

SENATE EDUCATION

EXHIBIT NO. 2

DATE 3-8-05

~~_____~~ Discussion

Governor's K-12 Public School Funding Study Advisory Council

Report and Recommendations

December 31, 2001

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At its first meeting, the Council set out to develop an organizational framework for addressing the discrete subsections outlined in HB 625. The Council ultimately attempted to place those thirteen subsections into three (3) broad conceptual categories:

- "units of funding"
- "tax equity"; and
- "governance"

While the Council recognized that there would be areas of "overlap" for some, if not most, of the specific HB 625 provisions, it has attempted to use that three-prong organizational framework as much as possible.

The Council conducted five (5) all-day meetings in Helena between July and December of 2001, with two additional telephone conferences in December to finalize this study report. In general terms, each meeting involved a review of prior meetings' discussions, actions, directions, etc., presentations of information from various sources, opportunities for interested parties to address the Council and concluding discussions between Council members regarding direction and decisions. The Council also received written comments submitted by interested members of the public. Agendas and minutes were prepared for each of the meetings and can be accessed through either the Governor's Office or the website at http://www2.state.mt.us/budget/Ed_Committee/.

INTRODUCTION

On May 5, 2001, Governor Martz signed House Bill 625, which requires that the Governor and the Superintendent of Public Instruction conduct a study of "K-12 public school funding and related issues". The Governor subsequently signed an Executive Order establishing the "K-12 Public School Funding Study Advisory Council" for the purpose of assisting her office in conducting the study called for by HB 625. This report outlines the results of the study activities undertaken by the Council and the recommendations of the Council based on those activities.

HOUSE BILL 625

House Bill 625 outlines twelve (12) discrete areas where the study contemplated by the legislation is required to "analyze" or "determine" various matters. The Governor, after consultation with the State Superintendent, is then required to prepare and submit a preliminary report to the Local Government and Education Interim Committee on the "findings and recommendations of the study".

The Interim Committee is then tasked with holding hearings and taking public comments on the preliminary report prepared and submitted by the Governor. By August 1, 2002, the Interim Committee is required to provide a summary of the hearings and its recommendations for changes to the preliminary report for the Governor's consideration. The Interim Committee may also make any other recommendations on school funding that the Committee considers appropriate and may prepare legislation for consideration during the 2003 session.

Upon receipt of the summary and recommendations from the Interim Committee, the Governor is required to issue a final report. If appropriate, she may also prepare legislation for consideration during the 2003 session.

THE COUNCIL AND ITS PROCESS

The Council is composed of representatives from the Governor's Office, the State Superintendent's Office and the Board of Public Education, as well as other representatives of the education and taxpayer community:

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EXECUTIVE SUMMARY

COUNCIL RECOMMENDATIONS

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

AREAS FOR FURTHER STUDY

- Further pursue concept of comprehensive study of the adequacy of school funding in Montana.
- Further explore concept of creating single Capital Projects Fund to serve purposes of existing funds for bus depreciation, building, building reserve, technology acquisition and lease or rental agreements.
- Further pursue recommendations of Governor Racicot's Task Force on Teacher Shortages/Teacher Salaries

As part of its study process, the Council solicited reports and information from staff at the Office of Public Instruction (OPI), the Governor's Office of Budget Program and Planning (OBPP), the Department of Revenue (DOR), the Legislative Fiscal Division (LFD) and the Legislative Audit Division (LAD). The Council is extremely grateful for the efforts of all of those staff members in assisting and supporting its study activities. As with meeting agendas and minutes, the staff reports are also available at the above-referenced website.

In addition to the staff reports, the Council (in conjunction with the Interim Committee) had the opportunity to hear formal presentations from two experts in the realm of school finance, John Augenblick and Michael Griffith of the Education Commission of the States (ECS). Members of the Council also had the opportunity to informally discuss school finance matters with yet another expert, Richard Rothstein. Both opportunities were invaluable to the Council in terms of hearing from experts with specific regard to some of the issues facing Montana's system.

