MINUTES

MONTANA HOUSE OF REPRESENTATIVES
53rd LEGISLATURE - REGULAR SESSION

JOINT SUBCOMMITTEE ON EDUCATION & CULTURAL RESOURCES

Call to Order: By Chairman Royal Johnson, on February 16, 1993, at 8:00 a.m.

ROLL CALL

Members Present:
- Rep. Royal Johnson, Chair (R)
- Sen. Don Bianchi, Vice Chair (D)
- Rep. Mike Kadas (D)
- Sen. Dennis Nathe (R)
- Rep. Ray Peck (D)
- Sen. Chuck Swysgood (R)

Members Excused: none

Members Absent: none

Staff Present: Taryn Purdy, Legislative Fiscal Analyst
Skip Culver, Legislative Fiscal Analyst
Doug Schmitz, Office of Budget & Program Planning
Amy Carlson, Office of Budget & Program Planning
Jacqueline Brehe, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:
Hearing: MONTANA SCHOOL FOR THE DEAF AND BLIND AND MONTANA STATE UNIVERSITY COGENERATION PROJECT
Executive Action: HOUSE BILL 392 AND HOUSE BILL 11

EXECUTIVE ACTION ON HOUSE BILL 392

Tape No. 1:A:000

Discussion: **REP. RAY PECK** remarked that it was stated in testimony that the non-beneficiary tuition rates at the tribal colleges was $5,600-$5,800 per year which he felt was quite reasonable. He noted that no offer to reduce tuition was made if general funding became available. He said he saw no reason to support the bill.

SEN. DENNIS NATHE said he agreed with **REP. PECK**. He said the rationale for funding this bill was not well thought out. He emphasized that there was a difference between convenience and access. The attendance of non-beneficiary students at the tribal colleges was one of convenience.

Motion/Vote: **REP. PECK** moved to table the bill. **EXHIBIT 1** The motion **CARRIED** unanimously.

EXECUTIVE ACTION ON HOUSE BILL 11

Tape No. 1:A:065

Motion/Vote: **REP. MIKE KADAS** moved to amend the bill by striking $5 on line 19 of page 1 and inserting $2 in its place. **EXHIBIT 2** The motion **CARRIED** unanimously.

Motion: **SEN. DON BIANCHI** moved to recommend a do-pass on HB 11.

Discussion: **SEN. CHUCK SWYSGOOD** noted that the bill was a worthwhile one but the question remained as to where the state was going to get the money for it. **CHAIRMAN ROYAL JOHNSON** asked **Tony Herbert, Department of Administration,** why this bill requested more money for METNET than previous bills had. He also wanted to know how large the program was in terms of personnel and how big a cut the program could take if the committee decided to do so.

Mr. Herbert replied that OPI had 2-2.5 FTEs devoted to METNET activities. With the dollar increase in fees which they were requesting, OPI would probably increase their staff and hire contractual support. The DofA has hired one staff person as part of its proprietary account.

Mr. Herbert agreed that the request was higher than in the past. Because of the increase in activity in the program, they were requesting a larger amount which would be used for expansion, especially in the area of new technologies. **Mr. Herbert** added that if a cut was inevitable, they would try to accommodate the committee's decision. It would probably limit the speed with which the program could be expanded.

CHAIRMAN JOHNSON asked if funds available through the MSTA would be available to support part of the METNET program. **Dave Toppen, Associate Commissioner of Higher Education,** answered that he has long felt that proceeds from the Coal Tax Trust Fund were an appropriate funding source for METNET since it represented an educational infrastructure. At this point in time, they would only be able to obtain loans from MSTA and he did not feel METNET could pay back such a loan through charging fees under the present configuration of funding and support of METNET.

Motion/Vote: **REP. PECK** moved to amend the do-pass motion by changing the $500,000 on page 2, line 3 of the bill to $300,000. The motion to amend **CARRIED** unanimously.

SEN. SWYSGOOD asked what effect the last motion had on federal funding. **Mr. Herbert** replied that the motion would affect only the general fund and they would be free to attract $500,000 in federal funding and funding from other sources.

Vote: The motion, as amended, **CARRIED** 5 to 1 with **SEN. SWYSGOOD** opposed.

Taryn Purdy, LFA, asked for the committee's intention regarding the $500,000 appropriated to the OCHE and the $300,000 to the Department of Administration. She also asked if the potential fees were enacted, should adjustments be made to the $500,000. **REP. PECK** noted that the fees the OCHE had been authorized to collect had been reduced so that it probably would not be possible to collect $500,000. The present language on page 2, line 14 gives the OCHE authority to spend the money if it is obtained from other sources.

SEN. NATHE informed the committee that he was not proceeding with the committee bill to fund the Poplar River Ground Water Assessment Bill. He felt it would run into too much opposition from DNRC and from backers of other bills trying to use proceeds from the RIT.

Skip Culver, LFA, distributed to the committee a memo from the legal services division of the Legislative Council explaining the necessary statute changes that would have to be enacted as a consequence of committee action on the OPI budget. **EXHIBIT 3** **Mr. Culver** said he would prepare the committee bill which would be needed for the committee action on impact aid.

CHAIRMAN JOHNSON asked for the committee's reaction to the written presentation made to the Board of Regents which he had distributed earlier. **EXHIBIT 4** He noted that on February 17, the OCHE would be presenting to the committee its suggestions for cuts to the university system as approved by the Regents. He informed the committee that one of the most numerous complaints he has received from residents in western Montana has been the opposition to the building of the TV station at Missoula. He felt the legislature should be able in some way to voice opposition to the direction UofM was going. **REP. PECK** mentioned that the committee could prohibit the expenditure in the boiler plate language of the appropriations bill, but added that a constitutional confrontation would probably result, because the Regents would argue that it was a management question and not the jurisdiction of the legislature. He said he did not remember the TV item being in the bill during the last session. **Ms. Purdy** explained that it was added in the free conference committee on the last day of the session, so that it was in the bill.

REP. PECK argued that if an item were specifically created through an appropriations line item , then it could be abolished through the same process. **SEN. BIANCHI** noted that it was frustrating to Montana residents to have something built with taxpayer money and then not used because of lack of funding. **Ms. Purdy** said she believed the appropriation to UofM for the first year was $100,000 for the addition and $200,000 for the second year. **REP. PECK** noted that Mr. Vidal, the lawyer from Kalispell who spoke in opposition to the TV station in Missoula earlier in the session, gave the final figure for the enterprise as $480,000 over the biennium.

In reference to **EXHIBIT 4, REP. PECK** remarked that he believed most of the items mentioned as being available for reductions were management decisions and needed no further action by the committee. **SEN. SWYSGOOD** said he agreed with **REP. PECK'S** interpretation. He added the committee may want to consider the degree of flexibility it wished to give the units to implement the reductions.

HEARING ON MONTANA SCHOOL FOR THE DEAF AND BLIND

Tape No. 1:A:1040

Bill Prickett, Director of MSDB, appealed to the committee to reconsider the reductions to the MSDB budget. He was specifically concerned with the reduction of $257,000 from general funds for outreach and the shift to collect fees from the school districts to fund the outreach programs. He stated that he believed the local school districts would try to make do with alternatives rather than supplying the best educational resource for the deaf or blind child by paying the fees for outreach. He noted that one school administrator upon being informed that the school would probably be charged for the Braille textbook it was ordering, asked that the order be cancelled and said they would read the book to the child.

Mr. Prickett also pointed out to the committee that it may have based its actions on invalid assumptions. He noted that on page 122 of the executive budget it stated that MSDB had lost $800,000 in Chapter 1 funds when they became available to the local school districts. He believed this information was incorrect because the most the school had ever received from Chapter 1 funds in one year was $200,000. He also pointed out to the committee that at the federal level Chapter 1 funds had a category for state residential schools. If MSDB can access these funds, they come into the state; if MSDB cannot access the funds, they do not come into the state. Local schools do not have access to these particular monies to pay for outreach and therefore do not have the windfall the OBPP believed they had.

Mr. Prickett implored the committee to reconsider its action. He stated that the school has already been reduced $145,000 with the elimination of six positions. He asked the committee to increase that particular reduction and leave the outreach program intact and funded by general fund.

SEN. SWYSGOOD asked if they had inquired of the local schools as to the action they would take if the action of the committee stood. **Mr. Prickett** replied that they had sent out a survey and were expecting the results this week.

