

Agency Budget Comparison

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

Agency Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	157.36	157.36	165.86	165.86	157.36	165.86	8.50	5.40%
Personal Services	9,072,595	10,455,159	10,427,211	10,457,398	19,527,754	20,884,609	1,356,855	6.95%
Operating Expenses	13,490,967	11,748,162	14,939,420	15,812,666	25,239,129	30,752,086	5,512,957	21.84%
Equipment & Intangible Assets	50,426	59,212	50,426	50,426	109,638	100,852	(8,786)	(8.01%)
Local Assistance	634,042,814	656,324,066	673,452,694	691,525,450	1,290,366,880	1,364,978,144	74,611,264	5.78%
Grants	126,371,496	159,608,650	135,404,444	138,229,444	285,980,146	273,633,888	(12,346,258)	(4.32%)
Total Costs	\$783,028,298	\$838,195,249	\$834,274,195	\$856,075,384	\$1,621,223,547	\$1,690,349,579	\$69,126,032	4.26%
General Fund	642,761,421	666,049,445	683,384,398	702,069,023	1,308,810,866	1,385,453,421	76,642,555	5.86%
State Special	957,495	991,734	970,202	970,265	1,949,229	1,940,467	(8,762)	(0.45%)
Federal Special	139,309,382	171,154,070	149,919,595	153,036,096	310,463,452	302,955,691	(7,507,761)	(2.42%)
Other	0	0	0	0	0	0	0	n/a
Total Funds	\$783,028,298	\$838,195,249	\$834,274,195	\$856,075,384	\$1,621,223,547	\$1,690,349,579	\$69,126,032	4.26%

Agency Description

Mission Statement: It is the mission of the Office of Public Instruction to improve teaching and learning through communication, collaboration, advocacy, and accountability to those we serve.

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) provides distribution of funding and services to Montana's school-age children and to teachers in approximately 431 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

Office of Public Instruction Major Budget Highlights
<ul style="list-style-type: none"> ◆ OPI's total budget would increase by \$124.3 million during the 2011 biennium compared with base expenditures in FY 2008. ◆ State level activities increase by \$6.5 million and distribution to schools increases by \$117.8 million ◆ The executive is requesting the following for the State Level Activities Program: <ul style="list-style-type: none"> ● \$3.3 million for present law changes ● \$1.5 million for a new virtual high school ◆ The executive is requesting the following for the Distribution Program: <ul style="list-style-type: none"> ● Fund increases in the basic and per-ANB entitlements of 3 percent per year, \$68.5 million ● Spend more general fund for BASE aid due to lower guarantee account revenues from state lands, \$4.0 million ● Increase other categorical items to reflect present law, \$7.1 million ● Increase federal funds, \$20.7 million ● Increase the quality educator payment by \$100 per year, \$3.9 million

<ul style="list-style-type: none"> • Increase special education by 3 percent per year, \$4.5 million • Divert streambed rents from the guarantee account to the new facility improvement account, \$8.7 million • Institute a new resource sharing program to aid small schools, \$0.2 million, and • Institute a new mini grant program to make competitive grants available for schools to provide more or improved breakfast or lunch programs, \$0.1 million, OTO
Major LFD Issues
<ul style="list-style-type: none"> ◆ Present Law Adjustment Issues <ul style="list-style-type: none"> • Actual three year average inflation calculated for FY 2010 is 3.22 percent and for FY 2011 is 4.03 percent compared to the 3 percent per year proposed by the executive • The executive does not propose adjusting the Indian education for all payment, the at-risk payment, or the achievement gap payment • The executive proposes an increase in general fund for BASE aid of \$4.0 million that reflects the executive's estimates of lower common school revenues. The Revenue and Transportation Committee adopted common school revenues that were \$5 million higher than those estimated by the executive, thus freeing up \$5 million in general fund relative to the executive's recommendations. • The executive proposes an increase of \$1.6 million in the school facilities reimbursement payment, but if Billings passes a new building bond, the school facilities reimbursement may have to be prorated among all the eligible districts. ◆ General Fund New Proposals <ul style="list-style-type: none"> • The executive's proposal to use the new streambed rents (\$8.7 million) for facility improvements increases state general fund by a like amount. If the new money is used for BASE aid, general fund would be lower, or new BASE aid could be added. • The executive's estimate of streambed rents exceeds the estimates adopted by the RTIC by \$0.2 million for the 2011 biennium • The executive proposes using timber revenue from state lands to provide approximately \$5.6 million as an inflow of money into the facility improvement account. This money is currently distributed to all districts to purchase and maintain information technology in schools. ◆ Tax Policy Issue – The executive does not take into account the impact of reappraisal on state GTB aid and local district property taxes beginning in FY 2010

Agency Discussion

LFD ISSUE

Shared Policy Goals

Shared policy goals and related accountability measures for the K-12 education system can begin in the current legislative session through legislative discussion of the goals and measures for the partners involved in the K-12 education system.

As discussed in the Unified Budget narrative section, the Education and Local Government Interim Committee (ELGIC) formed a subcommittee on K-12 education during the interim to begin the process of developing shared policy and budget goals and objectives. The subcommittee was made up of legislators from the ELGIC, Board of Public Education members, and the Superintendent of Public Instruction. From the work begun in this committee, the ELGIC determined that formalizing the process to develop shared policy goals and accountability measures for the K-12 education system should be put in place, similar to the process used with the Postsecondary Education Policy and Budget Subcommittee of the ELGIC.

The ELGIC is recommending the legislature change the committee structure for the ELGIC to two interim committees, one on education and one on local government and related issues. The committee has requested a bill.

Option: The Joint Appropriations Subcommittee on Education can begin the development of shared policy goals and related accountability measures in the current legislative session through discussion of the goals and measurable objectives for the K-12 education partners including OPI.

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 for brevity by the LFD.

- o **Agency Market** – The agency target market ratio for the 2011 biennium under the 2008 market survey is 90 percent for all staff. OPI has a single program, the State Level Activities Program, with FTE. A discussion on the current market ratio, vacancies, pay raises, and retirements is included in the program narrative.
- o **Obstacles** - Dependency on federal funding sources makes sustainability an important consideration. OPI competes with other agencies and with school districts for certain personnel, which hinders recruitment and retention efforts in certain fields.

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 Legislative Fiscal Division recommends that the legislature review the following:

- o Goals, objectives and year-to-date outcomes from the 2009 biennium
- o Goals and objectives and their correlation to the 2011 biennium budget request

Any issues related to goals and objectives raised by LFD staff are located in the program section.

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 2011 Biennium Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
06 State Level Activities	\$ 21,232,337	\$ 440,467	\$ 31,071,803	\$ 52,744,607	3.12%
09 Local Education Activities	<u>1,364,221,084</u>	<u>1,500,000</u>	<u>271,883,888</u>	<u>1,637,604,972</u>	<u>96.88%</u>
Grand Total	<u>\$1,385,453,421</u>	<u>\$ 1,940,467</u>	<u>\$302,955,691</u>	<u>\$1,690,349,579</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.

Statutory Appropriations Office of Public Instruction					
Purpose	MCA #	Fund Source	Fiscal 2008	Fiscal 2010	Fiscal 2011
<i>Local Government Distributions to School Districts</i>					
Guarantee account for distributions to school districts	20-9-622	SSR	\$54,698,802	\$57,047,202	\$54,106,265

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.

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

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 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	642,761,421	642,761,421	1,285,522,842	92.79%	783,028,298	783,028,298	1,566,056,596	92.65%
Statewide PL Adjustments	552,796	597,807	1,150,603	0.08%	1,041,649	1,110,468	2,152,117	0.13%
Other PL Adjustments	32,484,631	47,331,905	79,816,536	5.76%	42,618,698	60,558,728	103,177,426	6.10%
New Proposals	7,585,550	11,377,890	18,963,440	1.37%	7,585,550	11,377,890	18,963,440	1.12%
Total Budget	\$683,384,398	\$702,069,023	\$1,385,453,421		\$834,274,195	\$856,075,384	\$1,690,349,579	

Language and Statutory Authority

"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."

Agency Issues

Elected Official Proposals

Program 06 - State Level Activities

The Superintendent of Public Instruction proposes additional general fund to support payment of stipends in the amount of \$3,000/teacher to Montana teachers who achieve certification from the National Board for Professional Teaching Standards. OPI estimates that 12 teachers will be eligible for the stipends in each year of the 2011 biennium. Section 20-4-134, MCA provides for the payment of a one-time stipend of \$3,000 to any teacher who achieves certification from the National Board for Professional Teaching Standards. Stipends were paid to four teachers in FY 2008. Additional funding of \$24,000 in FY 2010 and \$24,000 in FY 2011 is needed for the 8 additional teachers qualifying for the stipends each year.

The Superintendent also proposes \$67,180 in FY 2010 and \$63,680 in FY 2011 of general fund to contract for attorney or investigator services as needed for licensure issues related to inappropriate conduct by educators and to support Montana's participation in national efforts to ensure educators are highly qualified in both academic preparation and moral character/fitness. OPI's participation in the National Association of State Directors of Teacher Education and Certification (NASDTEC) is required by 20-4-121, MCA and ARM 10.57.606. The \$3,500 membership fee is paid from the OPI general fund base budget. However, as a part of that membership, licensure/legal staff is expected to attend regional and national conferences to represent OPI with NASDTEC, and to share information concerning best practices regarding educator licensure.

Program 09 - Local Education Activities

For Local Education Activities the Superintendent requests a biennial general fund appropriation of \$48,000 for the 2011 biennium to provide an inflationary increase in the state appropriation for adult basic and literacy education. This cost is based on a 3 percent annual inflationary adjustment for FY 2010 and FY 2011. The state required match share of adult literacy and basic education is approximately 25 percent of the total amount expended for adult education. With level federal funding since 1998 and a 1.4 percent cut in federal funds for the 2009 program year, this inflationary increase will offset the net decrease in the overall federal funding for adult basic and literacy education services.

Another request would increase general fund for a biennial \$1.0 million appropriation to provide additional funding to local school districts for gifted and talented programs that are required by state statute and Board of Public Education Administrative Rules of Montana. Without an increase in state funding for these programs, local school districts would need to determine if additional funding support for these programs should be increased through the local general fund. The Superintendent believes the amount of resources directed toward these programs is significantly less than what is required to operate educationally sound and effective programs for gifted and talented students.

The superintendent also proposes \$2.5 million in general fund to establish a statewide system of regionally based professional development and technical assistance for schools. The superintendent would provide resources to strengthen the infrastructure for the delivery of coordinated regional training and technical assistance to schools, and provide funds for regional specialists to support schools in instructional technology and effective methods for serving children with autism.

The Board of Public Education is constitutionally charged with the general supervision of the public school system. OPI included the elected official proposals in the budget discussed with the Board of Public Education.

School Funding Lawsuit

In February of 2008, the plaintiffs in Columbia Falls v State of Montana filed a motion in the district court alleging that the State's school funding formula failed to provide adequate funding for fiscal year 2009. Plaintiffs also alleged that the current funding formula does not reflect the cost of a basic quality education, that the current formula contains elements that are essentially the same as those that were suspect in the original suit, and that the new components represent only 5 percent of the statewide district general fund budget.

The case was heard in Judge Sherlock's district court the week of September 22-26, 2008. The State argued that the QSIC had determined the cost of a basic system of quality education, and that the current spending levels by the K-12 system were actually above those costs, and that the changes to the K-12 system legislated in the past four years – the four new components, three year averaging of ANB, full-time kindergarten, inflation of the basic and per-ANB entitlements and special education, and increased guaranteed tax base aid – represented nearly 17 percent of 2009 district general fund budgets.

