

OFFICE OF PUBLIC INSTRUCTION

Section E

JOINT SUBCOMMITTEE OF HOUSE APPROPRIATIONS AND SENATE FINANCE AND CLAIMS COMMITTEES

-----Agencies-----

Office of Public Instruction	Montana Arts Council
Board of Public Education	Montana State Library
Office of Commissioner of Higher Education	Montana Historical Society
Montana School for Deaf & Blind	

-----Committee Members-----

<u>House</u>	<u>Senate</u>
Representative David Bedey (Chair)	Senator John Fuller (Vice Chair)
Representative Brad Barker	Senator Matt Regier
Representative Llew Jones	Senator Jonathan Windy Boy
Representative Connie Keogh	
Representative Eric Matthews	

-----Fiscal Division Staff-----

Julia Pattin
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Agency Base Budget Comparison

The following table compares the base budget with the requested expenditures for the upcoming biennium by type of expenditure and source of funding.

Agency Base Budget Comparison					
Budget Item	Base Budget	Requested Budget		Biennium Change from Base	
	FY 2025	FY 2026	FY 2027	Amount	Percent
PB	153.27	153.27	153.27	0.00	0.0%
General Fund	600,133,936	591,432,973	649,927,482	41,092,583	3.4%
State/Other Special Rev. Funds	454,279,835	541,602,027	546,548,468	179,590,825	19.8%
Federal Spec. Rev. Funds	173,965,649	184,338,767	184,349,812	20,757,281	6.0%
Total Funds	1,228,379,420	1,317,373,767	1,380,825,762	241,440,689	9.8%
Personal Services	14,402,364	15,216,679	15,236,187	1,648,138	5.7%
Operating Expenses	20,821,785	22,439,477	25,857,556	6,653,463	16.0%
Local Assistance	1,024,600,340	1,100,236,059	1,160,141,112	211,176,491	10.3%
Grants	165,696,503	175,703,657	175,778,012	20,088,663	6.1%
Transfers	2,818,239	3,737,706	3,772,706	1,873,934	33.2%
Debt Service	40,189	40,189	40,189		0.0%
Total Expenditures	1,228,379,420	1,317,373,767	1,380,825,762	241,440,689	9.8%
Total Ongoing	1,228,379,420	1,316,873,767	1,379,625,762	239,740,689	9.8%
Total One-Time-Only		500,000	1,200,000	1,700,000	0.0%

Agency Highlights

Office of Public Instruction Major Budget Highlights
<p>The Office of Public Instruction’s (OPI) 2027 biennium HB 2 budget request is approximately \$241.4 million or 9.8% above the FY 2025 base budget. Significant changes are listed below by program:</p> <ul style="list-style-type: none"> • An increase above the FY 2025 base budget in the State Level Activities Program, totaling approximately \$10.1 million. Major highlights include: <ul style="list-style-type: none"> ◦ Increases for PowerSchool subscription costs related to the database modernization project, IT subscription costs, the Montana Digital Academy Clearinghouse, high school assessment funding, and several other smaller programs ◦ A fund switch from general fund to state special revenue for 2.50 positions budgeted (PB) and their associated personal services costs for administering the teacher licensure system • An increase above the FY 2025 base budget in the Local Education Activities Program, totaling approximately \$231.4 million. Major highlights include: <ul style="list-style-type: none"> ◦ Increases for the K-12 BASE aid inflationary adjustment, countywide school retirement, teacher pay incentives, major maintenance aid, and debt service assistance ◦ Decreases in general fund and increases in state special revenue for K-12 BASE aid for increased revenue from the 95 mills due to the property reappraisal cycle and for the proposed transfer of non-levy revenue associated with the 95 mills from the general fund to the school equalization and property tax reduction (SEPTR) state special revenue account, contingent on legislation ◦ Increases in general fund and decreases in state special revenue for K-12 BASE aid to backfill lost property tax revenue from the 95 mills due to the proposed implementation of homestead and comstead property tax exemptions, contingent on legislation and a proposed increased business equipment tax exemption, also contingent on legislation <p>These changes will be discussed in greater detail in the State Level Activities Program and Local Education Activities Program sections of this report.</p>
Legislative Action Items
<ul style="list-style-type: none"> • Historically, certain appropriations and programs within the Local Education Activities Program have been approved with restricted and/or biennial designations. The legislature may wish to add these designations to these programs, which will be discussed in greater detail within the applicable sections of this report • The legislature may wish to change two appropriations to bring them in line with the HJ 2 revenue estimate for the 95 mills

- The state special revenue appropriation for K-12 BASE aid
- The general fund appropriation for county school retirement
- The legislature may wish to change the K-12 BASE aid general fund appropriation to account for the HJ 2 revenue estimate for the statutorily appropriated guarantee account, which offsets general fund appropriations

Executive Request

The following table shows the total executive request with the base budget and the statewide present law adjustments, present law adjustments, and new proposals by source of funding.

Office of Public Instruction 2027 Biennium Base Budget and Requested Adjustments										
	FY 2026					FY 2027				
	General Fund	State Special	Federal Special	Total Funds	% of Budget Request	General Fund	State Special	Federal Special	Total Funds	% of Budget Request
Base Budget	600,133,936	454,279,835	173,965,649	1,228,379,420	93.2%	600,133,936	454,279,835	173,965,649	1,228,379,420	89.0%
Statewide PL										
Personal Services	1,042,723	22,805	(753,384)	312,144	0.0%	1,054,883	22,807	(743,867)	333,823	0.0%
Fixed Costs	894,715	(711)	(169,246)	724,758	0.1%	772,352	(700)	(169,096)	602,556	0.0%
Inflation Deflation	(1,425)	(684)	(4,252)	(6,361)	(0.0%)	(963)	(462)	(2,874)	(4,299)	(0.0%)
Total Statewide PL	1,936,013	21,410	(926,882)	1,030,541	0.1%	1,826,272	21,645	(915,837)	932,080	0.1%
Present Law (PL)	(60,635,364)	83,856,885	10,800,000	34,021,521	2.6%	(9,606,702)	91,237,960	10,800,000	92,431,258	6.7%
New Proposals	49,998,388	3,443,897	500,000	53,942,285	4.1%	57,573,976	1,009,028	500,000	59,083,004	4.3%
Total HB 2 A	(8,700,963)	87,322,192	10,373,118	88,994,347	6.8%	49,793,546	92,268,633	10,384,163	152,446,342	11.0%
Total Requested Budget	591,432,973	541,602,027	184,338,767	1,317,373,767		649,927,482	546,548,468	184,349,812	1,380,825,762	

Statewide Present Law Adjustment for Personal Services

In order to explain the factors influencing personal services changes, the proposed statewide personal services present law adjustment (DP 1) has been broken down into three categories, as follows:

- Legislative changes – This category includes adjustments explicitly approved by the legislature, such as, changes to benefit rates, longevity adjustments required by statute, and changes in rates for workers’ compensation and unemployment insurance
- Management changes – This category includes agency management decisions that adjust personal services related to changes in pay. This includes changes such as hiring positions budgeted (PB) at a lower rate to replace senior staff and broadband pay adjustments for recruitment and retention
- Budget modifications – This category includes other modifications to the FY 2025 personal services base budget such as management decisions to transfer personal services funding between programs within an agency or movement of personal services funding to or from another expenditure category (e.g. moving funding from operating expenses to personal services)

The figure below shows the analysis of the executive budget for personal services for each program:

Office of Public Instruction FY 2026 Statewide Present Law Adjustment for Personal Services (DP 1)				
Program	Legislative Changes	Management Changes	Total Budget Modifications	Decision Package 1
06 State Level Activities	\$283,860	\$28,284	\$0	\$312,144
09 Local Education Activities	-	-	-	-
Grand Total	\$283,860	\$28,284	\$0	\$312,144

All of the Office of Public Instruction’s personal services funding and positions budgeted (PB) are funded under the State Level Activities Program, so the Local Education Activities Program does not have a personal services adjustment. The increased statewide present law adjustment for personal services is due to legislative and management changes:

- Decreases from legislative changes were primarily the result of a decrease to back out federal personal services funding for modified positions. The state personal services budgeting process does not reinstate funding for personal services expenditures for modified PB. The funding for these modified PB is often reinstated as part of a separate decision package (see DP 605). Other smaller decreases were due to longevity adjustments. These decreases were partially offset by increases for benefits
- Management changes were primarily made up of increases from the pay plan and from hiring positions at different wage rates, along with some smaller increases for market adjustments, promotions, and other smaller pay changes. These increases in management changes were partially offset by greater budgeted vacancy savings

Elected Official Request

As an elected official, the Superintendent of Public Instruction has the opportunity to request budget items independent of the executive proposal, for consideration by the legislature. Specific details regarding the superintendent’s proposal will become available once the new superintendent takes office in January 2025.

Funding

The following table shows proposed agency funding for all sources of authority.

Total Office of Public Instruction Funding by Source of Authority 2027 Biennium Budget Request						
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
01100 General Fund	1,239,660,455	1,700,000			1,241,360,455	44.0%
02302 STATE EQUALIZATION AID ACCT	1,021,228,439				1,021,228,439	36.2%
02018 Guarantee Fund				110,872,870	110,872,870	3.9%
02218 School Facility & Tech Account	32,000,000			2,000,000	34,000,000	1.2%
02487 School Fac State Spcl Revenue	30,462,000				30,462,000	1.1%
02402 Traffic & Safety Education	3,624,599				3,624,599	0.1%
Other State Special Revenue	835,457			68,166	903,623	0.0%
State Special Revenue Total	1,088,150,495	-	-	112,941,036	1,201,091,531	42.6%
03170 Grant Clearance Discretionary	331,470,782				331,470,782	11.8%
03002 Public Instruction	37,217,797				37,217,797	1.3%
Federal Special Revenue Total	368,688,579	-	-	-	368,688,579	13.1%
06512 Indirect Cost Pool			7,220,582		7,220,582	0.3%
06067 Advanced Drivers Education			255,788		255,788	0.0%
Proprietary Fund Total	-	-	7,476,370	-	7,476,370	0.3%
Total of All Funds	2,696,499,529	1,700,000	7,476,370	112,941,036	2,818,616,935	
Percent of All Sources of Authority	95.7%	0.1%	0.3%	4.0%		

HB 2 Appropriations

General Fund - General fund accounts for almost half of all HB 2 spending for OPI, and a majority of general fund dollars are passed through to local school districts, primarily as K-12 BASE aid.

State Special Revenue - State special revenues from the 95 school equalization mills, which are the second largest funding source for OPI, are used to fund a large portion of the K-12 BASE aid appropriation. State special revenue also funds certain costs for traffic and safety education, teacher licensure, and school lunches. For additional detail, please see the funding description at the program level.

Federal Special Revenue - OPI receives federal grants that support public education, school nutrition, education for the disadvantaged, special education, professional development for educators, and various other functions. For additional detail, please see the funding description at the program level.

Non-Budgeted Proprietary Funds

Proprietary funds are used for the indirect cost pool and the advanced drivers' education program. For additional detail, please see the funding description at the program level.

Statutory Appropriations

State Special Revenue - A statutory appropriation of state special revenue collected from revenue and interest on common school trust lands is used to fund a large portion of the K-12 BASE aid appropriation. Statutory appropriations of state special revenue also fund certain costs for school facilities, innovative educational programs, and special needs education savings accounts. For additional detail, please see the funding description at the program level.

Agency Actuals and Budget Comparison

The following table compares FY 2024 actual expenditures, FY 2024 and FY 2025 appropriations, and the expenditures requested for FY 2026 and FY 2027 by type of expenditure and source of funding.

Agency Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2024	Approp. Fiscal 2024	Approp. Fiscal 2025	Request Fiscal 2026	Request Fiscal 2027
PB	0.00	153.27	153.27	153.27	153.27
Personal Services	12,798,606	13,877,493	14,402,364	15,216,679	15,236,187
Operating Expenses	14,171,180	17,234,795	20,821,785	22,439,477	25,857,556
Local Assistance	902,127,261	932,253,505	1,024,600,340	1,100,236,059	1,160,141,112
Grants	162,378,868	165,247,825	165,696,503	175,703,657	175,778,012
Transfers	2,973,276	3,020,365	2,818,239	3,737,706	3,772,706
Debt Service	39,594	39,594	40,189	40,189	40,189
Total Expenditures	\$1,094,488,785	\$1,131,673,577	\$1,228,379,420	\$1,317,373,767	\$1,380,825,762
General Fund	497,363,554	513,216,754	600,133,936	591,432,973	649,927,482
State/Other Special Rev. Funds	428,766,432	444,874,668	454,279,835	541,602,027	546,548,468
Federal Spec. Rev. Funds	168,358,799	173,582,155	173,965,649	184,338,767	184,349,812
Total Funds	\$1,094,488,785	\$1,131,673,577	\$1,228,379,420	\$1,317,373,767	\$1,380,825,762
Total Ongoing	\$1,094,260,320	\$1,131,339,885	\$1,228,379,420	\$1,316,873,767	\$1,379,625,762
Total OTO	\$228,465	\$333,692	\$0	\$500,000	\$1,200,000

Agency Description

The Superintendent of Public Instruction is an elected official authorized by Article VI, Section 1, of the Montana Constitution. The Office of Public Instruction distributes funding to school districts and provides services to Montana's school-age children and to teachers in approximately 400 school districts. The core responsibilities of the agency include licensure of educators, accreditation of schools, administration of statewide student assessments, distribution of state and federal grants/aid to schools, collection and reporting of data, and dissemination of information about K-12 education.

