

**STATUS OF STATE AND FEDERAL AMERICAN
RECOVERY AND REINVESTMENT ACT (ARRA)
MONIES TO K-12 IN THE 2011 BIENNIUM AND
IMPLICATIONS FOR THE 2013 BIENNIUM**

A Report Prepared for the
**EDUCATION AND LOCAL GOVERNMENT
COMMITTEE**

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The purpose of this report is to review the appropriations to K-12 for the 2011 biennium made by the legislature in the 2009 session, and the progress OPI and the Department of Commerce have made in spending these appropriations. In addition this report will report on the implications of the cessation of stabilization monies from the American Recovery and Reinvestment Act (ARRA) on the state budget for K-12 in the 2013 biennium.

ACTIONS OF THE 61ST LEGISLATURE WITH RESPECT TO K-12 IN THE 2011 BIENNIUM

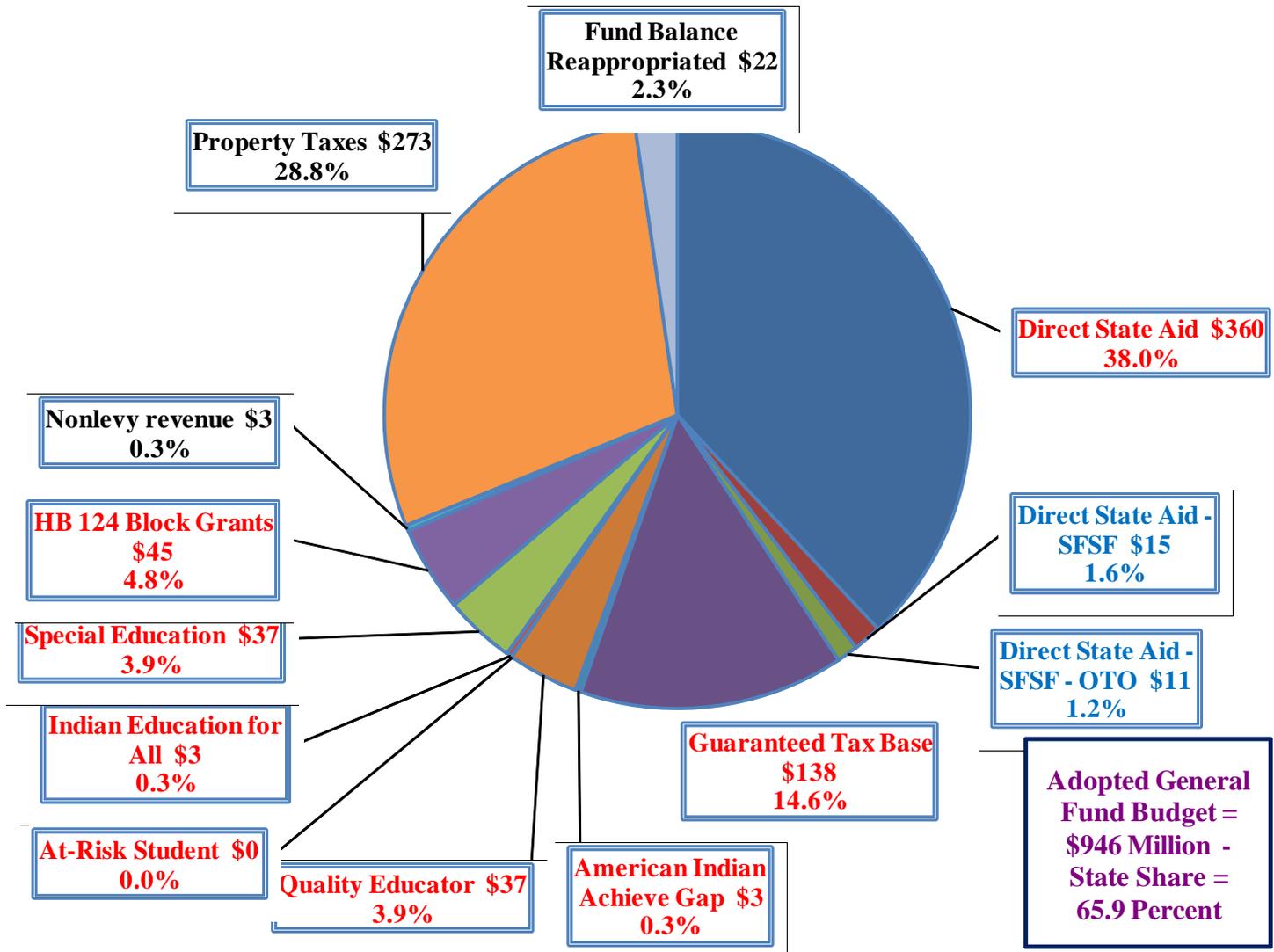
In the 2009 session, the legislature did the following things in appropriating a budget for K-12:

