



Joint Committee On Postsecondary Education Policy and Budget

59TH Montana Legislature

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SENATE MEMBERS

BOB STORY, VICE CHAIRMAN
BOB HAWKS
JEFF MANGAN

HOUSE MEMBERS

KATHLEEN GALVIN-HALCRO, CHAIRMAN
ELSIE ARNTZEN
ROBIN HAMILTON
MARK NOENNIG

APPOINTED MEMBERS

MICHAEL FOSTER
MARK SEMMENS

MINUTES
PEPB/BOR Subcommittee Meeting
Thursday, February 23, 2006
Capitol Building
Hearing Room 102
Helena, MT
8:30 a.m.

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed. Committee tapes are on file in the offices of the Legislative Fiscal Division.

Exhibits for this meeting are available upon request. Legislative Council policy requires a charge of 15 cents a page for copies of the document

Attending:

Representative Kathleen Galvin-Halcro, PEPB Chairman
Senator Robert Story, PEPB Vice-Chairman
Representative Elsie Arntzen
Representative Robin Hamilton
Representative Mark Noennig
Regent Mike Foster
Regent Mark Semmens
Eddy McClure, Esq., Legislative Services Division
Alan Peura, Legislative Fiscal Division
Cassie Rice-Wetzel, Secretary

Senator Jeff Mangan was absent.

Also present:

Jan Lombardi, Office of the Governor
Sheila Stearns, Commissioner of Higher Education
Regent John Mercer, Chair, Board of Regents
Regent Lynn Morrison-Hamilton
Regent Heather O'Loughlin, Student Regent

Visitor's List
Attachment #1

Call to Order (Tape 1 A-001)

The meeting of the Joint Committee on Postsecondary Education and Budget (PEPB) was called to order by **Senator Robert Story, Vice-Chairman** on Thursday, February 23, 2006 at 8:30 a.m. in Room 102 of the State Capitol Building. The secretary noted the roll (Attachment #2).

Review and Approve Meeting Minutes (Tape 1A-003)

MOTION: Regent Semmens moved that the minutes of the December 1, 2005 meeting be approved as submitted. **VOTE:** Motion carried unanimously. (Attachment #3)

Welcome and Discussion with Montana Board of Regents (Tape 1A-022)

Senator Story, Vice-Chair welcomed the Board of Regents (BOR) to the PEPB subcommittee meeting.

Regent Mercer, BOR thanked the committee for inviting the BOR to the subcommittee meeting. He asked if he could make some comments at the end of the agenda about the direction of the committee and the relationship between the legislative branch and higher education, if time permitted.

Commissioner Stearns, Office of the Commission of Higher Education (OCHE) noted that regents Lila Taylor and Stephen Barrett, were not able to attend.

Representative Galvin-Halcro, Chair asked Mr. Peura to go over the Shared Policy Goals and Accountability Measures for the Montana University System, 2007 Biennium (Exhibit #1).

Alan Peura, Legislative Fiscal Division reviewed the document (Exhibit #1) and stated that the document has been signed by the subcommittee and the BOR biennially, and suggested that since the Board of Regents were present, that they take the opportunity to sign the document.

Senator Hawks requested clarification regarding whether the Shared Policy Goals and Accountability Measures is to be a three party agreement between the PEPB, the BOR, and the universities. He asked if the university goals were addressed in the document.

Associate Commissioner David Gibson, OCHE explained that the document is used as the outline for the university's strategic plan. He said that the university system is currently working on their strategic initiatives and the campuses are working on individual goals that may roll up to the system level.

Regent Semmens said that the BOR has formally considered and approved the Shared Policy Goals and Accountability Measures and agreed to enter into the agreement, which is used by the campuses as a basis for the budget process and initiatives that will further some of their goals and objectives.

Senator Story commented that one of the goals in the document is about the affordability issue of university education and that some initiatives have come out of the BOR about reducing tuition. He asked if Chairman Mercer would speak on that issue.

Regent Mercer, BOR said that starting dialogue in regard to state support for higher education is very important, as there is not a good understanding of the relationship between state support and how it impacts tuition in Montana. He said that the best way to address tuition is to give elected officials the opportunity to reduce tuition through budget initiatives, and by giving them a clear choice to reduce tuition by setting and providing a budget that will provide a quality education. Chairman Mercer signed the Shared Policy Goals and Accountability Measures for the Montana University System, 2007 Biennium because the BOR wants to be accountable to everybody. He really appreciated the work of the committee because it has done a great deal for accountability and laying out some very specific things that they can accomplish together.

