level gets higher.

This distribution occurs because state funded grant awards are the final award component that the university financial aid offices allocate in putting together the total financial aid-funding package for students. At this final point in the process, students will have received their federal grant award (primarily the Pell Grant funds), any private scholarship/grant awards (such as Rotary Club awards), and the institutional awards that are made by each college or university. Since the federal grant awards are distributed solely on need-based criteria, as are some of the private and institutional awards, by the time the state funded grant awards are made, those students with the greatest financial need will have received larger financial aid packages. Therefore, the state awards will be made at the point in the process where the total unmet need is a function of student/family income level minus the federal/private/institutional aid awarded. Since the lower income students will likely have received greater award packages to that point, their state grant award tends to be smaller as their unmet need at that point will likely have been reduced to a greater degree.

Once the entire grant award package is assembled, the financial aid offices will work with students to close the unmet financial need gap with student loans. According to data from the OCHE student assistance office, through academic year 2003, the average student loan debt is \$19,980 for Montana resident students who receive a degree from the Montana University System that is in part funded by student loans.

LFD ISSUE

According to data from the National Association of State Student Grant and Aid Programs (NASSGAP) 34th Annual Survey Report (Academic Year 2002-2003), the national average for state financial aid grant awards is \$467 per FTE student. In Montana, that average is \$79 per resident FTE student, ranking Montana 38th among the 48 states participating in the national survey.

**LFD
ISSUE
CONT.**

The executive budget projects that enrollment growth at the university educational units will average 0.6 percent per year during the 2007 biennium. At the same time, the executive budget increases state funding for all student financial aid by a like amount at .66 percent. The only category that experiences growth, however, is the State Work Study program, which grows by 3.58 percent, while all others are level funded.

On the other hand, the executive budget also includes \$9.9 million general fund to support the three Shared Leadership initiatives, one of which reads:

- Promote and enhance access to postsecondary education. This initiative is intended to lower the barriers to postsecondary education in Montana. It combines strategies of outreach to younger students and at-risk students to build a commitment to higher education, as well as lowering the economic barriers through increased financial assistance opportunities.

For its part, the legislative subcommittee on Postsecondary Education Budget and Policy (PEPB) has, for the second consecutive interim, approved a set of policy goals and accountability measures, one of which reads:

- Policy goal is to promote access and affordability, as measured by affordability compared to other states and state support as a percent of personal income and per capita income.

A funding increase to the primary state financial need based student grant programs (Montana Higher Education Grant (MHEG) and the Baker Grant) that is equal to the projected increase in student enrollment would total \$27,171 over the 2007 biennium.

A funding increase to MHEG and Baker Grant that is equal to the projected increase in tuition (assuming present law adjustments and the executive pay plan proposal in HB 13) would total \$196,994 over the 2007 biennium.

Program Proposed Budget

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

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Personal Services	17,462	(17,462)	0	0	(17,462)	0	0	0
Operating Expenses	0	0	0	0	0	0	0	0
Grants	277,667	85,279	0	362,946	85,279	0	362,946	725,892
Total Costs	\$295,129	\$67,817	\$0	\$362,946	\$67,817	\$0	\$362,946	\$725,892
Federal Special	295,129	67,817	0	362,946	67,817	0	362,946	725,892
Total Funds	\$295,129	\$67,817	\$0	\$362,946	\$67,817	\$0	\$362,946	\$725,892

Program Description

Improving Teacher Quality is a federally funded grant program providing awards to fund partnerships between higher education and high-need K-12 school districts in order to provide professional development and teacher training that improves teaching methods and teaching skills in the classroom. Starting in federal fiscal year 2002, what had been the Eisenhower Mathematics & Science Education program (for K-12 teachers of math and science) was expanded to include all academic areas and the program was renamed, now known as the Improving Teacher Quality program.

Program Highlights

<p>Improving Teacher Quality Program Major Budget Highlights</p>
<ul style="list-style-type: none"> The executive proposes to increase the budget by the amount equal to the anticipated grant award

Program Narrative

As part of the federal No Child Left Behind program, Improving Teacher Quality targets teacher training in “high-need” schools, which are defined as those where:

- o Not less than 20 percent of the students served are from families with household income below the poverty line
- o A high percentage of teachers are without degrees in the academic areas and/or grade levels that they are teaching, or who hold less than standard teacher certification from OPI

During the past 12 months, 15 training programs have been held on MUS campuses providing more than 600 hours of professional development for 580 Montana teachers.

Funding

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended by the Governor. Funding is entirely from federal grant revenue and there is no state match required.

Program Funding Table						
Dde Mathematics & Sci Ed						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
03000 Federal Spec. Rev. Funds	\$ 295,129	100.0%	\$ 362,946	100.0%	\$ 362,946	100.0%
Grand Total	\$ 295,129	100.0%	\$ 362,946	100.0%	\$ 362,946	100.0%

Present Law Adjustments

The "Present Law Adjustments" table shows the primary 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 2006-----					-----Fiscal 2007-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					(17,462)					(17,462)
Total Statewide Present Law Adjustments					(\$17,462)					(\$17,462)
DP 22 - Incr. Improving Teacher Quality Grants	0.00	0	0	85,279	85,279	0.00	0	0	85,279	85,279
Total Other Present Law Adjustments	0.00	\$0	\$0	\$85,279	\$85,279	0.00	\$0	\$0	\$85,279	\$85,279
Grand Total All Present Law Adjustments					\$67,817					\$67,817

DP 22 - Incr. Improving Teacher Quality Grants - The executive budget adds \$170,558 of federal funding authority in the 2007 biennium for anticipated grants to support programs that improve K-12 teacher quality. This increase is intended to allow the Office of the Commissioner of Higher Education to fully expend the anticipated amount of this federal grant each year of the 2007 biennium.

LFD COMMENT	<p>No federal award letter has been received with the specific grant amount for the 2007 biennium, so this DP is based upon an estimate that the award level will be equal to the FY 2005 grant. The budgeted present law adjustment, therefore, reflects the FY 2005 grant level minus base year actual expenditures for each year of the biennium.</p> <p>During the base year FY 2004, this program expended 96 percent of the funds appropriated by the legislature in HB 2. Of these expenditures, 94 percent was used to fund teacher-training programs while 6 percent was used to fund administrative costs. No changes to service delivery or operations are planned for this program in the 2007 biennium.</p>
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Program Proposed Budget

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

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Local Assistance	6,292,234	984,185	0	7,276,419	1,346,290	0	7,638,524	14,914,943
Total Costs	\$6,292,234	\$984,185	\$0	\$7,276,419	\$1,346,290	\$0	\$7,638,524	\$14,914,943
General Fund	6,292,234	984,185	0	7,276,419	1,346,290	0	7,638,524	14,914,943
Total Funds	\$6,292,234	\$984,185	\$0	\$7,276,419	\$1,346,290	\$0	\$7,638,524	\$14,914,943

Program Description

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

- Miles Community College located in Miles City
- Dawson Community College located in Glendive
- Flathead Valley Community College with campuses located in Kalispell and Libby

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

Program Highlights

Community College Assistance Program Major Budget Highlights
<ul style="list-style-type: none"> • The executive recommends an increase of \$2.3 million general fund based upon three factors: <ul style="list-style-type: none"> • Enrollment growth of 6 percent in FY 2006 and 11 percent in FY 2007 • Maintenance of the 2005 biennium cost per student, adjusted for statewide present law adjustments and projected enrollment growth • Continuation of a 53 percent factor for the state share of the cost of education

The community college appropriation is a separate line item and is not part of the lump sum appropriation to the Montana University System educational units.

Funding

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended by the Governor. Community college assistance is completely general fund.

Program Funding Table Community College Assist						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01000 General Fund	\$ 6,292,234	100.0%	\$ 7,276,419	100.0%	\$ 7,638,524	100.0%
Grand Total	\$ 6,292,234	100.0%	\$ 7,276,419	100.0%	\$ 7,638,524	100.0%

Present Law Adjustments

The "Present Law Adjustments" table shows the primary 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 2006-----					-----Fiscal 2007-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 5 - Resident Enrollment Growth--Community Colleges	0.00	984,185	0	0	984,185	0.00	1,346,290	0	0	1,346,290
Total Other Present Law Adjustments	0.00	\$984,185	\$0	\$0	\$984,185	0.00	\$1,346,290	\$0	\$0	\$1,346,290
Grand Total All Present Law Adjustments					\$984,185					\$1,346,290

DP 5 - Resident Enrollment Growth--Community Colleges - The executive budget annualizes the state share of the pay plan in the cost of education calculation and updates resident enrollment with growth projections for the 2007 biennium.

Figure 4 details community college enrollment projections for the 2007 biennium, translates these into the executive funding level, and breaks out the present law adjustments.

Figure 4						
	Community Colleges Present Law Adjustments				Annual Enrollment Growth Over Actural	
	Annual Resident Student FTE Enrollment					
	FY 2004 Budgeted	FY 2004 Actual	FY 2006 Projected	FY 2007 Projected	FY 2006	FY 2007
Dawson Community College	419	392	515	545	123	153
Miles Community College	518	489	566	600	77	111
Flathead Valley Comm. Coll.	1,385	1,604	1,550	1,625	(54)	21
Total Resident FTE	<u>2,322</u>	<u>2,485</u>	<u>2,631</u>	<u>2,770</u>	<u>146</u>	<u>285</u>
Enrollment Based Funding Level	\$6,292,234		\$7,255,219	\$7,638,524	6%	11%
		Biennial Audit Cost	\$21,200			
Total Executive Budget			<u>\$7,276,419</u>	<u>\$7,638,524</u>		
2007 Biennium Present Law Adjustments			<u>\$984,185</u>	<u>\$1,346,290</u>		

**LFD
ISSUE**

Figure 5 shows the total enrollment, the cost per student, the HB 2 approved state share of funding, and the actual state funding per student FTE for the community colleges since FY 2000. The reduction shown in the FY 2003 figures reflects reductions made in the August 2002 Special Session that reduced the state contribution per student to \$2,619. While the 2003 Legislature began with a calculation of a cost of \$5,706 per student for the 2005 biennium, an increase of 8.3 percent over the FY 2002 amount, it maintained all August 2002 Special Session reductions, and incorporated an additional reduction, leaving a cost per student of \$5,042 in FY 2004 and \$4,964 in FY 2005, or a reduction in FY 2005 of 5.7 percent from the appropriated FY 2002 level. The legislature maintained a state contribution rate of 53 percent, leaving a total state contribution per student of \$2,672 in FY 2004 and \$2,631 in FY 2005.

The 2007 biennium executive budget proposes to maintain the state share and the reductions enacted by the 2003 Legislature, adjusted for certain statewide adjustments such as pay plan annualization and inflation, and for projected enrollment increases, leaving a cost per student of \$5,203 and a state contribution of \$2,758.

The cost per student used in the executive budget calculation represents an increase of 1.1 percent over the FY 2004 base year level during the course of the 2007 biennium. However, the total increase in the actual cost per student for the community colleges (excluding budget reductions) has risen an average of 2.7 percent each year since the 2001 biennium.

Looking at other cost indicators, general inflation increased an average of 2.4 percent per year according to the U.S. Consumer Price Index for inflation and the Montana Personal Income index has increased by 4.9 percent per year during the period FY 2000 to FY 2004. At the state budget level, annualizing legislatively enacted pay plans in the last two biennia has added an average of 1.6 percent per year to costs and the executive pay plan proposal for the 2007 biennium adds 3 percent per year, excluding additional insurance costs.

As a consequence, the cost per student calculation for the community colleges has not kept up with minimal indicators of increased costs.

The legislature may wish to consider whether the executive cost per student reflects the actual changes in the cost of education at the colleges. Each 1 percent per year increase in the cost of education, maintaining a 53 percent state contribution rate, would add \$136,891 general fund in FY 2006 and \$144,123 in FY 2007.

Figure 5
Community College Program
State Share Cost of Education 1990-2007

Fiscal Year	HB 2		Approved State % Share of	State Contribution to Cost per Student FTE
	Projected Enrollment	Cost per Student FTE		
2000	2180	\$5,000	51%	\$2,550
2001	2180	5,000	51%	2,550
2002	2030	5,267	53%	2,792
2003	2040	5,267	53%	2,619 **
2004	2322	5,042 *	53% ***	2,672
2005	2369	4,964 *	53% ***	2,631
2006 Proposed	2631	5,203	53%	2,758
<u>2007 Proposed</u>	<u>2770</u>	<u>\$5,203</u>	<u>53%</u>	<u>\$2,758</u>
Annual Growth	3%	1%	N/A	1%

* The legislature initially established cost per student of \$5,706, but then reduced the total budget. The figures above are an implied cost per student.
 ** Reduction reflects 2002 Special Session reduction to the 2003 biennium appropriation.
 *** Legislature reduced the actual state % share from the starting point of 53% to 46% in HB 2 by carrying forward the 2002 special session and Governor's target reductions

**LFD
ISSUE
CONT.**

The figure below illustrates the proposed executive budget allocations for each of the community colleges:

Figure 6
Proposed Executive Budget General Fund Appropriation Per Community College Unit

Budget Item	Fiscal Year 2006				Fiscal Year 2007			
	Flathead				Flathead			
	Dawson	Valley	Miles	TOTAL	Dawson	Valley	Miles	TOTAL
Projected Resident Student FTE	515	1,550	566	2,631	545	1,625	600	2,770
Total \$ per FTE (Cost of Education)	\$5,203	\$5,203	\$5,203	\$5,203	\$5,203	\$5,203	\$5,203	\$5,203
State % of Cost of Education	53%	53%	53%	53%	53%	53%	53%	53%
State \$ per FTE	\$2,758	\$2,758	\$2,758	\$2,758	\$2,758	\$2,758	\$2,758	\$2,758
Calculated Budget Cost	<u>\$1,420,159</u>	<u>\$4,274,265</u>	<u>\$1,560,796</u>	<u>\$7,255,219</u>	<u>\$1,502,887</u>	<u>\$4,481,084</u>	<u>\$1,654,554</u>	<u>\$7,638,524</u>
Plus State share of Audit**	6,360	8,480	6,360	21,200	0	0	0	0
Total Executive Budget	<u>\$1,426,519</u>	<u>\$4,282,745</u>	<u>\$1,567,156</u>	<u>\$7,276,419</u>	<u>\$1,502,887</u>	<u>\$4,481,084</u>	<u>\$1,654,554</u>	<u>\$7,638,524</u>

** Biennial appropriation

**LFD
ISSUE**

The Community College Assistance budget has historically been built upon three formula factors:

- Projected student enrollment
- The cost of education for resident FTE students
- The state percentage share of this cost of education to be funded in HB 2

Student enrollment projections are the responsibility of the community colleges and OCHE, as they consider historical enrollment and other trends, though the legislature can substitute its own projections.

The cost of education figure represents the ratio between college current unrestricted fund expenditures and student FTE enrollment. Each biennium the cost of education is typically adjusted to reflect pay plan changes in order that this figure remains consistent with inflation and with actual cost fluctuations.

Finally, the state percentage share of this cost is a matter of public policy, with the legislature making the decision about the portion of community colleges costs that state government should support and that percentage share is stated in the HB 2 appropriation.

In order for true public policy to be determined by the percent of funding contribution, the cost of education must be meaningful. The issue for the legislature is whether the cost of education factor is a meaningful number that reasonably reflects actual costs from which the public policy of the state's obligation can be gauged. As shown in the previous issue, the cost of education used by the legislature and proposed by the Governor does not keep pace with rudimentary indicators of changes in costs.

The legislature may want to consider a study during the 2007 interim that would examine community college costs to determine not only a meaningful cost of education, but also a mechanism by which that cost of education can be kept current and meaningful over time.

