
**STATE'S SUPPLEMENTED
EXPERT DISCLOSURE**

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Executive Summary

The Montana Supreme Court, in its 2005 *Columbia Falls v. State of Montana* decision, ruled that because the legislature had not defined the term "quality," as it was used in Article X, § 1(3), the court could not conclude that the current system was designed to provide a "quality" education. The Supreme Court, therefore, deferred to the legislature for the definition of "quality."

Defining Quality Schools. During the 2005 Regular Legislative Session, the Montana Legislature responded to the Court's decision and defined a basic system of quality schools in Senate Bill 152 as:

- (a) the educational program specified by the accreditation standards provided for in 20-7-111, which represent the minimum standards upon which a basic system of a basic system of free quality public elementary and secondary schools is built;
- (b) educational programs to provide for students with special needs, such as:
 - (i) a child with a disability, as defined in 20-7-401;
 - (ii) an at-risk student;
 - (iii) a student with limited English proficiency;
 - (iv) a child who is qualified for services under 29 U.S.C. 794; and
 - (v) gifted and talented children, as defined in 20-7-401;
- (c) educational programs to implement the provisions of Article X, section 1(2), of the Montana constitution and Title 20, chapter 1, part 5, through development of curricula designed to integrate the distinct and unique cultural heritage of American Indians into the curricula, with particular emphasis on Montana Indians;
- (d) qualified and effective teachers or administrators and qualified staff to implement the programs in subsections (2)(a) through (2)(c);
- (e) facilities and distance learning technologies associated with meeting the accreditation standards;
- (f) transportation of students pursuant to Title 20, chapter 10;
- (g) a procedure to assess and track student achievement in the programs established pursuant to subsections (2)(a) through (2)(c); and
- (h) preservation of local control of schools in each district vested in a board of trustees pursuant to Article X, section 8, of the Montana constitution.

Senate Bill 152 was signed into law in 2005 and codified as Montana Code Ann. § 20-9-309. The work leading into Senate Bill 152 was greatly informed by the deliberate work of the Montana K-12 Public School Renewal Commission (formed by the 58th Montana Legislative Assembly). In fact, the setting of the accreditation standards as the foundation and the defining of students with special needs came directly from consensus decisions made by the Renewal Commission.

Considering Educationally Relevant Factors. Montana Code Ann. § 20-9-309 went further, in subsection (4), to direct the Legislature to "determine the costs of providing

the basic system of free quality public elementary and secondary schools” and “establish a finding formula that is based on the definition of a basic system” and “allows the legislature to adjust the funding formula based on the educationally relevant factors” found in subsection (3)(a) through (3)(f). Those factors include:

- the number of students in a district;
- the needs of isolated schools with low population density;
- the needs of urban schools with high population density;
- the needs of students with special needs;
- the needs of American Indian students; and the ability to attract and retain qualified educators and other personnel.

Throughout the 2005 and 2007 Legislatures, the State moved systematically to determine the costs of providing the basic system of free quality public elementary and secondary schools as defined in Section 20-9-309 and to develop a funding mechanism that reflected the costs associated with providing the basic system and that is based upon educationally relevant factors. While informed by the diligent work of prior task forces and committees since 2000, a great deal of the work that went into informing the 2005 and 2007 Legislatures was done by the 2005 Quality Schools Interim Committee.

Determining the Costs. The Quality Schools Interim Committee (QSIC) set about in a deliberate manner to determine the costs of providing the system of basic education defined by the Legislature in 20-9-309. While informed by commissioned and non-commissioned consultant reports, QSIC employed a recognized method of estimating the costs of the basic system of schools and worked to develop a formula that reflected those costs while considering educationally relevant factors such as the number of students in a district, the needs of isolated schools, recognized costs associated with economies of scale, the needs of special needs students such as those with special education needs or those from poverty, the needs of American Indians, and that assisted districts with their abilities to attract and retain quality teachers and staff.

Adjusting the Formula. From QSIC’s work and beginning with the 2005 Regular Session of the Legislature, the Governor and Legislature developed a funding formula to meet the requirements of Section 20-9-309. In addition to requiring the Legislature to develop a funding formula reflecting the cost of a quality education, Section 20-9-309 also required the funding system to be simple and efficient. So, instead of implementing the complex formula developed by the QSIC, the Governor and Legislature adjusted the existing funding formula in a manner that reflected the general costs of a quality education without adding additional complexity. This formula includes:

- The “Basic Entitlement” which provides foundational funding to every school district regardless of the number of students in the district. It provides for additional Basic Entitlements for schools that are geographically isolated or demonstrate other obstacles to transporting students to the nearest schools. The Basic Entitlement is distributed to elementary schools, high schools, and in the

2007 regular session the Legislature added a Basic Entitlement for middle schools.

- The “Per-ANB Entitlement” which provides funding based on the number of students in a district, the funding levels are dependent on whether students are elementary or secondary school students. The Per-ANB Entitlement operates on a sliding scale providing the greatest amounts to the schools with the lowest enrollments and declining to 1,000 students for elementary schools and 800 students in high schools. This sliding scale formula recognizes the economies of scale (the ability to spread fixed costs across more students) achieved by larger schools.
- The “Special Education Component,” the “At-Risk Component,” and the “American Indian Achievement Gap Component” which provide additional funding for special needs students.
- The “Indian Education for All Component” which provides funding to satisfy Montana’s constitutional obligation pursuant to Article X, section 1, subsection 2.
- The “Quality Educator component” which provides more than \$3,000 per educator to assist districts with their recruitment and retention efforts and provides districts with a stable funding source that offsets the effects of declining enrollment.

In addition, the State also created a Quality Educator Loan Assistance Program to aid in recruiting quality teachers for Montana classrooms. The Legislature further appropriated more than \$250 million in one-time only monies to assist schools with identified needs in facilities and to bring actuarial soundness to the teacher and personnel retirement systems.

Addressing Declining Enrollment. In addition to funding the costs of providing the basic system, the State provided school districts with additional protections from declining enrollment. The State instituted a three-year averaging of the Average Number Belonging (ANB) in order to help cushion districts from the effects of declining enrollment; the effect is that the State funded 3,863 more “students” in the 2007 biennium at a cost of \$12.1 million. In addition, the Montana Legislature removed the requirement that districts exceeding the “Maximum Budget” because of declining enrollment bring their budgets down below their newly calculated “max budgets.” The new law allows communities to maintain their current level of funding with local voter approval and levies. These two changes in law go above and beyond determined costs. These changes in law are reflections of the Montana Legislature’s understanding of issues facing the State’s schools and the Legislature’s commitment to the students in those schools and are reflective of the educationally relevant factors set forth in Mont. Code Ann. § 20-9-309(3).

Allowing Flexibility for Local Choice. In determining the costs of providing the basic system of quality schools and creating a funding formula that reflects those costs, school districts have been provided additional flexibility and purchasing power. In the last several years, Montana school districts have been able to grow their maximum budget authority, increase teacher salaries significantly, further reduce class sizes, and hire more

teachers and staff even while the districts have seen a continued decline in enrollment. Over the last five years, school districts have hired an additional 125 teachers (1 percent increase) while, during that same time period, student enrollment has decreased by 6,350 students (4 percent decline).

Recruiting and Retaining Highly Qualified Teachers. While the State has provided school districts with funding reflecting the costs of a quality education, Montana's school districts have provided Montana students with quality educators and programs. According to the Montana Office of Public Instruction, 99.8 percent of teachers are licensed and 99.4 percent of teachers are licensed and endorsed in their subject areas. In all, properly credentialed and assigned teachers teach 98.5 percent of all Montana classes. Compared to federal standards of Highly Qualified Teachers (HQT), 99.4 percent of Montana's core academic classes are taught by teachers that meet this standard. Montana is one of only four states in the nation with over 99 percent of core courses taught by Highly Qualified Teachers.

Assisting Schools through Accountability. The program delivery standards within the accreditation process are some of the most detailed and rigorous inputs-related standards in the nation. As schools deviate from these program-delivery standards, the State employs a deliberate process to work with the school districts to remedy those deviations as quickly as possible, providing direct technical assistance to the district if necessary. From the data, the overwhelming majority of deviations are transitory in nature, often remedied in less than one year. This is likely because the accreditation status is determined given staffing information that is a snapshot in time while the staffing process of replacing retired staff or hiring new staff is more dynamic and fluid. In addition, school districts are provided the option of pursuing an alternative standard or section of standards. More than 15 percent of schools (183 schools) have at least one alternative standard in place, a demonstrated alternative that must be at least as rigorous or better than the existing standard. The creativity of local educators coupled with the sufficient resources provided by the system to develop high-quality educational programs based on local needs is a highlight of the Montana education system and a benefit of the State's value of local control.

Improving Student Achievement. The results of having high-quality teachers and staff, smaller class sizes, and some of the nation's most rigorous program-delivery accreditation standards in Montana's schools show Montana's students are high achieving and improving. Since 2003-04, reading and math achievement have shown tremendous improvement. In reading, for instance, scores have improved in all grades and for all subgroups of special needs students. In fact, the gains made by special needs students have been greater than those made by the general population resulting in a narrowing of the achievement gaps. To be sure, research suggests that it is because of the quality of the schools that student achievement continues to increase, a growth that is considered highest in the nation.

Assessing Resource Allocation. Since the new funding mechanisms were implemented, the State has continued to monitor the education system through its accreditation and

assessment systems. These systems ensure that issues in either area do not linger and are addressed in a timely fashion. Over this time of increased state investment and allocation of resources based on educationally relevant factors, student achievement has continued to increase. Based on the resource allocation decisions that districts have made over the last four years, it is clear that accreditation violations are not linked to the level of resources. Districts have the necessary resources to meet the requirements of the accreditation system and have chosen to implement new quality improvement efforts like further reducing class sizes, increasing teacher salaries, and other local initiatives.

In all, the Montana Legislature and Executive Branch have pursued a deliberate effort to define the basic system of free quality public elementary and secondary schools and determined the costs of providing that system through the work of the Quality Schools Interim Committee. Based on the overall costs determined by QSIC, the Legislature funded a finance model that provided a similar level or greater level of funding without adding the additional complexity to the finance system that the QSIC model would have added and kept with funding system best practices.

The funding system developed and funded by the Legislature meets the criteria established in Montana Code § 20-9-309 and reflects best practices of how states fund schools in an environment of declining enrollment and small, rural schools. Therefore, we conclude that the State has determined the cost of a quality education and that the current funding model reflects those costs.

Chapter I. Montana Context

In its March 2005 decision, the Montana Supreme Court determined that the Montana Legislature had to define what constituted a basic system of free public elementary and secondary education, as required by the Montana Constitution, and then to fund that defined system. This report begins with a summary of the state of Montana public schools with the latest available data and then provides an analysis of the state’s actions towards meeting the Court’s two primary directives in its decision. The report examines the Legislature’s response to defining a basic system of public education and the Legislature’s continued efforts to fund a quality education for Montana’s students.

Montana’s Public Schools Enrollment and Demographics

Given any analysis of public education systems, there is often a lag in the extant data with which to understand it. As such, most snapshot looks at a system will have a lag of at least one year and reliable data for comparisons is often lagged by at least two years. For purposes of this analysis, the most recently available data is presented to assist with understanding the context of Montana’s public education system.

Historically, Montana’s public education system has been governed with a strong sense of local control. The State is charged with providing “a basic system of free quality public elementary and secondary schools” according to Article X, Section 1 of the Montana Constitution. In establishing that system, the State has allowed local communities to be the primary delivery mechanisms to deliver quality education programs. Evidence of that strong tradition of local control is in the number of schools and school districts serving the state’s 144,418 students in the 2006-07 school year.

Montana has many schools. More than 420 school districts serve as the local education agencies charged with determining and delivering high-quality education programs to the students in their districts. Montana’s school districts are configured in a variety of ways. Figure 1.1 shows the breakdown of types of districts in the state.

Fig. 1.1: Types and Numbers of School Districts in Montana, 2006-07

School District Type	Number of Districts
K-12 districts	51
Combined elementary (joint board)	104
Combined high school (joint board)	104
Single districts	166 (161 elementary, 5 high school)
Total	425

Source: Montana Office of Public Instruction, “Facts About Montana Education,” September 2007

These 425 operating school districts run 831 schools. Like the variety in school district configurations, there is also variety in the grade configuration of its schools. Figure 1.2 shows the breakdown in the types of schools in 2006-07.

Fig. 1.2: Grade Configurations, Schools, and School Size in Montana

School Type	Number of Schools	Average School Size
Elementary Schools	444	158
Middle, 7 & 8, Junior High Schools	217	127
High Schools	170	278
TOTAL	831	

Source: Montana Office of Public Instruction, "Facts About Montana Education," September 2007 and "Numbers and Types of Public Elementary and Secondary Schools From the Common Core of Data: School Year 2005-06," National Center for Education Statistics, U.S. Department of Education, July 2007.

Elementary schools make up 53 percent of all schools in the state, not a surprising fact given that elementary schools typically enroll a smaller number of students (average of 158 students) and have smaller average class sizes (17.9).

Schools are small. As evidenced in Figure 1.3, the plurality of schools – 320 of the state’s 831 schools (38 percent) – serve fewer than 50 students. However, these schools serve approximately 5 percent of the state’s student population. The overwhelming majority of schools (94 percent) and majority of students (69 percent) are served in schools with fewer than 500 students, smaller than the national averages for elementary, middle, and high schools.

Fig. 1.3: Montana School Size and Enrollment, 2006-07

School Size	# of Schools	Percent of Schools	Enrollment	Percent of Enrollment
>500	49	6%	44,147	31%
250 to 499	161	19%	56,231	39%
100 to 249	169	20%	27,474	19%
50 to 99	132	16%	9,405	7%
<50	320	38%	7,161	5%
Total	831	100%	144,418	100%

Source: Montana Office of Public Instruction, "Facts About Montana Education," September 2007

A unique aspect of the Montana public education system is the choice of school districts to deliver the “middle school” program primarily through the grades 7 & 8 configuration school. According to Montana Office of Public Instruction directory of middle schools, 177 of 214 middle-grade schools served students with the grades 7 & 8 configuration. As a point of historical perspective and national perspective, four out of five high school graduates in the United States attended a K-8 elementary school and four-year high school in 1920. By 1960, four out of five attended an elementary school serving grades K-6, a three-year junior high school, and a three-year high school. Today, the predominant grade configurations within school districts include a grades K-5 elementary school, a grades 6-8 middle school, and a grades 9-12 high school.¹ Montana’s school districts have chosen an education delivery system for these middle-grade students that is different than the national norms, but that they believe is best for Montana’s school children.

Schools are rural. Montana’s rich tradition of local control in its public schools is a natural byproduct of the geographic and population characteristics of the state as a whole.

Montana is one of the least population dense states in the nation with 6.2 persons per square mile.² Children are served primarily in schools located in towns and rural areas. According “locale codes” developed by the National Center for Education Statistics, roughly 75.6 percent of Montana’s schools are located in towns and rural areas, serving 73.5 percent of the state’s students.³ See Appendix B for detailed definitions.

Montana’s schools serve a higher proportion of American Indian students than most any other state in the nation. Only Alaska (24.5 percent), Oklahoma (15.0 percent), and South Dakota (13.9 percent) serve more as a proportion of total student population. Figure 1.4 provides a breakdown of ethnic and racial populations of Montana’s school children.

Fig. 1.4: Demographics of Montana’s School Children, 2006-07

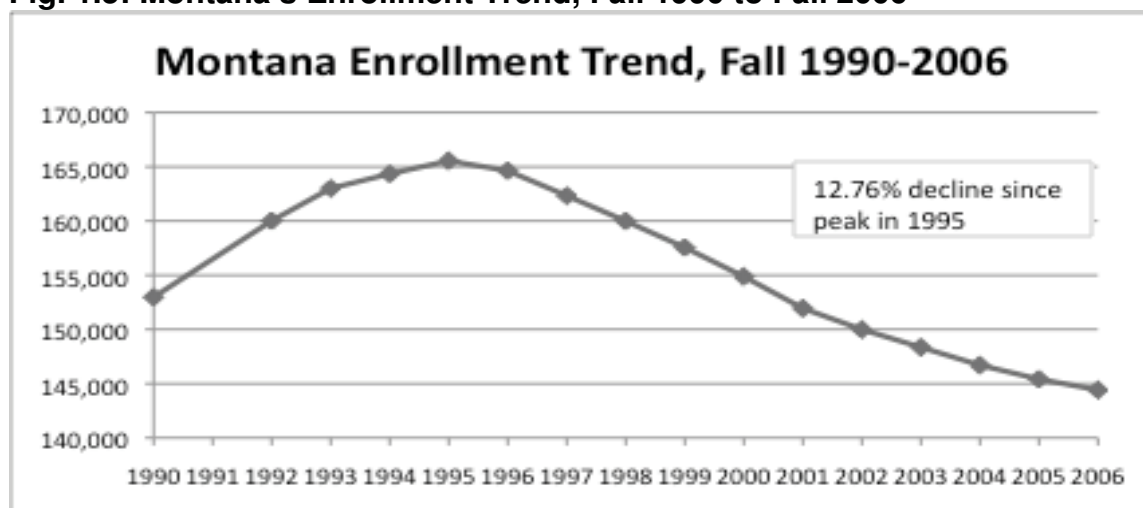
Racial/Ethnic Group	Proportion of Students
White/Caucasian	83.9%
American Indian	11.4%
Hispanic	2.5%
Asian/Pacific Islander	1.2%
African American	1.0%
Total	100.0%

Source: Montana Office of Public Instruction, “Facts About Montana Education,” September 2007

In addition, 34.5 percent of Montana students are eligible for the federal free or reduced-price lunch program. Because eligibility for the program is based on family income (under 135 percent of the federal poverty line for free lunch and under 185 percent of the federal poverty line for reduced-price lunch) this is a generally used indicator of the socio-economic conditions facing schools.

Enrollment is declining. An important challenge facing Montana’s schools over the last decade has been the steady decline in the number of students in the state. Figure 1.5 shows the enrollment trends in Montana’s schools from Fall 1990 to Fall 2006.

Fig. 1.5: Montana’s Enrollment Trend, Fall 1990 to Fall 2006



Source: “Digest of Education Statistics 2007,” National Center for Education Statistics, U.S. Department of Education, 2008.

Over the last 16 years, enrollment quickly rose between 1990 and its peak in 1995. Since the 1995-96 school year, Montana's schools have experienced a 12.76 percent decline in student enrollment.

Montana's Schools: Enrollment and Demographics in Context

To provide additional context to Montana's public education system, we chose to compare it to the public education systems in a handful of states. The immediately contiguous states are a logical starting point in making relative comparisons. States such as Idaho, North Dakota, South Dakota, and Wyoming are included. In addition, other Rocky Mountain states such as Colorado and Utah are included. The National Education Association identifies the Rocky Mountain states as an identifiable comparison group. Finally, added to the comparison group are two additional states, Nebraska and Nevada. Nebraska is included because it shares many of the same characteristics as the immediately contiguous states to Montana and other Rocky Mountain states in that a higher-than-average proportion of students attend schools located in towns and rural areas, the state has a great number of schools and school districts. Finally, Nevada is included because Nevada is often cited as a destination of exiting teachers. As such, it is worthwhile to see the types of conditions that face teachers who are recruited to that state. Occasionally, we include national averages to provide additional context.

This eight-state comparison is not intended to identify superior or inferior public education systems. As such, no rankings are included in this paper. Instead, these states are included to provide the reader with point-of-reference in which to consider Montana's schools and public education system. For additional demographics and comparisons between Montana and the comparison states, see Appendix B.

Chapter II. A Basic System of Quality Public Schools

Article X, Section 1 of the Montana Constitution specifies that the Montana Legislature “shall provide a basic system of free quality public elementary and secondary schools.” The Legislature’s work towards defining a quality system of public schools has been an ongoing, deliberative process over the last decade. Since 2000, the following commissions and committees worked to inform the Montana Legislature about school finance and governance matters related to its constitutional charge:

- *Accreditation Task Force* – created in 2000, recommendations incorporated into the June 2001 and 2005 Montana School Accreditation Standards and Procedures Manuals
- *Governor’s Task Force on Teacher Shortage/Salaries* (Teacher Task Force) – created by Governor in April 2000, final report delivered September 11, 2000
- *Governor’s K-12 Public School Funding Study Advisory Council* (Advisory Council) – created by House Bill 625 in the 57th Montana Legislative Assembly, final report delivered December 31, 2001
- *Montana K-12 Public School Renewal Commission* (Renewal Commission) – created by House Bill 736 in the 58th Montana Legislative Assembly, report delivered December 2004
- *Joint Select Committee on Education Funding* – created during the 2005 Legislative Session, interim report delivered April 15, 2005
- *Quality Schools Interim Committee* (QSIC) – created by Senate Bill 525 in the 59th Montana Legislative Assembly, final report delivered October 2006

The formal work conducted by the Montana Legislative and Executive branches through these task forces, councils, commissions, and committees was also informed by the informal work conducted by the Montana School Boards Association (MSBA), Montana Quality Education Coalition (MQEC), Montana Rural Education Association (MREA), Montana Association of School Business Officers (MASBO), and the Montana Association of County Superintendents of Schools (MACSS), among other organizations. In fact, several individuals from these groups served as members on one or more of the formal above-mentioned committees.

Considerable efforts have been made by the Montana Legislature and Executive Branch to understand the needs of Montana’s educators and students and this work both preceded and followed the Court’s decision in 2005. As will be shown later in this report, recommendations from many of these formal working groups were implemented as policy beginning with the 2005 regular session of the Montana Legislature.

Defining a Basic System of Quality Public Schools

The Montana Legislature, in its 2005 regular session, passed Senate Bill 152 (SB 152) to define the “basic system” as:

- (i) the educational program specified by the accreditation standards provided for in 20-7-111, which represent the minimum standards upon which a basic system of a basic system of free quality public elementary and secondary schools is built;
- (j) educational programs to provide for students with special needs, such as:
 - (vi) a child with a disability, as defined in 20-7-401;
 - (vii) an at-risk student;
 - (viii) a student with limited English proficiency;
 - (ix) a child who is qualified for services under 29 U.S.C. 794; and
 - (x) gifted and talented children, as defined in 20-7-401;
- (k) educational programs to implement the provisions of Article X, section 1(2), of the Montana constitution and Title 20, chapter 1, part 5, through development of curricula designed to integrate the distinct and unique cultural heritage of American Indians into the curricula, with particular emphasis on Montana Indians;
- (l) qualified and effective teachers or administrators and qualified staff to implement the programs in subsections (2)(a) through (2)(c);
- (m) facilities and distance learning technologies associated with meeting the accreditation standards;
- (n) transportation of students pursuant to Title 20, chapter 10;
- (o) a procedure to assess and track student achievement in the programs established pursuant to subsections (2)(a) through (2)(c); and
- (p) preservation of local control of schools in each district vested in a board of trustees pursuant to Article X, section 8, of the Montana constitution.

Senate Bill 152 (now codified as Montana Code Ann. §20-9-309) specified that the state's accreditation standards are the foundation upon which a basic system is to be built. The choice to use the accreditation standards is the result of deliberate efforts by the Legislature to deliver on its constitutional obligations.

The Legislature's 2005 decision to use the accreditation standards was informed by the Montana K-12 Public School Renewal Commission's findings and recommendations. Through a consensus-based process, the Commission reached consensus agreement on October 13, 2003 that "the Montana Accreditation Standards are the foundation upon which a Montana quality education should be built."⁴ In fact, the consensus decision that the accreditation standards should serve as the definitional foundation was the first consensus of the Commission. The Commission reported their recommendations to the Legislative Interim Committee on Education and Local Government, many of which were then carried to the 2005 Legislature. Senate Bill 152 included this consensus recommendation.

In addition, the defining of students with special needs for which educational programs must be provided found in Section 20-9-309(2)(b) and (c) – articulated above – come from the September 8, 2004 consensus recommendation of the Renewal Commission. A great deal of time and effort led to the Legislature's adoption of the definition of a basic system found in Montana Code Ann. §20-9-309.

Educationally Relevant Factors. Included in Section 20-9-309 through SB 152 was language that directed the Legislature to develop a mechanism to fund the basic system. In subsections (3) and (4) of Section 20-9-309, the Legislature is to consider the following educationally relevant factors:

Section 20-9-309(3)

- (a) the number of students in a district;
- (b) the needs of isolated schools with low population density;
- (c) the needs of urban schools with high population density;
- (d) the needs of special needs children as outlined in 20-9-309(2)(b);
- (e) the needs of American Indian students; and
- (f) the ability to attract and retain qualified educators and other personnel.

Section 20-9-309(4) then directs the Legislature to determine the costs of providing the basic system and to develop a funding formula that allows the Legislature to adjust according to those costs. In addition, this subsection requires the State to include a self-executing mechanism for inflation, develop a funding formula that is based on state and federal laws, and distribute the state share of funding equitably to Montana school districts. This next section of the report details the efforts made by the State to fund the basic system of quality public schools according to the definition of the system and according to the educationally relevant factors detailed in Section 20-9-309.

Funding a Basic System of Quality Public Schools

Over the last eight years, Montana’s Legislative and Executive branches have pursued a deliberative process of understanding the needs of Montana’s public schools as those needs pertain to the delivery of a quality education to the children of Montana. Beginning with the 2005 Regular Legislative Session, the Montana Legislature has dedicated substantial resources towards funding the defined education system and its educationally relevant factors. This section details the Legislature’s efforts towards funding the basic system defined in Section 20-9-309 subsections (2) and (3) and (4) and, where applicable, references the work and/or recommendations of state formal working groups in those areas. The section ends by considering the State’s determination of the costs of a basic system of quality public schools in comparison with the funding actually provided.

Section 20-9-309(2)(a)

“the educational program specified by the accreditation standards provided for in 20-7-111, which represent the minimum standards upon which a basic system of free quality public and elementary schools is built”

As described above, accreditation standards represent the foundation upon which the basic system is built. The ability of the entire funding system to allow school districts to meet these standards is essential.

The Joint Select Committee on Education Funding (Select Committee) convened during the 2005 Regular Legislative Session with the purpose of developing an education funding formula based on the adopted definition and educationally relevant factors

included in SB 152. Through their process, the Select Committee developed a preliminary proposal that would include state entitlements for:

- *Accredited program* cost component to provide funding for the costs associated with a district's accredited programs that are not allocable to a classroom, special education program, or transportation program;
- *Building operations and maintenance* cost component to provide for maintenance and operation costs associated with school building and facilities;
- *Classroom* cost component to provide funding for the costs of salaries, benefits, and professional development for teachers and instructional aides;
- *Per-student* cost component to provide funding based on the enrollment characteristics of the district;
- *Special education* allowable cost component to fund the costs of providing education and related services to children with disabilities;
- *Transportation services* cost component to provide for the costs of transporting students to and from school;
- *Capital projects* cost component to provide for the state's share of capital outlay, including buildings and major capital assets such as school buses; and
- *Debt service* cost component to provide for the state's share of principal and interest on school district general obligation bonds.

The Select Committee also believed that the State should further equalize funding for district facilities acquisition by continuing to participate in the repayment of general obligation bonds in the district debt service fund.⁵

Towards the conclusion of the session, the Select Committee determined that more time was needed to fully develop their proposed education funding formula. Therefore, through Senate Bill 525, the Legislature created the Quality Schools Interim Committee to continue the work that it had started and to assess the educational needs of Montana students, determine the costs of a basic education (consistent with 20-9-309(4)(a)), determine the state's share of costs, and construct a funding formula that is fair and reasonable and which equitably distributes the state's share of the costs in the most efficient and effective manner (consistent with 20-9-309(4)(b)(vi) and (4)(c)).

The Quality Schools Interim Committee (QSIC) held 17 meetings between May 4, 2005 and December 5, 2005. The Committee contracted with several consultants and researchers to assist the Committee with understanding the needs of Montana's public education system including a study of programmatic needs assessment, the salaries of teachers and school staff as they related to the ability of Montana school districts to recruit and retain quality teachers and school staff, and cost analyses associated with these efforts. These studies helped to inform possible areas of need as well as provided some information about the potential costs of pursuing different policy alternatives.

As QSIC and its working group (staff that worked for the Committee to gather research, data, and information regarding the Committee's areas of interest) moved forward, they concentrated most of their efforts on developing the per-student, classroom, accredited

program, building operations and maintenance, capital projects, and Indian Education for All cost components. Their efforts estimated the costs of each of these components.

Because not all of the specifics of their proposed funding model were worked out by December 2005, e.g., state and local shares or revenue generation, QSIC members decided against presenting their draft legislation to the Legislature. At the same time, the Governor called a special session of the Legislature in December 2005.

Guided by the work of prior committees and especially the work of the Quality Schools Interim Committee, the Montana Legislature and Governor worked together and concentrated their efforts on addressing specific needs within the system such as incorporating an inflationary adjustment into the funding formula, addressing issues of cost differences between schooling levels, the recruitment and retention of quality educators and staff, and issues related to facilities in the 2005 Regular Session, the 2005 Special Session, the 2007 Regular Session, and the 2007 Special Session substantially increased the level of funding to Montana schools.

A hallmark of the Montana Legislature's and Governor's efforts over this period was the adoption of voluntary full-day Kindergarten for Montana's students by the 2007 Montana Legislature. Full-day Kindergarten has been identified in prior legislative working groups and committees as well as from educators as an essential investment in the quality of education for Montana students. Full-day Kindergarten serves as a foundational program that improves the readiness-to-learn of students as they enter the elementary school program. This type of program is often recognized as one of the first options for early intervention for at-risk students. Therefore, the \$28 million appropriated to school districts for the 2009 biennium should be considered foundational base education funding as well as part of the funding of special needs students identified in 20-9-309(b). In addition to the ongoing funding, the State also appropriated \$10 million in one-time monies to assist districts with start-up costs associated with full-day Kindergarten. For the academic 2007-08 school year, 87 percent of Montana's Kindergarten-age children had access to full-day Kindergarten as compared to 28 percent in the prior year before state funding was available.

Beyond the investment in full-day Kindergarten, the Montana Legislature adopted several changes to the funding formula that impact this section of the defined basic system of free quality public schools. Figure 2.1 provides a summary of some of those investments that impact the ability of school districts to offer an accredited program.

Fig. 2.1: Investments in Districts' Ability to Offer an Accredited Program

3-year averaging of ANB (average number belonging) to assist districts with declining enrollment	Ongoing: \$21.5 million for 2007 biennium	Adopted in 2005 Regular Session
Annual inflationary adjustments to the basic entitlement and per-ANB entitlement of 2.76 percent for fiscal year 2008 and 3.00 percent for fiscal year 2009	Ongoing: \$17.9 million for 2007 biennium \$15.5 million for fiscal year 2008 \$22.7 million for fiscal year 2009 biennium	Adopted in 2005 Regular Session
Increase in the Basic Entitlement to narrow the gap between elementary and secondary schools to address the concerns of the Court – increased ongoing funding by \$33.4 million	Ongoing: \$33.4 million for 2007 biennium	Adopted in 2005 Regular Session
Facility payment increases to maintain state's share at approximately 25 percent	Ongoing: \$2.3 million for 2007 biennium	Adopted in 2005 Regular Session
Increase in special education funding of 9.2 percent above inflation for the 2005 biennium	Ongoing: \$6.6 million for 2007 biennium	Adopted in 2005 Regular Session
Quality Educator Payment	Ongoing: \$24.3 million for fiscal year 2007 \$27 million for 2009 biennium	Adopted in 2005 Special Session Increased in 2007 Special Session
Middle School Basic Entitlement	Ongoing: \$1 million for 2009 biennium	Adopted in 2007 Special Session
Guaranteed Tax Base Aid Adjustment	Ongoing: \$21 million for the 2009 biennium	Adopted in 2007 Special Session
OPI Curriculum Specialists	Ongoing: \$1.9 million for the 2009 biennium	Adopted in 2007 Special Session

Additionally, the increase in Guaranteed Tax Base ratio from 175 percent to 193 percent provided in excess of \$21 million over the 2009 biennium of state aid to local school districts. That is, local school districts were able to offer the same level of services while providing local property relief given the additional state support.

Section 20-9-309(2)(b)

- “educational programs to provide students with special needs, such as:
- (q) a child with a disability, as defined in 20-7-401;
 - (ii) an at-risk student;
 - (iii) a student with limited English proficiency;
 - (iv) a child who is qualified for services under 29 U.S.C. 794; and
 - (v) gifted and talented children, as defined in 20-7-901”

The Governor and Legislature took the work of QSIC for special needs students and provided funding to address their needs. The Legislature and Governor streamlined funding for at-risk students into two funding vehicles: an at-risk component to be funded through the same mechanism as federal Title I funding and an American Indian Achievement Gap component that targets funding to address persistent achievement gaps. Both funding streams are entirely state-funded. Given the complexities involved with at-risk education, the Governor and Legislature appropriated \$5 million towards the at-risk component with an additional investment in a data system at the Office of Public Instruction to assist in the monitoring of at-risk programs. In addition, the 2007 Legislature funded the Office of Public Instruction to hire an analyst to work specifically on American Indian achievement gap issues including the collection and dissemination of successful strategies and to provide technical assistance to school districts.

The Governor and Legislature also appropriated \$1.25 million for each of the two years in the 2009 biennium for gifted and talented programs (\$1 million in one-time only monies in each year and \$250,000 in ongoing funding) along with the funding of a 0.50 FTE analyst at the Office of Public Instruction to help monitor gifted and talented programs in the state and the use of these one-time only funds to help guide future policy in the area as well as to provide technical assistance to school districts.

With guidance from the work of QSIC, the Governor and Legislature continued to invest in special education student programs. The full inflationary adjustments in 2008 and 2009 are applied to special education. See Chapter VI for a more full discussion about the state’s efforts in addressing special education student needs.

Section 20-9-309(2)(c)

- “educational programs to implement the provisions of Article X, section 1(2), of the Montana constitution and Title 20, chapter 1, part 5, through development of curricula designed to integrate the distinct and unique cultural heritage of American Indians into the curricula, with particular emphasis on Montana Indians”

Guided by the work of QSIC and other legislative working committees, the State was able to invest in its constitutional obligations to include the cultural heritage of American Indians into the public school curriculum. In the 2005 Special Session, the Legislature enacted the Indian Education for All component to provide school districts with funding to offer Indian Education curricula across the state. The State appropriated more than \$23

million in ongoing and one-time only funds towards these efforts, including the funding of full-time staff positions within the Office of Public Instruction to offer technical assistance to school districts. The Indian Education for All payment is entirely state-funded. Given this is a new program to be developed in many school districts, the Legislature allows for \$10 million of the \$23 million to be deposited in districts' miscellaneous programs funds with no time limit on the expenditure of those funds.

