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Understanding Montana School Finance and School District Budgets

Montana
Office of Public Instruction
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Understanding

Montana School Finance

and

School District Budgets

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Special thanks to John R. Fero for allowing the use of parts of the format, questions and answers from his publication of "Understanding Montana School Finance and Montana School Budgets" in 1996.

Introduction

The purpose of this booklet is to provide Montana citizens, legislators, parents and new school board trustees with a basic understanding of Montana school finance and school district budgets. It is written in a question/answer format and addresses some of the major aspects of school finance and the budgeting process.

The concepts outlined in this booklet are subject to change with every legislative session, and as new laws affecting school finance are enacted.

Many of the topics covered in this booklet can be found at the Montana Office of Public Instruction website (www.opi.mt.gov). In addition, more detailed information about your particular school district may be obtained by contacting the school district superintendent and/or clerk, or the county superintendent of schools, county treasurer, or county commissioners.

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Montana Constitution

Article X, Section 1 of the Montana Constitution of 1972 states,in part:

"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.

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.

The legislature shall provide a basic system of free quality elementary and secondary schools ... (and) shall fund and distribute in an equitable manner to the school districts that state share of cost of the basic elementary and secondary school system."

Statewide Overview

Q: How many public school districts does Montana have?

A: In FY2009-10, Montana had the following districts:

Elementary	262
High School	108
K-12	52
	422

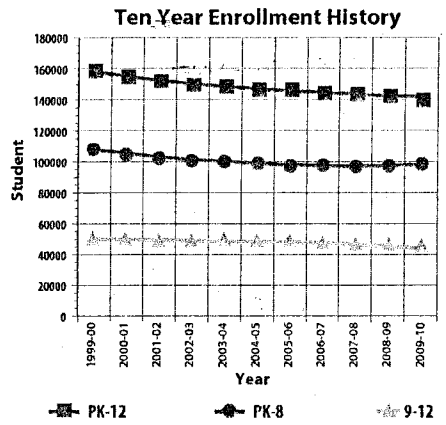
Q: How many students are enrolled in Montana's public schools?

A: In FY2009-10, there were 141,807 students enrolled in K-12 public education. This includes 141,693 students enrolled in public schools and 114 students enrolled in state-funded, non-public schools (Pine Hills, Riverside, and Montana School for the Deaf and Blind).

Q: How much of Montana's school funding comes from federal, state, county, and local sources?

A: Schools receive about 48% of their funding from the state, 24% local property taxes, 9% county sources, 7% Non-tax local sources, and 12% federal sources. (OPI, Revenue Core File 2010)

K-12 Student Enrollment
Montana School Years 2000-2010



Q: What is the total general fund budget for Montana's school districts? How much does the state fund?

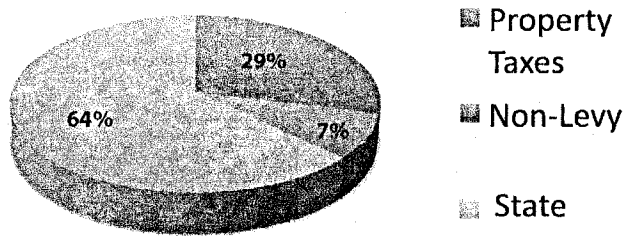
A: Total school general fund budgets for 2009-10 were about $946 million. The state funded about $603 million (63.7%).

Q: How much of school general funds are supported by local property taxes?

A: In 2009-10, local property taxes supported $273 million (29%) of the total school general fund budgets statewide.

School General Fund Revenues

FY 2009-2010



Q: What is the average school general fund budget per pupil in Montana?

A: In 2009-10, districts budgeted an average of $6,678 per pupil. Of that amount, the state support was $4,257 per pupil.

Q: What portion of money from the lottery goes to Montana schools? Are lottery funds still earmarked for education?

