



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2021 Biennium

Bill # HB0225

Title: Revise school laws related to inflation, preschool, and special education

Primary Sponsor: Schreiner, Casey

Status: As Introduced-Revised

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

FISCAL SUMMARY

	<u>FY 2020 Difference</u>	<u>FY 2021 Difference</u>	<u>FY 2022 Difference</u>	<u>FY 2023 Difference</u>
Expenditures:				
General Fund	\$37,125,553	\$62,162,700	\$76,736,130	\$95,992,843
Federal Special Revenue	\$504,035	\$542,304	\$582,475	\$629,341
Revenue:				
General Fund	\$0	\$0	\$0	\$0
Federal Special Revenue	\$504,035	\$542,304	\$582,475	\$629,341
Net Impact-General Fund Balance:	<u>(\$37,125,553)</u>	<u>(\$62,162,700)</u>	<u>(\$76,736,130)</u>	<u>(\$95,992,843)</u>

Description of fiscal impact: HB 225 applies statutory inflationary increases of 0.91% in FY 2020 and 1.83% in FY 2021 to the K-12 school funding formula per 20-9-326, MCA; provides the special education allowable cost payment to be included as a component in the present law adjustment for inflation; allows for half-time preschool programs funded through the school funding formula; provides pupil transportation for preschool students; and moves the administration of the Quality Educator Loan Assistance Program to the Office of Public Instruction. The 2021 biennium cost to the state general fund would be \$99.3 million. These costs are included in the Governor's Budget.

FISCAL ANALYSIS

Assumptions:

1. 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 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
K-6 ANB	84,812	84,898	84,610	84,608	85,063
7-8 ANB	23,103	23,691	23,982	24,012	23,272
9-12 ANB	<u>43,273</u>	<u>43,466</u>	<u>44,267</u>	<u>44,974</u>	<u>45,902</u>
Total	151,188	152,055	152,859	153,594	154,237

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

	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
School Districts	12,436.387	12,436.387	12,436.387	12,436.387	12,436.387
Special Ed Coops	<u>182.248</u>	<u>182.248</u>	<u>182.248</u>	<u>182.248</u>	<u>182.248</u>
Total FTE	12,618.635	12,618.635	12,618.635	12,618.635	12,618.635

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 0.91% in FY 2020 and 1.83 % in FY 2021. For the present law budget, entitlement and component is set as follows:

Basic Entitlements	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
Elementary Basic	\$52,105	\$52,579	\$53,541	\$54,232	\$55,100
Middle School Basic	\$104,212	\$105,160	\$107,084	\$108,465	\$110,200
High School Basic	\$312,636	\$315,481	\$321,254	\$325,398	\$330,604

Basic Entitlement Increments	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
Elementary (Each 25 ANB > 250 ANB)	\$2,606	\$2,630	\$2,678	\$2,713	\$2,756
Middle School (Each 45 ANB > 450 ANB)	\$5,211	\$5,258	\$5,354	\$5,423	\$5,510
High School (Each 80 ANB past 800 ANB)	\$15,632	\$15,774	\$16,063	\$16,270	\$16,530

Per ANB Entitlements	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
Elementary Per-ANB	\$5,573	\$5,624	\$5,727	\$5,801	\$5,894
High School Per-ANB	\$7,136	\$7,201	\$7,333	\$7,428	\$7,547
Direct State Aid (DSA) Percentage	44.7%	44.7%	44.7%	44.7%	44.7%

Components	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
Indian Education for All (per ANB)	\$21.76	\$21.96	\$22.36	\$22.65	\$23.01
Indian Achievement Gap (per ANB)	\$214	\$216	\$220	\$223	\$227
Quality Educator (per FTE)	\$3,245	\$3,275	\$3,335	\$3,378	\$3,432
Data for Achievement (per ANB)	\$20.84	\$21.03	\$21.41	\$21.69	\$22.04
At Risk (statewide)	\$5,463,895	\$5,513,616	\$5,614,515	\$5,686,942	\$5,777,933

4. Present law (20-9-326, MCA) requires 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 2020</u>	<u>FY 2021</u>
Direct State Aid	\$469.1 million	\$478.9 million
Guaranteed Tax Base Aid	\$226.5 million	\$236.0 million
County Retirement GTB	\$44.8 million	\$46.1 million
Indian Education For All	\$3.4 million	\$3.4 million

