

**K-12 PUBLIC SCHOOL FUNDING IN MONTANA:
A Report to Governor Judy Martz from the
Education and Local Government Interim Committee**

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INTRODUCTION

The 57th Montana Legislature passed House Bill No. 625 that called upon the Governor and the Superintendent of Public Instruction to conduct a study of funding for K-12 public schools in Montana. In the summer of 2001, Governor Martz appointed the K-12 Public School Funding Advisory Council to conduct the study. The Advisory Council was composed of members knowledgeable about school funding and property taxation.¹ The Advisory Council drew upon the expertise of the Office of Public Instruction, the Legislative Fiscal Division, the Office of Budget and Program Planning, and the Department of Revenue. A preliminary report with recommendations was completed and submitted to the Education and Local Government Interim Committee on December 31, 2001. Following receipt of the preliminary report, the Committee held public hearings across the state to take comments on the recommendations.

On July 11, 2002, the Committee met in Helena to review the comments from the public hearings and to make recommendations to the Governor regarding the proposals of the Advisory Council. A summary of the hearings and the Committee's recommendations must be forwarded to Governor Martz by August 1, 2002. This report fulfills that requirement.

The report is divided into two parts. The first part is a summary of the comments that were received at the public hearings on each of the recommendations of the Advisory Council. The second part contains the recommendations of the Committee.

¹The members of the Advisory Council were Jeff Hindoién, Office of the Governor; Madalyn Quinlan, Office of Public Instruction; Kirk Miller, Board of Public Education; John McNeil, Superintendent of Savage Public Schools; Geoff Feiss, Helena School District trustee; Rachel Vielleux, Missoula County Superintendent; Sandra Murie, Superintendent of Rocky Boy Public Schools; Linda Tutvedt; and Dennis Burr.

PART ONE

Public Hearings

From March through May, the Committee held nine public hearings all across Montana:

March 11:	Shelby
March 12:	Great Falls
March 13:	Lewistown
April 2:	Miles City
April 3:	Wolf Point
April 17:	Billings
April 18:	Butte
May 21:	Stevensville
May 22:	Kalispell

Press releases were issued prior to each public hearing in order to encourage public participation. The releases were sent to the major dailies in each area where the public hearings were held, as well as the weekly newspapers in the surrounding areas. In addition, the Montana Taxpayers Association, the Office of Public Instruction, and various education organizations advertised the hearings in their publications and electronically.

Each hearing began with a PowerPoint presentation by the Advisory Council, after which members of the public were given the opportunity to voice their comments and ask questions. The hearings were very well attended, with the possible exception of the Butte hearing where the turnout was low due to a spring snowstorm. About 50-70 people attended each of the other hearings. Each hearing lasted approximately 2 1/2 hours.

Participation was excellent. People were anxious to share their thoughts on the recommendations and on the state of public education in Montana in general. Most of the people who spoke at the hearings were affiliated with public education in one way or another: trustees, superintendents, administrators, teachers, or parents. While there were some concerns expressed by Committee members that they did not hear from ordinary taxpayers, it is important to remember that those who did speak were also taxpayers. County Commissioners attended and spoke at two or three hearings, and local legislators also attended and spoke at most of the public hearings.

Although there were common threads throughout all of the testimony at every hearing, each hearing had a different emphasis. In Lewistown, speakers were very concerned about declining enrollments and teacher shortages. In Wolf Point, health insurance and countywide equalization were important issues. Lack of funding for special education and its impact on a district's general fund dominated the discussion at Butte. In Billings, the problems facing AA

districts took center stage. In western Montana, concern over the adequacy of school funding was voiced by many speakers.

At every hearing, the major issue was a lack of funding for schools in Montana. This was heard over and over again by the Committee. The Advisory Council was applauded for accomplishing so much in so little time and with so few financial resources. Many people said that originally they were very skeptical about what the Advisory Council would be able to accomplish. As a result, the Advisory Council's recommendations were generally supported by the people attending the hearings, but only as a beginning step to solving the long-term funding problems. However, others labeled the recommendations as band-aids or temporary solutions that if enacted would lull taxpayers into assuming that education's funding problems were solved and no further work was necessary. Still others expressed concern that the recommendations simply shifted money around without addressing the underlying problem of a lack of adequate funding. A school trustee from Corvallis suggested that every legislator be required to listen to the presentation by the Advisory Council so as to better understand what school districts are facing. A speaker in Kalispell praised the recommendations but questioned whether they would be sufficient to stave off a lawsuit by school districts over the inadequacy of school funding. Overall, people attending the hearings were grateful that the issue of school funding was being addressed by the Governor and the Legislature, but questioned whether either one would follow through with the recommendations.²

Summary of Comments on Recommendations

Recommendation No. One: Create a countywide levy to fund the property tax portion of the BASE budgets of all school districts in a county.

