



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2021 Biennium

<b>Bill #</b>	HB0755	<b>Title:</b>	Generally revise pre-kindergarten laws
<b>Primary Sponsor:</b>	Moore, Frederick (Eric)	<b>Status:</b>	As Introduced

- 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>
<b>Expenditures:</b>				
General Fund	\$5,400,000	\$11,400,000	\$11,400,000	\$11,400,000
<b>Revenue:</b>				
General Fund	\$0	\$0	\$0	\$0
<b>Net Impact-General Fund Balance:</b>	<u>(\$5,400,000)</u>	<u>(\$11,400,000)</u>	<u>(\$11,400,000)</u>	<u>(\$11,400,000)</u>

**Description of fiscal impact:** HB 755 appropriates \$2 million to the Department of Health and Human Services in FY 2020 to continue the STARS preschool program; \$3 million is appropriated for FY 2020 to the Office of Public Instruction to continue the federal preschool development program; \$400,000 is appropriated for a new Department of Early Childhood (DEC) for each year of the 2021 biennium, and an \$11 million appropriation is made to the DEC for distribution to public schools, private providers, and Head Starts participating in a Montana school ready preschool program in FY 2021. The \$400,000 and \$11 million appropriations are to be considered ongoing base beyond the 2021 biennium.

### FISCAL ANALYSIS

#### Assumptions:

#### **Department of Early Childhood (DEC) – new in this bill**

1. HB 755 creates a Department of Early Childhood (DEC) in the Executive Branch of government. The DEC would consist of a department head and up to 2 FTE to provide opportunities to increase school readiness of Montana children by creating a voluntary Montana school ready preschool program.
2. The bill provides for an application process and funding formula to distribute funding to qualifying public schools, private providers, and head start grantees.

3. Section 7 of HB 755 includes a prioritization for approval of applicants who meet the quality guidelines section 5(10). The prioritization is described in section 7(3)(a) and orders approvals first to previous participating providers, including expansions of those programs. After this first prioritization, one-half of the remaining available appropriation is to be directed to approvals of applications from applicants located within school district boundaries with high areas of poverty as determined by the director. The remaining portion is to be distributed to the remaining applicants in the order of which they were received by the Director of Early Childhood (DEC).
4. The DEC will report all approved applications to the Office of Public Instruction (OPI) and will include the number of approved classrooms and the projected number of preschool students to be enrolled. This information will be provided to the OPI before the first Monday of February.
5. Eligibility for funding of preschool in a public-school district is contingent on the Montana Board of Public Education modifying certain accreditation standards described in section 8(1)(e).
6. Section 9 establishes the creation of the early childhood coordinating council to consist of seven members as directed. The council would meet at least four times per year and would be reimbursed for travel expenses per the bill.
7. Participating provider as defined in HB 755 includes public schools, private providers and head start programs. Approval of participating providers is based on approval of classroom where each classroom is not to exceed 18 students. These approved classrooms must provide a minimum of 432 aggregate hours of instruction in a school year.
8. The bill appropriates \$400,000 to the new department for each year of the 2021 biennium and up to 3 FTE for administration and operation of the DEC for Montana school ready preschool programs.

*Private Providers and Head Starts*

9. Section 7(2) directs non-public schools applying for preschool aid to provide with its application a proposed budget based on projected enrollment and to include how the provider will contribute a minimum 25% match of state funding.
10. Section 8(3) Participating providers that are not school districts must report to the DEC the number of pre-enrolled students by the first Monday in February.
11. The DEC shall distribute funding to non-public providers an amount equal to one-half of 80% of the maximum rate per-ANB pursuant to 20-9-306, MCA, for the current fiscal year per each approved preschooler in an approved classroom.
12. Per Section 8(3)(b) through (d) and amended 20-9-313, MCA, (Section 13), participating providers that are not a school district are to report the number of preschool students associated with the pre-enrollment process by the first Monday of October. If the number of students reported on the October count is less than the number of students being funded per the pre-enrollment in February, the OPI would adjust the payments for the remainder of the year accordingly.
13. The follow table shows the Per ANB payment per student for each year and the calculation for the per private provider student payments.

