

Administrative, Budget, and Audit Oversight Information Item c.

**Report of
Advisory Panel on MSU Agricultural Issues**

With Responses from Montana State University

**Rod Sundsted, Chair
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In March 2007, Commissioner of Higher Education, Sheila Stearns, appointed an independent panel to look at issues related to MSU's College of Agriculture and Agencies. The charge that the Commissioner issued to the panel was to review the following questions:

- Is it proper to allocate overhead charges to AES and ES?
- If it is proper to allocate overhead, is the allocation methodology implemented in a fair and consistent manner across the University?
- What are the relevant restrictions in the Morrill Acts?
- What is the nature and extent of MSU's commitment to agriculture?

The panel met on March 27 and 28, 2007 in the conference room at the Office of the Commissioner of Higher Education. During their two-day meeting, the panel heard presentations and comments from the following individuals who participated in the meeting: (listed in the order they presented)

- Sheila Stearns, Commissioner of Higher Education
- Mick Robinson, Associate Commissioner for Fiscal Affairs
- John Youngberg, Vice President of State Governmental Affairs, Montana Farm Bureau Federation
- Steve Pilcher, Stock Growers Association
- President Geoffrey Gamble, MSU
- Craig Roloff, Vice President for Administration and Finance, MSU
- Dave Dooley, Provost and Vice President for Academic Affairs MSU
- Tom McCoy, Vice President for Research, Creativity and Tech Transfer, MSU
- Doug Steele, Vice Provost and Director of Extension, MSU
- Jeff Jacobson, Director of Montana Agricultural Experiment Station and Dean of College of Agriculture, MSU
- Leslie Taylor, Legal Counsel, MSU
- Cathy Swift, Legal Counsel, OCHE
- Senator Jim Peterson
- Representative John Musgrove
- Jim Gillett, Deputy Legislative Auditor for Financial-Compliance Audits
- Alan Peura, Higher Education analyst with Legislative Fiscal Division
- Mark Bruno, Higher Education analyst with Governor's Office
- Frieda Houser, Director of Budget and Accounting, OCHE

The panel members were provided with an extensive body of materials and documents. Subsequent to the meeting, additional materials were also provided by MSU Legal Counsel and from Agricultural Experiment Station and Extension Service accounting and budget staff.

On May 21, 2007, the Advisory Panel members held a conference call to discuss their thoughts and observations related to the initial charge to the panel from Sheila Stearns.

1. *Is it proper to allocate overhead charges to AES and ES?*

The panel members agreed that it is proper to allocate overhead charges to AES and ES.

2. *If it is proper to allocate overhead, is the allocation methodology implemented in a fair and consistent manner across the University?*

Recommendation: OCHE should review overhead practices University System-wide for the purpose of comparing methodologies and rates to ensure overhead costs are applied fairly when presented in the Regents budgets.

The panel members felt the overhead issue needs to be reviewed globally within the University System by the Regents. This review should include which departments pay and which ones do not have to participate in the overhead assessment. For example, MSU has been applying a credit to research's overhead assessment. MSU plans to discontinue the practice of providing credits beginning in FY08.

Montana State University Response:

- a) MSU will welcome an OCHE review of overhead practices, University System-wide.
- b) Effective with the FY08 Overhead Costs Distribution calculation, MSU has discontinued the practice of applying credit to the Overhead Cost assessment for Research operations.
- c) For the past several years, MSU has not charged the full overhead cost amounts to ES and AES.
- d) During FY08, MSU will develop a process and 1-2 year timeline for discontinuing the practice of applying credit discounts on the Overhead Cost assessments for the Agricultural Experiment Station and Extension Service operations.

Recommendation: If overhead is not fully funded for AES and ES, then MSU should be an active partner in the development of an acceptable solution.

The panel members believe that MSU needs to be actively involved and share in the responsibility for the resolution of the overhead issue when the costs are not fully funded in the AES and ES budgets. Since both AES and ES develop biennial budgets under Montana University System authority and directions, any funding shortfalls occurring in the State budget approval process (Executive and/or Legislative) will require the active involvement of MSU in the development of acceptable solutions.

Montana State University Response:

- a) MSU accepts the responsibility of being more actively involved in all aspects of the development and oversight of the operating budgets for the Agricultural Experiment Station and Extension Service.

- b) During FY08, MSU will devise a process to ensure that its President, Provost and CFO are direct collaborators in the development of FY09 AES and ES budgets, the preparation of FY10/11 biennial requests, the proposal of priorities to the Regents, and the discussion of needs with the Governor's Budget Office.
- c) During FY08, MSU will also collaborate with the Agricultural Experiment Station and Extension Service to develop alternative scenarios to resolve any future budget shortfalls.

Recommendation: The AES and ES budgets need to be developed with realistic federal funding levels – including the funding of present law adjustments.

The panel members agreed that earlier in the budget development process a realistic level of federal funding must be recommended. For the past legislative session, the Governor's Budget Office did recommend a change in the funding split for the University System agencies. If a better understanding of the split between federal and state funding is communicated early, hollow federal authority will not be included in the budget. If the federal government does not fund legitimate expenditures, then the unfunded costs become Montana's responsibility. Although panel members do not want to let the federal government off the hook for supporting the MSU agencies, they do not want Montana legislators or the executive branch to think that present law adjustments and statewide pay plan are being fully funded when some of the funding is federal funds that will not materialize.

