

Program Budget Comparison

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
Operating Expenses	1,010,161	1,308,164	1,010,146	1,010,148	2,318,325	2,020,294	(298,031)	(12.86)%
Local Assistance	708,640,932	702,936,252	794,573,061	805,041,692	1,411,577,184	1,599,614,753	188,037,569	13.32%
Grants	143,902,617	159,467,123	149,203,279	150,345,279	303,369,740	299,548,558	(3,821,182)	(1.26)%
Transfers	665,112	507,840	665,112	665,112	1,172,952	1,330,224	157,272	13.41%
Total Costs	\$854,218,822	\$864,219,379	\$945,451,598	\$957,062,231	\$1,718,438,201	\$1,902,513,829	\$184,075,628	10.71%
General Fund	700,993,807	694,983,416	786,955,082	797,423,715	1,395,977,223	1,584,378,797	188,401,574	13.50%
State/Other Special Rev. Funds	9,403,125	10,036,000	9,403,125	9,403,125	19,439,125	18,806,250	(632,875)	(3.26)%
Federal Spec. Rev. Funds	143,821,890	159,199,963	149,093,391	150,235,391	303,021,853	299,328,782	(3,693,071)	(1.22)%
Total Funds	\$854,218,822	\$864,219,379	\$945,451,598	\$957,062,231	\$1,718,438,201	\$1,902,513,829	\$184,075,628	10.71%

Program Description

The Local Education Activities Program is used by OPI to distribute state and federal funds to local education agencies.

Program Highlights

**Local Education Activities
Major Budget Highlights**

The executive proposes an increase in OPI's distribution to schools program of \$114.8 million in state and federal funds in the 2017 biennium when compared to the FY 2015 legislative base.

Of the \$114.8 million, general fund spending would increase by \$118.9 million and federal spending would decrease by \$4.1 million. Of the \$118.9 million in general fund, \$86.6 million are present law increases above the legislative base and \$32.3 million are new proposals.

General fund increases in present law (\$98.5 million):

- \$2.6 million in BASE Aid to adjust for changes in Average Number Belonging (ANB) and reflecting an increase in basic entitlements legislated in SB 175 for FY 2015 and FY 2016.
- \$41 million in BASE Aid for inflation applied to the basic and per-ANB entitlements, 2.33% in FY 2016 and 1.79% in FY 2017
- \$48.6 million to replace one-time-only spending appropriated by SB 175 of the 2013 session to fund increases in basic entitlements
- \$6 million in Natural Resource Development (NRD) payments, the executive request funding for \$13 million in payments to local districts offset by \$7 million in GTB savings
- \$0.3 million in at risk payments

General fund reductions in present law (\$11.9 million):

- \$11 million in Reimbursement block grants
- \$0.4 million in transportation costs
- \$0.5 million in state tuition payment

New Proposals (\$32.3 million):

- \$37 million general fund for the biennium to provide early education for 4-year olds
- Redirection of the \$6 million in NRD payment to the School Facility and Technology Account, this would be a reduction in general fund appropriated for local education
- \$0.95 million to fund increase in BASE Aid resulting from raising the dropout from 16 to 18 years of age, this proposal is dependent on passage of SB 14
- \$0.35 million to provide funding to school districts with enrolled students that have reached the age of 19

Major LFD Issues
<ul style="list-style-type: none"> • The executive underestimates the amount of revenue deposited in the guarantee account in the 2017 biennium, by approximately \$2.0 million compared to the LFD estimate. • Revenue in the School Facility and technology account will not support the expenditures proposed by the executive

Program Discussion -

Comparison of FY 2015 Legislative Base to FY 2015 Appropriation

The following table highlights the differences between the FY 2015 appropriation as shown in the main table to the FY 2015 legislative appropriation used for purposes of the budget base.