The Regents and PEPB members discussed the specifics of the Shared Policy Goals, including access, affordability, as well as two-year education, and both parties signed the document.

Commissioner Stearns informed the PEPB subcommittee that the statewide group from the Shared Leadership initiatives on access and affordability is still meeting to discuss ways to make sure that more of Montana's citizens are able to go to college, improving Montana's economic development. The recommendations of the working group are now making their way into initiatives that this committee will view later on in the meeting. The working group is looking at tuition, room and board, and books. She said that there is an item in their upcoming board meeting about how colleges and campus bookstores can help to keep the cost of books down. The group's ongoing work is very important in addressing access and affordability issues.

Senator Hawks clarified that his earlier question was actually a concern about moving the document (Exhibit #1) forward without having the individual units of the university system as a full partner.

Commissioner Stearns said that they try to bring all initiatives, which eventually may become decision packages, and narrow them down in a way that the legislature can deal with them. Later in the meeting, Associate Commissioner Mick Robinson, OCHE will talk about the system wide initiative ideas from the individual units.

Following more discussion of the Shared Policy Goals, **Representative Galvin-Halcro, Chair** confirmed the signing of the Shared Policy Goals and Accountability Measures for the Montana University System. It was signed by John Mercer, Chairman of Montana Board of Regents; Shiela Stearns, Commissioner of Higher Education; Representative Kathleen Galvin-Halcro, Chairman of PEPB Subcommittee; and Senator Robert Story, Vice Chairman of the PEPB Subcommittee.

House Bill 2 – How Decision Packages/Formulas Drive Budget (Tape 1 A, 708)

Alan Peura, LFD referred to the report titled Postsecondary Education Budget and Policy Committee: The Mechanics of House Bill 2 (HB 2) (Exhibit #2). The presentation outcome goal is that PEPB members understand how to achieve and implement potential legislative options related to Project #1 (Budgeting through the use of Policy Goals/Accountability Measures as budget driver) and Project #2 (Funding Formula Changes).

Tape 1 B, 001

Mr. Peura presented the Postsecondary Education Budget and Policy Committee: The Mechanics of House Bill 2 report.

Commissioner Sterns clarified that the Decision Packages (DP's) in the report came through the executive budget directly from this committee. She said that the work of the PEPB subcommittee does have an effect on the decisions of the legislature.

Representative Noennig asked if the enforceability of the contingency funding, because of the distribution of functions between the Legislative Branch and the BOR, is constitutional to do through HB 2.

Alan Peura, LFD replied that it would be constitutional. For example, if the legislature appropriated a certain amount of money and a goal was set for year one of a biennium and the goal was accomplished, then in year two, the program could receive additional funding. He said that building shared policy goals into new proposals allows the legislature to communicate its policy goals to the Montana University System (MUS).

Regent Morrison-Hamilton asked for an explanation of the formula that drives the marginal cost per student.

Alan Peura, LFD explained the marginal cost per student formula is intended to fund the additional costs that each new FTE student creates at the university units. The formula assumes that each new FTE does not drive the fixed costs up (e.g. utilities, building costs, etc.), but only drives up some of the variable costs (e.g. materials, some personal services, etc.). So the formula funds that "margin" of the costs that each new FTE actually drives upward.

Regent Morrison-Hamilton asked if the marginal cost per student is part of the component of the downward spiral Mr. Peura had previously described.

Alan Peura, LFD said that yes, the marginal cost, just like the state percent share formula, is on a downward slope due to the mathematics of the formula. He referred to the Historical Funding – Educational Units Only spreadsheet (Exhibit #3), which was distributed in the December meeting, saying that the history of the state percent share starts at 74.6 percent in 1988 and today in FY 2007, it's 37.8 percent. Mr. Peura explained that the mathematical formula is not a constitutional requirement or a statute and that it can become a matter of public policy for the legislature.

Regent Semmens said one of the most important items in Mr. Peura's presentation was footnote 1 on page 5 (Exhibit #2). He said that the practical application of the formula being used is a big part of the problem because the current service level cost is not the same amount as the present law amount and that causes the percentage of state support to go down each year.

After extensive discussion, PEPB members accepted the Mr. Peura's report and **Rep. Galvin-Halcro, Chair**, introduced the next item on the agenda, **MUS Budget Initiatives (Driven by Shared Policy Goals)**, to be presented by Commissioner Stearns.