Option A – Request that the Post-secondary Education and Budget Policy (PEPB) sub-committee examine the cost of education at the community colleges and recommend to the 2007 Legislature both a baseline cost and a methodology for adjusting the cost in future years.

Option B – Take no action.

**LFD
COMMENT**

According to statute (20-15-311, MCA) Montana's community colleges are financed from a combination of the following revenue sources: student tuition/fees, a mandatory property tax mill levy, an optional adult education property tax levy in the local district, an optional voted property tax levy in the local district, revenue from a political subdivision that designates funds to the college, other unrestricted revenue such as investment interest, other restricted revenue such as federal grant funds, and state general fund.

Also according to statute (20-15-312, MCA) each community college must submit an operating budget to the MUS Board of Regents for review and approval by September 1 of each year. The starting point for building the operating budget is the general fund appropriation by the legislature, which statute requires must be stated in terms of the specific percentage share of the cost of education that the legislature agrees to fund at community colleges in HB 2. With this general fund appropriation as the foundation, community colleges determine the remaining formula for the other statutory revenue sources in order to fund their complete operating budget.

The capacity for community colleges to shift funding onto the mandatory property tax mill levy or the adult education property tax levy is strictly limited by mill rate caps set by the legislature as part of 15-10-420, MCA. Since FY 1998, the community college mill levy revenue has increased at a rate of 7 percent per year.

On the other hand, the optional voted mill levy, another statutory revenue source, is governed by 15-10-425, MCA and requires that a majority of voters in the local community college district approve this additional mill levy during a regular, primary, or special election. Dawson Community College has a \$144,000 annual voted levy, Miles Community College ended their \$55,000 annual voted levy in FY 2004 but maintains a college retirement mill levy at a 24.28 mill rate in 2004, and Flathead Valley Community College has no revenue from a voted levy. The optional voted levy is an alternative that community colleges and their host communities maintain in order to fund the gap, through local property taxes, that is left between the cost of educating students and the state appropriation.

Student tuition and fee rates are then set by the community college board of trustees and approved by the Board of Regents. Since FY 1996, the average community college tuition has increased at a rate of 7 percent per year.

Therefore, the fiscal and public policy decisions that the legislature makes regarding the state appropriation to community colleges (the cost of education factor and the state share of these costs) will lay the foundation for the funding levels that will be required of these other revenue sources.

Executive Recommended Legislation

State statute requires the legislature to determine the budget amount per full-time student for the community colleges and for the appropriations act (HB 2) to state the percent of budget per student FTE that the appropriation is intended to represent. The executive recommends the following HB 2 language to comply with statute:

“The budget amount for each full-time equivalent student at the community colleges, including Summitnet, is \$5,203 each year of the 2007 biennium, before pay plan, if any. The general fund appropriation in Community College Assistance (04) provides 53% of the budget amount for each full-time equivalent student each year of the 2007 biennium. The remaining 47% of the budget amount for each full-time equivalent student must be paid from funds other than those appropriated in Community College Assistance (04).”

General Fund Subject to Reversion

The executive recommends the following HB 2 language that makes the community college appropriation, which is based upon student enrollment projections, subject to reversion if actual enrollment does not reach the projected enrollment figures.

“The general fund appropriation in Community College Assistance (04) is calculated to fund education in the community colleges for an estimated 2,631 resident FTE students in fiscal year 2006 and 2,770 in fiscal year 2007. 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 commissioner of higher education shall revert \$2,758 in general fund money to the state for each estimated FTE student who did not enroll.”

Summitnet Costs Allocation

The executive recommends the following HB 2 language to define the costs of connecting the community colleges to the state computer network system.

“Total Summitnet costs are estimated to be \$25,000 each year for the community colleges. Summitnet costs for each year may not exceed \$8,000 each for Dawson and Miles community colleges and \$9,000 for Flathead Valley community college.”

Audit Costs Allocation

The executive recommends the following HB 2 language to provide for audit costs in the 2007 biennium.

“Total audit costs are estimated to be \$40,000 for the community colleges for the biennium. The general fund appropriation for each community college provides 53% of the total audit costs in the 2007 biennium. The remaining 47% of these costs must be paid from funds other than those appropriated in item (Community College Audit). Audit costs for the biennium may not exceed \$12,500 each for Dawson and Miles community colleges and \$15,000 for Flathead Valley community college.”

Program Description

The Board of Regents provides faculty and staff with group benefits through the Montana University System (MUS) Group Insurance Program, which includes a Flexible Spending Account option. The commissioner is authorized by Board of Regents' policy to administer the program as a self-insured, group insurance plan. All university system employees, retirees, and eligible dependents are offered medical, dental, vision, and group life insurance, as well as long-term disability and long-term care benefits.

Starting in FY 2004, the Office of the Commissioner of Higher Education (OCHE) launched a self-funded workers compensation program that provides coverage for the entire MUS, covering all employees of all units and programs. The self-funded program was established with a \$2 million reserve that was raised through a revenue bond with a five-year payoff schedule that is built into the premiums charged to each employer unit.

Funding

The group health and flexible spending program is an enterprise fund in which the funding sources include:

- Employer-paid contribution toward insurance premiums
- Employee-paid contribution toward insurance premiums
- Employee payments to flexible spending accounts
- Interest earnings of the program fund

The group health and flexible spending program is an enterprise fund in which the funding sources include:

- Employer-paid contribution toward insurance premiums
- Employee-paid contribution toward insurance premiums
- Employee payments to flexible spending accounts
- Interest earnings of the program fund

The self-funded workers compensation program is an enterprise fund in which the funding sources include:

- Employer-paid premiums
- Interest earnings of the program reserve fund

Funding for all the MUS Group Insurance Programs is approved, together with the program rates, as part of HB 576

Program Expenditures

Expenditures for the health and flexible spending program include administration of the program (3.65 FTE) and insurance claims payments. Program administration expenditures (personal services and operations) are projected to increase by 2 percent from FY 2004 to FY 2006 and by a further 0 percent in FY 2007. Insurance claims payments are projected to increase by 37 percent from FY 2004 to FY 2006 and by a further 14 percent in FY 2007. Overall program expenditures in all areas are projected to increase at an annual rate of 15 percent from the 2005 to the 2007 biennium budget.

LFD COMMENT	The executive budget projects a 15 percent annual growth rate in the MUS Group Insurance program, primarily based upon double-digit increases in health care and medical benefits & claims payments. Increases at this rate are in line with health care cost trends and surveys that forecast per capita claims costs for health plans.
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Expenditures for the workers compensation program include operating expenses, claims payments, and debt service to pay off the outstanding bond. Overall expenditure costs are budgeted to increase at an annual rate of 11 percent from FY 2004 through the 2007 biennium.

**LFD
COMMENT**

As a new program with only one year of operational experience, the executive budget is based upon the claims and experience history under the previous workers compensation provider for the MUS, with claims payments and reserves budget based upon an actuarial analysis.

Proprietary Rate Explanation**Proprietary Rates Explanation**

The legislature has defined the rates and fees for the MUS employee group health and flexible spending benefits program to mean the state contribution and the employee contribution toward employee group benefits that is necessary to maintain the benefit plan on an actuarially sound basis. Starting in calendar year 2005, the annual state contribution available per employee is \$5,520, while the average insurance premium for an individual MUS employee is \$5,481, depending upon the various plan options selected. Insurance premiums for MUS employees with spouse and children average \$7,581 annually, again depending upon the various plans and options offered. This amount is \$2,061 more per year than the state contribution.

Employee premiums depend on the plan selected and whether the contributor is a current employee, an employee dependent, or a retiree. Payments to a flexible spending account are at the discretion of the employee, subject to a \$10 monthly minimum for those who choose to enroll.

The following table illustrates the revenue and expenditure history for the MUS Group Insurance Program for the past three fiscal years together with budgeted figures for the next three fiscal years. The projected number of employees and retirees who will participate in the MUS Group Insurance Program during the 2007 biennium is 7,916. The revenue totals assume funding by the legislature of the benefits component of the executive pay plan proposal, which is effective on July 1 for the MUS rather than January 1 for the state plan.

2007 Biennium Report on Internal Service and Enterprise Funds 2007									
Fund	Fund Name	Agency #	Agency Name	Program Name					
6008	MUS Group Insurance Program	5102	Commissioner of Higher Ed	MUS Group Insurance					
6009	MUS Flexible Spending Account	5102	Commissioner of Higher Ed	MUS Group Insurance					
				Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Budgeted FY06	Budgeted FY07
Operating Revenues:									
Fee revenue									
	Revenue from Fee A			-	-	-	-	-	-
	Revenue from Fee B			-	-	-	-	-	-
	Revenue from Fee C			-	-	-	-	-	-
	Revenue from Fee D			-	-	-	-	-	-
	Revenue from Fee E			-	-	-	-	-	-
	Revenue from Fee F			-	-	-	-	-	-
	Net Fee Revenue			-	-	-	-	-	-
	Investment Earnings			234,544	144,236	136,845	150,000	-	-
	Securities Lending Income			4,227	-	-	-	-	-
	Premiums			36,343,887	41,585,196	45,456,807	50,890,422	57,756,220	65,576,451
	Other Operating Revenues			235,944	214,036	406,424	-	-	-
	Total Operating Revenue			36,818,602	41,943,468	46,000,076	51,040,422	57,756,220	65,576,451
Operating Expenses:									
	Personal Services			149,992	163,385	156,542	156,190	175,818	175,441
	Other Operating Expenses			37,168,881	38,812,936	42,707,676	50,884,232	57,580,402	65,401,010
	Total Operating Expenses			37,318,873	38,976,321	42,864,218	51,040,422	57,756,220	65,576,451
	Operating Income (Loss)			(500,271)	2,967,147	3,135,858	-	-	-
Nonoperating Revenues (Expenses):									
	Gain (Loss) Sale of Fixed Assets			-	-	-	-	-	-
	Federal Indirect Cost Recoveries			-	-	-	-	-	-
	Other Nonoperating Revenues (Expenses)			-	-	-	-	-	-
	Net Nonoperating Revenues (Expenses)			-	-	-	-	-	-
	Income (Loss) Before Operating Transfers			(500,271)	2,967,147	3,135,858	-	-	-
	Contributed Capital			-	-	-	-	-	-
	Operating Transfers In (Note 13)			-	-	-	-	-	-
	Operating Transfers Out (Note 13)			-	-	-	-	-	-
	Change in net assets			(500,271)	2,967,147	3,135,858	-	-	-
	Total Net Assets- July 1 - As Restated			5,630,678	5,130,407	8,097,554	11,233,412	11,233,412	11,233,412
	Prior Period Adjustments			-	-	-	-	-	-
	Cumulative effect of account change			-	-	-	-	-	-
	Total Net Assets - July 1 - As Restated			5,630,678	5,130,407	8,097,554	11,233,412	11,233,412	11,233,412
	Net Assets- June 30			5,130,407	8,097,554	11,233,412	11,233,412	11,233,412	11,233,412
	60 days of expenses (Total Operating Expenses divided by 6)			6,219,812	6,496,054	7,144,036	8,506,737	9,626,037	10,929,409

LFD COMMENT The MUS Group Insurance Program historically maintains a 60-day operating expense reserve that is used to pay medical claims and benefits. At the end of FY 2004 this reserve fund balance reached a 94-day reserve balance. The 2007 biennium executive budget projects that the ending fund balance at the close of FY 2007 will be at 62 days, returning the program to its historic reserve level.

The operational philosophy of the MUS Group Insurance Program is that this is a “pay as you go” program that does not incur future funding liability. Therefore, the reserve fund balance is budgeted on the basis of historical claims payment data rather than on an actuarial basis.

The rates and fees for the workers compensation program are defined as those premiums charged to the employer units of the Montana University System that are necessary to fund the operations and the claims payment obligations. For FY 2006 the total premium fees are \$3.2 million and in FY 2007 the total premium fees are \$3.5 million. This amount represents an increase of 32 percent from FY 2004 to FY 2006 and another 10 percent in FY 2007.

2007 Biennium Report on Internal Service and Enterprise Funds 2007								
Fund	Fund Name	Agency #	Agency Name	Program Name				
06082	MUS Self Funded Wks Compensation	51020	Commissioner of Higher Education	MUS Self Funded Workers Compensation				
			Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Budgeted FY06	Budgeted FY07
Operating Revenues:								
Fee revenue								
	Revenue from Premiums		-	-	2,424,455	2,920,000	3,230,000	3,540,000
	Net Fee Revenue		-	-	2,424,455	2,920,000	3,230,000	3,540,000
	Investment Earnings		-	-	31,953	35,000	90,000	111,000
	Securities Lending Income		-	-	-	-	-	-
	Premiums		-	-	-	-	-	-
	Other Operating Revenues		-	-	-	-	-	-
	Total Operating Revenue		-	-	2,456,408	2,955,000	3,320,000	3,651,000
Operating Expenses:								
	Personal Services		-	-	-	-	-	-
	Other Operating Expenses		-	-	315,132	1,466,660	431,500	437,500
	Claims		-	-	2,174,000	1,047,000	2,534,000	2,584,000
	Debt Service		-	-	54,186	441,340	445,280	443,800
	Total Operating Expenses		-	-	2,543,318	2,955,000	3,410,780	3,465,300
	Operating Income (Loss)		-	-	(86,910)	-	(90,780)	185,700
Nonoperating Revenues (Expenses):								
	Gain (Loss) Sale of Fixed Assets		-	-	-	-	-	-
	Federal Indirect Cost Recoveries		-	-	-	-	-	-
	Other Nonoperating Revenues (Expenses)		-	-	-	-	-	-
	Net Nonoperating Revenues (Expenses)		-	-	-	-	-	-
	Income (Loss) Before Operating Transfers		-	-	(86,910)	-	(90,780)	185,700
	Contributed Capital		-	-	-	-	-	-
	Operating Transfers In (Note 13)		-	-	-	-	-	-
	Operating Transfers Out (Note 13)		-	-	-	-	-	-
	Change in net assets		-	-	(86,910)	-	(90,780)	185,700
	Total Net Assets- July 1 - As Restated		-	-	-	-	-	-
	Prior Period Adjustments		-	-	-	-	-	-
	Cumulative effect of account change		-	-	-	-	-	-
	Total Net Assets - July 1 - As Restated		-	-	-	-	-	-
	Net Assets- June 30		-	-	(86,910)	-	(90,780)	185,700
	60 days of expenses (Total Operating Expenses divided by 6)		-	-	423,886	492,500	568,463	577,550

LFD COMMENT The reserve fund balance for the Self-funded Workers Compensation Program is based upon an actuarial analysis and projections rather than the 60 days operating expenses model. As a new program, the reserve balance is currently based upon the \$2 million revenue bond. The business plan for the program, however, budgets for a five-year payoff of this bond after which the program revenues over expenses are anticipated to fully fund the actuarial reserves.

During the first year of operations there was one larger than anticipated claim. The subsequent fiscal year premiums reflect that claim payment.