REP. PECK asked Mr. Prickett why he felt that the local school districts would't use the services from MSDB since it was their resposibility to do so. **Mr. Prickett** replied typical school districts have only one blind or deaf child. Educational materials for deaf and blind children are expensive and the amount of money available to local schools for special education is limited and will probably get worse. If a superintendent had a choice of spending $7,000 for a Braille text for one blind child, or using the $7,000 to supply the special materials for 12 other special education students, **Mr. Prickett** said he felt the blind child would be short changed.

Tape No 1:B:015

In regards to **Mr. Prickett's** example, **REP. PECK** remarked that the situation was not legal because the superintendent was responsible for the education of all the children. **Mr. Prickett** contended that within the limits of the law, it was possible for the superintendent to meet the child's needs without using the services of MSDB for which he would have to pay a fee, but such a choice would be to the educational detriment of the child. **REP. PECK** remarked that he had greater confidence than Mr. Prickett did in the local districts. **Mr. Prickett** pointed out that because they would now be charging fees, MSDB might not be utilized to evaluate and develop educational guidelines for deaf and blind children. As a result, these evaluations would probably be carried out by local sources who might not be as familiar with the special needs of these children so that the children would not receive the best education available. **REP. PECK** noted that there were many professional specialists who act as consultants for school districts in these matters.

Mr. Prickett requested that the committee to fund the outreach program through the general fund and said MSDB would collect fees and return them to the general fund. **REP. PECK** remarked that general fund money wasn't there to give and added that if MSDB had the general funding, it would not be as diligent in collecting fees. **Mr. Prickett** emphasized that he was not consulted by OBPP on the issue of collecting fees. He believed it was a flawed concept that never should have been in the governor's budget.

CHAIRMAN JOHNSON asked how many general fund dollars were being put into the MSDB budget for the next biennium compared with 1992. **Bill Sykes, MSDB,** replied $207,484 had been added to their budget but positions had been removed which eliminated $145,000. The difference was approximately $62,000. **CHAIRMAN JOHNSON** asked if they had run the outreach programs in 1992. When **Mr. Prickett** replied affirmatively, **CHAIRMAN JOHNSON** pointed out that they now had $62,000 more than they had in 1992 when the program was adequately funded. **Mr. Prickett** emphasized that the fund transfer of $257,000 from the general fund to a state special fund for the outreach program was in reality a budget reduction. Rather than being $67,000 ahead of 1992, their budget had in reality been reduced by $438,000.

Mr. Prickett again appealed to the committee to increase the reduction in personnel which had already been reduced by $145,000 rather than cutting outreach. When asked by **CHAIRMAN JOHNSON** for a figure, he replied that MSDB could sustain a cut of $220,000 to that budget line. He said if the collection of fees did result in fewer requests for services, the personnel needed in the outreach program would be reduced over time.

CHAIRMAN JOHNSON pointed out the MSDB was requesting that the approximately $500,000 which had been placed in a state special fund now be returned to the general fund for the outreach program. He asked **Mr. Prickett** for his reaction to increasing the MSDB reduction to $245,000. **Mr. Prickett** said he would be grateful if the committee restored the $500,000 to the general fund and reduced personnel by $245,000. He said that their educational program could be maintained with modifications and reallocation of resources.

CHAIRMAN JOHNSON asked how MSDB would bill the school districts for the services they used. **Mr. Prickett** said he would involve OPI in the development of a system since it was responsible for monitoring how well local school districts are meeting the educational needs of special education students. In response to a question from **CHAIRMAN JOHNSON, Mr. Prickett** said that in the past the outreach program was funded through general funds and through money which MSDB accessed from Chapter 1 funds. Now, if children are counted by the local school districts for Part B funds, MSDB cannot count the children for Chapter 1 funds.

CHAIRMAN JOHNSON closed the hearing.

HEARING ON MONTANA STATE UNIVERSITY COGENERATION PROJECT

Tape No. 1:B:758

Jim Isch, MSU, explained that he and the other presenters had just finished discussing this proposal with the Long Range Planning Subcommittee where MSU requested authority from them to undertake the project and to issue the necessary debt. One of the assumptions for the project was that the FY93 utilities budget would remain constant over a period of time so that as savings are realized from the project, the budget would not be reset lower each year. This allowed the savings which were generated to pay off the debt incurred by building the facility.

Bill Rose, Director of Facilities at MSU, distributed **EXHIBITS 5 and 6** and used them to explain the nature of the cogeneration project. He began by reminding the committee that HB 5 in the Long Range Planning Subcommittee provided $2 million to MSU for retrofitting the present heating facility. He noted that they had received $865,000 in spending authority for retrofitting one of three boilers that presently exists in the heating plant.

Mr. Rose said MSU's examination of more efficient alternatives resulted in the present cogeneration project proposal. He used **EXHIBIT 6** to explain how cogeneration would work at MSU. Essentially, waste heat from turbines would be used to generate electricity for campus use.

Mr. Rose noted that the present plan in HB 5 called for only retrofitting. This alternative would be more expensive, but savings from generating their own electricity would be used to pay for the project. He enumerated the positive outcomes of using cogeneration. **EXHIBIT 5, page 2** He added that after the debt was paid off, the savings would be used for deferred maintenance.

Mr. Rose emphasized that the $2 million in cigarette tax revenue over the next biennium designated for the retrofitting would not be used, constituting a savings. The alternative project would provide new, more efficient facilities, but would require that the energy budget remain constant. He stressed that it was a revenue neutral project although it required the issuance of bonds. **Mr. Rose** said that they were requesting the committee's approval to maintain the current energy budget where it presently was, so that the project could be financed and the debt paid off. He added that the project had been reviewed by Montana Power Company and they felt it was viable and would pay. **Mr. Rose** stressed that upon further analysis, if the project was found not to be financially feasible, it would not be implemented.

Michael Libelson, Managing Director and Owner of L S Power Corporation, said his business owned and operated various cogeneration plants across the country. Most projects were larger in size than the one planned for MSU and typically his company developed their own funding and built the facilities. He said his firm was engaged by MSU to evaluate the cogenerational proposal and its financial analysis. He explained that this project was a thermally matched cogeneration project. All of the waste heat was used to generate steam for MSU's needs. The efficiency of the proposed cogeneration project was 95% compared with 84% for the present boiler system.

Tape No 2:A:000

Dr. Isch stated that this proposal would not cost any additional state funds. If they do the project, savings would be generated to pay the debt for building the project; in approximately 20 years, there would be savings that would accrue to the state of Montana. In reply to **CHAIRMAN JOHNSON, Dr. Isch** said their pro forma indicated that the savings would cover more than the cost of the debt, and by the end of the payback period the savings would be over two times the debt service cost. He added that they were in negotiation with the Long Range Planning Subcommittee to see if this project could be incorporated into HB 97. **Dr. Isch** remarked that MSU realized that the subcommittee could not obligate future legislators with regard to holding their utility budget at a constant, but the only way MSU could pay off the debt was if it continued to receive approval of a utility budget similar to what other state agencies were receiving including adjustments for inflation.

In reply to a question from **CHAIRMAN JOHNSON** regarding the nature of HB 97, **Tom Livers, DNRC,** explained that it was a package of this biennium's energy conservation retrofit projects that the DNRC has presented. Although the cogeneration project was not submitted to the DNRC, he felt it was a well-designed program and belonged in HB 97 since there was a mechanism in place in the bill to give the state general obligation bond authority to do energy work and transfer the savings to a designated account to cover the bond obligation. He mentioned that if the MSU project becomes part of HB 97, the question that remained to be resolved was whether long term savings accrued to the institution or to the general fund.

REP. PECK asked **Mr. Libelson** if he had any reservations about the project. **Mr. Libelson** said he did not, but did recommend that firm contractual agreements be obtained from the company chosen to build the unit. In reply to a question from **CHAIRMAN JOHNSON, Mr. Libelson** explained that it was not economically feasible for his company to own the MSU project and that MSU as owner could take advantage of tax-exempt financing.

Dr. Isch reminded the committee that in 1987 when MSU, in cooperation with the DNRC, came before it with similar energy saving projects, the committee advised MSU to keep the savings for use in deferred maintenance. MSU was now requesting the committee to allow MSU to keep the savings realized in this project.

