



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: **HB0567.01: Revise education laws related to multidistrict agreements**

Primary Sponsor: **Brad Barker** Status: **As Introduced**

☐ Included in the Executive Budget ☒ Needs to be included in HB 2 ☐ Significant Local Gov Impact

☐ Significant Long-Term Impacts ☒ Technical Concerns ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Expenditures				
General Fund (01)	\$0	\$5,073,032	\$5,225,379	\$5,381,633
Revenues				
General Fund (01)	\$0	\$0	\$0	\$0
Net Impact	<u>\$0</u>	<u>(\$5,073,032)</u>	<u>(\$5,225,379)</u>	<u>(\$5,381,633)</u>
General Fund Balance				

Description of fiscal impact

HB 567 revises laws related to multidistrict interlocal agreements between school districts, public entities, and private entities to increase flexibility of school districts to enter into multidistrict agreements. The bill provides a countywide resource sharing incentive through the total quality educator payment for school districts that establish countywide multidistrict interlocal agreements meeting legislative intent, . The estimated increased cost to the state general fund is \$5.1 million per year beginning in FY 2027.

FISCAL ANALYSIS

Assumptions

- HB 567 changes section 20-3-363, MCA, multidistrict agreement fund transfers, to allow for full joint funding and operation for all programs and services of the participating districts and may occur for an unlimited number of years. Current law both limits the term of multidistrict agreements to three years and the purpose for which the agreement was created.
- In current law, 20-9-701, MCA, states that for the purposes of interlocal cooperative agreements, the prime agency is to be the district or other public agency vested with the financial administration of an interlocal cooperative agreement and the cooperating agency is to be any district or public agency other than the prime agency who is a party to the agreement.
- The financial administration of an interlocal cooperative agreement per 20-9-702, MCA, is to be any district contracting with other districts or other public agencies to establish an interlocal cooperative agreement under the provisions of Title 7, chapter 11, part 1, subject to the provisions of 20-9-701, 20-9-703, and 20-9-704, MCA, for the purposes of the financial administration of such agreement.
- References to governance using sections 20-9-703, MCA, and 20-9-704, MCA, are struck in Section 1 of HB 567 indicating the interlocal cooperative agreements creates in this bill do not need to have a prime agency administering the funding of the agreement nor does this agreement require a cooperating agency designation. The bill further allows the board of trustees of each participating district of the multidistrict