Agency staff provide technical assistance in planning, implementing, and evaluating educational programs in such areas as teacher preparation, teacher certification, school accreditation, academic standards and curriculum, school finance, and school law. The staff also administer a number of federally funded programs and provide a variety of information services, including the information systems necessary to assess student achievement and the quality of Montana's elementary and secondary school system.

Please refer to the agency profile for additional information about the agency's organization structure, historical expenditures, goals and objectives, and recent studies and audits: <https://www.legmt.gov/lfd/committees/section-e/office-of-public-instruction/>.

FY 2024 Appropriation Compared to FY 2024 Actual Expenditures

The Office of Public Instruction's HB 2 budget for FY 2024 was comprised of general fund, state special, and federal special revenue. OPI expended 96.8% of its approximately \$1.1 billion HB 2 modified budget in FY 2024. The majority of general fund and state special revenue appropriations for OPI are biennial, meaning they can be spent at any time over the biennium. Local assistance authority made up the majority of OPI's HB 2 modified budget for FY 2024, at approximately \$932.3 million or 82.7%. Local assistance is paid out to school districts throughout the year and was 96.8% expended, leaving \$30.1 million of the appropriation (primarily K-12 BASE aid) unexpended at fiscal year end. For additional details, please see the appropriation comparison at the program level.

FY 2024 Appropriations Compared to FY 2025 Appropriations

FY 2025 total appropriations are approximately \$96.7 million or 8.5% higher than the FY 2024 total appropriation, primarily due to increases in local assistance for K-12 BASE aid and retirement guaranteed tax base aid in the Local Education Activities Program. The differences will be discussed in greater detail at the program level.

Comparison of FY 2025 Legislative Budget to FY 2025 Base

The figure below illustrates the beginning FY 2025 budget as adopted by the 2023 Legislature compared to the FY 2025 base budget, which includes modifications as approved by the approving authority (as authorized in statute) during the interim. The FY 2025 base budget was agreed upon by the Office of Budget and Program Planning and the Fiscal Division to be the point from which any changes would be recorded for the 2027 biennium budgeting process.

Office of Public Instruction				
Comparison of the FY 2025 Legislative Budget to the FY 2025 Base Budget				
Division	Legislative Budget	Executive Modifications	Base Budget	Percent Change
State Level Activities				
Personal Services	\$14,402,364		\$14,402,364	0.0%
Operating Expenses	16,986,378	132,568	17,118,946	0.8%
Grants	750,000		750,000	0.0%
Transfers	2,135,737	(10,000)	2,125,737	-0.5%
Debt Service	162,757	(122,568)	40,189	-75.3%
Total	\$34,437,236	\$0	\$34,437,236	0.0%
Local Education Activities				
Operating Expenses	\$3,227,375	\$475,464	\$3,702,839	14.7%
Local Assistance	1,025,075,804	(475,464)	1,024,600,340	0.0%
Grants	164,946,503		164,946,503	0.0%
Transfers	692,502		692,502	0.0%
Total	\$1,193,942,184	\$0	\$1,193,942,184	0.0%
Agency Total	\$1,228,379,420	\$0	\$1,228,379,420	0.0%

The Office of Public Instruction made several executive modifications to the legislative budget for the State Level Activities Program:

- A transfer of approximately \$123,000 between debt service and operating expenses in order to correctly record lease payments
- A transfer of approximately \$10,000 between transfers-out and operating expenses in order to correctly record expenditures for the teacher licensure system

In the Local Education Activities Program, the only notable change was a transfer of approximately \$475,000 from local assistance to operating expenses in order to correctly record expenditures for school nutrition payments.

HB 2 Language -

LFD COMMENT	<p>Historically, certain language has been included in HB 2 for the Office of Public Instruction. The legislature may wish to include this language in HB 2 again:</p> <p>"All revenue up to \$1.5 million in the state traffic education account for distribution to schools under the provisions of 20-7-506 and 61-5-121 is appropriated for the 2027 biennium as provided in Title 20, chapter 7, part 5."</p> <p>"All appropriations for federal special revenue appropriations in OPI Administration (06) and in Distribution to Public Schools (09) are biennial. All general fund appropriations in Distribution to Public Schools (09) are biennial except for major maintenance aid and debt service assistance."</p> <p>"Any excess funds from the school major maintenance aid account in 20-9-525(6) transferred to the school facility and technology account are appropriated for the 2027 biennium for the purpose of state debt service assistance in 20-9-367."</p>
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Program Base Budget Comparison

The following table compares the base budget with the requested expenditures for the upcoming biennium by type of expenditure and source of funding.

Program Base Budget Comparison					
Budget Item	Base Budget	Requested Budget		Biennium Change from Base	
	FY 2025	FY 2026	FY 2027	Amount	Percent
PB	153.27	153.27	153.27	0.00	0.0%
General Fund	15,526,319	18,408,044	21,868,946	9,224,352	29.7%
State/Other Special Rev. Funds	680,659	729,708	730,348	98,738	7.3%
Federal Spec. Rev. Funds	18,230,258	18,603,376	18,614,421	757,281	2.1%
Total Funds	34,437,236	37,741,128	41,213,715	10,080,371	14.6%
Personal Services	14,402,364	15,216,679	15,236,187	1,648,138	5.7%
Operating Expenses	17,118,946	18,733,523	22,151,602	6,647,233	19.4%
Grants	750,000	750,000	750,000		0.0%
Transfers	2,125,737	3,000,737	3,035,737	1,785,000	42.0%
Debt Service	40,189	40,189	40,189		0.0%
Total Expenditures	34,437,236	37,741,128	41,213,715	10,080,371	14.6%
Total Ongoing	34,437,236	37,741,128	40,513,715	9,380,371	13.6%
Total One-Time-Only			700,000	700,000	0.0%

Program Highlights

State Level Activities Program Major Budget Highlights
<p>The State Level Activities Program's 2027 biennium HB 2 budget request is approximately \$10.1 million or 14.6% above the FY 2025 base budget. Major highlights include:</p> <ul style="list-style-type: none"> • A net increase for the statewide present law adjustment for personal services, made up of increases in general fund and state special revenue and a decrease in federal special revenue • A net increase for the statewide present law adjustment for fixed costs, made up of an increase in general fund and decreases in state special revenue and federal special revenue • Decreases in general fund, state special, and federal special revenue for the statewide present law adjustment for inflation/deflation • An increase in general fund for PowerSchool subscription costs related to the database modernization project • Increases in general fund for IT subscription costs, the hearing conservation program, the Montana Digital Academy Clearinghouse, Montana Advisory Council on Indian Education meeting costs, school nutrition state match, and high school assessment funding • Increases in federal special revenue authority to support federally funded part-time modified PB and to cover the costs of administering additional federal grant funding • A fund switch from general fund to state special revenue for 2.50 PB and their associated personal services costs for administering the teacher licensure system

Executive Request

The following table shows the total executive request with the base budget and the statewide present law adjustments, present law adjustments, and new proposals by source of funding.

State Level Activities 2027 Biennium HB 2 Base Budget and Requested Adjustments										
	FY 2026					FY 2027				
	General Fund	State Special	Federal Special	Total Funds	% of Budget Request	General Fund	State Special	Federal Special	Total Funds	% of Budget Request
Base Budget	15,526,319	680,659	18,230,258	34,437,236	91.2%	15,526,319	680,659	18,230,258	34,437,236	83.6%
Statewide PL										
Personal Services	1,042,723	22,805	(753,384)	312,144	0.8%	1,054,883	22,807	(743,867)	333,823	0.8%
Fixed Costs	894,715	(711)	(169,246)	724,758	1.9%	772,352	(700)	(169,096)	602,556	1.5%
Inflation Deflation	(1,425)	(684)	(4,252)	(6,361)	(0.0%)	(963)	(462)	(2,874)	(4,299)	(0.0%)
Total Statewide PL	1,936,013	21,410	(926,882)	1,030,541	2.7%	1,826,272	21,645	(915,837)	932,080	2.3%
Present Law (PL)	(17,111)	27,639	800,000	810,528	2.1%	(18,501)	28,044	800,000	809,543	2.0%
New Proposals	962,823	0	500,000	1,462,823	3.9%	4,534,856	0	500,000	5,034,856	12.2%
Total HB 2 Adjustments	2,881,725	49,049	373,118	3,303,892	8.8%	6,342,627	49,689	384,163	6,776,479	16.4%
Total Requested Budget	18,408,044	729,708	18,603,376	37,741,128		21,868,946	730,348	18,614,421	41,213,715	

All of the Office of Public Instruction’s agency level operations, administrative funding, and positions budgeted (PB) are budgeted under the State Level Activities Program. Because this funding is budgeted within one program, the agency has some flexibility to move funding within the program among these categories as needed without executive modifications as long as the categories do not have other restrictions, such as restricted line item appropriation designations or federal spending requirements. The categories are shown to provide a better understanding of the allocation for the various functions of the program. The figures below summarize the proposed State Level Activities Program budget by purpose by fiscal year:

State Level Activities Proposed HB 2 Budget by Category					
Category	Fund Type	Actuals FY 2024	Budget FY 2025	Proposed FY 2026	Proposed FY 2027
Administration	General Fund	\$9,621,336	\$12,088,948	\$14,027,977	\$17,453,879
	State Special Revenue	204,371	325,422	343,334	343,559
	Federal Special Revenue	3,305,421	5,338,296	4,738,051	4,740,137
	Total	13,131,128	17,752,666	19,109,362	22,537,575
Audiology	General Fund	814,879	561,634	629,330	629,330
Indian Language Preservation	General Fund	750,000	750,000	750,000	750,000
Montana Digital Academy	General Fund	2,077,863	2,125,737	3,000,737	3,035,737
Teacher Licensure	State Special Revenue	175,238	355,237	386,374	386,789
Carl Perkins Grant	Federal Special Revenue	464,431	559,956	483,513	484,537
School Nutrition	Federal Special Revenue	2,733,290	2,481,593	3,378,366	3,380,144
Special Education Programs	Federal Special Revenue	3,829,541	5,371,058	5,521,519	5,525,388
Title Programs	Federal Special Revenue	3,486,312	4,479,355	4,481,927	4,484,215
Total Funds		\$27,462,682	\$34,437,236	\$37,741,128	\$41,213,715

Of the \$34.4 million FY 2025 base budget allocation, 51.6% of HB 2 funding was budgeted for the general administration of the Office of Public Instruction. This funding is comprised of general fund, state special revenue, and federal special revenue. The general administration of OPI includes function for assessment, career and technical education, content standard and instruction, health education, health and safety enhancement, information and data technology, legal services, memberships to national education organizations, student support services, school improvement grants, and other grants to local school districts. Also included are the personal services costs for sending out K-12 funding to local school districts and administering or implementing certain programs including the Administrative Review and Training (ART) Grant, Adult Basic Education, Indian Education for All, Substance Abuse and Mental Health Services (SAMHSA), and the Youth Risk Behavior Survey (YRBS).

