



Education and Local Government Interim Committee

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57th Montana Legislature

SENATE MEMBERS

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FISCAL ANALYST

April 3, 2002

MINUTES

Wolf Point High School
Wolf Point, Montana

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed. Committee tapes are on file in the offices of the Legislative Services Division. **Exhibits for this meeting are available upon request. Legislative Council policy requires a charge of 15 cents a page for copies of documents.**

COMMITTEE MEMBERS PRESENT

Sen. Linda Nelson
Rep. Joan Anderson

Sen. Edward Butcher
Sen. William Glaser
Sen. Don Ryan

Rep. Gary Branae

COMMITTEE MEMBERS ABSENT

Sen. Alvin Ellis
Sen. Debbie Shea
Rep. Gay Ann Masolo
Rep. Tom Facey
Rep. Art Peterson
Rep. Jeff Mangan

STAFF PRESENT

Connie Erickson, Research Analyst
Eddy McClure, Attorney
Miko Owa, Secretary

VISITORS' LIST

Visitors' list (ATTACHMENT #1)

CALL TO ORDER AND ROLL CALL

The meeting was called to order at 7:00 p.m. by Sen. Nelson. Roll call (ATTACHMENT #2) was noted with all members present except for Rep. Masolo, Rep. Peterson, Rep. Facey, Rep. Mangan, Sen. Ellis, and Sen. Shea who were excused.

PRESENTATION OF SCHOOL FUNDING STUDY FINDINGS AND RECOMMENDATIONS

Jeff Hindoién, Governor's Office, and Amy Carlson, Office of Budget and Program Planning, made a PowerPoint presentation to the public on the work of the Governor's Public School Funding Council (EXHIBIT #1). The presentation included a history of the study, the work of the Council, and the final recommendations.

The recommendations of the Council are as follows:

1. Create a countywide levy to fund the property tax portion of the BASE budgets of all school districts in a county.
2. Expand the county retirement levy to fund district health insurance costs.
3. Pursue the establishment of a statewide insurance pool for school district employees and require that all school districts join.
4. Use a weighted GTB calculation for both the countywide BASE budget levy and for the county retirement/insurance levy.
5. Adopt the transportation funding structure proposed in HB 163 from the 2001 legislative session.
6. Calculate the ANB for a district with declining enrollment by using the average enrollment over a 3-year period.
7. Provide an annual inflation adjustment tied to the Consumer Price Index for the basic entitlement, per-ANB entitlement, and special education funding.
8. Use the HB 124 block grant for debt service to expand school facility payment to all low-wealth school districts that have outstanding general obligation bonds and to increase the school facility payment.
9. Allow school trustees to allocate the remaining balance of a district's HB 124 block grants to any budgeted fund of the district.

The Council also looked at the issue of school district consolidation and found:

- no compelling evidence that reducing the number of districts would save costs; and
- no current significant "disincentives" to consolidation, except tax levels.

The Council encouraged school districts to look at the consolidation of education services when it benefits the students. Some examples of such a consolidation are greater use of distance learning technologies and cooperative arrangements among districts for administrative and educational services.

The Council recommended further study in three areas:

1. adequacy of school funding;
2. combining funds for bus depreciation, building, building reserve, technology acquisition, and lease or rental agreements into a capital projects fund; and

3. teacher shortages and teacher salaries.

A copy of the "Governor's K-12 Public School Funding Study Advisory Council Report and Recommendations" (EXHIBIT #2) was provided to the members of the public in attendance. Ms. Carlson also posted maps (EXHIBIT #3) for the public to view to show the changes in the mills for each county under Recommendation #1.

PUBLIC COMMENT

Sen. Sam Kitzenberg said that overall he is disappointed and that another \$10 million should have been spent on education in Montana. He said due to declining enrollment and a lack of money, schools have been closed, therefore forcing larger class sizes at the remaining schools. He also said that the biggest issue wasn't adequately addressed which is who is going to teach in Montana. He would also have liked to see a statewide teacher salary schedule. Sen. Kitzenberg said that he has always believed in an inflation index and his feedback from the legislature was that they did not want to support that. He also said that there needs to be increased funding for health insurance. He also provided some personal examples of increased health care costs. He said that he wished the panel would have been bolder.

