

QUALITY SCHOOL FACILITY GRANT PROGRAM

Program Description

The Quality Schools Facilities Grant Program (quality schools grants program), is a competitive grant program, administered by the Department of Commerce (DOC), which was created to provide infrastructure grants, matching planning grants, and emergency grants to public school districts in Montana. The statute creating the program was passed by the Sixty-first Legislature and is found in title 90, chapter 6, part 8, MCA. The principal grant ranking criteria of the quality schools grants are:

- Solve urgent and serious public health or safety problems, or enable public school districts to meet state or federal health or safety standards
- Address deferred maintenance by repairing or replacing existing building components that are inoperable, difficult to service, or that lack minimum integrity
- Enhance public school districts' ability to offer specific services related to the requirements of the accreditation standards provided for in Section 20-7-111, MCA
- Provide long-term cost-effective benefits through energy-efficient design
- Incorporate long-term, cost-effective benefits to school facilities, including the technology needs of school facilities
- Enhance educational opportunities for students

Grants are made through an application process available to all of the 421 school districts across the state. In the role of prioritizing grants, the DOC must give preference to school facility projects involving repairs to existing facilities over projects involving construction of new facilities and consider the following attributes of a school facility project application:

- The need for financial assistance
- The fiscal capacity of the public school district to meet the conditions established in 90-6-812
- Past efforts to ensure sound, effective, long-term planning and management of the school facility and attempts to address school facility needs with local resources
- The ability to obtain funds from other sources
- The importance of the project and support for the project from the community

Program Budget Comparison

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

Program Comparison - Quality School Facility Grant Program				
Budget Item	Budget 2015 Biennium	Budget 2017 Biennium	Biennium Change	Biennium % Change
Number of Grants	30	53	23	76.7%
	<u>Appropriated</u>	<u>Proposed</u>		
Project Costs Cash	\$11,418,642	\$11,160,979	(\$257,663)	-2.3%
Project Costs Bonds	0	19,086,359	19,086,359	-
Other Grants	1,000,000	1,000,000	0	0.0%
Total Costs	\$12,418,642	\$31,247,338	\$18,828,696	151.6%
State Special	\$12,418,642	\$12,160,979	(\$257,663)	-2.1%
GO Bond Proceeds	\$0	\$19,086,359	\$19,086,359	-
Total Funds	\$12,418,642	\$31,247,338	\$18,828,696	151.6%

Program Narrative

DOC received 53 complete applications requesting over \$30.2 million in project grant funds, from which 53 grants are recommended. The quality schools grant program will be presented to the Sixty-fourth Legislature in HB 5, Sec. 27. Grant recommendations are 151.6% higher than appropriated in the 2015 biennium, primarily because of the bond funding proposed in the program.

QUALITY SCHOOL FACILITY GRANT PROGRAM

A complete listing of the quality schools grants may be seen in figure A6 in the Section F Appendix. The details behind the grants requested for the 2017 biennium quality schools program, along with a status of grants awarded in the 2015 biennium, are presented in Vol. 8 of the Governor's Executive Budget.

Funding

In the May 2007 Special Session, the legislature passed SB 2, which created a new school facility improvement fund, in 20-9-516, MCA. The fund was established to provide funding to schools for facility and technology improvement purposes. The state special fund provides money for a \$1.0 million/FY statutory appropriation to schools for information technology upgrades. The fund also provides money for infrastructure grants, matching planning grants, and emergency grants to public school districts in Montana. The money deposited in the fund may be used for major deferred maintenance, improving energy efficiency in school facilities, or critical infrastructure in school districts. In the 2011 legislative session, the state obligation to assist school districts with the costs of bond issues for new facilities was directed to the school facility and technology fund.

The school facility and technology fund is expected to begin the biennium with \$168,050. For the 2017 biennium, the fund will receive revenues from the following sources:

- Timber harvest income under the provisions of 20-9-516(2)(a), MCA (the income attributable to the difference between the average sale value of 18 million board feet and the total income produced from the annual timber harvest on common school trust lands during the fiscal year)
- Beginning July 1, 2014, public land trust power site rent under the provisions of 77-4-208(2), MCA (ninety-five percent of all rental payments received under this section must be deposited in the school facility and technology account provided for in 20-9-516)

LFD ISSUE

Inadequate Funding

Under present law the school facility and technology account is unable to maintain past appropriation levels without additional infusions from the general fund or other revenue sources. As demonstrated in the fund balance figure, without changes to the budget the appropriations exceed anticipated revenue and the fund is expected to finish the 2017 biennium with a negative fund balance.

When the quality school facilities account was created, it received distributions of federal mineral royalties per 17-6-340, MCA, which resulted in a fund balance exceeding \$50 million. In subsequent years, the legislature also provided funding from the income attributable to timber harvests greater than 18 million board feet obtained from school trust lands and the rental income received from power site leases. These sources of funding were thought to be adequate to cover the costs of the \$1.0 million/year school technology statutory appropriation and the usual costs associated with quality schools program.

