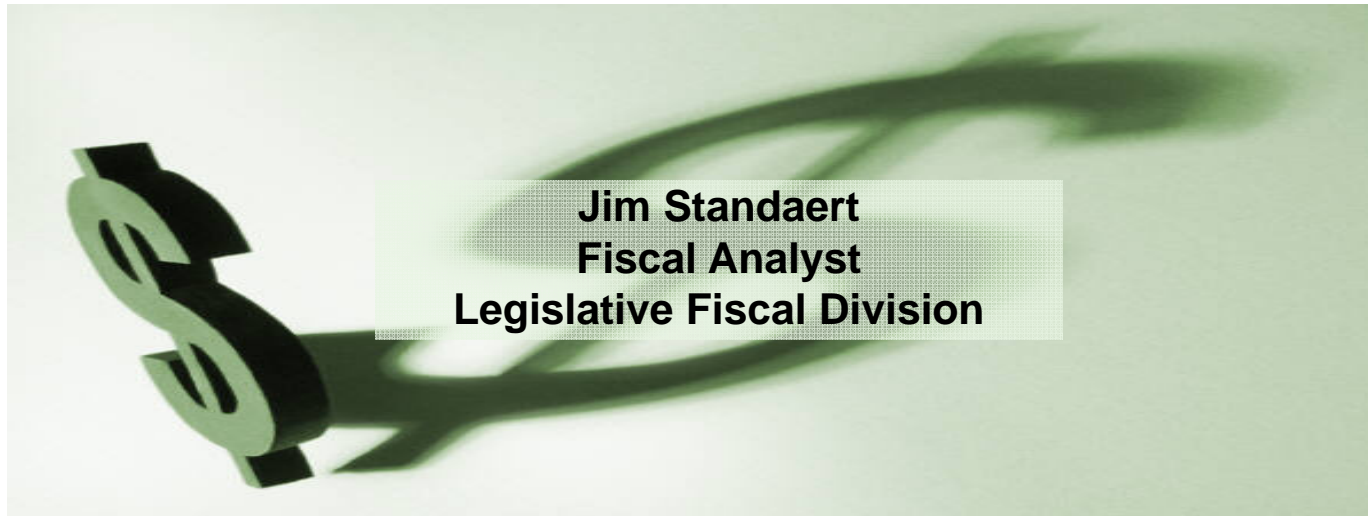




# School Finance Training

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**Jim Standaert  
Fiscal Analyst  
Legislative Fiscal Division**

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**January 16, 2013**

**House Education Committee**

# Budgeted/Non-Budgeted Funds

## 1. Budgeted Funds (11 Funds)

- District trustees adopt expenditure budget annually
- Revenue may include tax levies
- Examples:
  - General
  - Transportation
  - Retirement



# Budgeted Fund Statewide Totals

<u>Fund</u>	<u>FY12 Adopted Budgets</u>
General	\$ 967,179,082
Transportation	\$ 86,822,589
Bus Depreciation	\$ 46,925,425
Tuition	\$ 4,677,504
Retirement	\$ 133,274,407
Adult Education	\$ 14,125,981
Non-Operating (3 districts)	\$ 88,555
Technology	\$ 28,573,828
Flexibility	\$ 40,451,343
Debt Service	\$ 49,826,640
<u>Building Reserve</u>	<u>\$ 84,303,902</u>
Grand Total	\$1,456,249,255



# General Fund

- Authorized by 20-9-308, MCA
- Purpose: To finance general maintenance and operational costs of a district not financed by other funds
- Budgeted Fund (Tax Levy)
- Funding Model
- Funding Sources



# Principles of Equalization

Basis for HB 667 (L.1993)

- Limit expenditure disparities to 25% from lowest to highest spending districts
- Recognize school district size and special education costs as educationally-relevant reasons for expenditure disparities



## Average Number Belonging

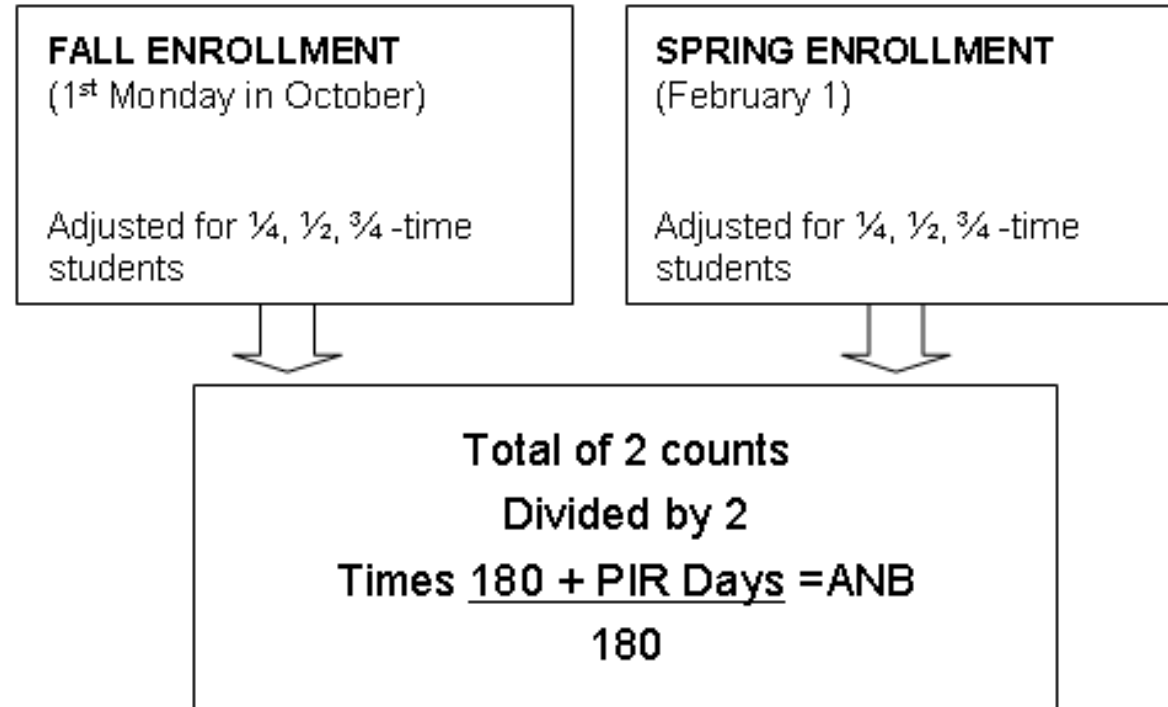
- ANB – Average Number Belonging is a student count for each school district used for school funding purposes. The ANB count for the current year is derived from school enrollment counts conducted in October and February of the previous school year.



## Changes to ANB Calculation

- **Three-Year averaging** – Choose the higher of current Year ANB or a 3-yr average
- **Full Time Kindergarten (SB2- 2007 Session)** - ANB Funding for students enrolled in a Full-Time Kindergarten (FTK) program. With the addition of FTK the three year average is calculated by allowing the FTK ANB calculation to be included in the prior two years.
- $\frac{1}{4}$  enrollment 180-359 hours per year
- $\frac{1}{2}$  enrollment 360-539 hours per year
- $\frac{3}{4}$  enrollment 540-719 hours per year
- Full time enrollment 720 or more hours per year.

## ANB = Average Number Belonging



3yr Average (HB63)



# General Fund Budget Elements

- Basic Entitlement
- Per-Student Entitlement
- State Special Education Payment
- Local Special Education Match Amount
- Quality Educator Payment (New FY2007)
- At-Risk Student Payment (New FY2007)
- Indian Education for All Payment (New FY2007)
- American Indian Achievement Gap Payment (New FY2007)



## Entitlements (FY04)

Basic Entitlement	
Elementary	\$ 19,456
High School	\$ 216,171
Per ANB Entitlement	
Elementary	\$3,949 - \$0.20/ANB to 1,000 ANB
High School	\$5,262 - \$0.50/ANB to 800 ANB
Special Education Block Grant	
Instructional	\$122.67/ANB
Related-Services	\$ 40.89/ANB
State Approp: \$30.9 million	

## Entitlements (FY13)

Basic Entitlement	
Elementary	\$ 23,593
Middle School	\$ 66,816
High School	\$ 262,224
Per ANB Entitlement	
Elementary	\$5,075 - \$0.20/ANB to 1,000 ANB
High School	\$6,497 - \$0.50/ANB to 800 ANB
Special Education Block Grant	
Instructional	\$150.13/ANB
Related-Services	\$ 50.04/ANB
State Approp: \$41.6 million	



## Special Education

- **Funding Allocations**
  - 52.5% Instructional Block Grants
  - 17.5% Related Services Block Grants
  - 25% Disproportionate Cost Reimbursement
  - 5% Coop Travel and Administrative Costs
- Money is distributed on a per ANB basis not based on the number of students with disabilities.



## Quality Educator

**Quality Educator** is defined as a person who holds a valid certificate and is employed by a school District or Coop in a position that requires an educator license or other professional license to provide services to students.

**Includes** registered nurses, licensed practical nurses, physical therapists, speech language professionals, counselors, occupational therapists and nutritionists. Social workers, psychologists and other professionals



# Changes to General Fund Components 2005 Special Session

- Quality Educator Payment  
FY07 \$2,000 per educator FY11 \$3,042
- American Indian Achievement Gap Payment  
FY07 \$200 per American Indian Student
- Indian Education for All Payment  
FY07 \$20.40 per ANB min \$100 district
- At Risk Payment  
FY07 \$5 million annually allocated based on  
Title I Allocations

