MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

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Director
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DATE: March 16, 2022

TO: Education Interim Budget Committee

FROM: Katie Guenther, Fiscal Analyst

RE: Community College Funding Formula

COMMUNITY COLLEGE FUNDING FORMULA

The 2021 Legislature passed HB 67, which redesigned the community college funding formula (20-15-310, MCA). The new funding formula will be implemented for the 2025 biennium. The following graphic shows the community college funding formula. There are primarily two components to the funding formula: the prior biennia appropriation plus inflation and funding additional FTE by area of study.
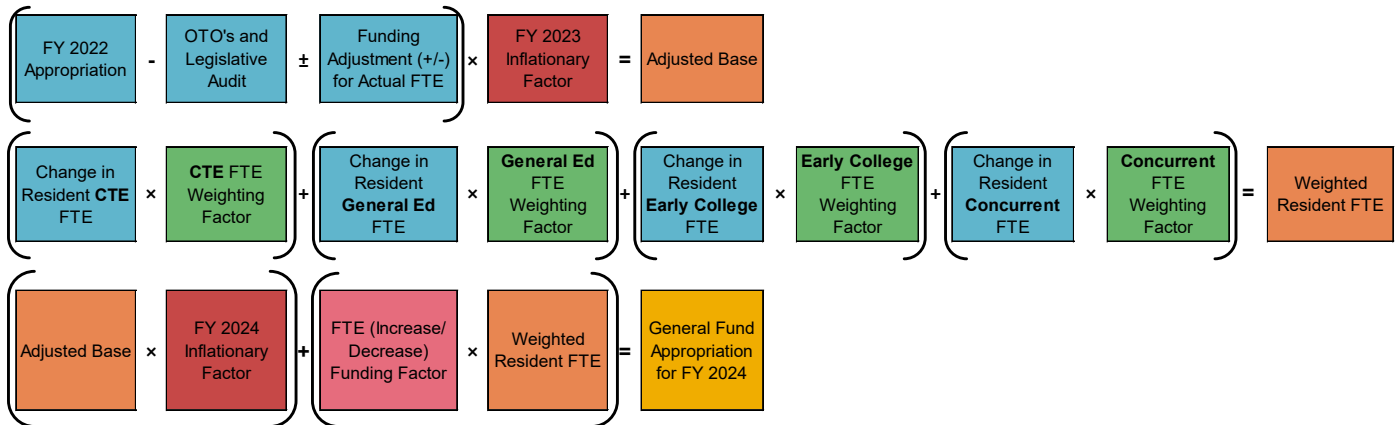
The figure above shows the community college funding formula and uses the development of the FY 2024 general fund appropriations as an example. This formula starts with the FY 2022 state appropriation for each community college and:

- Subtracts one-time-only appropriations (except FY 2022)
- Subtracts legislative audit appropriations
- Adds or subtracts funding for actual FTE in each area of study. This adjustment increases or decreases funding based on what the FY 2022 appropriation would have been if it used actual FTE to determine the state appropriation

The sum of the FY 2022 state appropriation and these adjustments is then multiplied by an inflation factor included in state statute (20-9-326, MCA). The inflation factor is calculated using the consumer price index, which cannot exceed 3.0% in each year, and is subject to final determination by the legislature. In this example, the inflationary factor at this step is for FY 2023. This calculation results in the adjusted base.

The second component of this formula includes weighting FTE in certain areas of study. The community colleges will project resident FTE in four areas, as defined in statute: career and technical education (CTE), general education, early college, and concurrent enrollment. The legislature, as a matter of public policy, can apply a weight to any area of study. The sum of this calculation provides the weighted resident FTE.

These two components are brought together for one final calculation to provide the FY 2024 general fund appropriation. The adjusted base is multiplied by the FY 2024 inflationary factor and the weighted resident FTE are multiplied by an increasing or decreasing funding factor. The FTE funding factor is established by the legislature.

In addition to the formula to establish the general fund appropriation, there is a statutorily appropriated state special revenue account. At the end of each fiscal year, there is a reconciliation of the appropriation distributed using projected weighted FTE and actual weighted FTE. The Office of the Commissioner of Higher Education will determine the fiscal impacts that would have resulted had the actual weighted FTE been used to determine the appropriation and determine any overpayment or underpayment to each community college for the fiscal year. Any overpayment is deposited into the state special revenue account. Any underpayment will be distributed from the state special revenue account to the applicable community college.

