Fiscal Note 2015 Biennium

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Bill #	SB0175	**Title:**	Generally revise public education funding
Primary Sponsor:	Jones, Llew	**Status:**	Second Reading, Second House

- ☑ Significant Local Gov Impact
- ☐ Included in the Executive Budget
- ☑ Needs to be included in HB 2
- ☑ Significant Long-Term Impacts
- ☑ Technical Concerns
- ☑ Dedicated Revenue Form Attached

FISCAL SUMMARY

Expenditures:	**FY 2013 Difference**	**FY 2014 Difference**	**FY 2015 Difference**	**FY 2016 Difference**	**FY 2017 Difference**
General Fund	$22,950,178	$1,604,221	$2,991,474	$22,969,660	$14,806,007
State Special Revenue-Guarantee Acct-SA	$0	$3,280,405	$4,072,246	($6,687,517)	$7,132,237
State Special Revenue-State O&G Impact	$0	$0	$0	$0	$0
State Special Revenue-County O&G Impact	$0	$0	$0	$0	$0
SSR-State O&G Distribution Acct	$0	$11,464,527	$10,859,551	$16,204,593	$16,428,077
SSR MT Support for Schools Transfer	$0	$1,475,089	$11,475,089	$0	$0
Revenue:					
General Fund	$0	$0	$0	$0	$0
State Special Revenue-Guarantee Acct-SA	$0	$3,280,405	$4,072,246	($6,687,517)	$7,132,237
State Special Revenue-State O&G Impact	$0	($368,553)	($357,054)	($477,680)	$509,446
State Special Revenue-County O&G Impact	$0	($1,842,764)	($1,785,270)	($2,388,399)	$2,547,228
SSR-State O&G Distribution Acct	$0	$11,706,692	$10,575,491	$9,553,596	$0
SSR MT Support for Schools Transfer	$22,950,178	$0	$0	$0	$0
Net Impact-General Fund Balance:	($22,950,178)	($1,604,221)	($2,991,474)	($22,969,660)	($14,806,007)

Description of fiscal impact: SB 175, as amended, revises K-12 funding and the funding formula. The bill contains a one-time transfer of $22.95 million from the state general fund to a newly created state special revenue account prior to the end of FY 2013. Half of these funds, $11.5 million, is then to be transferred after the beginning of each of the next fiscal years to the state special revenue Guarantee Account to fund the ongoing costs of restructuring the K-12 funding formula basic entitlement. These costs will then fall to the general fund in the 2017 biennium as proceeds from the one-time transfer will have been depleted. From July 1, 2013, through June 30, 2016, SB 175 redirects Oil and Natural Gas Production Taxes revenue from school districts from the Guarantee Account to the newly created state special revenue State Oil and Natural Gas Distribution Account to fund distribution to school districts 1) in the same unified school system as the district that would have initially received the Oil and Natural Gas Production Taxes revenue, up to 130% of the receiving school district's maximum general fund budget; 2) To school districts that are immediately contiguous to the district that would have initially received the production tax revenue, up to 130% of the receiving school district's maximum general fund budget; 3) To school districts that are in the same county as the district that would have initially received the production tax revenue, up to 130% of the receiving school district's maximum general fund budget; and 4) To school districts located in counties contiguous to the district that would have initially received the production tax revenue and have had a horizontally completed well drilled in the prior three years, up to 130% of the receiving school district's maximum general fund budget. The general fund costs of SB 175, as amended, are $22.95 million in FY 2013 transfers to cover K-12 BASE Aid costs incurred in FY 2014 and FY 2015 and $4.5 million in the 2015 biennium.

FISCAL ANALYSIS

Assumptions:

Office of Public Instruction (OPI)

1. The average number belonging (ANB) used to determine the general fund budgets for K-12 public school districts follows. FY 2013 is the actual current year ANB and FY 2014 and beyond are estimated current year ANB used to calculate the budgeted ANB as determined by 20-9-311(13) and (14), MCA.

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
K-6 ANB	80,043	80,779	81,254	81,603	82,609
7-8 ANB	22,146	22,228	22,593	22,671	22,985
9-12 ANB	43,626	43,683	43,323	43,502	43,855
	145,815	146,690	147,170	147,776	149,449

2. The number of FTE (including special education cooperatives) generating the quality educator payment is estimated to be:

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Public Schools	11,995.424	11,995.424	11,995.424	11,995.424	11,995.424
Special Ed Coops	181.637	181.637	181.637	181.637	181.637
FTE Count	12,177.061	12,177.061	12,177.061	12,177.061	12,177.061

3. The present law inflation applied to the basic and per-ANB entitlements (20-9-326, MCA) is 0.89% in FY 2014 and 2.08% in FY 2015. For the present law budget, the basic and per-ANB entitlements are set as follows:

Entitlement	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Elementary Basic	$23,593	$23,803	$24,298	$24,850	$25,265
Middle School Basic	$66,816	$67,411	$68,813	$70,375	$71,550
High School Basic	$262,224	$264,558	$270,061	$276,191	$280,803
Elementary Per-ANB	$5,075	$5,120	$5,226	$5,345	$5,434
High School Per-ANB	$6,497	$6,555	$6,691	$6,843	$6,957
Direct State Aid (DSA) Percentage	44.7%	44.7%	44.7%	44.7%	44.7%

4. Present law (20-9-326, MCA) requires the Governor to include inflation adjustments for the basic and per-ANB entitlements in the recommendations presented to the legislature. These present law adjustments, included in the Governor's budget, result in the following expenditures:

	FY 2014	FY 2015
Direct State Aid	$400.0 million	$408.3 million
Guaranteed Tax Base Aid	$145.8 million	$149.1 million
County Retirement GTB	$ 32.7 million	$ 33.7 million

5. Direct State Aid, GTB, and other general fund components are computed with the school funding model used by the Office of Public Instruction, the Legislative Fiscal Division, and the Office of Budget and Program Planning using current statutory entitlements, enrollment estimates, and estimated property tax values.
6. The present law adjustments do not include inflationary increases for the general fund payments in 20-9-327 through 20-9-330, MCA, (Indian Education for All payment, American Indian Achievement Gap payment, Quality Educator payment, At-Risk Student payment). These payments total $48.8 million in each year of the 2015 biennium, distributed at the rates in the following table.