(SB1) 2005 Special Session



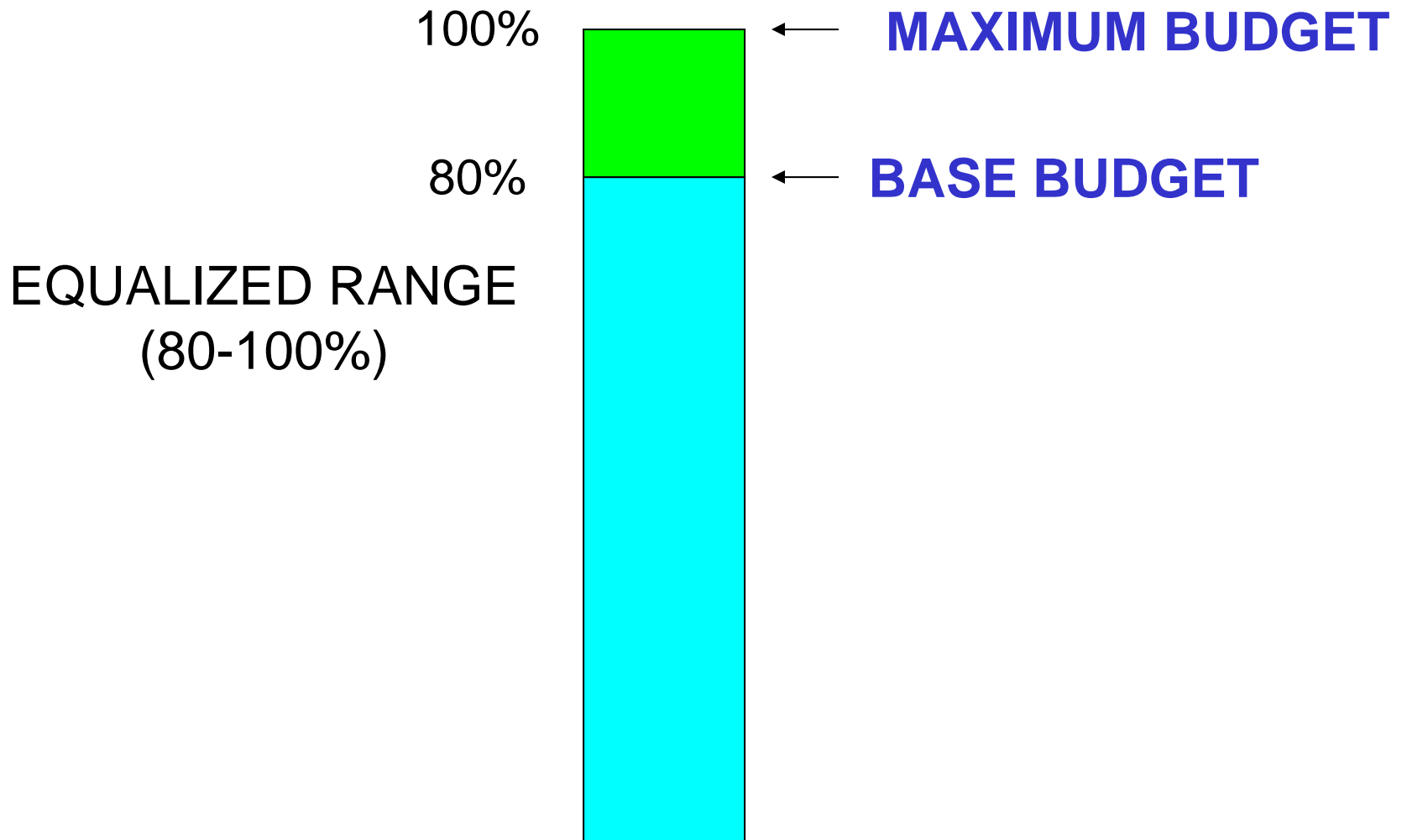
## Maximum Budget (FY13)

- Basic Entitlement
- + Per-ANB Entitlement
- + 200% Special Ed Per Student
- + Quality Educator Payment
- + At-Risk Student Payment
- + Indian Education for All Payment
- + American Indian Achvmnt Gap Payment

MAXIMUM BUDGET (100%)



# General Fund Budget Limits



General Fund Budget Limits

Maximum

Over-BASE

BASE

BASE

80% Per-Student Entitlement

80% Basic Entitlement

100% Quality Educator Payment

100% At-Risk Student Payment

100% Indian Education for All Payment

100% Amer Indian Achvmnt Gap Payment

140% Spec Ed Allowable Cost Funding  
(State)

*The BASE is 80% of the basic and per-student entitlements, 100% of the other state entitlements, plus 140% of the state special education funding.*



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# General Fund Budget Limits

Maximum

BASE

Over-BASE

## Maximum

100% Per-Student Entitlement

100% Basic Entitlement

100% Quality Educator Payment

100% At-Risk Student Payment

100% Indian Education for All Payment

100% Amer Indian Achvmnt Gap Payment

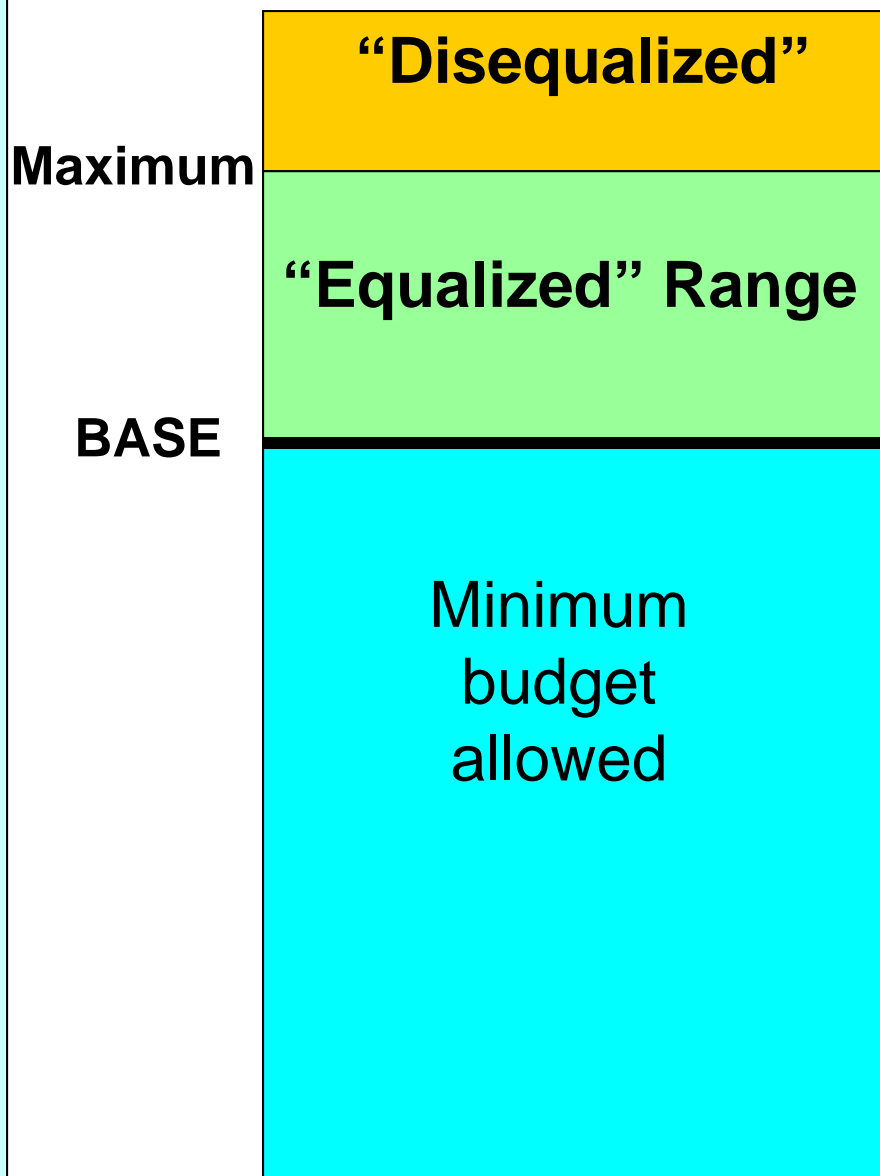
200% Spec Ed Allowable Cost Funding  
(State)

*The Maximum for a district is based on state entitlements that are driven by enrollment and other factors. From 175% to 200% of the state funding for special education is also included in the Maximum, depending on the district's previous costs of special education.*



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# General Fund Budget Limits



A district may adopt a budget that exceeds the Maximum in limited cases.

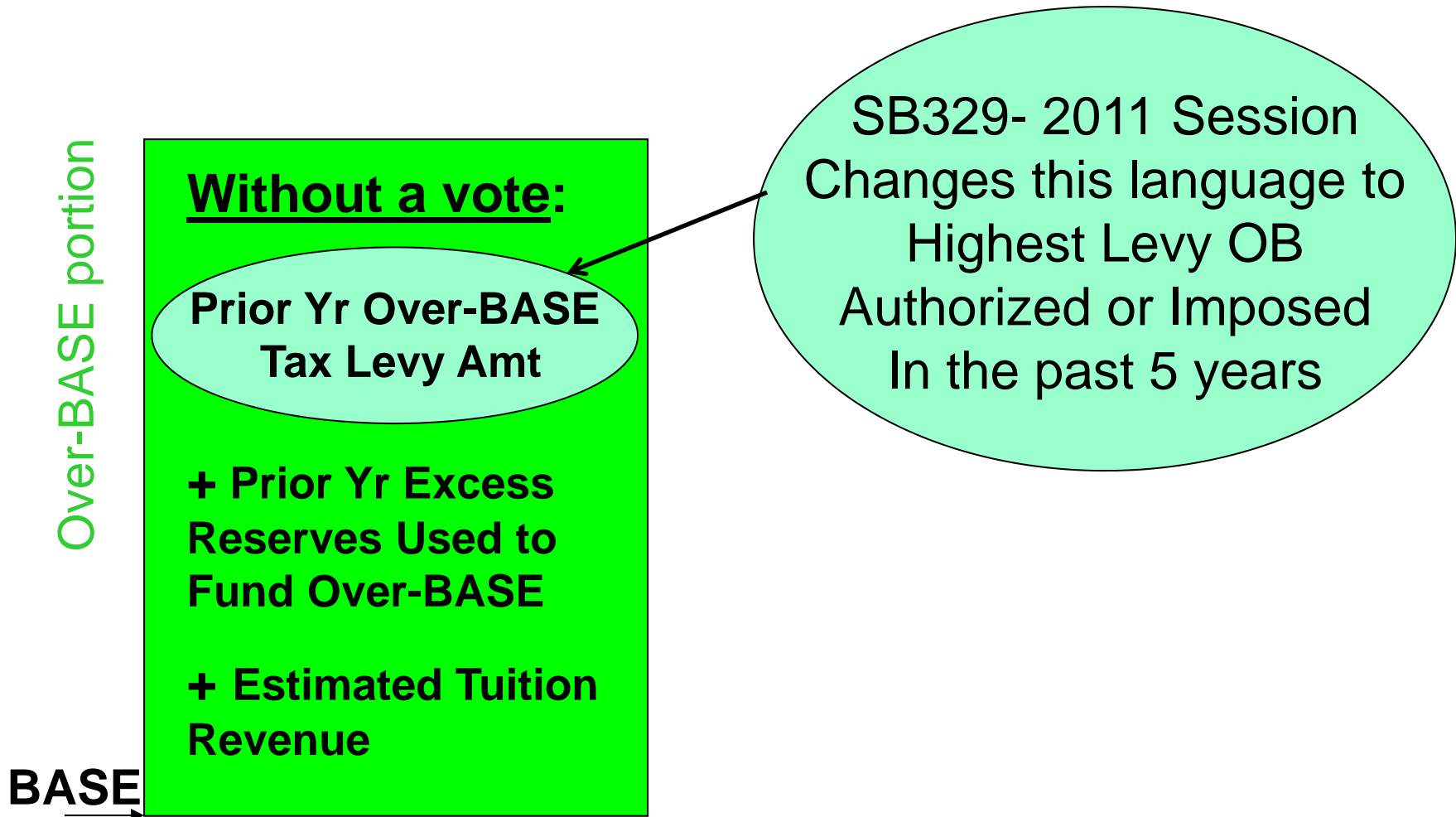
In an effort to equalize school funding in Montana, state law encourages schools to adopt general fund budgets within an “equalized” range between the “BASE” and “Maximum.”

The BASE is the minimum legal budget for a district.

