



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	HB0417
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Title:	Clarifying provisions for financing school district consolidation and annexation
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Primary Sponsor:	Hollenbaugh, Galen
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Status:	As Amended in Senate Committee
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|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
Expenditures:				
General Fund	\$68,975,191	\$81,482,968	\$71,459,413	\$60,474,716
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$17,581,717	\$23,174,302	\$11,603,981	\$0
Net Impact-General Fund Balance	<u>(\$68,975,191)</u>	<u>(\$81,482,968)</u>	<u>(\$71,459,413)</u>	<u>(\$60,474,716)</u>

Description of fiscal impact: HB 417 increases ANB by nearly 5,500 statewide by funding full-time kindergarten; increases state support for school district general fund budgets by \$31.0 million in FY 2008 and \$52.8 million in FY 2009 through changes to the basic entitlements and inflation to the per ANB entitlements; distributes \$10.0 million one time only funding to districts' miscellaneous fund for kindergarten start-up costs; and provides \$220,000 for a voluntary mental health screening and referral program

FISCAL ANALYSIS

Assumptions:

- Under current law, the average number belonging used to determine the general fund budgets for public schools will be as follows:

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
K-6 ANB	72,763	72,332	72,171	72,503	73,663
7-8 ANB	24,643	24,111	23,148	22,413	22,051
9-12 ANB	<u>49,613</u>	<u>49,231</u>	<u>48,409</u>	<u>47,521</u>	<u>46,417</u>
Total ANB	147,019	145,674	143,728	142,437	141,131

2. The maximum potential elementary average number belonging (student count) used to calculate school districts’ general fund budgets will increase as a result of HB 417 as indicated in the chart below.

Budgeted ANB	FY 2008	FY 2009	FY 2010	FY 2011
EL ANB (Current Law)	72,332	72,171	72,503	73,663
Maximum EL ANB (HB 417)	<u>77,781</u>	<u>77,635</u>	<u>77,997</u>	<u>79,214</u>
Increase	5,449	5,464	5,494	5,551

3. Per HB 417 basic and per ANB entitlements will be set as follows:

Entitlement	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Elementary Basic	\$20,718	\$21,290	\$21,929	\$21,929	\$21,929
Middle School Basic	---	\$60,275	\$62,083	\$62,083	\$62,083
High School Basic	\$230,199	\$236,552	\$243,649	\$243,649	\$243,649
Elementary Per ANB	\$4,456	\$4,579	\$4,716	\$4,716	\$4,716
High School Per ANB	\$5,704	\$5,861	\$6,037	\$6,037	\$6,037

4. Present law (20-9-326, MCA) requires the Governor to include inflation adjustments for the entitlements in the recommendations presented to the legislature. The expenditure prior to adding these present law adjustments result in the following:

	FY 2008	FY 2009
Direct State Aid	\$347.4 million	\$342.4 million
Guaranteed Tax Base Aid	\$110.4 million	\$108.8 million
County Retirement GTB	\$24.8 million	\$25.6 million

5. The present law adjustment does not include inflationary increases for the educator payment, the at-risk student payment, the Indian education for all payment, or the American Indian achievement gap payment (20-9-327 through 20-9-330, MCA). The payments will total \$35.9 million in each year of the 2009 biennium.
6. The state special education appropriation is not changed in HB 417. The special education payment remains at \$39.35 million per year.
7. The new middle school entitlement at \$60,275 in FY 2008 and \$62,083 in FY 2009 replaces the current pro-ration between the elementary and high school basic entitlement at a cost of \$0.5 million per year. This will be effective for all elementary programs, whether or not they adopt full-time kindergarten programs.
8. HB 417 provides full-time ANB funding for school districts that enroll students in full-time kindergarten. For the purpose of preparing this cost estimate, it is assumed that 80% of all 5 year old students will be enrolled in full-time kindergarten in FY 2008, 90% in FY 2009, and 100% in FY 2010 and beyond. The elementary average number belonging (student count) used to calculate school districts’ general fund budgets will increase as a result of HB 417 as indicated in the chart below.

	FY 2008	FY 2009	FY 2010	FY 2011
Maximum increase	5,449	5,465	5,494	5,551
Percent enrolled full-time	80%	90%	100%	100%
ANB net increase	4,359	4,918	5,494	5,551

9. Offering full-time kindergarten in a school district is the choice of the local school board. The maximum Direct State Aid, GTB, Retirement, and other components of the school funding formula are proportionally reduced from the maximum levels by the percentages shown in assumption 8.

10. The Indian Education for All payment of \$20.40/ANB will be paid on the additional ANB increase due to implementation of full-time kindergarten.

	FY 2008	FY 2009	FY 2010	FY 2011
Percentage Implementation	80%	90%	100%	100%
Indian Education for All Payment	\$89,254	\$158,267	\$112,734	\$115,101

11. An additional 1.0 FTE teacher will be added for every 12.6 additional ANB enrolled in full-time kindergarten. Statewide 296.4 FTE additional teachers will be hired to teach full-time kindergarten in FY 2008, 343.8 in FY 2009, 415.7 in FY 2010, and 421.0 in FY 2011. The educator payment in present law is \$2,000 per FTE. HB 417 increases that payment to \$3,036 per educator in FY 2008 and \$3,042 per educator in FY 2009.

