MINUTES

MONTANA SENATE
59th LEGISLATURE - REGULAR SESSION

JOINT SELECT COMMITTEE ON EDUCATION FUNDING

Call to Order: By **CHAIRMAN DON RYAN**, on March 9, 2005 at 8:10 A.M., in Room 335 Capitol.

ROLL CALL

Members Present:
Sen. Don Ryan, Chairman (D)
Rep. Bill E. Glaser (R)
Rep. Holly Raser (D)
Sen. Bob Story Jr. (R)

Members Excused: None.

Members Absent: None.

Staff Present: Connie Erickson, Legislative Branch
Eddye McClure, Legislative Branch
Lois O'Connor, Committee Secretary
Jim Standaert, Legislative Branch

Please Note. These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Discussion on Education Funding.

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SEN. DON RYAN, SD 10, said that **Steve Johnson, Business Manager, Bozeman Schools** will provide a report on his work on the 2001 K-12 Public School Funding Study and **Michael Redburn, Superintendent, Bozeman Schools** will discuss the needs of a large school district if the Subcommittee decides on a classroom model of funding schools. He added that the Subcommittee's goal is to create a long-term solution for funding schools not debate the merits of particular education bills that have been introduced in this session. The Court has said that the current system of funding schools is not working, and the Subcommittee has to work on getting the state in a position to defend in Court how it funds schools.

SEN. RYAN said that the House Education Subcommittee adopted SB 152--the definition bill. The Subcommittee must keep in mind that as it develops a funding formula, its recommendations must tie to those definitions and educationally relevant factors.

Jim Standaert, Legislative Fiscal Division (LFD), asked if there was a short list of those things that might appear in the new funding formula that are now in SB 152. **SEN. ROBERT STORY, SD 30**, said the number of students needed in isolated schools with low populations, urban schools with high populations, at-risk students, American Indian students, and the ability to recruit and retain teachers. **Mr. Standaert** asked what factor is included in the new funding formula to recruit and retain teachers. **Eddye McClure, Legislative Services Division (LSD)**, said whatever is needed at the state level to assist in the state's funding of public schools.

Lance Melton, MT School Boards Association (MTSBA), said that under SB 152, the Subcommittee will have to review the definitions, the adjustments to the formula, and the instruction and factors that have to be taken into account as the Subcommittee crosses out and develops the formula.

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Mr. Johnson provided an overview of the 2001, K-12 Public School Funding Study: Structure of School Funds Working Group Report.

(See Exhibit #3 from the March 8, 2005, Subcommittee meeting.)

Mr. Johnson said that the consolidation of school funds is a major undertaking and very difficult, if not impossible, to accomplish in this session.

Mr. Standaert asked about the relative benefits and costs of rolling the transportation fund into the basic amount for school equity (BASE). **Mr. Johnson** said that the difficulty with the transportation fund is the diversity of districts. There are large geographic areas, small geographic areas, some districts provide transportation, and some do not. With today's technology, he would like to explore a formula based on road miles and student population in the district, attach an amount to it that could be added on to the general fund, and allow local boards the flexibility to make the decision of whether they want to reduce the miles and use that money for some other need. It was his opinion that the 3-mile limit was totally archaic. Children walking to school in Bozeman, even if it is a mile, is unreasonable, and in many cases, the local boards say it is unreasonable and transport the children but charge them a fee.

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Mr. Johnson asked what the state is currently paying for transportation. **Mr. Standaert** said $12 million total. **Mr. Johnson** said the $12 million would be part of schools' general fund budgets, but there would also have to be some mechanism to allow districts to supplement that amount with local levy. **Mr. Standaert** said that the problem is that the state has a cap on the general fund. If a district saves money on the transportation side and is at the cap on the general fund side, it cannot be used in the general fund.

SEN. RYAN said that the state is capped in the general fund because of the current formula. The Subcommittee has to get beyond that. When it develops the new formula, the cap may not remain because it varies. If the state expenditures are limited and if the districts have equal access to revenue, some of the cap will go away. **Mr. Johnson** said that some cap must exist because of equalization. However, there must be some flexible ways to change the funding formula that would maintain equalization but allow the money to be spent in more efficient ways.

