



Education and Local Government Interim Committee

PO BOX 201706
Helena, MT 59620-1706
(406) 444-3064
FAX (406) 444-3036

57th Montana Legislature

SENATE MEMBERS

EDWARD B. "ED" BUTCHER
ALVIN A. ELLIS JR.
WM. E. "BILL" GLASER
LINDA J. NELSON
DON RYAN
DEBBIE SHEA

HOUSE MEMBERS

JOAN ANDERSEN
GARY BRANAE
TOM FACEY
JEFF MANGAN
GAY ANN MASOLO
ART PETERSON

COMMITTEE STAFF

CONNIE ERICKSON
RESEARCH ANALYST
EDDYE McCLURE
STAFF ATTORNEY
PAM JOEHLER
FISCAL ANALYST

April 17, 2002

MINUTES

Billings Community Center
Billings, Montana

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

COMMITTEE MEMBERS PRESENT

Sen. Linda Nelson
Rep. Joan Anderson

Sen. Edward Butcher
Sen. Alvin Ellis
Sen. William Glaser

Rep. Gary Branae
Rep. Jeff Mangan

COMMITTEE MEMBERS ABSENT

Sen. Debbie Shea
Sen. Don Ryan
Rep. Gay Ann Masolo
Rep. Tom Facey
Rep. Art Peterson

VISITING LEGISLATORS

Rep. Clarice Schrupp
Sen. John Bohlinger
Rep. Kim Gillan
Sen. Royal Johnson

STAFF PRESENT

Connie Erickson, Research Analyst

Eddy McClure, Attorney
Miko Owa, Secretary

VISITORS' LIST

Visitors' list (ATTACHMENT #1)

CALL TO ORDER AND ROLL CALL

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

GOVERNOR'S PLAN

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

The recommendations of the Council are as follows:

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

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

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

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

The Council recommended further study in three areas:

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

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

PUBLIC COMMENT

Lance Melton, Executive Director, Montana School Board Association (MSBA), presented several charts to the Committee (EXHIBITS #5-#10). He said that MSBA supports all the recommendations but has some reservations regarding county wide equalization and feels that if the state is going to proceed in that direction they should do so, but only once. He said that the tax payers cannot withstand the continuing tax changes that have gone on over the years and would like stability. He said that we need to be aware of the fact that when the federal government gives money, local spending cannot be reduced. So, when you have a demonstration of where federal funding has gone, it has been said that that beats inflation. He said that even though it exceeded inflation, it did not exceed the additional mandates that were imposed along with the money. He said that with respect to CPI inflation, we are \$40 million short in state funding. Adding an annual inflator adjustment will only freeze this shortage in place. He said that we have exceeded inflation drastically in our non-levy revenues by \$20 million and in district property taxes. He said that in regard to tax payer equity, you cannot only look at how one tax payer is treated compared to another tax payer of the same type, but how tax payers of different types are treated. He said that based upon the charts that he presented, it is the local, voluntary effort of the property tax payer that is keeping school districts afloat at this point. He said that there are a variety of resources available at the state level that can be distributed equitably among different types of tax payers and that is not happening at this point. He said that this Committee should not only meet inflation, but over time, undo the reduction in state funding that has occurred since 1994. He said that there is another measure of inflation that can be looked at as well, and that is the school price index (SPI). He said that the CPI is irrelevant in comparison to the SPI. He said that there is not a reputable, school funding expert who will state that CPI is an accurate and adequate measure of inflation for school costs. He said that inflation is not a solution and needs to be looked at more closely.

He also said that when you combine local revenues from 1994-2001, there is a narrowing of the burden for funding education. He said that in 1994 the state was funding 51% and local taxes were funding 39.35%. He said that today the state is supplying 44.56% and local taxes are providing 43.98%. Mr. Melton said that when you go beyond that general fund, you get into a real quagmire as to if the state is even providing the majority of funding for education in this state. He said that the change in percentages is an absolute reversal of what is happening on the national level.