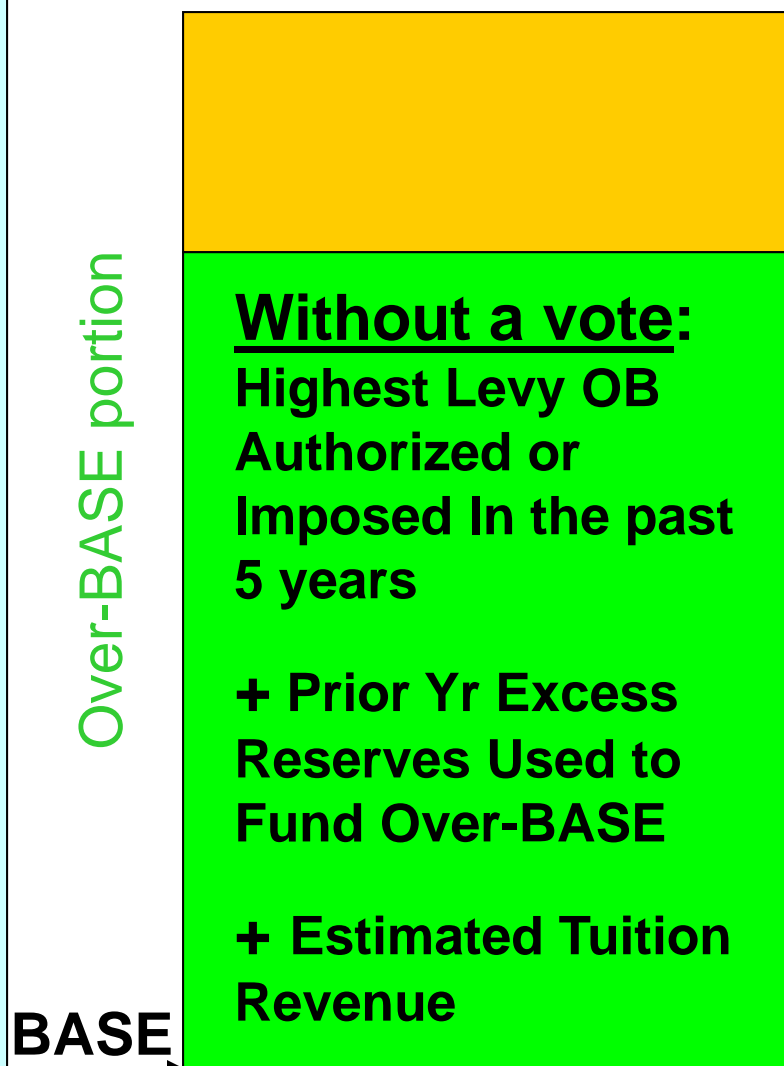


# Highest Budget Without a Vote

## General Fund Budget Limits



# Highest Budget With a Vote



**Vote Required  
for Increase in  
Over-BASE Tax  
Levy**

**District may adopt up to  
prior year budget or  
ensuing year's Maximum,  
whichever is higher.  
(HB363) 2007 Session**

**Requires voter approval to  
increase the over-BASE  
levy.**



# Voting Requirements

General Fund Budget Limits

Max  
Over-BASE portion  
BASE

**Without a vote:**  
**Highest Levy OB**  
**Authorized or**  
**Imposed In the past**  
**5 years**

**+ Prior Yr Excess**  
**Reserves Used to**  
**Fund Over-BASE**

**+ Estimated Tuition**  
**Revenue**

**Vote Required**  
**for Increase in**  
**Over-BASE Tax**  
**Levy**

A district that adopted an equalized budget in the prior year may budget up to the Maximum.

However, voter approval is required in order to increase the Over-BASE tax levy.

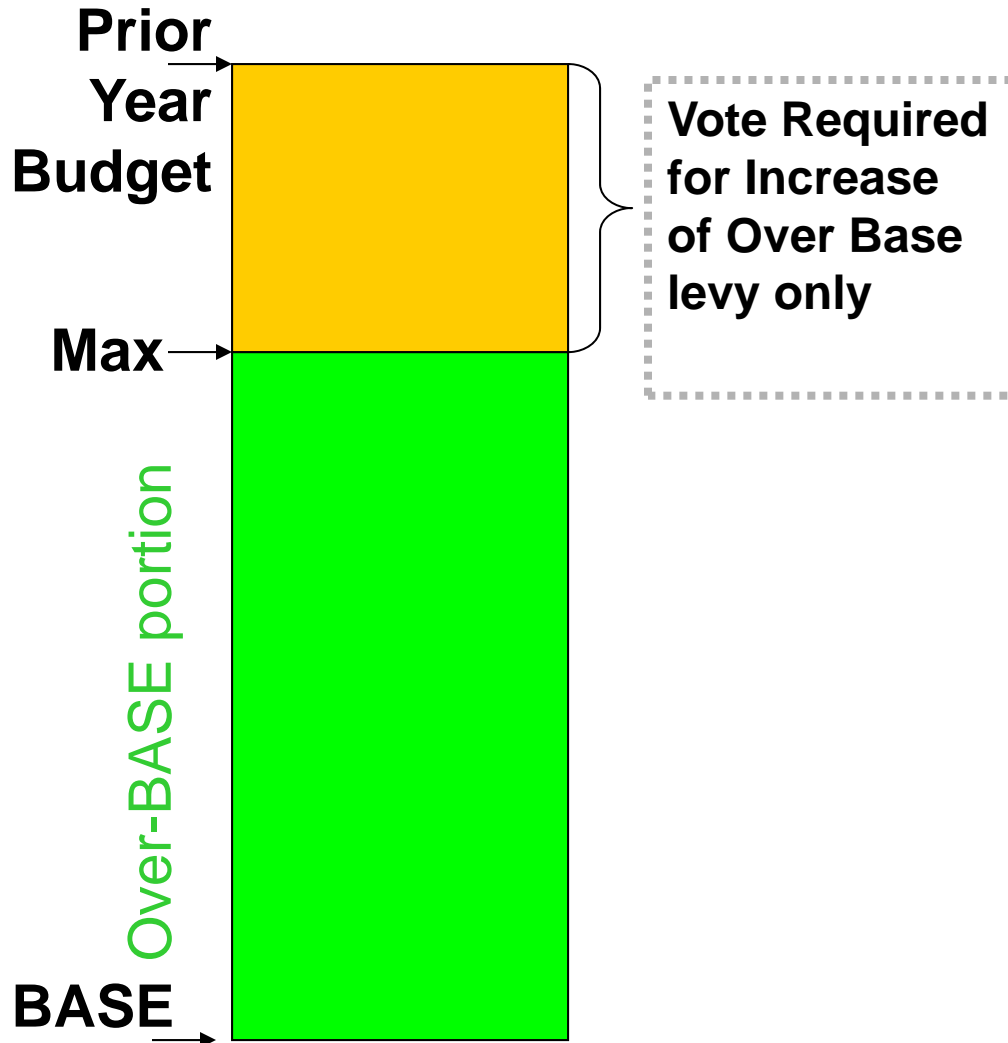
**Equalized**  
**District**



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# Voting Requirements FY2008

## General Fund Budget Limits



~~--Requires 5 year plan to budget at Max by end of 5<sup>th</sup> year~~

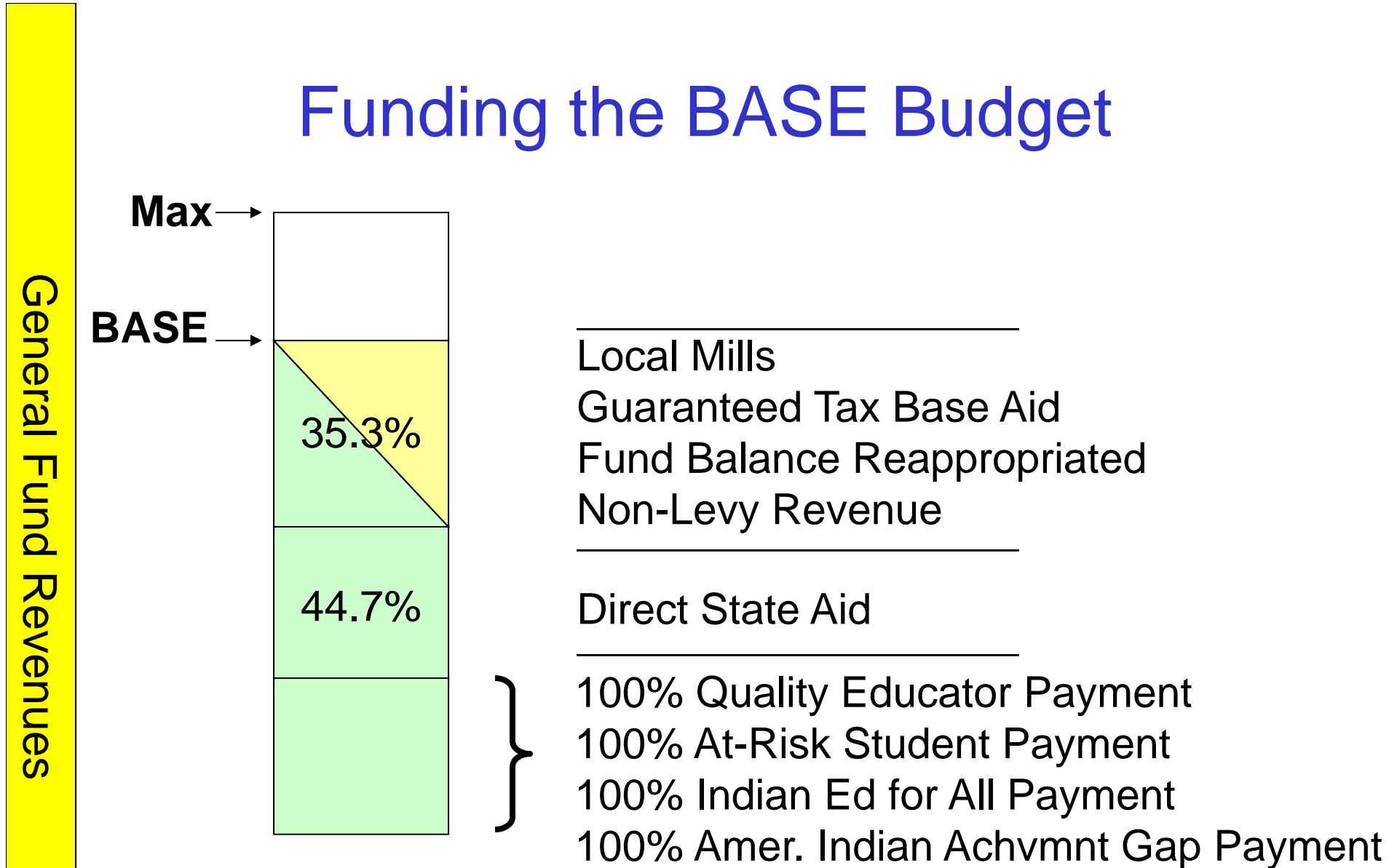
~~A district with a prior year budget that exceeds the ensuing year's Maximum budget may adopt the prior year budget if voters approve the Over-Maximum amount. The district must adopt a budget no higher than Maximum by the sixth year.~~

