



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2019 Biennium

Bill #	SB0139	Title:	Revise k-12 school district expansion laws
---------------	--------	---------------	--

Primary Sponsor:	Ankney, Duane	Status:	As Introduced
-------------------------	---------------	----------------	---------------

- | | | |
|--|--|--|
| <input checked="" type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>	<u>FY 2020 Difference</u>	<u>FY 2021 Difference</u>
Expenditures:				
General Fund	**unknown**	**unknown**	**unknown**	**unknown**
Revenue:				
General Fund	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u><u>**unknown**</u></u>	<u><u>**unknown**</u></u>	<u><u>**unknown**</u></u>	<u><u>**unknown**</u></u>

Description of fiscal impact: SB 139 revises the eligibility criteria procedure and funding for an existing elementary district to expand into a K-12 school district. The state general fund cost associated with this bill could be \$1.2 million if smallest district elects to expand and up to \$7.2 million if all three eligible districts elect to expand.

FISCAL ANALYSIS

Assumptions:

- The average number belonging (ANB) used to determine the general fund budgets for K-12 public schools will be as follows. These estimates are for current year ANB, which is used to calculate the budgeted ANB as determined by 20-9-311(13) and (14), MCA.

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
K-6 ANB	84,225	84,885	85,023	85,534	85,974
7-8 ANB	22,646	22,907	23,529	24,139	24,403
9-12 ANB	<u>43,218</u>	<u>43,350</u>	<u>43,925</u>	<u>44,321</u>	<u>45,235</u>
	150,089	151,142	152,477	153,994	155,612

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

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
School Districts	12,248,423	12,248,423	12,248,423	12,248,423	12,248,423
Special Ed Coops	<u>177,511</u>	<u>177,511</u>	<u>177,511</u>	<u>177,511</u>	<u>177,511</u>
Total FTE	12,425,934	12,425,934	12,425,934	12,425,934	12,425,934

3. The present law inflation applied to the Basic and Per-ANB Entitlements, and the Quality Educator, Indian Education for All, American Indian Achievement Gap, Data-for-Achievement, and the At Risk Components (20-9-326, MCA) is 1.37% in FY 2018 and 1.00 % in FY 2019. For the present law budget, entitlement and component is set as follows:

<u>Basic Entitlements</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
Elementary Basic	\$50,895	\$51,592	\$52,108	\$52,468	\$53,213
Middle School Basic	\$101,790	\$103,185	\$104,217	\$104,936	\$106,426
High School Basic	\$305,370	\$309,554	\$312,650	\$314,807	\$319,277

<u>Basic Entitlement Increments</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
Elementary (Each 25 ANB > 250 ANB)	\$2,545	\$2,580	\$2,606	\$2,624	\$2,661
Middle School (Each 45 ANB > 450 ANB)	\$5,090	\$5,160	\$5,212	\$5,248	\$5,323
High School (Each 80 ANB past 800 ANB)	\$15,269	\$15,478	\$15,633	\$15,741	\$15,965

<u>Per ANB Entitlements</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
Elementary Per-ANB	\$5,444	\$5,519	\$5,574	\$5,612	\$5,692
High School Per-ANB	\$6,970	\$7,065	\$7,136	\$7,185	\$7,287
Direct State Aid (DSA) Percentage	44.7%	44.7%	44.7%	44.7%	44.7%

<u>Components</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
Indian Education for All	\$21.25	\$21.54	\$21.76	\$21.91	\$22.22
Indian Achievement Gap	\$209	\$212	\$214	\$215	\$218
Quality Educator	\$3,169	\$3,212	\$3,244	\$3,266	\$3,312
At Risk	\$5,363,730	\$5,437,213	\$5,491,585	\$5,529,477	\$5,607,996
Data for Achievement	\$20.36	\$20.64	\$20.85	\$20.99	\$21.29

4. Present law (20-9-326, MCA) requires the Superintendent of Public Instruction to include inflationary adjustments for the basic and per-ANB entitlements, and the Quality Educator, Indian Education for All, American Indian Achievement Gap, Data for Achievement, and the At Risk Components in the recommendations presented to the legislature. These present law adjustments result in the following expenditures:

<u>Payment</u>	<u>FY 2018</u>	<u>FY 2019</u>
Direct State Aid	\$454.8 million	\$461.9 million
Guaranteed Tax Base Aid	\$163.3 million	\$165.6 million
County Retirement GTB	\$37.4 million	\$38.6 million
Indian Education for All	\$3.3 million	\$3.3 million
American Indian Achievement Gap	\$4.3 million	\$4.3 million
Quality Educator	\$39.9 million	\$40.3 million
Data for Achievement	\$3.1 million	\$3.2 million