Sen. Butcher asked Mr. Melton to enumerate as to where the state is going to get the money that doesn't come back on local property taxes. Mr. Melton said that the income tax proposal being presented by the Governor says that income taxation will be cut, and then it will put to a vote by the taxpayers as to whether or not they want to put the money back in to make up for the lost

revenue by implementing a tourist tax. He said that we have an opportunity to look at the structural imbalance and would like to see a proposal come forward that says that rather than spending money on a tax cut, we will spend the money to make up for the \$40 million education has cost.

Conrad Stroebe, Trustee, Billings/Lockwood, presented to the Committee a handout regarding funding education (EXHIBIT #4) and current events in the Billings community (EXHIBIT #11). He said generally the Council did a good job. He said that when a large district runs out of money we close schools. However, if a small district runs out of money, they do not close schools. He said that equalizing on a county basis is good, though it is not right yet because we, as the state, are responsible for the BASE budget as a result of a Supreme Court decision. He said that this is a step in the right direction, but there is still a disparity in mills. He said that we also need to use the CPI and at least stay even with inflation and then come argue as to why more funds are needed. He said that something that has not been looked at is the difference in funding depending on where a student lives. He said that his students deserve the same amount of money in the base budget as any other student in Montana. He said that another mistake is that we allow small districts to have small schools, but we don't allow big districts to have small schools. Mr. Strobe also provided to the Committee an article titled *The Influence of Scale* (EXHIBIT #12).

Mr. Stroebe said that the tourist tax and entertainment tax are good ideas. He said that another source of funding is equalizing the property tax across the state, which would give 85% of the state tax relief. He said that a final source of revenue is the old fund liability tax and that should be used for education.

Dan Martin, Chief Operations Officer, Billings Public Schools said that in reference to the three year enrollment averaging, he would like to see splitting the K-6 and 7-8, as they are funded differently. He said that he likes the health insurance pool and that the state should adopt one whether or not the funding goes with it. He said that the equalization efforts have not gone far enough and if the state simply power equalized oil and gas, then the counties would all be the same. Mr. Martin also expressed concern over the numerous efforts made over the years to solve the education funding problem; however, the problem has never been fixed.

April Lynn Counts, Billings, said that she was under the impression that gambling money was earmarked for education and would like to know where the money was going. She also said that in Florida, high schools were shared and half of the students attended morning classes and half attended afternoon classes.

Sen. Nelson said that the lottery money was moved to the general fund and poker and keno dollars go to local and county governments.

Karen Moses, Billings, said that schools have been closed that are hardly small schools. She said that Article 10 of the Montana Constitution, says that it is the states' responsibility to provide equal educational opportunities. She said that they do not have a Yellowstone County Constitution that says it is a county responsibility. She said that there needs to be equalization at the state level.

Al Sipes, Superintendent, Columbus School District, said that we have gotten to a point now where large schools are trying to get more money for their district by saying equalize the cost per pupil. He said that there is a greater cost per student in the smaller schools. He said that

with declining enrollment in the state, it is being calculated what the savings are going to be to the state. He said that that money is then taken away from the school districts. He said that when we have a slight decrease in our school district, we don't decrease any costs.

He said that in his discussions with the congressional delegation, a rural education program is coming forward which allows school districts to consolidate their small amounts of federal money and use it for benefitting school districts. He said that school districts are going to receive a large increase in federal dollars because of this program. but that money is specifically targeted for certain programs. He said that those programs and that federal money is being used to help calculate from the state level what the costs is to educate a child in the state of Montana.

Mr. Sipes said that the proposals presented are still relying heavily on the local tax payer and that pinch on the property tax is being felt. He said that the combining of school districts only shares the tax base and saves no money for the district. He said that consolidation is not the answer and there are certain schools that probably need to be shut down.

Peter Gesuale, Trustee, Billings, disputed the contention that it costs more to educate kids in a small school than a large school. He said that he understands economies of scale, but that is not the problem in the AA districts. He said that economies of scale only exist up to capacity. He said that the Billings district is over the capacity. He said that we are way beyond any hope of recognizing economies of scale and are well into dis-economies of scale. He was a naysayer of the Council originally but now thinks they did a great job.