**“Over-Max”  
District**

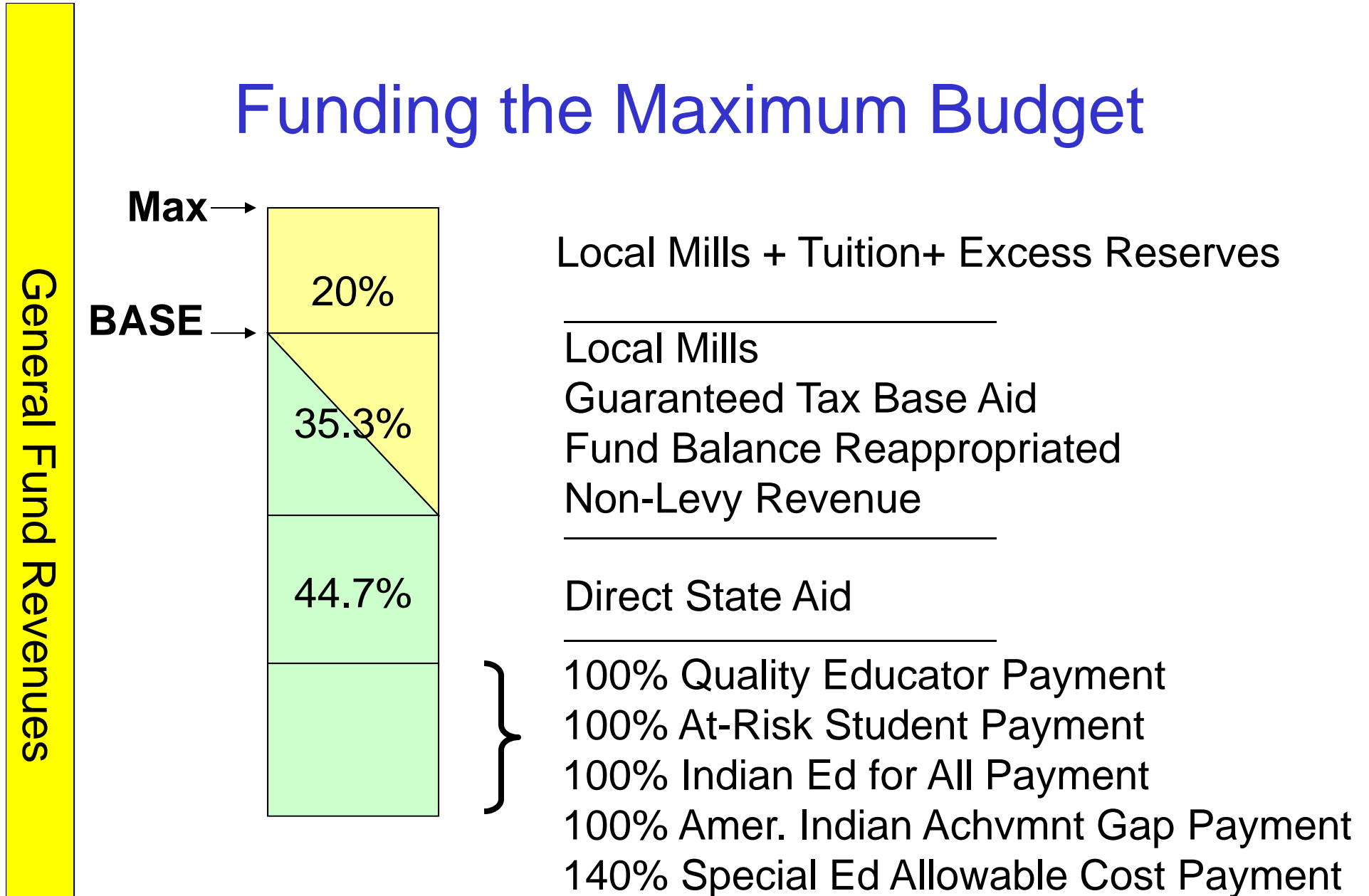


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# Funding the BASE Budget



# Funding the Maximum Budget





## How Guaranteed Tax Base Works

- State Taxable Value  
\$ 2,345,121,343 (2011 tax year)
- State guarantees that for every dollar of the BASE budget that the district must fund with property taxes (i.e. in the GTB Area), there will be \$22.13 (FY13) of taxable valuation at the elementary level and \$38.51 (FY13) at the high school level to fund that budget.
- The GTB level is recalculated each year.



## Changes to General Fund GTB

- **Statewide GF GTB Ratio** changed from 175% to 193% effective in FY08. 321 districts received GF GTB in FY08, up from 306 districts in FY07.

318 LEs in FY10

319 LE's in FY11

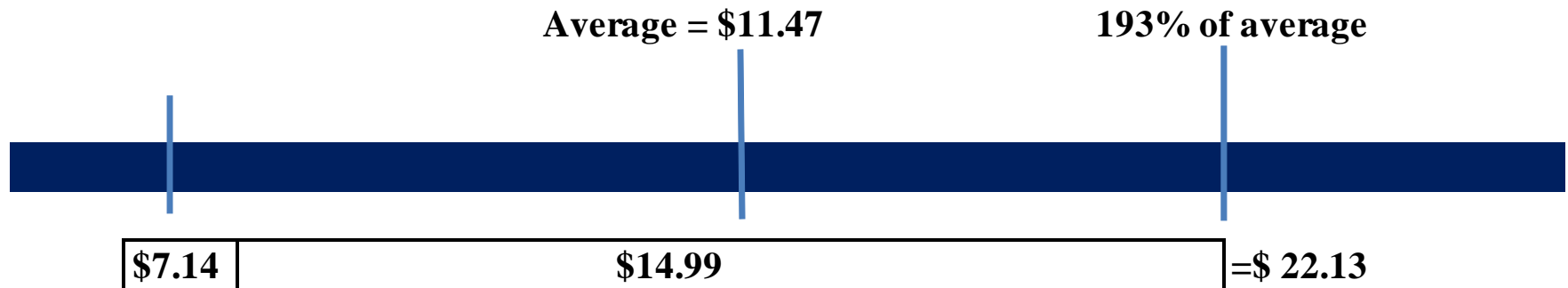
315 LE's in FY12

(HB2) 2007 Session



## How GTB Works in the District General Fund - FY 2013

### Taxable Value per Dollar of GTB Area - FY 2013



<b>Havre Elementary</b>	<b>Havre Elementary GTB Subsidy per dollar GTB Area</b>
-------------------------	---

	<u>Average</u>	<u>193 Percent</u>
Statewide Elementary GTB Ratio	\$11.47	\$22.13
		<u>Havre Elem</u>
FY 2012 Statewide Taxable Value	\$2,345,121,343	\$17,904,146
FY 2012 GTB Area - Elem	\$204,522,557	\$2,508,955
Taxable Value per dollar GTB Area	\$11.47	\$7.14

## **Havre Elementary GTB and Base Taxes**

**Ratio of Base Taxes to Statewide GTB R 7.14/22.13 = 32.2%**

**Ratio of GTB Subsidy to Statewide GTB 14.99/22.13 = 67.8%**

**Havre Elementary GTB Area FY 2013 \$1,986,920**

**Base Taxes \$640,707 33.86 mills**

**GTB Subsidy \$1,346,213**

**If Havre Elementary had not had GTB it would have levied 105 base mills to fund its GTB area. With GTB it will levy 33.86 Base Mills**

## Non-Levy Revenue

- Schools must budget non-levy revenue
- Must include non-levy revenue BEFORE levying property taxes
- Examples of non-levy revenue include:
  - Investment earnings
  - State Reimbursements (for tax law changes)
  - Oil, gas and coal payments
  - State Paid Tuition
  - Block Grants



# Non-Levy Revenue – Block Grants

<u>Block Grant Type</u>	<u>FY12 Amount</u>
General Fund School Block Grant	\$ 45,030,355
Co. Transportation Fund School Block Grant	\$ 1,856,355
Combined Fund SBG (Discretionary Placement):	
General Fund:	\$ 186,057
Transportation Fund:	\$ 107,814
Bus Depreciation Fund:	\$ 21,909
Tuition Fund:	\$ 7,461
Adult Ed Fund:	\$ 58,705
Non-Operating Fund:	\$ 428
Technology Fund:	\$ 693,290
Flexibility Fund:	\$ 1,685,633
Debt Service Fund:	\$ 137,656
Building Reserve Fund:	\$ 524,249
<u>Total Combined Fund School Block Grant</u>	<u>\$ 3,423,203</u>
<b>Grand Total</b>	<b>\$ 50,309,913</b>

## Fund Balance Reappropriated

- Determine the fund balance in the district's general fund as of June 30
- Set aside up to 10% for an operating reserve for the ensuing year
- Set aside "excess reserves" (as defined in 20-9-104, MCA)
- Remaining fund balance must be used to fund the budget for the ensuing year before property taxes may be levied
- FBR is limited to 15% of the Maximum GF budget excess FBR is remitted to the state.



# General Fund Budgets

## Number of Districts

Percent Group	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Below Base</b>	0	0	0	0	0	0	0	0	0
<b>At Base</b>	62	59	56	54	53	54	53	51	49
<b>&lt; 90%</b>	57	46	54	48	45	44	44	45	42
<b>90 to 97%</b>	64	68	81	78	83	77	82	80	78
<b>97 to Max</b>	122	147	164	147	135	142	119	127	84
<b>Over Max</b>	133	116	75	98	105	103	119	114	161
<b>Grand Total</b>	438	436	430	425	421	420	417	417	414



# SB 329 – 2011 session

- FY2012 General Fund Budget
  - Basic and per-ANB Entitlements
  - General Fund over-BASE levy
  - Limit on GF fund balance reappropriated (FBR)
  - One-Time General Fund Transfer
  - Block grants frozen at 2011 rates
  - Oil and natural gas production taxes