Program Proposed Budget

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

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	20.45	0.00	0.50	20.95	0.00	0.50	20.95	20.95
Personal Services	889,445	(34,199)	28,800	884,046	(34,204)	28,813	884,054	1,768,100
Operating Expenses	413,419	105,456	0	518,875	106,308	0	519,727	1,038,602
Grants	(326,090)	1,580,766	0	1,254,676	1,580,663	0	1,254,573	2,509,249
Transfers	547,201	0	0	547,201	0	0	547,201	1,094,402
Total Costs	\$1,523,975	\$1,652,023	\$28,800	\$3,204,798	\$1,652,767	\$28,813	\$3,205,555	\$6,410,353
General Fund	81,595	18,166	0	99,761	18,936	0	100,531	200,292
Federal Special	1,442,380	1,633,857	28,800	3,105,037	1,633,831	28,813	3,105,024	6,210,061
Total Funds	\$1,523,975	\$1,652,023	\$28,800	\$3,204,798	\$1,652,767	\$28,813	\$3,205,555	\$6,410,353

Program Description

Talent Search is primarily a federally funded program intended to decrease the dropout rate of low-income and at-risk students at the secondary school level, and to increase their enrollment in post-secondary education. Talent Search has three components providing services to the target populations:

- Gaining Early Awareness & Readiness for Undergraduate Programs (GEAR-UP) is an early intervention and scholarship program that provides mentoring, counseling and outreach to build academic success that will lead to post-secondary education enrollment and achievement
- Montana Educational Talent Search (METS) creates a long-term academic contract with middle school students that subsequently provides academic support, skills building and counseling to encourage the planning, preparation and pursuit of a post-secondary education
- American Indian/Minority Achievement works with the campuses of the MUS to recruit, enroll and graduate American Indian and other minority students with a post-secondary education

Program Highlights

Talent Search Program Major Budget Highlights
<ul style="list-style-type: none"> • The executive budget includes an increase of \$3.3 million of federal authority for the 2007 biennium in anticipation of grants for the following: <ul style="list-style-type: none"> • \$3.2 million for the GEAR-UP program • \$0.18 million for the METS program • The executive budget includes an additional \$57,613 of federal authority for the 2007 biennium for an additional 0.50 FTE in the GEAR UP program.

Funding

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended by the Governor.

Program Funding Table						
Talent Search						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01000 General Fund	\$ 81,595	5.4%	\$ 99,761	3.1%	\$ 100,531	3.1%
03000 Federal Spec. Rev. Funds	<u>1,442,380</u>	<u>94.6%</u>	<u>3,105,037</u>	<u>96.9%</u>	<u>3,105,024</u>	<u>96.9%</u>
Grand Total	<u>\$ 1,523,975</u>	<u>100.0%</u>	<u>\$ 3,204,798</u>	<u>100.0%</u>	<u>\$ 3,205,555</u>	<u>100.0%</u>

General fund is used in this program solely to support the American Indian/Minority Achievement program, which is funded 100 percent from this source. The METS (Talent Search) program is funded 100 percent from federal funds and there is no match requirement. GEAR-UP is funded by a federal grant that requires a 50 percent non-federal fund match, which is provided through allowable in-kind services.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary 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 2006-----				-----Fiscal 2007-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					1,434					1,432
Vacancy Savings					(35,633)					(35,636)
Inflation/Deflation					(346)					(332)
Fixed Costs					12,462					18,849
Total Statewide Present Law Adjustments					(\$22,083)					(\$15,687)
DP 23 - Increase Federal Talent Search Grant Funds	0.00	0	0	93,340	93,340	0.00	0	0	87,791	87,791
DP 24 - Increase Federal GEAR-UP Grant Funds	0.00	0	0	1,580,766	1,580,766	0.00	0	0	1,580,663	1,580,663
Total Other Present Law Adjustments	0.00	\$0	\$0	\$1,674,106	\$1,674,106	0.00	\$0	\$0	\$1,668,454	\$1,668,454
Grand Total All Present Law Adjustments					\$1,652,023					\$1,652,767

DP 23 - Increase Federal Talent Search Grant Funds - The executive budget adds \$181,131 federal authority in the 2007 biennium to allow the Office of the Commissioner of Higher Education (OCHE) to fully expend the anticipated amount of this grant each year of the 2007 biennium.

LFD COMMENT	Since OCHE has not received a federal award letter for the Talent Search grant for the 2007 biennium, the present law budget is based upon an assumption of funding at the FY 2005 amount. Therefore, DP 23 reflects the difference between FY 2004 base year grant expenditures and the FY 2005 actual award.
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DP 24 - Increase Federal GEAR-UP Grant Funds - The executive budget adds \$3,161,429 federal authority in the 2007 biennium to allow the Office of the Commissioner of Higher Education to fully expend the anticipated amount of this grant each year of the 2007 biennium.

LFD COMMENT

The federal GEAR-UP grant has a five-year award cycle that expired in 2004. However, Montana received a one-year extension through August 2005. A competitive process for a subsequent five-year award will occur in early 2005. The present law budget for GEAR-UP is based upon an assumption of funding at the FY 2005 amount. Therefore, DP 24 reflects the difference between 2004 base year grant expenditures and the FY 2005 actual award.

New Proposals

New Proposals										
Program	FTE	Fiscal 2006				Fiscal 2007				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 20 - Add 0.5 FTE Accountant for GEAR-UP Grant										
06	0.50	0	0	28,800	28,800	0.50	0	0	28,813	28,813
Total	0.50	\$0	\$0	\$28,800	\$28,800	0.50	\$0	\$0	\$28,813	\$28,813

DP 20 - Add 0.5 FTE Accountant for GEAR-UP Grant - The executive budget adds 0.50 FTE to be funded from the federal GEAR-UP grant for an accountant to assist with program financial management. This 0.50 FTE position, which is currently filled, is the second half of a 1.00 FTE position that has been funded from two federal grants (Carl Perkins and GEAR-UP) for at least three years. This 0.50 FTE position is requested in order to present the budget accurately.

LFD COMMENT

While OCHE has not requested this position in previous biennia, it has filled the position during the interim using funding from two different grants in two different programs. Any positions created through this process, called “modified” positions, are not included in the base budget presented to the legislature. The executive is requesting that the position be made a permanent, budgeted position in the Talent Search Program. Funding is from the GEAR-UP grant.

Program Proposed Budget

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

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	5.00	0.00	0.00	5.00	0.00	0.00	5.00	5.00
Personal Services	243,674	25,000	0	268,674	24,457	0	268,131	536,805
Operating Expenses	101,552	537	0	102,089	2,913	0	104,465	206,554
Grants	2,259,705	79,621	0	2,339,326	(44,518)	0	2,215,187	4,554,513
Transfers	3,540,126	0	0	3,540,126	0	0	3,540,126	7,080,252
Total Costs	\$6,145,057	\$105,158	\$0	\$6,250,215	(\$17,148)	\$0	\$6,127,909	\$12,378,124
General Fund	90,094	320	0	90,414	3,014	0	93,108	183,522
Federal Special	6,054,963	104,838	0	6,159,801	(20,162)	0	6,034,801	12,194,602
Total Funds	\$6,145,057	\$105,158	\$0	\$6,250,215	(\$17,148)	\$0	\$6,127,909	\$12,378,124

Program Description

The federal Carl D. Perkins Vocational and Applied Technology Education Act provides funds to support vocational education (career training and technical education) at the secondary and post secondary levels. The Board of Regents is the state agency that administers these funds. Section 20-7-329 MCA provides that the Board of Regents contract with the Superintendent of Public Instruction to administer and supervise the K-12 vocational education programs, while the Office of the Commissioner of Higher Education (OCHE) provides administrative support for vocational programs at the postsecondary education level.

Thus, OCHE coordinates these primarily federally funded vocational education efforts through two grant programs:

- Carl Perkins formula and competitive grants, which fund equipment, faculty and other support directly to vocational education programs in two-year postsecondary institutions
- Tech Prep Grants, which are allocated across five regions in Montana to support planning, collaboration and integration of the vocational education infrastructure and curricula at the secondary and postsecondary institutions in each region

Program Highlights

Workforce Development Program Major Budget Highlights
<ul style="list-style-type: none"> • The executive budget requests additional federal authority in order to carry over an incentive grant award to the 2007 biennium and fully expend the anticipated grant

Funding

The following table shows funding, by source, for the base year and for the 2007 biennium as recommended by the Governor. This program is funded primarily from federal revenue, but the Carl Perkins grant requires a general fund match of the administrative costs. The general fund in this program table reflects that required match only.

Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01000 General Fund	\$ 90,094	1.5%	\$ 90,414	1.4%	\$ 93,108	1.5%
03000 Federal Spec. Rev. Funds	<u>6,054,963</u>	<u>98.5%</u>	<u>6,159,801</u>	<u>98.6%</u>	<u>6,034,801</u>	<u>98.5%</u>
Grand Total	<u>\$ 6,145,057</u>	<u>100.0%</u>	<u>\$ 6,250,215</u>	<u>100.0%</u>	<u>\$ 6,127,909</u>	<u>100.0%</u>

Present Law Adjustments

The "Present Law Adjustments" table shows the primary 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 2006					Fiscal 2007				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					36,195					35,628
Vacancy Savings					(11,195)					(11,171)
Inflation/Deflation					(104)					(101)
Fixed Costs					641					3,014
Total Statewide Present Law Adjustments					\$25,537					\$27,370
DP 25 - Increase Federal Carl Perkins Grant Funds	0.00	0	0	79,621	79,621	0.00	0	0	(44,518)	(44,518)
Total Other Present Law Adjustments	0.00	\$0	\$0	\$79,621	\$79,621	0.00	\$0	\$0	(\$44,518)	(\$44,518)
Grand Total All Present Law Adjustments					\$105,158					(\$17,148)

LFD COMMENT During the FY 2004 base year, OCHE made a \$15,000 program transfer from the Regents' Priorities in Program 09 to increase personal services in the Workforce Development Program. The expenditures associated with this transfer do not appear in the base. Therefore, this change to the operating plan has inflated the personal services present law adjustments above what would be required solely to annualize the pay plan changes from the 2005 biennium.

DP 25 - Increase Federal Carl Perkins Grant Funds – The executive budget increases federal authority in the 2007 biennium to allow OCHE to fully expend the anticipated amount of this grant, which includes an incentive grant awarded during the 2005 biennium.

LFD COMMENT The federal Carl Perkins program (which includes the Tech Prep Grant) expired at the end of FY 2004 and has not been reauthorized by the United States Congress, nor is reauthorization expected soon. However, Montana received a one-year extension to the program at the FY 2005 award level and expects to receive a subsequent two-year extension, also at the FY 2005 award level, in lieu of immediate reauthorization.

Therefore, the present law adjustment in DP 25 reflects an appropriation at the FY 2005 award level. This adjustment requires a smaller funding increase in FY 2006, due to the incentive grant awarded in the 2005 biennium, and a reduction in FY 2007, to adjust for additional expenditures that were carried over to the base from the prior year. The actual amount of the grant is budgeted to be \$6.2 million in FY 2006 and \$6.0 million in FY 2007.

Program Proposed Budget

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

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Expenses	43,983	0	0	43,983	0	0	43,983	87,966
Transfers	137,255,170	4,274,677	4,613,066	146,142,913	4,004,886	4,650,462	145,910,518	292,053,431
Total Costs	\$137,299,153	\$4,274,677	\$4,613,066	\$146,186,896	\$4,004,886	\$4,650,462	\$145,954,501	\$292,141,397
General Fund	124,198,153	3,064,676	4,613,066	131,875,895	2,500,886	4,650,462	131,349,501	263,225,396
State/Other Special	13,101,000	1,210,001	0	14,311,001	1,504,000	0	14,605,000	28,916,001
Total Funds	\$137,299,153	\$4,274,677	\$4,613,066	\$146,186,896	\$4,004,886	\$4,650,462	\$145,954,501	\$292,141,397

Program Description

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

The program budget is organized in this section in the order listed below. Present law and new proposal adjustments together with explanations will be included with the following subprograms:

- Educational Units (Montana State University campuses and University of Montana campuses)
- Agricultural Experimental Station (AES)
- Extension Services (ES)
- Forestry and Conservation Experiment Station (FCES)
- Montana Bureau of Mines and Geology (Bureau)
- Fire Services Training School (FSTS)

Program Highlights

Appropriation Distribution Program Major Budget Highlights
<ul style="list-style-type: none"> • Executive budget includes a \$5 million general fund one-time-only (OTO) expenditure to fund equipment purchases for two-year degree programs at both the university educational units and the community colleges • Executive budget includes \$4.3 million general fund to support Shared Leadership for a Stronger Montana Economy initiative projects • Statewide present law adjustments at the university educational units are funded based upon resident student enrollment rather than the state share of university costs, almost doubling the expenditure level for these adjustments • The marginal cost per student calculation that is used to determine funding for resident student enrollment growth is carried forward from the 2005 biennium budget, rather than updated with base year factors

Program Narrative

In recent months, a primary focus of the Board of Regents in relation to the university educational units has been the role that postsecondary education plays in the Montana economy and how the university system can become a driver of economic growth and development. This effort culminated in Shared Leadership for a Stronger Montana Economy, a project the Board of Regents developed together with the Governor's Office for Economic Opportunity, which included ideas and input from the Post Secondary Education Policy and Budget (PEPB) subcommittee. The Shared Leadership project, therefore, is the major driver of the 2007 biennium executive budget growth for the university educational units.

**LFD
COMMENT**

While the Shared Leadership project documents originated from a brainstorming session that included staff from the Legislative Services Division, the Legislative Fiscal Division, the Governor's Office for Economic Opportunity, and the Commissioner of Higher Education, the primary drivers for this yearlong project have been the Commissioner and the Governor's office. Though this brainstorming session was requested by PEPB members, the Regent members of PEPB had originally charted economic development as a major direction for the Board of Regents at their September 2003 meeting.

The brainstorming session resulted in a draft document that outlined ideas on how the university system can add value to economic development efforts in Montana. These original ideas were circulated to legislative leaders, including Legislative Council and the Economic Affairs Interim Committee, as well as to higher education leaders and others in Montana. By May, the Shared Leadership project identified the following six initiative areas:

- Increase technology transfer and research commercialization
- Promote better collaboration between the university system and local, state, and tribal governments in Montana
- Improve and expand worker training
- Improve access to 2-year and 4-year higher education
- Use university resources to generate direct economic growth in Montana
- Expand entrepreneurship and small business development

The project work plan then moved ahead to include 15 community-based meetings held across Montana that were facilitated jointly by the Commissioner and the Governor's economic development staff. These meetings were held to generate discussion about the early drafts of the project initiatives and to identify additional ideas from the unique perspectives across the state.

At their July meeting, the PEPB prioritized the six project initiatives and recommended that the lead staff members, the Commissioner and the Governor's economic development staff, focus on three of those initiatives, which have become the core of the Shared Leadership initiatives driving the executive budget.

For more detail on these initiatives, see the LFD Comments that follow.

Figure 7 illustrates the Shared Leadership funding initiatives in the executive budget:

Figure 7
Shared Leadership for a Stronger Montana Economy
Executive Budget Funding Proposal

Shared Leadership Project Funding Initiative Area	OTO	State General Fund	Proposed Fund Match
Workforce Development			
Two-Year Education Develop Common Curriculum	Yes	\$1,200,000	\$400,000
MT Tech Economic Development Resource Center	Yes	100,000	200,000
Workforce System Data Collection and Management	Yes	280,000	0
Increase Supply of Health Care Workers	Yes	<u>1,000,000</u>	<u>250,000</u>
Subtotal		\$2,580,000	\$850,000
Distance Learning Education			
		\$1,000,000	\$250,000
Agriculture, Natural Resource and Rural Dev.			
Extension Cropping Specialist (ES)	No	\$65,600	\$16,400
Livestock Specialist (ES)	No	131,200	32,800
Fire Service Trainer (FSTS)	No	153,035	38,259
Integrated Weed Management/Biotechnology (AES)	No	319,933	159,967
Tech. Assist. to Small Oil and Gas Operators (Bureau)	No	146,880	36,720
Coal/Coal bed-methane Technology Program (Bureau)	No	<u>146,880</u>	<u>36,720</u>
Subtotal		<u>\$963,528</u>	<u>\$320,866</u>
Outreach/Increase Services			
Business and Economic Development Outreach (OCHE)	Yes	\$360,000	\$0
Total		<u>\$4,903,528</u>	<u>\$1,420,866</u>

Source: Executive Budget 2007 Biennium (Page E-3)

**LFD
ISSUE**

In addition to the above table that illustrates \$4.9 million general fund expenditures in the 2007 biennium dedicated to Shared Leadership initiatives, the \$5.0 million biennial expenditure to purchase equipment for 2-year postsecondary education degree programs (see DP 78 under New Proposals below) is also clearly linked to Shared Leadership, for a total of \$9.9 million general fund that the executive budget proposes to dedicate to this project.