5. HB 139 changes statute to accommodate the present law adjustments for inflation to the basic and per-ANB entitlements, the quality educator, Indian education for all, American Indian achievement gap, data-for-achievement, and the At Risk components. The Executive Budget includes a general fund increase of \$ 18.3 million in FY 2018 and \$29.3 million in FY 2019 to implement the inflation requirements at 1.37% in FY 2018 and 1.00% in FY 2019.
6. The present law natural resources development K-12 payment is estimated to be \$10.5 million in FY 2018 and \$12.2 million in FY 2019 based on the inflationary increases with offsetting GTB savings of \$5.6 million in FY 2018 and \$6.7 million in FY 2019.
7. 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.
8. The state special education allowable cost payment remains at the FY 2017 level of \$42.89 million per year.
9. The statewide present law taxable valuations are forecast to increase by 8.40% in FY 2018 and 2.40% in FY 2019.
10. Current law allows an existing elementary district to create a high school district for the sole purpose of expanding an elementary district into a K-12 district with restrictions limited so that there were no qualifying districts in the state eligible for this expansion.
11. SB 139 proposes changes to statute to allow an existing elementary district that is not a part of a unified school system or governed by a joint board with a high school district may expand into a K-12 district if the elementary district's average number belonging (ANB-a student count calculation) is at least 1000.
12. The Office of Public Instruction (OPI) has determined there are only three elementary school districts that would meet these criteria: East Helena Elementary/Helena High School (1,247 elementary ANB); Hellgate Elementary/Missoula High School (1,563 elementary ANB); and Lockwood Elementary/Billings High School (1,192 elementary ANB). For purposes of this fiscal note, it is assumed that all three of these districts will elect to form K-12 districts within the earliest possible timelines set forth in this bill. It is noted that there could be a number of combined factors that influence the cost set in the fiscal note to include variables such as phase in of students, proposal timing on creation of K-12 or bond election, the number of students that enroll in the new programs, etc.
13. Definitions for purposes of this fiscal note are as follows:
 - K-12 district – refers to the newly created K-12 district as defined by this bill.
 - Elementary district – refers to the elementary district becoming the K-12 district.
 - High school district – refers to the existing high school district that will be changed due to the K-12 district creation.
14. Trustees of the elementary district must pass a resolution that includes the information outlined in 20-6-105(3), MCA, regarding transfer of territory and request the county superintendent order an election to allow the electors of the elementary district consider expansion of the elementary school district into a K-12 district. Trustees of the elementary district may not pass a resolution for expansion more than one time within a five-year period.
15. If the proposition to expand is approved by the electors of the elementary district, the trustees have a two-year period from the date of the certification of the election, to propose to the electors of the elementary district a transition costs levy pursuant to 20-9-502, MCA, and a general obligation bond pursuant to Title 20, chapter 9, part 4, for the purpose of building, altering, repairing, buying, furnishing, equipping, purchasing lands for, or obtaining a water supply for a school to accommodate high school students. The bill specifies how the ANB calculation for bonding is to be determined.
16. There would be no cost to the state for the transition costs levy.
17. Section 1(3)(d) allows a K-12 district to qualify for facilities reimbursements and advances pursuant to 20-9-366 through 20-9-371, MCA. If a K-12 district was eligible for school facility reimbursement per statute, it

could receive some portion of the appropriation, but this would not create an additional funding cost for the state as these payments are based on the amount appropriated.

18. On July 1 following the elementary district electors’ approval of a general obligation bond for the K-12 district high school students, the county superintendent shall order the creation of a new high school district with identical boundaries to the expanding elementary district and the immediate attachment of the expanding elementary district to form a K-12 district. The trustees of the expanding elementary district must be designated as trustees of the new K-12 district according to the bill.
19. Upon the declaration of the K-12 district, the taxable valuation would be exchanged from the high school district to the K-12 district. For the purpose of this fiscal note, the earliest this exchange could take place would be FY 2019. The change in taxable value for the eligible districts is shown in the following table:

	Current Law Taxable Valuation estimate for FY 2019	Proposed Law Taxable Valuation estimate for FY 2019
East Helena Elem	\$0	\$14,725,174
Hellgate Elem	\$0	\$35,095,212
Lockwood Elem	\$0.00	\$25,532,064
Helena HS	\$125,995,063	\$111,269,889
Missoula HS	\$204,434,154	\$169,338,942
Billings HS	\$288,513,459	\$262,981,395