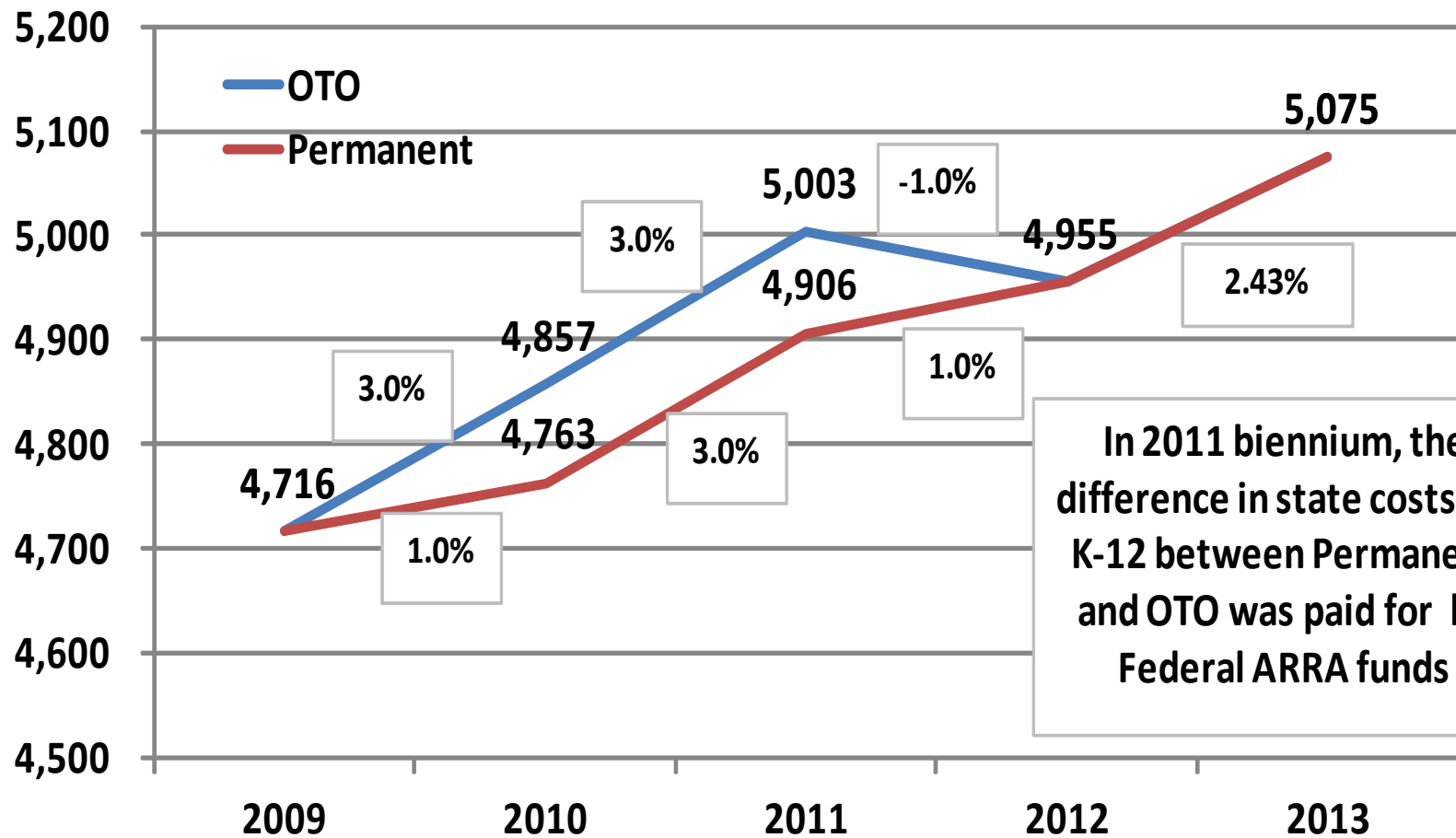
# SB 329 - continued

- Budget Amendments
- Ending Fund Balance Limits
  - Flexibility Fund (29)
  - All Budgeted Funds
- Pathway to Excellence Program
- Multi-District Cooperative Agreements
- Timelines

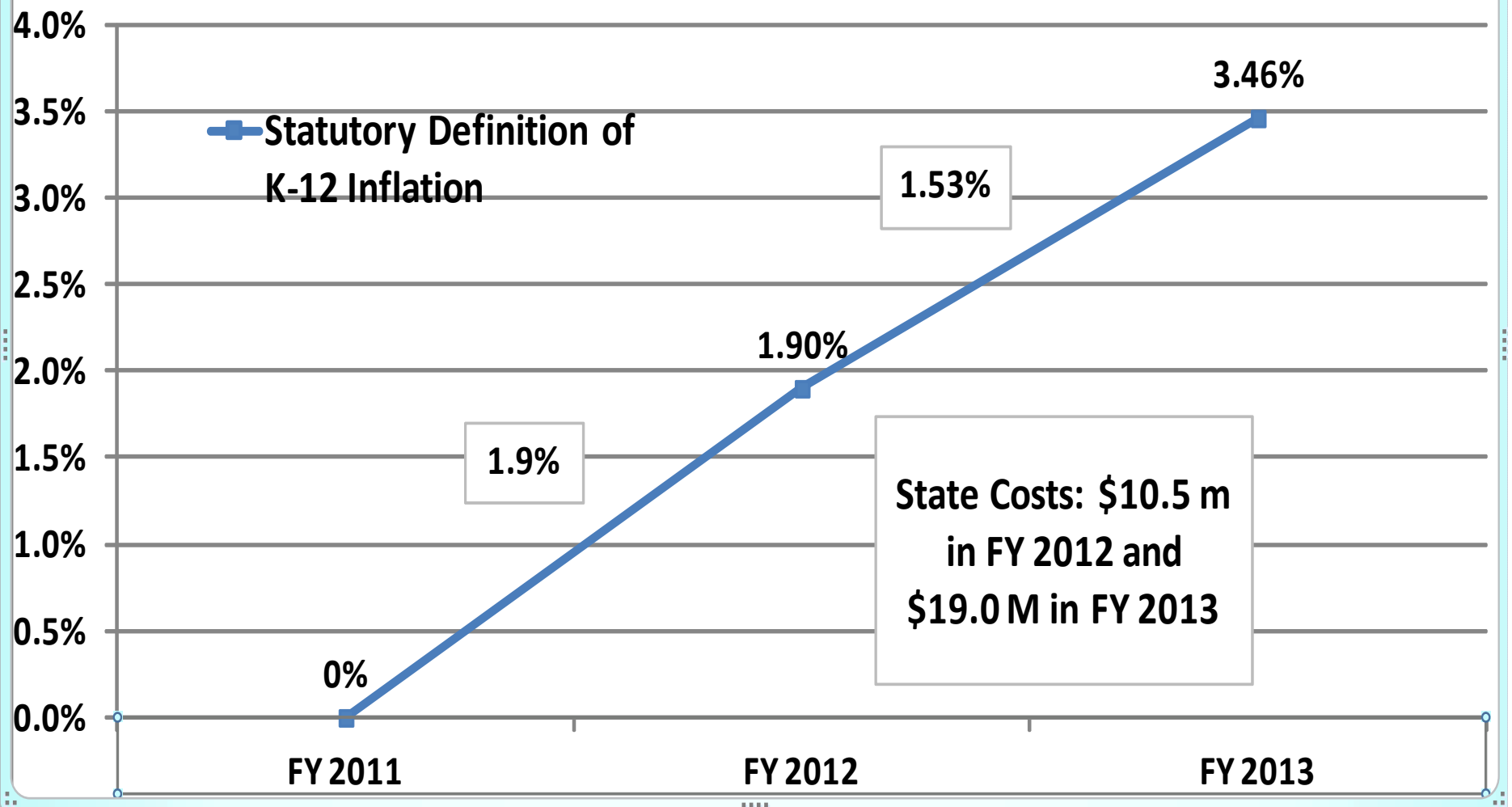
# General Fund Budget Rates

<b>Entitlement</b>	<b>FY 2011</b>	<b>FY 2012 1%</b>	<b>FY 2013 2.43%</b>
Elementary Basic	\$ 23,257	\$ 23,033	\$ 23,593
Middle School Basic	\$ 65,863	\$ 65,231	\$ 66,816
High School Basic	\$ 258,487	\$ 256,003	\$ 262,224
Elem Per-ANB	\$ 5,003	\$ 4,955	\$ 5,075
HS Per-ANB	\$ 6,405	\$ 6,343	\$ 6,497

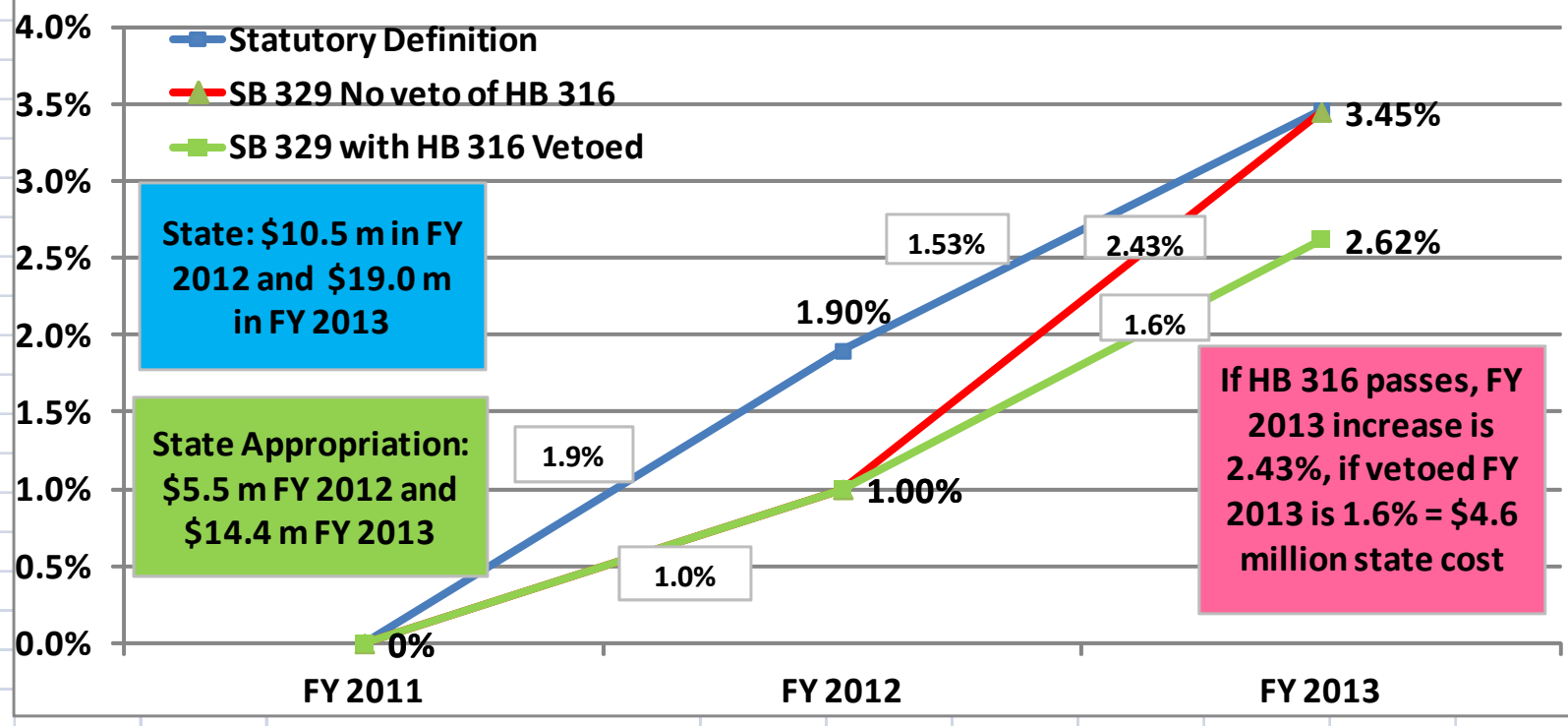
## Elementary Per-ANB Entitlement FY 2009-FY 2013 - OTO and Permanent