COMMUNITY COLLEGE FUNDING FORMULA EXAMPLE

This section provides an example of the community college funding formula. There are four steps to the formula. The first three steps occur during the development of the budget for the upcoming biennium and the fourth step occurs at the end of each fiscal year. In this example assumptions are used for the inflationary factors, the FTE weighting factors (CTE at 1.50), and the FTE increase funding factor ($6,000). The legislature has the final determination of the inflationary factor and will establish the FTE weighting factors and the FTE increase/decrease funding factors during the legislative session.

Budget Development

The first step of developing the budget begins with the appropriations in the most recently completed fiscal year. In this example, the appropriations total $3.0 million. Adjustments are made for one-time-only appropriations, legislative audit costs, the current year inflationary factor, and actual FTE ($31,440). The total of this calculation is the adjusted base, which is then multiplied by the inflationary factor (2.0%) for the first year of the biennium that is being budgeted.

Step 1:	
Base Appropriation	$3,000,000
Adjustments	$31,440
Adjusted Base	$3,031,440
Inflation Factor	2.00%
Step 1 Total	$3,092,069

Step 2:					
Resident FTE	Projected Increase	Weighting Factor	Weighted Resident FTE	Increasing FTE Funding Factor	Funding Adjustment for Weighted FTE
CTE	5.00	1.50	7.50		
General Education	3.00	1.00	3.00		
Early College	2.00	1.00	2.00		
Concurrent	0.00	1.00	0.00		
	10.00		12.50	$6,000	$75,000

The second step of this calculation provides funding for additional resident FTE. Projections are made for resident FTE in the areas of CTE, general education, early college, and concurrent enrollment and are projected to increase by 10.00. In this example, the only area of study that has a weighting factor applied is CTE at 1.50.

The weighting factor of 1.50 is multiplied by the projected increase resulting in the weighted FTE totaling 12.50. By adding a weighting factor of 1.50 to CTE FTE, the increasing FTE funding factor of $6,000 is applied to 12.50 FTE rather than 10.00 FTE. The community college receives an adjustment of $75,000 for the increase in FTE.

Step 3:	
Add Step 1 and Step 2 together	
Step 1 Total	$3,092,069
Step 2 Total	75,000
State Funding	$3,167,069

The third step simply adds the results from the first step and the second step together to determine the total general fund appropriation for the fiscal year. In this example, additional funding from the two steps results in an increase of funding of approximately $167,000 for the fiscal year.

Fiscal Year-End

At the end of each fiscal year, the Office of the Commissioner of Higher Education will calculate the amount of funding the community college would have received had actual resident FTE been used in the formula. Underestimating resident FTE will result in additional funding for the community college and overestimating resident FTE will result in a reversion of funding.

The fourth step, in the chart below, shows two scenarios. The underestimation of resident FTE by 3.00 results in the community college receiving an additional $27,000. The overestimation of resident FTE by 3.00 results in a reversion of $27,000.

Step 4:				
Scenario: Underestimated Resident FTE		**Scenario: Overestimated Resident FTE**	
Actual CTE Students	8.00	Actual CTE Students	2.00
Projected CTE Student	5.00	Projected CTE Student	5.00
Difference	3.00	Difference	(3.00)
Weighted Factor	1.50	Weighted Factor	1.50
Funding Factor	$6,000	Funding Factor	$6,000
Additional Funding	$27,000	Reversion	($27,000)
Total State Funding Received	$3,194,069	Total State Funding Received	$3,140,069

CONCLUSION

There are two areas that the legislature determines as a matter of public policy: (1) the FTE weighting factors (2) the FTE decrease/increase funding factor. The Office of the Commissioner of Higher Education has requested the Education Interim Budget Committee's input on the factors to use in the formula since the budget will be in the early stages of development over the next few months and submitted to the Office of Budget and Program Planning on September 1, 2022. OCHE will present their recommendations on the FTE weighting factors and the FTE decrease/increase funding factors. If needed, Legislative Fiscal Division staff can work with the Office of the Commissioner of Higher Education to provide additional information on adopting specific factors at the Education Interim Budget Committee meeting on June 15, 2022.