



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2025 Biennium

**Bill information:**

HB0562 - Authorize establishment of community choice schools (Vinton, Sue )

**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>
<b>Expenditures:</b>				
General Fund	\$0	\$424,542	\$437,279	\$446,769
<b>Revenue:</b>				
General Fund	\$0	\$0	\$0	\$0
<b>Net Impact-General Fund Balance:</b>	<u>\$0</u>	<u>(\$424,542)</u>	<u>(\$437,279)</u>	<u>(\$446,769)</u>

**Description of fiscal impact:** HB 562 establishes community choice schools. The state fiscal impact would be about \$400,000 per year beginning in FY 2025.

### FISCAL ANALYSIS

**Assumptions:**

- HB 562 establishes the Community Choice Schools Act.
- The bill uses "Community Choice Schools" and "Choice Schools" interchangeably.
- HB 562 describes and defines establishment, operation, and funding of Choice Schools in Montana.
- In Section 2 the bill sites Article X, Section 1(3), of the Montana constitution as legislative findings and intent. Article X, Section 1(3) of the Montana constitution says, "The legislature shall provide a basic system of free quality public elementary and secondary schools. The legislature may provide such other educational institutions, public libraries, and educational programs as it deems desirable. It shall fund and distribute in an equitable manner to the school districts the state's share of the cost of the basic elementary and secondary school system." For purposes of this fiscal note, it is assumed a choice school established under this bill would be a public school.
- Section 15 of the bill defines funding for choice schools as the intent of the legislature to receive operational funding on a per-pupil basis that is equitable with the per-pupil funding within the general fund of a choice school's resident school district. The formula is outlined as follows:

- a. A choice school student enrollment is included in the student’s resident district enrollment and is included for ANB purposes in the resident district’s budgeting process.
  - b. In the initial year of a choice school, by March 1, prior to the choice school’s initial operation, the authorizer shall provide an estimate of enrollment to be included in the student’s resident district and to the Office of Public Instruction (OPI) for review and ANB adjustments.
  - c. The public school district where the choice school is located will receive up to 80% of a basic entitlement for the choice school in the public schools budgeting process. The choice school will receive the funding for the up to 80% basic entitlement from the located district where the choice school is located. The choice school authorizer is to inform the OPI not later than February 1st of the percentage, not to exceed 80% of the basic entitlement to be included in the located public school district for the ensuing fiscal year.
  - d. The county treasurer of the county where the choice school is physically located is to establish a general fund and other necessary funds for the choice school separate from other districts in the county.
  - e. The Superintendent of Public Instruction is to reduce the resident school district’s BASE aid payment each month, August through May, by 10% of the “up to 80% basic entitlement” chosen and budgeted for the choice school plus the student amount for each full-time equivalent resident student enrolled in a choice school and deposit that amount into the choice school county held general fund.
  - f. A choice school may be obligated to indebtedness. Additionally, the choice school is not subject to the debt service obligations of the district of location.
  - g. Choice schools may not charge tuition fees.
  - h. The governing board of a choice school is authorized to accept gifts or donations under conditions outlined in the bill.
  - i. Money received by the choice school is to remain in the school account at the end of the budget year.
6. Current law basic entitlements for public school K-12 BASE aid are proposed to be as shown in the following table and assumed for funding of Choice Schools:

<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

7. The student amount is described in the bill as follows:
- a. the data for achievement payment rate under 20-9-306, MCA;
  - b. the Indian education for all payment rate under 20-9-306, MCA;
  - c. 140% of the per-ANB amounts of the instructional block grant and related services block grant under 20-9-321, MCA; and
  - d. the applicable per-ANB maximum rate established in 20-9-306, MCA, for the choice school student multiplied by the ratio, rounded to the nearest one hundredth and not to exceed 1.00, of the resident district’s adopted general fund budget to the district’s maximum general fund budget in the prior year.
8. The estimated student amount (ESA) follows:

