



# Joint Subcommittee On Postsecondary Education Policy and Budget

## 60<sup>TH</sup> Montana Legislature

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

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## COMMUNITY COLLEGE FUNDING FORMULA – A REVIEW

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### INTRODUCTION

The purpose of this report is to provide a brief review of the new community college funding formula used by the legislature to establish the state appropriation for the community colleges and the budget policies used to craft the formula.

The 2005 Legislature inserted language into HB 2 (the general appropriations act) requesting that a community college funding study be conducted during the 2007 biennium interim with the goal of proposing a revision to the formula in use at that time that would recalibrate the cost of education factor. The integrity of the cost of education factor was of particular interest to the legislature as the factor had not been “rebased” for nearly 25 years; instead the factor had been adjusted each biennium using a variety of techniques and assumptions.

That interim study was completed with the oversight of the Legislative Finance Committee (LFC), which expressed a goal of transparency and simplicity for a revised formula. The LFC unanimously recommended a new funding formula for the community colleges at the conclusion of the 2007 biennium interim and requested legislation be drafted to implement statutory changes. That legislation, SB 12, passed the 2007 Legislature.

### RESULT OF COMMUNITY COLLEGE FUNDING STUDY

In June 2006, the LFC recommended:

- That the community college funding formula should be revised starting with a process that would rebase the Cost of Education (COE) factor of the formula in order that it more accurately reflect the actual cost of education. The COE should be calculated based upon actual figures averaged across the community colleges for FY 2006, which would then serve as the base year for the 2009 biennium budget
- That the model to rebase the COE should start with cost of education data from the Commissioner of Higher Education (CHE) form 201, which each college is required to complete, as per statute, in establishing annual operating budgets. CHE 201 includes a separate accounting schedule for the current

unrestricted operating funds, segregating these funds from others, including restricted, auxiliary, and capital funds

- That the calculation to rebase the COE should be made each biennium, using the CHE 201, thus eliminating the need to make a special adjustment calculation of the base COE factor, which was done in the past.
- That this new CHE 201 model should also include a calculation that establishes both a fixed cost of education component and a variable cost of education component, which, together, would comprise the new COE factor
- Therefore, to make this new formula operational, it is recommended that the funding study working group be charged to work with the community colleges to establish a transparent and logical formula in order to define which expenditures in their budgets are fixed and which are variable

Toward this end, “that the working group...work with the community colleges to establish a transparent and logical formula to define which expenditures in their budgets are fixed and which are variable,” on July 11, 2006 the working group for the Community College Funding Study met at Flathead Valley Community College in Kalispell with the financial officers of the three community colleges. At that meeting, a fixed vs. variable calculation was devised, agreed upon by all parties, and recommended for use in the new funding formula.

## **NEW FUNDING FORMULA TO DETERMINE STATE APPROPRIATION**

New Funding Formula Stated Mathematically (recommended by LFC at June 2006 meeting):

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

- Projected Student Enrollment = the aggregated FTE count that the three colleges project for each year of the proposed biennial budget
- Variable Cost of Education per Student = the total variable costs for the base year divided by the actual FTE student enrollment for the base year (both derived from base-year CHE 201 form)
- Fixed Cost of Education = the total fixed costs for the base year (derived from base-year CHE 201 form)
- State Percent Share = the percent of the CHE 201 derived fixed + variable costs calculation that the legislature decides, as a matter of public policy, to support with a state appropriation

Note: The fixed and variable cost figures for the 2009 biennium budget used the actual figures from the FY2006 base year CHE 201 form. Going forward, that base year FY2006 ratio of fixed/variable costs (75% fixed/25% variable) will be carried forward and applied to the CHE 201 total cost of education from each subsequent budget base year in order to calculate the variable cost and fixed cost figures in the above equation for those subsequent budgets.

This calculated fixed/variable cost ratio will be used in subsequent biennia, and the working group recommended reviewing and updating this fixed/variable calculation every third biennium budget (6 years).

## 2009 BIENNIUM STATE APPROPRIATION FOR COMMUNITY COLLEGES

Figure 1 illustrates the 2009 biennium state appropriation for the community colleges which was determined largely by the new formula.

**Figure 1**

Community College Assistance Program - HB 2 General Fund Appropriation									
2009 Biennium Budget Total Using Senate Bill No. 12 Formula									
Includes a Fixed/Variable Cost Calculation at a 75/25 Ratio									
Budget Item Factors	Fiscal Year 2008				Fiscal Year 2009				Total Biennial Approp.
	Dawson	Flathead Valley	Miles	Total	Dawson	Flathead Valley	Miles	Total	
Projected Resident Student FTE	445	1,475	491	2,411	445	1,475	491	2,411	
Fixed Cost of Education	\$2,226,476	\$7,135,977	\$3,280,161	\$12,642,614	\$2,226,476	\$7,135,977	\$3,280,161	\$12,642,614	
Variable Cost of Education per FTE	\$1,815	\$1,815	\$1,815	\$1,815	\$1,815	\$1,815	\$1,815	\$1,815	
State % Share of Cost of Education	48.5%	48.5%	48.5%	48.5%	49.3%	49.3%	49.3%	49.3%	
Calculated Total Funding Budget	<u>\$1,471,600</u>	<u>\$4,759,476</u>	<u>\$2,023,133</u>	<u>\$8,254,210</u>	<u>\$1,495,874</u>	<u>\$4,837,983</u>	<u>\$2,056,505</u>	<u>\$8,390,361</u>	<b>\$16,644,571</b>
DP 4004 - Legislative Audit **	\$8,972	\$10,913	\$8,051	\$27,936					<b>\$27,936</b>
DP 4010 - Prog. Dev./Capital (OTO)	\$ 150,000	\$ 150,000	\$ 150,000	\$ 450,000	\$150,000	\$150,000	\$150,000	\$450,000	<b>\$900,000</b>
HB 13 Pay Plan Allocation	<u>\$ 80,779</u>	<u>\$ 258,373</u>	<u>\$ 88,795</u>	<u>\$ 427,947</u>	<u>\$248,188</u>	<u>\$522,115</u>	<u>\$259,704</u>	<u>\$1,030,007</u>	<b>\$1,457,954</b>
Total General Fund Budget	<u>\$1,711,351</u>	<u>\$5,178,762</u>	<u>\$2,269,979</u>	<u>\$9,160,093</u>	<u>\$1,894,062</u>	<u>\$5,510,098</u>	<u>\$2,466,209</u>	<u>\$9,870,368</u>	<b>\$19,030,461</b>

\*\* Biennial appropriation

As shown in Figure 1, the total calculated funding budget for the community colleges in the 2009 biennium is \$16.6 million. The legislature also approved an additional \$2.39 million general fund in the 2009 biennium for other, non-formula adjustments, including:

- Audit costs – The legislature approved a restricted/biennial general fund appropriation for legislative audit costs, funding these expenditures at the 48.5 percent state share level approved in HB 2
- Program Development/Capital – The legislature approved \$450,000 per year in one-time-only general fund for community colleges (to be evenly distributed) for new program development or capital investments. This appropriation is outside of the funding formula
- Pay Plan – This is the community colleges’ funding allocation for employee salary and health benefit increases. This is based upon a state percent share of 95 percent of the total cost of the pay plan to the colleges. The 95 percent share is based upon the ratio of resident students as the portion of total student enrollment. This state percent share formula for the pay plan represents a significant policy change as historically the pay plan state percent share has been the same as that used in the HB 2 budget, so that the 95 percent level represents almost double the typical state funding level for pay plan.

Submitted by:

Pamela Joehler  
Senior Fiscal Analyst  
Legislative Fiscal Division