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SEN. ROBERT STORY, SD 30, said that there are fixed costs attached to transportation, but the discussion is talking about getting students to school. He felt that portion could be addressed in the per-student portion of the new formula, and it could only be use for transporting children to and from school.

REP. HOLLY RASER, HD 98, said that the consolidation of funds is based on the constraints of the current system. She asked if the

current constraints did not exist, what would be the best mechanism for funding schools. **Mr. Johnson** said that there are too many special revenue funds that are restrictive in what districts can do. The new funding formula must be looked at in a different way. For example, the state is spending X-amount on education, allow the local trustees to decide whether that amount should be used for transportation, distance learning, or whatever is needed by the district rather than state giving an X-amount of money and restricting the districts on the way it is spent.

Mr. Melton said that the Constitution notes that school boards are to be treated with regard to their school districts as the Board of Regents are treated with regard to higher education. Historically, the Legislature, although it has made suggestions, has acknowledged that the money given the Board of Regents will be spent in the manner that the Board deems fit. In addition, the Board of Regents does not equal the Board of Public Education with regard to K-12 education. The Board of Regents equals the local school boards. **Mr. Melton** suggested beginning from the premise of how the entire system was going to be funded by correlating expenditures in each of the funds to the definitions in SB 152, decide what percentage will be funded by the state, what percentage will be raised from whatever source without a vote, and what percentage is going to be subject to a vote of the people.

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Michael Redburn, Superintendent, Bozeman Public Schools, provided an overview of the economies of scale for operating larger schools.

EXHIBIT(jes52a01)

Mr. Redburn said that the current funding system has two legs of a stool--basic entitlement and per-student entitlement. It needs a third leg--a certified staff member allocation, a per-classroom unit allocation, or something else--for stabilization. This concept adds stability for all size districts.

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REP. GLASER said that in 1991, the Legislature was told to come up with a method of resolving the school funding lawsuit at that time. Based on historical data, stakeholders were asked to determine the cost of that system on the average, a method of determining what that cost was, and a statistical model to represent the cost. He said that the state has got to get away from the ideas of a building or facility, a school district

entitlement, or an ANB entitlement because it is not what those numbers represented at that particular time.

REP. GLASER said the current school funding system has become that because of what the state has done. It took the most volatile number in schools--the child--and put the majority of funding on the child. As the number of students increased, the system worked. The moment the number of children decreased, districts could not, would not, or unwilling to reduce the number of classes. The ANB component of the funding formula is too volatile to continue to use and maintain stability in the school system, that is why the major component of the funding formula must be the classroom within the guidelines of the accreditation standards.

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Mr. Johnson agreed, stating that there have been districts that have lost substantial enrollments since that time and those that have gained. The first AA district to have substantial budget problems was Missoula. Missoula is a AA district with the smallest high schools. There needs to be a fourth leg to the funding formula, whether it be called a facility entitlement, classroom entitlement, or both.

SEN. RYAN added that a four-legged stool would also provide additional revenue from the state for large districts, such as Bozeman, to help fund the physical structure of a new school to prevent overcrowding, for example. Then the classroom component could be used to meet the needs of the students. This would allow large districts to get the proper sized schools. In addition, it allows small districts to achieve economies of scale in areas where possible by sharing services or consolidating their administrative units. Schools are consolidating not because of educational reasons, but because there is no money and no other choice.

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SEN. RYAN said one of the reasons that restrictions have been put on all of the funds is because of the revenue source and to prevent districts from funneling revenue raised by a permissive levy to cover transportation needs, for example, into other funds. Permissive levies give districts the latitude to raise money without voter approval based upon a need. The question is if voted authority is needed if the state is going to fund schools in a composite. Another areas of review are long-term,

ongoing district costs, current expenditures, and should any state mandated service be permissive for a district to meet the mandate.

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REP. RASER felt that everyone was in agreement that there needed to be more legs on the stool and that the funding formula itself was outdated. She asked that the Subcommittee make general policy statements on what areas it wants to pursue. She felt that would funnel the Subcommittee into discussions about the operating fund, the current expenditures fund, and capital improvements fund. She asked that people not think about what the state currently has, but what would work.