The Shared Leadership Project identifies three priority initiatives and recommends implementation by the Commissioner of Higher Education together with the Governor’s Office of Economic Development. Those three initiatives are specific to the role that higher education can play to strengthen the Montana economy including:

- **Workforce Training and Education.** This initiative focuses on four actions:
 - Strategic direction and overall system coordination (business, industry, government and the university involved)
 - Standardize two-year college programs in high demand occupation areas
 - Create a career pathways system
 - Develop better workforce system data management
- **Promote and Enhance Access to Postsecondary Education.** This initiative is intended to lower the barriers to postsecondary education in Montana. It combines strategies of outreach to younger students (middle school level) and at-risk students to build a commitment to higher education upon graduation, as well as lowering the economic barriers through increased financial assistance opportunities.
- **Distance Learning.** This initiative involves coordinating on-line delivery of education across all units of the Montana University System. A primary goal is to increase access to higher education for rural students, non-traditional students, and workers seeking job training course work.

LFD ISSUE CONT. It has become apparent through the Shared Leadership project initiatives and through Board of Regent discussions that there is, to some extent, a paradigm shift going on within the university system. Specifically that the Regents and Commissioner of Higher Education are positioning the university system as an economic growth driver, rather than a cost driver, so that state government will come to view higher education funding as an economic investment rather than simply an expenditure cost center.

While the Shared Leadership project has made considerable progress and demonstrated a clear ability to generate creative thinking and identify problem-solving ideas (discussions have been held across Montana with leaders from a number of disciplines and economic sectors), the project, at this early stage, still lacks clear measurable outcome goals and objectives. Until these outcome goals and performance measures for each initiative are clear, fiscal oversight and accountability will be a challenge, though not impossible. For example, the executive budget indicates its intention that state funding will be matched to some degree by an “investment from other partners.” The executive budget, however, does not build in any clear mechanism to monitor the match requirement nor to identify a source for the match funding.

Therefore, given the level of general fund at stake (\$9.9 million), the apparent paradigm shift by the university system that is involved here, that this project is so new that it has not yet articulated measurable outcome goals, and the variables such as the funding match involved, the legislature may wish to ensure that there is a clear accountability and fiscal oversight mechanism built into the budget for the Shared Leadership project.

So should the legislature decide to approve the Shared Leadership expenditures, the legislature may want to consider the following complementary actions (these options are not mutually exclusive):

- Option A - Approve all Shared Leadership expenditures as one-time-only (OTO) so that these expenditures and the programs do not become part of the budget base in the next biennium, but rather would have to be requested as new proposals, thus allowing maximum fiscal review and oversight of the Shared Leadership project by the 2007 legislature through the budget process
- Option B - Include in HB 2 language a recommendation that the Legislative Finance Committee (LFC) monitor the Shared Leadership project, with a focus on the programs that would develop from the 2007 biennium expenditures, and prepare a report for the 2007 Legislature that evaluates the progress, the economic impact, the funding match, the fiscal value, and articulates performance outcome goals of the Shared Leadership expenditure programs
- Option C - Request that the Post Secondary Education Policy and Budget Sub-committee apply the accountability measures that were adopted in July 2004 to evaluate the impact that Shared Leadership makes on these quality measures for the university system

Funding

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended in the executive budget.

Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01000 General Fund	\$ 124,198,153	90.5%	\$ 131,875,895	90.2%	\$ 131,349,501	90.0%
02000 State/Other Special Rev. Funds	13,101,000	9.5%	14,311,001	9.8%	14,605,000	10.0%
Grand Total	\$ 137,299,153	100.0%	\$ 146,186,896	100.0%	\$ 145,954,501	100.0%

While funding for this program is primarily general fund, state special revenue from the 6-mill property tax levy funds the university educational units, Resource Indemnity Trust funds (RIT) support groundwater research programs at the Montana Bureau of Mines, and a state revenue surcharge from motorcycle licenses supports motorcycle safety programs at the MSU-Northern campus in Havre.

Figure 8 demonstrates how the executive budget funds each component of the appropriation distribution program, including each campus of the university educational units, the research/public service agencies, and a number of line-item program initiatives.

Figure 8
Appropriation Distribution Program (09) -- 2007 Biennium Executive Budget Proposal

	FY 2004	State Share	New	Executive	State Share	New	Executive	2,007.00
	Base Year	Present Law	Proposals	Budget	Present Law	Proposals	Budget	Biennium
		FY 2006	FY 2006	FY 2006	FY 2007	FY 2007	FY 2007	Total
Educational Units								
UM - Missoula	\$37,818,253			\$37,818,253			\$37,818,253	\$75,636,506
MSU - Bozeman	40,399,419			40,399,419			40,399,419	80,798,838
UM - MT Tech	8,967,311			8,967,311			8,967,311	17,934,622
MSU - Billings	14,306,972			14,306,972			14,306,972	28,613,944
MSU - Northern	6,763,838			6,763,838			6,763,838	13,527,676
UM - Western	4,136,087			4,136,087			4,136,087	8,272,174
Great Falls COT	3,398,184			3,398,184			3,398,184	6,796,368
Helena COT	2,263,794			2,263,794			2,263,794	4,527,588
Resident Enrollment Growth		98,176		98,176	607,936		607,936	706,112
Equalize Base Expenditures (SB 407)		(2,750,000)		(2,750,000)	(2,750,000)		(2,750,000)	(5,500,000)
Statewide Present Law Adjustments		5,691,703		5,691,703	4,687,092		4,687,092	10,378,795
All Other Present Law Adjustments		462,446		462,446	662,916		662,916	1,125,362
Family Practice Residency	319,366			319,366			319,366	638,732
Dental Hygiene Program	235,000			235,000			235,000	470,000
Motorcycle Safety Program	200,000	60,000		260,000	60,000		260,000	520,000
MUS Marketing Initiative	43,983			43,983			43,983	87,966
Distance Learning			500,000	500,000		500,000	500,000	1,000,000
2-Year Program Curriculum			600,000	600,000		600,000	600,000	1,200,000
MT Economic Dev. Center			50,000	50,000		50,000	50,000	100,000
Increase Health Workers			500,000	500,000		500,000	500,000	1,000,000
2-Year Program Equipment			2,500,000	2,500,000		2,500,000	2,500,000	5,000,000
Subtotal	\$118,852,207	\$3,562,325	\$4,150,000	\$126,564,532	\$3,267,944	\$4,150,000	\$126,270,151	\$252,834,683
Research/Public Service Agencies								
Ag Experiment Station	\$10,079,958	\$231,207	\$159,966	\$10,471,131	\$241,163	\$159,967	\$10,481,088	\$20,952,219
Extension Services	4,481,715	325,788	65,600	4,873,103	348,933	131,200	4,961,848	9,834,951
Forestry Conservation ES	925,839	45,485		971,324	42,892		968,731	1,940,055
Bureau of Mines	2,247,899	39,392	144,000	2,431,291	35,479	149,760	2,433,138	4,864,429
Firs Service Training School	511,535	70,480	93,500	675,515	68,475	59,535	639,545	1,315,060
AES Biobased Institute	200,000			200,000			200,000	400,000
Subtotal	\$18,446,946	\$712,352	\$463,066	\$19,622,364	\$736,942	\$500,462	\$19,684,350	\$39,306,714
Grand Total Program 09	<u>\$137,299,153</u>	<u>\$4,274,677</u>	<u>\$4,613,066</u>	<u>146,186,896</u>	<u>\$4,004,886</u>	<u>\$4,650,462</u>	<u>\$145,954,501</u>	<u>\$292,141,397</u>

Source: SAHBR data for Base Year Expenditures and the Executive 2007 Biennium Budget

Six-Mill Property Tax Levy

The executive budget projects that the six-mill levy revenue account will grow from \$24.6 million in the 2005 biennium to \$27.1 million in the 2007 biennium. The executive budget has funded the adjusted base for the 2007 biennium with the \$2.5 six-mill levy revenue increase and used this state special revenue to decrease general fund in the base by a like amount. This property tax levy is authorized at 15-10-107, MCA, and 20-25-423, MCA.

LFD COMMENT	The statewide property tax levy for higher education was first approved in 1920 and has been approved by a statewide voter referendum vote every ten years since that time. In 1948 the referendum set the levy at the six-mill rate, where it has remained through the most recent statewide vote, November 1998.
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LFD COMMENT CONT. Neither the statutory authority nor the 1998 referendum authority is definitive on the question of whether it is the intent of the six-mill levy to serve as a substitute for general fund, thereby using six-mill revenue increases to supplant base year general fund levels as the executive budget proposes, or whether the six-mill revenue is intended to serve as an increase (or decrease) that is not applied against the general fund base level.

Without definitive statutory or referendum direction, it remains within the policy purview of the legislature to decide whether the projected six-mill revenue increase in the 2007 biennium budget should be used as a substitute for general fund, or whether this revenue increase should be budgeted over and above the general fund base level.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary 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 2006-----					-----Fiscal 2007-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 40 - Statewide - Educational Units	0.00	5,691,703	0	0	5,691,703	0.00	4,687,092	0	0	4,687,092
DP 41 - Base Year Equalization Adjustment - SB 407	0.00	(2,750,000)	0	0	(2,750,000)	0.00	(2,750,000)	0	0	(2,750,000)
DP 42 - Increase in O&M for New Space	0.00	86,097	0	0	86,097	0.00	115,641	0	0	115,641
DP 43 - Increased IT License and Maintenance	0.00	108,977	0	0	108,977	0.00	189,235	0	0	189,235
DP 44 - Resident Enrollment Growth --MUS	0.00	98,176	0	0	98,176	0.00	607,936	0	0	607,936
DP 45 - Water, Sewer, Elevator and Small Misc.	0.00	198,917	0	0	198,917	0.00	263,854	0	0	263,854
DP 46 - Statewide - Bureau of Mines	0.00	29,392	0	0	29,392	0.00	25,479	0	0	25,479
DP 49 - Off Campus Rental Increases-Ed Units	0.00	68,455	0	0	68,455	0.00	94,186	0	0	94,186
DP 61 - Statewide - Extension Services	0.00	195,626	0	0	195,626	0.00	207,785	0	0	207,785
DP 62 - Statewide -Agricultural Expericment Station	0.00	192,788	0	0	192,788	0.00	183,933	0	0	183,933
DP 63 - Statewide -Forestry Cons. Experiment Station	0.00	45,485	0	0	45,485	0.00	42,892	0	0	42,892
DP 64 - Statewide - Fires Services Training School	0.00	45,389	0	0	45,389	0.00	43,311	0	0	43,311
DP 66 - Increased Overhead Costs for Campus Support	0.00	92,970	0	0	92,970	0.00	122,112	0	0	122,112
DP 68 - New Space - FSTS	0.00	24,256	0	0	24,256	0.00	24,984	0	0	24,984
DP 82 - ES- Payroll Benefits and Insurance Adjustment	0.00	86,446	0	0	86,446	0.00	86,446	0	0	86,446
DP 98 - Motorcycle Safety Training Adjust to Rev. Est.	0.00	0	60,000	0	60,000	0.00	0	60,000	0	60,000
Total Other Present Law Adjustments	0.00	\$4,214,677	\$60,000	\$0	\$4,274,677	0.00	\$3,944,886	\$60,000	\$0	\$4,004,886
Grand Total All Present Law Adjustments					\$4,274,677					\$4,004,886

New Proposals

Program	Fiscal 2006					Fiscal 2007				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 8 - Extension Cropping Specialist										
09	0.00	0	0	0	0	0.00	65,600	0	0	65,600
DP 16 - Livestock Specialist										
09	0.00	65,600	0	0	65,600	0.00	65,600	0	0	65,600
DP 51 - Distant Learning Initiative -OTO										
09	0.00	500,000	0	0	500,000	0.00	500,000	0	0	500,000
DP 60 - 2-Yr Education-Develop Common Curriculum										
09	0.00	600,000	0	0	600,000	0.00	600,000	0	0	600,000
DP 61 - MT Tech Economic Development Resource Center -OTO										
09	0.00	50,000	0	0	50,000	0.00	50,000	0	0	50,000
DP 63 - Increase Supply of Health Care Workers - OTO										
09	0.00	500,000	0	0	500,000	0.00	500,000	0	0	500,000
DP 66 - FSTS Plan-Add One Trainer										
09	0.00	93,500	0	0	93,500	0.00	59,535	0	0	59,535
DP 67 - Integrated Weed Mgmt & Biotechnology										
09	0.00	159,966	0	0	159,966	0.00	159,967	0	0	159,967
DP 68 - Technical Assistance to Small Oil & Gas Operators										
09	0.00	72,000	0	0	72,000	0.00	74,880	0	0	74,880
DP 69 - Coal and Coalbed-Methane Technology Program										
09	0.00	72,000	0	0	72,000	0.00	74,880	0	0	74,880
DP 78 - Equipment - 2 Year Programs - OTO										
09	0.00	2,500,000	0	0	2,500,000	0.00	2,500,000	0	0	2,500,000
Total	0.00	\$4,613,066	\$0	\$0	\$4,613,066	0.00	\$4,650,462	\$0	\$0	\$4,650,462

Sub-Program Details

EDUCATIONAL UNITS -SP 01

Sub-Program Proposed Budget

The following table summarizes the executive budget proposal for this subprogram by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
Transfers	118,053,858	3,502,325	4,150,000	125,706,183	3,207,944	4,150,000	125,411,802	251,117,985
Total Costs	\$118,053,858	\$3,502,325	\$4,150,000	\$125,706,183	\$3,207,944	\$4,150,000	\$125,411,802	\$251,117,985
General Fund	105,818,858	2,352,324	4,150,000	112,321,182	1,763,944	4,150,000	111,732,802	224,053,984
State/Other Special	12,235,000	1,150,001	0	13,385,001	1,444,000	0	13,679,000	27,064,001
Total Funds	\$118,053,858	\$3,502,325	\$4,150,000	\$125,706,183	\$3,207,944	\$4,150,000	\$125,411,802	\$251,117,985

Sub-Program Description

Sub-program 01 includes the state appropriation for the university educational units and the colleges of technology (Montana State University campuses and University of Montana campuses).

Present Law Adjustments

The "Present Law Adjustments" table shows the primary 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.

	-----Fiscal 2006-----				-----Fiscal 2007-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 40 - Statewide - Educational Units	0.00	5,691,703	0	0	5,691,703	0.00	4,687,092	0	0	4,687,092
DP 41 - Base Year Equalization Adjustment - SB 407	0.00	(2,750,000)	0	0	(2,750,000)	0.00	(2,750,000)	0	0	(2,750,000)
DP 42 - Increase in O&M for New Space	0.00	86,097	0	0	86,097	0.00	115,641	0	0	115,641
DP 43 - Increased IT License and Maintenance	0.00	108,977	0	0	108,977	0.00	189,235	0	0	189,235
DP 44 - Resident Enrollment Growth --MUS	0.00	98,176	0	0	98,176	0.00	607,936	0	0	607,936
DP 45 - Water, Sewer, Elevator and Small Misc.	0.00	198,917	0	0	198,917	0.00	263,854	0	0	263,854
DP 49 - Off Campus Rental Increases-Ed Units	0.00	68,455	0	0	68,455	0.00	94,186	0	0	94,186
Total Other Present Law Adjustments	0.00	\$3,502,325	\$0	\$0	\$3,502,325	0.00	\$3,207,944	\$0	\$0	\$3,207,944
Grand Total All Present Law Adjustments					\$3,502,325					\$3,207,944

DP 40 - Statewide - Educational Units - The executive budget applies statewide present law adjustments for the educational units in the 2007 biennium, funding the state share of these adjustments at \$10.4 million general fund.

