



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

Room 110 Capitol Building * P.O. Box 201711 * Helena, MT 59620-1711 * (406) 444-2986 * FAX (406) 444-3036

Director
AMY CARLSON

DATE: FEBRUARY 3 – 4, 2014

TO: Education and Local Government Committee

FROM: Legislative Fiscal Division, Robert Miller and Nick Brown, Fiscal Analysts

RE: Section 33 of SB 175, funding in excess of inflation

PURPOSE

The Education and Local Government Committee requested the Legislative Fiscal Division to determine the amount of K-12 funding in excess of inflation¹ provided by SB 175. Section 33 of SB 175 addresses reasons for providing funding in excess of inflation. A corollary question is also addressed, how will funding change when the method by which SB 175 distributes oil and natural gas revenues expires in July of 2016.

SUMMARY

Senate Bill 175 (SB 175) provided funding increase in excess of inflation in part by revising the method of funding K-12 education in Montana. Section 33 of SB 175, see appendix A, states that increases above inflation is intended to fund the costs of implementing changes to the Administrative Rules of Montana adopted by the Montana Board of Public Education regarding school accreditation standards. SB 175 provides state funding in excess of inflation for the basic entitlement and added the data for achievement payment, a new component in school funding. Funding in excess of inflation are \$26.0 million in the 2015 biennium and 38.5 million in the 2017 biennium. Table one shows the breakdown of direct state aid (DSA) and guaranteed tax base² (GTB).

Table One

Summary of SB 175 fiscal impacts above inflation		Fiscal Impact to State GF (millions)			
<u>SB 175 Increases above inflation</u>	<u>Change</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Basic Entitlement	Increased the basic entitlement above inflation	\$8.2	\$7.6	\$11.6	\$11.8
	GTB related to basic entitlement above inflation	3.1	2.6	4.1	4.0
	County Retirement GTB *	0.4	0.4	0.5	0.5
	Total Increase to basic entitlement	\$11.6	\$10.6	\$16.2	\$16.3
Data for Achievement	New component in the base budget	\$1.5	\$2.2	\$3.0	\$3.0
Total fiscal impacts to all districts		\$13.1	\$12.8	\$19.2	\$19.3

* Fiscal Note 2013 session

¹ Inflation as defined in MCA 20-9-326, base year for this report is FY 2013

² GTB - Guarantee tax base, a state subsidy of a district mill levies for districts with low taxable valuations.

MCA 20-9-326, see appendix B, requires that the Office of Public Instruction (OPI) apply inflation³ to certain components when preparing the biennial budget request for K-12 education. SB 175 provided funding in excess of inflation for two components, basic entitlements and data for achievement payments. Both components are discussed in more detail below. The basic entitlement payment was increased by 69.5% for elementary districts, 19.7% for middle schools and 10.6% for high schools in the 2015 biennium, see table two.

Table Two

SB 175 Increase to Basic Entitlements					
MCA 20-9-306	Prior Law	SB 175 Current Law			
<u>Basic Entitlement</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Elementary	\$23,593	\$40,000	\$40,000	\$50,000	\$50,835
Middle	\$66,816	\$80,000	\$80,000	\$100,000	\$101,670
High School	\$262,224	\$290,000	\$290,000	\$300,000	\$305,010

In addition to increasing the basic entitlements, SB 175 created new incremental increases to the basic entitlement for larger schools base on average number belonging⁴ (ANB), see table three.

Table Three

SB 175 Incremental increase to basic entitlement for large districts					
District	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Elementary: each increment of 25 above 250 ANB	None	\$2,000	\$2,000	\$2,500	\$2,542
Middle School: each increment of 45 above 450 ANB	None	\$4,000	\$4,000	\$5,000	\$5,084
High School: each increment of 80 above 800 ANB	None	\$12,000	\$12,000	\$15,000	\$15,251

SB 175 introduced data for achievement payments as a new component of school funding. Since this is a new component, it is entirely in excess of inflation. All other components of the K-12 funding are funded at inflation. See the appendix D for a summary of FY 2014 school district general fund budgets.