CHAIRMAN JOHNSON asked if MSU had a long term gas contract. **Dr. Isch** said they did not at this time, but were investigating it further before going forward with the project. **CHAIRMAN JOHNSON** asked who the current supplier was. **Mr. Rose** answered that they had an open access system with MPC. MSU purchased its gas through a state purchase order from an independent gas producer and MPC transported it. He said it was difficult to calculate the total rate because of tariffs, transporting costs, storage costs, etc. He estimated that the total cost averaged $3/unit/million BTU.

REP. KADAS noted that an action the committee could take in regards to this request was to recommend boiler plate language for the appropriations bill which would acknowledge that this project may go forward and that if it did, the LFA staff be instructed to calculate the MSU energy budget not on the basis of experience but in relation to the other institutions. **SEN. NATHE** noted that a similar type of action was taken by the committee in

1987.

CHAIRMAN JOHNSON said the committee would return to the issue when all members were present and closed the hearing.

Ms. Purdy distributed an update of committee action. **EXHIBIT 7**

ADJOURNMENT

Adjournment: 10:30 a.m.

Royal C. Johnson
REP. ROYAL JOHNSON, Chair

Jacqueline Brehe
JACQUELINE BREHE, Secretary

jb/

HOUSE OF REPRESENTATIVES

EDUCATION **SUB-COMMITTEE**

ROLL CALL **DATE** 2-16-93

NAME	PRESENT	ABSENT	EXCUSED
REP. ROYAL JOHNSON, CHAIRMAN	✓		
SEN. DON BIANCHI, VICE CHAIRMAN	✓		
REP. MIKE KADAS	✓		
SEN. DENNIS NATHE	✓		
REP. RAY PECK	✓		
SEN. CHUCK SWYSGOOD	✓		

House BILL NO. 392

INTRODUCED BY Gervais Russell Yellowtail

A BILL FOR AN ACT ENTITLED: "AN ACT APPROPRIATING MONEY TO THE BOARD OF REGENTS TO PROVIDE FINANCIAL ASSISTANCE TO NONBENEFICIARY STUDENTS ATTENDING TRIBALLY CONTROLLED COMMUNITY COLLEGES IN MONTANA; PROVIDING REQUIREMENTS FOR RECEIPT OF MONEY; PROVIDING FOR A REVERSION OF UNSPENT FUNDS TO THE GENERAL FUND; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE."

WHEREAS, seven tribally controlled community colleges exist in the State of Montana; and

WHEREAS, the tribal community colleges provide a quality, low-cost, and accessible college program to Indian and non-Indian students each year; and

WHEREAS, approximately 400 of these students are nonbeneficiary students who do not qualify for financial support through the Bureau of Indian Affairs or under the Tribally Controlled Community College Assistance Act of 1978; and

WHEREAS, the tribal community colleges currently subsidize the costs of providing services to nonbeneficiary students, allowing them to continue their educations at a lower cost to the state; and

EXHIBIT 1
DATE 2-16-93

Montana Legislative Council

WHEREAS, without support, tribal community colleges will not be able to serve nonbeneficiary students without increasing student fees, which may result in students dropping out of college.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

NEW SECTION. **Section 1. Appropriation.** (1) There is appropriated from the general fund to the board of regents $500,000 for the biennium ending June 30, 1995, to provide financial assistance to tribally controlled community colleges for enrolled nonbeneficiary students.

(2) Each tribal community college shall apply to the board of regents, and the money in subsection (1) must be distributed on a prorated basis according to each tribal community college's previous year's nonbeneficiary student enrollment.

(3) An expenditure from this appropriation is contingent upon the tribal community college:

(a) being accredited or being a candidate for accreditation by the northwest association of schools and colleges;

(b) entering into a contract or a state-tribal cooperative agreement, pursuant to Title 18, chapter 11, with the board of regents to provide the board with information relating to eligibility of nonbeneficiary

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students and documentation on the curriculum to ensure that the content and quality of courses offered by the tribal community college are consistent with the standards adopted by the Montana university system; and

(c) filing with the board of regents evidence that the college's enrollment of Indian students is at least 51% as required by the Tribally Controlled Community College Assistance Act of 1978, 25 U.S.C. 1804.

(4) It is the intent of the legislature that the appropriation in subsection (1) be considered an amount in addition to the Montana university system budget appropriation for the biennium ending June 30, 1995.

(5) All funds appropriated under subsection (1) that are unspent revert to the general fund.

NEW SECTION. **Section 2.** **Effective date.** [This act] is effective on passage and approval.

-End-

EXHIBIT 2
DATE 2-16-93
SB

HOUSE BILL NO. 11

INTRODUCED BY R. JOHNSON

BY REQUEST OF THE OFFICE OF BUDGET AND PROGRAM PLANNING, DEPARTMENT OF ADMINISTRATION, SUPERINTENDENT OF PUBLIC INSTRUCTION, AND MONTANA UNIVERSITY SYSTEM

A BILL FOR AN ACT ENTITLED: "AN ACT APPROPRIATING MONEY FOR THE MONTANA EDUCATIONAL TELECOMMUNICATIONS NETWORK; AMENDING SECTION 20-32-103, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 20-32-103, MCA, is amended to read:

"**20-32-103. Fee collection and disposition for operational costs.** As a condition of participation in the network, the Montana university system, vocational-technical centers, and community colleges shall collect from appropriate discretionary funds in a manner approved by the board of regents an amount not to exceed ~~$1~~ <u>$5</u> for each full-time equivalent student enrolled in the units, centers, or colleges. The funds collected must be deposited with the commissioner of higher education by July 1 ~~of--the--fiscal year,--beginning--with--fiscal-year-1992~~ for the purposes of 20-32-102(4). The commissioner of higher education shall pay the department of administration the commissioner's share of

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INTRODUCED BILL

the network costs, as provided in 20-32-104."

NEW SECTION. **Section 2.** **Appropriations.** (1) There is appropriated $500,000 from the general fund and $500,000 from federal or other sources to the department of administration for each year of the biennium ending June 30, 1995, to be used for continued development and expansion of the Montana educational telecommunications network (METNET).

(2) There is appropriated for each fiscal year of the biennium ending June 30, 1995, from the state equalization aid account in 20-9-343 to the superintendent of public instruction an amount equal to $2 for each average number belonging calculated for the state for the previous school fiscal year for the purposes of 20-32-102(2).

(3) There is appropriated $500,000 to the office of the commissioner of higher education for each fiscal year of the biennium ending June 30, 1995, to be used for METNET from fees collected in accordance with 20-32-103 and from other sources.

(4) There is appropriated each year of the biennium ending June 30, 1995, to the department of administration from the money collected under the provisions of 20-32-103 and from any other fees collected for the use of METNET the amount equal to any costs incurred by the department of administration for the purposes of 20-32-102(3).

NEW SECTION. **Section 3.** **Effective date.** [This act] is

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DATE 2-16-93

effective on passage and approval.

-End-

Montana Legislative Council

Legal Services Division

Room 138 • State Capitol
Helena, Montana 59620-1706
(406) 444-3064
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MEMORANDUM

TO: Skip Culver, Legislative Fiscal Analyst

FR: Eddye McClure, Staff Attorney EMc

DT: February 12, 1993

RE: Removal of general fund support

Removal by the Appropriations subcommittee for education of general fund support for the gifted and talented program, secondary vocational education, and state impact aid would require changes in state statutes related to secondary vocational education and state impact aid.

(1) Gifted and Talented Program: Section 20-7-903(2), MCA, requires the program to be funded by money appropriated to the superintendent of public instruction for that purposes. If money is not appropriated, there would be no mandate to fund the program.

(2) State Impact Aid: Sections 20-9-331 and 20-9-333 require that state money distributed to the county as payments in lieu of property taxation be used for the equalization of the elementary and high school districts foundation program of a county. If state impact payments were not made, these statutes at a minimum would need amending.

(3) Secondary Vocational Education: Sections 20-7-305 and 20-7-306 require the superintendent of public instruction to distribute money from the biennial appropriation for secondary vocational education and industrial arts. The language in these statutes would need to be amended to "from the biennial appropriation, if appropriated by the legislature . . . ."

The statutes listed are the minimum that would have to be

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addressed. A computer search of the MCA may find that more language needs to be changed because of the subcommittee's decision.

I should add that in Montana Board of Public Education v. State of Montana, (the ACC decision), Judge Sherlock ruled that the board of public education is vested with constitutional rulemaking authority. Accreditation standards, including a rule mandating gifted and talented programs, are adopted by the board through rules, and have been ruled in the Loble decision to be the minimum of basic education. Article X, section 1(3), of the Montana Constitution, requires the legislature to fund "its share" of basic education. The Sherlock decision left unanswered whether the state must fund the accreditation standards adopted by the board. At some point, that issue may again be in court if the board objects and pursues the issue.

