



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill # SB0095

Title: Revise school funding inflationary adjustment

Primary Sponsor: McClafferty, Edith (Edie)

Status: 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 2022 Difference</u>	<u>FY 2023 Difference</u>	<u>FY 2024 Difference</u>	<u>FY 2025 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$8,036,029	\$17,998,209
Revenue:				
General Fund	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u>\$0</u>	<u>\$0</u>	<u>(\$8,036,029)</u>	<u>(\$17,998,209)</u>

Description of fiscal impact: SB 95 modifies section 20-9-326, MCA, which prescribes the annual inflation factors used for calculating the school funding formula. There would be no fiscal impact to the state in the 2023 biennium. The fiscal impact of SB 95 for the 2025 biennium would be \$26 million.

FISCAL ANALYSIS

Assumptions:

- SB 95 changes the formula for calculating the inflation factor used in determining base aid. Current law uses the consumer price index, U.S. city average, all urban consumers, for all items, using the 1982-84 base of 100 in a calculation to determine the inflation factor the Superintendent of Public Instruction is to use to propose the budget for the ensuing biennium. SB 95 changes that calculation to use the June employment cost index for total compensation for elementary and secondary schools, seasonally adjusted, using the December 2005 base of 100. Both indices are from the Bureau of Labor Statistics of the U.S. Department of Labor.
- 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).

	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
K-6 ANB	85,452	85,935	86,696	87,205	87,788
7-8 ANB	24,270	24,325	23,667	23,580	23,746
9-12 ANB	<u>44,140</u>	<u>44,998</u>	<u>45,932</u>	<u>46,549</u>	<u>46,415</u>
	153,862	155,258	156,295	157,334	157,949

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

	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
School Districts	12,556.980	12,556.980	12,556.980	12,556.980	12,556.980
Special Ed Coops	<u>180.147</u>	<u>180.147</u>	<u>180.147</u>	<u>180.147</u>	<u>180.147</u>
Total FTE	12,737.127	12,737.127	12,737.127	12,737.127	12,737.127

4. 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 is 1.50% in FY 2022 and 2.57% in FY 2023. Entitlements and the components set in Governor Gianforte’s Executive Budget follows:

<u>Basic Entitlements</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
Elementary Basic	\$53,541	\$54,344	\$55,741	\$56,744	\$57,788
Middle School Basic	\$107,084	\$108,690	\$111,483	\$113,490	\$115,578
High School Basic	\$321,254	\$326,073	\$334,453	\$340,473	\$346,738

<u>Basic Entitlement Increments</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
Elementary (Each 25 ANB > 250 ANB)	\$2,678	\$2,718	\$2,788	\$2,838	\$2,890
Middle School (Each 45 ANB > 450 ANB)	\$5,354	\$5,434	\$5,574	\$5,674	\$5,778
High School (Each 80 ANB past 800 ANB)	\$16,063	\$16,304	\$16,723	\$17,024	\$17,337

<u>Per ANB Entitlements</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
Elementary Per-ANB	\$5,727	\$5,813	\$5,962	\$6,069	\$6,181
High School Per-ANB	\$7,333	\$7,443	\$7,634	\$7,771	\$7,914
Direct State Aid (DSA) Percentage	44.7%	44.7%	44.7%	44.7%	44.7%

<u>Components</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
Indian Education for All	\$22.36	\$22.70	\$23.28	\$23.70	\$24.14
Indian Achievement Gap	\$220	\$223	\$229	\$233	\$237
Quality Educator	\$3,335	\$3,385	\$3,472	\$3,534	\$3,599
At Risk	\$5,641,973	\$5,726,603	\$5,873,777	\$5,979,505	\$6,089,528
Data for Achievement	\$21.41	\$21.73	\$22.29	\$22.69	\$23.11

5. 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:

Payment	FY 2022	FY 2023
Direct State Aid	\$494.7 million	\$509.4 million
Guaranteed Tax Base Aid	\$237.0 million	\$248.3 million

County Retirement GTB	\$49.7 million	\$51.4 million
Indian Education for All	\$3.5 million	\$3.6 million
American Indian Achievement Gap	\$4.6 million	\$4.7 million
Quality Educator	\$43.1 million	\$44.2 million
Data for Achievement	\$3.4 million	\$3.5 million