20. When this exchange of property takes place state GTB costs increase by approximately \$1.5 million per year among the various school districts based solely on exchange of property.
21. Prior to the first year the K-12 districts will enroll students in a high school grade, the trustees shall prepare operating budgets as prescribed in SB 139.
 - ANB would be calculated by dividing the ANB of the elementary program by nine and multiplying the result by the number of grades in which high school students would be enrolled.
 - The number of quality educators must not exceed the number estimated by dividing the estimated ANB by ten.
 - Taxable value for budgeting purposes is to be the most recently determined by the Department of Revenue.
 - The adopted general fund budget must be based only on the basic entitlement, the quality educator payment, and the budget components derived from ANB count (per ANB, Indian Education for All, American Indian Achievement Gap, and Data-for-Achievement payments).
22. The K-12 district’s BASE aid for the ensuing year must be based on the general fund budget adopted by the trustees for the upcoming school year.
23. SB 139 proposes that the high school would provide high school instruction to the K-12 district’s high school students until the first school year the K-12 district enrolls high school students in all grades and for a period of time not to exceed six years; the K-12 district shall be responsible to establish a transportation budget to transport high school students from the K-12 district to the high school, and may receive state and county transportation reimbursements under Title 20, chapter 10; and the K-12 district shall pay the high school district 20% of the per ANB maximum rate established in 20-9-306 for each high school student enrolled in the high school district paying one-half of the amount due by December 31 of the year following the year of attendance and the remainder due no later than June 15 of the year following the year of attendance. The bill proposes the K-12 district trustees shall establish a tuition fund and levy to fund these payments. Funding state and local.
24. For the purposes of this fiscal note, the initial year of enrolling students to the K-12 high school programs in expanding districts will occur in FY 2020 for all three expanding districts and assumes only ninth grade will

be offered in that year. Any combination of start times could be picked for these calculations. For the purpose of this fiscal note the earliest possible date any of these events could take place has been used and it is assumed that all three eligible districts would meet all the deadlines to pass elections, build facilities, and have students enrolled by FY 2020.

25. The ANB estimation method of dividing current ANB by nine and multiplying the product by one (ninth grade students only) results in the following ANB for the K-12 districts:

	Year 1 expanding district offering grade 9 (FY 2020)			Year 2 expanding district offering grades 9 & 10 (FY 2021)		
	Current Year ANB	3Year Average ANB	Budget Limitation ANB	Current Year ANB	3Year Average ANB	Budget Limitation ANB
East Helena Elem	141	47	141	282	141	282
Hellgate Elem	176	59	176	352	176	252
Lockwood Elem	135	45	135	270	135	270

26. The second year, FY 2021, is assumed to include only ninth and tenth grade students enrolled in all three K-12 districts. It is assumed that for the second and future years until all grades have students enrolled, ANB will be determined based on statutory student counts and the unusual enrollment increase pursuant 20-9-314, MCA, which would allow districts to anticipate the number of addition students for each ensuing year for budget determination.

27. The ANB estimated for the newly formed K-12 districts is the amount of ANB reduced from existing high school districts in the year following the addition to the new K-12 district. This is the effect enrollment changes effect a school district’s budget calculation ANB. In the table below, year one is projected ANB unadjusted and year two is the projected reducing the count for the ninth grade students who would be attending the new K-12 districts.

	Year 1 expanding district offering grade 9 (FY 2020)			Year 2 expanding district offering grades 9 & 10 (FY 2021)		
	Current Year ANB	3Year Average ANB	Budget Limitation ANB	Current Year ANB	3Year Average ANB	Budget Limitation ANB
Helena HS	3057	3025	3057	2979	3022	3022
Missoula HS	3710	3672	3710	3610	3666	3666
Billings HS	5610	5552	5610	5591	5587	5591

28. The bill allows the K-12 districts to budget for one quality educator for each ten estimated ANB in the budget prepared for the first year students are enrolled in the K-12 high school district. It is assumed that the second year of the K-12 student enrollment, the quality educator count used to determine the budget would remain the same as the first year since budgeted quality educator FTE are based on the prior year count. The follow table shows how many educators would be estimated.

	Year 1 expanding district offering grade 9 (FY 2020)			Year 2 expanding district offering grades 9 & 10 (FY 2021)		
	Budget Limitation ANB	Budgeted Quality Educators	Quality Ed Pmt (\$3,212)	Current Year ANB	Budgeted Quality Educators	Quality Ed Pmt (\$3,244)
East Helena Elem	141	14	\$44,968	282	14	\$45,416
Hellgate Elem	176	17	\$54,604	352	17	\$55,148

Lockwood Elem	135	13	\$41,756	270	13	\$42,172
----------------------	-----	----	----------	-----	----	----------