EXHIBIT 4
DATE 2-16-93
SB.

PRESENTED
TO THE

BOARD OF REGENTS

SPECIAL MEETING

FEBRUARY 15, 1993 — 9:30 A.M.

MONTANA HIGHER EDUCATION BUILDING
2500 BROADWAY
HELENA, MONTANA

EXHIBIT 4
DATE 2-16-93

INTRODUCTION

In his amendment to the Executive Budget prepared for the 53rd Legislature, Governor Marc Racicot called for a $25 million reduction in General Fund support for public post-secondary education in Montana. His call for a reduction of such magnitude was based on the assumption that the Montana University System in particular is laden with unnecessary bureaucracy and administrative inefficiency. The Governor therefore challenged the Board of Regents to develop a recommended set of budget reductions to meet the $25 million target. He further reasoned that if the Board should one day receive lump-sum funding, it first would have to demonstrate its ability to manage cuts of this magnitude. In certain quarters, this entire exercise has been billed as an opportunity. Presumably, through restructuring and reconfiguring higher education, its efficiency and quality can be improved.

As the 53rd legislative session began to unfold, the House Appropriations Committee determined that the $200 million budget shortfall facing the state should be resolved by tax increases amounting to roughly $99 million and budget reductions of a like amount. When these reductions were apportioned to the several joint subcommittees, education was called upon to deliver cuts of $24 million. The bulk of this cut was to be borne by the higher education community.

What follows is a set of possibilities for reaching a $24 to $25 million budget cut among the public post-secondary institutions in Montana. These possibilities were developed for the Board of Regents by the Office of the Commissioner of Higher Education after counsel was received from the several senior institutions and vo-tech centers. The document is comprised of two basic sections. The first section examines a variety of structural changes that might be considered in light of the "opportunity" now afforded the units by the state's revenue shortfall. The second section provides reasonable options for meeting the rescission targets in the 1995 biennium.

Several very important caveats must be considered as one begins to evaluate the possibilities outlined in the following pages:

1. That the Montana University System is administratively bloated is an assertion without proof. For approximately 3,400 employees in the Montana University System, there are 196 administrators. Benchmarks derived by examining comparable institutions in the region and nation suggest that the administrative expenditures in Montana generally are far less than one might find elsewhere. Therefore, large cuts in administration may not trim fat; rather, the System's ability to function in a responsive, effective manner may be severely compromised.

2. To assume that Montana's model of higher education is inefficient presumes that some better model is out there somewhere that we should

attempt to emulate. What is it? The Dakotas, Idaho, Utah, Oregon, Colorado, and Washington also have relatively large numbers of institutions per capita—a characteristic of large, sparsely populated, western states. The Dakotas, Idaho, Utah, and Oregon have relatively strong central management systems such as those found in Montana. One wonders what improvements can be gained by examining those other states—we're all pretty much the same. Conversely, Wyoming has only a single senior institution and nearly a dozen "feeder" schools. This may appear attractive at first blush until one considers that Wyoming's per-student expenditures vastly exceed those in Montana. One wonders what sort of efficiency is to be gained by moving to the Wyoming model. It is entirely possible that the Montana model is a good one.

Montana's model may be efficient, well-administered, and successful at providing a high-quality education at a low cost to a large number of students in many sectors of the state. One of the unshakable myths in Montana, however, is that somehow we are doing it all wrong and, therefore, restructuring must be considered. No one should be under the illusion that restructuring will necessarily make things better; in fact, we run the danger of doing damage to whatever excellence now is in place. It could be that we will become very much like the novice mechanic who, in an effort to make his jalopy run better, winds up getting it all wrong and spends considerably more money getting it repaired at the shop than he would have spent if he had left well enough alone.

3. For unknown reasons, education in general and higher education in particular have been singled out for a disproportionate share of the budget reductions. In the Executive Budget, for example, education—which accounts for 36 percent of the General Fund appropriations—has been targeted with 75 percent of the budget reductions. One might therefore assume that higher education is the cause of the state's budget woes. Nothing could be further from the truth.

Soaring benefit payments and a Worker's Compensation quagmire have put the state in a fiscal crisis. Yet it is education that must now be seemingly sacrificed to salve the state's fiscal wounds. Six feet above contradiction, the options outlined in the following pages will do violence to the higher education enterprise. No amount of candy coating in the form of "moment of opportunity" can mask the damage that will be done. And, when it is all over, what repairs are planned for education? What schedules are there to restore what will be lost by these actions? We have heard none and fear the worst. It is one thing to bail the state out in the short term; it is quite another to make a permanent sacrifice to

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solve problems not of our own making.

4. The Board of Regents will make its selections from the following proposed courses of action. They are not "recommendations" of the Board. The genesis of these actions has arisen from outside the higher education community. In the days to come, the Board must not stand alone when responsibility for damage is assigned. Others must stand front and center and admit responsibility for the Board's actions that are but reactions to forces ultimately beyond its control.

John M. Hutchinson

John M. Hutchinson
Commissioner of Higher Education

SECTION 1

STRUCTURAL CHANGES IN THE MONTANA SYSTEMS OF HIGHER EDUCATION

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STRUCTURAL CHANGES
IN THE
MONTANA SYSTEMS OF HIGHER EDUCATION

RATIONALE

For many years, it has been the view of a large segment of the Montana population that in some way the configuration of post-secondary education in the state is flawed. This view is multifaceted and includes the following, often-conflicting, lines of reasoning:

1. There are too many units in the Montana University System given the state's population.

2. There should be a strong central office to control the aspirations of individual units.

3. There should not be a strong central office that squelches institutional autonomy.

4. There should be mergers of several units because this will save money and force greater efficiency.

5. There is extensive, unnecessary duplication that must be reduced.

6. Some of the smaller units of the University System should be closed, reduced to junior colleges, or converted to community colleges.

7. The vocational-technical centers should be consolidated.

8. Some of the vocational-technical centers should be elevated to community colleges.

9. There is a bloated administrative bureaucracy that must be reduced.

These perceptions have given rise in recent months to strong gubernatorial pressures for reconfiguration of the University System. For example, prior to leaving office, Governor Stephens called for unification of the Montana University System under one president located in Bozeman. Governor Racicot, during the opening days of the 53rd legislative session, requested consideration of a set of mergers whereby Eastern Montana College would become a branch campus of the University of

Montana, while Northern Montana College and Montana Tech would become branch campuses of Montana State University. In both cases, the Office of the Commissioner of Higher Education would either be substantially reduced or eliminated.

The Board of Regents, mindful of these public perceptions, has asked the Office of the Commissioner to develop new models of configuration. Many hours of discussion and debate have ensued among members of the Commissioner's staff. Campus chief executive officers have also offered their suggestions. The following list demonstrates some of the possible reorganizations that have been considered:

1. Reduction of the Office of the Commissioner of Higher Education, with replacement by an Executive Director's Office.

2. Increased centralized management of recruiting, admissions, research administration, student records, legal services, financial aid, etc.

3. Changing the missions of several of the units, such as NMC and WMCUM. For example, these two institutions could be reconfigured as state-supported junior colleges or community colleges.

4. Merger of senior units to create either a single presidency (as suggested by Governor Stephens) or a two-president system (as suggested by Governor Racicot).

5. The Board could expand access to post-secondary education by enhancing the role of the Great Falls and Helena vocational-technical centers to become regional higher education centers for the delivery of lower-division coursework that complements the curricula of Carroll College and the College of Great Falls. In addition, the core curriculum could be made available at all vo-tech centers, wherever feasible, through distance-learning transmissions from the senior units.

6. Creation of a highly articulated system of two-year feeder and baccalaureate institutions. This would include recasting WMCUM as a lower-division institution that receives upper-division elementary education via telecommunications from UM for place-bound students. NMC would expand into Great Falls by occupying undeveloped space in the Great Falls Vo-Tech for delivery of business, graduate education, and nursing (assumes resolution of current covenant problems). Some upper-division and graduate courses could be offered in simulcast fashion from UM and MSU.