Tape 2 A, 001

Commissioner Stearns said she would like advice from the subcommittee about the initiatives in her packet titled Montana University System Initiatives (Exhibit #4). Commissioner Stearns explained that each initiative falls under one or more of the three main strategic goals: Access (primarily affordability), Economic Development for the state, and Efficiency and Effectiveness. She briefly went over the 2009 Biennium New and Continuing Initiative for Montana University System – MSU Campuses (Exhibit #5).

Mick Robinson, Associate Commissioner for Finance and Administration, OCHE presented each of the initiatives in detail.

Commissioner Stearns added that even though the initiatives are listed in priority order, they have not been voted on by the BOR and remain suggestions to the Board. She also said that the healthcare worker shortage is a key issue in Montana for economic development, access, and affordability. It is listed as the number one priority at four MSU campuses (Exhibit #5) and is mentioned in the Proposed Budget Initiatives for the University of Montana campuses (Exhibit #6).

Representative Arntzen asked for an in depth explanation of the accreditation status of Montana's post-secondary institutions being jeopardized under the Transferability and Integrated Student Data System initiative (Exhibit #4, Page 2).

Commissioner Stearns explained that without faculty involvement, the accreditation status of Montana's post-secondary institutions could be jeopardized. She suggested giving the faculty some time to work together, whether virtually or by traveling, and a portion of the funding to go towards that.

Representative Hawks asked if there would be any consideration of mandatory service or financial obligation for people who accept the benefits of the WWAMI program?

Dave Gibson, OCHE said that it has been looked at but if large paybacks are created, it would turn WWAMI into a medical school of last resort. States that have implemented large paybacks have instantly struggled to get applicants because students do not want to make a decision that is seven to eight years away.

Jan Lombardi, Office of the Governor recommended that the BOR consider only up to 20 slots in WWAMI and explore what would be the best use of the money. She commented that the Governor's Office has not had an internal conversation nor is there an official position on the energy center initiative.

Commissioner Stearns said that she understood that the energy center initiative was being brought to the BOR meeting by request of the Governor's Office. She asked if she was mistaken.

Jan Lombardi responded that she thought that Commissioner Stearns was mistaken.

Senator Story asked who was managing Indian Education for All.

Commissioner Stearns said that OPI received funding to develop curriculum and do other things for K-12. There was a subcommittee of the Appropriations Committee that focused on these same things for higher education. The subcommittee encouraged the MUS to do the same thing even though no funds were allocated to the MUS.

Senator Story expressed concern that millions of dollars may be spent on programs that are not well thought out.

Representative Galvin-Halcro, Chair asked if there is a unit that offers a Native American studies degree.

Commissioner Stearns said that both Montana State University and the University of Montana have degrees and some of the others have at least a minor or courses towards a minor in Native American studies.

Jan Lombardi said that the Governor brought tribal council members, the state superintendent, and both the Commissioner and the Executive Secretary of the Board of Public Education together to talk about Indian Education for All and to ensure that there is coordination and dialogue amongst all of the individuals working on Indian Education for All.

Alan Peura, LFD asked the subcommittee what projects he should specifically focus on between now and the next meeting.

Tape 2 B, 001

Regent Semmens said he believes focusing on the affordability issue is most important.

Senator Hawks agreed with Regent Semmens and added that the legislature needs to be better educated on this issue.

Regent Morrison-Hamilton also agreed that affordability is a very big issue and said that transferability and student data is also very important. In order to move forward, quality data needs to be provided to the legislators and the public about what is being done to make education more affordable for students.

Chairman Mercer, Board of Regents suggested approaching the affordability issue as a cooperative group by creating a subcommittee of the PEPB subcommittee to work with the BOR in creating shared ideas and then bring them back to the next PEPB subcommittee meeting in June.

Senator Story asked if the Governor's Scholarship Program is funded through present law or if it needed a new appropriation.

Mark Bruno, Office of the Governor said that it is handled as a present law adjustment.

Representative Noennig commented that he thought it would be a good idea to create a working group between the legislators of the PEPB subcommittee and the Board of Regents with Alan Peura to work on the initiatives.

Regent Foster said he liked the idea of a working group because they could meet through a conference call and provide recommendations to the PEPB subcommittee and the Board of Regents at the same time.

Representative Galvin-Halcro, Chair asked who on the subcommittee would be willing to be a part of the working group.

Regent Foster volunteered for the working group meeting and/or conference call.

Representative Arntzen volunteered to be a part of the conference call only.

Senator Hawks and Representative Hamilton volunteered to attend the BOR meeting and the working group meeting and/or conference call.

Regent Semmens volunteered to join the conference call.