Component	Present law distribution amount
Indian Education for All	$20.40 per ANB or $100 per district, whichever is greater
American Indian Achievement Gap	$200 per American Indian student
Quality Educator	$3,042 per FTE
At Risk Student	$5,000,000

7. The state special education allowable cost payment remains at the FY 2012 base level of $41.6 million per year.
8. The statewide taxable valuations are forecast to increase by 3.17% in FY 2014 and 1.74% in FY 2015.

K-12 data task force (Section 1)

9. SB 175 creates a 27-member K-12 data task force to advise the OPI. The task force reviews, monitors, and provides input and guidance in enhancing the statewide K-12 data system. OPI estimates that the task force would meet four times each fiscal year. The estimated cost for travel (lodging, mileage and per diem) is $10,522 plus $50 per day for the 15 members who are not public employees for a total state general fund cost of $13,522. There is an appropriation to OPI in Section 37 of SB 175, as amended of $13,522.
10. The OPI would need 1.00 FTE to convene and facilitate the work of the task force and focus on the system improvements for data exchanges between OPI and school districts. A computer systems analyst costs $69,718 annually for salary and benefits in FY 2014 and FY 2015. The operating budget for this position would be $8,000 annually.
11. Section 1 would terminate June 30, 2020.

Data-For-Achievement payment (Section 2)

12. SB 175, as amended on the House floor creates a new funding component, the Data-For-Achievement payment, to be distributed to school districts on a per ANB basis. The following table shows the per ANB amount defined in SB 175 and the state general fund cost per year for the Data-For-Achievement payment.

	Per ANB Amount	Data-for-Achievement Payment
FY 2014	$10	$1,473,790
FY 2015	$15	$2,211,495
FY 2016	$20	$2,956,260
FY 2017	$20	$2,988,980

Definitions (Section 6)

13. Section 6, as amended, adds a natural resource development (NRD) K-12 funding payment and the total Data-For-Achievement payment, described in the previous assumption, to the definition of BASE aid.
14. The NRD payment is for a variable percentage of the basic and per-ANB entitlements above the DSA for school districts' general fund budget.
15. The school districts' "BASE budget" and "maximum general fund budget" are modified to include 100% of the Data-For-Achievement payment. This would increase the BASE and maximum general fund school district budget limits. However, because the Data-For-Achievement payment is 100% funded by the state, there would be no local property tax increase due to this payment.

Basic and per-ANB entitlements (Section 6)

16. Current law allows one elementary basic entitlement payment, one middle school basic entitlement payment, and/or one high school basic entitlement payment per district for the elementary, middle, and/or high school program within the district.
17. Current law results in payment of 306 elementary basic entitlements, 208 middle school basic entitlements, and 160 high school basic entitlements used in the calculation of school districts' general fund budgets.
18. SB 175 would allow basic entitlement payments based on number of ANB in the district as indicated in the following table.

	# of ANB to qualify for one basic entitlement	# of ANB to qualify for additional basic entitlement
Elementary	Up to 250 ANB	For each additional 25 ANB
Middle	Up to 450 ANB	For each additional 45 ANB
High School	Up to 800 ANB	For each additional 80 ANB

19. There are 67 elementary school districts with more than 250 elementary ANB and seven middle school districts with more than 450 ANB that would receive additional basic entitlement payment due to SB 175.
20. There are seven high school districts with more than 800 students that would receive additional basic entitlement payment due to SB 175.
21. SB 175, as amended, increases the basic entitlements by more than the statutory inflation rates of 0.89% in FY 2014, 2.08% in FY 2015, and 2.27% in FY 2016. The estimated inflation rate used for FY 2017 for assumption is 1.67%. The following table shows the amount of the basic entitlements per SB 175, as amended.

Entitlement	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Elementary Basic	$23,593	$40,000	$40,000	$50,000	$50,835
Middle School Basic	$66,816	$80,000	$80,000	$100,000	$101,670
High School Basic	$262,224	$290,000	$290,000	$300,000	$305,010
Additional 25 elementary ANB	$0	$2,000	$2,000	$2,500	$2,542
Additional 45 middle school ANB	$0	$4,000	$4,000	$5,000	$5,084
Additional 80 high school ANB	$0	$12,000	$12,000	$15,000	$15,251

22. The basic entitlements in SB 175 would increase DSA and GTB by the amounts shown in the following table.

	FY 2014	FY 2015	FY 2016	FY 2017
Direct State Aid	$8,118,422	$7,768,630	$11,644,584	$11,900,741
Guaranteed Tax Base Aid	$2,973,636	$2,706,690	$4,043,182	$3,994,756
County Retirement GTB	$372,469	$384,231	$516,827	$532,580
Total	$11,464,527	$10,859,551	$16,204,593	$16,428,077

23. Section 13 of SB 175, as amended, would include inflation-related adjustments be added to the Data-For-Achievement payment, the Quality Educator payment, the At-Risk Student payment, the Indian Education for All payment, and the American Indian Achievement Gap payment. The inflation would not apply to FY 2014 and FY 2015 since the statute, 20-9-326(1), MCA, directs the Superintendent of Public Instruction to include the inflation calculation and funding in submission of the agency budget pursuant to 17-7-111 and 17-7-112, MCA. SB 175 would not be effective until July 1, 2013, and this part would first be effective for budgeting for the 2017 biennium. The estimated inflation rate used for this fiscal note for FY 2016 is 2.27% and 1.67% in FY 2017. The following table shows the changes to the distribution rates of each payment type.

