

Montana University System

Educational Units

FY04 Funding Issues/Decisions

Current Funding Status – State Support

As the legislative session nears the transmittal break it is important that a number of issues be discussed and decisions made that will impact the campus recommendations regarding tuition recommendations.

Although the final legislative appropriation to the Montana University System may change during the second half of the legislative session, as of February 28, 2003 the budget status of the educational units is as follows:

HB 002 General Fund	\$100,288,842
Six Mil Levy Revenue	\$ 12,235,000
<u>HB013 General Fund (Pay Plan)</u>	<u>\$ 856,220</u>
Total State Support	\$113,380,062

This funding level compares to the original FY03 appropriation of \$124,382,361 and the FY03 appropriation after special session of \$113,890,804.

Strategic Initiative Funding/COE Model Updates

The current allocation model allocates available state support to the campuses based upon the number of resident students and the target cost for that institution derived based upon a number of factors including mix of disciplines, level of instruction, comparable faculty salaries, size of institution, etc. If the board chooses to fund strategic initiatives, these funding decisions must be made prior to allocation. During FY03, strategic funding initiatives included public relations work (\$80,000), distance learning grants (\$200,000), and the rural residency program at MSU-Bozeman (\$341,200). In addition, specific legislative appropriations were provided in FY03 for the dental hygiene program at the GFCOT (\$119,683) and for Yellow Bay and UM (\$100,000). HB002 for FY04 currently does not contain specific appropriations for dental hygiene or Yellow Bay as they are part of the “lump”. As a result, continuing funding for these programs is a board decision.

Attachment A is a tentative allocation model on what would be considered a “status quo” basis. Some factors were updated including the faculty salary comparators for each of the units, new student faculty ratios based on current data, and new authorized WUE levels which reflect balance in the program. Normal adjustments were also made to support programs, plant, waivers, and athletics. As part of this “status quo” allocation, it was assumed current strategic initiative funding would continue with the exception of the public relations expenditures that were a one-time. Slight reductions to

the strategic initiatives were made from the FY03 level to reflect special session reductions. The tentative strategic initiatives funding included in the “status quo” model were as follows:

MSU Rural Residency	\$319,366
Yellow Bay	\$ 98,250
Dental Hygiene	\$119,684
Distance Learning	\$187,299

It should be remembered that the \$119,683 for the dental hygiene program at the GFCOT is only funding for the first year students of this program. A separate bill has been introduced to fund the second year students in this program. If this separate appropriation bill is not passed, the board may need to decide if the program should be continued, if the GFCOT will have to absorb the second year costs, or if a special adjustment is made to the allocation model to additional strategic funds to fund all or a portion of the cost associated with the second year students.

Do the regents wish to continue these strategic initiatives as listed above?

Options include:

- 1. Funding as listed above.*
- 2. Increase funding.*
- 3. Decrease funding based upon the reductions from the executive budget.*
- 4. Eliminate funding for any or all initiatives.*

Do the regents wish to fund addition strategic funding initiatives beyond those listed above? If so, at what level? Some of the initiative that have been discussed include:

- 1. Deferred Maintenance/Space Needs.*
- 2. Investments in Technology Infrastructure.*
- 3. Workforce Training*
- 4. Back fill MTAP-Baker Grant reductions (\$229,179)*
- 5. Backfill OCHE Administration reduction (\$80,927)*

COE Model – Consideration of Design Changes

The regents, OCHE, and the campuses have identified a number of design changes to the allocation model that either address fairness or further objectives of the regents and the MUS. If any of these design changes are to be incorporated in the model for FY04, they must be developed before the end of the legislative session. The design changes identified include the treatment of mandatory waivers in the model, continuation or expansion of tuition differential for the two-year and smaller four-year campuses, use of growth funding, and consideration of tuition revenue when making allocation decisions. Each of these design changes is discussed below:

Mandatory Waivers

Mandatory waivers are those that are required to be granted by regent's policy and include Indian Students, Veterans, Community College Honor, High School Honor, and National Merit scholars. The number of waivers granted varies significantly based upon the demographics of the student body. For instance, 2.6% of the total enrollment at MSU-Bozeman receives a mandatory waiver while 17.9% of the total enrollment at MSU-Northern receives a mandatory waiver. While mandatory waivers are funded under the model, they are funded at a discounted rate. If an institution is not granting a waiver to a student they receive the full tuition. If an institution is granting a waiver to that same student they receive a discounted rate through the allocation model of approximately 55% of the value of the tuition waiver. This seems to penalize campuses that are required to grant a higher than average level of waivers.

