

The Fiscal Impact of the Amendments to HB 63

Introduction:

The amendments to House Bill 63 passed by the Senate on Thursday March 24 included the incorporation of the substance of three bills previously approved by either the full Senate or the Senate Finance and Claims Committee:

- Incorporation of Senate Bill 177, passed by the Senate 40-10 on third reading on February 16, 2005;
- Incorporation of Senate Bill 333, passed by the Senate 39-8 on third reading on March 17, 2005; and
- Incorporation of Senate Bill 147 (which includes SB 333), passed by Senate Finance and Claims on a 12-7 vote on March 24, 2005.

Senate Bill 177 Fiscal Impact Consistent with HB 63 Amendments to the Entitlements:

The fiscal impact of Senate Bill 177 is consistent with the Governor's proposed budget total, and the state cost of Senate Bill 177 as incorporated into House Bill 63 is the same as the version approved by the Senate and is the same as amounts referenced for Direct State Aid and Guaranteed Tax Base Aid in House Bill 2.

Senate Bill 147 State Fiscal Impact Eliminated Through Elimination of the Transportation and Combined Fund Block Grants:

The stated biennial fiscal impact of Senate Bill 147 is \$8.1 million. Amendments eliminating the District Transportation and Combined Fund block grants, however, save the State approximately \$10.2 million, with the net effect of the amendments representing a savings to the State of approximately \$2 million. The following spreadsheet incorporates the latest numbers from the Office of Public Instruction:

HB 63 Amendments Pertaining to SB 147			
Item	FY06	FY07	Biennial
Senate Bill 147	\$3,945,509	\$4,205,369	\$8,150,878
Elimination of District Transportation Block Grant	-\$1,787,393	-\$1,800,978	-\$3,588,371
Elimination of Combined Fund Block Grant	-\$3,296,035	-\$3,321,085	-\$6,617,120
Net Cost/Savings	-\$1,137,919	-\$916,694	-\$2,054,613

HB 63 Amendments Provide Funding for Senate Bill 333:

An added benefit of these amendments is that they pay for the cost associated with present law in resolving the payment of retirement costs out of Impact Aid funds. The Senate previously passed Senate Bill 333 by Senator Frank Smith on a vote of 39-8 on March 17 2005. The Legislature's passage of this bill is necessary in order to bring Montana law into compliance with a federal court ruling that enjoined the State from complying with Section 20-9-501, MCA (2004) as applied to school district employees paid with federal Impact Aid.

Conversion of Block Grant Funds to a More Equitable Distribution is Consistent with Past Practice of the Montana Legislature in 2003:

Use of the block grant program to address school funding is not unprecedented. In fact, the 2003 Legislature eliminated the block grant for the county retirement levy to pay for increases in the Basic and Per-ANB Entitlements in Senate Bill 424.

The block grant program could be construed as part of the "state's share" of funding, and converting this funding to distribute on an equitable basis is good public policy and moves the State toward compliance with the Court's ruling in Columbia Falls Elementary v. State.

The Net Savings of the Amendments Must Be Used to Increase Funding for Schools:

As referenced above, there is a net savings to the state of just over \$2 million as a result of the amendments added to House Bill 63 by the Senate. This savings should be plowed back into school district spending to maximize the impact of funding. An area where this savings could best be invested is in allowing K-12 flexibility in spending between unified and joint school districts. Senate Bill 341 by Senator Gillan includes a provision that allows unified and joint school districts to agree on distribution of funds throughout the K-12 system served by the two boards. The fiscal note on Senate Bill 341 estimated that the state fiscal impact of this amendment would be \$2 million in the FY07 biennium. This estimate was based on an assumption that districts would reduce any fund balance available for reappropriation by three percent of their prior year adopted budget, thereby increasing the cost of statewide Guaranteed Tax Base Aid by \$2.0 million.

Allowing K-12 flexibility in unified and joint school districts will ensure that the funding increases in Senate Bill 177 can be put to the best use for children served in those districts. There are districts that will do well in their elementary budget but poorly in their high school budget under Senate Bill 177. There are other districts that will do well in their high school budgets but poorly in their elementary budgets. K-12 flexibility will allow all boards that are part of unified and joint school districts to agree on a distribution of funds throughout the K-12

system that will best meet the needs of that particular community. The language sought in this regard is as prepared by Senator Mangan in an amendment to House Bill 63 that was pulled from consideration on the Senate floor during the discussion on House Bill 63.

Other Key Amendments:

All other amendments made to House Bill 63 do not have any state fiscal impact. Those amendments are as follows:

- **Amendment waiving election deadlines and allowing a rescheduling of the levy election this year:**

This amendment is in recognition that final ballot language must be approved by April 8 this year. The amendment ensures that districts can accurately compute their budgets and levy requirements in the coming year. This amendment is consistent with previous temporary provisions passed in every major school funding bill in the last two sessions. Bills that included such language in the past include:

- Senate Bill 424, 2003 Legislative Session
- Senate Bill 390, 2001 Legislative Session

- **Amendment allowing all districts to levy the same over-BASE taxes previously approved by the voters:**

Under 20-9-353, MCA, any equalized district is entitled to collect up to the prior year's over-BASE taxes and is required to obtain a vote for "any increase in local property taxes authorized by 20-9-308(5)." Over-Maximum districts, on the other hand, including those under the "soft caps" must revote the over-BASE taxes every year. This amendment brings consistency to how the law addresses voted levies. This amendment has no fiscal impact on the state and does not allow an increase in local taxes either.

- **Amendment extending the period of time that a district can adopt an over-Maximum "soft caps" budget:**

This amendment ensures that no district that adopted a "soft caps" over-Maximum budget will have to reduce their budget during the FY07 biennium. This will give the Legislature time to assess and implement a new funding formula.

Summary:

The substance of the amendments passed to House Bill 63 reaffirm votes previously taken by full Senate with regard to Senate Bill 177 and Senate Bill 333. The amendments also incorporate Senate Bill 147, which has passed Senate Finance and Claims by a vote

of 12-7. The remaining amendments bring consistency to the treatment of over-BASE taxes by all districts, extend by one year the number of years that a district can adopt an over-MAXIMUM "soft caps" budget, and provide a solution to the levy election deadlines looming at this time.

The net financial impact of the amendments on state spending in the 2007 Biennium is a \$2 million savings, which could and should be reinvested in other K-12 public education spending.

District and County Taxes as Percent of Total Revenues