In addition to the general administration of OPI, other general fund appropriations for the State Level Activities Program include:

- Audiology - the Individuals with Disabilities Education Act (IDEA) requires schools to have a system in place for children suspected of having disabilities, including hearing loss, through the age of 21. The OPI Hearing Conservation Program is the primary method for schools to ensure proper identification of students with hearing impairments. OPI and the Department of Public Health and Human Services (DPHHS) administer the program, which mandates hearing screenings for children in kindergarten, 1st grade, and either 9th or 10th grade. The public school takes on the primary responsibility for conducting screenings, but OPI contracts with audiologists to provide hearing screenings and provides the hearing screening equipment
- The Montana Indian Language Preservation Program (ILP) - the ILP program was established to support efforts of Montana tribes to preserve native languages and to meet the state's educational goal of preserving the cultural integrity of American Indians under the Montana constitution. During the 2025 biennium, eight tribal nations received an award of \$187,500 for language preservation activities, including the creation of digitized language products, recordings of stories and book publishing, online classes, development of interactive language dictionaries, and curriculum development for summer language immersion classes
- The Montana Digital Academy (MTDA) - MTDA was established by the legislature in 2009 as a supplemental online program for students attending K-12 schools in Montana. The MTDA offers online courses and instruction to supplement local school coursework, primarily for high school and middle school students. Since the MTDA is not a traditional school and is not designed as a primary avenue for providing a student's education, it does not take enrollments directly from students or their parents. Typically, all funds for the MTDA are expended by OPI in a one-time payment to the MTDA at the beginning of each fiscal year. The MTDA can then expend the funds as needed throughout the school year, but those expenditures are not shown as part of the OPI budget

State special revenue for OPI includes administrative costs and the teacher licensure system:

- Teacher Licensure - the new TeachMT teacher licensure system was created with federal COVID-19 funding from the Elementary and Secondary School Emergency Relief Fund (ESSER). However, the system has ongoing costs for upkeep and maintenance that are not funded with federal dollars and are instead supported by a state special revenue account which collects teacher licensure fees

In addition to the general administration of OPI, federal funding includes the Carl Perkins career and technical education grant, school nutrition funding, special education programs, and the Title Programs:

- Carl Perkins Grant - a federal program that provides funding to states in order to more fully develop the academic, career, and technical skills of secondary and post secondary students who elect to enroll in career and technical education (CTE) programs
- School nutrition funding - federal programs provide funding for school lunch programs, school breakfast programs, summer food service programs, fresh fruit & vegetable program, and other school nutrition programs
- Special education - the Individuals with Disabilities Education Act (IDEA) funds special education and related services for children ages 3–21 in public schools
- Title programs - these programs are the major federal educational programs authorized under the Elementary and Secondary Education Act (ESEA) and the Every Student Succeeds Act (ESSA)
 - Title I, Part A: Improving Basic Programs - provides funding for additional academic support and learning opportunities to help low-achieving children meet state standards in core academic subjects
 - Title I, Part C: Migrant Education - provides formula grants to establish and improve education programs for migratory children

- Title I, Part D: Neglected or Delinquent - provides funding to improve educational services for neglected or delinquent children and youth in local and state institutions
- Title II, Part A: Supporting Effective Instruction - provides funding to prepare, train, and recruit high-quality teachers, principals, and other school leaders
- Title III: English Learners - provides funding for language instruction for English learners and immigrant students
- Title IV: Student Support & Academic Enrichment - supplements local, state, and other federal funds to support academic enrichment and student success
- Title V: Rural Education Achievement Program (REAP) - includes two programs: the Small Rural School Achievement (SRSA) program and the Rural and Low-Income School (RLIS) program. The SRSA program addresses the needs of rural school districts that lack the personnel and resources needed to complete effectively for federal competitive grants and receive formula grant allocations in amounts too small to be effective in meeting their intended purposes. The RLIS program provides funds to rural school districts that serve concentrations of children from low-income families
- Title IX: Homeless Children & Youth - this program provides funding to ensure that homeless children and youth have equal access to the same quality public education as provided to their peers living in stable housing

Funding

The following table shows proposed program funding for all sources of authority.

Office of Public Instruction, 06-State Level Activities Funding by Source of Authority							
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	39,576,990	700,000	0	0	40,276,990	46.6%	
02001 School Lunch Program	62,294	0	0	0	62,294	4.1%	
02197 ESA ADMINISTRATIVE ACCT	0	0	0	68,166	68,166	4.5%	
02357 LICENSURE FEES	773,163	0	0	0	773,163	50.6%	
02402 Traffic & Safety Education	624,599	0	0	0	624,599	40.9%	
State Special Total	\$1,460,056	\$0	\$0	\$68,166	\$1,528,222	1.8%	
03002 Public Instruction	37,217,797	0	0	0	37,217,797	100.0%	
Federal Special Total	\$37,217,797	\$0	\$0	\$0	\$37,217,797	43.0%	
06067 Advanced Drivers Education	0	0	255,788	0	255,788	3.4%	
06512 Indirect Cost Pool	0	0	7,220,582	0	7,220,582	96.6%	
Proprietary Total	\$0	\$0	\$7,476,370	\$0	\$7,476,370	8.6%	
Total All Funds	\$78,254,843	\$700,000	\$7,476,370	\$68,166	\$86,499,379		

HB 2 Appropriations

General Fund - General fund supports about half of the State Level Activities Program budget, with the remainder supported by state special revenue, federal special revenue, and proprietary funds.

State Special Revenue

School Lunch Program Account

Revenues for the School Lunch Program are generated through reimbursements for the costs of shipping, handling, and other related costs of school food commodities used in the program.

Traffic and Safety Education Account

The traffic & safety education account funds traffic education programs in Montana schools. Traffic and safety education revenues are generated from a percentage of drivers' license and commercial drivers' license fees.

Licensure Fee Account

The licensure fee account collects fees from teacher licensure applications in order to fully fund the operations of the teacher licensure system (HB 403, 2023 Legislative Session).

Federal Special Revenue - Federal funds support just under half of the State Level Activities Program total budget authority. The program receives federal funding for:

- Administrative Review and Training (ART) grants
- Adult basic education
- Assessment
- Career and technical education (via the Carl Perkins Grant)
- Education of homeless children
- Individuals with Disabilities Education Act (IDEA)
- National Assessment of Educational Progress (NAEP)
- National Center for Education Statistics (NCES)
- National Education Association (NEA)
- School nutrition
- Substance Abuse and Mental Health Services (SAMHSA)
- Low income students (Title I)
- Student achievement (Title II)
- English learners and immigrant students (Title III)
- Student support and academic enrichment (Title IV)
- Rural Education Achievement Program (Title V)
- Youth Risk Behavior Survey (YRBS) and school health priorities
- Various other purposes

Non-Budgeted Proprietary Funds

Indirect Cost Pool Account

The OPI indirect cost pool is an internal service fund used to allocate various centralized costs such as payroll, accounting, and budgeting to all of OPI's state and federally funded programs, using a pre-approved indirect cost rate. Because the proprietary funds do not require an appropriation, they are not typically included in appropriation tables. Instead, the legislature approves the fees and charges that support the revenues for the program. For a more detailed discussion of rates, revenues, and expenditures for the account, please see the non-budgeted proprietary funds analysis, which is included in a separate report.

Advanced Drivers' Education Program Account

The advanced drivers' education program is a seasonal, hands-on, behind-the-wheel crash avoidance program operated by the health enhancement and safety division of OPI at a training facility in Lewistown. The one-day and half-day course provides training to school bus drivers, driver education teachers, state employees, ambulance drivers, firefighters, road crews, and others who drive as a part of their employment. Revenues are generated from workshop fees collected from program users. For a more detailed discussion of rates, revenues, and expenditures for the account, please see the non-budgeted proprietary funds analysis, which is included in a separate report.

Statutory Appropriations

State Special Revenue

ESA Administrative Account

HB 393 (2023 Legislative Session) established a program for special needs education savings accounts (ESAs), which are statutorily appropriated. ESAs are used to reimburse parents for certain educational costs of children with disabilities under the Individuals with Disabilities Education Act.

Program Actuals and Budget Comparison

The following table compares FY 2024 actual expenditures, FY 2024 and FY 2025 appropriations, and the expenditures requested for FY 2026 and FY 2027 by type of expenditure and source of funding.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2024	Approp. Fiscal 2024	Approp. Fiscal 2025	Request Fiscal 2026	Request Fiscal 2027
PB	0.00	153.27	153.27	153.27	153.27
Personal Services	12,798,606	13,877,493	14,402,364	15,216,679	15,236,187
Operating Expenses	10,868,701	13,549,299	17,118,946	18,733,523	22,151,602
Grants	1,677,918	2,177,919	750,000	750,000	750,000
Transfers	2,077,863	2,077,863	2,125,737	3,000,737	3,035,737
Debt Service	39,594	39,594	40,189	40,189	40,189
Total Expenditures	\$27,462,682	\$31,722,168	\$34,437,236	\$37,741,128	\$41,213,715
General Fund	13,264,078	13,383,200	15,526,319	18,408,044	21,868,946
State/Other Special Rev. Funds	379,609	492,204	680,659	729,708	730,348
Federal Spec. Rev. Funds	13,818,995	17,846,764	18,230,258	18,603,376	18,614,421
Total Funds	\$27,462,682	\$31,722,168	\$34,437,236	\$37,741,128	\$41,213,715
Total Ongoing	\$27,234,217	\$31,388,476	\$34,437,236	\$37,741,128	\$40,513,715
Total OTO	\$228,465	\$333,692	\$0	\$0	\$700,000

Program Description

The State Level Activities Program provides leadership and coordination of services to a variety of school and public groups. The staff provides assistance to the Superintendent of Public Instruction in performing statutorily prescribed duties.

The program:

- Supports the superintendent's statutory role with the Board of Public Education, Board of Regents, and Land Board
- Is responsible for the distribution and accounting of state and federal funds provided to school districts
- Maintains the information systems necessary to assess student achievement and the quality of Montana's elementary and secondary school system
- Provides assistance and information to school districts

The program also administers all federal grants received by OPI, including curriculum assistance, special education, Every Student Succeeds Act (ESSA), career and technical education (CTE), and other educational services.

FY 2024 Appropriation Compared to FY 2024 Actual Expenditures

The State Level Activities Program expended 86.6% of its approximately \$31.7 million HB 2 modified budget in FY 2024. Personal services and operating expense authority made up the majority of the program's HB 2 modified budget for FY 2024, at approximately \$13.9 million and \$13.5 million, respectively.

The unexpended amount for the program totaled approximately \$4.2 million and can be attributed to lower than expected expenditures for:

- Several federal grants due to the timing of the grant expiration dates, which often do not align with the state fiscal year end. These federal funds were collectively under expended by approximately \$4.0 million
- A one-time-only appropriation for audiology equipment, which was under expended by approximately \$105,000
- An appropriation for traffic education, which was under expended by approximately \$81,000

FY 2024 Appropriations Compared to FY 2025 Appropriations

FY 2025 total appropriations for the State Level Activities Program are approximately \$2.7 million or 8.6% higher than the FY 2024 total appropriations. This increase is the net result of the following major changes:

- An increase of \$2.0 million for the teacher residency program
- An increase of approximately \$508,000 for the pay plan
- An increase of approximately \$180,000 for the teacher licensure system
- An increase of approximately \$114,000 for inflationary costs
- An increase of approximately \$67,000 for personal services
- An increase of approximately \$48,000 for inflationary increases for the Montana Digital Academy
- A decrease of approximately \$334,000 due to a one-time-only appropriation in FY 2024 only for audiology equipment
- A decrease of approximately \$45,000 for the administration of special needs education savings accounts
- Various other small differences amounting to approximately \$162,000

Present Law Adjustments

The "Present Law" Adjustments table shows the changes from the base appropriation to the proposed budget. "Statewide Present Law" adjustments (DP 1, DP 2, DP 3) are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

	-----Fiscal 2026-----					-----Fiscal 2027-----				
	PB	General Fund	State Special	Federal Special	Total Funds	PB	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	1,042,723	22,805	(753,384)	312,144	0.00	1,054,883	22,807	(743,867)	333,823
DP 2 - Fixed Costs	0.00	894,715	(711)	(169,246)	724,758	0.00	772,352	(700)	(169,096)	602,556
DP 3 - Inflation Deflation	0.00	(1,425)	(684)	(4,252)	(6,361)	0.00	(963)	(462)	(2,874)	(4,299)
DP 604 - Increase Federal Grant Authority - Program 06	0.00	0	0	800,000	800,000	0.00	0	0	800,000	800,000
DP 612 - Subscriptions Cost Increase	0.00	136,811	0	0	136,811	0.00	137,997	0	0	137,997
DP 615 - Hearing Conservation Program (HCP) Infl Inc	0.00	67,696	0	0	67,696	0.00	67,696	0	0	67,696
DP 616 - Teacher Licensure Adjustment	0.00	(221,618)	27,639	0	(193,979)	0.00	(224,194)	28,044	0	(196,150)
Grand Total All Present Law Adjustments	0.00	\$1,918,902	\$49,049	(\$126,882)	\$1,841,069	0.00	\$1,807,771	\$49,689	(\$115,837)	\$1,741,623

***Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

DP 1 - Personal Services -

The executive requests adjustments to the present law personal services budget. This request has been broken into the following categories, and further detail is shown in the agency summary:

- Legislatively approved changes
- Management decisions
- Budget modifications made to the personal services budget in the 2025 biennium

LFD COMMENT	The federal special revenue portion of this decision package is negative due to the state personal services budgeting process, which does not reinstate funding for personal services expenditures for modified PB. OPI uses modified PB to staff federal grant programs. The funding for these modified PB is often reinstated as part of a separate decision package (see DP 605).
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DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the proposed budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. Examples include: audit fees, Capitol complex rent, information technology services, etc. The rates charged for these services are approved in the section of the budget that provides the services.

DP 3 - Inflation Deflation -

The executive requests adjustments to reflect budgetary changes generated from the application of inflation and deflation factors to specific expenditure accounts. Affected accounts include in-state state motor pool and motor pool leased vehicles.

DP 604 - Increase Federal Grant Authority - Program 06 -

The executive requests federal special revenue authority for the administrative costs of federal grants awarded to OPI.

DP 612 - Subscriptions Cost Increase -

The executive requests a general fund appropriation beginning in FY 2027 to cover the cost of new software subscriptions and increases to existing software subscriptions for OPI's Information Technology unit's operations.

DP 615 - Hearing Conservation Program (HCP) Infl Inc -

The executive requests a general fund appropriation to fund a 4.0% contractual increase for the statewide Hearing Conservation Program (HCP). The Division of Special Education administers the HCP for the Office of Public Instruction.

DP 616 - Teacher Licensure Adjustment -

The executive requests an adjustment to the budget to reflect the operating costs of the teacher licensure system and the transfer of 2.50 PB from general fund authority to state special revenue.

