

A REPORT TO THE 65TH LEGISLATURE | September 2016

By the 2015-2016 School Funding Interim Commission

# K-12 SCHOOL FUNDING: A 10-YEAR REVIEW

Local Control <sup>Minimum</sup> Public Education <sup>Charter Schools</sup>  
Small Schools <sup>Mill Levies</sup> Special Education  
<sup>Specific</sup> Learning Insurance Pay Infrastructure  
Facilities <sup>Equitable</sup> Programs Testing  
School Districts <sup>Oil</sup> Children <sup>Choices</sup>  
Adequate Funding <sup>Stop</sup> Quality Education <sup>Ask</sup>  
Qualified Teachers <sup>Deal</sup> Think

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The “word cloud” on the cover was generated from the most frequently appearing words and phrases from the 677 responses received from an online survey at the beginning of the commission’s work. The survey question asked about priority issues related to school funding for the commission to explore.

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## Executive Summary

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The 2015-2016 School Funding Interim Commission was established in Senate Bill 128 by the 2015 Legislature to conduct what is often referred to as the “decennial study” of K-12 funding in Montana. The twelve legislators and four public members who made up the commission met six times between September 2015 and August 2016. The commission charted its course after soliciting input from education stakeholders and the public, and focused its attention in four main areas:

- Recruitment and retention—the commission was particularly concerned about the difficulties faced by rural schools and recommended revisions to the Quality Educator Loan Assistance Program and a study of K-12 employee health benefits
- School facilities—the commission acknowledged that the revenue streams for state programs to support district facility investments have become unreliable and recommended strengthening revenue flow and revising the Quality Schools Facility Grant Program
- Special education and special needs—the commission heard testimony as to the financial difficulties faced by districts and special education cooperatives and recommended an increase to the state special education payment and an increase to the appropriation for gifted and talented program grants, as well as further study of funding for all categories of special needs, including gifted and talented
- District size, structure, and equity—the commission examined a number of issues but paid particular attention to differences in tax burdens between districts

The commission utilized multiple resources in examining these and other school funding issues over the course of the interim, eventually coming to a consensus on the findings and recommendations contained in this report. Bill drafts included in the recommendations and introduced in the 2017 Legislature “by request of the School

Funding Interim Commission” are not necessarily endorsed by the commission for *passage*, but rather recommended for the 2017 Legislature’s *consideration*.

The commission learned that establishing a funding formula for all public school districts in Montana is a difficult task; each district has unique needs and unique resources. The unique needs include differing levels of poverty, the rural or urban nature of the district, and many other factors. The unique resources vary from the property values in the district to the amount of federal payments and nonlevy revenue received by the district among others. Designing a funding formula to adjust for all of these unique characteristics is not possible. The variable property values in each school district are taken into consideration in Montana’s current formula; however, the constantly changing circumstances of each district and constitutionally enshrined strong local control make guaranteeing equality of educational opportunity a challenge. Despite this challenge and the great variety in the circumstances of each of Montana’s 400-plus school districts, the commission settled on a number of recommendations to improve the funding of Montana’s “basic system of free quality public elementary and secondary schools.”

This report is a summary of the commission’s activities during the 2015-2016 interim and is intended as a reference guide to be primarily accessed and used electronically. Links are provided to allow quick access to relevant meetings and documents. Additionally, all commission meetings were recorded, and these recordings, as well as meeting agendas, minute logs, and meeting materials, can be found via the Montana Legislature’s website at <http://leg.mt.gov>. If you have any difficulty locating materials, please contact the Legislative Services Division at 406-444-3064 for assistance.

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## Background and Beginnings

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There is quite a bit of joking about the complexity of state school funding formulas, not just in Montana, in many states. However, it's no joke that education is the biggest slice of Montana's biennial general fund budgetary pie. Knowing more about education funding is important for everyone. If only a handful of our elected representatives truly understand Montana school finance, fiscal oversight and responsibility are diminished, as is democracy generally. If a school funding formula needs to be complicated in order to maximize efficiency, how can we ensure that our citizen legislature, which is constitutionally charged with designing and maintaining this funding formula, has the skills needed to do so?

[Senate Bill 128](#) answered that question by creating a School Funding Interim Commission and requiring its formation every 10 years beginning with the 2015-2016 interim. The commission's duties are to:

- conduct a study to reassess the educational needs and costs related to the basic system of free quality public elementary and secondary schools;
- if necessary, recommend to the following legislature changes to the state's funding formula; and
- issue a report on the commission's findings and recommendations, including any draft legislation for amending the state school funding formula, by no later than September 15 preceding the next regular legislative session.

SB 128 clarified a requirement for a study of this kind that was already in law and originated in events leading up to the 2005 session, primarily a court case known as *Columbia Falls v. State* (or *Columbia Falls I* to distinguish it from a second suit known as *Columbia Falls II*). In very brief summary, these events were:

2002—Columbia Falls I lawsuit filed questioning the adequacy of school funding in providing a basic system of free quality public schools

2004-2005—District Court Judge Jeffrey Sherlock issued a decision finding that the existing funding system was not constitutional and upon appeal, the Montana Supreme Court upheld this decision

2005 Regular Session—the Legislature established a definition of a basic system of free quality public schools and formed a joint select committee to redesign the funding formula; the committee did not accomplish this task and formed the Quality Schools Interim Committee (QSIC) to complete the work by December 1, 2005, in anticipation of a special session

May – November 2005—QSIC met frequently, contracted for adequacy studies, drafted a bill creating a new funding formula, but ultimately did not feel the bill was ready for legislative consideration

December 2005—the Legislature met in special session and enacted legislation adding new components to the funding formula, increasing state funding to schools

2006—plaintiffs filed for supplementary relief challenging that the 2005 changes were not sufficient

2008—Judge Sherlock issued a decision (Columbia Falls II) that the state “is in the process of making a good faith effort to preserve and protect Montana's constitutional commitment to a sound public education system” and declined to award any supplementary relief

For a lengthier description of this background see pages 10-14 of the [July 2015 Interim Newsletter](#) or the [QSIC Final Report](#). For more information on the history of school funding litigation in Montana, this [webpage](#) has numerous links to the district decisions, Supreme Court appeals, and presentations to legislative interim committees on these cases.

## Commission Members

SB 128 established a commission composed of 12 legislators and 4 public members staffed by the Legislative Services Division with assistance from the Legislative Fiscal Division (LFD), the Office of Public Instruction (OPI), and other state agencies.

Legislators serving on the commission were Senators Elsie Arntzen (R-Billings), Tom Facey (D-Missoula), Kristin Hansen (R-Havre), Mary Sheehy Moe (D-Great Falls), Matthew Rosendale (R-Glendive), and Lea Whitford (D-Cut Bank) and Representatives Jeff Essmann (R-Billings), Don Jones (R-Billings), Kathy Kelker (D-Billings), Debra Lamm (R-Livingston), Edie McClafferty (D-Butte), and Susan Webber (D-Browning). The four public commissioners were former legislator Dave Lewis of Helena; Aidan Myhre, chair of the Helena Public Schools Board of Trustees; Patricia Hubbard, chief financial officer of Billings Public Schools; and Renee Rasmussen, superintendent of Bainville Public School.

At the initial meeting, Sen. Facey was elected chair and Sen. Arntzen vice chair.