This recommendation garnered the most opposition of any of the recommendations. The opposition was the strongest in eastern Montana, especially in Wolf Point. Opponents feared that a countywide levy would lead to a loss of local control of schools and local support for schools (i.e., mill levies). Some opponents voiced a distrust of other school districts and feared that local taxpayers would balk at paying taxes for these districts. Districts with significant nonlevy revenue were concerned about sharing that revenue with other districts. The issue of consolidation was also raised with opponents saying that a countywide levy would lead to consolidation to the detriment of students.

Support for the recommendation was lukewarm at best. Most supporters believed countywide equalization was probably a good thing, but they had some concerns such as loss of local control and a failure to truly equalize. There was considerable support for statewide equalization in place of countywide equalization.

²The tape recordings and written minutes of all of the public hearings are available from the Legislative Services Division.

Recommendation No. Two: Expand county retirement levy to fund district health insurance costs. Pursue the establishment of a state health insurance pool for school district employees; require all school districts to participate in the pool.

A major theme all across the state was that health insurance costs are out of control and the issue of health insurance is fast approaching crisis proportions. Over and over again, the Committee heard from districts that have had to dramatically increase their health insurance premiums with resulting increases in the out-of-pocket expenses for employees. Some districts have had to forego offering health insurance due to the exorbitant costs. Health insurance costs have also had an adverse impact on the recruitment of teachers.

Support for funding health insurance through the county retirement levy was mixed. People were concerned that use of the retirement levy would simply shift the cost from the state to the local taxpayers. Support for this idea centered on freeing up a district's general fund for other purposes, such as increasing teacher salaries or expanding programs.

There was good support for the creation of a statewide health insurance pool. One suggestion was a pool for all local government employees, including school districts. This is a proposal currently being investigated by the Montana Association of Counties. Some supporters suggested that school district employees be included in the state employees' health insurance plan.

A county superintendent from a rural county cautioned the Committee to carefully consider small rural districts before making any recommendations on a statewide pool. Creation of a pool would mandate that every district offer health insurance; this could be costly for rural districts with very limited budgets.

Recommendation No. Three: Use a weighted GTB calculation for both the countywide BASE budget levy and for the county retirement/insurance levy.

There were no comments specific to this issue.

Recommendation No. Four: Adopt the transportation funding structure proposed in House Bill No. 163 from the 2001 Legislative Session.

There were no comments specific to this issue.

Recommendation No. Five: Calculate the ANB for a district with declining enrollment by using average enrollment over a 3-year period.

This recommendation received general support across the state. However, some saw it as merely a short-term solution to Montana's school funding problems. Those few districts experiencing increasing enrollments wanted to be sure that they would not be forced to average their ANB. A trustee from a large AA district suggested that a district be allowed to break out its ANB calculations by K-6, 7-8, and high school, rather than counting all of the ANB together.

No one voiced any opposition to this recommendation.

Recommendation No. Six: Provide an annual inflation factor tied to the Consumer Price Index for the basic entitlement, per-ANB entitlement, and special education funding.

This recommendation was generally supported, although there was some opposition to using the Consumer Price Index (CPI). The recommendation was seen as a short-term solution, but at least it would provide some predictability for school districts in setting their budgets. Some people commented that greater increases than the CPI were necessary because state funding had failed to keep up with inflation in the past. Others feared that an inflation factor would merely freeze current shortages into place.

The Montana School Boards Association (MSBA) offered support for the concept of an annual inflation factor but said that use of the CPI was inappropriate for schools. MSBA offered evidence that a more appropriate measure was the School Price Index that is designed specifically for schools.

Recommendation No. Seven: Use the HB 124 block grants for debt service to expand school facility payments to all low-wealth school districts that have outstanding general obligation bonds and to increase the school facility payment.

There were no comments specific to this issue.

Recommendation No. Eight: Allow school district trustees to allocate the remaining balance of a district's HB 124 block grants to any budgeted fund of the district.

There were no comments specific to this issue.

Areas for Further Study

Further pursue the concept of a comprehensive study of the adequacy of school funding in Montana.

The issue of adequacy was of major importance in Stevensville and Kalispell, although it was also mentioned at the other hearings around the state. Almost every speaker in Stevensville and Kalispell addressed the issue in one way or another. Some people said that adequacy is the major issue in school funding in Montana and expressed disappointment that the Council did not address adequacy. Several references were made to the adequacy study currently being conducted by Augenblick and Myers for the Montana Quality Education Coalition. The Committee was asked to please look at the results of the study and to address the issue of funding adequacy during the next regular Legislative Session.