Representative Galvin-Halcro, Chair asked Mr. Peura to set the date for the conference call and ask Senator Hawks to present the information from the conference call to the full subcommittee in June. She then introduced the next agenda item.

Report on Alternate State Funding Models/Formula *(Tape 2B-325)*

Alan Peura, LFD presented the Alternative State Funding Models for Higher Education (Exhibit #7) and passed out a NCSL state survey of incentive funding worksheet that compared state funding models to show what other states were doing (Exhibit #8). Mr. Peura said a decision about the action options in this report do not need to be made at this meeting but he requested direction for the June 2006 meeting.

Tape 3B, 001

After extensive discussion, the PEPB members accepted the report, but requested LFD staff to expand upon the report with additional data at the June meeting. PEPB members also invited the executive budget office to present a budget update at the June meeting.

Mark Bruno, Office of the Governor said that he would be willing to come to the meeting and share what he knows, even though the official budget will not be started until July.

Representative Galvin-Halcro, Chair said that possibly in June that bill draft information and a funding study for 2007-2008 interim could be moved. The Chair then introduced the next item on the agenda.

Status Report on Shared Leadership Initiatives *(Tape 3B, 243)*

Dave Gibson, OCHE distributed and presented an update report on Shared Leadership for a Stronger Montana Economy (Exhibit #9).

Representative Galvin-Halcro, Chair, then introduced the next item on the agenda.

University System Trust Lands Administration *(Tape 3B, 256)*

Commissioner Stearns reviewed some of the background on the university system trust lands issue, and stated that a legislative subcommittee of the Environmental Quality Council (EQC) is looking at this and has begun to make some progress with a probable bill draft relating to how they would replace the assessment from university trust fund income with the statutory appropriation to the Trust Lands Division and Department of Resource and Conservation (DNRC).

Krista Lee Evans, Legislative Services Division presented the subcommittee with a handout and report titled Environmental Quality Council – Study Subcommittee Interim Study (Exhibit #10). She said that the primary area that has been looked at is the Morrill Act Trust, which is the land grant for Montana State University. The unresolved issues of the Morrill Act are with the past administrative costs that have been paid by the trust revenue and the administrative costs borne by other trusts. The other university trusts have issues with their administrative costs also. The MUS proposed handling the other university trusts in the same way the Morrill Act is. Ms. Evans said that there is potentially a huge liability for the state because Mr. Greg Petesch, the legislators' chief legal council, has said that he believes it's unconstitutional for administrative costs to be taken off the top. The total for the last five years only is \$38 million.

Representative Noennig asked what the estimated total liability would be should Mr. Petesch be proven correct.

Regent Mercer said that the BOR have been encouraged to file a law suit against the state in order to resolve it but they do not want to and are pleased with how people are trying to work the problem out.

Krista Lee Evens, LSD said that the numbers have not been added up yet, but for Common Schools alone, which is by far the biggest, it would be \$72,459,000.

Representative Noennig asked if the total would be about twice that amount plus interest.

Krista Lee Evens, LFD said that the total would probably be around that amount.

Representative Story said that the state would not be liable. If the MUS didn't get the money needed from the trust, it would come out of the state's general fund.

Representative Noennig asked if he meant that if the revenue generated from the trust is used for an improper purpose it can be fixed by taking money from somewhere else to cover it, and how that addresses the historical misappropriation.

Representative Story said that no one knows what the legislature would have done in the past.

Regent Semmens asked what the magnitude of the historical fees for the Morrill Trust are.

Krista Lee Evans, LFD said from 1967 until now, the total would be \$1,100,798, which includes compound interest.

After discussion, the PEPB accepted the report and **Representative Galvin-Halcro, Chair**, opened up the meeting for public comment.

Public Comment (*Tape 3B, 623*)

Erik Burke, MEA-MFT said that the conversation addressing the funding formula's downward trend is appreciated and he encourages further action the issue. He thinks that setting a goal of 50

percent is achievable and would stop the downward trend. Mr. Burke said that funding part of the new proposals, like the new pay plan, would keep tuition from being raised. He also mentioned that the state's pay plan for the university system is something that is decided by the BOR and the legislators. It is something that he thinks needs to be addressed, not just the state share of the pay plan but what is an appropriate pay plan for the university system and how much are faculty and staff going to be compensated.

Adjournment (*Tape 3B, 683*)

The meeting was adjourned at 1:55 p.m.

Approved by the Postsecondary Education Policy and Budget Subcommittee on

(Date)

Representative Kathleen Galvin-Halcro, Chairman