FY 2015 Appropriation Transactions - Local Education Activities					
Program	Legislative Appropriation	Legislative Approps OTO	Consolidation of Biennial Approp	Non Continuing Funding	Total Executive Implementation
LOCAL EDUCATION	\$881,593,636	\$7,725,743	(\$25,100,000)	\$0	\$864,219,379
SB 175 BASE Aid	\$12,900,000	\$0	\$0	(\$12,900,000)	\$0
Agency Total	\$894,493,636	\$7,725,743	(\$25,100,000)	(\$12,900,000)	\$864,219,379

The agency made two major fund transfers in FY 2014 (\$25.1 million):

- The agency transferred \$25 million from the BASE Aid appropriation in FY 2015 to FY 2014. This transfer was made out of concerns that the Guarantee Account would not have sufficient funds to meet all BASE Aid funding required in FY 2014. The shortfall in the Guarantee Account was not as large as anticipated.
- The agency transferred \$100,000 from the appropriation for Special Education in FY 2015 to FY 2014 to cover anticipated shortfall in Special Education.
- SB 175 Provided appropriated \$12.9 million general fund for FY 2015

The following one-time-only (OTO) appropriations are not included in the Legislative Appropriation (\$7,725,743)

- \$250,000 general fund for the implementation of the revisions of Chapter 55 of the Montana Accreditation Standards
- \$7,475,743 federal fund for the implementation the Montana Striving Readers Project

Comparison of 2014 Actual Expenditures to FY 2015 Legislative Appropriation

Actual FY 2014 expenditures are \$40.3 million below FY 2015 legislative appropriation due primarily to:

- BASE Aid is \$5.7 million higher in FY 2015 due to increases in ANB
- Block Grants \$16.2 million higher in FY 2015 due to SB 96 adjustments and inflation
- Federal Grants \$14.2 million higher in FY 2015
- \$12.9 million SB 175 Base Aid unexpended in FY 2014
- Funding for BASE Aid from the Guarantee Account is \$8.5 million lower in FY 2015

Funding

The following table shows proposed program funding by source from all sources of authority.

Office of Public Instruction, 09-Local Education Activities Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	1,584,378,797	0	0	1,584,378,797	78.97 %	
02018 Guarantee Fund	0	0	101,836,366	101,836,366	83.04 %	
02218 School Facility Imprvmnt Acct	17,172,000	0	2,000,000	19,172,000	15.63 %	
02402 Traffic & Safety Education	1,500,000	0	0	1,500,000	1.22 %	
02584 State School Oil & Gas Impact Acct	134,250	0	0	134,250	0.11 %	
State Special Total	\$18,806,250	\$0	\$103,836,366	\$122,642,616	6.11 %	
03170 Grant Clearance Discretionary	299,328,782	0	0	299,328,782	100.00 %	
Federal Special Total	\$299,328,782	\$0	\$0	\$299,328,782	14.92 %	
Proprietary Total	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$1,902,513,829	\$0	\$103,836,366	\$2,006,350,195		

General fund accounts for 83% of the programs HB 2 funding, federal grants provide 16% of the programs HB2 funding, with the remaining 1% provided by state funds. Not appropriated in HB 2 is statutory funding, the largest source of statutory funding is from the guarantee account. For the 2017 biennium, the guarantee account is expected to add \$101.8 million to the funding shown in the table above.

**LFD
ISSUE**

Revenue in the School Facility and Technology account will not support the expenditures proposed by the executive

The executive proposes to expend \$17.2 million for schools facilities GTB subsidies funded from the school facility and technology account in the 2017 biennium. Starting in FY 2016, the executive has a new proposal to redirect NRD payments from K-12 BASE Aid to the school facility and technology account; however, this is unlikely to prevent a negative balance in the fund.

LFD forecast a zero balance at the end of FY 2015. Revenues in recent years have been on average \$3.3 million per year. The executive proposes to spend \$8.6 million in each year of the biennium to subsidize local school district bonds and \$1.0 million per year on school technology. In addition to OPI, Commerce also uses this funding to support school infrastructure.

The table below summarizes required funding to service 100% of the bonds issued and forecasted to be issued by local school districts.

Note: The executive proposes to fund only \$17.2 million of the funding shown below.

The legislature appropriates funding from the Schools Facility and Technology account for the purpose of GTB subsidies, OPI makes prorated payments to schools limited by the legislative appropriation or funds available in the technology account.

