MINUTES

MONTANA HOUSE OF REPRESENTATIVES
59th LEGISLATURE - REGULAR SESSION

JOINT APPROPRIATIONS SUBCOMMITTEE ON EDUCATION

Call to Order: By **MADAM CHAIR EVE FRANKLIN**, on January 14, 2005 at 8:05 A.M., in Room 472 Capitol.

ROLL CALL

Members Present:
Rep. Eve Franklin, Chairman (D)
Sen. Don Ryan, Vice Chairman (D)
Sen. John Esp (R)
Rep. Bill E. Glaser (R)

Members Excused: Rep. Carol C. Juneau (D)
Rep. Verdell Jackson (R)
Sen. Carol Williams (D)

Members Absent: None.

Staff Present: Amy Carlson, Mike Burke, OBPP
Jim Standaert, Legislative Branch
Diana Williams, Committee Secretary

Please Note. These are summary minutes. Testimony and discussion are paraphrased and condensed. Tape counter notations refer to material preceding.

Committee Business Summary:
Presentation: Special Topics in Education, Introduction to Public Education issues

[Parts of the tapes for this meeting have poor quality to them. There was a humming noise throughout the presentation. Due to the chart that was part of Roger Lloyd's presentation, REP. GLASER and SEN. ESP sat where the public usually sits; hence, no microphone was available. When Mr. Standaert did his part of the presentation he was at the podium and afterwards sat where the public usually sits, which has no microphones.]

Madilyn Quinlan and Julia Dilly were present from OPI.

Opening Remarks by Chair:

MADAM CHAIR FRANKLIN called the meeting to order and gave the floor to Jim Standaert.

{Tape: 1; Side: A; Approx. Time Counter: 0 - 1.9 Comments: Most of this time is due to the secretary starting the tape earlier than when the presentation started}

LFD Comment:

Mr. Standaert, LFD, said that he will explain some of the handouts, Roger Lloyd, LFD, will talk about how BASE aid is allocated and Madalyn Quinlan, OPI, will provide a presentation on the basics of school funding.

HISTORICAL PERSPECTIVE OF SCHOOL FUNDING
OPI -DISTRIBUTION TO SCHOOLS

Mr. Standaert informed the Subcommittee that there is a primer on K-12 funding in Legislative Budget Analysis 2007 Biennium: Volume 1: Statewide Perspectives. It is in the General Reference section.

Mr. Standaert said that there are four major funds that the schools have: 1)general fund, 2)retirement fund, 3)transportation fund, and 4)the debt service fund. Those are the funds that receive State dollars. The primer explains these funds and provides a historical overview of K-12 funding.

Mr. Standaert explained the items in the packet which he provided. Exhibits 1-6 are these items.

Mr. Standaert provided an overview of the historical spending that has occurred in the K-12 educational system for the past 13 years. It is Exhibit 1.

EXHIBIT(jeh10a011)

Mr. Standaert explained in detail the three types of funds that make up the funding - state, local and federal funds. He talked about the difference between the equalized and the nonequalized state funding. The total state funding is a combination of both of these funds. At the bottom of Exhibit 1 lists what is included in the nonequalized state funding.

Mr. Standaert talked briefly amount the annual growth rate that has occurred in state funding. These findings can be found at the bottom of the table, Exhibit 1. The inflation rate has been 2.5%. He provided a reason why the nonequalized portion has such a high annual growth rate.

Mr. Standaert said that the "total spending" column is a number that OPI receives at the end of every fiscal year from the Trustees of the school districts. **Mr. Standaert** stated which funds are excluded from these figures.

Mr. Standaert stated the growth rate for total spending has grown 3.7% annually, which is above the rate of inflation.

Regarding the federal funds, **Mr. Standaert** stated the annual growth rate and explained why there are no figures yet for 2004.

Mr. Standaert said that the column dealing with "local" is simply the difference between the "total spending state spending" and "federal spending." He stated the major sources of local revenue.

Mr. Standaert asked that the Subcommittee look at the percentage figures in Exhibit 1. He said that these are the percentages that the state is paying. He gave an example of how much less the state has paid over the years.

Mr. Standeart explained to the Subcommittee why there is a discrepancy between the percentages, in the state share columns, that are in this document other figures: 71% state share in 1993 and 60% later. The figures in Exhibit 1 are for state dollars and all total dollars that are being spent by the school district. The other figures are dealing with the district general fund.

{Tape: 1; Side: A; Approx. Time Counter: 1.9 - 8.7}

Mr. Standaert talked briefly about how state funds used to be allocated for funding and how they have changed since 1995. Rather than having two accounts, all the money is being spent out of the state general fund for K-12 distribution.

Mr. Standaert mentioned the court case that happened a few years back. It was decided that all of the interest and income earned on state lands has to be dedicated to K-12 funding. The Guarantee Account was set up for this purpose.

Mr. Standaert told the Subcommittee that Roger Lloyd will talk about the Guarantee Account.