A: Lottery money is no longer earmarked for education, but it is one funding source used for education. In 1986, the Montana State Lottery Act passed by 69% of the popular vote. Under that Act, the lottery profits were used to fund the Teachers' Retirement System in order to hold the line on, or reduce, property taxes. In 1989, the Legislature allocated lottery profits to state equalization aid for schools. In 1991, the Legislature allocated lottery profits to the state's general fund. In the state general fund, the lottery profits are combined with many other state resources used to fund a variety of state programs. Other more significant revenues that fund the state general fund include state income taxes, property taxes, and coal trust interest earnings.

Based on FY 2008-09, approximately 0.6% of the state general fund money came from lottery profits. In FY2008-09, the total general fund revenue was about $1.81 billion, and lottery profits brought in about $10.1 million, or 0.6% (six tenths of one percent). About $655 million of the state general fund was used for school funding purposes annually.

The Teachers' Retirement system benefits school teachers in Montana, who pay 7.15% of their salaries into the system. School district employers contribute 7.47% and the state pays .238%.

Q: What are school trust lands?

A: Under the Enabling Act that granted Montana its statehood in 1889, the federal government ceded 5.2 million acres of land across Montana for common school support. The state Board of Land Commissioners oversees the management of school trust land. The Land Board is responsible for deciding how best to generate revenue from school trust lands for the trust. The Trust Land Management Division of the Department of Natural Resources and Conservation carries out the management decisions of the Land Board.

Income and interest earnings from school trust lands are set aside in a "Guarantee Account" and statutorily appropriated to fund K-12 BASE aid. The Legislature builds these school trust funds into its revenue estimates for schools. If income and interest earnings from the school trust lands exceed the revenue estimates, the state general fund obligation for schools is reduced. In FY2008-09, the school trust revenues generated nearly 9% of school funding in Montana, or more that $61 million, for our students and classrooms.

Mineral royalties and certain revenue from the sale of timber on Common Schools land are deposited to the School Facility and Technology Account which was established by the 2009 legislative session (HB152) to provide funding for the Quality Schools Facility Grant Program. Over $24 million was deposited to this account in FY2008-09.

More information about school trust lands can be found at:
http://www.opi.mt.gov/Media_Center/Index.html?gpm=1_7 and
http://www.dnrc.mt.gov/trust/default.asp

Q: How much is raised by the county equalization (55) and statewide equalization (40) mills?

A: In FY2008-09, the county equalization mills raised $130 million and the statewide equalization mills raised $86 million.

Organization of a School District

Each school district is governed by a board of trustees who are ultimately responsible for every action of the school district. The trustees are elected officials and, as a board, must carry out their duties according to the Montana Constitution, the laws of Montana, and the Administrative Rules of Montana of the Board of Public Education (BPE) and other pertinent state agencies, such as the Office of Public Instruction (OPI). The trustees typically hire a district superintendent and school clerk to assist with the general supervision and fiscal responsibilities of the school district. The trustees also work with the county superintendent of schools, county commissioners and county treasurer.

Q: Why does the board of trustees control the school district?

A: Article X, Section 8 of the Montana Constitution establishes local control of a school district: "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."

Q: When are school district trustees elected?

A: Trustee elections take place on the regular school election day, which is the first Tuesday after the first Monday of May.

Q: How many members are on the board of trustees?

A: The number of trustees on the board depends on the size of the school district. Typically, small school districts have three trustees; large school districts have seven trustees. See MCA 20-3-341 and 20-3-351 for specific information.

Q: How long do the trustees serve on the board?

A: Each trustee is elected for a three-year term.

Q: Are trustees paid for their positions?

A: No, the trustees of a school district do not receive compensation for their services as trustees.

Q: What are the powers and duties of the trustees of each district?

A: The trustees are ultimately responsible for every aspect of the school district. The trustees make policy, adopt and administer the annual budget, approve expenditures, make required reports to various agencies, establish elections, and enforce the requirements for government of the school district according to state law and the Administrative Rules of the Board of Public Education and the Office of Public Instruction. A detailed list of these duties is found in MCA 20-3-324.