Do the regents wish to change the model to address this concern?

One option would be to fund mandatory waiver at 100% in the model similar to research, public service and athletics. Because the total funding available for allocation does not change when the model is adjusted, any increases in funding at one unit requires dollar for dollar reductions at other units. Below is a comparison of funding by campus under the "status quo" model if mandatory waivers are funded at 100%.

	UM Missoula	UM Butte	UM Dillon	COT Helena	MSU Bozeman	MSU Billings	MSU Havre	COT Great Falls
Status Quo Allocation	36,134,179	12,486,055	4,262,762	2,279,101	37,488,477	13,908,002	6,638,859	3,003,257
Mandatory Waivers - 100%	36,208,014	12,384,670	4,247,786	2,266,443	37,220,745	13,977,605	6,881,072	3,018,252
Difference	73,835	(101,384)	(14,976)	(12,658)	(267,732)	69,603	242,213	14,995
% Change	0.2%	-0.8%	-0.4%	-0.6%	-0.7%	0.5%	3.6%	0.5%

Tuition Differential

Over the last four years the regents have adopted tuition differential plans for the colleges of technology and for lower division students at UM-Western and MSU-Northern. While tuition was generally increasing at 4% in FY00, 4% in FY01, 13% in FY02, and 13% in FY03, the colleges of technology and lower division students at UM-W and MSU-N had corresponding tuition increases of 0 %, 0 %, 5 %, and 5 %. This policy has mitigated 24% tuition increases while holding these campuses harmless through an increased allocation of state support. The "status quo" allocation in appendix A maintains this current spread but does not provide any further tuition relief for these units. In addition, the regents and the tuition task force have discussed expanding this concept to include the smaller four-year units.

During the FY04 fiscal year, do the regents wish to further expand the existing tuition differential at the colleges of technology and the lower division students at UM-W and MSU-N? If so, at what level?

During the FY04 fiscal year, do the regents wish to expand the tuition differential to the smaller four-year campuses? If so, which campuses and at what level?

Research/Public Service/Athletics

The allocation model currently funds these activities based upon their previously approved level of funding with adjustments for inflation. These activities are also funded prior to applying the discounted rate of funding. The resulting effect is that as state funding decreases these activities take a larger portion of available state funds increasing the discount to other programs.

Do the regents wish to change how these activities are funded?

Options include:

- 1. Apply a proportionate reduction to these activities that reflects the overall decrease in available state funding.*
- 2. Fund some or all of these activities after the available funding is discounted. This has the impact of requiring students on campuses that have state funded research and public service to participate in the funding of these activities.*

Enrollment Growth Funding

The executive budget includes no funding for resident enrollment growth for FY04 or FY05 even though our resident enrollments continue to increase. The budgeted level in FY02 was 25,004 FTE and it is expected to increase to 26,866 FTE in FY04 and 27,458 FTE in FY05. If this enrollment growth were funded in the model, it would further reduce the funding and increase the discount for units that are not experiencing significant enrollment growth. If this enrollment growth is not funded, units with increasing resident enrollments will be required to educate those additional students on the marginal tuition received. The "status quo" allocation follows the legislative funding and does not fund additional enrollments above the FY03 budgeted levels.

Do the regents wish to discontinue funding for enrollment growth for FY04?