{Tape: 1; Side: A; Approx. Time Counter: 8.7 - 11.1}

The Subcommittee received a document that reflects what is in the chart that Roger Lloyd used in his presentation. It is part of the packet that Mr. Standaert distributed and is Exhibit 2.

EXHIBIT(jeh10a02)

Roger Lloyd, LFD said that the whole design of the Common School Trust is one of the top ten complicated fiscal schemes in the state.

Mr. Lloyd explained in detail the fiscal scheme of the Common School Trust.

Mr. Lloyd stated the two types of assets this trust has, which both generate money, the four areas that generate the interest and income, and the diversion process that occurs. These figures are in the first two tables of Exhibit 2.

Mr. Lloyd said that at the end of July last year the Common School Trust generated about 64 million dollars of earnings. There are two types of earnings, distributable and non-distributable. He said that the "yellow box" [Table 1 in Exhibit 2] represents the types of distributable income that the School Trust generates.

{Tape: 1; Side: A; Approx. Time Counter: 11.1 - 14.8}

The four categories that make up the interest and income are: 1) income, 2) interest, 3)timber and 4) royalties, for a total of an estimated $69,215,614. **Mr. Lloyd** explained what each term meant, and the reason why they are in the Common School Trust fund.

Mr. Lloyd explained why the diversion process happens prior to the allocation of the interest and income and who is getting the proceeds. The diversion monies that DNRC is getting is statutory allowed and the values and accounts are represented in Table 2, 2a and 2b, Exhibit 2. The left over monies are in a box that **Mr. Lloyd** calls the "make believe box" for interest and income and is Table 3 in Exhibit 2.

Of that value in Table 3, Exhibit 2, 5% goes back into the permanent fund and 95% goes to the Guarantee Account, Table 5.

Mr. Lloyd wanted everyone to understand that these figures in Exhibit 2 are estimates for Fiscal 2005.

{Tape: 1; Side: A; Approx. Time Counter: 14.8 - 20.8}

Mr. Lloyd explained why the diversion can happen with the Guarantee Account, which are Table 6, Table 7 and Table 8. He also explained why there are funds available in the Guarantee account from the previous year and why a certain amount needs to be reserved for School Technology acquisition for the next year.

Mr. Lloyd said that once all of the diversion occurs there is "Base Aid" which is statutorily appropriated for distribution to schools. This means that there is no need to put this money into HB 2; it's automatically appropriated. The estimated value for Fiscal 2005 is in Table 9 in Exhibit 2.

{Tape: 1; Side: A; Approx. Time Counter: 20.8 - 25.2}

QUESTIONS FROM SUBCOMMITTEE
COMMON SCHOOL TRUST

SEN. ESP asked a question related to the monies reserved for school technology. **Mr. Lloyd** said that this value is the portion of timber proceeds above the value of 18 million board feet. He said that the estimates come from the Department of Natural Resources and Conservation (DNRC). DNRC does a good job trying to estimate how much timber will be sold in the three-year period.

[Per **Mr. Lloyd:** SB 495 was passed in the 2001 Legislative Session, which actually sold the rights of the mineral royalties. These royalties were once part of the Common School Trust. DNRC purchased those rights to the mineral royalties with a loan from the Board of Investments out of the Coal Trust. So in exchange in selling those rights, the trust got $46 million up front. That was the price of the mineral royalties. The amount of mineral royalties sold was $139 million. So the $46 million put into the permanent fund represents the present value of that amount of royalty over an approximate 30-year period.]

SEN. ESP wanted to know in what year the money generated by SB 495 would be less than it would have been if the money had been left in the trust to begin with.

Mr. Lloyd thought that Fiscal 2011 would be the date. He said that there is a point where the projected earnings on the $46 million will exactly match what the royalties would have earned if they were in the trust.

Mr. Lloyd's response to **REP. GLASER'S** question related to the royalties was that the schools will get more revenue up through about Fiscal 2011.

Ms. Quinlan wanted to know if oil prices are higher than what was projected when SB 495 was passed and interests rates are probably not in line with what was projected, whether the time frame for the repayment schedule will be accelerated.

Mr. Lloyd said, "Yes." There will be more royalties than anticipated in the initial estimate, so more money will be available to pay off the loan.

{Tape: 1; Side: A; Approx. Time Counter: 25.2 - 29.8}
{Tape: 1; Side: B; Approx. Time Counter: 0 - 0.3}

SEN. ESP wanted to know the mechanism that gives the loan the potential of being paid off more quickly.

Mr. Lloyd said that the principal is based on a percent of the royalties so if more royalties are available, the loan gets paid off more quickly. It was estimated that when the $139 million in royalties was sold, it would take 30 years to pay the loan off.

MADAM CHAIR FRANKLIN asked if anybody had any more questions.

REP. JUNEAU wanted to know why the schools don't get all of the monies that are in the interest and income [Table 1, Exhibit 2]. She asked why the diversion is happening for DNRC [Table 2's, Exhibit 2].

Mr. Lloyd said that the three percent diversion was enacted decades ago. The resource is there to do projects that help increase the value of all of the lands in the trust.

