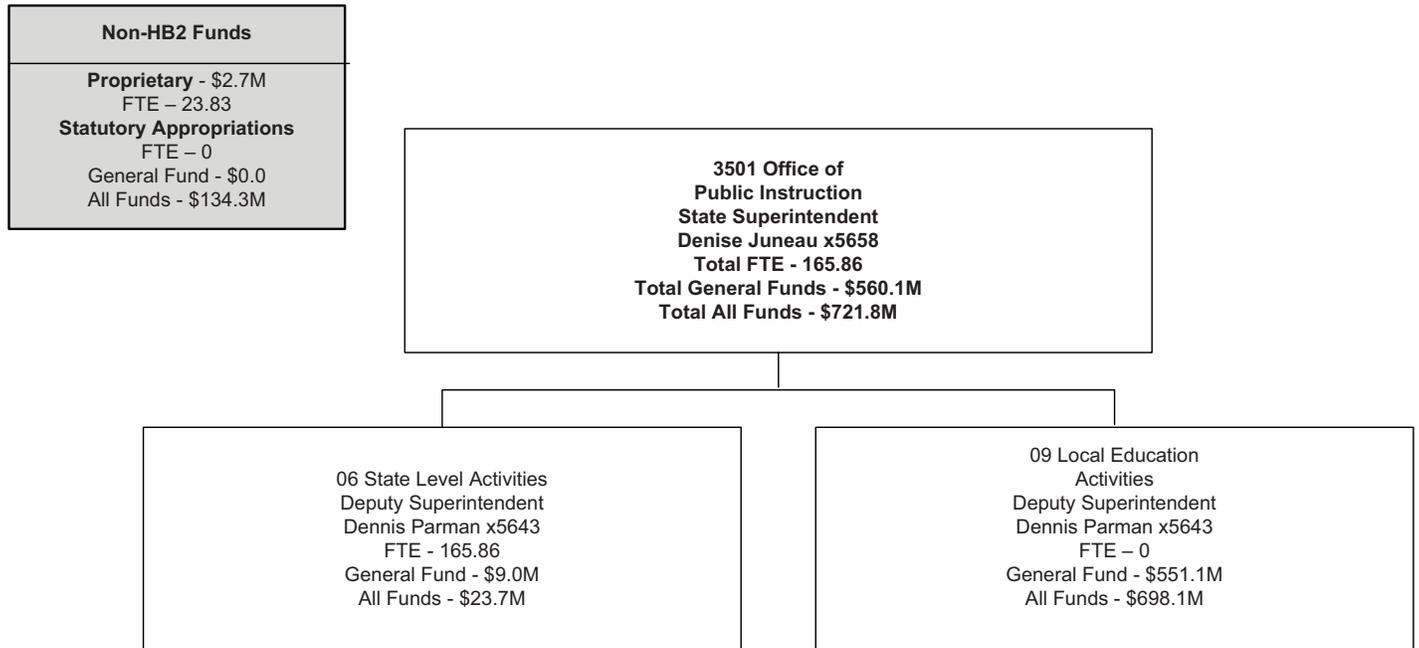


**Agency Budget Comparison**

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

Agency Budget Comparison								
Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	165.86	165.86	165.86	165.86	165.86	165.86	0.00	0.00%
Personal Services	9,958,949	11,582,397	10,676,905	10,674,244	21,541,346	21,351,149	(190,197)	(0.88%)
Operating Expenses	14,806,100	21,595,012	16,036,171	16,067,292	36,401,112	32,103,463	(4,297,649)	(11.81%)
Equipment & Intangible Assets	11,839	50,426	11,839	11,839	62,265	23,678	(38,587)	(61.97%)
Local Assistance	564,594,849	713,487,529	685,768,117	690,860,253	1,278,082,378	1,376,628,370	98,545,992	7.71%
Grants	132,029,203	147,998,651	139,766,183	143,416,183	280,027,854	283,182,366	3,154,512	1.13%
Transfers	409,490	1,490,510	409,490	409,490	1,900,000	818,980	(1,081,020)	(56.90%)
<b>Total Costs</b>	<b>\$721,810,430</b>	<b>\$896,204,525</b>	<b>\$852,668,705</b>	<b>\$861,439,301</b>	<b>\$1,618,014,955</b>	<b>\$1,714,108,006</b>	<b>\$96,093,051</b>	<b>5.94%</b>
General Fund	560,053,258	722,904,404	650,266,733	654,798,000	1,282,957,662	1,305,064,733	22,107,071	1.72%
State Special	975,513	979,051	48,018,021	48,610,569	1,954,564	96,628,590	94,674,026	4,843.74%
Federal Special	160,781,659	172,321,070	154,383,951	158,030,732	333,102,729	312,414,683	(20,688,046)	(6.21%)
<b>Total Funds</b>	<b>\$721,810,430</b>	<b>\$896,204,525</b>	<b>\$852,668,705</b>	<b>\$861,439,301</b>	<b>\$1,618,014,955</b>	<b>\$1,714,108,006</b>	<b>\$96,093,051</b>	<b>5.94%</b>

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



**Agency Description**

Mission Statement: The Montana Office of Public Instruction provides vision, advocacy, support and leadership for schools and communities to ensure that all students meet today's challenges, and tomorrow's opportunities.

The Superintendent of Public Instruction is an elected official authorized by Article VI, Section 1, of the Montana Constitution. The Office of Public Instruction (OPI) distributes funding to school districts and provides services to Montana's school-age children and to teachers in approximately 427 school districts. The staff provides technical assistance in planning, implementing, and evaluating educational programs in such areas as teacher preparation, teacher

certification, school accreditation, school curriculum, school finance, and school law. The staff also administers a number of federally-funded programs and provides a variety of information services, including the information systems necessary to assess student achievement and the quality of Montana's elementary and secondary school system.

### Agency Highlights

<b>Office of Public Instruction</b>	
<b>Major Budget Highlights</b>	
<ul style="list-style-type: none"> <li>◆ The Governor proposes to increase this agency's budget by 5.9% when compared to the previous biennium.</li> <li>◆ State level activities decreases by 9.6% due to adjustments made to federal authority to equal anticipated funding</li> <li>◆ The executive proposes an increase in OPI's distribution to schools program of \$276.7 million in state funds in the 2013 biennium when compared to base expenditures in FY 2010. The increase is \$101.6 million when compared to the 2011 biennium.               <ul style="list-style-type: none"> <li>• The difference between the doubled base and biennial increases is due to the provision of one-time funding for the Otter Creek leases and from the federal government in FY 2010, both of which replaced general fund in that year only</li> </ul> </li> <li>◆ Of this amount, present law general fund spending would increase \$269.7 million in the 2013 biennium. New proposals would reduce general fund spending by \$87.4 million, and state special revenue account spending would increase by \$94.4 million. The biennial present law increases in general fund spending from the doubled FY 2010 base are:               <ul style="list-style-type: none"> <li>• \$29.2 million to replace spending that was supplied by federal American Reinvestment and Recovery Act (ARRA) funds in FY 2010</li> <li>• \$169.3 million to replace spending that was supplied by the guarantee fund using coal bonus payments made by Arch Coal Co in FY 2010 (Otter Creek )</li> <li>• \$26.2 million to bring general fund spending up to levels consistent with FY 2011 entitlements</li> <li>• \$29.6 million to reflect an inflationary increase in entitlements equivalent to 1.9% in FY 2012 and 1.5% in FY 2013</li> <li>• \$10.0 million for the at-risk payment</li> <li>• \$3.0 million to maintain special education spending</li> <li>• \$2.4 million for additional spending on HB 124 block grants, transportation, and other general fund spending</li> </ul> </li> <li>◆ The executive budget also increases federal spending by \$19.1 million primarily in school foods, Title 1, and special education. This is offset by a \$29.2 million reduction in federal ARRA funds</li> <li>◆ The executive budget contains two new proposals that switch funding for K-12 programs from the general fund to state special revenue accounts, one proposal to increase the quality educator payment by inflation, and one proposal to increase special education by inflation. These proposals are:               <ul style="list-style-type: none"> <li>• Remove \$17.2 million in school facility reimbursements from the general fund and pay for this program from the school facility and technology fund using streambed rental monies</li> <li>• Remove \$76.7 million in quality educator payments from the general fund and pay for this program from a new Teach Montana state special revenue account, which would receive oil and gas revenues</li> </ul> </li> </ul>	

<p>that have been diverted from school district coffers; this would also require GTB funding in the amount of \$3.8 million for school districts that lose oil and gas revenues</p> <ul style="list-style-type: none"> <li>• Increase the quality educator payment by inflation in FY 2013 for an additional cost to the Teach Montana account of \$0.6 million</li> <li>• Increase special education for the biennium by \$2.7 million to reflect inflation</li> </ul>
<b>Legislative Action Issues</b>
<ul style="list-style-type: none"> <li>◆ Major LFD Issues <ul style="list-style-type: none"> <li>• The executive underestimates K-12 general fund costs for the 2013 biennium by \$14.0 million. Of this amount, new cost data shows \$7.5 million is due to higher than predicted costs to pay for spending consistent with FY2011 entitlement levels. The remaining increase in general fund cost, \$6.5 million, is the result of lower revenue estimates for the guarantee account as chosen by the Revenue and Transportation Interim Committee.</li> <li>• The executive proposes to use the school facility and technology account to pay for school facility reimbursements instead of the general fund. The revenue in the school facility and technology account during the 2013 biennium will depend on the riverbed rents paid by Avista and PPL. The PPL portion of these payments is in litigation at the US Supreme Court and it is unknown when the case will be resolved. If PPL wins the case, these revenues will be unavailable to pay for school facility reimbursements.</li> <li>• The executive proposes to create a new Teach Montana state special account to pay for the quality educator payment, an amount of approximately \$38.0 million per year, and pay for this payment by diverting 90% of oil and natural gas revenues currently distributed to school districts in 32 counties. This action is contingent on passage of LC 360. In the latest year in which data is available, school districts received \$33.6 million in oil and gas revenues, not enough to pay for one year's quality educator payment.</li> <li>• The executive improperly increases the special education appropriation by the attendant GTB increase which is properly BASE Aid, in both its present law adjustment and new proposal for special education.</li> <li>• The MT Digital Academy is required to provide a report to the legislature regarding its first biennia of operations.</li> </ul> </li> <li>◆ Interim Committee Recommendations <ul style="list-style-type: none"> <li>• The Legislative Finance Committee recommends that the budget starting point be the adjusted base minus 5%</li> </ul> </li> </ul>

## Agency Discussion

### *Goals and Objectives:*

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the legislature may wish to review the following:

- o Goals, objectives and year-to-date outcomes from the 2011 biennium
- o Critical agency goals, objectives, and anticipated outcomes and their correlation to the executive's budget request for the 2013 biennium

### 2011 Biennium Goals

The following provides an update of the goals monitored by the LFC during the 2011 biennium:

- o Improve teacher effectiveness and comply with Elementary and Secondary Education Act (ESEA) requirements to address inequities in the distribution of highly qualified teachers
  - The agency identified areas of critical teacher shortage, determining student loan assistance payments to eligible teachers and facilitating payments to those teachers. The program continues to address difficult to fill positions through the annual data collection process.
- o Establish a longitudinal data system for the P-20 education system in Montana
  - This goal included application to the US Department of Education for funding support that was subsequently not awarded. The agency utilized grant funds from the Montana Student Assistance Foundation to contract with the National Student Clearinghouse to provide a student tracking system to the agency, the Commissioner of Higher Education, and accredited high schools. This will allow the state to determine the percentage of high school graduates who enroll in post secondary education.
- o Improve academic content standards and student academic achievement standards
  - The agency received approval for revised standards for mathematics and communication arts from the Board of Public Education during the 2011 biennium. The agency continues to participate in the Common Core State Standards Initiative – a state-led process to develop and implement common English-language arts and math standards.
- o Enhance the quality of academic assessments
  - The agency provided professional development activities on the use of test results, conducted pilot testing of four online writing assessment programs to determine potential utilization, and submitted evidence for CRT testing approval in science to the US Department of Education. The agency is also participating as a governing state in the SMARTER Balance Assessment Consortium, a group of 32 states awarded funds to establish a comprehensive assessment system to produce data that can be used to gauge the effectiveness of instruction.
- o Develop valid and reliable assessments for children with disabilities and limited English proficiency
  - The Office of Public Instruction has received three grant awards to study test designs for a statewide Criterion-Referenced Test (CRT) based on modified achievement standards. These grants are collaborations with other states, universities, and testing and research entities. Montana is the lead state in these collaborations. Activities include analysis of the appropriateness and effectiveness of accommodations for students with disabilities and provision of professional development on how to use such accommodations.
- o Support struggling schools
  - The agency received a \$9.8 million School Improvement Grant to provide technical assistance and resources to four school systems that have been identified as Persistently Lowest-Achieving Schools utilizing the federal formula. The agency hired personnel to manage this grant and has also hired instructional coaches, school board coaches, community liaisons, transformation leaders, and a community youth coordinator to work in the school communities of Frazer, Lame Deer, Lodge Grass and Pryor.