**Meeting Schedule** (with links to meeting webpages, agendas, minutes, reports, presentations)

The commission met six times with meeting durations of one, two, and three days. Because the commission and the Education and Local Government Interim Committee

(ELG) shared five members, the commission and ELG “piggybacked” meetings on several occasions to save travel costs. Meetings were held:

[September 23, 2015](#)

[January 11-13, 2016](#)

[April 4-5, 2016](#)

[May 3 & 5, 2016](#)

[June 13, 2016](#)

[August 29, 2016](#)

## Constitutional Framework

The Montana Constitution devotes [Article X](#) to the topic of “Education and Public Lands.” Why are education and public lands grouped together? The short answer is that when Montana was granted its statehood, a portion of the land was given to the state expressly for the purpose of funding what were known then as “common schools.” Montana’s “common school trust lands” continue to generate revenue supporting public education.

Regarding school funding, the main principles within the Montana Constitution are found in Section 1—Educational Goals and Duties:

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

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

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

When discussing school funding in Montana and throughout the country, two questions are often asked:

- Is school funding **adequate**? (As in, “Is the state’s share and the overall revenue available to school districts enough to allow a system of quality schools that develops the full educational potential of all students?”)
- Is school funding **equitable**? (As in, “Is the distribution of the state’s share equitable such that students in school districts across the state are afforded equality of educational opportunity?”)

These questions were the basis of Montana’s two major school funding lawsuits. The 2004 decision in *Columbia Falls v. State* regarding the adequacy of school funding was briefly described above. The “equity lawsuit” was decided in 1989 in [Helena Elementary No. 1 v. State](#).

In this case, the court basically found that because the funding formula at that time was so dependent on local property taxes and that lower property wealth districts had lower revenues per pupil than higher wealth districts, the formula did not meet the constitutional requirement for equitable distribution of state funding. The Legislature responded to this decision by overhauling the funding formula, replacing the “Foundation Program” which had existed for 50 years with the current BASE (Base Amount for School Equity) system, and instituting a guaranteed tax base (GTB)

mechanism to help equalize the revenue generating capacity (via property taxes) of districts.

Determining the adequacy and equity of a state's school funding system is not a simple endeavor. The 2005 QSIC contracted for an adequacy or "costing-out" study and the four methodologies used produced a wide range of required cost increases. Judge Sherlock questioned the scientific validity of these studies in 2008 when he noted that costing-out studies conducted in California produced estimates of required increases ranging from \$1.5 billion to \$1.5 trillion (see ¶48 of his [decision](#)). Throughout the 2015 session, it was acknowledged that the appropriation included in SB 128 was not intended to be used to contract for a full-blown adequacy study. The 2015 School Funding Interim Commission decided to focus its attention on specific areas of concern (e.g. recruitment and retention, facilities, special education) related to the adequacy of the current funding formula after soliciting input from stakeholders and the public.

In examining equitable distribution of the state's share of the cost of education, the commission focused its attention largely on the variations in required property tax effort in the BASE budget area of district general fund budgets. Equity is frequently addressed by targeting increased state funding to districts with less ability to raise funds locally; this is often referred to as "equalization aid." The question explored by this commission and recommended by previous studies (see below) was, "How might the formula be adjusted to improve equalization of these BASE mills?"

When BASE mills are not sufficiently equalized and districts with less ability to raise revenue locally are required to levy higher mill rates to fund their BASE (minimum) budgets, those districts will likely have greater difficulty passing voter-approved levies for over-BASE budgets, facility improvements, technology, etc. This can potentially lead to students in those districts not having the same (equal) access to educational opportunities as students in districts with greater ability to raise local revenue.

Montana's constitutional guarantee of equality of educational opportunity goes hand-in-hand with the requirement that the Legislature distribute funding equitably.

### **Review of Previous Study Recommendations and Legislative Responses**

Early on the commission requested an overview of recommendations and legislative responses from two large and fairly recent studies of school funding in Montana: the 2003 School Renewal Commission and the 2005 Quality Schools Interim Committee.

Staff prepared a [memo](#) for commissioners in response to this request that shows that some of the previous recommendations have been addressed to various degrees through legislative changes while other recommendations have been explored, but proposed legislative changes have not been enacted (see table on following pages). The commission's work in part reflected several of these unaddressed recommendations, specifically recommendations dealing with equalization of tax effort, gifted and talented education, school facilities, and health care benefits for school employees.

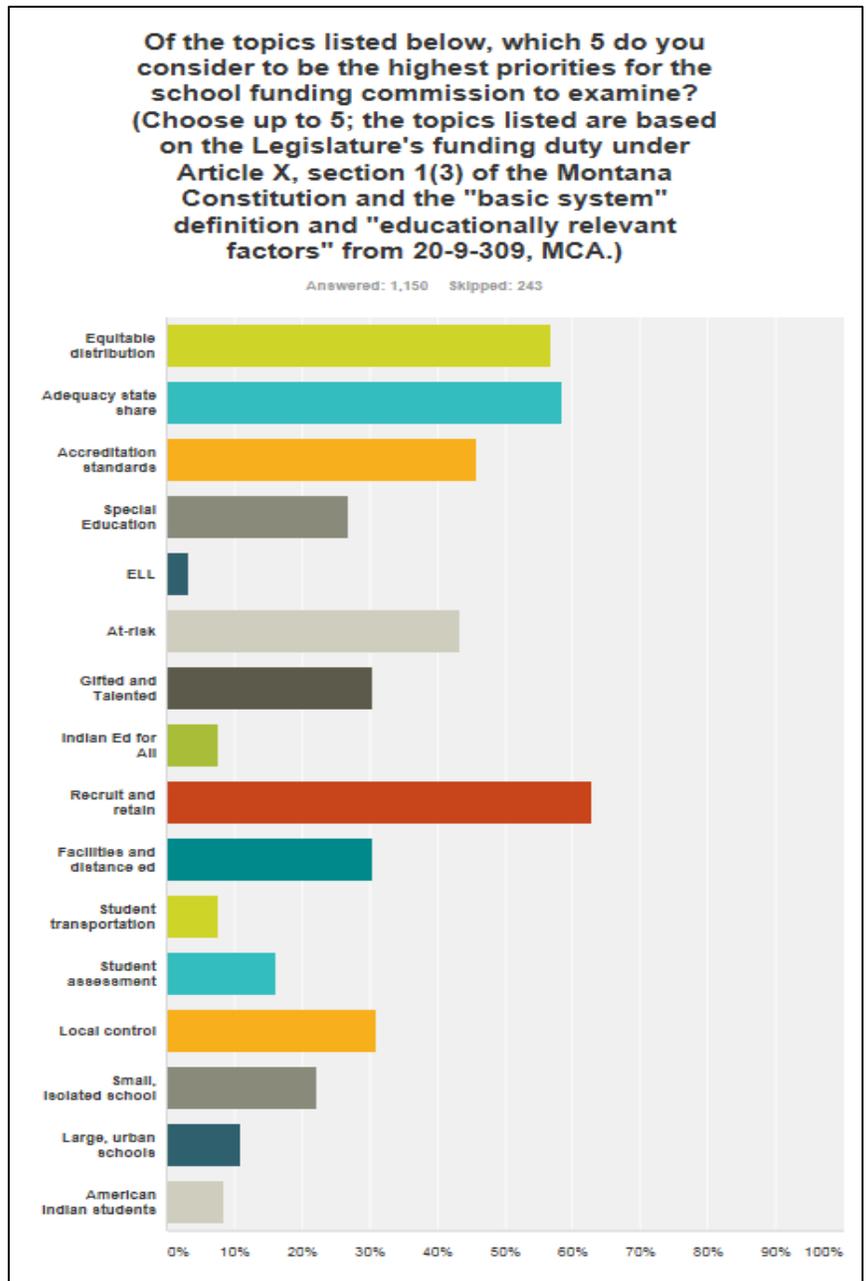
Recommendations	Related changes through 2015
<b>2003 Renewal Commission</b>	
Building a quality education on the foundation of the Montana Accreditation Standards	<a href="#">SB 152 (2005)</a> provided a definition of basic system of free quality public elementary and secondary school that includes “the educational program specified by the accreditation standards provided for in 20-7-111, which represent the minimum standards upon which a basic system of free quality public elementary and secondary schools is built.”
Providing greater flexibility in the school calendar to expand learning opportunities and professional development	<a href="#">SB 170 (2005)</a> eliminated the requirement of 180 school days and switched to minimum aggregate hours.
Studying the regionalization of education services	OPI provides support for five regional education service areas (RESAs). <a href="#">SB 329 (2011)</a> broadened districts’ ability to form multidistrict agreements.
Eliminating barriers to voluntary consolidation of school districts, both statutory and financial	<a href="#">HB 681 (2005)</a> simplified the laws regarding annexation and consolidation; no legislation addressing financial barriers was found.
Supporting a statewide school district employee insurance pool with state incentives for participation	<a href="#">HB 124 (2005)</a> proposed creating a separate and voluntary (but incentivized) statewide insurance program for K-12 employees
Restoring the position of gifted and talented specialist and funding professional development and other outreach services	Restored in 2005; some federal grant support over the years; currently 1.0 FTE at the Office of Public Instruction for G&T, Advanced Placement workshops, RESAs, etc.
Phasing in increased state support for special education services	The special ed appropriation in HB 2 for FY 2006 was \$38.5 million or 4.75% of district general fund budgets statewide; for FY 2015 it was \$42.9 million or 4.12% of district general fund budgets. State support for special education has decreased as a proportion of general fund budgets.
Providing adequate funding to cover the costs of operating and maintaining quality public elementary and secondary schools	Significant changes were made to the formula, including the addition of new components and inflationary factors, in <a href="#">SB 1 (2005 December Special Session)</a> and <a href="#">SB 175 (2013)</a> .
Modernizing revenue and taxation to promote equalization for taxpayers and schools to balance the benefits and burden	There have been several proposals to increase statewide mills and increase equalization aid through GTB or state funding of BASE budgets. <a href="#">SB 428 (2011)</a> and <a href="#">SB 382 (2013)</a> are two examples.
Supporting state funding to expand kindergarten	<a href="#">SB 2 (2007 May Special Session)</a> provided full-time ANB funding for kindergarten.
Supporting state funding for <i>Indian Education for All</i> curriculum, policies, and rules	<a href="#">HB 2 (2005)</a> appropriated \$2.3 million to OPI and \$1.1 million to districts for Indian Education for All. During the December special session of 2005, <a href="#">SB 1</a> created an Indian Education for All payment in the funding formula and <a href="#">HB 1</a> provided \$7 million to districts for curriculum development.