On December 9th, 2008, Judge Sherlock ruled that the district court would decline supplemental relief for the plaintiffs. It is likely that the case will be appealed to the state Supreme Court.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	157.36	157.36	165.86	165.86	157.36	165.86	8.50	5.40%
Personal Services	9,072,595	10,455,159	10,427,211	10,457,398	19,527,754	20,884,609	1,356,855	6.95%
Operating Expenses	13,490,967	11,744,164	14,939,420	15,812,666	25,235,131	30,752,086	5,516,955	21.86%
Equipment & Intangible Assets	50,426	59,212	50,426	50,426	109,638	100,852	(8,786)	(8.01%)
Local Assistance	503,530	488,801	503,530	503,530	992,331	1,007,060	14,729	1.48%
Total Costs	\$23,117,518	\$22,747,336	\$25,920,587	\$26,824,020	\$45,864,854	\$52,744,607	\$6,879,753	15.00%
General Fund	9,200,157	10,186,159	10,310,234	10,922,103	19,386,316	21,232,337	1,846,021	9.52%
State Special	207,495	241,734	220,202	220,265	449,229	440,467	(8,762)	(1.95%)
Federal Special	13,709,866	12,319,443	15,390,151	15,681,652	26,029,309	31,071,803	5,042,494	19.37%
Other	0	0	0	0	0	0	0	n/a
Total Funds	\$23,117,518	\$22,747,336	\$25,920,587	\$26,824,020	\$45,864,854	\$52,744,607	\$6,879,753	15.00%

Program Description

The State Level Activities program provides leadership and coordination of services to a variety of school and public groups. The staff provides assistance to the Superintendent of Public Instruction in performing statutorily prescribed duties. The program: 1) supports the Superintendent's statutory role with the Board of Public Education, Board of Regents, and Land Board; 2) is responsible for the distribution and accounting of state and federal funds provided to school districts; 3) maintains the information systems necessary to assess student achievement and the quality of Montana's elementary and secondary school system; and 4) provides assistance and information to school districts. The program administers all federal grants received by OPI, including: 1) curriculum assistance; 2) special education; 3) Elementary and Secondary Education Act/No Child Left Behind (ESEA/NCLB) administration; 4) secondary vocational education administration; and 5) other educational services.

Program Highlights

State Level Activities Major Budget Highlights
<ul style="list-style-type: none"> ◆ The proposed budget for the state level activities increases \$6.9 million between the 2011 and 2009 biennia. ◆ \$3.3 million of the increase is from present law changes primarily for statewide present law present law adjustments and adjustments to fund grant amounts ◆ The executive proposes \$1.5 million for a new virtual high school ◆ General fund increases \$1.8 million between the two biennia
Major LFD Issues
<ul style="list-style-type: none"> ◆ System development costs for the student information system were included as part of the 2011 biennium budget ◆ OPI objectives do not provide sufficient information for the legislature to form an appropriations policy for the program ◆ Proprietary fund revenues budgeted in the State Level Activities Program do not support OPI Indirect Cost Pool Program budgeted expenditures

Program Narrative

The proposed budget for the state level activities increases \$6.9 million between the 2011 and 2009 biennia. Over \$5.5 million of the increase is due to higher operating expenses. Increased operating expenses, include:

- \$1.5 million to develop a virtual high school
- \$1.6 million for costs related to federal grants
- \$0.3 million for additional indirect costs
- \$0.3 million for statewide present law inflationary and fixed costs changes
- \$1.8 million for consulting and professional services above the FY 2008 budget

LFD ISSUE	<p>Costs for the K-12 educational data system development included in 2011 biennium budget</p> <p>The 2007 Legislature approved \$3.6 million in general fund biennial appropriations for the K-12 education data system. The data system was estimated to cost \$1.9 million in FY 2008 and \$1.6 million in FY 2009. The system costs included development of a new module for special education, local school district software, and an educator module. In addition, support for 4.00 FTE for maintaining the system was included. According to OPI, the maintenance contract costs of the system will be approximately \$435,000 a year for the state system and the special education modules. The cost of maintaining the school district component is an additional \$487,500 per year. Included in the FY 2008 base budget is \$740,000 for professional and consulting services related to the development of the modules. It should be noted that the costs for maintaining the school districts is recorded in the grants to local districts expenditure category and is not part of the costs recorded in professional and consulting services. These costs are not considered recurring as they are for development of the system. While OPI will need \$435,000 per year to support the costs of the maintenance contract, it will not require the full \$740,000 in the 2011 biennium.</p> <p>The legislature could reduce general fund by \$600,000 over the biennium to eliminate the costs of system development continued in the 2011 biennium.</p>
----------------------	---

LFD COMMENT	<p>Charges for indirect costs were approximately \$1.0 million less than budgeted in FY 2008. The indirect cost recovery rate included in the budget was 19.4 percent, while the actual approved federal indirect cost recovery was 14.0 percent. In FY 2008, OPI recovered approximately 11 percent on indirect cost recoveries due to a large fund balance which federal auditors recommended be reduced. The reduction in the federal indirect cost recovery rate meant that the State Level Activities Program was charged \$1.6 million rather than the \$2.6 million budgeted in FY 2008. FY 2009 charges will also be less than budgeted. For a discussion of the 2011 biennium rate, see the Proprietary Rates section in this program.</p>
------------------------	---

Summary of Program Base Budget Compared to the Executive Request by Function

Figure 1 shows the FY 2008 base budget expenditures compared to the 2011 biennium request by function of OPI.

Figure 1
FY 2008 Base Budget Expenditures
Compared to the 2011 Biennium

Major Function	FY 2008 Base Budget				% of Total	FY 2010 Budget Request				% of Total	FY 2011 Budget Request				% of Total
	Genl Fund	SSR	Federal	Total		Genl Fund	SSR	Federal	Total		Genl Fund	SSR	Federal	Total	
Superintendent's Office	\$2,724,674		\$296,088	\$3,020,762	13.1%	\$3,164,350		\$435,033	\$3,599,383	13.89%	\$3,716,135		\$435,055	\$4,151,190	15.48%
Legal Services	457,031		442,677	899,708	3.9%	466,487		442,677	909,164	3.51%	468,655		442,677	911,332	3.40%
Indian Education	1,702,308		128,365	1,830,673	7.9%	1,809,602		133,720	1,943,322	7.50%	1,823,542		134,926	1,958,468	7.30%
Measurement and Accountability	175,315		116,275	291,590	1.3%	180,948		93,806	274,754	1.06%	182,311		94,016	276,327	1.03%
Information Technology Services	966,703			966,703	4.2%	1,042,406			1,042,406	4.02%	1,047,592			1,047,592	3.91%
State Distribution to Schools	797,804			797,804	3.5%	821,995			821,995	3.17%	824,094			824,094	3.07%
Curriculum Services	277,080		5,226,437	5,503,517	23.8%	285,353		5,647,330	5,932,683	22.89%	286,423		5,738,051	6,024,474	22.46%
Accreditation Division	1,260,137	\$22	749,882	2,010,041	8.7%	1,648,740		781,173	2,429,913	9.37%	1,669,103		781,950	2,451,053	9.14%
Health Enhancement and Safety	82,199	207,473	1,228,825	1,518,497	6.6%	85,387	\$220,202	1,428,354	1,733,943	6.69%	85,915	\$220,265	1,434,494	1,740,674	6.49%
Education Opportunity and Equity			2,078,831	2,078,831	9.0%	0		2,520,625	2,520,625	9.72%	0		2,598,822	2,598,822	9.69%
Special Education	403,220		2,623,255	3,026,475	13.1%	424,936		2,947,970	3,372,906	13.01%	436,605		3,054,087	3,490,692	13.01%
Career Technical & Adult Education	353,686		819,231	1,172,917	5.1%	380,030		959,463	1,339,493	5.17%	381,728		967,574	1,349,302	5.03%
Total Division Budget	\$9,200,157	\$207,495	\$13,709,866	\$23,117,518	100.0%	\$10,310,234	\$220,202	\$15,390,151	\$25,920,587	100.00%	\$10,922,103	\$220,265	\$15,681,652	\$26,824,020	100.00%
Percent of Total	39.80%	0.90%	59.31%	100.00%		39.78%	0.85%	59.37%	100.00%		40.72%	0.82%	58.46%	100.00%	

As shown in Figure 1, general fund and federal revenues support the costs of the majority of OPI functions.

2009 Biennium Major Goals

The following provides an update of the major goals monitored by the Legislative Finance Committee (LFC) during the 2009 biennium.

The LFC monitored several program goals related to new proposals approved by the 2007 Legislature.

Goal 1

The legislature provided \$1.885 million over the biennium for curriculum specialists. The 6.00 new FTE were to provide technical assistance to K-12 public schools in science, mathematics, kindergarten, communication arts, library media, and high school curriculum and dropout prevention. The program performance measurements included:

- Develop model curriculum in science and model curriculum for full time kindergarten and disseminate to Montana schools
- Revise content and performance standards in two academic areas and disseminate to Montana schools
- Provide on-site assistance to Montana schools using the effective schools research and peer reviews. Curriculum specialists will assist Montana educators in revisions of their five-year comprehensive education plans and meeting accreditation standards

Status

OPI estimated it would hire six curriculum specialists by 12/1/2007. OPI has been unable to fill the curriculum specialist positions for communication arts, kindergarten, or high school curriculum and dropout prevention. Specialists for library media, mathematics, science, and middle school/at risk have been hired. OPI also temporarily hired staff to work in the area of high school redesign.

OPI included developing and disseminating a model curriculum for science and full time kindergarten in FY 2008 as another milestone for the curriculum specialists. As of October 2008, OPI has provided professional development modules to science teachers based on new science standards. Upon completion of these modules, OPI will work with a team of educators to develop a model science curriculum. As of October 2008, OPI had developed and disseminated a draft full-time kindergarten model curriculum. OPI will gather comments on the draft and incorporate them into the final curriculum, which should be issued sometime in FY 2009.

Another milestone was to develop and disseminate revised content and performance standards for library/media and technology in FY 2008. The Board of Public Education adopted revised content and performance standards for literacy/library media and technology in July 2008. OPI has posted the revised standards on its website for school personnel.

Finally, OPI was to provide assistance to Montana educators in the revision of the five-year comprehensive education plan. Each school district is required to develop a five-year comprehensive education plan outlining various components of each district's educational system. OPI completed phase 1 of the development of a web-based online application of the five-year comprehensive education plan with on-site reviews to be conducted in FY 2009.

Goal 2

The 2007 Legislature also provided for continued funding of \$3.459 million in general fund for OPI to implement the K-12 Data System. The funds were to improve data collection practices and data quality on K-12 students and enhanced to include data on educators.

Status

As of October 2008, OPI had the student data system (Achievement in Montana or AIM) operational as it related to student demographic and assessment data. One effect of having the student data system operational was the elimination of six reports associated with student information including:

- High school completer count

- Montana dropout count
- Limited English proficient student count
- Immigrant student count
- Gifted student count
- Disaggregated enrollment

OPI used AIM to register students for the statewide assessment of students with limited English proficiency and to transmit applications from school districts for funding for No Child Left Behind, the Individuals with Disabilities Education Act, Migrant Education, Carl Perkins, and 21st Century Learning Communities. OPI is currently in the process of adding a special education module which includes development and monitoring of the Individual Education Plan as a component. OPI had targeted this to be completed in FY 2008. The revised target date is now FY 2009.

The educator component or school staffing component of the data base has been delayed until the special education module is completed. The initial phase of the work has been started with work on the design phase. OPI has identified a system in Oregon which may be adapted to Montana. The program would incorporate a teacher preparation program, teacher licensure, employment with school districts, and retirement information.

Goal 3

Further development of the professional development component of the Indian Education for All (IEFA) Program was included for review by the LFC. The performance measurements for this goal were:

- Each year there will be a 10 percent increase in the number of schools reporting that their staff received IEFA professional development
- The number of schools reporting an increase in each of their stakeholders' knowledge will increase by an additional 5 percent from low to medium and medium to high each year
- Within five years, the percentage of school districts that indicate teacher training as their greatest IEFA need will decrease from 40 percent to 20 percent
- OPI will contract with an outside evaluator to measure the effectiveness of its IEFA professional development program, determine gaps in its delivery, discover areas of improvement, and gauge successes.

Status

The number of schools reporting that they offered IEFA professional development to their staff increased from 60 percent in 2005 to 92 percent in 2007.

The number of schools reporting an increase in each of their stakeholders' knowledge increased as follows:

- In 2005, 21 percent of schools reported their stakeholders knowledge as low compared to 5 percent in 2007
- In 2005, 62 percent of schools reported their stakeholders knowledge as medium compared to 67 percent in 2007
- In 2005, 17 percent of schools reported their stakeholders knowledge as high compared to 28 percent in 2007

The percentage of school districts that indicated teacher training as their greatest IEFA need decreased in 2007 to 33 percent when compared to 40 percent reported in 2005.

OPI contracted with Northwest Regional Educational Lab to determine a research strategy and process to measure the effectiveness of OPI's IEFA professional development program.

Goal 4

Finally, the LFC monitored OPI's goal to close the American Indian student achievement gap. The 2007 Legislature provided \$0.382 million in general fund for this component of Indian Education Program. The measurements for this goal included:

- Annually, OPI will analyze data and report trends related to statewide assessments, dropout rates, completion and graduation rates, suspension and expulsion numbers, and special education
- OPI will annually break down school achievement data by school demographic population as well as looking at schools that are on or near reservations and urban areas
- OPI will annually provide focused technical assistance to schools needing support as determined by the data analysis

- OPI will annually collect quantitative and qualitative data in order to develop a system that measures how well a school meets the needs of American Indian student.