	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>
Per ANB	\$5,727	\$5,801	\$5,894
half Per ANB	\$2,864	\$2,901	\$2,947
80% distribution Per ANB	\$2,291	\$2,320	\$2,358

14. Section 8(5)-The director of early education in preparing and submitting an agency budget shall calculate the total payments scheduled to be distributed to participating providers that are not public school-districts in the second year of the biennium. The present law base for the DEC must include this amount plus the inflation factor described in 20-9-326, MCA.
15. There is an appropriation of \$11 million for FY 2021 from the state general fund to the Department of Early Childhood for the purposes of distributing payments to participating providers in the Montana school ready

preschool program. The bill directs a transfer of a portion of this appropriation to the OPI for distribution of BASE aid.

**Office of Public Instruction (OPI)**

*Public School District Funding*

16. 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.

	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>
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

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

	<b><u>FY 2019</u></b>	<b><u>FY 2020</u></b>	<b><u>FY 2021</u></b>	<b><u>FY 2022</u></b>	<b><u>FY 2023</u></b>
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

18. 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:

<b>Basic Entitlements</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>
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
<b>Basic Entitlement Increments</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>
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
<b>Per ANB Entitlements</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>
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%
<b>Components</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>
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

19. 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>
<b>Direct State Aid</b>	\$469.1 million	\$478.9 million
<b>Guaranteed Tax Base Aid</b>	\$226.5 million	\$236.0 million
<b>County Retirement GTB</b>	\$44.8 million	\$46.1 million
<b>Indian Education For All</b>	\$3.4 million	\$3.4 million
<b>American Indian Achievement Gap</b>	\$4.4 million	\$4.5 million
<b>Quality Educator</b>	\$41.3 million	\$42.1 million
<b>Data for Achievement</b>	\$3.2 million	\$3.3 million

20. 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.
21. The statewide present law taxable valuations are forecast to increase by 7.7% in FY 2020 and 2.10% in FY 2021
22. Preschoolers, in the case of public school, are students to be enrolled in approved classrooms and for the purposes of inclusion in the calculation of BASE Aid funding for school districts are to be counted as one-halftime enrolled.
23. Approved school districts are directed to inform the OPI of approval before the first Monday in February and the OPI is to include these approved, pre-enrolled, preschool students into the fall and spring enrollment counts as one-half enrollment for the purposes of calculating ANB. Additionally, section 20-9-313(1)(e), MCA, 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 2021 by 698.
24. In years where there is a legislative session, these pre-approved preschool students are to be considered pending until the amount of appropriation to support the program is known. When the appropriation is approved by the legislature, the director of the DEC would make adjustments to the number of approved preschool students who would be counted for funding distribution and issue final numbers for the ensuing year funding to the OPI.
25. If the number of public-school enrolled and approved preschool students is less than the number of public school pre-enrolled preschool students applied for ANB purposes, the OPI shall adjust payments to the school district and recalculate the district’s budget accordingly as per 20-9-314(6)(b) not to include the 4% or 40 students associated with unusual enrollment increases.
26. In the final, *students enrolled for the purposes of ANB funding* report, fall FY 2019 indicates that there are 11,885 students enrolled in kindergarten programs.
27. The OPI estimates that 30% of this number may enroll in approved public school preschool programs under the school ready preschool program, or 3,566 students.
28. These students are to be considered half-time enrolled for the purposes of the ANB calculation. This calculation is estimated as follows: Current Year ANB =  $((3,566 \times 0.5) \times 187) / 180$  or 1,852 additional current year ANB.
29. Proportionately distributing this estimated current year ANB over all districts currently providing kindergarten programs and adjusting for the three-year average adjustment described in assumption amended 20-9-313, MCA, budget limitation ANB is estimated to increase by 1,830 in FY 2021.
30. 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.

31. The OPI estimates that FTE will increase on average at a rate of one per 18 additional enrolled students or  $3,566 / 18 = 198$  FTE rounded to 200 additional FTE. These FTE will be included in the calculation of the quality educator payment (QE) in the BASE aid formula beginning in FY 2022. The statutory rate in FY 2022 will be \$3,378 and \$3,432 in FY 2023. The OPI estimates an increase in the QE payment of \$675,600 in FY 2022 and \$686,400 in FY 2023.
32. 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 2021 to be included in the calculation for the American Indian achievement gap payment in FY 2022.
33. The following is an estimation of increases to BASE aid state funding related to increases of approved public school preschool participating providers.