- Increased on an ongoing basis the basic and per-ANB entitlements by 1 percent in the FY 2010 and by an additional 3 percent in FY 2011
- Increased the entitlements an additional 2 percent in the first year on a one-time-only basis; the 2 percent that is OTO affects both years
- Used federal ARRA stabilization monies (approximately \$11 million each year) to pay for the 2 percent OTO increase in the entitlements in FY 2010 which also carried over into FY 2011
- Used an additional \$14.6 million in FY 2010 and \$25.8 million in FY 2011 in federal ARRA stabilization funds and freed up state general fund in a like amount
- Reduced the \$5.0 million per year At-Risk component of the K-12 funding formula to \$1 per year
- Appropriated out of the general fund the maintenance of effort increase in special education funding (\$1.2 million per year), but because it was appropriated in HB 645 and not HB 2, it is considered OTO.
- Transferred freed up general fund to the school facility and technology account in the amount \$32.8 million to fund 1) quick start energy grants and 2) energy upgrades that were distributed as the quality educator payments are distributed
- Passed HB 152 which 1) appropriated \$12 million for infrastructure planning and grants and 2) capped the timber for technology distributions to \$1 million per year starting in FY 2010, and 3) required deposit of streambed monies in the school facility and technology account beginning in FY 2012.
- Appropriated \$84.6 million in federal ARRA stimulus funds, largely for IDEA and Title 1, for pass-through to K-12

IMPACT ON SCHOOL DISTRICTS' GENERAL FUND IN FY 2010

The chart on the following page shows the revenue flows into the general funds of all the districts in the state in FY 2010. The monies supplied by the state are labeled in red, federal ARRA funds are labeled in blue and local revenues are labeled in black. The state share is 65.7 percent of the \$946 million budgeted in the district general fund while the federal ARRA share is 2.7 percent and the local share is 31.4 percent.

District General Fund Revenues - FY 2010 - Millions



IMPLICATIONS OF K-12 FUNDING IN THE 2011 BIENNIUM FOR THE 2013 BIENNIUM

During the 2011 biennium, school districts will be receiving monies from federal, state and local sources that are consistent with a 3 percent and 3 percent increase in entitlements from 2009 levels, with adjustments for a reduced amount in at-risk monies. A portion of the increase in entitlements, however, is one-time-only, since going forward into the 2013 biennium, districts will have as a base in FY 2011 a permanent increase in entitlements of only 1 percent and 3 percent.

The chart on the following page shows options for K-12 the legislature may need to address for the 2013 biennium, considering the possibility of severe revenue restrictions.

The chart shows total spending of state and federal ARRA stabilization monies, as passed through OPI to K-12, from the guarantee account, the state general fund, and a few state special accounts, and the federal education stabilization fund. The data are actual spending by the state on K-12 for FY 2009, estimated spending for FY 2010 and appropriated for FY 2011. The amounts for the 2013 biennium are potential appropriations that may be faced by the 62nd legislature.

It is presumed that federal ARRA stabilization monies will not be available for K-12 in the 2013 biennium. The chart shows in blue the level of state funding required to fund K-12 during the 2013 biennium at FY 2011 levels, i.e. the entitlements are not changed from their 2011 amounts. This amount is approximately the same as the amount spent in FY 2011 deducting the \$11 million in OTO federal ARRA stabilization monies. There is a slight decrease in FY 2012 as ANB continues to decline statewide and then an increase in ANB in FY 2013. Funding at these amounts in the 2013 biennium will require a reduction in services compared to the services provided in FY 2011, or will require more efficient provision of these services, or will require that school districts make up the difference in property taxes.