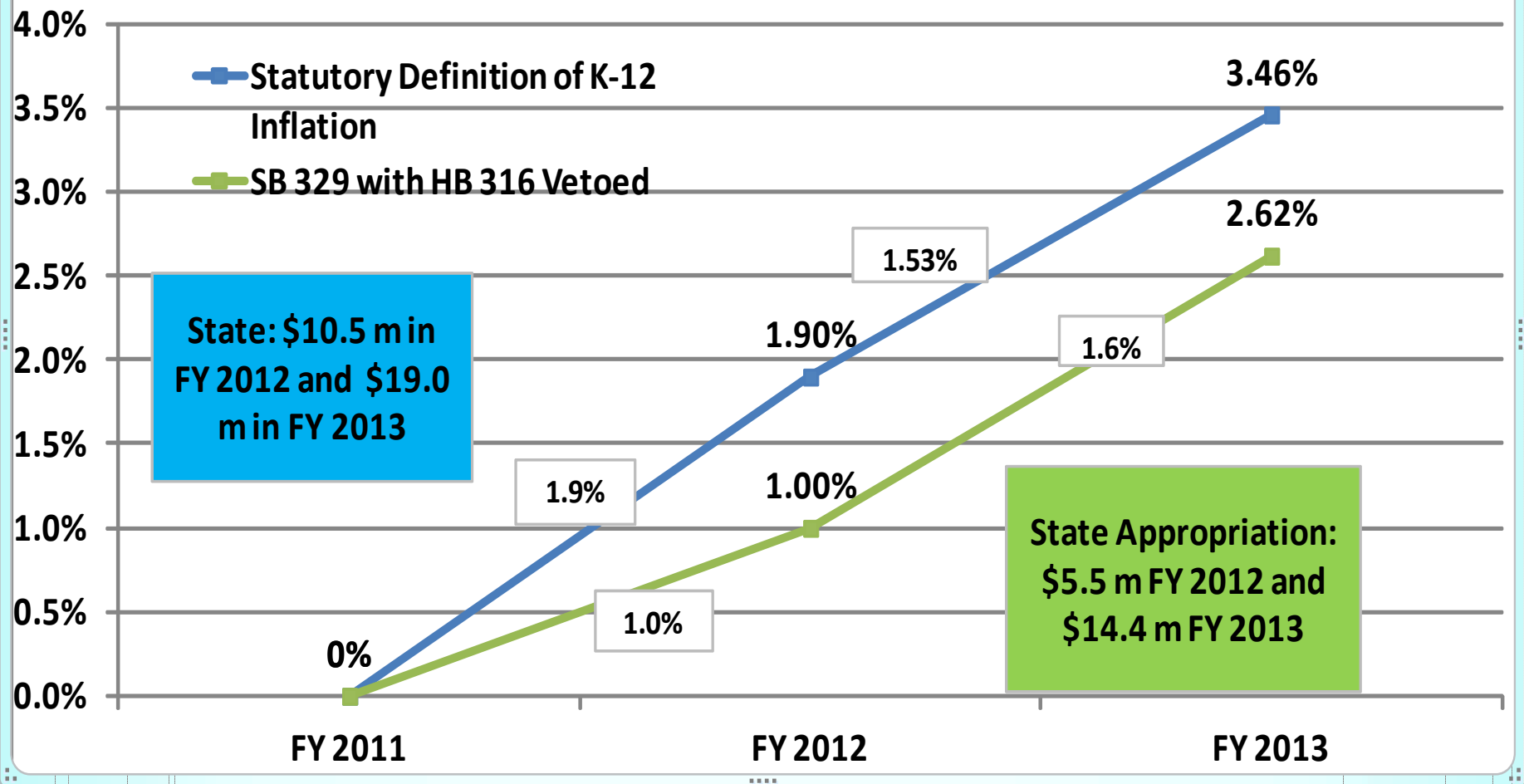
## K-12 Inflation in the 2013 Biennium



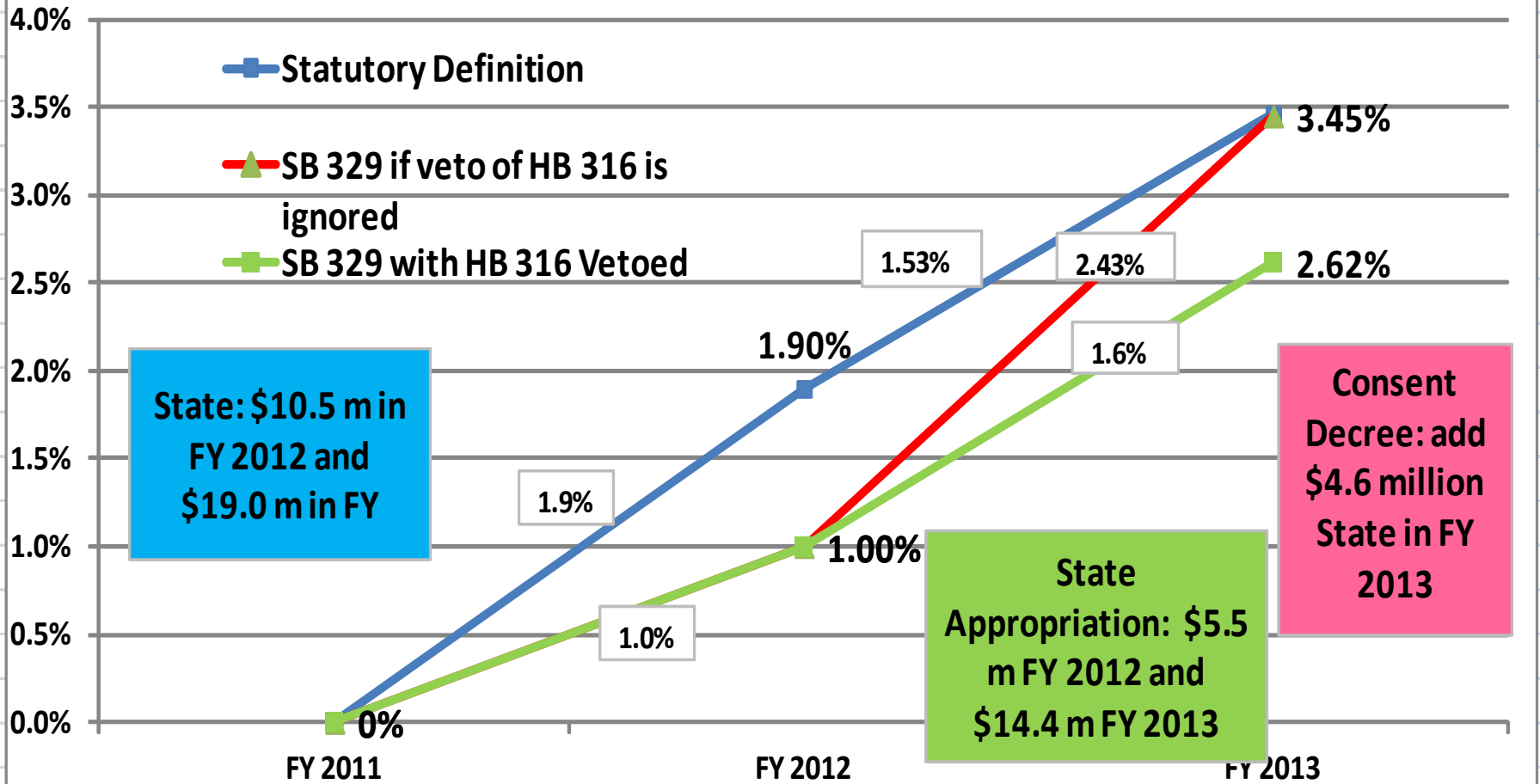
## K-12 Inflation in the 2013 Biennium



## K-12 Inflation in the 2013 Biennium



## K-12 Inflation in the 2013 Biennium





## SB 329 - FY2012 General Fund Budget

- Districts may permissively adopt an over-BASE levy that is equal to the higher of:
  - the highest over-BASE amount **imposed** (actually levied) in any of the previous 5 years (FY2007 – FY2011), OR
  - The highest over-BASE amount **authorized** by voters, up to the highest budget allowed, in any of the previous 5 years (FY2007 – FY2011)

## **SB 329 - FY2012 General Fund Budget**

- General Fund Balance Reappropriated (FBR)
  - Any unreserved fund balance in excess of 15% of a school district's maximum general fund budget must be remitted to the state
    - FY2012 – 100% deposited to state general fund
    - FY2013 - deposited to:
      - 70% Guarantee account
      - 5% State school oil and natural gas impact account
      - 25% County school oil and natural gas impact fund

***Note: this provision terminates June 30, 2016***


# One-Time Transfer from General Fund

- Trustees must have approved the transfer at a properly noticed hearing prior to June 30, 2011
- General Fund money ***in excess*** of 15% of FY2011 GF adopted budget (doesn't include amendments)
  - FY2011 GF ending fund balance reported on TFS must be at least 15% of 2011 GF budget!
- May transfer to any budgeted fund(s)
- Notify OPI and county treasurer
  - Identify as SB329 One-time Transfer
  - Amount transferred
  - Identify to which fund(s) \$\$ were transferred

# FY2012 General Fund Budget

- School district block grants (20-9-630, MCA) are frozen at FY2011 amounts:

- General Fund
- Transportation Fund
- Combined Block Grant



*More  
about  
SB372  
later!*

In FY2013, SB372 Business Equipment Tax Reimbursements will be added to these payments

- Countywide transportation block grants (20-9-632, MCA) will continue to increase by .76% annually

# Oil and Natural Gas Production Taxes

## Distribution of taxes to taxing units (15-36-332, MCA)

- Dept. of Revenue (DOR) allocates per 15-31-331, MCA
- DOR distributes to Counties
- County remits to school districts

	Production Tax Months	DOR Remits to County	
Calendar Year 2011	Jan. – Mar.	On or before August 1	Payments Made in FY2012
	Apr. – June	On or before November 1	
	July – Sept.	On or before February 1	
	Oct. – Dec.	On or before May 1	

# Oil and Natural Gas Production Taxes

- Limit on total oil and natural gas tax revenue
  - School district may receive 130% of its Maximum General Fund budget
  - DOR distributes \$\$ until the limit is reached
  - Excess of the limitation is deposited to:
    - In FY2012, to the guarantee account
    - Beginning in FY2013:
      - 70% to state guarantee account
      - 5% to state school oil and natural gas impact account
      - 25% to county school oil and natural gas impact fund

***Note: this provision terminates June 30, 2016***

# Oil and Natural Gas Production Taxes

- School district must budget a minimum amount of oil and natural gas production tax revenue in the General Fund equal to the lesser of:
  - 25% (FY2012) of the total oil and gas revenue received in all funds in the prior year, OR
  - The general fund levy requirement (BASE and over-BASE)
  - Required minimum receipts to be budgeted:

FY2012	25%	FY2014	45%
FY2013	35%	FY2015 and after	55%

***Note: this provision terminates June 30, 2016***

# Oil and Natural Gas Production Taxes

- Oil and natural gas revenue must be deposited in the General Fund until the budgeted amount is reached.
- All remaining oil and natural gas revenue may be deposited in any budgeted fund.