**LFD
COMMENT**

The executive 2007 biennium budget uses a new formula to calculate the state share of both the statewide and other present law adjustments for the university educational units.

The statewide present law adjustments are determined through a calculation of global factors that include fixed costs, inflation/deflation rates, funding of personal services to capture annualization of 2005 biennium increases and full funding of positions, as well as vacancy savings rates. After these global factors are defined and approved by the legislature, they are allocated to each agency based upon agency usage of each expenditure factor.

For the university educational units, however, there is an additional calculation necessary to assign the total expenditure level for statewide present law adjustments. Specifically, the legislature determines what percentage share of these costs state government will pay, as opposed to the percentage share that the university educational units will fund with other revenue sources, including tuition.

This percentage share is then applied against both the statewide and other present law adjustments to determine the state funding level of these expenditures.

In the past, the state share calculation has been the ratio between state funding revenue versus other current unrestricted revenue in the university operating budget. In the FY 2004 base year that ratio is 43 percent, so that following past practice the 2007 biennium state share calculation for statewide and other present law adjustments would be that same 43 percent. This reflects past policy that the state should fund university unit expenditures at the same ratio that state funding revenue comprises total unrestricted revenue (it is the current unrestricted fund that serves as the formula base because this is the fund account that supports actual education costs, as opposed to research costs, housing, food service costs, and other non-education costs that are part of the university units).

The 2007 biennium executive budget, however, uses a different formula to determine the state share calculation that is applied to determine the funding level for present law adjustments. This formula change reflects a change in policy, which the executive budget states is intended to help minimize tuition rate increases.

These adjustments reflect the fixed costs of operating the university units so that these expenses are independent of student enrollment fluctuations. Thus, the fixed cost increases in the current unrestricted fund must be funded by either state appropriation or other revenue sources, which is primarily student tuition. So this change in executive policy, intended as a means to minimize tuition increases, shifts more responsibility for fixed cost increases to state funding.

The new executive calculation, therefore, is a ratio between Montana resident students versus non-resident students at the university educational units. This state share funding calculation essentially supports that portion of statewide and other present law adjustments that apply specifically to support Montana resident students. For the 2007 biennium that ratio is approximately 80 percent, derived from the actual FY 2004 enrollment at the university educational units, whereby some 80 percent of total enrollment is Montana resident students.

Therefore, DP 40 funds approximately 80 percent of the university educational units' costs of statewide present law adjustments allocated to the current unrestricted fund in the 2007 biennium. This shifts policy to one where state funding is allocated specifically to support Montana resident student costs at the university educational units. This policy shift and formula change has the following fiscal impact in the executive budget:

- DP 40 at 80 percent formula = \$10.4 million (executive budget formula)
- DP 40 at 43 percent formula = \$5.6 million (historical budget formula)
 - Total = \$4.8 million increase

As a context, each 1 percent increase in tuition in FY 2006 would be equal to \$1.49 million of revenue.

DP 41 - Base Year Equalization Adjustment - SB 407 - In this adjustment to base year expenditures, the executive budget reduces general fund by a total of \$2.75 million each year of the 2007 biennium.

LFD COMMENT HB 2 in the 2005 biennium included a biennial appropriation of \$5.5 million general fund to the university units from the revenue derived from SB 407 (the limited sales tax legislation). These funds were not designated as a one-time-only (OTO) appropriation.

As a biennial appropriation, the university units have the authority to expend these funds in either fiscal year of the biennium. Since the \$5.5 million was part of the lump-sum appropriation, however, there is no certainty when, during which fiscal year, the funds were spent. Therefore, the total appropriation of \$5.5 million is annualized over the biennium, leaving half this amount (\$2.75 million) that must be removed from the base in order to make this adjustment.

DP 42 - Increase in O&M for New Space - The executive budget adds \$202,000 general fund in the 2007 biennium to fund the state share calculation of increased operations and maintenance costs for new space coming online at MSU Northern (an applied technology center classroom/lab building) and at UM-Missoula (chemistry building renovations). These new facilities were approved by the legislature.

DP 43 - Increased IT License and Maintenance - The executive budget adds \$298,000 general fund in the 2007 biennium to fund the state share calculation of increased information technology licenses and maintenance costs at MSU-Bozeman, UM-Missoula, MSU- Billings, Montana Tech, UM-Western, and the Helena College of Technology.

LFD COMMENT In both DP 42 and DP 43, the executive budget uses the new state share calculation formula that is the ratio of Montana resident students versus non-resident students. Thus, in each of these adjustments, the state share of the present law adjustment costs is approximately 80 percent. Under the historic state share calculation formula the state share cost would be 43 percent.

This policy shift and formula change has the following fiscal impact in the executive budget:

- DP 42 and DP 43 at 80 percent formula = \$.50 million (executive budget formula)
- DP 42 and DP 43 at 43 percent formula = \$.27 million (historical budget formula)
 - Total = \$.23 million increase

DP 44 - Resident Enrollment Growth --MUS - The executive budget increases general fund by \$706,000 in the 2007 biennium to support projected resident enrollment growth at the university education units. Figure 9 illustrates the enrollment projections and subsequent funding allocation:

Figure 9
University Education Units - Present Law Adjustment (DP44)

	Growth From 2004 Budgeted				
	FY 2004 Budgeted	FY 2006 Projected	FY 2007 Projected	FY 2006	FY 2007
Resident FTE Students	26,866	26,918	27,188	52	322
Enrollment Growth State Funding (@ \$1,888 per student)				<u>\$98,176</u>	<u>\$607,936</u>

**LFD
COMMENT**

The executive budget carries forward the marginal cost per student calculation that was used to determine the funding level for resident student enrollment growth in the 2005 biennium (though this formula was never implemented, as budget reductions eliminated the adjustments for resident enrollment growth in the 2005 biennium budget). The executive budget proposes no change to this formula calculation for the 2007 biennium, and uses this to allocate \$1,888 general fund per resident FTE student reflected in enrollment growth projections.

The marginal cost per student formula essentially combines the actual expenditures of the university units for instruction and for student services, then divides this expenditure total by the number of FTE students. The result is a number intended to reflect the average cost to educate each additional student. The average tuition level is then removed from this cost of education calculation, since students fund this portion of costs. This leaves the unfunded expenditure level for educating students that has historically been funded by the state appropriation, the so-called marginal cost per resident FTE student.

A mathematical anomaly of this formula, however, is that each time tuition rates or enrollment levels increase during a base year, these increases drive the subsequent marginal cost per student calculation down in the next biennium. During the 2005 biennium, the Board of Regents approved significant tuition increases, averaging 11 percent, while enrollment increased 3.4 percent. As a result, the marginal cost per student calculation starting from the actual FY 2004 base would result in a general fund allocation of \$1,599 per resident student, a decrease of fifteen percent. The cost for instruction and student services, on the other hand, increases by 6.4 percent during the 2005 biennium.

Therefore, the executive budget carries forward the 2005 marginal cost per student calculation and funds resident student enrollment increases at the \$1,888 per resident student level, rather than at \$1,599 per student that is derived from the actual FY 2004 base. The executive narrative expresses concern about decreasing the state funding level per resident student to this lower level (concern about the impact on tuition) in order to justify this budget policy decision.

The executive budget then applies this marginal cost per student calculation against projected enrollment increases to determine the funding level. Enrollment growth projections for the 2007 biennium are dramatically lower than previous biennia, as FY 2006 resident growth is projected at 52 FTE and FY 2007 resident growth is projected at 322 FTE (see table above for specific projections).

This policy decision and marginal cost per student calculation difference has the following fiscal impact in the executive budget:

- Resident Student Enrollment Growth Adjustment at \$1,888 per student = \$706,000
- Resident Student Enrollment Growth Adjustment at \$1,599 per student = \$598,000
 - Total = \$108,000 increase

DP 45 - Water, Sewer, Elevator and Small Misc. - The executive budget adds \$463,000 general fund to the 2007 biennium budget as an adjustment to increase the state share for reported water, sewer, and other small miscellaneous items reported by the educational units.

DP 49 - Off Campus Rental Increases-Ed Units - The executive budget adds \$163,000 general fund in the 2007 biennium for the state share of increased off campus rental costs at MSU-Bozeman and the Helena College of Technology.

LFD COMMENT In both DP 45 and DP 49, the executive budget uses the new state share calculation formula that is the ratio of Montana resident students versus non-resident students. Thus, in each of these adjustments, the state share of the present law adjustment costs is approximately 80 percent. Under the historic state share calculation formula the state share cost would be 43 percent.

This policy shift and formula change has the following fiscal impact in the executive budget:

- DP 45 and DP 49 at 80 percent formula = \$.63 million (executive budget formula)
- DP 45 and DP 49 at 43 percent formula = \$.34 million (historical budget formula)
 - Total = \$.29 million increase

New Proposals

New Proposals		-----Fiscal 2006-----					-----Fiscal 2007-----				
Sub Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 51 - Distant Learning Initiative -OTO											
01	0.00	500,000	0	0	500,000	0.00	500,000	0	0	500,000	
DP 60 - 2-Yr Education-Develop Common Curriculum											
01	0.00	600,000	0	0	600,000	0.00	600,000	0	0	600,000	
DP 61 - MT Tech Economic Development Resource Center -OTO											
01	0.00	50,000	0	0	50,000	0.00	50,000	0	0	50,000	
DP 63 - Increase Supply of Health Care Workers - OTO											
01	0.00	500,000	0	0	500,000	0.00	500,000	0	0	500,000	
DP 78 - Equipment - 2 Year Programs - OTO											
01	0.00	2,500,000	0	0	2,500,000	0.00	2,500,000	0	0	2,500,000	
Total	0.00	\$4,150,000	\$0	\$0	\$4,150,000	0.00	\$4,150,000	\$0	\$0	\$4,150,000	

DP 51 – Shared Leadership Distance Learning Initiative -OTO - The executive budget adds \$1 million general fund in the 2007 biennium to support the development and implementation of a statewide distance learning plan across the university system and partnering with education providers at all levels. The executive budget intends that this proposal will be matched by \$250,000 from funding identified by the Board of Regents. This proposal is a one-time-only (OTO), biennial appropriation.

LFD ISSUE Presently there is no centralized program in post-secondary education in Montana for the delivery of distance learning education, in particular for building distance learning course work into a degree. There is no common approach among the providers, creating obstacles for students in the areas of course quality, affordability, and the transfer of courses from multiple institutions toward a degree at one of Montana’s higher education schools. In other words, without a centralized program it is difficult for a student to work towards a post-secondary degree by blending the distance learning course work that is offered across the Montana University System.

The intention is that this initiative would create a seamless distance learning delivery plan that addresses:

- Complete cost analysis
- Organizational design
- Technology selection
- Faculty development and training
- Standardization of courses
- Implementation of recommendations

The legislature may want to provide for a method of articulating shared goals and accountability of expenditures and outcomes of this project.

For discussion of the Shared Leadership project initiatives, see the LFD Comment and LFD Issue under the Program Highlights section above. For discussion of the non-state match requirement of the Shared Leadership DP’s, see the LFD Issue below, under sub-program 01

DP 60 – Shared Leadership 2-Yr Education-Develop Common Curriculum - The executive budget adds \$1.2 million general fund in the 2007 biennium primarily to support the development of a common 2-year college curriculum and instruction program for the Associate of Applied Science degrees across the university educational units. The focus would be upon degrees in high-demand occupations. The executive budget intends that this proposal will be matched by \$400,000 from funding identified by the Board of Regents. This proposal is a one-time-only (OTO), biennial appropriation.

DP 61 – Shared Leadership MT Tech Economic Development Resource Center -OTO - The executive budget adds \$100,000 general fund in the 2007 biennium to support economic development and new business recruitment efforts of the Montana Tech Economic Development Resource Center in Butte. The executive budget intends that this proposal will be matched by a \$200,000 investment from funding identified by the Board of Regents, which will replace state funding in the 2009 biennium. This proposal is for a one-time-only (OTO), biennial appropriation.

**LFD
COMMENT**

For discussion of the Shared Leadership project initiatives see the LFD Comment and LFD Issue under the Program Highlights section above. For discussion of the non-state match requirement of the Shared Leadership DP's, see the LFD Issue below, under sub-program 01.

DP 63 – Shared Leadership Increase Supply of Health Care Workers - OTO - The executive budget adds \$1 million general fund in the 2007 biennium to support the delivery of health care education programs to rural place-bound citizens in Montana, with the goal to increase the supply of trained and qualified health care workers. The executive budget intends that this proposal will be matched by \$250,000 from funding identified by the Board of Regents. This proposal is for a one-time-only (OTO), biennial appropriation.

**LFD
COMMENT**

Among the recommendations issued by the Governor's Blue Ribbon Task Force on Health Care is a proposal specific to higher education:

- The Commissioner of Higher Education should establish an integrated, "single point of contact" distance learning and continuing education program for health professionals

The Task Force based this proposal on the projected demand for health care workers in rural Montana that will apparently not be met due in part to fewer Montanans choosing health careers, together with the difficulty of attaining access in rural areas to both the health care education degree programs and the continuing professional development education programs.

This proposal on education specifically recommends a distance learning initiative that targets health professions education, as well as other innovative educational methods that are tailored to rural students and rural health care workers. Other task force recommendations were specific to the health care and health insurance industries, as well as career guidance counseling at the high school level.

This Shared Leadership initiative and the executive DP 63 are based upon the recommendations of this Task Force.

The legislature may want to provide for a method of articulating shared goals and accountability of expenditures and outcomes of this project.

For discussion of the Shared Leadership project initiatives see the LFD Comment and LFD Issue under the Program Highlights section above. For discussion of the non-state match requirement of the Shared Leadership DP's, see the LFD Issue below, under sub-program 01.

SOURCE: COMPETING FOR QUALITY CARE, FINDINGS AND PROPOSALS FOR MONTANA'S HEALTH CARE WORKFORCE, SEPTEMBER 26, 2002

DP 78 - Equipment - 2 Year Programs - OTO - The executive budget adds \$5 million general fund in the 2007 biennium to fund the purchase and update of equipment for two-year degree programs within the Montana University System and Community Colleges. The executive budget intends that this proposal must be matched dollar for dollar from other non-state sources of funding to be identified by the Board of Regents. This proposal is for a one-time-only (OTO), biennial appropriation.

LFD COMMENT

For discussion of the Shared Leadership project initiatives see the LFD Comment and LFD Issue under the Program Highlights section above. For discussion of the non-state match requirement of the Shared Leadership DP's, see the LFD Issue below, under sub-program 01.

LFD ISSUE

All of the Shared Leadership initiatives at the university educational units as well as the \$5 million equipment initiative include a match requirement that would be the responsibility of the Board of Regents, either to fund directly with university funds or to deliver funding from a non-state partner.

In order to provide maximum fiscal oversight for any Shared Leadership initiatives that are approved, the legislature may want to include specific additional HB 2 language relative to the match provision to address the following issues:

- Who specifically qualifies as a non-state partner for matching funds (e.g. federal government, local government, etc.) and what the expectations are of this partner
- What mechanism or action will be sufficient to verify the match (e.g. commitment letter, actual receipt of the funds, etc.), in particular if the university units use lump-sum funds as the match
- Must the match be specifically dollars or will equipment and/or services (in-kind) be allowed
- Will spending state funds be contingent upon first spending the matching funds
- Will the general fund appropriation be subject to reversion at the end of the biennium in the event that the Board of Regents is unable to secure a match partner or provide a match with university funds

Assuming that the intention of adding the funding match restriction to the executive budget is to leverage additional funding for the university system that will actually increase the total budget above the state funding level, the legislature may want to consider amending the executive budget language in some of these initiatives to require that some portion of the matching funds must be "nonstate money." Some potential sources of nonstate money would include:

- Federal government grants
- Private sector grants and contracts
- Private foundation grants
- Local government or economic development authority grants and contracts

Given that many of these initiatives add value not only to the university system but also to specific industries and sectors of the economy, it seems that there may be opportunities to use the match requirement to leverage nonstate funding as the match, essentially using state funding to leverage private sector funding to support the Shared Leadership initiatives.