### *2013 Biennium Goals*

During the interim the LFC met with the agency to select critical goals and performance measurements for the legislature to consider during the appropriation process. The LFC requested that the shared policy goals be considered through the appropriations process, they are:

- o Prepare students with the knowledge and skills necessary for success in the 21<sup>st</sup> century global society
- o Improve teaching and student learning by promoting data driven policy decisions and increasing access to educational information
- o Improve student achievement in struggling schools
- o Increase public awareness of and engagement in the K-12 educational system recognizing the roles and responsibilities of the state and local education agencies and the legislature

**Agency Personal Services Narrative**

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- o **Labor Market Experience** – The permanent positions located in Helena have typically had 60-70% of applicants meeting minimum qualifications. Overall, the agency has been successful in filling the positions after listing the vacancy the first time. However, the agency has had difficulty attracting qualified applicants for positions in information technology, compliance monitors, and instructional coordinators. Vacancies in these positions have taken repeated attempts to fill. These positions have been advertised 3 and 4 times before being filled.

Applicants reject job offers less than 10% of the time. Rejected offers were typically because they thought the pay was too low, their current employer counter offered and they accepted, or they decided relocation was cost prohibitive and declined.

The agency has stopped advertising in newspapers. Instead, it relies on the state employment website and the OPI website for listing vacancies and has relied on the applicant pools generated by depending on those websites. The agency has spent considerable time and resources figuring out new recruitment strategies for utilizing one time monies resulting from ARRA and the federal School Improvement Grant.

- o **Pay Philosophy** - OPI has and will continue to advertise its typical vacancy at 93% of the 2006 market. Occasionally, hard-to-fill positions have been listed at a higher percentage after the initial offering failed to attract qualified applicants.
- o **Obstacles** - OPI has experienced great difficulty in attracting and recruiting experienced educators for positions covered by the TRS retirement system.

**Agency Overview***5% Reduction Plan*

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The following summarizes the plan submitted for this agency.

Total 5% Reduction Plan Identified by OPI, By Division Included and Not Included in Executive Budget 2013 Biennium					
Program/DP Number/Description	FTE	General Fund	% Of Total	State Special Revenue	% Of Total
<u>State Level Activities</u>					
<i>Included in Executive Budget</i>					
55140 5% General Fund Reduction	0.00	\$229,756	0.4%	\$0	0.0%
Subtotal Included in Executive Budget		\$229,756	0.4%	\$0	0.0%
<i>Not Included in Executive Budget</i>					
Remaining 5% reduction plan		\$666,852	1.2%	\$0	0.0%
State Special Revenue Reduction		<u>0</u>	0.0%	<u>97,552</u>	100.0%
Subtotal Not Included in Executive Budget		<u>\$666,852</u>	1.2%	<u>\$97,552</u>	100.0%
Total State Level Activities		\$896,608	1.6%	\$97,552	100.0%
<u>Local Education Activities</u>					
<i>Included in Executive Budget</i>					
Subtotal Included in Executive Budget		\$0	0.0%	\$0	0.0%
<i>Not Included in Executive Budget</i>					
Local Education Reduction*		\$55,108,718	98.4%	\$0	0.0%
Subtotal Not Included in Executive Budget		<u>\$55,108,718</u>	98.4%	<u>\$0</u>	0.0%
Total Local Education Activities		\$55,108,718	98.4%	\$0	0.0%
<u>Total Reduction Plan</u>					
Included in Executive Budget		\$229,756	0.4%	\$0	0.0%
Not Included in Executive Budget		<u>\$55,775,570</u>	99.6%	<u>\$97,552</u>	100.0%
Total Agency Reduction Plan		<u>\$56,005,326</u>		<u>\$97,552</u>	

The agency’s 5% reduction plan includes a \$994,160 reduction for state level activities and \$55,108,718 of local support for the 2013 biennium. The executive included only \$229,756 of this plan in the budget request. If the entire 5% plan was adopted, the executive request would change from a budget increase of 5.94% to an increase of 2.48%.

The agency’s plan states that the reduction to K-12 BASE Aid would require a statutory change to reduce some combination of the basic and per-ANB entitlements, the quality educator payment, the at-risk student payment, the Indian Education for all payment and the American Indian achievement gap payment. If such changes were made, school districts would respond by reducing educational services to students and families, seek voter approval to increase local property tax levies and/or use non levy revenue to replace the state funds.

**Funding**

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2013 Biennium Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
06 State Level Activities	\$ 20,602,079	\$ 685,195	\$ 29,963,337	\$ 51,250,611	2.99%
09 Local Education Activities	<u>1,284,462,654</u>	<u>95,943,395</u>	<u>282,451,346</u>	<u>1,662,857,395</u>	<u>97.01%</u>
Grand Total	<u>\$ 1,305,064,733</u>	<u>\$ 96,628,590</u>	<u>\$ 312,414,683</u>	<u>\$ 1,714,108,006</u>	<u>100.00%</u>

**Statutory Appropriations**

The following table shows the total statutory appropriations associated with this agency. Because statutory appropriations do not require reauthorization each biennium, they do not appear in HB 2 and are not routinely examined by the

legislature. The table is provided so that the legislature can get a more complete picture of agency operations and associated policy.

As appropriate, LFD staff has segregated the statutory appropriations into two general categories: 1) those where the agency primarily acts in an administrative capacity and the appropriations consequently do not relate directly to agency operations; and 2) those that have a more direct bearing on the mission and operations of the agency.

Statutory Appropriations Office of Public Instruction					
Purpose	MCA #	Fund Source	Fiscal 2010	Fiscal 2012	Fiscal 2013
<i>Local Government Distributions to Schools</i>					
Guarantee Account revenues from School Trust Lands	82-11-161	SSR	\$134,317,339	\$46,931,454	\$58,383,460
Timber for Technology	20-9-534	SSR	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
Total Statutory Appropriations			<u>\$135,317,339</u>	<u>\$47,931,454</u>	<u>\$59,383,460</u>

The funding from the guarantee account is distributed to local school districts. All 95% of distributable interest and income from the common school trust is deposited into the account. The remaining 5% remains in the permanent trust. The guarantee account is used to pay direct state aid to local districts. If revenues from the common school trust increase, the amount of aid paid for by the general fund decreases.

<b>LFD COMMENT</b>	The revenues to the guarantee account in FY 2010 included a one-time-only payment of approximately \$85.0 million for the leasing of Otter Creek coal tracks. The executive budget utilizes revenues for FY 2012 and FY 2013 higher than the amounts adopted by the Revenue and Transportation Interim Committee in November of 2011. See program 9 for further details and legislative options.
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**Budget Summary by Category**

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	560,053,258	560,053,258	1,120,106,516	85.83%	721,810,430	721,810,430	1,443,620,860	84.22%
Statewide PL Adjustments	14,833,830	14,839,085	29,672,915	2.27%	704,152	706,377	1,410,529	0.08%
Other PL Adjustments	118,296,480	122,004,719	240,301,199	18.41%	126,030,440	133,388,679	259,419,119	15.13%
New Proposals	(42,916,835)	(42,099,062)	(85,015,897)	(6.51%)	4,123,683	5,533,815	9,657,498	0.56%
<b>Total Budget</b>	<b>\$650,266,733</b>	<b>\$654,798,000</b>	<b>\$1,305,064,733</b>		<b>\$852,668,705</b>	<b>\$861,439,301</b>	<b>\$1,714,108,006</b>	

**Supplemental Appropriations**

The executive is seeking supplemental appropriations for FY 2011 for the following purposes:

- o \$300,000 for Pupil Transportation
- o \$330,000 for State Tuition Payments

**Language and Statutory Authority**

The executive recommends the following be included in HB 2.

"The office of public instruction may distribute funds from the appropriation for In-state Treatment to public school districts for the purpose of providing for educational costs of children with significant behavioral or physical needs."

"All revenue up to \$1.1 million in the state traffic education account for distribution to schools under the provisions of 20-7-506 and 61-5-121 is appropriated as provided in Title 20, chapter 7, part 5."

"All appropriations for federal special revenue programs in state level activities and in local education activities and all general fund appropriations in local educational activities are biennial."

"Item 2a is contingent on passage of a bill by the 2011 legislature that increases the per-ANB entitlements and the basic entitlements by 1.90% in FY 2012 and by another 1.53% in FY 2013. If legislation is not passed that increases the per-ANB entitlements and the basic entitlements by 1.90% in FY 2012 and another 1.53% in FY 2013, then item 2a is reduced by \$10,470,459 in FY 2012 and by \$19,099,210 in FY 2013."

"Decision packages 950 and 951 are contingent on passage and approval of LC 360."

**Executive Recommended Legislation**

The executive has recommended passage of LC 360, which implements all the proposals in the executive budget that require legislation. LC 360:

- o Provides inflationary increases to the basic and per-ANB entitlements and the quality educator payment
- o Creates a Teach Montana account into which would be deposited oil and gas revenues and from which the quality educator payment would be appropriated
- o Redistributes 90% of oil and gas revenues currently received by school districts and deposits them in the Teach Montana account
- o Pays for school facility reimbursements out of the school facility and technology account
- o Delays deposit of ongoing streambed rents into the school facility and technology account until after July 1, 2013 and continues their deposit in the guarantee fund in the interim
- o Renames and moves the Montana virtual academy from the Montana University System to the Office of Public Instruction and changes the membership of the board
- o Appropriates money for grants to high school districts for wind or solar energy projects
- o Appropriates money to the Department of Revenue to implement the tax distribution changes in the act

**Elected Official Proposals**

As an elected official, the Superintendent of Public Instruction has the opportunity to request additional budget items. As of this writing, the LFD has been notified of one additional request. The request is summarized below.

DP – ACT plus Writing - The Superintendent requests \$1,950,000 of state general fund monies for the 2013 biennium to assess the college readiness of grade 11 students using ACT Plus Writing. The ACT Plus Writing would provide an opportunity for all Montana grade 11 students to participate in a college admissions test based on College Readiness Benchmarks. This funding will also provide the opportunity for minority and middle and low income students in grade 11 to take the ACT Plus Writing test.

**Agency Issues**

Please see the program level for specific agency issues.

### Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	165.86	165.86	165.86	165.86	165.86	165.86	0.00	0.00%
Personal Services	9,958,949	11,582,397	10,676,905	10,674,244	21,541,346	21,351,149	(190,197)	(0.88%)
Operating Expenses	13,722,264	20,443,953	14,928,594	14,947,190	34,166,217	29,875,784	(4,290,433)	(12.56%)
Equipment & Intangible Assets	11,839	50,426	11,839	11,839	62,265	23,678	(38,587)	(61.97%)
Local Assistance	0	974,052	0	0	974,052	0	(974,052)	(100.00%)
Grants	0	0	0	0	0	0	0	n/a
<b>Total Costs</b>	<b>\$23,693,052</b>	<b>\$33,050,828</b>	<b>\$25,617,338</b>	<b>\$25,633,273</b>	<b>\$56,743,880</b>	<b>\$51,250,611</b>	<b>(\$5,493,269)</b>	<b>(9.68%)</b>
General Fund	8,966,070	9,217,888	10,291,557	10,310,522	18,183,958	20,602,079	2,418,121	13.30%
State Special	225,513	229,051	342,503	342,692	454,564	685,195	230,631	50.74%
Federal Special	14,501,469	23,603,889	14,983,278	14,980,059	38,105,358	29,963,337	(8,142,021)	(21.37%)
<b>Total Funds</b>	<b>\$23,693,052</b>	<b>\$33,050,828</b>	<b>\$25,617,338</b>	<b>\$25,633,273</b>	<b>\$56,743,880</b>	<b>\$51,250,611</b>	<b>(\$5,493,269)</b>	<b>(9.68%)</b>

### Program Description

The State Level Activities program includes the Office of the State Superintendent and ten divisions of the agency that work together to provide leadership and services to Montana public schools. Those divisions include:

- o Office of the State Superintendent – Provides leadership to and supervision of Montana’s K-12 system including 828 public schools, 141,807 students, and 15,077 licensed and professional staff, as well as the 165 full-time employees within the agency. The superintendent’s duties are statutorily prescribed in Title 20, Section 3. The Assessment unit within the Office of the State Superintendent oversees the development, implementation, and analysis of statewide student testing.
- o Accreditation Division - Responsible for reviewing and monitoring K-12 schools and the eight teacher education programs at Montana’s postsecondary institutions for compliance with the Board of Public Education’s accreditation standards and administrative rules.
- o Career and Technical Education Division –Provides professional development, technical assistance, and program expertise to instructors and administrators for Adult Basic and Literacy Education (ABLE), Career and Technical Education (CTE), General Education Development (GED), and the Veteran's Education/State Approving Agency (SAA) program.
- o Measurement and Accountability Division– Provides the coordination of non-fiscal data collections to ensure coordinated application of policy, appropriate interpretation of reporting requirements, comparability of data, and communication of data analysis to school districts, OPI management and staff, the legislature, and the public.
- o Health Enhancement and Safety Division– Develops and supports school programs designed to prevent major health problems and health-risk behaviors among youth and to facilitate students achieving their maximum potential.
- o Special Education Division- Responsible for assuring that children with disabilities receive a free and appropriate public education in the least restrictive environment. The division provides training, technical assistance for and monitors delivery of special education services provided by public schools and state-operated programs. The division is also responsible for managing the flow of state and federal dollars for special education programs.
- o Indian Education Division– Responsible for implementing the Indian Education for All program and providing support to close the American Indian achievement gap.