Component	Current Law	FY 2016	FY 2017
Indian Education for All (per ANB or $100 per district, whichever is greater)	$20.40	$20.86	$21.21
American Indian Achievement Gap (per American Indian student)	$200	$205	$208
Quality Educator (per qualified FTE)	$3,042	$3,111	$3,163
At Risk Student	$5,000,000	$5,113,500	$5,198,895

24. The payments would be 100% state funded, so it would have no local impact, but the additional cost to the state is reflected in the following table:

	FY 2014	FY 2015	FY 2016	FY 2017
Indian Education for All	$0	$0	$67,978	$121,025
American Indian Achievement Gap	$0	$0	$93,500	$149,024
Quality Educator Pmt	$0	$0	$840,217	$1,473,424
At Risk Pmt	$0	$0	$113,500	$198,895
Data-For-Achievement Pmt	$0	$0	0	$49,318
Total Inflation Increases	$0	$0	$1,115,195	$1,991,686

Base budgets and maximum general fund budgets (Section 7)

25. Section 7 of SB 175, as amended, allows school districts to add any increase in direct state aid for the basic and per-ANB entitlements and any increases in state funding for the Data-For-Achievement payment to the previous year's general fund budget for purposes of determining base and maximum general fund budget limitations. Current law allows the Quality Educator payment, the At-Risk Student payment, the Indian Education for All payment, and the American Indian Achievement Gap payment, as well as increases to the basic and per-ANB entitlements to be added to the previous year's general fund budget for purposes of determining base and maximum general fund budget limitations.
26. Current law (20-9-308(2), MCA) allows a school district to adopt a general fund budget that exceeds the BASE budget and to increase the over-BASE budget levy over revenue previously authorized by the electors of the district or imposed by the district in any one of the previous five years to support the general fund budget. SB 175 clarifies that the district has access to the highest amount of property tax levies authorized in any of the previous five years. This provision has no fiscal impact because it is consistent with the current interpretation adopted by OPI.
27. Subsection 2(b) of Section 7, states that the intent of the section is to increase flexibility and efficiency of school boards without increasing school district property taxes. Property taxes would not be increased without a vote, however, this section gives school district trustees the ability to permissively levy taxes that were not previously allowed without a vote. The taxes were levied for other purposes.

28. Section 7 of SB 175 also allows trustees to reduce nonvoted property taxes, also known as permissive levies and add them to the over-BASE budget levy without a vote. This allows school districts to move permissive levy authority from other budgeted funds to the district general fund without voter approval.

Natural Resource Development K-12 Funding payment (Sections 5, 6, 8, 14, and 30)

29. SB 175, Section 6(10), defines a NRD K-12 Funding payment as a variable percentage of the basic and per-ANB entitlements above direct state aid for school district general fund budgets of a district as a funding source for K-12 BASE aid.
30. SB 175, as amended, limits the NRD K-12 Funding payment to $3 million in FY 2015.
31. In FY 2016 and subsequent years, the NRD K-12 Funding payment may not exceed the greater of 50% of the FY 2012 oil and natural gas production taxes deposited into the state general fund or 50% of the oil and natural gas production taxes allocated to the state general fund for the fiscal year two fiscal years prior to the school fiscal year in which the payment is provided plus excess interest and income revenue appropriated by the legislature pursuant to 20-9-622(3)(a) of this bill.
32. The following table shows the anticipated oil and natural gas production taxes revenue for FY 2012 through FY 2017, 50% of the revenue from two fiscal years prior to the school fiscal year in which the payment is provided, and the maximum amount of the NRD K-12 Funding payment directed by SB 175.

	FY 2012	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**
Anticipated O&G Production Taxes	$97.560	$99.354	$99.602	$96.031	$95.674	$101.825
50% GF O&G revenue 2 yrs prior			($48.780)	($49.677)	($49.801)	($48.015)
NRD K-12 Funding Payment			$48.780	$49.677	$49.801	$48.780

33. SB 175, as amended, directs that the amount of the NRD K-12 Funding payment in FY 2016 and subsequent years is to be an amount sufficient to offset any estimated increase in statewide revenue from the school district general fund BASE budget levy provided for in 20-9-141, MCA, that is anticipated to result from increases in the basic or per-ANB entitlements plus any excess interest and income revenue appropriated by the legislature pursuant to 20-9-622(3)(a) of this bill.
34. The distribution of the NRD payment would represent additional non levy revenue-type funding to school districts, offsetting the amount of GTB paid by the state. The following table shows the amount of the NRD K-12 Funding payment and the related GTB effect.

	FY 2014	**FY 2015**	**FY 2016**	**FY 2017**
GTB	$0	($1,587,923)	($9,561,406)	($14,551,269)
NRD K-12 Funding payment	$0	$3,000,000	$18,200,000	$27,787,800
State General Fund Cost	$0	$1,412,077	$8,638,594	$13,236,531

35. SB 175, as amended, directs the Superintendent of Public Instruction to incorporate a NRD K-12 Funding payment calculation when preparing and submitting the agency budget for ensuing biennia.
36. Section 12, 20-9-323, MCA, does not take effect until July 1, 2020, according to changes in SB 175. In the time period covered by this fiscal note, no excess funds would be paid to the state when a county cannot distribute funds to school districts within the county because of the 300% of the maximum general fund budget limit.
37. The State School Oil and Natural Gas Impact Account is not expected to receive revenue within the next four fiscal years in an amount that would exceed $7.5 million. SB 175 directs revenues in that account in excess of $7.5 million to be distributed to the Guarantee Account for the NRD K-12 funding payment. There would be no revenue to the Guarantee Account for the NRD K-12 funding payment in this fiscal note.
38. Under SB 175, "excess interest and income revenue" is defined as an annual amount in excess of $56 million. The excess revenue must be equal to or exceed $1 million distributed as part of the NRD K-12 funding payment two years after the excess occurs. If the excess interest and income is $1 million or less, the excess is added to the calculation of the excess revenue in the following year.

