



MONTANA LEGISLATIVE BRANCH

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Legislative Fiscal Analyst
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DATE: March 10, 2006

TO: Legislative Finance Committee (LFC)

FROM: Alan Peura, Associate Fiscal Analyst

RE: Community College Funding Formula Study: The Cost of Education Factor Deliverables and Process for June LFC Meeting

At the LFC meeting on March 9, 2006, the committee heard the above report about the community college funding study, which included three options for LFC consideration:

OPTION ONE

Make no changes to the formula... no decision/motion required

OPTION TWO

Rebase the COE factor by using a new model ... either ...

- Adopt the existing Commissioner of Higher Ed Form (CHE 201) which determines the annual actual "cost of education" at each college → use this figure as the base COE factor

... or ...

- Adopt the National Association of College and University Business Officers (NACUBO) formula to determine the base COE factor, using an identified actual fiscal year base (e.g. FY 2006)
 - In selecting this option, decide whether to exclude federal funds (current practice) or include federal funds, which would require small change to the funding statute

With a rebased COE factor, recommend an adjustment indicator model ... either ...

- Do nothing and allow the biennial budget adjustment to the COE factor to be determined by the executive in the recommended budget and reviewed by the legislature

... or ...

- Rebase the COE factor every biennial budget using the rebase model adopted above

... or ...

- Recommend one of the following standard inflationary adjustment indices (see table on page 9 for reference)
 - Consumer Price Index (CPI) for the U.S. cities average
 - Montana Personal Income Growth Rate (PI)

- Montana Personal Income Per Capital Growth rate (PerCap PI)
- Montana Wage & Salary Growth rate (Wage&Salary)

OPTION THREE

Select one of the rebase and adjustment models above **AND** create a fixed vs. variable costs calculation so that the formula looks like (statute change required):

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

e.g. [(100 Students x \$40 Variable Cost Per Student) + \$6,000 Fixed Cost] x 53% State Share = \$5,300 General Fund Budget)

The committee determined that they did not have sufficient data at this time to make a decision about whether to select Option Two or Option Three, though they did agree to eliminate consideration of Option One. A decision has been deferred to the meeting on June 8 & 9, 2006.

Thus, the goal of Options Two and Three are to design an alternate model to determine the Cost of Education (COE) Factor which is then applied to the State Percent Share Factor in order to set the level of state funding for the community colleges. Under Options Two and Three, there is no change to the State Percent Share Factor, as that will remain solely a matter of public policy for the legislature to determine that percentage and state that in HB2. All that is at issue is which model to select for determining the COE Factor.

In order to be prepared to make the decisions in considering Options Two and Three, the LFC would request that staff provide the following data in advance of the June meeting:

- an illustration for each college that defines the actual percentage that is being funded in the current biennium under the existing formula (it is not 53% of the actual costs)
- an illustration for each college that demonstrates the COE using the CHE 201 form
- an illustration for each college that demonstrates the COE using the NACUBO formula
 - with all funds
 - without federal funds
 - without capital funds
 - without federal and capital funds
- for each of the above (CHE201 and NACUBO) an illustration that demonstrates what the state percent share would need to be in order to fund the community colleges at the same level as under the existing formula (what percent is needed for the COE model to be revenue neutral)
- a formula proposal to determine the fixed vs. variable costs at each college
- a list of potential bill drafts/statute changes that would be required under either models

This data should be compiled by continuing to work with the original work group, with the community colleges, and under the oversight of Senators Laible and Williams. In addition, if the Senators believe it would be helpful to the process, data and information may be forwarded to LFC members in advance of the normal mail out date.