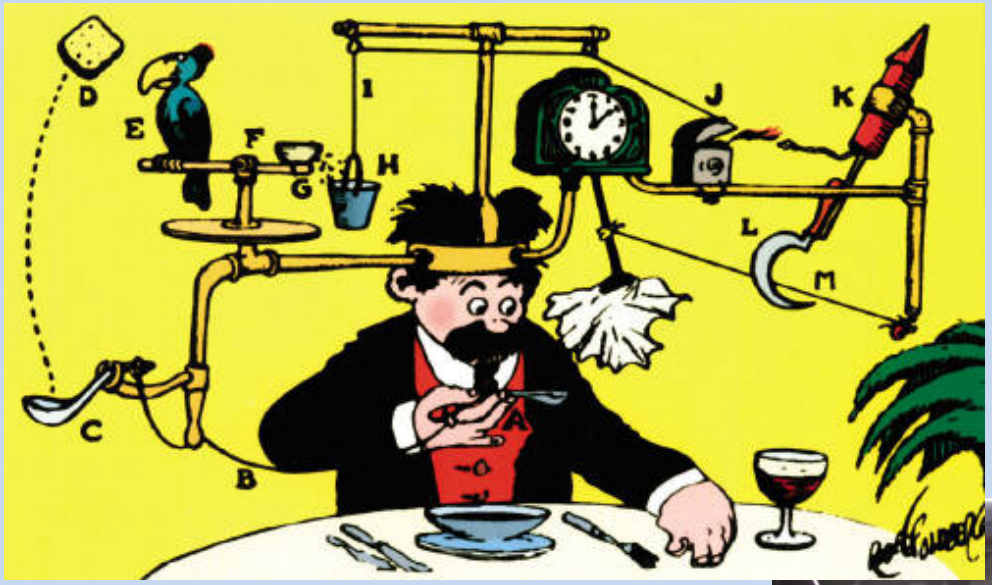
Montana School Funding 101 and 201: A Workshop for the Education Interim Committee

prepared and presented by Pad McCracken, LSD Research Analyst, and Nick VanBrown, LFD Analyst, March 2018



Whether you view Montana's K-12 funding formula as an overly complicated, nonsensical, Rube Goldberg-esque contraption or as a sophisticated, adaptable, high-performance machine…

It's YOURS!

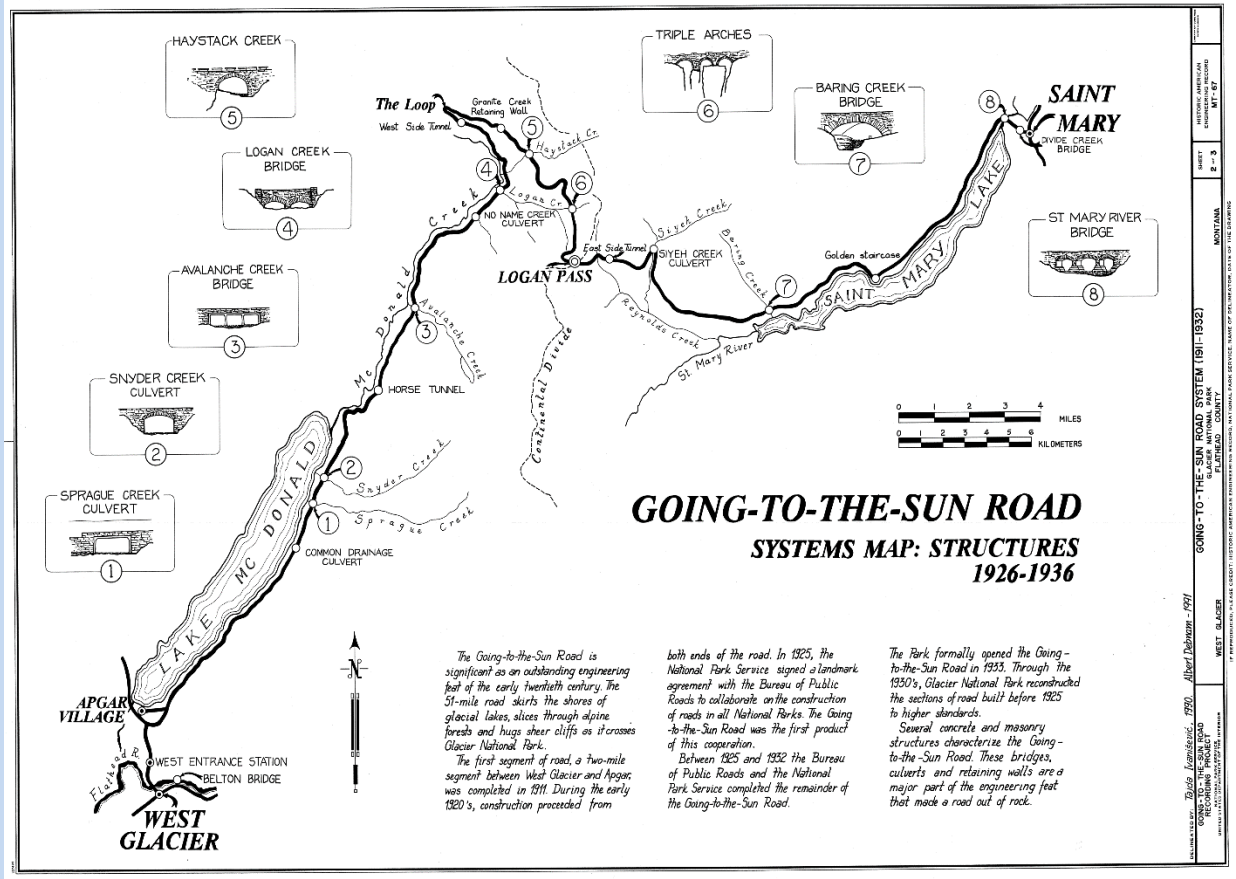
And from 20-9-309, MCA:

(4) The legislature shall… establish a funding formula that… allows the legislature to adjust the funding formula…

Your sophisticated machine is meant to be fine tuned from time to time!

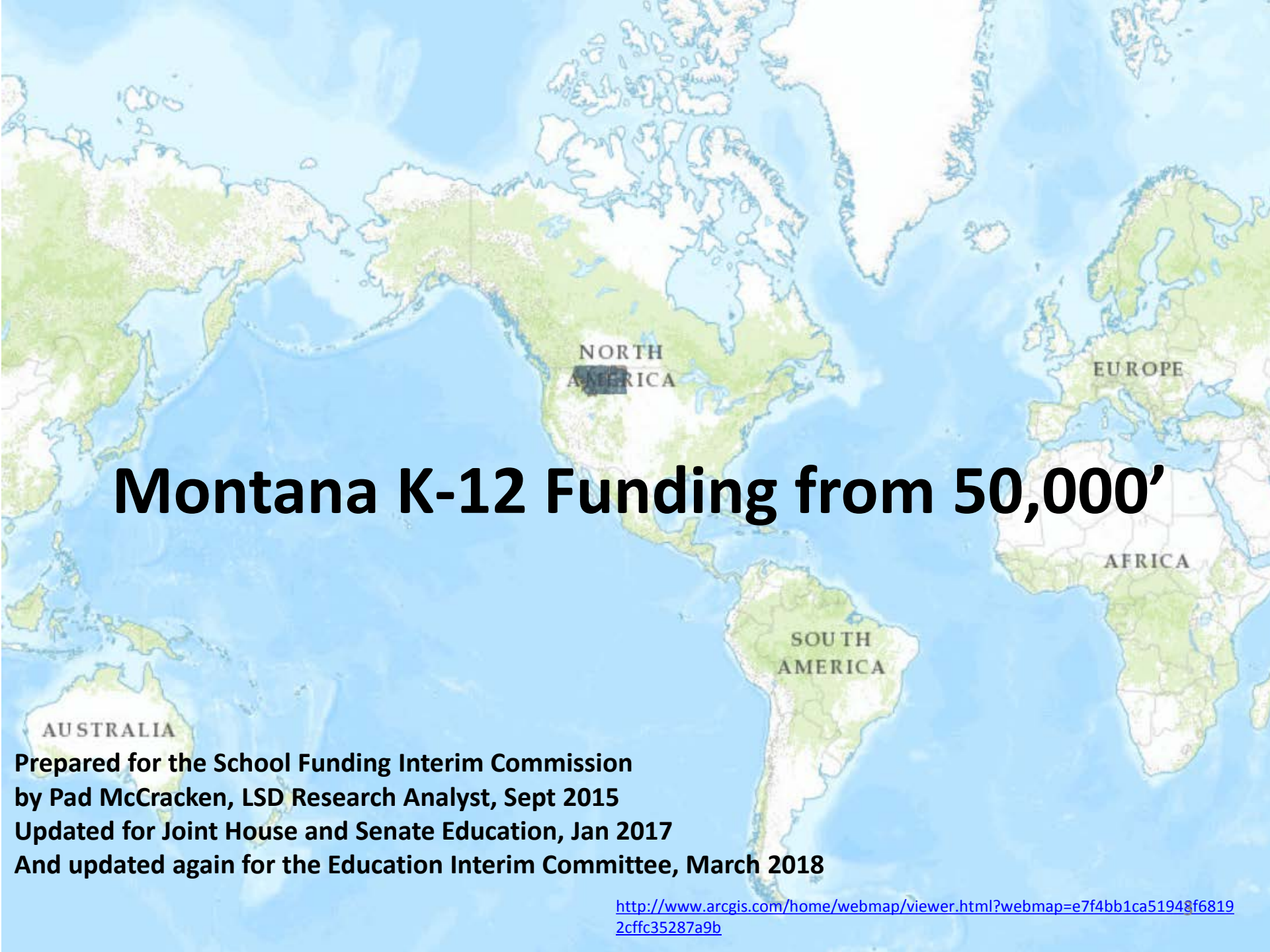
Objectives:

- **Refresh** your memory of school funding in Montana
- **Deepen** your understanding of school funding in Montana
- **Cultivate** your appreciation for the sophistication of Montana's school funding formula(s)
- **Nurture** legislative ownership of the school funding formula



Itinerary:

1. School funding 101—the basics
    a) 50,000' overview
    b) Review District General Fund formula
    c) Why did school property taxes go up this year?
2. School funding 201—switches, levers, and dials
    a) Equality, Equity, and the Montana Constitution
    b) Guaranteed Tax Base (GTB) generally, county retirement GTB example
    c) Direct State Aid (DSA), GTB, and Special Education
    d) Oil and Natural Gas Production Tax Distribution 2011-2017



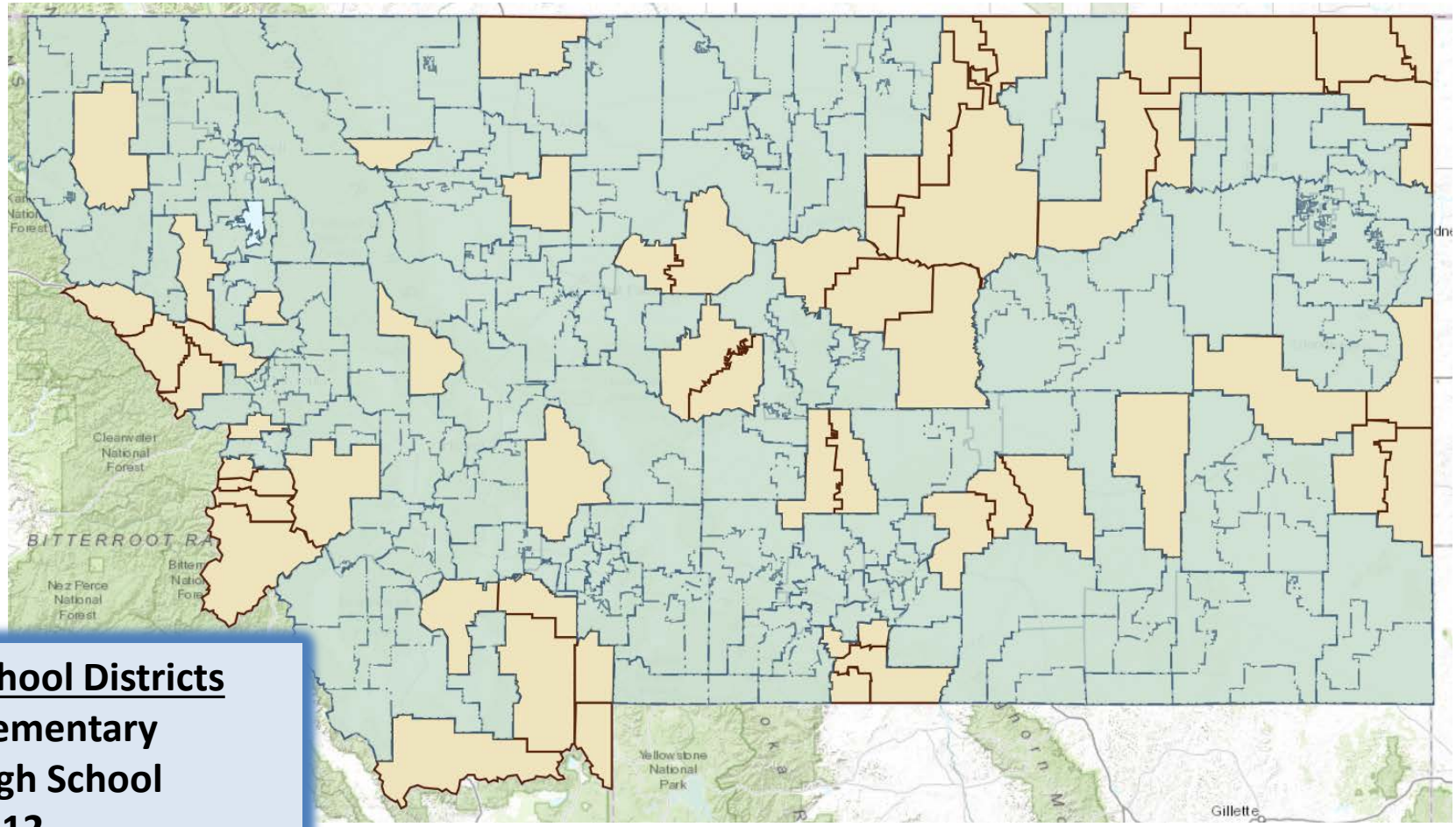
Montana K-12 Funding from 50,000’

Prepared for the School Funding Interim Commission
by Pad McCracken, LSD Research Analyst, Sept 2015
Updated for Joint House and Senate Education, Jan 2017
And updated again for the Education Interim Committee, March 2018

http://www.arcgis.com/home/webmap/viewer.html?webmap=e7f4bb1ca51948f68192cffc35287a9b

Technically we fund school districts, not schools.