In the 2013 biennium, the legislature may be faced with choices to increase the amount appropriated from the state general fund and guarantee account for K-12 when the federal ARRA stabilization monies are no longer available. These are shown in the colored boxes on top of the blue box for FY 2012 and FY 2013. These include:

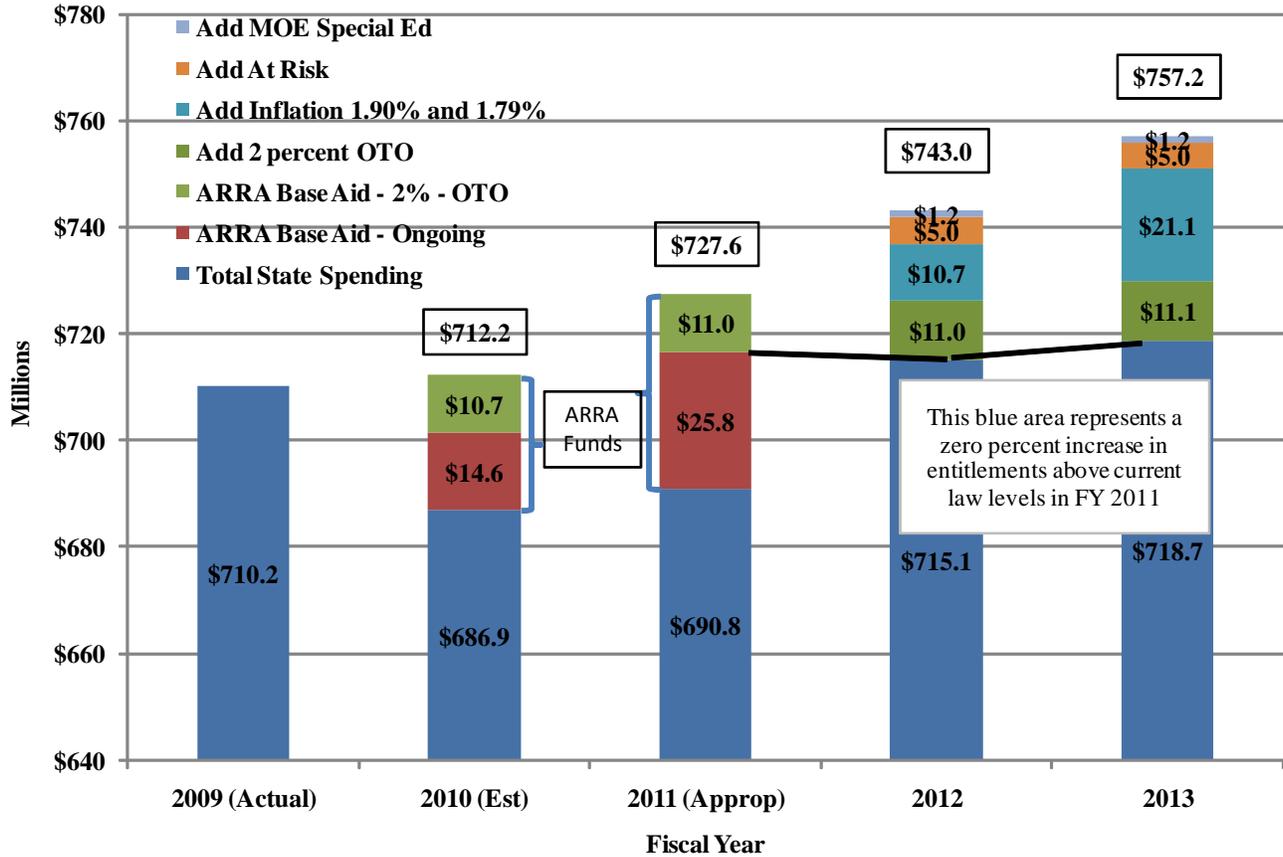
- A new proposal to make permanent the 2 percent increase in entitlements that was OTO in the 2011 biennium
- A present law proposal to increase the entitlements by inflation; The superintendent must propose these increases, but the legislature may or may not accept them; Inflation is expected to be 1.9 percent in FY 2012 and 1.79 percent in FY 2013
- A new proposal to restore the at-risk payment to \$5 million per year
- A new proposal to restore on a permanent basis the maintenance of effort increase to special education funding that the 61st legislature designated as OTO

Other proposals not shown may be to inflate other components of the school funding formula.