- o School Finance Division– Assists local school districts with all aspects of school and transportation funding.
- o Educational Opportunity and Equity Division – Oversees the federal education programs including Title I, parts A through D and G addressing items such as basic school improvements, early intervention, and delinquency. The division also manages the Elementary and Secondary Education Act programs, including improving teacher quality.
- o Centralized Services Division- Provides accounting, budgeting, payroll, accounts receivable, accounts payable, cash management, financial reporting, purchasing, mail, receptionist and word processing services to other OPI divisions. This division is also responsible for the distribution and fiscal monitoring of state and federal grant programs administered by the OPI to local education agencies.
- o Information Technology Division- Responsible for the operation of the agency's computer network and systems and the development and maintenance of the OPI information systems, website, internet services, and electronic communications with school districts and the public. This division is also distributes surplus computer equipment from state agencies to Montana K-12 public schools at no cost to the schools.

**Program Highlights**

State Level Activities Major Budget Highlights
<ul style="list-style-type: none"> <li>◆ While the table shows a reduction of 9.7% from the previous biennium, the decrease is because FY 2011 does not reflect a transfer of \$8.1 million to Local Education Activities to distribute the School Improvement Grants to federally qualified schools</li> <li>◆ General fund increases by 13.3% due to statewide present law adjustments and \$2.4 million for the digital academy (formerly virtual academy), partially offset by personal services reductions</li> <li>◆ State special revenue increases by 50% due to statewide present law adjustments and the potential for commodity assistance for the School Breakfast Program</li> </ul>
Major LFD Issues
<ul style="list-style-type: none"> <li>◆ The request for USDA food commodity support is dependent on federal legislation</li> <li>◆ HB 659 of the 2009 Legislative Session requires a report to the 62<sup>nd</sup> Legislature on the operations of the Virtual Academy</li> </ul>

**Program Narrative**

*Goals and Objectives*

2013 Biennium Goal

The Legislative Finance Committee recommends the legislature consider the K-12 shared policy goals as part of its decisions on the executive's budget requests for this program. Please see the unified budget for the shared policy goals.

**5% Reduction Plan**

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The following summarizes the plan submitted for this program.

The 5% reduction plan submitted with the budget totaled \$896,608 of general fund and \$97,552 state special revenue for the biennium. The executive included \$229,756 of the plan in DP 551400- 5% General Fund Reduction. This reduction includes funds for contracted services, printing, supplies, non-employee travel, and dues. The program did not address the impact of the reduction.

None of the remaining \$666,852 of general fund or any of the state special revenue was included. If the legislature was to adopt the 5% plan as proposed, the program’s budget would be reduced by an additional 1.35%. The impact of this further reduction would include elimination of 2.25 FTE that have not been identified and delays in training, educational materials, and grants for curriculum and professional development.

<b>LFD ISSUE</b>	<u>Impacts Cannot be Determined</u>
	The impact of the 5% reduction plan cannot be determined by the agency’s submission. The legislature may wish to discuss with the agency the actual impact, including identified positions for elimination, prior to addressing the rest of the program’s budget.

**Funding**

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table						
State Level Activities						
Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000 Total General Fund	\$ 8,966,070	37.8%	\$ 10,291,557	40.2%	\$ 10,310,522	40.2%
01100 General Fund	8,966,070	37.8%	10,291,557	40.2%	10,310,522	40.2%
02000 Total State Special Funds	225,513	1.0%	342,503	1.3%	342,692	1.3%
02001 School Lunch Program	86,958	0.4%	202,504	0.8%	202,335	0.8%
02402 Traffic & Safety Education	138,555	0.6%	139,999	0.5%	140,357	0.5%
03000 Total Federal Special Funds	14,501,469	61.2%	14,983,278	58.5%	14,980,059	58.4%
03002 Public Instruction	<u>14,501,469</u>	<u>61.2%</u>	<u>14,983,278</u>	<u>58.5%</u>	<u>14,980,059</u>	<u>58.4%</u>
Grand Total	<u>\$ 23,693,052</u>	<u>100.0%</u>	<u>\$ 25,617,338</u>	<u>100.0%</u>	<u>\$ 25,633,273</u>	<u>100.0%</u>

General fund accounts for 40% of the program’s budget and it is utilized for administrative costs in most programs.

State special revenue comes from the revenues paid to the department for shipping, handling, and other related costs to the food commodities program. Traffic and safety revenues are from a percentage of driver’s license fees.

Federal revenue is the portion of federal grants received by the department for allowable administrative costs. These grants include curriculum assistance, special education, Elementary and Secondary Education Act (ESEA) administration, and secondary vocational education administration.

*Program Funding by Functional Units*

The State Level Activities program provides funding for the administration of the Superintendent’s Office and the nine divisions of the department. The table on the following page compares the 2013 biennium executive request to the FY 2010 base, by division. The increases for most divisions are dominated by present law adjustments, with the transfer of the Montana Digital Academy from the Montana University System causing most of the increase in the Superintendent’s Office.

Agency Function	FY 2010 - Actuals					FY 2012 - Requested					FY 2013 - Requested				
	GF	SSR	Fed	Total	%	GF	SSR	Fed	Total	%	GF	SSR	Fed	Total	%
Superintendent's Office	\$2,058,834	(\$1,133)	\$3,544,732	\$5,602,433	24%	\$3,345,719	\$0	\$3,815,876	\$7,161,595	28%	\$3,345,104	\$0	\$3,814,015	\$7,159,119	28%
Legal Services	515,528	0	0	515,528	2%	518,274	0	0	518,274	2%	517,544	0	0	517,544	2%
Measurement & Accountability	495,036	0	172,571	667,607	3%	528,456	0	188,905	717,361	3%	528,810	0	187,851	716,661	3%
State Distribution to Schools	883,812	0	0	883,812	4%	855,724	0	0	855,724	3%	857,660	0	0	857,660	3%
Information Technology	1,121,887	0	233,898	1,355,785	6%	1,164,264	0	354,654	1,518,918	6%	1,164,342	0	353,516	1,517,858	6%
Indian Education	1,434,561	0	107,425	1,541,986	7%	1,445,699	0	177,353	1,623,052	6%	1,446,074	0	176,506	1,622,580	6%
Curriculum Services	353,927	0	580,309	934,236	4%	266,397	0	657,786	924,183	4%	268,920	0	655,594	924,514	4%
Accreditation	1,183,503	0	608,735	1,792,238	8%	1,199,006	0	685,457	1,884,463	7%	1,199,409	0	685,329	1,884,738	7%
Health Enhancement & Safety	93,396	226,646	1,302,584	1,622,626	7%	92,393	342,503	1,390,724	1,825,620	7%	92,178	342,692	1,392,069	1,826,939	7%
Educational Opportunity	0	0	3,617,322	3,617,322	15%	0	0	3,509,120	3,509,120	14%	0	0	3,508,826	3,508,826	14%
Special Education	476,466	0	3,545,201	4,021,667	17%	515,456	0	3,391,005	3,906,461	15%	530,098	0	3,393,316	3,923,414	15%
Career Technical & Adult Ed	<u>349,120</u>	<u>0</u>	<u>788,692</u>	<u>1,137,812</u>	<u>5%</u>	<u>360,169</u>	<u>0</u>	<u>812,398</u>	<u>1,172,567</u>	<u>5%</u>	<u>360,383</u>	<u>0</u>	<u>813,037</u>	<u>1,173,420</u>	<u>5%</u>
	<u>\$8,966,070</u>	<u>\$225,513</u>	<u>\$14,501,469</u>	<u>\$23,693,052</u>	<u>100%</u>	<u>\$10,291,557</u>	<u>\$342,503</u>	<u>\$14,983,278</u>	<u>\$25,617,338</u>	<u>100%</u>	<u>\$10,310,522</u>	<u>\$342,692</u>	<u>\$14,980,059</u>	<u>\$25,633,273</u>	<u>100%</u>
	37.8%	1.0%	61.2%			40.2%	1.3%	58.5%			40.2%	1.3%	58.4%		

**Budget Summary by Category**

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	8,966,070	8,966,070	17,932,140	87.04%	23,693,052	23,693,052	47,386,104	92.46%
Statewide PL Adjustments	220,526	225,778	446,304	2.17%	704,325	706,547	1,410,872	2.75%
Other PL Adjustments	(70,639)	(56,926)	(127,565)	(0.62%)	(70,639)	(56,926)	(127,565)	(0.25%)
New Proposals	1,175,600	1,175,600	2,351,200	11.41%	1,290,600	1,290,600	2,581,200	5.04%
<b>Total Budget</b>	<b>\$10,291,557</b>	<b>\$10,310,522</b>	<b>\$20,602,079</b>		<b>\$25,617,338</b>	<b>\$25,633,273</b>	<b>\$51,250,611</b>	

**Present Law Adjustments**

The “Present Law Adjustments” table shows the changes to the adjusted base budget proposed by the executive. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2012-----					-----Fiscal 2013-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					1,157,285					1,154,528
Vacancy Savings					(439,329)					(439,233)
Inflation/Deflation					(10,187)					(5,684)
Fixed Costs					(3,444)					(3,064)
<b>Total Statewide Present Law Adjustments</b>		<b>\$220,526</b>	<b>\$1,990</b>	<b>\$481,809</b>	<b>\$704,325</b>		<b>\$225,778</b>	<b>\$2,179</b>	<b>\$478,590</b>	<b>\$706,547</b>
DP 606 - Audiological Services	0.00	26,239	0	0	26,239	0.00	39,952	0	0	39,952
DP 607 - National Board Certified Teachers-OTO (Restricted)	0.00	18,000	0	0	18,000	0.00	18,000	0	0	18,000
DP 55140 - 5% General Fund Reduction	0.00	(114,878)	0	0	(114,878)	0.00	(114,878)	0	0	(114,878)
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>(\$70,639)</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$70,639)</b>	<b>0.00</b>	<b>(\$56,926)</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$56,926)</b>
<b>Grand Total All Present Law Adjustments</b>	<b>0.00</b>	<b>\$149,887</b>	<b>\$1,990</b>	<b>\$481,809</b>	<b>\$633,686</b>	<b>0.00</b>	<b>\$168,852</b>	<b>\$2,179</b>	<b>\$478,590</b>	<b>\$649,621</b>

**Program Personal Services Narrative**

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- o **Pay Plan Exceptions** – The program did not report any pay plan exceptions.
- o **Program Specific Obstacles** - OPI has experienced great difficulty in attracting and recruiting experienced educators for positions covered by the Teachers Retirement System (TRS).
- o **Vacancy** - Turnover trends have been mostly associated with IT, Instructional Coordinators, and Compliance Monitors. One half time admin support position has also turned over repeatedly. The Instructional Coordinators are especially problematic as they often leave schools to work for OPI and then return back to schools. OPI has experienced great difficulty in attracting and recruiting experienced educators for positions covered by the TRS retirement system. Vacancies have added to increased overtime, projects and tasks delayed, and increased workload for other staff.
- o **Legislatively Applied Vacancy Savings** – OPI used carry forward funds and shifted funding from other operational areas.
- o **Pay/Position Changes** - OPI has not approved any pay increases in accordance with the Governor’s office

directives on pay adjustments. OPI has not adjusted its pay plan rules or created special pay plan rules.

- o **Retirements** - OPI has 19 employees who are eligible for full retirement in the 2013 biennium. Using a typical example of an employee retiring with full retirement benefits under TRS or PERS, as OPI has employees covered by both retirement systems, the typical termination cost would be \$35,000. In turn, the total liability would be \$665,000.

DP 606 - Audiological Services - The executive is requesting increased authority for the Hearing Conservation Program (HCP) contract to provide funding at \$457,096 for FY 2012 and \$470,809 in FY 2013. The Individuals with Disabilities Education Act requires public schools to have an effective child-find system in place for children through age 21 who are suspected of having disabilities.

DP 607 - National Board Certified Teachers-OTO (Restricted) - The executive requests authority to pay up to ten one-time stipends of \$3,000 per teacher per year to Montana teachers who achieve certification from the National Board for Professional Teaching Standards. This authority would raise the base budget to \$30,000 for these payments.