"[The Montana Legislature] 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." Montana Constitution, Article X, section 1(3)



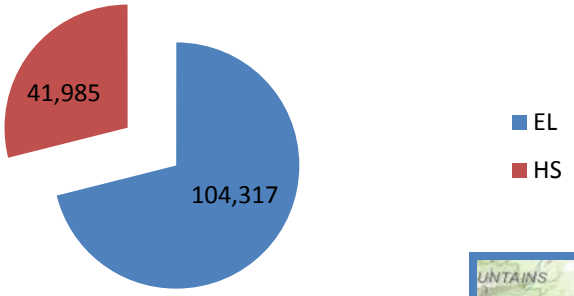
399 School Districts
239 Elementary
100 High School
60 K-12

https://gems.opi.mt.gov/StudentCharacteristics/Dashboards/Student%20Characteristics%20Dashboard/Student%20Characteristics%20Dashboard.aspx

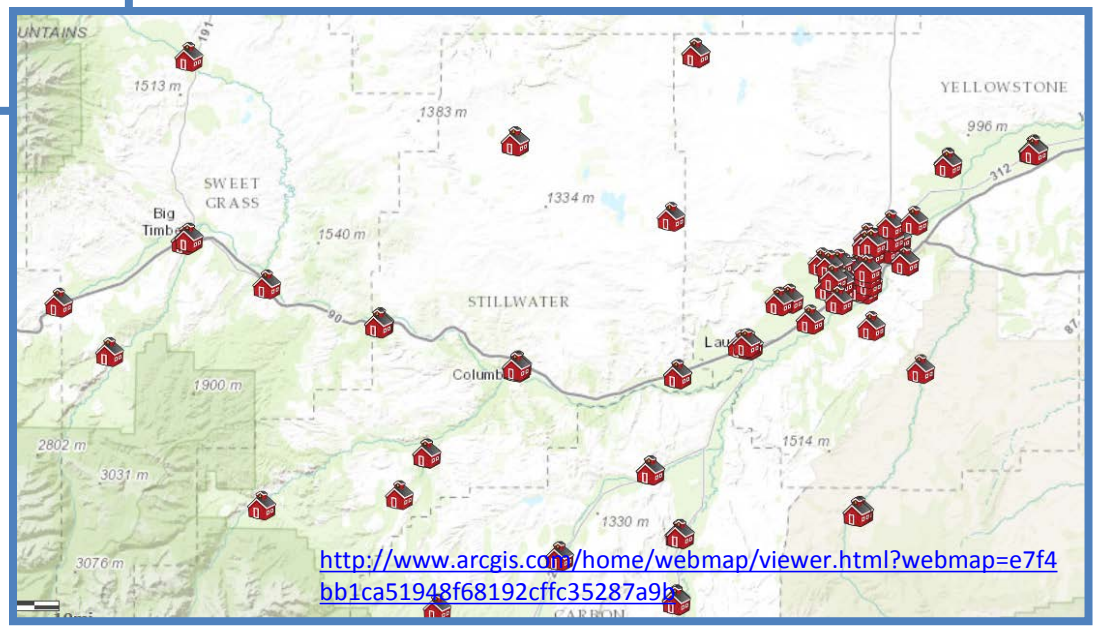
http://www.arcgis.com/home/webmap/viewer.html?webmap=e7f4bb1ca51948f68192cffc35287a9b

Montana school districts serve about 146,000 students in 818 schools and graduated 9,316 students in 2016.

Total Enrollment of 146,302 for the 2016-2017 school year



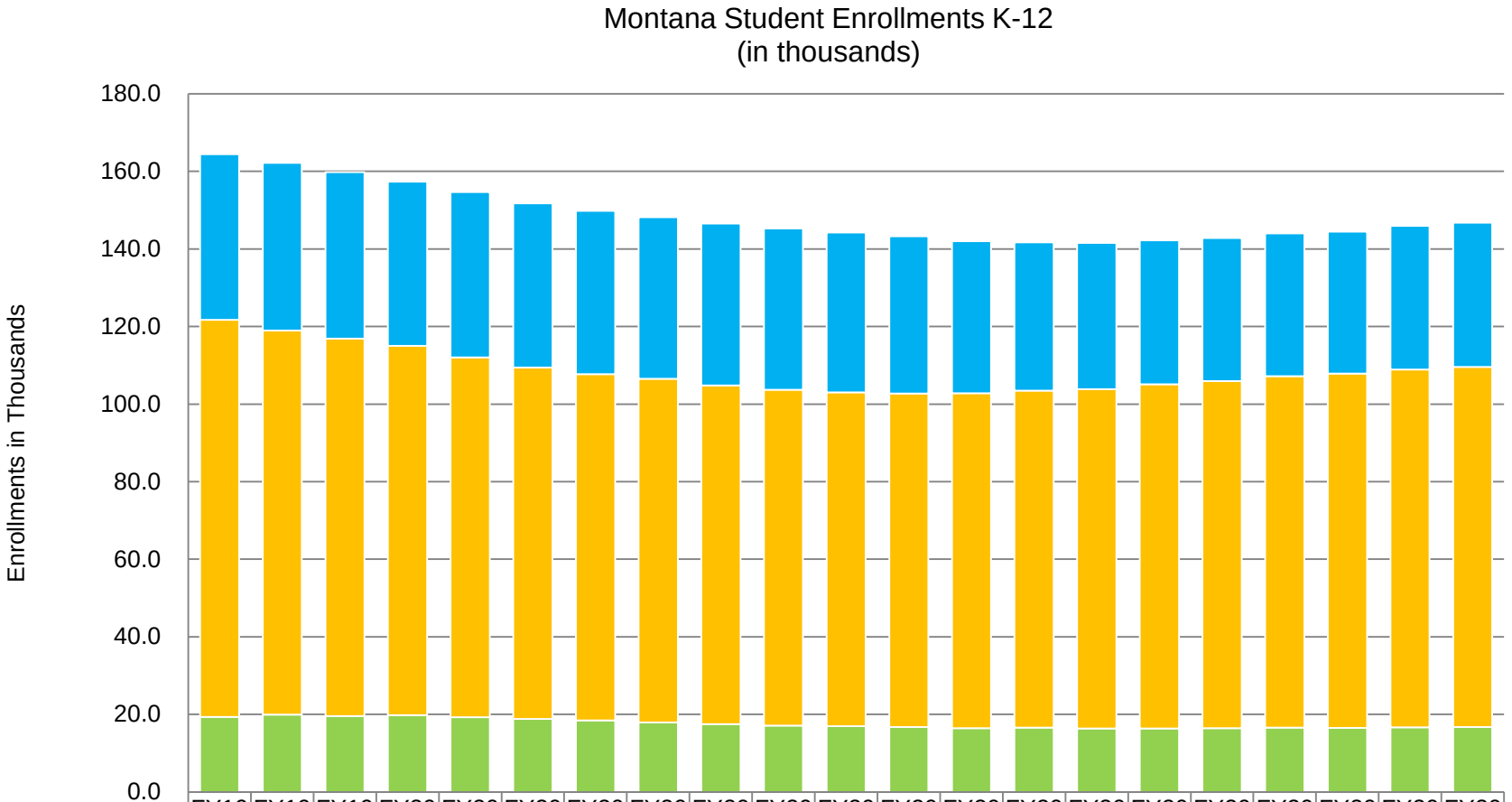
Licensed K-12 Staff and Paraprofessionals	2016 -17
Teachers- Classroom, Title I, Special Ed.	10,646
Superintendents and Assistant Superintendents	157
Principals and Assistant Principals	516
Other Administrative Staff	118
Education Specialists (Library, Guidance Counselors)	964
Licensed Professional (Noneducator)	369
Paraprofessionals	2,662
Total Licensed and Paraprofessional Staff	**15,432**



Info from Facts About Montana Education 2017

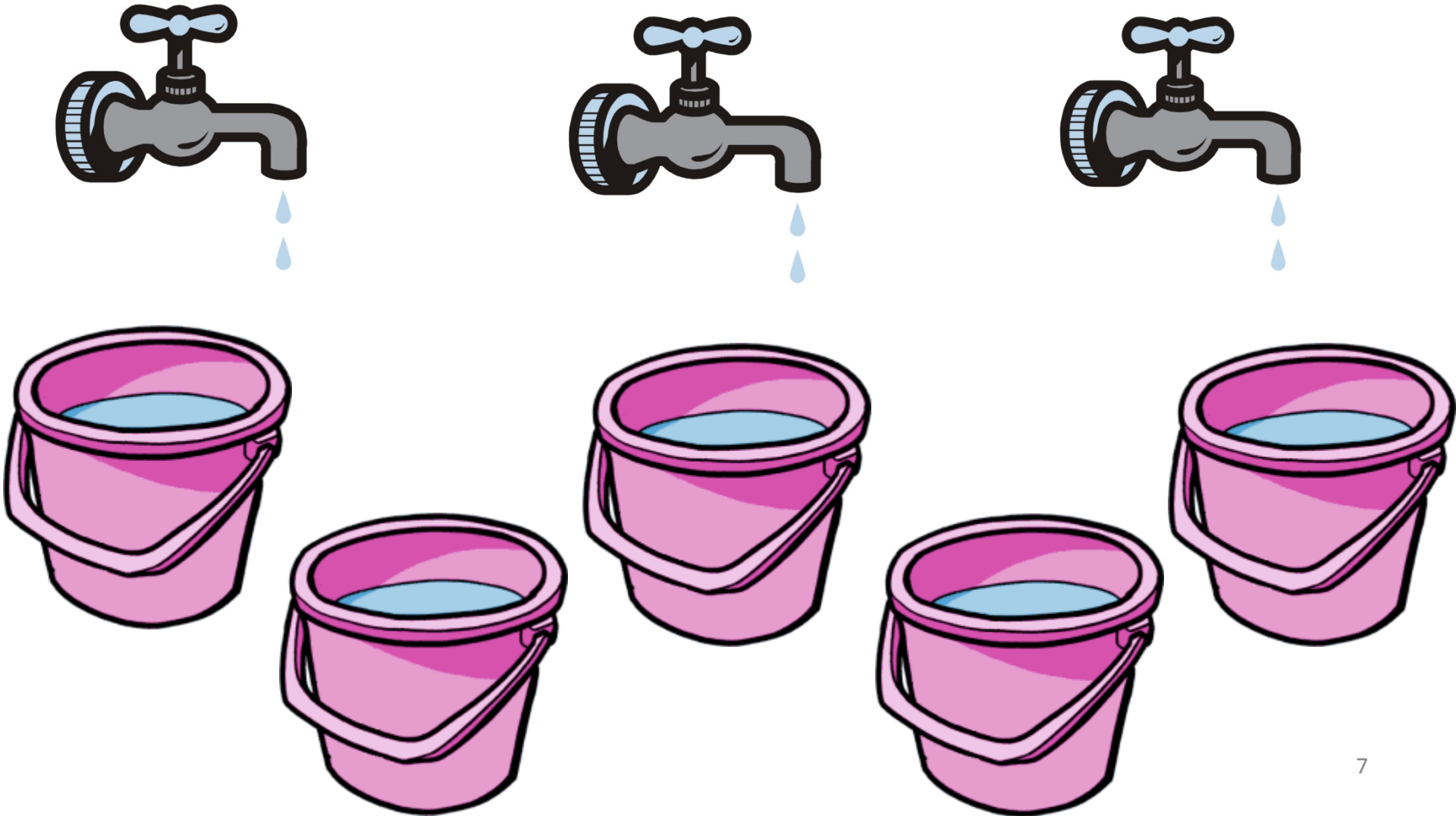
http://www.arcgis.com/home/webmap/viewer.html?webmap=e7f4bb1ca51948f68192cffc35287a9b

Enrollment peaked in the mid-1990s, but is growing again as of 2012.



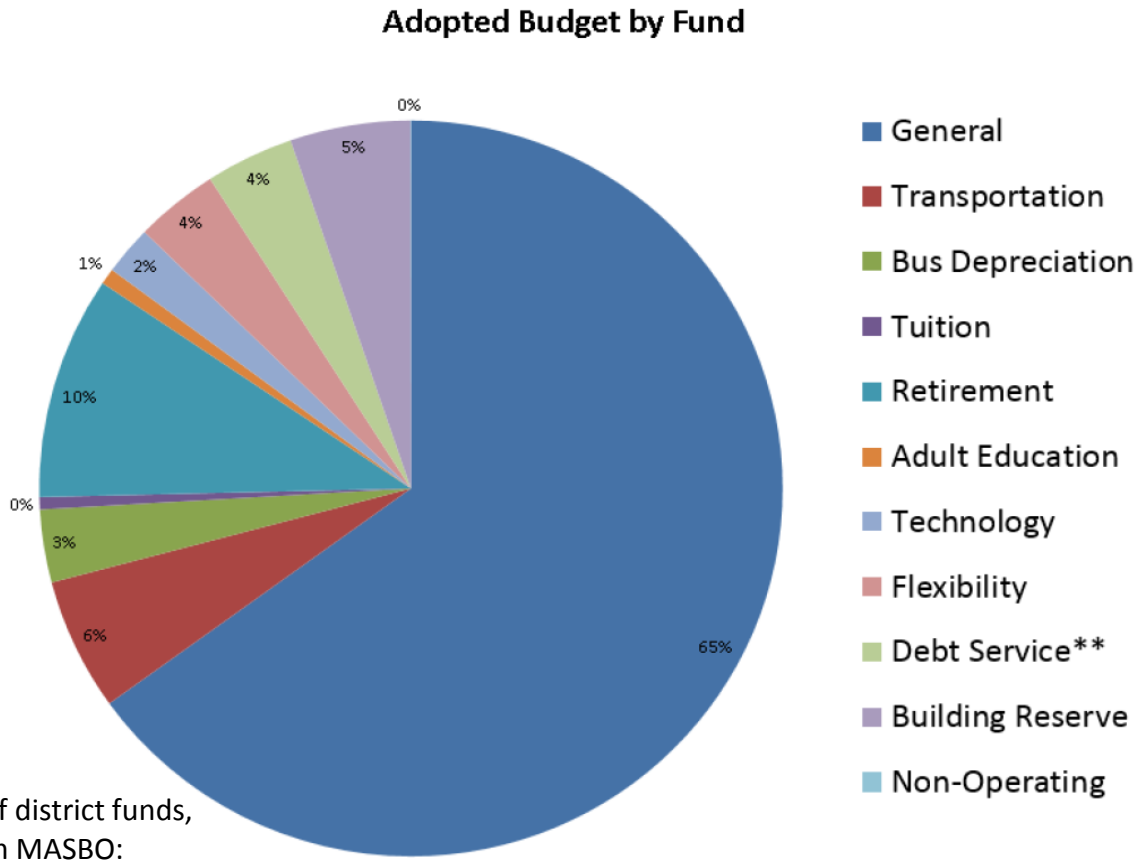
	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Total	164.4	162.2	159.8	157.4	154.7	151.8	149.8	148.2	146.6	145.3	144.3	143.3	142.0	141.7	141.6	142.2	142.8	144.0	144.4	145.9	146.8
High School	42.7	43.2	42.9	42.4	42.7	42.3	42.1	41.6	41.7	41.5	41.3	40.5	39.2	38.2	37.7	37.2	36.8	36.9	36.6	37.0	37.2
Elementary	102.4	99.0	97.3	95.2	92.7	90.6	89.3	88.6	87.4	86.6	86.0	86.0	86.4	86.9	87.5	88.7	89.5	90.6	91.4	92.3	92.9
K-12	19.3	19.9	19.6	19.8	19.3	18.8	18.4	17.9	17.5	17.1	17.0	16.7	16.5	16.6	16.3	16.4	16.5	16.6	16.5	16.6	16.7

A district's finances are accounted for in numerous district-level funds which are funded by varying blends of local, state, federal, and private dollars.



