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**Montana's School  
Equalization Foundation Program -  
an Explanation of How it Works**

**Montana Education Association  
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Resource Center  
Office of Public Instruction  
Helena, MT.



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THE 1963 REVISION

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# Montana's School Finance Structure: The Foundation Program

*"It shall be the duty of the legislative assembly of Montana to establish and maintain a general, uniform and thorough system of public, free common schools."* — Article XI, Section I, Original Constitution of the State of Montana.

*"The legislature shall provide a basic system of free quality public elementary and secondary schools. . . . It shall fund and distribute in an equitable manner to the school districts the state's share of the cost of the basic elementary and secondary school system."* — Article X, 1972 Constitution.

*"The term 'Foundation Program' shall mean the minimum operating expenditures as established herein, that are sufficient to provide for the educational program of a school."* — Section 20-9-303, Montana Codes Annotated.

At the time of the adoption of the School Foundation Program by the legislature in 1949 a great inequality of educational opportunity existed in Montana. Children living in a relatively wealthy school district enjoyed the benefits of a good curriculum taught by well-qualified teachers. Those young people unfortunate enough to live in a poor district were denied many advantages deemed necessary in an up-to-date school program.

In a like manner, taxpayers who lived in a wealthy school district could, with relatively little effort, provide their children with excellent schools. Taxpayers living in a district with little taxable wealth per child were forced to establish tax burdens that were prohibitive and still could not provide many of the essentials for a good school.

Recognition of these inequalities in the ability of school districts and counties to finance public schools and the resulting inequalities of educational opportunity afforded Montana's children prompted the Montana Legislative Assembly in 1949 to enact legislation which has become known as the Minimum Foundation Program.

The Foundation Program of equalizing school costs was established upon these principles:

1. The over-all financial responsibility for public education should be shared by the state, the counties, and the local districts.
2. The financial contribution from these three sources should be used to provide a basic educational program for all the children in Montana public schools.
3. The Foundation Program should provide an adequate basic education program financed through district, county, and state contributions.
4. State financial support of this basic educational program would be limited by a schedule established by legislative action. The schedule should:
  - A. Provide an adequate school program without requiring additional permissive or voted levies;
  - B. Provide flexibility for variations in per-pupil costs in schools of different size;
  - C. Be subject to legislative adjustment to meet changing educational and economic conditions.
5. The state financial contribution would be distributed after a uniform financial effort was made by the districts and counties.
6. The state's obligation is to provide sufficient funds to make up the difference between the district-county financial effort and the amount needed to bring every school's program up to the basic level.

## THE FOUNDATION PROGRAM TODAY

The Montana Foundation Program Law has undergone three substantial legislative changes since its 1949 enactment: in 1963, in 1973, and in 1983. Although they changed the support structure significantly, the basic principles remain much the same. These changes were prompted by a desire to provide a broadened tax base in order to better fulfill the original goals of equality of educational opportunity and equalizing of tax effort in school support. The new 1972 state constitution mandated full funding of the state's share of the cost of education and guaranteed equitable distribution of that share. Impetus for the latest changes also came as the result of various court actions in other states which were directed toward the same

problems that brought about the original Montana law in 1949.

## THE 1963 REVISION

The 1963 change removed the local school district as the first level of Foundation Program support and instead utilized taxes from countywide levies for basic support. The basic elementary levies were changed from the former 5-mill district and 10-mill county levies to a maximum 25-mill countywide levy; the countywide levy for high school support was increased from the former 10 mills to a maximum of 15 mills. This broadening of the support base made possible a greater degree of sharing of taxes from all property within a county by all schools within that county. Also these increases in the county levies decreased the eligibility of wealthier counties for state equalization, in effect leaving more state money available for distribution to the poorer counties. It should be noted, however, that elimination of the basic district levy resulted in each district within a county receiving the same degree of state equalization regardless of relative district wealth, since equalizing among districts takes place at the county level.

## THE 1973 REVISION

The 1973 changes eliminated district and county wealth differentials as factors in Foundation Program support by utilizing the entire wealth of the state for full Foundation Program funding. The sources of funding are earmarked revenues from state individual and corporate income taxes, the earmarked portion of the state share of U.S. Oil and Gas royalties, earnings from state school lands and funds, and appropriations from the state general fund. (The 1975 legislature added earmarked revenue from the state coal tax to these sources.)

In making these changes the legislature recognized that the great differences in taxable valuation that existed in 1949 still exist, and that although the county offers a much broader tax base and therefore greater equality of tax effort, there are still substantial variations in taxable valuations per pupil. In 1976-77, for example, there were variations in district taxable valuation per student of more than twenty-eight hundred-to-one



overall and one hundred forty-to-one in schools of identical size. At the county level variations in property tax base per pupil are not as pronounced, but there are variations of more than thirteen-to-one between counties with almost identical student populations, and overall variations of almost twenty-nine-to-one.