Q: Does an individual board member have any authority in the operation of a school district?

A: No board member, including the chairperson, has authority as an individual in the operation of a school or school district. The only authority

an individual has is as a member of the board when acting as part of a collective unit in a regular or properly called special meeting.

Q: What is the role of the district superintendent?

A: The superintendent is responsible for the general supervision of all the schools of the district and for implementing and administering the policies of the board of trustees. In very small schools that do not hire a district superintendent, the county superintendent of schools fulfills this role.

Q: What is the role of the district clerk?

A: By law, the trustees must employ and appoint a clerk of the district. The district clerk is the custodian of all documents, records and reports of the trustees. Most clerks are also employed to perform accounting and financial reporting functions for the school district.

Q: What is the role of the county superintendent of schools?

A: The county superintendent provides general supervision of the schools located in the county as outlined in MCA 20-3-205 and 20-3-206. Other duties found in state law include chairing of the county transportation committee, acting as attendance officer for a third-class school district if one is not appointed, being clerk of a joint board of trustees, and assisting trustees with school supervision if a district superintendent or principal is not employed there.

Fund Accounting

School district accounting systems are organized and established on a fund basis. A fund is a self-balancing set of accounts used to track the fiscal activity for a specific purpose or activity. Each fund must be accounted for separately so that its resources, obligations, revenue and expenditures are kept apart from other funds. Legal reference to fund accounting for schools can be found at MCA 20-9-201.

Q: What types of funds are used by school districts?

A: School district funds are included within the following categories:

Governmental Funds—Most school district functions are typically

financed through four types of governmental funds: General, Special Revenue, Capital Projects and Debt Service. These are further classified as either budgeted or non-budgeted funds.

Proprietary Funds—Two types of proprietary funds, Enterprise and Internal Service, are used to account for a school district's ongoing organizations and business-type activities that are similar to those found in the private sector. Proprietary funds are non-budgeted funds.

Fiduciary Funds—Two types of fiduciary funds, Trust and Agency, are used to account for assets held by a school district in a trustee capacity or as an agent for another entity or fund. Fiduciary funds are non-budgeted funds.

Q: What are budgeted funds?

A: A "budgeted fund" means any fund for which a budget must be officially adopted by the board of trustees in order to expend money from the fund (MCA 20-9-201(a)). Currently, the budgeted funds are:

General Fund	Building Reserve Fund
Transportation Fund	Adult Education Fund
Bus Depreciation Reserve Fund	Non-operating Fund
Tuition Fund	Technology Fund
Retirement Fund	Flexibility Fund
Debt Service Fund	

Q: What are non-budgeted funds?

A: A "non-budgeted" fund is any fund for which an official budget is not required to be adopted in order to expend money on deposit in the fund (MCA 20-9-201(b)). Expenditures from these funds are limited to the amount of cash balance in the fund. Some examples are:

School Food Services Fund	Impact Aid Fund
Miscellaneous Programs Fund	Enterprise Fund
Building Fund	Agency Fund
Lease or Rental Agreement Fund	Extracurricular Fund
Traffic Education Fund	Endowment Fund

Q: What are district accounting codes?

A: By law, each district must use the accounting codes designated by the Office of Public Instruction (OPI). This ensures continuity and uniformity across the state. OPI uses accounting codes suggested by the U.S. Department of Education.

Q: What are the different components of an expenditure accounting code?

A: District clerks pay bills using expenditure codes that identify the payment. For example, an expenditure code might look like this:
101-100-1000-680-123

An expenditure code is made up of five different parts. They are:

Fund code	XXX	(General Fund, Transportation Fund, etc.)
Program code	XXX	(regular programs, special education programs, etc.)
Function code	XXXX	(instruction, student support services, etc.)
Object code	XXX	(salaries, supplies, utilities, etc.)
Project Reporter code	XXX	(code for district's separate accounting of projects)

A detailed description and list of codes is found in the School Accounting Manual at: http://www.opi.mt.gov/pdf/schoolfinance/ChartAccounts.pdf.