American Indian Achievement Gap	\$4.4 million	\$4.5 million
Quality Educator	\$41.3 million	\$42.1 million
Data for Achievement	\$3.2 million	\$3.3 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 state special education allowable cost payment remains at the FY 2019 level of \$43.29 million per year.
7. This bill includes the special education allowable cost payment in 20-9-326, MCA, as part of the inflationary adjustment for school funding to be proposed with the 2023 biennium budget. There is no additional cost in the 2021 biennium for this change.
8. The statewide present law taxable valuations are forecast to increase by 7.7% in FY 2020 and 2.10% in FY 2021.
9. HB 225 changes statute in 20-9-306, MCA, to address statutory K-12 BASE aid inflation increases per 20-9-326, MCA. The inflation factor for FY 2020 is 0.91% and for FY 2021 is 1.83%. These increases also increase the amount of retirement GTB to be paid by the state in the 2021 biennium.
10. BASE aid components included in the inflationary adjustment: basic and per ANB entitlements, quality educator, Indian education for all, American Indian achievement gap, data-for-achievement, and at risk.
11. HB 225 moves the Quality Educator Loan Assistance Program in Title 20, Chapter 4, part 5, MCA, currently administered by the Office of the Commissioner of Higher Education (OCHE) to the Office of the Superintendent of Public Instruction (OPI).
12. There is a \$250,000 general fund appropriation in the bill for FY 2020 and FY 2021 for the purposes of funding the quality educator loan assistance program in 20-4-501, MCA. The bill also states that the intent of the legislature is for \$250,000 be included in future years' base appropriations for the Office of Public Instruction.
13. HB 225 allows that a school district may make available preschool programs to accommodate eligible pupils and that pupils enrolled in preschool programs are eligible for not more than half-time ANB funding pursuant to 20-9-311, MCA.
14. The bill allows school districts to include a child to a preschool in the district when the child is 4 years of age on or before September 10 of the year in which the child is to enroll.
15. For the purposes of this fiscal note it is assumed that 40% of eligible 4-year-old children will enroll in a half time preschool program in FY 2020 equal to 2,068 half-time enrolled preschool students. It is estimated that 50% of eligible 4-year-old children will enroll in a half-time preschool program in FY 2021.
16. Section 20-9-311, MCA, is modified so that the definition of ANB includes preschool students and that they may not exceed half-time enrollment. For the purposes of this fiscal note it is assumed that enrolled preschool students will generate 2,148 additional current ANB in FY 2020 and an additional 2,678 current year ANB in FY 2021.
17. The definition of three-year average ANB is to include the additional preschool ANB in its calculation as well. The adjusted language directs the Superintendent of Public Instruction in the initial year of a district's enrolling preschool students to determine the ANB generated by preschool students, then add that preschool generated ANB to the *current year ANB* of the prior year and to the *current year ANB* of the year two years prior, before calculating the three-year average ANB. This calculation adjusts three-year average ANB in FY 2020 by 717 and 1,667 in FY 2021.
18. School district budgets are determined on whichever ANB, current year or three-year average, generates the highest budget for the district. This budget determining ANB is termed budget limitation ANB. The increase to budget limitation ANB is estimated to increase by 1,923 in FY 2020 and 2,661 in FY 2021 with the implementation of the preschool program.
19. Section 20-9-313, MCA, is amended to allow for preschool programs to be considered for ANB increases allowing for budget adjustments prior to the ensuing year. This section also directs districts anticipating

enrollment increases for preschool programs to section 20-9-314(6)(b), MCA, which directs the Superintendent of Public Instruction to recalculate a district’s general fund budget in a situation where the anticipated preschool enrollment does not materialize in part or in full regardless of the 4% or 40 cited in section 20-9-314, MCA.