<b>Elementary Programs</b>									
<b>Fiscal Year</b>	<b>Data</b>	<b>IEA</b>	<b>140% IBG</b>	<b>140% RSBG</b>	<b>Per-ANB</b>	<b>Per-ANB Min</b>	<b>Per-ANB Max</b>	<b>ESA Amt Min</b>	<b>ESA Amt Max</b>
<b>FY2023</b>	\$22.29	\$23.28	\$213.46	\$71.15	\$5,962.00	\$4,769.60	\$5,962.00	<b>\$5,099.78</b>	<b>\$6,292.18</b>
<b>FY2024</b>	\$22.89	\$23.91	\$215.89	\$71.96	\$6,123.00	\$4,898.40	\$6,123.00	<b>\$5,233.05</b>	<b>\$6,457.65</b>
<b>FY2025</b>	\$23.58	\$24.63	\$222.38	\$74.13	\$6,307.00	\$5,045.60	\$6,307.00	<b>\$5,390.32</b>	<b>\$6,651.72</b>
<b>FY2026</b>	\$24.29	\$25.37	\$229.05	\$76.36	\$6,496.00	\$5,196.80	\$6,496.00	<b>\$5,551.87</b>	<b>\$6,851.07</b>
<b>FY2027</b>	\$24.82	\$25.92	\$234.01	\$78.01	\$6,637.00	\$5,309.60	\$6,637.00	<b>\$5,672.36</b>	<b>\$6,999.76</b>

<b>High School Programs</b>									
<b>Fiscal Year</b>	<b>Data</b>	<b>IEA</b>	<b>140% IBG</b>	<b>140% RSBG</b>	<b>Per-ANB</b>	<b>Per-ANB Min</b>	<b>Per-ANB Max</b>	<b>ESA Amt Min</b>	<b>ESA Amt Max</b>
<b>FY2023</b>	\$22.29	\$23.28	\$213.46	\$71.15	\$7,634.00	\$6,107.20	\$7,634.00	<b>\$6,437.38</b>	<b>\$7,964.18</b>
<b>FY2024</b>	\$22.89	\$23.91	\$215.89	\$71.96	\$7,840.00	\$6,272.00	\$7,840.00	<b>\$6,606.65</b>	<b>\$8,174.65</b>
<b>FY2025</b>	\$23.58	\$24.63	\$222.38	\$74.13	\$8,075.00	\$6,460.00	\$8,075.00	<b>\$6,804.72</b>	<b>\$8,419.72</b>
<b>FY2026</b>	\$24.29	\$25.37	\$229.05	\$76.36	\$8,317.00	\$6,653.60	\$8,317.00	<b>\$7,008.67</b>	<b>\$8,672.07</b>
<b>FY2027</b>	\$24.82	\$25.92	\$234.01	\$78.01	\$8,497.00	\$6,797.60	\$8,497.00	<b>\$7,160.36</b>	<b>\$8,859.76</b>

9. For purposes of this fiscal note, all estimates will be calculated on the average of the minimum and maximum student amounts and an average will be taken between elementary and high school programs.
10. Transition and effective date language is provided for applicability to FY 2024 and allowing that some choice schools may be operational beginning FY 2025.
11. Section 16 addresses the choice school access to district facilities and land and is described within the bill language.
12. For purposes of this fiscal note, it is estimated that five choice schools will be established for operation as of FY 2025. The following table indicates the estimated student amounts and basic entitlements for each program. Student amounts are to be withheld by the OPI and directed to the choice school’s county general fund account, as defined in the bill, from each student’s district of location. The basic entitlement is not to exceed 80% of the total entitlement amount and is to be withheld by the OPI and directed to the choice school’s county general fund account from the choice school’s district of location.

	<b>Program</b>	<b>Students Attending</b>	<b>Student Amount Est for FY 2025</b>	<b>Basic Entitlement</b>	<b>Total</b>
<b>Choice School A</b>	Elementary	100	\$593,630	\$47,170.40	\$640,800.40
<b>Choice School B</b>	Elementary	60	\$356,178	\$47,170.40	\$403,348.40
<b>Choice School C</b>	Middle	25	\$188,188	\$94,342.40	\$282,530.40
<b>Choice School D</b>	High School	50	\$376,375	\$283,029.60	\$659,404.60
<b>Choice School E</b>	High School	30	\$225,825	\$283,029.60	\$508,854.60
<b>TOTAL</b>		<b>265</b>	<b>\$1,740,196</b>	<b>\$754,742.40</b>	<b>\$2,494,938.40</b>

13. These amounts will be funded with state and local levy funds. These amounts will be directed to the choice school from the K-12 public school district of location. Additional state costs will be from the payments of additional basic entitlements as required by HB 562.
14. HB 562 states that each community choice school shall function as a local educational agency and is responsible for meeting the requirements of a local educational agency under applicable federal, state, and local laws, including those related to special education.
15. All calculations for this fiscal note are based on currently enrolled K-12 public students leaving the public school to move to choice school. If nonpublic students were to enroll at the choice schools, state funding and local taxpayer funding would increase.
16. State funding and local levies may increase as additional choice schools are created.