Status

As of October 2008, OPI was on the fourth recruitment for an OPI Indian student achievement data and research analyst. Other staff assigned to the program have reviewed, analyzed, and reported on data to varied audiences, including breaking down school achievement data by school demographic population; implementing school support teams to visit and evaluate schools in the restructuring phase of No Child Left Behind; partnering with four schools to pilot projects in math, early childhood, science, and after-school programs for Indian students; and providing four conferences for schools in the restructuring phase of No Child Left Behind.

Challenges

Restructuring is required under No Child Left Behind legislation if students do not make adequate yearly progress five years in a row. Of the 39 schools in the restructuring phase under No Child Left Behind, the majority are either on or bordering one of the seven Indian reservations in Montana.

Between FY 2002 and FY 2007, American Indians represented only 11.5 percent of the total school enrollment for grades 7 through 8, but accounted for 69.2 percent of the dropouts. For grades 9 through 12, American Indians represented 10.2 percent of the total school enrollment and 23.1 percent of the dropouts.

2011 Biennium Major Goals

OPI is required by law to submit goals and objectives as part of the budgeting process. The LFD and the LFC recommends that the legislature adopt specific goals and corresponding objectives for monitoring during the interim. OPI submitted the following goals for the State Level Activities Program for the 2011 biennium:

- Support schools so that all students can achieve high standards
- Assess and communicate the quality and achievements of K-12 education
- Provide access to and management of information and data related to K-12 school improvement
- Deliver quality instruction through professional development
- Support accountability and improvement in all Montana schools

LFD ISSUE

The objectives submitted for the 2011 biennium goals do not include measurements or timelines for completion.

For example, to measure the goal to support schools so that all students can achieve high standards OPI lists the following objectives:

- Provide targeted assistance and training for low-performing and/or at-risk students and schools
- Provide technical assistance to schools to serve students with special needs
- Provide comprehensive and focused technical assistance to local districts to increase the achievement and graduation rates of American Indian students

The percentage of schools and students currently requiring targeted assistance and training is not included nor is a target for reducing the number of low performing or at risk students by a specific date. One of the components of No Child Left Behind is determining which students or schools are low performing as evidenced by the number of schools with students that are not able to make adequate yearly progress. American Indian achievement is also tracked through the No Child Left Behind process. OPI has been working with school districts for over five years on No Child Left Behind and has a significant pool of data on low performing or at risk students and schools as well as those schools with high numbers of American Indian students and their achievement and graduation rates. In addition, federal grant requirements for special needs funding requires OPI to determine the number of students with special needs. The information can be used to establish measurements and timelines for the objectives presented by OPI for the 2011 biennium budget.

**LFD
ISSUE (CONT.)**

As currently written, the objectives do not provide sufficient information for the 2009 Legislature to formulate an appropriations policy for the State Level Activities Program. As the program is not requesting additional support for low performing or at-risk students, students with special needs, or to improve the graduation rates of American Indian students, it appears OPI believes that the current budget is sufficient to implement the listed goals. In order to formulate an appropriations policy for this program the legislature may wish to know:

- What percentage of low performing students and schools will receive targeted assistance in the 2011 biennium?
- Are the components included in the pilot project in math, early childhood, science, and after-school programs part of the targeted assistance programs? If so, will additional sites be using these new programs? How will they be supported in the proposed budget?
- The number of children requiring special education has been decreasing over the last five years, yet state support has not decreased. Is the level of severity of the children served under special needs increasing and thus costing the state more per child? How do state level activities support the school districts working with children with special needs? What additional technical assistance will be included in the 2011 biennium? Are there schools who require additional support for special needs children?
- What is included in the comprehensive and focused technical assistance to local districts which will result in increased achievement and graduation rates for American Indian students in the 2011 biennium? How many districts have been identified to receive this assistance? How will success be measured for the program in the 2011 biennium?
- What programs provide support and technical assistance for those districts identified for corrective action or improvement under No Child Left Behind?
- By what percentage does the program project low performing or at risk students will be reduced in the 2011 biennium as a result of the program meeting its objectives?
- What is the projected percentage the achievement levels of special needs children will increase in the 2011 biennium as a result of program activities in the 2011 biennium?

The objectives discussed above are a small percentage of those submitted by OPI.

The Education and Local Government Interim Committee (ELGIC) formed a subcommittee on K-12 education during the 2009 interim. One of the recommendations coming out of the work of the ELGIC is a bill draft request for a process to develop shared budget and accountability measures for the K-12 education system in the 2011 interim. Currently, the Postsecondary Education Policy and Budget (PEPB) subcommittee works with the Board of Regents and the Montana University System to develop and propose shared budget and accountability measures as part of the budget presented to the legislature. ELGIC members envision a similar process for K-12 education. One of the components of the process is specific, defined, measurable, time-bound objectives to implement the shared budget and policy goals.

Option: The Joint Appropriation Subcommittee on Education can further the work of the ELGIC by requesting that OPI provide the legislature with specific, measurable, time-bound objectives for its goals in the 2011 biennium. In addition, the information would allow the legislature to formulate an appropriations policy for the State Level Activities Program for the 2011 biennium.

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.

Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	FY 2008	FY 2008	FY 2010	FY 2010	FY 2011	FY 2011
01000 Total General Fund	\$ 9,200,157	39.8%	\$ 10,310,234	39.8%	\$ 10,922,103	40.7%
01100 General Fund	9,200,157	39.8%	10,310,234	39.8%	10,922,103	40.7%
02000 Total State Special Funds	207,495	0.9%	220,202	0.8%	220,265	0.8%
02001 School Lunch Program	84,986	0.4%	85,172	0.3%	85,198	0.3%
02402 Traffic & Safety Education	122,487	0.5%	135,030	0.5%	135,067	0.5%
02618 Prof Educator Prep Program	22	0.0%	-	-	-	-
03000 Total Federal Special Funds	13,709,866	59.3%	15,390,151	59.4%	15,681,652	58.5%
03002 Public Instruction	13,709,866	59.3%	15,390,151	59.4%	15,681,652	58.5%
Grand Total	\$ 23,117,518	100.0%	\$ 25,920,587	100.0%	\$ 26,824,020	100.0%

General fund supports the majority of the costs of the Superintendent’s Office, Indian education, information technology services, and state distributions to schools; approximately half of the costs of legal services, measurement and accountability, and accreditation programs; and a small portion of curriculum services, special education services, career technical and adult education, and health enhancement and safety programs.

State special revenues fund a portion of the costs of the School Lunch Program and the Traffic and Safety Education. Revenues for the School Lunch Program are generated through reimbursements for the costs of shipping, handling, and other related costs of school food commodities used in the School Lunch Program. Traffic and Safety Education revenues are generated through a percentage of the driver’s license fee, commercial driver’s license fees, and replacement driver’s license fees.

The administrative component of numerous federal grants is used to support state level activities. Increased federal grants include Elementary and Secondary Education Act Title I, federal data collection grant, state assessment funds, IDEA, Part B, and Carl Perkins funds.

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 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	9,200,157	9,200,157	18,400,314	86.66%	23,117,518	23,117,518	46,235,036	87.66%
Statewide PL Adjustments	552,796	597,807	1,150,603	5.42%	1,041,649	1,110,468	2,152,117	4.08%
Other PL Adjustments	100,380	118,155	218,535	1.03%	1,304,519	1,590,050	2,894,569	5.49%
New Proposals	456,901	1,005,984	1,462,885	6.89%	456,901	1,005,984	1,462,885	2.77%
Total Budget	\$10,310,234	\$10,922,103	\$21,232,337		\$25,920,587	\$26,824,020	\$52,744,607	

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “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.

	-----Fiscal 2010-----					-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Present Law Adjustments										
Personal Services					1,333,413					1,364,618
Vacancy Savings					(410,937)					(412,184)
Inflation/Deflation					76,728					112,098
Fixed Costs					42,445					45,936
Total Statewide Present Law Adjustments					\$1,041,649					\$1,110,468
DP 7 - Audiological Services	0.00	21,998	0	0	21,998	0.00	33,485	0	0	33,485
DP 14 - Traffic Education Budget Adjustment	0.00	0	12,000	0	12,000	0.00	0	12,000	0	12,000
DP 15 - Indirect Cost of Base Adjustments	0.00	78,382	90	68,672	147,144	0.00	84,670	97	72,014	156,781
DP 19 - Federal Grant Award Adjustments - Program 06	8.50	0	0	1,123,377	1,123,377	8.50	0	0	1,387,784	1,387,784
Total Other Present Law Adjustments	8.50	\$100,380	\$12,090	\$1,192,049	\$1,304,519	8.50	\$118,155	\$12,097	\$1,459,798	\$1,590,050
Grand Total All Present Law Adjustments					\$2,346,168					\$2,700,518

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 for brevity by the LFD. OPI has personal service costs budgeted exclusively in the State Level Activities Program. Thus the program information and the agency information for personal services are the same.

- o **Market Rate** – OPI expects its target market ratio will be 89 percent relative to the 2008 market survey after implementing the HB 13 pay adjustments. Higher entry salaries are sometimes necessary when OPI must compete with higher paying state agencies and school districts for experienced staff or when shortages of certain skill sets exist for certain job categories. As an oversight agency for the state's K-12 programs, OPI staff must be experts in their fields in order to provide appropriate, adequate technical assistance to school district staff. People who have the necessary education and experience to fill positions as experts will have several years of related experience, often have masters degrees, and often need to have previous experience working in school districts, which generally offer a higher rate of pay.
- o **Vacancy** – OPI has a number of occupations with high turnover rates or frequent vacancies including instructional coordinators, accountants, computer programmers, and project managers. It has implemented paying entry above market, hiring staff on training assignments, providing flexible schedules, and providing on-the-job training to increase the competencies of existing staff.
- o **Legislatively applied vacancy savings** – OPI was able to generate the legislative required vacancy savings through the vacancies generated within the program.
- o **Pay Changes** – OPI funded pay changes given outside of HB 13 using vacancy savings and federal funding increases. Over half of the pay changes were for performance pay and the majority of the rest were for exempt employee pay changes.
- o **Retirements** – Approximately 41 percent or 64.00 FTE are eligible for full retirement in the 2011 biennium. The compensated absence liability for these employees is \$1.34 million. OPI estimates the actual number of retirements in this period will be 15 employees with an estimated compensated absence liability of \$315,000.

DP 7 - Audiological Services - The executive requests support for an anticipated 3 percent increase each year of the biennium for the audiological services contract for the Hearing Conservation Program. 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. The Hearing Conservation Program is the primary method for schools to ensure proper identification of students with hearing impairments.

DP 14 - Traffic Education Budget Adjustment - The executive is proposing an increase in administrative operating funds of \$12,000 per year for the 2011 to maintain present level traffic education (TE) services to public schools and to eliminate nonrecurring appropriations through personal services contingencies. The TE program provides administrative services to public schools for district-provided driver education programs. In addition to teacher and program approval processes and state reimbursement distributions, these services include supervision and assessment of approved traffic education courses; preparation for teachers of traffic education; development, printing, and distribution of essential instructional materials for traffic education; and any other activities considered necessary by the superintendent of public instruction.

DP 15 - Indirect Cost of Base Adjustments - The executive requests additional appropriation authority for the indirect cost portion of the general fund, state special revenue fund and federal funds statewide level base adjustments. The general fund requirement is \$163,053 over the biennium. In addition to providing central services within the agency, these adjustments fund increases in statewide cost assessments for the legislative audit, SABHRS costs, a portion of the increases in rent, and others.

DP 19 - Federal Grant Award Adjustments - Program 06 - The executive proposes to adjust federal spending authority for grant awards due to anticipated increases and decreases in federal funding. Funds are used to support the administration of current federal grants and provide technical assistance to schools. The adjustment is \$1,123,377 in FY 2010 and \$1,387,784 in FY 2011. This request is for a biennial appropriation.