LFD COMMENT	HB 403 (2023 Session) removed teacher license fees as a source of funding for the Board of Public Education and redirect the funds to a state special revenue account for OPI's teacher licensure system. Statute requires the superintendent of public instruction to make a recommendation for teacher licensure fees sufficient to generate the revenue required to administer the program; the Board of Public Education is then responsible for setting the licensure fee amount based on the superintendent's recommendation. According to OPI, the 2.50 PB responsible for administering the program were funded with general fund for the 2025 biennium. The executive is requesting to transfer the funding for these PB to the state special revenue account funded by teacher licensure fees in order to fully comply with the new law.
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Licensure fee revenue also exceeded operational costs in FY 2024. The executive is requesting an overall decrease to the program to align operating costs with revenues, which is why the decision package does not net to zero. A fund balance table for the account is shown below:

Office of Public Instruction Teacher Licensure Fee Account Fund Balance		
	Actuals FY 2024*	Year-to-Date FY 2025**
Beginning Fund Balance	\$0	\$247,350
Revenues	\$422,587	\$121,567
Licenses and Permits	422,587	121,567
Disbursements	(\$175,237)	(\$215)
Personal Services	(105,138)	0
Operating Expenses	(70,099)	(215)
Ending Fund Balance	\$247,350	\$368,702

*The account was newly created in FY 2024 (HB 403, 2023 Legislature)

**As of December 4, 2024

The amounts in this decision package are based on OPI's September 2024 teacher licensure fee system report, which can be found here: <https://archive.legmt.gov/content/Publications/fiscal/2025-Biennium/Section-E/Interim/OPI-Teacher-Licensure-Report-Sept2024.pdf>. A breakdown of the executive request is shown below:

Office of Public Instruction Summary of DP 616 - Teacher Licensure Adjustment			
Fund Type		Proposed FY 2026	Proposed FY 2027
General Fund	General Fund Base Budget	\$221,618	\$224,194
	DP 616 (Fund Switch)	(221,618)	(224,194)
	Total General Fund Adjustments	(221,618)	(224,194)
	Total General Fund	\$0	\$0
State Special Revenue	State Special Revenue Base Budget	358,735	358,745
	DP 616 (Fund Switch)	221,618	224,194
	DP 616 (Reduction)	(193,979)	(196,150)
	Total State Special Revenue Adjustments	27,639	28,044
	Total State Special Revenue	\$386,374	\$386,789
Total Funds		\$386,374	\$386,789

New Proposals

The "New Proposals" table shows new proposals for spending.

New Proposals	Fiscal 2026					Fiscal 2027				
	PB	General Fund	State Special	Federal Special	Total Funds	PB	General Fund	State Special	Federal Special	Total Funds
DP 605 - Federal Personal Services Authority	0.00	0	0	500,000	500,000	0.00	0	0	500,000	500,000
DP 606 - Montana Digital Academy	0.00	875,000	0	0	875,000	0.00	910,000	0	0	910,000
DP 607 - Indian Ed for All - MACIE Meeting Costs	0.00	15,000	0	0	15,000	0.00	15,000	0	0	15,000
DP 608 - PowerSchool Subscription	0.00	0	0	0	0	0.00	2,837,033	0	0	2,837,033
DP 609 - School Foods Match for New EBT Program	0.00	72,823	0	0	72,823	0.00	72,823	0	0	72,823
DP 610 - High School Assessment Funding (OTO)	0.00	0	0	0	0	0.00	700,000	0	0	700,000
Total	0.00	\$962,823	\$0	\$500,000	\$1,462,823	0.00	\$4,534,856	\$0	\$500,000	\$5,034,856

**"Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

DP 605 - Federal Personal Services Authority -

The executive requests a federal special revenue appropriation for personal services to support part-time modified PB. Changes in state and federal laws do not allow the agency to contract for these services, and the state personal services funding process does not reinstate personal services expenditures for these workers. This funding is typically requested every biennium.

DP 606 - Montana Digital Academy -

The executive requests an ongoing general fund appropriation for the Montana Digital Academy (MTDA) clearinghouse in order to maintain its operations and enhance schools' opportunities to offer flexible learning environments and options to students.

LFD COMMENT	The Montana Digital Academy clearinghouse was created by the Legislature (HB 749, 2023 Session) to provide schools with access to digital content, online courses, proficiency assessment, and other educational services from MTDA and third-party providers. It was previously funded with a one-time-only appropriation through the Office of the Commissioner of Higher Education budget.
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DP 607 - Indian Ed for All - MACIE Meeting Costs -

The executive requests a general fund appropriation for meeting and travel costs associated with the Montana Advisory Council on Indian Education (MACIE). Currently, the board meets eight times a year with two in-person meetings and 21-25 people serving on the council.

LFD COMMENT	The MACIE was created by the Montana Board of Public Education in 1984 to advise the Board and the Superintendent of Public Instruction on matters related to Indian education, including culture, language, and Indian Education for All. The council is composed of representatives of the twelve tribal nations in Montana and other groups involved in Indian education programs. The costs of MACIE for FY 2024 and FY 2025 are covered by the State Level Activities Program general fund appropriation, which is included in the base budget request for FY 2026 and FY 2027.
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DP 608 - PowerSchool Subscription -

The executive requests an ongoing general fund appropriation beginning in FY 2027 for the database modernization project's PowerSchool subscription costs. Database modernization requirements from HB 367 (2023 Session) required commercial off-the-shelf (COTS) products to be purchased with federal funding, and OPI secured a contract to meet the requirements to repair, improve, or replace existing data systems. The executive is requesting this funding to ensure the continuation of the sharing of data between school districts, state education officials, and other state agencies.

LFD COMMENT The legislature may want to understand how the PowerSchool program will allow data access to the legislative branch and the contributing agencies of the Education and Workforce Data Governance Board members. This will enable the legislature to evaluate if there are any legislative actions needed to assist OPI or the other members of the Education and Workforce Data Governance Board with the data sharing needs of the state.

DP 609 - School Foods Match for New EBT Program -

The executive requests a general fund appropriation for the state match portion of the school foods summer Electronic Benefit Transfer (EBT) program.

LFD COMMENT The summer EBT program provides grocery-buying benefits to low-income families with school-aged children during the summer months of June, July, and August, when schools are closed for the summer break. Congress authorized the summer EBT as a permanent program on December 23, 2022, and it is a newly provided program in the state of Montana. The first round of benefits were issued in the fall of 2024, with federal approval since the payments were not made during the summer months. DPHHS and OPI will share the responsibilities of implementing the summer EBT, with DPHHS serving as the lead agency for federal purposes. OPI will manage the application process, validate eligibility, and handle client communications.

The program benefits are 100.0% federally funded; however, federal funding may only be used to fund up to 50.0% of the administrative costs of operating the program, so OPI is requesting a general fund appropriation to cover the remaining administrative expenses of the program.

DP 610 - High School Assessment Funding (OTO) -

The executive requests a one-time-only general fund appropriation in FY 2027 only to provide ACT testing with writing to 11th grade students in public high schools as the high school assessment requirement. These exams have previously been provided with now expired federal funding from the Gaining Early Awareness and Readiness for Undergraduate Program (GEAR UP) and then Elementary and Secondary School Emergency Relief (ESSER). OPI may receive additional federal grant funding in the future, which is why the request is one-time-only.

Program Base Budget Comparison

The following table compares the base budget with the requested expenditures for the upcoming biennium by type of expenditure and source of funding.

Program Base Budget Comparison					
Budget Item	Base Budget	Requested Budget		Biennium Change from Base	
	FY 2025	FY 2026	FY 2027	Amount	Percent
General Fund	584,607,617	573,024,929	628,058,536	31,868,231	2.7%
State/Other Special Rev. Funds	453,599,176	540,872,319	545,818,120	179,492,087	19.8%
Federal Spec. Rev. Funds	155,735,391	165,735,391	165,735,391	20,000,000	6.4%
Total Funds	1,193,942,184	1,279,632,639	1,339,612,047	231,360,318	9.7%
Operating Expenses	3,702,839	3,705,954	3,705,954	6,230	0.1%
Local Assistance	1,024,600,340	1,100,236,059	1,160,141,112	211,176,491	10.3%
Grants	164,946,503	174,953,657	175,028,012	20,088,663	6.1%
Transfers	692,502	736,969	736,969	88,934	6.4%
Total Expenditures	1,193,942,184	1,279,632,639	1,339,612,047	231,360,318	9.7%
Total Ongoing	1,193,942,184	1,279,132,639	1,339,112,047	230,360,318	9.6%
Total One-Time-Only		500,000	500,000	1,000,000	0.0%

Program Highlights

Local Education Activities Program Major Budget Highlights
<p>The Local Education Activities Program's 2027 biennium HB 2 budget request is approximately \$231.4 million or 9.7% above the FY 2025 base budget. Major highlights include:</p> <ul style="list-style-type: none"> • An increase in general fund for the K-12 BASE aid inflationary adjustment • An increase in general fund for countywide school retirement in FY 2027 only, triggered by increased revenue from the 95 mills • An increase of general fund for increased teacher pay • Changes to major maintenance aid including: <ul style="list-style-type: none"> ◦ Increases in general fund and state special revenue funding ◦ A net-zero fund switch from general fund to state special revenue for a portion of the major maintenance aid appropriation, contingent on legislation <p>Property tax related fund shifts:</p> <ul style="list-style-type: none"> • A decrease in general fund and an increase in state special revenue for K-12 BASE aid due to increased revenue from the 95 mills due to the property reappraisal cycle • A decrease in general fund and an increase in state special revenue for K-12 BASE aid to move non-levy revenue associated with the 95 mills to the SEPTR state special revenue account, contingent on legislation • An increase in general fund and a decrease in state special revenue for K-12 BASE aid to backfill lost revenue from the 95 mills due to the implementation of homestead and comstead property tax exemptions, contingent on legislation • An increase in general fund and a decrease in state special revenue for K-12 BASE aid to backfill lost revenue from the 95 mills due to an increased business equipment tax exemption, contingent on legislation <p>Other notable changes include:</p> <ul style="list-style-type: none"> • An increase in general fund to offset revenue decreases in the statutorily appropriated guarantee account • Increases in general fund for the at-risk student payment, the transformational learning program, in-state treatment, state tuition, the Indian language immersion program, and cell phone-free schools • An increase in state special revenue for debt service assistance • An increase of federal special revenue authority for additional federal grant funding • A decrease in general fund to move workforce innovation grants for adult basic education to the Department of Labor and Industry
Legislative Action Items

- Historically, certain appropriations and programs within the Local Education Activities Program have been approved with restricted and/or biennial designations. The legislature may wish to add these designations to these programs again
- The legislature may wish to change two appropriations to bring them in line with the HJ 2 revenue estimate for the 95 mills
 - The state special revenue appropriation for K-12 BASE aid
 - The general fund appropriation for county school retirement
- The legislature may wish to change the K-12 BASE aid general fund appropriation to account for the HJ 2 revenue estimate for the statutorily appropriated guarantee account, which offsets general fund appropriations

Executive Request

The following table shows the total executive request with the base budget and the statewide present law adjustments, present law adjustments, and new proposals by source of funding.

