

Memorandum

To: Board of Regents
From: Commissioner Richard A. Crofts
Date: 9/11/00
Re: Fiscal Year 2001 Operating Budgets – Executive Summary

The Operating Budgets for the Montana University System, as required by 17-7-138(2) M.C.A. are hereby submitted for your review. This year we are including a report on bonded indebtedness and a budget summary by target expenditure categories within the operating budgets. You will be asked to approve these budgets at the September 21-22, 2000 Board of Regents meeting. Although we focus primarily on the current unrestricted operating portion of the Montana University System's budgets, you are approving each unit's detailed budgets within the following system totals:

	BUDGETED FY 2000	ACTUAL FY 2000	BUDGETED FY 2001
Current Unrestricted	252,045,709	250,712,265	258,832,702
Current Restricted	198,808,729	194,238,706	221,702,173
Current Designated	120,643,968	98,957,371	120,537,558
Auxiliary Enterprises	60,870,980	62,154,177	66,313,146
Loan Funds	2,301,772	501,666	3,805,780
Endowment Funds	61,320	102,941	117,500
Unexpended Plant	13,408,082	16,674,294	23,743,732
Repair And Replacement	10,574,057	9,920,927	10,365,765
Retirement Of Debt*	23,015,884	82,036,027	22,094,018
TOTAL ALL FUNDS	\$681,730,501	\$715,298,374	\$727,512,374

*Retirement of debt "Actual FY2000" includes \$58 million to advance refund The UM Series B 1995, Series C 1995, and Series D 1996 bonds.

Funds in this table do not include the Community College budgets, Tribal College Nonbeneficiary Assistance, and other statutory and matching funds that are reported in the Office of the Commissioner of Higher Education budgets.

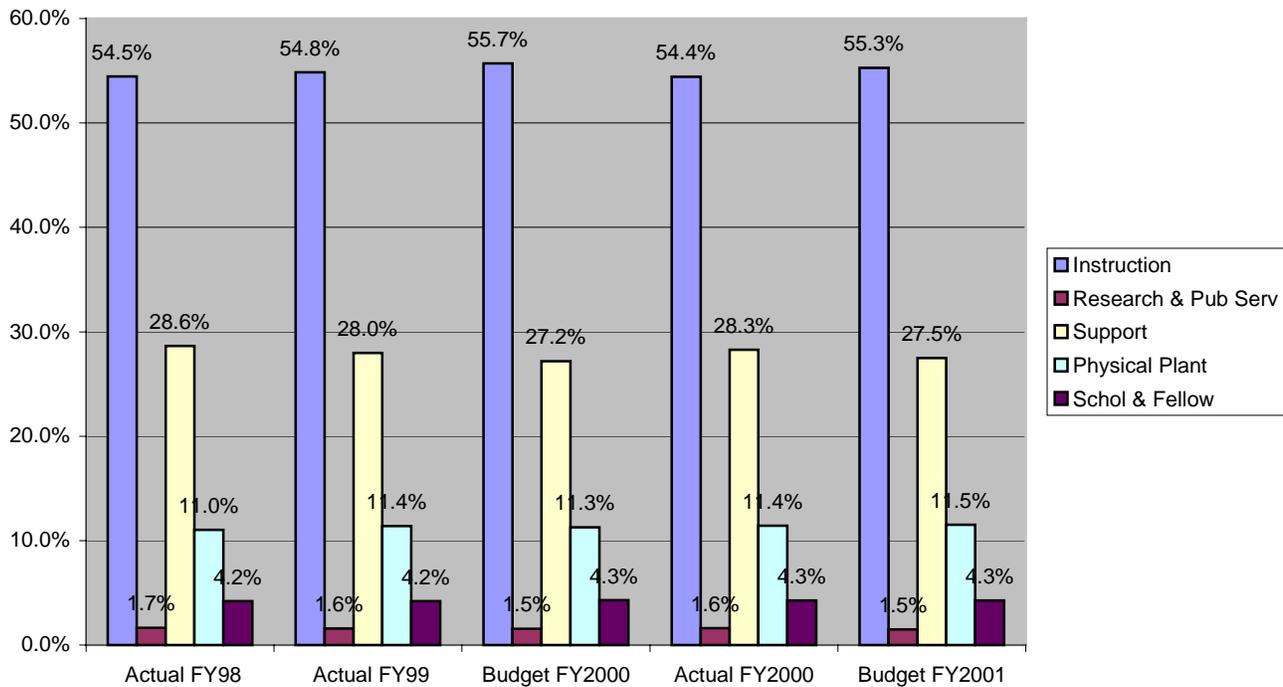
September 11, 2000

I have again asked the Presidents to identify their major commitments, values, goals, or objectives that have driven the development of their budgets. This year I asked them to identify some of their financial challenges as well as their successes. These Executive Summaries are found at the beginning of each unit's detailed operating budget section. I hope that you find them edifying.