Section 20-9-309(2)(d)

“qualified and effective teachers or administrators and qualified staff to implement the programs in subsections (2)(a) through (2)(c)”

Starting with the Governor's Task Force on Teacher Recruitment and Salaries in 2000, the ability of Montana school districts to attract and retain quality teachers and staff has been a concern to the Governor and Legislature. In its examination of costs, QSIC calculated an increase in salaries of approximately \$4,000 would improve the competitiveness of Montana salaries to those in surrounding states.

In the 2005 Special Session, the Legislature and Governor created the Quality Educator Payment component that provided \$2,000 per quality educator in the public schools. Rather than fund this program through a per-ANB formula, the State funded actual counts of educators as this removed the fluctuations in funding that can accompany changes in enrollment (ANB). In the 2007 Special Session, the Legislature increased the Quality Educator Payment by more than 50 percent (\$3042 per educator for fiscal year 2009), appropriating more than \$27 million over the course of the 2009 biennium. The 2007 Legislature also expanded the definition of “quality educator” to include school psychologists and social workers. These resources are entirely state funded and are provided to districts in their BASE general fund to provide the maximum local flexibility and discretion possible. See average Montana teacher salaries in Appendix B as they relate to the national average and those of comparison states in the region.

In addition to the Quality Educator Payment to assist districts in their recruitment and retention efforts, the Legislature enacted a Quality Educator Loan Assistance Program in the 2007 Special Session. The program provides for the direct repayment of student loans for those educators in high-need impacted fields and schools as determined by the Office of Public Instruction and Board of Public Education. The program repays loans of up to \$3,000 per year for up to four years for a total of \$1.1 million over the course of the 2009 biennium.

Finally, the 2005 and 2007 Legislatures moved to make the retirement systems for teachers and school personnel actuarially sound. As retirement is a direct benefit to Montana educators and staff, ensuring the fiscal well-being of the retirement system alleviates the pressures of school districts to dedicate funding from their general funds and current salaries. The 2005 Legislature appropriated \$100 million to the state retirement system and \$25 million to the State's personnel retirement system. The Legislature also increased employer contributions to the state's teacher retirement system

estimated to be \$27 million over the course of the 2007 biennium. Finally, the 2007 Legislature appropriated another \$50 million into the teacher retirement system. Both systems are now considered to be actuarially sound.

Section 20-9-309(2)(e)

“facilities and distance learning technologies associated with meeting the accreditation standards”

Montana’s Legislature has endeavored upon a deliberate course of action to fully understand the scope of needs related to facilities. A two-year study was commissioned (at a cost of \$2.5 million) to conduct an inventory of all of the school buildings in the state, to determine the capacity in which those facilities are used, and to conduct a condition assessment of those buildings. The capacity and condition assessment provides an estimate of excess square footage that is being maintained and state and local district cost and the level of deferred maintenance of those buildings. The state received the final report in early July 2008 to help guide future Legislatures in their decisions regarding facilities.

While that study was being conducted, though, the Legislature provided school districts with several sources of funding to address facilities needs. The 2005 Legislature appropriated more than \$8 million in fiscal year 2005 and over \$2 million over the course of the next two biennia in facility reimbursement funding to school districts, another \$2 million in energy cost relief funding, and \$23 million for purposes of addressing weatherization and deferred maintenance. The 2007 Legislature appropriated another \$30 million to school districts at a rate of \$33,715 per school unit. That is, every school district will receive at least \$33,715. The Legislature allows districts to retain and spend this money over a ten-year period. In addition, the 2007 Legislature transferred \$40.8 million over the course of the 2009 biennium for facilities deferred maintenance to be used as determined by the 2009 Legislature upon receipt of the facility study.

Though the facility study was a two-year undertaking and will provide the State with much-needed information regarding the needs of its schools, the Legislature continued to provide school districts with substantial additional funding over the course of two biennia to address immediate needs facing Montana’s school districts.

Section 20-9-309(2)(f)

“transportation of students pursuant to Title 20, chapter 10”

The 2007 Legislature appropriated \$100,000 for fiscal year 2008 and \$200,000 for fiscal year 2009 to fund changes in the reimbursement rates of student transportation costs. Increased costs are primarily due to changes in the number of bus miles and the size of the buses approved by county school transportation committees. In addition, the funding provided to school districts through the energy cost relief appropriation can also be used by school districts to address costs associated with transportation.

Section 20-9-309(2)(g)

“a procedure to assess and track student achievement in the programs established pursuant to subsections (2)(a) through (2)(c)”

Reflecting the deliberative nature of the Montana Legislature and the proper role of the state in a quality education system, the State invested in the collection and analysis of quality data to help inform the Legislature and school districts about program quality. The 2005 Legislature appropriated \$2.8 million to the Office of Public Instruction for development and maintenance of a K-12 education data system. The 2007 Legislature appropriated over \$3 million in ongoing funding in the 2009 biennium to the Office of Public Instruction for these same purposes. As part of that funding, approximately \$3 per ANB (estimated \$487,500) is to be distributed to local school districts to assist them with offsetting the costs associated with connecting to the data system. Investment in information systems is critical to the development of a high-quality education system that is responsive to student needs.

Section 20-9-309(2)(h)

“preservation of local control of schools in each district vested in a board of trustees pursuant to Article X, section 8, of the Montana constitution”

To the greatest extent possible, new funding such as that for the Quality Educator Payment and at-risk funding were provided to school districts as part of their BASE general fund budgets. That is, though the funding was derived for purposes of addressing specific identified needs such as teacher recruitment and retention, the State provided the funding that maximized the discretion of use by the local school districts. To preserve local control for families, full-day Kindergarten is voluntary and school districts must offer a half-day program if parents choose that as an option.

In addition, the 2005 Legislature removed the soft constraint that faced school districts that exceeded the calculated maximum budget because of declining enrollment. Prior to the adoption of HB 63, school districts that exceeded the calculated maximum budget were required to reduce their budgets to the newly calculated maximum budgets (or below) within five years. HB 363 from the 2007 Legislature allows communities to maintain their current level of funding with local voter approval and levies.

Section 20-9-309(3)

“In developing a mechanism to fund the basic system of free quality public elementary and secondary schools and in making adjustments to the funding formula, the legislature shall, at a minimum, consider the following educationally relevant factors:

- (a) the number of students in a district;
- (b) the needs of isolated schools with low population density;
- (c) the needs of urban schools with high population density;
- (d) the needs of students with special needs, such as a child with a

- disability, an at-risk student, a student with limited English proficiency, a child who is qualified for services under 29 U.S.C. 794, and gifted and talented children;
- (e) the needs of American Indian students; and
 - (f) the ability of school districts to attract and retain qualified educators and other personnel.”

This section of the statute directs the state to fund the basic system of free quality public elementary and secondary schools based on the identified educationally relevant factors. The BASE funding system includes all of the relevant factors identified in this subsection.

20-9-309(3)(a)

The BASE funding formula includes a per-ANB entitlement. For fiscal year 2009, the per-ANB entitlement will be \$4,716 for elementary school students and \$6,037 for high school students. Each reflects a 3 percent inflationary adjustment from the prior year. The difference between the elementary and high school per-ANB entitlements reflects the differences in costs between the two schooling levels.

20-9-309(3)(b)

The BASE funding formula includes a Basic Entitlement that is distributed to every school district regardless of enrollment. The purpose of the Basic Entitlement is to provide a foundational level of funding for fixed costs associated with running a school. Every elementary school district receives at least one Basic Entitlement of \$21,922 and every high school district will receive at least one Basic Entitlement of \$243,649. Beginning in fiscal year 2008, the State will also provide a Basic Entitlement of \$60,275 to an elementary school district that has an approved middle school or 7-8 program. The differences in Basic Entitlement levels reflect the differential fixed costs associated at each schooling level. In addition, an additional Basic Entitlement is provided for schools within a district that are at least 20 miles apart or when conditions exist that would create an unusual hardship for transporting students to another school. This is considered an isolated-schools factor that recognizes the geographic scale of the state. The existence of the Basic Entitlement, in several ways, has allowed the state to maintain a great many of its small schools.

20-9-309(3)(c)

The BASE funding formula’s per-ANB entitlement reflects the economies of scale achieved by schools and school districts with a greater number of students. That is, the declining scale of the per-ANB entitlement both recognizes the higher costs per student faced by smaller schools given that there are fewer students to cover fixed costs such as central administration and school administration services while larger districts are able to spread these fixed costs across many more students, thus lower costs per student. The larger school districts in Montana, as measured by enrollment, are primarily found in more urban areas with higher population density. The elementary school per-ANB entitlement decreases by a constant per-ANB amount up to 1,000 students. At 1,000 students, the per-ANB becomes a constant to reflect the economies of scale achieved by

an elementary school district of those larger sizes. The high school per-ANB amount decreases by a constant per-ANB amount up to 800 students. At 800 students, the per-ANB entitlement becomes a constant to reflect the economies of scale achieved by a high school district of those larger sizes.

20-9-309(3)(d)

The BASE funding formula has a special education component that is divided into two parts. The first part provides block grant funding to be included as part of districts' general funds. These funds are distributed on a per-ANB basis. The second part is reimbursement funding to districts with disproportionate costs. This second piece of the funding formula for special education provides help to ease the burden associated with serving these special needs students.

The last four Legislative sessions (2005 and 2007 regular sessions and special sessions), provided new funding for at-risk students. Funding for at-risk students is distributed to districts in the same way that the state distributes federal Title I dollars, a federal program that provides compensatory funding to schools with higher proportions of at-risk students.

20-9-309(3)(e)

The last four Legislative sessions (2005 and 2007 regular and special sessions) invested new resources to school districts to deliver education programming related to American Indian students. Given the persistent achievement gaps that exist between American Indian and white students in the state, the Legislature created and funded the American Indian Achievement Gap component. School districts receive \$200 for each American Indian student enrolled in the district. Funding for this program is provided to districts as part of their BASE portion of the district general fund budget allowing them maximum flexibility in the use of those funds.

In addition, the state created the Indian Education for All program designed to provide all Montana students with a greater understanding and appreciation for the unique cultural heritage and contributions made by American Indians to the history of Montana.

20-9-309(3)(f)

Montana has invested considerable resources in the Quality Educator Payment program to provide districts a greater ability to recruit and retain high quality teachers and staff. More than \$3,000 is allocated per quality educator in each district. The avoidance of a per-ANB funding formula for this component ensures that small districts receive the full amount per educator. The State fully funds the total quality educator payment as included in the BASE portion of the districts' general fund budgets, providing the districts with maximum flexibility to use the funding in ways that best meet the needs of the district.

In addition, supplemental programs such as the Quality Educator Loan Assistance program help the state and school districts to recruit and retain teachers in high-demand subjects and hard-to-staff schools. Up to \$12,000 in loan repayments will be made by the state for qualified educators.

Finally, the state invested \$175 million into the state's teacher retirement and personnel retirement systems in one-time appropriations and increased the employer share of retirement contributions to make the benefits to school staff and employees actuarially sound. As part of the total compensation package to staff and employees, the State has ensured that these benefits will be available while taking a great deal of the burden off of local school districts.

Section 20-9-309(4)

- (a) determine the costs of providing the basic system of free quality public elementary and secondary schools;
- (b) establish a funding formula that:
 - i. is based on the definition of a basic system of free quality public elementary and secondary schools and reflects the costs associated with providing that system as determined in subsection (4)(a);
 - ii. allows the legislature to adjust the funding formula based on the educationally relevant factors identified in this section;
 - iii. is self-executing and includes a mechanism for annual inflationary adjustments;
 - iv. is based on state laws;
 - v. is based on federal education laws consistent with Montana's constitution and laws; and
 - vi. distributes to school districts in an equitable manner the state's share of the costs of the basic system of free quality public elementary and secondary schools; and
- (c) consolidate the budgetary fund structure to create the number and types of funds necessary to provide school districts with the greatest budgetary flexibility while ensuring accountability and efficiency.

The State's work over the last two biennia continues to move the state forward in its understanding of the needs and costs of providing Montana students with a quality education. On so many issues, the work of the 2005 and 2007 Legislatures was informed by careful work and deliberation of legislative and gubernatorial task forces, committees, commissions, and councils. Programs and changes such as the inclusion of a three-year ANB averaging to help cushion the impacts of declining enrollment, full-day Kindergarten to improve the readiness to learn for all Montana students, and Indian Education for All each came out of work preceding the 2005 Legislative Regular Session. This previous work also helped to inform the work of the Quality Schools Interim Committee (QSIC) and their charge of developing a funding formula that reflects the definition of a basic system articulated by the 2005 Legislature.

QSIC members and staff devoted countless hours to understanding the intricacies of Montana school needs and explored how best to fund those needs. They were informed by a cost study conducted for groups within the state and commissioned additional studies to better understand how to fund this system of public schools. QSIC explored a

funding formula that disaggregated the BASE funding formula and other funding to school districts into a number of components. These components included:

- Per-student;
- Classroom;
- Accredited program;
- Building operations and maintenance;
- Special education;
- Transportation;
- Capital projects;
- School facility payment/debt service; and
- Indian Education for All.

For purposes of determining costs, QSIC examined the extant expenditures data for all of the items being considered in each of these components. For instance, 2004 personnel salaries and benefits were examined and inflated to 2007 levels with the supposition that the QSIC proposal would be considered as part of a legislative special session to be implemented in fiscal year 2007. Other areas where this type of analysis was done to determine costs was in purchased services, supplies and equipment, instructional materials, food service, information technology, operations and maintenance, student transportation, capital projects, and debt service.

This method of costing out the different components is also known as a cost-imputation strategy. Because school districts do not purchase and sell services in what economists would term a perfectly competitive market, it is extremely difficult to determine true “costs” facing those school districts. Therefore, after analyzing the actual levels, the extant research base, and consulting with educators in the field about the services offered in school districts, if the level of service is determined to be at an acceptable level and we assume that school districts (their administrators and their trustees) behave in cost-minimizing ways (that is, they do not pay any higher a price than they believe necessary), then the expenditures for those services serve as a close approximation for costs.⁶ One area that QSIC believed more needed to be done was in the ability of school districts to recruit and retain quality staff. Therefore, rather than use the existing salaries of the state and simply adjust them for inflation, QSIC examined the average salaries in comparison states and included an adjustment to compensation levels within their cost estimates. As a nearly finished product, QSIC was able to produce preliminary cost estimates. Work still remained in areas such as revenue generation.

Alternative methods of determining costs. The education finance community acknowledges that there are several methodologies available for estimating the costs of an education system. However, there is little to no consensus in the education finance community around a preferred method given the wide variance in estimates that can be generated. For instance, a series of costing-out studies were conducted in the state of California that yielded cost estimates ranging from \$1.5 billion in additional monies to a staggering \$1.5 trillion in additional monies. In scientific terms, there is very little reliability -- the ability to come to similar answers when the exercise is repeated -- in the field of costing out.

An additional caution that should be considered when receiving cost estimates is the realistic expectation of the outcome measures being considered in the study. For instance, some work attempts to estimate the costs of the federal No Child Left Behind (NCLB) outcome target of 100 percent proficiency. First, that outcome is a statistical impossibility. While it is noble and perhaps morally right to set high expectations for all students, the only way that such an outcome measure could be achieved is if a state set its cut-off scores for determining proficiency so incredibly low that it would become meaningless. Along those same lines, asking educators to estimate what resources would be needed to achieve that outcome measure is well outside of their expertise. Few if any educators in the nation have the experience of moving all of their students to proficiency.

Given the state of the art, or lack thereof, the results of costing-out studies should be presented and received as additional pieces of information to consider regarding the costs needed in a system. The results should not be considered as definitive calculations of cost that should dictate policy, but as general guidance for policymakers to consider as they fund the education of students in their state.

The reflection of costs in the funding system. The core of the Governor's legislative proposals for the December 2005 Special Session was based on QSIC's work to determine needs and costs of the newly defined education system. In addition to the work of QSIC, the Governor's office relied upon ongoing analysis conducted by the Office of Budget and Program Planning on issues such as teacher recruitment and retention. The Governor's office did not move forward with the QSIC-developed funding system with its many disaggregated components. The QSIC funding model disaggregated budgetary functions and objects (both general fund and non-general fund) and re-aggregated them into different components adding a great deal of complexity to understanding how the funding system would work. According to the October 2005 QSIC Progress Report, the classroom component still presented anomalous results generating estimates in the number of classrooms to be funded "substantially below" the number of teachers actually employed in several schools across the state. Given the determination of costs of these components by QSIC and the fact that they were disaggregated and re-aggregated resources that go into the delivery of education, the Governor maintained the current funding formula because of its more streamlined approach to funding school districts and worked to change the existing funding formula so that it reflected the costs explored by QSIC. Put another way, if the Committee estimated the costs of the disaggregated pieces of the current funding system and found little reason to substantially change those costs because the level of service being delivered was being done at an appropriate level, then keeping those cost items in their original form is appropriate and they reflect costs.

The Quality Schools Interim Committee developed a risk category index based on the percentage of students who were American Indian, the percentage of students eligible for the federal free or reduced-price lunch program, the percentage of migrant students, the percentage of students identified as limited English proficient, the educational attainment of women, and per-capita income. Those districts with higher than average index scores would receive an additional 10 percent of per-student component funding and those with very high index values might receive funding above and beyond the 10 percent per-

student component supplement. The use of these measures and the Legislature's decision to use the same formula used to allocate federal Title I funding accomplishes the same purpose of identifying students requiring compensatory funding to overcome the effects of conditions such as poverty. The intent of the QSIC at-risk index was to find an acceptable proxy for additional student needs in school districts. The Governor and Legislature took the work of QSIC and streamlined funding for at-risk students into two funding vehicles: an at-risk component to be funded through the same mechanism as federal Title I funding and an Indian Education Achievement Gap component that targets funding to address persistent achievement gaps.

QSIC adopted the then-current funding mechanism and level of support for special education believing that special education students were being well served and that the funding formula provided general funds to school districts allowing them to develop and deliver early-intervention services that then reduces the number of students identified into special education programs. To the special education component, QSIC added funds for salary augmentation, health insurance, and professional development consistent with their recommendations for personnel delivering the general education curriculum. The Legislature and Governor invested additional dollars above and beyond what the then-system was providing in special education, a signal that the Legislature provided funding above what were determined to be costs to the system. A critical aspect of special education is that state and school district programs must comply with federal special education laws and appropriate services must be delivered according to that law.

Figure 2.2 provides a summary comparison between the costs estimated by QSIC for fiscal year 2007 and 2008 and the actual appropriations for those years.

Fig. 2.2 (Revised): QSI Estimates and Comparable Actual Funding Sources

(Dollars in millions)	QSI FY 2007	Actual Funding FY 2007	QSI Adjusted for Inflation (3%) FY 2008	Actual Funding FY 2008
QSI Estimates				
Per Student Component	\$62.5			
Classroom Component	\$510.4			
Accredited Program Component	\$220.7			
Operation & Maintenance Component	\$106.0			
Special Education Component	\$66.8			
Indian Education for All Component	\$3.0			
Remove Retirement from District General Fund	(\$94.2)			
Retirement Fund	\$112.6			
QSI Estimates Total (Q-Line)	\$987.8		\$1,017.4	
New QSI Max (Assumes current over Max share of 97%)	\$1,197.7		\$1,233.7	
Comparable Actual Funding				
State Appropriated Contribution to District General Fund				
K-12 Base Aid		\$485.5		\$497.1
Special Education		\$39.3		\$40.4
HB 124 Block Grants		\$50.6		\$51.0
Instate Treatment & Indian Ed for All Grants		\$1.5		\$1.6
New Components		\$37.0		\$72.8
Total State Actual Contribution to District General Fund		\$613.9		\$662.9
Local BASE Contribution to District General Fund		\$99.4		\$93.6
Local OverBASE Contribution to District General Fund		\$143.3		\$154.3
Total District General Fund		\$856.6		\$910.8
Other Funding Sources (Budgeted)				
Retirement Fund		\$113.6		\$119.5
Technology Fund		\$22.4		\$23.0
Flexibility Fund		\$15.0		\$21.6
Building Reserve Fund		\$51.8		\$56.7
Other Funding Sources (Non Budgeted)				
Misc. Programs Fund from Local Sources		\$13.5		\$13.9
Total Other Funds		\$216.3		\$234.7
Total Comparable Actual Funding		\$1,072.9		\$1,145.5
Difference Between Comparable Actual Funding and QSI Q-Line		\$85.1		\$128.0
Difference Between Comparable Actual Funding and QSI Max		(\$124.8)		(\$88.2)
Other Funds included in QSI not included in these calculations <i>(Based on FY 2007 expenditure data because they are non budgeted funds)</i>				
Metal Mines Tax Reserve Fund		\$0.4		
State Mining Impact Fund		\$0.0		
Impact Aid Fund		\$33.7		
Total Other Funds included in QSI		\$34.2		
Additional One-time Funding				
		2007 Biennium	2009 Biennium	
QSI Recommendations				
Indian Education For All		\$7.0		
Weatherization & Deferred Maintenance		\$23.0		
Energy Relief		\$2.0		
Facility Study		\$2.5		
Additional State Appropriations				
Indian Education For All				\$3.0
Gifted & Talented				\$2.0
Capital Improvements & Deferred Maintenance				\$30.0
Kindergarten Startup				\$10.0
Facility Improvement Account (Set aside)				\$40.8
Retirement Funds (TRS & PERS)		\$125.0		\$50.0
Total One Time Funds		\$159.5		\$135.8

Sources: OPIBud07, OPIRev07, OPIExp07, LFD Post Session Reports for 2005 Special Session and 2007 Special Session, QSI Status Sheet dated 11/14/05, Profile Matrices of QSI entitlements dated 9/22/2005

QSIC base funding estimates for 2007 were \$987.8 million. The actual appropriations to schools, when including all of the funds included in the QSIC re-aggregation estimations at the state and local level, were \$1,069.9 million. That is, the efforts of the 2005 Legislature resulted in \$82.1 million in excess of the costs estimated by QSIC. This figure does not include the additional \$156 million appropriated in one-time only state funds for teacher and personnel retirement system contributions and operations and maintenance funds.

For 2008, the State's actual ongoing funding appropriations were \$117.6 million above the QSIC estimates. These QSIC estimates assumed a 3 percent inflationary increase when, in fact, the inflationary increase included in the 2008 appropriation was 2.76 percent. Therefore, the difference between actual and QSIC expenditures would be larger.

Montana's School Funding System and Recommended Best Practices

The Rural School and Community Trust issued a research report in 2006 that sought to inform state policies around the issue of school funding and declining enrollment. In "Breaking the Fall: Cushioning the Impact of Rural Declining Enrollment," Dr. Jimerson laid out seven state-level funding policies that states should consider as they attempt to address declining enrollments, especially for rural schools.⁷

Breaking the Fall: Cushioning the Impact of Rural Declining Enrollment State-Level Funding Policies

1. State funding formulas should include provisions that cushion the impact of declining enrollment, like the use of a rolling average or hold-harmless provision.
2. Every state should supplement state aid for small districts and/or schools based on enrollment and/or sparsity.
3. Supplemental aid for low enrollment should be determined and allocated on a school level.
4. Criteria for small school aid should be broad enough to cover all small, poor schools that cost more to operate because of low student enrollment.
5. Supplemental aid should be substantial enough to adequately cover additional costs associated with low student enrollment.
6. Supplemental aid should vary along a continuum of school sizes, with the smallest schools receiving the most additional aid, rather than setting artificial size categories.
7. States should avoid spending and levy caps, or eliminate them if they exist, so that local communities can fill gaps created by low enrollment if they so choose.

As an additional check on the work completed by the Montana Legislature, we analyzed how Montana's school funding system compares with recommended best state-policy practices identified for states with declining enrollments and small, rural schools.

Rural Trust Recommended Funding Policies for Declining Enrollment and Small, Rural Schools	Montana School Funding System
1. State funding formulas should include provisions that cushion the impact of declining enrollment, like the use of a rolling average or hold-harmless provision.	<ul style="list-style-type: none"> A three-year average Annual Number Belonging (ANB) provision funds 3,863 more “students” per year in the 2007 biennium given this provision at a cost of \$12.1 million.
2. Every state should supplement state aid for small districts and/or schools based on enrollment and/or sparsity.	<ul style="list-style-type: none"> An additional “basic entitlement” is provided for schools within a district that are at least 20 miles apart or when conditions exist that would create an unusual hardship for transporting students to another school.
3. Supplemental aid for low enrollment should be determined and allocated on a school level.	<ul style="list-style-type: none"> An elementary school district receives a “basic entitlement” of \$21,929 in 2009. A high school district receives a “basic entitlement” of \$243,649 in 2009. As passed in the 2007 special session, the Legislature created a middle school “basic entitlement” of \$60,275 for 2009.
4. Criteria for small school aid should be broad enough to cover all small, poor schools that cost more to operate because of low student enrollment.	<ul style="list-style-type: none"> At least one “basic entitlement” is guaranteed to every school district, regardless of size, to cover the costs of elementary, middle, and high schools. As mentioned in #2 above, small, isolated schools may be eligible to generate additional “basic entitlements” to cover costs.
5. Supplemental aid should be substantial enough to adequately cover additional costs associated with low student enrollment.	<ul style="list-style-type: none"> The “basic entitlement”, in conjunction with the “per-ANB entitlement”, covers some of the fixed costs associated with very small schools.
6. Supplemental aid should vary along a continuum of school sizes, with the smallest schools receiving the most additional aid, rather than setting artificial size categories.	<ul style="list-style-type: none"> The “per-ANB entitlement” portion of the state’s funding formula operates on a sliding scale with smaller schools receiving higher levels of per-ANB funding. The state includes a separate sliding scale for elementary schools districts, approved 7th-8th-grade middle school programs, and high school districts to reflect the different costs that face schools at different grade levels.
7. States should avoid spending and levy caps, or eliminate them if they exist, so that local communities can fill gaps created by low enrollment if they so choose.	<ul style="list-style-type: none"> Montana’s Legislature removed the requirement that districts exceeding the “Maximum Budget” because of declining enrollment bring their budgets down below their newly calculated “Max Budgets.” The change in law (HB 363) allows communities to maintain their current level of funding with local voter approval and levies.

Note recommendation #6 suggests that states not use artificial size categories to determine funding aid. Part of the Quality Schools Interim Committee (QSIC) preliminary set of recommendations was to provide funding to elementary schools and secondary schools according to a number of size categories for the per-student and classroom components. The categories were:

E6	<41 students		
E5	41-150 students	H5	<75 students
E4	151-400 students	H4	75-200 students
E3	401-850 students	H3	201-400 students
E2	851-2500 students	H2	401-1250 students
E1	>2500 students	H1	>1250 students

In fact, as noted in the QSIC interim report, anomalous results were resulting in some of these groupings that led to significantly fewer teachers generated than actually existed. In keeping with the current funding formula, the State of Montana has kept with suggested best practices from organizations advocating for small, rural schools.

Conclusion

Based on the work of QSIC and other resources available to the Governor, Legislature, and Montana public, the 2005 and 2007 Legislatures have made tremendous investments into their public education system. Careful consideration took place to develop a definition for a basic system of free quality elementary and secondary schools. The 2005 Legislature, in determining that definition, relied upon the prior work of a legislative committee and the consensus decision of the stakeholder representatives involved from all across Montana.

The Montana Legislature and Governor’s office have worked deliberately since 2000 to understand the educational needs of the state’s students and pursued efforts to appropriately fund those needs. Many of the changes to the state’s funding formula made by the 2005 and 2007 Legislatures stem from the work of prior committees, commissions, task forces, and councils. Inclusion of a three-year average of ANB to cushion the effects of declining enrollment, offering of full-day Kindergarten to improve the readiness to learn of all Montana children, and the Quality Educator Payment are examples of those policies explored and recommended by previous committees and ultimately put into place by the last two Montana Legislatures.

The most recent work completed by the Quality Schools Interim Committee (QSIC) in 2005 sought to estimate the costs of providing the basic system of free quality elementary and secondary schools articulated in Montana Statute §20-9-309(2) and the educationally relevant factors articulated in §20-9-309(3). QSIC applied a recognized method of estimating costs, a method similar to that used in other states such as Wyoming.

QSIC’s work in estimating the costs of the basic system served as the foundation for the work of the Montana Legislature and Governor as they continued their work through the 2005 Special Session, the 2007 Regular Session, and the 2007 Special Session.

Compared to the estimated costs of the system completed by QSIC, the efforts of the 2005 Legislature resulted in \$82.1 million in excess of the QSIC estimated costs. This figure does not include the additional \$156 million appropriated in one-time only funds for teacher and personnel retirement system contributions and operations and maintenance funds. For 2008, the State's actual ongoing funding appropriations were \$117.6 million above the QSIC estimates with additional \$110 million appropriated in one-time funding above and beyond.

In keeping with best practices articulated by researchers studying declining enrollments and small, rural schools, Montana's system of funding its schools satisfies all seven of their identified best practices. Though QSIC moved towards recommending a system with many more components, the current funding system accomplishes the distribution of funds in a less complicated manner and avoids some of the pitfalls identified by best practices.

Montana's schools are funded through a system that allows the Legislature to change the funding of schools according to educationally relevant factors such as the number of students in a district, the geographic isolation of schools, and the ability of districts to recruit and retain quality teachers and staff. In providing funding to school districts through this system, school districts have been provided maximum flexibility to allocate their resources in ways that they determine to best meet the needs of their communities. Most funding is provided through the districts' general funds. Even the Quality Educator Payment, designed to help augment salaries so that districts are better able to recruit and retain quality staff, is provided to districts in their general funds with no requirement that the funding be allocated directly to salaries. By providing for this flexibility, the Montana Legislature continues to fund schools in a manner that respects local control.

The Legislature defined in Section 20-9-309 the definition of a basic system of free quality elementary and secondary schools. In this statute, the Legislature also directed itself to determine the costs of that basic system and to create a funding system that recognizes the educationally relevant factors detailed in the statute. The Montana Legislature met these requirements. Through the work of QSIC, the Legislature and Governor went through a deliberate process of estimating the costs of delivering Montana's basic system of quality schools. The Legislature and Governor took the QSIC work and developed a funding mechanism that reflects the costs associated with providing the basic system of free quality public elementary and secondary schools, allows the Legislature to adjust the funding formula based on the identified educationally relevant factors, included inflationary adjustments, is consistent with state and federal laws, and distributes the state's share of funding in an equitable manner. Though further work could be done to consolidate the budgetary fund structure, the existing structure and the manner in which the State funded the system provides school districts with a great deal of flexibility and autonomy while at the same time ensuring accountability and efficiency within the system. The current school funding system is a result of the State's deliberate course of action to understand the needs of Montana's schools and the systematic ways in which it has provided funding to match those needs.

Chapter III. Local Control In Montana

For better or for worse (in our opinion for the better), the State of Montana is committed to school governance that centers on strong local control of its school. Article X, section 8 of the state Constitution requires “the supervisions and control of schools in each school district shall be vested in a board of trustees to be elected as provided by law.” But even in this context, the state must create the structure and provide the oversight to make the overall governance system effective and efficient. The Legislature confirmed its commitment to local control when it defined what “a basic system of free quality public elementary and secondary schools” meant. Specifically, it enacted Section 20-9-309 (2) (h) “preservation of local control of schools in each district vested in a board of trustees pursuant to Article X, section 8, of the Montana constitution.” As mentioned above, because there are so many districts, local control allows school districts to become an integral foundation in a community. We believe this contributes to the quality of Montana’s public schools, and the education that students receive.

Even though the state has committed to a local control system, there are still two critical roles that the state must play. First the state must establish a school finance system that addresses the three “E’s” – Efficiency, Equity, and Enough Money. Second, the state must monitor the system by providing the four “A” – Assessments, Accountability, Accreditation, and Assistance. Figure 3.1 summarizes these critical state roles, and below we discuss each of them in turn.

Fig. 3.1 Local Control Requires the State’s Three “E”s and Four “A”s Establish a State Finance System

- ✓ **Efficiency.** As required by Section 309, the state must ensure that public funds are used efficiently. This includes developing a system that creates the right incentives for local citizens to oversee the choices made by local school boards.
- ✓ **Equity.** The state must ensure that the resource allocation across districts, and the local ability to raise funding for schools ensures some level of equity in the system
- ✓ **Enough Money.** The state must monitor and ensure that there are enough resources in the system from a combination of state, federal, and local resources to provide a quality education.

Monitor the Quality of Schools

- ✓ **Accreditation.** Through the Accreditation process, the state ensures that schools have appropriate and high quality inputs for the educational process.
- ✓ **Assessments.** The state has developed academic content standards for core subjects and based on those standards has developed criterion referenced assessment that measure the quality of the education that schools are providing using the outcomes of its students.
- ✓ **Accountability.** The state has developed specific expectations for the student outcomes and requires those outcomes to improve over time.
- ✓ **Assistance.** The state provides technical assistance to help schools meet the accountability expectations.

The State Finance System: Efficiency, Equity and Enough Money

Within the local control governance system, the State must ensure that tax revenue from collected at the state and local level are used efficiently. To achieve this goal, the State must ensure that there are incentives in place for local school boards and superintendents to use their funding wisely and get the best outcomes for their students. Since the State does not dictate how school districts use resources in a strong local control finance system, it must rely on the oversight of local voters and taxpayers to enforce efficient use of resources by their districts. In addition, the State must monitor the quality of local decisions as discussed below.

A critical characteristic of an effective local control system is that the marginal dollar (the last or discretionary dollar) supporting the schools is local. Citizens are more likely to monitor and insist on efficient use of resources when it is their local tax dollars being spent. This is the case for most school districts in Montana. Each year, local voters determine directly through school levies and indirectly through the members they elect to the local school board whether to pay lower taxes, and save their money for personal consumption or invest their tax dollars to provide higher funding in their schools. Generally, local communities are very supportive of their schools as demonstrated by their approval of mill levies. This type of system ensures that school districts communicate with their communities, and justify how their tax dollars will be used.

Efficiency - Economic Theory Supports a Local Control Model.

Section 309 requires the Legislature in adopting a new finance system to “consolidate the budgetary fund structure to create the number and types of funds necessary to provide school districts with the greatest budgetary flexibility while ensuring accountability and efficiency.” Since the Legislature needs to ensure efficiency in the system, the funding mechanism it creates needs to be consistent with this goal. Public choice theory supports the role of local control and a local property tax-based funding system in creating an efficient school system. Caroline Hoxby, one of the leading economists working on education finance issues, concludes that “a system of public schools in which schools are organized into school districts and local education agencies and derive funding from local property tax revenues, is one of the best and most stable methods of financing public schools.”⁸ We discuss three of the factors that lead her to this conclusion next.

Systems based on local property taxes create the right incentives for communities to monitor their schools. The local property tax funding of schools provides a mechanism whereby prices reflect the value-added by the local public school through the “capitalization”. Living in a community with good schools raises the value of the property because parents desire to live in these communities and send their children to the quality schools. This higher demand raises the value of property benefiting homeowners whether they have children or not. Through this mechanism it creates the incentive for citizens to monitor the quality of their schools whether they have children or not. Once a district has proven itself to be successful, the district is rewarded by additional local support to continue the success.