<p>Supporting state-facilitated public/private partnerships for local summer programs and extended school programs</p>	<p><a href="#">HB 677 (2007)</a> appropriated \$250,000 to the Board of Crime Control for the 2009 biennium for grants for after school programs for at-risk youth and authorized the board to use the grants to leverage federal or private funds. No other legislation was found related to this recommendation.</p>
<p>Recognizing the importance of an adequate infrastructure [physical plant and equipment] as a key component of a quality education</p>	<p>LFD analysts will be providing a separate document on state investments in school infrastructure. [See <a href="#">full memo</a> for this document; a bar graph showing state investments 2003-2017 appears in the “School Facilities” section of this report.]</p>
<p><b>2005 QSIC</b></p>	
<p>Establish new funding formula with the following components:</p> <ul style="list-style-type: none"> <li>• Per-student</li> <li>• Classroom</li> <li>• Accredited program</li> <li>• Building operations and maintenance</li> <li>• Special education</li> <li>• Transportation</li> <li>• Capital projects</li> <li>• School facility payment/debt service</li> <li>• Indian Education for All</li> </ul>	<p>While QSIC ultimately determined that its proposed formula changes were not ready for consideration in the December 2005 special session, the revisions of <a href="#">SB 1</a> during that special session did include an Indian Education for All payment (and others related to the definition of “basic system”—see below) and <a href="#">HB 1</a> provided a \$23 million appropriation for immediate maintenance needs and \$2.5 million for a statewide facility condition inventory, both as recommended by QSIC. Variations of QSIC’s new formula, including classroom components were proposed in <a href="#">HB 701 (2007)</a> and <a href="#">HB 539 (2009)</a>.</p>
<p>Require school employees to participate in state employees’ health insurance program</p>	<p><a href="#">HB 297 (2007)</a> and <a href="#">SB 462 (2007)</a> both proposed this. <a href="#">HB 124 (2005)</a> proposed creating a separate and voluntary (but incentivized) statewide insurance program for K-12 employees</p>
<p>Reorganize school district fund structure</p>	<p>Several pieces of legislation have increased flexibility of certain district funds, but there has been no reorganization/simplification.</p>
<p>Revise school district general fund</p>	<p>The general fund of school districts has undergone many changes. For example, <a href="#">SB 1 (2005 Special Session)</a> added four new 100% state-funded components based on the definition of “basic system”:</p> <ul style="list-style-type: none"> <li>• At-risk student payment;</li> <li>• Quality educator payment;</li> <li>• American Indian achievement gap payment; and</li> <li>• Indian education for all payment.</li> </ul> <p><a href="#">SB 175 (2013)</a> revised the basic entitlement to provide additional increments for larger districts and created a data for achievement payment, among other things.</p>

### Survey and Initial Input

In advance of the commission’s first meeting, staff conducted an online survey to solicit stakeholder and public input and to raise awareness of the commission generally. An online survey was prepared and open for three weeks in August and September 2015, garnering nearly 1,400 responses. Respondents were asked:

1. Their relationship to public education in Montana (for example, are they a teacher, trustee, student, parent, etc.);
2. In which district(s) they reside;
3. Their five highest priorities for examination from a list reflecting Montana’s definition of a “basic system of free quality public elementary and secondary schools”;
4. For any elaboration or additions to #3; and
5. For any other input for the commission.



At the initial meeting in September, commissioners were provided with a [link](#) to survey responses and a [presentation](#) summarizing the results. The highest priority topics from the survey were:

- Recruitment and retention;
- Adequacy of the state share;
- Equitable distribution of the state share;
- Funding programs to meet the accreditation standards; and
- Funding programs for at-risk students.

Following the review of the survey results, the commission invited input on its study from various stakeholders including the Office of Public Instruction and the Board of Public Education, representatives of the education community, and the general public. A number of public commenters mentioned the lack of funding for special education students beyond age 18 as a concern; others asked the commission to look at increased funding for gifted and talented education. There was agreement from education stakeholders on the need to examine: (1) adding an inflationary factor to special education funding, (2) resolving ongoing difficulties in recruiting and retaining quality educators, especially in smaller school districts, and (3) developing a reliable funding mechanism for school facilities (following the 2015 Legislature not funding the Quality Schools Facility Grant Program and concerns about the revenue available for facility reimbursements also known as debt service GTB).