Further explore the concept of creating a single Capital Projects Fund within a school district's budget.

There were no comments specific to this issue.

Further pursue the recommendations of Governor Racicot's Task Force on Teacher Shortages/Teacher Salaries.

The recruitment and retention of qualified teachers was discussed at every single public hearing. Many people expressed dismay that the Advisory Council did not address this issue in a more direct manner. Trustees and administrators talked about how the pool of qualified teachers is rapidly drying up due to poor salaries and benefits. Students coming out of the teacher education programs in the state are leaving immediately for higher paying jobs out of state in order to begin easing their debt load. Teachers approaching retirement are also leaving the state for higher paying jobs. Teachers themselves talked about how they struggle to raise families and educate their own children on a teacher's salary. Many had college-age students whom they were encouraging to either seek a profession other than teaching or to leave the state for higher-paying teaching positions. One teacher in Lewistown said that even though he received a \$1,200 salary increase for next year, his health insurance premium is going up 20%. As a result, he will make less next year than he is making this year; in fact, the longer he teaches, the less he makes.

While the problem of teacher recruitment and retention has plagued small districts for some time now, larger districts are also beginning to feel the pinch.

Some of the solutions offered included loan repayment programs for new teachers, salary portability, and changes to the teachers' retirement system to either allow teachers to teach longer or to come out of retirement without suffering penalties. A statewide teachers' salary schedule generally met with a mixed reaction.

Other Issues

There were many other issues relating to school funding that people discussed at the public hearings, such as revenue sources, special education, state/local share of funding, and accreditation and certification standards, as well as many other miscellaneous issues.

There was a general consensus that finding an additional revenue source for school funding is imperative; relying solely on property taxes is no longer viable. Some alternative sources that were identified included a statewide sales tax with proceeds dedicated to education and property tax relief and some sort of resident rebate or income tax deduction, a tourism tax, a local sales tax, and a flat fee on income tax. To relieve health insurance costs, a 1/2-cent payroll tax was proposed. The coal tax trust fund was also mentioned as a source of support for the statewide health insurance pool. Some speakers advocated that the districts be allowed to keep the savings generated by declining enrollments rather than returning the money to the state general fund. As with other issues, many speakers expressed dismay that the Council did not talk about revenue.

Special education costs generated a lot of discussion at the various hearings. The biggest issue surrounding special education was the federal government's failure to fully fund special education at the promised 40 percent. In addition, schools are seeing an increase in children who are emotionally disturbed or have other special needs who do not qualify for special education services. However, when asked if Montana should refuse to offer special education services or cut back services if the federal government does not fund them properly, the answer was a resounding "no".

The issue of "who should pay what" also generated a lot of discussion among hearing attendees. Many people expressed concern that the state share of school funding was dropping, leaving local taxpayers to pick up the slack. In addition, many of the recommendations further shifted costs on to the local taxpayers. Some speakers felt that the Advisory Council should have addressed the issue of an appropriate state/local share of funding.

There was strong support for the current school accreditation and teacher certification standards. Those who spoke on the issue stressed the need for high standards to ensure a quality education for Montana's students. One speaker asked for more counselors and vocational education, while another advocated all-day kindergartens. An administrator in Kalispell asked the Committee to look at a separate accreditation category for small schools. There was some discussion of an alternative certification process for teachers, particularly for people with college degrees who want to go into teaching later in their careers.

There were many comments on school funding in general. Many people felt that the current school funding formula was inherently flawed and that it was time to create a new formula. Other speakers expressed concern over the poor physical condition of some schools and the need to address the problem. One person in Stevensville spoke to the incredible inequities in funding between services for the gifted and talented and special education services. In Ravalli County, where almost every school district is still at the BASE of 80%, administrators and trustees claimed that 80% is too low because at 80% districts cannot meet the minimum accreditation standards. Continually cutting services and support staff and increasing class sizes were also concerns expressed by a number of speakers.

People asked the Legislature and the Governor to put education first by funding it first, not last. Many speakers stressed the connection between economic development and a sound educational system and expressed concern that if the state is not willing to spend money on education, we cannot provide educated employees for business and industry.

In summation, the people who attended and spoke at the public hearings supported public education, stressed the need for more adequate funding for schools, for the most part supported the recommendations, and asked that education be made a priority by both the Legislature and the Governor.

PART TWO

Committee Discussion

On Thursday, July 11, 2002, the Committee met in Helena to review the comments from the public hearings and to formulate its recommendations to Governor Martz. Prior to making its final recommendations, the Committee by consensus decided to offer positive motions for those recommendations it supported but to offer no motions on those recommendations that lacked support. However, the report to Governor Martz was to include the reasons for the nonsupport. The Committee discussed each of the Advisory Council's recommendations in depth. The discussion was thought-provoking and wide-ranging.