	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>
Direct State Aid	\$4,637,659	\$4,444,424	\$5,002,063
Guaranteed Tax Base Aid	\$2,291,839	\$2,292,163	\$2,638,290
Indian Education for All Payment	\$40,940	\$39,230	\$44,064
Achievement Gap Payment	\$0	\$75,820	\$77,180
Quality Educator Payment	\$0	\$675,600	\$686,400
Data for Achievement Payment	\$39,201	\$37,567	\$42,207
Retirement GTB	<u>\$344,740</u>	<u>\$362,200</u>	<u>\$429,919</u>
Total	\$7,354,372	\$7,927,004	\$8,920,123

*Student Transportation*

34. Section 14, HB 755, amends statute to include all pupils as defined in 20-5-101, MCA, as “eligible transportees” for the purposes of pupil transportation.
35. Section 20-10-101, MCA, is amended to accommodate enrolled preschool pupils’ ridership eligibility for the purposes of pupil transportation. This fiscal note assumes 3,566 pre-school enrollments 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 additional routes may be put in place to accommodate pre-school programs. The appropriation for transportation in HB 2 would need to be increased by \$250,000 for FY 2021 and succeeding years to accommodate students attending these halftime preschools.

*Appropriations & Authority*

36. The OPI would need 2.00 FTE in the School Finance Division to implement the preschool management and distributions. The financial specialists would cost \$169,488 annually for salary and benefits in FY 2021. The operating budget for these positions would be \$19,600 (including \$5,600 of one-time-only costs), and indirect costs of \$32,146 for a total FY 2021 cost of \$221,234.
37. Section 8(2)(c)(ii) and (iii), by July 15 the OPI shall determine the increase of BASE aid for the initial year or expansion of programs of approved public-school districts and inform the DEC. The DEC shall then transfer the calculated amount from the DEC’s appropriation and it authority to the OPI by July 31.
38. Section 8(4)-The superintendent of public instruction in preparation and submitting an agency budget shall calculate and note the costs of BASE aid in the upcoming biennium attributable to the inclusion of public-school preschool students approved for funding purposes.
39. There is a general fund appropriation of \$3 million for FY 2020 only to the Office of Public Instruction for the purpose of continuing the preschool classrooms currently funded through the federal preschool development grant.

**Department of Health and Human Services (DPHHS)**

40. The Human and Community Services Division (HCDC) would maintain 1.0 modified FTE for FY2020. Personal services costs would be \$75,579.49 for the year.

41. Operating costs in the amount of \$9,500 would include Travel (\$2,000), Rent (\$5,500), and supplies and materials (\$2,000).
42. HCSD would contract with the current contractors in the amount of \$1,915,288 which would be about a 27% reduction in their budgets.
43. There is an appropriation of \$2 million from the state general fund to the Department of Health and Human Services for the purposes of continuing the STARS preschool program in FY 2020 only.
44. Program support would be limited in the transition year as a result of the decrease in funding.
45. Data analysis would be limited due to reduced funding.
46. Educational materials would not be provided during the transition year.

**Legislative Branch – Audit Division**

47. Section 1 of HB 755 creates a new state agency, Department of Early Childhood, as defined in 2-15-102, MCA.
48. Pursuant to 5-13-304(1), MCA, the legislative auditor shall conduct a financial and compliance audit of every state agency every two years covering the two-year period since the last audit, unless otherwise required by state law.
49. Pursuant to 5-13-403(3), MCA, the legislative auditor may not bill an agency for audit services in excess of amounts appropriated for audit services.
50. A comparable sized audit based on similar compliance requirements and transaction cycles requires 350 hours.
51. The projected billing rate for the 2021 biennium is \$75.50 per hour.
52. Comparably sized audit allocations for Statewide Audit and Single Audit are \$1,001 and \$385, respectively.
53. The estimated cost of a biennial audit for the 2021 biennium is \$27,811. The estimated cost of a biennial audit for the 2023 biennium is \$29,480.
54. It is assumed that any legislative audit costs that are appropriated to the department would be considered biennial and restricted.
55. The legislative audit division is not seeking to request any additional appropriation authority for the 2021 biennium to accomplish the requirements of HB 755. The projected workload will be adjusted within existing full-time equivalent positions.
56. Revenue amounts for the 2023 biennium assume an hourly billing rate of \$80, which represents a 6% increase over the projected billing rate for the 2021 biennium. This assumed increase in the audit billing rate for the 2023 biennium is the same as the percent increase for the 2021 biennium.
57. The Legislative Audit Division will establish its statutory appropriation authority, as provided for in 17-7-502, MCA, in its state special revenue fund necessary to fulfill the division's statutory obligation to spend non-general fund money first. Anticipated additional revenue, as a result of HB 755, may result in reduced general fund expenditures equal to the amount of revenue received.
58. These audits costs would be covered as part of the DEC appropriation.