20. For the purposes of this fiscal note, it is estimated that 195 additional FTE (licensed professionals) will be added statewide in FY 2020 and will be included in the calculation for the quality educator payment for FY 2021.
21. For the purposes of this fiscal note it is estimated that 340 preschool students will self-identify as American Indian students and will be added in FY 2020 to be included in the calculation for the American Indian achievement gap payment in FY 2021.
22. The OPI estimates a need for an additional 1.00 FTE in the School Finance Division to implement the preschool management and distributions. The financial specialist would cost \$84,744 annually for salary and benefits in FY 2020. The operating budget for this position is \$9,800 (including \$2,800 of one-time-only costs), and indirect costs of \$16,073 for a total FY 2020 cost of \$110,617 and FY 2021 cost is \$84,537 for salary and benefits, operating costs of \$7,000, and indirect costs of \$15,561 for a total FY 2021 cost of \$107,098.
23. Section 13 states that an appropriation to the OPI for startup costs for half-time preschool programs that notify the Superintendent of Public Instruction of anticipated enrollment for preschool programs in the 2021 biennium are to be distributed as \$10,000 grants per classroom. The legislation directs that districts receiving federal preschool development grant funds or state STARS preschool pilot grants in FY 2019 or before are only eligible for startup funds for new classrooms.
24. It is estimated that an appropriation of \$1.8 million would be required for the 2021 biennium for preschool startup grants.
25. Startup grants distributed to school districts are to be deposited in the district miscellaneous fund and used for costs associated with the development of a half-time preschool program.
26. Section 20-10-101, MCA, is amended to accommodate preschool program enrolled pupils’ ridership eligibility for the purposes of pupil transportation. This fiscal note assumes 4,135 preschool enrollments in FY 2020 and 5,169 in FY 2021. Current pre-kindergarten ridership on preexisting routes totals 2,371 in FY 2018 servicing 93 school systems. Although current ridership would not increase costs to the state it is assumed that mid-day and additional routes may be put in place to accommodate half-time preschool programs. The transportation appropriation would increase by \$250,000 for each year of the 2021 biennium to accommodate students attending these half-time preschool programs.

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

27. HB 225 includes inflationary increases to the quality educator payments defined in 20-9-327, MCA. That statute includes the Montana School for the Deaf and Blind (MSDB), Pine Hills and Riverside state youth correctional facilities, and Montana Youth Challenge program within the Department of Military Affairs. The following table shows the increased funding that would be directed to the base budget for these agencies to fund the quality educator payment increase.

Present Law QE Payment		\$3,245	\$3,245	\$3,245	\$3,245
Proposed QE Payment		\$3,275	\$3,335	\$3,378	\$3,432
Adjustment		\$30	\$90	\$133	\$187
	FTE	FY 2020	FY 2021	FY 2022	FY 2023
MSDB	25.4	\$762	\$2,286	\$3,378	\$4,750
Corrections	11.0	\$330	\$990	\$1,463	\$2,057
Military Affairs	5.0	\$150	\$450	\$665	\$935

DPHHS Children’s Mental Health Bureau (CMHB)

- 28. The Comprehensive School and Community Treatment (CSCT) program is a school-based Medicaid behavioral health service for children. CSCT services are available to Medicaid eligible children, including children under the age of five (5).
- 29. It is anticipated that HB 225 would increase access to CSCT services for preschool age Medicaid clients.
- 30. Based on current CSCT utilization by preschool age children under the age of five, it is estimated that under the provisions of HB 225 an additional 75 preschool age children would receive CSCT services in FY 2020.
- 31. The CSCT program is estimated to grow by 7.75% each year of the biennium. For purposes of this fiscal analysis, the number of additional preschool age CSCT clients is increased by 7.75% each year.
- 32. The CSCT program is federally funded through DPHHS with school districts providing the state portion of Medicaid match.
- 33. The table below shows the estimated number of clients and estimated fiscal impacts by funding source for the CSCT program.

Children's Mental Health Assumptions HB 225	FY 2020	FY 2021	FY 2022	FY 2023
Est Average (Avg.) Monthly New Children Served	75	81	87	94
Avg. Monthly Hours - CSCT Service	8.0	8.0	8.0	8.0
Total Avg. 15 min Units per Month per Child	32.0	32.0	32.0	32.0
\$ Rate per 15 min - CSCT	\$26.54	\$26.54	\$26.54	\$26.54
Avg. Expenditure per Month per Child	\$849.28	\$849.28	\$849.28	\$849.28
Estimated Total Annual Expenditures	\$764,352	\$825,500	\$886,648	\$957,988
FMAP	FY 2020	FY 2021	FY 2022	FY 2023
Standard Medicaid - 96%				
State Share (School Matching)	35.07%	34.85%	34.85%	34.85%
Federal Share	64.93%	65.15%	65.15%	65.15%
CHIP - 4%				
State Share (School Matching)	9.75%	21.25%	21.25%	21.25%
Federal Share	90.25%	78.75%	78.75%	78.75%
Funding	FY 2020	FY 2021	FY 2022	FY 2023
State Share (School District Match)	\$ 260,317	\$ 283,196	\$ 304,174	\$ 328,647
Federal Share	\$ 504,035	\$ 542,304	\$ 582,475	\$ 629,341
TOTAL	\$ 764,352	\$ 825,500	\$ 886,648	\$ 957,988

Fiscal Note Request – As Introduced - Revised

(continued)