Other Issues

Tuition Rates

In part due to state budget cuts resulting from revenue shortfalls, the university educational units and the Board of Regents have implemented tuition increases at or above 11 percent in each of the last four academic years. Figure 10 illustrates annual tuition changes over the past 10 years:

Figure 10
Annual Resident Undergraduate Student Tuition Rates
Tuition Only - Mandatory Fees Not Included
Fiscal Years 1996 - 2005

Fiscal Year	UM Missoula	UM MT Tech	UM Western	MSU Bozeman	MSU Billings	MSU Northern	System Average	Annual % Change	Cumulative % Change
FY 1996	1,731	1,795	1,703	1,711	1,708	1,656	\$1,717		
FY 1997	1,822	1,892	1,745	1,831	1,778	1,739	\$1,801	4.89%	4.89%
FY 1998	1,940	2,016	1,859	1,954	1,901	1,859	\$1,922	6.68%	11.89%
FY 1999	2,066	2,146	1,979	2,086	2,033	1,988	\$2,050	6.67%	19.35%
FY 2000	2,156	2,240	2,025	2,177	2,122	2,030	\$2,125	3.67%	23.73%
FY2001	2,250	2,337	2,072	2,272	2,214	2,072	\$2,203	3.67%	28.26%
FY 2002	2,543	2,641	2,267	2,567	2,502	2,262	\$2,464	11.84%	43.45%
FY 2003*	2,873	2,984	2,483	2,900	2,827	2,472	\$2,757	11.90%	60.52%
FY 2004	3,125	3,343	2,700	3,256	3,168	2,769	\$3,060	11.01%	78.18%
FY2005	3,390	3,743	2,930	3,654	3,548	3,101	\$3,394	10.92%	97.64%
Average Annual Growth	7.75%	8.51%	6.21%	8.80%	8.46%	7.22%	7.86%		

*Not include tuition surcharge
Source: OCHE /Board of Regents Annual Operating Budgets

LFD COMMENT In FY 2004 state funding comprises an average of 43 percent of the funding for the university educational units in the current unrestricted operating budget. This average of the eight university and college of technology campuses ranges from the high of 58 percent state funding at MSU-Northern to the low of 37 percent state funding at UM-Missoula.

For some historical perspective, according to the university operating budgets, state funding as a percentage of the educational units current unrestricted operating budget has been decreasing as follows:

- 48 percent in FY 2002
- 50 percent in FY 2000
- 54 percent in FY 1998

At the same time, the average tuition rate at the university educational units has been increasing as follows:

- \$2,235 in FY 2002 (5 percent increase over 2000)
- \$2,011 in FY 2000 (4 percent increase over 1998)
- \$1,851 in FY 1998

Therefore, the trend indicates that there is some correlation between the reductions of state funding as a percentage of university educational units unrestricted operating budget and increasing tuition rates.

The executive budget for the 2007 biennium proposes that the present law and new proposal increases included in the HB 2 components of the budget, together with the 3 percent proposed salary increase included in the executive HB 13 proposal, taken as a whole, should only require a tuition increase at about the 2 percent level, consistent with anticipated inflation rates. This is based upon the executive assumption that university educational units operations would only change in the areas addressed in the present law adjustments and the new proposals.

**LFD
COMMENT
CONT.**

The Board of Regents operating budget projections for the 2007 biennium, on the other hand, project tuition rate increases that range from 4.3 percent to 11.7 percent, depending on the state level of funding in HB 2, the state share calculation that is used in HB 13 (state employee pay plan), and the actual level of funding the Board of Regents allocates to specific university level new initiatives. For more detail on the Board of Regents tuition projection, see the LFD Comment and LFD Issue in the introductory section of this analysis.

In light of the historical, statistical relationship between state funding levels and tuition, the legislature may want to monitor the percentage share that state funding comprises of the university current unrestricted fund as a means to anticipate tuition changes going forward. Such a monitoring process could be done during budgeting by comparing the impact that each decision package would have on the total university budget and compare that to the percentage share that amount represents in the university system project operating budgets.

Sub-Program Details

AES TRANSFERS - SP 09

Sub-Program Proposed Budget

The following table summarizes the executive budget proposal for this subprogram by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
Transfers	10,079,958	231,207	159,966	10,471,131	241,163	159,967	10,481,088	20,952,219
Total Costs	\$10,079,958	\$231,207	\$159,966	\$10,471,131	\$241,163	\$159,967	\$10,481,088	\$20,952,219
General Fund	10,079,958	231,207	159,966	10,471,131	241,163	159,967	10,481,088	20,952,219
Total Funds	\$10,079,958	\$231,207	\$159,966	\$10,471,131	\$241,163	\$159,967	\$10,481,088	\$20,952,219

Sub-Program Description

The Agriculture Experiment Station (AES) was established at Montana State University in Bozeman by the Montana legislature in 1893 under Hatch Act authorization enacted by the United States Congress. The station is the agricultural research component of the land-grant university's three-part mission of teaching, research and service. AES also has a cooperative program at the Fort Keogh Livestock and Range Research Laboratory in Miles City, where livestock production efficiency and rangeland resource research is conducted.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary 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 2006-----					-----Fiscal 2007-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 62 - Statewide -Agricultural Experiment Station	0.00	192,788	0	0	192,788	0.00	183,933	0	0	183,933
DP 66 - Increased Overhead Costs for Campus Support	0.00	38,419	0	0	38,419	0.00	57,230	0	0	57,230
Total Other Present Law Adjustments	0.00	\$231,207	\$0	\$0	\$231,207	0.00	\$241,163	\$0	\$0	\$241,163
Grand Total All Present Law Adjustments					\$231,207					\$241,163

DP 62 - Statewide -Agricultural Experiment Station – The executive budget applies statewide present law adjustments for the AES in the 2007 biennium, funding the state share of these adjustments at \$377,000 general fund.

DP 66 - Increased Overhead Costs for Campus Support - The executive budget adds \$95,649 general fund in the 2007 biennium to fund the state share of increased overhead costs that are allocated from the educational units to the research/public service agencies.

LFD COMMENT The state share calculation for the research/public service agencies remains the ratio between state funding versus other funding sources, which may include federal program funding, fee-for-service funds, interest earnings and other sources.

The state share percentage for AES in the 2007 biennium budget is 76 percent.

New Proposals

New Proposals										
Sub Program	-----Fiscal 2006-----					-----Fiscal 2007-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 67 - Integrated Weed Mgmt & Biotechnology										
09	0.00	159,966	0	0	159,966	0.00	159,967	0	0	159,967
Total	0.00	\$159,966	\$0	\$0	\$159,966	0.00	\$159,967	\$0	\$0	\$159,967

DP 67 – Shared Leadership Integrated Weed Mgmt & Biotechnology - The executive budget adds \$320,000 general fund in the 2007 biennium for 2.00 FTE weed science and research positions at the Agriculture Experiment Station, and 1.00 FTE plant or animal biotechnology position. The positions would increase research on integrated weed management practices and the biological control of weeds, as well as genetic research to improve plant and animal production. The executive budget intends that this proposal will be matched by \$159,967 from funding sources identified by the Board of Regents.

LFD COMMENT For discussion of the Shared Leadership project initiatives see the LFD Comment and LFD Issue under the Program Highlights section above. For discussion of the non-state match requirement of the Shared Leadership DP’s, see the LFD Issue under sub-program 01.

Sub-Program Details

EXTENSION SERVICE TRF - SP 10

Sub-Program Proposed Budget

The following table summarizes the executive budget proposal for this subprogram by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
Transfers	4,481,715	325,788	65,600	4,873,103	348,933	131,200	4,961,848	9,834,951
Total Costs	\$4,481,715	\$325,788	\$65,600	\$4,873,103	\$348,933	\$131,200	\$4,961,848	\$9,834,951
General Fund	4,481,715	325,788	65,600	4,873,103	348,933	131,200	4,961,848	9,834,951
Total Funds	\$4,481,715	\$325,788	\$65,600	\$4,873,103	\$348,933	\$131,200	\$4,961,848	\$9,834,951

Sub-Program Description

The Extension Service (ES) was established in 1914 as a result of the federal Smith-Lever Act. The Extension Service mission is to disseminate and encourage practical use of research about agricultural production and marketing, family and consumer science, and human resource development. The central office is housed on the MSU-Bozeman campus, but there are 52 county extension offices that serve 54 of Montana's 56 counties.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary 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.

	-----Fiscal 2006-----				-----Fiscal 2007-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 61 - Statewide - Extension Services	0.00	195,626	0	0	195,626	0.00	207,785	0	0	207,785
DP 66 - Increased Overhead Costs for Campus Support	0.00	43,716	0	0	43,716	0.00	54,702	0	0	54,702
DP 82 - ES- Payroll Benefits and Insurance Adjustment	0.00	86,446	0	0	86,446	0.00	86,446	0	0	86,446
Total Other Present Law Adjustments	0.00	\$325,788	\$0	\$0	\$325,788	0.00	\$348,933	\$0	\$0	\$348,933
Grand Total All Present Law Adjustments					\$325,788					\$348,933

DP 61 - Statewide - Extension Services - The executive budget applies statewide present law adjustments for ES in the 2007 biennium, funding the state share of these adjustments at \$403,000 general fund.

DP 66 - Increased Overhead Costs for Campus Support - The executive budget adds \$98,418 general fund in the 2007 biennium to fund the state share of increased overhead costs that are allocated from the educational units to the research/public service agencies.

DP 82 - ES- Payroll Benefits and Insurance Adjustment - The executive budget adds \$173,000 general fund to the 2007 biennium to fund adjustments to the state share of payroll benefits and medical insurance. The adjustment is proposed because a number of counties reimburse MSU for a portion of ES agents' salary only, and the state funds pay all benefit costs. Since the budgeting system only calculates benefits costs against payroll funded by the state, this adjustment funds the benefits gap between what is state funded salary and what is county funded salary.

LFD COMMENT	The state share calculation for the research/public service agencies remains the ratio between state funding versus other funding sources, which may include federal program funding, fee-for-service funds, interest earnings and other sources.
The state share percentage for AES in the 2007 biennium budget is 76 percent.	

New Proposals

New Proposals										
Sub Program	FTE	-----Fiscal 2006-----				-----Fiscal 2007-----				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 8 - Extension Cropping Specialist	10	0.00	0	0	0	0.00	65,600	0	0	65,600
DP 16 - Livestock Specialist	10	0.00	65,600	0	0	0.00	65,600	0	0	65,600
Total	0.00	\$65,600	\$0	\$0	\$65,600	0.00	\$131,200	\$0	\$0	\$131,200

DP 8 – Shared Leadership Extension Cropping Specialist - The executive budget adds \$65,600 general fund in FY 2007 for 1.00 FTE Cropping Systems Specialist position that would be located at the Extension Service on the MSU Bozeman campus. The executive budget intends that this proposal will be matched with \$16,400 from funding sources identified by the Board of Regents.

DP 16 – Shared Leadership Livestock Specialist - The executive budget adds \$131,000 general fund in the 2007 biennium budget for 1.00 FTE Livestock Specialist position that would be located at the Extension Service at the AES Research Center in Miles City. The executive budget intends that this proposal will be matched with \$32,800 from funding sources identified by the Board of Regents.

LFD COMMENT	For discussion of these Shared Leadership project initiatives see the LFD Issue under the Program Highlights section above. For discussion of the non-state match requirement of the Shared Leadership DP's, see the LFD Issue under sub-program 01.
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Sub-Program Details

FCES TRANSFER - SP 11

Sub-Program Proposed Budget

The following table summarizes the executive budget proposal for this subprogram by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
Transfers	925,839	45,485	0	971,324	42,892	0	968,731	1,940,055
Total Costs	\$925,839	\$45,485	\$0	\$971,324	\$42,892	\$0	\$968,731	\$1,940,055
General Fund	925,839	45,485	0	971,324	42,892	0	968,731	1,940,055
Total Funds	\$925,839	\$45,485	\$0	\$971,324	\$42,892	\$0	\$968,731	\$1,940,055

Sub-Program Description

The Forestry and Conservation Experiment Station was established by the legislature in 1937, codified at 20-25-241, MCA, for the scientific investigation of natural resource problems including forestland resources, timber, and relationships between forests and water, pasturage, and recreation. The station is directed by the Dean of the School of Forestry that serves as the research unit of the University of Montana School of Forestry in Missoula.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary 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.

	-----Fiscal 2006-----				-----Fiscal 2007-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 63 - Statewide -Forestry Cons. Experiment Station	0.00	45,485	0	0	45,485	0.00	42,892	0	0	42,892
Total Other Present Law Adjustments	0.00	\$45,485	\$0	\$0	\$45,485	0.00	\$42,892	\$0	\$0	\$42,892
Grand Total All Present Law Adjustments					\$45,485					\$42,892

DP 63 - Statewide -Forestry Cons. Experiment Station – The executive budget applies statewide present law adjustments for the FCES in the 2007 biennium, funding the state share of these adjustments at \$88,000 general fund.

LFD COMMENT	<p>The state share calculation for the research/public service agencies remains the ratio between state funding versus other funding sources, which may include federal program funding, fee-for-service funds, interest earnings and other sources.</p> <p>The state share percentage for FCES in the 2007 biennium budget is 100 percent.</p>
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Sub-Program Details

BUREAU TRANSFERS - SP 12

Sub-Program Proposed Budget

The following table summarizes the executive budget proposal for this subprogram by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
Transfers	2,247,899	39,392	144,000	2,431,291	35,479	149,760	2,433,138	4,864,429
Total Costs	\$2,247,899	\$39,392	\$144,000	\$2,431,291	\$35,479	\$149,760	\$2,433,138	\$4,864,429
General Fund	1,581,899	39,392	144,000	1,765,291	35,479	149,760	1,767,138	3,532,429
State/Other Special	666,000	0	0	666,000	0	0	666,000	1,332,000
Total Funds	\$2,247,899	\$39,392	\$144,000	\$2,431,291	\$35,479	\$149,760	\$2,433,138	\$4,864,429

Sub-Program Description

The Bureau of Mines and Geology is a public service and research agency located at Montana Tech in Butte. The Bureau disseminates information through publications and conducts field and laboratory studies on all mineral resources, metallic and nonmetallic minerals, fuels, and groundwater.

The groundwater assessment programs at the bureau are funded at 15-38-202, MCA, by the Resource Indemnity Trust Fund, which was created, in part, for the purpose of supporting ground water assessment programs specific to areas that may experience environmental damage caused by mineral extraction.

LFD COMMENT	For more detail on the Resource Indemnity Trust accounts, see the overview for the Department of Natural Resources and Conservation that appears in Volume 4, Section C (this volume) of the Budget Analysis.
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Present Law Adjustments

The "Present Law Adjustments" table shows the primary 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.

	-----Fiscal 2006-----				-----Fiscal 2007-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 46 - Statewide - Bureau of Mines	0.00	29,392	0	0	29,392	0.00	25,479	0	0	25,479
DP 66 - Increased Overhead Costs for Campus Support	0.00	10,000	0	0	10,000	0.00	10,000	0	0	10,000
Total Other Present Law Adjustments	0.00	\$39,392	\$0	\$0	\$39,392	0.00	\$35,479	\$0	\$0	\$35,479
Grand Total All Present Law Adjustments					\$39,392					\$35,479

DP 46 - Statewide - Bureau of Mines - The executive budget applies statewide present law adjustments for the Bureau in the 2007 biennium, funding the state share of these adjustments at \$55,000.