39. The anticipated interest and income revenue for FY 2014 is $53.620 and for FY 2015 is $49.460. It is anticipated that no excess interest and income revenue would be allocated to the NRD K-12 Funding payment in this fiscal note.

Budgeting Oil and Natural Gas Production Taxes revenue in district general fund (Section 6)

40. Section 8(1)(b) of SB 175, as amended, allows school districts with maximum general fund budgets of less than $1.5 million to retain Oil and Natural Gas Production Taxes revenue up to 150% of the district maximum general fund budget for FY 2014 through FY 2016. Under current law, eleven school districts qualify to receive Oil and Natural Gas Production Taxes revenue in excess of 130% of the school districts' maximum general fund budget. Revenue in excess of 130% of the school district's maximum general fund budget is to be deposited to the following state special revenue funds: 70% to the Guarantee Account, 5% to the State School Oil and Natural Gas Impact Account, and 25% to the County School Oil and Natural Gas Impact Fund under current law. SB 175, as amended, changes the 130% limit to 150% of the school district's maximum general fund budget. For the purpose of this fiscal note, it has been determined that nine school districts would qualify to receive Oil and Natural Gas Production Taxes in excess of 150% of the district maximum general fund budget. This change would allow these school districts to retain approximately $1.0 million more Oil and Natural Gas Production Taxes revenue than under current law beginning in FY 2014.
41. For FY 2014 through FY 2016, SB 175, as amended, directs a change to the state distribution in the previous assumption, directing the excess funds to a new state special revenue State School Oil and Natural Gas Distribution Account created in Section 34 of the bill. The revenue in this fund would be distributed by OPI according to 20-9-310(4) of this bill, if the legislature appropriates funds to OPI for this purpose. SB 175, as amended, appropriates $22.3 million from this fund for the purposes specified in Section 34 of the bill which refers to Section 8, 20-9-310(4) of the bill. The purposes are:
    a. To schools that are in the same unified school system as the district that would have initially received the Oil and Natural Gas Production Taxes revenue, up to 130% of the receiving school district's maximum general fund budget.
    b. To school districts that are immediately contiguous to the district that would have initially received the production tax revenue, up to 130% of the receiving school district's maximum general fund budget.
    c. To school districts that are in the same county as the district that would have initially received the production tax revenue, up to 130% of the receiving school district's maximum general fund budget.
    d. To school districts located in counties contiguous to the district that would have initially received the production tax revenue and have had a horizontally completed well drilled in the prior three years according to the Department of Natural Resources and Conservation, up to 130% of the receiving school district's maximum general fund budget.
    e. Any remaining funds are to be deposited 70% to the Guarantee Account, 5% to the State School Oil and Natural Gas Impact Account, and 25% to the County School Oil and Natural Gas Impact Fund.
42. Beginning July 1, 2016, any excess Oil and Natural Gas Production Taxes revenue retained by the Department of Revenue on behalf of school districts that have received 130% of the school district maximum general fund budget is to be distributed 70% to the Guarantee Account, 5% to the State School Oil and Natural Gas Impact Account, and 25% to the County School Oil and Natural Gas Impact Fund

43. The Oil and Natural Gas Production Taxes are projected to fluctuate over the next two biennia. The following table shows the growth factors for FY 2014 through FY 2016.

	FY 2014	FY 2015	FY 2016	FY 2016
Anticipated Oil & Natural Gas Growth	101.21%	96.88%	99.66%	106.65%

44. Under current law, school districts must anticipate general fund revenue of at least 45% of the previous year's Oil and Natural Gas Production Taxes in FY 2014 and 55% in FY 2015. SB 175 decreases the required percentage to 25% for FY 2014 and beyond. FY 2012 data is the most recent actual school district revenue from Oil and Natural Gas Production Taxes available. FY 2013 budget data is the most recent available. This does not affect state payments to school districts unless there is a GTB effect. For purposes of this fiscal note there is no anticipated GTB effect because historically, statewide, districts budget more than the required amount. The following table shows the actual and estimated revenue and actual and estimated budget data available for Oil and Natural Gas Production Taxes receive by school districts. Actual data is shown in bold.

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Actual-All funds	**$31,275,656**	$31,813,597	$32,198,542	$31,193,947	$31,087,888	$33,155,232
Budgeted Actual	**$10,232,252**	**$11,973,983**				
Budgeted Current Law	**$10,054,482**	$10,946,480	$14,316,119	$17,709,198	$17,156,671	$17,098,338
Budgeted 25% -SB 175	**$10,054,482**	N/A	$8,049,635	$7,798,487	$7,771,972	$8,288,808
Difference CL & SB 175			$6,266,483	$9,910,711	$9,384,699	$8,809,530

45. In FY 2013, 122 school districts are expected to receive Oil and Natural Gas Production Taxes revenue. Seventy-five of these school districts also receive GTB.
46. The GTB calculation for school districts is determined, in part, on the amount of non-levy revenue estimated to be received in the budget year. Oil and Natural Gas Production Taxes are one piece of the non-levy revenue school districts receive. When districts underestimate non levy revenues, it is possible, if the district receives GTB payments, that they would receive more GTB than if they had estimated non levy revenues correctly.
47. Current law directs school districts to deposit Oil and Natural Gas Production Taxes revenue in the school district general fund in an amount at least equal to the amount budgeted. The decreased amount of budgeted Oil and Natural Gas Production Taxes revenue because of SB 175 could mean a reduction in the amount of non-levy revenue reported in the following fiscal year resulting in a possible increase in state GTB payments to school districts.
48. Data related to schools and budgeting Oil and Natural Gas Production Taxes revenue is shown in the following table.