Local financing creates incentives for school administrators to be efficient. Each year administrators must present annual budgets to their school boards and communities. If their programs are successful, property values rise as the demand for families to live in neighborhoods with these quality programs, in turn increasing the valuation of the property. This allows higher school revenues to be generated with the same local tax rate making future budgets easier to manage. In contrast if school quality falls, so do local property values, and districts face an uphill battle trying to raise local tax rates to generate the same level of revenues. So, administrators choose to be efficient with the use of resources to compete to attract families to the community increase the schools revenues in the future. Hoxby's work empirically verifies these incentives in several ways.

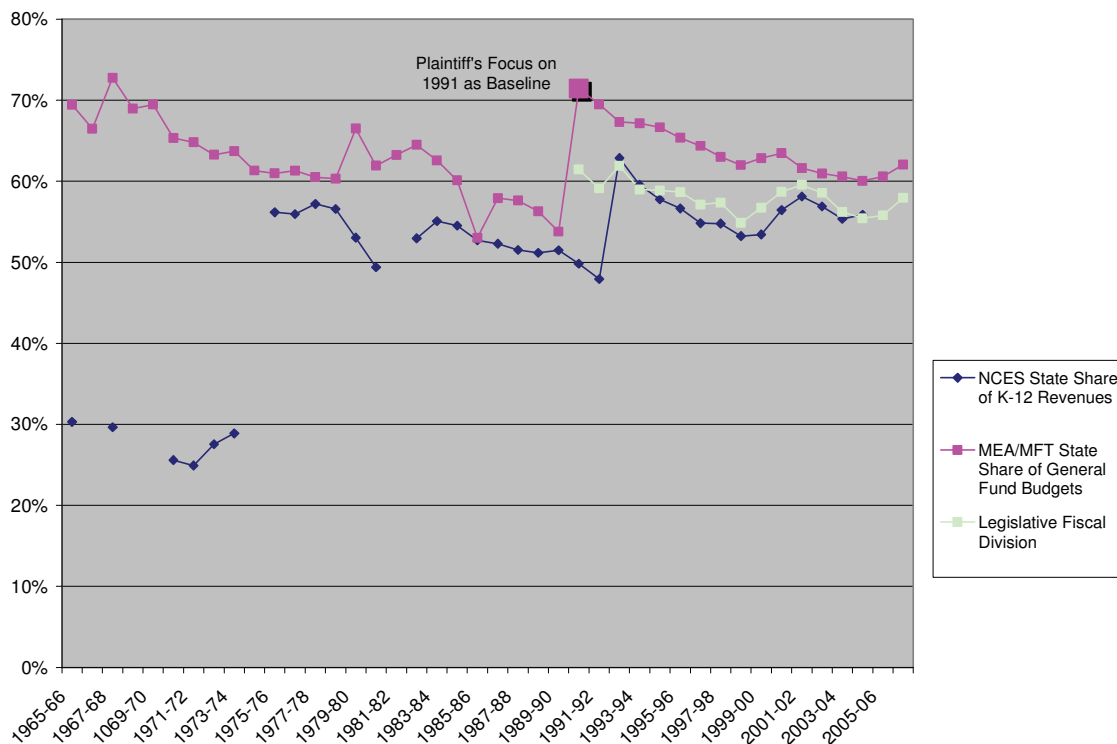
Local financing increases support for public education. Some states facing concerns over equity have transferred most of financing of public schools to the state level. Researchers have shown that this can have a detrimental impact by (1) decreasing the overall funding support for public education, (2) reducing student outcomes, and (3) increasing the share of enrollment that is in private schools. In response to equity concerns, some states like California and Washington transferred a larger share of the funding responsibility to the state level. Other states like Wisconsin (and later Montana) continued to maintain an important local share by subsidizing the local property tax funding of districts with low assess property value per pupil. These subsidy approaches are referred to as power equalization or guaranteed tax base (GTB) which is the approach that Montana uses. Researchers have found that states that ensured equity by transferring the fiscal responsibility and allocation decisions to the state level tended to have lower spending per pupil over time.⁹ They argue that at the state level, education must compete for resources with other spending priorities (health and social services, criminal justice, transportation, higher education). With increased state responsibility for school finance, families who highly value education lose their ability to directly influence the funding level of their schools. These families often have the means to find other ways to support their children's education (private school, creation of school foundations, self financed extra-curricular and summer activities), and may not be as supportive of statewide taxation as they were of local taxes where they knew where and how the dollars were going to be spent. Another reason that moving a larger share of the funding responsibility to the state level may not be desirable is that it can result in an increase in the volatility of the revenue sources. Generally, the property tax revenues are more stable than other revenue sources like the income tax. So, as Montana considers the state share of financing responsibility it is important to consider the unintended consequences of transferring a larger share to the State. See discussion in the textbox below for a discussion of the state share of Montana school revenues.

How Large Has the State Share Been in the Past?

In Montana, 1991 was the year with the highest state share in recent history, but that year was an outlier. In 1991, the Legislature was still working to develop a permanent fix to the state's funding inequity issues, and as a stopgap measure dramatically increased the state funding and reduced local funding. While the overall dollars in the system did not change much, who paid these costs did. Following the enactment of HB 667, the state share returned to historic levels of around 60 percent of the General Fund. Because other funding sources are also important to effective schools, focusing just on the General fund portion of funding may not tell the whole story.

In Figure 3.2, we display three trend lines – the MEA/MFT analysis of the state's share of general funds, and two other analyses of the state's share of total revenues. This shows that the state share is similar to where it has been in the last couple of decades, and that the investment is substantially higher than it was in the 1960's and early 1970's. In this historic context, the focus of the MEA/MFT data on just the General Fund portion of the budget tells a very different story than federal data reflecting all revenue sources. Historic data from the National Center on Education Statistics from the 1960's and 1970's shows that historically the state share of K-12 revenues was relatively low, and the system was largely a local financed one. While the data is not available for every year (because it comes from hardbound copies of the Digest of Education Statistics), it appears that the State began to play a more substantive role in the school finance system in the early 1970's shortly after the adoption of the 1972 Constitution.

Fig. 3.2 Determining the Appropriate State Share in Context.



Equity - Ensuring Equity of Funding While Maintaining Local Control

A second role the State must play in establishing a finance system is ensuring that there is equity across school districts. Following the Helena Elementary School District No.1 decision in 1985, the State struggled to maintain its local control system while ensuring equity across districts. The first attempts HB 28 in a special session in 1989 attempted to solve the equity problem, but the State found itself back in court in 1991.¹⁰ In that year, the State dramatically increased the state share of General Fund revenues and began working on a more permanent solution. In 1993, the Legislature passed HB 667 created a combination program that included a flat grant – funding per district, funding per pupil, and a partial funded Guaranteed Tax Base (GTB). In addition the law established a maximum and minimum general fund budget level for all school districts. This new model was developed in a revenue-neutral way, providing a similar level of resources as under the HB 28 model. Under the new model, all districts needed to be within this minimum-maximum budget within a specified time period.

In general, we believe that the model used to address the inequities in the finance system was a balanced one, that allowed the State to ensure that all districts were receiving revenues per pupil that were in a specified range. This approach allowed the State to meet equity needs by ensuring that all school districts over time would be funded within an acceptable funding band, while still maintaining a role for local revenue generation that is crucial to a local control system running efficiently.

Increased equity pushes districts up to budget maximums. The State faces a tension between ensuring equity and allowing districts to increase funding from local sources. This tension is particularly strong for declining enrollment districts. As a district's enrollment falls so to does the level of funding that the maximum budget generates. In fact, a district can quickly end up with their prior year budget being above the current year's budget max, thereby forcing a district to make funding cuts. To provide some relief from the impact of the budget max for these declining enrollment districts, the Legislature enacted SB 460 (1999 Legislative Session) and SB 390 (2001 Legislative Session) to expand the capacity of districts to adopt budgets that exceed the maximum budget. The 2007 Legislature eliminated the "soft-caps" and allowed districts to maintain prior year budgets over the maximums continually. In 2008, there were 105 districts that were over the budget max. These districts may operate over the budget maximum with local voter approval up to the aggregate funding level in the prior year. This allows them to generally maintain their staff even as their enrollment continues to fall.

In addition, as part of the Legislature's funding response in 2005 and 2007, the State increased the base funding by adding the four new funding components to the base and increases to special education and the basic and per ANB entitlements. Even districts over the max budget received payments from the four new funding components in addition to the prior year max budget. These new state-funded investments also raised the base budget, which increased the maximum budget levels. This provided districts additional opportunity to increase their local funding for schools, and from the data it appears that many districts have taken advantage of this. As more districts have begun fund at or near the maximum budget, the State has likely increased the overall equity in

the funding system. So while some districts are constrained by the maximum budget, there are equity benefits to these constraints. In fact, the funding may be even more equitable than even these numbers suggest because many of the districts near the base funding level receive additional funding from an additional source. For example, districts with no impact aid funding average 98 percent of the max budget. In contrast, districts receiving more than \$1,000 per pupil in impact aid average only 85 percent of the max budget. A similar story is true of districts with oil and gas revenues and other funding anomalies.

Enough Money – Providing Enough Money to the New System

The final role of the State in establishing a school finance system is ensuring that once all the state, local and federal revenues are combined there is sufficient funding to provide the quality of schools that the State’s children deserve. This question is critical to our discussion of Montana schools. Above we discussed in detail the additional investments that the Governor and the Legislature have made over the last four years, and its general relationship underlying costs and concluded that there was enough funding in the system to meet the state’s requirement to provide a quality education. How then do we reconcile that finding with the fact that accreditation violations still occur? We address that issue in the next section as we discuss the accreditation process and why violations in accreditation occur, and then in Chapter VI we discuss how resource decisions to meet the accreditation requirements interact with other resource allocation decisions.

Monitoring Schools:

Accreditation, Assessments, Accountability, and Assistance

The state has established a governance structure that largely allows the school districts to determine the “how” of the education process while ensuring that the district provides sufficient inputs through its accreditation system, and achieves expected outcomes. But even in a local control system, the state has a critical role to play, and it appears that Montana is successfully meeting those requirements. The state needs to establish expectations of what quality means, monitor those expectations and provide supports and interventions when a school or district is not meeting those expectations. It is fulfilling this role by providing the four “A’s” to monitor the decisions and effectiveness of school districts – accreditation, assessment of outcomes, accountability for outcomes, and assistance to those struggling with one of the other A’s.

Accreditation Ensures Students Get Necessary Inputs.

The Montana K-12 Public School Renewal Commission, established during the 2003 Legislative Session, explored several issues related to the governance, structure, and finance of the Montana public education system. The Renewal Commission employed a consensus-based process throughout the course of their work. The Renewal Commission’s first agreement was a consensus decision that “the Montana Accreditation Standards are the foundation upon which a Montana quality education should be built.”

As part of the accreditation process, the State has developed:

- Content standards – what all students are expected to know, understand, and be able to do in a specific content area – 10.55.602(5);

- Performance standards – the specific expectations for performance in each content area at each of the three benchmarks. Performance standards define the quality of performance and describe the performance to be demonstrated – 10.55.602(10);
- Program area standards – the subject matter Montana school districts are required to offer and the strategies and proven practices used to instruct. The program area standards include: communication arts, arts, health enhancement, mathematics, science, social studies, vocational/technical education, technology, workplace competencies, library media, school counseling, and world languages – 10.55.602(11); and
- Program delivery standards – the conditions, practices and resources school districts are required to provide for all students to have educational opportunities to learn, develop and demonstrate learning to content and performance standards – 10.55.602(12).

Beginning with standards detailed in 10.55.701, Montana’s program delivery accreditation standards are some of the most detailed and rigorous inputs-related accreditation standards in the nation. According to the 2005 Accreditations Manual, these standards guarantee students the benefits of attendance in accredited schools and provide the basis for transfer. To demonstrate progress towards these standards, school districts are required to submit five-year plans and, when necessary, revise them to demonstrate progress towards implementing all content, performance, and program area standards. The Office of Public Instruction monitors and evaluates the effectiveness of each school district’s plan and provide guidance, resources, and evaluation to assist in the implementation of district and school plans to improve teaching and learning for all students (10.55.601(3)(c) and 10.55.601(4)).

In keeping with the tradition of local control, school districts may apply to the board of public education to implement an alternative to a standard or a section of standards. According to 10.55.604(1)(a), the school district must provide evidence that its proposed alternative standard is workable and educationally sound in comparison to the intent of the standard to be waived and that the goals of the alternative will meet or exceed the results under the current standard(s). Initial approval of an alternative standard shall be made for two years upon which time the Board of Public Education conducts an evaluation. Subsequent approvals are made for five years.

Section 10.55.605 details the categories of accreditation:

- Regular accreditation
- Regular accreditation with minor deviations
- Accreditation with advice
- Deficiency accreditation
- Nonaccredited status

As the severity of the standards deviation increases, the lower the accreditation status a school receives. As mentioned earlier, schools must submit five-year plans detailing how they intend to reach all of the accreditation standards. When a school receives less than “regular accreditation,” the school district must detail how it intends to come into compliance and the Office of Public Instruction will work to provide evaluation and

technical assistance if necessary. A school with “accreditation with advice” and “deficiency accreditation” must submit a plan of correction and/or come before the Board of Public Education with an improvement plan and a systematic procedure for correcting the deviations noted and the Office of Public Instruction will facilitate assistance to enable the school to accomplish the corrections to the deviations (10.55.605(4)(b)). In conversations with Office of Public Instruction staff, they explained no school has reached the stage of receiving “nonaccredited status.”

According to the 2007-08 Montana Accreditation Status Recommendations, 73 percent of public, private, and state-funded schools received Regular or Regular with Minor Deviations accreditation statuses. Since 2003-04, between 73 percent and 84 percent of schools received this level of accreditation. Over this same time period, between 8 percent (2006-07) and 12 percent (2003-04) of schools received Accreditation with Advice status. The remainder of schools received Accreditation with Deficiency status. The most severe accreditation violations are those that involve unlicensed teachers in the classroom. According to the Office of Public Instruction, 99.8 percent of teachers are licensed and 99.4 percent of teachers are licensed and endorsed in their subject areas. In all, 98.5 percent of all Montana classes are taught by properly credentialed and assigned teachers.¹¹

Further analysis of highly qualified teachers in core academic classes provides another measure by which to measure whether these deviations relate to classroom teachers.

Fig. 3.3: Highly Qualified Teachers in Montana’s Core Academic Classes

	# of Core Academic Classes	Core Classes Taught by HQ Teacher	Classes with Non-HQ Teacher	Percent of Classes Taught by HQ Teacher
All Classes	23,523	23,387	136	99.40%
Elementary Schools				
High-Poverty Schools	1,392	1,391	1	99.90%
Low Poverty Schools	720	719	1	99.90%
All Elementary	4,826	4,822	4	99.90%
Secondary Schools				
High-Poverty Schools	2,499	2,467	32	98.70%
Low Poverty Schools	6,082	6,038	44	99.30%
All Secondary Schools	18,697	18,565	132	99.30%

Source U.S. Department of Education, *Consolidated State Performance Report: Parts I and II for each state.*

Montana schools’ ability to recruit and retain highly qualified teachers makes the state only one of four states in the nation with over 99 percent of courses taught by Highly Qualified Teachers. North Dakota (100 percent), Michigan (99.6 percent), and Iowa (99.2) percent are the other three states meeting the 99 percent threshold. By way of comparison, Figures 3.4 and 3.5 break down the percentage of core academic classes

taught by HQT in elementary and secondary schools, respectively, in Montana and comparison states.

Fig. 3.4: Core Elementary Classes Taught by Highly Qualified Teachers

	All Schools	Elementary		
		High-Poverty Schools	All Schools	Elementary
US	94.30%	93.50%	96.60%	95.90%
Colorado	98.10%	98.30%	98.30%	98.30%
Idaho	71.30%	72.60%	72.60%	70.90%
Montana	99.40%	99.90%	99.90%	99.90%
Nebraska	97.50%	98.60%	96.90%	98.40%
Nevada	86.60%	86.00%	93.30%	90.00%
North Dakota	100%	100%	100%	100%
South Dakota	97.90%	98.90%	98.50%	99.10%
Utah	78.80%	89.20%	84.40%	87.40%
Wyoming	95.60%	95.60%	96.10%	96.80%

Source U.S. Department of Education, Consolidated State Performance Report: Parts I and II for each state.

Fig. 3.5: Core Secondary Classes Taught by Highly Qualified Teachers

	All Schools	Secondary		
		High-Poverty Schools	Low Poverty Schools	All Secondary
US	94.30%	88.70%	95.40%	93.00%
Colorado	98.10%	96.20%	97.80%	97.20%
Idaho	71.30%	74.10%	68.20%	71.00%
Montana	99.40%	98.70%	99.30%	99.30%
Nebraska	97.50%	96.10%	97.70%	97.10%
Nevada	86.60%	80.00%	87.60%	85.40%
North Dakota	100%	100%	100%	100%
South Dakota	97.90%	95.10%	97.00%	97.30%
Utah	78.80%	75.70%	85.10%	77.50%
Wyoming	95.60%	93.20%	97.40%	95.30%

Source U.S. Department of Education, Consolidated State Performance Report: Parts I and II for each state.

Montana is one of only four states in the nation that has more than 99 percent of its core academic classes taught by highly qualified teachers. Idaho (71.3 percent) and Utah (78.8 percent), on the other hand, have particular trouble with the recruitment and retention of highly qualified teachers to teach the core subjects in their schools. Idaho has problems in both its elementary and high schools while Utah is especially challenged in its high-poverty secondary schools.

Analyzing the frequency of the accreditation deviations and the number of times that the deviation(s) occurred provides an indication of the severity of the deviation facing the state. Beginning in 2003-04 through 2007-08, there was a total count of 354 schools that received a status of “accreditation with advice” or “deficiency accreditation.” Of those

354 schools, 65.5 percent had their deviations corrected in one year or less. Of the 338 schools that received a status of “regular accreditation with deviation,” 76.9 percent had their deviations corrected in one year or less. This transitory nature of deviations could be considered “structural deviations” in that accreditation status recommendations made by the Office of Public Instruction to the Board of Public Education are a snapshot in time. Given the exiting and entering processes related to staffing, the accreditation status has tended to reflect temporary conditions in schools and school districts.

The accreditation process allows for districts to pursue alternative standards with the understanding that the alternative standard must be at least as rigorous or better than the existing standard. According to the Office of Public Instruction, 15 percent of schools have at least one alternative standard in place. Of the 183 alternative standards in place in 2007-08, 86 are alternatives to the Library Media standard found in 10.55.709 and 88 are alternatives to the Guidance Counselor standard found in 10.55.710.

The tradeoff decisions between salary increases for staff and the hiring and compensation of additional staff that satisfy accreditation standards are resource allocation decisions vested with local school districts. The accreditation process provides flexibility to school districts to pursue alternative standards. Finally, the State provides oversight and technical assistance to school districts throughout the process working with school districts to remedy deviations to the accreditation standards.

Assessment Shows Montana Schools are High Achieving & Improving.

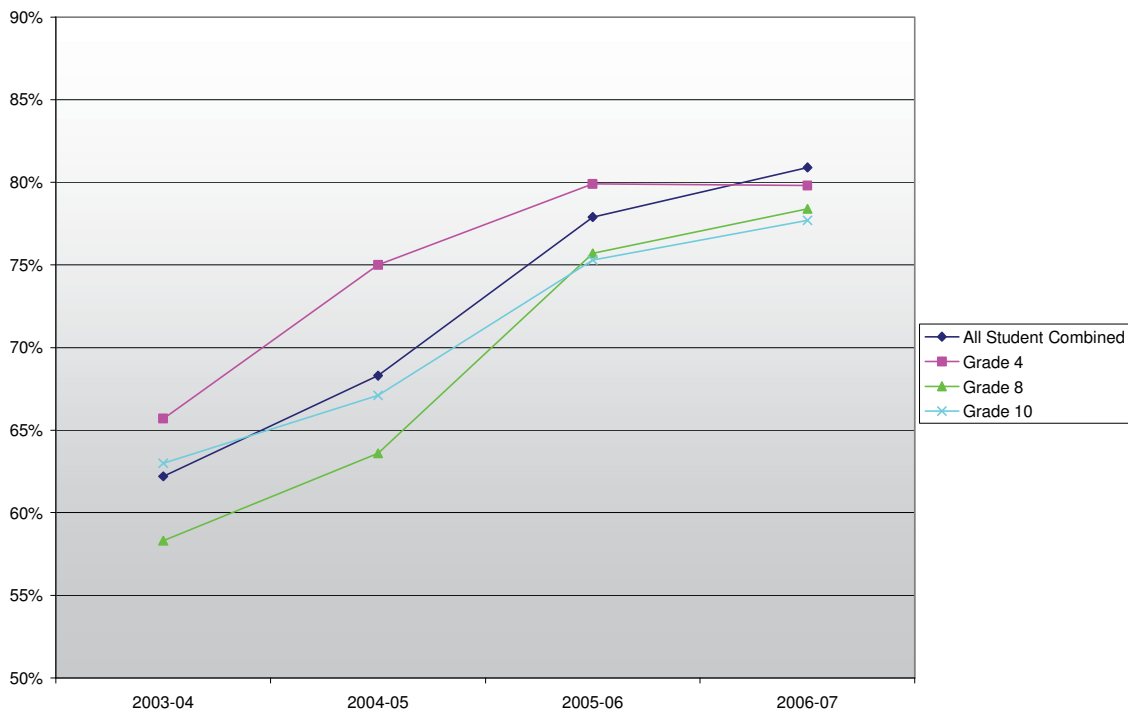
A critical role that the state plays in monitoring the quality of the education system in the state is to measure the quality of the education that students receive using student assessments and other measures. The Supreme Court suggests the need to continue to monitor the outcomes of Montana’s education system: “The voluminous evidence presented at trial and summarized in the preceding paragraph established that although Montana’s students are testing well when compared with students in similar states, there are serious concerns as to whether this level of achievement will continue. With the District Court’s findings of fact in mind, it may be that the achievement registered by Montana’s students is not because of the current educational system.”¹²

Below we provide an analysis of the outcomes of the State’s assessment system to verify that this high level of achievement has continued. In addition, the Legislature through Section 20-9-309 requires the State to administer “a procedure to assess and track student achievement in the programs established” to ensure a basic system of free quality public elementary and secondary schools is being provided. Because of these requirements, we provide updated information that shows that Montana schools are performing better than ever and that on top of the fiscal resources that the State has historically provided, the it has also developed a new statewide assessment system that allows each student and school to be measured against the State’s academic expectations. This assessment system allows students to be informed as to whether they are meeting the state’s expectations as early as 3rd grade, and encourages districts to provide supports to those students who are not yet meeting expectations. It allows schools and districts to evaluate their programs over time to determine what is working and what is not. In an effort to support the

continuous improvement of schools, this new state assessment provides schools with an important measuring stick by which to judge their progress.

Montana tests students against state standards. Montana has made much progress in fulfilling the assessment requirements of Section 309. Based on State Board of Public Education’s adopted academic content standards, OPI has developed the Montana Criterion Referenced Test (CRT) that assesses students in grade 3 – grade 8 and grade 10 in reading and math (expanded from grades 4, 8, and 10 in the first two years). Because there is four years of data, we focus our analysis on these grades. Since the start of the testing program, reading scores have improved in all grades and for all subgroups of students. To not overwhelm the court with analysis of the Montana student achievement results we provide only a few summary charts here, but provide several additional figures in Appendix A showing more detailed statewide results, and the results for the plaintiffs’ focus districts for all students and special needs students.

Fig. 3.6: Montana CRT Reading – Significant Growth in All Grades
(% at or above proficient)

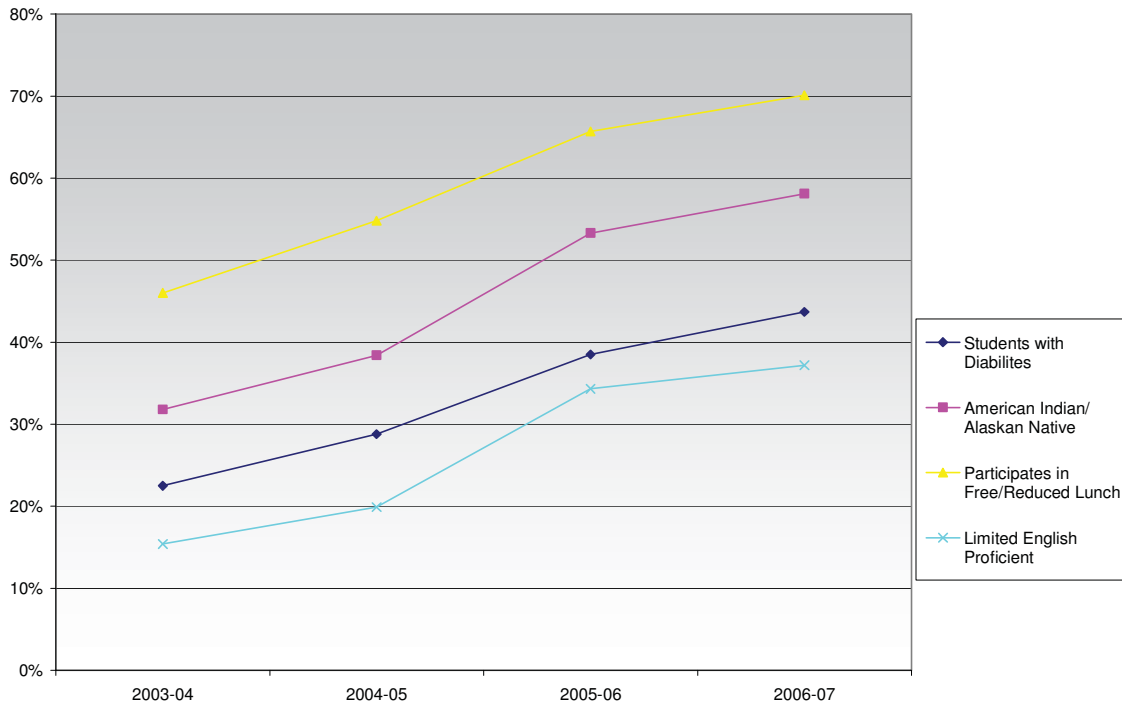


Source: OPI.

Montana Assessment Results Remain Strong, and Appear to Make Additional Progress. Figure 3.6 shows reading scores for key grade levels. Between 2003-04 and 2006-07, around 15 to 20 percent more students are testing as proficient in reading. Similar results are seen for special needs students, and in fact there appears to be some closing of the achievement gap between special need students and non-special need students. For math, while achievement is high and generally improving, student

proficiency rates decline slightly over time. Again, math scores for all special need students are improving as shown in Figure 3.8. School districts have clearly responded to the incentives created by an assessment and accountability system, and they have been successful. Results for the plaintiff districts generally show that their achievement improvement mirror the results of the overall state outcomes and are displayed in Appendix A.

Fig. 3.7. Montana CRT Reading - Special Need Populations Improving
(% at or above proficient)



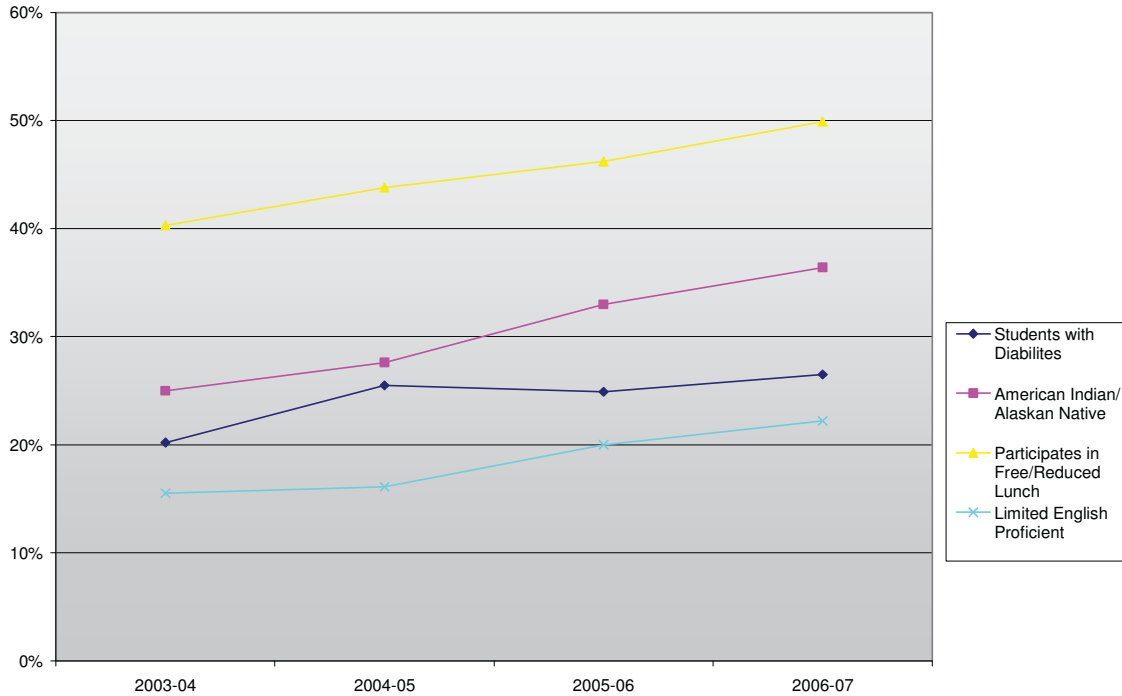
Source: OPI.

Special needs students make clear gains. Since a critical focus of Section 20-9-309 is the quality of education provided to special needs students, it is important for the state and districts to focus on the outcomes of these subgroups. Figure A.3 show the gains in student achievement by these populations over the four years. Reading scores have grown significantly over the four years for all four of the special need groups. Each group has seen an additional 20 percent of students meet the state’s proficient level.

For special education and limited English proficient students, this increase has at least doubled the proficiency rate over the four years. While there have been significant improvements, scores remain low especially for special education and limited English proficient students. Most of the limited English proficient students are also American Indian (four of the five largest limited English proficient language groups are – Blackfeet, Crow, Dakota, and Cheyenne). Because the gains for these special need groups are larger than the gains for the statewide averages, it means that these subgroups have been able to

close the achievement gap with students without special needs. Special needs students have also made gains in math. While not as large as the gains in reading, some progress has been made for each of the special need student groups.

Fig. 3.8: Montana CRT Math - Special Needs Populations Improving
(% at or above proficient)



Source: OPI. Note combines results from all grades.

In conclusion, students in Montana appear to be making encouraging progress in most grades and subject areas. It appears that schools are responding to the incentives that are created by implementing an assessment that measures the students against Montana’s expectations, and holds schools accountable for the results. Next we turn to compare how Montana students are doing when compared to other states in the region and nationally.

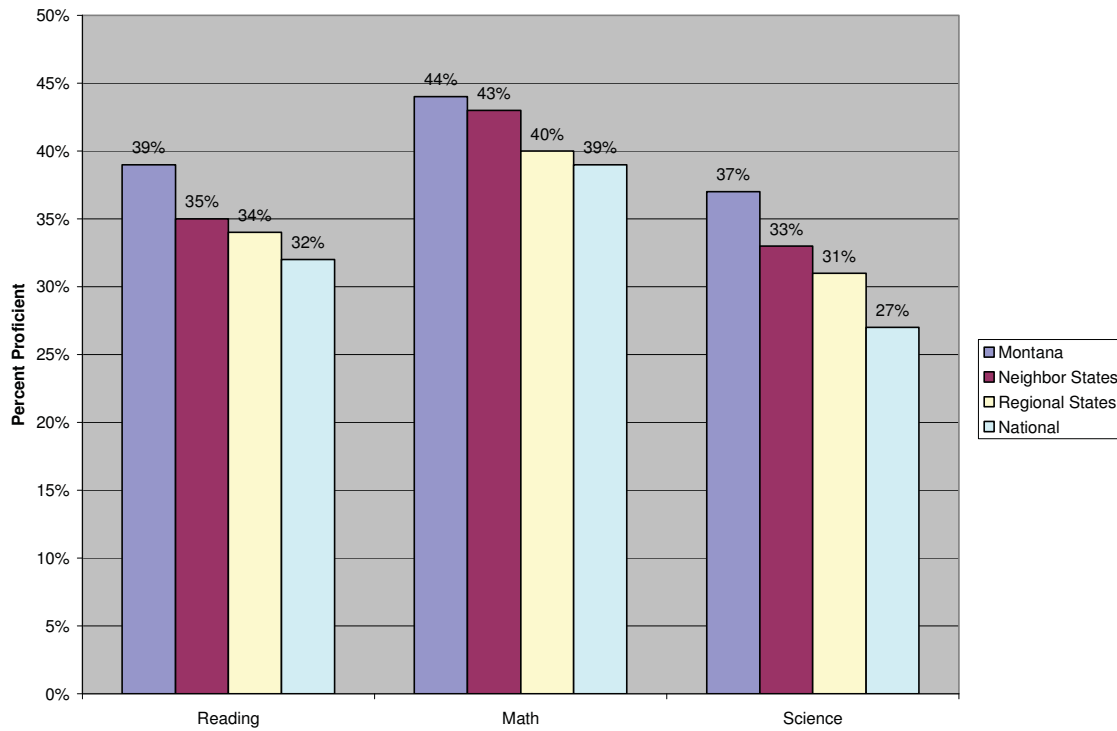
National Assessment of Educational Progress (NAEP) allows cross-state comparisons.

An important benchmark to ensure that the state schools are doing well overall is a comparison of Montana students’ outcomes with the results in other states. In these comparisons, Montana education system appears to be quite effective not only for students overall, but also for special need students.

Figure 3.9 shows the percent of students proficient or above on the NAEP for three key subjects in fourth grade. The trend is clear, that Montana outscore its neighbors, who outscore other states in the region who in turn outscore the national average. Not only does Montana do well overall, most of its special need students do well compared to those populations in other states. Figure 3.10 summarizes Montana’s ranking among the

50 states in different subjects, grade level and for different student populations. Montana’s students eligible for a free/reduced lunch are the highest achieving in the nation in 4th grade reading, and are in the top 10 states in all other subjects and grades. Clearly Montana is doing better than other states at overcoming the impact that poverty has on a student’s achievement.

Fig. 3.9: 4th Grade Students Proficient on the NAEP By Subject
 (% at or above proficient)



Source: National Center on Education Statistics. Regional States include – Colorado, Idaho, Nebraska, Nevada, North Dakota, South Dakota, Utah and Wyoming.