Also the legislature, because of the revenue situation may be faced with a very hard choice with respect to K-12. The legislature could choose to reduce K-12 the same amount as the average reduction in all agencies. A ten percent cut in all state spending for K-12 would result in a reduction in state spending of around \$74 to \$75 million per year. A reduction of ten percent in entitlements only would result in a reduction of state spending of around \$56 to \$57 million per year.

Reductions of this kind may well result in another K-12 adequacy lawsuit. The judge in the prior lawsuit was satisfied that the state had defined a quality education and had funded it. Reducing the resources available to K-12 without changing the definition of a quality education would most likely be suspect and invite another lawsuit. A lawsuit may result even if the legislature changed the definition of a quality education and correspondingly reduced funding for K-12.

State and Federal ARRA Spending on K-12 - FY 2009 - FY 2013 - Millions



This blue area represents a zero percent increase in entitlements above current law levels in FY 2011

This chart shows state and federal ARRA spending for FY 2010 and FY 2011, and potential state spending in FY 2012 and 2013.

State Funds include those passed through OPI and include distributions to schools from the guarantee account, the general fund, state special and the federal education stabilization fund. Does not include the infrastructure and energy upgrade money passed through the Department of Commerce.

The legislature appropriated a 1 percent increase in the basic and Per ANB entitlement in FY 2010 and an additional 3 percent in FY 2011 in HB 2. In addition, in HB 645 the legislature increased the FY 2010 appropriation an additional 2 percent OTO funded by federal ARRA money. In addition, federal ARRA money funded \$14.6 million in Base aid in FY 2010 and \$25.8 million in FY 2011. Also the \$5.0 million per year at-risk payment was cut to \$1 per year.

For FY 2012 and FY 2013, the dark blue area shows state spending on K-12 if the entitlements are fixed at 2011 levels. And then adds on various elements that enhance the state's contribution to K-12. If, after these elements are added, and a ten percent cut is made to the entitlements, the state's contribution would be cut by around \$57 million per year.

STATUS OF STATE QUICK START ENERGY GRANTS, ENERGY UPGRADE DISTRIBUTIONS, AND HB 152 INFRASTRUCTURE GRANTS

The legislature created three new programs to address school districts' energy efficiency needs and infrastructure needs. In the area of energy efficiency, the legislature used state general fund that would otherwise have been used to pay for base aid, and freed up by the ARRA stabilization monies, to create a quick start energy grant program (\$15.9 million) and an energy upgrades program distributed to all districts as the quality educator payment is distributed (\$20.1 million). These are administered by the department of commerce. As shown below a portion of these monies has been distributed. School districts have until September 30, 2010 to spend these monies.

A third program was created in HB 152 to provide for infrastructure grants. Of the \$12 million appropriated for this program, \$900,000 was devoted to distribution to school districts in this biennium for planning activities, i.e. developing inventories of needed infrastructure projects. Another \$100,000 was appropriated for school districts that may have emergency infrastructure needs. Of the remaining amount appropriated in HB 152, \$853,000 is for department of commerce administration and \$10.1 million for actual grants. The governor and DOC are to submit to the next legislature a list of recommendations as to projects and the form and amount of financial assistance for each project. The next legislature will award grants and authorize expenditures for these grants.

The source of money for the HB 152 infrastructure grants comes from the school facility and technology fund (SFT fund). The SFT receives revenues from 1) income attributable to the difference between the average sale value of 18 million board feet and the total income produced from the annual timber harvest on common school trust lands; 2) the mineral royalties transferred from the guarantee account as provided in 20-9-622; and 3) beginning January 1, 2012, 95 percent of the rental income received from power site leases as provided in 77-4-208.

The following table shows the amount authorized and the amount expended of the three spending programs that are distributed to school districts through the department of commerce. These programs are: 1) quick start energy grants, 2) energy upgrade distributions, distributed to all districts as the quality educator payment is distributed, and 3) HB152 infrastructure grants.

