

[THESE ARE SUMMARY NOTES ONLY. OFFICIAL MINUTES WERE KEPT BY AUDIO TAPE.]

Summary Notes from Fund Structure Task Force Meeting
August 4, 2005
Conference Call 9:00am – noon

Attending:

Eddy McClure, Legislative Services
Karla Christensen, Garfield Co. Supt.
Donnie McVee, Great Falls Public Schools
Joan Anderson, OPI
Shirley Barrick, Fergus Co. Supt.
Kathy Fabiano, Legislative Services
Kim Harris, Helena Schools
Susie Zentz, Canyon Creek School
Steve Johnson, Bozeman Public Schools
Thale Ludwick, Bainville K-12 Schools
Rachel Vielleux, Missoula Co. Supt
Bob Vogel, MTSBA
Nancy Hall, Governor's Office
Linda Walter, Sheridan Schools

Absent:

Amy Carlson, Governor's Office
Don Davies, Auditor
Jim Standaert, Legislative Fiscal Division

Eddy: Reason for this group is to make recommendations for MCA changes to implement the new funding formula created by the Quality Schools Interim Committee (QSIC), especially any recommendations concerning the combination of funds and related issues. SB 152 requires using as few funds as possible. Assume that the system will provide adequate funding, as instructed by the court. This group should make suggestions to make the system simpler and more flexible for schools, if possible.

Comments

Has there been any further study of other states' systems since Marc Bruno's report to the 2001 funds structure task force group of the Governor's Study? Maybe it

would be useful. (No one knew of further study that was done. Eddy will send this group Marc's 2001 report.)

Based on history, many people don't trust the Legislature not to limit resources when combining funds. One example is that in the 90's, the Legislature repealed the Comprehensive Insurance Fund and put it into the general fund. That was limiting on schools and did not work like it was supposed to.

The "adequacy" of the system will depend on the judgments of people. Will adequacy be funded by local resources or state resources? Counties don't seem to complain that they are being overtaxed for retirement or transportation.

Who is supposed to benefit from a new fund structure—does the state benefit or do the schools? SB 152 says the system needs to be flexible and simpler for schools.

Transfers Between Funds

Some states' systems allow more combining of funds than we have. The taxpayer cares about operating the school, not about tracing each tax dollar to a certain kind of expenditure.

If this group recommends to the Interim Committee to combine funds, then most transfers between funds would not be needed. Some transfers would still need to be kept:

- If the Compensated Absences Fund remains separate, that transfer has to be kept in law.
- Closing funds obsolete funds would be kept, too.

If this group recommends a different fund structure than in the Joint Select Committee's report, then we'd have to revisit the transfer laws. Any recommendations made by this group should be framed around the assumptions: "If we combined funds in this way, then the recommendation for transfers is...." Same is true for any recommendations made, because we need to be clear that we've based it on certain assumptions.

Budget Amendments

Should reasons for budget amendments stay the same? Should the state still fund enrollment and transportation budget amendments?

Not sure how oil and gas revenues will fit into this system if funds structure changes. Right now, oil and gas revenues go into lots of funds, and much of it is spent on budget amendments.

Process for transportation budget amendments should be made more simple. If you have reserves, current law doesn't always allow the state to pay for increased mileage when it has to be increased mid-year.

Jim Standaert from Legislative Fiscal Services is doing a transportation study. The Interim Committee discussed whether to reduce the 3-mile rule for transportees. (2 miles?) If the Committee reduces the miles, it might make some difference in how to suggest the funds structure should look.

Special ed needs additional state funding for budget amendments. Current law pays a disproportionate cost reimbursement, but it's 2 years later.

Retirement Funding and Cooperatives

Counties either pay the coops for retirement costs as if they were districts, or they have the districts add the coop's needs to the district budget and fund it through the districts members. Some counties do both.

The funding mechanism for retirement will make a difference in options for the district fund structure and how coops get retirement funding: If the county continues to fund retirement, the GTB still needs to be subsidized at the county so there would not be a reason to combine the funds. If the state paid retirement, the subsidy would be included, and it could be a separate fund or combined. In that case, the coop would either get retirement from the member districts or the state directly. If the district paid retirement, GTB subsidies would have to be at the district level, either in the general fund or separate fund and the coop would have to get their funding from member districts.

Could the state payments for special ed be increased to pay for the coops' retirement costs?

Need to know what the funding source will be.

Budget Process

Should the May election date or the Aug 15 budget adoptions date be moved?

If we knew earlier in the Legislative session what the funding would be, it would be less difficult. The May election date would be fine. Encourage Legislature to make the funding decisions earlier, not to move the election deadlines later.

Elections for levies will depend on whether there is a requirement for voter approval. New system could have different voting requirements.

Budget adoption deadline of Aug 15 is fine as is.