# Impacts From Oil and Natural Gas Production

- State School Oil and Natural Gas Impact Account
  - Purpose: to provide money to schools not receiving oil and natural gas tax revenue but are impacted by contiguous counties that are benefitting from oil and natural gas tax revenue
  - Funding sources (FY2013 – FY2016):
    - Excess fund balance available for reappropriation
    - Excess oil and natural gas production tax revenue
  - Amount in fund is limited to \$7.5 million; excess is deposited in the state general fund
  - School applies to OPI for funds
  - Awards based on need, impacts and other criteria

# Impacts From Oil and Natural Gas Production

- County School Oil and Natural Gas Impact Fund
  - County distributes 80% of the fund when:
    - A school district receives 30% or less of the district's 4-year average oil and gas revenue, OR
    - The average price of oil is \$50 or less for the fiscal year, OR
    - Production of oil in the county drops 50% or more below the county's 5-year average production
  - County may retain 20% to:
    - Pay outstanding capital project bonds
    - Other expenses incurred prior to reduction in price,
    - Offset property taxes
    - Promote diversification and economic development in the county
    - Attract new industry
    - Provide cash incentives for expanding employment base in the impacted area

# Budget Amendments

- Any budget amendment(s) adopted due to an “unforeseen need of the district that cannot be postponed until the next school year without dire consequences affecting the educational functions of the district” (20-9-161(b))
- Adopted in combination with other budget amendments within the same fiscal year
- Exceeds 10% of the district’s adopted general fund budget
- Must be reported with an explanation of why the budget amendment is necessary to:
  - Board of Public Education
  - Education and Local Government Interim Committee

# Ending Fund Balance Limits

- Flexibility Fund (29)
  - Beginning July 1, 2013 (FY2014), the balance of a school district's flexibility fund may not exceed 150% of its maximum general fund budget
  - Example:

FY2014 Maximum GF Budget	\$ 1,500,000
Flexibility Fund balance as of June 30, 2014 cannot exceed	\$ 2,250,000

## Ending Fund Balance Limits

- Beginning July 1, 2016 (FY2017), EFB limited to 300% of the maximum general fund budget
- All budgeted funds, except building reserve, debt service and bus depreciation
  - General (01)                      Transportation (10)
  - Tuition (13)                      Retirement (14)
  - Adult Education (17)              Technology (28)
  - Flexibility (29)
- Doesn't apply to districts in a non-operating status or in the first year of re-opening

# Pathway to Excellence Program

- Requires the Office of Public Instruction (OPI) to develop on its website an educational data profile for each district, which contains:
  - school district contact information and links to district websites, when available.
  - state criterion-referenced testing results.
  - program and course offerings.
  - student enrollment and demographics by grade level.
  - graduation rates.

(SB329) 2011 Session

# Pathway to Excellence Program

- Requires each school district to annually report to the OPI and post on its website the following district information for the previous school year
  - The number and type of employee positions.
  - The total amount of compensation paid to each school district.
  - The certification held by and required of each employee.

(SB329) 2011 Session



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# Multidistrict Cooperatives

- Allows cooperative purchasing contracts between school districts to purchase supplies and services without complying with bid requirements if the group maintains an updated, publicly available master list of supplies and vendors. The group must allow vendors to compete twice yearly for inclusion on the master list.

(SB329) 2011 Session



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# Multidistrict Cooperatives

- Authorizes two or more school districts to create a multidistrict cooperative to perform any services, activities, and undertakings of the participating districts.
- Members of multidistrict cooperatives may transfer moneys from any budgeted funds of the district to the prime agent (host) district of the cooperative for deposit into the interlocal agreement fund.

(SB329) 2011 Session



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# Multidistrict Cooperatives

- SB 329 and HB 2 appropriated a total of \$2 million for the biennium for one-time payments to districts participating in multidistrict cooperatives as of December 31, 2012. Payments will be allocated to districts based on the proration of each district's FY 2013 BASE budget to the total of BASE budgets for all districts participating in multidistrict cooperatives. Funding may be, but is not required to be, used to fund cooperative efforts.

(SB329) 2011 Session



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## SB 329 Timelines

- **Prior to June 30, 2011**
  - One-time transfer of general fund money in excess of 15% of FY2011 GF budget that is not needed to fund the budget to any budgeted fund.

# SB 329 Timelines

- **Effective July 1, 2011 (FY2012)**

- Multidistrict agreements
- Cooperative purchasing contracts
- Transfers between funds
- Increase in basic and per-anb entitlements
- General Fund over-BASE levy
- Limit on fund balance reappropriated (FBR)
- Oil and natural gas production taxes
- Block grants frozen at FY2011 level
- Budget amendments

*Ends  
June 30,  
2016*

# SB 329 Timelines

- **Effective in FY2013**
  - OPI distributes \$2 million appropriation to districts participating in multidistrict cooperatives
  - OPI must present longitudinal data on student achievement
- **Effective July 1, 2012 (FY2013)**
  - State school oil and natural gas impact account
  - County school oil and natural gas impact account
  - Flex fund ending balance is limited to 150% of max GF budget

## SB 329 Timelines

- **Effective July 1, 2016 (FY2017)**
  - Limit on ending fund balance in budgeted funds, except retirement, debt service, building reserve and non-operating

# SB372 Business Equipment Tax

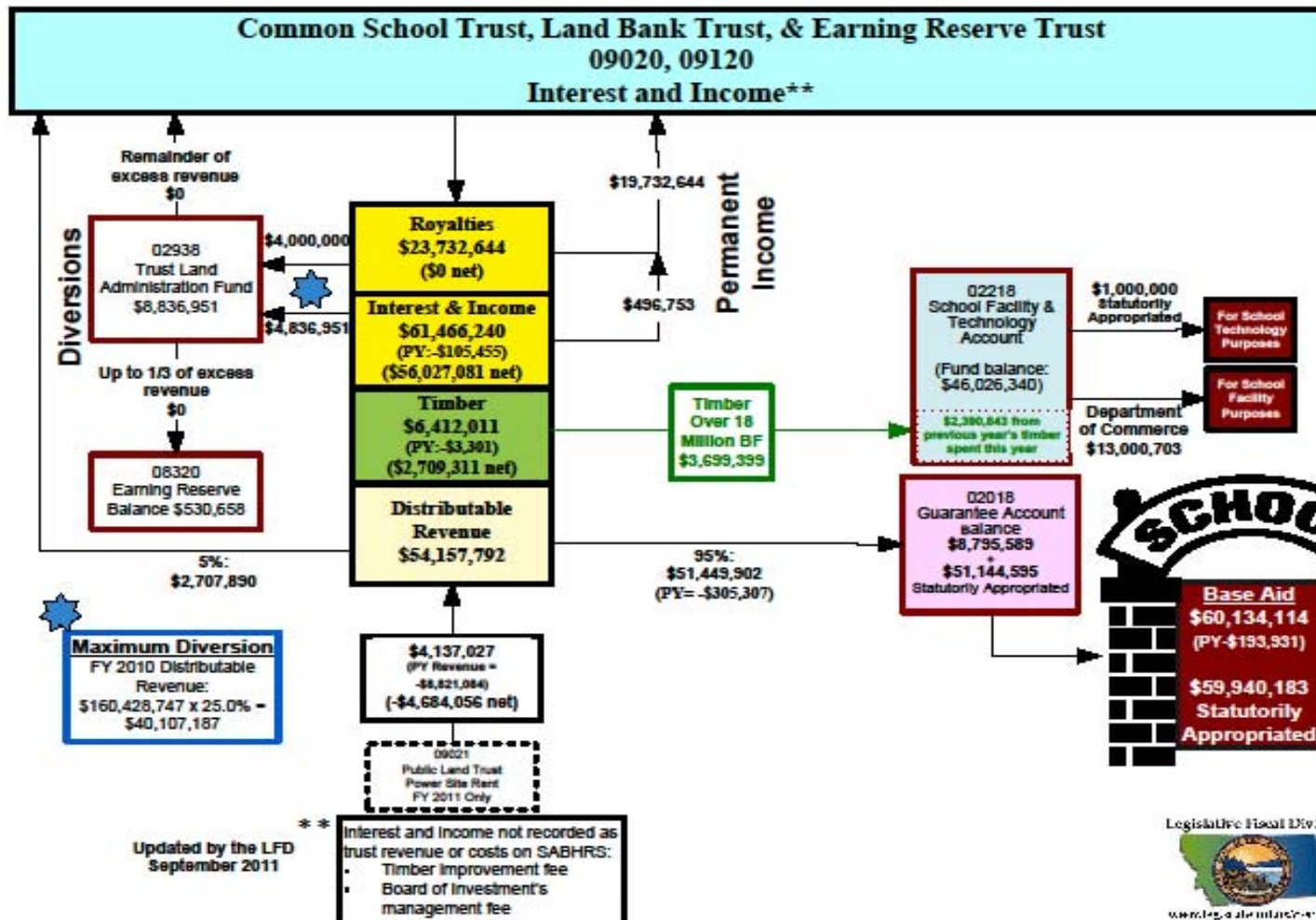
- Effective January 1, 2012
- Class 8 property tax rate reduced from 3% to 2% on the first \$2 million of taxable market value
- DOR will calculate property tax reimbursement for local governments, school districts, county retirement and countywide transportation funds (approx. \$10.7 m in FY 13 and \$6.4 m per year thereafter)
- School districts will be reimbursed through the school block grant payments
  - Reimbursement begins with FY2013 block grant payments (70% in November; 30% in May)
  - Anticipate this revenue when calculating net levy req's

# SB372 Business Equipment Tax

- Beginning in at the end of FY 2013, if fiscal year collections of income tax and corporate tax exceed 4% per year, then the tax rate on class 8 business equipment for the first \$3 million in market value will be 1.5%, and 3% for all value above that threshold.
- This will likely happen in FY 2013 and will apply to class 8 property starting tax year 2014.
- DOR will calculate property tax reimbursement for local governments, school districts, county retirement and countywide transportation funds, probably in FY 2015
- School districts will be reimbursed through the school block grant payments