3) Use a weighted GTB calculation for both the countywide BASE budget levy and for the county retirement/insurance levy

The Council recommends the use of one measure for determining a county's eligibility for guaranteed tax base aid for any of the GTB subsidized county levies. The analysis presented to the Council showed that the weighted GTB formula does a better job of narrowing the disequalization in county levies than the unweighted formula. A weighted GTB formula guarantees a higher level of property tax revenue per student in a small school district than in a large one

4) Adopt the transportation funding structure proposed in HB 163 from the 2001 legislative session

The Council recommends that state and county transportation reimbursements be provided to school districts based on the rated capacity of the school bus and the bus miles traveled on routes approved by the county transportation committee. The Council recommends the elimination of the statutory requirement for a bus ridership count on high school buses. Under this proposal, buses of similar sizes will be eligible for the same reimbursement per bus-mile traveled regardless of the number of riders.

This proposal was contained in HB 163 (L. 2001), which is found in *Appendix B*. It has an estimated price tag of \$3.4 million per year, split between the state and county. The Council recommends that the HB 124 block grants to the district and county transportation funds be redistributed in the form of increased state transportation reimbursements. In net, this proposal would result in shifts in property tax burdens among taxpayers, but would not increase the overall level of revenues or expenditures for pupil transportation.

5) Calculate the average number belonging (ANB) for a district with declining enrollment by using average enrollment over a 3-year period

The Council recommends that, with one exception, the average number belonging (ANB) for a school district be calculated by averaging the fall and spring enrollment counts for a district over a 3-year period. An exception is made for a district [specifically, a budget unit as described in 20-9-311(8)] that experiences growing enrollment. For these districts, the enrollment for the most recent year (i.e. the year prior to the current budget year) would be used for calculating ANB.

The Council also considered using the 3-year average for all districts regardless of the direction of enrollment growth. The Council recognizes that if averaging is applied to districts with growing enrollment, some kind of statutory protection is needed for districts that experience a sharp increase in enrollment.

DETAILS -- COUNCIL RECOMMENDATIONS

1) Create a countywide levy to fund the property tax portion of the BASE budgets of all school districts in a county

The Council recommends that the BASE budgets for all school districts in a county be funded with a countywide BASE budget levy. This levy would be applied against the taxable valuation of the county and would replace the BASE budget levies of individual school districts. Guaranteed tax base aid would subsidize the countywide levy in low-wealth counties. District non-levy revenue from oil, gas and coal production and the district general fund portion of the HB 124 block grants would be used to reduce the county BASE budget levy. All other non-levy revenues, including fund balance reappropriated, would be used to reduce the district's over-BASE levy.

The Council understands that the greatest level of equalization would be achieved if the district general fund portion of the House Bill 124 block grants were rolled into the GTB formula and distribution. However, the Council recommends that the HB 124 block grants for the district general fund be applied to reduce the countywide BASE budget levy. It is important to maintain the escalator (.76%) that is built into the HB 124 block grants.

2) Expand county retirement levy to fund district health insurance costs

The Council recommends that the county levy for retirement be expanded to fund the cost of district health insurance. In order to make this proposal revenue neutral for the state, the statewide guarantee level would be adjusted downward. The requirements for the elementary and high school programs will be combined into one permissive levy for the county.

The Council recommends that the legislature pursue the establishment of a state insurance pool for school district employees to reduce the risk and costs associated with health insurance coverage. Until the state insurance pool is established, the council recommends that the legislature limit the amount that can be budgeted in the countywide fund for an employee to the rate established in 2-18-703, MCA for state employees. These rates are set at \$325/month for calendar 2002 and \$366/month for calendar 2003. A district may at its discretion supplement the cost of health insurance premiums above the amount budgeted in the countywide fund.

The impact on local property taxpayers will vary depending on whether and how much districts increase their overall spending levels in response to moving health insurance costs out of the district general fund and into the county levy.

AREAS FOR FURTHER STUDY

Adequacy of School Funding

The Council had a number of discussions regarding the adequacy of funding for Montana's K-12 public schools. These discussions addressed the overall level of funding, the state's share of the funding, local tax burdens, special education funding, the allocation of funding among various size school districts and among elementary, middle school and high school programs, and concerns about recruiting and retaining teachers. Within the time and resources allocated for the council's work, the Council was unable to address these issues in a comprehensive manner. The Council believes, however, that those issues warrant further extensive study in a manner that involves the broadest range of stakeholders possible and a pooling of resources from as many sources as possible.

Combine the funds for bus depreciation, building, building reserve, technology acquisition, and lease or rental agreements into a Capital Projects fund.