Local Education Activities 2027 Biennium HB 2 Base Budget and Requested Adjustments										
	FY 2026					FY 2027				
	General Fund	State Special	Federal Special	Total Funds	% of Budget Request	General Fund	State Special	Federal Special	Total Funds	% of Budget Request
Base Budget	584,607,617	453,599,176	155,735,391	1,193,942,184	93.3%	584,607,617	453,599,176	155,735,391	1,193,942,184	89.1%
Statewide PL										
Personal Services	0	0	0	0	0.0%	0	0	0	0	0.0%
Fixed Costs	0	0	0	0	0.0%	0	0	0	0	0.0%
Inflation Deflation	0	0	0	0	0.0%	0	0	0	0	0.0%
Total Statewide PL	0	0	0	0	0.0%	0	0	0	0	0.0%
Present Law (PL)	(60,618,253)	83,829,246	10,000,000	33,210,993	2.6%	(9,588,201)	91,209,916	10,000,000	91,621,715	6.8%
New Proposals	49,035,565	3,443,897	0	52,479,462	4.1%	53,039,120	1,009,028	0	54,048,148	4.0%
Total HB 2 Adjustments (11,582,688)	87,273,143	10,000,000	85,690,455	6.7%	43,450,919	92,218,944	10,000,000	145,669,863	10.9%	
Total Requested Budget	573,024,929	540,872,319	165,735,391	1,279,632,639		628,058,536	545,818,120	165,735,391	1,339,612,047	

The Local Education Activities Program serves as a pass-through program for state funding and certain federal funding for local school districts in Montana. A large portion of the state funding for K-12 education is included in the base budget and is not included in the decision packages proposed by the executive. The categories are shown to provide a better understanding of the allocation for the various functions of the program. Although this funding is budgeted within one program, the agency has limited flexibility to move funding within the program among these categories; most of the state funded school funding components are appropriated with restrictions, and most of the federal funds have federal spending requirements. The figures below summarize the entire proposed Local Education Activities Program budget by purpose by fiscal year:

Local Education Activities					
Proposed HB 2 Budget by Category					
Category	Fund Type	Actuals FY 2024	Budget FY 2025	Proposed FY 2026	Proposed FY 2027
K-12 BASE Aid	General Fund	\$445,056,683	\$537,976,469	\$476,148,840	\$529,127,551
	State Special	412,163,210	435,529,000	508,197,319	513,031,120
	Total	857,219,893	973,505,469	984,346,159	1,042,158,671
School Major Maintenance	General Fund	7,940,842	10,578,100	7,720,443	7,935,306
	State Special	1,828,464	1,570,176	15,175,000	15,287,000
	Total	9,769,306	12,148,276	22,895,443	23,222,306
School Nutrition	General Fund	687,954	695,954	695,954	695,954
	Federal Special	33,009,152	45,041,119	55,041,119	55,041,119
	Total	33,697,106	45,737,073	55,737,073	55,737,073
Adult Basic Education	General Fund	525,000	525,000	0	0
Advanced Opportunities	General Fund	3,249,321	4,000,000	4,000,000	4,000,000
Advancing Ag Ed	General Fund	93,121	151,960	151,960	151,960
At Risk Students	General Fund	6,029,867	6,213,340	6,399,740	6,591,732
CTE Match CSTO	General Fund	903,000	903,000	903,000	903,000
CTE - State Match	General Fund	1,500,000	1,500,000	1,500,000	1,500,000
Coal Mitigation	General Fund	1,693,274	1,693,274	1,693,274	1,693,274
Early Literacy	General Fund		1,500,000	1,500,000	1,500,000
Gifted and Talented	General Fund	332,003	350,000	350,000	350,000
Indian Language Immersion	General Fund	96,970	96,970	264,970	269,970
Instate Treatment	General Fund	2,614,525	3,006,885	3,010,000	3,010,000
National Board Certification	General Fund	148,000	178,588	178,588	178,588
Recruitment and Retention	General Fund	252,092	666,000	666,000	666,000
School Safety	General Fund	85,700	100,000	600,000	600,000
State Tuition Payments	General Fund	211,643	60,911	249,911	249,911
Teacher Pay Incentive	General Fund			52,504,462	54,073,148
Transformational Learning	General Fund	2,262,443	2,412,614	2,489,235	2,563,590
Transportation Aid	General Fund	10,417,038	11,998,552	11,998,552	11,998,552
Debt Service Assistance	State Special	13,345,149	15,000,000	16,000,000	16,000,000
Traffic Education	State Special	1,050,000	1,500,000	1,500,000	1,500,000
Carl Perkins Grant	Federal Special	3,427,177	1,620,338	1,620,338	1,620,338
Special Education	Federal Special	41,808,175	20,234,251	20,234,251	20,234,251
Title Programs	Federal Special	75,112,740	40,184,627	40,184,627	40,184,627
Other Federal Programs	Federal Special	1,182,560	48,655,056	48,655,056	48,655,056
Total Funds		\$1,067,026,103	\$1,193,942,184	\$1,279,632,639	\$1,339,612,047

K-12 BASE aid is the largest appropriation for OPI, accounting for \$973.5 million of the HB 2 FY 2025 base budget. There is an additional statutory appropriation for K-12 BASE aid from the guarantee account, which is described in greater detail in the Funding section of this report. K-12 BASE aid is made up of the state funding components that support school district general funds and some funding for countywide school retirement costs:

- The five fully state-funded components:
 1. Quality Educator Payment - A per-PB 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. The funding is distributed in the same manner as federal Title I funds. The at-risk payment is considered part of BASE aid, but receives a separate line item appropriation in HB 2
 3. Indian Education For All Payment - A payment made per Average Number Belonging (ANB) to fund the state's constitutional commitment to the preservation of American Indian cultural integrity
 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
- 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. This payment is 100.0% state-funded, but a local match is required
- Direct State Aid - This payment is made up of the Per-ANB and Basic entitlements, and it is 44.7% state-funded; the remainder is funded by state guaranteed tax base (GTB) aid and local revenue sources, which include local property taxes, local non-levy revenue, tuition payments, and/or fund balance reappropriated from the prior year. The amount of GTB and the various local revenue sources depends on the tax base of the school district and the number of students being educated in the district
 - 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"
 - Per Average Number Belonging (ANB) Entitlement - A per-ANB dollar amount driven by the greater of the prior year's enrollment or a three-year average. ANB is a proxy for school district enrollment
- District General Fund Guaranteed Tax Base (GTB) Aid - A state subsidy for school district BASE budget mill levies used to equalize property wealth across the state. GTB aid provides a subsidy per mill to eligible districts
- Retirement (GTB) Aid - A state subsidy for countywide retirement mill levies used to equalize property wealth across the state. GTB aid provides a subsidy per mill to eligible counties
- Significant Enrollment Increase Payment - A payment to districts with significant enrollment increases compared to the anticipated enrollment during the school district budgeting process

K-12 BASE Aid Summary

K-12 BASE aid makes up the majority of OPI's funding. The executive typically requests an inflationary increase for BASE aid every biennium. However, the inflationary increase is only a portion of the total K-12 BASE aid appropriation; the majority of the BASE aid appropriation is included in the base budget, and there are also several additional decision packages other than the inflationary increase that will affect K-12 BASE aid funding. The executive request for K-12 BASE aid, which includes the base budget, the inflationary increase, and other adjustments, is detailed below:

K-12 BASE Aid Summary - FY 2026							
Description	Base Budget FY 2025		Adjustments FY 2026		Total Budget Request FY 2026		
	General Fund	State Special	General Fund	State Special	General Fund	State Special	Total
Total Base Aid	<u>\$537,976,469</u>	<u>\$492,371,773</u>	<u>(\$61,827,629)</u>	<u>\$70,923,679</u>	<u>\$476,148,840</u>	<u>\$563,295,452</u>	<u>\$1,039,444,292</u>
HB 2 - General Fund & SEPTR	537,976,469	435,529,000	(61,827,629)	72,668,319	476,148,840	508,197,319	984,346,159
Statutory - Guarantee Account	-	56,842,773	-	(1,744,640)	-	55,098,133	55,098,133
HB 2 BASE Aid - General Fund & SEPTR							
DP 904 - K-12 BASE Aid Inflationary Increase	\$446,595,242	\$435,529,000	\$9,096,050	\$0	\$547,072,519	\$435,529,000	\$982,601,519
Direct State Aid	46,326,310	435,529,000	9,590,096	0	55,916,406	435,529,000	491,445,406
GTB - School General Fund	286,975,226	0	(8,965,645)	0	278,009,581	0	278,009,581
GTB - School Retirement	89,410,512	0	6,975,206	0	96,385,718	0	96,385,718
Special Education	47,180,203	0	358,330	0	47,538,533	0	47,538,533
Quality Educator	51,633,038	0	871,424	0	52,504,462	0	52,504,462
Indian Ed for All	3,854,497	0	55,093	0	3,909,590	0	3,909,590
Close Achievement Gap	5,057,074	0	143,042	0	5,200,116	0	5,200,116
Data for Achievement	3,689,609	0	53,504	0	3,743,113	0	3,743,113
Significant Enrollment Increases	3,500,000	0	0	0	3,500,000	0	3,500,000
Audit	350,000	0	15,000	0	365,000	0	365,000
DP 917 - Guarantee Account Adjustment	\$0	\$0	\$1,744,640	\$0	\$1,744,640	\$0	\$1,744,640
DP 918 - Equalization Aid Account Adjustment	\$0	\$0	(\$72,399,422)	\$72,399,422	(\$72,399,422)	\$72,399,422	\$0
DP 919 - County Retirement Adjustment	\$0	\$0	\$0	\$0	\$0	\$0	\$0
DP 921 - 95 Mill Non-Levy Revenue	\$0	\$0	(\$14,733,873)	\$14,733,873	(\$14,733,873)	\$14,733,873	\$0
DP 925 - Business Equipment Tax Adjustment	\$0	\$0	\$1,050,000	(\$1,050,000)	\$1,050,000	(\$1,050,000)	\$0
DP 926 - Homestead Property Tax Adjustment	\$0	\$0	\$13,414,976	(\$13,414,976)	\$13,414,976	(\$13,414,976)	\$0
Statutory BASE Aid - Guarantee Account							
Direct State Aid	0	56,842,773	0	0	0	56,842,773	56,842,773
DP 917 - Guarantee Account Adjustment	\$0	\$0	\$0	(\$1,744,640)	\$0	(\$1,744,640)	(\$1,744,640)

K-12 BASE Aid Summary - FY 2027							
Description	Base Budget FY 2025		Adjustments FY 2027		Total Budget Request FY 2027		
	General Fund	State Special	General Fund	State Special	General Fund	State Special	Total
Total Base Aid	\$537,976,469	\$492,371,773	(\$8,848,918)	\$76,434,084	\$529,127,551	\$568,805,857	\$1,097,933,408
HB 2 - General Fund & SEPTR	537,976,469	435,529,000	(8,848,918)	77,502,120	529,127,551	513,031,120	1,042,158,671
Statutory - Guarantee Account	-	56,842,773	-	(1,068,036)	-	55,774,737	55,774,737
HB 2 BASE Aid - General Fund & SEPTR							
DP 904 - K-12 BASE Aid Inflationary Increase	\$446,595,242	\$435,529,000	\$42,985,166	\$0	\$580,961,635	\$435,529,000	\$1,016,490,635
Direct State Aid	46,326,310	435,529,000	23,054,581	0	69,380,891	435,529,000	504,909,891
GTB - School General Fund	286,975,226	0	5,056,934	0	292,032,160	0	292,032,160
GTB - School Retirement	89,410,512	0	10,057,614	0	99,468,126	0	99,468,126
Special Education	47,180,203	0	1,784,654	0	48,964,857	0	48,964,857
Quality Educator	51,633,038	0	2,440,110	0	54,073,148	0	54,073,148
Indian Ed for All	3,854,497	0	146,140	0	4,000,637	0	4,000,637
Close Achievement Gap	5,057,074	0	289,230	0	5,346,304	0	5,346,304
Data for Achievement	3,689,609	0	140,903	0	3,830,512	0	3,830,512
Significant Enrollment Increases	3,500,000	0	0	0	3,500,000	0	3,500,000
Audit	350,000	0	15,000	0	365,000	0	365,000
DP 917 - Guarantee Account Adjustment	\$0	\$0	\$1,068,036	\$0	\$1,068,036	\$0	\$1,068,036
DP 918 - Equalization Aid Account Adjustment	\$0	\$0	(\$79,780,092)	\$79,780,092	(\$79,780,092)	\$79,780,092	\$0
DP 919 - County Retirement Adjustment	\$0	\$0	\$24,600,000	\$0	\$24,600,000	\$0	\$24,600,000
DP 921 - 95 Mill Non-Levy Revenue	\$0	\$0	(\$12,649,004)	\$12,649,004	(\$12,649,004)	\$12,649,004	\$0
DP 925 - Business Equipment Tax Adjustment	\$0	\$0	\$1,512,000	(\$1,512,000)	\$1,512,000	(\$1,512,000)	\$0
DP 926 - Homestead Property Tax Adjustment	\$0	\$0	\$13,414,976	(\$13,414,976)	\$13,414,976	(\$13,414,976)	\$0
Statutory BASE Aid - Guarantee Account							
Direct State Aid	0	56,842,773	0	0	0	56,842,773	56,842,773
DP 917 - Guarantee Account Adjustment	\$0	\$0	\$0	(\$1,068,036)	\$0	(\$1,068,036)	(\$1,068,036)

For more information on K-12 BASE aid, please see the school district general fund brochure: <https://leg.mt.gov/content/Publications/fiscal/2025-Biennium/Special-Topics/School-Funding/School-District-General-Fund-Brochure-FY25.pdf>

Summary of Other State K-12 Funding

The state also funds a number of other K-12 programs that are not included in K-12 BASE aid:

- Adult Basic Education - an adult education program that receives federal grant funding under the Adult Education and Family Literacy Act (AEFLA) and Title II of the Workforce Innovation and Opportunity Act (WIOA); the state provides an appropriation of state match for the federal funding
- Advanced Opportunities - a program that provides personalized career and technical education opportunities for middle and high school students
- Advancing Agricultural Education - a sequential set of course offerings for students in middle school and high school. The program is designed to develop knowledge, skills, attitudes, and experiences in and about agriculture
- Coal Mitigation - a school block grant to mitigate for coal-fired generating unit closure in eligible districts
- Career and Technical Student Organizations (CTSOs) - Montana currently has seven CTOSs, which provide career and technical education (CTE) opportunities for students. The CTOSs are Montana Future Farmers of America (FAA), Business Professionals of America (BPA), Distributive Education Clubs of America (DECA), Family Career & Community Leaders of America (FCCLA), Future Health Professionals (HOSA), SkillsUSA, and the Technology Student Association (TSA)
- CTE State Match - formulaically distributed state CTE funding for local school districts