Consideration of Tuition Revenue When Allocating General Fund/Millage

The allocation model currently in use was developed in 1994 and was intended to implement the financial structure envisioned through restructuring. State funding was only provided for resident students and campuses were accountable for enrollment management and meeting enrollment targets. The original concept was that from a financial perspective it would make no difference to a campus if a student was a resident or a nonresident. A nonresident would pay 100% of their cost of education and the combination of state funding and resident tuition would also cover 100% of the cost of education. As a result, tuition was not considered when making allocation decisions. In reality, this concept never materialized. Because enrollments have grown and state funding has not, this concept has never materialized. As the units have had to backfill funding shortfalls with tuition, these tuition increases have been applied on a percentage basis for both residents and nonresidents. This has resulted in nonresident tuition covering more than the average cost of education and state support and resident

tuition covering less than the average cost. For instance, at MSU-Bozeman a nonresident pays tuition of approximately \$10,451 towards the cost of education while a resident (state support plus tuition) pays approximately \$7,149 towards the cost of education. The units that attract a large number of nonresident students can supplement their budgets with this additional nonresident funding while a unit with limited ability to recruit nonresidents cannot.

The impact of this trend can be shown in a number of ways. The table below shows the total current unrestricted revenue for FY04 by campus for both a 0% tuition increase and a 10% tuition increase applied to all students. Although the tuition increase is same 10% for all campuses, the current unrestricted budgets for the various campuses are increasing by a range of 3.8 % to 6.0 %. When general fund is level or declining and we continue to raise tuition by a percentage amount (with the exception of the surcharge), the campuses with large nonresident populations see their budgets increase at a significantly higher rate on both a dollar and percentage basis.

	UM Missoula	UM Butte	UM Dillon	COT Helena	MSU Bozeman	MSU Billings	MSU Havre	COT Great Falls
Revenue @ 0% tuition increase	95,179,544	16,205,839	7,306,596	3,901,880	89,169,505	27,247,494	11,030,831	5,837,343
Revenue @ 10% tuition increase	100,900,367	16,904,163	7,595,948	4,054,490	94,135,107	28,515,135	11,446,421	6,091,134
% Change in Revenue	6.0%	4.3%	4.0%	3.9%	5.6%	4.7%	3.8%	4.3%

To demonstrate the cumulative fiscal impact of this trend the following table shows the target cost per student for each campus (established through the allocation model). The second line shows the percentage of the target cost that is provided for resident students through the allocation model (GF and millage) and the third row shows the percentage of the target cost that is funded for all students with all current unrestricted funds including tuition. As you can see, while the percentage funded for resident students is constant the overall percentage for all students/all funding combined varies from 64.8 % to 85.7 %. This is significantly a reflection of two factors. First, the overall cost of the campus programs relative to the campus tuition rates but second and more significantly, the campuses ability to maintain a healthy base of nonresident students and collect significantly more in revenue that would be available for resident students that are enrolled.

	UM Missoula	UM Butte	UM Dillon	COT Helena	MSU Bozeman	MSU Billings	MSU Havre	COT Great Falls
Target Cost (TC) of Education	9,758	12,711	9,333	6,745	10,273	8,823	10,498	7,510
Resident State Support % of TC	40.8%	40.8%	40.8%	40.8%	40.8%	40.8%	40.8%	40.8%
All Students/All Revenue % of TC	85.7%	64.8%	79.0%	75.1%	85.5%	79.2%	71.5%	70.4%

Do the regents wish to modify the COE allocation model to consider tuition revenue available when making general fund and millage allocations?

Options include:

- 1. Direct OCHE to modify the allocation model to equalize all funding available as a percentage of the target cost for each institution. Pennsylvania currently operates under this model. While this might lend itself to equalizing the funding for each campus, it also has short-term and long-term ramifications. Equalizing all funds in this manner would significantly reduce a campuses incentive to recruit nonresident students and to maximize their individual revenue. Such a change will significantly change allocations and will result in significant disruption late in the budget cycle.*
- 2. Direct OCHE to modify the allocation model to take into consideration a portion of nonresident tuition revenue when making general fund and millage allocations. Examples might be to only consider that revenue over 100% of average cost or consider only that revenue up to the 100% of average cost level with the excess remaining as an incentive to recruit nonresidents.*
- 3. As a result of budget reductions in FY03 and in planning for FY04, UM-Missoula has developed transfer plans to assist their smaller campuses deal with funding issues related to the smaller campuses inability to raise significant revenue through tuition. The regents could direct each university to develop plans mitigating the impact of budget reductions on the smaller campuses and report on those plans at the May regents meeting.*
- 4. Continue under current practice.*