Department of Commerce - Distribution to Schools - School Facility and Technology Account			
	Method of Distribution	Approved	Expended
Quick Start Energy Grants			
Quick Start Admin	Grant	\$34,251	\$34,000
Quick Start Grants		15,897,068	14,534,297
Total Quick Start		<u>15,931,319</u>	<u>14,568,297</u>
Energy Upgrades			
	Quality Educators	\$20,115,596	\$18,199,256
HB 152 Infrastructure grants			
Administration	Grant	853,032	363,617
Planning for upgrades		900,000	301,124
Emergency Upgrades		100,000	11,485
Energy upgrade grants		<u>10,192,262</u>	<u>0</u>
Total HB 152 Infrastructure Grants		<u>\$12,045,294</u>	<u>\$676,226</u>

STATUS OF HB 645 FEDERAL ARRA STIMULUS DISTRIBUTIONS

The federal American Recovery and Reinvestment Act (ARRA) distributed two types of money to states for K-12 education: stimulus funds and stabilization funds. The state of Montana used the stabilization funds to enhance and supplement the normal state general fund distributions to school districts for Base Aid. The stimulus funds are being distributed to school districts' miscellaneous funds and have the following characteristics. The "use by" date is the date by which the funds must be obligated for use by the school districts.

Title 1-A Improvement – OPI's administrative funds for ARRA Title IA Improvement, not distributed to school districts (although OPI is seeking federal waiver to use this for districts). OPI is requesting a waiver to use funds through 9/30/2013

Title II Education Technology — OPI's administrative funds for ARRA Title IID, not distributed to school districts. Use by 9/30/2011.

Title 1-A FY 2009 – N/A, not funded.

McKinney-Vento Homeless Asst FY 2010-11 – N/A, not funded.

Montana Learning Center (Rst) – Based on requisitions submitted by the Center. Not distributed to school districts. Appropriated for FY10.

School Lunch Equipment – Competitive application, \$5000 per awardee. All funds have been spent in FY10.

Title 1 - FY 2009 -- amounts were calculated using the standard statutory formula that utilizes the Census poverty data which was statistically updated for 2007 by the U.S. Census Bureau. Use funds by 9/30/2011.

IDEA - Special Education – Same allocation method as used for regular IDEA Part B funding. Use funds by 6/30/2011.

Education Technology – Competitive application process. Use funds by 9/30/2011.

Title 1-A Improvement – To be used for the lowest 5% of persistently lowest achieving schools based on reading and math. OPI is requesting a waiver that will allow use of funds through 9/30/2013.

IDEA Part B (Section 619 Preschool) – Same allocation method as used for regular IDEA Preschool funding. Use funds by 6/30/2011.

McKinney-Vento Homeless Asst FY 2010-11 – Competitive application. Use funds by 9/30/2011.

The following table shows the amount of federal ARRA stimulus funds authorized by the 61st legislature and the amount expended as of June 5, 2010.

HB 645 ARRA Appropriations and Expenditures as of June 5, 2010

Program	HB 645 Appropriation				YTD Expenditure			
	GF	SSR	FED	Total	GF	SSR	FED	Total
Title 1-A Improvement	\$0	\$0	\$468,150	\$468,150	\$0	\$0	\$0	\$0
Title II Education Technology	0	0	160,469	160,469	0	0	54,382	54,382
Title 1-A FY 2009	0	0	415,800	415,800	0	0	0	0
McKinney-Vento Homeless Asst FY 2010-11	0	0	22,400	22,400	0	0	0	0
Montana Learning Center (Rst)	50,000	0	0	50,000	42,350	0	0	42,350
School Lunch Equipment	0	0	247,461	247,461	0	0	224,981	224,981
Title 1 - FY 2009	0	0	34,234,200	34,234,200	0	0	11,253,264	11,253,264
IDEA - Special Education	0	0	36,708,056	36,708,056	0	0	13,659,372	13,659,372
Education Technology	0	0	3,048,906	3,048,906	0	0	338,950	338,950
Title 1-A Improvement	0	0	8,894,850	8,894,850	0	0	0	0
IDEA Part B (Section 619 Preschool)	0	0	1,260,947	1,260,947	0	0	483,561	483,561
McKinney-Vento Homeless Asst FY 2010-11	0	0	201,600	201,600	0	0	79,740	79,740
Special Education MOE	2,467,528	0	0	2,467,528	1,233,764	0	0	1,233,764
Stabilization Funding for K-12 Education	0	0	40,393,176	40,393,176	0	0	13,720,598	13,720,598
Increase State Support with Ed. Stabilization Funds	0	0	21,710,627	21,710,627	0	0	10,717,552	10,717,552
Subtotal - Office of Public Instruction	<u>\$2,517,528</u>	<u>\$0</u>	<u>\$147,766,642</u>	<u>\$150,284,170</u>	<u>\$1,276,114</u>	<u>\$0</u>	<u>\$50,532,400</u>	<u>\$51,808,514</u>