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
# of school districts that budgeted Oil and Natural Gas Production Taxes revenue in district general fund	55	52	51	58	120	122
# of school districts that did not budget Oil and Natural Gas Production Taxes in district general fund but receive Oil and Natural Gas Production Taxes revenue	72	81	79	64	3	N/A
# of schools that received Oil and Natural Gas Production Taxes revenue	127	133	130	122	123	N/A
# of schools that estimated 25% or more Oil and Natural Gas Production Taxes revenue	42	37	42	46	108	N/A

49. From FY 2008 to FY 2011, six school districts made a practice of budgeting enough Oil and Natural Gas Production Taxes revenue in the district general fund budget to keep their mill levy at zero mills. This fiscal note assumes that these districts would continue to keep their general fund mills at zero mills.
50. Section 6 of SB 175, exempts certain school districts from having to budget at least 25% of the prior year Oil and Natural Gas Production Taxes revenue in the district general fund. There are 410 operating school districts in Montana in FY 2013. The following table shows the number of districts qualifying for each of the exemptions.

Description	**# of school districts**
Maximum general fund budget less than $1 million	209
GF Budget + O&G revenue < = 105% of Maximum GF Budget	285
Maximum GF budget > = $1 million and anticipated enrollment increase approved in prior year by OPI	2
Outstanding oil and natural gas revenue bonds (new in SB 175)	0
Districts receiving Oil and Natural Gas Production Taxes revenue and not qualifying for exemptions in Section 8(7)	35

51. Of 123 school districts receiving Oil and Natural Gas Production Taxes revenues, under SB 175, only 35 districts would be subject to the existing restrictions related to estimation of Oil and Natural Gas Production Taxes.
52. It is assumed that another 27 districts that have made a practice of budgeting at least 25% of their prior year Oil and Natural Gas Production Taxes receipts in the district general fund, would continue to do so, despite the fact that they are not subject to that requirement under the provisions of SB 175.
53. All other districts that receive Oil and Natural Gas Production Taxes revenue are assumed to estimate no Oil and Natural Gas Production Taxes revenue in their general fund budget. The following table shows the GTB impact.

	FY 2014	**FY 2015**	**FY 2016**	**FY 2017**
Guaranteed Tax Base Aid	$807,665	$825,398	$837,669	$885,760

54. Section 11 of SB 175 changes the limitations for a school district to receive an adjusted calculation for anticipated enrollment increases from an ANB increase of 6% to the lesser of 4% or 40 students.
55. Section 11(5): Of the ten school districts that have distributions withheld as a result of the 130% of maximum general fund budget cap on Oil and Natural Gas Production Taxes revenues, nine school districts experienced an enrollment increase of at least 4% or 40 students at least one year between FY 2010 and FY 2013. Four of the school districts had enrollment increases of at least 4% or 40 students for two of the three years. Only one district had an enrollment increase of at least 25 students, but also qualified for the enrollment increase because that was at least 4% increase. It is assumed that enrollment increases of approximately 45 ANB would continue in these nine schools.
56. According to SB 175, school districts that qualify for and are approved by the Superintendent of Public Instruction for an anticipated enrollment increase of at least 4% or 40 students would also retain an additional $45,000 per additional ANB approved by the superintendent. These districts would receive an additional $2 million in Oil and Natural Gas Production Taxes revenue as a result each year.
57. The additional distribution to school districts for anticipated ANB would reduce the revenue to the state special revenue State School Oil and Natural Gas Distribution Account. None of the nine districts receives GTB, so there would be no GTB impact of the additional non levy revenue.
58. Section 8, would terminate on June 30, 2020. Under current law the termination date is June 30, 2016. Therefore, there is no fiscal impact in FY 2017 to the Guarantee Account, the State School Oil and Natural Gas Impact Account, or the County School Oil and Natural Gas Impact Fund.

Additional official enrollment count date and calculation of ANB (Section 7)

59. Under current law, there are two official enrollment count dates (first Monday in October and February 1).
60. SB 175, as amended, adds a third official enrollment count on the first Monday in December. The first Monday in December 2013 would be the first time the OPI could gather data for the third count date. That data would be used to determine the ANB for FY 2015.
61. For purposes of this fiscal note, the fall count was doubled and an average was calculated using twice the October enrollment count plus the February enrollment count to determine an adjusted ANB for FY 2015. Based on this method, it was determined that an overall increase to ANB would be applied. However, some schools would see an increase in ANB and others would see a decrease.
62. The cost to the state general fund for the school funding formula using three official enrollment count dates is represented in the following table:

	FY 2014	FY 2015	FY 2016	FY 2017
DSA	$1,646,653	$1,729,887	$1,793,484	$1,861,256
GTB	$575,503	$522,018	$559,893	$581,065
Indian Education for All	$13,446	$14,080	$14,284	$14,570
Data-for-Achievement	$6,600	$10,395	$14,060	$14,340
Retirement GTB	$95,038	$98,039	$104,824	$109,545
Total	$2,337,240	$2,374,419	$2,486,545	$2,580,776

63. Section 7(4)(d), is covered in current law under 20-9-311 (4)(c), MCA.

Anticipated Enrollment Increases (Section 11)

64. SB 175 provides for school districts to receive an increase in ANB if the enrollment growth exceeds 4% or 40 students, whichever is less. The district must absorb the first 4% or 40 students, whichever is less. FY 2012 and FY 2013 fall enrollments were compared to determine if a 4% increase or growth of 40 students occurred. If the criteria were met, FY 2013 ANB was recalculated to determine an adjusted ANB amount. This method yields an additional 699 current year ANB in FY 2014.
65. The increase to school funding for unusual enrollment increases of 4% or 40 students is shown in the following table:

	FY 2014	FY 2015	FY 2016	FY 2017
Direct State Aid	$1,649,270	$1,769,901	$1,834,333	$1,899,077
Guaranteed Tax Base Aid	$573,136	$529,801	$549,829	$567,794
Indian Education for All	$13,486	$14,100	$14,284	$14,570
Data-for-Achievement Pmt	$13,222	$13,824	$14,004	$14,284
Total	$2,229,114	$2,327,626	$2,412,450	$2,495,725

Purpose of increased funding beyond inflation (Section 33)

66. Section 33 indicates the purpose of increased funding for the school district general fund budgets allowed in SB 175, beyond inflation, would provide schools with resources to implement recent changes to the state accreditation standards.