These district funds are either budgeted or non-budgeted. Budgeted funds are funded in whole or in part by local property tax levies which can be either **voted, permissive (nonvoted), or required**. This pie chart shows the relative size of each of the budgeted funds.

Special Revenue Funds: Budgeted FY15

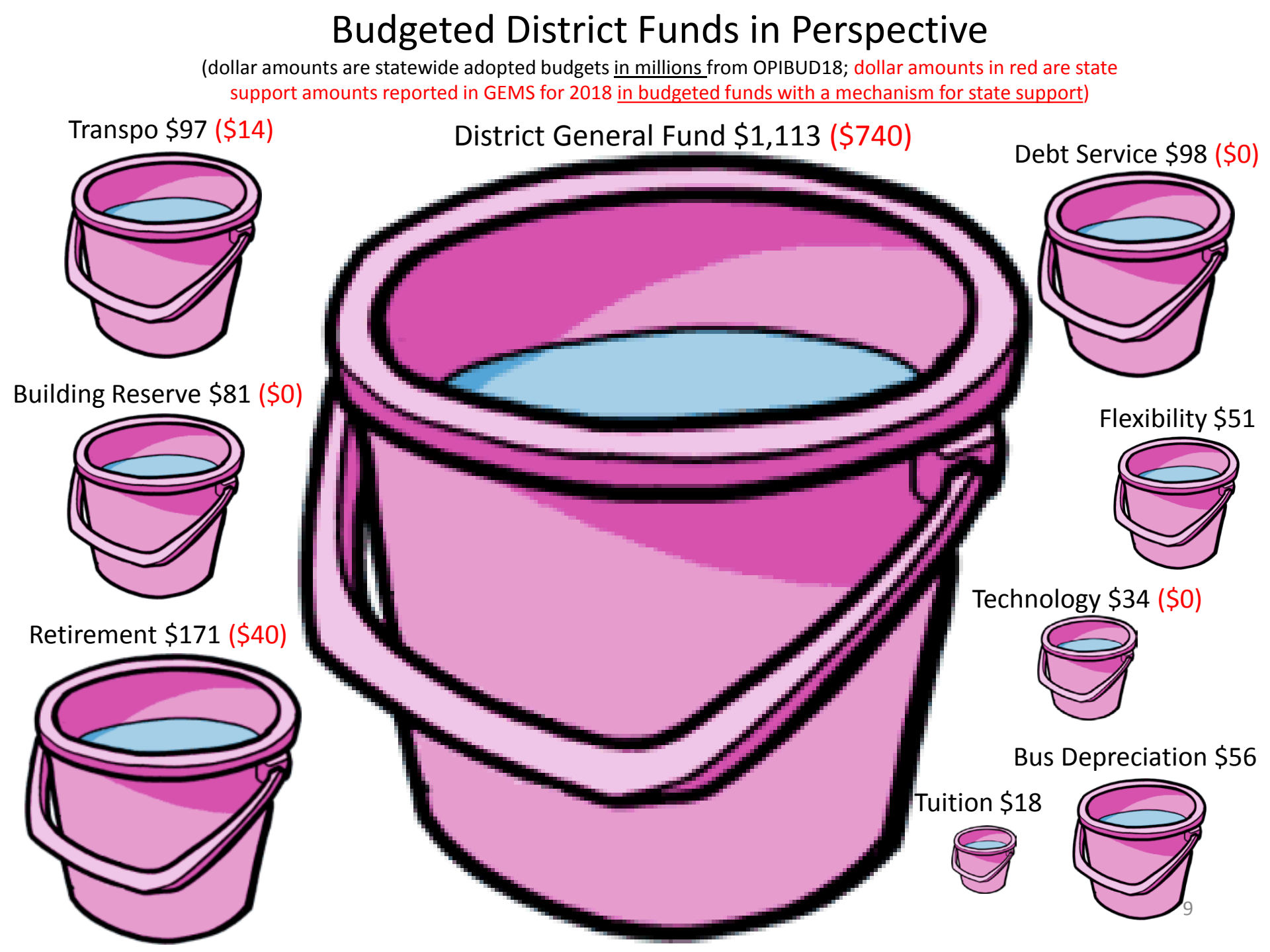


For excellent overviews of district funds, see these two charts from MASBO:

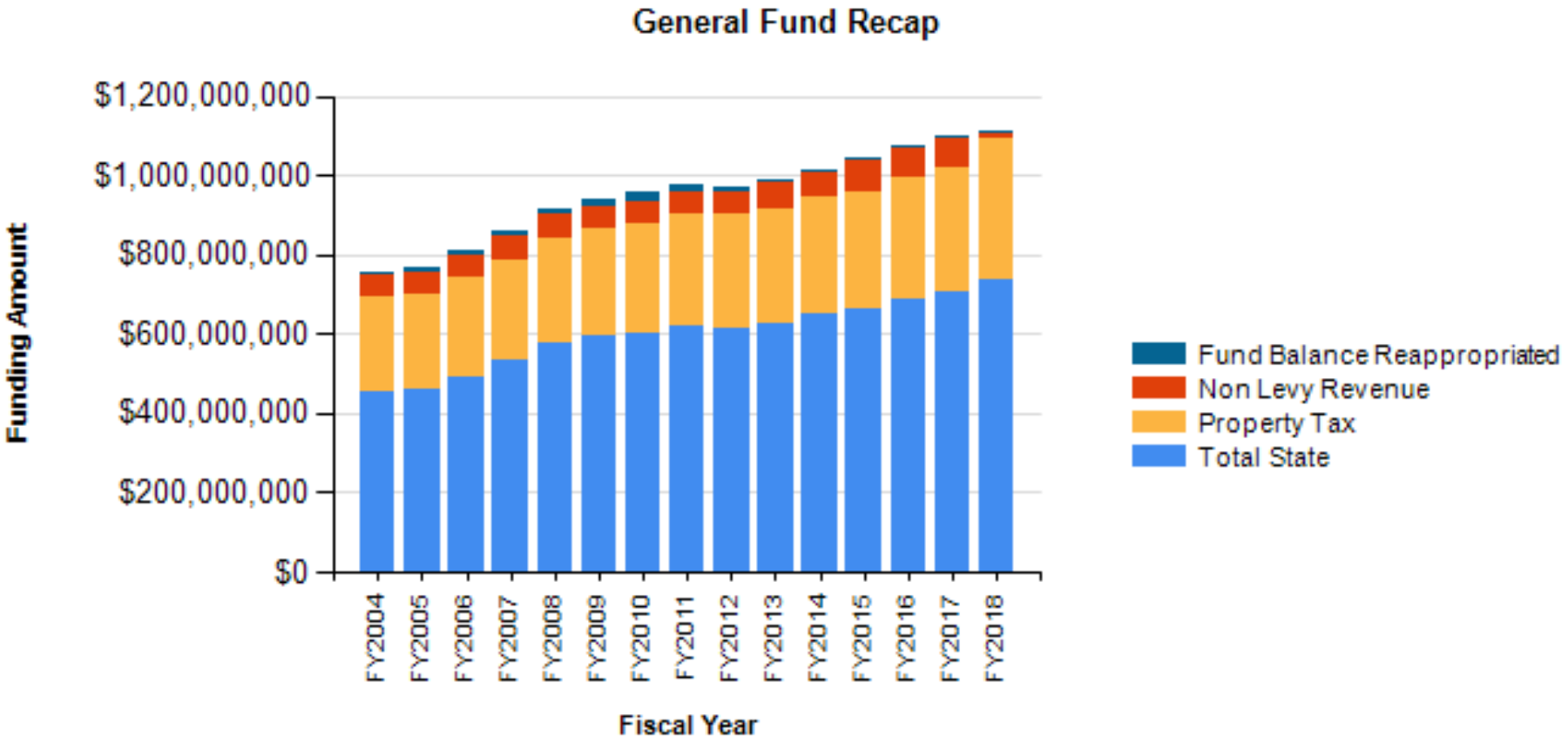
- Budgeted funds
- Nonbudgeted funds

Budgeted District Funds in Perspective

(dollar amounts are statewide adopted budgets in millions from OPIBUD18; dollar amounts in red are state support amounts reported in GEMS for 2018 in budgeted funds with a mechanism for state support)



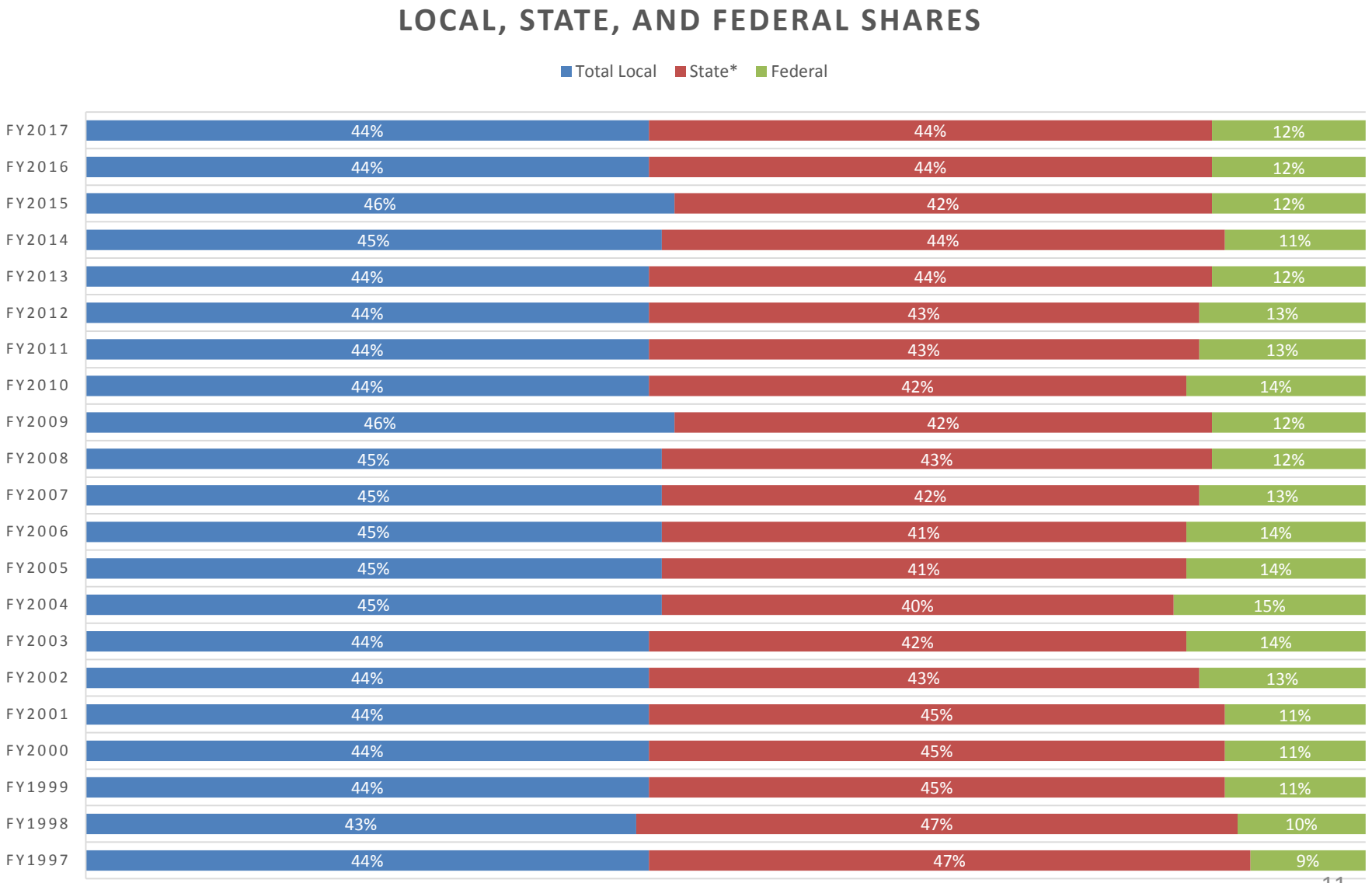
A school district's largest fund, for general operations, is called the general fund and is made up only of local and state dollars.