### **Commission Priorities and Topics for “Parking Lot”**

At the first meeting, commissioners discussed and identified four priority topics:

- Recruitment and retention [initially K-12 employee health benefits was viewed as an issue under the umbrella of recruitment and retention, but the commission came to view this topic as worthy of addressing separately]
- School facilities
- Special education (inflation factor and “graduation age”/funding cutoff) [this priority was gradually broadened to include other “special needs” programs including those for gifted and talented students]
- District structure and boundaries (efficiencies; voluntary consolidation; impacts on taxation and transportation) [this priority was later renamed “District Size, Structure, and Equity” by the commission]

The commission identified a number of other possible topics for exploration, placed these topics in a “parking lot,” and instructed staff to poll commissioners on their prioritization of these additional topics. Here they are in priority ranking following the poll:

1. Health insurance
2. Levy system
3. Fund reserve limits/local flexibility
4. Technology
5. Equity issues (small schools; decrement)
6. How to fund increases/revenue sources
7. Predictability of funding
8. Determining the costs of education
9. Open enrollment
10. Federal role in education funding
11. American Indian Achievement Gap
12. Middle school model and 6th grade funding
13. At-risk students
14. Demographic changes; a formula for the future
15. Gifted and talented
16. Budgeting timelines

Several of these topics were explored to various degrees by the commission throughout the interim. For example, the commission heard presentations from the [Montana Digital Academy](#) and a representative from the [EducationSuperHighway](#) initiative related to technology as a means of creating efficiencies and ensuring equality of educational opportunity; the levy system and fund reserve limits were covered as part of an overview of school funding generally; gifted and talented was eventually incorporated as a priority under the broader umbrella of “special needs.” Commissioners expressed the wish that future legislatures, interim committees, and others view these “parking lot” topics as “unfinished business” worthy of further study. In addition, the commission feels that the entire topic of K-12 funding warrants legislative examination more frequently than every 10 years and suggests that the structure of interim committees be reviewed or that the Education and Local Government Interim Committee form a K-12 funding subcommittee each interim.

Additionally, the commission requested that ELG take on the topic of school transportation funding, and in particular, potential issues with the reimbursement schedule identified in the [2013 School Transportation and Safety Audit](#).

### **Small Group Breakout Sessions**

At the January and April meetings, the commission divided into smaller groups in other meeting rooms throughout the capitol. Stakeholders and the public were invited to sit at the table with commissioners and discuss issues in a less formal manner than providing public comment at the podium. The breakout sessions were well received and a number of school administrators, trustees, and other interested parties were able to participate. Following the sessions, each of the groups reported back to the entire commission, and input generated during these sessions was incorporated into the ideas the commission pursued.

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## School Funding Generally

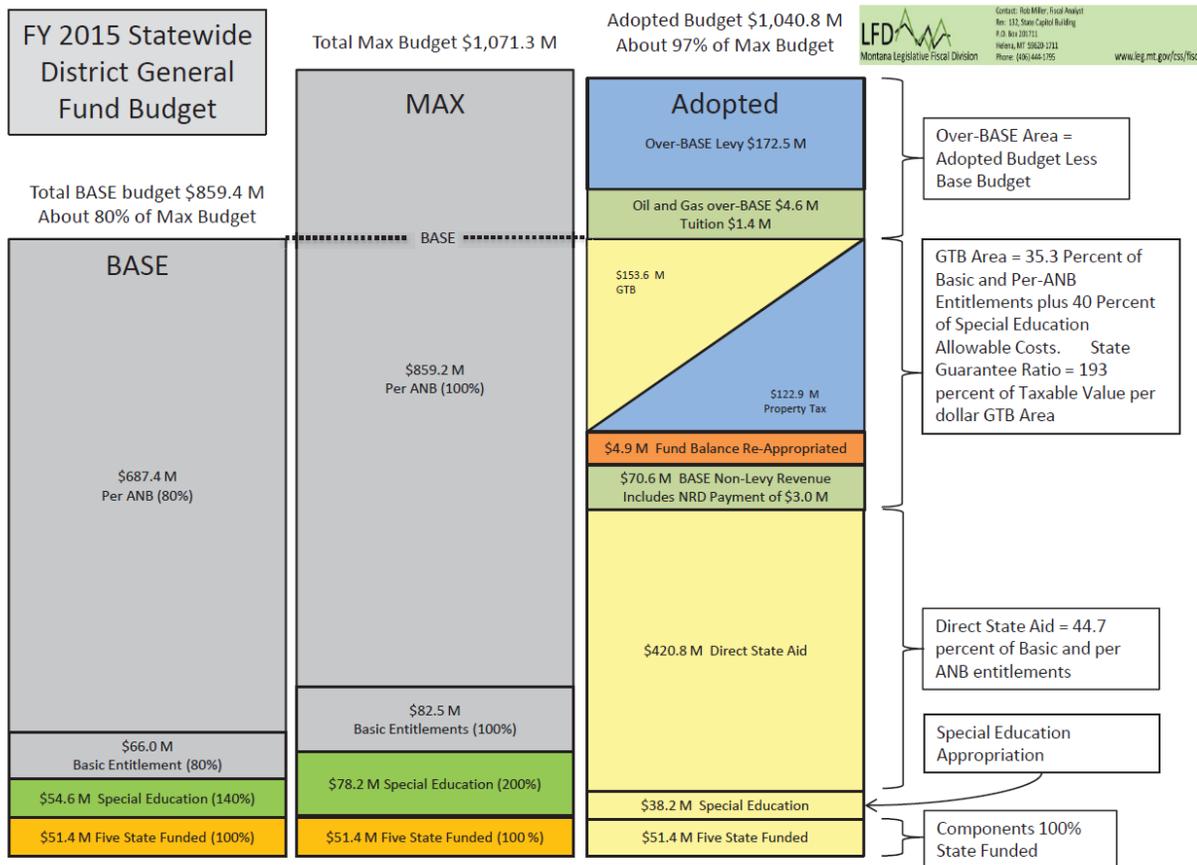
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The commission's work provided the opportunity for members to improve their understanding of school funding and for staff to experiment with new ways of presenting information; a portion of each of the first two meetings was spent in this effort. This section of the report will summarize these efforts and provide links to materials not directly related to one of the main topics investigated by the commission.

Prior to the first meeting, staff developed a short, online [quiz](#) for commissioners aimed at addressing a number of frequent misunderstandings related to Montana school funding.

At the commission's September meeting, staff presented a brief [50,000-foot overview](#) of school funding and LFD staff went over a [revised graphic](#) (page 3 of the linked brochure and below) showing:

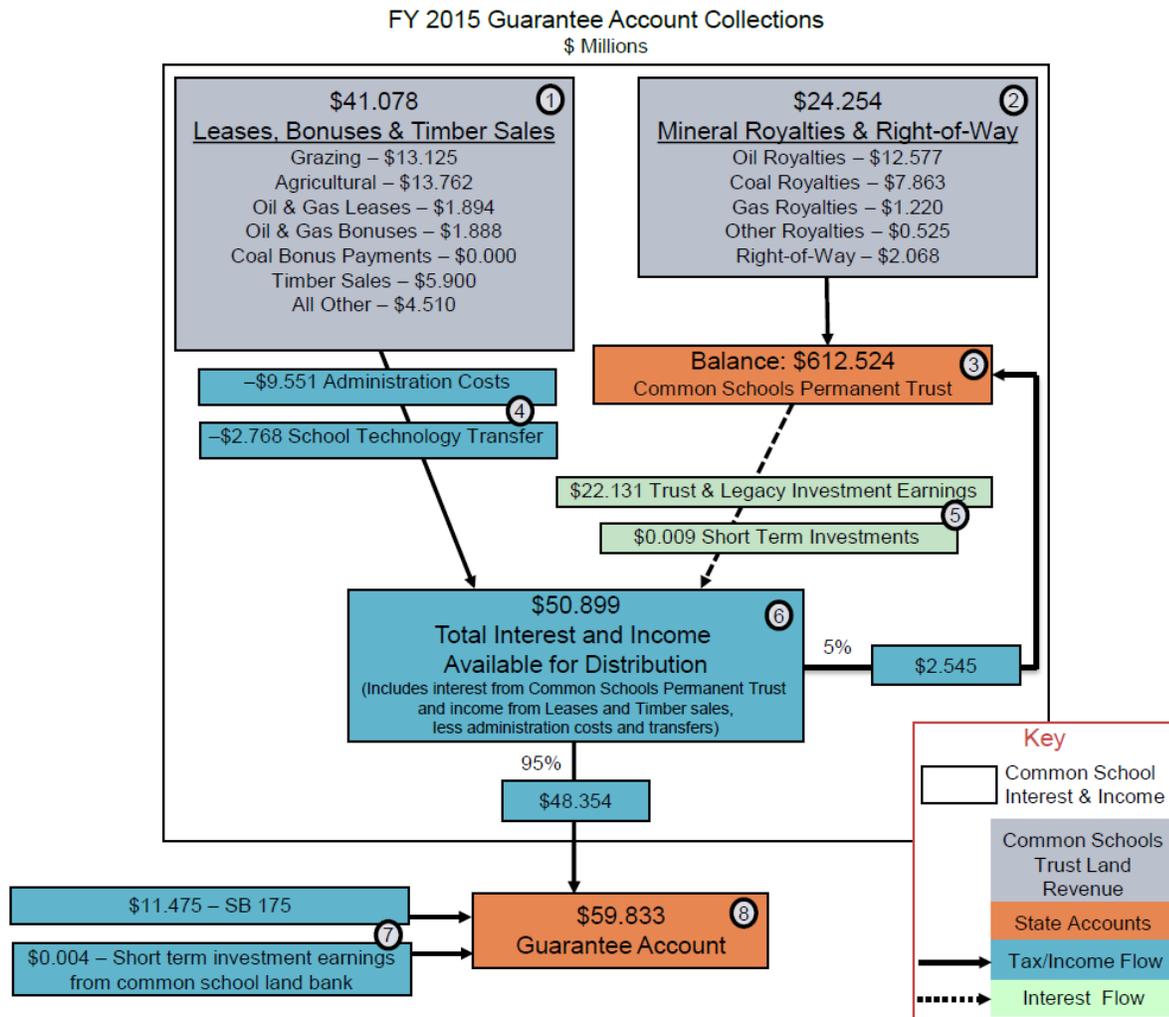
1. how district general fund minimum and maximum limits are established based on statutory components of the funding formula (the two gray columns to the left, BASE and Max); and
2. how adopted district general fund budgets are funded using a varying blend of state, local, and nonlevy revenues (the multicolor column to the right, Adopted)



OPI school finance staff then [presented more details](#) on how district general fund budgets are established, and commissioners completed a hands-on budgeting exercise in which they built a district general fund budget by inputting data into a budgeting spreadsheet. Members were also familiarized with OPI’s [GEMS Data Warehouse](#) (Growth & Enhancement of Montana Students) and a [GIS map of schools and school districts](#) developed by the Montana State Library. Mike Griffith, a school finance analyst with the [Education Commission of the States](#) (ECS) introduced himself to commissioners and described the assistance he and ECS could provide (presentations by Mr. Griffith and responses to information requests provided by ECS will be noted later in the report).

The commission’s exploration of school funding continued at its second meeting in January. As noted earlier, Montana’s common school trust lands generate revenue for schools. This revenue comes from grazing fees, timber sales, oil leases, etc. as well as through interest earnings from the roughly \$600 million common schools permanent trust. These revenues are segregated from other state income in a state special revenue account called the Guarantee Account, which is the first source of state aid to

districts. LFD staff walked through revenue flow into the Guarantee Account utilizing the diagram below, which is part of this [brochure](#).



Denise Williams, executive director of the Montana Association of School Business Officials (MASBO) explained school district fund structure. Districts establish anywhere from a handful to over 20 separate funds to account for their revenues and expenditures. This is all dependent on the individual district’s financial situation. Funds are divided into budgeted funds, which require trustees to adopt a budget, and nonbudgeted funds, which do not. Ms. Williams presented an [overview of district funds](#), then provided handouts describing the purpose, revenue sources, allowable expenditures, and other considerations for the numerous funds, again divided into [budgeted](#) and [nonbudgeted](#) funds. These

handouts proved to be valuable resources that the commission referred to frequently. Related to the commission examination of district funds was a commission look at fund reserves. Mr. Griffith of ECS presented an [overview](#) of the function of reserves and the various limits on reserves used by states, and LFD staff discussed a [handout](#) showing the statewide ending fund balances carried in the various district funds.

Rep. Kelker had previously asked about different per pupil amounts of state revenue received in district general funds based on size, and staff presented [information](#) addressing this question and using four districts as examples of how state revenue amounts can differ. This provided a good reminder of the various components that go into district general funds. While smaller districts do generally receive more state revenue per pupil than larger districts due largely to the basic entitlement, the differences are also tied to district property tax wealth (poorer districts receive more state GTB aid), the ratio of students to teachers, the number of American Indian students, etc.

Working with the Montana State Library, staff also prepared several GIS maps for the commission as a sample of how GIS mapping might help display complex financial data for Montana's 400-plus districts in a more user-friendly way. This [document](#) provides links to several maps and includes descriptions of the data used.

Finally, in response to a commission question about the role of federal funding in Montana school funding, OPI presented this [information](#) which shows that the bulk of federal education aid is from three grants:

- IDEA Part B supporting services to students with disabilities
- Title I aid to schools serving large numbers of students living in poverty
- School Foods grants from the US Department of Agriculture

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## Recruitment and Retention