29. SB 139 provides for expanding districts to be eligible for general fund GTB subsidy in the first year of enrolling students. It is assumed that the statewide ratio will not be adjusted in relation to this district expansion however the estimation method of generating ANB used to produce the first year general fund budget and resulting general fund components will be used to calculate a general fund GTB subsidy per mill.
30. HB 124 block grants in the high school districts are to be proportioned between the old high school district and the new K-12 high school district based on high school ANB in each district per HB 139.
31. Section 1(6)(b) of SB 139 allows for the newly formed K-12 high school district to establish a transportation budget, and may receive state and county reimbursements under Title 20, chapter 10. Under current law state reimbursements are determined by number of routes, bus size, length of route, and days operated. For the purposes of this fiscal note a single route with a 60-69 capacity bus will travel a total of 20 miles per day for 180 days. This cost reimbursement cost of running these routes is \$1.35 per mile for a total annual cost of \$4,860. The state and county equally share this transportation cost.
32. SB 139 redistributes block grants based on the proportion of each district's taxable valuation. Since general fund block grants are used to fund the general fund BASE budget this may have an impact on general fund GTB. The table below shows adjusted taxable values and the adjusted general fund block grants that result. There is no change in the state payments for combined and transportation block due to the redistribution related to this bill.

District Name	Adjusted Taxable Value (TV) FY 2019	% of total TV by district	FY 2019 HS Block Grants	Adjusted Block Grant
Helena HS	\$111,269,889	88.31%	\$1,008,401	\$890,548
East Helena K-12	\$14,725,174	11.69%		\$117,853
Missoula HS	\$169,338,942	82.83%	\$1,202,440	\$996,017
Hellgate K-12	\$35,095,212	17.17%		\$206,423
Billings HS	\$262,981,395	91.15%	\$1,903,608	\$1,735,148
Lockwood K-12	\$25,532,064	8.85%		\$168,460

33. The bill allows a transition costs levy pursuant to 20-9-502, MCA. There is no related state cost.
34. Election times pursuant to 20-20-105(3), MCA, subject to the provisions of subsection (2), other school elections may be conducted at times determined by the trustees. This is in reference to elections other than trustee elections and general fund levy elections. The fiscal note assumes they these elections could occur in FY 2018 with the ordering of the K-12 formation occurring by beginning of FY 2019 and the opening of the newly formed high school for ninth grade no earlier than FY 2020.

	<u>FY 2018</u> <u>Difference</u>	<u>FY 2019</u> <u>Difference</u>	<u>FY 2020</u> <u>Difference</u>	<u>FY 2021</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Local Assistance (DSA)	\$0	\$0	\$1,866,173	\$2,209,126
Local Assistance (GTB)	\$0	\$1,493,475	\$1,577,581	\$643,822
Local Assistance (Indian Ed for All)	\$0	\$0	\$9,903	\$12,221
Local Assistance (Quality Educator)	\$0	\$0	\$147,623	\$449,107
Local Assistance (Data for Achieve)	\$0	\$0	\$9,487	\$11,741
Local Assistance (Retirement)	\$0	\$0	\$0	\$270,000
Local Assistance (Transportation)	\$0	\$0	\$7,290	\$7,290
TOTAL Expenditures	<u>\$0</u>	<u>\$1,493,475</u>	<u>\$3,618,057</u>	<u>\$3,603,307</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$1,493,475	\$3,618,057	\$3,603,307
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$1,493,475</u>	<u>\$3,618,057</u>	<u>\$3,603,307</u>
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Revenues	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	(\$1,493,475)	(\$3,618,057)	(\$3,603,307)

Effect on County or Other Local Revenues or Expenditures:

1. Local property taxes will shift among school districts as a result of creating new K-12 high school programs, transferring students among programs, assessing tuition levies, and construction of new high school buildings. These impacts are unknown in terms of timing and amounts.
2. Local property taxes in the existing high school districts will have lower taxable valuation to levy school mills on once the new K-12 district is formed which could mean higher property taxes.
3. It will become the responsibility of the newly created K-12 district local property tax payers to bear the cost of the new K-12 district as well as the cost of the new facilities to house the new high school program. In the two years after an election to create a new K-12 district those taxpayers would incur additional transition cost levies, transportation fund levies, and tuition fund levies. These costs have not been calculated for this fiscal note.
4. General obligation bonding costs have not been included in this fiscal note, but would have a local taxpayer impact in the new K-12 district.

Technical Notes:

1. Section 1(6) states “until the first school year in which the K-12 school district enrolls high school students in all grades and for a period of time not to exceed 6 years following the creation of the K-12 district:” it is unclear as to what is to occur should the 6-year time interval pass and students are not enrolled in all grades of the newly formed K-12 district.
2. It is unclear in this bill how a K-12 high school district budget would be determined after the first budget prior to the first year of high school student attendance.

Sponsor’s Initials

Date

Budget Director’s Initials

Date