



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

Room 110 Capitol Building * P.O. Box 201711 * Helena, MT 59620-1711 * (406) 444-2986 * FAX (406) 444-3036

Director
AMY CARLSON

DATE: December 8, 2015

TO: Legislative Finance Committee

FROM: Micaela Kurth, Fiscal Analyst I
Legislative Fiscal Division

RE: Community College Funding Formula Study Scope

The community colleges of the Montana University System (Dawson, Miles City, and Flathead Valley) are funded based on determinations outlined in Section [20-15-310, MCA](#). The community college presidents have requested review of the funding guidelines in the aforementioned statute in regards to the pay plan and the budget base year by the Legislative Fiscal Division. The request and statute are attached.

Historically

From 1981 to 2007 the community college funding formula consisted of three factors: an average cost of education (COE) per student, projected student enrollment, and state percent share as determined by the legislature. The COE would then be adjusted each biennium and subsequently applied against the two remaining factors. The formula was reformed in the 2007 Legislative Session, removing the adjustable COE factor and incorporating fixed and variable components instead. The revised formula also indicated that the budget base year must reflect actual expenditures, and be rebased each biennium. The funding formula was reformed again in the 2013 Legislative Session, the outcome of which was primarily the need to exclude state appropriation for expenditures that are already funded via various levies at each campus.

Options For LFC Consideration

- 1) Formal report to the Interim LFC: Evaluate Application of Funding Formula (September 2016 meeting).

Work with Office of the Commissioner of Higher Education (OCHE) and the Office of Budget and Program Planning (OBPP) to evaluate the community college funding formula history and application of:

- o How the pay plan has been historically treated in the formula
 - o Trends relative to the COE of the colleges of technology and other Montana campuses and to the extent possible comparisons to other states' community college costs
- 2) Formal report to the Interim LFC: Option 1 + Evaluate Effects of Base Budget Changes (September 2016 meeting).

In addition to Option 1; work with OBPP to evaluate how the budget base year change in the 2015 Legislative Session impacts the community college funding formula related to the:

- o Current application to the 2019 biennium budget
- o Possible recommended changes of statute so that the formula calculations would be independent of the base budget selected by the Legislative and Executive Branches

- 3) No formal report to Interim LFC: Evaluate Options 1 & 2 during Budget Analyses (Budget Analysis).

As opposed to a stand-alone presentation, address the items from Options 1 & 2 above as part of the Section E Budget Analysis for the 2017 Legislative Session. This would provide an in-depth review of funding guidelines, impacts of these guidelines related to the effect of pay plan in the budget base year, and provide options for legislative consideration.

MEMO

TO: Amy Carlson, Legislative Fiscal Analyst and Director
Legislative Fiscal Division

FROM: President J. Vince Nix, Dawson Community College
President Jane A. Karas, Flathead Valley Community College
President Stacy Klippenstein, Miles Community College

Date: November 16, 2015

CC: Commissioner Clayton Christian, Office of the Commissioner of Higher Education

During a review of the community college funding formula by the Montana's three community colleges – Dawson, Miles and Flathead Valley, a concern arose regarding how the annualization of the pay plan was affecting the community college funding formula. The formula is based off of base year expenditures, which in the last session was FY 14 expenditures. By basing the formula calculations off of the first year of the biennium, the second year of the pay plan is not reflected in the expenditure base used in the formula for determining appropriations going forward. Because the increased costs due to the second year of the pay plan are not recognized, the colleges felt the expenditure level used in the formula did not accurately reflect the costs that would be associated with the next biennium.

A meeting was set up with Amy Carlson and her staff to discuss this concern on November 2, 2015. Upon discussing this concern a question came up regarding the determination of what the definition of the base year should be going forward. As noted, during the last Legislative session, the work of the Appropriations Committee resulted in changing the base year from the first year of the biennium to the second year of the biennium. Based upon this discussion, the community colleges are requesting a review be performed by the LFD to determine if the second year of the biennium should now be used as the expenditure base for the formula calculations for the FY17-18 biennium. By using the second year of the biennium (which would be the "budgeted amounts) the colleges feel this would present a more accurate picture of the expenditures to be used for determining appropriations going forward.

Montana Code Annotated 2015

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20-15-310. Appropriation -- definitions. (1) It is the intent of the legislature that all community college spending, other than from restricted funds, designated funds, or funds generated by an optional, voted levy, be governed by the provisions of this part and the state general appropriations act.

(2) (a) The state general fund appropriation must be determined as follows:

(i) multiply the variable cost of education per student by the full-time equivalent student count and add the budget amount for the fixed cost of education; and

(ii) multiply the total in subsection (2)(a)(i) by the state share.

(b) The variable cost of education per student, the budget amount for fixed costs, and the state share must be determined by the legislature. The state share, expressed as a percentage, and the variable cost of education per student must be specified in the appropriations act appropriating funds to the community colleges for each biennium.

(3) The student count may not include those enrolled in community service courses as defined by the board of regents.

(4) As used in this section, the following definitions apply:

(a) "Adjusted cost of education" means the cost of education minus any reversion calculated under [17-7-142](#), expenditures from one-time-only legislative appropriations, and expenditures funded by local mill levies provided for in [2-9-212](#) and [20-9-501](#) in excess of the 2012 mill levy levels.

(b) "Cost of education" means the actual costs incurred by the community colleges during the budget base fiscal year, as reported on the current unrestricted operating fund schedule that is statutorily required to be submitted to the board of regents.

(c) "Fixed cost of education" means that portion of the adjusted cost of education, as determined by the legislature, that is not influenced by increases or decreases in student enrollment.

(d) "Variable cost of education per student" means that portion of the adjusted cost of education, as determined by the legislature, that is subject to change as a result of increases or decreases in student enrollment, divided by the actual student enrollment during the budget base fiscal year.

History: En. Sec. 2, Ch. 495, L. 1981; amd. Sec. 1, Ch. 494, L. 1989; amd. Sec. 1, Ch. 493, L. 2007; amd. Sec. 1, Ch. 3, L. 2013.