\*As approved by RTIC and amended by the legislature



# Guarantee Account

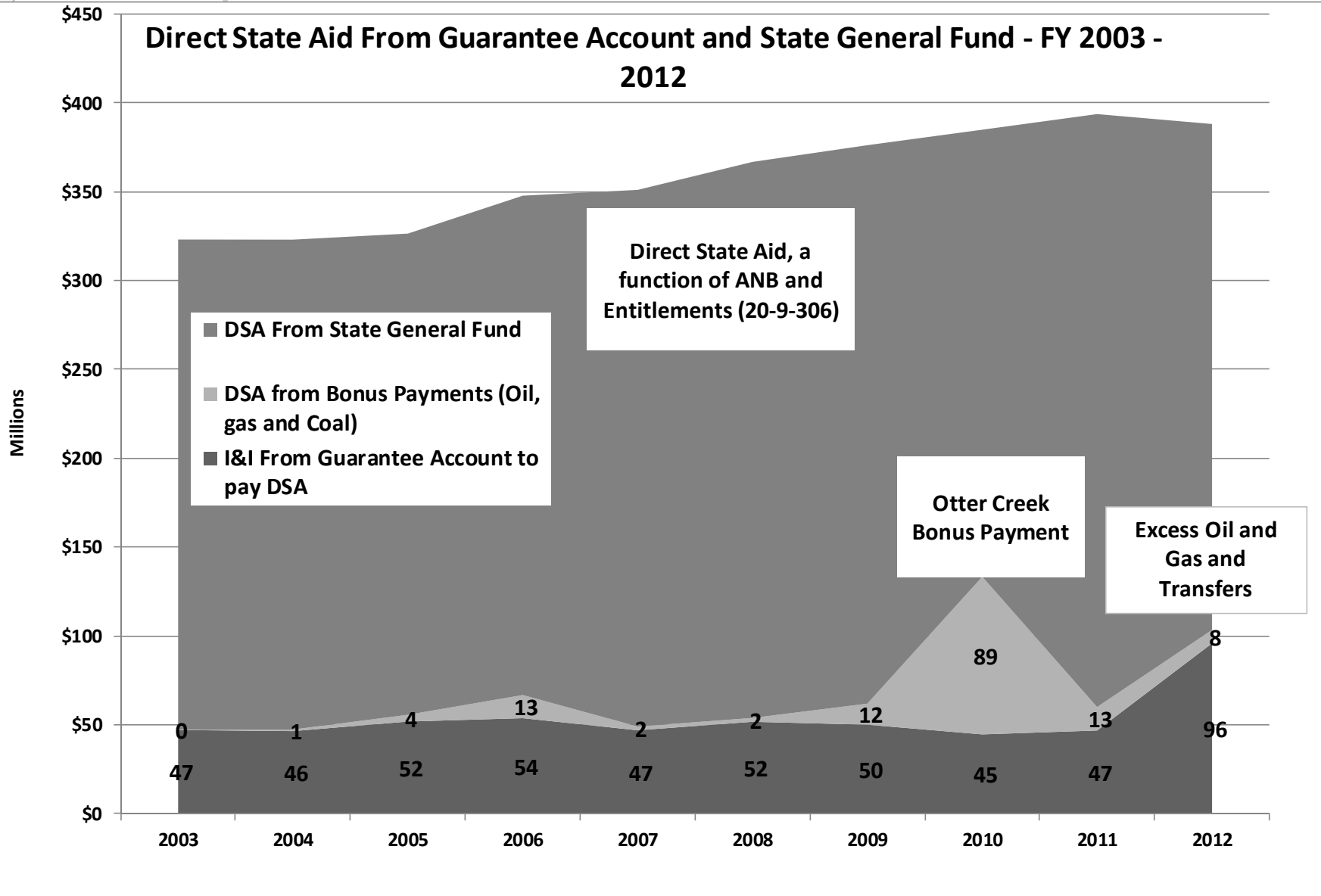
- Is Statutorily Appropriated (i.e. not directly appropriated in HB 2 – spending is equal to revenue into fund)
- Receives Interest and Income and Bonus Payments from State lands, Streambed rents until FY 2013, Excess oil and gas from school districts (70% in FY 2013), excess fund balance reappropriated beginning FY 2013

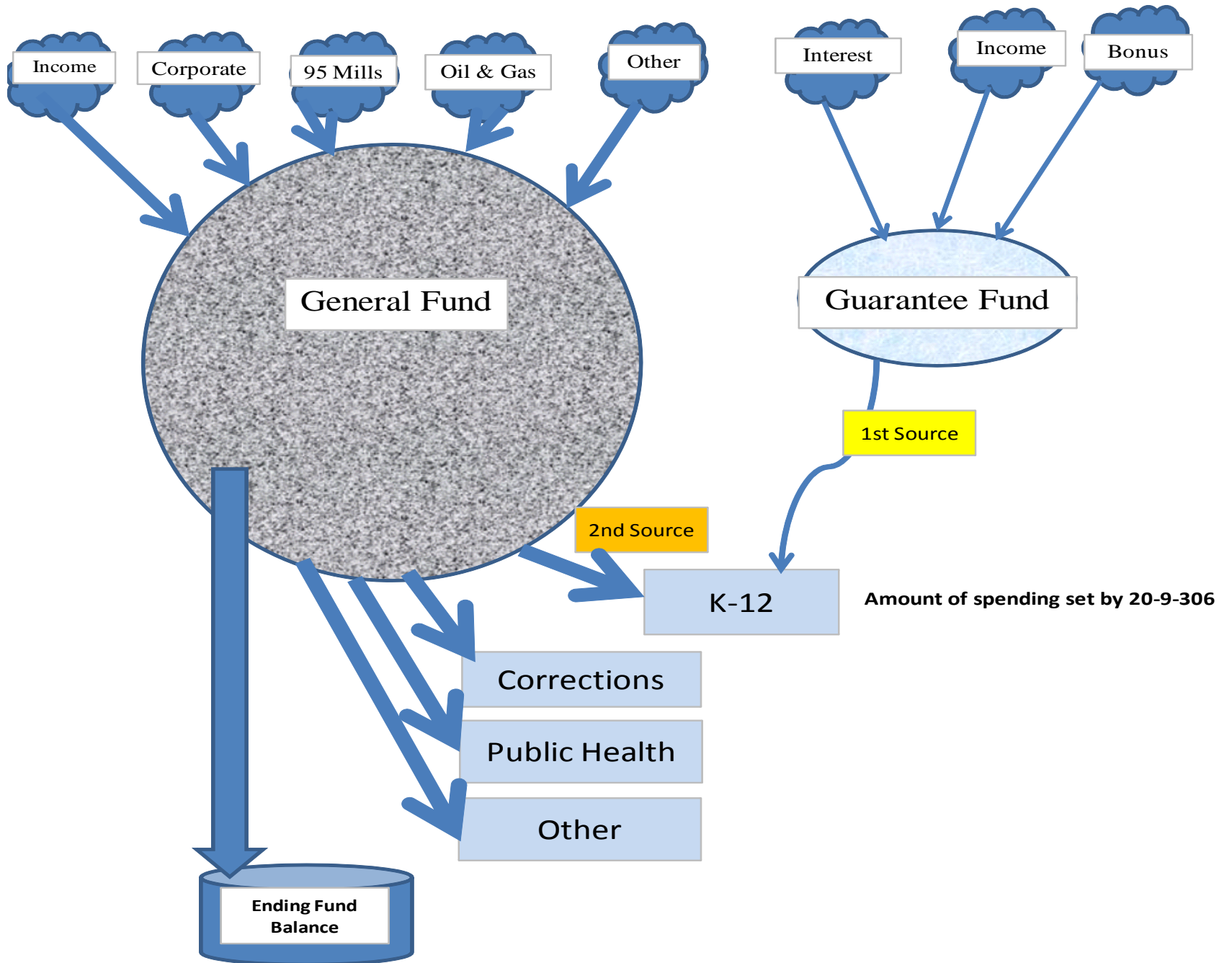
## Guarantee Account - Revenues - FY 2012

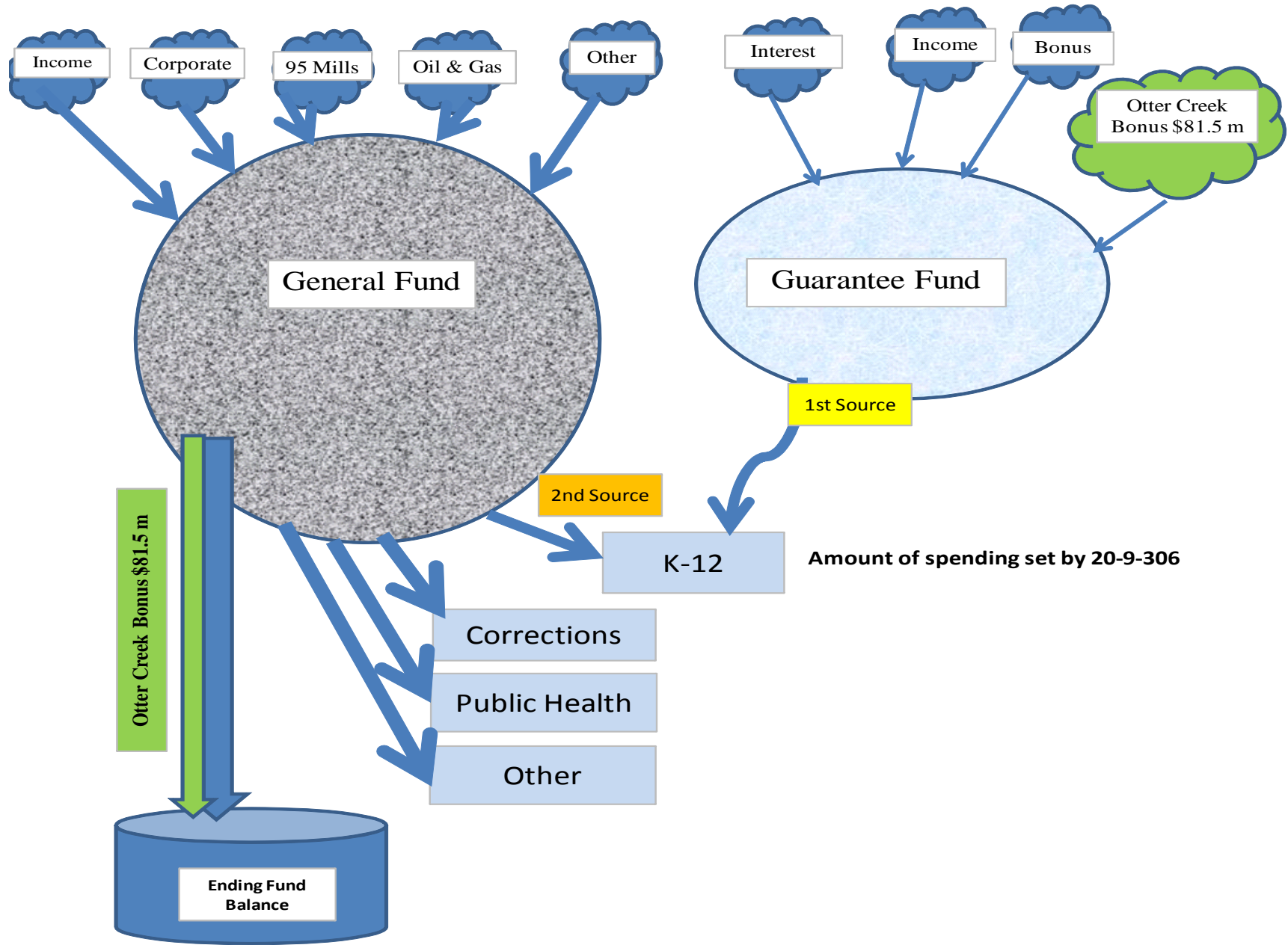
Interest and Income and Bonus Payments	\$ 58,448,243
Oil and Gas From School Districts - Excess of 130% of Max Bud	\$ 15,267,924
Streambed Rents from Power Companies	\$ 4,165,917
OTO Transfers due to HB604 (Junk Veh, BOG, Orphan share, coal bed methane)	\$ 27,400,000
Total	\$ 105,282,085



## Direct State Aid From Guarantee Account and State General Fund - FY 2003 - 2012









# How the Guarantee Account Funds K-12