Transfers of state general fund to state special revenue account

67. Section 36 of SB 175 as amended, directs a one-time transfer of $22,950,178 from the state general fund to a SB 175 newly created state special revenue, Montana Support for Schools account prior to June 30, 2013. After July 1, 2013, and prior to July 30, 2013, $11,475,089 is to be transferred from the Montana Support for Schools state special revenue account to the Guarantee Account to be used for state equalization aid to school districts in FY 2014. The remaining $11,475,089 in the Montana Support for Schools account is to be transferred to the Guarantee Account after July 1, 2014, and prior to July 30, 2014, to be used for state equalization aid to school districts in FY 2015.

68. Section 37 of SB 175 as amended, appropriates $25.8 million from the state general fund to the OPI for school district BASE aid.
69. Section 37 appropriates $22.3 million from the State School Oil and Natural Gas Distribution account for purposes described in assumption #41.
70. Section 37 appropriates $13,522 from the state general fund to the OPI for costs associated with the K-12 Data Task Force described in Section 1 of the bill.

Implementation costs

71. The OPI would need a student records manager to assist schools with the new enrollment counts and the file uploads. The December count would occur during the same time that districts are required to certify their previous year's dropout, graduation, and cohort counts. This position would be filled with 1.00 FTE data control specialist costing $55,176 annually for salary and benefits in FY 2014 and FY 2015. The operating budget associated with this position is $5,000 annually.
72. The OPI would need 1.50 FTE in the school finance division to implement the distribution of Oil and Natural Gas Production Taxes to school districts under Section 8, amending 20-9-310, MCA. The staff would also be needed to rewrite business processes, instructions, and manuals and to train school districts. The 1.50 FTE financial specialists would cost $81,415 annually for salaries and benefits in FY 2014 and FY 2015. The operating budget for these positions is $7,500 annually.
73. OPI estimates that implementation of SB 175 would require computer programming to update computer systems at a general fund cost of $12,000.
74. The personal services and operating expenses throughout this fiscal note are inflated at a rate of 1.5% per year in the 2017 biennium.

Department of Revenue (DOR)

75. Section 8 of SB 175, as amended, changes how Oil and Natural Gas Production Taxes revenue in excess of 130% of a school district's maximum general fund budget are distributed. Under current law, the excess revenue is distributed to the state special revenue Guarantee Account (70%), the State School Oil and Natural Gas Impact Account (5%), and to the County School Oil and Natural Gas Impact Fund (25%).
76. Between July 1, 2013, and June 30, 2016, SB 175, as amended, allows school districts with a maximum general fund budget of less than $1.5 million to retain an amount up to 150% of the school district's maximum general fund budget amount and all other school districts may retain Oil and Natural Gas Production Taxes revenue up to 130% of the school district's maximum general fund budget amount. Any amount of excess Oil and Natural Gas Production Taxes revenue retained by the DOR shall be deposited in the state special revenue State School Oil and Natural Gas Distribution account created in Section 34 of the bill.
77. SB 175, as amended, appropriates $22.3 million from the State School Oil and Natural Gas Distribution account for the biennium beginning July 1, 2013, to be distributed as follows:
    - A) To schools that are in the same unified school system as the district that would have initially received the Oil and Natural Gas Production Taxes revenue, up to 150% of the receiving school district's maximum general fund budget.
    - B) To school districts that are immediately contiguous to the district that would have initially received the production tax revenue, up to 150% of the receiving school district's maximum general fund budget.
    - C) To school districts that are in the same county as the district that would have initially received the production tax revenue, up to 150% of the receiving school district's maximum general fund budget.
    - D) To school districts located in counties contiguous to the district that would have initially received the production tax revenue and have had a horizontally completed well drilled in the prior three years according to the Department of Natural Resources and Conservation, up to 150% of the receiving school district's maximum general fund budget.

78. Any funds remaining after the distribution described in the previous assumption would be deposited 70% to the Guarantee Account, 5% to the State School Oil and Natural Gas Impact Account, and 25% to the County School Oil and Natural Gas Impact Fund. For the purpose of this fiscal note, it is assumed there would be no excess revenue to distribute in this assumption.
79. Under current law, the cap on the amount of Oil and Natural Gas Production Taxes a school district may retain is set to terminate June 30, 2016. Beginning July 1, 2016, SB 175, as amended, reverts back to current law and eliminates the June 30, 2016, termination of the 130% retention limit for all school districts receiving Oil and Natural Gas Production Taxes revenue.
80. The following table shows the maximum estimated fiscal impact of Sections 8 and 9 of SB 175, limiting school districts to retain Oil and Natural Gas Production Taxes revenue of the school district's maximum budget.

	FY 2014	**FY 2015**	**FY 2016**	**FY 2017**
Guarantee Account	($8,194,684)	($7,402,843)	($6,687,517)	$7,132,237
State School O&G Impact Account	($585,335)	($528,775)	($477,680)	$509,446
County School O&G Impact Fund	($2,926,673)	($2,643,873)	($2,388,399)	$2,547,228
State School O&G Distribution Account	$11,706,692	$10,575,491	$9,553,596	$0
Distributed to School Districts	$11,706,692	$10,575,491	$9,553,596	$0

81. The amounts shown in the previous assumption are the maximum amounts that would be available for distribution to schools reducing revenue to these accounts. Up to $2.0 million per year of this funding could be distributed to school districts due to changes in increased anticipated enrollment laws in SB 175, discussed earlier in this fiscal note.
82. It is assumed it would cost the DOR $13,600 in FY 2014 to administer the needed changes to Oil and Natural Gas Production Taxes distribution in accordance with the provision of SB 175.

