

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 90-6-801, MCA. The principal objectives of the quality schools grants are to:

- Solve urgent and serious public health or safety problems, or enable public school districts to meet state or federal health or safety standards
- Provide improvements necessary to bring school facilities up to current local, state, and federal codes and standards
- 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 consider (without preference or priority) 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 Program				
Budget Item	Budget 2013 Biennium	Budget 2015 Biennium	Biennium Change	Biennium % Change
Number of Grants	30	29	(1)	-3.3%
	<u>Appropriated</u>	<u>Proposed</u>		
Project Costs	\$11,069,265	\$11,268,791	\$199,526	1.8%
Other Grants	1,000,000	1,000,000	0	0.0%
Total Costs	\$12,069,265	\$12,268,791	\$199,526	1.7%
State Special	\$12,069,265	\$12,268,791	\$199,526	1.7%
Total Funds	\$12,069,265	\$12,268,791	\$199,526	1.7%

Program Narrative

DOC received 66 complete applications requesting over \$30 million in project grant funds, from which 29 grants requesting \$11.3 million are recommended. The quality schools grant program will be presented to the Sixty-third Legislature in HB 15. A complete list of the requested and recommended grants may be seen in Figure F.6 in the Section F appendix.

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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 money to schools for two purposes. First, the state special fund provides money for a \$1.0 million/FY statutory appropriation to schools for information technology upgrades. Second, the fund 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

School Facility and Technology Fund (02218)			
Fund Balance Projection 2015 Biennium (including the 1/7/2013 Governor's Amendments)			
Estimated Beginning Fund Balance (7/01/2013)			\$18,810,859
		Biennium	
Revenue Projections ¹	<u>FY 2014</u>	<u>FY 2015</u>	<u>Total</u>
Lottery Profits	\$14,518,000	\$15,283,000	\$29,801,000
Timber Harvest Income	4,037,000	4,906,000	8,943,000
Public Land Trust Power Site Rent	0	4,471,900	4,471,900
Interest Earnings	35,000	5,000	<u>40,000</u>
2013 Biennium Revenues			43,255,900
Proposed Expenditures ²			
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)
Emergency Grants			(100,000)
Planning Grants			(900,000)
School Facility Grants			<u>(11,268,792)</u>
Total Expenditures			<u>(31,440,792)</u>
Estimated Ending Fund Balance - (6/30/2015)			<u>\$30,625,967</u>
¹ SI2 estimates			
² Proposed (HB 15)			
³ Based on executive proposal (HB 2)			

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 \$18.8 million, the funds remaining from prior distributions of mineral royalties from state lands. For the 2015 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)

Note: The 1/7/2013 executive budget recommendation includes a proposal to redirect Lottery Profits from the general fund to the School Facility and Technology Fund. The change is captured in the table above. This action would provide ongoing support for the state obligation for school building debt and would enhance the amount of money available for the program in the future.

The fund balance table above shows the executive budget recommendations for the 2015 biennium. The total executive expenditure proposal for the School Facility and Technology Fund is \$31.4 million. For the 2015 biennium, the state contribution to school debt obligation is expected to be \$17.2 million. The fund is also responsible for the annual funding of a \$1.0 million statutory appropriation which provides technology upgrades to school districts. The remaining appropriations are related to the 2015 biennium quality schools grant program and include \$100,000 for emergency grants, \$900,000 for facility deferred maintenance project planning, and \$11.3 million for grants to school districts for facility projects. Considering the revenue projections and all the executive proposals and including the funding switch proposed, the quality schools grant program ending fund balance is expected to be \$30.6 million.

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LFD ISSUE

The Sixty-second Legislature made a number of changes to the schools facility and technology fund which will have future impacts on the availability for the Quality Schools Facilities Grant Program to make grants. First, the legislature continued the distribution of public lands trust power site rents to the school guarantee fund until July 1, 2014. Previously the funds were statutorily directed to the school facility and technology fund beginning in FY 2011. A second change made by the legislature directed payment of the state's responsibility for the facility bonded debt to school districts to the fund. The most significant of these changes is related to the transfer of the debt obligation.

With the move of the school facility debt service obligation to the school facility and technology fund, the fund is not structurally balanced. The current revenues including full biennial distributions of public land power site rents will not support the costs of the debt obligation and the statutory appropriation, with biennial revenues at approximately \$18.0 million and costs of approximately \$19.0 million. With these fund requirements considered as primary, in the future there will be no money available for the grant program under present law.

Since the transfer of the school debt obligation, the fund has remained solvent because of a fund balance established when mineral royalties from public lands were deposited into the fund. The beginning fund balances have declined from \$44.5 million in FY 2011 to an estimated \$18.8 million in FY 2014, and projections suggest that the fund will end the 2015 biennium with \$824,967.

The Governor has recommended diverting the flow of Lottery Profits from the general fund to the School Facility and Technology fund. The legislature may want to watch the progression of the enacting legislation. At this time, staff is not aware of which bill will include the recommendation, but will be prepared to address this by the Quality Schools hearings. The fund is expected to have sufficient monies for the current biennium, but if the Sixty-third Legislature does not agree with the executive proposal, it is unlikely that the fund will be able to support the Quality Schools grant program in future years.