DP 55140 - 5% General Fund Reduction - The executive requests an operating budget reduction of \$114,878 in each year of the 2013 biennium as part of the compliance for 17-7-140, MCA, reductions. Consulting and professional services, printing, reference books and materials, minor equipment, non-employee travel, dues, and education grants are all part of the reductions.

<b>LFD COMMENT</b>	The Governor made reductions to agencies' 2011 biennium general fund budgets in accordance with 17-7-140, MCA. A portion of the reduction was effective in FY 2011 and therefore is not reflected in the base. This reduction is to continue the original reduction in the 2013 biennium.
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<b>LFD COMMENT</b>	<p><u>Technical Adjustment Needed</u></p> <p>The agency request initially included federal authority for the longitudinal data study. An oversight in budget development left this funding out of the executive request.</p>
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DP 609 – Federal Grant Award Adjustments – The executive is requesting federal authority in FY 2012 of \$3.4 million and \$1.2 million in FY 2013 for the State Longitudinal Data System project. Funds have already been awarded to the department. This project will develop P-20 longitudinal data systems to capture student data from preschool to high school, college and career.

**New Proposals**

The “New Proposals” table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

Program	FTE	Fiscal 2012				Fiscal 2013				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 605 - USDA Foods - Commodities										
06	0.00	0	115,000	0	115,000	0.00	0	115,000	0	115,000
DP 610 - Montana Digital Academy										
06	0.00	1,168,000	0	0	1,168,000	0.00	1,168,000	0	0	1,168,000
DP 650 - National Clearinghouse (Restricted)										
06	0.00	7,600	0	0	7,600	0.00	7,600	0	0	7,600
<b>Total</b>	<b>0.00</b>	<b>\$1,175,600</b>	<b>\$115,000</b>	<b>\$0</b>	<b>\$1,290,600</b>	<b>0.00</b>	<b>\$1,175,600</b>	<b>\$115,000</b>	<b>\$0</b>	<b>\$1,290,600</b>

DP 605 - USDA Foods - Commodities - This request is to increase state special spending authority for additional costs of storage and shipping for USDA commodities provided to Montana school districts for breakfast programs. School districts receiving the USDA foods will reimburse OPI for the cost of warehousing and shipping the foods.

**LFD  
ISSUE**
Congressional Action Required

The executive is requesting authority for storage and shipping of USDA commodities for school breakfast programs. Currently, commodity assistance is only provided for school lunch programs. Congressional action is required to include breakfast programs.

Recently introduced legislation, HR 4638: Healthy Start Act, sponsored by Representative Stephanie Herseth Sandlin (SD), proposes to amend the Richard B. Russell National School Lunch Act to direct the Secretary of Agriculture to deliver commodity assistance to states for their school breakfast programs. The legislation also includes a formula for determining the amount of such to be provided to each state for its school breakfast program.

School districts receiving commodities reimburse OPI for handling costs. Revenues to support this appropriation will only be realized if Congress passes HR 4638. The legislature may wish to condition the appropriation as restricted to school breakfast programs to ensure the authority is available if and when Congress passes HR 4638.

DP 610 - Montana Digital Academy - This request is for a biennial general fund appropriation of \$2,336,000 to support ongoing operations of the Montana Digital Academy.

**LFD  
ISSUE**

This decision package reflects two things:

Transfer of the academy from the Montana University System, along with the continuing funding of \$2.0 million that had been provided on a one-time-only basis in HB 645 (the federal stimulus bill); and an increase of \$366,000.

Report to Legislature Required

The Montana Digital Academy (MTDA) (formerly the Virtual Academy) provides courses for students across the State of Montana through the public school districts. The MTDA program is designed to help students meet college admissions requirements, make up missed or failed classes, resolve scheduling conflicts, and take advanced coursework.

The MTDA was authorized in the passage and approval of HB 459 and funded in HB 645 with \$2.0 million general fund freed-up due to the provision of American Recovery and Reinvestment Act funds in the 2009 legislative session. HB 459 included the following reporting requirement:

The governing board shall provide the 62nd legislature with a report that details:

- how the line item funding in House Bill No. 645 cited was spent; and
- future funding requirements and recommendations, instructor standards, curriculum development issues, and evaluation of the software for implementing a seamless educational distance learning continuum in the state of Montana.

The legislature may wish review and discuss this report prior to proceeding with funding decisions. In addition, this report could provide the legislature with information needed to establish performance measures for the upcoming biennium.

**LFD  
ISSUE CONT.**Authority Increases by 16.8%

The 2011 biennial one-time-only appropriation for this program was \$2.0 million. The executive is requesting to increase the authority by 16.8%.

According to the program, the increased costs are related directly to the demand for services. At the inception of the program, MTDA anticipated serving 1,500 to 2,000 students over a period of one year; instead the program served 2,000 students in a semester. If the funding was to support enrollment only, the increase would fund an additional 672 students per year.

The legislature may wish to view this increase in conjunction with the report required in HB 659, as described above.

DP 650 - National Clearinghouse (Restricted) - The executive requests authority to provide funds for data information access to the National Clearinghouse for student records. This will assist OPI and the Office of the Commissioner of Higher Education to better track student performance, identify areas with student remediation needs, and more accurately track student dropout/transfer rates.

**LFD  
COMMENT**

This decision package supports the K-20 shared policy goal: Utilize K-20 data to improve student access and achievement. If the legislature chooses to continue the shared policy goal project, progress toward this goal will be tracked through the interim.

**Proprietary Program Description**

The State Level Activities program provides the following functions funded with proprietary funds. These programs are described separately along with a discussion of program expenses, revenues, and rates being requested to finance the program:

- Indirect Cost Pool
- Advanced Driver Education Program

**Indirect Cost Pool (06512)***Proprietary Proposed Budget*

The 2013 Biennium Report on internal services and enterprise funds for the indirect cost pool shows the financial information for the fund from FY 2010 and FY 2013. The report is provided as submitted by the executive but LFD has edited and reconfigured the figure for clarity.

2013 Biennium Report on Internal Service and Enterprise Funds						
Fund	Fund Name	Agency #	Program Name			
06512	Indirect Cost Pool	3501	State Level Activities			
			Actual FY 10	Budgeted FY 11	Budgeted FY 12	Budgeted FY 13
<b>Operating Revenues:</b>						
	Nonfederal indirect cost recoveries		1,208,401	1,208,401	1,242,534	1,237,048
	Federal Indirect Cost Recoveries		1,368,475	1,568,475	1,401,155	1,394,969
	Other Operating Revenues		8,150	8,150	8,150	8,150
	Total Operating Revenue		2,585,026	2,785,026	2,651,839	2,640,167
<b>Operating Expenses:</b>						
	Personal Services		1,431,144	1,302,662	1,329,788	1,330,037
	Termination costs for HB2 FTE (FY08-FY10 average-\$178,900)		278,580	180,000	200,000	200,000
	Other Operating Expenses		834,985	957,724	886,431	802,344
	Other Post Employment Expense		71,339	71,000	71,000	71,000
	Total Operating Expenses		2,616,048	2,511,386	2,487,219	2,403,381
	Operating Income (Loss)		(31,022)	273,640	164,620	236,786
	Total Net Assets- July 1 - As Restated		(80,342)	(111,364)	162,276	326,896
	Total Net Assets - July 1 - As Restated		(80,342)	(111,364)	162,276	326,896
	Net Assets- June 30		(111,364)	162,276	326,896	563,682
	60 days of expenses (Total Operating Expenses divided by 6)		436,008	418,564	414,537	400,564
Fee/Rate Information						
			Actual FY 10	Budgeted FY 11	Budgeted FY 12	Budgeted FY 13
	Unrestricted Rate		24.0%	17.5%	17.5%	17.5%
	Restricted Rate		16.3%	17.0%	17.0%	17.0%
OPI's indirect cost rate is negotiated with the U.S. Department of Education every three-years in accordance with federal regulations published in OMB Circular A-87, U.S. Department of Education General Administrative Requirements, and section 17-3-111, MCA. The restricted rate approved by the U.S. Department of Education for FY2011-FY2013 is 17%. The approved unrestricted rate is 17.5%. The restricted rate is applied to all general fund programs and to federal programs with "supplement not supplant" requirements.						

*Proprietary Program Description*

OPI's internal service fund is used to pool internal and state wide central service type costs that are charged back to all of the department's state and federally funded programs using a pre-approved indirect cost rate.

*Proprietary Program Narrative*

Revenue

Indirect cost pool revenues are a function of the amount of expenditures recorded in the State Level Activities Program. Revenues are generated monthly by applying an approved indirect cost rate to the prior month's direct personal services and operating expenditures in both state and federally funded programs. The federally approved rate for FY 2011 through FY 2013 is 17%.

Expense

The indirect cost pool covers the expenses incurred by the 22.5 FTE, who provide payroll, personnel, accounting, budgeting, data management, financial reporting, and purchasing and mail services to the rest of the agency. The rate also covers fees charged for services provided by other departments, including but not limited to warrant writing, worker's compensation fees, audit fees, rent, and grounds maintenance. The pool also covers termination payouts for all staff, except the Superintendent and their personal staff.

*Proprietary Rates*

OPI negotiates a three year "predetermined rate" with the Department of Education. The rate is calculated in accordance with federal regulations and section 17-3-111(1), MCA. The approved rate for FY 2010 through FY 2013 is 17%.

**Advanced Driver Education Program (06067)**

*Proprietary Proposed Budget*

The 2013 Biennium Report on Internal Services and Enterprise Funds for the advanced driver education program shows the financial information for the fund from FY 2010 and FY 2013. The report is provided as submitted by the executive but LFD has edited and reconfigured the figure for clarity.

2013 Biennium Report on Internal Service and Enterprise Funds						
Fund	Fund Name	Agency #	Program Name			
06067	Advanced Drivers Education	3501	State Level Activities			
			Actual FY 10	Budgeted FY 11	Budgeted FY 12	Budgeted FY 13
<b>Operating Revenues:</b>						
Fee revenue						
From Fee A - Full Day Workshop						
	Half Day Refresher Workshop		160,000	160,000	160,000	160,000
From Fee B - Daily Track Rentals, Exclusive						
From Fee C - Periodic or Extended Track Rental, Non-Exclu.						
	From Fee D - Custom Training/Workshop		-	-	-	-
Misc. Income						
			829	500	500	500
Total Operating Revenue						
			160,829	160,500	160,500	160,500
<b>Operating Expenses:</b>						
Personal Services						
			55,619	81,674	80,675	80,714
Other Operating Expenses						
			65,280	65,500	75,000	85,000
Total Operating Expenses						
			120,900	147,174	155,675	165,714
Operating Income (Loss)						
			39,929	13,326	4,825	(5,214)
Total Net Assets- July 1 - As Restated						
			(4,330)	35,599	48,925	53,750
Net Assets- June 30						
			35,599	48,925	53,750	48,536
60 days of expenses						
(Total Operating Expenses divided by 6)						
			20,150	24,529	25,946	27,619
<b>Fee/Rate Information</b>						
			Budgeted FY 10	Budgeted FY 11	Budgeted FY 12	Budgeted FY 13
Fee Group A	Rate 1 (per unit) Full-Day Workshop		260-320	260-320	260-320	260-320
	Rate 2 (per unit) Half-Day Workshop		155-190	155-190	155-190	155-190
Fee Group B	Rate 4 (per unit) Daily Track Rental - Gov.		150-200	150-200	150-200	150-200
	Rate 5 (per unit) Daily/Yearly High Schools		40/600	40/600	40/600	40/600
	Rate 6 (per unit) Daily Track Rental Non-Profit		330-400	330-400	330-400	330-400
	Rate 7 (per unit) Daily Private for Profit		2000-2750	2000-2750	2000-2750	2000-2750
Fee Group C	Rate 8 (per unit) Periodic/Extended Non-Exclusive - Gov		Negotiated	Negotiated	Negotiated	Negotiated
	Rate 9 (per unit) Periodic/Extended Non-Exclusive - Non-Profit		Negotiated	Negotiated	Negotiated	Negotiated
Fee Group D	Rate 10 (per unit) Custom Full-Day Workshop		Negotiated	Negotiated	Negotiated	Negotiated
	Rate 11 (per unit) Custom, Other training configurations		Negotiated	Negotiated	Negotiated	Negotiated
Misc. Income	This includes fees collected for use of cones, equipment of other misc. assets		Negotiated	Negotiated	Negotiated	Negotiated
<b>Group A</b> represents the workshops the Office of Public Instruction offers for driver improvement and advanced driver education. It is typically a one-day workshop or a half-day refresher course. It involves a driving track, four to five instructors, and 10-12 vehicles.						
<b>Group B</b> are the fees other users of the tract pay for exclusive use of the track. Rate 5 for High Schools involves use of the track after hours or on dates not scheduled for other uses.						
<b>Group C</b> are fees charged to groups that use the track on a non-exclusive basis that involves periodic or extended use, such as research projects that can accommodate other users, or are confined to dates that are not typically used. A fee that fairly represents the loss of track time from other uses, accounts for value added benefits to the program/facility, and takes into account wear and tear on facility will be negotiated.						
<b>Change of Lead Agency Status.</b> As of February 28, 2008, Western Transportation Institute became the lead agency at the Lewistown Montana driving facility and will now arrange for and collect use fees from other users. OPI now subleases the tract from WTI and will rarely see track revenue from other users based upon this change. OPI will occasionally realize misc. income from other uses of cones, signs, and other misc. assets.						