Bill Shikany, Teacher, said that much of what is being said about education is skill building for jobs and he hopes education is much more than that. He also spoke about class size and IDEA's requirement for the least restrictive environment for that student. He said that each special education student requires an individual approach and lesson plan. He said that for those people who have not been in school for awhile, schools have changed, and have become more dynamic. He said that along with special education students, there are those that fall under 504. 504 is a federal designation for students with a physical or mental impairment that substantially limits a major life activity. Mr. Shikany said that the difference between 504 and IDEA is that special funds are not given for 504 students. He said that if we really believe that we are not going to leave any child behind then we need to go forward and provide funding. He said that education is getting more expensive and that burden is being shifted to homeowners. He said that he wishes that the tobacco money, instead of backfilling for past tax breaks, would have been given to schools for adequate nursing staffs. He said that he wants prudent development within our state, and he does not want any more reclamation costs set aside. He said that we are underestimating the rising medical costs. He proposed that we initiate the Montana masters degree program where we send teachers back to get their master's degree in academic areas.

Jill Richards, Superintendent of Schools, Gallatin County, said that the school population of Cedar Rapids, Iowa is very similar to the school population of the whole state of Montana. She said that we cannot solve the problems of Montana by consolidating into a larger district. She said that equality in one district is not going to be equality in another district. She said that the county wide mill levy focuses on redistributing funds from one school district to another. She said that there will be districts in her county that will have to pay a lot more. She said that they should not be paying for the education of other students in other districts. Ms. Richards commented that there are a number of local volunteers in schools and this would be significantly

reduced if there is a county wide mill levy. She said that this will also encourage school districts to consolidate into larger districts that we may not want.

Kathryn Pfister, Superintendent of Schools, Musselshell County, said that in multiple rural schools across the state, we are already paying mills for which that district receives no money. She said that she would hate to see that multiplied again. Countywide equalization could place an excessive burden on taxpayers already paying a lot for education.

Mike Dimich, School Board, Billings, said that we should not expect the federal government to backfill what we are doing in the state. He said that the state has an obligation to fund education. However, he would like to live in a world where federal mandates are funded at an appropriate level. She said that when mandates come into place, we still need to find a way to cover any shortages. He said that we made very difficult business decisions not educational decisions to close schools and move students into facilities where their desks are touching. He said that this is unacceptable. He said that he is asking the legislature for their help in funding education and doing what is best for our children. We need to hire the best teachers for the best students for the best in our future. He said that inflation is a real issue that needs to be addressed.

Rep. Kim Gillan, House District 11, said that there are some good suggestions in the presentation, but it did not go far enough. She said that the issues of adequacy and state share need to be addressed. The teacher shortage needs to be addressed. She said that she has a genuine concern that when we adopt some of these recommendations, the public will believe that the problem is fixed when it is not. She said that the governor reported that the last legislature approved a funding level of over \$7,000 per student which is incorrect. She said that the average is \$6,800 per student, but Billings students receive only \$5,800. She said that of that money only \$3,100 came from the state so the local tax payer had to make up the difference. She said that there is a vast discrepancy in building conditions for some of the elementary schools. She said that the issue of new construction is going to have to be discussed in the legislature. She also said that school funding is incredibly complex as is our income tax system. If we are going to fix one problem then we need to fix the other. She said that it goes beyond simplicity, because when people look to move to the state, they look at the schools and what they are going to get for their tax dollars. She said that we really need to look at school funding and solve the problem because the piecemeal approach may turn us down a wrong path and divert our attention.

Stephanie Johnstone, Graff PTA, Laurel, said that Governor Martz said school funding is adequate; the problem is with local administration of schools. Ms. Johnston asked the Committee to please follow through with the recommendations.

George Day, Billings, presented written comments (EXHIBIT #13).

ADJOURNMENT

The meeting adjourned at 9:11 p.m.