

## MT-PEC Issue Spotlight

# Guidance for Senate Bill 261 Reductions

July 14, 2017



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On July 13, the Office of Public Instruction sent an [Official Email](#) to communicate the impacts of Level 2 and Level 4 appropriation cuts affecting school districts under Senate Bill 261. Although official notification from the Governor's Budget Director isn't expected until August 15, the OPI School Finance Division has posted an [estimate](#) of the impact of the cuts to help school districts plan for and prepare their FY2018 budgets which must be adopted no later than August 20, 2017.

Anticipated reductions affecting FY2018 budgets are the At-Risk, Special Education Allowable Cost and Data for Achievement payments and the Combined Fund Block Grant. The OPI has indicated it will not issue new FY2018 General Fund Budget Data Sheets, so school general fund expenditure budget limits are not impacted by the cuts. However, the reduced state payments that support the general fund (At-Risk, SPED and Data for Achievement) will cause a revenue shortfall in your general fund, which could have a negative impact on your general fund reserves. Additionally, school districts that traditionally use the Combined Fund Block Grant to reduce tax levies in one or more of their budgeted funds will see a revenue shortfall in those funds.

Recognizing that spending needs, budget strategies and available funding sources vary from district-to-district, the following guidance is intended to make school districts aware of decisions to consider when adopting their FY2018 budgets and managing finances during the fiscal year as a result of the impending SB261 reductions.

Please contact us or consult with the OPI if you have questions.

## FY2018 Budget Adoption

### General Fund

The following state funding in support of the general fund will be reduced under SB261:

- At-Risk Payment – 0.5% reduction, \$26,953 statewide
- Special Education Allowable Cost Payment - .5% reduction, \$217,547 statewide
- Data for Achievement – eliminated, \$3,109,343 statewide

While expenditure budget limits will not change, it's important to note that the OPI School Finance Division has advised that the MAEFAIRS-Budget program will not change the funding sources to reflect the SB261 reductions.

**The full amount will be pre-filled on the budget screen with no ability to change the amount yourself in order to replace the known reduced state payments with an alternate revenue source.** Filling the gap with other non-levy revenue will lower the local levy and any state guaranteed tax base aid (GTB), if eligible. Therefore, districts should be cautious when considering this as an option. At the same time, failure to adopt the highest budget available under MAEFAIRS could reduce your budget authority in subsequent years. Another consideration is that 20-9-308, MCA *provides that “the trustees of a district shall* adopt a general fund budget that is at least equal to the BASE budget established for the district.”

**Recommendation:** We are recommending that member school districts adopt the highest budget available so as to preserve budget authority in subsequent years. We further recommend that, to the extent that you decline to fill the gap with other non-levy revenue or reserves so as to avoid a loss of GTB, that the Board include in its minutes that it intends to budget at the authorized level but only spend based on projected revenues available to support such budget.

## Combined Fund Block Grant

In 20-9-630, MCA, schools are allowed to allocate the Combined Fund Block Grant (CFBG) as a funding source in any of the budgeted funds. For FY2018 the CFBG will be reduced by 47.48% (\$2.8 million statewide). That leaves approximately \$3.072 million statewide that will be available to allocate to any budgeted fund of the district. This amount is only coincidentally equal to the amount of the revenue suspended in the Data for Achievement Payment, but consideration should be given to allocating and using the remaining CFBG in a manner that will not reduce GTB eligibility but which will make such resources available for expenditures on data for achievement. In the MAE-FAIRS-Budget program, the district's share of the full appropriation, not the reduced amount, will be pre-filled for distribution to one or more budgeted funds as a funding source. Failure to allocate the pre-filled amount will result in a critical error that must be resolved before the budget can be submitted. Consequently, there will be a revenue shortfall in the fund(s) to which you allocate this revenue source.

**Recommendation:** We recommend allocating the CFBG to the flexibility fund so as to preserve the district's flexibility in using these funds to mitigate other revenue shortfalls that will be caused by SB 261 revenue triggers. We recommend against allocating the CFBG to any other budgeted fund and particularly to a budgeted fund where reserves are limited and where tax impacts may result, such as General, Transportation and Technology Funds.

**Other Recommendations:** We recommend that in the face of these cuts, school districts consider all other available revenue sources in mitigating or even overcoming some of these anticipated revenue shortfalls. Examples include, but are not limited to:

1. Use of the tuition fund to pay for unfunded special education costs (see 20-5-324(5)(a)(iii));
2. Use of the building reserve fund levy authorized by Senate Bill 307 for major maintenance projects that may be currently funded out of general fund expenditures;
3. Transfer of funds for school safety pursuant to SB 307;
4. Increasing your over BASE levy without a vote through corresponding reductions of other funds supported by a non-voted levy authorized by the trustees of a district (see 20-9-308, MCA);
5. Use of fund transfers as authorized by 20-9-208 (note that you can transfer state funds, such as state transportation aid, upon a finding by the trustees that "the transfer of funds is necessary to improve the efficiency of spending within the district" while the transfer of funds approved by the voters or with funds raised by a non-voted levy are much more restricted); and
6. Use of multi-district agreements pursuant to 20-3-363, MCA, to create increased budget flexibility.

### Reinforcing the Importance of Best Practices Over the Coming Two Years

The SB 261 payment reductions reinforce the importance of following best practices that districts use when managing their finances for FY2018 and FY2019. Be mindful of the following:

**Reconciling Cash Balances to the County Treasurer** – Strive to complete your cash reconciliations as soon as possible after receiving your statements from the county treasurer.