Mr. Lloyd went into detail explaining the consequences of SB 495. Once the $139 million, which is based on a 30 year projection, is paid, the royalties will start going back into the school trust. Statute stated how the monies from the royalties should be spent.

REP. JUNEAU wanted to know the monetary value of the lands and buildings that are school related and timber related.

Mr. Lloyd said that he didn't know the value of the lands.

REP. JUNEAU wanted to know, if land was sold, what value would be added to the trust.

Mr. Lloyd said that he didn't know the value of the land that the schools are on, but the monetary asset in the trust is $460,000,000.

{Tape: 1; Side: B; Approx. Time Counter: 0.3 - 5.3}

SEN. ESP wanted to know what the box that has $0 allocated to it is for(Table 4, Exhibit 2). **Mr. Lloyd** said that by statute, the university has a option to take part of the five percent stream that goes back to the trust. They have chosen not to take any.

SEN. ESP wanted to know if the document that had the historical funding in it (Exhibit 1), showed the actual dollars for funding or appropriation authority.

Mr. Standeart said that the figures are what actually got spent.

{Tape: 1; Side: B; Approx. Time Counter: 5.3 - 7.4}

Mr. Standeart said that the next step in this process is explaining the guarantee account and general funds appropriation of BASE aid. He provided a document that dealt with this concept, Exhibit 3. [Please note that the figures in this document reflect millions of dollars.]

EXHIBIT(jeh10a03)

Mr. Standeart explained the interaction that occurs between how much BASE aid is required, how much money is available in the guarantee fund for BASE aid and how much more money comes from the general fund BASE aid appropriations to cover the cost of funding the BASE aid requirement. The first table in Exhibit 3 provides an example of how this funding works.

The second table in Exhibit 3 illustrates an example of what happens if the revenue available for BASE aid in the guarantee account falls short of the revenue estimate. **Mr. Standeart** went over this example in detail. In this example an $8 million supplemental will be needed.

Mr. Standaert said that on the other side of this equation, if there is more interest and income then what was estimated, there is a general fund reversion.

Mr. Standaert explained the cash flow problem that arises when a supplemental is needed.

Mr. Standaert provided one way in which he thought this funding for BASE aid could be done better. His idea dealt with one-time-only funding and keeping money in the guarantee account after the fiscal year end.

{Tape: 1; Side: B; Approx. Time Counter: 7.4 - 16.4}

REP. JUNEAU wanted to know if Mr. Standaert's idea has been implemented.

Mr. Standaert said that he didn't know if his idea would take legislation or not. He asked Julia Dilly to reply.

Julia Dilly, Administrator, Fiscal Services Division, OPI, said that there are four actual distributions made in the Guarantee account each year. She explained the timing problem, or cash flow problem, that occurs because of the distribution dates. She believed that Mr. Standeart's idea would take legislation to implement.

Through a question from **SEN. ESP**, a response by **Mr. Standaert** and a comment by **MADAM CHAIR FRANKLIN**, it became known that with Mr. Standaert's idea, it would be a OTO general fund requirement for BASE aid. With the way that the system is set up now, OPI has receivables but no cash when it is needed, so the funding becomes an accounting issue for OPI.

SEN. RYAN provided his viewpoint on the funding problem that OPI faces with these distributions and payments.

Mr. Standaert said that his idea will not get rid of the supplemental; it will help in not having to borrow from the general fund each year.

MADAM CHAIR FRANKLIN asked that Mr. Standaert continue.

Mr. Standeart said that the next three pages in the packet are for the Subcommittee to look over.

Mr. Standaert stated that the first and second pages reflect the decision packages that the Subcommittee will consider after the hearings of OPI occurred. Exhibit 4 contains the DP's for the agency itself and Exhibit 5 reflects the DP's for the distribution to schools.

EXHIBIT(jeh10a04)
EXHIBIT(jeh10a05)

Mr. Standaert said that Exhibit 6 shows the distribution to schools broken out by funding sources - general, state special and federal. He said that it shows what the base was in 2004, what the present law adjustments are, what the new proposals are, and the totals for Fiscal 2006 and Fiscal 2007 for the various programs that make up the distribution to schools.

EXHIBIT(jeh10a06)

Mr. Standaert informed the Subcommittee that with the statutory appropriations in the Guarantee account, the Budget Office is estimating $49.5 million in Fiscal 2006 and $49.4 million in Fiscal 2007 (See Exhibit 6 for details). The Legislative Fiscal Division has $51.7 million in the first year and $50.8 million in the second year. **Mr. Standaert** said that the Subcommittee will have to decide which numbers they want to use. **Mr. Standaert** said that the LFD's numbers are in House Joint Resolution 2, but that could change.

Mr. Standaert introduced Madalyn Quinlan.

