

NOT FOR

DISTRIBUTION

539

GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2011 Biennium

DISTRIBUTION

Bill #	HB0539	Title:	Revise school funding laws
Primary Sponsor:	Glaser, Bill E	Status:	As Introduced

- Significant Local Gov Impact    
 Needs to be included in HB 2    
 Technical Concerns  
 Included in the Executive Budget    
 Significant Long-Term Impacts    
 Dedicated Revenue Form Attached

## FISCAL SUMMARY

	<u>FY 2010</u> <u>Difference</u>	<u>FY 2011</u> <u>Difference</u>	<u>FY 2012</u> <u>Difference</u>	<u>FY 2013</u> <u>Difference</u>
<b>Expenditures:</b>				
General Fund	\$26,498,757	\$52,022,618	\$13,273,174	\$12,606,428
<b>Revenue:</b>				
General Fund	\$0	\$0	\$0	\$0
<b>Net Impact-General Fund Balance:</b>	<u>(\$26,498,757)</u>	<u>(\$52,022,618)</u>	<u>(\$13,273,174)</u>	<u>(\$12,606,428)</u>

**Description of fiscal impact:** HB 539 proposes to revise the calculation for the basic entitlement by including a definition for a "school unit," and calculating the basic entitlement based on the number of school units within each school district. HB 539 also includes a new classroom payment component, funded 80% by the state. These changes result in additional state general fund expenditures of \$26.5 million in FY 2010, and \$52.0 million in FY 2011.

## FISCAL ANALYSIS

**Assumptions:**

1. Under current law, the average number (ANB) belonging used to determine the general fund budgets for K-12 public schools will be as follows:

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
K-6 ANB	77,753	77,541	77,951	79,887	80,769
7-8 ANB	23,353	22,832	22,531	22,448	22,394
9-12 ANB	48,642	47,673	46,734	45,889	44,971
	149,748	148,046	147,216	148,224	148,134

district for elementary, middle school and high school as shown in the table below. The number of school units are then multiplied by the basic entitlement amounts in assumption 3. The change in basic entitlement calculation will cost the state general fund an additional \$22.9 million in FY 2010 and \$45.5 million in FY 2011 for additional direct state aid (DSA), guaranteed tax base aid (GTB) and county retirement. In FY 2012, when the basic entitlement values decrease according to this bill, to the FY 2009 amounts, the state general fund would reduce the amount of K-12 base aid to \$5.8 million in FY 2012 and \$4.6 million in FY 2013. The school units remain the basic entitlement calculation even though the amount per unit drops to the FY 2009 level.

	<u>ANB</u>
<b>Elementary School Unit</b>	250
<b>Middle School Unit</b>	450
<b>High School Unit</b>	800

10. HB 539 includes a \$500 per classroom payment, as defined in Section 1. The bill indicates the state would fund 80% of the classroom component which would be included in the BASE budget. The classroom component totals \$4.4 million in FY 2010 and subsequent years. The state would pay \$3.5 million of the classroom component in the BASE budget. The following table shows the number of classrooms, total component values, and the 80% state share of the classroom component.

	<b>Elementary Classroom Units</b>	<b>High School Classroom Units</b>	<b>Total Classroom Component in BASE</b>	<b>State Share of Classroom Component</b>
<b>FY 2010</b>	5,930.0	2,900.7	\$4,415,350	\$3,532,280
<b>FY 2011</b>	5,934.4	2,843.8	\$4,389,100	\$3,511,280
<b>FY 2012</b>	6,033.6	2,795.2	\$4,414,400	\$3,531,520
<b>FY 2013</b>	6,070.7	2,741.2	\$4,405,950	\$3,524,760

11. The additional classroom component funding to schools would also create an increased expense for additional retirement funding. 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 this bill.

12. Estimated benefit rate is 15% based upon FY 2008 employer contribution rates:

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

13. Based on budget data from FY 2008, on the marginal, the state pays retirement guaranteed tax base aid (GTB) of approximately 28% of countywide retirement tax levy.

14. Estimated cost to the state and county for teacher retirement:

Fiscal Year	Estimated Additional Salaries	Estimated Benefit Rate	Retirement Cost	State Share	County Share
2010	\$4,415,350	15%	\$662,303	\$185,445	\$476,858
2011	\$4,389,100	15%	\$658,365	\$184,342	\$474,023
2012	\$4,414,400	15%	\$662,160	\$185,405	\$476,755
2013	\$4,405,950	15%	\$660,893	\$185,050	\$475,843

15. It is estimated that state general fund retirement GTB costs will increase by approximately \$185,000 per year.

**Department of Administration**

16. Two statutory appropriations are impacted by this bill. 19-20-604, MCA, requires 0.11% and 19-20-607, MCA, requires 2.38% of teachers salaries to be contributed by the state general fund to the Teachers Retirement System (TRS) to provide additional employees' share of retirement to fund the actuarial shortfall. The cost to the state general fund is 2.49% (2.38% + 0.11%) of local salaries shown in the following table.

	Rate	FY 2010	FY 2011	FY 2012	FY 2013
<b>Salaries</b>		\$4,415,350	\$4,389,100	\$4,414,400	\$4,405,950
19-20-604, MCA	0.11%	\$4,857	\$4,828	\$4,856	\$4,847
19-20-607, MCA	2.38%	\$105,085	\$104,461	\$105,063	\$104,862
<b>Total TRS costs</b>		\$109,942	\$109,289	\$109,919	\$109,708

	<u>FY 2010</u> <u>Difference</u>	<u>FY 2011</u> <u>Difference</u>	<u>FY 2012</u> <u>Difference</u>	<u>FY 2013</u> <u>Difference</u>
<b><u>Fiscal Impact:</u></b>				
<b><u>Expenditures:</u></b>				
Local Assistance (DSA)	\$16,023,358	\$31,680,703	\$4,123,506	\$3,689,122
Local Assistance (GTB)	\$6,531,187	\$13,210,066	\$1,979,189	\$1,758,078
Local Assistance (Co. Retire)	\$301,990	\$3,511,280	\$3,530,280	\$3,524,760
Local Assistance (Classroom Pmt)	\$3,532,280	\$3,511,280	\$3,530,280	\$3,524,760
Local Assistance (TRS)	\$109,942	\$109,289	\$109,919	\$109,708
<b>TOTAL Expenditures</b>	<u>\$26,498,757</u>	<u>\$52,022,618</u>	<u>\$13,273,174</u>	<u>\$12,606,428</u>
 <b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$26,498,757	\$52,022,618	\$13,273,174	\$12,606,428
 <b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$26,498,757)	(\$52,022,618)	(\$13,273,174)	(\$12,606,428)

**Effect on County or Other Local Revenues or Expenditures:**

1. The new classroom payment would create an increased local levy of approximately \$880,000 per year in FY 2010 and FY 2011 to support the additional 20% of the new classroom entitlement that is in the district base budget.
2. The change in basic entitlement would also create an increased local levy of approximately \$1.7 million in FY 2010 and \$2.9 million in FY 2011.

**Technical Notes:**

1. The school units are calculated to the nearest tenth of a unit. The classroom size is not stated to be calculated to the nearest tenth which would give clarity to the classroom unit.

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Sponsor's Initials

\_\_\_\_\_  
Date

  
Budget Director's Initials

  
Date