



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

HB0707 - Allow certain elementary districts to create new high school district (Etchart, Jodee)

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 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
Expenditures:				
General Fund	\$0	\$5,970,742	\$5,205,655	\$2,026,045
Revenue:				
General Fund	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u>\$0</u>	<u>(\$5,970,742)</u>	<u>(\$5,205,655)</u>	<u>(\$2,026,045)</u>

Description of fiscal impact: HB 707 revises requirements for creation of new high school districts by authorizing multiple adjacent elementary districts with at least 1,000 combined ANB to contract for the formation of a new high school district on approval of the electors of each of the elementary districts. It is assumed four high school districts would be created costing \$6 million beginning in FY 2025 and decreasing in additional cost as ANB averaging affects budgets.

FISCAL ANALYSIS

Assumptions:

- Section 1 of HB 707 outlines procedures for the creation of a new high school district.
- The bill stipulates that two or more existing elementary districts that are adjacent to each other and are not part of a unified school system or governed by a joint board with a high school district may contract with each other to create a new high school district. The combined total of the ANB in the elementary districts, as calculated under the provisions of section 20-9-311, MCA, must be at least 1,000.
- The trustees of all affected elementary districts are required to put forth a resolution of intent and order an election of the electors of the district for approval of the proposal. Upon passage, the trustees have the

- authority to propose a transition cost levy and a general obligation bond election. Trustees are permitted to propose a resolution for expansion to the electors one time within a 5-year period.
4. Bond election limitations are based on a formula for a high school district with the high school ANB calculated by dividing the ANB of the elementary district by nine (nine grades K-8) and multiplying the result by four (four high school grades).
 5. The ANB for any inaugural grades for the high school district must be estimated by the trustees and may not exceed the number resulting from dividing the highest budgeted ANB of the combined elementary districts in the preceding three fiscal years by nine (grades K-8) and multiplying the result by the number of grades in which the high school will enroll students for the first time in the ensuing school year.
 6. The number of quality educators must be estimated by the trustees and may not exceed the number resulting from dividing the ANB estimated under Section 1(5)(a) by ten;
 7. The taxable value for budgeting purposes of the new high school district must be based on the taxable value as most recently determined by the Department of Revenue.
 8. The general fund budget adopted by the trustees must be based on only the basic entitlement, the quality educator payment, and the budget components derived from ANB counts.
 9. The district's BASE aid for the upcoming school year must be based on the general fund budget adopted by the trustees for the upcoming school year.
 10. It is stated that, until the first school year in which the new high school district enrolls students in all grades and for a period of time not to exceed 6 years following the creation of the new high school district the following apply:
 - a. The former high school district with which the contracting elementary districts were previously associated shall provide high school instruction to high school students in the new high school district in any grades in which the new high school district is not enrolling students.
 - b. The new high school district shall be responsible for providing transportation for its students enrolled in the former high school district pursuant to subsection (6)(a), may establish a transportation budget for this purpose, and may receive state and county reimbursements under Title 20, chapter 10.
 - c. The new high school district shall pay the former high school district 20% of the per-ANB maximum rate established in 20-9-306, MCA, for each of its students enrolled in the former high school district, with 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 new high school district trustees shall establish a tuition fund and levy to fund these payments.
 11. The state of Montana, in FY 2023, has 396 operating districts. Of these districts 140 are independent elementary districts without a joint school board and would qualify for the provisions of this bill. The total of FY 2023 ANB represented by these 140 districts is equal to 17,109. This equates to the potential for 17 additional high school districts.
 12. For purposes of this fiscal note, it will be assumed that there will be four new high school districts formed based on provisions in this bill. Each new high school will enroll the maximum of 444 students. Full time equivalent staff for the QEC payment will be the maximum of 44. These estimates indicate the maximum burden on the state and local taxpayers.
 13. Taxable value of each new high school district will be estimated at \$50,000,000.
 14. Current law allows school districts to three-year average ANB for budget purposes. Reductions of number of students in existing high schools would occur over a three-year period thus not allowing an equal reduction to the funding increase created by the creation of new high school district. The new high school districts would also cost an additional basic entitlement minimum at the FY 2024 rate of \$343,483.
 15. Based on requirements of the bill, it is not possible for new high school districts to be formed in FY 2024 because of election approval requirements and other timing requirement within the bill. The earliest a new high school district could be in operation would most reasonably be FY 2025.

16. It is assumed that new transportation routes will be required. For the purposes of this fiscal note, it is assumed that the state cost associated will be offset by a reduction of routes in the districts from where the students come.
17. The following assumptions reflect information used to determine funding for four new high schools beginning in FY 2025. There could be more or less new high schools created due to HB 707 legislation.
18. 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).

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
K-6 ANB	83,565	84,417	85,144	85,785	86,208
7-8 ANB	24,441	24,430	24,750	24,888	25,256
9-12 ANB	<u>45,905</u>	<u>46,573</u>	<u>46,532</u>	<u>46,539</u>	<u>46,287</u>
Total	153,911	155,420	156,426	157,212	157,751

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

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
School District FTE	13,365.497	13,365.497	13,365.497	13,365.497	13,365.497
Special Ed Coop FTE	165.709	165.709	165.709	165.709	165.709
Total FTE	13,531.206	13,531.206	13,531.206	13,531.206	13,531.206

20. The present law inflation applied to the Basic and Per-ANB Entitlements, the Quality Educator, Indian Education for All, American Indian Achievement Gap, Data-for-Achievement, At Risk, and the Special Education Allowable Cost Payment components (20-9-326, MCA) is 2.70% in FY 2024 and 3.00% in FY 2025. For the present law budget, entitlements and components are set as follows:

<u>Basic Entitlements</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
Elementary Basic	\$55,741	\$57,246	\$58,963	\$60,732	\$62,050
Middle School Basic	\$111,483	\$114,493	\$117,928	\$121,466	\$124,102
High School Basic	\$334,453	\$343,483	\$353,787	\$364,401	\$372,309

<u>Basic Entitlement Increments</u>					
Elementary (each 25 ANB > 250 ANB)	\$2,788	\$2,863	\$2,949	\$3,037	\$3,103
Middle School (each 45 ANB > 450 ANB)	\$5,574	\$5,724	\$5,896	\$6,073	\$6,205
High School (each 80 ANB past 800 ANB)	\$16,723	\$17,175	\$17,690	\$18,221	\$18,616

<u>Per ANB Entitlements</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
Elementary Per-ANB	\$5,962	\$6,123	\$6,307	\$6,496	\$6,637
High School Per-ANB	\$7,634	\$7,840	\$8,075	\$8,317	\$8,497
Direct State Aid (DSA) Percentage	44.7%	44.7%	44.7%	44.7%	44.7%

<u>Components</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
Indian Education for All	\$23.28	\$23.91	\$24.63	\$25.37	\$25.92
Indian Achievement Gap	\$229	\$235	\$242	\$249	\$254
Quality Educator	\$3,472	\$3,566	\$3,673	\$3,783	\$3,865
At Risk	\$5,873,777	\$6,032,369	\$6,213,340	\$6,399,740	\$6,538,614
Data for Achievement	\$22.29	\$22.89	\$23.58	\$24.29	\$24.82
Special Education Allowable Cost	\$286.02	\$293.74	\$302.55	\$311.63	\$318.39

21. 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, At-Risk and Special Education Allowable Cost components in the recommendations presented to the legislature. These present law adjustments result in the following expenditures:

<u>Payment</u>	<u>FY 2024</u>	<u>FY 2025</u>
Direct State Aid	\$522.8 million	\$540.5 million
Guaranteed Tax Base Aid	\$259.9 million	\$290.3 million
County Retirement GTB	\$50.9 million	\$52.9 million
Indian Education for All	\$3.7 million	\$3.9 million
American Indian Achievement Gap	\$4.9 million	\$5.0 million
Quality Educator	\$48.3 million	\$49.7 million
Data for Achievement	\$3.6 million	\$3.7 million
Special Education Allowable Cost	\$45.7 million	\$47.3 million

22. The Natural Resources Development payment is estimated to be \$12.1 million in FY 2024 and \$12.1 million in FY 2025, if all school districts levied to receive the maximum amount of funding. Section 20-9-635, MCA, provides that the appropriation for FY 2024 and beyond be the greater of \$10 million, adjusted for inflation in accordance with section 20-9-326, MCA, or 5% of the oil and natural gas production taxes deposited in the state general fund pursuant to 15-36-331(4), MCA. Additionally, state special revenue is appropriated from the school major maintenance account, established in 20-9-525, MCA. Estimated authority is \$10.3 million general fund and \$5.1 million state special revenue in FY 2024 and \$10.6 million general fund and \$6.5 million state special revenue in FY 2025.

	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Local Assistance (DSA)	\$0	\$4,520,076	\$2,751,134	\$711,531
Local Assistance (QEC)		\$646,448	\$665,808	\$680,240
Local Assistance (IEA)	\$0	\$26,773	\$14,283	\$0
Local Assistance (Data)	\$0	\$25,631	\$13,675	\$0
Local Assistance (Retire GTB)	\$0	\$354,636	\$228,893	\$96,518
Local Assistance (GTB)	\$0	\$397,178	\$1,531,862	\$537,756
TOTAL Expenditures	<u>\$0</u>	<u>\$5,970,742</u>	<u>\$5,205,655</u>	<u>\$2,026,045</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	<u>\$0</u>	<u>\$5,970,742</u>	<u>\$5,205,655</u>	<u>\$2,026,045</u>
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$5,970,742</u>	<u>\$5,205,655</u>	<u>\$2,026,045</u>
<u>Revenues:</u>				
General Fund (01)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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	(\$5,970,742)	(\$5,205,655)	(\$2,026,045)

Effect on County or Other Local Revenues or Expenditures:

1. Creation of new high school district(s) could result in a decrease in At Risk funding to other schools as At Risk payments are based on an appropriation distributed statewide based on federal Title I funding.
2. If the new district(s) created in HB 707 incur general obligation bonds and are eligible for state facility GTB and if the state facility GTB is prorated, the addition of new district(s) would reduce prorated funding to all other K-12 public school districts in the state.
3. For every new high school district created per this legislation, other high school district's tax base will be reduced by some amount as well as decreasing the number of ANB and thus affecting the school district BASE aid funding negatively for schools losing the ANB and taxable properties.
4. Property taxes will increase for the new high school districts that would be offset by the reduction of the taxes paid by the existing districts. There will be an increase of GTB to the existing high school district due to taxable wealth change and the potential for increased GTB to the newly formed high school districts in year two of the district's opening.

Technical Notes:


1. New section 1(3)(b) states that "the bond limitations pursuant to 20-9-406, MCA, imposed on a district proposing a bond under subsection (3)(a) must be calculated on the limits for a high school district with the

high school ANB calculated by dividing the ANB of the elementary district by 9 and multiplying the result by 4.” It is not clear as to which elementary is to be used or if this is the combination of all elementaries inclusive.

2. New section 1(5)(d) states the general fund budget adopted by the trustees must be based on only the basic entitlement, the quality educator payment, and the budget components derived from ANB counts. It is not clear if this is ongoing for all years or just required in the first year.

Sponsor's Initials

Date



Budget Director's Initials

3-8-23

Date