**Proprietary Program Description**

The Advanced Driver Education program (also known as Montana DR.I.V.E.) - This is a seasonal hands-on behind-the-wheel crash avoidance program operated by the Health Enhancement and Safety Division of the Office of Public Instruction at their training facility in Lewistown. The one-day and half-day refresher courses provide training to school bus drivers, driver education teachers, state employees, ambulance drivers, firefighters, road crews and others who drive as a part of their employment. In operation since 1979, this program offers its services to employees of government services, fleet managers and to the general public.

*Proprietary Program Narrative*Revenue

Revenues are generated from workshop fees collected from program users. (Authority Title 20 MCA) Typically the program serves 500-600 participants a season. The current fee is \$290 for a full-day workshop per person.

Expenses

Cost drivers for fees include instructor expenses (includes salaries, travel and per diem), vehicle maintenance and operating expenses (fuel and repairs), classroom and track supplies, track lease, program advertising, and administration (planning, scheduling, registrations, advertising, professional development of staff, support services, etc.). Need for improvements to the facility are pending.

*Proprietary Rates*

Workshop rates are fixed rates evaluated against workshop personnel expenses, operating expenses, and depreciated vehicle costs on a seasonal basis to ensure workshop operating expenses are covered. Inflationary influences are anticipated as best as possible to ensure that inflation does not leave the program in a deficit situation. All attempts are made to keep workshop fees low since the potential customers such as bus drivers, volunteer firemen, and ambulance drivers have small training budgets.

**Program Budget Comparison**

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

Program Budget Comparison								
Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
Operating Expenses	1,083,836	1,151,059	1,107,577	1,120,102	2,234,895	2,227,679	(7,216)	(0.32%)
Local Assistance	564,594,849	712,513,477	685,768,117	690,860,253	1,277,108,326	1,376,628,370	99,520,044	7.79%
Grants	132,029,203	147,998,651	139,766,183	143,416,183	280,027,854	283,182,366	3,154,512	1.13%
Transfers	409,490	1,490,510	409,490	409,490	1,900,000	818,980	(1,081,020)	(56.90%)
<b>Total Costs</b>	<b>\$698,117,378</b>	<b>\$863,153,697</b>	<b>\$827,051,367</b>	<b>\$835,806,028</b>	<b>\$1,561,271,075</b>	<b>\$1,662,857,395</b>	<b>\$101,586,320</b>	<b>6.51%</b>
General Fund	551,087,188	713,686,516	639,975,176	644,487,478	1,264,773,704	1,284,462,654	19,688,950	1.56%
State Special	750,000	750,000	47,675,518	48,267,877	1,500,000	95,943,395	94,443,395	6,296.23%
Federal Special	146,280,190	148,717,181	139,400,673	143,050,673	294,997,371	282,451,346	(12,546,025)	(4.25%)
<b>Total Funds</b>	<b>\$698,117,378</b>	<b>\$863,153,697</b>	<b>\$827,051,367</b>	<b>\$835,806,028</b>	<b>\$1,561,271,075</b>	<b>\$1,662,857,395</b>	<b>\$101,586,320</b>	<b>6.51%</b>

**Program Description**

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

**Program Highlights**

<b>Office of Public Instruction Major Budget Highlights</b>
<p>The executive proposes an increase in OPI’s distribution to schools program of \$276.7 million in state funds in the 2013 biennium when compared to base expenditures in FY 2010. The increase is \$101.6 million when compared to the 2011 biennium.</p> <ul style="list-style-type: none"> <li>◆ The difference between the comparison to doubled base and the previous biennium is due to the one-time receipt of Otter Creek coal lease and federal funding, both of which replaced general fund in FY 2010, only</li> <li>◆ Of the biennial difference of \$276.7 million, present law general fund spending would increase \$269.7 million in the 2013 biennium. New proposals would reduce general fund spending by \$87.4 million, and state special revenue account spending would increase by \$94.4 million. The biennial present law increases in general fund spending from the doubled FY 2010 base are: <ul style="list-style-type: none"> <li>• \$29.2 million to replace spending that was supplied by federal American Reinvestment and Recovery Act (ARRA) funds in FY 2010</li> <li>• \$169.3 million to replace spending that was supplied by the guarantee fund using coal bonus payments made by Arch Coal Co in FY 2010 (Otter Creek)</li> <li>• \$26.2 million to bring general fund spending up to levels consistent with FY 2011 entitlements</li> <li>• \$29.6 million to reflect an inflationary increase in entitlements equivalent to 1.90% in FY 2012 and 1.53% in FY 2013</li> <li>• \$10.0 million for the at-risk payment</li> <li>• \$3.0 million to maintain special education spending</li> <li>• \$2.4 million for additional spending on HB 124 block grants, transportation, and other general fund spending</li> </ul> </li> </ul>

- ◆ The executive budget also increases federal spending by \$19.1 million primarily in school foods, Title 1, and special education. This is offset by a \$29.2 million reduction in federal ARRA funds.
- ◆ The executive budget contains two new proposals which switch funding for K-12 programs from the general fund to state special revenue accounts, one proposal to increase the quality educator payment by inflation, and one proposal to increase special education by inflation. These proposals are:
  - Remove \$17.2 million in school facility reimbursements from the general fund, pay for this program from the school facility and technology fund, using streambed rental monies
  - Remove \$76.7 million in quality educator payments from the general fund and pay for this program from a new Teach Montana state special revenue account, which would receive oil and gas revenues that have been diverted from school district coffers. This would also require GTB funding in the amount of \$3.8 million for school districts that lose oil and gas revenues
  - Increase the quality educator payment by inflation in FY 2013 for an additional cost to the Teach Montana account of \$0.6 million
  - Increase special education for the biennium by \$2.7 million to reflect inflation

#### **Major LFD Issues**

- ◆ The executive underestimates K-12 general fund costs for the 2013 biennium by \$14.9 million. Of this amount, new cost data show \$8.4 million is due to higher than predicted costs to pay for spending consistent with 2011 entitlement levels. The remaining increase in general fund cost, \$6.5 million, is the result of lower revenue estimates for the guarantee account as chosen by the Revenue and Transportation Interim Committee.
- ◆ The executive proposes to use the school facility and technology account to pay for school facility reimbursements instead of the general fund. The revenue in the school facility and technology account during the 2013 biennium will depend on the riverbed rents paid by Avista and PPL. The PPL portion of these payments is in litigation at the US Supreme Court and it is unknown when the case will be resolved. If PPL wins the case, these revenues will be unavailable to pay for school facility reimbursements.
- ◆ The executive proposes to create a new Teach Montana state special account to pay for the quality educator payment, an amount of approximately \$38 million per year, and pay for this payment by diverting 90 percent of oil and natural gas revenues currently distributed to school districts in 32 counties. This action is contingent on passage of LC 360. In the latest year in which data is available, school districts received \$33.6 million in oil and gas revenues, not enough to pay for one year's quality educator payment.
- ◆ The executive improperly increases the special education appropriation by the attendant GTB increase which is properly BASE Aid, in both its present law adjustment and new proposal for special education.

**Program Narrative**

*5% Reduction Plan*

The agency’s plan states that the reduction to K-12 BASE Aid require a statutory change to reduce some combination of the basic and per-ANB entitlements, the quality educator payment, the at-risk student payment, the Indian Education for all payment and the American Indian achievement gap payment. If such changes were made, school districts would respond by reducing educational services to students and families, seek voter approval to increase local property tax levies and/or use non levy revenue to replace the state funds. To do this, legislation would be necessary.

**Funding**

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Local Education Activities						
Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	FY 2010	FY 2010	FY 2012	FY 2012	FY 2013	FY 2013
01000 Total General Fund	\$ 551,087,188	78.9%	\$ 639,975,176	77.4%	\$ 644,487,478	77.1%
01100 General Fund	551,087,188	78.9%	639,975,176	77.4%	644,487,478	77.1%
02000 Total State Special Funds	750,000	0.1%	47,675,518	5.8%	48,267,877	5.8%
02218 School Facility Imprvmnt Acct	-	-	8,586,000	1.0%	8,586,000	1.0%
02402 Traffic & Safety Education	750,000	0.1%	750,000	0.1%	750,000	0.1%
02584 Teach Montana	-	-	38,339,518	4.6%	38,931,877	4.7%
03000 Total Federal Special Funds	146,280,190	21.0%	139,400,673	16.9%	143,050,673	17.1%
03170 Grant Clearance Discretionary	131,666,713	18.9%	139,400,673	16.9%	143,050,673	17.1%
03488 Fed Stabilization Fund - Education	14,613,477	2.1%	-	-	-	-
Grand Total	<u>\$ 698,117,378</u>	<u>100.0%</u>	<u>\$ 827,051,367</u>	<u>100.0%</u>	<u>\$ 835,806,028</u>	<u>100.0%</u>

**Budget Summary by Category**

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	551,087,188	551,087,188	1,102,174,376	85.81%	698,117,378	698,117,378	1,396,234,756	83.97%
Statewide PL Adjustments	14,613,304	14,613,307	29,226,611	2.28%	(173)	(170)	(343)	0.00%
Other PL Adjustments	118,367,119	122,061,645	240,428,764	18.72%	126,101,079	133,445,605	259,546,684	15.61%
New Proposals	(44,092,435)	(43,274,662)	(87,367,097)	(6.80%)	2,833,083	4,243,215	7,076,298	0.43%
<b>Total Budget</b>	<b>\$639,975,176</b>	<b>\$644,487,478</b>	<b>\$1,284,462,654</b>		<b>\$827,051,367</b>	<b>\$835,806,028</b>	<b>\$1,662,857,395</b>	

**Present Law Adjustments**

The “Present Law Adjustments” table shows the changes to the adjusted base budget proposed by the executive. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	-----Fiscal 2012-----					-----Fiscal 2013-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Inflation/Deflation					(173)					(170)
<b>Total Statewide Present Law Adjustments</b>		<b>\$14,613,304</b>	<b>\$0</b>	<b>(\$14,613,477)</b>	<b>(\$173)</b>		<b>\$14,613,307</b>	<b>\$0</b>	<b>(\$14,613,477)</b>	<b>(\$170)</b>
DP 901 - K-12 BASE Aid - Adjust to FY 2011 Funding Level	0.00	13,085,331	0	0	13,085,331	0.00	13,085,331	0	0	13,085,331
DP 902 - At-Risk Payment Restored (Restricted)	0.00	5,000,000	0	0	5,000,000	0.00	5,000,000	0	0	5,000,000
DP 903 - K-12 BASE Aid-Statutory Inflation Incrs (Rst/Bien)	0.00	10,470,459	0	0	10,470,459	0.00	19,099,210	0	0	19,099,210
DP 904 - Special Education Maintenance of Effort	0.00	1,481,605	0	0	1,481,605	0.00	1,481,846	0	0	1,481,846
DP 906 - School Block Grants (Rst/Bien)	0.00	789,698	0	0	789,698	0.00	1,189,054	0	0	1,189,054
DP 907 - Pupil Transportation	0.00	200,000	0	0	200,000	0.00	300,000	0	0	300,000
DP 910 - School District Audit Filing Fees (Biennial)	0.00	11,550	0	0	11,550	0.00	17,182	0	0	17,182
DP 911 - School Lunch State Matching Requirement	0.00	15,206	0	0	15,206	0.00	27,731	0	0	27,731
DP 912 - Federal Grant Award Adjustment - Program 09	0.00	0	0	7,733,960	7,733,960	0.00	0	0	11,383,960	11,383,960
DP 913 - Biennial Appropriations - Program 09	0.00	(72,585)	0	0	(72,585)	0.00	(72,588)	0	0	(72,588)
DP 914 - Guarantee Account	0.00	87,385,855	0	0	87,385,855	0.00	81,933,879	0	0	81,933,879
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>\$118,367,119</b>	<b>\$0</b>	<b>\$7,733,960</b>	<b>\$126,101,079</b>	<b>0.00</b>	<b>\$122,061,645</b>	<b>\$0</b>	<b>\$11,383,960</b>	<b>\$133,445,605</b>
<b>Grand Total All Present Law Adjustments</b>	<b>0.00</b>	<b>\$132,980,423</b>	<b>\$0</b>	<b>(\$6,879,517)</b>	<b>\$126,100,906</b>	<b>0.00</b>	<b>\$136,674,952</b>	<b>\$0</b>	<b>(\$3,229,517)</b>	<b>\$133,445,435</b>

**Program Personal Services Narrative**

This program does not have any associated FTE. See Program 6 for this narrative.