### **THE 1983 REVISION**

The 48th Legislative Assembly, following the recommendation of an interim legislative study, approved an increase in the mandatory basic levies from 25 to 28 mills for elementary school and from 15 to 17 mills for high school (a total from 40 to 45 mills.) The allowable permissive levy amounts were reduced accordingly.

This change was a logical step in the historical progression towards greater equalization of tax effort and educational opportunity. The purpose of the change was to generate more surplus revenue from wealthy counties for redistribution to poorer counties through the Foundation Program. The original proposal was to make the permissive levy mandatory, thus imposing a uniform 55 mill tax statewide and creating a completely equal tax effort for the Foundation Program. Because of opposition from the energy resource industry (oil, gas and coal interests), the 45 mill compromise was adopted. Nevertheless, the legislation was an important step towards true equalization and raised several million new dollars in state equalization aid for the Foundation Program.

### **HOW IS THE FOUNDATION PROGRAM DETERMINED?**

The law sets forth a schedule which specifies the maximum amounts that may be budgeted per pupil without voted approval. The law designates 80% of these maximum schedule amounts as "Foundation Program" — supposed to be adequate to cover the cost of a basic educational program — according to the statutory definition quoted on page one. The other 20% of the schedule allowance is designated as "permissive" to be used at the discretion of the local school board.

The maximum amount which a school board is permitted to budget for a school's general fund without seeking voter approval is determined by multiplying the school's "ANB" by the appropriate schedule rate as set forth in the law.

The ANB (Average Number Belonging) for a school is determined by dividing the total days present and absent for all pupils by 180. Consecutive days absent over ten are not counted toward the ANB. The ANB used for a school budget is computed on the attendance figures from the previous school term. One-half ANB is allowed each kindergarten child over 5 years of age with advance ANB credit for new programs.

An important exception to ANB computation is for approved special education program. Advance budgeting is allowed for new or added special education programs which have been approved by the state superintendent. Rather than basing it upon ANB, special education is funded according to actual costs.

The 1974 legislature changed the method of budgeting for special education from an ANB-related budget allowance to an "allowable cost" system based on actual expenditures for the special ed program. Beginning in 1979-80, the 1979 legislature removed teacher retirement, public employee retirement, social security and unemployment compensation as allowable costs for special education and returned these direct costs to the counties' retirement funds. Starting in 1980-81, all administrative, library, operations, maintenance, insurance, building and rental costs were deleted from the special education budget. Also starting in 1980-81, each district receives a pro rata share of the available appropriations based upon its budget as a percent of all approved special education budgets. The amount of the approved budget in excess of the appropriation must be funded by a voted levy. Eighty percent of this appropriated cost is designated as foundation program. This amount is added to the ANB-based foundation program to determine the total foundation program for a school.

Under the law, the foundation program is fixed at 80% of each school's maximum budget-without-a-vote. As each school determines its maximum, it computes 80% of this as its foundation program. The equalization financing in which uniformly imposed statewide taxes are used, applies only toward the Foundation Program portion of the budget. The 20% of the maximum above the Foundation Program is financed by a permissive district levy and surplus state equaliza-

tion money, supplemented by moneys from a legislative appropriation when necessary.

### **HOW IS THE FOUNDATION PROGRAM FINANCED?**

The Foundation Program is financed by county and state funds. There are two levels of equalization. The Foundation Program law recognizes that there are great inequalities between districts within a county and between counties within the state in their ability to support schools. That is, some districts or counties may have a small school population and a high taxable value; while others may have a large school population and a low taxable value. Therefore, to equalize the educational opportunity for all Montana students, the law provides for two levels of equalization, county and state. The county money is used to equalize among districts within the county; state money is used to equalize among counties.

### **COUNTY EQUALIZATION FOR ELEMENTARY SCHOOLS**

The first revenue source that is applied toward a school's elementary Foundation Program is the money anticipated from county equalization. This money is derived mainly from the county elementary levy of 28 mills. Other sources of revenue to the county elementary school fund are the Taylor Grazing funds, county cash reapportioned and certain fines and forfeitures. The distribution of this county equalization fund is computed by each county superintendent and brings all elementary schools within the county up to an equal percentage of their Foundation Programs. In this equalizing process the taxpayers in a district having a low valuation per pupil would contribute less in taxes to the county equalization fund than their district school would receive from it. Conversely, the taxpayers in the wealthy school districts would contribute more to the county equalization fund than their own district school would receive from it.

If the proceeds from this uniform 28-mill county levy exceed the amount necessary to fully finance the Foundation Program for all elementary schools in the county, the surplus is transmitted to the state where it becomes a part of the state school equalization fund.