7. Continued elimination of duplication would involve delivery of upper-division and graduate courses through telecommunications. Delivery of

instruction via telecommunications is most effective for seasoned learners. Thus, elimination of graduate programs through the application of interactive telecommunications is more appropriate than elimination of undergraduate programs. The following graduate programs might be evaluated for statewide delivery from a single institution:

a. Science and mathematics education
b. Accountancy
c. Educational administration
d. Mathematics
e. Elementary and secondary education
f. Counseling
g. Public administration

8. Consolidate nursing programs for delivery in population centers of Great Falls and Billings.

RECOMMENDATION

Structural changes of the type described above should be made only after long and thoughtful consideration. They should not be made in the heat of a legislative session wherein significant budget cuts are anticipated. Further, many of the options presented above could not be undertaken during the course of the current biennium, and many would require either legislative approval or—at the least—legislative acquiescence. A prevalent opinion held by the Governor and many legislators, however, is that this is a propitious moment to make some significant changes in the configuration of post-secondary education; it is a moment of opportunity. Therefore, the Office of the Commissioner of Higher Education recommends that the Board of Regents direct the office to prepare a plan for significant structural change that will enhance delivery of post-secondary educational services in Montana. This plan should be presented to the Board no later than October 1, 1993.

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OPTIONS FOR MEETING
1995 BIENNIUM
RESCISSION TARGETS

OPTION 1 DISCONTINUE PROFESSIONAL DEVELOPMENT LEAVE

This option would repeal Regents policy 801.7, which authorizes professional development leave for certain employees. Present accumulations would be deemed vested and could be used or redeemed as at present. No additional accumulations would be allowed beyond those earned in FY 93.

COST SAVINGS None in FY 94. In FY 95, the savings will be the amount of leave earned in FY 94 that would have been redeemed in FY 95. This amount is impossible to calculate accurately but probably would not exceed $30,000.

PRO While immediate savings are small, in several years the System would eliminate the liability for accrued professional development leave (now in excess of $500,000) as that leave is redeemed and not replaced with new accruals of leave. This benefit has generated significant amounts of legislative criticism because it is a benefit not found anywhere else in state government. Only rarely has the leave been used for professional development but instead has turned into a severance pay system.

CON This leave is one fringe benefit that is used to assist in recruiting high-level administrators into positions that otherwise are paid well below the national and regional market rates.

OPTION 2 MORE ECONOMICAL USE OF IN-STATE TRAVEL

This option would require all employees to use the most economical mode of transportation possible for all in-state, business-related travel.

COST SAVINGS	This option will save approximately $50,000 annually.
PRO	The mode of some in-state travel is now determined by the traveler's convenience and comfort rather than the direct transportation cost. This includes occasionally using air charters and leasing specialized automobiles rather than requiring that regular motor pool vehicles be used.
CON	The most economical mode of travel may result in increased travel time, or it may not allow work to be done en route.

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OPTION 3 SALE OF PROPERTY NOT USED FOR INSTRUCTION

This option would require the sale of real and personal property holdings not being used for instructional-related purposes. This includes land holdings for potential—but as yet unrealized—campus expansion, along with holdings of unique and valuable items such as art work.

COST SAVINGS Without a complete canvas, the cost savings are unknown. It is not unlikely, however, that several million dollars could be generated.

PRO This property has no direct, immediate impact on instruction.

CON The revenue generated would be one-time-only revenue. The impact would fall unevenly among the various institutions. The sale of land would abort campus development plans that have been in gestation for many years and ultimately would create difficulty when campus expansion became necessary. The sale of campuses' art and museum collections permanently erodes public access to specialized holdings of Montana's heritage and reduces the ability of the campuses, on behalf of the public, to later acquire collections of more pedagogical value based on the potential monetary value of current, tradeable holdings.

OPTION 4 TRANSFER CERTAIN EMPLOYEES ON REGENTS CONTRACTS TO STATE CLASSIFICATION SYSTEM

This option would classify all professional, non-administrative, non-policy making employees on Board of Regents contracts in accordance with the state classification system and pay those employees in accordance with the state pay plan. This group of employees—estimated about 200—is paid an average of $3,500 more a year than comparable employees working under the state classification and pay system. Because large salary cuts would be disruptive, current employees should be given salary protection. The reclassification would take place when the positions become vacant.

COST SAVINGS	Assume 10% turnover:	$ 70,000 in FY 94	
		63,000 in FY 95	
		$133,000	($ 80,000 General Fund)
	Assume 15% turnover:	$105,000 in FY 94	
		87,000 in FY 95	
		$192,000	($115,000 General Fund)
	Assume 20% turnover:	$140,000 in FY 94	
		112,000 in FY 95	
		$252,000	($151,000 General Fund)

PRO This change would bring University System salaries closer to the level of state government salaries in general; ensure that comparable jobs were similarly paid from campus to campus; and address the perception of too many administrators because of the significant number of non-faculty employees on Regents contracts.

CON This change would hurt the System's ability to attract the "cream-of-the-crop" employee.

OPTION 5 REDUCE SALARIES OF NON-FACULTY EMPLOYEES ON REGENTS CONTRACTS

This option would reduce the salaries of all non-faculty employees on Board of Regents contracts. This group of employees—estimated about 400 administrative and professional employees systemwide—earn an average salary of $42,500 a year. Because most employees have not received the requisite notice to reduce their salaries for FY 94, the reductions could take place only in FY 95. If the legislature funds salary increases, the aforementioned employees would receive such an increase minus the salary reduction amount.

COST SAVINGS	1% cut = $170,000 in FY 95	(General Fund $113,000)
	2% cut = $340,000 in FY 95	(General Fund $226,000)
	3% cut = $510,000 in FY 95	(General Fund $340,000)
	4% cut = $680,000 in FY 95	(General Fund $452,000)

PRO

Administrative and professional salaries in the University System generally are higher than salaries for comparable positions in the rest of Montana state government (where such comparable positions exist). This reduction would narrow that gap. No lesser percentage decrease was calculated for lower-paid Regents contract employees, since the salaries of those employees exceed comparable state government salaries by percentages not much different than those for upper-level employees.

CON

Because University System professional and administrative salaries already fall below national and regional levels, this reduction would harm the System's recruitment ability for filling vacancies.

OPTION 6 REDUCE INSTITUTIONAL SUPPORT BY 10 PERCENT

Institutional support is essentially "administration." This support includes expenditures for the offices of the president, academic vice-president, financial vice-president, budget, controller, research administration, university/college relations, etc.

COST SAVINGS	A systemwide, 10 percent cut yields savings of $1,159,447.
PRO	A widespread belief among legislators, the Governor, and the public is that Montana's post-secondary education system is administratively bloated. This cut will enjoy favor with those who hold this belief.
CON	Reasonable benchmarks indicate that it is a misperception to assume the System is administratively loaded. The 10 percent cut described in this option will make the institutions less responsive to a number of state and federal mandates. The overall management of the institutions also will be compromised.

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OPTION 7 REDUCE STUDENT SERVICES BY 10 PERCENT

The student services budget includes areas such as financial aid, counseling, admissions, recruiting, enrollment management, athletics, student life and housing, and other forms of student service.

COST SAVINGS A systemwide, 10 percent cut in student services yields $885,607. (This does not include athletics, which is covered elsewhere.)

PRO All areas must share some of the burden in order to reach the reduction target of $25 million. Some of the functions financed by the student services budget possibly could be delivered more efficiently if performed jointly for more than one campus (e.g., admissions, recruiting).

CON Students will be hurt as a result of this cut. They will enjoy fewer services, and the services they receive will be delayed. Lines will be longer, and processing times will increase. A reduction in active recruiting will diminish higher education's profile unevenly for high school counselors seeking assistance to best match their students to specific campuses; a lack of personal contact with schools in isolated communities will most certainly discourage more rural students from enrolling in Montana's colleges and universities.

OPTION 8 REDUCE INTERCOLLEGIATE ATHLETICS

Currently, athletics receives $4,597,813 from the General Fund. This amounts to a considerably larger percentage of General Fund support than that normally found in regional colleges and universities because Montana charges no student athletic fee. Under this option, all General Fund support for athletics at the colleges would be eliminated. Further, the two universities would be limited to spending no more than 2½ percent of their current unrestricted appropriations on athletics.

COST SAVINGS This reduction will save approximately $3,100,000.

PRO This option will bring General Fund support for athletics in the universities more in line with member institutions in the Big Sky Conference. When faced with severe budget cuts, the System must consider athletics because it is not central to the instructional program.