- Debt Service Assistance - state equalization aid that is used to pay a portion of a school district's bond debt, including principal and interest payments and agent fees, and/or special improvement district payments (SIDs). The funding is available to school districts contingent upon whether or not the district has a mill value per ANB that is less than the corresponding statewide mill value per ANB
- Early Literacy - funding for targeted intervention programs for children older than 4, in order to improve early literacy outcomes
- Gifted and Talented - a program of services to consistently identify and meet the needs of high ability/high potential students
- Indian Language Immersion - a program to support efforts of Montana tribes to preserve and perpetuate Indian languages in the form of spoken, written, sung, or signed language
- In-State Treatment - payments for the educational costs of Montana K-12 students at children's psychiatric hospitals and residential treatment facilities
- National Board Certification - funding for stipends to qualified teachers who hold a current certification with the National Board for Professional Teaching Standards
- Recruitment and Retention - funding to help teachers pay back educational loans
- School Nutrition - state matching funds for federal school nutrition funding
- School Major Maintenance - state equalization aid that is used to pay a portion of a school district's major maintenance project costs. The funding is dependent on the district type and the number of ANB and local property wealth
- School Safety - includes existing school safety grants and a new proposal for cell phone-free schools
- State Tuition Payments - the state's portion of tuition payments for Montana K-12 students at children's psychiatric hospitals and residential treatment facilities
- Teacher Pay Incentive - a new proposal to increase teacher pay
- Transformational Learning - a program that provides a flexible system of pupil-centered learning
- Transportation Aid - state aid to help districts pay for the costs of getting students from home to school and back

**LFD
COMMENT**

Historically, all K-12 funding components that are funded either fully or partially by the state general fund are adopted with a restricted designation, meaning that they cannot be used for any other purpose. Most of these funding components have also been appropriated with a biennial designation, meaning they can be spent at any point over the biennium. Because public school budgets for the second year of the biennium are not yet established, the Office of Public Instruction requires some flexibility over the biennium in order to make the correct payment amounts for K-12 funding components to local school districts. The legislature may wish to add these designations to these programs again:

- K-12 BASE Aid (Restricted/Biennial)
- Adult Basic Education (Restricted/Biennial)
- Advanced Opportunities (Restricted/Biennial)
- Advancing Agricultural Education (Restricted/Biennial)
- At-Risk Student Payment (Restricted/Biennial)
- Coal Mitigation (Restricted/Biennial)
- CTE Career and Technical Student Organizations (Restricted/Biennial)
- CTE State Match (Restricted/Biennial)
- Debt Service Assistance (Restricted)
- Gifted and Talented (Restricted/Biennial)
- Indian Language Immersion (Restricted/Biennial)
- In-State Treatment (Restricted/Biennial)
- National Board Certification (Restricted/Biennial)
- Recruitment and Retention (Restricted/Biennial)
- School Food (Restricted/Biennial)
- School Major Maintenance (Restricted)
- School Safety Grants (Restricted/Biennial)
- State Tuition Payments (Restricted/Biennial)
- Transformational Learning (Restricted/Biennial)
- Transportation Aid (Restricted/Biennial)

The legislature may also wish to apply one or both of these designations to general fund appropriations that are newly included as part of the base budget or newly proposed as part of the 2027 biennium executive budget request:

- Early Literacy - newly included in the base budget per HB 352, 2023 Session
- Cellphone Free Schools - new proposal
- Teacher Pay Incentive - new proposal

Funding

The following table shows proposed program funding for all sources of authority.

Office of Public Instruction, 09-Local Education Activities Funding by Source of Authority							
Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	1,200,083,465	1,000,000	0	0	1,201,083,465	44.0%	
02018 Guarantee Fund	0	0	0	110,872,870	110,872,870	9.2%	
02218 School Facility & Tech Account	32,000,000	0	0	2,000,000	34,000,000	2.8%	
02302 STATE EQUALIZATION AID ACCT	1,021,228,439	0	0	0	1,021,228,439	85.1%	
02402 Traffic & Safety Education	3,000,000	0	0	0	3,000,000	0.3%	
02487 School Fac State Spcl Revenue	30,462,000	0	0	0	30,462,000	2.5%	
State Special Total	\$1,086,690,439	\$0	\$0	\$112,872,870	\$1,199,563,309	43.9%	
03170 Grant Clearance Discretionary	331,470,782	0	0	0	331,470,782	100.0%	
Federal Special Total	\$331,470,782	\$0	\$0	\$0	\$331,470,782	12.1%	
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.0%	
Total All Funds	\$2,618,244,686	\$1,000,000	\$0	\$112,872,870	\$2,732,117,556		

The Local Education Activities Program is funded by a combination of general fund, state, and federal special revenue. The majority of funds are appropriated in HB 2 and the remainder are statutory appropriations.

HB 2 Appropriations

General Fund - General fund supports a large portion of the distribution to school districts, primarily as K-12 BASE aid, with the addition of some state and federal funds.

State Special Revenue

School Equalization and Property Tax Reduction (SEPTR) Account

The school equalization and property tax reduction (SEPTR) account receives property tax revenue from the state 95 mills, which are levied for school equalization. This money is then distributed to school districts as K-12 BASE aid.

School Facility State Special Revenue Account

The school facility and technology account supports state subsidies for school debt service from facilities bonds, technological improvements, and other infrastructure and facility needs. The school facility and technology account is funded from hydroelectric power site rent under the provisions of 77-4-208(2), MCA and timber harvest income from school trust lands under the provisions of 20-9-516(2)(a), MCA. The school facility state special revenue account receives interest from the school facility sub-trust within the state coal trust. This money is then distributed to school districts to help support major maintenance.

Traffic & Safety Education Account

The traffic & safety education account funds traffic education programs in Montana schools. Traffic and safety education revenues are generated from a percentage of drivers' license and commercial drivers' license fees.

Federal Special Revenue - Federal funds support approximately \$165.7 million of the Local Education Activities Program total budget authority. The program receives federal funding for:

- Adult basic education
- Career and technical education (via the Carl Perkins Grant)
- Education of homeless children
- Individuals with Disabilities Education Act (IDEA)
- School nutrition
- Low income students (Title I)
- Student achievement (Title II)
- English learners and immigrant students (Title III)
- Student support and academic enrichment (Title IV)
- Rural Education Achievement Program (Title V)

Statutory Appropriations

State Special Revenue

Guarantee Account

The guarantee account is a state special revenue account dedicated to school funding, which receives revenue generated from common school trust lands and the subsequent interest on the common school trust account. Revenues are primarily generated from interest off the trust in addition to agriculture and extraction industry leases. Revenue is statutorily appropriated for school funding per 20-9-622, MCA and offsets general fund received by OPI.

School Facility and Technology Account

The school facility and technology account supports state subsidies for school debt service from facilities bonds, technological improvements, and other infrastructure and facility needs. The school facility and technology account is funded from public land trust power site rent under the provisions of 77-4-208(2), MCA and timber harvest income from school trust lands under the provisions of 20-9-516(2)(a), MCA.

Innovative Educational Program Account

School districts can receive tax credit donations and may retain these donations up to a cap. If tax credit donations exceed the limit set in statute, excess revenues are transferred to the innovative educational program account at OPI. OPI then distributes the funds to school districts for advanced opportunity aid.

Program Actuals and Budget Comparison

The following table compares FY 2024 actual expenditures, FY 2024 and FY 2025 appropriations, and the expenditures requested for FY 2026 and FY 2027 by type of expenditure and source of funding.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2024	Approp. Fiscal 2024	Approp. Fiscal 2025	Request Fiscal 2026	Request Fiscal 2027
Operating Expenses	3,302,479	3,685,496	3,702,839	3,705,954	3,705,954
Local Assistance	902,127,261	932,253,505	1,024,600,340	1,100,236,059	1,160,141,112
Grants	160,700,950	163,069,906	164,946,503	174,953,657	175,028,012
Transfers	895,413	942,502	692,502	736,969	736,969
Total Expenditures	\$1,067,026,103	\$1,099,951,409	\$1,193,942,184	\$1,279,632,639	\$1,339,612,047
General Fund	484,099,476	499,833,554	584,607,617	573,024,929	628,058,536
State/Other Special Rev. Funds	428,386,823	444,382,464	453,599,176	540,872,319	545,818,120
Federal Spec. Rev. Funds	154,539,804	155,735,391	155,735,391	165,735,391	165,735,391
Total Funds	\$1,067,026,103	\$1,099,951,409	\$1,193,942,184	\$1,279,632,639	\$1,339,612,047
Total Ongoing	\$1,067,026,103	\$1,099,951,409	\$1,193,942,184	\$1,279,132,639	\$1,339,112,047
Total OTO	\$0	\$0	\$0	\$500,000	\$500,000

Program Description

The Local Education Activities Program is used by OPI to distribute state and federal funds to local education agencies.

FY 2024 Appropriation Compared to FY 2024 Actual Expenditures

The Local Education Activities Program expended 97.1% of its approximately \$1.1 billion HB 2 modified budget in FY 2024. Local assistance authority made up the majority of the program’s HB 2 modified budget for FY 2024, at approximately \$932.3 million or 84.8%.

Local assistance (primarily made up of K-12 BASE aid) is paid out to school districts throughout the year and was 96.8% expended as of fiscal year end, leaving \$30.1 million of the appropriation unexpended. The unexpended amount is partially due to revenue in the statutorily appropriated guarantee account coming in higher than expected, which offset expenditures from the state general fund. Additionally, OPI reports that the need for direct state aid was lower due to lower than expected enrollment numbers and due to the statute changes for significant enrollment increases that did not materialize to the extent of the estimate. OPI also reports that the school district general fund guaranteed tax base (GTB) aid and retirement GTB aid were lower than expected, related to differences in non-levy revenue, fund balance reappropriated, and taxable valuation. Smaller sources of variation reported by OPI are due to lower PB numbers for districts, which reduced the state’s quality educator payments, and districts entering non-operation status (e.g. Sand Springs, Garfield County), as well as adjustments relating to new legislation and other items.

FY 2024 Appropriations Compared to FY 2025 Appropriations

FY 2025 total appropriations for the Local Education Activities Program are approximately \$94.0 million or 8.5% higher than the FY 2024 total appropriations. This increase is the net result of the following major changes:

- An increase of approximately \$54.6 million for K-12 BASE aid
- An increase of approximately \$36.5 million for an increase to the retirement GTB multiplier (HB 587, 2023 Legislative Session)
- An increase of approximately \$2.7 million for increases to the district general fund GTB multiplier that accompanied a reduction in the business equipment property tax rate
- An increase of approximately \$0.8 million for public charter schools
- An increase of approximately \$0.4 million for community choice schools
- An increase of approximately \$0.2 million for the at-risk student payment
- An increase of approximately \$0.2 million for starting teacher salaries
- An increase of approximately \$0.2 million for significant enrollment increases
- An increase of approximately \$0.2 million for part-time student enrollment
- A decrease of approximately \$3.4 million to offset projected guarantee account revenues
- A decrease of approximately \$0.2 million for in-state treatment payments
- Various other small differences amounting to approximately \$1.8 million

The majority of general fund appropriations for OPI are biennial, meaning they can be spent at any time over the biennium.

Present Law Adjustments

The "Present Law" Adjustments table shows the changes from the base appropriation to the proposed budget. "Statewide Present Law" adjustments (DP 1, DP 2, DP 3) are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

	Fiscal 2026					Fiscal 2027				
	PB	General Fund	State Special	Federal Special	Total Funds	PB	General Fund	State Special	Federal Special	Total Funds
DP 904 - K-12 BASE Aid Inflationary Increase	0.00	9,096,050	0	0	9,096,050	0.00	42,985,166	0	0	42,985,166
DP 905 - At Risk Payment Inflationary Increase	0.00	186,400	0	0	186,400	0.00	378,392	0	0	378,392
DP 906 - NRD K12 Facilities Major Maintenance Aid	0.00	317,343	10,429,824	0	10,747,167	0.00	644,206	10,429,824	0	11,074,030
DP 907 - State Transformational Learning Pmt Adjustment	0.00	76,621	0	0	76,621	0.00	150,976	0	0	150,976
DP 909 - State Tuition Increase	0.00	189,000	0	0	189,000	0.00	189,000	0	0	189,000
DP 910 - In State Treatment Adjustment	0.00	3,115	0	0	3,115	0.00	3,115	0	0	3,115
DP 911 - Increase Federal Grant Authority - Program 09	0.00	0	0	10,000,000	10,000,000	0.00	0	0	10,000,000	10,000,000
DP 917 - Guarantee Account Adjustment	0.00	1,744,640	0	0	1,744,640	0.00	1,068,036	0	0	1,068,036
DP 918 - Equalization Aid Acct Adjustment	0.00	(72,399,422)	72,399,422	0	0	0.00	(79,780,092)	79,780,092	0	0
DP 919 - County Retirement Adjustment	0.00	0	0	0	0	0.00	24,600,000	0	0	24,600,000
DP 920 - Debt Service Adjustment	0.00	0	1,000,000	0	1,000,000	0.00	0	1,000,000	0	1,000,000
DP 923 - Indian Language Immersion Adjustment	0.00	168,000	0	0	168,000	0.00	173,000	0	0	173,000
Grand Total All Present Law Adjustments	0.00	(\$60,618,253)	\$83,829,246	\$10,000,000	\$33,210,993	0.00	(\$9,588,201)	\$91,209,916	\$10,000,000	\$91,621,715

**Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

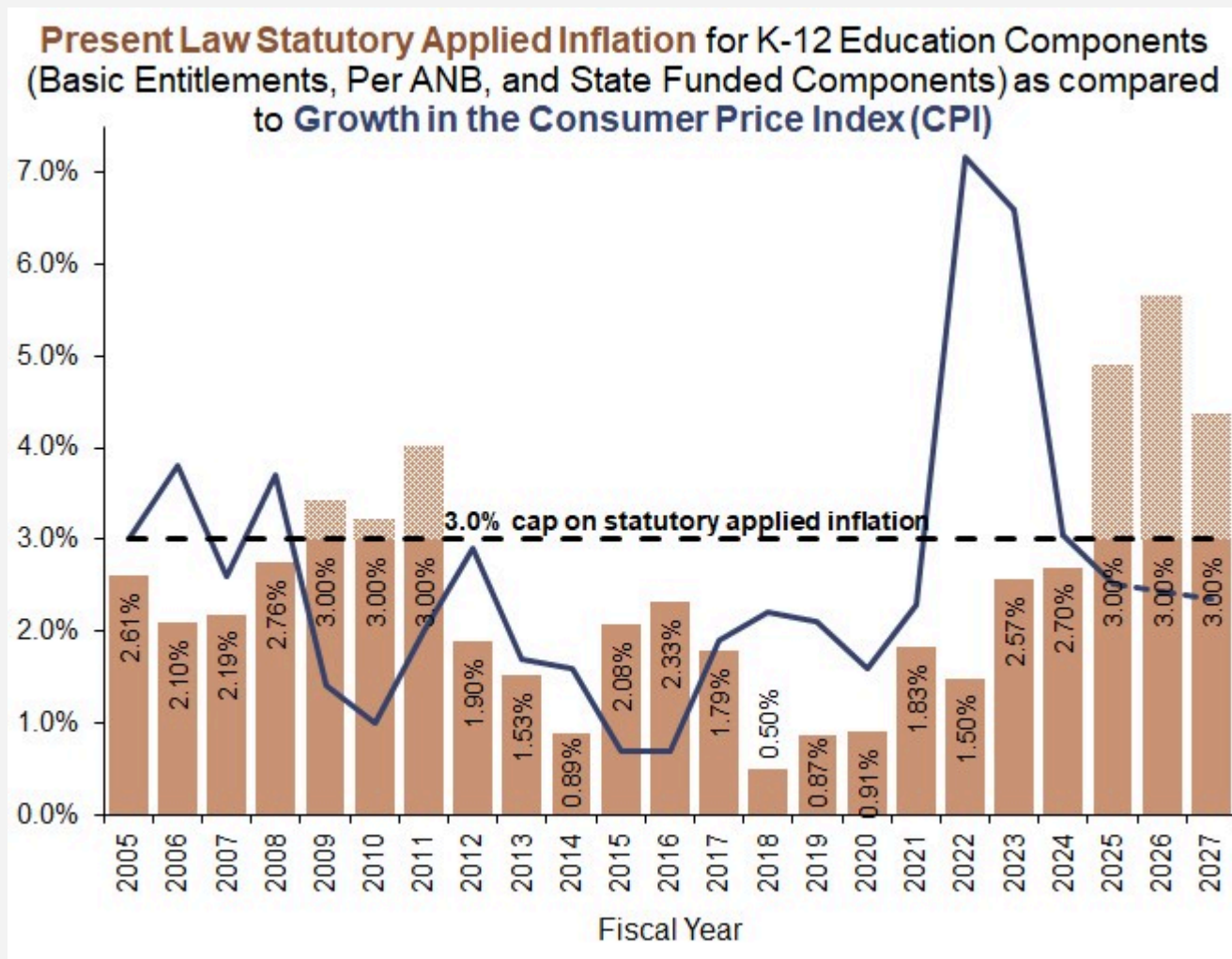
DP 904 - K-12 BASE Aid Inflationary Increase -

The executive request for the K-12 BASE aid increase includes funding for the growth from statutory inflationary increases (20-9-326, MCA) at 3.0% in FY 2026 and 3.0% in FY 2027 and the growth in enrollment. The statutory inflationary increases apply to the basic entitlement, per-ANB entitlement, quality educator payment, Indian education for all payment, data for achievement payment, special education allowable cost payment, and American Indian achievement gap payment. This request is contingent on passage and approval of HB 15.

<p>LFD COMMENT</p>	<p><u>Inflationary Increases</u></p> <p>Statute requires that certain components of school funding include a present law adjustment for inflation in the superintendent's budget request (20-9-326, MCA). Anticipated inflationary increases in the 2027 biennium are 3.0% in FY 2026 and 3.0% in FY 2027, based on the IHS Markit forecast from August 2024. These growth rates are higher than previous biennium growth rates, which were 2.7% in FY 2024 and 3.0% in FY 2025.</p> <p>Statute requires the use of a three-year average of inflation to determine superintendent's request to the executive for the K-12 inflation rate, which is then capped at 3.0%. Due to the lag from the three-year average, the statutory applied inflation calculation for both FY 2026 and FY 2027 results in a K-12 inflation rate above the cap (5.67% for FY 2026 and 4.36% for</p>
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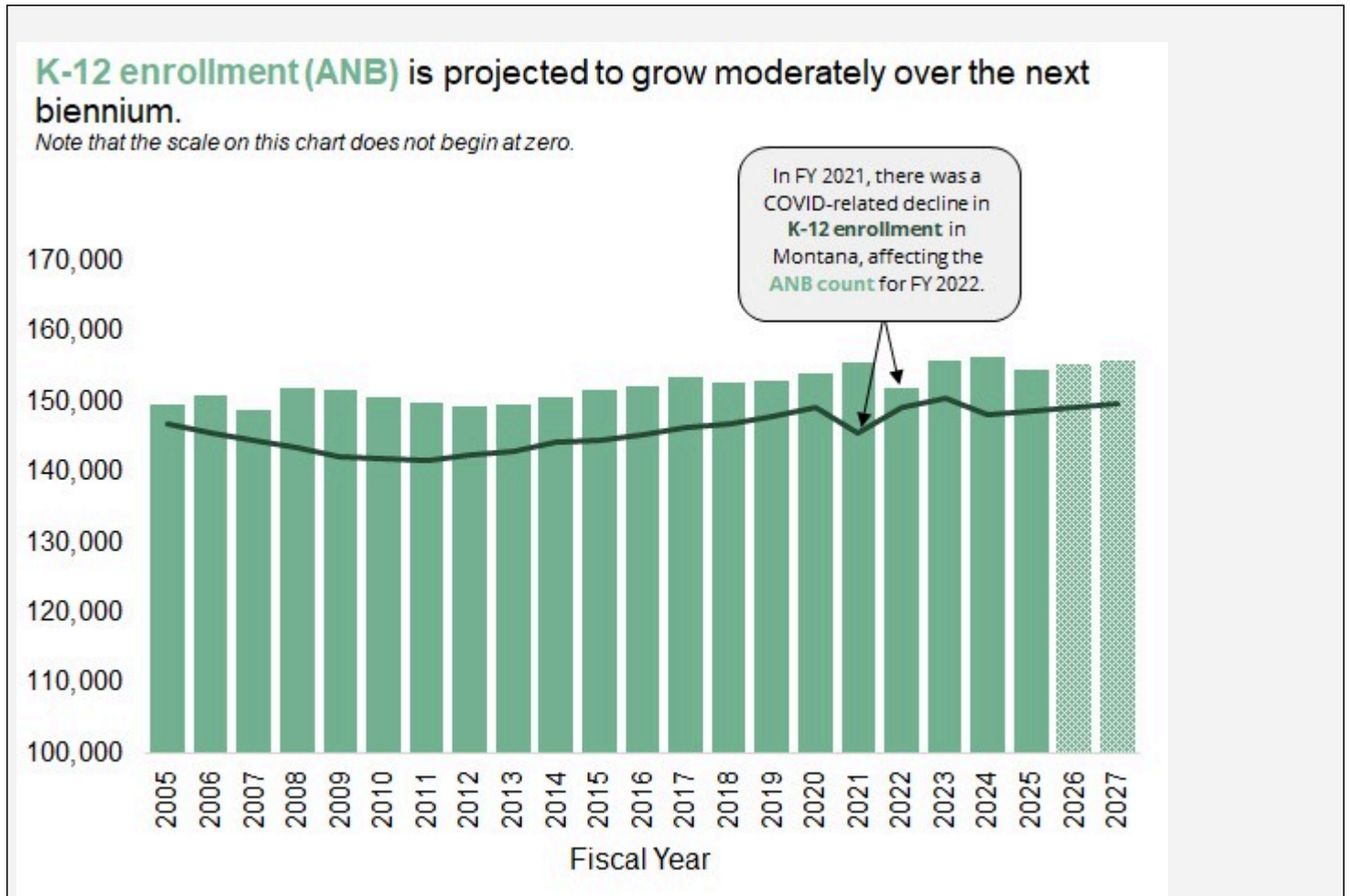
FY 2027), so the inflation rates are set at 3.0%. If the three-year average inflation rate had not been capped, K-12 BASE aid would have increased by an additional \$17.2 million in FY 2025. The K-12 BASE aid inflationary adjustment would also increase by approximately \$27.3 million in FY 2026 and approximately \$42.6 million in FY 2027 if the uncapped three-year average inflation rates were used for the 2027 biennium. The legislature may adopt different K-12 inflation rates than those proposed by the executive.

The following graphic illustrates the present law statutorily applied inflation (based on the IHS Markit forecast from August 2024, per statute) and current forecast of CPI (as of November 2024):



Enrollment

State K-12 BASE aid to school districts is calculated based on average number belonging (ANB), which is a metric for enrollment. ANB counts are taken twice in each school year, once on the first Monday in October and once on the first Monday in February. The current year ANB number (the average of the current year October and February ANB counts) and three-year average ANB (the average of current year ANB and ANB for two years prior) can be used to determine the state K-12 BASE aid. Under current law, the ANB number (either current-year or three-year average) which results in the largest budget is used to create the budget for the following year. In order to create the Governor's budget, the actual October ANB count is typically averaged with an estimate for the following February ANB count that has not yet occurred. Then, once the second ANB count occurs in February, the budget can be updated by the legislature via a decision package to HB 2. Budgeting for the second year of the biennium typically uses estimated ANB counts as well.



Retirement

HB 587 (2023 Session) requires that 55.0% of any increased revenue from the 95 school equalization mills be used to reduce local property taxes through equalization mechanisms for FY 2026 and beyond. The bill implemented this change for FY 2025 with a "hardcoded" increase in the GTB multiplier; the estimated impact was \$36.5 million. However, due to retirement fund budgets and differences between the projected and actual taxable values, the actual impact for FY 2025 was approximately \$46.4 million.

DP 905 - At Risk Payment Inflationary Increase -

The executive requests general fund local assistance authority to support inflationary increases for the at-risk student payment. These increases represent a 3.0% increase for both FY 2026 and FY 2027, which are the same inflationary rates associated with the present law adjustment for K-12 BASE aid.

DP 906 - NRD K12 Facilities Major Maintenance Aid -

The natural resource development (NRD) K-12 facilities payment (20-9-635, MCA) is used to support major maintenance projects in public schools. The executive requests an increase of general fund and state special revenue local assistance in order to meet the statutorily required growth in each year of the biennium, per 20-9-635, MCA.

LFD COMMENT	The natural resource development K-12 school facilities payment is a general fund appropriation to support school major maintenance aid (per 20-9-635, MCA). For FY 2024 and beyond, the NRD is calculated as
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the greater of \$10.0 million increased by an inflationary adjustment (per 20-9-326, MCA) or 5.0% of the oil and natural gas production taxes deposited in the general fund (per 15-36-331(4), MCA) for two fiscal years prior. The present law for major maintenance aid must consist of the general fund appropriation for the natural resource development K-12 school facilities payment and a state special revenue appropriation for the projected revenue in the school major maintenance account (per 20-9-525, MCA).

DP 907 - State Transformational Learning Pmt Adjustment -

The executive requests general fund grant authority to adjust the state transformational learning payment for 3.0% inflationary increases related to the per educator component of the calculation, per 20-7-1602(9), MCA.

DP 909 - State Tuition Increase -

The executive requests general fund local assistance authority to increase the state tuition payment, as required per 20-5-323 and 20-5-324, MCA.

DP 910 - In State Treatment Adjustment -

The executive requests a general fund appropriation to meet the in-state inpatient treatment payment needs, as required in 20-7-435, MCA.

DP 911 - Increase Federal Grant Authority - Program 09 -

The executive requests \$10.0 million in federal special revenue local assistance authority in each year of the biennium to adjust for increases in federal grant awards OPI distributes to school districts and other local education agencies administered by the OPI.