{Tape: 1; Side: B; Approx. Time Counter: 16.1 - 24.3}

BASICS OF SCHOOL FUNDING PRESENTATION

Madalyn Quinlan, Chief of Staff, OPI, presented a PowerPoint presentation dealing with the general fund components of school funding. There is a CD and a 21-page document included in Exhibit 7.
EXHIBIT(jeh10a07)

Ms. Quinlan talked about budgeted and non-budgeted funds, provided examples of each and stated the differences between the two. She talked about the components of the general fund budget.

Ms. Quinlan talked about the school district general fund which is the general operating budget of the school district and is about 80% of all school district expenditures. She provided background information on how schools are presently funded. This funding deals with the principles of equalization. [See page 3, slide 1].

{Tape: 1; Side: B; Approx. Time Counter: 24 - 28.6}

Ms. Quinlan talked about the building blocks of the general fund budget. She went into detail on Average Number Belonging (ANB), the specific budget elements, and provided 2005 statistics. She provided an example of how the funding formula provides less money starting at 1,000 students at the elementary level and 800 students at the high school level. She explained the Special Education block grant

{Tape: 2; Side: A; Approx. Time Counter: 0 - 5.7}

QUESTIONS FROM SUBCOMMITTEE

SEN. RYAN wanted to know, if a tremendous increase in special education occurred within a particular district, whether there is a mechanism in which the district doesn't have to absorb the additional costs.

Ms. Quinlan said that there is a mechanism for adjustment, but not in the Block Grant. She said that there is a feature where a portion of the state's special education appropriation is going to fund those disproportionately high costs.

Ms. Quinlan said that this type of funding used to be the exception and then almost all of the school districts became eligible to get funding for the disproportionate costs.

Ms. Quinlan said that there is a two-year lag for the reimbursement of those costs. She said that the money doesn't make the districts whole but it is there to try and help ease the cost.

REP. JUNEAU was wondering if this presentation would address the number of students who are in special education.

Ms. Quinlan said that Mr. Runkel will provide the trends in special education next week.

{Tape: 2; Side: A; Approx. Time Counter: 5.7 - 7.7}

CONTINUATION OF POWERPOINT PRESENTATION

Ms. Quinlan returned to the slide presentation, page 4 slide 3.

Ms. Quinlan explained the three components that defined the maximum budget for each school district. She talked about how a school district can go beyond the maximum budget. It is called soft caps. The maximum that can be added on is 200% of the State special education payment.

{Tape: 2; Side: A; Approx. Time Counter: 7.7 - 11}

QUESTIONS FROM SUBCOMMITTEE

REP. GLASER asked Ms. Quinlan to explain the base budget amount and how some schools can be spending less per year in the base budget.

Ms. Quinlan said that every school district is required to adopt the base budget. They have to demonstrate that they allocated the revenues and actually imposed the property tax necessary to adopt that budget, but they are not required to spend it.

Ms. Quinlan said that each year the school districts can adopt the budget, not spend all the monies, and carry over what was not spent into the next year's budget. On paper, the school districts would always be adopting the minimum budget but might not be expending the monies. She thought that roughly 29 school districts are doing this cyclic type of budgeting.

MADAM CHAIR FRANKLIN wanted to know what the criteria is for the carry over.

Ms. Quinlan said that a school district can set aside a 10% general fund in which to operate, which most schools would do. If it is a district that is not looking to fully spend their budget, they might reserve less than 10%. Anything in excess of 10% will be reappropriated. Some districts could be spending less than the 90% in the budget.

REP. GLASER said that what Ms. Quinlan is indicating is that some schools are actually spending 70% to 72% of the budget.

SEN. ESP wanted to know if this type of cyclical budgeting is a long term policy for some school districts.

Ms. Quinlan said that there are a group of schools that have made a habit of budgeting in that fashion.

Ms. Quinlan informed the Subcommittee that another reason why a school district may not spend their base budget is due to the shortfall in revenues.

Ms. Quinlan said that there are districts with a trend of underspending their base budget year after year.

SEN. RYAN said that there are two components to this underspending of the base budget. One is the cash re-appropriation and the other is that it becomes tax relief. He explained how the latter works. He said that some of the school districts spend everything that they can, so that they can get the maximum amount from the State next year. He said, "It works both ways."

Ms. Quinlan provided another example of what might cause a district to spend less than it's base budget.

Ms. Quinlan said that the practice of underspending deals with the way ANB is calculated; this years enrollment drives next year plans. With the substantial fluctuation in enrollment some school districts will make a practice of underspending their base budget. To her, this was a more legitimate reason why this underspending may happen.

{Tape: 2; Side: A; Approx. Time Counter: 11 - 16.7}

SEN. WILLIAMS wanted to know if the Subcommittee would be provided a list of those schools which are in that trend of underspending their base budget.

Ms. Quinlan said that a list will be provided at a later date.

CONTINUATION OF POWERPOINT PRESENTATION

Ms. Quinlan talked about voting requirements and soft caps [page 6, slide 3 and page 7 slide 1]. She explained the school funding law that allows a school district to vote to maintain the previous year's budget.