Fig. 3.10: Montana Is High-Achieving Compared to Other States on NAEP
(Ranked based on percent proficient and above)

4th Grade	Reading	Math	Science
All Students	7th	13 th	5th (of 44 states)
Students with Special Needs			
- Free / Reduced Lunch Eligible	1st	8 th	5th (of 44 states)
- Special Education	21st	25 th	5th (of 44 states)
- American Indian	8th (of 13 states)	9th (of 13 states)	4th (of 9 states)
8th Grade	Reading	Math	Science
All Students	3rd	10 th	2nd (of 44 states)
College Educated Parents	8th (of 49 states)	16th (of 49 states)	4th (of 44 states)
Students with Special Needs			
Free / Reduced Lunch Eligible	5th	8 th	5th (of 44 states)
Parents Did not Finish HS	3rd (of 48 states)	14th (of 48 states)	1st (of 44 states)
Special Education	20th	37th (of 49 states)	6th (of 44 states)
American Indian	6th (of 13 states)	7th (of 12 states)	5th (of 9 states)

Source: National Center on Education Statistics. NAEP reading and math scores are from 2007 and science scores are from 2005.

Montana’s educational growth is highest in the nation. The Supreme Court’s observation that “it may be that the achievement registered by Montana’s students is not because of the current educational system,” raises an empirical that two Montana researchers attempt to answer. Watts and Young from Montana State University investigate the issue of Montana school quality.¹³ They suggest that educational quality should focus on academic outcomes instead of inputs. They reference many of the high achieving outcomes that we discuss above. But they go one step further. They suggest that one of the “inputs” in the production of a quality education in the students themselves. Schools that begin with better students, parents and communities are likely to produce better outcomes, even if the schools themselves are not especially strong.

They suggest that one way to measure the quality of Montana schools is to focus on the growth or “value added” that the schools provide over time. Just looking at the level of student a student achieves, it is difficult to determine if a student did well because they were already high achieving, or if the student did well because of the quality of the education that he or she received. To distinguish between the whether a student’s prior knowledge, or the education they receive, drives their achievement, researchers instead focus on how much improvement a student has made. In this way, the research effectively compares each student against herself. This type of measure is more likely to reflect learning and not prior knowledge, and is generally referred to as a “value-added” or growth measure of achievement. Watts and Young apply a value added approach. Specifically, they look at the growth in student achievement between 4th grade and 8th grade. The logic is that the impact that the student themselves and community inputs have will be reflected in the 4th grade scores, thus the growth in scores from 4th to 8th grade would reflect the quality of the schools, not these other inputs.

Figure 3.11 shows the growth on the NAEP between 4th and 8th grade for various subjects for neighboring states and the national average. It then ranks the states based on these growth measures of school quality. Montana schools are able to produce strong growth in student achievement suggesting that the schools are high quality. Montana's growth ranks them in the top 10 states in all subject areas. And in fact they observe that among states with all four exam scores available, Montana has an average rank of 4.5, the highest in the nation.

Fig. 3.11. Growth in NAEP Scores from 4th to 8th Grade and State Rank

	Math Growth	Rank	Reading Growth	Rank	Science Growth	Rank	Writing Growth	Rank
Idaho	45	11th	46	10th	6	6th	1	9th
Montana	50	1st	47	8th	5	4th	3	5th
North Dakota	49	2nd	48	4th	1	13th	-3	28th
South Dakota	48	4th	48	4th	n/a		n/a	
Wyoming	43	22nd	45	16th	0	20th	1	9th
All State Avg	42		45		1		-1.5	

Source: Watts and Young (2005)

Montana has one of the nation's top high school completion rates. A final outcome measure of the K-12 system is the high school graduation rate. Nationally, high school dropout and graduation rates have been considered suspect because school districts often under-report these statistics. It can be difficult without a statewide longitudinal database for a district to differentiate between a student whose family moved (not returning to school), and a student who dropped out. The data information system that the state is currently developing will improve the quality of dropout rate data. An alternative measure that provides similar information is the percent of 25 year olds that have graduated from high school collected by the U.S. Census Bureau.¹⁴ Figure 3.12 shows the completion rates for Montana and other states in the region. It shows that Montana's completion rate is higher on average than it neighbor's, the regional states and the nation. It is one of 5 states with over 90 percent of 25 year olds having completed high school.

Fig. 3.12: High School Completion Rate
 Percent of 25-year Olds Completing High School or Higher

Montana	90.7
US Average	84.2
Neighbors	
Idaho	86.7
North Dakota	88.2
South Dakota	88.6
Wyoming	91.3
Average	88.7
Regional	
Colorado	88.7
Idaho	86.7
Nebraska	89.5
Nevada	82.8
North Dakota	88.2
South Dakota	88.6
Utah	90.1
Wyoming	91.3
Average	88.2

Source: U.S. Census Bureau

Conclusion – Montana Schools Provide A Quality Education. Based on data from the Montana Criterion Referenced Test, the National Assessment of Education Progress and other measures, we conclude that Montana is one of the highest achieving states in the country and is providing its students with a quality education. Both the level of achievement and the growth in achievement verify this finding. The state’s scores in reading have grown significantly recently, and is economically disadvantaged students (free lunch or parents without a high school degree) are among the top 5 achieving groups nationally. There are some areas where schools have additional work to do. Two areas where schools will need to focus additional attention in the future include high school/middle school math and overall achievement of American Indian students. The state has developed a system, that provides the measurement tools (state tests and a new student longitudinal data system) to identify these areas that need additional attentions, and have created the incentives and supports if continued improvement is not made.

Accountability Provides a Critical Check on School Districts.

The State has begun to hold schools and districts accountable for their students’ outcomes. The federal No Child Left Behind Act (NCLB) has forced all states to develop a specific model of accountability. While NCLB has a lot of problems and sets unrealistic expectations, its implementation of accountability has had positive impacts. The accountability requirements have begun to focus districts more on the outcome of their students than ever before. While there is not a definitive link, the direction that Billings Public Schools is heading with its budgeting process is consistent with the incentives that an accountability system can have. Specifically, Billings Public Schools

adopted a “Budgeting for Results” process in which the district will fund only the programs that fund student achievement. The Budgeting for Results enables the district to align resources with a clear set of measurable district-wide results, or goals.

Perhaps more importantly, the State’s accountability system focuses more attention on special need students, and schools and districts have responded to the additional attention as seen in the assessment discussion above. If a group of special need students do not meet the State’s expectations for achievement, then the whole school fails. The accountability system holds schools accountable for the improvement of their special needs students, and tracks the progress of these students from year to year. To the extent that the needs of these children may have been overlooked in the past, they no longer are. State must continue to hold schools accountable for the outcomes of all students. And, even with all of the flaws in the NCLB accountability program, the State has been able to change the focus of schools and districts in a direction consistent with the requirements of Section 309.

Assistance Supports School Improvement Activities.

The final piece of the State fulfilling its role of measuring and monitoring school quality is to assist districts and schools that are struggling with accreditation standards or student achievement progress. We have discussed the assistance the State provides as part of the accreditation system above. In addition, OPI has taken three specific steps with support from the Legislature to improve the level of assistance of districts that are struggling:

- ***Guidebook to Correlates and Indicators for Effective Schools.*** The OPI has developed a guidebook to help districts assess themselves against best practice standards in nine areas including – (1) curriculum, (2) classroom evaluation / assessment, (3) instruction, (4) school culture, (5) student, family and community support, (6) professional growth and development and evaluation, (7) leadership, (8) organizational structures and resources, and (9) comprehensive and effective planning. By providing districts this tool, the districts can conduct self assessments, and grade themselves against the specific indicators of effective programs.
- ***Scholastic Review Teams.*** The OPI is entrusted by the Board of Public Education to assist all schools in providing the opportunity for all children to attend schools actively engaged in the continuous school improvement process. OPI has selected and trained academic review teams to conduct on-site visits to provide ongoing support to Montana schools. Scholastic Review Teams provide each visited school with a road map for the next steps in their continuous improvement. These teams utilize the indicators from the guidebook discussed above to assess where the district is and what it needs to do to improve. This assessment becomes part of the foundation to monitor the district or schools over time.
- ***Curriculum Specialists.*** Part of the Legislative package adopted in the 2007 Session funded curriculum specialists in OPI to provide support for districts in curriculum development.

Conclusion

The State Has Established and Efficient Equitable Finance System and Provides Appropriate Measurement and Monitoring of the System. In our opinion the State has taken the appropriate steps to establish a school finance system that meets the three “E’s” - efficient, equitable, and has enough money in it. The State relies on local communities to ensure that districts are using funding effectively because the communities are stakeholders in the success of the schools. By establishing a base funding level, providing a guaranteed tax base support to districts with low valuation, and capping a district’s budget at a maximum budget, the State has created an equitable funding system. In fact, the equity in the system has likely improved as more districts have had declining enrollment or have passed local levies to move them closer to the budget maximums. To monitor schools within the local control context, the State has also fulfilled the four “A’s” – accreditation, assessment, accountability, and assistance. Steps taken by the State to fulfill each of these roles ensures and improves the quality of the education that students in Montana receive.

Chapter IV. District Tradeoffs in Local Decisions

Consistent with Montana’s local control governance structure, school districts are in charge of their resource allocation decisions, and determine how programs are implemented. And, with the exception of the requirement to meet specific staffing ratios as dictated in the accreditation requirements, school districts are free to use resources at their discretion. However, when the districts do not meet their accreditation requirements, it raises the question of whether the problem was largely transitory as discussed above, whether the district did not meet its accreditation standards because of other resource allocation decisions the district made, or whether the state and local taxpayers have not provided sufficient resources to meet the standards. Above we showed that largely these accreditation violations are temporary, and often reflect the time constraints of the hiring process. Before one could conclude that the cause of an accreditation violation was a lack of resources, we must evaluate the resource allocations the district made, and whether those decisions were consistent with placing the highest priority on meeting their accreditation requirements.

Figure 4.1 summarizes the findings that we make about some of the more resource intensive decisions districts make, and how in general those resource allocation decisions have been made in Montana in recent years. Generally since the trial (1) salaries have increased significantly, (2) class sizes have been reduced with many districts adding additional staff even when their enrollment was falling, and (3) districts have pursued other policy initiatives. Below we investigate each of these local budgeting decisions in greater detail.

Fig. 4.1: Districts Make Discretionary Tradeoffs in the Budget Process

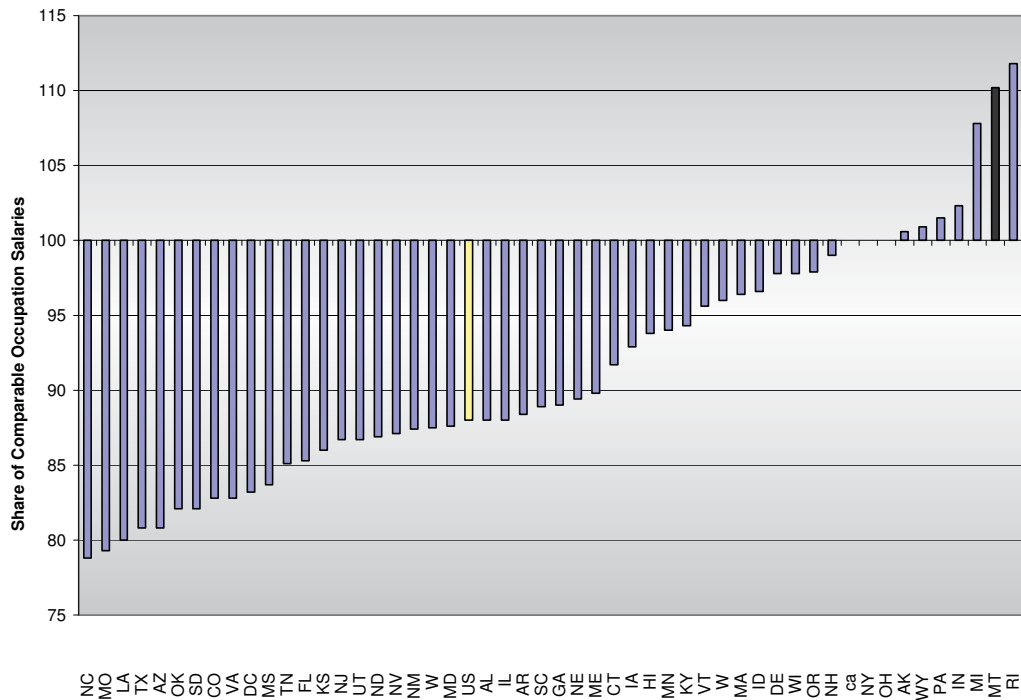
- | |
|---|
| <ul style="list-style-type: none">• Increasing Teacher Salaries – Based on the most recent salary data, Montana teacher salaries are competitive with states in the region, and are higher than other professionals in the state. The teacher salaries in the larger plaintiff districts are substantially higher than salaries elsewhere in the state. Statewide districts have invested a large share of their new resources in this area. |
| <ul style="list-style-type: none">• Staffing, Class Size, and Student/FTE Ratios – Generally, districts have continued to invest in hiring additional staff in spite of the overall decline in student enrollment. This has allowed districts to reduce class sizes and provide additional staff for other programs. |
| <ul style="list-style-type: none">• The Other Cost Factors – Districts choose to maintain small districts, and maintain large buildings with under-utilized space even in the more urban areas of the state. |
| <ul style="list-style-type: none">• New Local Initiatives –Billings has pursued a neighborhood school policy and has opened two elementary schools even though elementary enrollment has fallen 117 students in the last 5 years. Helena has pursued the Professional Compensation Alternative Plan that resulted in an increase in beginning salaries of 41 percent over the last 5 years, and 33 percent for maximum salaries. |

Teacher Salaries Are Rising, Competitive, and Relatively High

We provide several different comparisons of teacher salaries, all of which suggest that today Montana has positioned its school districts to compete in recruiting and retaining teachers. First, we look at how teacher salaries compare with the salaries of other professionals in Montana. This analysis investigates teacher compensation from the perspective of a college student trying to determine if they should become an educator or pursue a different occupation. In this decision, a college student would look at the salary that she or he would earn if they became a teacher verses some other profession.

Teachers now make more than other professionals in Montana. The EPE Research Center, the research arm of Education Week, conducted an analysis of teacher salaries compared to other occupations with similar education levels and skills.¹⁵ These results are shown in Figure 4.2. Nationwide, teachers earn 88 percent of the salaries of other occupations. This comparison is consistent with people’s preconceived notions that teachers earn less than other professions. But Montana teachers on average earn 10 percent more than other similarly educated professionals. Compared to teacher salaries in other states, Montana has the second highest relative wage when compared to other professionals. This salary comparison reflects 2006 salary levels, so the full impact of the quality educator payment is not reflected in this data, and likely teachers’ relative wages have improved further than those shown in Figure 4.2. So, from the perception of a young college student, becoming a teacher may be a worthwhile pursuit. And, when you consider that teachers work a 10 month contract, in comparison to a full year contract, teaching should be even more attractive.

Fig. 4.2. Pay Parity Index: Salaries as Percent of Comparable Occupations



Source: EPE Research Center. The EPE Research Center used data from the U.S. Census Bureau's American Community Survey. The center used salary data on 16 similar occupations used in this analysis were based on research conducted by the Economic Policy Institute ("How Does Teacher Pay Compare," 2004) and included – (1) accountants and auditors, (2) architects, except naval, (3) archivists, curators, and museum technicians, (4)clergy, (5) compliance officers, except agriculture, conduction, health and safety, and transportation, (6) computer programmers, (7) conservation scientists and foresters, (8) counselors, (9) editors, news analysts, reporters, and correspondents, (10) human-resource, training, and labor relation specialists, (11) insurance underwriters (12) occupational therapist (13) other teachers and instructors (excludes preschool, K-12, and postsecondary), (14) physical therapists, (15) registered nurses, and (16) technical writers.

A second set of comparisons focus on students who have already chosen to become teachers and whether they decide to remain and teach in Montana schools or leave to teach in a neighboring or regional state. It is largely these groups of college students that spurred the Legislature's and Governor's decision to link the Quality Educator Payment to filling the gap between Montana teacher salaries and those in the region. We provide several reference points to address this comparison in Appendix B (focusing on comprehensive data comparisons with data that is a couple of years old), and provide the most recently available data in Figure 4.3. With the exception of Wyoming, Montana's salaries are competitive with the other neighboring states. This comparison focuses on the larger districts in Montana and the larger districts in other states, and provides reference points at three different stages in a teacher's career. In making a fiscal comparison between being a teacher in Montana or another state, a college student should take into account the differences in cost of living in the various states, because these costs will influence how far a teacher's salary will go. If Montana teacher salaries are adjusted for cost of living, Montana's adjusted salaries are higher than other states in the region (again with the exception of Wyoming) and are actually higher than the national average. These comparisons suggest that Montana teacher salaries are competitive with those in other states.

Fig, 4.3 Montana Large District Salaries Are Competitive with Other States

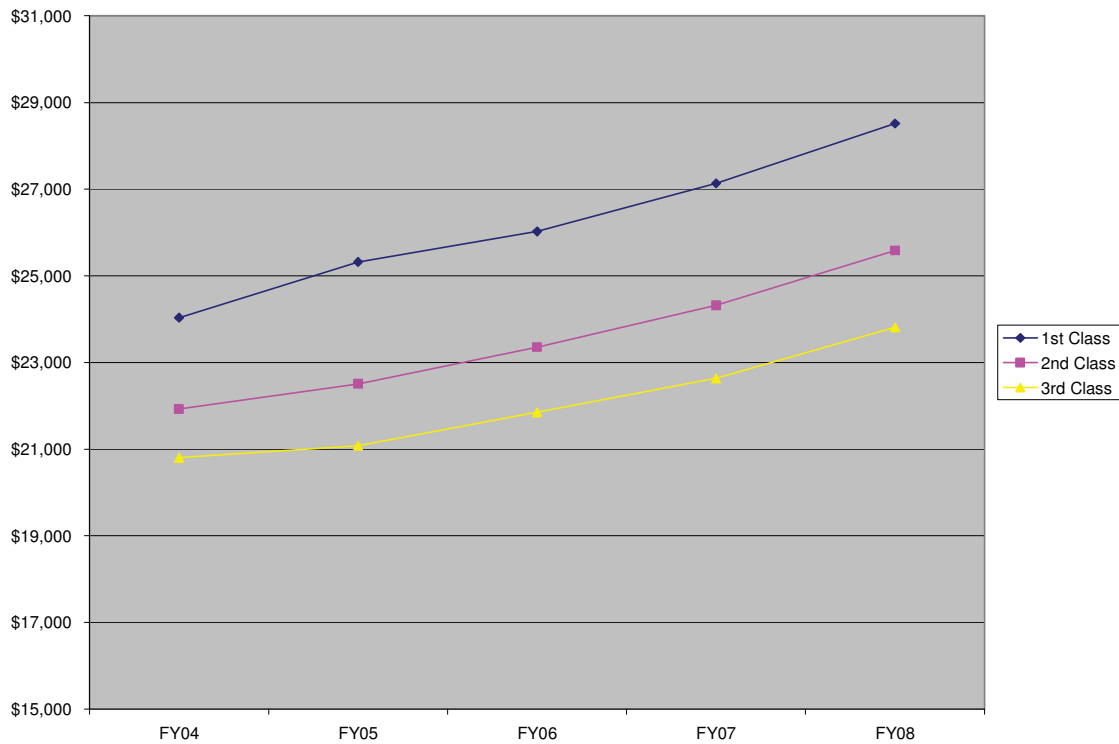
	Base Salary	MA + 10	Max Salary
Average for Montana "AA" Districts	\$30,226	\$45,893	\$61,361
State			
Idaho	31,000	44,288	57,202
North Dakota	29,983	43,097	58,055
South Dakota	27,883	40,379	54,129
Wyoming	40,580	53,691	68,402
Average of 4 states	32,362	45,364	59,447
Difference	(\$2,136)	\$529	\$1,914

Source: MEA-MFT Research, Montana Certified School Staff Salary Book 2007-08

A final set of factors that a young college student would consider are what academicians refer to as non-pecuniary benefit or non-financial benefits of becoming a teacher. These include quality of life measures, local amenities and the difficulty of the job. Montana is again very competitive in quality of life terms. When considering the difficulty of the job, teacher surveys suggest that student quality is an important factor in a teacher decision of where to teach. Teachers suggest that it is easier and more rewarding to work with higher achieving students than lower achieving student. Again, as discussed in the pervious chapter, Montana’s students are some of the highest achievers in the nation. We conclude that when the new Quality Educator Payments are fully integrated into the teacher salary schedule, the Governor and Legislature will have achieved their goal of ensuring the competitive nature of Montana teacher salaries.

Montana teacher salaries have increased across the state. Figure 4.4 shows the increases in teacher salaries for the three classes of school districts.¹⁶ Salaries have increased for districts in all three classes of districts. The increases in salaries were higher for the 1st class (largest districts) than the other classes is both dollars and percent increases. Since 2003-04, beginning salaries for 1st class districts have increased \$4,500 per teacher, roughly a 19 percent increase. Maximum teacher salaries have increased by similar percentage terms as the beginning teacher salaries. For 1st class districts this translates into an increase in average maximum salary of \$8,300 per teacher.

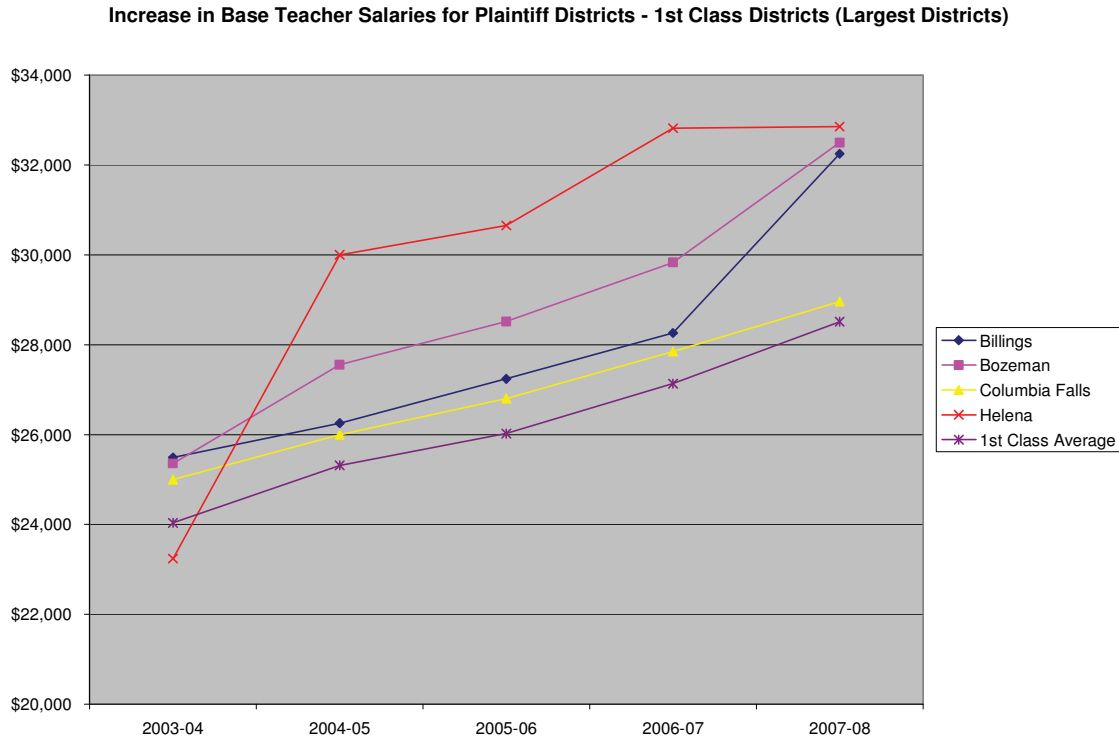
Fig. 4.4: Recent Salary Increases Significant for Beginning Teacher Salaries



Source: MEA-MFT Research, Montana Certified School Staff Salary Book 2007-08

Salaries have increased for plaintiff districts. Figure 4.5 shows that the salary increases for the plaintiff districts have increased consistent with the 1st class district average.

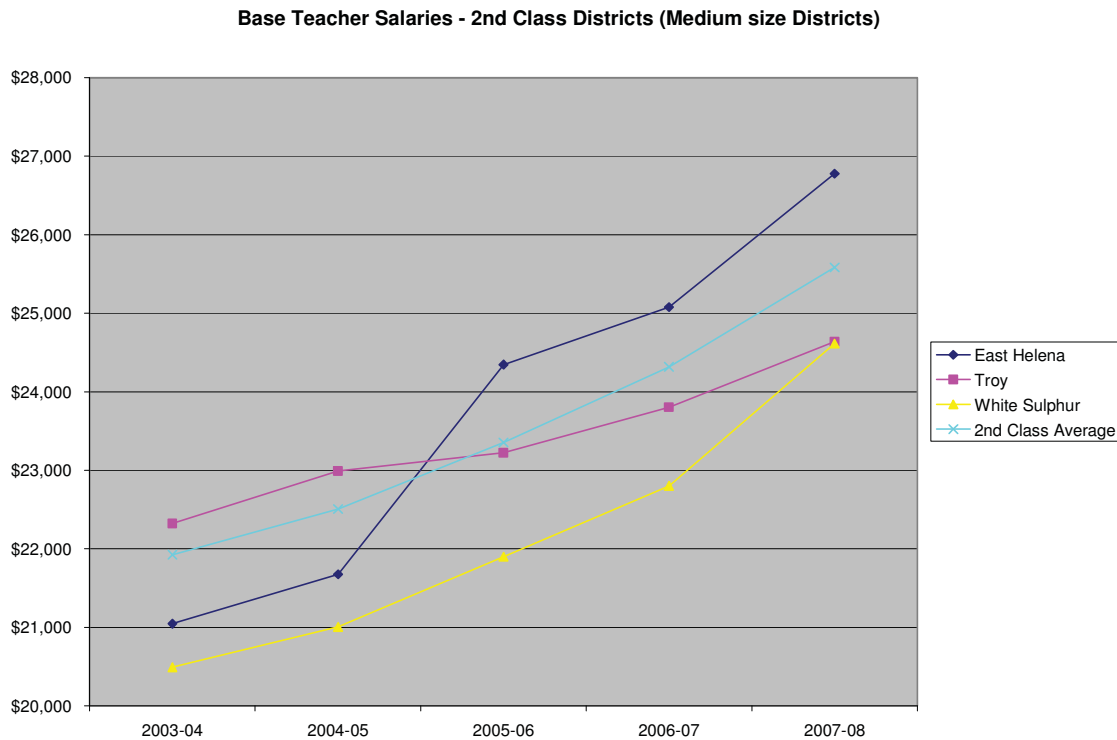
Fig. 4.5: Base Salary Increases for 1st Class Plaintiff Districts



Source: MEA-MFT Research, *Montana Certified School Staff Salary Book 2007-08*

Salaries also increased in the 2nd class districts, but with the exception of East Helena their salaries increased similar to the average 2nd class salaries in the state. Presumably East Helena had to provide larger salary increases than other 2nd class districts because their neighboring district had increased salaries so much.

Fig. 4.6: Salary Increases for 2nd Class Plaintiff Districts



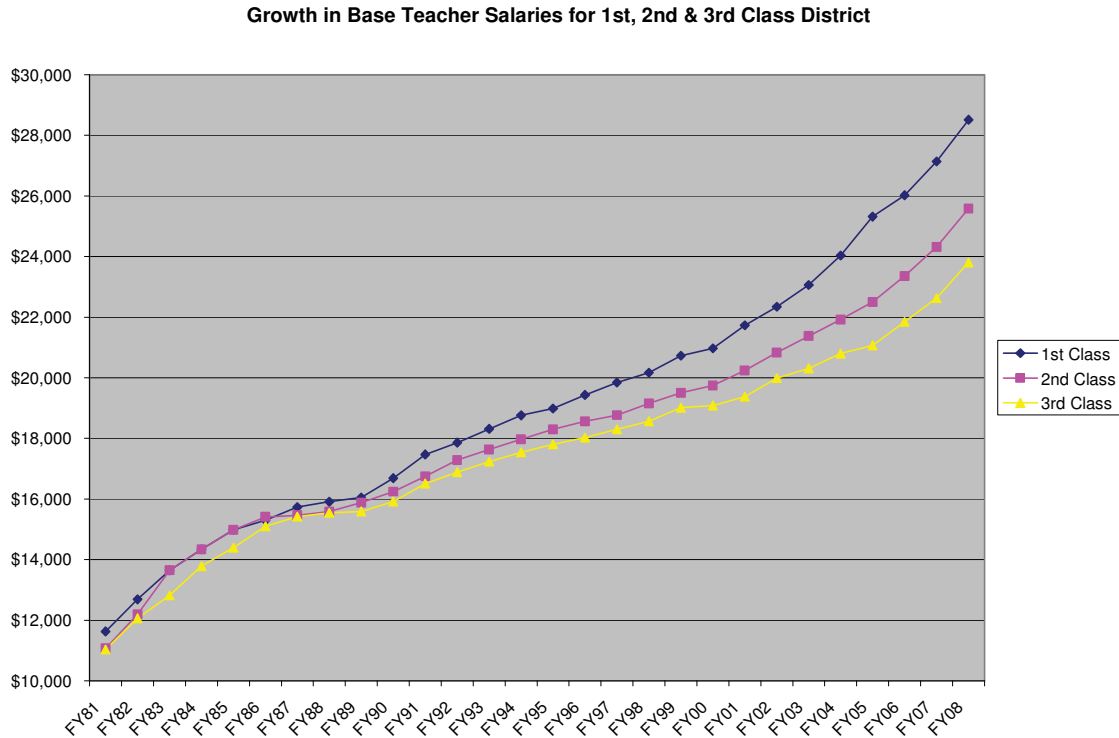
Source: MEA-MFT Research, *Montana Certified School Staff Salary Book 2007-08*

Based on the salary data, it appears that the legislative intent of the quality educator payment was met, and that salaries have increased. It appears that a larger proportion of the funding was invested into increases in compensation for those teachers higher on the pay scale because of their teaching experience and educational attainment level. To our knowledge, no district used these additional funds to differentially increase teacher salaries for teachers in subject areas for which the state has had documented shortages like music, science, math, special education or career technical education. We see this as a missed opportunity for districts to have improved their recruitment and retention issues in a more efficient way. And while the new loan forgiveness program for new teachers teaching recently created by the Legislature is likely helping, districts themselves could have been a larger part of the solution by allowing compensation to increase differentially.

Salary gaps between larger and smaller districts continue. As part of the QSIC process, Stoddard and Young from Montana State University reviewed recruitment, retention and teacher salaries identified that many school districts in Montana did not have difficulty recruiting teachers in general.¹⁷ However, they found isolated districts did have difficulty recruiting and retaining teachers. Part of the reason for this difficulty had to do with being isolated and being able to attract teachers to isolated communities. Another part of problem is the gap between the salaries in these districts compared to the larger districts. There is a gap between the larger districts and the smaller ones that has grown over the

last twenty years, and continues even after the Quality Educator Payment the state has made (See Figure 4.7).

Fig. 4.7: Salary Gaps Between Larger and Smaller Districts Continue



Source: MEA-MFT Research, "Montana Certified School Staff Salary Book 2007-08"

In conclusion, districts have been able to increase their salaries significantly. Their efforts, combined with the Quality Educator payments on top of increased base entitlement and per ANB funding, allowed these investments to take place. To the extent that these higher salaries allow districts to be even more selective in their teacher hiring process, they will be able to further improve the quality of their teacher workforce. Research shows that a quality teacher is the single most important contribution that the school system can have on a student’s educational outcomes. So, the investment that the state and local school districts have made may in some part explain the high and improving student test scores. However, it is important that these investments in high teacher salaries do not come at the expense of meeting the state high expectations established in its school accreditation process.

Staffing Choices Do Not Reflect Decreasing Student Population

Enrollment in Montana public schools has dropped by more 21,000 students since 1995. Figure 4.8 shows the changes in enrollment and staffing over the last decade. Of the three comparison states that lost more than 15 percent of enrollment over this same time period, North Dakota had essentially the same number of teachers in 2006 as in 1995 (0.91 percent increase in teachers), South Dakota experienced a 6.40 percent reduction in teachers, and Wyoming school districts employed 4.11 percent fewer teachers.

Fig. 4.8: State Changes in Enrollment and Number of Teachers, 1995-2006

	Fall 2006 Enrollment	Change in Enrollment 1995-2006	Percentage Change in Enrollment 1995-2006	Change in Number of Teachers 1995-2006	Percentage Change in Teachers 1995-2006
Colorado	794,026	137,747	20.99%	11,571	32.70%
Idaho	267,533	24,436	10.05%	1,986	15.54%
Montana	144,418	-21,129	-12.76%	442	4.39%
Nebraska	287,141	-2,603	-0.90%	1,265	6.32%
Nevada	426,436	161,395	60.89%	8,255	59.48%
North Dakota	95,600	-23,500	-19.73%	68	0.91%
South Dakota	120,278	-24,407	-16.87%	-617	-6.40%
Utah	485,839	8,718	1.83%	1,747	8.72%
Wyoming	84,611	-15,248	-15.27%	-277	-4.11%

Source: "Digest of Education Statistics 2007," National Center for Education Statistics, U.S. Department of Education, July 2007 and "Rankings & Estimates 2007, Rankings of the States 2006 and Estimates of School Statistics 2007," National Education Association, December 2007.

As a rough approximation, if one assumed that each teacher served 35 students (a high average given Montana's accreditation standards), one might have expected a loss of 600 teachers statewide in Montana similar to South Dakota (617 fewer teachers to coincide with a loss of 24,407 students). Instead, Montana saw an increase of 442 teachers statewide, a 4.39 percent increase compared to the 12.76 percent decline in enrollment over the same time period.

Fig. 4.9: Staffing Has Increased Only Slightly Statewide

Subject	2003	2004	2005	2006	2007	2008	Chg
Elementary Education	3,695	3,624	3,603	3,668	3,670	3,783	88
Prep	860	864	837	833	847	847	(13)
Special Education	818	862	857	879	872	871	53
English	685	695	695	709	704	709	24
Arts	606	602	593	594	599	600	(6)
Mathematics	521	527	526	532	533	539	18
Health Enhancement	502	498	503	504	508	514	12
Natural Science	494	492	490	489	487	491	(3)
Social Science	480	472	465	470	467	469	(11)
Other Teachers	1,702	1,653	1,654	1,672	1,677	1,664	(38)
Total	10,362	10,290	10,223	10,350	10,363	10,487	125

Source: OPI

Focusing on recent staffing decisions that districts have made, statewide teacher staffing has increased slightly over the last 5 years, increasing a total of 125 full time equivalent (FTE) teachers, or 1 percent as shown in Figure 4.9. During the same time enrollment has decreased 6,350 students or 4 percent. So this trend of increasing staff and decreasing enrollment appears to be continuing. Most of the increased staffing has been in core subject areas – elementary teachers, English, and Math – and in special education. Part of

elementary school staffing increase is likely related to the new full-day kindergarten program.