BASIC ENTITLEMENT

Every school district budgets a fix amount regardless of size as shown in table two, in addition, SB 175 introduced an incremental adjustment for larger schools as shown in table three. The basic entitlement comprises about 5.3% of state funding for K-12 general fund budget.

Under prior law all districts received the same basic entitlement regardless of size, Bear Paw Elementary with an ANB of 4 would receive the same basic entitlement as Great Falls

³ Inflation for FY 2014 – 2017 are 0.89%, 2.08%, 2.27%, 1.67% as of CPI measured September 2012

⁴ ANB – Average number belonging is an adjusted student head count used for budgeting purposes.

Elementary with ANB of 5,847 in its elementary program. Under SB 175 Great Falls would receive a larger basic entitlement based on ANB in accordance with table three.

The basic entitlement is funded 44.7% from state general fund with the remaining raised by the local school district. School districts may need to raise funds through levy to fund their share of the basic entitlement. For this reason, the increase in basic entitlement affects the amount of guaranteed tax base aid provided from the general fund.

In FY 2014, there are 413 active districts in Montana with 691 budget units with each budget unit receiving a basic entitlement.

- 321 elementary budget units
- 208 middle school budget units
- 162 high school budget units

In FY 2014 -2015 of the 413 school districts 81 are eligible for incremental increase to the basic entitlement

- 67 Elementary
- 7 middle and
- 7 high school districts

DATA FOR ACHIEVEMENT

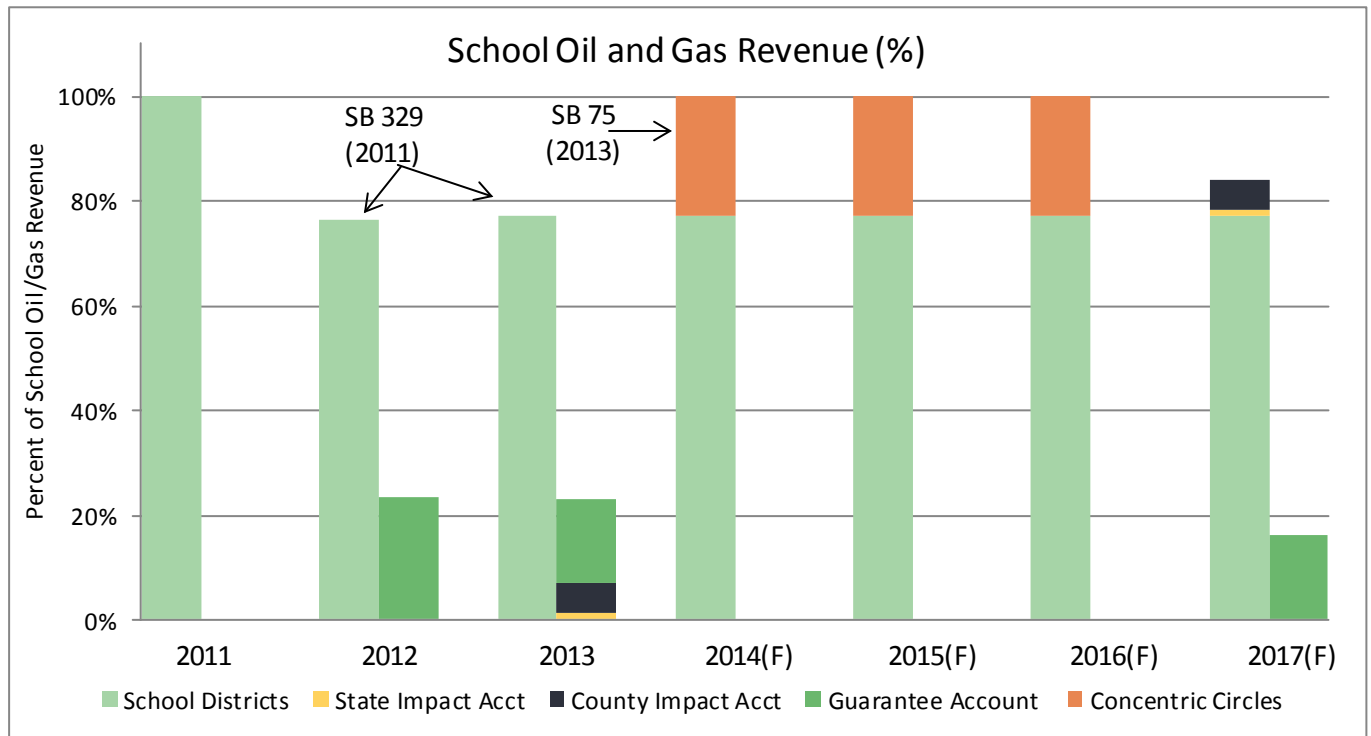
The data for achievement payment is a new component funded entirely with state general fund. Since it is new, it is considered in excess of inflation compared to FY 2013. These funds are intended help school district pay for costs associated with the use and participation in the statewide data system administered by OPI. The state will provide:

- FY 2014 \$10/ANB (\$1.5 million state funds)
- FY 2015 \$15/ANB (\$2.2 million state funds)
- FY 2016 and subsequent years \$20/ANB (\$3.0 million state funds in FY 2016)

Since the data for achievement payment is funded entirely with state funds and has not effect on GTB. Data for achievement payments represent about 0.2% of state funding for public schools.

SB 175 CONCENTRIC CIRCLES

Concentric circles in SB 175 is an additional point that is being brought up as it deals with the distribution of oil and gas production tax going to school districts, and has an approaching sunset date. There are two recent bills, SB 329 (2011) and SB 175 (2103) that affect this distribution, which had in 2011 and prior been going 100% to school districts where there was oil and gas production. Post FY16 allocations will revert to something similar to FY13, but assuming the impact accounts will be fully appropriated, which they currently are not. The chart below displays how that money is allocated on a *percentage basis* in order to see the effects of the bills, with more detailed descriptions of SB 329 and SB 175 following.



SB 329 (2011)

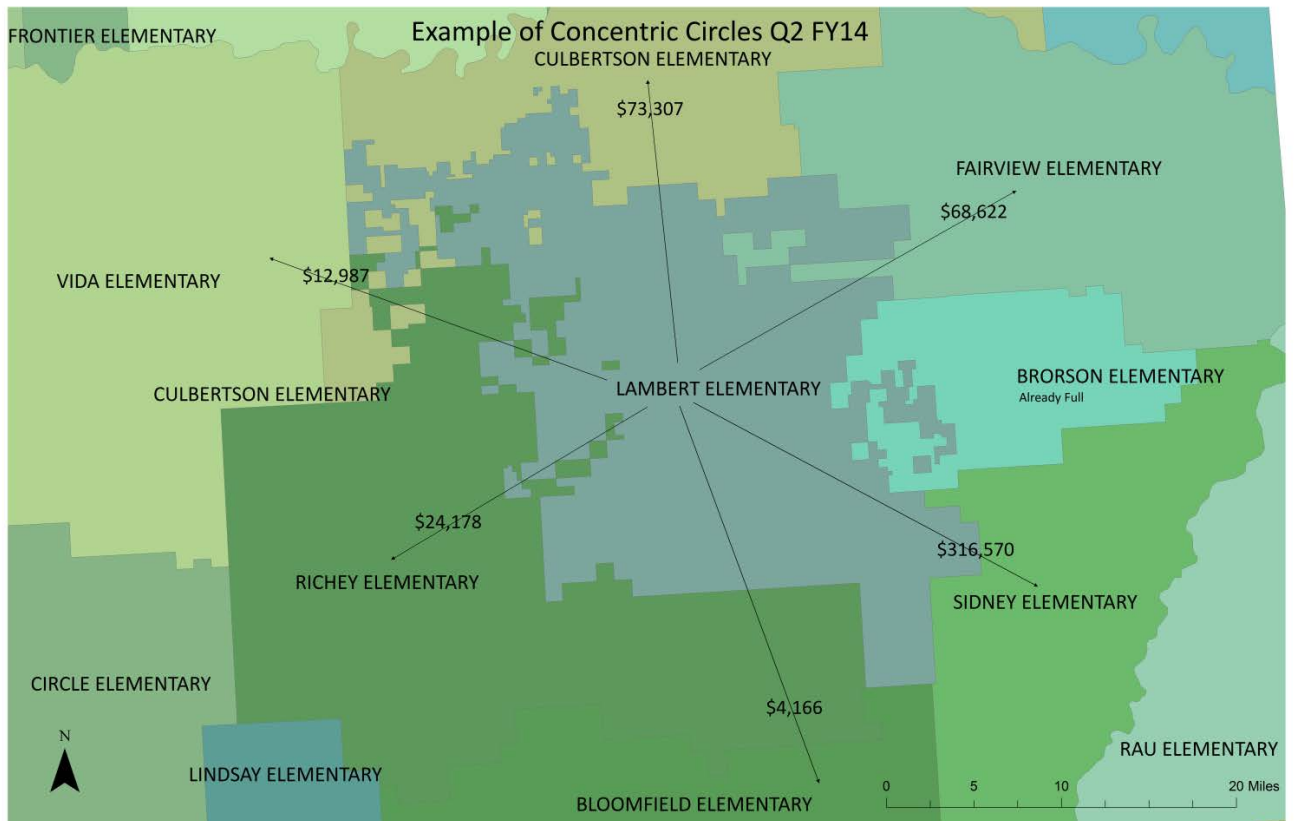
In each county, school districts get a set percentage of the oil and gas production tax, which is distributed to school districts based on which district the tax is attributable to. MCA 15-36-332 Prior to SB 329 (2011 session) school districts in which oil and gas tax was attributable to received 100% of the school district tax allocation. SB 329 changed this, requiring revenue above certain school district budget thresholds to be directed to the guarantee account in FY12 and to be split 70% to the guarantee account, 25% to the county school oil and natural gas impact account, and 5% to the state school oil and natural gas impact account in subsequent years. The state and county impact accounts being set up to financially help school districts that were being impacted by oil and gas development but that were not receiving oil and gas tax revenue. While these impact accounts had a similar idea as concentric circles from SB 175, in distributing money to school districts in oil and gas production regions, a big effect here was the transfer of about 16% of the tax revenue to the guarantee account, which was \$6.3 million in FY13.