	FY 2008	FY 2009	FY 2010	FY 2011
FTE (100%)	294.1	341.2	385.9	390.2
Per Educator	\$3,036	\$3,042	\$3,042	\$3,042
Percentage Implementation	80%	90%	100%	100%
Additional Educator Payment	\$892,888	\$1,037,930	\$1,173,908	\$1,186,988

12. HB 417 adds licensed social workers and licensed psychologists to the list of licensed professionals who are included in the calculation of the quality educator payment. This provision increases the quality educator count by 26.25 FTE licensed social workers and 2.4 FTE licensed psychologists for a total increase of 28.65 FTE and a cost of \$86,980 in each year of the 2009 biennium.

13. Direct State Aid, GTB and other general fund components are computed with the school funding model used by the Office of Public Instruction, the Legislative Fiscal Division and the Office of Budget and Program Planning using current statutory entitlements, enrollment estimates and estimated property tax values.

14. The increased retirement expense is estimated by determining the amount of increase in the BASE budget, multiplying times the percentage of the general fund budget that is typically salaries (75% salaries) to get the increased salaries associated with HB 417.

15. Estimated benefit rate is 15% based upon FY 2006 employer contribution rates:

	Certified Staff	Classified Staff
TRS	7.47%	
PERS		6.90%
FICA	6.20%	6.20%
Medicare	1.45%	1.45%
Unemployment	0.02%	0.02%
Totals	15.14%	14.57%

16. Based on budget data from FY 2006, on the marginal, the state pays retirement guaranteed tax base aid (GTB) of approximately 28% of countywide retirement tax levy.

17. Estimated cost to the state and county:

Fiscal Year	Estimated Additional Salaries	Estimated Benefit Rate	Retirement Cost	State Share	County Share
2008	\$29,149,356	15%	\$4,404,303	\$1,233,205	\$3,171,098
2009	\$42,494,622	15%	\$6,374,193	\$1,784,774	\$4,589,419
2010	\$43,652,156	15%	\$6,547,823	\$1,833,391	\$4,714,433
2011	\$44,072,261	15%	\$6,610,839	\$1,851,035	\$4,759,804

18. Consistent with HJR2 revenue estimates, the statewide taxable valuations will increase by 3.18 percent in FY 2008 and 3.22 percent in FY 2009 and beyond.

School Facility Account

19. The common school trust receives revenues generated from mineral royalties due to SB 495 (2001 Legislative Session). The royalties were purchased in 2001 with a loan from the permanent coal trust. The \$46 million loan purchased \$138.9 million in royalties and was expected to take 30 years to repay. Mineral royalty revenue has been much higher than expected, and the principle and interest of the loan are expected to be paid off in FY 2008 and the common school trust will continue to collect mineral royalties until the full \$138.9 million is received. Current estimates suggest that the guarantee account will receive \$52 million after the loan is paid off which will occur by the end of FY 2010. When all mineral production rights that were sold have been paid for, the revenue will be allocated to the inviolate common school permanent fund.
20. As a result of this legislation, one-time mineral royalty revenue monies in assumption 19 and shown in the table below will no longer be deposited in the guarantee account. Instead, revenue will be deposited in a state special revenue school facility improvement account.

SB 152 and Facility Improvement Account				
(\$ millions)				
	FY 2008	FY 2009	FY 2010	FY 2011
Mineral Royalty Revenue	\$29.323	\$27.363	\$26.526	\$26.406
Current Law				
Mineral Royalties to Coal Loan	\$7.492	\$0.000	\$0.000	\$0.000
Mineral Royalties to Trust Administration	\$4.249	\$4.189	\$4.100	\$4.302
Mineral Royalties to Guarantee Account	\$17.582	\$23.174	\$11.604	\$0.000
Royalties to Permanent Fund	\$0.000	\$0.000	\$10.822	\$22.104
Total	<u>\$29.323</u>	<u>\$27.363</u>	<u>\$26.526</u>	<u>\$26.406</u>
SB 152				
Mineral Royalties to Coal Loan	\$7.492	\$0.000	\$0.000	\$0.000
Mineral Royalties to Trust Administration	\$4.249	\$4.189	\$4.100	\$4.302
Mineral Royalties to Guarantee Account	\$0.000	\$0.000	\$0.000	\$0.000
Mineral Royalties to Facility Improvement	\$17.582	\$23.174	\$11.604	\$0.000
Royalties to Permanent Fund	\$0.000	\$0.000	\$10.822	\$22.104
Total	<u>\$29.323</u>	<u>\$27.363</u>	<u>\$26.526</u>	<u>\$26.406</u>
Change from Current Law to SB 152				
Mineral Royalties to Guarantee Account	(\$17.582)	(\$23.174)	(\$11.604)	\$0.000
Mineral Royalties to Facility Improvement	\$17.582	\$23.174	\$11.604	\$0.000

21. Total school BASE aid expenditures to school districts do not change as a result of this provision.
22. There is no appropriation in HB 417 from the school facility fund. The state general fund appropriation for school district BASE aid will need to increase in an amount equivalent to the decrease in the revenue available in the guarantee account (\$17.582 million in FY 2008, \$23.174 million in FY 2009, and \$11.604 million in FY 2010).
23. No change in school funding will occur until the school facility funds are appropriated in a subsequent legislative session.