LFD COMMENT	<p>In the 2009 biennium the legislature approved an additional \$1.8 million in federal revenue appropriation authority for increases in grant awards. As shown above, OPI anticipates an additional increase of \$2.5 million to support personal services and operation costs in the State Level Activities Program. Given the current economic crisis, and the state of the national economy, the Joint Appropriations Subcommittee on Education may wish to discuss how OPI would address potential decreases in federal support. For example, will OPI request state support for the programs and services or will reductions need to occur? What does OPI envision as priorities for programs and services should federal reductions in education occur?</p>
--------------------	--

New Proposals

Program	FTE	-----Fiscal 2010-----				-----Fiscal 2011-----					
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 21 - 21st Century E-learning - MT Virtual High School (Requires Legislation)	06	0.00	450,000	0	0	450,000	0.00	1,000,000	0	0	1,000,000
DP 26 - Student Assessment	06	0.00	0	0	0	0	0.00	0	0	0	0
DP 6101 - Fixed Cost Workers Comp Management Program Allocate	06	0.00	6,901	0	0	6,901	0.00	5,984	0	0	5,984
Total		0.00	\$456,901	\$0	\$0	\$456,901	0.00	\$1,005,984	\$0	\$0	\$1,005,984

DP 21 - 21st Century E-learning - MT Virtual High School (Requires Legislation) - The executive proposes \$1.45 million in the 2011 biennium to provide pass-through funding to establish a year-round virtual high school in the University of Montana (UM) School of Education. The virtual high school would provide distance learning courses to increase access for Montana students. The executive proposes using the virtual high school to provide core courses for accreditation, accelerated learning classes, and credit recovery to improve graduation rates. In the first year, the UM, guided by an advisory council, would conduct a needs assessment and build curriculum based on the results of the assessment. In the second year, Montana certified quality educators will be hired to deliver e-courses to students who remain enrolled in their local school districts. In addition, the virtual high school would serve as a source to integrate e-learning in Montana’s teacher preparation programs.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: The virtual high school would provide distance learning courses to increase access for all students in Montana to support quality schools. The Governor's Office proposes to provide core courses for accreditation, accelerated learning classes, and credit recovery to improve graduation rates. The executive proposes in the first year of the 2011 biennium to have the University of Montana, guided by an advisory council, conduct a needs assessment and build curriculum based on the results of the assessment. In the second year of the biennium, Montana certified quality educators will deliver e-courses to students who remain enrolled in their local school districts. In addition, the virtual high school will serve as a source to integrate e-learning in Montana's teacher preparation programs.

Goals: The first goal of the OPI is to support schools so that all students can achieve high standards. Data demonstrates that the improvement necessary for the state to continue to offer a high quality education lies in the ability of schools to offer core courses to meet accreditation standards, accelerated learning classes, and credit recovery to improve graduation rates.

The next goal of the OPI is to deliver quality instruction through professional development. Professional development will be an important part of implementing and continuing the virtual high school to assure staff in the local high schools can provide assistance to students enrolled in these courses. In addition, the virtual high school will serve as a source to integrate e-learning in Montana's teacher preparation programs.

The last goal of the OPI is to support accountability and improvement in all Montana schools. This proposal directly ties into this goal by providing a service to schools to assist in meeting accreditation standards by providing Montana certified quality educators to deliver e-courses to students that local districts are not able to provide.

Performance Measures: The OPI will pass through funding to the University of Montana, College of Education. The OPI will continue to monitor school district accreditation standards and provide data for the virtual high school to determine course offerings and school district needs for core courses to meet accreditation, accelerated learning classes, and credit recovery to improve graduation rates.

Milestones: In FY 2010, an administrator will be hired. Staff will be hired to develop an assessment, collect data and evaluate where schools are not currently able to provide core courses for accreditation, accelerated learning classes, and credit recovery to improve graduation rates. In the spring of 2011, teachers will be hired to develop courses to be taught beginning the fall of 2010 for the school year 2011 based on the results of the assessment.

FTE: All FTE accompanying this proposal would be University of Montana staff:

- 1.00 FTE – Director of Program
- 1.00 FTE – Tech Director/Educator
- TBD – Work study students as Help Desk Support
- 6.00 FTE – K-12 Montana certified quality educator

In addition there would be an unpaid advisory council.

Funding: This proposal is for a general fund appropriation.

Obstacles: Montana has a strong local control tradition whereby local school boards make academic decisions for their individual districts. While the OPI and the University of Montana, Department of Education can offer technical assistance and support for schools to have access to the virtual high school, they cannot compel schools to engage in any practice nor can it impose sanctions for schools not meeting accreditation standards or to improve graduation rates. Funding this proposal, however, allows the state to provide a service to schools to provide core courses for accreditation, accelerated learning classes, and credit recovery to improve graduation rates.

Risk: The risk of this proposal is that schools would not utilize the services of the virtual high school to provide core courses for accreditation, accelerated learning classes, and credit recovery to improve graduation rates and still not meet accreditation standards or offer students accelerated learning classes or the chance for credit recovery. Not utilizing the virtual high school would deny students equitable access to core courses, accelerated classes, and credit recovery while putting them at risk of not being prepared for 21st Century learning, not being adequately prepared for college and not allowing students to participate on a level playing field with students from other states who have distance learning experiences.

**LFD
ISSUE**

Proposal not discussed with BPE

This proposal was not included in OPI's budget submission to the Governor's Office. The Board of Public Education is constitutionally charged with the general supervision of the public education system and as such sets the policies for the state's public education system. While the BPE has articulated its support of developing distance education through its implementation of administrative rules, this policy proposal was not presented to the BPE for consideration.

To ensure the BPE has the opportunity to provide to the legislature their input on the policy decision articulated in this budget request, the legislature may wish to request BPE provide its input on the proposal.

**LFD
ISSUE**

LFD has identified several questions which the legislature may wish to clarify as part of determining its support for this appropriation. The legislature may wish to know:

- o What are the baseline results for FY 2008 for accreditation standards, graduation rates, numbers of students taking accelerated learning classes and credit recovery classes, as the proposal discusses data to demonstrate improvement is necessary?
- o How many schools currently offer some distance learning to their students for accelerated learning or credit recovery?
- o Currently, what is included in teacher preparation programs currently for e-learning in the classroom?
- o What are the measurements for the program which would determine the success of the Virtual High School, as currently presented the measurements are to give the money to the University of Montana and provide data to determine courses and needs for the core classes?
- o What data will OPI provide to the University of Montana?
- o The obstacles identified discuss that neither OPI nor the University of Montana, Department of Education can impose sanctions for schools not meeting accreditation standards. The Board of Public Education, the entity charged with general supervision of the public education system, can impose monetary sanctions in regard to accreditation standards if a school is not in compliance for a number of years. Does the Board of Public Education believe this is an obstacle to implementing this proposal?
- o Is there a need for state-provided accelerated learning classes? How was the need identified?
- o Have there been any surveys conducted to determine the potential use or demand for these services at the local school district level? If so, when were they conducted and what were the results of the surveys?
- o What are the actual goals of the project; provide quality education via distance learning, better prepared students measured through reduced remediation rates, improve high school graduation rates, increase teacher professional development?
- o What measurements will be used to determine if OPI is successful in meeting the goals of the project?
- o What is OPI's role in the project? Will the 14 percent indirect cost rate be charged to the appropriation?
- o What is the MUS' role in the project?

**LFD
ISSUE
(Cont.)**

- What is the rationale for including the project in OPI's budget rather than MUS's budget?
- How many schools are currently using unlicensed teachers to provide core classes? How else are Montana students denied equitable access to core classes?
- What are the ongoing costs for this proposal in FY 2012 and FY 2013?

The legislature may also wish to consider if a restriction should be placed on the appropriation in the 2011 biennium.

Option: Request the Governor's Office, OPI, and MUS provide additional information on this proposal to enhance the legislature's understanding.

DP 26 - Student Assessment - The Governor's Office is requesting to transfer \$325,000 previously appropriated for the norm-reference test (NRT) student assessment, commonly known as the Iowa Basics, to college entrance exams for high school juniors. The NRT, formerly in administrative rules of the Board of Public Education for the accreditation of schools, is no longer required due to changes implemented in federal No Child Left Behind legislation. These funds could be dedicated to support the cost incurred for students in their junior year in high school to take a national, curriculum-based college entrance exam. Consistency in high school assessments would facilitate the state's ability to better understand high school course taking patterns. Information generated from the tests could allow the Board of Education to align high school graduation requirements with college admission requirements and reduce the need for remedial course taking in college.

**LFD
ISSUE**

Proposal not part of the BPE's policy as articulated in OPI's budget proposals

The Board of Public Education is constitutionally charged with the general supervision of the public education system. OPI is administratively attached to BPE. BPE sets the policies for the state's public education system and OPI is charged with carrying out those policies. While the BPE has articulated its support of developing a K-12 writing assessment through endorsement of OPI's initiative to implement a statewide writing assessment at the elementary and secondary level, a discussion in regard to this proposal has not occurred. This proposal was not included in OPI's budget submission to the Governor's Office.

To ensure the entity charged by the constitution with the general supervision of the public education system is able to provide input to the legislature on the policy decision, the legislature may wish to request that BPE provide its perspective on this proposal and its prioritization within BPE overall long range planning for the education system.

DP 6101 - Fixed Cost Workers Comp Management Program Allocate - The Workers' Compensation Management Program at the Department of Administration was funded by the 2007 Legislature with a one-time-only (OTO) general fund appropriation. For the 2011 biennium and beyond, the executive proposes the program be funded via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

Proprietary Program Description

OPI Indirect Cost Pool

The following table summarizes the total executive budget proposal for this program by year.

OPI Indirect Cost Pool - Proposed Budget					
	2008	FY 2010	FY 2010	FY 2011	FY 2011
	Actual Base	Adjustments	Total	Adjustments	Total
FTE	22.15	22.15	22.15	22.15	22.15
61000 Personal Services	\$1,276,828	\$119	\$1,276,947	\$2,794	\$1,279,622
62000 Operating Expenses	824,516	221,840	1,046,356	133,981	958,497
Total Costs	<u>\$2,101,344</u>	<u>\$221,959</u>	<u>\$2,323,303</u>	<u>\$136,775</u>	<u>\$2,238,119</u>

The OPI Indirect Cost Pool is an internal service fund used to allocate various centralized costs such as payroll, accounting, or budgeting to all OPI's state and federally funded programs using a pre-approved indirect cost rate.

Funding

OPI Indirect Cost Pool is funded entirely with internal service type proprietary funds. Because the proprietary funds do not require an appropriation, they are not typically included in appropriation tables. Instead, the legislature approves the fees and charges that support the revenues for the program. The fees and charges approved in the general appropriations act are the maximum fees and charges that may be charged in the biennium.

The figure shows estimated funding sources for payments made by the programs charged indirect cost allocations for the base and the 2011 biennium.

Estimated Funding For Payments to the OPI Indirect Cost Pool			
Payment Funding	Base FY 2008	Proposed FY 2010	Proposed FY 2011
General fund	\$769,011	\$1,112,208	\$1,112,208
State special revenue fund	20,079	27,042	27,042
Federal special revenue fund	851,314	1,185,750	1,185,750
Total Payments	<u>\$1,640,404</u>	<u>\$2,325,000</u>	<u>\$2,325,000</u>

The appropriations in the State Level Activities Program budgets that pay the indirect cost rate fees should equal the amount of the revenues in the OPI Indirect Cost Pool which pays for the indirect costs. State Level Activities Program budgets currently do not correspond to the proposed rates for the OPI Indirect Cost Pool Program. See LFD Issue under Program Narrative. If rates are changed from those proposed, adjustments to the agency budgets would be needed to provide alignment with decisions for this program.

Program Narrative

Revenues

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. In FY 2008, federal programs contributed \$858,853 towards the cost of "indirects"; while general and other state-funded programs contributed \$821,632. OPI negotiates a three year "predetermined rate" with the U.S. Department of Education. The rate is calculated in accordance with federal regulations and section 17-3-111(1), MCA. The federally approved rate for fiscal years 2008 through 2010 is 14 percent.

Expenses

Costs of OPI operations that are paid from the indirect cost pool include:

- Termination payouts (vacation/comp time/sick leave) for all staff (except the State Superintendent and her personal staff)
- Services provided to OPI by other state agencies for a fee including:
 - General liability insurance and employee bonds

- Warrant writing fees
- Human resources information fees
- Workers' comp management fee
- Legislative audit fees
- SABHRS costs
- Telephone equipment charges, network services charges, and enterprise fees
- Rent charges for common areas (bathrooms, halls, conference rooms)
- Capitol complex grounds maintenance
- OPI's share of statewide indirect costs, allocated through a Statewide Cost Allocation Plan (SWCAP) prepared by the Department of Administration
- Centralized services provided to OPI programs such as payroll, personnel, accounting, budgeting, data management, cash management, financial reporting, purchasing, word processing, mail delivery, and resource center services
- Operating costs associated with centralized services employees (22.8 FTE) are paid from the pool, including the cost of rent for space they occupy, office supplies, postage, long distance phone charges, equipment, training, travel, photocopy charges, etc.
- General-use items such as paper, FAX lines and shared equipment, and the related maintenance contracts

It should be noted that the legislative audit costs are appropriated on a biennial basis. This is the reason the expenditures for the OPI indirect cost pool are higher in the first year of the biennium.