Montana School for the Deaf and Blind, Department of Corrections, and Department of Military Affairs

83. SB 175 includes an inflationary increase to the quality educator payments defined in 20-9-327, MCA. That statute includes the Montana School for the Deaf and Blind (MSDB), state youth correctional facilities, and the Montana Youth Challenge program to receive quality educator payments. The following table shows the increase from the current law amount of $3,042 per qualified FTE plus applicable retirement.

	FTE	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**
Quality Educator Pmt/FTE		$3,042	$3,042	$3,111	$3,163
MSDB	25.4	$0	$0	$2,015	$3,534
Corrections	19.3	$0	$0	$1,531	$2,686
Youth Challenge	5.0	$0	$0	$397	$696
Total	49.7	$0	$0	$3,944	$6,916

Secretary of State

84. This bill will have minimal cost for postage and administrative duties related to tribal notifications in Section 32 of the bill. The Office of the Secretary of State does not receive general fund monies for office operations, but has agreed to assume the fiscal responsibility for this bill.

Fiscal Impact:	FY 2013 Difference	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
FTE	0.00	3.50	3.50	3.50	3.50
Expenditures:					
Personal Services	$0	$206,309	$206,309	$209,404	$212,545
Personal Servi (MSDB, Military Affairs, Corrections)	$0	$0	$0	$3,944	$6,916
Operating Expenses (OPI)	$0	$46,022	$34,022	$34,532	$35,050
Operating Expenses (DOR)	$0	$13,600	$0	$0	$0
Local Assistance (DSA)	$0	$1,646,653	$1,729,887	$1,793,484	$1,861,256
Local Assistance (GTB)	$0	$1,383,168	($240,507)	($8,163,844)	($13,084,444)
Local Assistance (Indian Ed for All Pmt)	$0	$13,446	$14,080	$82,262	$135,595
Local Assistance (American Indian Achieve Gap)	$0	$0	$0	$93,500	$149,024
Local Assistance (Quality Educator Pmt)	$0	$0	$0	$840,217	$1,473,424
Local Assistance (At Risk Pmt)	$0	$0	$0	$113,500	$198,895
Local Assistance (Data-for-Achievement Pmt)	$0	$1,480,390	$2,221,890	$2,970,320	$3,052,638
Local Assistance (County Retirement GTB)	$0	$95,038	$98,039	$104,824	$109,545
Local Assistance (NRD K-12 Funding Pmt)	$0	$0	$3,000,000	$18,200,000	$27,787,800
Local Assistance (DSA) Basic & Per-ANB Entitles	$0	$8,118,422	$7,768,630	$11,644,584	$11,900,741
Local Assistance (GTB) Basic & Per-ANB Entitles	$0	$2,973,636	$2,706,690	$4,043,182	$3,994,756
Local Assist (CoRetireGTB) Basic&Per-ANB Entitles	$0	$372,469	$384,231	$516,827	$532,580
K-12 BASE Aid (General Fund)	$0	($3,280,405)	($4,072,246)	$6,687,517	($7,132,237)
K-12 BASE Aid (Guarantee Account-SA)	$0	$3,280,405	$4,072,246	($6,687,517)	$7,132,237
Transfers	$22,950,178	$11,475,089	$11,475,089	$0	$0
TOTAL Expenditures	$22,950,178	$27,824,242	$29,398,360	$32,486,736	$38,366,321
Funding of Expenditures:					
General Fund (01)	$22,950,178	$1,604,221	$2,991,474	$22,969,660	$14,806,007
State Special Rev (02) Guarantee Acct-SA	$0	$3,280,405	$4,072,246	($6,687,517)	$7,132,237
State Special Rev (02) State O&G Impact	$0	$0	$0	$0	$0
State Special Rev (02) County O&G Impact	$0	$0	$0	$0	$0
SSR (02) State O&G Distribution Acct	$0	$11,464,527	$10,859,551	$16,204,593	$16,428,077
SSR (02) MT Support for Schools Transfer	$0	$11,475,089	$11,475,089	$0	$0
TOTAL Funding of Exp.	$22,950,178	$27,824,242	$29,398,360	$32,486,736	$38,366,321
Revenues:					
General Fund (01)	$0	$0	$0	$0	$0
State Special Rev (02) Guarantee Acct-SA	$0	$3,280,405	$4,072,246	($6,687,517)	$7,132,237
State Special Rev (02) State O&G Impact	$0	($368,553)	($357,054)	($477,680)	$509,446
State Special Rev (02) County O&G Impact	$0	($1,842,764)	($1,785,270)	($2,388,399)	$2,547,228
SSR (02) State O&G Distribution Acct	$0	$11,706,692	$10,575,491	$9,553,596	$0
SSR (02) MT Support for Schools Transfer	$22,950,178	$0	$0	$0	$0
TOTAL Revenues	$22,950,178	$12,775,780	$12,505,413	$0	$10,188,910
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):					
General Fund (01)	($22,950,178)	($1,604,221)	($2,991,474)	($22,969,660)	($14,806,007)
State Special Rev (02) Guarantee Acct-SA	$0	$0	$0	$0	($0)
State Special Rev (02) State O&G Impact	$0	($368,553)	($357,054)	($477,680)	$509,446
State Special Rev (02) County O&G Impact	$0	($1,842,764)	($1,785,270)	($2,388,399)	$2,547,228
SSR (02) State O&G Distribution Acct	$0	$242,165	($284,060)	($6,650,997)	($16,428,077)
SSR (02) MT Support for Schools Transfer	$22,950,178	($11,475,089)	($11,475,089)	$0	$0

Effect on County or Other Local Revenues or Expenditures:

1. SB 175 includes provisions allowing trustees of a district to increase the district's over-BASE budget levy, without a vote, if there is a reduction of non-voted (permissive) property tax levies authorized by law to be imposed by action of the trustees by at least as much as the amount of over-BASE increase. This allows the trustees to permissively move levy authority between funds without a vote. The ongoing authority for any non-voted increase in the over-BASE budget levy because of this change in SB 175 must be decreased in future years to the extent the trustees impose any increase. However, this would be very difficult to track to assure no property tax increases. This also allows non-voted (permissive) property tax levies to be used where voter approval is required in present law.