**Monitor Revenues and Cash Balances Closely** – In addition to the SB261 cuts, remember that property tax revenues are rarely collected at 100%. Analyze and know the tax collection rates for your district. Monitor other estimated revenue sources to ensure they are actually received and recorded properly.

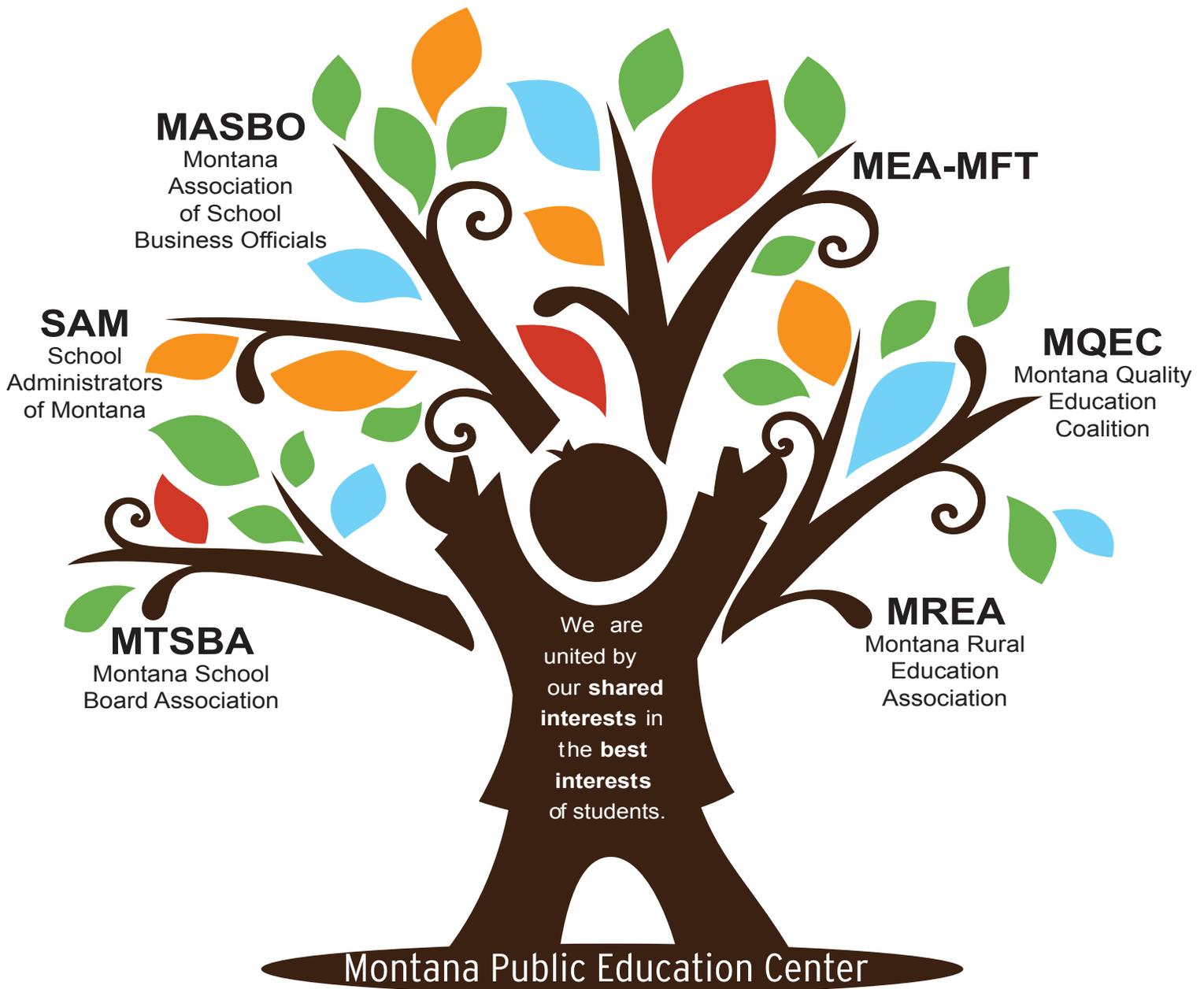
**Budget Authority vs. Cash** – Your budget-to-actual reports may indicate you have available budget authority, but double-check that you have available cash to support your expenditures. You may want to offset the SB261 revenue shortfalls by reducing expenditures, or your fund reserves may be healthy enough to absorb the reduced state payments. Also, consider spending from another available funding source if you are short on cash and/or budget authority as referenced under our "Other Recommendations" above. Some examples are:

- Special Education Tuition Levy
- Impact Aid
- Flexibility Fund
- Inter-local Agreement Fund used to account for multi-district agreements
- Local grants or unspent money in the Miscellaneous Programs Fund

## Available Resources

Office of Public Instruction website:

- [July 13 Official Email – SB261 state appropriation reductions](#)
- [FY2018 Preliminary estimate of SB261 payment reductions by district](#)
- [MAEFAIRS Budget Instructions](#)
- [FY2018 General Fund Budget Data Sheets](#)
- [FY2018 General Fund Budget Spreadsheet](#)
- [Special Education Tuition Levy Calculator](#)
- [Interfund Transfers Spreadsheet](#)
- [SB261 Budget Reductions Related to Education Funding chart](#)



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