Explanation of Rates

OPI negotiates a three year "predetermined rate" with the U.S. Department of Education every year. The rate is calculated in accordance with federal regulations and section 17-3-111, MCA. The approved rate for fiscal year 2010 is 14 percent. The proposed rate for the FY 2011 budget is 14 percent. The actual rate will be negotiated in December of FY 2009 and may be higher or lower than the budgeted rate.

The following table shows historical and anticipated future sources and uses of funds for the operation of the internal service fund that finances the OPI Indirect Cost Pool. It should be noted this table shows what is budgeted in FY 2009, FY 2010 and FY 2011.

2011 Biennium Report on Internal Service and Enterprise Funds				
	Actual FY08	Budgeted FY09	Budgeted FY 10	Budgeted FY 11
Operating Revenues:				
Nonfederal indirect cost recoveries	\$821,632	\$850,000	\$880,260	\$885,662
Federal Indirect Cost Recoveries	858,853	1,050,000	927,525	930,867
Other Operating Revenues	5,848	-	0	0
Total Operating Revenue	\$1,686,334	\$1,900,000	\$1,891,860	\$1,923,300
Operating Expenses:				
Personal Services	\$1,293,832	\$1,124,523	\$1,276,947	\$1,279,622
Other Operating Expenses	824,515	766,140	1,046,356	958,497
Benefits and Claims	73,957	-	-	-
Total Operating Expenses	\$2,192,305	\$1,890,663	\$2,323,303	\$2,238,119
Operating Income (Loss)	(505,971)	9,337	(431,443)	(314,819)
Total Net Assets- July 1 - As Restated	797,653	291,682	301,019	(130,424)
Total Net Assets - July 1 - As Restated	<u>\$797,653</u>	<u>\$291,682</u>	<u>\$301,019</u>	<u>(\$130,424)</u>
Net Assets- June 30	<u>\$291,682</u>	<u>\$301,019</u>	<u>(\$130,424)</u>	<u>(\$445,243)</u>
60 days of expenses (Total Operating Expenses divided by 6)	365,384	315,111	387,217	373,020
Requested Rates for Internal Service Funds				
Fee/Rate Information				
	Actual FY 08	Actual FY 09	Budgeted FY 10	Budgeted FY 11
Unrestricted Rate	24.0%	24.0%	24.0%	
Restricted Rate	14.0%	14.0%	14.0%	14.0%
OPI's indirect cost rate is negotiated with the U.S. Department of Education every three years 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 FY 2008-FY2010 is 14.0%. The restricted rate is applied to all general fund programs and to federal programs with "supplement not supplant" requirements. #not yet determined				

**LFD
ISSUE**

Proprietary fund income is not fully appropriated in the proposed 2011 budget for the State Level Activities Program

As shown in the table, the operating revenues budgeted in the 2011 biennium for the State Level Activities Program are insufficient to cover the costs of the budgeted expenditures in the OPI Indirect Cost Pool Program, with a \$445,000 default in net revenues. The revenues included in the proprietary fund are budgeted in the general appropriations act as indirect cost expenses for the State Level Activities Program. The operating revenues are budgeted at \$1.8 million and \$1.9 million in FY 2010 and FY 2011, respectively.

The funds budgeted in the State Level Activities Program are based on the amount of indirect costs paid in FY 2008. The actual rate approved by the U.S. Department of Education was 14.0 percent for the period. However, the revenues of \$1.7 million in FY 2008 were based on a lower indirect cost rate of approximately 11 percent. OPI used a lower rate to reduce the \$0.7 million fund balance in the OPI Indirect Cost Pool as recommended by federal auditors. However, it did not propose an adjustment to the costs of the indirect expenses paid to the proprietary fund at the higher level anticipated in the 2011 biennium.

As shown in the table above, the effect of the lower revenues on the fund balance over the 2009 and 2011 biennia is to end the 2011 biennium with a negative fund balance of \$445,243.

**LFD
ISSUE (CONT.)**

The federal indirect cost rate is approved at 14.0 percent in FY 2010. If the indirect cost rate is not sufficient for OPI to fully recover the costs, a new indirect cost rate can be requested prior to FY 2011. A new rate will be approved for the next three years beginning in FY 2011. The new rate should be sufficient to recover:

- Actual indirect costs related to the federal and state programs for the three years it will be in effect
- If needed, under-recovered costs from FY 2010

A higher rate is not included in the executive proposed budget in either FY 2010 or FY 2011. As discussed above, the indirect cost recovery charges approved in the general appropriations act are the maximum amounts that may be charged in the biennium. It appears the fees will be insufficient to cover the costs of the OPI Indirect Cost Pool in the 2011 biennium.

The legislature may wish to include appropriations for indirect cost expenditures calculated at the 14 percent rate in FY 2010 and the proposed new indirect cost rate in FY 2011 in the State Level Activities Program to ensure costs for the OPI Indirect Cost Pool Program are supported by revenues in the 2011 biennium. The cost to fully fund the proposed rate is as follows: general fund is \$235,000 annually, state special is \$5,700 annually, and federal funds is \$174,053 annually.

Present Law Adjustments

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

OPI Indirect Cost Pool - Present Law Adjustments					
		FY 2010		FY 2011	
		FTE	Costs	FTE	Costs
PL 0000	Statewide Present Law Adjustments	0.00	\$220,213	0.00	\$135,181
Total Present Law		0.00	\$220,213	0.00	\$135,181

Proprietary Rate Explanation

For the 2011 biennium the following rates are proposed in the executive budget. As discussed above, the rates would not generate revenues commensurate with the proposed costs proposed by the executive.

Advanced Drivers Education

Proprietary Proposed Budget

The following table summarizes the total executive budget proposal for this program by year.

Driver In-Vehicle Program - Proposed Budget					
	Actual	FY 2010	FY 2010	FY 2011	FY 2011
	FY 2008 Base	Adjustments	Total	Adjustments	Total
FTE	1.68	0.00	1.68	0.00	1.68
61000 Personal Services	\$83,362	(\$2,687)	\$80,675	(\$2,648)	\$80,714
62000 Operating Expenses	47,758	941	48,699	1,054	48,812
Total Costs	\$131,120	(\$1,746)	\$129,374	(\$1,594)	\$129,526

Proprietary Program Description

The Advanced Driver Education program, also known as the Driver In-Vehicle Education (DRIVE) is a seasonal hands-on behind-the-wheel crash avoidance program. It is operated by the Health Enhancement and Safety Division of OPI at their training facility in Lewistown. The one-day and half-day refresher courses provide training to school bus drivers, driver education teachers, Montana Department of Transportation employees, ambulance drivers, and others who drive as a part of their employment. In operation since 1979, this program offers its services to employees of government services and to the general public.

Funding

DRIVE is funded entirely with proprietary funds generated through workshop fees and track rental of the Lewistown facility. Because the proprietary funds do not require an appropriation, they are not typically included in appropriation tables. Instead, the legislature approves the fees and charges that support the revenues for the program. The fees and charges approved in the general appropriations act are the maximum fees and charges that may be changed to the state in the biennium.

The appropriations in agency budgets that pay the fees are adjusted to align with the fee changes. User agency budgets currently correspond to the proposed rates for the DRIVE Program, so if rates are changed from those proposed, adjustments to user agency budgets would be needed to maintain alignment with decisions for this program.

Program Narrative

Revenues

Revenues are generated from workshop fees collected from participants in the program and from other track users for the use of the facility. Typically the program serves 450-550 participants a session. The current fee is \$260 per person for a full-day workshop and \$155 for a half-day.

Expenses

Cost drivers for fees include instructor expenses (includes salaries, travel and per diem; vehicle maintenance and operating expenses (fuel), classroom and track supplies, track lease, program advertising, and administration (planning, scheduling, registrations, advertising, professional development of staff, support services, etc.). Continued increases in fuel costs in FY 2008 and track repairs consumed the revenue projected to support periodic capital and maintenance costs. Fuel and transportation expenses are anticipated to continue to increase as increased energy costs filter into the base price of other supplies, materials, and equipment. Needs for improvements to classroom and restroom facilities are pending. In addition to operating expenses during non-revenue months, the program also incurs periodic (every 2 - 5 years) expenditures for replacement of vehicles and facility maintenance/improvement. Payment of these services requires accumulation and carryover of revenues from year to year in an amount of approximately 10 - 20 percent of its annual budget.

Explanation of 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 to ensure that inflation does not leave the program in a deficit situation. The program works to keep workshop fees low since the potential customers such as bus drivers, volunteer firemen, and ambulance drivers have small training budgets.

The following table shows historical and anticipated future sources and uses of funds for the operation of the proprietary fund that finances the DRIVE Program.

Working Capital Discussion

This program is a summer seasonal program that operates 45 - 55 days during June, July, and August. The program typically employs four professional instructors for each workshop (10 - 11 hours per day each). A director (0.15) and a program specialist (0.125) provide administrative support during the year. Most revenue is received in April - June through pre-paid workshop registrations. Most expenses are realized June through August, with continuing administrative expenses during the remainder of the year. The program requires 30 - 45 percent of its annual budget to be carried over into the next fiscal year to cover working expenses paid out July - March.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "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.

D.R.I.V.E. Program - Present Law Adjustments					
		FY 2010		FY 2011	
		FTE	Costs	FTE	Costs
PL 0000	Statewide Present Law Adjustments	0.00	(\$1,746)	0.00	(\$1,594)
Total Present Law		0.00	(\$1,746)	0.00	(\$1,594)

Proprietary Rates

For the 2011 biennium the following rates would generate revenue commensurate with the costs as presented in the executive budget proposal.

2009 Biennium Report on Internal Service and Enterprise Funds				
	Actual FY08	Budgeted FY09	Budgeted FY 10	Budgeted FY 11
Operating Revenues:				
Fee revenue				
From Fee A - Full Day Workshop	\$155,000	\$160,000	\$160,000	\$160,000
Half Day Refresher Workshop	8,000	8,000	0	0
From Fee B - Daily Track Rentals, Exclusive	2,750	2,750	0	0
From Fee C - Periodic or Extended Track Rental, Non-Exclu.	0	0	0	0
From Fee D - Custom Training/Workshop	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Operating Revenue	<u>\$166,477</u>	<u>\$170,750</u>	<u>\$160,000</u>	<u>\$160,000</u>
Operating Expenses:				
Personal Services	\$91,553	\$77,456	\$80,675	\$80,714
Other Operating Expenses	49,934	89,384	48,699	48,812
Benefits and Claims	<u>1,869</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Operating Expenses	\$143,356	\$166,840	\$129,374	\$129,526
Operating Income (Loss)	<u>\$23,121</u>	<u>\$3,910</u>	<u>\$30,626</u>	<u>\$30,474</u>
Total Net Assets- July 1 - As Restated	\$40,868	\$63,989	\$67,899	\$98,525
Prior Period Adjustments	0	0		
Cumulative effect of account change	0	0		
Total Net Assets - July 1 - As Restated	<u>40,868</u>	<u>63,989</u>	<u>67,899</u>	<u>98,525</u>
Net Assets- June 30	<u>\$63,989</u>	<u>\$67,899</u>	<u>\$98,525</u>	<u>\$128,999</u>
60 days operating capital	23,893	27,807	21,562	21,588

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
Operating Expenses	0	3,998	0	0	3,998	0	(3,998)	(100.00%)
Local Assistance	633,539,284	655,835,265	672,949,164	691,021,920	1,289,374,549	1,363,971,084	74,596,535	5.79%
Grants	126,371,496	159,608,650	135,404,444	138,229,444	285,980,146	273,633,888	(12,346,258)	(4.32%)
Total Costs	\$759,910,780	\$815,447,913	\$808,353,608	\$829,251,364	\$1,575,358,693	\$1,637,604,972	\$62,246,279	3.95%
General Fund	633,561,264	655,863,286	673,074,164	691,146,920	1,289,424,550	1,364,221,084	74,796,534	5.80%
State Special	750,000	750,000	750,000	750,000	1,500,000	1,500,000	0	0.00%
Federal Special	125,599,516	158,834,627	134,529,444	137,354,444	284,434,143	271,883,888	(12,550,255)	(4.41%)
Total Funds	\$759,910,780	\$815,447,913	\$808,353,608	\$829,251,364	\$1,575,358,693	\$1,637,604,972	\$62,246,279	3.95%