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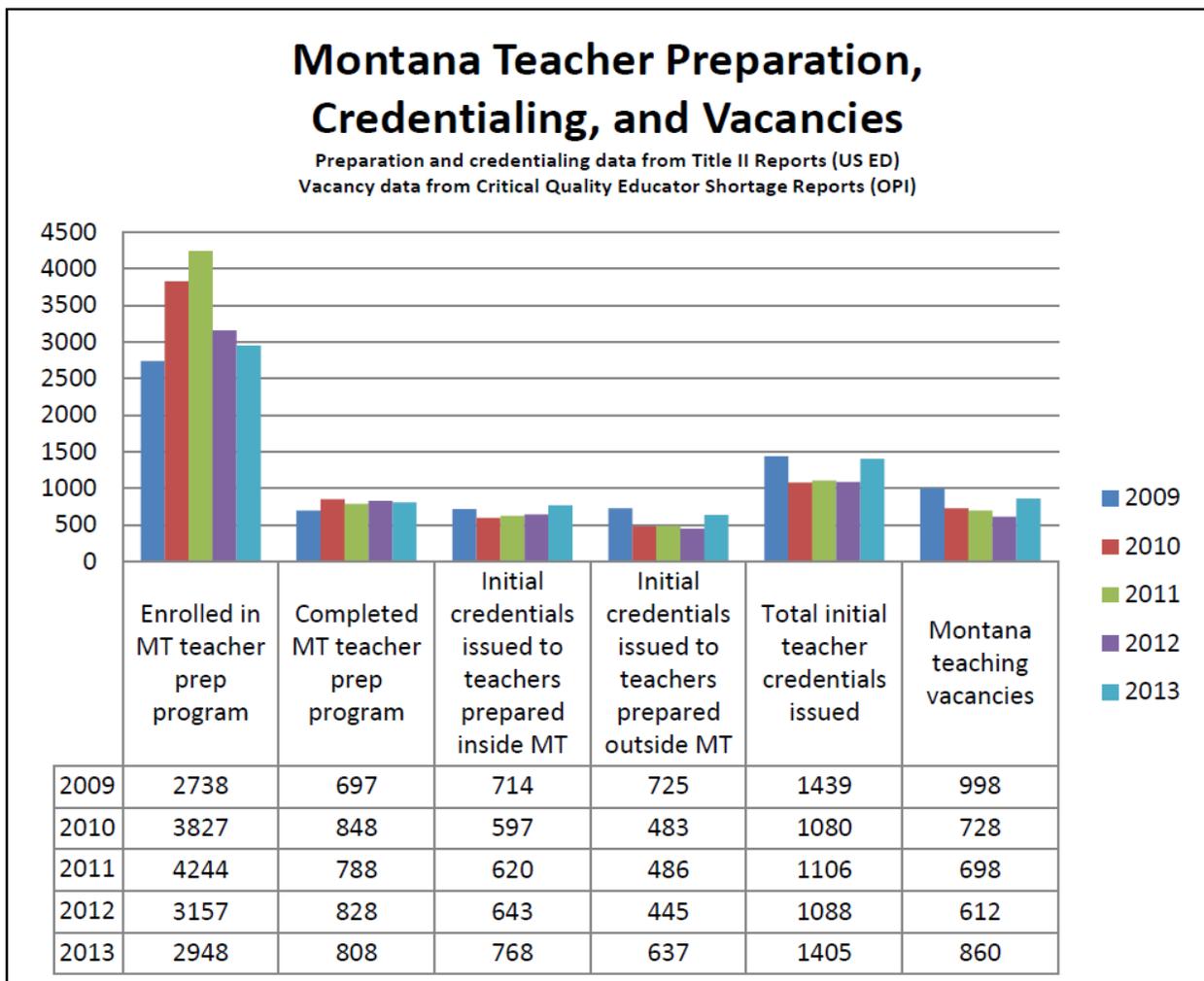
During the 2015-2016 interim, headlines across the nation trumpeted teacher shortages and the difficulty many districts were having hiring qualified teachers and other staff. In Montana, much of the attention focused on the region encompassing the Bakken oil play, where the recent boom meant rapidly growing enrollments in some schools, increasing the difficulty of districts to appropriately staff their schools. High-paying jobs in the oil industry have meant that potential school employees have been attracted elsewhere; several news articles focused on the difficulty districts have faced finding bus drivers when driving a truck might pay 4-5 times the hourly wage districts offer. Recruitment and retention of qualified teachers, administrators, and other staff was a high priority of education stakeholders and the commission.

To build a foundational understanding of this topic, the commission:

1. Requested information from ECS on how other states are addressing recruitment and retention concerns. The [response](#) pointed to declining enrollments in teacher prep programs in recent years and speculated on the reasons fewer people are pursuing a career in education. ([Montana data](#) compiled by staff show fluctuations in the number of enrollees in teacher prep programs, but steady completions and a surplus of initially credentialed teachers when compared to teaching vacancies; see graph below.) The ECS response acknowledges that certain schools (e.g. high-poverty; rural) and certain subject areas (e.g. special education; science) are persistently more difficult to staff and concludes with a number of links to state efforts to address recruitment and retention ranging from the appointment of task forces to loan assistance programs to tapping retirees and foreign countries for teachers.
2. Reviewed the [2005 QSIC Study on Teacher Recruitment and Salaries](#). As part of its examination of the educational needs and costs related to the basic system of public education in Montana, QSIC contracted with two MSU professors for an economic analysis of teacher recruitment in relation to compensation. The report found that nonsalary factors (such as enrollment trends and district isolation) play a large role in recruitment and retention difficulties and that smaller, isolated districts face greater difficulty. The report did look at Montana's rank among the states for average and starting teacher salaries in 2005 and staff updated these

rankings; while Montana’s ranking for average salaries has risen from 45<sup>th</sup> to 28<sup>th</sup>, starting salaries have remained the lowest in the country.

- Received a [presentation](#) from Dr. Richard Ingersoll with the University of Pennsylvania on school staffing difficulties across the nation. Dr. Ingersoll pointed to the “reserve pool” (degreed teachers not currently teaching) as a potentially large source of teacher hires. He also discussed the extent and costs (financial and student achievement) of turnover in the teaching force and presented research indicating that job dissatisfaction is a leading driver of teachers leaving the profession. He concluded with the recommendation that induction programs for beginning teachers are a good approach to “plugging the leaky bucket.”



The commission examined the variety of induction efforts currently underway in Montana. The Montana Standards of Accreditation in [ARM 10.55.701](#) require trustees to establish induction and mentoring programs for licensed staff. OPI informed the commission of its [partnership with the New Teacher Center](#) to support district induction programs for new teachers. Kirk Miller, executive director of School Administrators of Montana (SAM), highlighted efforts of the [SAM Leaders Professional Learning Program](#) to provide effective and quality induction/mentorship for new school administrators. The importance of effective school leaders has been highlighted by efforts such as [NCSL's School Leadership Initiative](#).

In an effort to bolster teacher recruitment and retention in Montana, several education advocacy groups and the colleges of education at both UM and MSU have established [RISE4MONTANA](#) (Recruiting Incredible School Educators for Montana). Partners in this effort presented to the commission.

The commission also reviewed the standard licensure requirements for candidates who complete an educator preparation program out of state and for candidates seeking provisional (alternative) licensure who have not completed a preparation program. This [handout](#) prepared by OPI allowed a quick review of current requirements. Commissioners also requested a review of SB 331 regarding emergency authorizations. Staff prepared a [memo](#) that describes the bill and testimony heard in the Senate Education and Cultural Resources Committee, a chart listing the emergency authorizations granted in the last decade, and a handout that the Montana School Boards Association has disseminated to districts detailing the existing options available to them when they struggle to fill positions. While reciprocity of licenses between states and streamlining alternative paths to licensure were discussed by the commission, no action was taken to pursue these possibilities.

### **Loan Assistance and Measuring "Rurality"**

The Quality Educator Loan Assistance Program, created by the Legislature during the special session of May 2007 as a policy lever to address recruitment and retention issues, was reviewed by the

commission, and an informal work group was created that focused on this program as part of a look at creating a new definition of “isolated school” for Montana.

Staff prepared a [brief](#) on the program noting that the program allows state funding to pay back up to \$3,000/year in student loans for up to four years for a teacher employed in an “impacted school” and subject area meeting criteria for a “critical quality educator shortage.” Schools are currently labeled as “impacted” based on three criteria:

1. Rural isolation (based on the locale codes used by the National Center for Education Statistics);
2. Economic disadvantage (measured by percentage of students participating in the free and reduced meals program); and
3. Low student achievement (based on the number of years a school has been in improvement status under the federal No Child Left Behind Act).

An explanation of this methodology and the current list of impacted schools are found in OPI’s annual [Critical Quality Educator Shortages report](#). The combination of the above criteria made some rural schools ineligible for the loan assistance program while a number of urban schools are eligible. Commissioners questioned how well targeted the program is in meeting current recruitment and retention needs in rural Montana and whether a loan assistance program was a powerful enough strategy to solve recruitment problems in rural Montana.

A staff report on [Measuring Rurality and School Isolation](#) went into more detail on the locale codes currently used to measure rural isolation, and commissioners determined that federal classifications for rurality/isolation are not a good match for Montana. The work group mentioned above was formed after discussing this report and brought recommendations for statutory changes to the program back to the commission which were incorporated into LC QELP (see below).