The following table shows all the proposals requested by the executive for the K-12 distribution to schools program.

Distribution to Schools, General Fund, State Special, and Federal Funds - Executive Proposal							
Description	Base Budget 2010	PL Base Adjustments Fiscal 2012	New Proposals Fiscal 2012	Total Fiscal 2012	PL Base Adjustments Fiscal 2013	New Proposals Fiscal 2013	Total Fiscal 2013
<b>Base Aid Summary</b>	<u>\$567,296,789</u>	<u>\$38,180,817</u>	<u>-\$36,451,833</u>	<u>\$569,025,773</u>	<u>\$46,815,200</u>	<u>-\$36,415,392</u>	<u>\$577,696,597</u>
HB 2 General Fund	\$433,979,450	\$125,566,672	-\$36,451,833	\$523,094,289	\$128,749,079	-\$36,415,392	\$526,313,137
Guarantee Account	\$133,317,339	-\$87,385,855	\$0	\$45,931,484	-\$81,933,879	\$0	\$51,383,460
<b>General Fund</b>							
<b>Base Aid</b>							
Direct State Aid	\$226,393,777	\$106,732,684	\$0	333,126,461	\$106,971,365	\$0	333,365,142
Direct State Aid - HB 645 ARRA	\$0	\$14,613,477	\$0	14,613,477	\$14,613,477	\$0	14,613,477
GTB - School General Fund	137,838,158	\$917,398	1,887,685	140,643,241	\$3,418,186	1,924,126	143,180,470
GTB - School Retirement	25,303,383	\$2,877,731	0	28,181,114	\$3,315,037	0	28,618,420
Indian Ed for All	3,037,041	-\$18,330	0	3,018,711	-\$18,330	0	3,018,711
Close Achievement Gap	3,221,000	\$93,600	0	3,314,600	\$93,600	0	3,314,600
Quality Educator	38,000,956	\$338,562	-\$38,339,518	0	\$338,562	-\$38,339,518	0
School District Audits	185,135	11,550	0	196,685	17,182	0	202,317
At Risk Payment	0	5,000,000	0	5,000,000	5,000,000	0	5,000,000
Special Education	40,362,884	1,481,605	945,398	42,789,887	1,481,846	1,726,730	43,571,460
Transportation	12,421,927	200,000	0	12,621,927	300,000	0	12,721,927
School Facility Reimbursement	8,586,000	0	-\$8,586,000	0	0	-\$8,586,000	0
Instate Treatment	763,760	24,040	0	787,800	24,040	0	787,800
Secondary Vo Ed	1,000,000	0	0	1,000,000	0	0	1,000,000
Adult Basic Ed	524,998	2	0	525,000	2	0	525,000
Gifted & Talented	246,982	3,018	0	250,000	3,018	0	250,000
School Food	648,655	15,206	0	663,861	27,731	0	676,386
HB 124 Block Grants	51,757,156	789,698	0	52,546,854	1,189,054	0	52,946,210
State Tuition Payments	639,308	0	0	639,308	0	0	639,308
HB 464 Advancing Agricultural Education in Montana	156,068	-\$99,818	0	56,250	-\$99,818	0	56,250
<b>Total General Fund</b>	<u>\$551,087,188</u>	<u>\$132,980,423</u>	<u>-\$44,092,435</u>	<u>\$639,975,176</u>	<u>\$136,674,952</u>	<u>-\$43,274,662</u>	<u>\$644,487,478</u>
<b>State Special Revenue</b>							
Traffic Safety Distribution	\$750,000	\$0	\$0	\$750,000	\$0	\$0	\$750,000
Sch Facility & Technology Account - Debt Service	\$0	\$0	\$8,586,000	\$8,586,000	\$0	\$8,586,000	\$8,586,000
Sch Facility & Technology Account - Teach Montana	\$0	\$0	\$38,339,518	\$38,339,518	\$0	\$38,931,877	\$38,931,877
<b>Total State Special</b>	<u>\$750,000</u>	<u>\$0</u>	<u>\$46,925,518</u>	<u>\$47,675,518</u>	<u>\$0</u>	<u>\$47,517,877</u>	<u>\$48,267,877</u>
<b>Federal Special Revenue</b>							
Direct State Aid - HB 645 ARRA	\$14,613,477	(\$14,613,477)	\$0	\$0	(\$14,613,477)	\$0	\$0
Federal School Foods Programs	30,592,519	3,850,000	-	34,442,519	6,000,000	-	36,592,519
ESEA - Title I - Assistance to Disadvantaged	39,097,170	-	-	39,097,170	-	-	39,097,170
ESEA - Title I - Improvement	1,207,500	-	-	1,207,500	-	-	1,207,500
ESEA - Title I - School Improvement	357,592	1,000,000	-	1,357,592	1,500,000	-	1,857,592
ESEA - Title I - Migrant Education	796,747	-	-	796,747	-	-	796,747
ESEA - Title I - Neglected & Delinquent	110,231	-	-	110,231	-	-	110,231
ESEA - Title I - Part B - Even Start	329,427	-	-	329,427	-	-	329,427
ESEA Title II - Teacher & Principal Training	12,646,394	-	-	12,646,394	-	-	12,646,394
ESEA Title II - Math & Science	800,351	-	-	800,351	-	-	800,351
ESEA Title II - Technology	1,333,753	-	-	1,333,753	-	-	1,333,753
ESEA Title III-Language Acquisition	291,415	-	-	291,415	-	-	291,415
ESEA Title IV - 21 st Cent Schools	5,316,566	-	-	5,316,566	-	-	5,316,566
ESEA Title IV - Drug Free Schools	1,084,603	-	-	1,084,603	-	-	1,084,603
ESEA Title V -Innovative Education	11,990	-	-	11,990	-	-	11,990
Title V, Part D Character Education	116,040	(116,040)	-	-	(116,040)	-	-
Title VI - Rural Low Income	223,258	-	-	223,258	-	-	223,258
IDEA - Children w/ Disabilities	31,032,046	3,000,000	-	34,032,046	4,000,000	-	35,032,046
IDEA - Preschool	1,126,777	-	-	1,126,777	-	-	1,126,777
IDEA - Part D	181,751	-	-	181,751	-	-	181,751
WIA Sect 503 Incentive Grant	174,806	-	-	174,806	-	-	174,806
Adult Basic Education	1,020,157	-	-	1,020,157	-	-	1,020,157
Carl Perkins	2,696,007	-	-	2,696,007	-	-	2,696,007
Carl Perkins State Leadership	149,500	-	-	149,500	-	-	149,500
Learn and Serve Montana	21,523	-	-	21,523	-	-	21,523
Reading First	764,956	-	-	764,956	-	-	764,956
Education of Homeless Children	99,244	-	-	99,244	-	-	99,244
Migrant Incentive	84,390	-	-	84,390	-	-	84,390
<b>Total Federal Special</b>	<u>\$146,280,190</u>	<u>(\$6,879,517)</u>	<u>\$0</u>	<u>\$139,400,673</u>	<u>(\$3,229,517)</u>	<u>\$0</u>	<u>\$143,050,673</u>
<b>Funding</b>							
Total General Fund	\$551,087,188	\$132,980,423	-\$44,092,435	\$639,975,176	\$136,674,952	-\$43,274,662	\$644,487,478
Total State Special	750,000	0	46,925,518	47,675,518	0	47,517,877	48,267,877
Total Traditional Federal	146,280,190	-\$6,879,517	0	139,400,673	-\$3,229,517	0	143,050,673
<b>Total Distribution to Public Schools</b>	<u>\$698,117,378</u>	<u>\$126,100,906</u>	<u>\$2,833,083</u>	<u>\$827,051,367</u>	<u>\$133,445,435</u>	<u>\$4,243,215</u>	<u>\$835,806,028</u>
<b>Statutory Appropriations</b>							
Guarantee Account - Interest & Income	\$133,317,339	-\$87,385,855	\$0	\$45,931,484	-\$81,933,879	\$0	\$51,383,460
School Facility and Technology Account	1,000,000	0	0	1,000,000	0	0	1,000,000
<b>Total Statutory</b>	<u>\$134,317,339</u>	<u>-\$87,385,855</u>	<u>\$0</u>	<u>\$46,931,484</u>	<u>-\$81,933,879</u>	<u>\$0</u>	<u>\$52,383,460</u>

Appropriations for Distribution to Schools - HB 2 - 2011 Session				
Legislative Action for K-12 Distribution to Schools - 2013 Biennium				
By Fund and Decision Package Number				
Program 09				
December 14, 2010				
<b>Present Law Adjustments</b>		FY 2012	FY 2013	Biennium
Decision Package	General Fund			
	Base Aid Changes			
	Use ARRA HB 645 Funds to fund Base Budget for Direct State Aid	\$14,613,477	\$14,613,477	\$29,226,954
PL914	Guarantee Account	87,385,855	81,933,879	169,319,734
PL901	K-12 Base Aid - Adjust to FY2011 Funding Level	13,085,331	13,085,331	26,170,662
	Direct State Aid	11,909,548	11,472,242	23,381,790
	General Fund GTB	(2,115,780)	(2,115,780)	(4,231,560)
	Retirement GTB	2,877,731	3,315,037	6,192,768
	Indian Ed for All	(18,330)	(18,330)	(36,660)
	Close Achievement Gap	93,600	93,600	187,200
	Quality Educator	338,562	338,562	677,124
PL902	At-Risk Payment Restored	5,000,000	5,000,000	10,000,000
PL 910	School District Audits	11,550	17,182	28,732
PL903	K-12 Base Aid Inflation Increase	10,470,459	19,099,210	29,569,669
	Direct State Aid	7,437,281	13,565,244	21,002,525
	General Fund GTB	3,033,178	5,533,966	8,567,144
	<b>Total Base Aid Changes</b>	<b>\$130,566,672</b>	<b>\$133,749,079</b>	<b>\$264,315,751</b>
PL904	Special Education Maintenance of Effort	\$1,284,447	\$1,284,447	\$2,568,894
PL904	Special Education Maintenance of Effort - GTB Impact	197,158	197,399	394,557
PL906	School Block Grants	789,698	1,189,054	1,978,752
PL907	Pupil Transportation	200,000	300,000	500,000
PL911	School Lunch State Matching Requirement	15,206	27,731	42,937
PL913	Biennial Appropriations	(72,758)	(72,758)	(145,516)
	<b>Total General Fund</b>	<b>\$132,980,423</b>	<b>\$136,674,952</b>	<b>\$269,655,375</b>
PL912	<b>Federal Increases</b>	\$7,733,960	\$11,383,960	\$19,117,920
	<b>Take ARRA money out of Federal and Put in General Fund</b>	(14,613,477)	(14,613,477)	(29,226,954)
	<b>Total Federal</b>	<b>(\$6,879,517)</b>	<b>(\$3,229,517)</b>	<b>(\$10,109,034)</b>
	<b>Total Present Law Adjustments</b>	<b>\$126,100,906</b>	<b>\$133,445,435</b>	<b>\$259,546,341</b>
<b>New Proposals</b>				
		Fiscal 2012	Fiscal 2013	Biennium
Decision Package	General Fund			
NP950	School Facility Fund Switch	(\$8,586,000)	(\$8,586,000)	(\$17,172,000)
NP951	Quality Educator Fund Switch	(38,339,518)	(38,339,518)	(76,679,036)
NP951	Quality Educator Fund Switch - GTB Impact	1,887,685	1,924,126	3,811,811
NP952	Special Education - Increase for Inflation	945,398	1,726,730	2,672,128
	<b>Total General Fund - New Proposals</b>	<b>(\$44,092,435)</b>	<b>(\$43,274,662)</b>	<b>(\$87,367,097)</b>
	<b>State Special Revenue Accounts</b>			
NP950	Spend School Facility money out of Sch Facility & Tech Acct	\$8,586,000	\$8,586,000	\$17,172,000
NP951	Spend Quality Educator Payment out of Teach Montana Acct	38,339,518	38,339,518	76,679,036
NP951	Increase Quality Educator Payment by Inflation in FY 2013	0	592,359	592,359
	<b>Total State Special - New Proposals</b>	<b>\$46,925,518</b>	<b>\$47,517,877</b>	<b>\$94,443,395</b>
	<b>Net Change General Fund Over FY08 Base (Present Law + New Proposals)</b>	<b>\$88,887,988</b>	<b>\$93,400,290</b>	<b>\$182,288,278</b>
	<b>Net Change All Funds Over FY10 Base</b>	<b>\$128,933,989</b>	<b>\$137,688,650</b>	<b>\$266,622,639</b>
	State Spending in the 2010 general fund base budget			\$ 551,087,188
	BASE Aid paid for out of the Guarantee Fund (Interest and Income on State Lands)			133,317,339
	<b>Total State Spending on K-12 - FY2010</b>			<b>\$ 684,404,527</b>

DP 901 - K-12 BASE Aid - Adjust to FY 2011 Funding Level - This present law adjustment of \$26.17 million general fund for the 2013 biennium brings K-12 funding to the FY 2011 funding level or \$13.09 million per year (established in 20-9-306, MCA).