John McNeil, Superintendent, Savage Public Schools, spoke on behalf of his trustees and said that health insurance is a huge issue and the uncontrolled cost is eating up the general fund. He said that they would like the Committee to consider the county wide insurance fund and the state wide pool as well as the rest of the Council's proposal. He said that they would like to suggest that the savings to the state general fund from loss of enrollment should be approximately \$30 million. He said that \$18 million could be used for the 2%/2% increase and cover the cost of inflation in the schedules. He said that \$12 million could be used to put the 3-year averaging in. Mr. McNeil said that the retirement fund is a huge cost and could be approached with a county wide levy and treat it as a retirement fund. The Council was approached by a trustee from Billings who suggested a \$0.05 payroll tax and using that to offset the cost to counties for the health insurance pool. Mr. McNeil said that if insurance was handled through a levy rather than the general fund, that will directly impact the amount given to teachers. Moving retirement costs to the county will free up about 10% of a school districts general fund.

Paul Huber, Superintendent, Bainville, said that his son will not go into teaching because of a lack of money. He said that the \$0.05 payroll tax is a wonderful way to fund health insurance. He said that he would also like the sales tax implemented with some type of rebate when your income tax was filed. He said that for the statewide insurance pool, the coal trust fund could be used and then paid back. Mr. Huber said that consolidation of school districts is not always the answer. You need to look at where students live and how far they have to travel. He also said that rural schools face additional costs to bring in maintenance workers from larger cities because the resources are not available.

Dave Kloher, Superintendent, Medicine Lake, concurred with the previous statements and said that his area is losing \$62,000 per year in the general fund and health insurance has increased again.

Steven Smith, Teacher, said that the \$300 average that is being paid for health insurance according to the Council's numbers is incorrect because their school district is paying

considerably more. He also provided to the Committee health insurance costs from 1999-2001 (EXHIBIT #4). He said that health insurance is a huge problem and that the problem should have been addressed ten years ago. He said that the county wide levy and the statewide pool are wonderful ideas. **Madalyn Quinlan, Chief of Staff, Office of Public Instruction**, said that the comment about the \$300 per employee is the school district contribution toward insurance. Mr. McNeil said that the state contribution is \$365 and that is what can happen with a pool of that size. The cost of insurance per employee goes down. He said to make health insurance economic, school districts need to join a pool. Sen. Ryan said that a pool does make sense. However, Great Falls has a rate stabilization fund to pay extra costs rather than increasing premiums. He said that Great Falls has a large enough pool to defend against insurance companies trying to raise premiums.

Mike Hammond, School Board Member, Whitewater, said that we need to access the sales tax and coal trust fund. He said he is disturbed that we are always trying to make things equal. He said that trying to make everything equal hurts a large number of people. He said that there are lots of voluntary tax payers in small school districts and if you make it countywide, they will no longer pass mill levies because they will no longer have control. He said that state equalization for teachers salaries' would be a killer for Eastern Montana. He said that the problem with less ANB is it doesn't cut the costs.

Nancy Jansen, Plentywood, said that the state pool is a good idea. She asked if the panel considered state wide equalization rather than county wide equalization. Mr. McNeil said that they did look at state wide equalization, and some counties would be hit a lot harder with statewide equalization rather than county wide equalization. He said that the Council looked for middle ground to resolve the tax payer equity issue.

Sen. Nelson said that they have heard about health insurance across the state and it is a big issue.

