



MONTANA UNIVERSITY SYSTEM
Office of the Commissioner of Higher Education

2500 Broadway ♦ PO Box 203101 ♦ Helena, Montana 59620-3101 ♦ (406)444-6570 ♦ FAX (406)444-1469

ITEM 128-113-R0905

MEMORANDUM

TO: Board of Regents

FROM: Pamela Joehler, Interim Associate Commissioner for Fiscal Affairs

DATE: August 29, 2005

SUBJECT: Cost of Education/Allocation Model Revision

For the last several months, the Board has anticipated the prospect of undertaking a study during the 2007 biennium interim to revise the current Cost of Education (COE)/allocation model. The purpose of this memo is to provide a framework for this study. Specifically this memo addresses three major areas:

1. Study scope
2. Timeframe/Procedures
3. Policy issues

Study Scope

The current allocation model is a mechanism used to allocate state funds only (general fund and six mill levy) to the educational units of the Montana University System. For the 2007 biennium, state funds comprise about 39 percent of the educational units' general operating budgets. The remaining 61 percent of the educational units' general operating budgets is funded primarily from tuition. Tuition is not formally recognized in the current allocation model. However, the Board of Regents did consider tuition revenue for the 2007 biennium allocation, at least informally. Relying upon recommendations of the University of Montana and Montana State University, the Board redistributed the state funds allocation generated by the current allocation model before finalizing the 2007 biennium budget plan. (Attachment A contains a brief description of the current COE/allocation model.)

During the last several months, Board members have suggested that tuition and student aid be considered in the anticipated COE/allocation model revision study. Including both state funds and tuition in the study would provide the Board with a broader perspective of financing the higher education units of the Montana University System. In addition, including tuition and student financial aid in the study scope would provide the Board an opportunity to engage policy discussions of funding equity, affordability, entrepreneurship, etc.

The Office of the Commissioner of Higher Education recommends the Board define the study scope to address the broader issue of financing Montana's institutions of higher education, rather than just allocating state funds.

Proposed Schedule – Finalized by May 2006

<u>Date</u>	<u>Milestones</u>
September 2005	<ul style="list-style-type: none">▪ Board of Regents sets study scope, approves funding set aside for study consultant, authorizes initiation of RFP process for study consultant, and approves formation of policy group (Regents, legislators, OBPP/LFD, Campus CEOs) and staff working group (OCHE/Campus Fiscal and Budget staff).
October 2005	<ul style="list-style-type: none">▪ OCHE issues RFP for study consultant▪ OCHE/Campuses form staff working group
November 2005	<ul style="list-style-type: none">▪ RFP process completed and consultant hired▪ Consultant meets with BOR policy group▪ Consultant works with staff working group to gather required data
January 2006	<ul style="list-style-type: none">▪ Consultant meets with BOR policy group
February 2006	<ul style="list-style-type: none">▪ Consultant works with staff working group to construct proposed financing model
March 2006	<ul style="list-style-type: none">▪ Consultant presents results to Board of Regents and policy group
March - April 2006	<ul style="list-style-type: none">▪ Consultant and staff working group revises model to incorporate agreed-upon changes from the March BOR meeting
May 2006	<ul style="list-style-type: none">▪ Final financing model adopted by Board of Regents

Policy Issues

The Board of Regents will have to address several policy issues in the course of developing a financing model for the Montana University System, including, but not limited to:

- System Strategic Goals
 - Will drive financing priorities
- Adequate funding levels for institutions
- Reasonable stability
- Funding equity
- Campus reserves
- Long-term tuition policies
 - Affordability
 - Tuition rate differential among campuses

- Resident/Non-resident differential
- Costs that should be covered by tuition
- Supertuition
- Distance Education tuition policies
- Student Financial Aid
 - Affordability
 - Federally Funded, State Funded and Student Funded
 - Limitations
 - Need-based
 - Merit-based

ATTACHMENT A

KEY FEATURES OF CURRENT COE/ALLOCATION MODEL MONTANA UNIVERSITY SYSTEM

- Developed in 1994
- Allocates state funds only (general fund and six mill levy)
- Estimates Cost of Education for each institution, using institution-specific data
- Includes enrollment-driven and base funded components

- Allocation Model Components
 - Resident Enrollment
 - Institutional Characteristics
 - Peer Institutions
 - States with Comparable Ability to Pay
 - Pro Rating State Resources Toward Target Budgets
 - Use of Funding Formula Models Rather than Institutional Spending Patterns

- Major goal was to provide funding equity. Funding equity has eroded due to:
 - Non-resident tuition increases
 - In 1994, non-resident tuition was less than the average cost to educate a student
 - In 2005, non-resident tuition was as high as 150 percent of the average cost to educate a student
 - The non-resident subsidy to support resident students that is available today was not available in 1994
 - Smaller portion of operating budget funded from state funds
 - In 1994, the allocation model distributed 65 percent of the total current unrestricted general operating budget; 35 percent of the total funding (tuition and miscellaneous revenue) was generated and retained at the campus level.
 - In 2005, over 60 percent of the total funding was generated and retained at the campus level without consideration in the allocation model.

ATTACHMENT B

SUMMARY OF HIGHER EDUCATION FINANCING POLICY ISSUES¹

1. Policy elements
 - a. Appropriations (base and special purpose)
 - b. Tuition and Fee policy
 - c. State student financial aid policy
 - d. Institutional student financial aid policy

2. Effective policy criteria
 - a. Reinforce and be consistent with stated priorities
 - b. Create and sustain institutional capacity to meet priorities
 - c. Contributions required must be within the means of those who foot the bill
 - d. Fair treatment to all parties
 - e. Transparent-open and understandable

3. State Level Considerations
 - a. For the public good – building capacity
 - i. Policies that focus on institutions (funding formulas)
 - ii. Policies that focus on students (tuition and aid policies that generate revenue)
 - b. To achieve specific or stated goals – capacity utilization
 - i. Policies that focus on institutions (performance funding)
 - ii. Policies that focus on students (forms of aid designed to achieve specific objectives)

¹ Summarized from “Financing in Sync: Aligning Fiscal Policy with State Objectives”, Dennis Jones, National Center for Higher Education Management Systems, *date unknown*.