Ms. Quinlan asked why the technology acquisition and depreciation fund was considered a capital project rather than a current expenditure given what school districts currently spend their technology funds on. **Mr. Johnson** said that technology revenue comes from the depreciation of a capital asset. It allows schools to fund depreciation so that when technology become obsolete, they have money to replace it. The Working Group viewed that as long-term even though the revenue comes from depreciation that is levied to the taxpayers. However, the expenditures are more current. If changes are made to the way that the technology fund is funded, it could fall under the general operating fund also. **Ms. Quinlan** asked if there were down-sides to rolling the compensated absence liability fund into the proposed general operating fund and why the Working Group recommended that it be put there. **Mr. Johnson** said that there has always been skepticism over reserve funds particularly when people do not recognize the purpose of reserve funds and why they are sitting there. Moving the compensated absence liability fund into the general fund does come with some risk. The recommendation to put the compensated absence liability fund under the general operating fund was done from a practical, accounting standpoint rather than a political one.

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Mr. Feaver said that school districts are not required to have a compensated absence liability fund. The way the state funds its compensated absence is through vacancy savings which school districts cannot do.

SEN. RYAN said that assurances must be made that funds deposited into the proposed general operating fund are not done so on a use it or lose it basis.

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Mr. Feaver said that MEA-MFT would not support the inclusion of transportation and retirement in the general operating fund because they are not voted. SB 424 from the 2003 Session put retirement into the state general fund, and the outcome was not wonderful. School districts now have to pay for retirement costs out of their general fund, and they have never had to pay those costs before. It puts additional pressure on Montana's ability to offer and deliver a salary package to its school employees.

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SEN. STORY said that even if the general transportation and retirement funds are put into the general operating fund, the state would still be funding them depending on how it decides to fund the general operating fund. It could be funded at a better state ratio than it is currently. He asked about the problems that Missoula was having. **Mr. Johnson** said that Missoula has 3,000 high school students split among three high schools, and it is funded at 3,000 students. The rest of the larger schools in the state are running 1,950 to 2,000 students per high school, and they are trying to figure out ways to create smaller schools. Missoula's funding problems started long before the rest of the state because it was trying to operate smaller schools. The question that all school boards are struggling with is what is a good-sized school.

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SEN. STORY said that the state is going to develop a funding formula that uses state and local money. He asked how many things in a school district budget should only be funded at the local level and how much extracurricular activities and extra school programs should the state be subsidizing. Whatever the new funding formula looks like, it needs to not pay for programs that some communities can offer but other will never be able to and, at the same time, not prevent schools from making the tough decisions that they have to make to be efficient.

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Mr. Melton said that the AA and rural school districts have a lot in common. in that they are both facing declining enrollments. Rural schools are facing drastic declines in enrollment because of isolation, enrollment in elementary districts in larger communities is declining because people cannot afford to live within the city boundaries, and there are places, such as Kalispell and the Bitterroot Valley that have growth across all

boundaries. He felt that the Subcommittee needed to identify those distinct situations and create a system to address them.

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Ms. Quinlan asked how funding, or lack thereof, has affected the Bozeman middle schools. **Mr. Johnson** said that Bozeman has a growing enrollment trend continuing in its high school and a flat to moderate decline in its elementary schools. Because of these enrollment trends, budget reductions have had to be made, and the reductions have hit the middle schools much harder than it did the high school. There is more flexibility in the middle school budget as far as electives are concerned. But when reductions have to be made in the elementary districts, they tend to hit the middle schools harder than the K-5 districts because K-5 district budgets are pretty set. Middle school electives have been reduced as Bozeman has had to make budget reductions.

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REP. GLASER said that his take on Missoula's problems is that it has the fortune for children and a misfortune for its budget of having a very mature teaching force. Another thing that made a big difference in Missoula was the suburbanization of the area. However, that is the dynamic of schools and the current formula does not allow for that dynamic because it funds on the average. He added that he cannot figure out what is educational relevant about a county line. The state tries to equalize by county line, and all it does is remove the local responsibility of the school districts. School districts are based on geographics, community needs, and tax changes. Unless these things are addressed, the state will not solve the school funding problem.

REP. RASER asked if the voted funds could be kept in a separate fund even though they would be going towards the general operating fund. **Mr. Johnson** said yes, but once it is done, it is easy to change. Two sessions down the road, the Legislature could say why is this fund a permissive levy and not part of the voted levy. It would be an easy bill to write to make it part of the general fund that is voted instead of permissive.