CON This option puts the Frontier Conference in jeopardy. Either a student athletic fee will have to be instituted, or the Frontier will have to become a non-scholarship conference. The competitiveness of the universities could be compromised if a student athletic fee or significant community support do not materialize to backfill the loss of General Fund support. Elimination of programs or loss of competitiveness will negatively affect fundraising. The people of Montana love athletics and will not resonate with reductions. The 2½ percent current unrestricted cap makes athletic budget-setting tentative, considering the fluctuations of gate receipts and booster contributions. The cap may promote deficit spending in the designated accounts.

OPTION 9 REDUCE PUBLIC SERVICE

Public service includes the Museum of the Rockies, the Montana Center for Handicapped Children, public television, and public radio. These functions are located at Montana State University, the University of Montana, and Eastern Montana College.

COST SAVINGS The following cuts are proposed:

Montana State University	$416,127
University of Montana	$442,856
Eastern Montana College*	$ 79,706
TOTAL	$938,689

* The cut spares the Montana Center for Handicapped Children because of its centrality to the mission of Eastern Montana College.

PRO There are no good reasons to make this cut. In general, public service expenditures are less central to the campuses' instructional missions. Students do use some public service entities for laboratory and practicum experience. Some of the cuts may be offset by private fundraising efforts.

CON The Museum of the Rockies is a Montana show piece. It is important to the campus's instructional programs, and its curators enjoy faculty status. Loss of funding will compromise this excellent museum's instructional and public service functions. If the museum is financially stressed to the point where it can no longer make the annual payments on its building bonds ($600,000), that responsibility will fall on the campus. Further, public television and public radio are important in keeping Montana informed and entertained. They leaven our society—making it better than it otherwise would be. Though not as central to instructional programs as other entities, they are important, and instructional services will be lessened.

OPTION 10 CHANGE PERCENTAGE OF GENERAL FUND SUPPORT FOR COMMUNITY COLLEGES

The Legislative Fiscal Analyst's current level provides that support for the community colleges will be 51 percent, with local support amounting to 49 percent. The Education Subcommittee initially endorsed this percentage distribution. This option would reverse the distribution so that 51 percent is derived from local support and 49 percent from state support.

COST SAVINGS With this option, the state will save approximately $172,600 during each year of the biennium. Each 1 percent decrease in state support would annually save an additional $86,000 in state general funds.

PRO There are no good reasons to make this change. The Board of Regents has worked to increase the state percentage and, during the 52nd legislative session, the legislature made progress toward meeting the Board's goals. It may be argued that this is a lesser "hit" than that seen in other areas of Montana's higher education system. A lesser rescission is justified, however, if the community colleges receive overflow from potential reductions in access to the University System.

CON This change in distribution reverses the agenda of the Board of Regents and shifts the burden to the local districts.

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OPTION 11 REDUCE OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION BY 10 PERCENT

The Office of the Commissioner of Higher Education currently provides all centralized management of educational policy and planning, academic affairs, fiscal affairs, legal support, personnel and labor relations. In addition, the Commissioner provides oversight for the Guaranteed Student Loan Program, the Group Insurance Program, the federal Carl Perkins Program, and the Montana Career Information System.

COST SAVINGS A 10 percent reduction would yield approximately $120,000.

PRO The Commissioner's Office erroneously is perceived as administrative lard. A reduction would be viewed positively by many legislators and the executive branch. A 10 percent reduction is commensurate with similar reduction levels elsewhere in the System.

CON Certain administrative services now provided on behalf of the Board of Regents would be lost. The Board's ability to make informed decisions would be compromised. The Commissioner's responsibility to ensure even-handed treatment of campuses could suffer. Most lost services will have to be picked up by the campuses at increased cost.

OPTION 12 ELIMINATE FEE WAIVERS

This proposal eliminates most fee waivers in the Montana University System. Athletic fee waivers are not included because they are incorporated into the option that deals with intercollegiate athletics. Graduate fee waivers also have been retained because of their importance in recruiting qualified graduate students. The fee waivers that would be eliminated and the cost savings realized by doing so are listed below.

COST SAVINGS	Undergraduate Resident	$ 352,465
	Undergraduate Non-Resident	
	- In-state portion	42,866
	- Out-of-state portion	157,940
	Faculty and Staff	140,156
	Indian Students	637,604
	Veterans	316,400
	War Orphans	8,990
	Senior Citizens	38,105
	Custodial Students	3,916
	Community Colleges	12,560
	High School Honor	523,119
	National Merit	80,671
	TOTAL	$2,314,792

PRO There are no reasons for doing this other than the need to reach the $25 million rescission target. Fee waivers—primarily for undergraduate students—are not critical to recruiting a critical mass of undergraduates.

CON Because Montana has very limited scholarship support for undergraduate programs, these fee waivers serve as scholarships in many instances. Moreover, certain disadvantaged groups will be severely hurt if the fee waivers are eliminated. Campus diversity will be reduced.

OPTION 13 INITIATE HIGHER TUITION FOR GRADUATE COURSEWORK

Currently, graduate students pay the same tuition as undergraduate students. Under this change, graduate students would be charged higher tuition. Two options are presented: (1) Students are charged at the rate of 120 percent of the resident tuition, and (2) Students are charged at the rate of 150 percent of the resident tuition.

COST SAVINGS	120% resident (+$221/academic year) yields $286,692
	150% resident (+$552/academic year) yields $716,081
PRO	Because graduate education costs considerably more than undergraduate education, an increased rate of tuition is justifiable. Only two peer states charge graduates and undergraduates the same tuition. This adjustment would put us in line with other states in the region.
CON	This change could result in fewer graduate students electing to do their graduate work in Montana, and it could force some current students to discontinue their studies.

OPTION 14 ELIMINATE GRADUATE PROGRAMS AT EASTERN MONTANA COLLEGE, NORTHERN MONTANA COLLEGE, AND MONTANA TECH

This option was suggested by Governor Racicot. Since Western Montana College currently has no graduate programs, this option would restrict graduate education to the two universities.

COST SAVINGS Eastern, Northern, and Montana Tech have approximately 248 FTE graduate students. If the per-student cost from the General Fund is estimated at $4,500, the reduction would be roughly $1,116,000 a year.

PRO Some reduction in duplication of graduate programs could be realized—primarily in teacher education.

CON An institution without graduate education is, in some ways, a lesser institution. In the case of these three units, all graduate programs are central to the institutions' missions. Montana Tech would become the only mining school in the country without a graduate component. Teachers wishing to access nearby teacher education programs along the high line, in the Billings area, and in higher education centers served by these two campuses would be out of luck unless the services were picked up by one of the universities at additional cost. Proposed budget cuts will make the universities less responsive to distant needs. Most program cuts at Montana Tech and some program cuts at Eastern could not be supplanted by the universities because neither the University of Montana nor Montana State University have the programs in place.

OPTION 15 ELIMINATE REGENTS EMPLOYEE REPORTING SYSTEM (RERS)

The Regents Employee Reporting System (RERS) was authorized by the 51st Legislature to provide personnel and position reports for employees not on the P/P/P system. The Department of Administration, the campuses, and the Office of the Commissioner of Higher Education worked diligently to implement the system, which is now fully functioning. RERS is administratively housed in the Office of the Commissioner of Higher Education.

COST SAVINGS Eliminating RERS would yield an annual savings of $176,000.

PRO RERS is a reasonably cumbersome system and, for the cost, does not yield sufficiently useful data to be considered cost-effective. Not much would be lost if the system were scrapped.

CON A great deal of work on the part of many individuals would be for naught if the system were discontinued. The system provides some comfort to legislators, which would be lost.

OPTION 16 INCREASE STUDENT/FACULTY RATIO

Currently, the System's student/faculty ratio is approximately 17.3:1, which is roughly equivalent to the national average. In difficult fiscal times, Montana should consider an increase of .5 to 1.0 students. This increase could be met by a variety of strategies chosen at the discretion of the institutions and approved by the Board of Regents. Some institutions already are over the proposed increases and should be spared further increases in the student side of the ratio.

COST SAVINGS An increase to 17.8:1 yields approximately $2,000,000.

An Increase to 18.3:1 yields approximately $4,000,000.

PRO There are no compelling reasons to increase student/faculty ratios. It is one of several ways to reach the target of $25 million in budget reductions.

CON Educational quality diminishes because the number of students per course increases and the faculty's ability to give personal time to students and review student assignments decreases. It must be done systemwide; increases to individual institutions will put some in severe educational jeopardy. Some accreditations may be at risk.

