



School Funding Interim Commission

64th Montana Legislature

PO BOX 201706
HELENA, MONTANA 59620-1706
(406) 444-3064

HOUSE MEMBERS

JEFF ESSMANN
DONALD JONES
KATHY KELKER
DEBRA LAMM
EDIE McCLAFFERTY
SUSAN WEBBER

SENATE MEMBERS

TOM FACEY -Chair
ELSIE ARNTZEN - Vice Chair
KRISTIN HANSEN
MARY SHEEHY MOE
MATTHEW ROSENDALE
LEA WHITFORD

PUBLIC MEMBERS

PATRICIA HUBBARD
DAVE LEWIS
AIDAN MYHRE
RENEE RASMUSSEN

COMMITTEE STAFF

PAD McCRACKEN, RESEARCH ANALYST
LAURA SANKEY, ATTORNEY
KATYA GROVER, SECRETARY

TO: School Funding Interim Commission
FROM: Pad McCracken, Research Analyst
RE: SB 354 (2015; Ripley) and school facility funding
DATE: March 2, 2016

You have requested an overview of SB 354 and its mechanisms for providing state financial assistance to school districts for infrastructure projects. Senator Ripley introduced SB 354 on February 17, 2015. [As introduced](#), the bill was contingent on the passage and approval of a constitutional referendum proposed in SB 353, which would have capped the coal tax permanent trust fund at \$1 billion and diverted coal tax revenues into a new Build Montana Fund to be used for the purposes of statewide infrastructure investment. Ultimately, amid the flurry of activity related to infrastructure bills in late April 2015, SB 354 was amended in free conference, and its provisions for capping the coal tax permanent trust fund and requisite referendum for constitutional amendment were removed. It passed the Legislature but was [vetoed](#) by Governor Bullock.

The [final, amended version of SB 354](#) proposed the creation of a new subfund called the Build Montana Endowment Fund within the coal severance tax trust funds. This new subfund was to be seeded with a one-time transfer on July 1, 2015, of \$20 million from the Coal Severance Tax Permanent Fund. Starting on July 1, 2016, the Build Montana Endowment Fund would've received 75% of the coal tax dollars above those required for the coal severance tax bond fund. Under current law and through June 30, 2016, this 75% is allocated 50% to the Treasure State Endowment Fund and 25% to the TSEF Regional Water System Fund. The remaining 25% goes to the Big Sky Economic Development Fund and would've continued doing so under SB 354. This [LFD brochure on the coal severance tax distribution](#) illustrates the current flow and subfunds.

Under the final bill, the earnings generated by the Build Montana Endowment Fund were directed to a state special revenue account and statutorily appropriated to the Department of Commerce. The department would have been required to solicit grant applications for infrastructure from local governments, including school districts, and then submit a prioritized list to a new Build Montana Joint Interim Subcommittee, made up of members of the Legislative Finance Committee and the Economic Affairs Interim Committee, which would then rank the projects and submit its list to the full Legislature for approval.

In addition to school district projects possibly being funded through this grant process, 10% of the earnings generated by the Build Montana Endowment Fund would've been transferred to the School Facility and Technology Account, where they would be distributed for targeted grants under the Quality Schools Facility Grant Program and used for state reimbursements for school facilities (AKA debt service GTB). This transfer may have helped ameliorate some of the revenue shortfalls in the School Facility and Technology Account. However, because the new endowment fund would have a fairly small corpus in its early years, it would not generate that much in earnings. Assuming a 5% return, the \$20 million in seed money would've generated \$1 million for FY 17. If coal taxes yielded an additional \$20 million per year to add to the fund corpus, the earnings would grow by about \$1 million a year, so \$2 million available for infrastructure in FY 18, \$3 million in FY 19, etc. The 10% transfer to the School Facility and Technology Account would've added \$100,000 in FY 17, \$200,000 in FY 18, etc. It is also worth noting that these earnings would equate to nearly identical decreases in revenue to the state general fund.

SB 354 aimed to address long-term infrastructure needs, for schools and other local government subdivisions, by using an endowment model to generate ongoing revenue. While promising in the long run, without new or increasing revenue streams the model requires the redirection of current revenues and the attendant pain involved. Endowment models also demand patience.

CI0170 6042peda.