The Council considered a recommendation, from the Fund Structure working group formed by the Council, that a single Capital Projects Fund be created to serve the purposes of the existing funds for bus depreciation, building, building reserve, technology acquisition, and lease or rental agreements. The working group recommended that the capital projects fund be a non-budgeted fund, however mill levies would be limited based on voter approval and percentages of asset costs. Separate accounting for various projects would be accomplished using project reporter codes. The Council believes that the recommendation has merit. Further study is needed to establish the appropriate revenue or expenditure controls for the fund. The Fund Structure Working Group's report is found in *Appendix A*.

Teacher Shortage/ Teacher Salaries

The Council discussed concerns related to current and projected teacher shortages in Montana. The Council acknowledges that a number of the factors causing these shortages are tied to funding. Low salaries in Montana, coupled with aggressive recruitment efforts of other states that offer higher salaries and benefits, have encouraged a majority of the graduates of Montana's teacher education programs to leave the state for employment. In 2000, Governor Racicot's Task Force on Teacher Shortages/Teacher Salaries prepared a set of recommendations for recruiting and retaining qualified teachers. The Council believes that these recommendations have merit and has included them in *Appendix C* of this report.

If the concept of using a 3-year enrollment average for ANB purposes is adopted, it may be feasible to eliminate the "soft caps" established in 20-9-308 (3)(a)(i) without causing harm to districts. The Council recommends further analysis of the impact on school districts if the soft caps were eliminated in conjunction with the adoption of a 3-year averaging of enrollment for ANB purposes.

6) Provide an annual inflator tied to the Consumer Price Index for the basic entitlement, per-ANB entitlement, and special education funding

The Council recommends that the Present Law Budget that is presented to the Legislature for K-12 BASE Aid include an annual inflator that is tied to the Consumer Price Index. The Present Law Budget would thereby acknowledge both shifts in enrollment and the impact of inflation on the cost of educational services.

7) Use the HB 124 block grant for debt service to expand school facility payments to all low-wealth school districts that have outstanding general obligation bonds and to increase the school facility payment

The Council recommends that the funds that are presently allocated for HB 124 block grants to the debt service fund be redirected into school facility payments. Under current law, only low-wealth districts that sold general obligation bonds after July 1, 1991 are eligible for school facility payments. The Council proposes that all low-wealth school districts with outstanding general obligation debt be eligible for school facility payments. The remainder of the HB 124 block grant for debt service would be used to increase the percentage used to calculate the statewide mill value as defined in 20-9-366, MCA.

8) Allow school trustees to allocate the remaining balance of a district's HB 124 block grants to any budgeted fund of the district

For the HB 124 block grants that are not affected by other recommendations contained in this report, the Council recommends that school districts receive an unrestricted block grant. The district trustees would determine where to allocate these non-levy revenues among the budgeted funds of the district.

ANTICIPATED COSTS TO STATE, LOCAL AND DISTRICT TAXPAYERS

The total costs of the Council's recommendations have not been fully developed at this time. At this point, however, it is anticipated that annual costs would include the following:

- 3-year averaging is anticipated to cost between \$8 and \$14 million in state-only expense. This increased state cost could take the form of new spending for districts or reductions in local above-BASE or soft-cap levies.
- Adding a health insurance component to the countywide levy would add up to \$88 million to that county levy. Again, this increase in the county levy could take the form of new spending for districts or reductions in district above-BASE levies.
- CPI increases to the entitlements and special education would cost approximately \$14 million per year in state-only expense. This would be matched by local GTB expense for the BASE budget
- The anticipated state cost savings resulting from declining enrollment measured from FY 2003 is anticipated to be \$7.2 million in FY 2004 and \$14.9 million in FY 2005. This is approximately half the amount required to meet a 3% CPI cost adjustment.

Further work is being conducted to better identify and define the anticipated costs and who will bear those costs. That information will be completed and provided to the Interim Committee on or before February 1, 2002.

COUNCIL STUDY ACTIVITIES AND CONCLUSIONS

A. UNITS OF FUNDING

(1) HB 625 Sections

Again, recognizing the potential for "overlap", the Council generally agreed that the following HB 625 study subjects fit best under the "units of funding" category:

- (a) analyzing the factors currently in law that are used to compute budget authority for schools to determine if additional factors or changes in those factors are necessary to equitably provide budget authority to public schools;
- (b) determining the appropriate allocation of funding to adequately fund elementary, middle school, seventh and eighth grade and high school programs;
- (e) determining the adequacy and equity of the current statutory authority for public schools to access the funds necessary to