Q: Are school districts audited?

A: Yes. In the 2007 legislative session, HB 487 was passed and changed the audit threshold from $200,000 to $500,000. For FY 2007-08, districts with $500,000 or more of revenue would receive a basic audit and districts with less than $500,000 of revenue must have a financial review at least once every four years. Federal law requires that districts that expend $500,000 of Federal money in a year must have a more comprehensive audit in accordance with OMB A-133 Federal audit guidelines.

Funding and the Budget Process

Most discussion about Montana school budgets and the budget process concentrates on the general fund. The general fund budget is used to finance instructional, administrative, facility maintenance, and other operational costs of a district not financed by other funds established for special purposes . In an effort to equalize school funding in Montana, state law requires schools to adopt general fund budgets within an "equalized" range between the "BASE" and "Maximum." Upon passage of HB 363 in the 2007 regular legislative session, a district can adopt the current year maximum or the previous year's adopted budget.

Other funds are established for special purposes, such as pupil transportation, tuition and debt service. A budget must be adopted for each of these funds in the manner provided for in state law.

Q: What is the history of the current school funding system?

A: In 1985, a coalition of 64 school districts filed a lawsuit in Helena District Court claiming that the funding of the education system in Montana, guaranteed under the Montana Constitution, was unconstitutional. On January 13, 1988, the "Loble Decision" was handed down. This decision, which was challenged by the state of Montana and subsequently upheld by the Montana Supreme Court, confirmed that the State of Montana:

". . . has failed to provide a system of quality public education granting to each student the equality of education opportunity guaranteed under Article X Section I of Montana's Constitution."

In June of 1989, a special session was called to address the problem. During that session, HB 28 was passed in an attempt to solve the equity problem. HB 28 increased funding and instituted a Guaranteed Tax Base System (a mechanism designed to assist low wealth districts by subsidizing their tax base through state assistance). However, the under-funded coalition did not feel that this solved the equity problem and the funding disparity issue ended up back in District Court. The result was two additional equity lawsuits filed in 1991. Subsequent legislative action passed by HB 667 established the current method of school funding for all public school districts in the state. It established a formula that created maximum and minimum general fund budget levels for all

school districts. Each school district was required to be within that range on or before 1998. SB 460 (1999 session) and SB 390 (2001 session) expanded the capacity of districts to adopt budgets that exceed the "Maximum" level.

In April 2004, the Sherlock decision in *Columbia Falls v. Montana* found the state share of school district spending inadequate, and found that Montana's funding formula is not reasonably related to the costs of providing a basic system of free quality public elementary and secondary schools. The state appealed the decision to the Montana Supreme Court and the Court upheld the Sherlock decision.

The 2005 Legislature adopted a definition of a quality education and appointed a committee to study the formula and propose changes that would align it with the new definition. Also, schools received additional funding for FY 2007 from several new funding components, some which expanded the district general fund and some which were deposited as One Time Only payments (OTO) in the district miscellaneous programs fund. http://www.opi.mt.gov/pdf/Superintendent/k-12_Legislature_07.pdf

The 2007 legislative session provided additional funding which further expanded the district general fund and state OTO payments in the miscellaneous programs fund.

In the 2009 legislative session, federal funds allocated to Montana in the American Recovery and Reinvestment Act (ARRA) were appropriated to support K-12 BASE aid in the district general fund and for federal grants to school districts for existing programs administered by the U.S. Department of Education in the miscellaneous programs fund. School districts and special education cooperatives received state OTO payments in the miscellaneous programs fund in support of deferred maintenance and energy efficiency expenditures.