Program Description

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

Program Highlights

Office of Public Instruction – Distribution to Schools Major Budget Highlights
<p>The executive proposes an increase in OPI’s distribution to schools of 3.95 percent from the 2009 biennium to the 2011 biennium</p> <ul style="list-style-type: none"> ◆ OPI’s budget for distribution to schools would increase by \$117.8 million during the 2009 biennium when compared with base expenditures in FY 2008. Of this amount, \$97.1 million is an increase in state general fund and \$ 20.7 million is an increase in federal funds ◆ In the general fund the executive proposes to: <ul style="list-style-type: none"> • Increase present law BASE aid by \$68.5 million in the 2011 biennium, a combination of lower ANB and raising the basic and per-ANB entitlements by 3 percent per year, a small adjustment to the Indian education for all payment, and a small increase in the at risk payment. • Provide no adjustments to the achievement gap payment as the population of Indian children is expected to remain stable. • Provide no adjustment to the present law quality educator payment because the number of educators is also expected to remain stable. • Increase state general fund for BASE aid by \$4.0 million due to lower common school revenues from state lands • Increase present law categorical components of school aid by \$7.1 million, consisting of: <ul style="list-style-type: none"> ○ Special Education, \$2.5 million ○ Transportation aid, \$0.5 million ○ HB 124 Block Grants, \$1.9 million ○ School facilities reimbursement, \$1.6 million ○ Assorted smaller categorical spending, \$0.6 million • Add new proposals in the amount of \$17.5 million general fund, consisting of: <ul style="list-style-type: none"> ○ School foods equip/facility mini grants-biennial/OTO - One-time-only funds of \$150,000 to make competitive

<p>grants available for schools to provide more or improved breakfast or lunch programs</p> <ul style="list-style-type: none"> ○ Increase Special education by 3 percent per year, \$4.5 million biennial. ○ Increase the quality educator payment by \$100 per year, \$3.9 million biennial ○ Institute a resource sharing program, \$100,000 per year, to increase sharing of resources between small districts ○ Use the new “streambed rents” to provide an inflow of money into the school facility improvement account, instead of using the money to increase BASE aid, \$8.7 million biennial ○ Use the timber revenue from state lands and deposit this as well into the facility improvement account instead of distributing this money directly to school districts for technology improvements as under present law <ul style="list-style-type: none"> ● The executive proposes to increase present law federal aid by \$20.7 million during the 2011 biennium primarily for school foods, Title 1 aid to the disadvantaged, school improvement, and special education
--

Major LFD Issues

- ◆ Present Law Adjustment Issues
 - The executive proposes increasing BASE aid to school districts by 3 percent per year. Actual inflation as calculated in 20-9-326, MCA, is 3.22 percent for 2010 and 4.03 percent for FY 2011
 - The executive does not propose adjusting the Indian education for all payment, the at-risk payment, or the achievement gap payment
 - The executive proposes an increase in general fund for BASE aid of \$4.0 million that reflects the executive’s estimates of lower common school revenues. The Revenue and Transportation Committee adopted common school revenues that were \$5 million higher than those estimated by the executive
 - The executive proposes an increase of \$1.6 million in the school facilities reimbursement payment, but if Billings passes a new building bond, the school facilities reimbursement may have to be prorated among all the eligible districts
- ◆ New Proposal Issues
 - The executive’s proposal to use the new streambed rents (\$8.7 million) for facility improvements increases state general fund by a like amount. If the new money is used for BASE aid, general fund would be lower, or new BASE aid could be added
 - The executive’s estimate of streambed rents exceeds the estimates adopted by the RTIC by \$0.2 million for the 2011 biennium
 - The executive proposes using timber revenue from state lands to provide approximately \$5.6 million as an inflow of money into the facility improvement account. This money is currently distributed to all districts to purchase and maintain information technology in schools
- ◆ Tax Policy Issue – The executive does not take into account the impact of reappraisal on state GTB aid and local district property taxes beginning in FY 2010

Program Narrative

Goal 1

- Make timely and correct payments of state and federal aid to Montana's local education agencies
- Assist school districts and other subgrantees of state and federal funds to achieve the goals and objectives of the grant programs and to comply with the grant requirements
- To use electronic funds transfer as a cost-efficient, secure and trackable means of distributing funds to schools, counties and other education service providers
- Use OPI's web-enabled electronic grants management system to support the state and federal grant management process, including the allocation of funds, the application process, amendments to grant applications, payments to grant recipients, reporting to the grantor, and close-out reports.

LFD ISSUE	<p>OPI does not provide any indicators by which to measure the achievement of the second subgoal.</p> <p>What happens when the goals and objectives of the grant programs are not met by school districts, or the grant requirements are not complied with? Will OPI publish a list of those grant recipients that do not meet the goals and objectives?</p>
----------------------	--

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table										
Local Education Activities										
Program Funding	Base		% of Base		Budget		% of Budget			
	FY 2008	FY 2008	FY 2008	FY 2008	FY 2010	FY 2010	FY 2011	FY 2011		
01000 Total General Fund	\$	633,561,264	83.4%		\$	673,074,164	83.3%	\$	691,146,920	83.3%
01100 General Fund		633,561,264	83.4%			673,074,164	83.3%		691,146,920	83.3%
02000 Total State Special Funds		750,000	0.1%			750,000	0.1%		750,000	0.1%
02402 Traffic & Safety Education		750,000	0.1%			750,000	0.1%		750,000	0.1%
03000 Total Federal Special Funds		125,599,516	16.5%			134,529,444	16.6%		137,354,444	16.6%
03170 Grant Clearance Discretionary		125,599,516	16.5%			134,529,444	16.6%		137,354,444	16.6%
Grand Total	\$	759,910,780	100.0%		\$	808,353,608	100.0%	\$	829,251,364	100.0%

The following table shows the executive's proposed funding for its proposals.

Distribution to Schools, General Fund, State Special, and Federal Funds - Executive Proposal								
Description	Base	PL Base	New	Total	PL Base	New	Total	
	Budget	Adjustments	Proposals		Adjustments	Proposals		
	2008	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2011	Fiscal 2011	Fiscal 2011	
Base Aid (General Fund & Guarantee Acct)	\$570,202,837	\$26,582,635	\$1,651,229	\$598,436,701	\$41,947,779	\$3,208,584	\$615,359,200	
General Fund								
Base Aid								
Direct State Aid	\$313,092,203	\$18,737,203	\$4,078,000	\$335,907,406	\$27,599,294	\$4,627,000	\$345,318,497	
GTB - School General Fund	127,482,001	8,399,771	251,229	136,133,001	12,909,977	508,584	140,900,562	
GTB - School Retirement	25,761,036	1,985,049	0	27,746,085	2,967,733	0	28,728,769	
Indian Ed for All	3,063,152	-43,499	0	3,019,653	-62,336	0	3,000,816	
Close Achievement Gap	3,293,800	0	0	3,293,800	0	0	3,293,800	
Quality Educator	38,521,876	0	1,300,000	39,821,876	0	2,600,000	41,121,876	
At Risk Payment (Appropriated Separately)	4,999,891	109	0	5,000,000	109	0	5,000,000	
Resource Sharing	0	0	100,000	100,000	0	100,000	100,000	
School District Audits	185,880	0	0	185,880	0	0	185,880	
Special Education	40,413,567	1,233,764	1,249,420	42,896,751	1,233,764	2,536,322	44,183,653	
Transportation	12,338,475	200,000	0	12,538,475	300,000	0	12,638,475	
School Facility Reimbursement	9,744,392	775,000	0	10,519,392	775,000	0	10,519,392	
Instate Treatment	787,800	187,096	0	974,896	187,096	0	974,896	
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	0	0	648,655	0	0	648,655	
HB 124 Block Grants	50,979,326	777,830	0	51,757,156	1,171,185	0	52,150,511	
State Tuition Payments	477,230	128,908	0	606,138	128,908	0	606,138	
Health Enhancement (OTO)	0	0	150,000	150,000	0	0	0	
Total General Fund	\$633,561,264	\$32,384,251	\$7,128,649	\$673,074,164	\$47,213,750	\$10,371,906	\$691,146,920	
State Special Revenue								
Traffic Safety Distribution	\$750,000	\$0	\$0	\$750,000	\$0	\$0	\$750,000	
Total State Special	\$750,000	\$0	\$0	\$750,000	\$0	\$0	\$750,000	
Federal Special Revenue								
Federal School Foods Programs	\$24,565,933	\$2,075,000	\$0	\$26,640,933	\$2,850,000	\$0	\$27,415,933	
ESEA - Title I - Assistance to Disadvantaged	34,882,098	5,000,000	0	39,882,098	6,500,000	0	41,382,098	
ESEA - Title I - Improvement	1,226,188	1,250,000	0	2,476,188	1,500,000	0	2,726,188	
ESEA - Title I - Migrant Education	731,756	0	0	731,756	0	0	731,756	
ESEA - Title I - Neglected & Delinquent	91,361	0	0	91,361	0	0	91,361	
ESEA - Title I - Part B - Even Start	490,425	0	0	490,425	0	0	490,425	
ESEA Title II - Teacher & Principal Training	12,559,983	0	0	12,559,983	0	0	12,559,983	
ESEA Title II - Math & Science	693,245	0	0	693,245	0	0	693,245	
ESEA Title II - Technology	1,393,979	0	0	1,393,979	0	0	1,393,979	
ESEA Title III - Language Acquisition	318,973	0	0	318,973	0	0	318,973	
ESEA Title IV - 21st Cent Schools	4,328,339	0	0	4,328,339	0	0	4,328,339	
ESEA Title IV - Drug Free Schools	1,105,486	0	0	1,105,486	0	0	1,105,486	
ESEA Title V - Innovative Education	403,828	(403,828)	0	0	(403,828)	0	0	
IDEA - Children w/ Disabilities	33,872,492	750,000	0	34,622,492	1,000,000	0	34,872,492	
IDEA - Preschool	1,220,207	0	0	1,220,207	0	0	1,220,207	
IDEA - SIG	171,174	0	0	171,174	0	0	171,174	
Adult Basic Education	1,156,305	0	0	1,156,305	0	0	1,156,305	
Carl Perkins	2,559,872	0	0	2,559,872	0	0	2,559,872	
Carl Perkins State Leadership	89,000	0	0	89,000	0	0	89,000	
Learn and Serve Montana	102,013	0	0	102,013	0	0	102,013	
Reading First	1,794,564	700,000	0	2,494,564	750,000	0	2,544,564	
Advanced Placement Fee Reimbursement	96,222	0	0	96,222	0	0	96,222	
Character Education	680,908	0	0	680,908	0	0	680,908	
Christa McAuliffe	9,431	0	0	9,431	0	0	9,431	
Comprehensive School Reform	441,244	(441,244)	0	0	(441,244)	0	0	
Education of Homeless Children	164,530	0	0	164,530	0	0	164,530	
Foreign Language Assistance	118,444	0	0	118,444	0	0	118,444	
Local Wellness Program	4,000	0	0	4,000	0	0	4,000	
Migrant Incentive	173,655	0	0	173,655	0	0	173,655	
Rural and Low Income Schools	136,859	0	0	136,859	0	0	136,859	
Homeland Security	17,002	0	0	17,002	0	0	17,002	
Total Federal Special	\$125,599,516	\$8,929,928	\$0	\$134,529,444	\$11,754,928	\$0	\$137,354,444	
Funding								
Total General Fund	\$633,561,264	\$32,384,251	\$7,128,649	\$673,074,164	\$47,213,750	\$10,371,906	\$691,146,920	
Total State Special	750,000	0	0	750,000	0	0	750,000	
Total Federal Special	125,599,516	8,929,928	0	134,529,444	11,754,928	0	137,354,444	
Total Distribution to Public Schools	\$759,910,780	\$41,314,179	\$7,128,649	\$808,353,608	\$58,968,678	\$10,371,906	\$829,251,364	
Statutory Appropriations								
Guarantee Account - Interest & Income	\$53,802,998	(\$2,495,998)	(\$4,078,000)	\$47,229,000	(\$1,466,998)	(\$4,627,000)	\$47,709,000	
Guarantee Account - Timber	895,804	1,826,196	0	2,722,000	-95,804	0	800,000	
Total Statutory	\$54,698,802	-\$669,802	-\$4,078,000	\$49,951,000	-\$1,562,802	-\$4,627,000	\$48,509,000	