In the 2011 session, the legislature directed the funding of the state's assistance with K-12 facility bond issues to the school facility and technology account. This component of the guaranteed base aid to schools was paid in earlier years with general fund. This state obligation has been paid through the revenues of the account for two biennia, which was feasible due to the previously mentioned account balance. However, as of the end of the 2015 biennium, the fund balance will be fully expended. The account will no longer has the revenue capacity to fund the requested amount of the debt assistance obligation.

For the 2017 biennium, the executive budget proposes a new revenue source for the account, the natural resource development payments, which is discussed in detail later in this report. Yet, the

QUALITY SCHOOL FACILITY GRANT PROGRAM

**LFD
ISSUE
(continued)**

legislature has options on how to manage the imbalance in the account. Some options that may be considered include:

- Reduce or eliminate the quality schools grant program
- Change statute to move some or all of the state debt obligation for new facilities to the general fund
- Reduce or eliminate other costs from the fund
- Add another source of revenues to the account
- Accept the executive recommendation pertaining to the natural resource development payments

The school facility and technology fund is estimated to start the 2017 biennium with a balance of \$351,970. For the 2017 biennium, the state contribution to school debt obligation is expected to be \$17.2 million. The fund is also responsible for a \$1.0 million per year statutory appropriation which provides technology upgrades to school districts. The 2013 Legislature amended statute allowing the administrative costs related to the grant program to be paid from the fund. In the 2017 biennium, administrative costs are proposed at \$765,070. The remaining appropriations are related to the 2015 biennium quality schools grant program and includes \$100,000 for emergency grants, \$900,000 for facility project planning, and \$11.2 million for grants to school districts for facility projects. Under the executive proposal, there is an appropriation in HB 5, Sec. 28, for \$19.1 million of bond authority to fund additional quality schools projects. Considering the revenue projections and all the executive spending proposals and including the bond proceeds and appropriations, the quality schools grant program ending fund balance is expected to be negative \$5.3 million.

School Facility and Technology Fund (02218)			
Fund Balance Projection 2017 Biennium			
Estimated Beginning Fund Balance (7/01/2015)			(\$351,970)
Revenue Projections¹			
	<u>FY 2016</u>	<u>FY 2017</u>	<u>Biennium Total</u>
Timber Harvest Income	2,503,000	2,627,000	5,130,000
Public Land Trust Power Site Rent	4,521,000	4,527,000	9,048,000
Natural Resource Development Payment ²	4,900,000	8,100,000	13,000,000
Bond Proceeds	19,086,359		<u>19,086,359</u>
2017 Biennium Revenues			46,264,359
Proposed Expenditures			
School Facility Debt Obligation ³	(8,586,000)	(8,586,000)	(17,172,000)
Technology Statutory Appropriation	(1,000,000)	(1,000,000)	(2,000,000)
Administrative Expenses - Commerce ³	(382,802)	(382,268)	(765,070)
Emergency Grants			(100,000)
Planning Grants			(900,000)
School Facility Grants - Cash			(11,160,979)
School Facility Grants - Bonds			<u>(19,086,359)</u>
Total Expenditures			(51,184,408)
Estimated Ending Fund Balance - (6/30/2017)			<u>(\$5,272,019)</u>
¹ HJ2			
² Based on executive proposal			
³ Based on executive proposal (HB 2)			

Under the executive proposal, there is an appropriation in HB 5, Sec. 28, for \$19.1 million of bond authority to fund additional quality schools projects. Considering the revenue projections and all the executive spending proposals and including the bond proceeds and appropriations, the quality schools grant program ending fund balance is expected to be negative \$5.3 million.

**LFD
ISSUE**

Negative Ending Balance

As shown in the fund balance figure above, the school facility and technology account is expected to finish the biennium with a negative ending fund balance. According to the Montana Constitution, Article VIII., Section 9, "Appropriations by the legislature shall not exceed anticipated revenue." There are a number of options available to the legislature related to the status of this fund, which include:

- Reduce the appropriations for the quality schools program in HB 5, Sec. 27
- Reduce the appropriations for the quality schools program in HB 5, Sec. 28
- Increase the bond proceed funding for the program in HB 5, Sec. 28 and Sec. 29
- Reduce the school facility debt obligation, suggesting that the Sec. E subcommittee fund the appropriation with an additional source of revenue
- Increase funding for the account on a OTO or ongoing basis with revenue from the general fund or other funding sources

QUALITY SCHOOL FACILITY GRANT PROGRAM

LFD COMMENT

The executive proposes a new source of funding for the school facility and technology account, the K-12 natural resource development funding (NRD). This source of funding resulted from SB 175 in the 2013 Legislative Session. The funding is a calculation based on the amount of funding sufficient to offset the local levies on a statewide basis that have resulted from the inflationary increases to the per-ANB and basic entitlements costs for K-12 education.

The calculation is funded through transfers from the general fund, which in the 2017 biennium are estimated to be \$13.0 million. Based on these estimates, the transfer would not resolve the funding shortfall in the 2017 biennium. However, early estimates out of the school funding model provide \$22.0 million of funding in the 2019 biennium.