- cooperative to transfer the required funds to the district's own interlocal cooperative fund (fund 82) from the district's general fund not to exceed the amount of direct state aid and other funding as defined in the bill. Each district will be responsible for their own funds in the multidistrict interlocal agreement rather than a combined fund with a financial administrator.
5. Current law allows school districts to move funds to interlocal agreements without accounting for the funds in the same manner as the funds were permissively or voted, to the funds transferred from. In addition, transferred funds are to be used for the purposes originally intended and if transferred are to retain the same purposes. Districts are not to be allowed to levy to replace funds that were transferred to interlocal agreements. Tracking of transfers allowed in HB 567 to assure law is followed is not clearly defined.
 6. Section 1 of HB 567 strikes language limiting multidistrict agreements with other school districts or another public entity participating in an interlocal cooperative agreement and replacing this with any other public or private entity participating in the cooperative and complying with the requirements of this section and other laws governing public schools in the state.
 7. The bill removes language limiting expenditures that are "permitted by law" and inserting that "considered by the Board of Trustees of the district to be reasonable and necessary to efficiently and effectively finance the expenditures pursuant to the terms of the multidistrict agreement, not to exceed the total expenditures approved by the Board of Trustees for the budgeted fund from which the transfer was made, including expenditures pursuant to any budget amendment adopted pursuant to 20-9-165", MCA.
 8. Section 20-3-363, MCA, is expanded to include the following:
 - a. *(5)(a) Beginning in school fiscal year 2027, school districts that achieve the legislative goal for countywide resource sharing outlined in this subsection must receive a 50% increase in their total quality educator payment as defined in section 20-9-306, MCA.*
 9. Countywide resource sharing is described in the bill as follows:
 - a. *The legislative goal for countywide resource sharing is for each school district with a majority of its territory in a county to participate in a countywide multidistrict agreement as specified in the bill proposal. To receive the enhanced incentive, the multidistrict agreement executed by the participating districts must: i)include at least all school districts with a majority of their territory within the boundaries of the same county. Provided that at least all school districts in at least one county have entered into a multidistrict agreement, other school districts located in other counties that participate in the multidistrict agreement must also receive the enhanced total quality educator payment; ii)provide for the joint funding and operation of the participating districts; iii)contractually allocate an amount at least equal to each district's general fund direct state aid for the support of joint funding and operations among all participating districts; and iv)to the extent of the funds committed, jointly and mutually establish, maintain, budget, and finance the programs of the participating districts identified. Activities must be in compliance with the accreditation standards of the board of public education and may include the sharing of staff among the participating districts when that is consistent with collective bargaining, if applicable, and when that is determined by the board of trustees of each participating school district to be the most efficient and effective use of district staff. The programs of the participating districts that are mutually administered.*
 10. Finally, in Section 1, sub-section (7), language is struck limiting multidistrict agreements with other school districts or other public entities participating in an interlocal cooperative agreement and replacing this with any other public or private entity participating in the cooperative and complying with the requirements of this section and other laws governing public schools in the state.
 11. Section 2 of the bill is amended to increase the total quality educator payment by 50% for each district meeting the legislative goal for countywide resource sharing as defined in the bill.
 12. Of the 56 counties statewide, there are seven counties that are composed of a single district and would not be able to qualify unless a multicounty agreement was formed. This leaves the remaining 50 counties school districts available for the opportunities of interlocal agreement created in this bill.
 13. For many counties that are composed of small school districts and those that contain only a few districts this proposal might be advantageous however, the OPI is unable to determine the number of districts this may

impact. For the purposes of this fiscal note, it is assumed 25% of the districts will engage in the provisions set forth in this bill proposal. There are currently 392 operating school districts in the state of Montana, seven are to be excluded, leaving the remaining 385 X 25% = 95 districts. The OPI has randomly generated a list of 95 districts assuring that they compose those concerned in county make up when considering the estimated state cost of interlocal agreements meeting the legislative intent to create additional quality educator payments.

14. Provisions in HB 567 allow districts to avoid requirements to reappropriate fund balances when district budgets are not fully expended by transferring funds to the multidistrict interlocal agreement. The effect of not having funds reappropriate is higher property taxes.
15. The bill allows transfer of permissive and voted budgeted funds to a nonbudgeted fund.

Fiscal Analysis Table

	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
<u>Fiscal Impact</u>				
<u>Expenditures</u>				
Quality Educator Component Payment	\$0	\$5,073,032	\$5,225,379	\$5,381,633
TOTAL Expenditures	\$0	\$5,073,032	\$5,225,379	\$5,381,633
Local Assistance	\$0	\$0	\$0	\$0
<u>Funding of Expenditures</u>				
General Fund (01)	\$0	\$5,073,032	\$5,225,379	\$5,381,633
TOTAL Funding of Expenditures	\$0	\$5,073,032	\$5,225,379	\$5,381,633
<u>Revenues</u>				
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u>				
General Fund (01)	\$0	(\$5,073,032)	(\$5,225,379)	(\$5,381,633)

Technical Concerns

1. Section 1, subsection 7, redefines a "multidistrict cooperative" to mean "a public entity created by two or more school districts executing a multidistrict agreement under this section with each other or with any other public or private entity participating in the cooperative and complying with the requirements of this section and other laws governing public schools in the state." It is unclear what the "other public or private entity" contributes to the agreement since school districts are to provide funding and keep the funding within their own district funding.
2. Sharing state public school funding with other public and private entities may be a conflict of state law.
3. Striking references to governance sections 20-9-703 and 20-9-704, MCA, allows for release of control of accounting practice and will increase the potential of data skewing when the state reports financial data to the federal Census Bureau, United States Education Department, and other federal agencies causing possible difficulties with federal calculations that contribute to the federal distributions of Impact Aid, Title I, IDEA, and others. It will also contribute to possible calculation conflicts with Federal Title I MOE, IDEA MOE, and state special education reversion determination.
4. Calculating countywide resource sharing incentives will require new data collection. The OPI currently does not collect this data and may not be able to identify districts within HB 567 created multidistrict interlocal agreements to determine who is to receive the incentives payments.
5. It is unclear as to the year the subsidy is to be distributed and may interfere with the district budgeting process. Knowledge the OPI will require will be needed in the fall of any given year to be incorporated into

the processes that are used to develop the district's required Preliminary Budget Data Sheets, distribution of funds would not occur until the ensuing year.

