



MT-PEC Overview and Analysis of Governor's K-12 Special Session Proposals

As previously referenced in a joint release of MASBO, MEA-MFT, MQEC, MREA, MTSBA and SAM last Friday, we have worked with the Governor in an attempt to preempt attacks on the funding formula and to ensure against a freeze of inflation in the second year of the biennium during the upcoming special session of the Montana Legislature.

So far, we have been successful, in that the Governor's [call for the special session](#) was very limited and did not include any adjustments to the funding formula. Even with the [news from yesterday](#) about plans of republicans expand the session, the funding formula and a freeze to inflation have remained off the radar so far. At this point, we have succeeded in protecting the integrity of the school funding formula. We are working to keep it that way.

And although all of us would like to get out of the upcoming special session completely unscathed, with K-12 representing 1/3 of a state general fund that is \$227 million under water, we **must** remain on guard against proposals that could significantly harm our members. We have heard of interest in freezing inflation several times over the last few months, from legislators, from some of our members (who have in turn heard of the idea from legislators) and from the Governor's office.

The temptation among policy makers to turn to the funding formula is significant and has always seemed to crop up when times are tough, as the funding formula accounts for a significant share of state general fund spending, at over \$700 million per year. Up until this point in the current budget crisis, the formula has been statutorily off limits, as section 17-7-140 (authorizing the Governor to implement budget reductions when the ending fund balance is projected to fall below 5%) specifically exempts K-12 BASE aid from executive branch reductions. With a special session now called, however, the formula is now "fair game" and the potential for the session to be expanded to include the school funding formula is very real.

The idea of freezing inflation in the second year of the biennium is bad public policy for a number of reasons.

1. First and foremost, inflation on the funding formula is part of the constitutional guarantee afforded students under Article X of the Montana Constitution and the Legislature's Constitutionally-enforceable definition of the Basic System of Free Quality Schools in 20-9-309, MCA. That definition provides that the funding formula must be "self-executing" and include a mechanism for annual inflationary adjustments. So, if this Legislature resorts to an inflation freeze, it will be contradicting its own definition of quality and violating the constitutional guarantees explicitly afforded students under that definition.
2. Secondly, under the funding formula, budget caps are based on the levels of state funding set by the Legislature. These funding amounts (i.e., direct state aid, guaranteed tax base aid, formula amounts and inflation) determine each school district's Maximum budget, approximately 35% of which comes from local support. When the state cuts state funding (and the inflation freeze is projected to cut state funding for schools by \$14 million), it causes a corresponding additional cut in local funding that is half again as much as the cut in state funding. So, the total effect of this proposal would, if implemented, reduce general fund budgets statewide by over \$21 million.

With the above considerations in mind and having been warned repeatedly of the likelihood of an inflation freeze in the formula, we were asked by the Governor last Friday to work with him in crafting a less harmful alternative, leading us to identify the remaining amounts of block grants and to request that school districts be granted extensive budgeting flexibility to eliminate property tax increases that might otherwise occur if this alternative proposal went forward.

The Governor's LC 4 contemplates eliminating remaining block grants. MASBO, MEA-MFT, MQEC, MREA, MTSBA and SAM have all worked on and agreed to support this proposal in order to try to preempt the more harmful alternative of seeing our members suffer a freeze in inflation as described above.

The total of \$11.6 million in block grants is broken down as follows:

1. School District Block Grants totaling \$6,543,914 (FY19 effective date)
 1. Transportation, \$3,471,025
 2. Combined Fund Block Grant, \$3,072,889
2. County block grants totaling \$5,012,624 (FY19 effective date)
 1. Elementary Retirement Block Grant: \$1,523,266
 2. High School Retirement Block Grant: \$1,241,181
 3. County Transportation, \$2,248,175

We have also worked with the Governor to get LC 10 dropped from consideration. That bill proposed to freeze a coal plant closure mitigation block grant of one of our members, Colstrip, and would have amounted to a \$1.693 million, 22.5% reduction in general fund budget authority for Colstrip. Instead, LC4 now embraces a temporary, two-year reduction of \$1.693 million in state transportation aid across the entire state, which is also subject to the flexibility language regarding access to reserves to prevent a tax increase.

There is also another proposal of the Governor's to transfer \$3.4 million in FY18 and \$4.8 million in FY19 from the school facility and technology account (where it is used to mitigate the taxpayer cost of bonds) to the guarantee account (where it will mitigate BASE property taxes for all school districts and GTB in approximate equal measures). These transfers will actually help mitigate the overall tax picture for district taxpayers by providing statewide property tax relief of approximately \$1.7 million in FY18 and \$2.4 million in FY19. This is not a cut but rather a transfer with the money before and after the transfer remaining in K-12 public school hands.

The flexible access to fund balance in nearly every fund (other than retirement and debt service) is significant and will allow members to eliminate any local tax impact that might otherwise occur. We have pasted a spreadsheet at the bottom of this message that provides an overall analysis of the tax impacts of these proposals.

At this point, the only way that schools will face expanded harm is if the Legislature votes to expand the call of the session to do so. The Governor's call is limited, with regard to K-12, to the items above and he has agreed with us to oppose any expansion in the session that would allow attacks on the funding formula and/or attempts to freeze inflation.

Item	FY18 State Funding Impact	FY19 State Funding Impact	Local Tax Impact
Combined Block Grant Elimination <i>(not generally used to reduce taxes, mostly allocated to flex fund, tech fund and building reserve fund)</i>	\$0	\$3,072,889	\$0
Transportation Block Grant Elimination <i>(\$ for \$ increase in local taxes)</i>	\$0	\$3,471,025	\$3,471,025
Temporary Reduction in State Transportation Aid <i>(\$ for \$ increase in local taxes)</i>	\$1,693,000	\$1,693,000	\$3,386,000
Subtotal (First two columns are amount of reduced state support; third column is projected impact on local taxes)	\$1,693,000	\$8,236,913	\$6,857,025
Local Tax Impact of School Facility and Technology Transfer to Guarantee Account	\$1,700,000	\$2,400,000	\$4,100,000
Approximate Net Combined Increase, FY18 and FY19, on Local Taxes from Combined Proposals of Governor Bullock			\$2,757,025
Statewide reserves in qualified funds available to districts to eliminate tax increase without a reduction in service (combined totals of general fund, transportation, bus depreciation, adult education, technology, flexibility and building reserve)			\$123,605,830