Nonlevy revenue is mostly oil and natural gas production tax and coal gross proceeds. Prior to 2018, school general fund block grants and the NRD payment were a large source of nonlevy revenue.

https://gems.opi.mt.gov/SchoolFinance/Pages/GeneralFundRecap.aspx

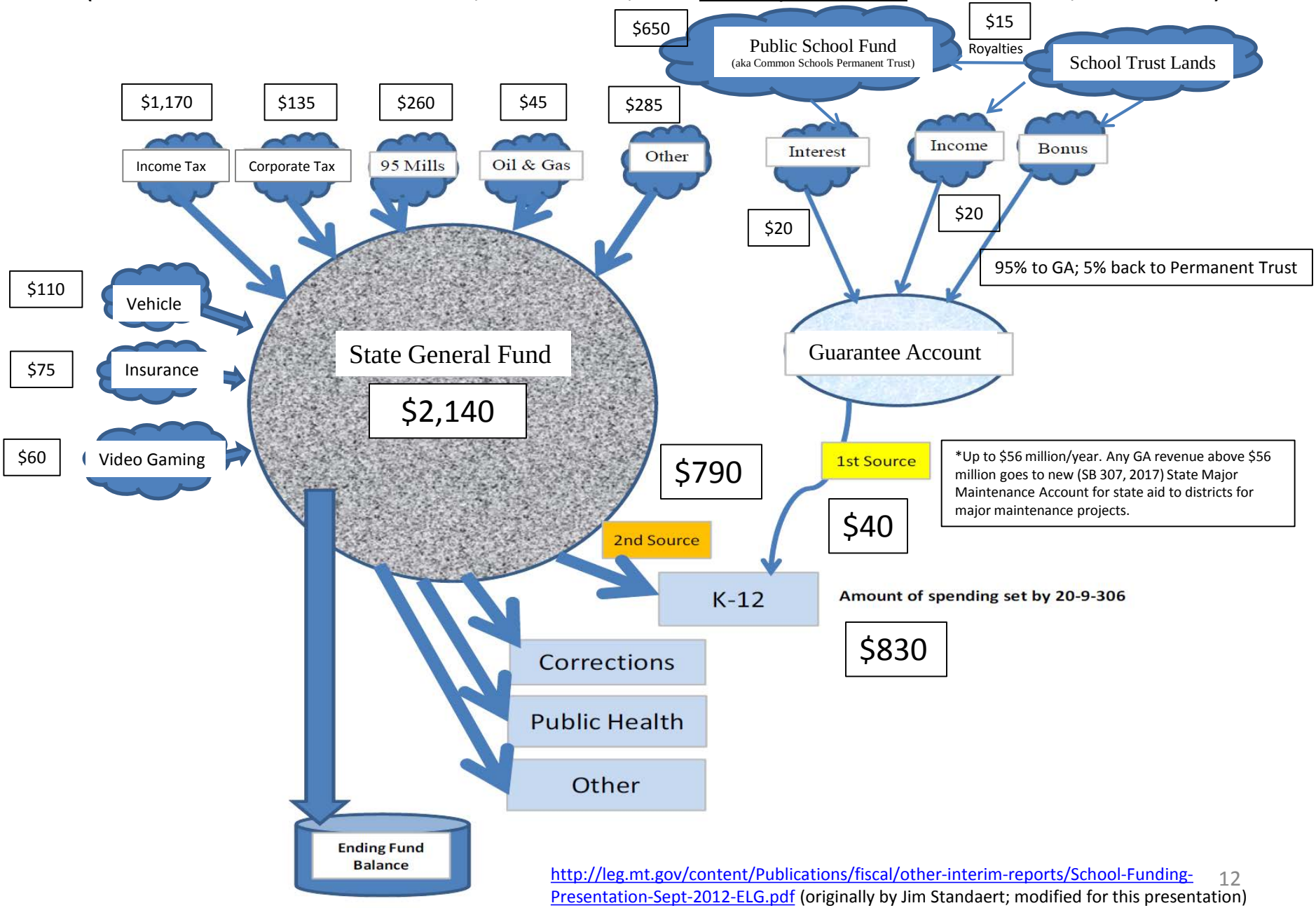
Statewide, the funding blend in ALL school funds has looked like this over the last 20 years



Data from: https://gems.opi.mt.gov/SchoolFinance/Pages/RevenueTrendsRecap.aspx

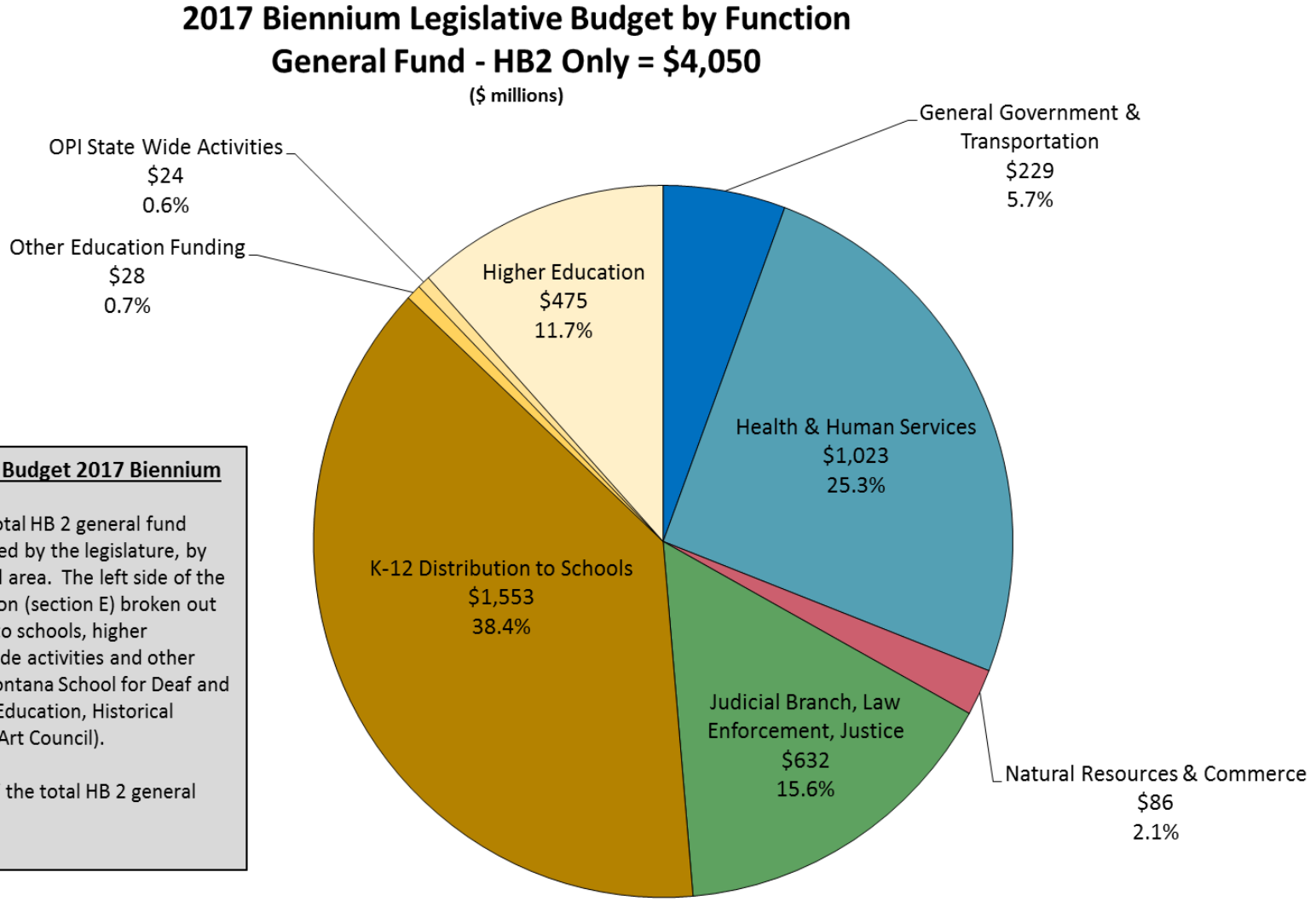
The state money for K-12 comes from a variety of sources

(Amounts listed are in millions, from FY 17, and heavily rounded to reflect 50,000' view!)



http://leg.mt.gov/content/Publications/fiscal/other-interim-reports/School-Funding-Presentation-Sept-2012-ELG.pdf (originally by Jim Standaert; modified for this presentation)

K-12 funding is a large part of the state's general fund budget.



HB 2 General Fund Budget 2017 Biennium

This pie chart shows total HB 2 general fund expenditures as adopted by the legislature, by government functional area. The left side of the chart contains Education (section E) broken out into K-12 distribution to schools, higher education, OPI statewide activities and other education funding (Montana School for Deaf and Blind, Board of Public Education, Historical Society, State Library, Art Council).

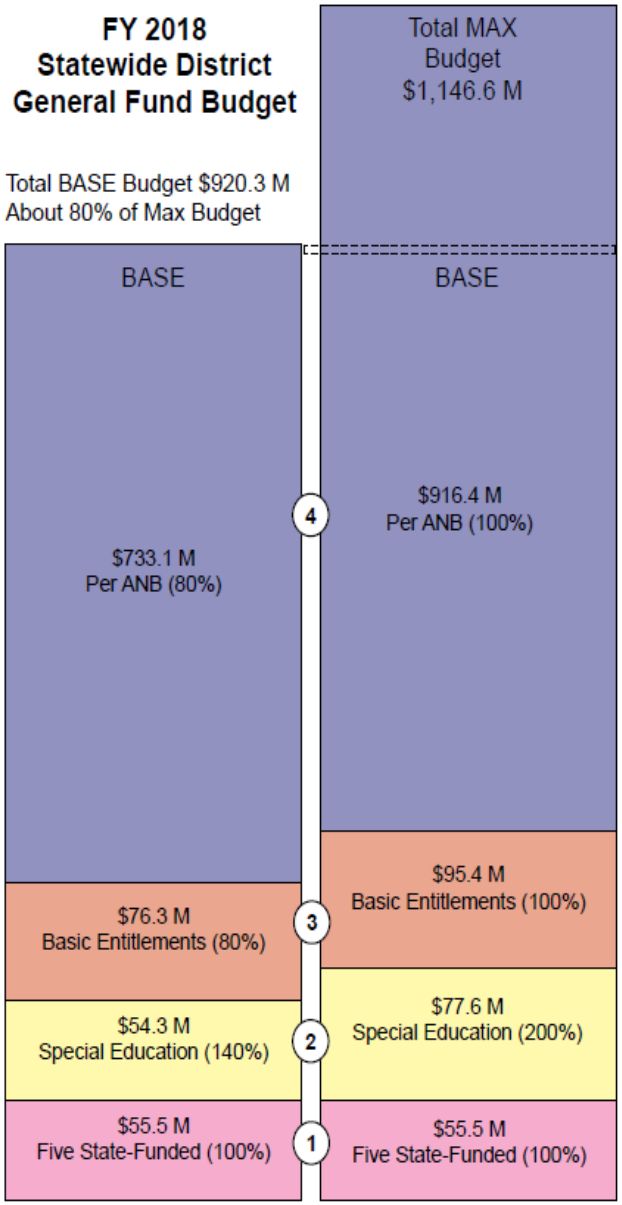
K-12 Funding is 38% of the total HB 2 general fund.

Let’s build and fund a district general fund budget!

Building block style and based on **ROUNDED** 2017 entitlement amounts

prepared by Pad McCracken for the House and Senate Education Committees, January 2017

FY 2018 Statewide District General Fund Budget



District General Fund
The largest school district fund is the general fund. Statewide districts adopted general fund budgets of $1.1 billion and received $750 million in state support.

4 **Per ANB Entitlement**- Average Number Belonging - A per-ANB dollar amount based on the average count of students attending a district in October and February of the previous school year.

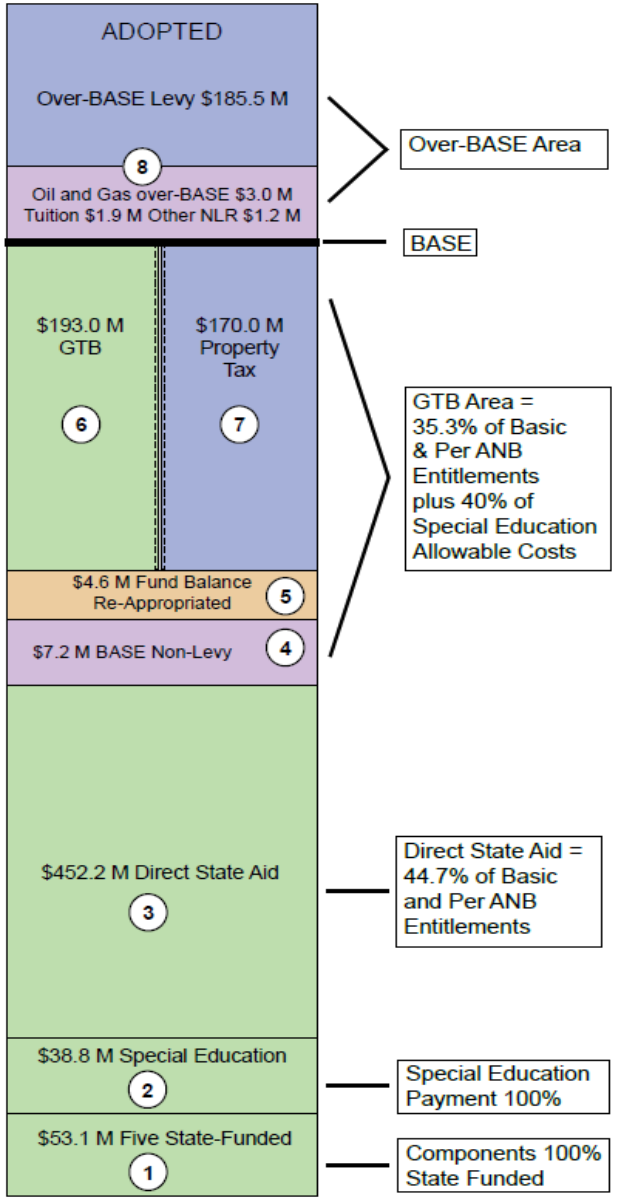
3 **Basic Entitlement** - A set amount per district based on whether it is an elementary school district, middle school district, or high school district. Districts with higher enrollment are eligible for additional basic entitlement "increments."

2 **Special Education Payment** - an amount per ANB regardless of the count of special education students. Portions of the special education appropriation go to cooperatives and to reimbursements for high-cost students.

1 **Five State-Funded Components**

1. Quality Educator Payment - A per-FTE payment for teachers and other licensed professionals
2. At Risk Payment - A payment to schools to address at-risk students; or students who are affected by an environment that negatively impacts performance and threatens the likelihood of promotion or graduation
3. Indian Education For All Payment - A per-ANB payment to fund the constitutionally required education regarding the cultural heritage of the American Indians.
4. American Indian Achievement Gap Payment - A per-American Indian student payment for the purpose of closing the performance gap that exists between American Indian students and non-Indian students
5. Data for Achievement - A per-ANB payment used by school districts to pay for costs associated with student data systems

FY 2018 Adopted budget $1,112.9 M About 97% of Max Budget



Let's pick a hypothetical EL district of 200 ANB in grades K-8;
a district similar in size to say: Centerville, Charlo, Blue Creek, or Culbertson.

5 Comps	$78,750

Five state-funded components

First we need to establish the BASE (minimum) and MAX general fund budget limits.