6. The Natural Resources Development payment is statutorily appropriated at \$10 million per year in 20-9-635, MCA. Funding for this component is budgeted at \$2,209,000 million in FY 2022 and \$2,539,000 in FY 2023 from the state special revenue coal sub-trust interest. Additionally, \$7,791,000 in FY 2022 and \$7,461,000 in FY 2023 will come from the state general fund. It is estimated that to fully fund this component if all school districts levied to receive the maximum amount of funding allowed, it would cost the state a total of \$10.3 million per year of the 2023 biennium.
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 Governor’s 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 is maintained at the FY 2021 level of \$44.70 million per year.
9. The At-Risk Student payment inflation increase of \$84,630 in FY 2022 and \$231,804 in FY 2023 will be appropriated in HB 2.
10. The statewide present law taxable valuations are forecast to increase by 7.28% in FY 2022 and 1.79% in FY 2023.
11. The inflation factor being changed in SB 95 is used by the Superintendent of Public Instruction to determine the amount of BASE aid to be proposed in the Superintendent’s budget proposal. The budget for the 2023 biennium has already been proposed and the bill has no specified effective date therefore, the new inflation calculation would be effective for the Superintendent’s budget for the 2025 biennium.
12. BASE aid components included in the inflationary adjustments: basic and per ANB entitlements, quality educator, Indian education for all, American Indian achievement gap, data for achievement and at-risk.
13. As stated in assumption #1, SB 95 changes how the inflation factor used for determining increases to the school funding formula are determined. The following table illustrates a historical trend comparing current law with the proposed bill language.

	Current Law		Proposed Law		Difference		Legislative Approved	
	1st Yr	2nd Yr	1st Yr	2nd Yr	1st Yr	2nd Yr	1st Yr	2nd Yr
	CPI-U	CPI-U	CPI-U	CPI-U	CPI-U	CPI-U	CPI-U	CPI-U
2015 Bien	0.89%	2.08%					0.89%	2.08%
2017 Bien	2.33%	1.79%					2.33%	1.79%
2019 Bien	1.37%	1.00%					0.50%	1.87%
2021 Bien	0.91%	1.83%					0.91%	1.83%
2023 Bien	2.16%	1.91%					1.50%**	2.57%**
2025 Bien*	1.80%	1.84%	2.71%	2.92%	0.91%	1.08%		
2027 Bien*	2.04%	1.77%	3.28%	3.27%	1.24%	1.50%		

*Forecast inflation factors

**Executive proposed inflation factor

14. The statute in this bill, 20-9-326, MCA, caps the inflation factor at 3%. Beginning in the 2027 biennium the inflation factor used for proposing the BASE aid budget, would be 3%.

15. This bill defines the inflation calculation used to determine the budget to be proposed by the Superintendent for BASE aid and does not appropriate funds. Funding for BASE aid is proposed in the January 7, 2021 Executive Budget.
16. There would be no change in cost of BASE aid in the 2023 biennium because the budget has already been proposed. The costs showing in FY 2024 and FY 2025 are the difference between the January 7, 2021 Executive Budget and calculations using the proposed employment cost index formula.

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

17. SB 95 includes inflationary increases to the quality educator payments (QE) defined in 20-9-327, MCA. That statute includes the Montana School for the Deaf and Blind (MSDB), Pine Hills 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 each of these agencies to fund the quality educator payment increases.

Present Law QE payment		\$3,335	\$3,335
Proposed QE Payment Exec Budget		\$3,534	\$3,599
SB 95 Proposed QE Pmt		\$3,566	\$3,670
Adjustment		\$32	\$71
	<u>FTE</u>	<u>FY 2024</u>	<u>FY 2025</u>
MSDB	25.40	\$831	\$1,803
Corrections	11.00	\$352	\$781
Military Affairs	5.00	\$160	\$355

	<u>FY 2022 Difference</u>	<u>FY 2023 Difference</u>	<u>FY 2024 Difference</u>	<u>FY 2025 Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Personal Services (MSDB)	\$0	\$0	\$831	\$1,803
Personal Services (Corrections)	\$0	\$0	\$352	\$781
Personal Services (Military Affairs)	\$0	\$0	\$160	\$355
Local Assist (DSA)	\$0	\$0	\$4,767,356	\$10,642,440
Local Assist (Guarantee Tax Base Aid)	\$0	\$0	\$2,243,344	\$5,121,267
Local Assist (Indian Education for All)	\$0	\$0	\$33,039	\$74,255
Local Assist (Achievement Gap)	\$0	\$0	\$41,298	\$103,245
Local Assist (Quality Educator)	\$0	\$0	\$407,588	\$904,336
Local Assist (Data for Achievement)	\$0	\$0	\$31,471	\$71,108
Local Assist (Retirement GTB)	\$0	\$0	\$457,139	\$959,029
Local Assist (At Risk Student)	\$0	\$0	\$53,451	\$119,590
TOTAL Expenditures	\$0	\$0	\$8,036,029	\$17,998,209
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$8,036,029	\$17,998,209
TOTAL Funding of Exp.	\$0	\$0	\$8,036,029	\$17,998,209
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Revenues	\$0	\$0	\$0	\$0
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	\$0	(\$8,036,029)	(\$17,998,209)

Effect on County or Other Local Revenues or Expenditures:

- Local property taxes are estimated to increase by \$3.3 million in FY2024 and \$5.5 in FY2025.

AUTHORIZED BY SPONSOR

_____ 4/18/21 _____ KA _____ 1/16/21
 Sponsor's Initials Date Budget Director's Initials Date