DP 66 - Increased Overhead Costs for Campus Support at Research/Public Service Agencies – The executive budget adds \$20,000 general fund in the 2007 biennium to fund the state portion of increased overhead costs that are allocated from the educational units to the research/public service agencies.

LFD ISSUE	<p>The state share calculation for the research/public service agencies remains the ratio between state funding versus other funding sources, which may include federal program funding, fee-for-service funds, interest earnings and other sources.</p> <p>The state share percentage for the bureau in the 2007 biennium budget is 98 percent.</p> <p>The executive budget, however, does not distinguish between state general fund and the state special revenue funds (Resource Indemnity Trust [RIT] program) that support the bureau. So the budget allocates the entire 98 percent state share expenditure adjustments to general fund, which actually represents 69 percent while the RIT funds represent 29 percent.</p> <p>Therefore, the legislature may want to consider reallocating the present law adjustments in DP 46 and DP 66 at the bureau to reflect funding 69 percent from general fund and 29 percent from state special revenue, rather than the entire 98 percent from general fund. This revised allocation would change the present law adjustment allocation as follows:</p> <ul style="list-style-type: none"> • General fund share at 69 percent = \$27,735 • State special revenue share at 29 percent = \$11,657
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New Proposals

New Proposals	-----Fiscal 2006-----					-----Fiscal 2007-----					
	Sub Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 68 - Shared Leadership - Technical Assistance to Small Oil & Gas Operators	12	0.00	72,000	0	0	72,000	0.00	74,880	0	0	74,880
DP 69 - Shared Leadership - Coal and Coalbed-Methane Technology Program	12	0.00	72,000	0	0	72,000	0.00	74,880	0	0	74,880
Total	0.00	\$144,000	\$0	\$0	\$144,000	0.00	\$149,760	\$0	\$0	\$149,760	

DP 68 – Shared Leadership – Technical Assistance to Small Oil and Gas Operators - The executive budget adds \$147,000 general fund in the 2007 biennium for 1.00 FTE Petroleum Geologist position at the Bureau of Mines located in Butte. The position would be responsible for mapping and other technical assistance to support small oil and gas operators with exploration and development efforts. The executive budget intends that this proposal will be matched by \$36,720 from funding sources identified by the Board of Regents.

DP 69 – Shared Leadership – Coal and Coalbed-Methane Technology Program - The executive budget adds \$147,000 general fund in the 2007 biennium for 1.00 FTE Coal Geologist position at the Bureau of Mines located in Butte. The position would be responsible for database and information flow as well as other technical assistance to support coal and coal bed-methane development efforts. The executive budget intends that this proposal will be matched by \$36,720 from funding sources identified by the Board of Regents.

LFD COMMENT	<p>For discussion of the Shared Leadership project initiatives see the LFD Comment and LFD Issue under the Program Highlights section above. For discussion of the non-state match requirement of the Shared Leadership DP’s, see the LFD Issue under sub-program 01.</p>
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Sub-Program Details

FSTS TRANSFERS - SP 19

Sub-Program Proposed Budget

The following table summarizes the executive budget proposal for this subprogram by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
Transfers	511,535	70,480	93,500	675,515	68,475	59,535	639,545	1,315,060
Total Costs	\$511,535	\$70,480	\$93,500	\$675,515	\$68,475	\$59,535	\$639,545	\$1,315,060
General Fund	511,535	70,480	93,500	675,515	68,475	59,535	639,545	1,315,060
Total Funds	\$511,535	\$70,480	\$93,500	\$675,515	\$68,475	\$59,535	\$639,545	\$1,315,060

Sub-Program Description

The Fire Services Training School, located at the Great Fall College of Technology and authorized at 20-31-102, MCA, works to organize, supervise, and coordinate training and education for state fire services personnel across Montana in accordance with local needs and the standards established by the Board of Regents.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary 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 2006-----				-----Fiscal 2007-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 64 - Statewide - Fires Services Training School	0.00	45,389	0	0	45,389	0.00	43,311	0	0	43,311
DP 66 - Increased Overhead Costs for Campus Support	0.00	835	0	0	835	0.00	180	0	0	180
DP 68 - New Space - FSTS	0.00	24,256	0	0	24,256	0.00	24,984	0	0	24,984
Total Other Present Law Adjustments	0.00	\$70,480	\$0	\$0	\$70,480	0.00	\$68,475	\$0	\$0	\$68,475
Grand Total All Present Law Adjustments					\$70,480					\$68,475

DP 64 - Statewide Present Law Adjustment - Fires Services Training School (FSTS) – The executive budget applies statewide present law adjustments for the FSTS in the 2007 biennium, funding the state share of these adjustments at \$89,000 general fund.

DP 66 –Increased Overhead Costs for Campus Support at Research/Public Service Agencies – The executive budget adds \$1,015 general fund in the 2007 biennium to fund the state portion of increased overhead costs that are allocated from the educational units to the research/public service agencies.

LFD COMMENT The state share calculation for the research/public service agencies remains the ratio between state funding versus other funding sources, which may include federal program funding, fee-for-service funds, interest earnings and other sources.

The state share percentage for AES in the 2007 biennium budget is 76 percent.

DP 68 - New Space - FSTS – The executive budget adds \$49,240 general fund in the 2007 biennium for increased rent costs precipitated by the FSTS need to move off the Great Falls COT campus.

LFD COMMENT In FY 2004 the Fire Service Training School (FSTS) was required to move from their location on the Great Falls College of Technology (COT) campus, due to enrollment increases at the COT and the resulting need for additional instructional space. The 2005 biennium budget appropriated one-time-only (OTO) funding for the costs of moving, but there was no additional funding for increased costs resulting from facility rental at the new location. The OTO funding for moving expenses was removed from the FY 2004 base.

Therefore, the executive budget adjusts the base expenditures for the FSTS to reflect rent costs that are paid for the new location.

New Proposals

Sub Program	FTE	Fiscal 2006				Fiscal 2007					
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 66 – Shared Leadership - FSTS Plan-Add One Trainer	19	0.00	93,500	0	0	93,500	0.00	59,535	0	0	59,535
Total	0.00	\$93,500	\$0	\$0	\$93,500	0.00	\$59,535	\$0	\$0	\$59,535	

DP 66 - Shared Leadership FSTS Plan-Add One Trainer – The executive budget adds \$153,000 general fund in the 2007 biennium for 1.0 FTE Trainer Position at the Fire Service Training School. The position would be designed to train fire fighters in a variety of skilled areas to become better prepared to respond to the growing variety of emergency incidents. The executive budget intends that this proposal will be matched by \$38,259 from funding sources identified by the Board of Regents.

LFD COMMENT For discussion of this Shared Leadership project initiative see the LFD Comment and LFD Issue under the Program Highlights section above. For discussion of the non-state match requirement of the Shared Leadership DP’s, see the LFD Issue under sub-program 01.

Sub-Program Details

MISCELLANEOUS SYSTEM TRANSFERS -SP 24

Sub-Program Proposed Budget

The following table summarizes the executive budget proposal for this subprogram by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
Operating Expenses	43,983	0	0	43,983	0	0	43,983	87,966
Transfers	954,366	60,000	0	1,014,366	60,000	0	1,014,366	2,028,732
Total Costs	\$998,349	\$60,000	\$0	\$1,058,349	\$60,000	\$0	\$1,058,349	\$2,116,698
General Fund	798,349	0	0	798,349	0	0	798,349	1,596,698
State/Other Special	200,000	60,000	0	260,000	60,000	0	260,000	520,000
Total Funds	\$998,349	\$60,000	\$0	\$1,058,349	\$60,000	\$0	\$1,058,349	\$2,116,698

Sub-Program Description

The budget contained in this sub-program includes the family practice residency program administered at MSU-Bozeman, the motorcycle safety training program located at MSU-Northern in Havre, the Biobased Institute at the AES, the dental hygiene program at Great Falls COT, and the university system marketing initiative.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary 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.

	-----Fiscal 2006-----					-----Fiscal 2007-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 98 - Motorcycle Safety Training Adjust to Rev. Est.	0.00	0	60,000	0	60,000	0.00	0	60,000	0	60,000
Total Other Present Law Adjustments	0.00	\$0	\$60,000	\$0	\$60,000	0.00	\$0	\$60,000	\$0	\$60,000
Grand Total All Present Law Adjustments					\$60,000					\$60,000

DP 98 - Motorcycle Safety Training Adjust to Rev. Estimate - The executive budget adds \$120,000 state special revenue in the 2007 biennium to fund the motorcycle safety-training program at the actual base year revenue level. This program is located at MSU Northern in Havre.

Language Recommendations

Statement on Tuition

The executive budget recommends language in HB 2 that acknowledges the sole authority of the Board of Regents to set university tuition and that the legislature has no appropriations authority over tuition:

“The legislature acknowledges that tuition rates are determined by the Board of Regents and that tuition revenue is considered private revenue and therefore not subject to legislative appropriation.”

LFD ISSUE

The Montana Constitution at Article X, Section 9 gives governance authority over the university system to the Board of Regents. Such authority includes setting tuition rates.

The proposed executive language does not impact constitutional authority or change any duties or obligations of either the board or the legislature. The language is repetitive to current authority and not legally binding, which ultimately renders it meaningless.

The legislature may wish to exclude the language from HB 2.

Investment Earnings Revenue

The executive budget recommends language in HB 2 that establishes investment earnings revenue projections for the university units and colleges of technology for each year of the biennium:

“Revenue anticipated to be received by the Montana university system units and colleges of technology includes: (1) interest earnings of \$791,274 each year of the 2007 biennium; and (2) other revenue of \$1,301,198 each year of the 2007 biennium. These amounts are appropriated for current unrestricted operating expenses as a biennial lump-sum appropriation and are in addition to the funds shown in the appropriation distribution.”

General Fund Appropriation Subject to Reversion

The executive budget recommends language in HB 2 that establishes the per student funding allocation based upon enrollment projections and conditions that general fund allocations will be subject to reversion if the funded enrollment levels are not met by the university educational units:

“The general fund and millage appropriation in the appropriation distribution item is calculated to fund education in the 4-year units and the colleges of technology for an estimated 26,918 resident student FTE students in fiscal 2006 and 27,188 resident students in fiscal 2007. If actual resident student enrollment is greater than the estimated number for the biennium, the university system shall serve the additional students without a state general fund contribution. If actual resident enrollment is less the estimated number for the biennium, the commissioner of higher education shall revert \$1,888 in general fund money to the state for each estimated FTE student who did not enroll.”

Restriction on Shared Leadership Match Funding Appropriations

The executive budget recommends language in HB 2 that restricts Shared Leadership appropriations to require that matching funds be collected before general fund is spent:

“The general fund money in DP 78 [Appropriation Distribution (09) (Governor’s Initiative)] is appropriated with the condition that the item is matched with \$5,000,000 from funds identified by the board of regents. The office of the commissioner of higher education must certify to the office of budget and program planning that the matching sources have been identified and committed to supporting equipment for 2-year programs.”

“The general fund money in DP 60 [Appropriation Distribution (09) (Governor’s Initiative)] is appropriated with the condition that the item is matched with \$400,000 from funds identified by the board of regents. The office of the commissioner of higher education must certify to the office of budget and program planning that the matching sources have been identified and committed to supporting a more responsive workforce training system.”

“The general fund money in item DP 61 [Appropriation Distribution (09) (Governor’s Initiative)] is appropriated with the condition that the item is matched with \$200,000 from funds identified by the board of regents. The office of the commissioner of higher education must certify to the office of budget and program planning that the matching sources have been identified and committed to supporting the Montana Tech economic development resource center.”

“The general fund money in item DP 63 [Appropriation Distribution (09) (Governor’s Initiative)] is appropriated with the condition that the item is matched with \$250,000 from funds identified by the board of regents. The office of the commissioner of higher education must certify to the office of budget and program planning that the matching sources have been identified and committed for the purpose of increasing the supply of health care workers.”

“The general fund money in item DP 51 [Appropriation Distribution (09) (Governor’s Initiative)] is appropriated with the condition that the item is matched with \$250,000 from funds identified by the board of regents. The office of the commissioner of higher education must certify to the office of budget and program planning that the matching sources have been identified and committed for the purpose of supporting a distance learning program.”

“The general fund money in item DP 67 [Appropriation Distribution (09) (Governor’s Initiative)] is appropriated with the condition that the item is matched with \$159,967 from funds identified by the board of regents. The office of the commissioner of higher education must certify to the office of budget and program planning that the matching sources have been identified and committed for the purpose of supporting an integrated weed management and biotechnology program.”

“The general fund money in item DP 8 [Appropriation Distribution (09) (Governor’s Initiative)] is appropriated with the condition that the item is matched with \$16,400 from funds identified by the board of regents. The office of the commissioner of higher education must certify to the office of budget and program planning that the matching sources have been identified and committed for the purpose of supporting a cropping specialist position.”

“The general fund money in item DP 16 [Appropriation Distribution (09) (Governor’s Initiative)] is appropriated with the condition that the item is matched with \$32,800 from funds identified by the board of regents. The office of the commissioner of higher education must certify to the office of budget and program planning that the matching sources have been identified and committed for the purpose of supporting a livestock specialist position.”

“The general fund money in item DP 68 [Appropriation Distribution (09) (Governor’s Initiative)] is appropriated with the condition that the item is matched with \$36,720 from funds identified by the board of regents. The office of the commissioner of higher education must certify to the office of budget and program planning that the matching sources have been identified and committed for the purpose of supporting a technical assistance to small oil and gas operators program.”

“The general fund money in item DP 69 [Appropriation Distribution (09) (Governor’s Initiative)] is appropriated with the condition that the item is matched with \$36,720 from funds identified by the board of regents. The office of the commissioner of higher education must certify to the office of budget and program planning that the matching sources have been identified and committed for the purpose of supporting a coal and coal bed-methane technology program.”

“The general fund money in item DP 66 [Appropriation Distribution (09) (Governor’s Initiative)] is appropriated with the condition that the item is matched with \$38,259 from funds identified by the board of regents. The office of the commissioner of higher education must certify to the office of budget and program planning that the matching sources have been identified and committed for the purpose of supporting one additional fire services trainer.”

Audit Costs for the University Educational Units

The executive budget recommends language in HB 2 that projects audit costs for the educational units:

“Total audit costs are estimated to be \$544,376 for the university system, other than the office of the commissioner of higher education. Each unit shall pay a percentage of these costs from funds other than those appropriated the item [Appropriation Distribution (09)].”

Revenue Projections for Research/Public Service Agencies

The executive budget recommends language in HB 2 that includes revenue projections for various revenue sources for the research/public service agencies:

“Revenue anticipated to be received by the agricultural experiment station includes:

- (1) interest earnings and other revenue of \$60,308 each year of the 2007 biennium;
- (2) federal revenue of \$1,824,304 in fiscal year 2006 and \$1,817,448 in fiscal year 2007; and
- (3) sales revenue of \$1,195,180 in fiscal year 2006 and \$1,195,180 in fiscal year 2007.”

“Revenue anticipated to be received by the extension service includes:

- (1) interest earnings of \$5,034 year of the 2007 biennium; and
- (2) federal revenue of \$2,400,000 in fiscal year 2006 and \$2,400,000 in fiscal year 2007.”

“Anticipated interest revenue of \$1,070 in each year of the 2007 biennium is appropriated to the forestry and conservation experiment station for current unrestricted operating expenses. This amount is in addition to that shown in the line item appropriation.”