	<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>
<b><u>Fiscal Impact:</u></b>				
<b><u>Expenditures:</u></b>				
Local Assist (Direct State Aid)	\$0	\$424,542	\$437,279	\$446,769
<b>TOTAL Expenditures</b>	<b>\$0</b>	<b>\$424,542</b>	<b>\$437,279</b>	<b>\$446,769</b>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$0	\$424,542	\$437,279	\$446,769
<b>TOTAL Funding of Exp.</b>	<b>\$0</b>	<b>\$424,542</b>	<b>\$437,279</b>	<b>\$446,769</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)	\$0	(\$424,542)	(\$437,279)	(\$446,769)
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**Effect on County or Other Local Revenues or Expenditures:**

- Local property taxes could increase by approximately \$1.0 million per year beginning in FY 2025.

**Technical Notes:**

**Office of Public Instruction**

- New section 10(4)(a) states that the charter contract for a full-time virtual choice school must include a description and agreement regarding methods by which a virtual choice school will monitor and verify full-time student enrollment. It is unclear as to the monitoring requirements if a student is enrolled less than full-time. Additionally, there is no indication of student monitoring if the program is not virtual.
- Section 15(3) indicates that the county is to establish a general fund and other necessary funds for the choice school. The county is not a legal entity representing the choice school and is not required to manage the finances on the choice school's behalf.
- Choice schools do not appear to have a board of trustees and there is no requirement for production of an annual trustee's financial summary, school districts' financial reporting to the state. Choice schools are to receive state and local funds with no required accountability for the use of those funds other than a report to be provided to the state community choice school commission. It is the intent of the bill for choice schools to be provided for any student in the state of Montana. The federal government requires financial reporting of all educational activities and nonreporting from choice school would not be available for federal reporting requirement. This would affect funding formulas that provide Impact Aid, Title I, and other federal grants to Montana.
- New section 15(4)(i) directs payments to choice schools in 10% increments. It is unclear as to how the choice school is to account for the receipt of these funds without an account mechanism other than the defined county accounts set up on behalf of the entity.
- New section 15(2)(b) directs an authorizer to determine the percent of basic entitlement, not to exceed 80%, to be included in the budget of the choice school's district of location. The OPI is to direct this amount, in full, to the choice school, resulting in a state payment of, up to 80% of the full basic entitlement. Current state obligation for the basic entitlement to K-12 public schools in all situations is to fund 44.7%.

6. For the initial year of a choice school's operation, the estimated number of students to be enrolled in a choice school is to be provided to the choice school student's resident school to be counted for ANB purposes of the resident school. There is no indication that the count is adjusted at some later time for over or under estimating number of choice school students.
7. The bill identifies the charter as an independent local educational agency. The local educational agency entity is synonymous with school district in the state of Montana. In accordance with section 20-6-104, MCA, there is a moratorium on the creation of new districts. This may conflict with the bill proposal.
8. It is understood that a student in a choice school may not be a resident student of the district where the choice school is located. The basic entitlement funding for the choice school will be partially paid by the property tax payers in the district where the choice school is located thus funding out of district students.
9. In the state of Montana, each local educational agency is considered its own school district. If that is the case, funding for federal grant funds such as Title programs and Individuals with Disabilities Act (IDEA) would be reduced to current public schools in order to allow distribution of funding to the choice schools. Some of these funds have a base amount that must be provided to each school, so it is a redistribution based on more than a per student basis.

**NOT SIGNED BY SPONSOR**

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*Sponsor's Initials*

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*Date*

  
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*Budget Director's Initials*

*2-24-23*  
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*Date*