OPTION 17 REDUCE ACADEMIC SUPPORT BY 10 PERCENT

Academic support includes academic administration, library support, audio-visual and instructional materials, etc.

COST SAVINGS A 10 percent cut in academic support—excluding libraries—yields $999,122 for the system.

PRO There are no good reasons to make this cut other than the need to reach the $25 million reduction target. Because of a public perception of bloated administration, cuts in management of the academic enterprise likely will be positively received.

CON By nearly all benchmarks, academic administration in the Montana University System is not heavily laden. Systemwide, there is one academic administrator for every 34 faculty. Reductions in this area will severely compromise already-weak libraries and reduce expenditures for student instructional support. The instructional services will be reduced and students will be hurt.

OPTION 18 REDUCE STATIONS' OPERATING BUDGETS BY 10 PERCENT

Stations under consideration are the Agricultural Experiment Station, the Cooperative Extension Service, the Fire Services Training School, the Bureau of Mines and Geology, and the Forestry Conservation Experiment Station.

COST SAVINGS	A 10 percent cut to the stations yields approximately $1,200,000.
PRO	There is no compelling reason to make these cuts. The stations already have suffered considerable reductions as a result of the 1992 special legislative sessions. Further, these stations are not the beneficiaries of tuition backfill. However, while they are critical to the state, they are not as central to the core responsibility of undergraduate instruction. The 10 percent cut is commensurate with proposed cuts in other System dimensions.
CON	Research critical to Montana's economy and environment will be hurt, as will important public service functions carried out by the Extension Service.

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OPTION 19 EARLY RETIREMENT PROGRAM

Early retirement programs are commonly used by employers to save money. In order to be effective as a cost-saving device, early retirement programs must be targeted at workers in jobs that can be eliminated. Any savings disappear if the person taking early retirement is replaced by a new hire. The executive branch is supporting an early retirement bill for employees covered by the Public Employees Retirement System. It calls for the employer to purchase up to three years of additional retirement service for retiring employees at a cost to the employer of slightly less than 50 percent of the employee's annual salary. This system could possibly be extended to include university employees covered by the Teachers Retirement System and the Optional Retirement System.

COST SAVINGS For example, if 100 jobs are targeted for elimination, the estimated salary of the targeted positions is $4 million. The cost of the program would range from $200,000 a year (if retirement cost is paid over 10 years) to $2 million (if retirement cost is paid in full in the first year). Thus, total savings in the first year of the program would range from $2 million to $3.2 million.

PRO This program would permit significant savings to the System and would provide a humane method of trimming the number of employees. Many employees would find this very attractive.

CON The down side is the selection of the 100 positions and the need to leave those positions vacant. It is more costly than merely eliminating the position and terminating the employee.

OPTION 20 RAISING NON-RESIDENT SUMMER TUITION

The non-resident summer session tuition could be raised so that it is equivalent to non-resident rates charged during the academic year. This option assumes that as many as 30 percent of the non-resident students may choose not to attend with the higher tuition rates and, therefore, is discounted.

COST SAVINGS This tuition increase could raise as much as $309,480.

PRO This option makes tuition policy consistent throughout the instructional year and recognizes the summer session as virtually equal to the other two semesters in instructional service.

CON A large number of non-residents may not attend because of the higher tuition rate that would lengthen their programs and weaken the attraction of the summer session.

OPTION 21 REDUCE STUDENT ASSISTANCE IN WICHE AND WAMI PROGRAMS

Montana pays for a number of seats in WICHE institutions and in the University of Washington for medicine and health-related programs. This option reduces payments for seats in three of those programs: WICHE Public Health, WICHE Veterinary Medicine, and WAMI Medicine.

COST SAVINGS

	FY 94	FY 95
WICHE		
Public Health (1 slot)	$ 4,500	$ 7,667
Vet Medicine (3 slots)	$55,000	$110,400
WAMI		
Medicine	$ 0	$186,310

PRO There are no positive reasons to exercise this option other than for the savings to be achieved.

CON This option reduces access to medicine and public health programs. It may ultimately result in a pool of fewer public health specialists, veterinarians, and physicians returning to Montana to work.

OPTION 22 LIMIT ACCESS

This option would require that each unit reduce enrollment below its current levels. It is assumed that Instruction, Support, and Scholarships and Fellowships are variable costs, and enrollment reductions will reduce these expenditures by a corresponding amount. Plant, Public Service, and Research are assumed to be fixed expenditures if enrollments are reduced. Library expenditures are also excluded and considered to be a fixed cost. Savings presented are net of tuition revenue per student.

COST SAVINGS	Reduce enrollments by 100 FTE — $ 260,000
	Reduce enrollments by 500 FTE — $1,300,000
	Reduce enrollments by 1,000 FTE — $2,600,000
PRO	Faced with significant budget reductions, this option helps preserve quality at the expense of access.
CON	Montana has historically placed a high priority on access to higher education. Faculty, staff, and support expenditures must be reduced for this option to result in savings. Much of the potential savings would not be achievable during the first year of the biennium.

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OPTION 23 INCREASE INCIDENTAL TUITION

This option would increase incidental and non-resident tuition at each of the university units. It is assumed that this tuition increase has no impact on enrollment. Tuition is net of fee waivers.

COST SAVINGS	Increase incidental tuition by 1% — $307,000
	Increase non-resident tuition by 1% — $ 85,000
PRO	Assuming significant reductions in state support for FY 94 and FY 95, increases in tuition could be used to cushion the impact on educational quality.
CON	While state support per student remains well below the level of our peers, both resident and non-resident tuition is at or above the level of our peers. These increases would come after substantial increases already implemented for FY 93. If tuition is used as an offset to General Fund support, increases in tuition provide little or no benefit to the students.

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INNOVATION AND SAVINGS AT MONTANA STATE UNIVERSITY

THE COGENERATION ALTERNATIVE

HISTORY

The Central Heating Plant at MSU was built in 1922, and provides steam for space heating and hot water production for most campus facilities. The three existing boilers range in age from 26 to 38 years old. The plant is primarily dependent on a single main boiler to meet wintertime steam demands.

PROBLEM

All burners and controls in the existing Heating Plant are obsolete, and parts are now unavailable for the older equipment. The failure of this plant would have catastrophic consequences for MSU and the State. If the plant experienced an operational shutdown during cold weather, 12,000 students, faculty, and staff would be sent home, millions of dollars of research would be lost, and millions of dollars of freeze damage in 45 buildings would result. The Heating Plant is on the verge of collapse, and has failed to operate twice in the last nine (9) months.

CURRENT PLAN

The current plan calls for retrofitting the older equipment that exists in the Heating Plant. The <u>first phase</u> of this retrofit process is currently the number three (3) priority for the State's 1994-95 Long Range Building Program (LRBP) at a cost of $865,000. Once all phases of the project are completed over the next few biennia, the cost will exceed $2.5 million.

ALTERNATIVE SOLUTION

The installation of new cogeneration equipment within the existing Heating Plant structure would provide for the complete replacement of the existing system, and would provide for long-term operational reliability. This alternative would also reduce plant emissions and increase plant efficiency with respect to energy use, providing both ecologically and socially responsible benefits. The execution of the project would not result in additional operating budget expense above current levels. The necessary capital ($5,500,000) would be borrowed to finance this project, and the debt would be serviced from the energy savings that result from self-generating electrical power. LRBP funds would not be needed for this alternative project, and could be utilized for other priority deferred maintenance.

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POSITIVE OUTCOMES FROM IMPLEMENTING THE ALTERNATIVE

The Project:

- Provides the lowest possible environmental impact by utilizing best available technology and natural gas fuel.

- Provides for highly efficient use of natural resources by the very nature of cogeneration design - burning clean natural gas simultaneously generates both electrical and thermal (heating and cooling) energy.

- Produces less nitrous oxide (NO_x) emissions and noise emissions than the current MSU Heating Plant.

- Generates the base-level electrical needs of MSU (peak electrical power demand will continue to be purchased from Montana Power Company).

- Provides for reliable steam production. The current Heating Plant is on the verge of collapse.

- Avoids significant capital costs to the State Long Range Building Program (LRBP) for necessary repairs, retrofits, and replacements of the current MSU Heating Plant.

- Provides long-term, significant energy savings to the State of Montana.

- Utilizes energy savings to finance the project, and does not require new revenue for either capital or operations.