SB 175 (2013)

The distribution was changed again with SB 175's concentric circles. MCA 20-9-310 What this does is that after a school district budget threshold is met with oil and gas production tax revenue (some threshold changes from SB 329), additional money is diverted to other nearby school districts in this order: school districts with a joint board, contiguous school districts, all districts in the county, and districts in contiguous counties where a horizontally completed well has been drilled within the last three years (Appendix E). If this flow from district to district maxes out all qualifying school districts then money flows back to the guarantee and impact accounts as occurred in FY13 under SB 329. However, it is not expected that any money will flow through to these accounts; essentially moving that 16% that was going to the guarantee account back to school districts in oil and gas production regions. As concentric circles is set to expire at the end of FY16, the percentage of this oil and gas production tax distribution will likely revert to what was seen in FY13, once again assuming appropriation of impact account money occurs.

EXAMPLE OF CONCENTRIC CIRCLES

As an example of how concentric circles is working, included is a map of just the elementary districts and how money is flowing from Lambert to surrounding districts for quarter 2 of FY 14. Oil and gas production tax money is also flowing to secondary education districts, but that was not included in the map as the overlap makes it visually difficult. As can be seen here, Lambert Elementary, which has already met its max allowable oil and gas revenue, is having the additional money pushed to adjacent districts. If those districts fill up, the next layer of districts per SB 175 will receive any additional revenue from the Lambert Elementary district.



APPENDIX

Appendix A

Senate Bill 175 section 33.

Section 33. Purpose of increased funding beyond inflation. The purpose of increases in state funding of BASE aid, as defined in 20-9-306, that a school district uses to increase its previous year's adopted general fund budget by an amount in excess of the inflation calculated in compliance with 20-9-326 are for the purpose of assisting school districts in meeting costs of implementing the changes to the Administrative Rules of Montana adopted by the Montana board of public education during fiscal years 2012 and 2013 and to continue to enhance efforts at improving academic achievement for students enrolled in Montana's public schools.

Appendix B

20-9-326. Annual inflation-related adjustments to basic entitlements and per-ANB entitlements.