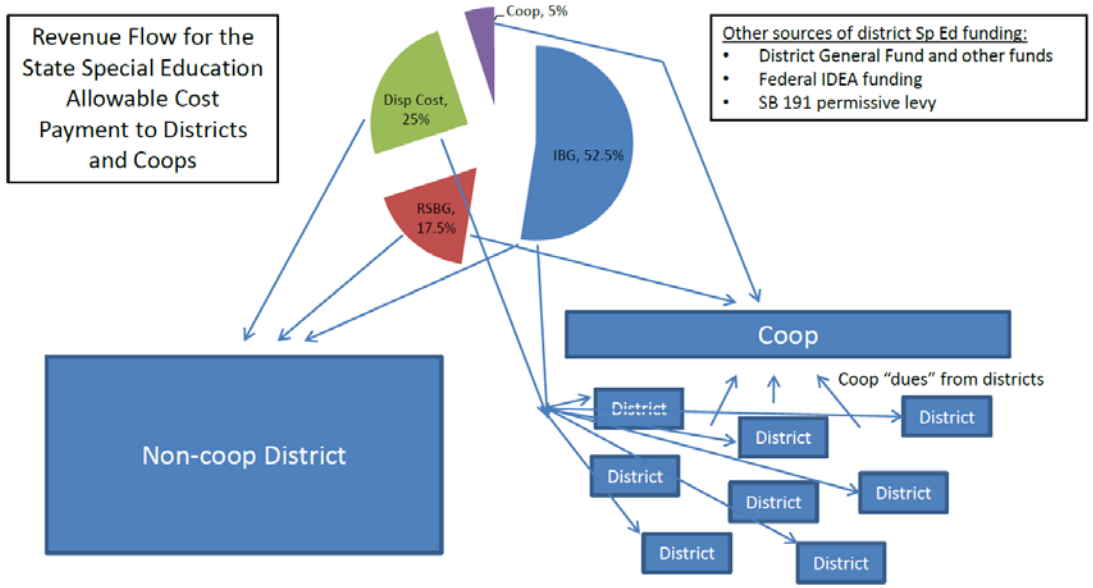
Starting at the bottom of the BASE budget column with the **five state-funded components**:

1. Data for Achievement (D4A) $20 x 200 ANB = **$4,000**
2. Indian Education for All (IEFA) $20 x 200 ANB = **$4,000**
3. Achievement Gap $210 x 15 Indian students = **$3,150**
4. Quality Educator (QE) $3,200 x 18 QEs = **$57,600**
5. At-risk $5 million statewide distributed = **$10,000**
   similarly to Title 1 $ (poverty)

Total = $78,750

Special Education Payment

Special Ed	$49,000
5 Comps	$78,750



Component	Distribution	% of total Sp Ed approp	
Instructional Block Grant	ANB	52.5%	$ 22,518,282
Related Services Block Grant	ANB	17.5%	$ 7,506,094
Reimbursement for Disproportionate Costs	Complex; high-cost students	25%	$ 10,722,992
Coop Admin and Travel	ANB, FTE, mileage	5%	$ 2,144,598
Total State Special Education Approp HB 2		100%	$ 42,891,966

The **Special Education payment** is a little complicated, but largely driven by ANB; our hypothetical district belongs to a co-op and receives for its general fund:

- Instructional Block Grant $150 x 200 ANB = **$30,000**
- Reimbursement for Disproportionate Costs = **$ 5,000**

In establishing a BASE budget this $35,000 x 140% = **$49,000**

Basic Entitlement

Basic Entitlement	$120,000
Special Ed	$49,000
5 Comps	$78,750

As a K-8 EL district with an accredited middle school program, the district's **Basic Entitlement** (BE) is:

- $50,000 for its EL
- $100,000 for its MS

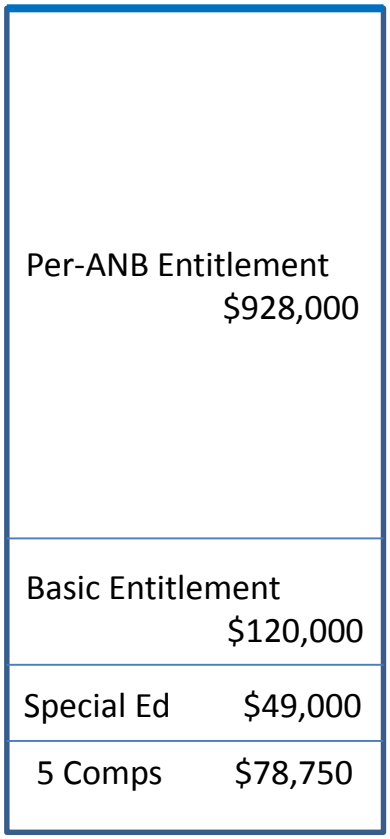
The BASE budget is established on 80% of the BE so:
80% x $150,000 = $120,000

Bonus information:
The high school basic entitlement is $300,000.

Double bonus information:
Basic entitlements are for the district, not per school.

Triple bonus information:
Senate Bill No. 175 (Jones, 2013) created basic entitlement "increments" that increase the basic entitlement when ANB thresholds are reached, providing more budget authority and state and local funding through the basic entitlement component as districts grow in size. Our fairly small hypothetical EL district does not receive a BE increment.

Per-ANB Entitlement



BASE budget = $1.175 million

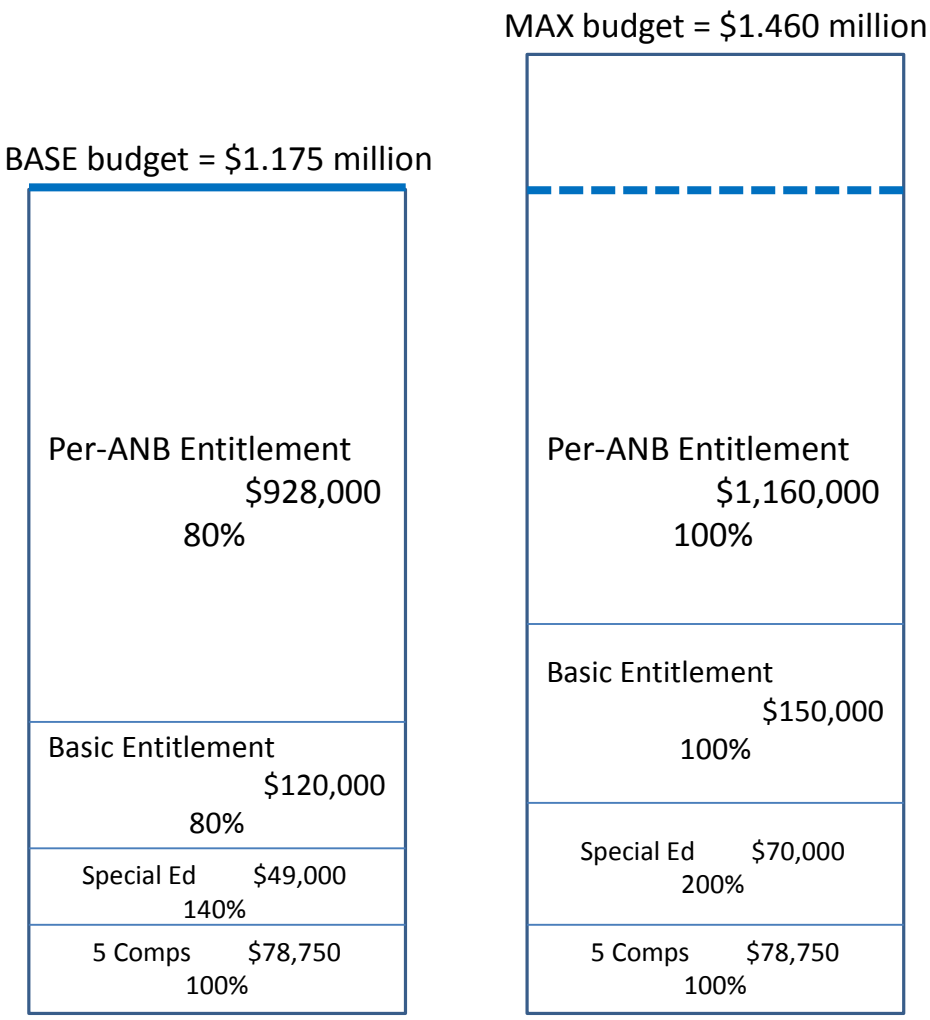
The final block in establishing a district's BASE budget is the **per-ANB entitlement**.

$5,500 x 160 ANB in grades K-6 = **$880,000**
$7,000 x 40 ANB in grades 7-8 = +**$280,000**
$1,160,00

Note—these round number calculations ignore the "decrement" which is a $0.20 decrease per ANB in the entitlement amount up to a stop loss point of 1,000 ANB. In high schools the decrement is $0.50 up to 800 ANB.

The BASE budget is established on 80% of the per-ANB so:
80% x $1,160,000 = **$928,000**

So, adding up these building blocks results in this district's BASE or minimum general fund budget totaling **$1.175 million**



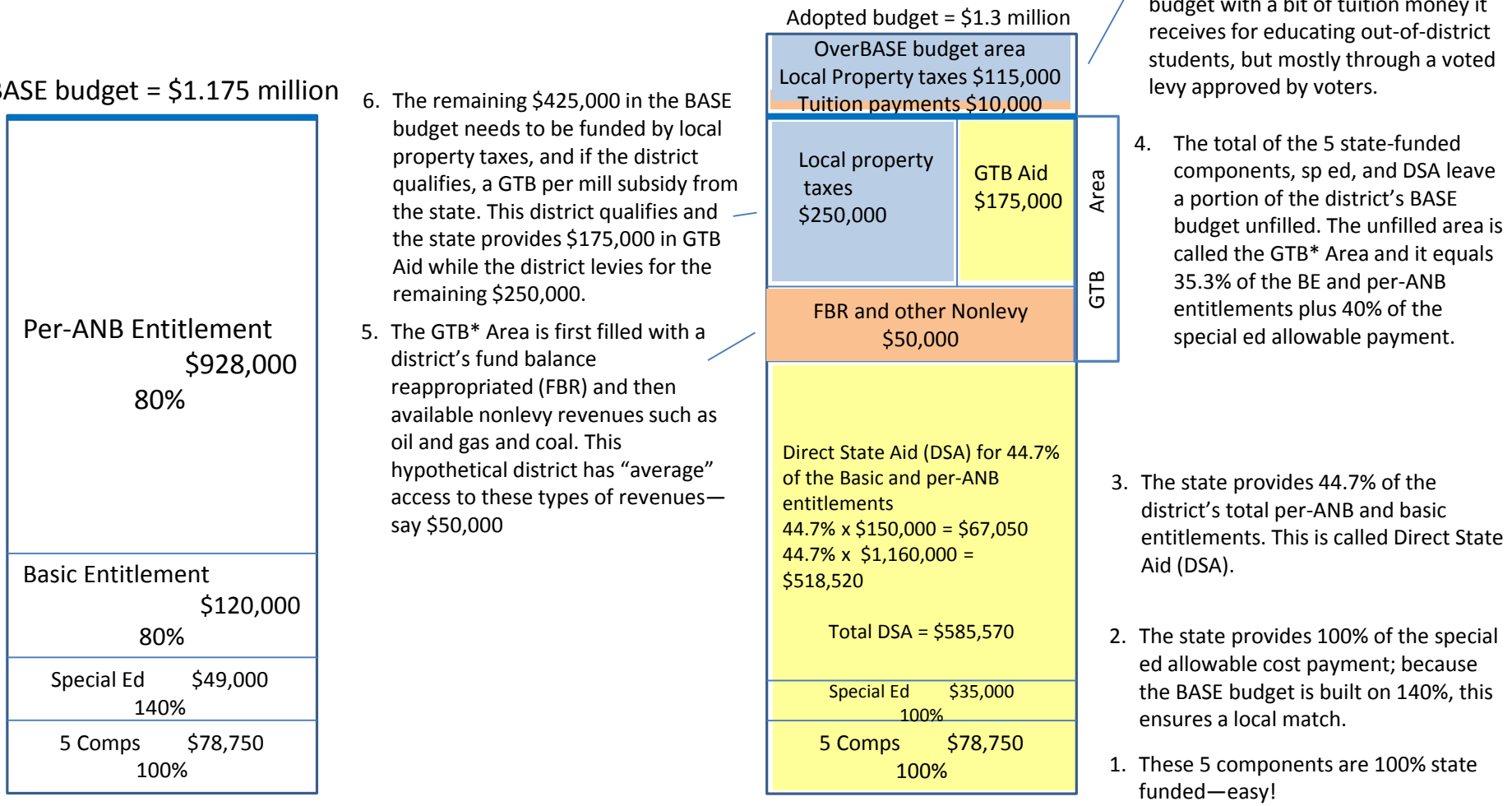
The MAX general fund budget limit

The district's maximum (MAX) budget is built on the same components or building blocks, but at different percentages.

This creates about a 25% range between a district's BASE and MAX budget limits.

That said, the MAX cap is not a "hard cap"—there are exceptions that allow districts to adopt overMAX general fund budgets.

OK, we've established the BASE and MAX budget limits, now let's walk through how the district's adopted GF budget is funded.



6. The remaining $425,000 in the BASE budget needs to be funded by local property taxes, and if the district qualifies, a GTB per mill subsidy from the state. This district qualifies and the state provides $175,000 in GTB Aid while the district levies for the remaining $250,000.
5. The GTB* Area is first filled with a district's fund balance reappropriated (FBR) and then available nonlevy revenues such as oil and gas and coal. This hypothetical district has "average" access to these types of revenues—say $50,000

7. This district has adopted an overBASE budget that is under the MAX cap. The district funds this portion of the budget with a bit of tuition money it receives for educating out-of-district students, but mostly through a voted levy approved by voters.
4. The total of the 5 state-funded components, sp ed, and DSA leave a portion of the district's BASE budget unfilled. The unfilled area is called the GTB* Area and it equals 35.3% of the BE and per-ANB entitlements plus 40% of the special ed allowable payment.
3. The state provides 44.7% of the district's total per-ANB and basic entitlements. This is called Direct State Aid (DSA).
2. The state provides 100% of the special ed allowable cost payment; because the BASE budget is built on 140%, this ensures a local match.
1. These 5 components are 100% state funded—easy!

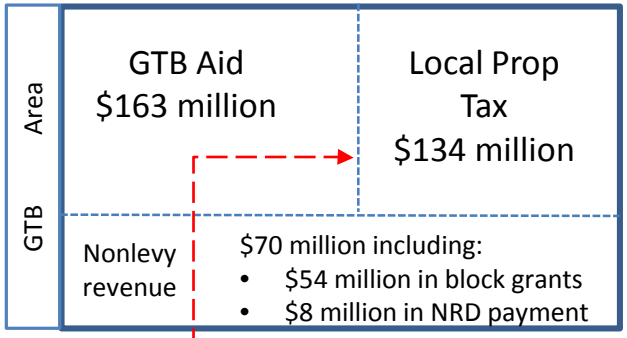
* GTB stands for Guaranteed Tax Base. It's a mechanism that subsidizes districts with lower property value compared to their funding need. MT's GTB formula ensures a revenue-generating capacity in the BASE budget of almost twice the statewide average (193%) which means that about 320 out of 400 districts are eligible for GTB. This "multiplier" of 193% is ratcheting up over the next few years to 232% in FY 2021.

Why did my school property taxes go up this year?

Changes in property taxes depend on MANY factors, including changes in individual property valuation relative to total property valuation within a taxing jurisdiction.

One factor that impacted taxes in every school district was the elimination of the general fund block grants and the Natural Resource Development (NRD) payment by the 2017 Legislature.