Late in the interim, members of the work group became aware of new [Colorado legislation](#) aimed at addressing recruitment and retention problems in rural areas through tuition waivers for prospective teachers who student teach in rural areas and “teacher cadet” programs in rural high schools. The idea is that teachers who are either from rural areas or who experience rural schools during student teaching are more likely to eventually teach and stay in rural areas. While this program was intriguing

to work group members, they felt it was too late in the process to propose something similar to the full commission.

### Commission Findings on Recruitment and Retention

1. Schools across Montana struggle with recruitment and retention in specific content areas, particularly special education, math, and career/technical education.
2. Schools that are geographically isolated from population centers, as well as reservation schools, the School for the Deaf and Blind, and Department of Corrections schools often struggle with recruitment and retention regardless of content area. Special education cooperatives, that by definition serve smaller schools, have difficulty attracting specialized related service personnel like speech/language pathologists, physical and occupational therapists, and school psychologists.
3. The Quality Educator Loan Assistance Program needs revision, better targeting, reliable funding, and increased awareness if it is to be an effective tool for helping with recruitment and retention difficulties.
4. Salary is only one factor contributing to recruitment and retention difficulty.
5. Induction and mentorship programs for new teachers and administrators show great promise in addressing retention problems.
6. In addition to encouraging future educators to pursue the profession, efforts should be made to tap the “reserve pool” of degreed teachers not currently teaching.

### Commission Recommendations on Recruitment and Retention

1. [LC QELP](#)—bill draft to revise Quality Educator Loan Assistance Program
2. OPI, the Board of Public Education, the Montana University System (MUS), and the education community should continue coordination to ensure quality induction programs for teachers and administrators and update the Legislature on these efforts and outcomes.
3. Teacher preparation programs should encourage rural preservice experience.
4. The MUS should examine offering/expanding affordable teacher preparation programs in locations that benefit recruitment in rural Montana as well as through online programs in order to reach potential teaching candidates more likely to teach in rural schools.

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## School Facilities

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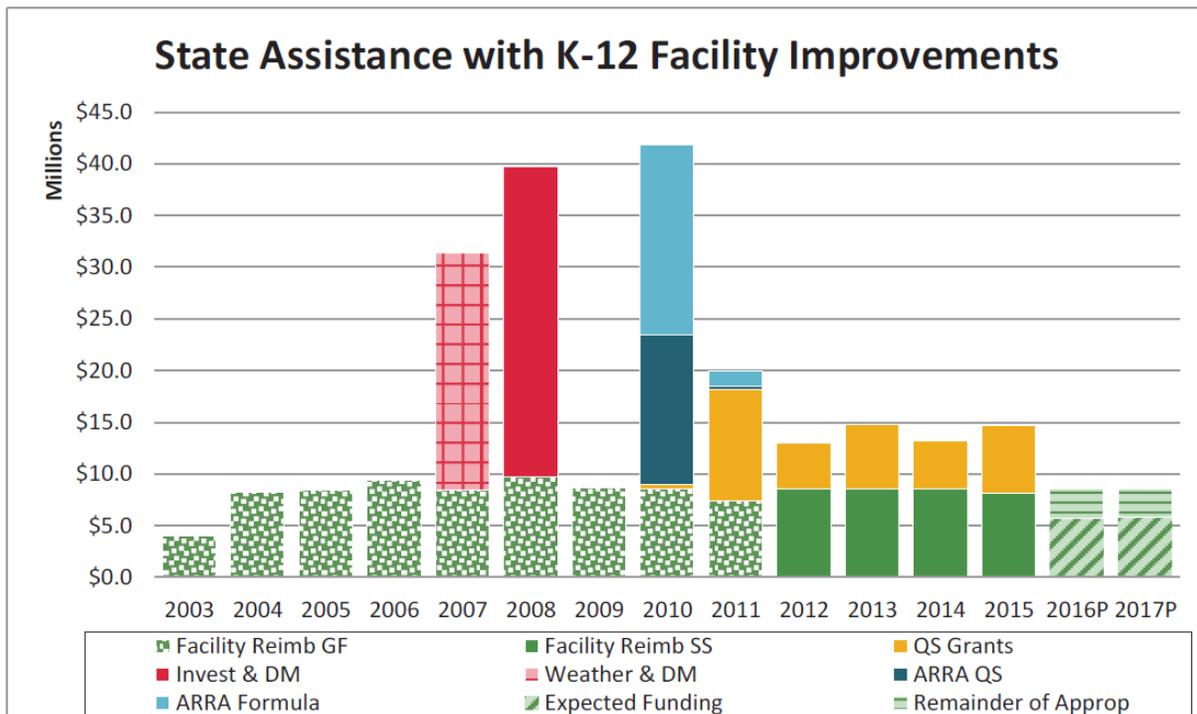
Current state mechanisms for assisting districts with school facilities have received a lot of attention as part of the larger discussion of infrastructure investment around the state. The Quality Schools Facility Grant Program was not funded by the 2015 Legislature, and the commission was informed at its May meeting that low revenue for the state school facility and technology account will result in payments to schools under the facility reimbursement program (aka debt service GTB) being prorated at 39%, the largest reduction of reimbursements in program history. In February 2016, a [five-part series on Montana school facilities](#) appeared in newspapers around the state. Funding for school facilities was another high priority topic for the commission.

The commission began its exploration of this topic by building a broad understanding of the current situation and history:

1. Once again, the commission tapped the expertise of Mike Griffith and ECS. Mr. Griffith provided a brief [presentation](#) at the January 2016 meeting outlining how school facilities funding is addressed by other states. State support runs the gamut from none to full funding (and control), with most states, including Montana, somewhere in the middle. He suggested that predictability, equity, prioritization, and flexibility were policy considerations to weigh in designing or revising a program. Mr. Griffith concluded by providing an overview of school facilities funding in several states.
2. Montana's current programs for providing state support—the Quality Schools Facility Grant Program (QSFGP) and Facility Reimbursement Program—were reviewed:
  - a) Kelly Lynch with the Department of Commerce provided an overview of the grant program, which has provided about \$33.6 million in grants for school improvement projects to over 75 districts since its inception in 2009. Project grants have ranged from lighting and outlet replacements costing less than \$10,000 to major school renovations costing \$2 million. The commission received quite a bit of stakeholder input on the Quality Schools Facility Grant Program, which is summarized in this [memo](#).
  - b) Staff walked commissioners through the fairly complicated Facility Reimbursement Program, which provides bond repayment assistance on a sliding scale to districts

with lower property wealth per ANB. This [memo](#) provides an overview of the program, statutory references, and an annotated *preliminary* payment sheet for 2016 (note that the payments on this sheet were calculated based on unrealized revenue estimates in the School Facility and Technology Account and show a prorate of about 86%; as noted above the actual prorate ended up being 39%). OPI distributed a [summary](#) of the program that shows among other things that the program was fully funded—meaning no prorate reduction—for eight years between 2000 and 2010 and that the state share of annual debt service payments through this program has fallen from a high of about 26% in 2006 to 14% in 2015 (the prorate reduction in 2016—yielding \$4 million in state support— will put this percentage closer to 7%; full funding—requiring about \$10 million—would have brought this percentage closer to 17%).

3. Ms. Williams of MASBO presented on the various [mechanisms](#) available to districts to support funding for capital improvements, including bonding, building reserve levies, loans through the INTERCAP program, Impact Aid funding, oil and natural gas proceeds, and others.
4. In terms of previous efforts, LFD staff produced the bar graph below showing the various ways the state has supported facility improvements since 2003 as part of a larger [memo](#) that included a table providing more description (see final 3 pages of memo).