**LFD  
COMMENT**

The purpose of this decision package is to acknowledge that funding for K-12 BASE Aid in FY 2012 and FY 2013 must achieve levels consistent with the FY 2011 basic entitlements and per-ANB entitlements or else the law setting entitlements must be changed. The base general fund budget for K-12 reflects FY 2010 entitlements but must be increased to FY 2011 current law entitlements through this decision package, otherwise the entitlements in law must be reduced to FY 2010 levels. The legislature in 2009 scheduled a 3 percent increase in entitlements between FY 2010 and FY 2011.

This decision package is calculated for FY 2012 and FY 2013 holding the basic and per-ANB entitlements constant at FY 2011 levels while letting ANB and other determinants of GTB funding (such as nonlevy revenue and fund balance reappropriated) vary as this information is available. In addition the quality educator payment, the Indian education for all payment, and the achievement gap payment are also held constant and the cost is projected into each year of the 2013 biennium.

If this decision package fails, the law would need to be changed so that the basic and per-ANB entitlements are reduced to FY 2010 levels, or there will be a supplemental request for additional K-12 funding in FY 2013. If this decision package is approved no change in law is required.

**LFD  
ISSUE**
Incorrect Calculation

The executive did not correctly calculate this decision package. The executive used an older model that did not incorporate the latest budget information from school districts that became available in November 2010. School districts reported lower fund balances appropriated than were assumed in the executive's forecast. Lower fund balances appropriated results in higher general fund GTB. In addition, newer data resulted in a significant increase in expected GTB for county retirement funds. Additionally, October enrollment became available in December which also increased costs compared to ANB estimates assumed by the executive.

## Options:

- Add \$8.4 million general fund over the biennium to properly account for increased costs
- Accept the executive proposal

**LFD  
COMMENT**

The estimates of present law BASE Aid are based on predictions of Average Number Belonging (ANB) in FY 2012 and FY 2013. ANB is a measure of enrollments in public schools. The table below shows the ANB assumptions the executive made in estimating BASE Aid. Actual ANB for FY 2012 will be known in March 2011. FTE for the quality educator payment are also shown.

Average Number Belonging (ANB) And Certified FTE in Montana Schools									
Fiscal Year	K-6	% Change	Grade 7-8	% Change	Grade 9-12	% Change	Total	% Change	Certified FTE
<b>Current Year ANB</b>									
A	1996	87,502		27,195		49,043	163,740		
A	1997	86,694	-0.9%	27,399	0.8%	50,586	3.1%	164,679	0.6%
A	1998	85,374	-1.5%	27,068	-1.2%	51,432	1.7%	163,874	-0.5%
A	1999	83,030	-2.7%	26,822	-0.9%	51,885	0.9%	161,737	-1.3%
A	2000	81,175	-2.2%	26,556	-1.0%	52,025	0.3%	159,756	-1.2%
A	2001	79,854	-1.6%	26,114	-1.7%	51,507	-1.0%	157,475	-1.4%
A	2002	78,090	-2.2%	25,537	-2.2%	50,794	-1.4%	154,421	-1.9%
A	2003	76,060	-2.6%	25,080	-1.8%	50,357	-0.9%	151,497	-1.9%
A	2004	74,315	-2.3%	25,150	0.3%	50,003	-0.7%	149,468	-1.3%
A	2005	73,229	-1.5%	24,956	-0.8%	49,466	-1.1%	147,651	-1.2%
A	2006	71,985	-1.7%	24,540	-1.7%	49,302	-0.3%	145,827	-1.2%
A	2007	71,639	-0.5%	23,805	-3.0%	48,809	-1.0%	144,253	-1.1%
A	2008	76,118	6.3%	23,041	-3.2%	48,440	-0.8%	147,599	2.3%
A	2009	77,047	1.2%	22,618	-1.8%	47,502	-1.9%	147,167	-0.3%
A	2010	77,575	0.7%	22,241	-1.7%	46,152	-2.8%	145,968	-0.8%
A	2011	78,292	0.9%	22,053	-0.8%	44,984	-2.5%	145,329	-0.4%
F	2012	79,382	1.4%	22,421	1.7%	44,593	-0.9%	146,396	0.7%
F	2013	80,708	1.7%	22,639	1.0%	43,882	-1.6%	147,229	0.6%
<b>Budgeted ANB</b>									
A	2006	73,573		25,242		50,082	148,897		
A	2007	72,763	-1.1%	24,643	-2.4%	49,612	-0.9%	147,018	-1.3%
A	2008	76,826	5.6%	24,076	-2.3%	49,246	-0.7%	150,148	2.1%
A	2009	77,753	1.2%	23,353	-3.0%	48,642	-1.2%	149,748	-0.3%
A	2010	78,325	0.7%	22,874	-2.1%	47,660	-2.0%	148,859	-0.6%
A	2011	78,973	0.8%	22,510	-1.6%	46,482	-2.5%	147,965	-0.6%
F	2012	79,556	0.7%	22,548	0.2%	45,351	-2.4%	147,455	-0.3%
F	2013	80,708	1.4%	22,639	0.4%	44,525	-1.8%	147,872	0.3%
Beginning in FY 2006, budgeted ANB for each district is the larger of current year ANB and three-year averaged ANB.									
Full-time kindergarten began in FY 2008									

**LFD COMMENT**

The following table shows historical and present law levels of the most important variables in the school funding formula. It provides a perspective of the executive's request compared to historical levels of the important elements in the funding formula.

School District Entitlements										
Component	FY2004 Actual	FY2005 Actual	FY2006 Actual	FY2007 Actual	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	FY2012 Budget	FY2013 Budget
<b>Bill Authorizing Entitlement Change</b>	SB424	SB424	HB63	HB63	SB1 (SS)	SB1 (SS)	HB676	HB676	Executive	Executive
<b>Basic (Per District) Entitlements</b>										
Elementary	\$19,456	\$19,859	\$20,275	\$20,718	\$21,290	\$21,922	\$22,141	\$22,805	\$23,238	\$23,594
Percent Change	1.1%	2.1%	2.1%	2.2%	2.8%	3.0%	1.0%	3.0%	1.9%	1.5%
High School	\$216,171	\$220,646	\$225,273	\$230,199	\$236,552	\$243,649	\$246,085	\$253,468	\$258,284	\$262,236
Percent Change	1.1%	2.1%	2.1%	2.2%	2.8%	3.0%	1.0%	3.0%	1.9%	1.5%
Middle School	Average of Elementary and High School Basic				60,275	62,083	\$62,704	\$64,585	\$65,812	\$66,819
Percent Change					NA	3.0%	1.0%	3.0%	1.9%	1.5%
<b>Per ANB Entitlements</b>										
Elementary	\$3,949	\$4,031	\$4,366	\$4,456	\$4,579	\$4,716	\$4,763	\$4,906	\$4,999	\$5,075
Percent Change	1.1%	2.1%	8.3%	2.1%	2.8%	3.0%	1.0%	3.0%	1.9%	1.5%
High School	\$5,262	\$5,371	\$5,584	\$5,704	\$5,861	\$6,037	\$6,097	\$6,280	\$6,399	\$6,497
Percent Change	1.1%	2.1%	4.0%	2.1%	2.8%	3.0%	1.0%	3.0%	1.9%	1.5%
<b>Per ANB Decrements</b>										
Elementary	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20
High School	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50
<b>Per ANB Decrement Stop Loss</b>										
Elementary	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
High School	800	800	800	800	800	800	800	800	800	800
<b>Quality Educator Payment</b>				\$2,000	\$3,036	\$3,042	\$3,042	\$3,042	\$3,042	\$3,089
<b>At Risk Payment</b>				\$5,000,000	\$5,000,000	\$5,000,000	\$1	\$1	\$5,000,000	\$5,000,000
<b>Indian Ed For All Payment</b>				\$200	\$200	\$200	\$200	\$200	\$200	\$200
<b>Indian Achievement Gap Payment</b>				\$20.40	\$20.40	\$20.40	\$20.40	\$20.40	\$20.40	\$20.40
<b>GTB Guarantee Ratio</b>	175%	175%	175%	175%	193%	193%	193%	193%	193%	193%
<b>Base Budget Components</b>										
Direct State Aid	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%	44.7%
Guaranteed tax base aid	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%	35.3%
<b>Special Ed (Millions)</b>	\$34.9	\$36.4	\$38.5	\$39.3	\$40.4	\$41.6	\$41.6	\$41.6	\$42.4	\$43.1
Bill and session year: SB424, 2003; HB 63, 2005; HB1, 2005 SS; SB1 2007SS; 2009 HB 676										
In FY 2010 and FY 2011, the basic and per-ANB entitlements were raised by 3% and 3%, but 2% in the first year was OTO.										
Bill and session year: HB 667, 1993; HB 22, Nov SS, 1993; HB 47, 1997; SB 100, 1999; HB 4, May SS, 2000; HB121, 2001; SB424, 2003; HB 63, 2005; SB1 2007SS										

**DP 902 - At-Risk Payment Restored (Restricted)** - This request for \$10 million general fund in the 2013 biennium is to restore funding for the at-risk student payment found in 20-9-328, MCA.

**LFD COMMENT**

During the last legislative session, the legislature reduced the at-risk payment to \$1 per year, based on the fact that federal stimulus funds for Title 1 programs – which distribute money to districts with high proportions of children from low income homes – would total \$34.2 million during the 2011 biennium. The at-risk payment is distributed in the same way as Title 1 funds.

**LFD  
ISSUE**Not BASE Aid

The executive characterizes the at-risk payment as BASE aid. Technically, while the at-risk payment is added to a district's general fund base and maximum budget, the at-risk payment is not BASE Aid and should be placed in its own reporting level.

DP 903 - K-12 BASE Aid-Statutory Inflation Incrs (Rst/Bien) - This request is for \$29.57 million for the present law adjustment for the 2013 biennium. Increasing the basic and per-ANB entitlements by 1.90% in FY 2012 and by 1.53% in FY 2013 in accordance with 20-9-326, MCA, requires annual inflation-related adjustments to the basic and per-ANB entitlements. The increase is \$10.47 million in FY 2012 and \$19.10 million in FY 2013.

**LFD  
COMMENT**

20-9-326, MCA requires the Superintendent of Public Instruction to propose inflating the basic and per-ANB entitlements, but the legislature is not bound to apply inflation to the entitlements. The inflation factor is a three-year average change in the CPI-U lagged three years, and is capped at 3 percent.

During the last legislative session, the inflation factor exceeded 3 percent for both FY 2010 and FY 2011. The legislature chose to increase the entitlements by 3% in FY 2010 and by an additional 3% in FY 2011, but made 2% of the 3% increase in the first year one-time-only. In effect the ongoing increases were 1% in FY 2010 and 3% in FY 2011. The inflation increases proposed in this decision package are built on the 1% and 3% increases in the 2011 biennium

DP 904 - Special Education Maintenance of Effort - This request is for \$2.9 million in the 2013 biennium to increase special education maintenance of effort to the FY 2011 appropriation level. Federal law requires the state to maintain fiscal effort from year to year in order to receive funds under the Individuals with Disabilities Act (IDEA), Part B. This funding was provided in HB 645 for the 2011 biennium, so the base expenditure was zero. Loss of this maintenance funding would result in an equal loss of federal special education funding for the state under the IDEA program. The request includes increased GTB costs of \$197,158 in FY 2012 and \$197,399 in FY 2013 associated with the state special education appropriation of \$1,284,447 per year.

**LFD  
ISSUE**BASE Aid Increase Should Be Separated From GTB

For every dollar increase in the special education appropriation, the GTB area of the district general fund budget increases by 40 cents. This is paid for, depending on the district, by a combination of local property taxes and GTB. This increases state BASE Aid by the increase in GTB. The executive includes the BASE Aid increase with the increase in the special education appropriation when they should be separated. In addition, the GTB increase is greater than as calculated by the executive. The executive calculates an increase in GTB to be \$197,158 in FY 2012 and \$197,399 in FY 2013. Using a more recent updated school model the GTB increase associated with the increase in the special education appropriation is \$245,459 in FY 2012 and \$250,571 in FY 2013.

## Options

- Add \$496,030 over the biennium to fund special education GTB.
- Accept the executive proposal.

DP 906 - School Block Grants (Rst/Bien) - Present law (20-9-630 and 632, MCA) provides for an annual 0.76 percent increase in the county transportation and school district block grants. This is a general fund appropriation increase of \$789,698 in FY 2012 and \$1,189,054 in FY 2013.