Total Facilities Appropriation Estimate for the 2017 Biennium Amounts in millions of dollars	
<u>FY 2016 Estimated payments for existing issues</u>	<u>Amount</u>
FY 2016 Base Amount	\$10.94
Reductions for maturing issues in FY2015	(0.01)
Reductions for bonds maturing in 2016	(0.22)
Reductions for Prior Year Advances Paid	(1.76)
Total Estimated Facilities Payments for Existing Issues for FY 2016	\$8.95
Estimated payments for new bond issues in FY2016	
Reimbursements - 100%	\$4.45
Advances @ 66.9759%	3.02
Total Estimated New Bond Issues for FY 2016	\$7.47
FY16 Facilities Appropriation Estimate	\$16.42
<u>FY 2017 Estimated payments for existing issues</u>	
FY 2017 Base Amount	\$16.42
Reductions for bonds maturing in 2017	(0.79)
Reductions to Base Amount for Prior Year Advances Paid	(3.02)
Total Estimated Facilities Payments for Existing Issues for FY 2017	\$12.61
Total for the Biennium	\$29.02

Budget Summary by Category

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	732,733,416	732,733,416	1,465,466,832	92.49 %	894,493,636	894,493,636	1,788,987,272	94.03 %
PL Adjustments	37,988,080	48,632,541	86,620,621	5.47 %	34,724,376	46,510,837	81,235,213	4.27 %
New Proposals	16,233,586	16,057,758	32,291,344	2.04 %	16,233,586	16,057,758	32,291,344	1.70 %
Total Budget	\$786,955,082	\$797,423,715	\$1,584,378,797		\$945,451,598	\$957,062,231	\$1,902,513,829	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
-----Fiscal 2016-----					-----Fiscal 2017-----					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 99 - LEG. Present Law	0.00	37,988,080	(632,875)	(2,630,829)	34,724,376	0.00	48,632,541	(632,875)	(1,488,829)	46,510,837
Grand Total All Present Law Adjustments	0.00	\$37,988,080	(\$632,875)	(\$2,630,829)	\$34,724,376	0.00	\$48,632,541	(\$632,875)	(\$1,488,829)	\$46,510,837

DP 99 - LEG. Present Law -

The main parameters that influence the funding model are enrollments, as reflected in ANB, inflationary increases and statutory changes to school funding. This program has no personal service present law adjustments.

Increase in general fund for BASE Aid of \$43.9 million in FY 2016 and \$54.3 million in FY 2017 are due primarily to increases in state payment for; Basic entitlements, Per-ANB, Quality Educator, Indian Education for All and the Natural Resource Development Payment. Projected increase in ANB of 0.58% in FY 2016 and 0.56% in FY 2017 also increases BASE Aid.

Legislative Present Law Adjustments				
	FY 2016			
	General Fund	State Special	Federal Special	Total Funds
CP 99 Item				
BASE Aid	\$43,879,249			\$43,879,249
Transportation	(249,427)			(249,427)
Reimbursement Block Grants	(5,514,458)			(5,514,458)
State Tuition Payments	(247,266)			(247,266)
At Risk Payments	119,982			119,982
State School Oil & Gas Impact		(632,875)		(632,875)
Federal Grants			(2,630,829)	(2,630,829)
Legislative Present Law Adjustments	\$37,988,080	(\$632,875)	(\$2,630,829)	\$34,724,376
	FY 2017			
	General Fund	State Special	Federal Special	Total Funds
CP 99 Item				
Base Aid	\$54,312,431			\$54,312,431
Transportation	(149,427)			(149,427)
Reimbursement Block Grants	(5,497,501)			(5,497,501)
State Tuition Payments	(247,266)			(247,266)
At Risk Payments	214,304			214,304
State School Oil & Gas Impact		(632,875)		(632,875)
Federal Grants			(1,488,829)	(1,488,829)
Legislative Present Law Adjustments	\$48,632,541	(\$632,875)	(\$1,488,829)	\$46,510,837

The LFD, OBPP, and OPI maintain a school funding model that estimates the components of Base Aid. The assumptions have been agreed to by the respective offices at this time. However, new data on ANB in February will change these estimates as the 2015 session progresses.

A detailed table of K-12 distribution to schools is available in the appendix.