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 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	633,561,264	633,561,264	1,267,122,528	92.88%	759,910,780	759,910,780	1,519,821,560	92.81%
Statewide PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
Other PL Adjustments	32,384,251	47,213,750	79,598,001	5.83%	41,314,179	58,968,678	100,282,857	6.12%
New Proposals	7,128,649	10,371,906	17,500,555	1.28%	7,128,649	10,371,906	17,500,555	1.07%
Total Budget	\$673,074,164	\$691,146,920	\$1,364,221,084		\$808,353,608	\$829,251,364	\$1,637,604,972	

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “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 2010-----					-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - K-12 BASE Aid - Present Law	0.00	26,582,635	0	0	26,582,635	0.00	41,947,779	0	0	41,947,779
DP 2 - Special Education-Maintain Fiscal Effort	0.00	1,233,764	0	0	1,233,764	0.00	1,233,764	0	0	1,233,764
DP 4 - Pupil Transportation - PL	0.00	200,000	0	0	200,000	0.00	300,000	0	0	300,000
DP 10 - School Block Grants - HB 124	0.00	777,830	0	0	777,830	0.00	1,171,185	0	0	1,171,185
DP 11 - School Facilities Reimbursement	0.00	775,000	0	0	775,000	0.00	775,000	0	0	775,000
DP 18 - Biennial Appropriations - Program 09	0.00	319,024	0	0	319,024	0.00	319,024	0	0	319,024
DP 20 - Federal Grant Award Adj - Program 09	0.00	0	0	8,929,928	8,929,928	0.00	0	0	11,754,928	11,754,928
DP 100 - Guarantee Account Adjustment	0.00	2,495,998	0	0	2,495,998	0.00	1,466,998	0	0	1,466,998
Total Other Present Law Adjustments	0.00	\$32,384,251	\$0	\$8,929,928	\$41,314,179	0.00	\$47,213,750	\$0	\$11,754,928	\$58,968,678
Grand Total All Present Law Adjustments					\$41,314,179					\$58,968,678

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.

Appropriations for Distribution to Schools - HB 2 - 2009 Session				
Legislative Action for K-12 Distribution to Schools - 2011 Biennium				
By Fund and Decision Package Number				
Program 09				
December 17, 2008				
Present Law Adjustments		Fiscal 2010	Fiscal 2011	Biennium
Decision Package	General Fund			
	Base Aid Changes			
PL01	Inflation Adjustment (3.0% - FY10; 3.0% FY11)	\$26,626,025	\$42,010,006	\$68,636,031
PL100	Adjustment for lower Common School Revenue	2,495,998	1,466,998	3,962,996
PL01	At Risk Payment	109	109	218
PL01	Indian Ed For All - Fewer Students	(43,499)	(62,336)	(105,835)
	Total Base Aid Changes	\$29,078,633	\$43,414,777	\$72,493,410
PL02	Special Education	1,233,764	1,233,764	2,467,528
PL04	Transportation	200,000	300,000	500,000
PL10	County and District HB 124 Block Grants - 0.76 percent per year	777,830	1,171,185	1,949,015
PL11	School Facilities Reimbursement	775,000	775,000	1,550,000
PL18	Other Biennial	319,024	319,024	638,048
	Total General Fund	\$32,384,251	\$47,213,750	\$79,598,001
PL32	Federal Increases	\$8,929,928	\$11,754,928	\$20,684,856
	Total Federal	\$8,929,928	\$11,754,928	\$20,684,856
	Total Present Law Adjustments	\$41,314,179	\$58,968,678	\$100,282,857
New Proposals		Fiscal 2008	Fiscal 2009	Biennium
Decision Package	General Fund			
	Base Aid Changes			
NP05	Base Aid Increase due to Increase in Special Ed	\$251,229	\$508,584	\$759,813
NP28	Increase Quality Educator Payment from \$3,042 to \$3,142 & \$3,242	1,300,000	2,600,000	3,900,000
NP99	Quality Schools Resource Sharing	100,000	100,000	200,000
NP101	Quality School Facility Program - Divert Streambed Money	4,078,000	4,627,000	8,705,000
	Total Base Aid Changes	5,729,229	7,835,584	13,564,813
NP05	Increase Special Ed by 3 percent per Year	1,249,420	2,536,322	3,785,742
NP03	School Foods Equipment/Facility Mini Grants - OTO	150,000	0	150,000
	Total Other Changes in Distribution to Schools	1,399,420	2,536,322	3,935,742
	Total General Fund - New Proposals	\$7,128,649	\$10,371,906	\$17,500,555
	Net Change General Fund Over FY08 Base (Present Law + New Proposals)	\$39,512,900	\$57,585,656	\$97,098,556
	Net Change All Funds Over FY08 Base	\$48,442,828	\$69,340,584	\$117,783,412
	State Spending in the 2008 general fund base budget			\$633,561,264
	BASE Aid paid for out of the Guarantee Fund (Interest and Income on State Lands)			\$53,802,998
	Total State Spending on K-12 - FY2008			\$687,364,262

DP 1 - K-12 BASE Aid - Present Law - This request is for \$68.53 million for the present law adjustment of K-12 BASE Aid in the 2011 biennium. Of this total, \$16.5 million is to bring the FY 2008 expenditure base up to the FY 2009 funding rates. The remaining \$52.03 million is to increase the basic and per-ANB entitlements by 3 percent each year in accordance with 20-9-326, MCA, which requires annual inflation-related adjustments to the basic and per-ANB entitlements.

LFD ISSUE Actual Inflation Higher Than Included in Executive Budget

Section 20-9-326, MCA, requires that the executive propose that the per-ANB entitlements and the basic entitlements be adjusted upward by the smaller of 3 percent or the actual 3 year average change in the Consumer Price Index (CPI-U), lagged three years. For instance, the CPI-U calculation for FY 2010 is the average change in the CPI-U between 2004 and 2007, and for 2011 between 2005 and 2008. The actual change in the CPI-U for FY 2010 and FY 2011 is 3.22 percent and 4.03 percent respectively, and therefore following 20-9-326 requires that the executive propose an increase in the entitlements of not more than 3 percent.

If the actual inflation values had been proposed, the increase in direct state aid and guaranteed tax base aid to school districts would have been an additional \$1.2 million in FY 2010 and \$6.9 million in FY 2011. The legislature is not bound by 20-9-326.

LFD COMMENT The estimates of present law BASE aid are based on predictions of Average Number Belonging (ANB) in FY 2010 and FY 2011. ANB is a measure of enrollments in public schools. The executive assumed that statewide ANB in FY 2010 would drop by 0.6 percent and in FY 2011 by 0.17 percent. These are preliminary estimates. The actual ANB for 2010 will be available in March 2009 and at that time adjustments to the present BASE aid for both years of the 2011 biennium will be made. The historical and estimated future ANB are shown in the following table.

Fiscal Year		K-6	Percent Change	7-8	Percent Change	9-12	Percent Change	Total	Percent Change
Current Year ANB									
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%
E	2010	77,696	0.8%	22,429	-0.8%	46,145	-2.9%	146,270	-0.6%
E	2011	78,759	1.4%	22,292	-0.6%	44,964	-2.6%	146,015	-0.2%
Budgeted ANB									
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%
E	2010	77,903	0.2%	22,688	-2.8%	47,422	-2.5%	148,013	-1.2%
E	2011	78,495	0.8%	22,344	-1.5%	46,244	-2.5%	147,083	-0.6%

Beginning in fiscal 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 Proposed	FY2011 Proposed
Bill Authorizing Entitlement Change	SB424	SB424	HB63	HB63	SB1 (SS)	SB1 (SS)	Executive	Executive
Basic (Per District) Entitlements								
Elementary	\$19,456	\$19,859	\$20,275	\$20,718	\$21,290	\$21,922	22,580	23,257
Percent Change	1.1%	2.1%	2.1%	2.2%	2.8%	3.0%	3.0%	3.0%
High School	\$216,171	\$220,646	\$225,273	\$230,199	\$236,552	\$243,649	250,958	258,487
Percent Change	1.1%	2.1%	2.1%	2.2%	2.8%	3.0%	3.0%	3.0%
Middle School	ed Average of Elementary and High School Basic Entitl				60,275	62,083	63,945	65,863
Percent Change					NA	3.0%	3.0%	3.0%
Per ANB Entitlements								
Elementary	\$3,949	\$4,031	\$4,366	\$4,456	\$4,579	\$4,716	4,857	5,003
Percent Change	1.1%	2.1%	8.3%	2.1%	2.8%	3.0%	3.0%	3.0%
High School	\$5,262	\$5,371	\$5,584	\$5,704	\$5,861	\$6,037	6,218	6,405
Percent Change	1.1%	2.1%	4.0%	2.1%	2.8%	3.0%	3.0%	3.0%
Per ANB Decrements								
Elementary	\$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
Per ANB Decrement Stop Loss								
Elementary	1000	1000	1000	1000	1000	1000	1000	1000
High School	800	800	800	800	800	800	800	800
Quality Educator Payment				\$2,000	\$3,036	\$3,042	\$3,142	\$3,242
At Risk Payment				\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000
Indian Ed For All Payment				\$200	\$200	\$200	\$200	\$200
Indian Achievement Gap Payment				\$20	\$20	\$20	\$20	\$20
GTB Guarantee Ratio	175%	175%	175%	175%	193%	193%	193%	193%
Base Budget Components								
Direct State Aid	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%
Special Ed (Millions)	\$34.9	\$36.4	\$38.5	\$39.3	\$40.4	\$41.6	\$ 42.9	\$ 44.2

Bill and session year: SB424, 2003; HB 63, 2005; HB1, 2005 SS; SB1 2007SS

LFD COMMENT

Raising the basic and per-ANB entitlements increases the GTB area of the district general fund budget. This area is funded by a combination of GTB aid from the state for those districts eligible, mandatory local property taxes and nonlevy revenue. Raising the entitlements will raise state GTB aid as well as raising mandatory district property taxes. At the increases proposed by the executive, local mandatory property taxes will increase by approximately \$4.3 million in FY 2010 and by \$8.7 million in FY 2011.

**LFD
ISSUE**

Reappraisal Not Factored Into Estimates of State Aid to Schools

In FY 2010, property in class 3 (agricultural land), class 4 (residential and commercial real estate), and class 10 (timberland) will carry new property values due to reappraisal which will be phased in over 6 years, unless mitigated by the legislature. Reappraisal unmitigated will affect the level of guaranteed tax base aid in the district general fund paid by the state to districts. On November 17, the Department of Revenue reported to the Revenue and Transportation Interim Committee that preliminary estimates are that agricultural land, timberland, residential real estate, and commercial real estate will increase between 40 and 50 %, all phased in under current law at 1/6 per year for 6 years. If these preliminary increases are subsequently confirmed, the state will save approximately \$4.5 million in GTB costs during the 2011 biennium due to reappraisal, if left unmitigated. Of course, district property taxes funding the district general fund will increase by a like amount. Reappraisal mitigation legislation will offset these state savings and transfer them to local district taxpayers.

Options

- Adjust BASE aid for the impact of reappraisal
- Adopt the executive's proposal

**LFD
ISSUE**

Inflation not applied to achievement gap payment, the Indian education for all payment, and the at risk payment

Section 20-9-326, MCA, applies the smaller of inflation or 3 percent only to the per-ANB entitlements and the basic entitlements, not to the other components of BASE aid. These other components are: 1) the quality educator payment; 2) the achievement gap payment; 3) the Indian education for all payment; and 4) the at risk payment. The executive has proposed an increase in the quality educator payment of \$100 per year in DP28 below. This represents an increase of 3.3 percent in FY 2010 and 3.2 percent in FY 2011. If the other 3 components had been increased by 3 percent this would have added \$1.0 million to BASE aid to school districts over the 2011 biennium.

Options

- Use actual inflation or 3 percent to increase the achievement gap payment, the Indian education for all payment and the at risk payment
- Adopt the executive's recommendation

DP 2 - Special Education-Maintain Fiscal Effort - Federal special education law requires each state that receives Individuals with Disabilities Education Act Part B funds to maintain their fiscal effort from year to year. The Office of Public Instruction requests \$1,233,764 for each year of the 2011 biennium to maintain fiscal effort.

DP 4 - Pupil Transportation - PL - The present law adjustment requested for pupil transportation for the formula-driven state appropriation increases by \$200,000 in FY 2010 and \$300,000 in FY 2011 over base year FY 2008 due to higher mileages traveled. This amount is matched by county property taxes.