Montana State University Response:

- a) As part of its enhanced collaboration in the development and oversight of the operating budgets for the Agricultural Experiment Station and Extension Service, MSU accepts the responsibility of being more actively involved in helping the AES and ES to educate the executive branch and legislators regarding realistic expectations for federal funding.

Recommendation: The University System needs to be a significant participant in meetings of Ag and livestock groups to develop a stronger bond and to educate the groups regarding the issues related to MSU's agencies.

Although MSU already attends and participates in many of the meetings of the Ag and livestock groups, the panel believes that MSU needs to communicate the issues (such as federal funding and overhead) so that the problems are more broadly understood by organizations that will advocate support for the issues.

Montana State University Response:

- a) As part of its enhanced collaboration in the development and oversight of the operating budgets for the Agricultural Experiment Station and Extension Service, MSU accepts the responsibility of being more actively involved in meetings with Ag and livestock groups, to help AES and ES leaders communicate and explain the intricacies of such issues as federal funding and Overhead Costs.

Recommendation: MSU should consider hiring a part-time lobbyist to work exclusively on AES/ES issues.

Currently, the Bureau of Mines has a part-time lobbyist that works closely with the UM lobbyist and the University System on issues specifically related to the Bureau of Mines. This type of model might be effective for MSU.

Montana State University Response:

- a) We question whether this is the best use of resources. If there is a need to increase our educational efforts with legislators, both agency directors feel they should be the ones to commit the additional time to the Helena lobbying effort, in cooperation with the MSU lobbyist.
- b) An additional lobbyist poses a coordination challenge. In the last legislative session, there were a number of instances where there was extensive lobbying for funding requests that were not in the Regents' top priorities, nor within the Governor's budget. This included efforts by campus CEOs, PBS Friends, as well as ag organization lobbyists. When there is lobbying for needs outside the Regents' priorities, it confuses legislators and can create a reaction of "if you want the funding for this need, then it will come out of funding for other university system needs."
- c) The appropriate solution seems not so much to do with lobbying as with timely consideration of agency needs. If, however, a part time lobbyist is hired, that person should work under the direction of the MSU lobbyist.

Recommendation: Include AES and ES earlier in the budget process.

The panel feels that the Regents should involve the executive branch in the system review of the overhead assessments and the issues related to funding of present law adjustments and the state-wide pay plan. The panel would like to meet with the Budget Office to present their final recommendations.

Montana State University Response:

- a) MSU supports this recommendation.

3. *What are the relevant restrictions in the Morrill Acts?*

Recommendation: Future MSU bond issues should not commit land grant income from the First Morrill Act. As existing bond restrictions expire, Morrill funds should be spent directly on appropriate projects.

The panel members do not believe that funds are being spent illegally or inappropriately. There also needs to be recognition that these funds are presently pledged to existing debt service for the next 16 years.

Panel members are concerned about perception problems and that sometimes, "perception becomes reality." When the funds are co-mingled into bonded revenues, it is difficult to overcome the perception that the Morrill funds are not being spent on their intended purpose. If bond ratings and interest rates would not be adversely affected, the panel members would like to see the Morrill funds accounted for separately. This would decrease the likelihood that the Ag community would perceive that Morrill funds are not

being used to support the original Morrill Act purposes, including agriculture, engineering, and other related branches of learning.

Although MSU is a Land Grant University and funds spent for general campus improvement (but not on buildings) may be an appropriate use of Morrill funds, it is important to maintain the support of the Ag community and eliminate perception problems, if possible.

Montana State University Response:

- a) MSU's annual Land Grant (Morrill Act and Second Grant) distributions constitute two of many revenue sources pledged to the University's Master Indenture of nine (9) bond series.
- b) As stated above, these Land Grant funds are specifically (internally) earmarked to satisfy debt service obligations for the next 15 years.
- c) In 1993 this debt service was incurred for the purpose of general campus improvements, including steam condensate tunnel improvements, utility system improvements, campus lighting, and fiber optic cable. This specific debt service obligation will be retired in 2022.
- d) MSU will not earmark its Morrill Act land grant distributions for any new indenture debt service such as this.
- e) MSU will continue to maintain a separate accounting of both Land Grant distributions, within the overall master indenture.
- f) For the next several years the debt service obligations for which these revenues are earmarked will be equal to or greater than the annual level of receipts.
- g) In future years, when there is a balance of Morrill Act Grant funds in excess of foreseeable debt service obligations, MSU work with representatives of the units of the university which have been specifically identified as recipients of Morrill Act funding to identify appropriate applications of any excess funds.
- h) Based upon historical records related to the Morrill Acts, MSU has compiled a list of those academic disciplines that were specifically identified as the "academic disciplines which were authorized to receive Morrill Act funding". That list, summarized at the college level, is shown below, along with the corresponding headcount of student majors.

Arts & Architecture	570
Agriculture	709
Business	438
Education	297
Engineering	2,045
Letters & Sciences	1,711 (selected disciplines)
Nursing	0
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TOTAL	5,770

4. *What is the nature and extent of MSU's commitment to agriculture?*

The panel members believe that MSU does have a commitment to agriculture. The perception that MSU is not committed may come from the idea that if MSU was really committed to Ag, would they let the AES and ES budgets be eroded. The panel members believe that if their recommendation were implemented and that MSU was more significantly involved in explaining the funding issue to the Ag groups, to Executive Branch early on, and to legislators, that the perception would be eliminated.