DP 917 - Guarantee Account Adjustment -

The executive requests an increase in general fund to offset reductions in revenue in the guarantee account. The guarantee account (per 20-9-622, MCA) is the first source of funding for state equalization aid and is statutorily appropriated.

**LFD
ISSUE**

This decision package is based on the executive forecast for the guarantee account, not the HJ 2 estimate adopted by the Revenue Interim Committee (RIC) in November 2024. If HJ 2 values were used, this decision package would need to be reduced by \$3,923,000 general fund in FY 2026 and by \$3,815,000 general fund in FY 2027, and the total adjustment would reflect a reduction of \$2,178,360 general fund in FY 2026 and a reduction of \$2,746,964 in FY 2027.

Guarantee Account			
Executive Estimate vs. Adopted HJ 2 Estimate - 2027 Biennium			
(\$ in millions)			
	FY 2026	FY 2027	Biennium Total
HJ 2 (as adopted by the Nov. 2024 RIC)	\$59.021	\$59.590	\$118.612
Executive Estimate	55.098	55.775	110.873
Difference	\$3.923	\$3.815	\$7.739

Legislative Options:

- Adjust the appropriation to bring the guarantee account adjustment in line with HJ 2. This change would involve decreasing the general fund appropriation for K-12 BASE aid to account for increased revenue in the guarantee account, which is statutorily appropriated
- Adopt the executive budget without changing the appropriation for K-12 BASE aid

DP 918 - Equalization Aid Acct Adjustment -

The executive requests an increase to state special revenue authority for the state equalization and property tax reduction (SEPTR) account, which receives revenue from the 95 state equalization mills. This change is requested to account for projected revenue with an offsetting reduction of general fund. The SEPTR account (per 20-9-336, MCA) is the second source of funding for state equalization aid.

**LFD
ISSUE**

This decision package is based on the executive forecast of the 95 mills, not the HJ 2 estimate adopted by the Revenue Interim Committee (RIC) in November 2024. If HJ 2 values were used, the state special revenue amounts in this decision package would need to be increased by \$3,360,000 in FY 2026 and by \$1,088,000 in FY 2027, and the total adjustment would reflect a decrease in general fund and a corresponding increase in state special revenue of \$76,029,422 in FY 2026 and \$80,868,092 in FY 2027.

School Equalization & Property Tax Reduction Account (95 Mills) Executive Estimate vs. Adopted HJ 2 Estimate - 2027 Biennium (\$ in millions)			
	FY 2026	FY 2027	Biennium Total
HJ 2 (as adopted by the Nov. 2024 RIC)	\$511.558	\$516.397	\$1,027.956
Executive Estimate	507.928	515.309	1,023.237
Difference	\$3.630	\$1.088	\$4.719

Legislative Options:

- Adjust the appropriation to bring the SEPTR account appropriation in line with HJ 2. This change would involve a corresponding decrease to the general fund appropriation for K-12 BASE aid
- Adopt the executive budget without changing the appropriation for the SEPTR account

DP 919 - County Retirement Adjustment -

The executive requests additional funding for K-12 BASE aid for county retirement, per 20-9-336, MCA, for FY 2027 only.

**LFD
ISSUE**

HB 587 (2023 Session) requires that 55.0% of any increased revenue from the 95 school equalization mills be used to reduce local property taxes through equalization mechanisms for FY 2026 and beyond. The bill implemented this change for FY 2025 with a "hardcoded" increase in the GTB multiplier from 1.21 to 1.89; the estimated impact was \$36.5 million. However, due to retirement fund budgets and differences between the projected and actual taxable values, the actual impact for FY 2025 was approximately \$46.4 million.

This decision package for FY 2026 and FY 2027 implements the HB 587 calculation by adjusting the retirement GTB multiplier according to the formula in 20-9-336, MCA. The decision package is based on the preliminary executive forecast of the 95 mills rather than the HJ 2 estimate adopted by the Revenue Interim Committee (RIC) in November 2024. According to the executive's preliminary revenue estimate, no adjustment is included for this decision package for FY 2026 as the change in taxable value in the formula did not require an adjustment. However, if HJ 2 values were used, this decision package would need to be increased by \$6,271,000 in FY 2026 and by \$13,864,000 in FY 2027, and the total adjustment would reflect increases in general fund of \$6,271,000 in FY 2026 and \$38,464,000 in FY 2027.

School Equalization & Property Tax Reduction Account (95 Mills)				
County School Retirement GTB Calculation				
(\$ in millions)				
	FY 2025	FY 2025	FY 2026	FY 2027
95 Mill Revenue (HJ 2 estimate)	\$430.222	\$441.624	\$511.558	\$516.397
Increase from Prior Year		11.402	69.935	4.839
55% of the Increase - Following Year County Retirement			\$6.271	\$38.464

Legislative Options:

- Adjust the appropriation to bring the county retirement adjustment in line with HJ 2
- Adopt the executive budget without changing the appropriation for county retirement

DP 920 - Debt Service Adjustment -

The executive requests state special revenue authority to increase debt service assistance to the projected need.

LFD COMMENT The school facility and technology account, which funds debt service assistance, received \$32.9 million in revenue in FY 2024. This revenue was significantly higher than the FY 2023 revenues, which were \$9.1 million. The large revenue influx for FY 2024 was due in part to the resolution of a lawsuit related to riverbed leases, which resulted in a large one-time deposit into the fund.

School Facility and Technology Account			
	FY 2022	FY 2023	FY 2024
Starting fund balance	\$4,914,654	\$9,111,733	\$14,663,539
Revenue	\$7,447,020	\$9,051,806	\$32,891,446
Disbursements	(\$3,249,941)	(\$3,500,000)	(\$14,345,149)
Ending fund balance	\$9,111,733	\$14,663,539	\$33,209,836

In the mid-2000s when the program was fully funded and school district debt obligations were lower than they are currently, the program covered approximately a quarter of statewide school debt obligation. In recent years, the program has covered less than 5.0% of the statewide school debt obligation, and from FY 2017 through FY 2020 the program was not funded at all. Recent legislative efforts, including the creation of a school facilities fund within the coal tax trust (HB 321, 2023 Session), should help ensure more robust funding of the program going forward.

DP 923 - Indian Language Immersion Adjustment -

The executive requests general fund grant authority to increase participation in the Indian Language Immersion program (20-7-1404, MCA).

New Proposals

The “New Proposals” table shows new proposals for spending.

New Proposals	-----Fiscal 2026-----					-----Fiscal 2027-----				
	PB	General Fund	State Special	Federal Special	Total Funds	PB	General Fund	State Special	Federal Special	Total Funds
DP 914 - Move Workforce Innovation Grants to DLI	0.00	(525,000)	0	0	(525,000)	0.00	(525,000)	0	0	(525,000)
DP 916 - Cell Phone Free Schools (BIEN/OTO)	0.00	500,000	0	0	500,000	0.00	500,000	0	0	500,000
DP 921 - 95 Mill Non Levy Revenue	0.00	(14,733,873)	14,733,873	0	0	0.00	(12,649,004)	12,649,004	0	0
DP 922 - Teacher Pay Incentive	0.00	52,504,462	0	0	52,504,462	0.00	54,073,148	0	0	54,073,148
DP 924 - SMMA Adjustment	0.00	(3,175,000)	3,175,000	0	0	0.00	(3,287,000)	3,287,000	0	0
DP 925 - Business Equipment Tax Adjustment	0.00	1,050,000	(1,050,000)	0	0	0.00	1,512,000	(1,512,000)	0	0
DP 926 - Homestead Property Tax Adjustment	0.00	13,414,976	(13,414,976)	0	0	0.00	13,414,976	(13,414,976)	0	0
Total	0.00	\$49,035,565	\$3,443,897	\$0	\$52,479,462	0.00	\$53,039,120	\$1,009,028	\$0	\$54,048,148

**"Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

DP 914 - Move Workforce Innovation Grants to DLI -

The executive requests a reduction in fund authority to move the adult basic education workforce innovation and opportunities grants to the Department of Labor and Industry (DLI). The request is contingent on related legislation.

LFD COMMENT	Specific details regarding the proposed legislation and its funding, expenditures, and implementation mechanisms will become available once the legislation has been introduced and the provisions of the bill are fully outlined.
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DP 916 - Cell Phone Free Schools (BIEN/OTO) -

The executive requests one-time-only, biennial general fund grant authority for small grants to K-12 public schools to purchase secure systems so that cell phones are inaccessible to students during school hours.

DP 921 - 95 Mill Non Levy Revenue -

Contingent on related legislation (LC 0080), the executive requests a fund switch to redirect non-levy revenue associated with the 95 mills from the state general fund to the state equalization and property tax reduction (SEPTR) state special revenue account.

LFD COMMENT	Non-levy revenue is revenue from a source other than property tax levies that generally has a connection to property taxation. Certain non-levy revenue associated with the 95 school equalization mills, primarily made up of coal gross proceeds and federal forest reserve funds, must be transferred to the state for K-12 BASE aid funding. HB 587 (2023 Session) redirected property tax revenue from the 95 mills from the general fund to the newly created SEPTR account. The legislation did not revise the deposit of non-levy revenue listed in equalization statutes, so it is still deposited into the general fund under current law.
	Specific details regarding the proposed legislation and its funding, expenditures, and implementation mechanisms will become available once the legislation has been introduced and the provisions of the bill are fully outlined.

DP 922 - Teacher Pay Incentive -

Contingent on related legislation (LC 0262), the executive requests general fund grant authority for increased teacher pay, which will be directed to the bottom one-third of the teacher pay scale in each school district through state grants.

LFD COMMENT HB 143 (2021 Session), also known as the "TEACH Act," created an incentive for school districts to increase starting teacher salaries by establishing a goal of ten times the quality educator payment as the benchmark for competitive base pay. The quality educator payment is one of several components of Montana's school funding formula that typically receives an annual inflationary adjustment. The TEACH Act incentive to increase starting teacher pay involves adding an additional quality educator payment, which is fully state funded, to the school district's general fund budget for teachers in the first three years of their teaching career. Additional funding for the TEACH Act was added to the budget for OPI in the 2023 Legislative Session.

Specific details regarding the proposed legislation and its funding, expenditures, and implementation mechanisms will become available once the legislation has been introduced and the provisions of the bill are fully outlined.

DP 924 - SMMA Adjustment -

Contingent on related legislation, the executive requests a fund switch for state major maintenance aid from the general fund to state special revenue.

LFD COMMENT Specific details regarding the proposed legislation and its funding, expenditures, and implementation mechanisms will become available once the legislation has been introduced and the provisions of the bill are fully outlined.

DP 925 - Business Equipment Tax Adjustment -

Contingent on related legislation (LC 0446), the executive requests a fund switch for K-12 BASE aid from the state equalization and property tax reduction (SEPTR) state special revenue account to the state general fund in order to make adjustments to business equipment tax exemptions.

LFD COMMENT For tax year (TY) 2000, business equipment valued at \$5,000 or less was exempt from property taxation in Montana. In 2005, the Legislature increased that exemption to \$20,000 of market value. Beginning in 2014, the Legislature took a different approach and exempted the first \$100,000 of business equipment for all taxpayers. HB 303 (2021 Session) increased the business equipment property tax exemption from \$100,000 to \$300,000 beginning in TY 2022, and HB 212 (2023 Session) increased the business equipment property tax exemption from \$300,000 to \$1.0 million beginning in TY 2024. Under current law, businesses whose statewide market value of equipment is \$1.0 million or less are exempt from business equipment tax, and businesses whose statewide market value is greater than \$1.0 million only pay property taxes on their market value above \$1.0 million. If the proposal results in a net taxable value reduction for the state, the revenue from the 95 mills will also be reduced and the state general fund would backfill the reduction in property tax revenue.

Specific details regarding the proposed legislation to revise the business equipment tax exemption and its funding, expenditures, and implementation mechanisms will become available once the legislation has been introduced and the provisions of the bill are fully outlined.

DP 926 - Homestead Property Tax Adjustment -

Contingent on related legislation (LC 0173), the executive requests a fund switch for K-12 BASE aid from the state equalization and property tax reduction (SEPTR) state special revenue account to the state general fund in order to make adjustments for homestead property tax exemptions.

**LFD
COMMENT**

Prior to FY 2015, Montana had homestead and comstead exemptions that were tied to the phase in value of property based on the six-year property reappraisal cycle. HB 157 (2015 Session) changed the reappraisal cycle from a six-year cycle to a two-year cycle and eliminated Montana's homestead and comstead exemptions but provided local property tax relief through an increase in guaranteed tax base (GTB) aid.

Homestead exemptions can be implemented in various ways; however, in August 2024, the Governor's Property Tax Advisory Council (PTAC) recommended adjusting the statutory tax rate for primary residences and long term rentals under a dollar threshold, while increasing the rate for all other residential property. The PTAC created a similar recommendation for tiered rates on commercial property as part of a comstead exemption proposal. If the proposal results in a net taxable value reduction for the state, the revenue from the 95 mills will also be reduced and the state general fund would backfill the reduction in property tax revenue. Specific details regarding the proposed legislation, which may differ from the PTAC recommendation, and its funding, expenditures, and implementation mechanisms will become available once the legislation has been introduced and the provisions of the bill are fully outlined.