## COUNTY EQUALIZATION FOR HIGH SCHOOLS

The county equalization fund for high schools is provided by a separate county tax levy of 17 mills. The method of distribution of county equalization funds for high schools is the same as that used for elementary schools. Surplus in excess of a county's needs for its own high school Foundation Programs is transmitted to the state for inclusion in the state school equalization fund.

## STATE EQUALIZATION

If the proceeds from the required county levels prove inadequate to finance the Foundation Programs of all schools in the county, the schools turn to the state for the balance required to fully finance the Foundation Program.

Upon the basis of claims submitted by each county superintendent, the Superintendent of Public Instruction apportions the available funds to the schools of each county. This distribution is made on the basis of need. Counties having a low level of financial ability receive proportionately more from state equalization, while counties with a high per-pupil valuation produce more revenue from their county levies and therefore receive less from state equalization. Counties that are able to fully finance the Foundation Programs of their own schools from their county are not eligible for any state equalization. Presently those ineligible are a few sparsely populated, high property valuation counties in the energy resource rich areas of eastern Montana.

State equalization funds are derived from these sources: the state INTEREST AND INCOME money, 25% of the state INDIVIDUAL INCOME TAX, 25% of the CORPORATION LICENSE TAX, 62½% of the state's share of U.S. OIL & GAS ROYALTIES, 10% of the STATE COAL TAX, the SURPLUS from the COUNTY LEVIES, and an APPROPRIATION by the state legislature from the state GENERAL FUND.

The state interest and income money is derived from the INTEREST from the investment of the state permanent school fund and the INCOME from the management of the state school lands (leases for oil exploration, grazing, agricultural crops, minerals, etc.).

## STATE DEFICIENCY

If the estimated proceeds of the county 28-mill levy for elementary schools and the county 17-mill levy for high schools, plus the estimated state aid, are not adequate to finance the total of the state elementary Foundation Program and the state high school Foundation Program, the state superintendent determines the amount of the deficiency and requests the Governor's Budget Director to submit a request to the legislature for a supplemental appropriation to complete funding for the biennium.

## FINANCING BEYOND THE FOUNDATION PROGRAM

When a local board of trustees finds that the amount allowed by its Foundation Program will not meet the general fund budget needs of the school district, the trustees may impose limited tax levies on the district property. These amounts do not require a vote of the electors and are commonly called "permissive levies." They are limited by law to the Maximum Schedule amounts plus the approved allowable cost for special education. The "permissive area" of the budget refers to the other 20% of this maximum total above the 80% which the law designates as "Foundation Program."

Under this system, equalization of school taxes is extended to the full maximum budget schedule. The only variation in school general fund tax levies up to this level of budgeting will be in those districts requiring less than the 6 and 4 mill permissive levies. Beyond this level of budgeting, the only tax differentials will be those caused by variations in voted levies from district to district.

These elements in the support structure make possible a greater degree of equalized school taxes. However, it should be noted that if the statutory budget schedules were more adequate, the surplus would not occur and the state dollars would automatically reduce the unequal district voted levies thus accomplishing an even greater degree of equalization.

## HOW WELL HAS THE FOUNDATION PROGRAM METHOD OF SCHOOL FINANCE WORKED?

In general Montana's Foundation Program has made possible great im-

provements in educational opportunity for Montana's children. Prior to its enactment there were many low valuation districts in which it was impossible to finance an adequate school program without confiscatory tax levies. In many of these districts tax levies are still below the level required in the years before the Foundation Program was enacted. In other districts levies are far below the level that would be required without the Foundation Program financing. This has been made possible because state equalization dollars have taken the place of local property tax dollars.

## HAVE THE FOUNDATION PROGRAM SCHEDULES MET THE FINANCIAL NEEDS OF OUR SCHOOLS?

The costs of operating schools have increased just as have the costs of everything else. In each session of the legislature since the enactment of the original Foundation Program schedule it has been necessary to seek an increased schedule. Although increases were granted each session, at no time were they sufficient to meet the financial needs of our schools. As a result, the increasing financial burden has been placed on the local district taxpayer in the form of permissive and voted levies necessary to provide an adequate minimum education program for every Montana school. The following tables indicate the inadequacy of Foundation Program increases to meet rising costs and the increased reliance on voted levies in recent years. These figures indicate that most schedule increases granted by recent legislative sessions have not been adequate even to maintain the status quo. Because of rising inflation coupled with declining ANB in many schools, the increases have proven inadequate and compel even heavier reliance on voted levies during each school year.

With our widely varying tax base per pupil and widely varying costs per pupil, this heavy reliance on voted levies defeats the principle of equal educational opportunity and equalized school support. If the voted levy requirements become so high that rejections occur and basic educational programs are curtailed in some schools, Montana faces the prospect of court actions brought by parents on the basis of educational inequality parallel to recent cases in other states.