Ms. Quinlan said that this law allows a five-year opportunity to do this type of budget approval. Some of the school districts will be at the end of the five-year limit shortly; she estimated one this next year and twenty to thirty the following year. She said that she would provide the list to the Subcommittee of the schools that fit into this category.

{Tape: 2; Side: A; Approx. Time Counter: 16.7 - 19.6}

QUESTIONS FROM SUBCOMMITTEE

SEN. ESP clarified that the bill that Ms. Quinlan was talking about was past in 2001.

SEN. RYAN wanted to know the district that is using the soft caps.

Ms. Quinlan thought it was Avondo but is going to have to check.

CONTINUATION OF POWERPOINT PRESENTATION

Ms. Quinlan said that these districts that are funding the budget in this manner are called "Over-max" districts - they are exceeding the maximum budget.[See page 7 slide 1 for details].

QUESTIONS FROM SUBCOMMITTEE

REP. JUNEAU wanted to know what happens to the budget at the end of the school districts five years.

Ms. Quinlan said that they go down to their new maximum.

CONTINUATION OF POWERPOINT PRESENTATION

Ms. Quinlan said that the next slide shows what the trends are in spending the base budget. She was hoping that these figures could have been updated for this presentation, but they couldn't.

Ms. Quinlan informed the Subcommittee that in 2002 when these soft caps were in place 80 districts participated. Last school year it was up to 133 districts that were adopting budgets over their maximum. She said that figure would represent about 1/3 of the school districts.

QUESTIONS FROM SUBCOMMITTEE

REP. GLASER said that most of the districts that are adopting budgets over their maximum are doing so due to declining enrollment.

Ms. Quinlan, "yes, that would be the reason why they are doing it."

CONTINUATION OF POWERPOINT PRESENTATION

Ms. Quinlan explained the various components that make up the BASE budget: who pays for funding the BASE in the maximum budget, and how the Guaranteed Tax Base (GTB) works. She provided Havre Elementary statistics as an example. This part of the presentation starts on Page 7, Slide 3.

{Tape: 2; Side: A; Approx. Time Counter: 19.6 - 27.2}

QUESTIONS FROM SUBCOMMITTEE

SEN. ESP wanted to know how the $18.36 GTB that is part of Havre's statistics was derived.

Ms. Quinlan said that the $18.36 is calculated at OPI. It deals only with the GTB budget area. It is taking the statewide taxable valuation and dividing it by all the base budgets in the state.

Ms. Quinlan explained how the statewide funding formula would occur for the GTB aid. In response to **SEN. ESP's** question it became known that Ms. Quinlan was referring to the 35.3% aspect of the BASE. Funding this portion, in part, is a function of taxable value.

SEN. ESP wanted to know why the money that was put in HB 124 Block Grants wasn't put in direct state aid.

Ms. Quinlan said that there was discussion when HB 124 was being developed of doing just what SEN. ESP is suggesting. What came out of the discussions was that the areas that are losing the money will be replaced with the revenues that are generated from HB 124.

REP. GLASER said that if the local revenue came in, then it decreased the amount of GTB.

{Tape: 2; Side: A; Approx. Time Counter: 27.2 - 30.1}

Ms. Quinlan said that what had been HB 124 Block Grants has now been moved into the transportation funding formula. Counties no longer get a HB 124 Block Grant for county retirements; that was part of SB 424 last session.

Mr. Standaert said that the monies in HB 124 Block Grants go to various funding places. Some of the monies go to school facilities. He said that the school facility payment is based on the relative wealth of a district.

CONTINUATION OF POWERPOINT PRESENTATION

Ms. Quinlan said that the presentation about the general fund is completed. She talked about non-levy revenue.[Page 9, slide 1]

Ms. Quinlan explained how a school district builds its budget. The district has to account for non-levy revenue, fund balance reappropriated and State appropriations before it sets the mill levy. The fund balance reappropriated is the balance after the reserve of 10% is taken out. It deals with the carry over of funds that may occur each year.

QUESTIONS FROM SUBCOMMITTEE

REP. JUNEAU wanted to know how the reserve percentage worked.

Ms. Quinlan said that the number isn't cumulative. The district looks at the budget and sets 10% of the total as a reserve; the rest of the monies go to "fund balance reappropriated." She told the Subcommittee that there is a provision for excess reserves but would not get into that concept today.

SEN. RYAN asked that Ms. Quinlan briefly explain why some school districts are levied higher than others in order to get to the BASE. He asked this of her so people can understand why there is a huge disparity for homeowners.

Ms. Quinlan said that some districts have more non-levy revenue and provided oil, gas and coal money as an example.

Ms. Quinlan told the Subcommittee that the second item is that some districts have an enormous taxable evaluation. She provided Colstrip as an example.

Ms. Quinlan stated that even though the districts are getting Guarantee tax base aid, if a district is short in fund balance reappropriated, don't have non-levy revenue, and don't have much of a tax base, the district is going to have a higher mill levy. She said that on average, school districts are levying about 55 mills to fund the general fund.