Sandy Stellflug, Superintendent, Saco, went back to the tax payer equity issue and said that that is not an issue for everybody. She said that they will do anything to keep the schools going as long as they know that the money is going to their school because that is what keeps their town alive. She said that the Council is taking away the local control from the local person who is paying the bills. She said that the whole issue of equity in taxes isn't an issue in the small towns. Ms. Quinlan said that the mills that the Council is talking about equalizing is only for the base budget. Mr. McNeil said that in the transition, non-levy revenue, tuition, and interest income go into the overbase budget area. He said that what is being aggregated is the remaining balance of the base budget. Ms. Stillflug said that that takes away the non-levy revenue and spreads them around the whole county and local taxpayers will lose control. Ms. Quinlan said that counties will lose the oil, gas, and coal money. But interest earnings and other non-levy revenue will be used to fund the overbase budget of the district. Ms. Stillflug said that this is one more way that counties get money stolen from their district and used somewhere else. She also said that the county will pay a penalty for that because the base budget will be reduced.

Glen Monson, Glasgow, said that the future of Northeast Montana is young families. He said that they haven't been able to negotiate salary increases for the last 4 years and our health insurance is going up 38%. Teachers are paying \$600 per month for health insurance. His district saw a budget decline of \$250,000 this year. He said that families are not going to stay in

small towns when they can make more money almost anywhere which leads to declining enrollments as well. He said that there is a \$120,000 deficit for MUST and until that deficit is paid, teachers cannot move to another insurance plan. He said consolidation is not the answer because they would be taking jobs in other small communities and smaller towns would disappear. However, he did say that the payroll tax is a good idea.

Dean Harmon, County Commissioner, Roosevelt County, said that he supports the concept of health insurance pooling and said that the Montana Association of Counties (MACo) is looking at becoming part of the state pool. He would like to see that expanded to all local government employees as well. He said in reference to equalization, he does not want to help fund other counties. He asked about 874 money and how that works into the equalization equation. Mr. Hindoien said that impact aid receipts were not taken into consideration. Mr. McNeil said that we could not factor it in at this point in time because of federal law. Mr. Harmon asked what the net result would be in Roosevelt county. Ms. Carlson said that the net total would be the same for the county, but there would be differences within the county.

Paul Wagner, Superintendent, Richey, said that in reference to insurance, we are destroying some of the equitable things that have been established. He said that the insurance is high because medical costs are high. He said that it seems that in this society we are moving toward socialism and we should put a cap on the amount of punitive damages that can be paid out.

Sen. Nelson said that there is a separate committee in the legislature that is looking at the cost of health insurance and the reason for the increases.

Sen. Kitzenberg said that he would like to see some bold leadership in Montana and advocated a 4% sales tax, 2% of which to go to schools and 2% to go to property tax relief. He said that the 2% for schools should be divided between the state teacher's salary schedule and the university system. He would also like to see tax reform in the state of Montana. He asked the Committee to take a look at the funding formulas in Nevada and North Dakota, as they may address rural issues better than the Montana formula.

Carl Somers, Principal, Glasgow, said that it looks as if the Council is simply shifting money. He said that he likes Sen. Kitzenberg's ideas but he doesn't feel like the Governor will support any new taxes. He proposed a merit tax for every state tax payer which would reimburse state residents for purchases with a sales tax. He said that we saw \$1.6 billion in tourism go through our state and not pay any tax. He said that more towns are going to the local sales option tax but it doesn't help the education issue.

Paul Hubert Bainville, said that as schools get bigger, more money will have to be spent on youth court probation. Small schools do a better job with at-risk students.

Dan Grabowski, Superintendent, Whitewater, said that he has lost three teachers in three years and will be losing another this year. It will be very difficult to find quality replacements. He said that we will no longer be able to focus on kids anymore because we no longer have the money to. We are seeing a loss in our academic focus.

Sen. Ryan asked if they are losing teachers in specialty areas.

Mr. Grabowski said he is losing teachers in science, english, and business.

Jim Germann, Superintendent, Fairview, said that he is in support of the three year averaging. He said that he has some natural resources in his district and they try to watch their taxes. He said that they don't pay as much some years, but whenever they need to vote levies they do that. He said that for his own district, it would be better not to have a county wide mill levy.

Duane Pettigrow, Superintendent, Westby, asked for a clarification on the county wide mill and asked if that is taking into consideration non-levy revenue. Ms. Carlson said that the fund balance re-appropriated in the district non-levy revenues went above base. She said that they are applied to the above base mills, reducing the above base mills, so that reduction is offsetting the increase.