Recommendation No. One: The Committee felt that when dealing with school funding, county lines were educationally irrelevant; a statewide levy is more relevant. The Committee also drew a distinction between equalization of funding and equalization of tax effort. House Bill No. 667 from the 1993 Legislative Session (the legislation that created the current school funding formula) equalized spending but not effort, and it is time for the state to move in that direction. Therefore, in place of Recommendation No. One, the Committee opted to support a statewide levy to fund the BASE budgets of school districts. Coal, oil, and gas revenues would be used to offset the statewide levy and all other nonlevy revenue would be put into the over-BASE budget of a district. The Committee also recommended a 5-year phase-in of the statewide levy.

Recommendation No. Two: The Committee felt that including health insurance in the county retirement levy would not solve the health insurance problems being experienced by school districts all across the state. In fact, the proposal simply shifted the problem and would result in a tremendous tax increase for local taxpayers. However, the idea of a statewide health insurance pool was very attractive. The Committee discussed a number of issues surrounding the creation of a pool: Will all districts be mandated to offer health insurance if they are not offering it now? Should districts be allowed to opt out of the pool? Would districts be allowed to bargain with their employees to offer more than the benefits available through the pool? What about bringing school employees into the state employees' health insurance plan? What would be a source of revenue for the pool other than property taxes? After much lively discussion, the Committee simply supported the creation of a statewide health insurance pool for school district employees.

Recommendation No. Three: Because this recommendation was tied to Recommendations One and Two, the Committee did not give it any consideration.

Recommendation No. Four: Although this recommendation received no comments during the public hearing process, the Committee members engaged in a lively debate over school transportation. In the end, they voted to support the recommendation.

Recommendation No. Five: This recommendation was strongly supported as a viable option for addressing the problem of declining enrollments. Almost two-thirds of the districts in Montana are suffering this problem, and enrollments are projected to continue decreasing at least through 2013. The question was asked if it was equitable to average ANB for declining enrollments but not for increasing enrollments. There is currently a provision in Montana law for districts that experience a sharp increase (6%) in enrollment from one year to the next to receive additional funding. However, this mainly benefits small school districts. Because there are many situations where the state treats school districts differently in different situations, the Committee felt there was not an inequity problem with the recommendation. The Committee voted to support 3-year averaging of ANB for school districts with declining enrollments.

Recommendation No. Six: The debate on Recommendation No. Six centered on the use of the Consumer Price Index (CPI) as the measurement. The School Price Index (SPI) was offered as an alternative because the SPI better reflects the purchase of goods and services by schools than the CPI does. CPI is based on purchases by individuals, not by organizations or institutions. The Committee felt that the issue at hand was to cover costs related to inflation, not the inflation measurement. While the SPI may be more appropriate, it may be a "hard sell" in the Legislature. CPI is a more familiar concept. The Committee voted to adopt the recommendation.

Recommendation Nos. Seven and Eight: Both of these recommendations were adopted by the Committee with little or no discussion.

Areas for Further Study: The Committee concurred that the three areas identified for further study in the Advisory Council's preliminary report warranted further study.³

Committee Recommendations

After over 2 hours of discussion and debate, the Committee adopted the following recommendations:

1. Create a statewide levy to fund the property tax portion of the BASE budgets of all school districts in the state. School district nonlevy revenue from oil, gas, and

³The tape recordings and the written minutes of the July 11, 2002, meeting of the Committee are available from the Legislative Services Division.

coal production and the district general fund portion of the HB 124 block grants will be used to reduce the state BASE budget levy. All other nonlevy revenue, including fund balance reappropriated, will be used to reduce a school district's over-BASE levy. The statewide levy will be phased in over a 5-year period.

2. Pursue the establishment of a state health insurance pool for school district employees.
3. Adopt the transportation funding structure proposed in House Bill No. 163 from the 2001 Legislative Session.
4. Calculate the ANB for a district with declining enrollment by using the average enrollment over a 3-year period.
5. Provide an annual inflation adjustment tied to the Consumer Price Index for the basic entitlement, per-ANB entitlement, and special education funding.
6. Use the House Bill No. 124 block grant for debt service to expand school facility payments to all low-wealth school districts that have outstanding general obligation bonds and to increase the school facility payment.
7. Allow school district trustees to allocate the remaining balance of a district's House Bill No. 124 block grants to any budgeted fund of the district.

These recommendations have now been forwarded to Governor Martz for her consideration. If deemed appropriate, the Governor can request that all or some of the recommendations be prepared as legislation for the 2003 Legislature. Should the Governor choose not to recommend legislation, the Committee reserves its right to request legislation based on the recommendations.

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