



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

HB0514 - Increase the inflationary adjustment cap related to school funding (Romano, Melissa)

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>
Expenditures:				
General Fund	\$0	\$0	\$28,098,103	\$55,858,269
Revenue:				
General Fund	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u>\$0</u>	<u>\$0</u>	<u>(\$28,098,103)</u>	<u>(\$55,858,269)</u>

Description of fiscal impact: HB 514 revises school funding laws to remove the statutory cap on annual inflation-related adjustments by amending section 20-9-326, MCA. Increases to state BASE aid payments to school districts are estimated at \$28.0 million in FY 2026 and \$55.8 million in FY 2027. The total state obligation for BASE Aid funding would be \$1,053.4 million in FY 2026 and \$1,111.0 million in FY 2027.

FISCAL ANALYSIS

Assumptions:

- Section 20-9-326, MCA, or the annual inflation-related adjustments to basic entitlements and per-ANB entitlements is amended to remove the 3% cap when calculating the consumer price index inflationary calculation for the determination of increases when the Superintendent of Public Instruction prepares and submits an agency budget pursuant to sections 17-7-111 and 17-7-112, MCA.
- The bill has no specified effective date. Therefore, the bill will take effect October 1, 2023. The budget for the 2025 biennium would be in place at that time so the first budget affected by this change would be for the 2027 biennium.
- According to the Consumer Price Index (CPI) forecasts, using January 2023 data, the estimated inflation factor for FY 2026 would be 5.77% and for FY 2027 would be 4.68%.

4. For purposes of this fiscal note, a measure of funding needed to support inflationary increases above the 3% limitation will be presented as new costs associated with HB 514 beginning in FY 2026.
5. The average number belonging (ANB) used to determine the general fund budgets for K-12 public schools will be as follows. These estimates are for current year ANB, which is used to calculate the budgeted ANB as determined by 20-9-311(13) and (14), MCA.

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
K-6 ANB	83,565	84,417	85,144	85,785	86,208
7-8 ANB	24,441	24,430	24,750	24,888	25,256
9-12 ANB	<u>45,905</u>	<u>46,573</u>	<u>46,532</u>	<u>46,539</u>	<u>46,287</u>
Total	153,911	155,420	156,426	157,212	157,751

6. The number of FTE (including special education cooperatives) generating the quality educator payment is estimated to be:

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
School District FTE	13,365.497	13,365.497	13,365.497	13,365.497	13,365.497
Special Ed Coop FTE	165.709	165.709	165.709	165.709	165.709
Total FTE	13,531.206	13,531.206	13,531.206	13,531.206	13,531.206

7. The present law inflation applied to the Basic and Per-ANB Entitlements, the Quality Educator, Indian Education for All, American Indian Achievement Gap, Data-for-Achievement, At Risk, and the Special Education Allowable Cost Payment components (20-9-326, MCA) is 2.70% in FY 2024 and 3.00% in FY 2025. For the present law budget, entitlements and components are set as follows:

<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

<u>Basic Entitlement Increments</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
Elementary (each 25 ANB > 250 ANB)	\$2,788	\$2,863	\$2,949	\$3,037	\$3,103
Middle School (each 45 ANB > 450 ANB)	\$5,574	\$5,724	\$5,896	\$6,073	\$6,205
High School (each 80 ANB past 800 ANB)	\$16,723	\$17,175	\$17,690	\$18,221	\$18,616

<u>Per ANB Entitlements</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
Elementary Per-ANB	\$5,962	\$6,123	\$6,307	\$6,496	\$6,637
High School Per-ANB	\$7,634	\$7,840	\$8,075	\$8,317	\$8,497
Direct State Aid (DSA) Percentage	44.7%	44.7%	44.7%	44.7%	44.7%

<u>Components</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
Indian Education for All	\$23.28	\$23.91	\$24.63	\$25.37	\$25.92
Indian Achievement Gap	\$229	\$235	\$242	\$249	\$254
Quality Educator	\$3,472	\$3,566	\$3,673	\$3,783	\$3,865
At Risk	\$5,873,777	\$6,032,369	\$6,213,340	\$6,399,740	\$6,538,614
Data for Achievement	\$22.29	\$22.89	\$23.58	\$24.29	\$24.82
Special Education Allowable Cost	\$286.02	\$293.74	\$302.55	\$311.63	\$318.39

8. Present law (20-9-326, MCA) requires the Superintendent of Public Instruction to include inflationary adjustments for the basic and per-ANB entitlements, and the Quality Educator, Indian Education for All,

American Indian Achievement Gap, Data for Achievement, At-Risk and Special Education Allowable Cost components in the recommendations presented to the legislature. These present law adjustments result in the following expenditures:

<u>Payment</u>	<u>FY 2024</u>	<u>FY 2025</u>
Direct State Aid	\$522.8 million	\$540.5 million
Guaranteed Tax Base Aid	\$259.9 million	\$290.3 million
County Retirement GTB	\$50.9 million	\$52.9 million
Indian Education for All	\$3.7 million	\$3.9 million
American Indian Achievement Gap	\$4.9 million	\$5.0 million
Quality Educator	\$48.3 million	\$49.7 million
Data for Achievement	\$3.6 million	\$3.7 million
Special Education Allowable Cost	\$45.7 million	\$47.3 million

9. Direct State Aid, GTB, and other school district general fund components are computed with the school funding model used by the Office of Public Instruction, the Legislative Fiscal Division, and the Office of Budget and Program Planning using current statutory entitlements, enrollment estimates, and estimated property tax values.
10. The At-Risk Student payment inflation increase of \$158,592 in FY 2024 and \$339,563 in FY 2025 will be appropriated in HB 2.
11. The statewide present law taxable valuations are forecast to increase by 19.55% in FY 2024 and 1.74% in FY 2025.
12. The HB 514 inflation applied to the Basic and Per-ANB Entitlements, the Quality Educator, Indian Education for All, American Indian Achievement Gap, Data-for-Achievement, At Risk, and the Special Education Allowable Cost Payment components (20-9-326, MCA) is 5.77% in FY 2026 and 4.68% in FY 2027. The current law inflation was calculated to be 3.00% in FY 2026 and 2.17% in FY 2027. HB 514 entitlements and components would be set as follows:

<u>Basic Entitlements</u>	<u>FY 2026</u>	<u>FY 2027</u>
Elementary Basic	\$62,365	\$65,284
Middle School Basic	\$124,732	\$130,569
High School Basic	\$364,401	\$372,309

<u>Basic Entitlement Increments</u>		
Elementary (each 25 ANB > 250 ANB)	\$3,119	\$3,265
Middle School (each 45 ANB > 450 ANB)	\$6,236	\$6,528
High School (each 80 ANB past 800 ANB)	\$18,711	\$19,587

<u>Per ANB Entitlements</u>	<u>FY 2026</u>	<u>FY 2027</u>
Elementary Per-ANB	\$6,671	\$6,983
High School Per-ANB	\$8,541	\$8,941
Direct State Aid (DSA) Percentage	44.7%	44.7%

<u>Components</u>	<u>FY 2026</u>	<u>FY 2027</u>
Indian Education for All	\$26.05	\$27.07
Indian Achievement Gap	\$256	\$268
Quality Educator	\$3,885	\$4,067
At Risk	\$6,571,850	\$6,879,413
Data for Achievement	\$24.94	\$26.11
Special Education Allowable Cost	\$320.01	\$334.99

13. The basic and per-ANB entitlements, and the Quality Educator, Indian Education for All, American Indian Achievement Gap, Data for Achievement, At-Risk and Special Education Allowable Cost components as directed by HB 514 are estimated. These HB 514 adjustments result in the following expenditures:

<u>Payment</u>	<u>FY 2026</u>	<u>FY 2027</u>
Direct State Aid	\$574.8 million	\$604.2 million
Guaranteed Tax Base Aid	\$305.5 million	\$325.1 million
County Retirement GTB	\$56.5 million	\$59.4 million
Indian Education for All	\$4.1 million	\$4.3 million
American Indian Achievement Gap	\$5.3 million	\$5.5 million
Quality Educator	\$52.6 million	\$55.0 million
Data for Achievement	\$3.9 million	\$4.1 million
Special Education Allowable Cost	\$50.3 million	\$52.8 million

	<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>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Local Assistance (DSA)	\$0	\$0	\$15,242,976	\$30,289,172
Local Assistance (SPED)	\$0	\$0	\$1,317,437	\$2,618,667
Local Assistance (GTB)	\$0	\$0	\$8,163,714	\$16,461,013
Local Assistance (IEA)	\$0	\$0	\$106,958	\$213,208
Local Assistance (GAP)	\$0	\$0	\$144,774	\$289,548
Local Assistance (QEC)	\$0	\$0	\$1,380,183	\$2,733,303
Local Assistance (Data)	\$0	\$0	\$102,248	\$203,750
Local Assistance (Retirement GI)	\$0	\$0	\$1,467,703	\$2,708,809
Local Assistance (At Risk)	\$0	\$0	\$172,110	\$340,799
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$28,098,103</u>	<u>\$55,858,269</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$28,098,103	\$55,858,269
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$28,098,103</u>	<u>\$55,858,269</u>
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Revenues	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	\$0	\$0	(\$28,098,103)	(\$55,858,269)
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Effect on County or Other Local Revenues or Expenditures:

1. Local property taxes may increase statewide by \$4.2 million in FY 2026 and \$8.2 million in FY 2027.


Sponsor's Initials

2/16/23
Date


Budget Director's Initials

2-15-23
Date