**LFD
COMMENT**

School districts spent \$61.1 million in FY 2007 on transportation. Of this amount approximately \$12.5 million came from the state and \$12.5 million came from the county transportation fund, with the rest coming from district taxpayers. The state's share is in statute and is a schedule of rates per mile depending on bus size. These rates per mile times the number of miles driven during the school year for school to home transportation determine how much the state owes to school districts. These rates were last changed in FY 2004.

DP 10 - School Block Grants - HB 124 - State law (20-9-630 and 632, MCA) provides for an annual 0.76 percent increase in the county transportation and school district block grants. The FY 2008 base is \$50,979,326. This is a request for a biennial appropriation increase of \$777,830 in FY 2010 and \$1,171,185 in FY 2011.

**LFD
COMMENT**

These monies were first distributed to districts in FY 2002 as directed by HB 124 in the 2001 session. They are distributed based on two factors: 1) as replacement money for the vehicle tax revenue that HB 124 took away from school districts and deposited in the state general fund; and 2) as replacement money for property tax reimbursements that were instituted in the bills that cut property taxes in the 1999 session. Approximately one-half of the total block grants are due to property tax cut reimbursements. The property tax reimbursements are disqualifying because they are distributed according to where the property was located at the time of the tax cuts, not where students are located today.

DP 11 - School Facilities Reimbursement - Montana promotes safe school facilities and a measure of taxpayer fairness by providing school facilities reimbursement payments to low-wealth school districts with general obligation bonds. State payments are calculated using statutory formulas. Each year new districts may become eligible for these payments. HB 2 appropriated \$21,018,074 (biennial) for the 2009 biennium. This request for an additional \$775,000 per year is a biennial appropriation.

**LFD
ISSUE**

Amount Requested May Be Short If Billings Passes a Bond Election in the 2011 Biennium

State law requires the state to participate in the funding of debt service on school bonds that have been passed by the voters in eligible districts. The state school facilities reimbursement distributes state aid to districts based on the level of this entitlement and based on the wealth of the district as measured by taxable value per Average Number Belonging (ANB). ANB is a measure of the enrollment in a district.

The entitlement for debt service for an elementary is \$300 per ANB, for middle schools \$370 per ANB, and for high schools \$450 per ANB. Once this entitlement is calculated, state aid is determined by a guaranteed tax base aid formula in which a district is eligible for GTB aid if its taxable value per ANB is below 140 percent of the statewide average taxable value per ANB.

The amount of the reimbursement statewide relative to the total statewide amount of debt service determines whether the reimbursement is sufficient for the eligible districts. In some years, the state facilities reimbursement has not been sufficient to pay reimbursement for 100 percent of all eligible bond issues. In those years the state reimbursement to all districts was prorated.

It is possible that a major district, Billings, will request that its voters pass a building bond levy in the coming year. If it passes, the executive's request for an increase in the state facilities reimbursement will be approximately \$900,000 short per year, which will cause proration to occur.

Options

- Increase appropriation request by \$900,000 per year, or
- Approve appropriation request of executive.

DP 18 - Biennial Appropriations - Program 09 - This present law adjustment establishes biennial appropriations in each year at half of the amount appropriated for the 2009 biennium. The biennial appropriations include: 1) Instate treatment base adjusted \$187,096 per year to \$974,896 per year; 2) adult basic education base adjusted \$2 per year to \$525,000 per year; 3) gifted and talented base adjusted \$3,018 per year to \$500,000 per year; and 4) state tuition base adjusted \$128,908 per year to \$606,138 per year.

DP 20 - Federal Grant Award Adj - Program 09 - This biennial appropriation is to adjust federal spending authority in OPI Program 09 - Local Education Activities for anticipated increases and decreases in federal funding. These funds are distributed by OPI to school districts and other local education agencies. The adjustment is \$8,929,928 in FY 2010 and \$11,547,928 in FY 2011.

Federal Grant Awards Present Law Adjustments			
Programs	Base 2008	Increase / Decrease	
		Fiscal 2010	Fiscal 2011
Breakfast	\$4,976,970	\$500,000	\$750,000
Lunch/Snacks	18,825,069	1,500,000	2,000,000
Summer Foods	763,893	75,000	100,000
Title I, Part A Low Income	1,226,188	1,250,000	1,500,000
ESEA - Title I - Improvement	34,882,098	5,000,000	6,500,000
Reading First	1,794,564	700,000	750,000
IDEA - Children w/ Disabilities	33,872,492	750,000	1,000,000
ESEA Title V -Innovative Education	403,828	(403,828)	(403,828)
Comprehensive School Reform	441,244	(441,244)	(441,244)
Total	<u>\$97,186,347</u>	<u>\$8,929,928</u>	<u>\$11,754,928</u>

DP 100 - Guarantee Account Adjustment - This request reflects an adjustment to the FY 2008 base in the guarantee account and increases general fund expenditure in the amount of \$2.5 million in FY 2010 and \$1.5 million in FY 2011. The guarantee account is a state special revenue account statutorily appropriated primarily for distribution to school districts through school equalization aid.

**LFD
ISSUE**

Guarantee Account Revenues Estimated by Executive Do Not Reflect Revenue Estimates Adopted By Revenue and Transportation Interim Committee on November 18, 2008

On November 18, 2008, the Revenue and Transportation Interim Committee met and determined the revenue estimates for the 2011 biennium. Included in these estimates was revenue in the guarantee account available for Base aid. The revenue estimates in the guarantee account available for Base aid that were accepted by the RTIC were higher than those estimated by the Office of Budget and Program Planning. If the RTIC estimates are used, general fund expenditures in FY 2010 will need to increase by only \$136,377, not increase by \$2.5 million as proposed by the executive. For 2011, the RTIC estimates mean that required general fund expenditures will actually decrease relative to FY 2008 by \$1,162,146, not increase by \$1.5 million as proposed by the executive. This would result in general fund savings relative to the executive estimate of \$5 million over the 2011 biennium. If the executive's proposed budget was balanced, then these general fund savings could be used in another part of the budget.

Options

- o Use guarantee account revenue estimates adopted by RTIC
- o Use the executive's guarantee account revenue estimates

New Proposals

Program	-----Fiscal 2010-----					-----Fiscal 2011-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 3 - School Foods Equip/Facility Mini Grants-Bien/OTO										
09	0.00	150,000	0	0	150,000	0.00	0	0	0	0
DP 5 - Special Education Inflation										
09	0.00	1,500,649	0	0	1,500,649	0.00	3,044,906	0	0	3,044,906
DP 28 - Quality Educator Payment										
09	0.00	1,300,000	0	0	1,300,000	0.00	2,600,000	0	0	2,600,000
DP 99 - Quality Schools Resource Sharing										
09	0.00	100,000	0	0	100,000	0.00	100,000	0	0	100,000
DP 101 - Quality School Facility Program (Requires Legislation)										
09	0.00	4,078,000	0	0	4,078,000	0.00	4,627,000	0	0	4,627,000
Total	0.00	\$7,128,649	\$0	\$0	\$7,128,649	0.00	\$10,371,906	\$0	\$0	\$10,371,906

DP 3 - School Foods Equip/Facility Mini Grants-Bien/OTO - One-time-only funds are requested to make competitive grants available for schools to provide more or improved breakfast or lunch programs. The total request is for \$150,000 for at least 30 schools to be granted up to \$5,000 each to improve facilities and/or update equipment. This request is a biennial appropriation.

DP 5 - Special Education Inflation - The budget includes an inflationary increase in the state appropriation for special education of \$4.5 million for the 2011 biennium based on the same inflationary adjustment included for basic and per ANB entitlements section 20-9-326, MCA. The inflator for each year of the biennium is 3 percent. This proposal would increase the state special education appropriation to \$42.9 million in FY 2010 and \$44.2 million in FY 2011. The estimates of increased GTB costs associated with the state special education appropriation are \$251,229 in FY 2010 and \$508,584 in FY 2011.

LFD COMMENT	The special education payment is not subject to 20-9-326, MCA, although this decision package applies the same 3 percent increase to the special education payment. Applying the same percentage increase to special education as is applied to the entitlements has been done in each of the last 3 biennia.
There is a GTB aid impact because the law allows the school districts to increase the GTB area of the district general fund by 40 percent of the special education payment. The funding for this 40 percent is more GTB aid by the state and higher district property taxes paid by the district taxpayers. The tax payer impact statewide will be approximately the same as the GTB aid impact.	

DP 28 - Quality Educator Payment - This request reflects an increase in the quality educator payment of \$100 per year at a cost of \$1.3 million in FY 2010 and \$2.6 million in FY 2011. The quality educator payment distributes funding to schools for licensed professionals per 20-9-327, MCA. This request increases the quality educator payment to \$3,142 per qualified FTE in FY 2010 and \$3,242 per qualified FTE in FY 2011.

LFD COMMENT	The FY 2009 value of the quality educator payment is \$3,042 per quality educator which is defined as all certified staff (teachers, administrators, nurses, counselors, social workers, etc) working in a school district. An increase of \$100 per educator in each year of the biennium represents a 3.3 percent increase in FY 2010 and a 3.2 percent increase in FY 2011.
--------------------	--

DP 99 - Quality Schools Resource Sharing - This request would appropriate \$100,000 each year of the 2011 biennium for OPI to establish Quality Schools Resource Sharing structure and provide grants for increased efficiencies of cooperative decision making. The goal is to multiply resources, provide more and enhanced education experiences for students, and also help reduce the pressure on local property taxes. Special Education Cooperatives are already using this

model in varying ways to include a wide range of services including teacher and administrator sharing and cooperative purchases. Montana's 427 school districts, comprising about 830 schools, could use this model to leverage school resources to reduce operating costs, while maintaining the ability for local decision making.

DP 101 - Quality School Facility Program (Requires Legislation) - This program would help schools in Montana address facility deficiencies and improve technology access. The School Facility Study was completed with appropriations from HB 1, 2005 Special Session. This new program would be managed by the Department of Commerce and operate similarly to the current Treasure State Endowment Program. Ongoing funding streams for this purpose would be the navigable waters funds and funds from timber revenues for the amount exceeding 18 million board feet. This request transfers \$14.3 million in the 2011 biennium for school facilities and technology in the future.

**LFD
ISSUE**

Executive Proposes Saving On-going "Streambed Rents" for School Facilities Rather Than Using for Ongoing K-12 Base Aid

During the 2007 session, royalties from mineral development on state lands were diverted to a new K-12 facility improvement account. The amount of royalties diverted is expected to be \$52.4 million by the end of FY 2010. After the royalties from state lands exceeds this amount the royalties will flow into the common school trust and the facility improvement account will no longer receive any inflow.

The executive proposes to change this by depositing into the facility improvement account the revenue from "streambed rents" and revenue from timber harvests on state lands in excess of 18 million board feet. Streambed rents are revenue from an agreement reached between the state and Avista Corp over rent owed the state for the use of the streambeds on the Clark Fork River Project. In the agreement Avista agreed to pay the state \$4 million in FY 2008 and to enhance this amount by the Consumer Price Index every year until 2016, when the payments will be reviewed. The Pennsylvania Power and Light Company has not agreed to these rents for the streambeds behind its dams and is seeking relief in the Supreme Court. If the Supreme Court rules against PPL, the resulting annual inflow may be between \$6 and \$8 million. In addition there may be back rent owed by PPL.

The revenue from timber harvests on state lands in excess of 18 million board feet has traditionally been used to purchase technology for school districts. It has varied between almost nothing to around \$2 million per year. The timber money is currently distributed as the district general fund BASE budget is distributed. The executive's proposal would distribute these monies to the facility improvement account.

The executive estimates that the streambed money will amount to \$4.078 million in FY 2010 and \$4.627 million in FY 2011. However, the RTIC adopted streambed rent estimates of \$4.151 million in FY 2010 and \$4.358 million in FY 2011. Also, the executive expects timber revenues to total \$5.57 million in the 2011 biennium, nearly identical to the amount adopted by the RTIC.

At this time there are no means of distributing the money in the facility improvement account to school districts. Presumably the executive will bring forward a bill that does this. At the November Legislative Finance Committee meeting, the LFC voted to recommend that the Long Range Building Committee be the entity that determines how the money in facility improvement account is spent.

Options

- o Adopt the executive's proposal regarding the streambed money and timber money to be deposited in the facility improvement account, realizing that such action will require other legislation.
- o Don't adopt this recommendation by the executive.