Chairman Bedey requested a brief refresher on this topic for your discussion. You can find more details in previous memos provided to the committee in September and again in December.

1. First off, keep in mind that Montana's school formula and school district budgets are based on prior year enrollment counts converted to ANB (average number belonging).

2. Also, recall that our formula provides a "soft landing" for districts with declining enrollment through 3-year averaging of ANB.

3. So, what do we do for districts that are growing, especially those that are growing rapidly?
   a. We allow districts to estimate in June how many more kids they will have in the Fall through a mechanism called anticipated enrolment increases that increases a district's budget limits and its state and local funding for the ensuing year (with a claw back for kids that don't materialize). (20-9-314)
   b. And we have a mechanism that allows districts to submit a request for some additional state funding after the October enrollment count; this is called unanticipated enrollment increases. (20-9-166)
   c. Both mechanisms include what we have termed an "absorption factor"—an amount of growth that districts are expected to absorb prior to receiving additional funding. It is currently the lesser of 4% of enrollment or 40 students.
   d. It's worth pointing out that in the following year, the district's budget will be based on all of these new kids with no absorption factor—these mechanisms are an early and partial funding bump for rapidly growing districts.

4. Several problems with these mechanisms were identified in your September memo.

5. One possible solution to these problems to consider involves:
   a. Doing away with anticipated enrollment increases (this eliminates the guessing game in June, the impact on property taxes and budget limits, and the claw back).
   b. Keeping and modifying the unanticipated enrollment increase mechanism to:
      i. Make the mechanism formulaic rather than based on application and approval;
      ii. Rework the absorption factor to be more equitable; and
      iii. Determine a state payment amount for each ANB above the absorption factor (currently 44.7% of the Basic and Per-ANB entitlement amounts).