“Anticipated sales revenue of \$29,157 each year of the 2007 biennium is appropriated to the bureau of mines and geology for current unrestricted operating expenses. This amount is in addition to that shown in the line item appropriation.”

“Anticipated interest revenue of \$732 each year of the 2007 biennium is appropriated to the fire services training school for current unrestricted operating expenses. This amount is in addition to that shown in the line item appropriation.”

Miscellaneous Language Recommendations

The executive budget recommends language in HB 2 to require a transfer to the energy conservation program account:

“The appropriation distribution item includes \$817,960 for the 2007 biennium 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 biennium are: university of Montana-Missoula, \$126,400 in fiscal year 2006 and \$88,800 in fiscal year 2007; Montana tech of the university of Montana, \$28,000; Montana state university-northern, \$101,000 in fiscal year 2006 and \$67,000 in fiscal year 2007; Montana state university-Bozeman \$58,000; Montana state university-Billings, \$133,500 in fiscal year FY 2006 and 105,500 in fiscal year 2007; and western Montana college of the university of Montana, \$12,410 in fiscal year 2006 and \$11,350 in fiscal year 2007.”

The executive budget recommends language in HB 2 to allocate funds for the Montana natural resource information system:

“The Montana University System shall pay \$88,506 for the 2007 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.”

Program Proposed Budget

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

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Grants	0	96,500	0	96,500	0	0	0	96,500
Total Costs	\$0	\$96,500	\$0	\$96,500	\$0	\$0	\$0	\$96,500
General Fund	0	96,500	0	96,500	0	0	0	96,500
Total Funds	\$0	\$96,500	\$0	\$96,500	\$0	\$0	\$0	\$96,500

Program Description

The Tribal College Assistance Program provides funding to support a portion of the costs of educating resident non-beneficiary Montana students (non-tribal members) attending the seven tribal community colleges on the Reservations in Montana. Section 20-25-428, MCA, requires the Board of Regents to provide assistance to tribal colleges if the legislature specifically appropriates the funds, up to a maximum of \$1,500 per year for each resident non-beneficiary student FTE. The statute does not establish a minimum appropriation level.

Program Highlights

Tribal College Assistance Program Major Budget Highlights
<ul style="list-style-type: none"> • The executive budget funds tribal college assistance in the 2007 biennium at the same level authorized in the previous biennium • No base year appropriations appear because all funds were expended in FY 2005

Program Narrative

- Tribal community colleges, which are under federal jurisdiction to provide a higher education for tribal members, receive no federal funding assistance to support education costs for non-beneficiary students
- Tribal community colleges are not required to offer admission to Montana resident non-beneficiary students
- Since FY 1996, the Office of the Commissioner of Higher Education indicates that tribal community college enrollment in Montana has averaged 311 resident non-beneficiary FTE students per year
- Under 20-25-428, MCA, the legislature has funded tribal college assistance at:
 - \$1.4 million appropriation in the 1997 biennium
 - No appropriation in the 1999 biennium
 - \$0.8 million appropriation in the 2001 biennium
 - \$0.0965 million appropriation in the 2003 biennium
 - \$0.0965 million appropriation in the 2005 biennium
- The seven accredited tribal community colleges in Montana, as federal government and reservation institutions, are not subject to governance or control by either the Board of Regents or the legislature

Funding

The following table shows program funding, by source, of the base year and for the 2007 biennium as recommended by the Governor. Funding is entirely from general fund.

Program Funding Table				
Tribal College Assistanc				
Program Funding	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01000 General Fund	\$ 96,500	100.0%	-	-
Grand Total	96,500	100.0%	-	-

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative 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 2006					Fiscal 2007				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 28 - Reestab. Non-beneficiary Student Base Approp.	0.00	96,500	0	0	96,500	0.00	0	0	0	0
Total Other Present Law Adjustments	0.00	\$96,500	\$0	\$0	\$96,500	0.00	\$0	\$0	\$0	\$0
Grand Total All Present Law Adjustments					\$96,500					\$0

DP 28 - Reestab. Non-beneficiary Student Base Approp. - The executive budget reestablishes the 2005 biennium base appropriation for state support for resident non-beneficiary students at tribal community colleges. The \$96,500 biennial appropriation was expended in fiscal 2005 and therefore not included in the 2007 biennium expenditure base (FY 2004).

LFD COMMENT

Resident non-beneficiary students are those who are Montana residents but are not enrolled members of a federally recognized Indian tribe. Since the Tribal College Assistance Program was created by the legislature in FY 1996, there has been an average of 311 resident non-beneficiary FTE students per year attending tribal community colleges in Montana.

Assuming this average continues into the 2007 biennium, funding at the present law adjustment level of \$96,500 for the 2007 biennium provides a total of \$155 of state support per non-beneficiary FTE student per year. Since the inception of the tribal college assistance program (20-25-428, MCA) the legislature has funded resident non-beneficiary student FTE at tribal community colleges at the following annual amounts:

- FY 1996 at \$1,371
- FY 1997 at \$1,369
- FY 1998 at \$0
- FY 1999 at \$0
- FY 2000 at \$1,457
- FY 2001 at \$1,298
- FY 2002 at \$167
- FY 2003 at \$167
- FY 2004 at \$128
- FY 2005 at \$128

To fund this program at the statutory maximum (\$1,500 per FTE student per year) would require an additional appropriation of \$836,500 in the 2007 biennium, based upon the historical average of 311 student FTE per year.

Program Proposed Budget

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

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	49.20	0.00	9.00	58.20	0.00	9.00	58.20	58.20
Personal Services	1,931,167	(78,012)	354,350	2,207,505	(77,021)	353,518	2,207,664	4,415,169
Operating Expenses	3,113,126	51,642	500,000	3,664,768	61,934	500,000	3,675,060	7,339,828
Equipment	0	0	0	0	0	0	0	0
Benefits & Claims	19,921,785	8,936,000	0	28,857,785	11,170,000	0	31,091,785	59,949,570
Transfers	72,550	0	0	72,550	0	0	72,550	145,100
Total Costs	\$25,038,628	\$8,909,630	\$854,350	\$34,802,608	\$11,154,913	\$853,518	\$37,047,059	\$71,849,667
Federal Special	25,038,628	8,909,630	854,350	34,802,608	11,154,913	853,518	37,047,059	71,849,667
Total Funds	\$25,038,628	\$8,909,630	\$854,350	\$34,802,608	\$11,154,913	\$853,518	\$37,047,059	\$71,849,667

Program Description

The Montana Guaranteed Student Loan Program (GSL) operates under federal regulation with federal funds to guarantee student loans that are made by private lenders to Montana higher education students. GSL purchases and services student loans that are in default, works with students to prevent default, collects the outstanding balance from the defaulted loans for repayment to the US Department of Education, and provides training and technical assistance to schools and lenders. The Montana Guaranteed Student Loan program is authorized under Title 20, Chapter 26, MCA.

Program Highlights

Guaranteed Student Loan Program Major Budget Highlights
<ul style="list-style-type: none"> • The executive budget increases federal funding authority in the GSL by \$20 million in the 2007 biennium as follows: <ul style="list-style-type: none"> • \$18 million to purchase defaulted student loans from private lenders • \$2.1 million to repay the US Department of Education the federal share of funds collected from defaulted student loans • The executive budget adds 9.00 new FTE and expands default reduction programs, funded with \$1.7 million of additional federal revenue.

Program Narrative

Starting in 1979, the Montana Board of Regents accepted responsibility to serve as the “guarantor” of the funds private lenders would loan to Montana students under the federal student loan program. Without a government entity serving as guarantor, there would be little incentive for private lenders to make student loans to young people who typically have a high-risk profile (based upon age, income status, length of employment, and their intention to be full-time students). Therefore, the Board of Regents created the GSL and agreed that they would purchase defaulted student loans from private lenders and take responsibility for collecting on these loans.

Funding

The following table shows program funding, by source, of the base year and for the 2007 biennium as recommended by the Governor. Funding is from a combination of federal and private revenues from the loan services provided. There is no state funding, as the loan programs require no state match.

Program Funding Table						
Guaranteed Student Loan						
	Base	% of Base	Budget	% of Budget	Budget	% of Budget
Program Funding	FY 2004	FY 2004	FY 2006	FY 2006	FY 2007	FY 2007
03000 Federal Spec. Rev. Funds	\$ 25,038,628	100.0%	\$ 34,802,608	100.0%	\$ 37,047,059	100.0%
Grand Total	\$ 25,038,628	100.0%	\$ 34,802,608	100.0%	\$ 37,047,059	100.0%

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative 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 2006-----					-----Fiscal 2007-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					(797)					238
Vacancy Savings					(77,215)					(77,259)
Inflation/Deflation					(665)					(408)
Fixed Costs					52,307					62,342
Total Statewide Present Law Adjustments					(\$26,370)					(\$15,087)
DP 9 - GSL Increased Claim Payments	0.00	0	0	8,000,000	8,000,000	0.00	0	0	10,000,000	10,000,000
DP 10 - GSL Collection Recoveries	0.00	0	0	936,000	936,000	0.00	0	0	1,170,000	1,170,000
Total Other Present Law Adjustments	0.00	\$0	\$0	\$8,936,000	\$8,936,000	0.00	\$0	\$0	\$11,170,000	\$11,170,000
Grand Total All Present Law Adjustments					\$8,909,630					\$11,154,913

DP 9 - GSL Increased Claim Payments - The executive budget proposes an additional \$18 million in federal authority in the 2007 biennium to fund claim payments that are made to private lenders as the GSL purchases defaulted student loans in their capacity as student loan guarantor and default loan collector.

DP 10 - GSL Collection Recoveries - The executive budget proposes an additional \$2.1 million in federal authority in the 2007 biennium to fund the anticipated increase in claim payments that are required by law to be paid to the US Department of Education as their share of the default loan collection recoveries received by the GSL from defaulted student loans.

LFD COMMENT

In 1994 Montana State University opted out of the federal student loan program administered by the Montana Guaranteed Student Loan Program (GSL), choosing an alternate federal program that did not use GSL as the guarantor. For the 10 years 1994-2003, therefore, the GSL portfolio of defaulted student loans did not include those students attending Montana State University.

Starting in 2004, Montana State University has returned to the federal student loan program that is administered and guaranteed by the GSL. Therefore, the default loan volume that the GSL is managing has increased and their potential market of defaulted loans has increased going forward.

LFD COMMENT CONT. These two decision packages represent the fiscal preparations for the two components of the program that GSL believes are necessary in anticipation of this increased student loan default volume. DP 9 increases program authority to spend the federal funds to purchase the default loans from private lenders at the default rate and loan balance that is projected in the 2007 biennium. DP 10 increases program authority to expend federal funds from the collections that are made from student loans in default, to reimburse the US Department of Education their share of these loan funds.

Therefore, these present law adjustment decision packages are based upon the program projections of the increased federal authority that will be needed to manage a higher loan volume, primarily a result of the return of Montana State University to the federal loan program that GSL administers and guarantees.

New Proposals

Program	FTE	Fiscal 2006				Fiscal 2007				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 11 - GSL Default Reduction and Outreach										
12	0.00	0	0	500,000	500,000	0.00	0	0	500,000	500,000
DP 12 - Add 9 FTE to GSL										
12	9.00	0	0	354,350	354,350	9.00	0	0	353,518	353,518
Total	9.00	\$0	\$0	\$854,350	\$854,350	9.00	\$0	\$0	\$853,518	\$853,518

DP 11 - GSL Default Reduction and Outreach - The executive budget proposes a \$1 million increase of federal authority for the Montana Guaranteed Student Loan Program (GSL) to conduct targeted outreach and default reduction program activities.

LFD COMMENT The US Department of Education has established funding to support the development and implementation of outreach and default reduction strategies by student loan guaranty agencies. GSL has developed programs that target low income and other at-risk students, including scholarship opportunities. This decision package is intended to expand these programs through the use of these additional federal funds.

DP 12 - Add 9 FTE to GSL - The executive budget proposes the addition of 9.00 FTE to the GSL at a cost of \$0.7 million of federal funding in the 2007 biennium.

LFD COMMENT In anticipation of the increase in default loan volume resulting primarily from the return of the Montana State University student loan program, the executive budget adds the following 9.00 FTE to the Montana Guaranteed Student Loan Program (GSL):

- Information Technology Specialist – 2.00 FTE
- Default Prevention Counselor – 2.00 FTE
- Outreach Coordinator – 2.00 FTE
- Events Coordinator – 1.00 FTE
- Communication Specialist – 1.00 FTE
- Collections Technician – 1.00 FTE

In addition to default loan collections, GSL stages events and provides outreach and financial counseling to students and graduates to help prevent loan default and to assist with personal budgeting skills training so that repayment schedules may be met

Program Proposed Budget

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

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Personal Services	7,200	0	0	7,200	0	0	7,200	14,400
Operating Expenses	27,285	10,000	0	37,285	10,000	0	37,285	74,570
Total Costs	\$34,485	\$10,000	\$0	\$44,485	\$10,000	\$0	\$44,485	\$88,970
General Fund	34,485	10,000	0	44,485	10,000	0	44,485	88,970
Total Funds	\$34,485	\$10,000	\$0	\$44,485	\$10,000	\$0	\$44,485	\$88,970

Program Description

The Board of Regents administration program provides secretarial support, travel (mileage, lodging, and food) and per diem to maintain board operations. Under Article X, Section 9, Montana Constitution, and 20-25-301, MCA, the Board of Regents has full power, responsibility, and authority to supervise, coordinate, manage, and control the Montana University System.

Program Highlights

Board of Regents Major Budget Highlights
<ul style="list-style-type: none"> The executive budget increases general fund by \$20,000 in the 2007 biennium to restore the budget to the FY 2004 authorized level.

Funding

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended by the Governor. Funding is entirely from general fund.

Program Funding Table Board Of Regents-Admin						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01000 General Fund	\$ 34,485	100.0%	\$ 44,485	100.0%	\$ 44,485	100.0%
Grand Total	\$ 34,485	100.0%	\$ 44,485	100.0%	\$ 44,485	100.0%

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative 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 2006-----					-----Fiscal 2007-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					(7,200)					(7,200)
Total Statewide Present Law Adjustments					(\$7,200)					(\$7,200)
DP 14 - Restore Regents Budget to FY04 authorized levels	0.00	10,000	0	0	10,000	0.00	10,000	0	0	10,000
DP 15 - Restore Base - Per Diem	0.00	7,200	0	0	7,200	0.00	7,200	0	0	7,200
Total Other Present Law Adjustments	0.00	\$17,200	\$0	\$0	\$17,200	0.00	\$17,200	\$0	\$0	\$17,200
Grand Total All Present Law Adjustments					\$10,000					\$10,000

DP 14 - Restore Regents Budget to FY04 authorized levels - The executive budget increases general fund authority \$20,000 in the 2007 biennium to restore funding to the FY 2004 authorized level. Due to board reorganization, the Board of Regents did not spend the full FY 2004 authorization. Since the board has now changed its committee and meeting structure, meeting more days each meeting month, the executive budget restores the full FY 2004 budget authorization.

LFD COMMENT

At the September 2004 Board of Regents meeting, members approved a new committee structure and amended the bylaws with the intention of appointing members and launching regular committee meetings in November 2004. Up to that point, most board committees had not been meeting. Under the reorganized committee structure, the board plans to meet bi-monthly for three days.

This executive budget general fund authorization for the 2007 biennium maintains the five-year historical average expenditure level in this program.

DP 15 - Restore Base - Per Diem - The executive budget restores the \$50 per diem paid to Regents to serve on the board, adjusting this expenditure to the actual FY 2004 base year level.

LFD ISSUE

Board per diem is zero based so that this adjustment is required each biennium to restore authority for this expenditure.