Dave Selvig, Superintendent, Scobey, said that something bold has to be done now before it is too late. He said that the Board is really concerned about the education students are going to receive. His district can lose 7 teachers. He said that he supports the ideas of sales tax and payroll tax.

Don Bouchard, Fairview High School, said that his children and students will not be returning to Montana because they cannot afford to teach or work here. He said that he supports the idea of the state insurance pool, pay roll tax, and tourist tax. He said that he is leery of county equalization as local tax payers are supportive of their local schools.

Dave Reinhardt, County Commissioner, asked for clarification regarding mills. Ms. Quinlan said that they are talking about the non-voted levies that support the base budget. Mr. Reinhardt said that the mills in his area would go up. Ms. Quinlan said that in Hinsdale they would go up by approximately 40 mills.

Sen. Butcher said that all districts are facing declining enrollments and asked the public if they think that state or federal mandates are causing problems for the school districts.

Andy Holmlund, Superintendent of Schools, Wolf Point, said that special education, impact aid, and other unfunded mandates have never been funded at the appropriate level.

Diane Fladmo, said that she fears the future of education. She said that the type of students that are coming into the system are changing and there are no support services available to deal with these students. She said that communities are paying increased funds to incarcerate children and she knows tax payers would rather put that money into the school system. Ms. Fladmo also said that school funding is economic development.

Mr. Bouchard asked about the gambling revenue funding education. Sen. Nelson said that the lottery goes into the general fund. Mr. Hindoien said that a fraction of 1% is going out to school districts which is about \$13 million.

Kevin St. John, Superintendent, Opheim, said that insurance is a huge issue and he would like the Council to be aware of that. He said that if there is another increase it can very well reach a crisis stage. We need to focus on students, and teachers are an important part of that

focus. He supported the 1/2 cent payroll tax.

Mr. Smith said that another problem is that of insuring retired teachers. He said that the amount received from Montana Teachers' Retirement is not enough to afford insurance.

Roger Britton, Superintendent, Froid, said that if we can move the insurance dollar amount out of the general fund to a county wide levy, there would be increased dollars for education and salaries. He also said that he likes the idea of an insurance pool, but would like to insure that those retirees on COBRA would be part of the program as well.

Don Stepler, Commissioner, Richland County, asked about county equalization and what happens to a bond issue for a new building and asked if those votes are equalized county wide. Ms. Quinlan said no. Mr. Stepler asked about maintenance, insurance, and utilities and if those would be equalized county wide. Ms. Quinlan said yes, to the extent that the school district is paying for utilities and insurance from the school district general fund. Mr. Stepler asked about the non-levy revenue from timber reserves. Ms. Quinlan said that the federal forest reserve money does not go to school districts, it goes to state equalization aid. She said that we have school revenue from state trust land and that goes to schools as payment for technology. Mr. Stepler asked if there was any money from oil, gas, and coal that goes to education. Ms. Quinlan said that in a round about way they go to schools. She said that the oil tax production taxes goes directly to school districts and counties to fund their budgets. Mr. Stepler asked about the elementary districts crossing the county line and which county would these districts be equalized in. Ms. Carlson said that when a district crosses a county boundary, OPI has a record of which county the student comes from so the costs can be shared between counties. Mr. Stepler concurred with Mr. McNeil's statements. He liked the 1/2 cent payroll tax and using the coal tax trust fund for the statewide health insurance pool.

Donni Linn, Chairman, Saco School Board, said that before you start to equalize taxes, you need to contact the tax payers because he feels that there will be a major revolt to the idea in eastern Montana. He said that he does not like the idea of having to pay for other districts without having local representation. He said that right now, local school boards are responsible to the local tax payer.

Ms. Fladmo said that when working with the previous legislators, she became frustrated with the different numbers presented by different groups. She would like common financial information to be made available that the different groups can agree upon.

ADJOURNMENT

The meeting adjourned at 9:42 p.m.

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