Technical Notes:

Office of Public Instruction (OPI)

1. Section 32, subsection 3(b), allows school districts to deposit a constitutionally-designated source of state support for schools, the state special revenue Guarantee Account, into the school district miscellaneous program fund.
2. Mixing of voted and permissive levies in section 20-9-308(2)(b), MCA, creates a loss of control in determining when a vote is required. OPI would not have the ability to determine if a district should have voted a levy to increase the Over-BASE until well after the deadline for an election has passed. Under this section, the district would have the ability to move levy authority among funds.
3. There is no appropriation authority for distribution of the Section 28 State School Oil and Natural Gas Impact Account until the account balance reaches $7.5 million. At the end of FY 2012, there was $136,587 in the account.
4. There is no appropriation authority for the Department of Revenue to distribute County School Oil and Natural Gas Impact Fund. At the end of FY 2012, there was $682,935 in the account.
5. There currently is not provision to protest "personally-identifiable" student information in SB 175.
6. Section 8(1)(b) says, "For fiscal year 2014 through 2017", however, Section 8 is to terminate June 30, 2016.
7. The language in Section 9, 20-9-310(4)(a), MCA, "By the last day of the month following the month in which the quarterly distribution…" needs to be clarified.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*

Dedication of Revenue 2015 Biennium

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

17-1-507-509, MCA.

State School Oil and Natural Gas Distribution Account – Section 34 of SB 175

a) Are there persons or entities that benefit from this dedicated revenue that do not pay? (please explain)
Yes, the school districts that receive the money are different than the school districts that were not able to receive the money because of budget caps.

b) What special information or other advantages exist as a result of using a state special revenue fund that could not be obtained if the revenue were allocated to the general fund?
The funding is distinguished for distribution to school districts impacted by oil and natural gas production in the area which brings additional ANB to the district without additional funding. The money can be held in the state special revenue fund to be distributed as the need arises.

c) Is the source of revenue relevant to current use of the funds and adequate to fund the program activity that is intended? Yes / No (if no, explain)
Yes, the revenue is Oil and Natural Gas Production Taxes revenue that will be redistributed to school districts where the oil and natural gas production takes place.

d) Does the need for this state special revenue provision still exist? ___Yes _X__No (Explain)
No, there is a state special revenue account, the State School Oil and Natural Gas Impact Account, which serves the same purpose as this new account.

e) Does the dedicated revenue affect the legislature's ability to scrutinize budgets, control expenditures, or establish priorities for state spending? (Please Explain)
Yes, this account would be in the SABHRS (state accounting system) and all details would be reportable.

f) Does the dedicated revenue fulfill a continuing, legislatively recognized need? (Please Explain)
Yes, the account would distribute Oil and Natural Gas Production Taxes revenue to the impacted areas.

g) How does the dedicated revenue provision result in accounting/auditing efficiencies or inefficiencies in your agency? (Please Explain. Also, if the program/activity were general funded, could you adequately account for the program/activity?)
The dedicated revenue would have accounting/auditing efficiencies since it would be easy to track the revenue and expenditures. If the funding was part of the general fund, it would be more cumbersome to track, but could be done.

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Dedication of Revenue 2015 Biennium

17-1-507-509, MCA.

Montana Support for Schools – Section 35 of SB 175

a) Are there persons or entities that benefit from this dedicated revenue that do not pay? (please explain)
Yes, this fund is to be used to transfer state general fund revenue to the account in FY 2013 and then transfer half of the funds in FY 2014 and half in FY 2015 to the state special revenue Guarantee Account to fund K-12 BASE Aid funding.

b) What special information or other advantages exist as a result of using a state special revenue fund that could not be obtained if the revenue were allocated to the general fund?
The funding is to be transferred to this fund to be held outside of the state general fund to be transferred later the Guarantee Account state special revenue fund to fund K-12 BASE Aid that is normally funded by the state general fund.

c) Is the source of revenue relevant to current use of the funds and adequate to fund the program activity that is intended? Yes / No (if no, explain)
Yes, if this funding were not transferred from the general fund to this new state special revenue fund, the general fund would pay the cost of the K-12 BASE Aid expenditures.

d) Does the need for this state special revenue provision still exist? ___Yes _X__No (Explain)
No, the state general fund normally pays for the K-12 BASE Aid expenditures.

e) Does the dedicated revenue affect the legislature's ability to scrutinize budgets, control expenditures, or establish priorities for state spending? (Please Explain)
Yes, this account would be in the SABHRS (state accounting system) and all details would be reportable.

f) Does the dedicated revenue fulfill a continuing, legislatively recognized need? (Please Explain)
No, the purpose of the dedicated revenue is to receive a general fund transfer in FY 2013 for holding funds for ongoing general fund K-12 BASE Aid expenditures.

g) How does the dedicated revenue provision result in accounting/auditing efficiencies or inefficiencies in your agency? (Please Explain. Also, if the program/activity were general funded, could you adequately account for the program/activity?)
The dedicated revenue would have accounting/auditing efficiencies since it would be easy to track the revenue and expenditures. If the funding was part of the general fund, it would be part of the current ongoing K-12 BASE Aid funding.