REP. JUNEAU wanted to know, when a district is levying mills for school construction, if those monies are included in the BASE budget [100% maximum budget] general fund when they are trying to build a building.

Ms. Quinlan said it is possible that a school is paying for some capital construction out of it's general fund, but it is unlikely. She explained that other options would be available for capital construction.
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Ms. Quinlan stated that the option of using the building reserve to fund the project allows the district to take on some bigger capital projects and use the "pay as you go" plan.

CONTINUATION OF POWERPOINT PRESENTATION

Page 9, slide 3 and Page 10, slide 1 provide visuals of the percentage of each of the three areas that make up general fund revenues, with Page 10 showing the five-year trend. **Ms. Quinlan** talked about these visuals.

QUESTIONS FROM SUBCOMMITTEE

Mr. Standaert said that the state portion of the chart (Page 9, slide 3) does not include the state payments of HB 124 Block Grants.

SEN. ESP wanted to know where the Block Grants fit into this chart.

Ms. Quinlan said that the first chart that Mr. Standaert provided [Exhibit 1] is where the Block Grants are. They are in the equalized state funding and non-equalized state funding columns.

REP. JUNEAU asked if the chart [Page 9, slide 3] shows the values that the school has established for a budget and not just the 80% portion that make up the BASE.

Ms. Quinlan replied, "Yes, this is general fund revenue to fund the adopted budget." She said that it is also possible that revenues may come in a little higher than the budgets, so they are not always going to be exactly what the budget is.

REP. JUNEAU wanted to know if the non-levy revenue of 8% and the property tax revenues of 31%, which are on slide 3, page 9, are included in the GTB area or may be in that 20% that is above the 80% [See Page 7, slide 3 "Funding the BASE budget" for details]. **Ms. Quinlan** said, "Yes, it's the base budget levy and over-base."

SEN. RYAN said that this particular pie chart [Page 9, slide 3] varies in every single district. **Ms. Quinlan** replied "Yes."

SEN. RYAN said that this chart [Page 9, slide 3] represents the statewide total. The pie chart's portions would vary in every district as to the amount of revenues that were generated by the state, non-levy and property tax.

CONTINUATION OF POWERPOINT PRESENTATION

Ms. Quinlan explained what has happened with the three areas of funding over the past five years.[Page 10, Slide 1].

Ms. Quinlan discussed the transportation fund. It is a special revenue budgeted fund which is used to carry students to and from school. An example of an activity that can use money from this fund would be a field trip. Activities that can't use the money from this fund are transporting students from one school setting to another and extra-curricular activities.

QUESTIONS FROM SUBCOMMITTEE

REP. GLASER wanted to know if that limitation is in statute or in rules.

Ms. Quinlan thought it was a combination. She said that she knew that it is in rule and she was not sure about statute. She said that REP. BUZZAS has HB 74 which addresses this issue of transportation.

SEN. ESP wanted to know the relationship between the funds that are being talked about now, with the pie chart [Page 9, slide 3].

Ms. Quinlan said that the pie chart reflects general fund revenue and transportation is a separate fund.

Ms. Quinlan informed the Subcommittee that the transportation fund would tie to the handout that Mr. Standaert provided [Exhibit 1]. The document provides the historic trend of all types of state monies going into schools.

SEN. ESP wanted to know if the transportation fund is primarily funded through state funds or if there is a combination of areas which fund transportation.

Ms. Quinlan thought that the funding is about one-third state, one-third county and one-third local dollars.

Mr. Standaert said that the total spending is about $45 million dollars: 10% from the state, 10% from the county and 20% from local dollars.

Ms. Quinlan said that with this fund the trend has been towards more local dollars funding the transportation. She explained how the funding for "people transportation" is determined between the three entities - state, local and county. She said that there is no GTB involved.

The discussion between **MADAM CHAIR FRANKLIN** and **Ms. Quinlan** addressed the Supreme Court challenge that has occurred with impact aid and the county retirement fund. **Ms. Quinlan** explained the policy that schools have followed because of this court decision.

{Tape: 2; Side: B; Approx. Time Counter: 0 - 17.2}

Mr.Standaert wanted to know why the technology fund uses state dollars.

Ms. Quinlan said that this fund does use state dollars and that she cannot remember, at this time, why that is occurring.

CONTINUATION OF POWERPOINT PRESENTATION

Ms. Quinlan talked about the Debt Services Fund. [Page 13, slide 2].

QUESTIONS FROM SUBCOMMITTEE

MADAM CHAIR FRANKLIN wanted to know what kinds of activities are for this fund.

Ms. Quinlan said that if the school district has a judgment made against it in a court, the district has the ability to levy into a separate fund to pay that judgement.

CONTINUATION OF POWERPOINT PRESENTATION

Ms. Quinlan talked about the School Facilities Payments slide [Page 13, bottom]. She said that there is a version of guarantee tax base aid for school facilities provided in this slide. Building reserves are also included in Capital Projects Funds [Page 14, slide 3].