The problem in Montana is not one of structure, but primarily the inadequacy of state-support budget schedules to meet actual costs, thus forcing substantial burdens back on local voted district levies. School trustees have no choice but to seek additional levies from the voters because state-mandated education standards require them. The Basic Quality Education determined through state Board of Education accreditation standards cannot be funded fully by current budget schedules. And most districts try to provide more than a basic curriculum to their students.

HOW WELL HAS THE  
FOUNDATION PROGRAM  
METHOD OF SCHOOL  
FINANCE WORKED



# MONTANA PUBLIC SCHOOL GENERAL FUND BUDGETS

## (Special Education Funding Excluded)

Elem.	H.S.	1 Increase in Budget Schedules		2 General Fund Without-a-Vote		3 Permissive	4 Voted Levy	5 General Fund Budget Total	6 Foundation Program	7 % of GFB Permissive	8 Voted Levy	9 ANB (Previous Year)	10 GFB Per ANB	11 CPI (U) (Dec.)	12 Teacher Salaries Mont. N/T Average Rank	13
		7.4%	6.8%	\$	%											
1974-75		\$97,866,000	+14.0%	\$24,428,000	+13.9%	\$41,317,000	+19.0%	\$163,611,000	59.8%	14.9%	25.3%	177,028	\$ 924	155.4	\$10,230	28
1975-76		111,548,000	+11.2%	27,826,000	+11.3%	49,153,000	+9.2%	188,527,000	59.2%	14.8%	26.1%	174,451	1,081	166.3	11,150	29
1976-77		124,068,000	+5.9%	30,969,000	+5.9%	53,652,000	+13.3%	208,689,000	59.5%	14.8%	25.7%	171,944	1,214	174.3	12,053	27
1977-78		131,422,000	+5.9%	32,791,000	+5.9%	60,790,000	+8.6%	225,003,000	58.4%	14.6%	27.0%	170,117	1,323	186.1	12,668	30
1978-79		139,160,300	+4.8%	34,733,600	+4.8%	66,021,999	+21.8%	239,914,900	58.0%	14.5%	27.5%	167,664	1,431	202.9	13,651	29
1979-80		145,821,700	+6.6%	36,390,200	+6.7%	80,387,000	+22.0%	262,598,800	55.5%	13.9%	30.6%	163,276	1,608	229.9	14,680	27
1980-81		155,389,000	+15.0%	38,821,500	+14.9%	98,084,000	+4.9%	292,294,500	53.2%	13.3%	33.5%	158,185	1,848	258.4	15,967	29
1981-82		178,633,000	+13.6%	44,610,000	+13.6%	102,938,000	+4.2%	326,181,000	54.8%	13.7%	31.5%	154,256	2,115	281.5	17,770	28
1982-83		202,986,000	+3.2%	50,696,000	+3.1%	107,289,000	+14.6%	360,971,000	56.2%	14.0%	29.7%	152,386	2,369	292.4	19,702	26
1983-84		209,409,000	+3.5%	52,288,000	+3.6%	122,925,000	+17.9%	384,622,000	54.4%	13.6%	32.0%	150,711	2,552	303.5	20,690	26
1984-85		216,791,000		54,174,000		144,987,000		415,952,000	52.1%	13.0%	34.9%	151,231	2,751	315.5*	21,705*	

GFB = General Fund Budget (total)  
 ANB = Average Number Belonging (enrollment)  
 CPI = Consumer Price Index

\* estimated



**FIGURE 2  
SOURCES OF REVENUE  
FOR SCHOOL DISTRICT GENERAL FUND BUDGET SUPPORT**

TOTAL GENERAL FUND BUDGET	DISTRICT	District Voted Levy (property tax approved by district voters — about 1/3 of total fund budget).
MAXIMUM GENERAL FUND BUDGET WITHOUT A VOTE (PERMISSIVE BUDGET)*		STATE
	DISTRICT	District Permissive Levy 6 mills maximum - elementary 4 mills maximum - high school (property tax approved by school board)
FOUNDATION PROGRAM (80% of the Maximum Permissive Budget)	STATE	Deficiency - Supplemental legislative appropriation if needed
	STATE	State Equalization Aid (earmarked revenue, legislative appropriation, interest and income, and surplus from counties)
	COUNTY	County Equalization Mandatory Basic County Levy 28 mills - elementary 17 mills - high school Taylor grazing fees Miscellaneous county collections County cash reappropriated  (surplus deposited in state equalization aid account)

\*NOTE: "Maximum Permissive Budget" is determined by multiplying the per-pupil rate set forth in the law times the school's ANB and adding to this figure the approved allowable costs for special education.