The largest source of revenue to schools is property tax. The state collects 95 mills for distribution to schools, and districts and counties levy the rest. The county collects property taxes for transportation and retirement. The district collects property taxes for its share of the budgets for the district general fund, transportation, debt service, and other budgeted funds. Another source of state dollars is revenue from interest and income on school lands. This revenue is constitutionally dedicated to public school funding and makes up approximately 4.5 percent of

What is the State's Role in K-12 Spending?

all school spending of $1.2 billion per year.
The state legislature traditionally has the following roles in controlling K-12 spending: 1) determines the basic and per student entitlements for district general funds, and thereby sets the maximum and minimum amount each district may spend from the general fund; 2) determines the state share of the district general fund budget and other district funds; 3) appropriates the sources of revenue for the state's share and a majority of the federal share; 4) specifies the circumstances under which increased property tax needs are to be voted on; and 5) appropriates funds to the Office of Public Instruction to distribute state funds, enforce mandates and provide oversight as well as to the Board of Public Education to set educational standards.

The state also determines where the revenue for its share of K-12 spending is to be derived. The Constitution requires that all interest and income from school lands be used for K-12. State statute requires (almost) all property taxes collected by the state be used for K-12. The remaining funding from the state is appropriated from the state general fund.

Legislative Fiscal Division

www.leg.state.mt.us/fiscal

How is the State's Appropriation Determined?

The legislature determines the "present law budget" for its share of the K-12 budget. The present law budget is an amount spent in a base year adjusted for expected changes in enrollment. New proposals are voted on that change the basic and per student entitlements, and the levels of direct state aid, GTB, special education, and block grants as well as funds for numerous smaller programs. The state also appropriates federal dollars for K-12.

K-12 Lawsuit

A coalition of schools sued the state in 2003 alleging inadequate state funding and a funding system that is not related to educationally relevant factors. The district court in April 2004 found for the coalition as did the Supreme Court in a preliminary opinion in November 2004. During the 2005 legislative session, the legislature will be faced with the following tasks:

- Define the educationally relevant elements of a basic system of free quality public elementary and secondary schools
- Determine the costs of delivering the resources required by that system for both operating and capital expenses
- Devise a funding formula in law that will determine the state's share of school districts' resources
- Determine what state and district revenues will be required to pay for the system
- Devise a periodic review process of the system to insure it meets future educational needs

The Court set October 1, 2005 as the date at which the Court's order would go into effect. The Court allowed a phase-in period beyond this data for the final remedy.

LFD Mission Statement

We are committed to enhancing the legislative process through understandable and objective fiscal policy analysis and information.

LEGISLATIVE FISCAL DIVISION

FOCUS ON...

K-12 EDUCATION FUNDING

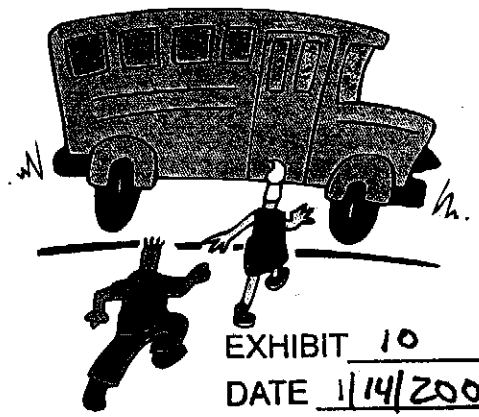


EXHIBIT 10
DATE 1/14/2005
HB

Local control by school boards is an important part of the governance structure of school districts in Montana.

Primary Contact: Jim Standaert
Room 113, State Capitol
Helena, MT 59620-1711
E-Mail: jstandaert@state.mt.us
(406) 444-5389

What Does the Constitution Say About Public Elementary and Secondary Schools?

Article X, Section 1 says the following:

(1) It is the goal of the people to establish a system of education which will develop the full educational potential of each person. Equality of educational opportunity is guaranteed to each person of the state.

(2) The state recognizes the distinct and unique cultural heritage of the American Indians and is committed in its educational goals to the preservation of their cultural integrity.

(3) The legislature shall provide a basic system of free quality public elementary and secondary schools. The legislature may provide such other educational institutions, public libraries, and educational programs as it deems desirable. It shall fund and distribute in an equitable manner to the school districts the state's share of the cost of the basic elementary and secondary school system.