6. The requirement to receive the countywide resource sharing incentive, under proposed item 20-3-363(5)(b)(ii), MCA, will not be discernible until the finalization of trustee financial statements (TFS), if at all, as there is currently no methodology to identify these incentivization funds to have been transferred to the multidistrict agreement fund or if they had been utilized for joint funding and operation of the participating districts, as described in the section. Additionally, to receive the funds requires the expenditure of the funds. Having never initially received the funds will have the impact of never being permitted to receive the funds.
7. Proposed item 20-3-363(5)(b)(iii), MCA, states that all districts must contractually allocate an amount at least equal to each district's general fund direct state aid for the support of joint funding and operations among all participating districts. The bill fails to identify the year in which the district is to contractually allocate the direct state aid support.
8. OPI is required to may adjustments to district payment due to audit findings that could affect the direct state aid payment amount being transferred to the multidistrict interlocal agreement.
9. Proposed item 20-3-363(5)(b)(iv), MCA, allows for staff sharing among the districts. It is made unclear as to the purpose of calculating the quality education component payment. State purposed fund distribution for quality educators may not match that of the intent of legislation.
10. Proposed item 20-3-363(5)(b)(iv), MCA, allows for staff sharing among the districts. It is unclear for purposes of calculating the quality education component payment who counts the FTE. State purposed fund distribution for quality educators may not match that of the intent of legislation.
11. Proposed item 20-3-363(5)(b)(iv), MCA, allows for staff sharing among the districts. This could cause confusion on which school district is responsible for payroll taxes for the shared employees.
12. Proposed sub-section 20-3-363(7), MCA, is amended to allow multidistrict agreements with other public or private entities participating in the cooperative and complying with the requirements of this section and other laws governing public schools in the state. Clarity of funding participation of the public and private entities, resource sharing of staff, requirements for general equitable participation of these entities is needed. These entities do not receive direct state aid to be included in their share of participation of the multidistrict agreement. It is unclear how these entities will contribute to the agreement.
13. Clarity of sharing state funds for schools with public and private entities and the legislative intent of this inclusion is needed.
14. Seven counties in the state do not qualify to be participants in multidistrict interlocal agreements which may present equity opportunity concerns. Clarification in including these counties should be considered.
15. There is an error in the reference to Section 1 in Section 2, subsection (16)(b) where it refers to countywide resource sharing under 20-9-363 which should actually be a reference to 20-3-363, in section 1 of the bill.
16. The Interlocal Cooperative Fund under section 20-9-511, MCA, is a nonbudgeted fund to be established by the trustees of any district serving as a prime agency under an interlocal cooperative agreement under the provisions of 20-9-703, MCA, for financial administration of the interlocal cooperative agreement. HB 567 strikes the requirement for the multidistrict agreement funding to follow 20-9-703 and 20-9-704, MCA, and allows participating districts to keep their districts funds within their own interlocal cooperative fund with no designated prime agency. Amendments that remove the language that assigns a prime applicant under section 20-9-703, MCA, will deviate from both the trust function within the interlocal agreement fund and the requirement of districts to comply with GAAP under section 20-9-312, 2-7-503, MCA & 10.10.401, ARM.
17. HB 567 allows districts from a county to be included in another county's multidistrict interlocal agreement, thereby blocking the ability for the other county to be eligible for a countywide multidistrict interlocal agreement and qualifying the schools for incentive payments.

Sponsor's Initials

Date

NOT SIGNED BY SPONSOR



Budget Director's Initials

3/4/2025

Date