DP 907 - Pupil Transportation - This request funds the state obligation for pupil transportation required under 20-10-145, MCA. The formula-driven reimbursements are expected to increase by \$200,000 in FY 2012 and \$300,000 in FY 2013 over base year FY 2010. This amount is matched by county property taxes.

DP 910 - School District Audit Filing Fees (Biennial) - The Office of Public Instruction requests an increase in general fund authority for school district audit filing fees. This increase would allow OPI to pay fees to the Department of Administration as required by 2-7-514(2), MCA. The projection assumes school district revenues, which are the basis for the fees, will increase 3 percent each year. This request includes \$11,550 for FY 2012 and \$17,182 for FY 2013. Base year expenditures were \$185,135. This is a biennial appropriation.

DP 911 - School Lunch State Matching Requirement - The National School Lunch Act requires a state revenue match. OPI requests an increase of \$15,206 in FY 2012 and \$27,731 in FY 2013 to meet the matching requirements. This is a biennial total request for \$42,937.

DP 912 - Federal Grant Award Adjustment - Program 09 - This request would increase and decrease appropriations for K-12 federal grant awards by \$7,733,960 in FY 2012 and \$11,383,960 in FY 2013. The total biennial increase is \$19,117,920. The following federal grant awards are adjusted: School Foods \$3.85 million in FY 2012 and \$6.0 million in FY 2013; IDEA-B \$3.0 million in FY 2012 and \$4.0 million in FY 2013; Title I-School Improvement \$1.0 million in FY 2012 and \$1.5 million in FY 2013; and Character Education is reduced by \$116,040 per year.

Federal Grant Awards Present Law Adjustments			
Programs	Base 2010	Increase / Decrease	
		FY 2012	FY 2013
Direct State Aid - HB 645 ARRA	\$14,613,477	-\$14,613,477	-\$14,613,477
Federal School Foods Programs	30,592,519	\$3,850,000	\$6,000,000
ESEA - Title I - School Improvement	357,592	\$1,000,000	\$1,500,000
Title V, Part D Character Education	116,040	-116,040	-116,040
IDEA - Children w/ Disabilities	31,032,046	3,000,000	4,000,000
Total	<u>\$76,711,674</u>	<u>-\$6,879,517</u>	<u>-\$3,229,517</u>

DP 913 - Biennial Appropriations - Program 09 - This proposal establishes biennial appropriations for adult basic education at \$1.05 million, gifted and talented at \$0.50 million, and in-state treatment at \$1.58 million, and reduces advancing agricultural education to \$0.11 million. Adult basic education base is increased \$2 to \$525,000 per year; gifted and talented base is increased \$3,018 to \$250,000 per year; in-state treatment base is increased \$24,040 to \$787,800 per year; and advancing agricultural education is decreased to \$56,250 per year. The total biennial general fund decrease is \$145,173.

DP 914 - Guarantee Account - In FY 2010, the one-time-only bonus paid for the Otter Creek coal lease on common school trust lands generated \$81,552,854.50. This amount offset general fund K-12 BASE Aid expenditures in FY 2010. OPI base funding reflects the \$81.55 million in the guarantee account which is moved to the K-12 BASE Aid general fund appropriation base in this decision package. An adjustment to the guarantee account is also included in this package to bring the account to the estimated level of funding of \$45,931,484 in FY 2012 and \$51,383,460 in FY 2013.

**LFD  
ISSUE**

Executive Revenue Estimate Greater Than RTIC

The executive assumes revenues from state lands that will be deposited in the guarantee account in the 2013 biennium will be \$45,931,484 in FY 2012 and \$51,383,460 in FY 2013.

On November 19, 2010, the Revenue and Transportation Interim Committee met to determine revenue estimates for general fund sources and non-general fund sources. The RTIC chose the estimates provided by the LFD. The LFD estimate for amount of state lands revenue deposited in the guarantee account and available for BASE Aid is \$44,907,145 for FY 2012 and \$45,905,917 for FY 2013, with the primary difference in timber revenues. Utilizing the RTIC numbers for guarantee account revenues means that general fund BASE Aid would be \$6,501,882 higher than the executive’s 2013 general fund cost.

Options:

- Add \$6.5 million to align assumptions to revenues estimates of the RTIC
- Adopt the executive proposal.

**New Proposals**

The “New Proposals” table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

Program	-----Fiscal 2012-----					-----Fiscal 2013-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 950 - School Facility Fund Switch (Restricted) (Requires Legislation)										
09	0.00	(8,586,000)	8,586,000	0	0	0.00	(8,586,000)	8,586,000	0	0
DP 951 - Quality Educator Component Fund Switch (Restrict) (Requires Legislation)										
09	0.00	(36,451,833)	38,339,518	0	1,887,685	0.00	(36,415,392)	38,931,877	0	2,516,485
DP 952 - Special Education Inflationary Increase										
09	0.00	945,398	0	0	945,398	0.00	1,726,730	0	0	1,726,730
<b>Total</b>	<b>0.00</b>	<b>(\$44,092,435)</b>	<b>\$46,925,518</b>	<b>\$0</b>	<b>\$2,833,083</b>	<b>0.00</b>	<b>(\$43,274,662)</b>	<b>\$47,517,877</b>	<b>\$0</b>	<b>\$4,243,215</b>

DP 950 - School Facility Fund Switch (Restricted) (Requires Legislation) - This decision package would change the source of funding for the school facility reimbursements (20-9-371, MCA) to K-12 schools from the general fund to the facility and technology fund. This change funds the school facility reimbursements at the FY 2010 base level of \$8.586 million each year of the 2013 biennium. This decision package is contingent on passage and approval of LC 360.

**LFD  
ISSUE**
Status of Riverbed Rents

The executive proposes to remove spending for debt service reimbursements from the general fund and spend the same amount out of the school facility and technology (SFT) account. The presumed funding for this approximately \$17.2 million would come from riverbed stream rents paid into the account beginning in FY 2012. This revenue is around \$4.2 million per year from Avista Corp. and is expected to exceed \$6.0 million per year from Pennsylvania Power and Light. However, PPL has sued the state of Montana over these payments. PPL lost in the State Supreme Court and sought relief with the US Supreme Court, who on November 1, 2010, referred the case for comment to the US Solicitor General. The case remains at the Office of the Solicitor General at this time and the outcome may be unknown for some time. If PPL wins the case, the expected revenues will not materialize and it is likely the revenue from Avista will disappear also. If the riverbed stream rents disappear, the SFT will not have enough fund balance to pay for the school facility reimbursements during the 2013 biennium.

**LFD  
ISSUE**
Revenue Dedication Principles

In 17-1-507, the legislature has defined the principles by which revenues and spending authority are to be placed in a special revenue account. These are:

(1) It is the policy of the legislature that a revenue source not be dedicated for a specific purpose unless one or more of the following conditions are met:

(a) The person or entity paying the tax, fee, or assessment is the direct beneficiary of the specific activity that is funded by the tax, fee, or assessment; the entire cost of the activity is paid by the beneficiary; and the tax, fee, or assessment paid is commensurate with the cost of the activity, including reasonable administrative costs.

(b) There is an expectation that funds donated by a person or entity will be used for a specified purpose. Grants from private or public entities are considered donations under this subsection.

(c) There is a legal basis for the revenue dedication. A legal basis is a constitutional mandate, federal mandate, or statutory requirement in which a source of funds is designated for a specific purpose.

(d) There is a recognized need for accountability through a separation of funding from the general fund consistent with generally accepted accounting principles.

(2) The total funding for a program is a legislative budget and policy issue for which a dedicated revenue provision may not be justified if:

(a) a general fund appropriation is needed to supplement the dedicated revenue support for the program or activity; or

(b) dedicating a revenue source or portion of a revenue source diverts funds that could be considered a general revenue source.

(3) In the consideration of the general appropriations act for each biennium, the legislature shall determine the appropriateness of dedicating revenue to a program or activity under conditions described in subsection (2). The office of budget and program planning shall describe the occurrence in its presentation of the executive budget, and the legislative fiscal analyst shall highlight the issue in the budget analysis and for the appropriations subcommittee considering the revenue dedication.

DP 951 - Quality Educator Component Fund Switch (Restrict) (Requires Legislation) - This decision package would increase the quality educator payment (20-9-327, MCA) by the inflationary factor (1.53%) as calculated in 20-9-326, MCA, for FY 2013 from \$3,042 to \$3,089 per FTE. The inflationary increase to the payment is \$592,360. Included in the request is a change in funding source for the quality educator payment to K-12 school districts from the general fund to the new state special Teach Montana fund. This change funds the quality educator payment portion of K-12 BASE

Aid at \$38.3 million in FY 2012 and \$38.9 million in FY 2013. This request also includes \$1.9 million each year for increased GTB Aid to schools. This decision package is contingent on passage and approval of LC 360.

**LFD ISSUE** The quality educator payment was one of four new payments added to the school general fund budget beginning in FY 2007. This decision package retains the quality educator payment in the district general fund, but removes the spending authority from the state general fund and places it in a new Teach Montana state special revenue account, contingent on the passage of LC 360. LC 360 proposes to change the distribution of oil and natural gas revenues so that the portion now distributed to school districts would be cut by 90 percent, which would now be deposited instead in the Teach Montana fund.

The table below shows that 90 percent of historical levels of oil and gas revenues exceeded the current law amount of the quality educator payment (\$3,042 per educator, \$38.3 million in total) only twice. In the latest year, FY 2010, 90 percent of oil and gas revenues equaled \$30.2 million.

The executive estimates that redistributing 90 percent of oil and gas revenues away from school will result in an increase in state GTB payments to school districts of \$3.8 million. This is over estimated and should be an increase of around \$1.5 million over the 2013 biennium.

Historical Oil and Natural Gas Revenues Received by School Districts, All Funds, FY 1997 - FY 2010

StateFy	Total Oil and Gas Revenues to School Districts	Ninety Percent of District Oil and Gas Revenues
1997	8,081,678	7,273,510
1998	8,581,361	7,723,225
1999	5,621,092	5,058,983
2000	7,089,591	6,380,632
2001	17,452,041	15,706,837
2002	13,457,837	12,112,053
2003	9,491,882	8,542,694
2004	16,944,595	15,250,135
2005	22,171,246	19,954,121
2006	34,744,530	31,270,077
2007	39,927,913	35,935,122
2008	47,242,301	42,518,071
2009	64,305,279	57,874,751
2010	33,593,529	30,234,176

DP 952 - Special Education Inflationary Increase - This decision package funds inflationary increases in the state appropriation for special education, after decision package 904 is approved, by \$2,672,128 for the biennium based on the same inflationary adjustment included for basic and per-ANB entitlements in section 20-9-326, MCA. The adjustment for inflation is \$945,398 (1.9%) for FY 2012 and \$1,726,730 (1.53%) for FY 2013. This proposal would increase the state special education appropriation to \$42.44 million for FY 2012 and \$43.09 million in FY 2013. The estimates of increased GTB costs associated with the state special education appropriation are \$154,099 in FY 2012 and \$286,120 in FY 2013.

**LFD ISSUE**

GTB Increase Less Than Calculation

Every dollar increase in the special education appropriation increases the GTB area of the district general fund budget by 40 cents. This is paid for, depending on the district, by a combination of local property taxes and GTB. This increases BASE Aid by the increase in GTB. The executive includes the BASE Aid increase with the inflationary increase in the special education appropriation when they should be separated. In addition, the GTB increase is greater than as calculated by the executive. The executive calculates an increase in GTB to be \$154,009 in FY 2012 and \$286,120 in FY 2013. Using a later school model the GTB increase associated with the inflationary increase in the special education appropriation is \$160,791 in FY 2012 and \$288,698 in FY 2013.

**Language and Statutory Authority**

The executive recommends the following language be included in HB 2:

“The office of public instruction may distribute funds from the appropriation for In-state Treatment to public school districts for the purpose of providing for educational costs of children with significant behavioral or physical needs.”

LFD Budget Analysis

E-38

2013 Biennium

“All revenue up to \$1.1 million in the traffic education account for distribution to schools under the provisions of 20-7-506 and 61-5-121 is appropriated as provided in Title 20, chapter 7, part 5.”

“All appropriations for federal special revenue programs in state level activities and in local education activities and all general fund appropriations in local educational activities are biennial.”

“Item 2a is contingent on passage of a bill by the 2011 legislature that increases the per-ANB entitlements and the basic entitlements by 1.90% in FY 2012 and by another 1.53% in FY 2013. If legislation is not passed that increases the per-ANB entitlements and the basic entitlements by 1.90% in FY 2012 and another 1.53% in FY 2013, then item 2a is reduced by \$10,470,459 in FY 2012 and by \$19,099,210 in FY 2013.”

"Decision packages 950 and 951 are contingent on passage and approval of LC 360."