- (1) In preparing and submitting an agency budget pursuant to 17-7-111 and 17-7-112, the superintendent of public instruction shall determine the inflation factor for the basic and per-ANB entitlements, the data-for-achievement payment, and the general fund payments in 20-9-327 through 20-9-330 in each fiscal year of the ensuing biennium. The inflation factor is calculated as follows:
 - (a) for the first year of the biennium, divide the consumer price index for July 1 of the prior calendar year by the consumer price index for July 1 of the calendar year 3 years prior to the prior calendar year and raise the resulting ratio to the power of one-third; and
 - (b) for the second year of the biennium, divide the consumer price index for July 1 of the current calendar year by the consumer price index for July 1 of the calendar year 3 years prior to the current calendar year and raise the resulting ratio to the power of one-third.
- (2) The present law base for the entitlements referenced in subsection (1), calculated under Title 17, chapter 7, part 1, must consist of any enrollment increases or decreases plus the inflation factor calculated pursuant to this section, not to exceed 3% in each year, applied to both years of the biennium.
- (3) For the purposes of this section, "consumer price index" means the consumer price index, U.S. city average, all urban consumers, for all items, using the 1982-84 base of 100, as published by the bureau of labor statistics of the U.S. department of labor.

Appendix C, (20-9-325, MCA)

SB 175 Section 2 Data-for-achievement payment

(1) The state shall provide a data-for-achievement payment to public school districts as defined in 20-6-101 and 20-6-701. The data-for-achievement payment is the district's ANB, calculated in accordance with 20-9-311, multiplied by:

- (a) \$10 for fiscal year 2014;
- (b) \$15 for fiscal year 2015; and
- (c) \$20 for fiscal year 2016 and subsequent fiscal years

(2) Funds received for the data-for-achievement payment must be used by a school district to pay for access fees or other costs associated with use of or participation in the statewide data system administered by the office of public instruction or a comparable data system provided by a private vendor, including data entry and staff training on use of the systems.

(3) Unless funds are otherwise appropriated at higher amounts by the legislature, the office of public instruction may spend no more than \$500,000 per biennium for the purposes of mediating with vendors, developing a plan, preparing a request for proposal solicitation package, managing the vendor contract, and implementing a plan with school districts for the statewide data system. This limitation does not apply if the office of public instruction develops and administers the statewide data system without a vendor.