24. This account would create funding to be available for school districts’ facilities needs to be determined at the end of the facilities study commissioned by the 2005 Special Legislative Session to be completed by July 2008. The total funds available in the 2011 biennium will be \$52.360 million.

Montana School for the Deaf and Blind, Corrections, and Department of Military Affairs

25. HB 417 includes the educator component for the Montana Youth Challenge Program. This organization has not previously been included in this school funding component. The Montana Youth Challenge Program has 5.0 FTE qualified for this payment.

26. The educator component would facilitate increases each year for the Montana School for the Deaf and Blind and for Corrections at Pine Hills and Riverside as follows:

		FY 2008 Increased Educator	FY 2009 Increased Educator
	FTE	Payment	Payment
		(Including applicable Retirement)	(Including applicable Retirement)
MSDB	36.25	\$39,132	\$39,359
Corrections	20.21	\$21,817	\$21,943
MT Youth Challenge	5.0	\$15,180	\$15,210

	FY 2008	FY 2009	FY 2010	FY 2011
	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Local Assistance (Direct State Aid)	\$18,865,707	\$30,965,427	\$31,986,647	\$32,374,827
Local Assistance (Guaranteed Tax Base Aid)	\$7,078,801	\$11,624,455	\$12,060,052	\$12,225,747
Local Assistance (Indian Education for All)	\$89,254	\$100,494	\$112,734	\$115,101
Local Assistance (Per Educator)	\$13,742,517	\$13,961,475	\$14,097,452	\$14,110,533
Local Assistance (Retirement)	\$1,428,483	\$1,473,590	\$1,520,122	\$1,568,123
Local Assistance (OTO)	\$10,000,000	\$0	\$0	\$0
Operating Expense	\$112,583	\$106,713	\$0	\$0
Personal Services (MSDB, Corrections, Military Affairs)	\$76,129	\$76,512	\$78,425	\$80,385
Transfers to Facility Improvement	\$17,581,717	\$23,174,302	\$11,603,981	\$0
TOTAL Expenditures	\$68,975,191	\$81,482,968	\$71,459,413	\$60,474,716

	FY 2008	FY 2009	FY 2010	FY 2011
	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
<u>Funding of Expenditures:</u>				
General Fund (01) -Distribution to Schools	\$51,204,762	\$58,125,441	\$59,777,007	\$60,394,331
General Fund (01) -Office of Public Instruction	\$112,583	\$106,713	\$0	\$0
General Fund (01) -(MSDB, Corrections, Military Affairs)	\$76,129	\$76,512	\$78,425	\$80,385
General Fund (01) -Facility Improvement	\$17,581,717	\$23,174,302	\$11,603,981	\$0
State Special (02) -Guarantee Account	\$0	\$0	\$0	\$0
TOTAL Funding of Expenditures	\$68,975,191	\$81,482,968	\$71,459,413	\$60,474,716

	FY 2008	FY 2009	FY 2010	FY 2011
	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special (02) -Facility Improvement	\$17,581,717	\$23,174,302	\$11,603,981	\$0
TOTAL Revenues	\$17,581,717	\$23,174,302	\$11,603,981	\$0

	FY 2008	FY 2009	FY 2010	FY 2011
	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$68,975,191)	(\$81,482,968)	(\$71,459,413)	(\$60,474,716)
State Special (02) -Facility Improvement	\$17,581,717	\$23,174,302	\$11,603,981	\$0

Effect on County or Other Local Revenues or Expenditures:

Office of Public Instruction

1. The cost of basic entitlement and per ANB funding is shared by the state and local taxpayers. Entitlements increase in HB 417 and a district's ANB increases with the implementation of full-time kindergarten, therefore, the BASE budget and the maximum general fund budget will also increase. Statewide, the local property taxes to fund the BASE budget will increase by \$7.5 million in FY 2008, \$12.3 million in FY 2009, \$12.6 million in FY 2010 and \$12.8 million FY 2011.
2. In districts that have already implemented full-time kindergarten, the new state funding will be available to reduce local taxes, fund other priorities, or augment the existing kindergarten program.
3. Tax increases to fund the over-BASE portion of full-time kindergarten must be approved by the voters and are unknown.
4. The increase in the Quality Educator payment, which is 100% state funded, will not increase local property taxes.

Sponsor's Initials

Date

Budget Director's Initials

Date