While the staffing changes statewide seem minimal, the experience of specific districts looks very different. Figure 4.10 shows the staffing changes made by the plaintiff districts. The percent change in staffing levels for the specific districts varies from a 16 percent increase (43 teachers) for Helena Elementary to a 16 percent decrease (3 teachers less) for Troy High School.

Figure 4.10 Most Plaintiff Districts Increase Teacher FTE

District	2003	2004	2005	2006	2007	2008	Chg	Percent
Billings Elem	623	626	631	645	644	668	45	7.3%
Billings H S	317	323	321	328	319	329	12	3.9%
Bozeman Elem	193	195	198	202	203	210	17	8.8%
Bozeman H S	121	124	126	130	133	119	-2	-1.7%
Columbia Falls Elem	92	95	95	101	99	103	11	12.3%
Columbia Falls H S	48	49	49	49	50	48	0	-0.3%
East Helena Elem	53	59	61	63	63	61	9	16.2%
Helena Elem	263	277	285	282	282	305	43	16.2%
Helena H S	188	188	187	191	186	189	1	0.5%
Troy Elem	23	22	22	23	22	22	-1	-4.9%
Troy H S	18	16	15	15	15	15	-3	-15.6%
White Sulphur Elem	15	15	15	15	16	15	0	-0.1%
White Sulphur H S	8	8	8	9	10	10	1	15.2%

Source: OPI

Without related information on changes in student enrollment, it is difficult to know if these staffing changes are significant new investments or simply districts keeping pace with their enrollment. Figure 4.11 compares changes in enrollment to changes in staffing. There does not seem to be the correlation between these two data points that you would expect. The Billings's districts, have increasing staff while enrollments fell, similarly for Columbia Fall Elementary. Helena and East Helena follow this trend with only a slight enrollment increase and a large staffing increase. In contrast, Bozeman Elementary increases staffing in proportion to the increase in enrollment, and Troy decreases staffing in proportion to the falling enrollment. As you would expect, it total this data suggests that student staff ratios and class sizes are following in most districts. We turn to that data next.

Fig. 4.11: Changes in Enrollment and Staffing for Plaintiff Districts

Districts	Enrollment		Teachers	
	Change in # of Students	Percent Change	Change in # of Students	Percent Change
Billings Elem	-117	-1.2%	45	7.3%
Billings H S	-158	-2.8%	12	3.9%
Bozeman Elem	272	8.4%	17	8.8%
Bozeman H S	40	2.1%	-2	-1.7%
Columbia Falls Elem	-67	-4.0%	11	12.3%
Columbia Falls H S	-1	-0.1%	0	-0.3%
East Helena Elem	21	2.0%	9	16.2%
Helena Elem	40	0.8%	43	16.2%
Helena H S	-57	-1.9%	1	0.5%
Troy Elem	-33	-10.4%	-1	-4.9%
Troy H S	-46	-21.5%	-3	-15.6%
White Sulphur Spgs Elem	-57	-25.6%	0	-0.1%
White Sulphur Spgs H S	4	4.9%	1	15.2%

Source: OPI

Class Sizes Vary Widely Across the State, But Are Generally Falling

Figure 4.12 shows that Montana schools have reduced their pupil-teacher ratio since 1995 by 2.6 students per teacher, the second-largest reduction in relation to the comparison states. Only North Dakota saw a slightly larger reduction – 2.7 students – in their statewide pupil-teacher ratio over this same time period. However, unlike North Dakota’s decline of 2.7 students per teacher that is due almost entirely to enrollment decline (only 0.91 percent more teachers employed), Montana’s 2.6 student-to-teacher decline in pupil-teacher ratio is due to both enrollment decline and an increase in the number of teachers.

The hiring of additional teachers in a declining enrollment, statewide, should also translate into smaller classes. Before the infusion of new monies beginning in the 2007 biennium, the decline in pupil-teacher ratios has also meant that Montana schools have maintained amongst the smallest average class sizes in both elementary school grades and secondary school grades in the region and in the nation.

Fig. 4.12 State Change in Enrollment, Teachers, and Pupil-Teacher Ratio

State	Percentage Change in Enrollment 1995-2006	Change in Number of Teachers 1995-2006	Percentage Change in Number of Teachers Fall 1995-2006	Change in Pupil-Teacher Ratio 1995-2006	Percentage Change in Pupil-Teacher Ratios 1995-2006
Colorado	21.0%	11,571	32.7%	-1.5	-8.1%
Idaho	10.1%	1,986	15.5%	-1.0	-5.2%
Montana	-12.8%	442	4.4%	-2.6	-15.8%
Nebraska	-0.9%	1,265	6.3%	-1.0	-7.0%
Nevada	60.9%	8,255	59.5%	0.6	3.0%
North Dakota	-19.7%	68	0.9%	-2.7	-17.4%
South Dakota	-16.9%	-617	-6.4%	-1.1	-7.4%
Utah	1.8%	1,747	8.7%	-2.0	-8.2%
Wyoming	-15.3%	-277	-4.1%	-1.8	-12.1%

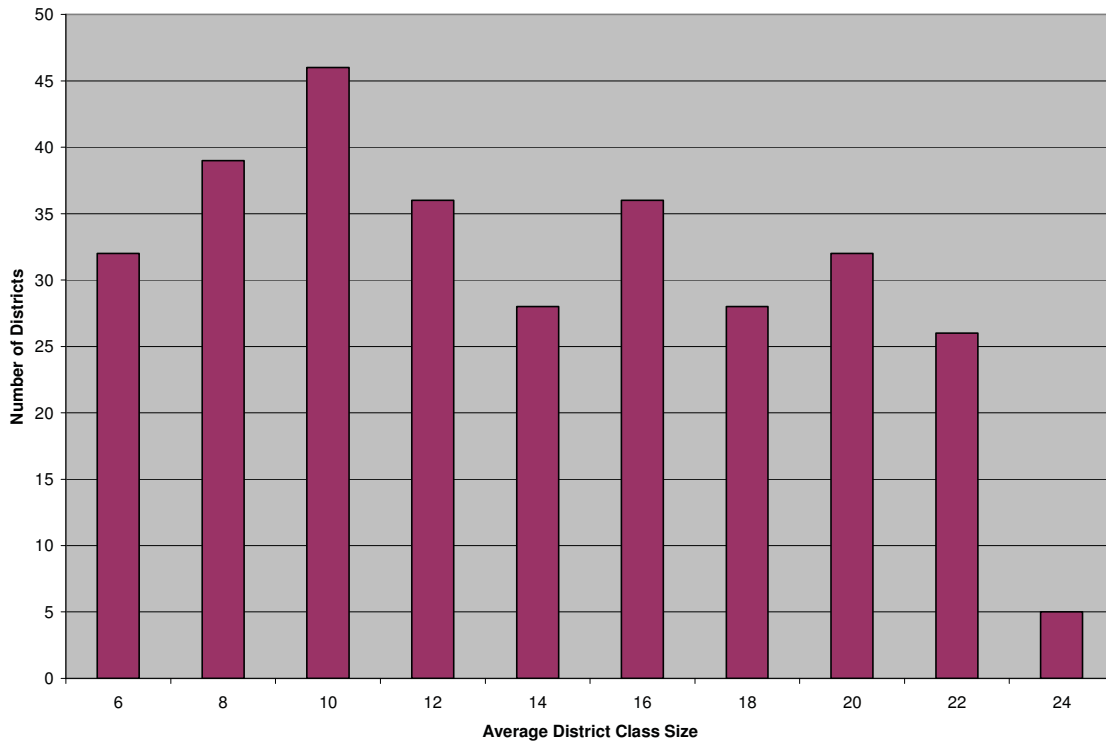
Source: "Digest of Education Statistics 2007," National Center for Education Statistics, U.S. Department of Education, July 2007 and "Rankings & Estimates 2007, Rankings of the States 2006 and Estimates of School Statistics 2007," National Education Association, December 2007.

The state's accreditation standards establish maximum class sizes by grade level:

- Kindergarten – Grade 2 (20 Students)
- Grade 3 – Grade 4 (28 Students)
- Grade 5 – Grade 8 (30 Students)
- High School (30 Students)

There are slightly lower class size maximums for multi-grade elementary classes, no limits on music classes, and limits for laboratory classes based on safety. In most cases, districts are far below those ratios. Figure 4.13 shows that more than 200 Montana elementary schools have average class sizes of 16 or fewer students. At the same time, there are fewer than five school districts that have average elementary class sizes of 24 students or more. Those 5 districts likely meet their maximum class sizes in most grades, but most schools are far below the standards.

Fig. 4.13. Average Elementary School Class Size Varies Across Districts



Source: OPI

Average class sizes for the plaintiff districts are at the top end of the state’s distribution of class sizes for elementary schools. For most districts these class sizes have been decreasing with the exception of Columbia Falls.

Fig. 4.14: Change in Elementary Class Sizes in Plaintiff Districts

	2000-2001	2007-2008	Change In Average Class Size	Percent Change in Class Size
Billings Elem	20.6	20.2	-0.4	-2%
Bozeman Elem	22.8	21.8	-1.1	-5%
Helena Elem	21.5	20.7	-0.8	-3%
East Helena Elem	21.5	20.1	-1.4	-6%
Columbia Falls Elem	20.6	21.2	0.6	3%
Troy Elem	18.8	17.7	-1.1	-6%
White Sulphur Elem	19.6	13.6	-6.1	-31%
Statewide Average	18.2	17.9	-0.3	-2%

Source: OPI

Montana’s high school districts also worked to lower class sizes in their schools. On a statewide basis, Montana’s high schools saw an average reduction of 1.1 students in English classes to 17.8 in 2007-08, a 1.2 student reduction in Math classes to 17.0 students in 2007-08, and a reduction of 1.0 students in Science classes to 18.0 students in 2007-08. Figures 4.15 – Figure 4.17 show the changes in average class sizes in the five plaintiff high school districts.

Fig. 4.15: Change in High School English Class Sizes in Plaintiff Districts

	2000-2001	2007-2008	Change In Average Class Size	Percent Change in Class Size
Billings H S	21.5	19.9	-1.6	-8%
Bozeman H S	19.8	20.8	1.0	5%
Columbia Falls H S	16.4	17.3	0.9	6%
Helena H S	20.6	18.6	-2.0	-10%
White Sulphur Spgs H S	12.8	13.8	1.0	8%
Statewide	18.9	17.8	-1.1	-6%

Source: OPI

Fig. 4.16: Change in High School Math Class Sizes in Plaintiff Districts

	2000-2001	2007-2008	Change In Average Class Size	Percent Change in Class Size
Billings H S	23.0	19.9	-3.1	-13%
Bozeman H S	23.5	22.5	-1.0	-4%
Columbia Falls H S	18.7	18.4	-0.3	-2%
Helena H S	23.2	23.4	0.1	1%
White Sulphur Spgs H S	12.6	10.0	-2.6	-21%
Statewide	18.2	17.0	-1.2	-7%

Source: OPI

Fig. 4.17: Change in High School Science Class Sizes in Plaintiff Districts

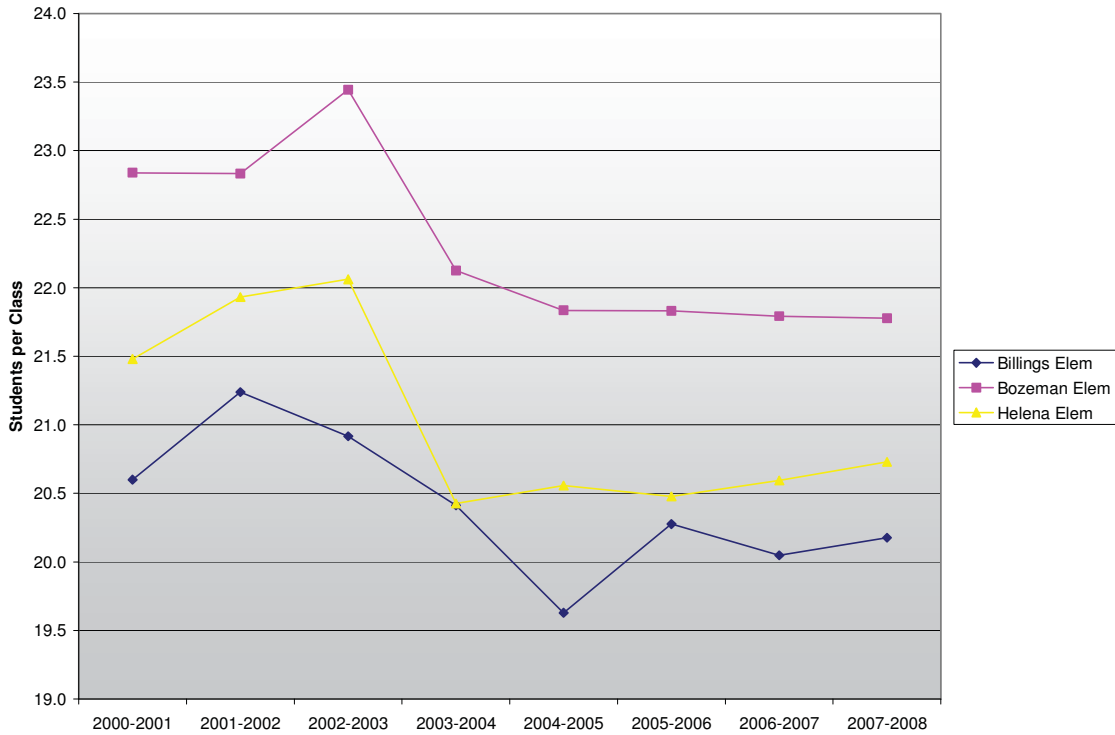
	2000-2001	2007-2008	Change In Average Class Size	Percent Change in Class Size
Billings H S	23.9	20.6	-3.3	-14%
Bozeman H S	22.3	25.5	3.2	14%
Columbia Falls H S	20.0	18.5	-1.5	-8%
Helena H S	22.3	22.3	0.0	0%
White Sulphur Spgs H S	9.5	15.3	5.8	61%
Statewide	19.0	18.0	-0.9	-5%

Source: OPI

In high school English, two of five plaintiff school districts reduced average class sizes with Helena High School reducing average class sizes by 2.0 students. In high school Math, four of five plaintiff school districts were able to reduce average class sizes with Billings High School reducing class sizes by an average of 3.1 students and White Sulphur Springs High School reducing class sizes by an average 2.5 students. Finally, in high school Science, two of the plaintiff school districts reduced average class sizes with Billings High School reducing classes by an average of 3.3 students. Though White Sulphur Springs saw an increase in average class sizes, their average of 15.3 students is still 2.7 students below the statewide average in 2007-08.

Figure 4.18 shows the average class size for the larger plaintiff districts. This appears to reflect a conscious decision of the district to invest in reducing average class sizes.

Fig. 4.18: Elementary Class Size Decreasing for Larger Plaintiff Districts



Source: OPI

Figure 4.19 shows the changes in class size for the smaller plaintiff districts. Their adjustments in staffing ratios are much more volatile. For the smaller districts (Troy and White Sulphur Springs) these changes are more a reflection of volatility in student attendance (as shown above, Troy Elementary had a one teacher reduction over this period, and White Sulphur Springs had no staffing changes). The changes in the other districts are a combination of strategic staffing decisions and fluctuations in enrollment.

Fig. 4.19: Smaller District Elementary Class Size is More Volatile



Source: OPI

In conclusion, Montana districts have continued to increase the number of teachers in spite of the continuing decline in student enrollment. This suggests that the fall in average class sizes is not just a result of the declining enrollment. Research supports that for at least kindergarten through 3rd grade reductions in class size can have positive impacts on educational quality as measured by student assessment outcomes. These positive impacts are found to be higher for the special needs students. Some districts with declining enrollment have reduced their class sizes instead of making changes in staffing, while other districts have made strategic investments in reducing class size. While we cannot draw a causal relationship, these smaller class sizes may help to explain some of the increases in student outcomes discussed in the prior section especially in the elementary grades. Smaller class sizes can improve schools to the extent that these additional investments do not come at the expense of not meeting the state’s accreditation standards.

Other Cost Factors Include School, District and Building Size

While staffing costs make up the largest share of school district budgets, there are other cost factors where it appears that Montana could make improvements. Montana’s strong tradition of local control is exhibited in both the number of school districts and the number of schools operating across the state.

Fig. 4.20: School Districts Operating in Montana and Comparison States

State	1995-96	1996-97	1999-2000	2000-01	2004-05	2005-06
Colorado	176	176	176	176	178	179
Idaho	112	112	113	115	114	122
Montana	472	472	455	453	436	430
Nebraska	668	656	593	576	503	474
Nevada	17	17	17	17	17	17
North Dakota	238	236	231	230	210	204
South Dakota	177	177	176	176	168	168
Utah	40	40	40	40	40	40
Wyoming	49	49	48	48	48	48

Source: "Digest of Education Statistics 2007," National Center for Education Statistics, U.S. Department of Education.

Montana has relatively more school districts. At its peak enrollment in 1995-96, Montana had 472 operating school districts and only a small number of districts fewer in 2005-06 after seeing a decline 12.8 percent decline in enrollment. (Fig. 4.20.) Only Nebraska had more operating school districts than does Montana in 1995-96. However, unlike Montana, Nebraska has seen a sharp decline in the number of school districts, with 474 operating in 2005-06, 194 fewer than in 1995-96 to go along with a 0.90 percent decline in enrollment over that same period. Today, Nebraska serves nearly twice as many students in nearly the same number of school districts as does Montana.

Fig. 4.21: Number of Schools Operating in Montana and Comparison States

State	1989-90	1990-91	1995-96	2000-01	2005-06
Colorado	1,337	1,344	1,562	1,632	1,707
Idaho	574	582	618	673	706
Montana	758	900	894	879	840
Nebraska	1,524	1,506	1,411	1,326	1,225
Nevada	331	354	423	511	557
North Dakota	679	663	613	579	539
South Dakota	799	802	824	769	725
Utah	718	714	735	793	956
Wyoming	404	415	410	393	379

Source: "Digest of Education Statistics 2007," National Center for Education Statistics, U.S. Department of Education.

In addition to serving students in a great number of school districts and in a variety of different types of school districts, the state's school districts also deliver education services in a great number of schools. (Fig. 4.21.) Montana serves its students in more than 800 elementary and secondary schools across the state.

Montana has relatively more schools. At its peak enrollment in 1995-96, Montana served these students in 894 schools. In the 2006-07 school year, there were 831 operating schools serving Montana students. States with larger student populations, one

would expect, have more schools to serve them. However, states like Idaho and Nevada have substantially more students than Montana, but have fewer schools serving them.

Notably, Montana had 758 schools in 1989-90 before a jump in the number of schools in 1990-91. According to officials at the Montana Office of Public Instruction, this large increase in the number of schools was a result of assigning unique school identification codes to a large number of schools serving students in grades 7 and 8.

The large number of schools in Montana also plays out in the average size of its elementary schools, middle schools, and high schools. Figure 4.22 shows the average size of these schools in Montana and comparison states.

Fig. 4.22: Average School Size in Montana and Comparison States, 2005-06

	Elementary	Middle	High
United States	445	603	887
Colorado	387	513	757
Idaho	352	506	582
Montana	158	127	278
Nebraska	192	408	348
Nevada	601	1031	1408
North Dakota	165	401	200
South Dakota	163	153	209
Utah	532	754	998
Wyoming	192	264	366

Source: "Numbers and Types of Public Elementary and Secondary Schools From the Common Core of Data: School Year 2005-06," National Center for Education Statistics, U.S. Department of Education, July 2007.

Montana has consistently had some of the smallest schools in the nation. With an average of 158 students, Montana’s elementary schools are the smallest in the nation. With an average of 127 students, Montana’s middle schools are by far the smallest in the nation. Finally, at an average of 278 students in Montana high schools, only North Dakota and South Dakota had smaller high schools, on average.

Montana school buildings are under-utilized. As part of the Legislative response to the court ruling, the Department of Administration contracted for an assessment to be conducted of every school facility in the state.¹⁸ As part of the study thee consults, DLR Group determined the square footage of instructional building space for each school building in the state. The DLR Group states that schools should operate with approximately 130 square feet per student. To allow capacity for growth and specialized instructional opportunities, schools should operate at approximately 15 percent undercapacity, in the range of 145 – 150 sf/student. It turns out that 64 percent of schools operate at density ratios that are under-utilizing the space available (72 percent of the square footage). In rural and isolated areas of the state this finding is likely just a result of declining enrollment leaving the same size building to be shared by fewer and fewer students. However, for most of the plaintiff districts with multiple school sites, this

appears to be a conscious decision to continue operating schools that have under-utilized space, as shown in Figure 4.23.

Fig. 4.23: Montana Schools Operate With Under-Utilized Space

	Density	Number of Schools	Percent of Schools	Percent of Square Footage
Crowded	< 100 SF/student	65	9%	5%
Slightly Crowded	100-129 SF/Student	124	16%	13%
Optimal	130 – 150 SF/Student	87	12%	9%
Slightly Underutilized	151-200 SF/Student	156	21%	23%
Under-Utilized	> 200 SF/student	323	43%	49%

Source: Department of Administration

Districtwide, most of the plaintiff districts are also operating with under-utilized space, as shown in Figure 4.24.

Fig. 4.24: Districts Maintain Larger Buildings than Optimal

Plaintiff Districts	Academic SF per Pupil
Optimal Size	
White Sulphur Springs Elementary	130
Billings Elementary	130
Bozeman Elementary	146
Somewhat Under-Utilized	
Helena Elementary	157
East Helena Elementary	165
Troy High School	172
Columbia Falls High School	174
Bozeman High School	181
Billings High School	185
Troy Elementary	197
Under-Utilized	
Columbia Falls Elementary	207
Helena High School	222
White Sulphur Springs High School	403

Source: Department of Administration

In conclusion, Montana has small school districts and small schools with large buildings that are under-utilized. There is some academic literature that suggests that small learning environments can have a positive impact on student achievement, especially for students with special needs. Part of Montana’s academic success may be related to having such small learning environments. But these benefits come at a cost because of the additional administrative expenses of operating more districts and schools, and the maintenance, operation, and energy costs to maintain large school buildings. We

also recognize that the local politics of consolidating schools or districts are difficult to negotiate. That said, the requirements of Section 20-9-309 for the system to be efficient suggest that in some communities these trade-offs should be discussed.

Districts Make Budget Choices to Support Local Policy Initiatives

In addition to or as part of the staffing changes discussed above, districts often have district initiatives into which they make specific investments. We requested information from the plaintiff districts to provide their strategic planning documents that accompany and inform the district trustee’s budget decision making process, but many districts simply referred to their budgets. A district’s formal budget is an accounting document that is submitted to OPI as well as providing the basis for the allocation and appropriation of funds at the local level. While it is an important document, it often provides little information to a district trustee or a citizen who is interested in knowing the budget trade-offs the district is making, or has made. Given the lack of district strategic planning documents, we provide what we know about specific district initiatives.

Bozeman adjusted staffing and increased salary and benefits. Figure 4.25 shows the policy choices that Bozeman School District Made in the last five years. It shows that the district made strategic investments in salaries and benefits as discussed above. The district made staffing adjustments annually to reflect changes in student enrollment, implementation of full day kindergarten and other annual adjustments in staffing. At the start of this period, the district had used one-time funds and other fund sources for ongoing budget costs to address prior budget shortfalls. The district used part of the state’s increased investment to reverse these budgeting practices and use ongoing general fund revenues for ongoing costs. In balance Bozeman appears to have been proactive making adjustments annually to align its revenues and expenditures.

Fig: 4.25 Bozeman School District Budget Changes 2004 through 2008

<p>Salary and Benefit Increases</p> <ul style="list-style-type: none"> • Teachers – 25% cumulative increase • Classified – 24% cumulative increase • Administrators – 18% cumulative increase
<p>Staffing Fluctuated with Number of Students (No change over period)</p> <ul style="list-style-type: none"> • Net no change in staffing over period • ANB fell 52 students (2.6%) in 2007-08 causing a 9 teacher reduction to balance budget • 9 Staff added in other years including (4.7 teachers, a psychologist, .5 assistant principal, and other staff) result in no net change over period.
<p>Other Budget Adjustments</p> <ul style="list-style-type: none"> • One-time Property Purchase \$425,000 • Transferred numerous on-going cost obligations totaling over \$200,000 to General Fund previously funded from other budget items or one-time sources including - IT personnel salaries and benefits, curriculum costs, professional development, and other costs. • There was an unresolved projected deficit in the 2008-09 budget (\$455,000).

Source: Bozeman School District

Billings pursued neighborhood schools. Billings invested its 2007-08 budget in a neighborhood schools model throughout the district. This included opening two schools that had previously been closed because of declining district enrollment. One school is

being used to support the full day kindergarten program, and another supports the neighborhood school initiative. (One of these schools will be closed again in fiscal year 2009.) In addition, the district is planning to build a new school on the growing west side of the city. Superintendent Copps has been a strong advocate of neighborhood schools, believing that children should attend schools close to their homes.¹⁹ He cites research that suggests many benefits of the neighborhood schools model including – parental involvement, community building, early school exposure for younger siblings, supports students walking to school.

Helena offered the highest teacher salaries in the state. In 2005-06, Helena implemented the Professional Compensation Alternative Plan (PCAP). This reform dramatically increased their teacher salaries, and their salaries have remained the highest in the state since then. In a single year their beginning salaries increased \$6,760 per teacher (29 percent increase), and their maximum salaries increased almost \$12,000 per teacher (22 percent increase). And over this period, their base salaries have increased 41 percent. This single decision largely explains the district's budgeting decisions for this time period.

In all of these examples, the districts have made decisions that they believed were in the best interest of the children in the district.

Conclusions

In this section, we have discussed some of the most fiscally relevant decisions that districts have made in the last four years with the new state investment. The investment decisions that the district made vary from district to district, as districts determine trade-offs between different investments in improving the quality of the education that their students received. Generally districts made investments in higher salaries to improve their ability to be more selective in the hiring process. Some districts have declining enrollment and have used the additional funding to maintain their current staffing levels thereby reducing class size. These investments also result in a high quality education for their students. Other districts have hired additional staff, and some districts hired staff even though they had declining enrollment. Districts also continue to invest in maintaining small schools, small districts and school buildings with excess capacity.

While the budgetary tradeoffs differ from district to district, it is clear to us that there are sufficient resources in the system to meet the State's requirements for a quality education. Above we showed that most districts accreditation violations are transitory and short-term. Their causes have to do with the timing of the hiring process. Some times it takes time to find the best candidate, and temporary adjustments are made that create deviations regardless of available resources.

Figure 4.26 summarizes the trade-offs that the plaintiff districts have made. The chart show how these districts chose to use their resources. Because they were able to make so many investments in areas that could improve overall education quality, we can only conclude that the accreditation violations occur because of transitory issues, otherwise

these districts would have allocated resources to address accreditation instead of the other discretionary decisions that they made. Specifically,

- Billings increased beginning salaries 27 percent, hired 57 new teachers, opened two elementary schools while K-12 enrollment fell 275 students.
- Bozeman increased beginning salary 27 percent, hired 15 new teachers, and addressed prior year budgeting practices.
- Columbia Falls increased teacher salaries 16 percent, added 11 teachers while enrollment fell 68 students.
- East Helena Elementary increase beginning salaries 27 percent, added 9 new teachers with only an additional 21 students in the district.
- Helena increased beginning salaries 41 percent, added 44 new teachers, and had 17 less students.
- Troy increase beginning salaries 10 percent, reduced staff 4 teachers because there were 79 less teachers
- White Sulphur Springs increase salaries 20 percent, added a teacher with 53 less students.

These stories do not suggest that school districts are having accreditation problems because of a lack of resources. In fact they tell the opposite story, especially the larger districts that have significantly increased salaries and reduced class sizes. Combined these measures suggest that the overall quality of Montana's schools have improved in the last four years. Finally these findings confirm that the accreditation violations must be transitory in nature because otherwise these districts would have used their additional resources to address the problem instead of making other quality improvement investments.

Fig. 4.26: Budgetary Tradeoffs Districts Make

District	Increases in Teacher Salaries	Staffing Changes	Other Investments	Accreditation
Billings	Beginning - \$6,758 (27%), Maximum - \$7,700 (14 %)	57 new teachers, 275 less students (elementary and H.S combined)	Neighborhood Schools - Opened two elementary schools even though elementary enrollment fell 117 students	Most all elementary schools received a Regular or Regular with Deviation status in 2007-08. Three schools received a Deficiency status because of repeated deviations involving counselors. Two Billings high schools received Regular with Deviation status while Billings West High School received a Deficiency status because of an unlicensed teacher in vocation/career tech and for lack of proper counselor services.
Bozeman	Beginning - \$7,144 (28%), Maximum - \$10,349 (20%)	15 new teachers, 312 more students	Purchase property with GF, backfilled for one-time funds, and transferred IT personnel costs back to GF	Seven of nine Bozeman elementary schools have Regular Accreditation while Bozeman High School has a Regular Accreditation with Deviation because of a 1st time class size deviation in a science class.
Columbia Falls	Beginning - \$3,966 (16), Maximum - \$7,963 (16%)	11 new teachers, 68 less students		All five Columbia Falls elementary schools received Regular or Regular with Deviation status in 2007-08 while the high school received a Regular with Deviation because of a 1st-time deviation in having a mis-assigned teacher in vocation/career tech.
East Helena	Beginning - \$5732 (27%), Maximum - \$7260 (15%)	9 new teachers, 21 more students		All three East Helena schools received Regular (2) or Regular with Deviation status in 2008-09. The identified deviation was a 1st-time class size deviation in the middle school causing the Regular with Deviation status.
Helena	Beginning - \$9617 (41%), Maximum - \$17409 (33%)	44 new teachers, 17 less students	Adopted the Professional Compensation Alternative Plan that resulted in the overall salary increase	Helena Elementary School district deviations pertain to ongoing class size deviations and because of a lack of counselors in the schools. Helena High School received an Advice status in 2007-08 because of a lack of an endorsed principal and a misassigned teacher in science.
Troy	Beginning - \$2,314 (10%), Maximum - \$6,563 (16%)	4 less teachers, 79 less students		The Troy 7-8 program received an Advice status in 2007-08 because of a misassigned teacher in English. Troy High School received a Deficiency status because of a misassigned teacher in vocation/career tech and because of class size deviations.
White Sulphur Springs	Beginning - \$4,121 (20%), Maximum - \$6,203 (16%)	1 new teacher, 53 less students		The schools in White Sulphur Springs all received Regular Accreditation in 2007-08.

Chapter V. Special Education

Special education is a critical part of school district finance, and it is important for the State to understand and monitor the costs that districts face in serving this group of students. What makes special education unique is that the services provided to special education students are effectively guaranteed, and the costs of the services cannot be a factor in determining the appropriate set of services that a student needs to help him or her succeed. These services are determined through a process involving district staff the students parents, and for older students the students themselves. Together, they determine the appropriate services and then document the determination in an Individual Education Plan or IEP. Federal law requires school districts to provide the services as outlined in the IEP regardless of costs

Another important federal requirement is that the district serve the student in the “least restrictive environment” possible while still meeting a student’s needs. The theory behind this is that it can hurt a student’s academic progress if they miss out on regular classroom activities to be provided special education services. So, districts are required to service the special needs of a student while keeping them as integrated into the regular classroom as possible. Because these services are required, districts often have concerns that the cost of providing services to special education students will come at the expense of the providing services to other students in the district.

In Special Education Finance, States Must Get Incentives Right.

Once the appropriate set of services has been determined, there must be a funding source. The federal government once committed to funding 40 percent of the national average costs of special education per pupil, but has never gotten close to that goal. Currently, the federal government funds roughly 25 percent of the special education costs in Montana. The remaining 75 percent is funded through a combination of state and local funds. Establishing a funding mechanism to determine how much and how the state funds special education is difficult because states run the risk of creating financial incentives to over-classify students as special education in order to increase the overall funding that a district receives from a state. This of course violates the spirit of ensuring a least restrictive environment for serving special education students.

Examples of states that create these poor incentives are states like Florida and Wyoming. In Florida’s case, the funding rate a district receives for a special education student depends on the type of disability a student is determined to have. Since the district is in charge of classifying the disability a student has, they often classify students into categories providing more services than they might need, and thereby receive more funding from the state. And for a student that may not need special education services at all, the district may classify the student as special education, again receiving additional funding. To counterbalance these incentives, the state of Florida has recently developed a private school voucher system for special education that requires districts to transfer funding to the private school based on a specific cost schedule. Reforms to the Wyoming special education system have started to reimburse districts for 100 percent of the costs of special education. Not surprisingly, the number of students and the costs of services have

risen significantly since that change in policy. From 1998-99 to 2006-07 the percent of students identified as special education grew from 11.8 percent to 13.8 percent. In effect, these districts have no incentive to be efficient with the use of resources because they are not responsible for paying the costs.

Montana's finance structure gets the incentives right. The State's special education system is structured to recognize differential costs that districts face while not creating unintended incentives to over-classify students. The State distributes 75 percent of its special education appropriation through block grants which is based on district-wide enrollment. The last 25 percent is distributed through a reimbursement for disproportionate costs which is based on past expenditures. The logic here is that generally special education students are evenly distributed across the state, but there may be some districts that either have a higher proportion of their students in special education or have a number of high cost students. For example, if a district has a hospital that serves high needs children, that community is likely to have a disproportionate share of high cost students. The State's reimbursement for disproportionate costs pays a share of the costs starting with the district facing the highest cost, and then the district with the second highest costs and so on until the appropriation is exhausted.

Montana's system encourages efficiency. A second property of the Montana special education finance system is that because the district is responsible for a share of the marginal or last dollar spent on special education services, the district has an incentive to be efficient. For example, research has shown that for many special education students early intervention can dramatically decrease the total costs of services over the lifetime of serving the student. For example, programs like full day kindergarten and other interventions in preschool, kindergarten and the early elementary grades may actually reduce the rate of referrals into special education. The structure of the Montana finance system allows a district to receive the full benefits of these early interventions that generate special education savings in later years. So, from a theoretical perspective, the Montana special education finance structure is effective at creating appropriate incentives while recognizing differential needs.