Appendix D

Summary of FY 2014 statewide school general fund district budgets

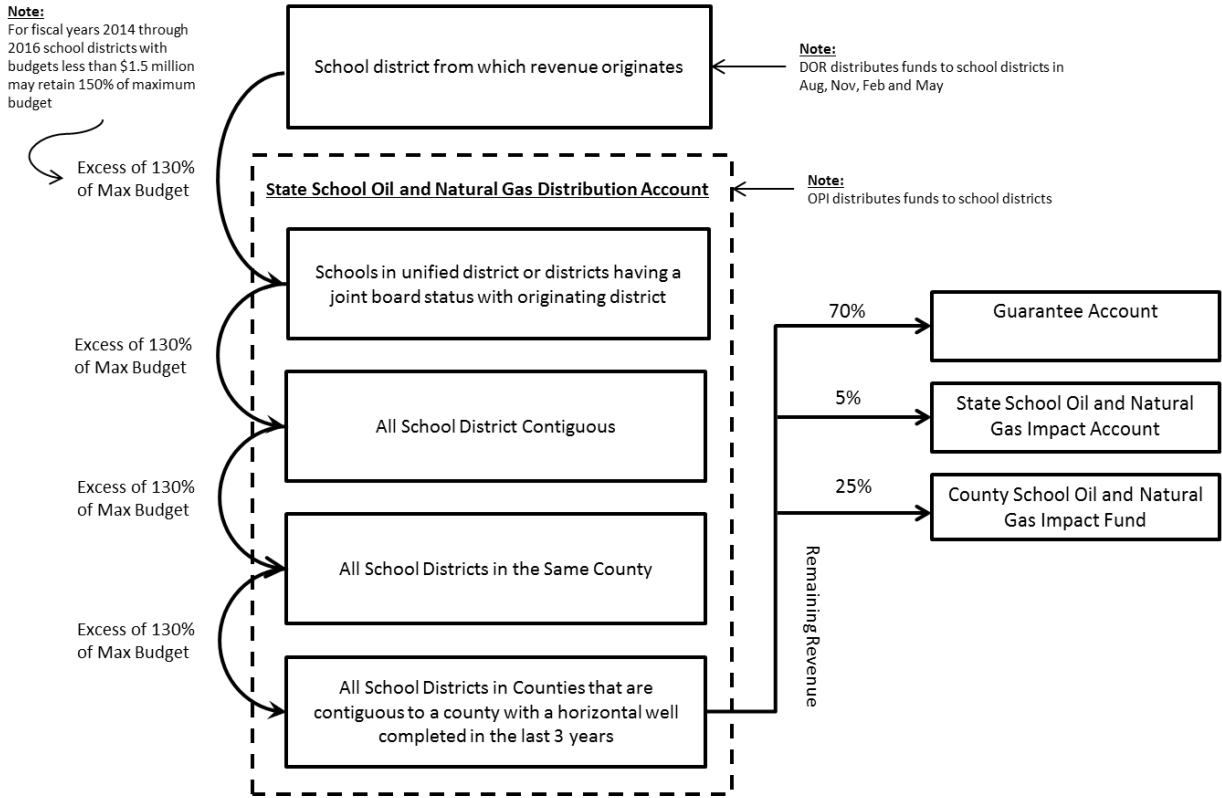
FY 2014 General Fund Budget for K-12				
	FY 2014 Funding (Millions)	Percent of total school Funding	Budget Item Description	
State Funding	<u>Direct State Aid</u>			
	Per ANB entitlement	\$376.5	36.9%	School districts budget per each ANB Elementary = \$5,120 Per ANB Middle and High School = \$6,555 Per ANB
	Basic Entitlement	\$21.1	2.1%	Districts must budget for each budget unit within a district \$40,000 for each Elementary School \$80,000 for each Middle School \$290,000 for each High School
	Increase in basic entitlement for large districts	\$13.5	1.3%	Districts increase basic entitlements based on ANB Elementary School \$2,000 for every 25 ANB above 250 ANB Middle Schools \$4,000 for every 45 ANB above 450 ANB High Schools \$12,000 for every 80 ANB above 800 ANB
	Total Direct State Aid	\$411.0	40.3%	
	<u>State Funding for base budget</u>			
	Guaranteed Tax Base	\$152.2	14.9%	The GTB subsidizes district general fund BASE budget mills and county retirement mills. The subsidy helps districts with low taxable valuations. The goal is to ensure all districts have a sufficient tax base per ANB to support the BASE budget.
	Special Education	\$42.0	4.1%	OPI distributes \$37.5 million to districts base on ANB
	Quality Educator Payment	\$37.2	3.6%	Districts budget \$3,042 per quality educator
	At Risk Payment	\$5.0	0.5%	\$5 million distributed state wide in proportion to Title One funding
American Indian Achievement Gap	\$3.8	0.4%	Budget \$200 per self identified native American	
Indian Education For All Payment	\$3.0	0.3%	Budget \$20.40 per ANB or \$100 which ever is greater.	
Data for Achievement Payment	\$1.5	0.1%	Budget \$10.00 per ANB	
Total State	\$656	64.2%		
Local Funding	<u>Local Funding</u>			
	Non-L levy Revenue	\$63.1	6.2%	Revenue other than property tax Note: includes \$4.6M of over-base levy
	Property Tax	\$296.1	29.0%	Local mill levy
	Re-appropriation	\$6.2	0.6%	Funds left over from previous year
Total Local Funding	\$365	35.8%		
Total Funding		\$1,021	100.0%	

Source: OPI FY14 School Budgets (OPIBUD14)

Appendix E

SB 175 distribution of Oil and Gas Revenues (Concentric Circles)

**Oil and Gas Flow Chart
FY 2014 Through 2016**



**Oil and Gas Flow Chart
FY 2017 thereafter**

SB 175 Section 9; Amends MCA 20-9-310 effective July 1, 2016