<u>Fiscal Impact:</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
FTE	1.00	1.00	1.00	1.00
<u>Expenditures:</u>				
Personal Services (MSDB)	\$762	\$2,286	\$3,378	\$4,750
Personal Services (Corrections)	\$330	\$990	\$1,463	\$2,057
Personal Services (Military Affairs)	\$150	\$450	\$665	\$935
Personal Services (OPI)	\$110,617	\$107,098	\$108,704	\$110,335
Local Assist (Special Ed)	\$0	\$0	\$558,466	\$1,260,072
Benefits (DPHHS)	\$504,035	\$542,304	\$582,475	\$629,341
Quality Ed Loan Assist Approp	\$250,000	\$250,000	\$250,000	\$250,000
<u>Present Law Adjustments</u>				
Local Assist (DSA)	\$9,443,824	\$19,293,007	\$28,138,937	\$38,813,054
Local Assist (GTB)	\$10,687,051	\$20,243,253	\$24,493,280	\$29,588,617
Local Assist (Indian Ed for All)	\$31,580	\$97,913	\$160,582	\$235,822
Local Assist (Achieve Gap)	\$33,798	\$115,090	\$176,059	\$257,351
Local Assist (Quality Educator)	\$422,739	\$1,179,857	\$1,722,459	\$2,403,865
Local Assist (Data for Achieve)	\$3,209,998	\$3,272,947	\$3,333,319	\$3,406,194
Local Assist (Retire GTB)	\$3,921,507	\$5,168,985	\$6,250,036	\$7,538,807
<u>Preschool Adjustments</u>				
Local Assist (DSA)	\$4,953,205	\$6,736,480	\$6,644,308	\$6,990,514
Local Assist (GTB)	\$2,397,894	\$3,356,106	\$3,274,663	\$3,436,291
Local Assist (Indian Ed for All)	\$43,569	\$59,433	\$58,596	\$61,621
Local Assist (Achieve Gap)	\$0	\$75,000	\$75,820	\$77,180
Local Assist (Quality Educator)	\$0	\$650,000	\$658,710	\$669,240
Local Assist (Data for Achieve)	\$41,724	\$56,908	\$56,112	\$59,023
Local Assist (Retire GTB)	\$326,804	\$446,897	\$520,574	\$577,114
Local Assist (Startup Grants)	\$1,000,000	\$800,000	\$0	\$0
Local Assist (Transportation)	\$250,000	\$250,000	\$250,000	\$250,000
TOTAL Expenditures	\$37,629,588	\$62,705,004	\$77,318,605	\$96,622,184
<u>Funding of Expenditures:</u>				
General Fund (01)	\$37,125,553	\$62,162,700	\$76,736,130	\$95,992,843
Federal Special Revenue (03)	\$504,035	\$542,304	\$582,475	\$629,341
TOTAL Funding of Exp.	\$37,629,588	\$62,705,004	\$77,318,605	\$96,622,184
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
Federal Special Revenue (03)	\$504,035	\$542,304	\$582,475	\$629,341
TOTAL Revenues	\$504,035	\$542,304	\$582,475	\$629,341
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$37,125,553)	(\$62,162,700)	(\$76,736,130)	(\$95,992,843)
Federal Special Revenue (03)	\$0	\$0	\$0	\$0

Effect on County or Other Local Revenues or Expenditures:

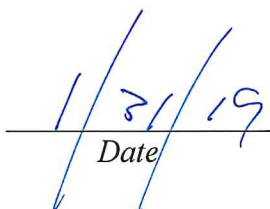
1. The local property tax impact related to inflation increases to the school funding formula would be an increase of \$5.3 million for the 2021 biennium.
2. The local property tax impact related to preschool funding in association with the school funding formula would be an increase of \$3.5 million for the 2021 biennium.
3. The addition of students to the CSCT program could create an additional Medicaid match for school districts statewide of \$260,317 in FY 2020 and \$283,196 in FY 2021.

Technical Notes:

1. The Quality Educator Loan Assistance Program was not funded in FY 2018 and FY 2019. It is unclear whether applicants receiving awards prior to FY 2018 would continue to be eligible for awards in the future (20-4-505, MCA). The awards are based on first complete year of teaching, second complete year of teaching, and third complete year of teaching. If a teacher was eligible in the years not funded, would they be eligible now and at what level?



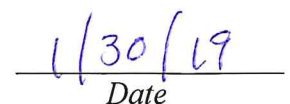
Sponsor's Initials



Date



Budget Director's Initials



Date