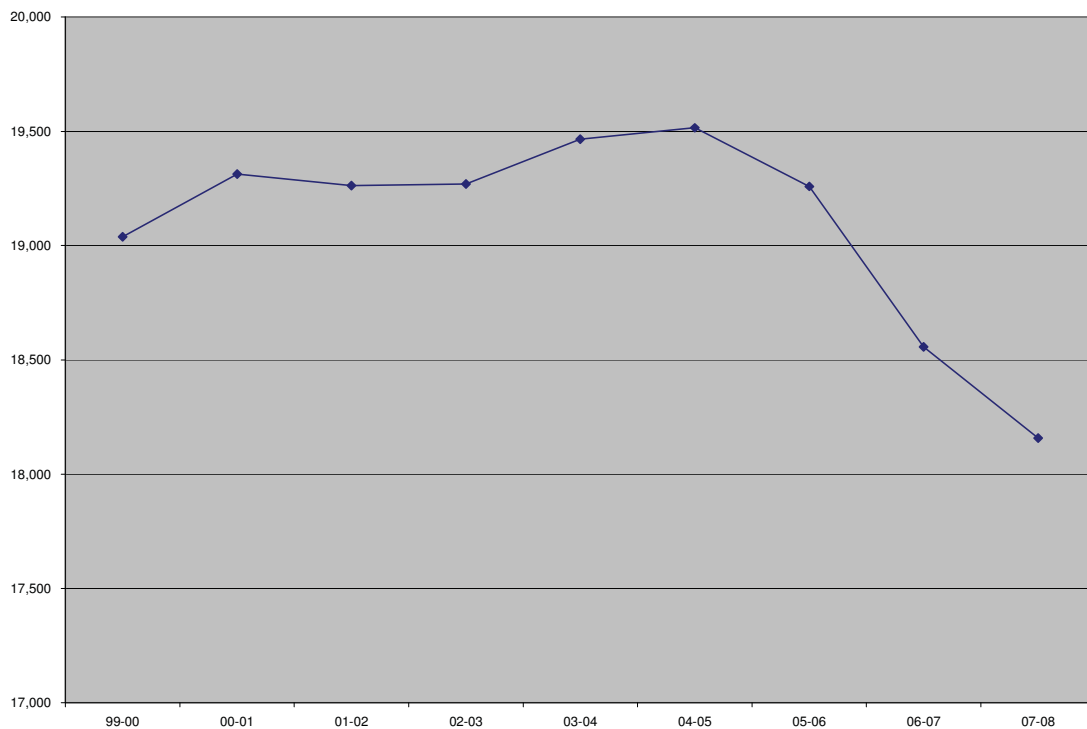
Resources for Special Education in Montana Schools

While the structure of the finance system is well designed, there is still an empirical question of whether the State is providing enough resources through its special education and general appropriations to allow districts to meet its special education needs without adversely impacting the general education population. Next we investigate the current costs of special education, and then look at the recent expenditures and revenues.

Special education enrollment has declined. Since reaching a high point in 2004-05 of 19,515 students (13.3 percent of total enrollment), the number of special education students has decreased for the last three years, a total decrease of 1,357 students. Figure 5.1 shows the number of special education students since 1997-98. It is uncertain exactly what has caused this decrease, but the recent OPI special education report provides some context.²⁰ Specifically:

“Thirty-five percent of the decrease occurred in grades K-3. Districts reported the following reasons for the decrease: implementation of interventions in general education resulting in fewer referrals to special education; students progress reviews that identified students no longer in need of special education instruction and so exited from special education services; and decreases in student enrollment. Analysis of the data also showed a significant decrease in the count of students reported in the disability category of emotional disturbance. Factors affecting the decrease include implementation of positive behavioral supports in general education and the positive effects of the implementation of over 100 Comprehensive School and Community Treatment Services (CSCT) programs in schools across the state.”

Fig. 5.1: Special Education Population Decreases Significantly in 4 Years



Source: OPI

One of the main contributors to the decline in the number of special education students statewide is the decrease in the number of students with speech or language impairment in Billings Elementary District. In 2006-07, the Billings identification in this category decreased from 516 students to 269 students (a 247 student decrease). This change was such an anomaly that OPI sought clarification from the district. The district explained several local initiatives that they were pursuing that lead to this reduction.

- **Early interventions.** The district had implemented the RTI model, the first time this district has had early interventions for reading. The emphasis of RTI is to focus on

providing more effective instruction by encouraging early interventions for students experiencing difficult learning to read. The assumption is that this will prevent some students from being indentified as speech and language impaired or learning disabled by providing a comprehensive set of supports as soon as concerns emerge.

- ***Reviewed current caseloads to ensure needs still existed.*** The district asked all special education staff to review caseloads for students who should be exited because they are no longer in need of special education services. They noticed that they had a number of students on monitor, many of whom were showing advanced proficiency.
- ***Updated articulation norms.*** The district took the advice provided by OPI to review their articulation norms, and after reviewing them found that Billings norms were significantly different from those used elsewhere. The district adopted the norms that OPI suggested.

The Billings Elementary example provides an example of the special education system working successfully. Because the district was financially responsible for the administration of their program, the district took it upon itself to review its current program. The state provided oversight and assistance. And, the district implemented early interventions that may have a short term cost, but are likely to result in significant cost savings over time.

While overall special education populations are decreasing some categories have seen significant increases. Two categories have seen large increases since 2003-04 – other health impairments (225 more students- 22 percent increase) and autism (183 more students – 144 percent increase). Figure 5.2 shows the statewide special education counts have changed since 1999-00, disaggregated by category. Increasing rates of autism has been a nationwide trend, and an area where researchers are still developing best practices service models for meeting the special education and educational needs of these students. Nationwide, part of the increase in autism rates is associated with better identification (often resulting in reductions in other categories of special education) and part may be related to environmental factors. Clearly from an educational perspective, Montana educators as well as educators nationwide have much work to do to improve the quality of services that this growing population receives. From a finance perspective, the critical issue is what impact this significant growth in the number of autistic students has on the overall special education finance system.

Fig. 5.2: Change In Special Education Students By Category, 1999-2008

Disability Category	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	Chg 00-08	Chg 04-08
Autism	127	165	206	242	259	275	341	372	442	315	183
Cognitive Delay	1,189	1,239	1,148	1,152	1,130	1,085	1,040	1,014	1,015	-174	-115
Child with Disability/ Developmental Delay*	1,614	1,632	678	707	755	799	529	651	791	-823	36
Deaf-Blindness	22	18	16	7	6	6	4	2	3	-19	-3
Deafness	50	50	54	54	51	44	41	37	30	-20	-21
Emotional Disturbance	1,001	1,032	1,009	1,012	1,014	1,008	1,029	949	987	-14	-27
Hearing Impairment	153	147	151	132	139	149	157	145	148	-5	9
Learning Disability	9,806	9,755	9,668	9,613	9,421	9,308	8,846	8,375	7,965	1,841	1,456
Multiple Disabilities	569	575	526	539	537	577	578	579	559	-10	22
Other Health Imp	1,015	1,149	1,310	1,356	1,502	1,613	1,682	1,695	1,727	712	225
Orthopedic Impairment	69	76	77	81	75	71	66	70	63	-6	-12
Speech/Lang Imp	3,299	3,351	4,296	4,237	4,438	4,449	4,812	4,534	4,307	1,008	-131
Traumatic Brain Injury	65	61	67	72	70	70	74	69	64	-1	-6
Visual Impairment	60	63	56	65	69	61	60	65	57	-3	-12
	19,039	19,313	19,262	19,269	19,466	19,515	19,259	18,557	18,158	-881	1,308

* - Federal law has eliminated the category of Child with disability, and has developed a related category of developmental delay. For ease of comparison, we combine these two categories.

SOURCE: OPI

Changes in the special education population have fiscal impact. To investigate the overall costs of the special education program, we disaggregate costs into two parts – (1) costs resulting from changes in student caseloads and types of students served, and (2) the resulting from increased changes in inputs and salary and benefits of serving special education students. First we look at the impact of the special education caseload. Montana does not collect data on the costs of serving special education students with different types of special education needs. So, we cannot directly answer the question of what the cost implications are for this growth in the number of students with autism or other health impairments. We have developed an indirect way to provide a relative measure of the fiscal impact of changes in special education population. We make comparisons between 1999-00 and 2007-08 and 2003-04 and 2007-08 (the progress since the court ruling).

The American Institute for Research (AIR) are the nationally recognized experts of special education finance, and run the Center for Special Education Finance for the federal Department of Education. Recently, AIR has looked at the differential costs of students with different disabilities.²¹ They conclude that the total expenditure to educate the average student with disabilities is an estimated 1.9 times that expended to educate

the typical regular education student with no special needs. However, they also look at the variation in costs by different type of disabilities, and find that these costs vary from 1.6 times the regular education costs for students identified as learning disabled, 2.85 times regular cost for autism, and 3.05 for students with multiple disabilities. The reason that costs are calculated in relation to a regular education student is to reflect the varying costs across states. Since most of the costs of special education are staffing costs, these costs are going to depend on teacher salaries within a state which in turn will depend on the spending per pupil in a state. We apply these cost factors to Montana's spending per pupil in 2006-07 of \$8,376 per pupil (which is higher than the spending for a regular education student in Montana because it includes the costs for special education and other supplemental programs).

On average, the costs of serving new students identified for special education may be more than the savings resulting from students exiting special education. While there is no data to verify this, students who are exiting the system within each special education category are likely students who had less than average service needs than other special education students. So the savings resulting from exiting the system are less than the costs of those entering the system. To account for this we apply a lower cost factor for any special education category that experienced a decline in student count over this period. AIR provides a lower bound for their cost estimate for each special education category and we apply that lower bound amount instead of the average cost amount. This adjustment makes our overall estimate of cost savings a more conservative estimate.

Figure 5.3 shows the calculation. Specifically, the chart shows what the fiscal implications of the changes in the number of special education students while holding costs constant. It achieves this by first estimating the costs of a special education student by category for Montana in 2006-07 dollars. It then determines how the change in the number of students has impacted district costs. For example, the cost impact of the increase in autism since 1999 is \$7.5 million for the additional 315 autistic students in the state. While this cost is significant, it is more than outweighed by the cost savings from the reduction in other special education classifications. In fact, holding costs constant, the school districts are saving around \$8.6 million annually compared to 1999 and \$13.4 million compared to just 4 years ago. We conclude that while the number of autistic children has increased, the overall special education caseload should result in significant savings for districts especially in the last four years. This in contrast to the prior four years (1999-2000 through 2003-04) when districts experienced increases in both overall population and high cost students. (We estimate that during this time period, the caseload increases resulted in a \$5.2 million increase, holding the per student cost constant.) Clearly the impact of special education cost on school districts have changed since this earlier period in the decade.

While Figure 5.3 concludes that the number of special education has not resulted in an increase in costs but instead a savings, this analysis assumes that costs have remained constant which we know that they have not. Next we turn to the changes in cost over time.

Fig. 5.3: Decline in Special Education Population Should Result in Savings

Disability Name	Average Cost per pupil by Category in 2006-07 Dollars	Lower Bound Estimated Cost per Pupil	Student Count Change 2000 to 2008	Cost Implication of Changes	Student Count Change 2004 to 2008	Cost Implication of Changes
Autism	\$23,875	\$20,214	315	\$7,520,555	183	\$4,369,084
Cognitive Delay	\$19,110	\$17,728	-174	-\$3,084,596	-115	-\$2,038,670
Child with Disability/Developmental Delay*	\$19,110	\$17,728	-823	-\$14,589,783	36	\$687,959
Deaf-Blindness	\$25,533	\$23,333	-19	-\$443,336	-3	-\$76,599
Deafness	\$20,320	\$17,411	-20	-\$348,224	-21	-\$365,635
Emotional Disturbance	\$17,975	\$15,127	-14	-\$211,773	-27	-\$408,419
Hearing Impairment	\$20,320	\$17,411	-5	-\$87,056	9	\$182,876
Learning Disability	\$13,415	\$12,461	-1,841	-\$22,940,480	-1,456	-\$18,143,041
Multiple Disabilities	\$25,533	\$23,333	-10	-\$233,335	22	\$561,724
Other Health Imp	\$16,809	\$14,969	712	\$11,967,944	225	\$3,782,005
Orthopedic Impairment	\$19,050	\$17,024	-6	-\$102,142	-12	-\$204,284
Speech/Lang Imp	\$13,923	\$10,658	1,008	\$14,034,740	-131	-\$1,396,183
Traumatic Brain Injury	\$21,018	\$17,181	-1	-\$17,181	-6	-\$103,087
Visual Impairment	\$23,901	\$19,712	-3	-\$59,137	-12	-\$236,547
Totals			-881	-\$8,593,804	-1,308	-\$13,388,815

Source: American Institute for Research and OPI.

Staffing Changes Have Little Impact on Special Education Costs in Recent Years.

Above we show that the decrease in special education student counts should have resulted in overall savings in special education costs. Other cost factors could have changed during this period related to the resources used to serve these students namely the number of special education staff (teachers and paraprofessionals), the staff's salaries, and the average class size. Figure 5.4 describes at the recent trends in the number of special education teachers, and class sizes. The number of teachers has been increasing since 2002-03. In 2003-04, special education staffing increased 44 teachers (5 percent increase). Clearly this level of expansion had an impact on school district's budgets. This may have been the snapshot that the Court saw when it was evaluating the prior funding system. This expansion to some extent happened in a year in which the number of special education students increased by 197 students statewide.

Since 2003-04, staffing has been relatively flat, a net increase of 9 FTE statewide. Similarly since that time the average class size for special education classes has not changed much. Calculating the cost implication of the changes in teacher staffing would suggest a statewide cost in the hundreds of thousands, and basically no changes in the costs for the class size. There is a slight increase in the number of classes for which a teacher is assigned no students. Presumably these are special education teachers that are not the teacher of record for a class, but instead are assisting students in a mainstreamed classroom or provide other type of services. An area that has seen additional costs is the number of special education paraprofessionals. Since 2003-04, the number of paraprofessionals has increased by 92 (8 percent). While this is a significant increase, it

only explains around \$3 million of additional costs. Looking at the staffing levels and class size together, it does not appear that this or an increase in high-cost special education students is increasing the costs of special education. This of course leaves one key factor of special education costs, namely staff salaries and benefits. This is an area that we know has increase significantly over the last several years. We conclude that increases in costs for special education appear to be driven largely by teacher salaries and not staff, number of students or high cost students.

Fig. 5.4: Special Education Staff and Class Sizes

	2003	2004	2005	2006	2007	2008
Special Education Teachers	818	862	857	879	872	871
Special Education Paraprofessionals	n/a	1,104	1,127	1,137	1,173	1,196
Special Education Class Size	8.0	8.2	8.1	8.1	8.1	8.2
Classes with No Students	194	198	224	227	232	212

Source: OPI public databases.

State Share of Special Education Budget Has Increased In Recent Years. The state and local share of special education funding should consider all relevant funding sources. Figure 5.5 shows the changes in special education expenditures and revenues since 2003-04, and what portion of those increases were paid with state, local or federal funds. Using the State’s expenditure data, we can calculate that school districts (and county co-ops) increased expenditures by roughly \$21 million from 2003-04 to 2006-07 (expenditure data for 2007-08 not yet available). These increases were mainly from the General Fund, but district also increased expenditures from federal funds, retirement and transportation funds. These increases (largely to pay for salary increases) reflect an 18 percent increase in expenditures. The State provided revenues to fund these additional cost from several sources including the main special education General Fund payment to districts and co-ops, quality educator payments on behalf of the special education teachers and other qualifying special education staff, and increased funding through Medicaid reimbursements and other sources. In total, the state increased funding through these numerous sources to \$58.1 million -- an increase of \$13.5 million (30 percent) since 2003-04. Since federal funding was flat, that left around a \$42 million local share of special education costs (an increase of \$7.2 million or 21 percent).

Considering how the costs of special education is shared among the three levels of government, the State has increased its share from 39 percent to 43 percent in the last three years, effectively making up for the fact that the federal government has not provided an increase in funding over this time period. The local share of costs has remained constant over this time period at 31 percent of costs. Had the federal government maintained its funding share from 2003-04, then the local share would have gone down significantly.

The local government’s share is less than the per-ANB and basic entitlements. In addition to the funding the state provides directly or indirectly to fund special education, the state also provides the base Per ANB and basic entitlement for the 18,158 special

education students. Just the state's share of these entitlements is more than sufficient to fully cover the costs of the local share. And while most special education students are in mainstream classrooms that have other education costs, the support for special education students from the ANB and basic entitlement that they generate should also be considered in determining whether special education costs are impacting the programs provided to students in the regular education program. This is especially appropriate given that the main driver of increases in special education costs appears to be educator salaries and benefits, which one could argue is a General Fund cost and not a special education cost.

Conclusion

We believe that (1) the Montana special education finance system is an efficient finance system that creates the right incentive to base placement on student needs and not the fiscal implications, (2) that while high costs students like those with autism do have a fiscal impact on districts, the fact that there are 1,300 less special education students since 2003-04 frees up more resources than these additional costs, (3) the number of special education teachers and the average class size have changed little suggesting that educator salary increases is the main driver of the increases in special education costs, and (4) the state has increased its share of special education costs from 39 percent to 43 percent over the last three years. Based on these findings, we conclude that the state has made the needed investment in special education through the various streams to meet the increases in costs.

Fig. 5.5: Local Share of Costs Remain Unchanged While State Share Grows

	2003-04	2006-07	Dollar Increase	Percent Increase	State/Local/Federal Share of Costs	
					2003-04	2006-07
Special Education Expenditures						
General Fund	62.2	72.6				
Federal Funds	29.5	36.9				
Retirement Fund	9.1	11.5				
Transportation Fund	5.0	5.9				
Other	7.4	7.0				
Total Expenditures	113.2	133.9	20.7	18%		
Special Education Revenues						
General Fund						
Special Education Payment	30.9	34.9				
Payment to Coops	4.0	4.4				
Quality Educator Payment	-	2.2				
GTB for 40% Special Education	1.7	2.1				
Total General Fund	36.6	43.6				
Other State Sources						
Medicaid	6.0	11.6				
Retirement	1.1	1.6				
Transportation	1.0	1.3				
Total Other State	8.0	14.5				
Total State Share	44.6	58.1	13.5	30%	39%	43%
Federal Funds	33.7	33.7	-	0%	30%	25%
Total Special Education Revenues	78.3	91.8				
Implicit Local Share of Expenditures	34.9	42.1	7.2	21%	31%	31%
Special Education Student's State Share of ANB and Basic Entitlement	41.6	46.1				

Source: Analysis using OPI revenue, expenditure and budget reports.

Chapter VI. Conclusions

In 2005 the Supreme Court ruled in Columbia Falls v. State of Montana that the State failed to adequately fund Montana's public schools because the funding formula was not grounded in principals of quality. In response to the Court's decision in the 2005 Legislature defined "a basic system of free quality" public schools in Montana Code Section 20-9-309. Since that time, the Legislature has taken multiple budgetary and statutory actions to implement section 309.

We were asked to determine whether in our opinion the State had met the requirements in section 309. Specifically were asked to opine on the following:

1. *Did the State determine the costs of providing the basic system of free quality public elementary and secondary schools?*
2. *Did the State consider educationally relevant factors and establish a funding formula that: (a) is based on the Legislature's definition of a basic system of free quality public elementary and secondary schools, (b) reflects the costs associated with providing that system.*

Based on our analysis, we answer both questions "yes."

Findings

After the Legislature's enactment of a definition of a basic system of free quality public elementary and high schools, the Legislature, through the Quality Schools Interim Committee (QSIC), set about in a deliberate manner to determine the costs of providing that system. QSIC employed a recognized method of estimating the costs of the basic system of schools. QSIC developed a funding formula that incorporated such educationally relevant factors as the number of students in a district, the needs of isolated schools, recognized costs associated with economies of scale, the needs of special needs students such as those with special education needs or those from poverty, the needs of American Indians, and that assisted districts with their abilities to attract and retain quality teachers and staff. To provide the greatest budgetary flexibility while ensuring accountability and efficiency as required by Section 20-9-309(4)(c), the Legislature and Governor developed a funding formula that used many of the components developed by QSIC, reflected the level of funding considered by QSIC, but provided greater efficiency and flexibility. The formula includes:

- The Per-ANB Entitlement provides funding based on the number of students in a district, funding levels dependent on whether students are elementary or secondary school students;
- The Basic Entitlement provides foundational funding to every school district regardless of the number of students in the district while providing for additional Basic Entitlements for those schools that are geographically isolated or demonstrate other obstacles to transporting students to the nearest schools, there

are Basic Entitlements for elementary schools, high schools, and the Legislature added a Basic Entitlement for middle schools;

- The Per-ANB Entitlement operates on a sliding scale providing the greatest amounts to the schools with the lowest enrollments and declining to 1,000 students for elementary schools and 800 students in high schools. This sliding scale formula recognizes the economies of scale (the ability to spread fixed costs across more students) achieved by larger schools;
- Funding for special needs students such as in the Special Education component and at-risk component;
- The Indian Education for All and American Indian Achievement Gap components; and
- The Quality Educator Component of more than \$3,000 per educator to assist districts with their recruitment and retention efforts.

In addition, the State created a Quality Educator Loan Assistance Program to also aid in having quality teachers in Montana classrooms. The Legislature also appropriated more than \$250 million in one-time only monies to assist schools with identified needs in facilities and to bring actuarial soundness to the teacher and personnel retirement systems.

The funding system developed and funded by the Legislature meets the criteria established in Montana Code §20-9-309 and reflects best practices of how states fund schools in an environment of declining enrollment and small, rural schools. Therefore, we conclude that the State has determined the cost of a quality education, and that the current funding model reflects those costs.

The State provides both a funding mechanism and a monitoring system to ensure Section 309 is implemented. In addition to determining the costs and establishing the funding model, there are other obligations that the state must meet. Through the implementation of Section 309, the State has established a system that ensures the efficient and equitable use of resources. Once the resources allocation decisions have been made by local boards of trustees, the State monitors districts inputs, processes and outputs to ensure that Montana's students receive a quality education. Based upon student outcomes produced by the system, we conclude that the State has successfully completed its charge of creating a system that ensures a quality education for students.

Why are there accreditation violations? If the State has developed a funding model based on costs, and provided a level of funding that reflects those costs, why are some districts not able to meet all of their accreditation standards? The State closely monitors district compliance with the accreditation process. In fact, in recent years the State increased the rigor of its monitoring process. We determine that most of the accreditation violations are temporary, and often reflect the time constraints of the hiring process. Based on the accreditation information available, it appears that the problems are related to these transitions. However, to ensure that these accreditation violations are not related to the overall level of resources, we investigated the allocation decisions that school districts have made in the last several years.

School districts are able to make new investments beyond the base programs. Looking at the resource allocation decisions that districts have made in the last four years, we see that districts have made investments to significantly increase teacher salaries, reduce class sizes through a combination of declining enrollment and increasing staffing, and support other local initiatives. The State's investment in the Quality Educator Payment appears to have improved the competitiveness of Montana school districts compared to teacher salaries in other states, and salaries of other professionals within the state. Similarly, while expensive, reduction in class size has been found to positively increase the quality of a student's education as measured by student assessment scores. The potential benefit is even higher for special need students. However, it is essential that these additional and costly investments of reducing class size and increasing teacher salaries serve as a complement, and not a substitute, to the State's accreditation standards as required by Section 309. Based on our analysis, lack of resources is not what is causing the district's accreditation violations.

The State's special education funding is efficient and effective. We conclude that a through a combination of (1) a decline in both the number of special education and the proportion of the student population that are in special education, and (2) increase in state funding for special education through several different funding streams, the State has increased its share of special education funding, making up for the lack of additional federal funds. As the State and districts invest in early intervention like full day kindergarten, we would expect this trend of decreasing special education costs to continue.

Bringing it All Together

In response to the Supreme Court ruling, the State has determined a definition of "a basic system of free quality" public schools. Through the QSIC process, it determined the level of costs. Based on the overall costs of the QSIC funding, Legislature funded a finance model that provided a similar level of funding without adding the additional complexity to the finance system that the QSIC model would have added. Since the new funding mechanisms were implemented the State has continued to monitor the education system through its accreditation and assessment systems. These systems ensure that issues in either area do not linger and are addressed in a timely fashion. Finally from the resource allocation decisions that districts have made over the last four years, it is clear that accreditation violations are not linked to the level of resources. Districts have the necessary resources to meet the requirements of the accreditation system, and have chosen to implement new quality improvement efforts like further reducing class sizes, increasing teacher salaries, and other local initiatives.

Appendix A: Additional Montana CRT Results

Source: OPI

The results for math show two very different stories. Figure A.1 shows in 4th grade, math proficiency levels increased from 45 percent to 67 percent over the four years. Achievement levels are In contrast, scores in middle school and high school actually fell by around 5 percentile points over the same period. In fact, the percent proficient actually decreases each year from grade 3-10. Figure A.2 shows the 2006-07 result for math by grade. Each year a smaller percent of students achieve proficiency.

This will be an area that the state will need to monitor and provide technical assistance to districts to help improve middle and high school math. In addition, the State's new data system will allow the state and districts to track these students longitudinally to determine which programs help students maintain and increase their math proficiency as they move from grade to grade.

Fig. A.1: Math – Elementary Strong, Middle and H.S. Area of Concern
(% at or above proficient)

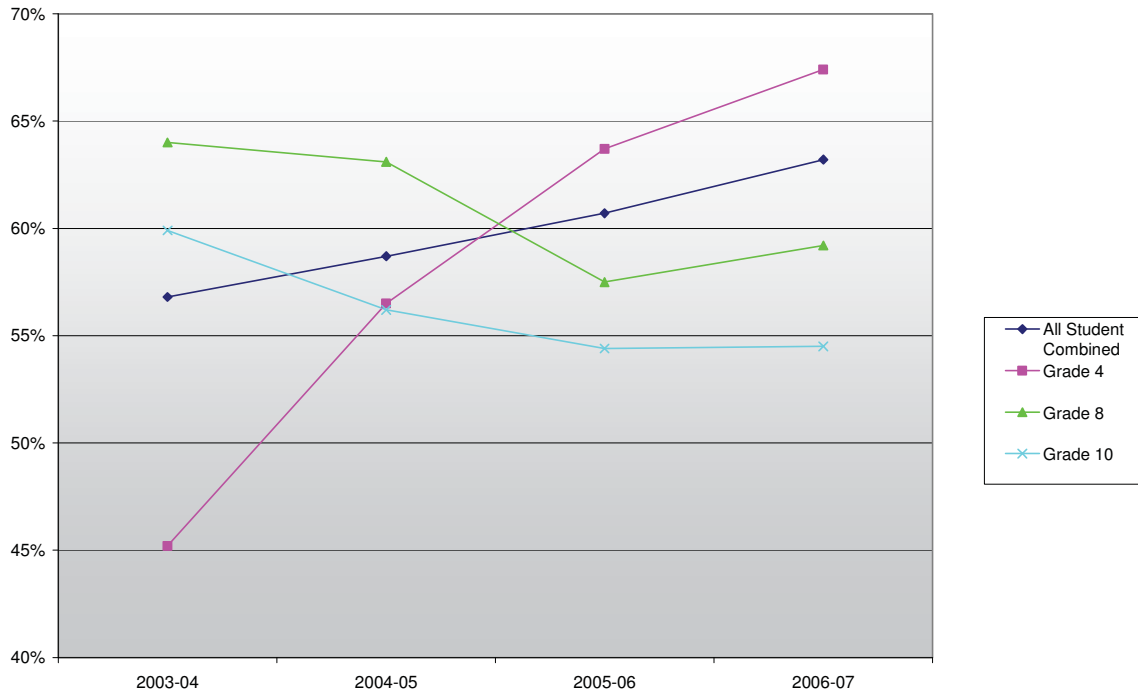


Fig. A.2: Percent of Proficiency in Math Declines as Students Progress
(% at or above proficient)

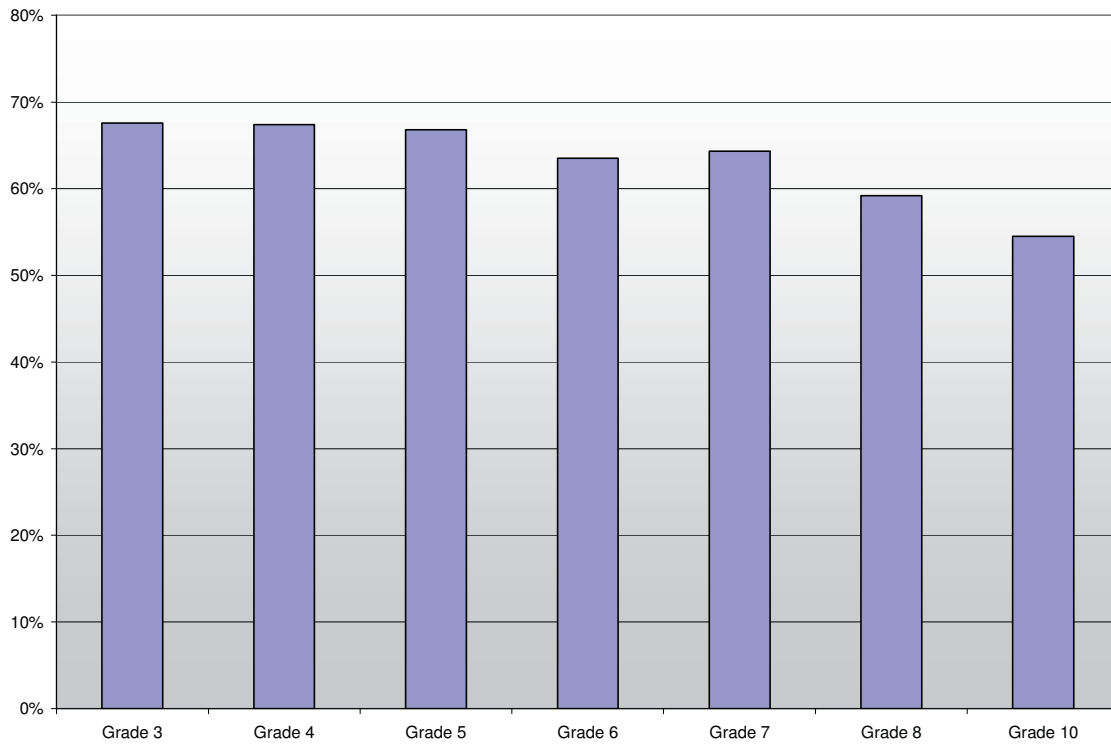


Fig. A.3: Reading Scores for All Students - Plaintiff Elem.
 (% at or above proficient)

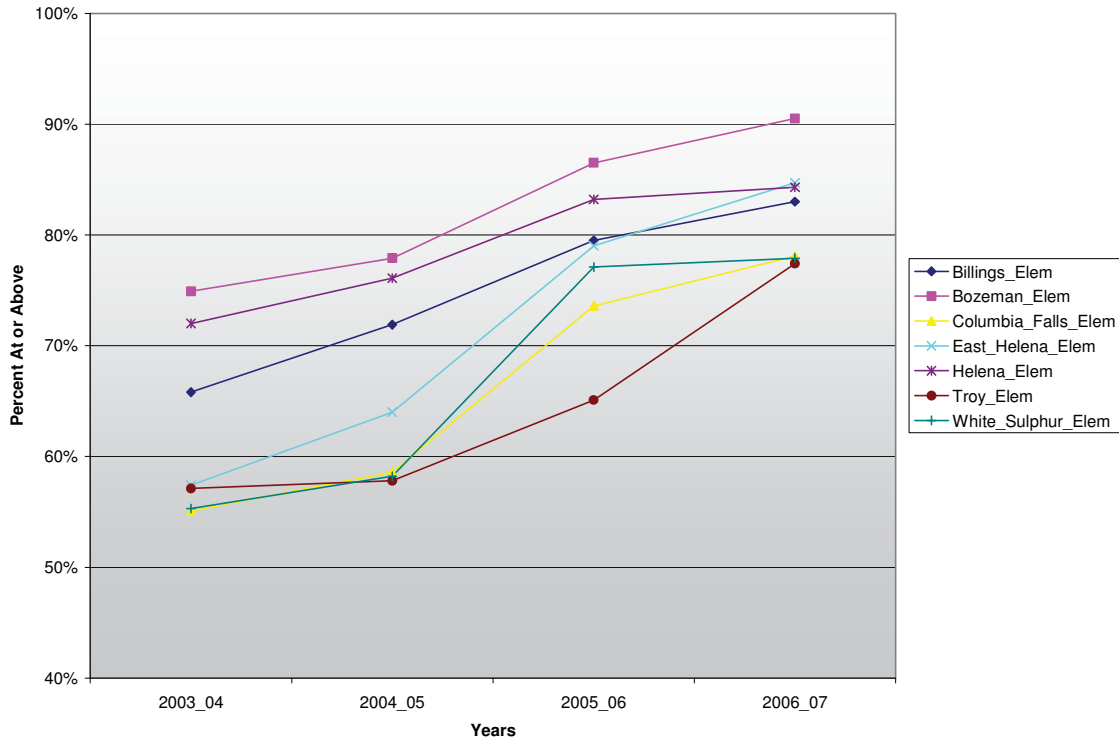


Fig. A.4: Math Scores for All Students - Plaintiff Elem.
 (% at or above proficient)

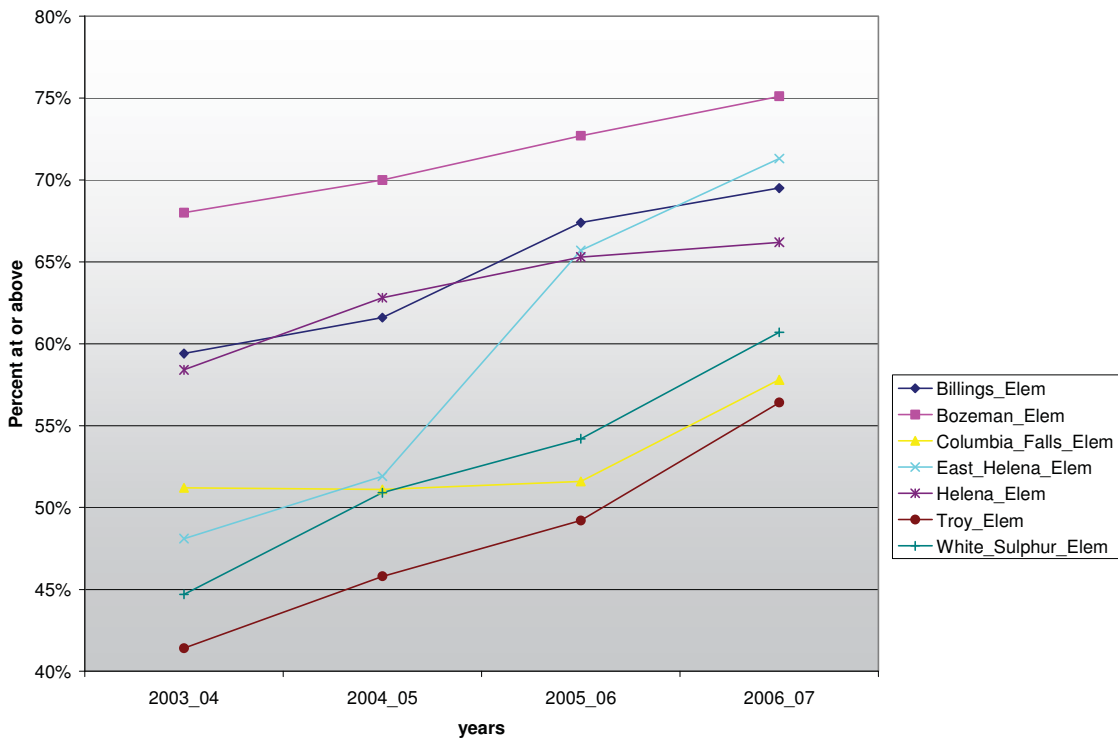


Fig. A.5: Reading Scores for All Students - Plaintiff H.S.
 (% at or above proficient)

