

Current Law and Financial Implications Related to School District Reorganization in Montana

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Terms

Annexation ([20-6-422](#))—a smaller district (EL, HS, or K-12) may dissolve and be annexed by a larger district; assumption of bonded indebtedness must be determined; smaller district's electors vote, larger district's trustees must approve

Consolidation ([20-6-423](#))—two adjacent districts can join (EL to EL, HS to HS, K-12 to K-12); assumption of bonded indebtedness must be determined; voters in both districts vote

Attachment to form a K-12 district ([20-6-701](#))—when an EL and HS district have coterminous (identical) boundaries, the EL must attach to the HS to form a K-12, unless federal impact aid would be lost by attachment

Abandonment and attachment ([20-6-209](#) and [20-6-307](#))—when an EL district has not operated a school for 3 consecutive years or a HS district for 1 year, the district is considered to be abandoned and the county superintendent shall attach the abandoned district's territory to an adjacent EL or HS district(s); if any bonded indebtedness exists, it would remain the obligation of the original territory pursuant to [20-6-411](#)

Increased local funding/decreased state funding for “nonisolated” small elementary school

“Nonisolated” status ([20-9-302](#) and [20-9-303](#))—when an EL school has 9 or fewer ANB for two consecutive years and has not been approved as “isolated” by the county commissioners and the Superintendent of Public Instruction (SPI) based on geographic and transportation criteria, the state provides 50% of the normal direct state aid (DSA) and the district must levy for the other 50%. In FY 2015 there were 7 schools/districts in nonisolated status which paid a total of \$116,302 in the nonisolated local share of DSA. Each of these is a single-school district.

Nonisolated status and its attendant increased local funding may incentivize consolidation of small EL schools and districts that are not geographically isolated. Some policy questions are:

- Does the legislature intend to incentivize voluntary consolidation of small EL districts? Does it reflect equitable distribution of state funds? Does it reflect local control?
- Is the current incentive effective? Should the enrollment threshold be raised? Should the local percentage be increased?
- Should there be a similar incentive to consolidate for small, nonisolated high schools/districts or K-12 districts? Currently a high school with fewer than 25 ANB for 2 consecutive years must apply for isolated status, but there is no funding adjustment if the high school is deemed nonisolated. There are currently 7 HS districts with less than 25 ANB.

Additional funding provided for “remote” school of a district

“Separate budget unit” ([20-9-311\(8\)](#))—when a school of a district is more than 20 miles from an incorporated town or from another school of the district, or the SPI approves separate budget

status because of “unusual hardship” related to geography/transportation, that school’s ANB is calculated separately from the other schools of the district and the district “receives” an additional basic entitlement. In FY 2016 there are about a dozen districts with schools that qualify as “separate budget units” (e.g. Missoula HS District and Seeley-Swan HS; Browning EL District and Baab School).

The separate budget unit mechanism seems to address the increased fixed costs of a district that needs to operate an additional school facility due to geographic isolation. A policy question might be: Does Montana’s formula need an adjustment for remote districts, districts that may have increased operational costs related to transportation, costs of goods and services, or recruitment and retention?

Consolidation “bonus”

Consolidation and annexation “bonus” ([20-9-311\(8\)](#))—when districts consolidate or annex, each district’s ANB is calculated separately and each district “receives” its own basic entitlement (BE) for a period of 3 years. (This is similar to the separate budget unit mechanism above.) Additionally, each district retains:

- 75% of its BE in year 4
- 50% of its BE in year 5
- 25% of its BE in year 6

This mechanism basically maintains the pre-consolidation per-ANB revenue and district general fund tax levels for the first three years, then gradually reduces the basic entitlement amount, thereby decreasing the new district’s budget limits and revenue per ANB. Policy questions might include:

- Should Montana incentivize voluntary school district consolidation? Is the goal simply fewer school districts? More K-12s?
- Is this consolidation bonus system effective in encouraging voluntary district consolidation?
- If this bonus system is not effective, what other incentives could be created?
- Does the separate budget unit mechanism help ensure that “remote” schools need not close even if districts consolidate?

Other considerations/questions

How does the Montana school finance system impact taxpayer equity in relation to out-of-district agreements and tuition charges? Are some districts able to transfer the costs of educating their resident students onto the taxpayers of a “receiving district” under current tuition laws?

Are existing district boundaries established in ways that enhance student achievement, build community, and provide tax equity? Are there good reasons for HS boundaries that split EL districts (e.g. Melstone EL splits to Roundup, Melstone, and Forsyth HS districts) or patchwork boundaries (e.g. Richland and Dawson Counties)?