



Funding for K-12 Enrollment Increases

prepared for the Education Interim Budget Committee, December 2021
by Paul Taylor, OPI, and Pad McCracken, LSD

September recap—Montana's school funding formula is largely driven by prior year enrollment. Our two mechanisms for providing additional advanced funding for districts with enrollment increases (*anticipated* and *unanticipated*) are currently suspended due to the pandemic. The mechanisms have some drawbacks and the committee asked for some redesign alternatives to consider at its December meeting.

The overarching premise is to provide some degree of additional funding to growing districts in the current year so that they do not have to wait for the subsequent year. If our 3-year averaging of ANB provides a "soft landing" to districts with declining enrollment, this discussion is about how to provide a "leg up" to districts with increasing enrollment. ([September handout](#) describing existing mechanisms and historical usage)

Drawbacks to existing mechanisms:

- The existing mechanisms require districts to apply and the superintendent of public instruction to approve.
- The anticipated mechanism complicates the special education allowable cost calculation and also necessitates a complex "claw back" mechanism if additional students do not materialize.
- Both mechanisms create additional difficulty in estimating the amount of BASE aid necessary in HB 2.

Possible solutions—eliminate the anticipated mechanism and redesign the unanticipated mechanism with a new one that happens **once a year and is based on actual fall enrollment counts converted to ANB**. See table below for some possibilities—the design characteristics can be interchanged.

Mechanism design	Current unanticipated	Option A	Option B	Option C
Process initiation	District must apply for additional funding and adopt a budget amendment	Additional funding and budget authority is provided automatically via formula		
Additional funding amount	Direct State Aid (44.7% of Basic and Per-ANB entitlement amounts)	80% of the Per-ANB entitlement (or another percentage)	Δ BASE (the difference in BASE budget amounts based on the enrollment increase; HB 630)	Other possibilities exist
Absorption factor (an amount of growth the district is considered able to absorb without additional funding)	A student increase that is the lesser of 4% of budgeted enrollment or 40 students	An ANB increase that is the sum of X ANB and X% of the budget limit ANB (example – 8 ANB + 5% of BL ANB)	An ANB increase that is a fixed % of the budget limit ANB (example – 6% of BL ANB)	No absorption factor

What else? (These considerations can be addressed later.)	Should additional funding go to district General Fund or Miscellaneous Programs Fund?	If formulaic, how to ensure district awareness of additional funding and/or ability to decline funding?	Timing considerations of enrollment modifications and payment and alignment between statute and ARM.
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The table below displays estimates of the ANB, district count, and state costs IF the current mechanism for unanticipated enrollment increases had been formulaic in the prior decade (basically the shaded options in the previous table).

Estimate of Unanticipated Enrollment Growth for all Districts										
Year	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Elem	1,239	982	1,054	907	1,151	759	823	1,168	474	2,005
HS	234	356	273	396	466	460	505	625	988	1,076
Total ANB	1,473	1,338	1,327	1,303	1,617	1,219	1,328	1,793	1,462	3,081
Elem	116	102	99	102	109	97	97	107	85	129
HS	41	51	42	46	56	54	57	55	64	64
Total LE Count	157	153	141	148	165	151	154	162	149	193
Elem	\$2,810,702	\$2,247,444	\$2,462,167	\$2,168,234	\$2,800,922	\$1,856,163	\$2,050,201	\$2,936,268	\$1,213,425	\$5,209,814
HS	\$679,573	\$1,043,110	\$816,509	\$1,212,001	\$1,451,865	\$1,440,368	\$1,610,845	\$2,011,779	\$3,238,517	\$3,579,875
Total Est. Cost	\$3,490,276	\$3,290,555	\$3,278,677	\$3,380,235	\$4,252,787	\$3,296,531	\$3,661,046	\$4,948,047	\$4,451,942	\$8,789,689

Background on the "absorption factor" in 20-9-314, MCA (anticipated, but used in unanticipated also per 20-9-166, MCA)

1971	1978	1981	2013
<p>A district was only eligible for an unusual enrollment increase if:</p> <ul style="list-style-type: none"> the average ANB increase for the prior 3 years was 3% or greater; and the anticipated ANB increase in the ensuing year was going to be at least 2 times the average ANB increase for the prior 3 years. <p>The district absorbed any increase below what the 3-year trend predicted.</p>	<p>A district was only eligible for an unusual enrollment increase if:</p> <ul style="list-style-type: none"> the average ANB increase for the prior 3 years was 3% or greater; and the anticipated ANB increase in the ensuing year was going to be at least 2 times the average ANB increase for the prior 3 years <u>or 6%, whichever is larger.</u> <p>The district absorbed any increase below what the 3-year trend predicted.</p>	<p>The metric for the 3-year trend was eliminated, and eligibility and absorption were in a sense unified. A district absorbed any increase less than 6%.</p>	<p>The flat 6% was changed to the lesser of 4% or 40 students.</p>