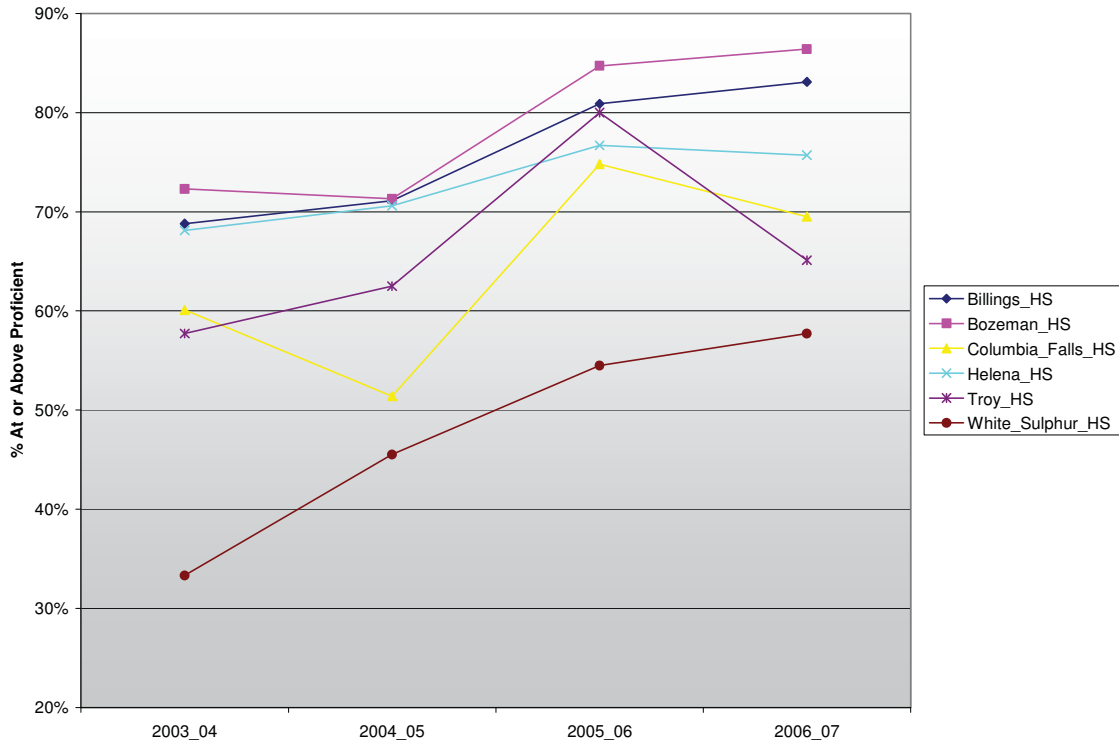


Fig. A.6: Math Scores for Special Need Students - Plaintiff H.S.
 (% at or above proficient)

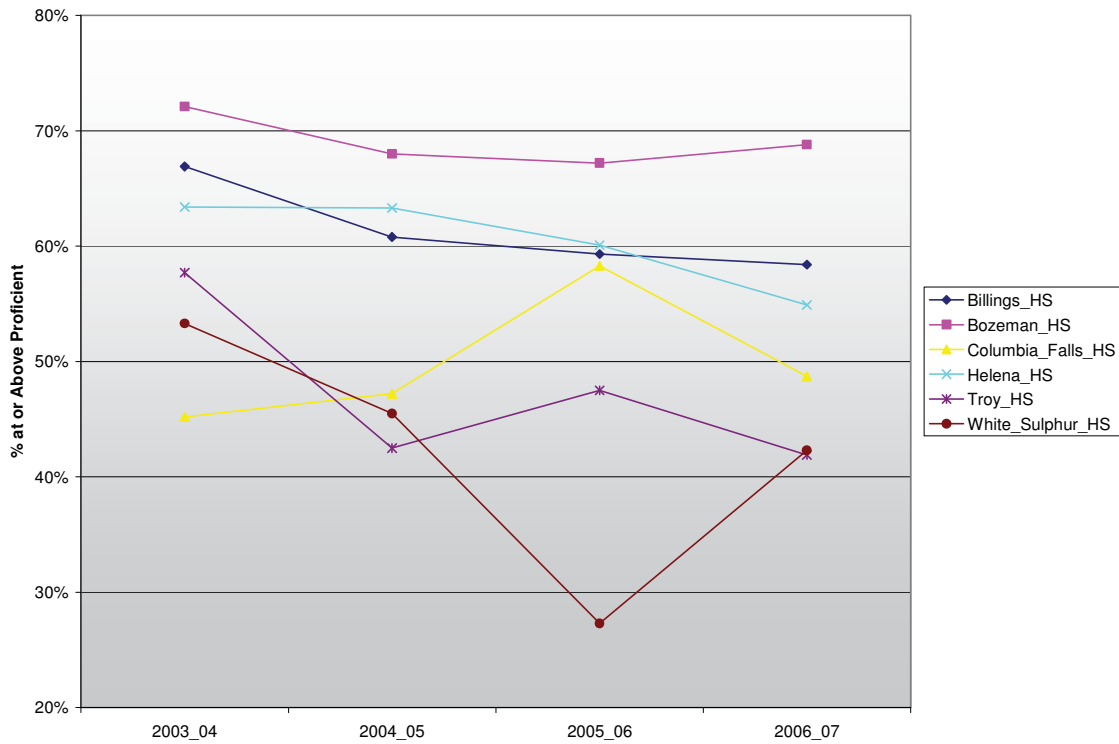


Fig. A.7: Reading Scores for American Indian Students - Plaintiff Elem.
 (% at or above proficient)

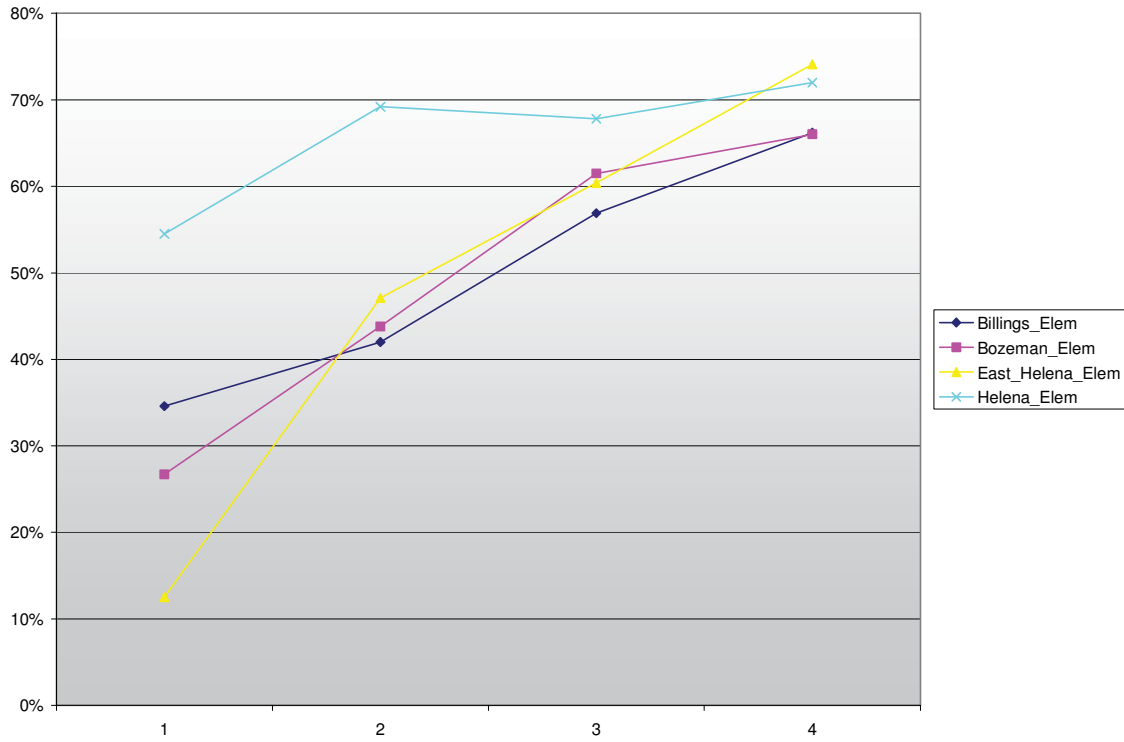


Fig. A.8: Math Scores for American Indian Students - Plaintiff Elem.
 (% at or above proficient)

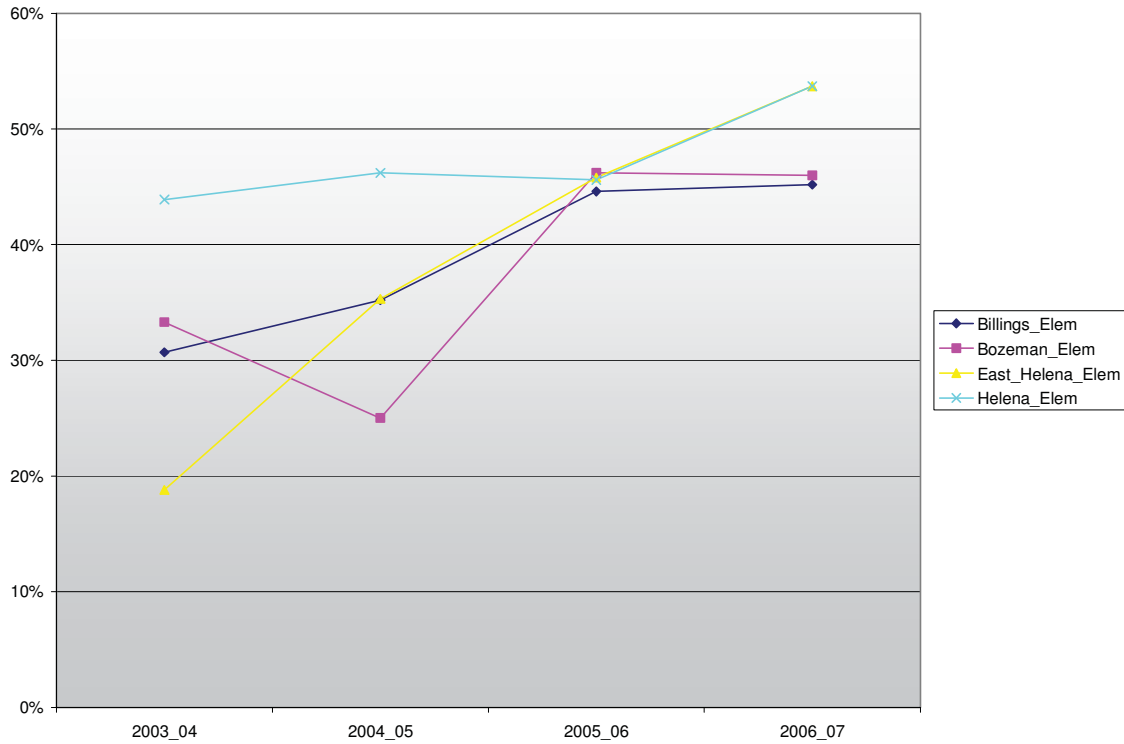


Fig. A.9: Reading Scores for American Indian Students - Plaintiff H.S.
(% at or above proficient)

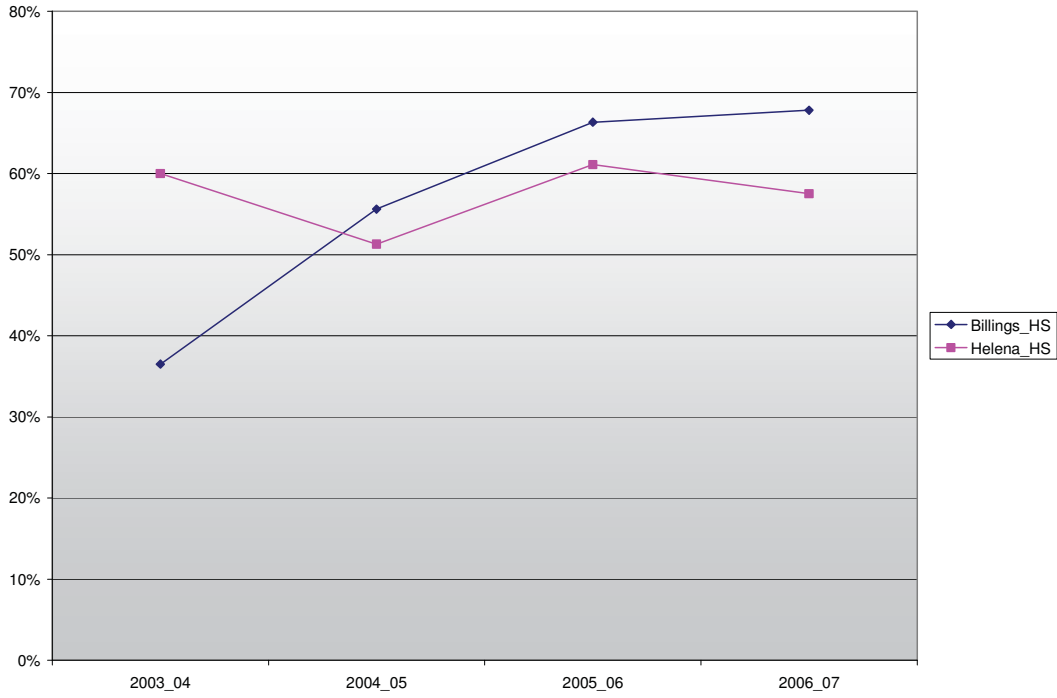


Fig. A.10: Math Scores for American Indian Students - Plaintiff H.S.
(% at or above proficient)

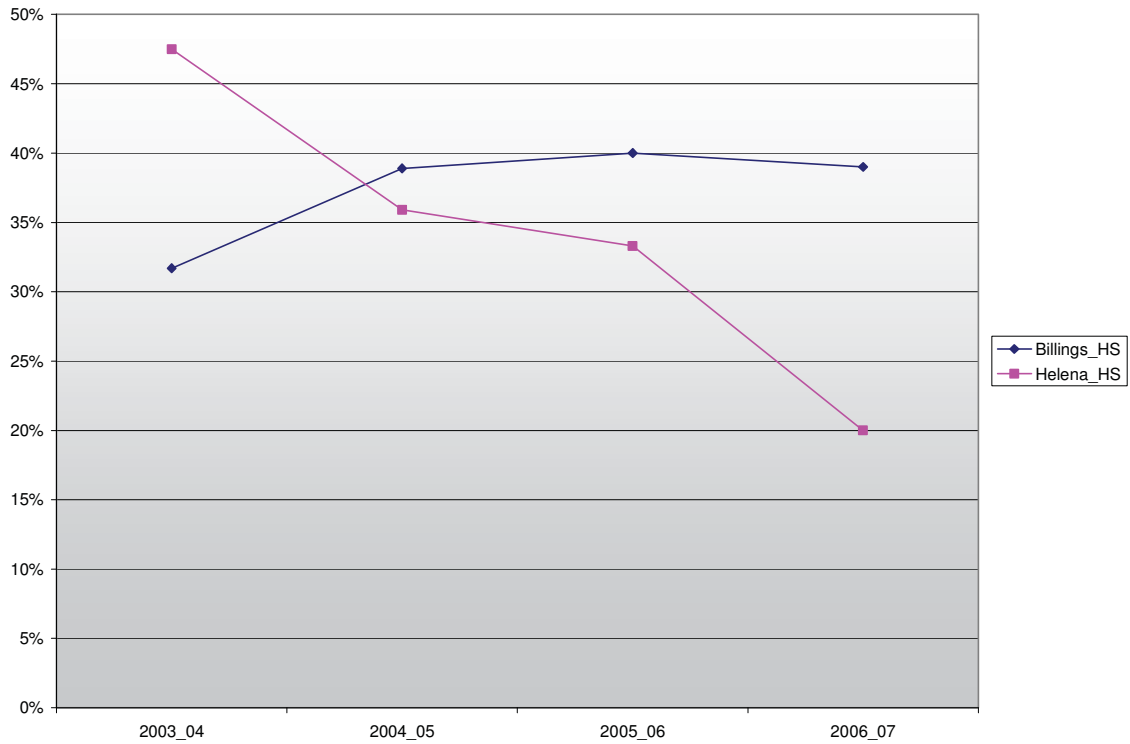


Fig. A.11: Elementary Reading Scores for Free/Reduced Lunch Students
 (% at or above proficient)

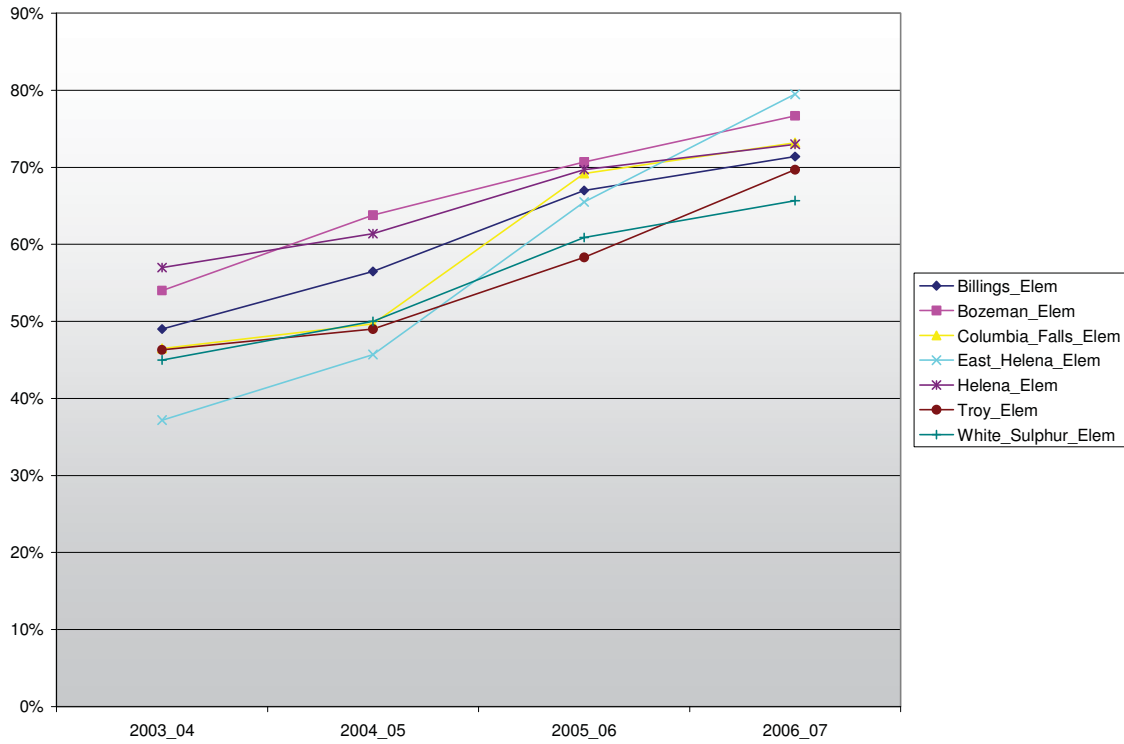


Fig. A.12: Elementary Math Scores for Free/Reduced Lunch Students
 (% at or above proficient)

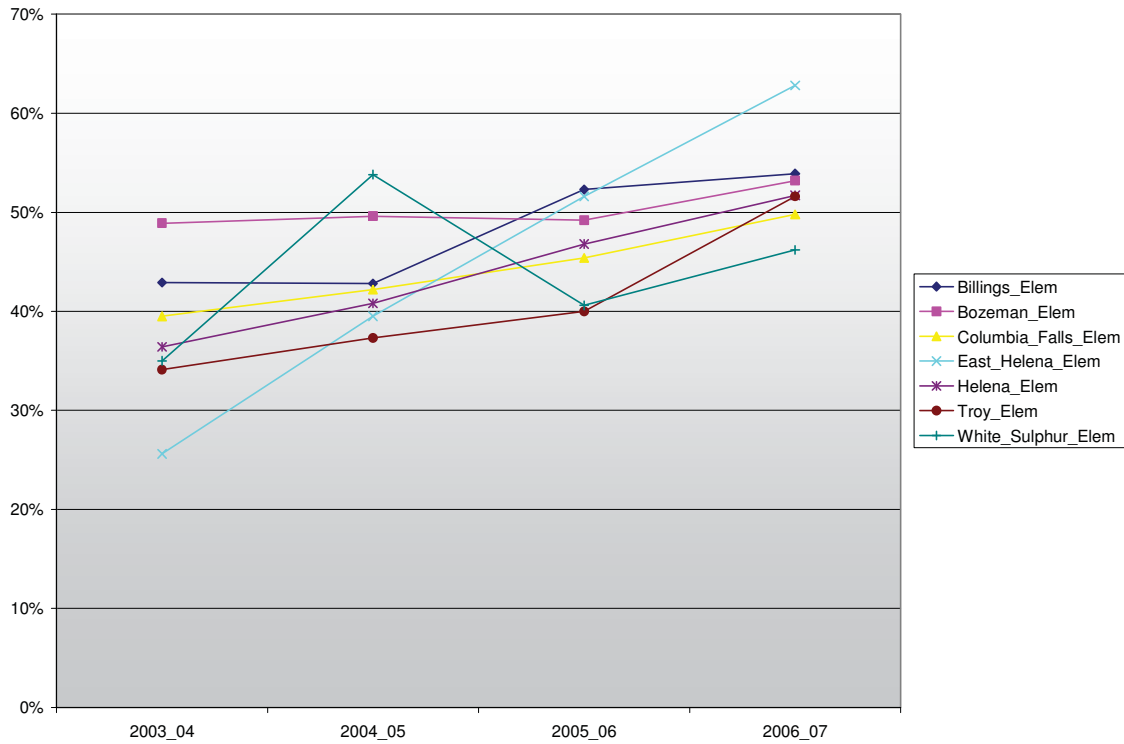


Fig. A.13: High School Reading Scores for Free/Reduced Lunch Students
 (% at or above proficient)

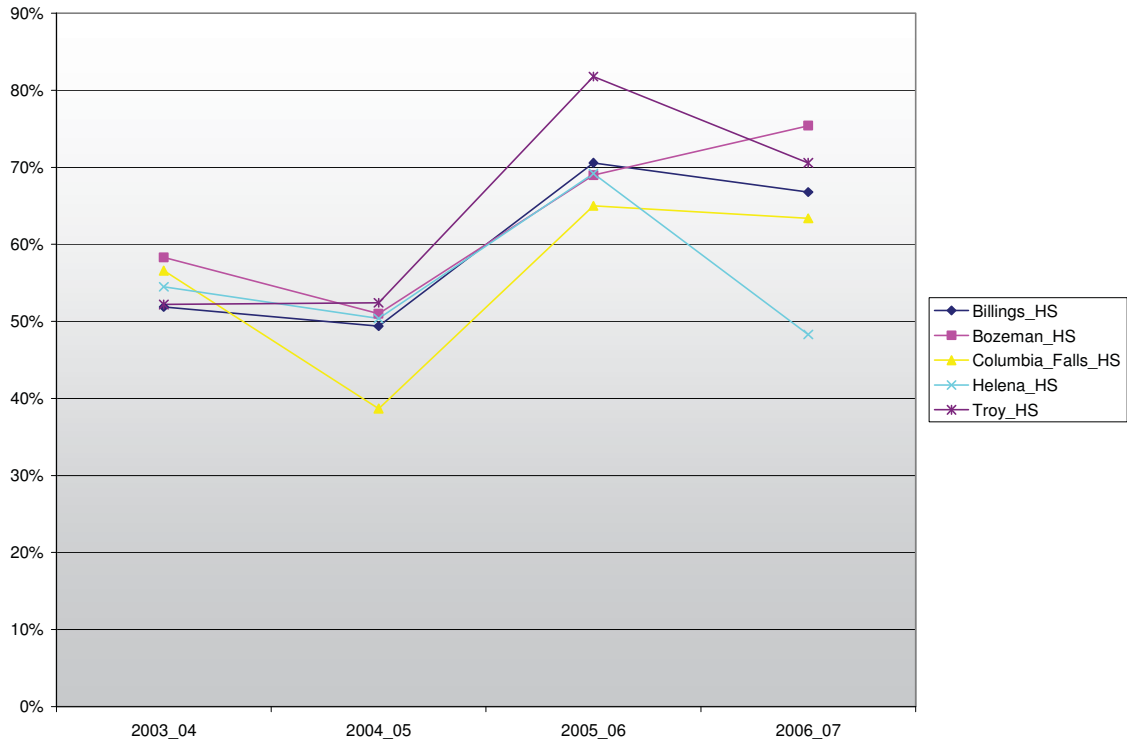


Fig. A.14: High School Math Scores for Free/Reduced Lunch Students
 (% at or above proficient)



Fig. A.15: Elementary Reading Scores for Special Education
 (% at or above proficient)

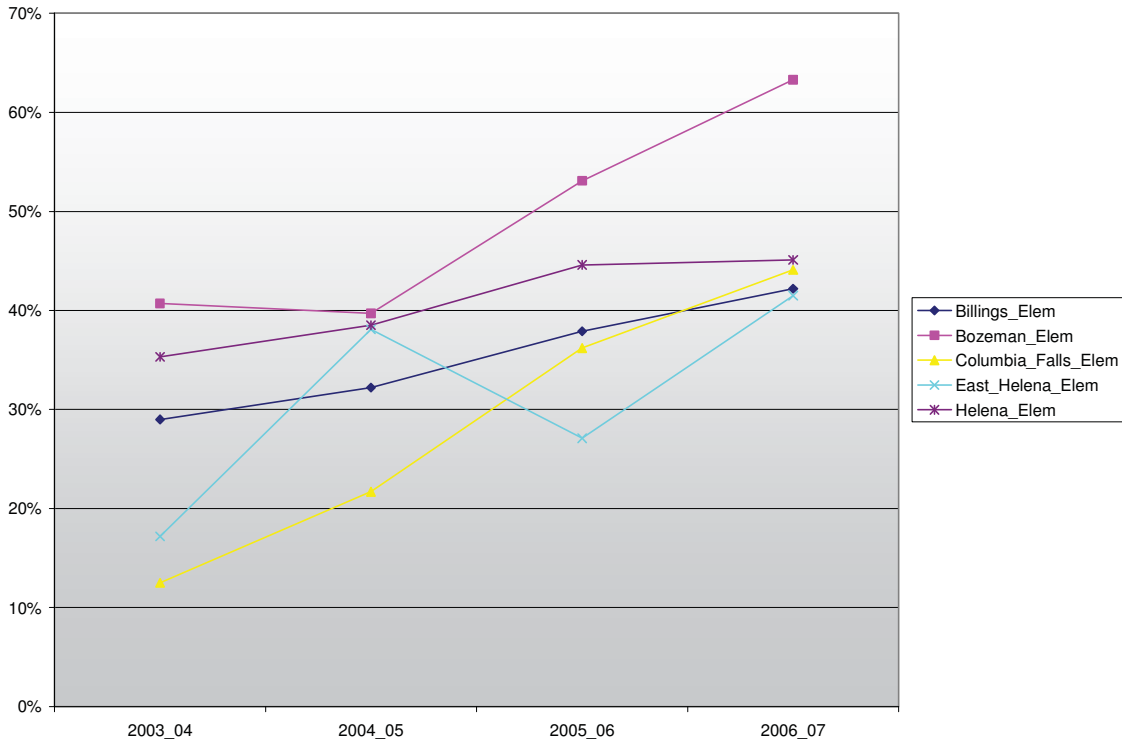


Fig. A.16: Elementary Math Scores for Special Education
 (% at or above proficient)

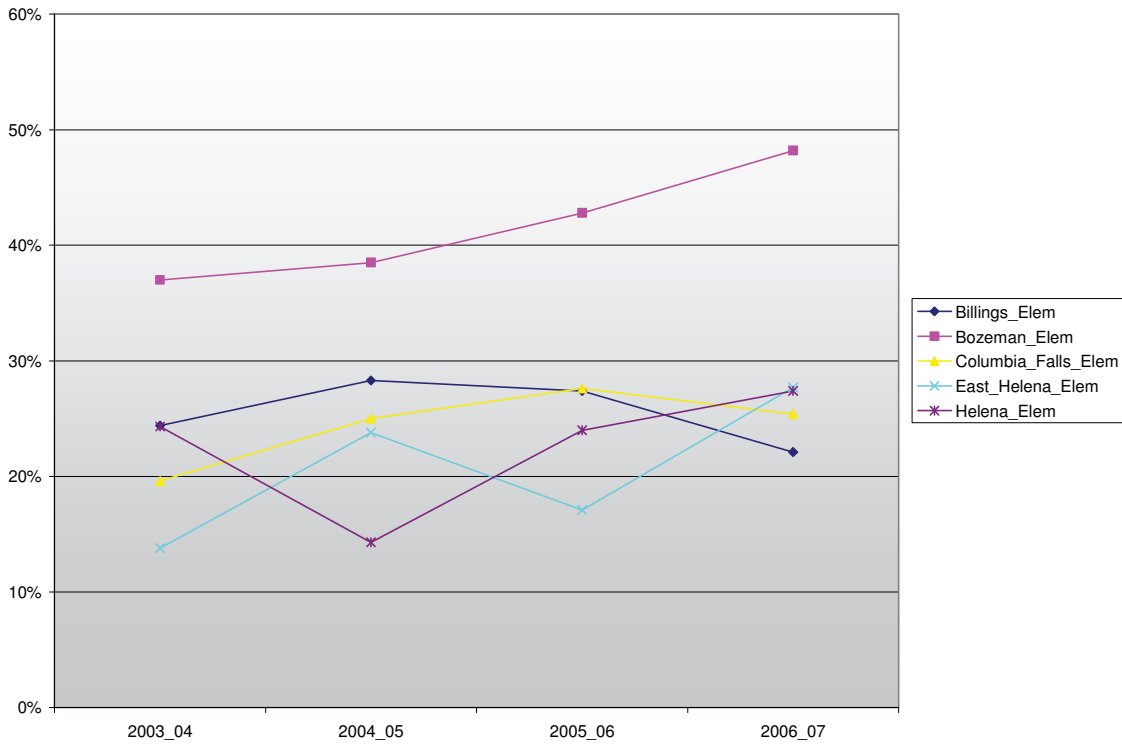


Fig. A.17: High School Reading Scores for Special Education
 (% at or above proficient)

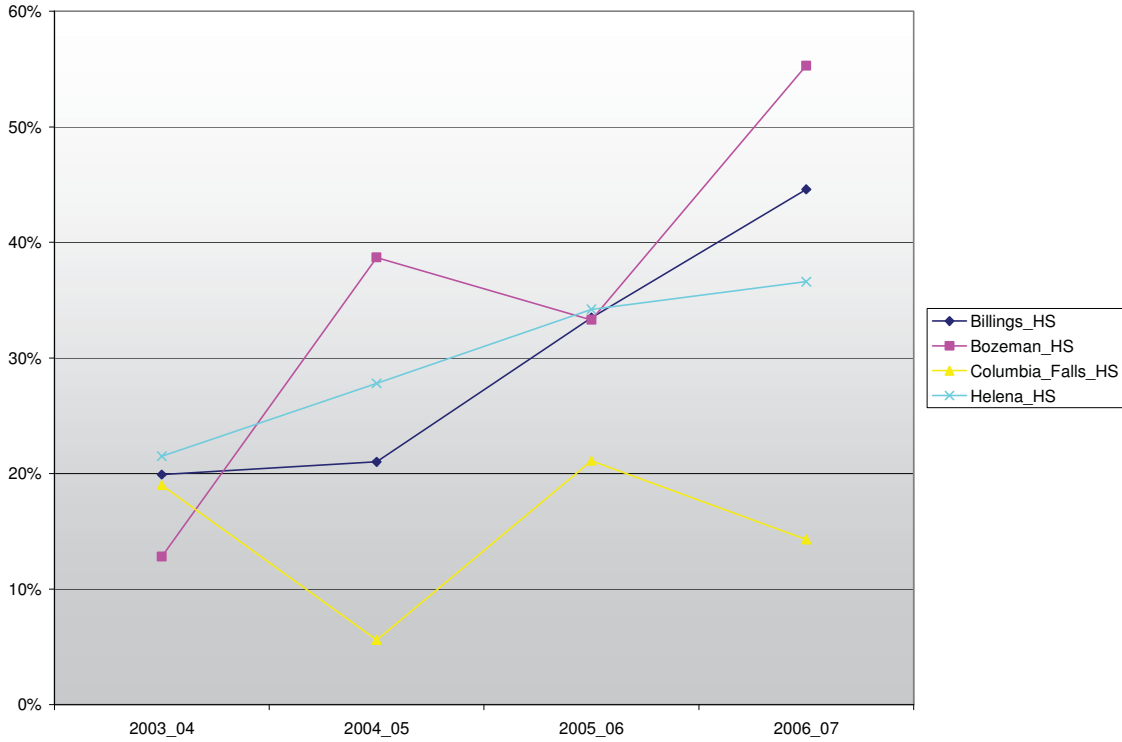


Fig. A.18: High School Math Scores for Special Education
 (% at or above proficient)

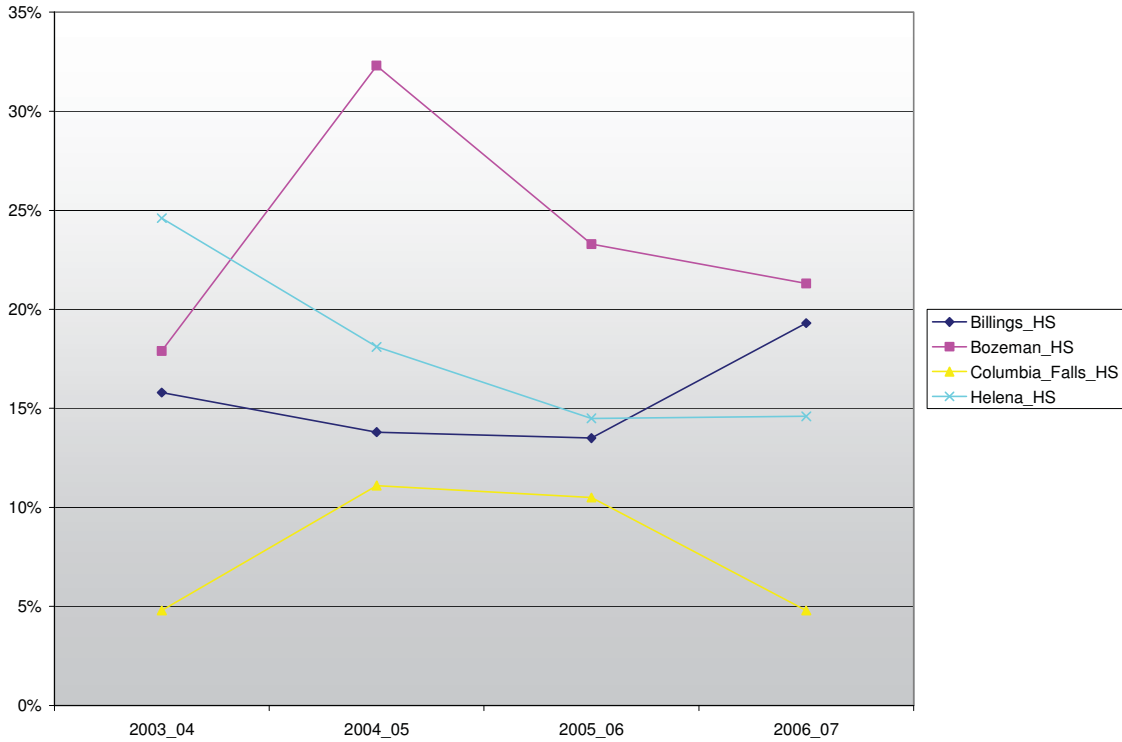
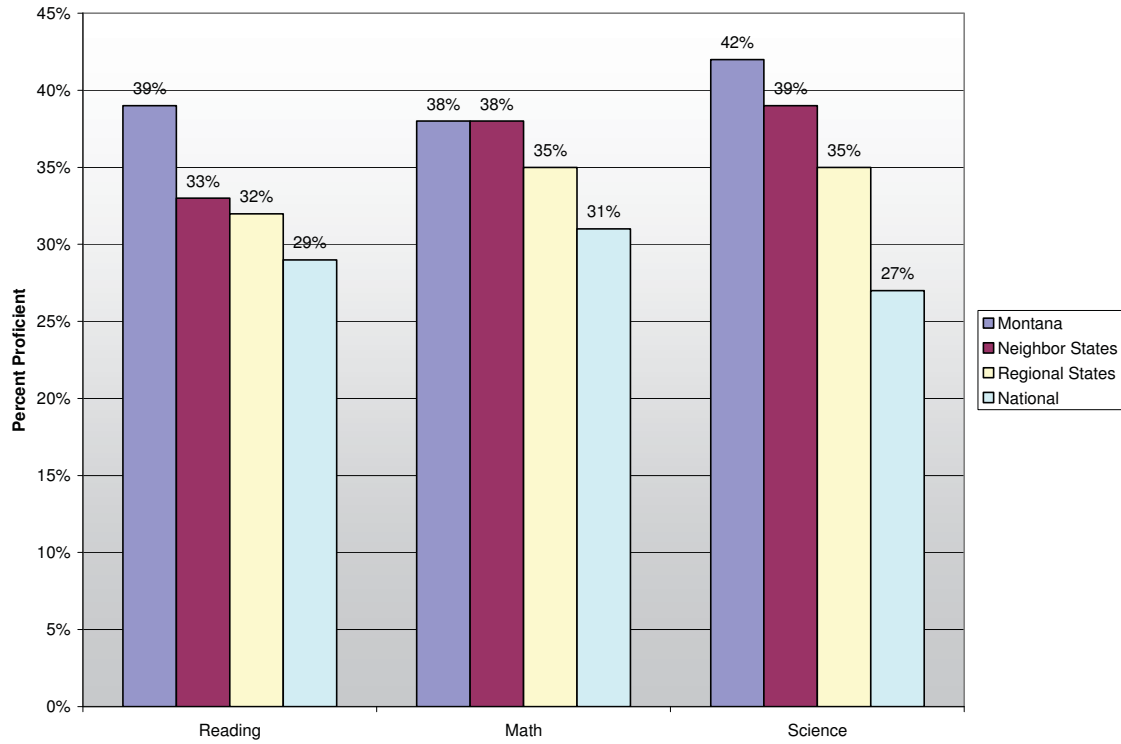


Fig. A.19 8th Grade Proficiency on the NAEP By Subject
 (% at or above proficient)



Source: National Center on Education Statistics. Regional States include – Colorado, Idaho, Nebraska, Nevada, North Dakota, South Dakota, Utah and Wyoming.