ASSUMPTIONS NECESSARY TO IMPLEMENT THE ALTERNATIVE

- MSU's combined appropriation for electrical and natural gas utilities and operations will need to be maintained at its current level, including inflationary increases (*i.e.*, rate increases).

- MSU's procurement of natural gas will need to remain on an individualized basis.

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IF WE CONTINUE WITH THE CURRENT PLAN

- It will be necessary for the State's LRBP to fund the retrofit of the old Heating Plant equipment over the next two (2) to three (3) biennia at a cost of more than $2.5 million, rather than completely replacing the facility with new equipment.
- MSU's combined appropriation for electrical and natural gas utilities and operations will still be at its current level, including inflationary increases (*i.e.*, rate increases).
- The State will not realize the long-term energy savings that will result from the cogeneration alternative after the debt is retired (approximately 20 years).
- Operational reliability of the current plant will continue to be marginal for the next several years.

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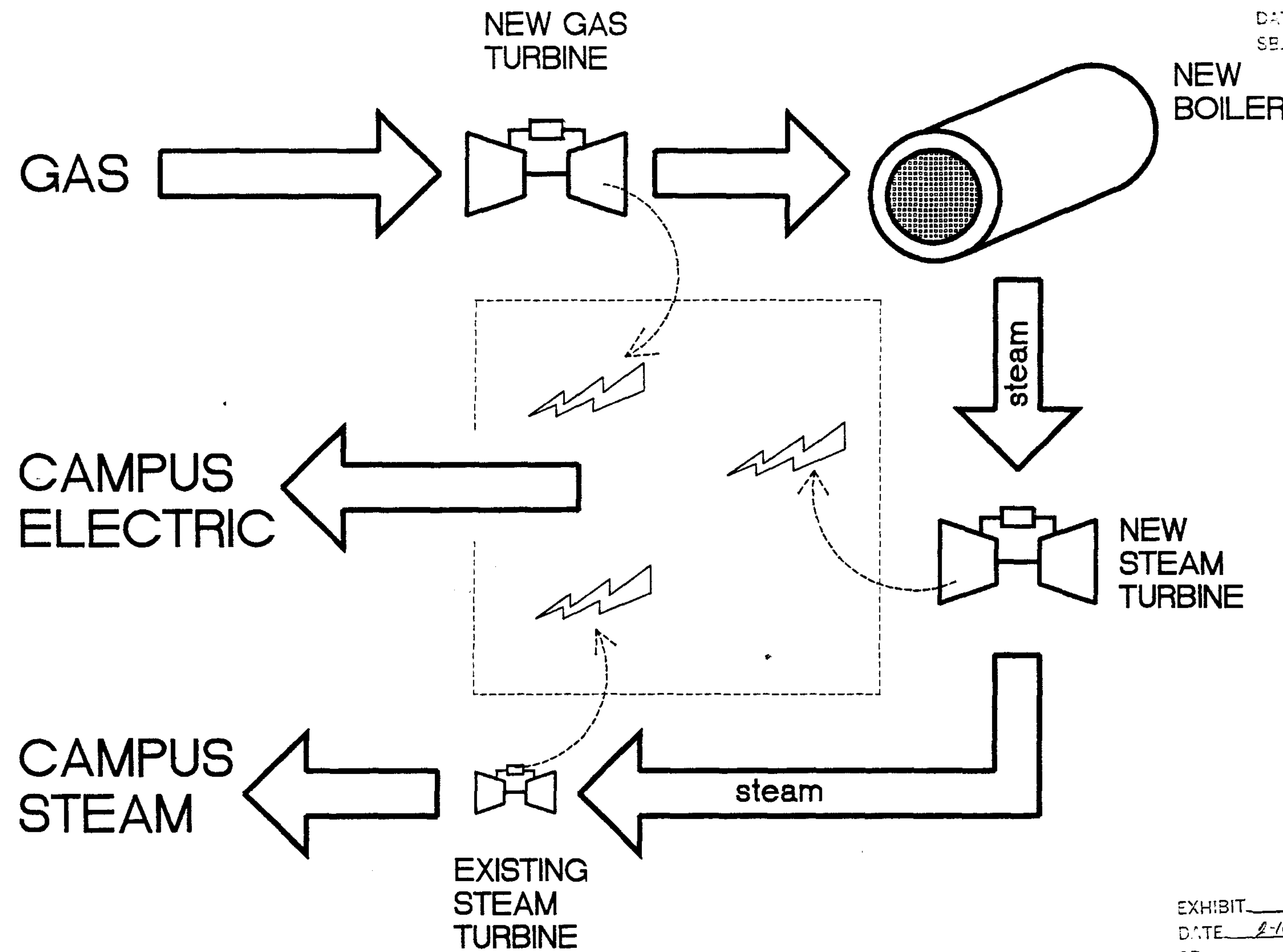

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MSU COGENERATION CYCLE DIAGRAM

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TABLE A
Comparison of Subcommittee Action to LFA Current Level and 1993 Biennium
Initial Reduction Target
General Fund, Only

Unit	1993 Biennium	LFA 1995 Biennium	Subcommittee Action As Of 02/15/93	Reductions From 1993 Biennium	Reductions from LFA Current Level	Remainin Reductio
--- Six University Units ---						
MSU	71,320,228	70,905,179	64,344,815	(6,975,413)	(6,560,364)	
UM	56,350,453	59,089,286	46,982,192	(9,368,261)	(12,107,094)	
EMC	21,226,621	21,388,886	20,781,998	(444,623)	(606,888)	
NMC	12,199,521	11,871,831	11,449,080	(750,441)	(422,751)	
WMCUM	7,009,989	7,207,526	6,639,871	(370,118)	(567,655)	
MCMST	14,686,488	16,182,912	13,698,718	(987,770)	(2,484,194)	
Total Six Units	182,793,300	186,645,620	163,896,674	(18,896,626)	(22,748,946)	
--- Vocational Technical Centers ---						
Billings	2,476,634	2,300,841	2,408,887	(67,747)	108,046	
Butte	2,925,601	2,235,666	2,413,030	(512,571)	177,364	
Great Falls	3,213,251	2,871,311	3,374,459	161,208	503,148	
Helena	3,999,019	3,767,182	3,820,378	(178,641)	53,196	
Missoula	4,085,416	3,964,016	4,036,989	(48,427)	72,973	
Total Vo-Techs	16,699,921	15,139,016	16,053,743	(646,178)	914,727	
CHE						
Administration	2,236,839	2,094,816	1,957,385	(279,454)	(137,431)	
Student Assistance	9,529,736	10,365,618	10,122,909	593,173	(242,709)	
Community Colleges	7,565,076	8,802,910	8,434,154	869,078	(368,756)	
Carl Perkins Admin	167,333	154,025	164,293	(3,040)	10,268	
Board of Regents	64,469	67,545	67,545	3,076	0	
Bond Payments	1,404,408	1,260,843	1,260,868	(143,540)	25	
Vo-Tech Admin	196,622	208,869	200,780	4,158	(8,089)	
AES	15,170,666	15,869,754	14,292,127	(878,539)	(1,577,627)	
CES	5,847,494	5,555,127	5,575,016	(272,478)	19,889	
FCES	1,416,555	1,398,825	1,405,543	(11,012)	6,718	
MINES	2,613,671	2,705,110	2,594,904	(18,767)	(110,206)	
FSTS	479,688	496,661	482,319	2,631	(14,342)	
TOTAL HIGHER ED	246,185,778	250,764,739	226,508,260	(19,677,518)	(24,256,479)	
OPI*	91,094,589	90,428,764	90,973,597	(120,992)	544,833	
Board of Pub Ed	209,980	229,268	222,199	12,219	(7,069)	
MSDB	5,504,347	5,626,423	4,958,869	(545,478)	(667,554)	
TOTAL EDUCATION	342,994,694	347,049,194	322,662,925	(20,331,769)	(24,386,269)	
Additional Target	(20,328,073)					
Supplementals Approved/Pending	(407,814)					
TOTAL ED SUBCOMMITTEE	322,258,807	347,049,194	322,662,925	404,118	(24,386,269)	404,118

*Subcommittee action does not reflect a reduction of administrative expenses of $358,337 and impact aid of $9,200, contingent upon the passage of other bills. Total remaining reduction with the incorporation of these reductions is ~~$577,2~~14.

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HOUSE OF REPRESENTATIVES
VISITOR REGISTER

EDUCATION SUBCOMMITTEE DATE 2-16-93

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