The Constitution also provides for a Board of Public Education, made up of seven members appointed by the Governor. The Board exercises general supervision of the schools. Some of its specific duties are to adopt standards of accreditation, monitor the accreditation status of each school and adopt a system of teacher certification. The website for BPE is http://www.bpe.state.mt.us.

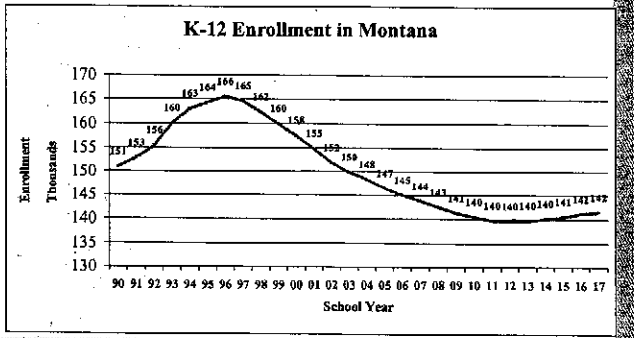
The Office of Public Instruction (OPI) is the state agency charged with distributing state and federal funds to schools; assesses the quality of schools and its professional staff; provides data to measure school improvement; coordinates and provides professional development services to educators; supports accountability with state and federal laws. OPI's website is http://www.OPI.state.mt.us

Local control by school boards is an important part of the governance structure of school districts in Montana. Section 8 of Article X of the Montana Constitution states that "The supervision and control of schools in each school district shall be vested in a board of trustees to be elected as provided by law.""

What are the Characteristics of the Population Served?

The graph shows actual enrollment in Montana's public K-12 elementary and secondary schools for the period 1990 through 2003 and projected enrollment through 2017. Total enrollment is expected to decline for at least another ten years, when the "echo" of the echo of the baby boom will cause enrollments to flatten out and then increase.

The large majority of students live in urban settings. In 2003, 12.8 percent of students received special education services, 34.7 percent were eligible for free or reduced price lunches and 11 percent are American Indian. Montana students rank high on standardized tests. In 2002, Montana 4th graders ranked in the top ten states in reading and science. Montana 8th graders ranked in the top ten states in reading, science and math. In 2004, Montana's average ACT score was 22.4 compared with the US average of 21.3.

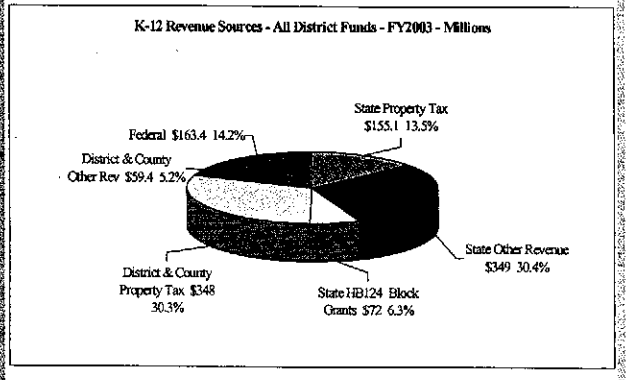


What are the Characteristics of Schools in Montana?

In 2004 there were 438 operating districts employing 13,856 FTE, of which 10,300 were teachers. The average student teacher ratio in 2002 was 14.5 compared with the US median of 15.2. The average salary in 2003 in Montana was $35,754 compared with a national average of $45,771. Schools in Montana in 2003 spent $7,368 compared to the national average of $7,875. Spending between 1991 and 2003 grew 3.7 percent per year compared with annual inflation growth of 2.6 percent. Of total spending, 73.3 percent was for salaries and benefits, and 49.1 percent was for salaries and benefits for instruction.

How are Public K-12 Schools Funded?

The 438 school districts in Montana are governed by boards of school trustees who make decisions on the amount of money needed to furnish educational services. There are ten budgeted funds, the largest being the district general fund, which averages 80 percent of total spending, and numerous non-budgeted funds. Any fund which receives property tax revenue must be budgeted. Other major budgeted funds include transportation, retirement, and debt service.

The revenue available to districts includes state dollars, federal sources, local nonlevy sources, cash left over from prior years, and local property taxes. Revenues received from the state include direct state aid, guaranteed tax base aid, property tax reimbursements and HB 124 block grants, special education, interest and income from school lands, and other.

The chart below shows the shares of each revenue source for all K-12 districts in the state in school year 2003.