Appendix B. Additional Details on How Montana’s School System Compares to Other States

Demographics and Enrollment

Demographically, Montana is both similar to and distinct from the comparison states. For example, Figure B.1 shows the population density of Montana and the comparison states. Montana is one of the least population dense states in the nation.

Fig. B.1: Population Density Per Square Mile Compared, 2004

State	Population Per Square Mile of Land Area, 2004
U.S. Average	83
Colorado	44
Idaho	17
Montana	6
Nebraska	23
Nevada	21
North Dakota	9
South Dakota	10
Utah	29
Wyoming	5

Source: “Rankings & Estimates, Rankings of the States 2006 and Estimates of School Statistics 2007,” National Education Association, December 2007. Taken from U.S. Census Bureau, “Statistical Abstract of the United States: 2007,” U.S. Census Bureau.

The Rocky Mountain states and High Plains states chosen for comparison, as a whole, have relatively small populations spread across large areas of land. Colorado is the most population dense of the comparison states, but is still far below the national average of 83 persons per square mile. Only Wyoming among the comparison states has fewer people per square mile than does Montana. At the same time, Montana shares characteristics with many of the comparison states in terms of where public schools are located.

Fig. B.2: Percentage distribution of students, 2004

State/Jurisdiction	City (%)	Suburban (%)	Town (%)	Rural (%)
U.S. Average	30.4	35.4	12.9	21.3
Colorado	35.6	35.3	11.7	17.4
Idaho	29.1	15.6	24.5	30.8
Montana	21.9	2.6	35.8	39.8
Nebraska	33.6	11.6	23.7	31.2
Nevada	43.7	34.6	8.0	13.6
North Dakota	26.8	7.7	20.5	45.0
South Dakota	24.7	0.9	30.4	43.9
Utah	19.2	57.6	14.1	9.1
Wyoming	24.0	1.6	42.6	31.8

Source: “Status of Education in Rural America,” National Center for Education Statistics, U.S. Department of Education, July 2007.

Montana has far fewer schools located in cities with only Utah having a lesser proportion. At the same time, Montana along with North Dakota, South Dakota, and Wyoming all have a higher proportion of its schools located in areas designated as towns or rural areas than the national average with North Dakota and South Dakota having higher proportions of schools in rural areas than Montana.

Fig. B.3: NCES Locale Codes and Definitions

LOCALE CODE	DEFINITION
CITY	
Large	Territory inside an urbanized area and inside a principal city with population of 250,000 or more
Midsized	Territory inside an urbanized area and inside a principal city with population less than 250,000 and greater than or equal to 100,000
Small	Territory inside an urbanized area and inside a principal city with population less than 100,000
SUBURBAN	
Large	Territory outside a principal city and inside an urbanized area with population of 250,000 or more
Midsized	Territory outside a principal city and inside an urbanized area with population less than 250,000 and greater than or equal to 100,000
Small	Territory outside a principal city and inside an urbanized area with population less than 100,000
TOWN	
Fringe	Territory inside an urban cluster that is less than or equal to 10 miles from an urbanized area
Distant	Territory inside an urban cluster that is more than 10 miles and less than or equal to 35 miles from an urbanized area
Remote	Territory inside an urban cluster that is more than 35 miles from an urbanized area
RURAL	
Fringe	Census-defined rural territory that is less than or equal to 5 miles from an urbanized area, as well as rural territory that is less than or equal to 2.5 miles from an urban cluster
Distant	Census-defined rural territory that is more than 5 miles but less than or equal to 25 miles from an urbanized area, as well as rural territory that is more than 2.5 miles but less than or equal to 10 miles from an urban cluster
Remote	Census-defined rural territory that is more than 25 miles from an urbanized area and is also more than 10 miles from an urban cluster

Source: "Status of Education in Rural America," National Center for Education Statistics, U.S. Department of Education, July 2007.

Declining enrollments are not unique to Montana. Figure B.4 shows the trends in enrollment from 1990 to 2006 in the comparison states.

Fig. B.4: Enrollment Trends in Montana and Comparison States, 1990-2006

	2006-07 Enrollment	Change in Enrollment 1990-2006	Percentage Change in Enrollment 1990-2006	Change in Enrollment 1995-2006	Percentage Change in Enrollment 1995-2006
Colorado	794,026	219,813	38.28%	137,747	20.99%
Idaho	267,533	46,693	21.14%	24,436	10.05%
Montana	144,418	-8,556	-5.59%	-21,129	-12.76%
Nebraska	287,141	13,060	4.77%	-2,603	-0.90%
Nevada	426,436	225,120	111.82%	161,395	60.89%
North Dakota	95,600	-22,225	-18.86%	-23,500	-19.73%
South Dakota	120,278	-8,886	-6.88%	-24,407	-16.87%
Utah	485,839	39,187	8.77%	8,718	1.83%
Wyoming	84,611	-13,615	-13.86%	-15,248	-15.27%

Source: "Digest of Education Statistics 2007," National Center for Education Statistics, U.S. Department of Education, July 2007 and "Rankings & Estimates 2007, Rankings of the States 2006 and Estimates of School Statistics 2007," National Education Association, December 2007.

North Dakota, South Dakota, and Wyoming have experienced tremendous declines in enrollment, with North Dakota and South Dakota losing more students in total and as a percentage change since 1995. Wyoming, though losing fewer total students, has lost a greater share of students than Montana since 1995-96.

From a socio-economic perspective, Montana's schools are below the national average and face similar circumstances as most of the comparison states. Only Nevada's schools approach the national average as a whole.

Fig. B.5: Federal Free or Reduced-Price Lunch Eligibility, 2005-06.

	Free or Reduced-Price Lunch (FRL) Eligibility	FRL Eligible – City	FRL Eligible – Suburban	FRL Eligible – Town	FRL Eligible – Rural
U.S. Average	41.6	54.9	32.7	46.9	38.3
Colorado	33.1	44.6	25.1	41.3	26.8
Idaho	37.6	32.9	34.2	41.9	41.7
Montana	34.5	30.6	32.7	30.5	39.9
Nebraska	34.7	38.4	21.3	41.3	33.1
Nevada	41.3	44.4	44.1	27.1	28.9
North Dakota	29.6	22.7	23.3	29.6	35.4
South Dakota	32.3	30.6	27.1	29.3	35.4
Utah	32.5	45.8	27.4	38.7	35.9
Wyoming	31.4	29.1	59.0	28.9	36.0

Source: "Numbers and Types of Public Elementary and Secondary Schools From the Common Core of Data: School Year 2005-06," National Center for Education Statistics, U.S. Department of Education, July 2007.

Of particular interest in this table is the breakdown between geographic locale descriptions. Though Montana's overall FRL eligibility is below the national average, the state's rural schools have a slightly higher proportion of students eligible than the

national average for rural schools. On the other hand, students in Montana town schools are much less likely to be eligible for this program than the national average.

Montana Public Schools Financial Condition in Context

The National Education Association estimated that Montana’s schools expended \$10,119 per pupil in average daily attendance. This level of spending is at approximately the national average of \$10,212. For the comparison states, Montana’s level of spending is second only to Wyoming at \$14,235. However, making these simple spending comparisons across states ignores the cost differences that exist between states. Given the largest expenditure category of school budgets is personnel, adjusting for the differences in wage costs across states is appropriate. For instance, a study conducted for the National Center for Education Statistics found that, on average, “the wage and salary of a typical college graduate in 1999 was 54 percent higher in New Jersey and Washington, DC (the states with the highest estimated wage level) than Montana (the state with the lowest estimated wage level).”²² The Comparable Wage Index reflects systematic, regional variations in the salaries of college graduates that can then be used to measure the uncontrollable variations in wages paid to college-educated workers across states. Therefore, the Comparable Wage Index allows for direct comparisons in the differences in the choices that states and school districts make in delivering educational services because it controls for the variations in labor costs (and costs of living) across state boundaries.

Fig. B.6: Estimated Expenditures Per Pupil, 2006-07

	2006-07 Estimated Expenditures Per Pupil	NCES Comparable Wage Index Cost Adjustment Factor	Adjusted for Regional Cost
U.S. Average	\$10,212	1.0000	\$10,212
Colorado	\$9,592	1.0425	\$10,000
Idaho	\$7,649	1.2419	\$9,500
Montana	\$10,119	1.3517	\$13,678
Nebraska	\$9,028	1.1823	\$10,674
Nevada	\$7,060	1.0051	\$7,096
North Dakota	\$9,036	1.2472	\$11,270
South Dakota	\$8,741	1.3148	\$11,492
Utah	\$6,060	1.0915	\$6,614
Wyoming	\$14,235	1.2352	\$17,582

Source: “Rankings & Estimates, Rankings of the States 2006 and Estimates of School Statistics 2007,” National Education Association, December 2007 and “A Comparable Wage Approach to Geographic Cost Adjustment,” Education Finance Statistical Center, U.S. Department of Education, May 2006.

Before adjusting for regional cost differences, Montana schools averaged \$10,119 in per-pupil expenditures, just below the national average of \$10,212. Compared to regional states, Montana was second only to Wyoming. On a cost-adjusted basis for regional cost differences, Montana spent \$13,678 per pupil, significantly higher than the national

average and well above most of the comparison states. Again, only Wyoming spent more per pupil on a cost-adjusted basis.

Teacher, Staff, and Classroom Trends

The decline in enrollment over this time period and the increase in number of teachers translate into lower pupil-teacher ratios in Montana schools. In Fall 2006, Montana school districts employed an estimated 10,518 teachers. With an enrollment of 144,418 students, Montana's statewide pupil-teacher ratio is 13.7. Given the steady decline in students and a slight rise in the number of teachers employed across the state, Montana's pupil-teacher ratio has seen a steady decline to 13.7 in 2006 from 16.3 in 1995.

Fig. B.7: Pupil-Teacher Ratio in Montana Compared to Regional States

State	1995	2000	2001	2002	2003	2004	2005	2006
Colorado	18.4	17.3	16.8	16.6	16.9	17.0	17.0	16.9
Idaho	19.1	17.9	17.8	17.9	17.9	17.9	18.0	18.1
Montana	16.3	14.9	14.6	14.5	14.4	14.3	14.0	13.7
Nebraska	14.5	13.6	13.5	13.6	13.6	13.6	13.4	13.5
Nevada	18.7	18.6	18.5	18.4	19.0	19.1	19.0	19.3
North Dakota	15.3	13.4	13.2	12.9	12.7	12.5	12.3	12.6
South Dakota	14.4	13.7	13.6	14.0	13.6	13.5	13.4	13.3
Utah	24.3	21.9	21.8	21.8	22.4	22.6	22.1	22.3
Wyoming	14.9	13.3	13.2	13.0	13.3	12.7	12.6	13.1

Source: "Digest of Education Statistics 2007," National Center for Education Statistics, U.S. Department of Education, July 2007 and "Rankings & Estimates 2007, Rankings of the States 2006 and Estimates of School Statistics 2007," National Education Association, December 2007.

Fig. B.8: Average Class Sizes in Elementary and Secondary Schools

State/Jurisdiction	1993-94		1999-2000		2003-04	
	Elem	Sec	Elem	Sec	Elem	Sec
United States	24.1	23.6	21.1	23.6	20.4	24.7
Colorado	24.7	24.5	23.1	24.6	22.1	24.5
Idaho	24.0	23.7	22.0	22.7	23.2	24.1
Montana	21.2	19.3	17.9	20.1	18.1	19.4
Nebraska	20.0	18.7	17.2	21.4	18.1	21.7
Nevada	24.4	26.6	20.6	27.4	22.6	29.9
North Dakota	20.7	19.7	17.4	18.7	17.2	19.5
South Dakota	19.2	20.9	18.6	19.6	17.8	22.3
Utah	27.5	28.8	23.6	27.3	24.3	29.0
Wyoming	21.0	19.3	17.7	20.4	18.4	21.5

Source: "Digest of Education Statistics 2007," National Center for Education Statistics, U.S. Department of Education, July 2007

In addition to hiring more teachers in a declining enrollment environment, Montana also added 211 instructional staff in 2006-07 from 2005-06, the last year of comparison group data.

Fig. B.9: Change in Instructional Staff 2005-06 to 2006-07

	Teachers	Other Non-Supervisory Instructional	Principals & Supervisors	Total Instructional Staff
Colorado	1,118	189	99	1,406
Idaho	249	2	12	264
Montana	189	19	3	211
Nebraska	364	368	247	979
Nevada	419	-12	31	437
North Dakota	-38	3	1	-34
South Dakota	61	11	-6	66
Utah	-1,003	327	251	-425
Wyoming	-184	61	3	-120

Source: "Rankings & Estimates, Rankings of the States 2006 and Estimates of School Statistics 2007," National Education Association, December 2007

As resources have become available to Montana school districts, they have chosen to hire teachers and other non-supervisory instructional personnel as part of their instructional staff.

The ability of Montana school districts to maintain small schools, small pupil-teacher ratios, and small class sizes is a reflection of the commitment to the educators and students in Montana schools. These indicators, in addition to providing insights into the operations of Montana schools, should also be seen as indicators of working conditions for Montana's educators. Small schools and small classes are desirable work environments and conditions for teachers and principals. Therefore, the ability of schools to attract and retain qualified staff does not depend solely on compensation levels offered to educators. The combination of compensation and working conditions must be considered together when considering the ability of schools to attract qualified staff. With the systematic reduction in pupil-teacher ratios and class sizes over time, Montana schools have also been able to offer competitive salaries to its teachers.

Fig. B.10: Average Teacher Salaries, 2005-06 and 2006-07

	2005-06	Adjusted 2005-06	2006-07	Adjusted 2006-07	Percentage Change 05-06 to 06-07
U.S. Average	\$49,026	\$49,026	\$50,816	\$50,816	3.65%
Colorado	\$44,439	\$46,329	\$45,833	\$47,782	3.14%
Idaho	\$41,150	\$51,106	\$42,798	\$53,153	4.00%
Montana	\$39,832	\$53,842	\$41,225	\$55,724	3.50%
Nebraska	\$40,382	\$47,743	\$42,044	\$49,708	4.12%
Nevada	\$44,426	\$44,652	\$45,342	\$45,573	2.06%
North Dakota	\$37,764	\$47,100	\$38,822	\$48,419	2.80%
South Dakota	\$34,709	\$45,634	\$35,378	\$46,514	1.93%
Utah	\$40,007	\$43,667	\$40,566	\$44,277	1.40%
Wyoming	\$43,255	\$53,427	\$50,692	\$62,613	17.19%

Source: "Rankings & Estimates, Rankings of the States 2006 and Estimates of School Statistics 2007," National Education Association, December 2007 and "A Comparable Wage Approach to Geographic Cost Adjustment," Education Finance Statistical Center, U.S. Department of Education, May 2006.

Montana's average teacher salaries of \$39,832 were approximately \$2,400 less than the Rocky Mountain-states average of \$42,399 in 2005-06.²³ Montana's Quality Educator Payment (Montana 20-9-327) was signed into law in the 2005 Legislative Session with the intent of providing Montana school districts with additional funding to attract and retain quality teachers. The Quality Educator Payment was determined based on the average difference between Montana's teacher salaries and the regional average.

As with total expenditures, the use of the Comparable Wage Index is appropriate to apply across states so as to make for more accurate comparisons between states. When adjusted for regional cost differences, Montana teachers had the highest average teacher salaries in 2005-06 at \$53,842 and the second highest average teacher salaries at \$55,724 in 2006-07.²⁴ Only Wyoming offered higher unadjusted and adjusted average teacher salaries in 2006-07 than Montana among the comparison states.

An important note should accompany these comparisons of average teacher salaries. These estimated average salaries are for school year 2006-07. Given the timing of when the Quality Educator Payment became effective (July 1, 2006), the estimated 2006-07 Montana average teacher salary in this comparison table may not reflect any changes in salaries negotiated between Montana school districts and their teachers. The 2006-07 average salaries in Figure B.10 are only estimates made by the National Education Association.

Fig. B.11: Change in Beginning and 20-Year Teacher Salaries, 2000 to 2003

	2 or fewer years			over 20 years		
	1999-2000	2003-04	% Change	1999-2000	2003-04	% Change
United States	\$28,450	\$32,230	13.3%	\$44,130	\$49,130	11.3%
Colorado	\$25,400	\$30,570	20.4%	\$41,340	\$45,480	10.0%
Idaho	\$22,880	\$26,060	13.9%	\$38,310	\$45,330	18.3%
Montana	\$21,080	\$23,190	10.0%	\$34,110	\$38,530	13.0%
Nebraska	\$21,940	\$26,790	22.1%	\$28,990	\$33,690	16.2%
Nevada	\$27,550	\$29,220	6.1%	\$45,270	NA	NA
North Dakota	\$20,640	\$23,810	15.4%	\$29,730	\$33,500	12.7%
South Dakota	\$23,160	\$24,980	7.9%	\$28,670	\$32,420	13.1%
Utah	\$24,020	\$26,140	8.8%	\$39,790	\$45,390	14.1%
Wyoming	\$23,760	\$28,270	19.0%	\$34,210	\$39,190	14.6%

Source: "Rankings & Estimates, Rankings of the States 2006 and Estimates of School Statistics 2007," National Education Association, December 2007

Fig. B.12: Change in Beginning and 20-Year Teacher Salaries (adjusted)

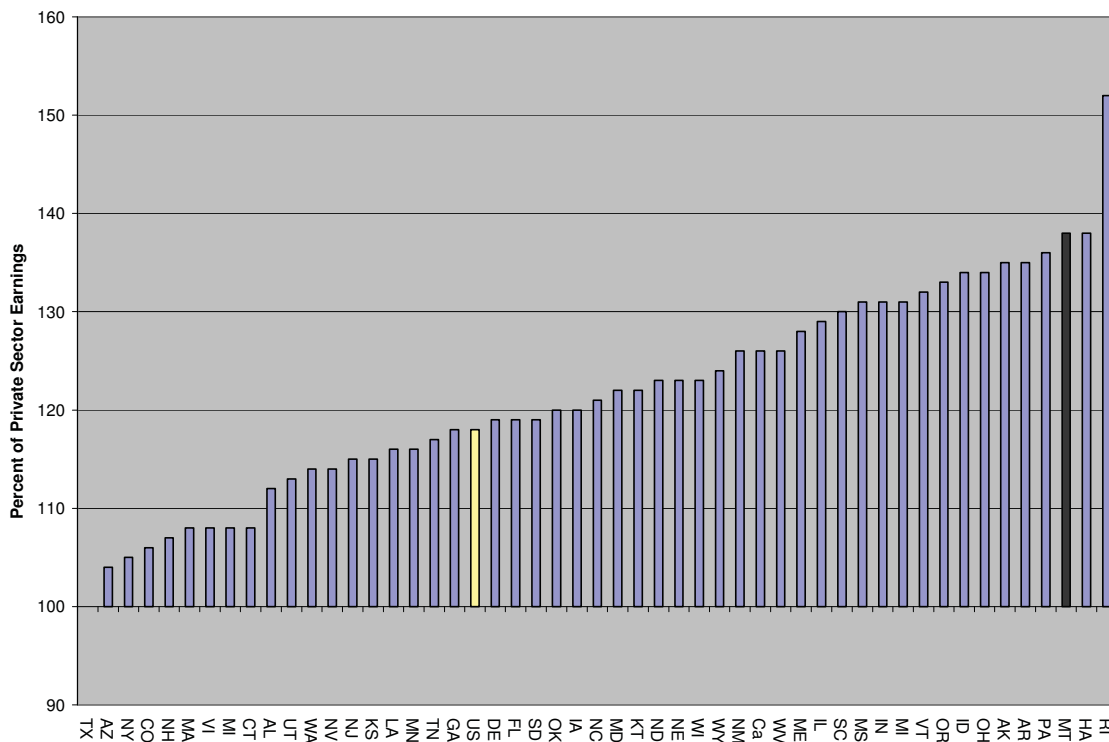
	2 or fewer years			over 20 years		
	1999-2000	2003-04	% Change	1999-2000	2003-04	% Change
United States	\$28,450	\$32,230	13.3%	\$44,130	\$49,130	11.3%
Colorado	27,172	31,599	16.3%	44,223	47,011	6.3%
Idaho	27,232	31,965	17.4%	45,596	55,601	21.9%
Montana	28,186	31,427	11.5%	45,608	52,216	14.5%
Nebraska	26,456	32,038	21.1%	34,957	40,289	15.3%
Nevada	27,680	28,951	4.6%	45,484	NA	NA
North Dakota	26,260	30,022	14.3%	37,824	42,240	11.7%
South Dakota	29,666	32,651	10.1%	36,723	42,376	15.4%
Utah	25,778	28,281	9.7%	42,702	49,107	15.0%
Wyoming	29,560	34,976	18.3%	42,560	48,486	13.9%

Source: "Rankings & Estimates, Rankings of the States 2006 and Estimates of School Statistics 2007," National Education Association, December 2007 and "A Comparable Wage Approach to Geographic Cost Adjustment," Education Finance Statistical Center, U.S. Department of Education, May 2006.

Montana's Relative Salaries are Higher Than Those in Other States

A different factor that can influence the recruitment of teachers is the wages of teaching compared to the wages of other professions. A factor in a young adult's career choices is the wage that they can earn in their chosen profession relative to wages in other career choices. For example, a college student may want to be an architect, an accountant, or a teacher, and will factor in the salary and benefits that each of these careers would provide. Unless a young adult decides to leave the state, this analysis is conducted between the salaries of different sectors within a state. The American Federation of Teachers (AFT) compares the salaries of teachers to the annual earnings in the private sector on a state by state basis.²⁵ In this comparison, teachers in each state earn more than the average private sector employee. This relationship varies significantly across states. In Montana teachers earn 138 percent private employee earnings. This is the third highest relative wage in the nation. Table xx shows Montana's teacher and private sector salaries and how they compare to other states in the region and nationally. Average teacher salaries are near those of states in the region, but relative to other employees Montana teacher salaries are high. This occurs because salaries in other professions are lower than in other states. So, when a young adult is deciding which profession to pursue, teaching make be a competitive career choice. Of course this data is measuring salaries prior to the state's investment in the Quality Educator Payment, so the relative wages may have improved. Some may criticize the AFT data because it includes all professions, including professions that do not require a college education. Next we provide a comparison to professions requiring similar education levels.

Fig. B.13: Teacher Salaries and Annual Earnings in the Private Sector



Source: American Federation of Teachers

Fig. B.13. Teacher Salaries Compared to Private Sector Occupations

Neighboring States	Average Teacher Salaries	Private Sector Annual Earnings	Teachers as Percent of Private Sector Earnings
Idaho	\$40,864	\$30,440	134%
North Dakota	36,449	29,577	123
South Dakota	34,039	28,655	119
Wyoming	40,487	32,620	124
Neighbor State Average	\$37,960	\$30,323	125%
Regional States			
Idaho	\$40,864	\$30,440	134%
North Dakota	36,449	29,577	123
South Dakota	34,039	28,655	119
Wyoming	40,487	32,620	124
Colorado	43,965	41,593	106
Nebraska	39,441	32,005	123
Nevada	43,212	37,881	114
Utah	37,006	32,828	113
Regional State Average	\$39,433	\$33,200	119%
US Average	\$47,602	\$40,505	118%
Montana	\$38,485	\$27,936	138%

Source: American Federation of Teachers

**Fig. B.21 Pay Parity Index:
Teacher Salaries as Percent of Comparable Occupations**

Neighbor States	
Idaho	96.6
North Dakota	86.9
South Dakota	82.1
Wyoming	100.9
Neighbor State Average	91.6
Regional States	
Colorado	82.8
Idaho	96.6
Nebraska	89.4
Nevada	87.1
North Dakota	86.9
South Dakota	82.1
Utah	86.7
Wyoming	100.9
Regional State Average	89.1
U.S. Average	88.0
Montana	110.2

Source: EPE Research Center, 2008.

Richard Seder & Robert Manwaring
Supplemental Disclosure
to August 18, 2008 Original Report

Visiting schools has confirmed many of the conclusions that we made in our main report, as well as some additional insights. We visited three large districts, and two smaller districts. Below we document some of these findings. First of all, we were truly impressed with the quality of the school leaders we met. While some of the superintendents were new to their districts, those that were new had experienced business offices. These leaders were candid with us about the concerns that they have, and all of them appreciated the additional funding from the state, and hoped that there would be additional state investments in the near future. As important as the overall level of new funding was that the new funding was stable, and would allow them a longer planning horizon.

Strategic Planning and Budgeting Process

The districts went through differing levels of rigor in the strategic planning process to determine what the school district's goals would be for the next budget year and following years. The larger districts had well documented district strategic plans and developed specific action oriented goals that they wanted to achieve based on those plans. The districts had really turned their focus to academic outcomes including academic achievement and graduation rates in recent years and had developed their latest version of planning and goals to focus on outcomes. Each district had specific actions that they were taking in their budgets or planning to take in future budgets that would focus their investments in areas that they thought most likely to support the academic improvement of their students. These strategies included: investing in quality teacher and administrator evaluation supported by professional development, central district administration playing an academic support role, establishing an alternative high school program to support students at risk of dropping out, changing grade configurations, hiring additional assistant superintendent to provide greater curricular leadership, opening new school, expanding preschool, afterschool programs, summer school, expanding activities budgets, and supporting the implementation of new curriculum.

School leaders focused on developing measurable objectives and saw a clear linkage between meeting those measurable objectives and maintaining local voter support. They saw setting and meeting goals were important to justify continuing local financial support the next time that the district asked to a voter approved levy for operations or facilities.

Meeting Accreditation Is a Local Decision

As Kirk Miller from Bozeman School District responded in deposition when asked who has the primary responsibility for schools meeting the accreditation requirements, he responded "I would say probably the local school district and community. The local school district has primary control of that." Discussions with school district superintendents and business officers or clerks have confirmed the lead role that local district leadership and trustees have with respect to ensuring that a district meets its accreditation requirements. These conversations also confirmed that meeting

accreditation standards is just one of many priorities that are considered in the district's strategic planning process (as discussed above) that accompanies the budget. In fact, it appeared that local decision makers were willing to not meet specific accreditation standards if there was an alternative use of resources that the district leadership thought would have a more significant impact on their students' academic achievement or reduce their students' dropout rates. Montana districts have accepted the new era of outcome-based accountability, and they believed that focusing on outcomes was at times a higher priority than accreditation. So while accreditation was clearly a priority, they were comfortable investing funds in new initiatives or protecting a supplemental program even if it meant temporarily not meeting a specific accreditation standard.

Some of the leaders raised the issue that some of the current accreditation standards do not reflect the most current educational delivery models, and as such, may emphasize specific accreditation requirements that have less impact on education outcomes than other resource uses. District leaders thought that the accreditation standards restricted their flexibility and often resulted in a conflict between what they thought would be in the best interest of the district and meeting the requirement of a specific standard. There was also confirmation of our analysis of the data that many of the current accreditation violations are transitory issues and are addressed in a timely basis. As an example, one district described their accreditation deficiency for a qualified physical education / health teacher. The teacher was a recent hire from Texas and had a full credential in the state of Wyoming that qualified him through reciprocity to get a credential in Montana. Between delays in getting documentation from Wyoming and getting OPI to process the new documents, the documentation was not ready in time to eliminate the deficiency. In fact, the deadline for accreditation was December 1st and the final paperwork was completed December 10th. Nonetheless, the school received a deficiency accreditation for 2007-08. From the district's perspective, they were less concerned with the problems of being identified as having an accreditation deficiency and were more concerned that because of the processing delays, their new employee was not eligible for a Quality Educator Payment, so the district lost over \$3,000 in revenues. A second district has an accreditation deficiency because of not having enough counselors. As part of a local levy they had told voters that they needed the local levy to pass to be able to fill these positions. And, when the local levy failed, the district leadership felt that they needed to not fill the positions to maintain local credibility.

System Efficiency

School leaders identified the large number of schools and school districts as a source of inefficiency in the current system. Each district needs to have a superintendent and other district staff to operate. If districts were to consolidate overall costs could be reduced and those savings could be redirected to expanding programs. This is especially true in areas of the state where several elementary districts all feed into a single high school district. One of the districts that we visited had 13 elementary districts that feed into its high school district. All of these districts were close in geographic proximity to the high school (within 10 miles), so this configuration was not because of rural isolation. They felt that there were large efficiency gains that could be made by consolidating these districts notwithstanding their recognition that local politics would make such a

consolidation difficult. In addition, they identified the problems that having separate high school and elementary districts can cause when the district is negotiating with its union or unions. Specifically, it is often the case that one of the budgets can afford a higher salary inflationary adjustment than the other, but when negotiating, all teachers will get the inflationary adjustment regardless of whether they teach in the high school or elementary district. This leads to a tension with the union and can get the district into financial difficulties if the district gives a higher raise than the least funded of the two districts can afford. Allowing districts to consolidate funding from the two districts would allow them to more easily manage their finances and the critical impact that salaries can have on their finances.

Recruitment and Retention

District's assessments of this issue varied by district. Some superintendents indicated that they had no problems recruiting and retaining teachers. They suggested that a combination of competitive salaries, a quality education program, and a beautiful place to live made it relatively easy to find teacher candidates even in historically hard to staff areas like career technical education, special education, math, and science. Other districts in less desirable areas to live were more likely to have difficulty recruiting and retaining teachers, but thought that because they were a little more aggressive with their recruitment and retention were satisfied with the quality of the applicants that they hired.

Ratcheting Effect up to Budget Max.

The district leaders helped us better understand why many districts are at maximum budget or approaching it. If a district is declining, simply staying at the same level of local support as in the past will quickly move a district toward their budget max. For districts that have flat or slightly growing populations, districts usually continue any budgeting approved by the voters in the past because the district does not want to have to deal with the difficulty of going to the voters for a levy and potentially risking the funding if a local levy is not successful. In all, once a district has voted on levies to increase their budgets towards the maximum allowed budgets through local levies for whatever the programming reason, there is little to no reason to bring that budget back down so as to avoid having to return to the voters again in the future.

ENDNOTES

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- ²⁴ Regional cost adjustments made using the updated 2005 Comparable Wage Index developed for the National Center for Education Statistics. The 2005 Regional CWI file can be downloaded from the

National Center for Education Statistic's Website at <http://nces.ed.gov/edfin/adjustments.asp>. In order to compute adjusted spending or salaries, one takes the Actual dollars divided by the state-level CWI multiplied by the national CWI. Because 1999 was the first year that the index was constructed, the national CWI is benchmarked to 1.0000 in 1999. The national CWI for 2005 was 1.2648.

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