QUESTIONS FROM SUBCOMMITTEE

SEN. RYAN asked if the building reserve is local dollars only. **Ms. Quinlan** replied, "Yes."

REP. JUNEAU wanted to know, of the schools that have a bond, whether the schools combine the monies to get a better interest rate or if they work individually in investing.

Ms. Quinlan was of the opinion that voters of the district that the bond is in, have to approve a portion of the debt and then the district owns that debt. There are many school districts that would be interested in some kind of pooling of debt but it has been difficult to untangle who is obligated.

CONTINUATION OF POWERPOINT PRESENTATION

[Page 15 was not addressed]

Ms. Quinlan talked about the categories that comprise expenditures which OPI calls "function"[Page 16, slide 3], and "object"[Page 17, slide 1]

QUESTIONS FROM SUBCOMMITTEE

SEN. RYAN wanted to know whether, when one person is superintendent or principal of a small K-12 school district, if that duty is divided out into each of those different levels when it is reported.

Ms. Quinlan said that it should be.

CONTINUATION OF POWERPOINT PRESENTATION

Ms. Quinlan talked about the trend of local taxpayers picking up an increasing share of school funding and that federal funding has increased.[See Page 17, Slide 3].

QUESTIONS FROM SUBCOMMITTEE

SEN. RYAN stated that with this chart, it appears that the federal government has reduced the burden on school districts for funding. Along with that extra money coming in, there are the additional duties that the district are going to have to pick up.

Ms. Quinlan said that there is an increase in duties due to No Child Left Behind (NCLB). She explained what the extra duties are and the consequences that result if the schools are not making adequate yearly progress.

Ms. Quinlan informed the Subcommittee that on the 20, OPI will be releasing the information on how many schools are making adequate yearly progress.

REP. JUNEAU wanted to confirm that special education is included with the federal funding.

Ms. Quinlan affirmed that special education is included in the federal funding.

{Tape: 2; Side: B; Approx. Time Counter: 17.2 - 28}

SEN. ESP asked Ms. Quinlan, along with the increased duties from NCLB, if she thought there was adequate money coming to students earmarked for special education.

Ms. Quinlan thought it was a mixed bag. She said that this issue will be presented next week.

There was Subcommittee discussion between **REP. GLASER, Ms. Quinlan, REP. JUNEAU and SEN. RYAN** over the preliminary report that was mailed out to the districts which dealt with the yearly progress.

CONTINUATION OF POWERPOINT PRESENTATION

Another slide that looks at the salary and benefits of all school expenditures is on Page 18, slide 1.

Ms. Quinlan talked about the "odds and ends" slides. She addressed the slide that deals with the lottery funds and the check that OPI received from OPI. (Page 18, Slide 3 and Page 19, Slide 1)

Ms. Quinlan said that with the rest of the slides, there are some charts that show the demographics of the state. She said that these slides show that the child-bearing population is less present in the state than the older population; hence, there is declining enrollment.

Ms. Quinlan said that she is done with the PowerPoint presentation.

{Tape: 3; Side: A; Approx. Time Counter: 0 - 6.7}

DISCUSSION OF "SCHOOL DISTRICT BUDGET TREND GENERAL FUND

Ms. Quinlan went over the document called "School District Budget Trends General Fund," which shows the trend from 1999 to 2005. She said that in 1991 the state's share of the general fund budget was 71% and now it is down to 60%.

Ms. Quinlan said that HB 124 Block Grants are not included in the line designating total state aid. They are in the non-levy revenue area of the document.

Ms. Quinlan pointed out to the Subcommittee that this document shows that the general fund budgets from last year to this year went up by less than 2%. The total state aid went up by less than 1% and the district property taxes from 2004 to 2005, in the general fund budget, went up by 2.7%.

EXHIBIT(jeh10a08)

QUESTIONS FROM SUBCOMMITTEE

Through Subcommittee discussion between **SEN. ESP** and **Ms. Quinlan** it became known that in 2004, equalized state funding increased $4,000,000 but the non-equalized funding dropped. **Mr. Standaert** addressed this issue. He said that in addition to the nonequalized account, the old HB 20 reimbursements and SB 417 are decreasing at ten percent a year.

REP. GLASER, **Ms. Quinlan** and **MADAM CHAIR FRANKLIN** talked about tuition rates and bonding issues that would occur due to the action of "farming out" students to another school.

REP. GLASER thought that when a district "farms out" the students, then the district has fewer students to calculate the GTB amount and the students who do remain will get less GTB support because the district is getting greater taxable value per child.

Ms. Quinlan replied by saying that the school district is richer. They have sent the kids away; they have less educational responsibility.

Ms. Quinlan replied, "I think that is appropriate." A school district only gets GTB aid for the students that are served in the district.

MADAM CHAIR FRANKLIN thought that this is where the district gets into a whole lot of community dynamics about why schools do or don't build, their demographics and things like that.

Ms. Quinlan explained that Boulder is facing an issue. They have growth and are lacking bonding capability so they cannot build for that growth.