The Montana University System finished fiscal year 2000 with modest financial successes and many financial challenges. The success stories of the Montana University System are not evidenced through our financial and budgetary records, but rather through our students, faculty, and staff. In spite of the well documented lack of state support for higher education, we are graduating record numbers of Montana residents and providing a high quality educational experience for them. The quality of educational performance is demonstrated by (1) the placement records of our graduates (employment and graduate education); (2) the performance of our graduates on professional and licensure examinations; and (3) the regional and specialized accreditation reports that typically praise our campuses for their ability to deliver high-quality programs with very limited resources. We are budgeting for an increase in the number of faculty to support our instructional programs and have continued our commitment to salary increases for our classified employees significantly above the state's pay plan.

One of the success stories of fiscal year 2000 is the implementation of the Banner suite of systems. The entire Montana University System is now utilizing SCT Banner for finance, human resources, student, and financial aid. Montana State University managed to implement all modules in half the time normally recommended by SCT. All campuses successfully implemented their financial systems by the July 1, 1999 go-live date. The campuses closed FY2000 with confidence in the integrity of the financial records on Banner. The interface of financial activity between the Banner system and the State's PeopleSoft system had mixed success. Montana State University has struggled with the interface reconciliation, but is working hard to rectify the situation both in terms of data integrity and relationships with State agency personnel.

The report by the Office of the Legislative Fiscal Analyst provided additional evidence that the Montana University System is underfunded both from the perspective of total current unrestricted expenditures per student and in terms of state support per student. During Fiscal Year 2000, several of our campuses experienced revenue shortfalls and were required to reduce expenditures below their original budgets in order to balance their budgets over the biennium. In spite of these financial difficulties, the educational units were able to maintain a commitment to the educational components of our budgets, as the following table shows:



Although the Legislature recommended that 13% of the current unrestricted budgets be spent on operation and maintenance of plant, the educational units were able to direct only 11.5 % of their FY2000 budgets into operations and maintenance of plant expenditures, although MSU continues its higher historical commitment to operations and maintenance. The significance of the 13% target can be seen in the fact that it would take over \$3 million for the campuses to meet the 13% goal. Unfortunately and ironically, we may get closer to that goal this year because of gas and electric utility inflation in the neighborhood of 40%, following a previous annual increase nearing 50%. We may get closer to the legislative goal of 13% but no further in maintaining our state built physical facilities

Since 1992 resident tuition has increased over 100%; from \$1,077 in 1992 to \$2,177 in 2000. Since 1992 the State support per resident student has declined 4%: from \$4,487 in 1992 to \$4,304 in 2000. In fiscal year 2000, resident students paid 31% of expenditures per student while nonresidents paid 109%. In fiscal year 1992 resident students paid less than 20% and nonresident students paid 74%. All students have made considerable and increasing contributions toward the financial requirements of the MUS.

The purpose of the Montana University System is to deliver high quality post-secondary education opportunities to the citizens of Montana while balancing access, cost, and accountability. Despite recent tuition increases, we continue to provide reasonably priced access to postsecondary education to Montana residents. We have maintained quality to a remarkable degree with existing resources. We have reported on our accountability and proposed an accountability/performance partnership to the Legislature, that was not pursued by

September 11, 2000

the Interim Committee. However, we cannot be comfortable with our success in holding down cost for students and in increasing support from the State.

The summary documents from the campuses indicate what has happened with respect to the budget targets established by the Board of Regents. As indicated above, we have maintained our commitment to the instructional budget, but otherwise the results have been mixed. We may conclude that our general financial condition does not permit the reallocations required to approach those targets. As an alternative, we may need to consider a more proscriptive approach. I hope we can discuss that issue, among others at the budget workshop in Butte the afternoon of September 20th. I urge you to attend that workshop if at all possible. We have added additional documents to this year's presentation of the operating budgets that should assist us in focusing on major issues. Of course, we will also have senior administrators present to respond to any questions you may have.

We are mailing these budgets with hopes that you will have the opportunity to review them prior to our budget workshop on September 20 at Montana Tech of The University of Montana. If you have questions concerning the budgets, please call Rod Sundsted or Laurie Neils or save your questions for the workshop.