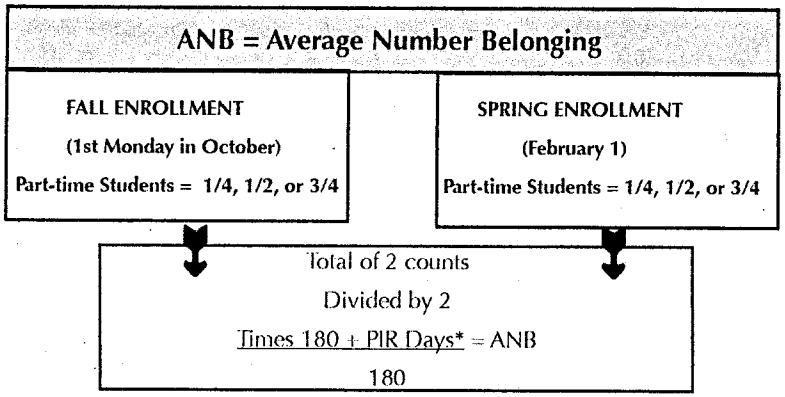
Q: How are the minimum and maximum general fund budget levels calculated?

A: The budget levels are calculated based on state entitlements that are driven by enrollment, number of educators and licensed professionals and number of American Indian Students. The basic and per-ANB

entitlements, Quality Educator, Indian Education for All, Indian Student Achievement Gap, and At-Risk Student payments, along with the district's special education funding, define the BASE (minimum) and Maximum general fund budget limits.

Q: What is ANB?

A: In October and February of each school year, school districts report the number of students enrolled in their schools to the Office of Public Instruction (OPI). From these counts, "Average Number Belonging" (ANB) is calculated. ANB is then used to calculate the per-student entitlement and special education funding that, together with the basic entitlement, make up the BASE and maximum general fund budget levels for the following school year.



* PIR Days are "pupil instruction related" days for teacher inservice training and recordkeeping.

A school district is allowed to use current year ANB or 3-year average ANB for each budget unit by level (elementary or high school), whichever generates the greatest maximum general fund budget. "Current year ANB" means the ANB for the budget unit for the ensuing school fiscal year; "3-year average ANB" means an average ANB over the most recent 3-year period, calculated by adding the current year ANB to the current ANB for each of the previous two school fiscal years, dividing the sum by 3, and rounding up to the next whole number.

Q: What is the basic entitlement?

A: The basic entitlement is the minimum funding each school district will receive if in operation. In FY2010-11, elementary districts that do not

have an accredited 7th-8th grade program will receive $23,257 for grade levels K-8. A high school will receive $258,487. A school district with an accredited 7th-8th grade program will receive $23,257 for its K-6 elementary program plus $65,863 for its 7th-8th program.

Q: What is the per-ANB entitlement?

A: Per-ANB entitlement (also known as per-student entitlement) varies based on the total number of ANB in the school district. The per-ANB entitlement rates are determined by the Legislature. Rates shown below are effective for FY2010-11.

Elementary districts have a per-ANB entitlement of $5,003. This rate is decreased by $.20 per ANB for each additional elementary ANB up to 1,000 ANB. The per-ANB entitlement is $4,803.20 for each ANB over 1,000.

High school districts have a per-ANB entitlement of $6,405. This rate is decreased by $.50 per ANB for each additional high school ANB up to 800 ANB. The per-ANB entitlement is $6,005.50 for each ANB over 800.

Elementary districts, or the elementary program of a K-12 district, with an accredited 7th-8th grade program, receive a prorated amount of the elementary and high school per-ANB entitlement rates.

Q: What other General Fund payments exist?

A: In the 2005 special legislative session four new components were added to in the General Fund: Quality Educator, At-Risk, Indian Education for All, and American Indian Achievement Gap.
Calculations of these components are:

Quality Educator - Each district and special education cooperative will receive a $3,042 payment in FY2010-11 for each full-time equivalent licensed educator and for other licensed professionals employed by the school district, including registered nurses, licensed practical nurses, physical therapists, speech language professionals, psychologists, licensed social workers, counselors, occupational therapists, and nutritionists.
At Risk - The At-Risk payment is intended to address the needs of at-risk