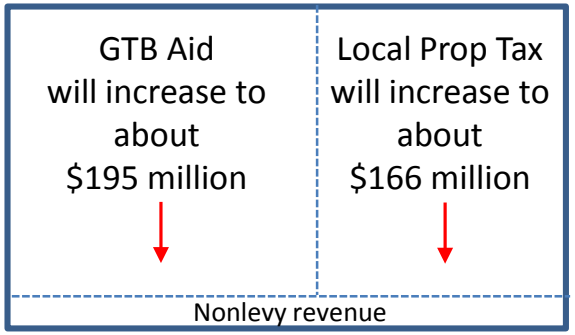
2017 (GTB 193%)



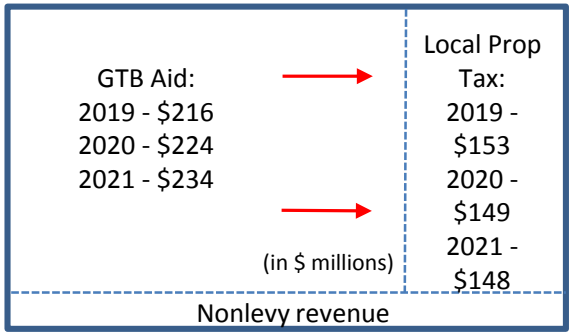
The share of GTB and local taxes varies from district to district based on local property tax wealth. Wealthier districts receive less or no GTB Aid; poorer districts receive more.

The elimination of block grants and the NRD payment in 2018 decreases nonlevy revenue significantly and results in increases in both GTB and local property taxes (BASE mills).

2018 (GTB 193%)



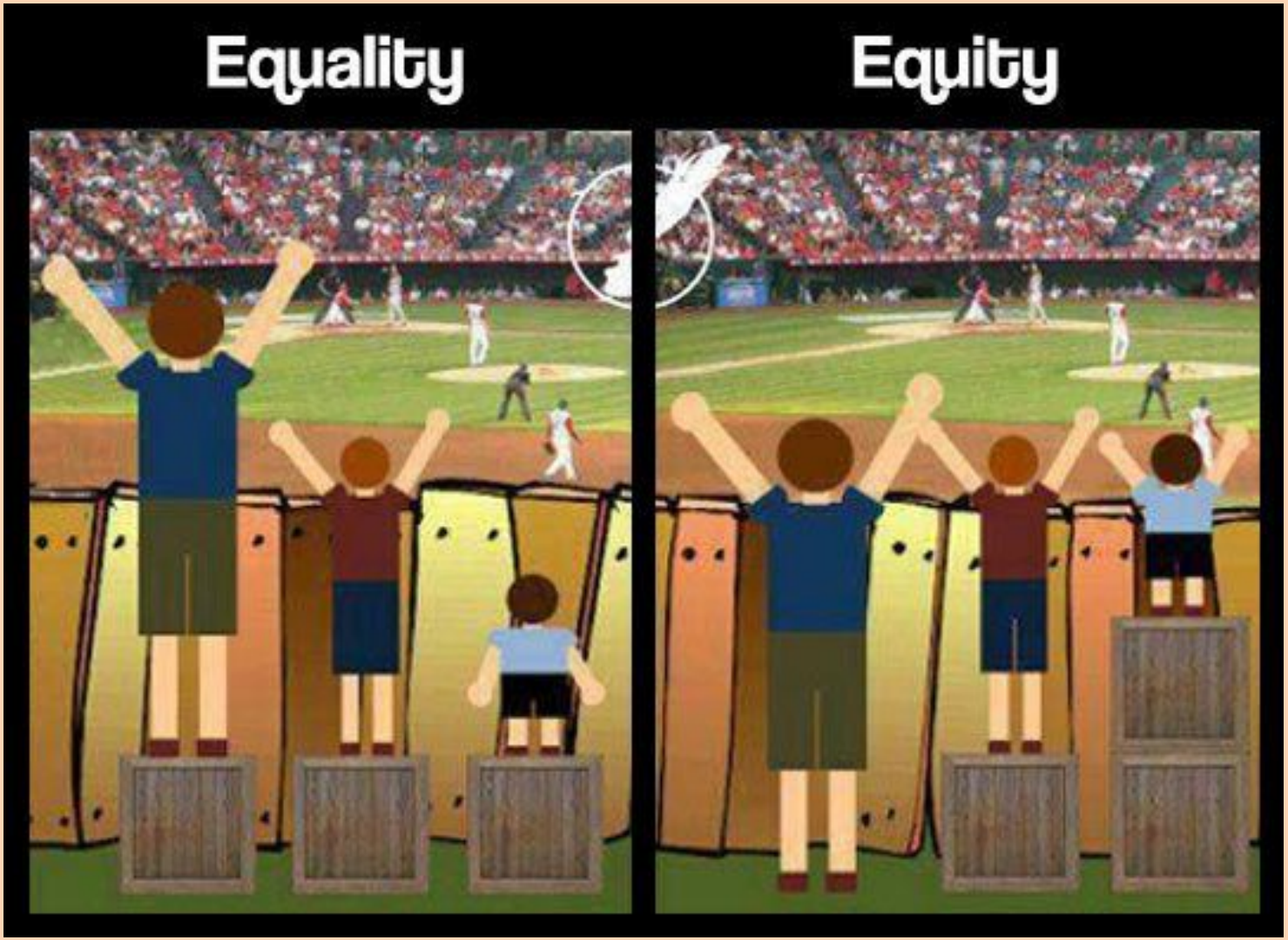
2019 (GTB 216%)
2020 (GTB 224%), 2021… (GTB 232%)



But as the state funding that previously went to districts as block grants is redistributed by increasing the GTB multiplier over the next few years, GTB aid will increase and local property taxes (BASE mills) will generally decrease. More districts will be eligible for more GTB aid. However, some wealthy districts will still not be eligible for GTB aid and will pay more in BASE taxes than before. This is the result of distributing more state aid through equalizing GTB aid.

Data as per model 05-02-17K-12ModelMaster
Note—statewide local taxes are not expected to return to 2017 level due to projected ANB increases and inflationary adjustments to entitlement amounts

Equity means the quality of being fair and impartial; justness. The picture below is often used to help illustrate the differences between “equity and equality.” It gets at the distinction between an equal allocation of resources and an equitable allocation of resources. It also reinforces that allocating resources equitably is about allocations based on NEED.



THE CONSTITUTION OF THE STATE OF MONTANA
ARTICLE X. EDUCATION AND PUBLIC LANDS

Section 1. Educational goals and duties. (1) **It is the goal of the people to establish a system of education which will develop the full educational potential of each person. Equality of educational opportunity is guaranteed to each person of the state.**

(2) The state recognizes the distinct and unique cultural heritage of the American Indians and is committed in its educational goals to the preservation of their cultural integrity.

(3) 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.**

Section 8. School district trustees. **The supervision and control of schools in each school district shall be vested in a board of trustees to be elected as provided by law.**

Is this an accurate paraphrase of the bolded language?

The legislature needs to allocate a reasonable amount of the total cost of the K-12 system fairly to each district so that locally elected boards of trustees have the ability to offer educational programs so that every student across the state has the same chance to maximize the student's individual potential.

LEARNING POLICY INSTITUTE RESEARCH BRIEF FEB. 2018

Money and Freedom: The Impact of California's School Finance Reform

Rucker C. Johnson and Sean Tanner

Abstract

This study of California's recent major school finance reform, the Local Control Funding Formula, is among the first to provide evidence of LCFF's impacts on student outcomes. The study looked at per-pupil revenue, high school graduation rates, and student achievement for each grade and subject (mathematics and reading) for all public schools in California. The results show that LCFF-induced increases in district revenue led to a significant reduction in the average school-level student-to-teacher ratio and significant increases in average teacher salaries and instructional expenditures. LCFF-induced increases in school spending led to significant increases in high school graduation rates and academic achievement, particularly among children from low-income families. These improvements in high school academic achievement closely track the timing of LCFF implementation, school-age years of exposure, and the amount of district-specific LCFF-induced spending increase. In sum, the evidence suggests that money targeted to students' needs can make a significant difference in student outcomes and can narrow achievement gaps.

This brief can be found online at https://learningpolicyinstitute.org/product/ca-school-finance-reform.

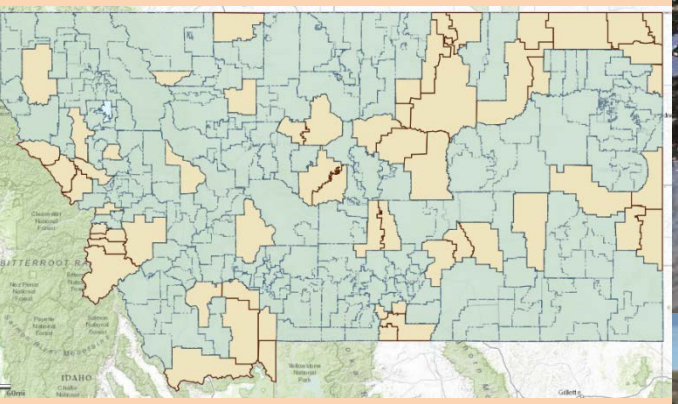
Introduction

One in eight students in the U.S. is educated in California's public school system, the largest state system in the country. Until recently, the state used an outdated school funding formula that had grown cumbersome—featuring dozens of categorical programs—and highly inequitable. Recognizing the urgency for a funding overhaul, Governor Jerry Brown proposed in 2012 what will likely be his flagship legislative achievement, the Local Control Funding Formula (LCFF), which allocates funds based on pupil needs and eliminates many limitations on the use of funds, allowing "local control" over spending decisions.

Historically, California has been a progressive forerunner in school finance. In 1971, the state had the nation's first successful court-ordered ruling on school finance in the landmark case *Serrano v. Priest*. Some 40 years later, in 2013, LCFF was enacted. It was the first major school finance reform in California since *Serrano* and one of the most progressive formulas in the nation. It attempts to address resource inequity by (1) reallocating school finances on the basis of student disadvantage (rather than district property wealth) and (2) removing many of the restrictions on how the revenue can be spent. The new funding formula reallocates district revenues based almost entirely on the proportion of unduplicated disadvantaged students in each district—those who qualify for free or reduced-price lunch, have limited English proficiency, or are in foster care. LCFF also aims to integrate and embed the accountability and student performance processes by requiring local communities to examine progress on a wide range of accountability indicators and to allocate funds to improve these outcomes.

11. The preferred model is the 2SLS-IV approach. We estimate the following system of equations by 2SLS where s indexes school, d indexes district , b indexes birth year, and g indexes group (all children, children from low-income families, or racial/ethnic group):

- $Y_{gsdb} = \beta_1 \cdot \widehat{revst}_{db}^{15-17} + \beta_2 \cdot \widehat{unrs}_{db}^{15-17} + \gamma \cdot C_{db} + \theta_s + \tau_b + \varepsilon_{gsdb}$
- $\widehat{revst}_{db}^{15-17} = \pi_1\left(SFRExp_{db} \times \widehat{dose}_d\right) + \pi_2\left(SFRExp_{db} \times \widehat{unrs}12_d\right) + \gamma_1 \cdot C_{db} + \theta_{d1} + \tau_{b,1}$
- $\widehat{unrs}_{db}^{15-17} = \pi_3\left(SFRExp_{db} \times \widehat{unrs}12_d\right) + \pi_4\left(SFRExp_{db} \times \widehat{dose}_d\right) + \gamma_2 \cdot C_{db} + \theta_{d2} + \tau_{b,2}$.
- $\widehat{revst}_{db}^{15-17}$ is the average per-pupil revenue from the state (in real 2015 dollars) during expected school-age years (ages 15 through 17) in an individual's childhood school district.
- $\widehat{unrs}_{db}^{15-17}$ is the average proportion of revenue from the state that is unrestricted during expected school-age years (ages 15 through 17) in an individual's childhood school district
- $SFRExp_{db}$ is the number of school-age years that occurred after LCFF was first implemented (0 = 17 years old, 4 = 13 years old, etc.); each year entered as dummy indicator (fully non-parametric specification).
- $\widehat{dose}_d$ is the decile of the LCFF concentration/supplement grant*spline (based on funding formula).
- $\widehat{unrs}12_d$ is the 2012 (pre-LCFF) proportion of revenue from the state that was unrestricted.
- C_{db} is the district-specific predicted k–12 spending at age 15–17 based on pre-LCFF relationship between district spending and statewide spending (excluding k–12 spending)—estimated counterfactual spending in absence of SFR.
- θ_s is the vector of school fixed effects; τ_b is the vector of birth year fixed effects.



Each of Montana's 400 school districts is <u>unique</u>. Some require more state resources than others based on size. Some of equal size require more state resources based on student needs and/or the availability of local resources.

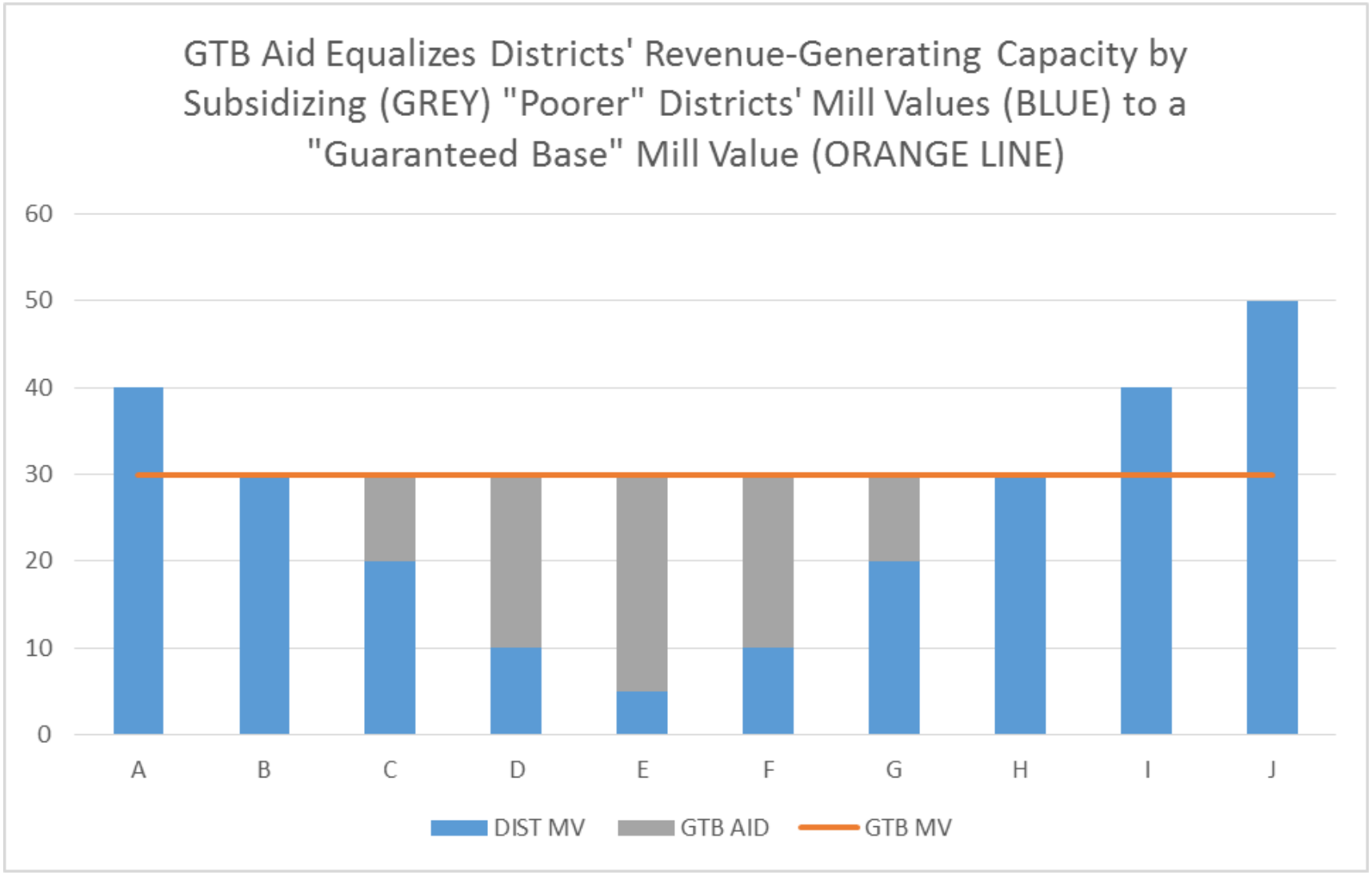
In relation to school funding, it might be nice to think about two types of need that go into equitably distributing resources:

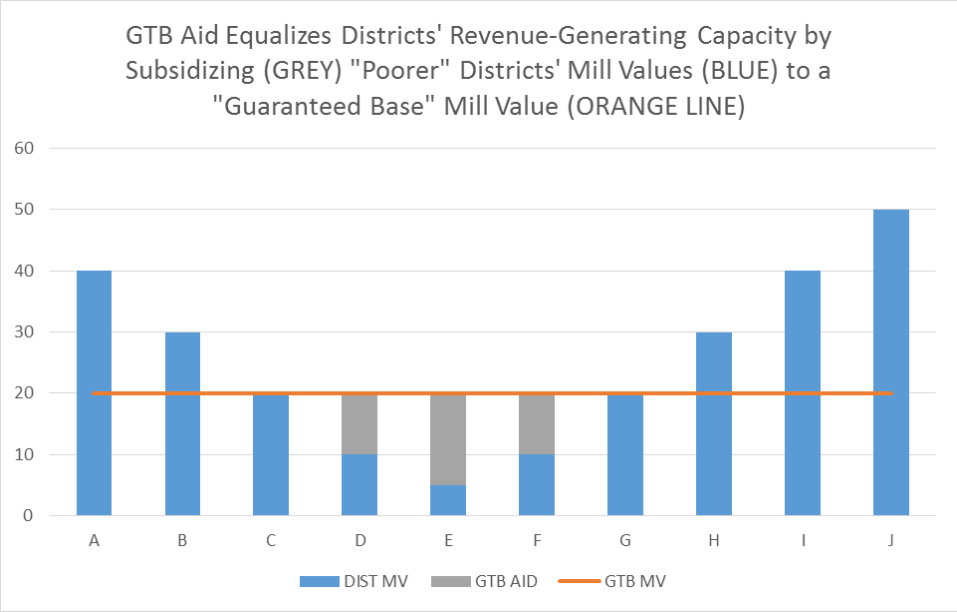
1. The first is based on **costs** of providing education. Districts that have more kids have higher costs. Districts with more kids with special needs have higher costs. Districts might have higher costs due to geography and demographics. These are all examples of "educationally relevant factors" (20-9-309, MCA).

2. The second is based on **resources**. Because we raise local revenue for schools largely through property taxes, and because some districts have greater taxable valuations (property wealth) relative to their educational costs than others, some districts have greater access to resources than others.

In striving for an equitable distribution of the state's share of the costs of Montana's K-12 system, we need to consider both of these types of need. And we do to some degree. In our formula, districts with higher costs have larger BASE (and MAX) general fund budgets, and districts with fewer resources receive a larger proportion of state aid for their BASE budgets through **GTB or guaranteed tax base aid**…

GTB Basics

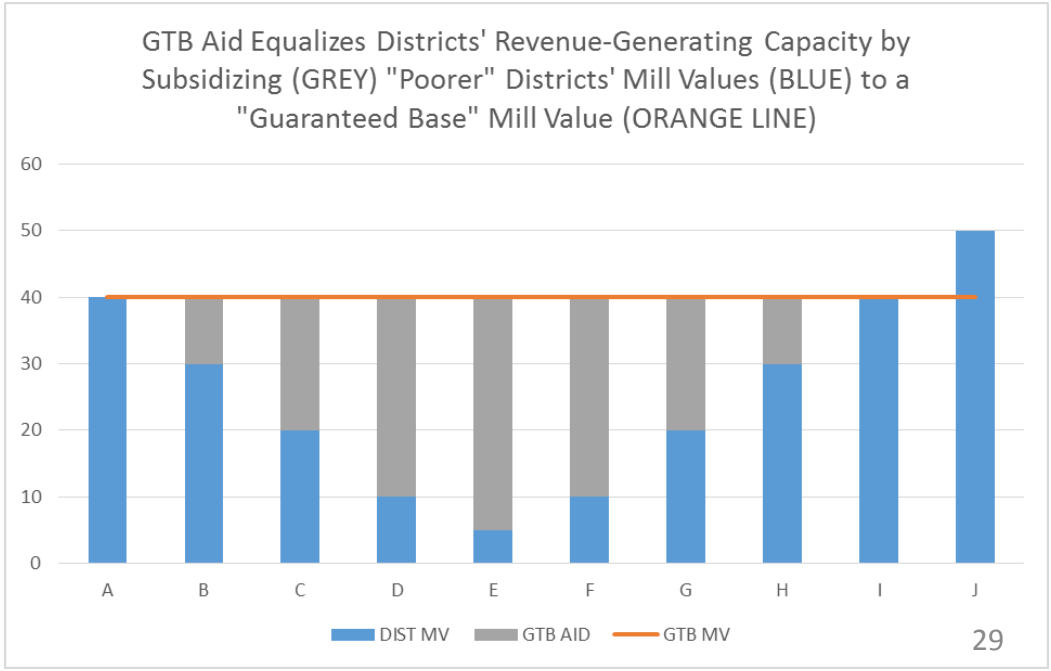

GTB Aid Equalizes Districts' Revenue-Generating Capacity by Subsidizing (GREY) "Poorer" Districts' Mill Values (BLUE) to a "Guaranteed Base" Mill Value (ORANGE LINE)
60
50
40
30
20
10
0
A
B
C
D
E
F
G
H
I
J
DIST MV
GTB AID
GTB MV



GTB is often set higher than the average revenue-generating capacity by using a multiplier. In Montana, BASE GTB is 193% of the statewide average (but increasing over the next few years to 232%), county retirement GTB is 121%, and debt service GTB is 140%. These multipliers are one of many fine-tuning dials within our formula(s).

These two charts display the effects of adjusting the GTB multiplier. When the GTB is lowered as shown above, fewer districts are eligible for less aid. The number of advantaged districts is increased along with their degree of advantage. Equity is diminished.

When the GTB is raised as shown to the right, more districts receive more GTB aid. State costs are higher, but the field is more level and equity is increased.



A Short Field Trip into the GTB Weeds (or, Why Denominators Matter)

How do we measure a district's revenue generating capacity?

It's not simply the district's mill value. If it was, Billings HS would be Montana's "wealthiest" school district.

We need to evaluate the district's revenue capacity (MV) **compared to** its funding need. Typically GTB formulas use enrollment (what we call ANB) as a measure of funding need to establish a ratio of:

$$\frac{\text{revenue-generating capacity}}{\text{funding need}} \quad \text{or} \quad \frac{\text{MV}}{\text{ANB}}$$

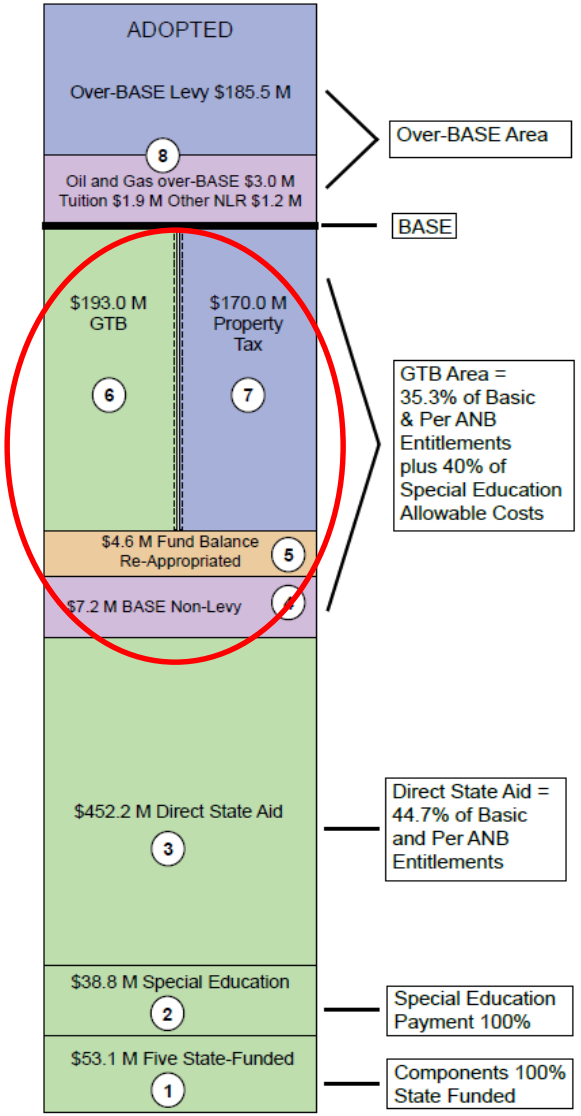
When a district's numerator (MV) shrinks or the denominator (ANB) grows, the ratio and the district's revenue generating capacity decreases. We might refer to this as a "poorer" district.

But sometimes a different proxy for funding need is used in the denominator.

For example in Montana, BASE GTB is calculated based on: $\frac{\text{MV}}{\text{GTB Area}}$

Where the GTB Area is that part of a district's BASE budget that is NOT funded by the five components, the special education payment, and direct state aid. In this sense, the GTB Area is not a proxy for funding need, it **is** the district's funding need.

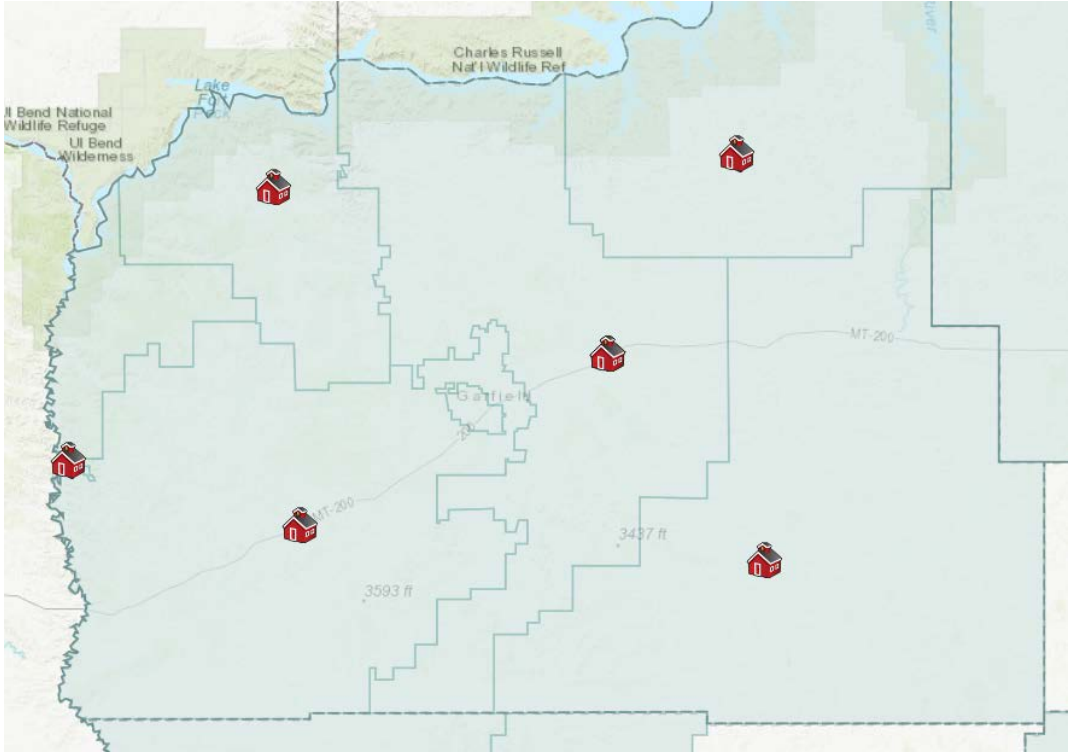
Remember—the mill value in any taxing jurisdiction is simply the district's taxable valuation divided by 1000

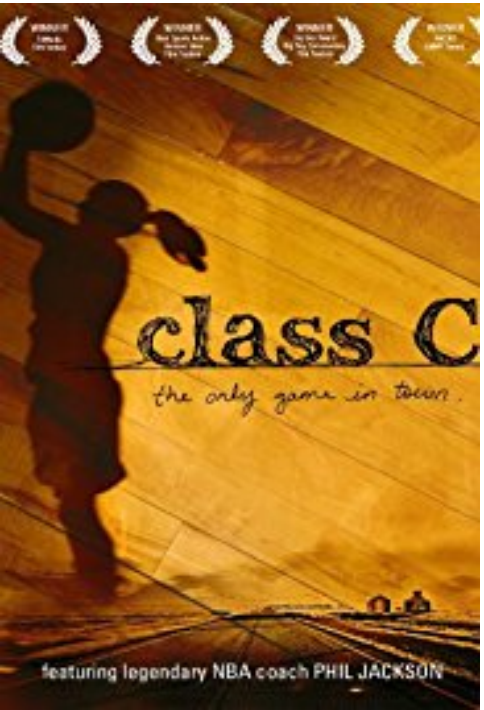


County Retirement GTB

Because school retirement costs are pooled and paid for at the county level, the state provides GTB support for counties with lower revenue capacity (mill value) compared to funding need.

For county retirement GTB, we measure a county's funding need by ANB, which is an imperfect proxy for retirement costs.