Primary reasons for increase in BASE Aid (\$98.2 million increase);

- \$2.6 million in general fund for increases in Average Number Belonging (ANB) and statutory increases in basic entitlements. K-12 BASE Aid includes direct state aid calculated using ANB and FTE counts. Factors affected by ANB and FTE include the per-ANB payments, quality educator payment, Indian Education for All and the Data for Achievement payment. Changes in ANB of 0.6% in FY 2016 and FY 2017 as well as an expected increase of 3% of self-declared Native Americans, which influences the “Native American Achievement Gap payment”, will increase BASE Aid by about \$2.6 million. Payments for these components are listed in statute, MCA 20-9-306.
- \$40.9 million general fund for the 2017 biennium to support inflationary increases of 2.33% in FY2016 and 1.79% in FY 2017 for the per-ANB entitlements, the quality educator payment, the Indian education for all payment, and the American Indian achievement gap payment. The basic entitlement is inflated by 1.79% in FY 2017. MCA 20-9-326 requires the superintendent of public instruction to include inflation factors for the basic and per-ANB entitlements, the data-for-achievement payment as well as others when preparing and submitting the agency budget.
- \$48.7 million to replace one-time-only funding appropriated in SB 175 of the 2013 session. SB 175 appropriated funding directly for BASE Aid and a transfer to the guarantee account, the guarantee account is statutorily appropriated to support BASE Aid.
- Increase of \$6 million for the Natural Resource Development payment. SB 175 amended 20-9-306 MCA to include a Natural Resource Development (NRD) payment to local school districts. The NRD payment is non-levy revenue paid to local districts from the state general fund sufficient to offset increases in local levies resulting from increases in the basic or per-ANB entitlements. This amount is to be calculated on a statewide basis and is distributed to the local districts in proportion to each districts share of direct state aid. Payments for the biennium are \$4.9 million in FY 2016 and \$8.1 million in FY 2017 for a total of \$13 million. This is offset by savings in guaranteed tax base (GTB) of \$2.6 million in FY 2016 and \$4.4 million in FY 2017 for a total GTB savings of \$7.0 million.
- Increase of \$0.3 million for the 2017 biennium to fund inflationary increase in the at-risk student payment in accordance with 20-9-326, MCA. These increases represent a 2.33% increase in FY 2016 and 1.79% in FY 2017 and are the same increases associated with the present law adjustments for K-12 BASE Aid.

Other general fund present law adjustments (\$10.9 million reduction)

- State funding for transportation will be lower by \$0.4 million when compared to the legislative base. Districts are reimbursed based on a rate per route miles as prescribed in 20-10-145, MCA. This amount is matched by county property taxes.
- Funding for reimbursement block grants is reduced by \$5.5 million in each year of the biennium. SB 96 of the 2013 session increased HB 2 funding for block grants in FY 2015 by \$7.9 million from \$66.3 million to \$74.3 million. This is not ongoing funding which is reflected in the reduction from FY 2015, the legislative base year. Funding for the reimbursement to school districts through the block grant program is prescribed under 15-1-123(3), MCA
- State support of tuition payments decrease by \$0.5 million general fund for the 2017 biennium, the tuition rates are set in 20-5-323, MCA and 10.10.301, ARM and are based on 20% of the per-ANB rate for the year of attendance.

Federal Grants reduction of \$4.1 million for the 2017 biennium, the table below summarizes the reduction in federal grants.

Changes in Federal Grant Awards 2017 Biennium (millions of dollars)	
Programs	Biennial Increase (Decrease)
Striving Readers	\$12.4
School Foods	3.4
Title I Funds	(13.9)
Individuals with Disabilities Act	(2.0)
Title IV Funding	(0.9)
Title III Funding	(0.1)
Title II Funding	(2.2)
Other Federal Funding	(0.8)
Total	(\$4.1)

Federal funding to local districts is used to aid low-income students, provide professional development for teachers, build reading and literacy levels and subsidize school lunch programs.