	<u>FY 2020</u> <u>Difference</u>	<u>FY 2021</u> <u>Difference</u>	<u>FY 2022</u> <u>Difference</u>	<u>FY 2023</u> <u>Difference</u>
<b><u>Fiscal Impact:</u></b>				
FTE (DEC)	3.00	3.00	3.00	3.00
FTE (OPI)	0.00	2.00	2.00	2.00
<b><u>Expenditures:</u></b>				
Personal Services (DPHHS)	\$75,579	\$0	\$0	\$0
Operating Expenses (DPHHS)	\$9,133	\$0	\$0	\$0
Grants (DPHHS-STARS)	\$1,915,288	\$0	\$0	\$0
Grants (OPI-federal preschool)	\$3,000,000	\$0	\$0	\$0
Personal Services (DEC)	\$296,793	\$296,793	\$301,245	\$305,764
Operating Expenses (DEC)	\$103,207	\$75,396	\$98,755	\$64,756
Operating Expenses (DE C-audit)		\$27,811		\$29,480
Personal Services (OPI)	\$0	\$169,488	\$172,030	\$174,611
Operating Expenses (OPI)	\$0	\$51,746	\$46,838	\$47,541
Local Assist (Transportation)	\$0	\$250,000	\$250,000	\$250,000
Preschool Funds (OPI)				
Local Assist (DSA)	\$0	\$4,637,652	\$4,444,424	\$5,002,063
Local Assist (GTB)	\$0	\$2,291,839	\$2,292,163	\$2,638,290
Local Assist (Indian Ed)	\$0	\$40,940	\$39,230	\$44,064
Local Assist (Achieve Gap)	\$0	\$0	\$75,820	\$77,180
Local Assist (Quality Educator)	\$0	\$0	\$675,600	\$686,400
Local Assist (Data for Achieve)	\$0	\$39,201	\$37,567	\$42,207
Local Assist (Retire GTB)	\$0	\$344,740	\$362,200	\$429,919
Transfers (to OPI)	\$0	(\$7,825,606)	(\$8,395,873)	(\$9,392,275)
Appropriation (to DEC)	\$0	\$11,000,000	\$11,000,000	\$11,000,000
<b>TOTAL Expenditures</b>	<b>\$5,400,000</b>	<b>\$11,400,000</b>	<b>\$11,400,000</b>	<b>\$11,400,000</b>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$5,400,000	\$11,400,000	\$11,400,000	\$11,400,000
<b>TOTAL Funding of Exp.</b>	<b>\$5,400,000</b>	<b>\$11,400,000</b>	<b>\$11,400,000</b>	<b>\$11,400,000</b>
<b><u>Revenues:</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
<b>TOTAL Revenues</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**Net Impact to Fund Balance (Revenue minus Funding of Expenditures):**

General Fund (01)	(\$5,400,000)	(\$11,400,000)	(\$11,400,000)	(\$11,400,000)
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**Effect on County or Other Local Revenues or Expenditures: Office of Public Instruction (OPI)**

- The local property tax impact related to preschool funding in association with the school funding formula would be an increase of \$1.35 million for FY 2021, \$1.35 in FY 2022 and \$1.62 in FY 2023 and beyond.

			
<i>Sponsor's Initials</i>	<i>Date</i>	<i>Budget Director's Initials</i>	<i>Date</i>