{Tape: 3; Side: A; Approx. Time Counter: 6.7 - 15}

Since **MADAM CHAIR FRANKLIN** wasn't feeling well, she asked SEN. RYAN to chair the rest of the meeting.

{Tape: 3; Side: A; Approx. Time Counter: 15 - 16.4}

CHAIRMAN RYAN explained how the final proceedings will happen.

SEN. ESP wanted to know what kind of impact that this Subcommittee has on school funding.

Ms. Quinlan said that this Subcommittee chooses the special education funding level, a portion of the transportation fund appropriation and the debt service level. This Subcommittee will set appropriations for secondary vocational programs, and adult basic education and programs like that.

Ms. Quinlan stated that the two "big ones" this Subcommittee address are special education funding and school facility fund.

Ms. Quinlan informed the Subcommittee that the Legislature would have to pass a statue to change the current funding level for schools in terms of the basic student entitlement. She stated that if a reserve were to happen at the GTB, a change in statue would have to occur because at the guarantee level it is statutorily appropriated.

REP. GLASER wanted to know if such a reserve occurred, if it would be under the statutory cap or outside the statutory cap. **REP. GLASER** commented that if it is outside the statutory cap, it would be easy to use OTO for the reserve. If it is under the statutory cap, then a lot of the legislators would be "hard" against it.

Mr. Standaert said that he would have to check with Terry Johnson. **REP. GLASER** asked Mr. Standaert if he could do that. **Mr. Standeart** said, "Yes."

Ms. Quinlan wanted to bring to the attention of the Subcommittee what SB 424, which was passed last session, has done to the inflator factor for the present law budget for K-12 BASE aid.

Ms. Quinlan said that the present law adjustments for K-12 BASE aid will be a combination of what's happening with enrollment, coupled with an inflation factor applied; this factor for 2006, based on the formula in statue is 2.1% and for 2007, 2.2%.

Ms. Quinlan informed the Subcommittee that in the past, the present law adjustment for K-12 BASE aid would have been a negative number because as soon as there is declining enrollment then the state's obligation went down. In this session, this present law adjustment is between 19 and 20 million dollars. She said that more will be discussed about this next week.

CHAIRMAN RYAN asked if the Subcommittee had other questions.

REP. GLASER wanted to know if the inflator figure that Ms. Quinlan was talking about requires a statutory change.

Ms. Quinlan said, "Yes." She explained that through statue the starting point for the next budget is defined, which doesn't mean that the funding formula will automatically change. **Ms. Quinlan** said that in order to implement the present law adjustments, changes in the base and per student entitlements will have to change.

REP. GLASER replied that a law could be passed that would say that this BASE aid adjustment is not an advisory increase, but a statutory increase based on the calculation. He informed the Subcommittee that a bill is in place just for this idea.

REP. JACKSON asked if the inflator factor changes every year based on the CPI.

Ms. Quinlan said "Yes." The inflator is a geometric average of the CPI over a three-year period.

REP. JACKSON asked if that meant the last three years.

Ms. Quinlan said that it is the last three years in which there is information available at the time OPI is preparing the report.

SEN. ESP requested from OPI, if they could possibly bring some statistics on NCLB. He wanted to know if OPI could account for specific NCLB funding for NCLB projects. He asked that so that this Subcommittee could see if the federal government is fully

funding the NCLB requirements that have been placed on the state by the federal government.

Ms. Quinlan said, "We will do our best in that regard." She stated that there isn't much of that type of tracking going on. Nationally there have been some attempts to track NCLB funds with projects.

SEN. ESP wanted to know if this Subcommittee has the ability to request a committee bill to be passed.

CHAIRMAN RYAN thought that since the Subcommittee is a committee, a bill could be drafted.

REP. GLASER said that this Subcommittee is different than an ordinary subcommittee. He stated that the rules would provide the answer.

SEN. ESP providing the reasoning behind this question. If an issue comes up later in the session, **SEN. ESP** wanted to know if this Subcommittee could request a bill or if the request would have to come from the full Appropriation Committee.

Mr. Standaert said that he will find the answer to SEN. ESP's question.

REP. GLASER reiterated that the Subcommittee is uniquely listed in the rules.

REP. JUNEAU told Sen. ESP that she just put some bill drafts in today on behalf of herself. She thought that another issue is working through the revised school funding formula.

CHAIRMAN RYAN said that he would like to adjourn. He thanked all for the very helpful and very informative presentation.

{Tape: 3; Side: A; Approx. Time Counter: 16.4 - 26.7}

A document that was handed out by OPI that had a historical background of school district entitlements was not discussed in detail. It is Exhibit 9.

EXHIBIT(jeh10a09)

A brochure was distributed by Mr. Standaert on K-12 funding and is Exhibit 10.

EXHIBIT(jeh10a10)

ADJOURNMENT

Adjournment: 10:30 A.M.

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REP. EVE FRANKLIN, Chairman

_____
DIANA WILLIAMS, Secretary

EF/dw

Additional Exhibits:

EXHIBIT(jeh10aad0.PDF)