County Supt involvement in budget process

What is current involvement and why? One reason is to set countywide mills for transportation and retirement based on district budgets. Another reason is to do revenue estimates (although there are fewer non-levy revenues to estimate) and oversee budgets.

Change needed? Probably not.

Only 16 out of 56 counties still have a full-time county superintendent. Commissioners are locally deciding how much support to give the office.

Transitions

Some of the fund balances of combined funds would be needed to fill a bigger 10% general fund operating reserve.

Depending on the funding sources to be used, the money should go to the school system or the county or state. E.g., if the funding source is local, the money should be used to lower local levies. If the source is county, should be used to lower county's levies, etc.

What will GTB look like? Lots of options, but there probably has to be a mechanism to equalize wealth.

The funding mechanisms and sources will determine the cash flow pattern. If the revenue is collected and available when it's needed, rather than delayed like state and county transportation funding currently is delayed, then the general fund reserve wouldn't need to be increased from 10%. That will make a difference in

what this group would suggest should happen to extra fund balances that aren't needed to fill the general fund operating reserve.

Tech fund should be made part of the Capital Projects Fund, not the general fund. The current levy is more like a building reserve levy and could probably be handled as a Capital Projects Levy.

SB 1523 talks about technology needed to deliver educational programs. So there will be some method of entitlement aimed at technology.

The reason for the Flex Fund was to have a place for the OTO money. If the Legislature would give schools money by increasing the entitlements rather than one-time-only money, then there wouldn't be such a need for the Flex Fund. Without a Flex Fund, if they decide to give OTO money, it gives schools the flexibility they need. If we assume adequate funding for quality programs, then it might not be needed, but schools are nervous about making that assumption. The court seemed to criticize the state for using OTO money as a temporary fix, and the last Legislature was not as interested in OTO payments.

Option might be to let the Flex Fund have a limited life and phase out the balances by having a spending deadline.

Will need to specify how the county should deal with receipts of protested and delinquent taxes collected in future years on funds that are closed.

An existing building reserve levy was voted for a specific purpose stated on the ballot, so that should be separately tracked in the Capital Projects Fund.

The ballot for a Capital Project Levy should allow for either general or specific projects related to technology, buildings, remodeling, equipment purchases, etc. Any state entitlement for capital projects should be allowed either to supplement or replace a levy for capital projects.

Should the bus reserve balance be required to be kept separate? No comments.

If technology is adequately funded, then the Tech Fund wouldn't be needed. Will the timber money continue as a source of technology support? If so, could it be treated like a grant without a deadline and put it into the Miscellaneous Programs Fund?

For existing Technology levies, an option might be to figure out what the previously voted levy supplied over and above whatever is considered the state's guarantee, then allow that amount as an additional levy for technology. Since the voters approved the district taxes for that purpose, it should continue. Maybe this could be balanced somehow to equalize all districts to a necessary level.

Detention Center Tuition

This should be funded with a state payment directly to the detention centers.

What's Next?

Aug 30, 2 day meeting to hear consultant's report.

All Sept., Committee meets each week to make decisions.

[Maybe this task force will meet during September.]

By October 1, bill drafted.

During October, public hearings.

November, bill draft reworked and finalized.

December, expecting special session.

Public Comment:

Tom Bilodeau (MEA-MFT): Retirement is constitutional responsibility of state. It's not a permissive mill levy, it's a mandatory mill levy. Cost of retirement is over \$110M, and MEA-MFT is concerned about rolling it into a big operating fund. Retirement should not be a bargained issue. It shouldn't have to compete for money with other operations. Right now, we know it will be paid and where the money will come from. Having to bargain it will cause more problems in retention and recruitment, not help. Tax equity issues could be addressed by just adding more GTB to the county retirement fund.

Lynda Brannon (MASBO):

At a MASBO regional meeting last week, Don Ryan stated that Impact Aid funds would be used as a state funding source. (Eddy: Don Ryan was on the Joint Committee. He and other legislators on the Interim Committee know that the Federal Impact Aid money has strings attached and can't just be taken and used, there are processes that a state has to go through. Interim Committee has not had that discussion yet. Discussion is expected.)

Question of Tom:

Why would people assume that the retirement had to be within a cap? Why not have it over the cap? There are logical ways to make this work for schools, but it's

misleading to imply that combining funds would mean the retirement obligation would not be met, and that's what people are being told. (Tom: Hasn't heard discussion of having it over the cap.)

Question of Eddy:

What does SB 152 say about providing an inflation factor? (Eddy: It's in there, it has to be done.)

Question of Tom:

Other states pay retirement from their general funds, so how do they do that? (Marc Bruno's report lists several other states that do.)

Next conference call will possibly be in September. Good idea for everyone to listen to the Interim Committee meeting in late August on the audio telecast.

END