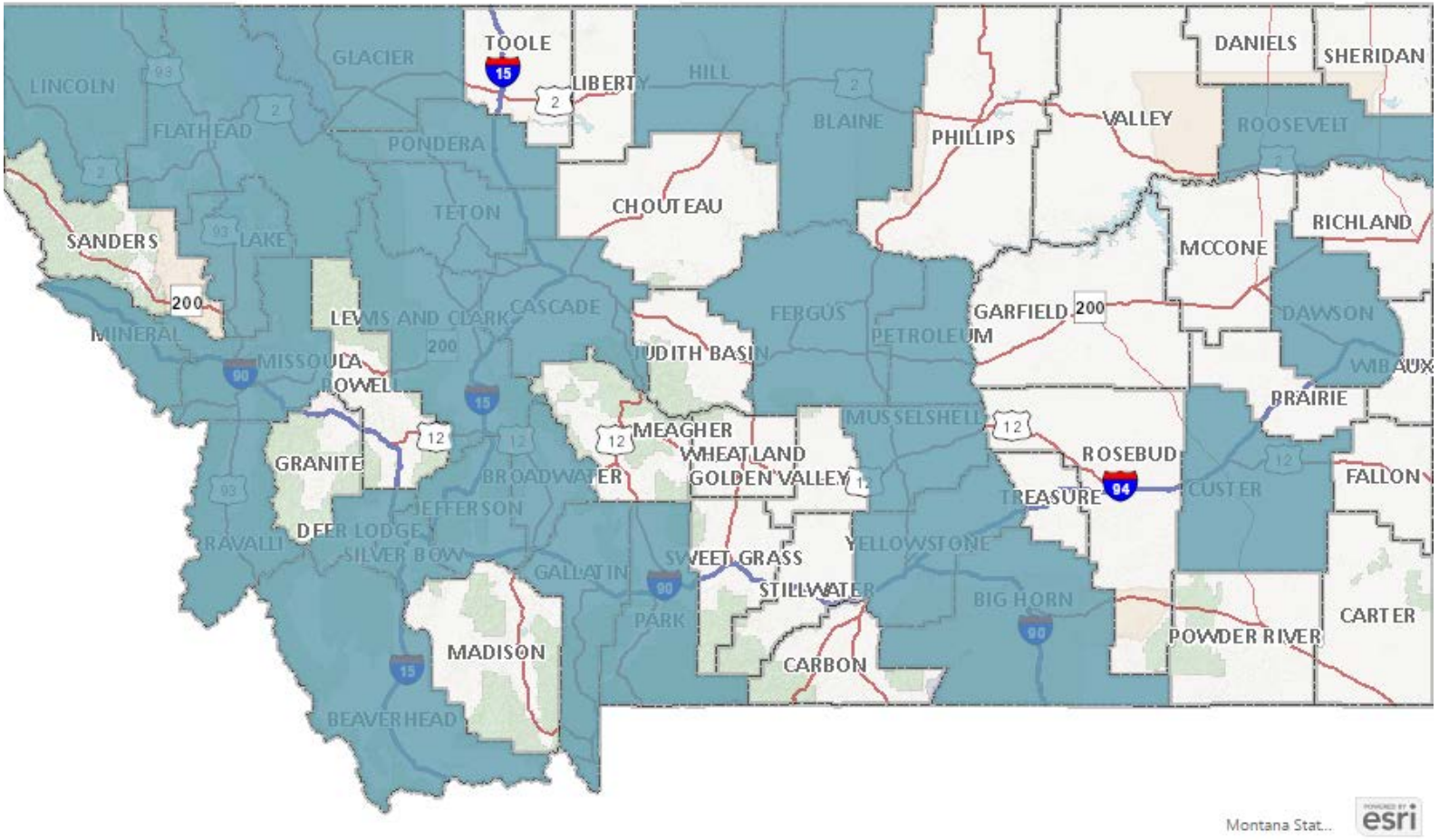




Smaller districts generally have lower student (ANB) to teacher (QE) ratios, maybe 5:1 to 10:1. Larger districts can often maintain ratios closer to 15:1. This means that smaller districts generally have more QE (and likely higher retirement costs) relative to ANB.

Considering concerns about recruitment and retention and teacher salaries, especially in isolated rural districts, the committee may want to examine the impacts of "flipping the switch" in this mechanism from ANB to QE or to actual retirement costs, if possible.

Half of Montana counties do not receive state GTB aid for school retirement.
(Blue-shaded counties receive retirement GTB; unshaded counties do not.)



Over the past two interims, funding for special education has been a priority topic. A number of proposals have been made to increase the state special education payment, currently about $43 million/year. Let's take a look at the impacts of increasing the payment, using familiar slides from earlier. Remember, this is a hypothetical EL district of about 200 ANB.

1. Increasing the state sp ed payment, increased this district's sp ed payment by $15,000, from $35,000 to $50,000, but the 140% calculation means this impacts the BASE budget by **$21,000**, not just $15,000.

BASE budget = $1.175 million

Per-ANB Entitlement $928,000 80%

Basic Entitlement $120,000 80%

Special Ed $49,000 $35,000 x 140%

5 Comps $78,750 100%

BASE budget = $1.196 million

Per-ANB Entitlement $928,000 80%

Basic Entitlement $120,000 80%

Special Ed $70,000 $50,000 x 140%

5 Comps $78,750 100%

3. But remember, this change increased the BASE by $21,000, not just $15,000, so both local taxes and GTB aid go up a bit too.

2. This district's sp ed payment increased from $35,000 to $50,000. While this does not increase DSA, increasing sp ed payment moves both lines higher.

OverBASE budget area
Local Property taxes $115,000
Tuition payments $10,000

Local property taxes ~~$250,000~~ $254,000

GTB Aid ~~$175,000~~ $177,000

GTB Area

FBR and other Nonlevy $50,000

Direct State Aid (DSA) for 44.7% of the Basic and per-ANB entitlements
44.7% x $150,000 = $67,050
44.7% x $1,160,000 = $518,520

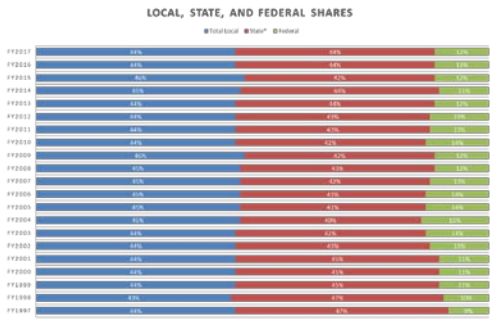
Total DSA = $585,570

Special Ed ~~$35,000~~ $50,000 100%

5 Comps $78,750 100%

Takeaway—increasing the special education payment increases funding for special education without forcing greater competition between regular and special education expenditures; it increases local taxes and GTB as well

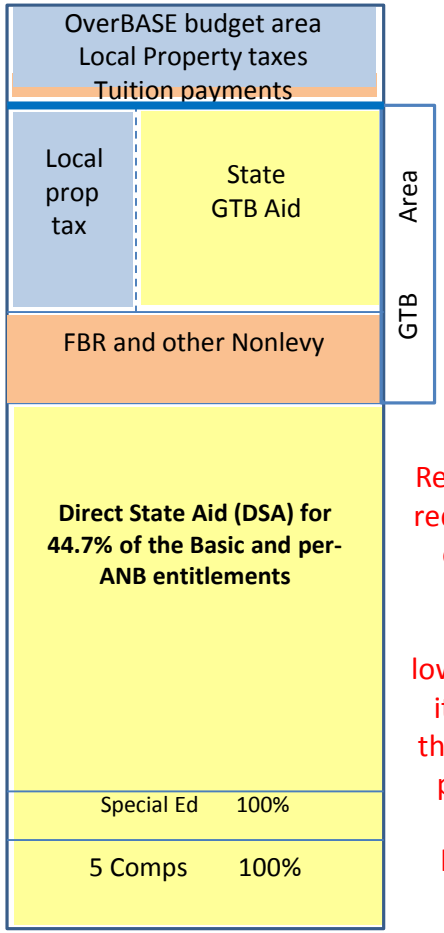
Is there a way to increase special education funding (or create a component for ELs, or fund the teacher loan forgiveness program, etc.) without decreasing school budgets AND without increasing state education funding?



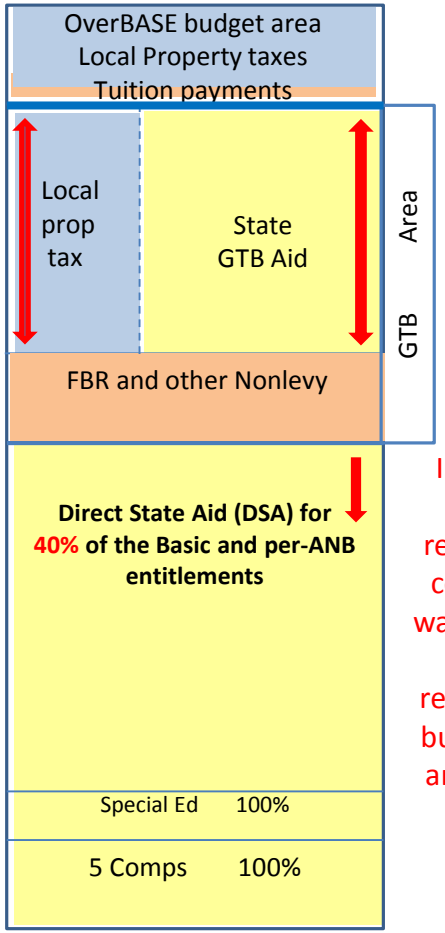
Yes, there are likely a number of ways, but remember:

The Law of Conservation of School Dollars:
Any School Dollar Created comes from Somewhere.

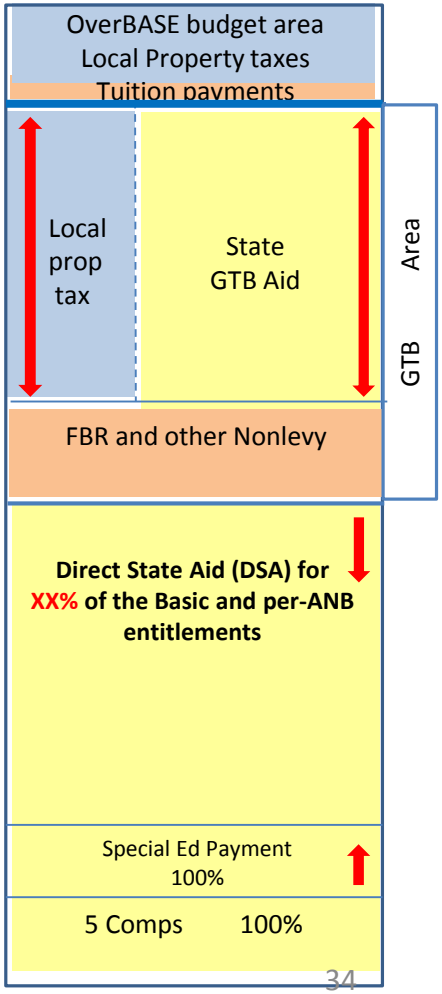
Let's look briefly at the "DSA Dial" within your formula



Reducing the DSA % reduces the amount of state funding required.
This would not lower BASE budgets, it would increase the amount of local property tax and GTB aid to fill a larger GTB area.

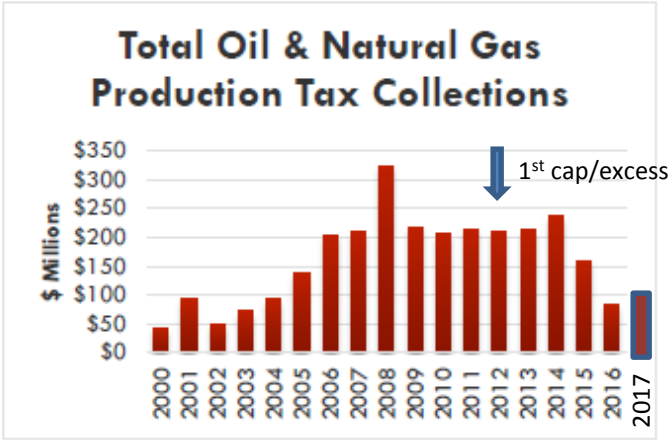


Increasing special education and reducing the DSA % could be done in a way to hold state the state funding requirement steady, but the sum total of any increase would come from local taxes.



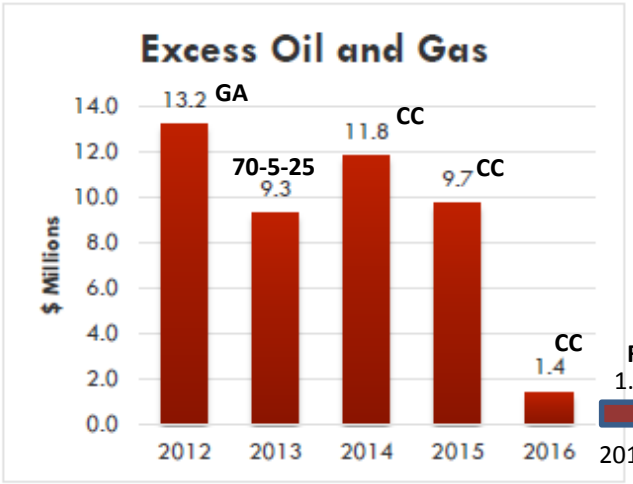
OIL AND NATURAL GAS PRODUCTION TAXES AND SCHOOL FUNDING 2011 - 2017

The refinement of hydraulic fracturing technology and high oil and natural gas prices contributed to Montana's most recent oil and natural gas boom from roughly 2005 through 2015. The amount of oil and natural gas production tax revenues retained by some school districts, the lack of revenues in neighboring districts feeling the impacts of the boom, and state general fund revenue pressure following the 2008 recession led the Montana Legislature to examine and revise the distribution of oil and natural gas production taxes (O&G) to school districts in each of the last four sessions.



2011—SB 329 (Zinke)

- Established 20-9-310 -- Oil and natural gas production taxes for school districts -- allocation and limits. This section and its changes were to terminate after FY 2016.
- Created a cap of 130% of the district's maximum general fund budget (with some exceptions) on the amount of O&G that a school district can retain. Anything over this cap is termed "excess O&G".
- Required districts to allocate increasing percentages of O&G retained in the prior year to the district's general fund budget in the ensuing year.



- For 2012 any excess O&G is transferred to the guarantee account, reducing the amount of state general fund money needed to fund schools.
- For 2013 and beyond, any excess O&G is distributed:
  - 70% to the guarantee account;
  - 25% to a new County O&G Impact Fund (20-9-518), which is basically a "bust" fund that accumulates money during "boom" then distributes as O&G revenues decline; and
  - 5% to a new State O&G Impact Account (20-9-517), which funds grants to school districts that feel the impacts of O&G development (increased enrollment, greater hiring difficulty, etc.) but do not receive much O&G money due to location of wells.

How to learn more:

- Ask your Legislative staff: Laura, Pad, Nick Van Brown in LFD
- Talk to your school district business officer or superintendent
- Talk to OPI school finance folks and education stakeholders
- Lots on the School Funding Interim Commission webpages
- GEMS