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Dave Puyear, MT Rural Education Association (MREA), said that if the Subcommittee decides to consolidate funds to create flexibility, he was unsure how it could be done when some were permissive funds and some where not because it destroys the very nature of the intention of permissive versus voted. How the state

gets the money and how the money is spent are two different things.

SEN. STORY said that the only reason why transportation and retirement funds are permissive is because they are county funds. If they were district funds, they would not have been permissive in the first place. He added that there is no way that a whole county would vote to raise retirement in one district or run school buses in the other district.

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REP. RASER said that another danger of having voted and permissive funds under one umbrella is that taxpayers would be concerned that they could vote a levy for one specific thing but because the funds are contained in one big fund, the funds could be used to fund something else.

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REP. GLASER said that the conservatism of spending money on permissive levies directly ties to the ability to pass the voted levies. It is the credibility of people's communities. The Subcommittee must ensure that it does not allow one district to mess up the whole state.

Mr. Melton recommended scrapping the current funding formula and starting over by referencing the definition of quality in SB 152 and letting that be the benchmark between what is voted and what is not. He believed that the Subcommittee was not going to get anywhere by blending funds. He suggested that to avoid funding on the average, the Subcommittee should look at a funding system that includes per-school, per-classroom, per-educator, per-employee, and per-student with weights components in order to ensure funding that addresses all needs.

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Joan Anderson, Office of Public Instructions (OPI), felt that if the Subcommittee chose to combine all the funds into a general operating fund, there will be pieces that need voter approval and pieces that form the amount that can be raised permissively. However, it will not form the specific purposes for what the levies can be used for once the money is generated. It gets away from the feeling that taxpayers are voting on what they are funding.

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Jack Copps, MT Quality Education Coalition (MQEC), said that the Subcommittee needs to talk about adequacy as it fits the parameters of a basic system of free, quality schools. Voted levies have nothing to do with that because adequacy is not voted. However, if the Subcommittee wants to maximize flexibility, the best place to maximize flexibility is the voted-levy area above the 80% level. If a new funding system is based upon educationally relevant factors and if the Legislature has determined that those factors are the components of a basic system of free, quality schools, then the state has an obligation to direct those resources to those components and to ensure that it happens. Schools should also have some discretion in regard to efficiencies, but the discretion must be monitored very carefully. If it is not, districts could take the liberty of not directing money to educationally relevant factors.

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SEN. RYAN said that an example of that is Indian Education For All. If the state puts money into a funding system based on educationally relevant factors, what has to be done to ensure that component is being covered.

REP. GLASER said that in 1991, a regression analysis was conducted to find out where the state's problems started. At that particular time, schools were funding on the average and were not necessarily doing the best for children. Even if the state would have continued funding the system with an increased consumer price index (CPI), it would still be moving along with a system that is starved to death. However, there would have been no lawsuit because schools would have been getting by. The regressive analysis, itself, was not flawed, it was what school districts were doing at the time.

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SEN. STORY questioned if there was a reason for the Subcommittee to even talk about funds at this point. If the state ends up with a lump-sum funding system for school districts based on buildings, classrooms, and teachers, etc., why would it care what fund it is. **Ms. McClure** said that the language in SB 152 asks for the consolidation of the number and types of school funds that will provide the best efficiencies for school districts and provide for accountability.

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Mr. Johnson requested help from the Legislature, whether it be in SB 177 or some other avenue, to give school districts more

flexibility of the state dollars that they receive between the high school district and elementary districts. He said that it would really help schools set next year's budgets. **SEN. RYAN** said that the concept is still being discussed, but the Legislature has to find a way to fund it. It is because of lost and fund balance reappropriated. When funds are moved around, there is a cost attached to it.

Following a brief discussion, the Subcommittee decided on the following future discussion topics:
(1) to delineate a few broad policies to work from;
(2) what resources were going to pay for them--voted or permissive levies, or state, district, local, federal, or county funds, etc.;
(3) what types of things should local resources support;
(4) consideration of short- and long-term budgets and their funding sources; and
(5) school district accountability.

ADJOURNMENT

Adjournment: 10:00 A.M.

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SEN. DON RYAN, Chairman

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LOIS O'CONNOR, Secretary

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Additional Exhibits:

EXHIBIT(jes52aad0.PDF)