New Proposals -

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	-----Fiscal 2016-----					-----Fiscal 2017-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 900914 - Redirect NRD Payment	0.00	(2,266,414)	0	0	(2,266,414)	0.00	(3,747,942)	0	0	(3,747,942)
DP 900915 - Raise Legal Dropout Age	0.00	0	0	0	0	0.00	952,000	0	0	952,000
DP 900916 - ANB Funding for 19 Year Olds and Older	0.00	0	0	0	0	0.00	353,700	0	0	353,700
DP 900932 - Early Childhood Education (Rst/Bien)	0.00	18,500,000	0	0	18,500,000	0.00	18,500,000	0	0	18,500,000
Total	0.00	\$16,233,586	\$0	\$0	\$16,233,586	0.00	\$16,057,758	\$0	\$0	\$16,057,758

DP 900932 - Early Childhood Education (Rst/Bien) -

The Executive requests \$37 million for the 2017 Biennium to provide early education for 4-year olds in Montana.

LFD COMMENT	<p>Early Childhood Education</p> <p>The program, as proposed by the Executive, is block grant program to fund existing program or fund new early education programs. The details of the proposal are:</p> <ul style="list-style-type: none"> • Grants of \$30,000 will be distributed for each block of up to 10 children • Grants will be distributed by the Office of Public Instruction • Districts must use funding to provide preschool for four-year-olds • Participation is voluntary for both school districts and the families of eligible children • School districts may partner with qualified Head Start programs, local child care centers, child care providers or preschools to provide services within or outside of the district facilities
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LFD estimates that there will be 12,000 eligible 4 year olds in the 2017 biennium. The legislature may wish to explore options should more children wish to attend pre-school than the Governor's proposal would support.

DP 900915 - Raise Legal Dropout Age -

This request is for \$952,000 of general fund for the 2017 biennium to fund the increase in state support for schools that is anticipated to result from more students staying in high school and completing their graduation requirements as a result of raising the legal drop out age from 16 to 18 years of age or upon graduation.

**LFD
COMMENT**

SB 14 proposes to raise the legal drop out age from 16 to 18 years of age or upon graduation.

The legislature may wish to make this request contingent on SB 14 becoming law.

DP 900914 - Redirect NRD Payment -

The executive requests general fund amounts of \$2,266,414 FY 2016 and \$3,747,942 in FY 2017 be directed to the School Facility and Technology Account (20-9-516, MCA) upon passage and approval of legislation to redirect the Natural Resource Development (NRD) Payment. The payments are scheduled to be \$4.9 million in FY 2016 and \$8.1 million in FY 2017 with offsetting guarantee tax base aid of \$2,633,586 in FY 2016 and \$4,352,058 in FY 2017.

**LFD
COMMENT**

This new proposal would require an amendment to statute

20-9-306 MCA establishes the NRD payment from the general fund to local school districts as non-levy BASE Aid. The legislature would need to amend this statute to redirect this funding source to the School Facility and Technology Account.

The Schools Facility and Technology Account, in part, funds school infrastructure by subsidizing debt incurred by local districts.

DP 900916 - ANB Funding for 19 Year Olds and Older -

This request is for \$353,700 general fund for FY 2017 to provide ANB funding to school districts that enroll students who are 19-years of age or older at the time of the official enrollment counts.

**LFD
COMMENT**

SB 12 would include students 19 years of age and older in ANB count starting in FY 2017

Under current school districts may enroll students 19 years of age and older however, the state does not fund students over the age of 18. SB 12 would provide state funding for those over 19 by amending 20-1-101 MCA to define pupils for ANB calculation to include individuals that are 19 years of age and older. OPI estimates an additional 88 ANB will result should 19 year olds be included in ANB counts.

For FY 2017 the ANB count impacts the K-12 funding model as follows:

- Per-ANB payment \$6,790, the state funds 44.7% of the per-ANB payment, local levies fund the remainder,
- Indian Education for all \$21.25 per-ANB funded entirely with state funds,
- Data for Achievement Payment \$20.36 per ANB funded entirely with state funds,
- State funding for GTB will increase if any of the ANB increase are in GTB eligible districts, and

- Close American Indian achievement gap \$209 per ANB if the ANB is a self-declared Native Americans.

The legislature may wish to make this request contingent on SB 12 becoming law