As part of its historical review, the commission looked at the work QSIC did on school facilities in 2005. A very brief overview of this work and link to the final report is included in this [memo](#), which also includes information on Wyoming’s model for funding school facilities (which can be summed up as state-funded/state-controlled and currently jeopardized by rapidly declining coal production and state revenues), the MUS Long-Range Building Program, and the school facility requirements contained in Montana’s accreditation standards.

Two recommendations of the QSIC facilities report that have been acted on are: (1) the creation of a grant program (QSFGP discussed above); and (2) a statewide inventory of school facilities. As part of the school funding “fix” enacted during the December 2005 special session, \$2.5 million was appropriated to the Department of Administration for a facility condition inventory that was conducted in 2008. This [brief](#) provides an overview; the final report and inspection reports can be found on the [project website](#). Over 2,000 buildings were inspected by architectural consultants and engineers who estimated a \$360 million cost to address deficiencies in existing buildings. The report recommended that districts use and update the inventory as part of developing a long-range capital improvement program.

The commission asked about trends related to district bond elections, amounts, and passage rates. Bridget Ekstrom with D.A. Davidson prepared this [chart](#) showing information from the last decade and discussed with commissioners. The chart shows generally high passage rates, but some declines in the last two years.

Staff from the Board of Investments presented an [overview](#) and [loan history](#) of the INTERCAP loan program, which allows districts to borrow limited amounts of money for specific purposes at low interest rates. Chairman Facey identified several tweaks for this program aimed at increasing its utility for school districts; these are incorporated in LC ICAP.

The commission requested staff prepare a [working paper](#) outlining some of the facility funding options discussed at the January meeting. The options presented in this paper were incorporated to varying degrees in LC GRT1 and LC GRT2, two alternative approaches for revising state support for school facilities. As the concepts for these drafts were developing, staff prepared these [schematics](#) to illustrate revenue flow. The commission also requested an [overview of Senate Bill 354](#) as a reminder of the mechanism it proposed to address infrastructure needs, including those of schools.

In late March 2016, a large nationwide report was released titled [State of Our Schools: America's K-12 Facilities](#) that served to intensify the spotlight on school facilities. While the commission did not spend meeting time reviewing this report, it contributed to the commission's identification of three fairly distinct "tiers" of facility needs (see finding No. 1 below).

### Commission Findings on School Facilities

1. The commission identified three "tiers" related to facility needs:
  - a. Tier 1—Operations and regular maintenance (O&M) – basically the normal costs of heating, cleaning, and running a building (the state and district share a large portion of these costs via the district general fund);
  - b. Tier 2—Major maintenance – those larger, periodic investments, like replacing a roof or boiler, resurfacing floors, fixing or replacing windows (this was an area of funding concern due to unpredictable state support of the QSFDP and lack of district

- commitment evidenced by just over a quarter of districts utilizing building reserve funds); and
- c. Tier 3—New construction including additions and major renovations (district bond levies are the main funding vehicle for this and state support of poorer districts through the facility reimbursement program has eroded over the last decade).
2. State support for the Quality Schools Facility Grant Program has been inconsistent.
  3. The current revenue stream for facility reimbursements (debt service GTB) has decreased and has led to reduced reimbursement levels.
  4. Local effort in building and maintaining district facilities helps ensure prudent planning and ongoing maintenance.
  5. District capital improvement planning is more effective when:
    - a. districts are provided greater budgetary flexibility;
    - b. state support for school facilities is consistent;
    - c. state programs are flexible in meeting the varied needs of districts; and
    - d. districts have a long-term facilities plan based on an updated facility condition inventory.

### Commission Recommendations on School Facilities

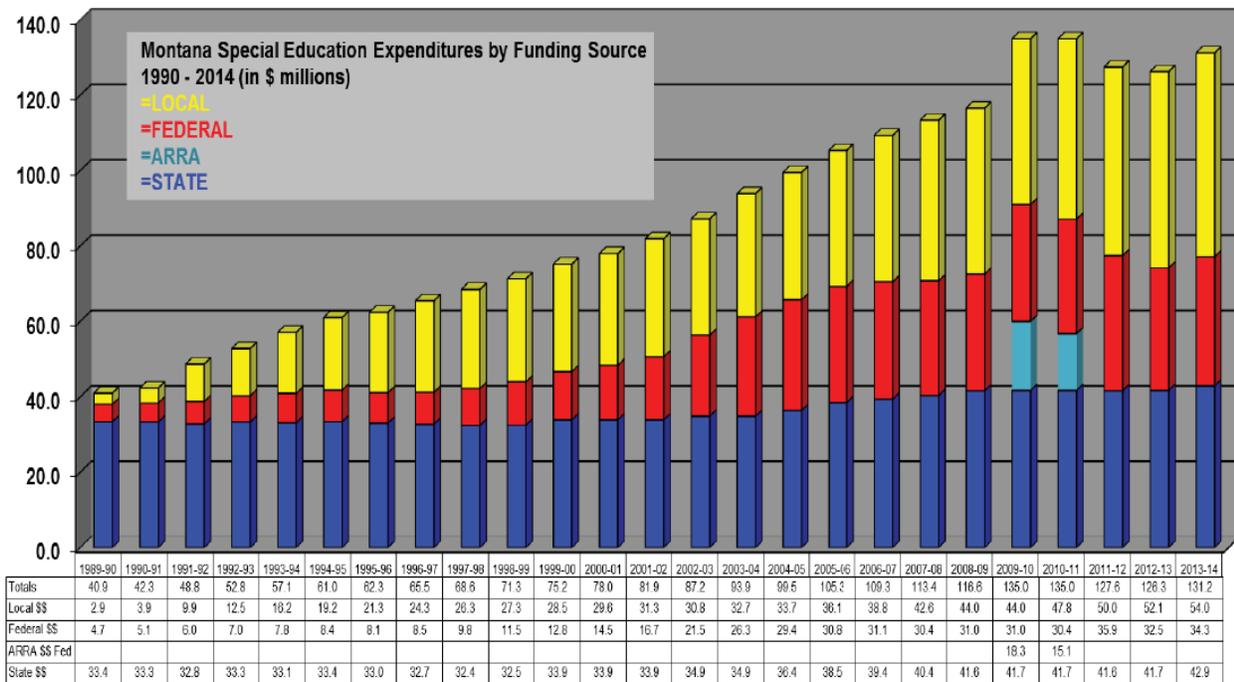
1. [LC ICAP](#)—minor changes to INTERCAP loan program to increase utility/flexibility
2. [LC EFBT](#)—to provide transferability of district general fund ending balance to building reserve
3. [LC GRT1](#)<sup>1</sup>—replacing QSFGP with a formula facility grant program requiring updated facility inventory and plan and local effort; revising revenue streams
4. [LCGRT2](#)—revising QSFGP to require updated facility inventory and plan and local match; revising revenue streams
5. State policy needs to encourage local effort and long-range planning in managing and maintaining school district facilities.

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<sup>1</sup> LCs GRT1 and GRT2 both aim to address commission findings related to consistency of state support for tiers 2 & 3, but do so in different ways. While only one could workably be enacted, the commission felt both were worthy of consideration by the 2017 Legislature.

## Special Education and Special Needs

As mentioned before, previous studies recommended phasing in increased state funding for special education and enhancing support for programs serving gifted and talented students. Additionally, Judge Sherlock identified special education funding as an area of continued concern in his 2008 decision. At the commission’s first meeting, education stakeholders identified the “quick fix” of including the special education allowable cost payment in the district general fund components receiving inflationary adjustments as a way of addressing some concerns about the adequacy of special education funding. Stakeholders pointed out that the state payment for special education has not increased relative to the costs of providing special education, which can result in competition in district general funds between special and regular education programs (see [graphic](#) below).



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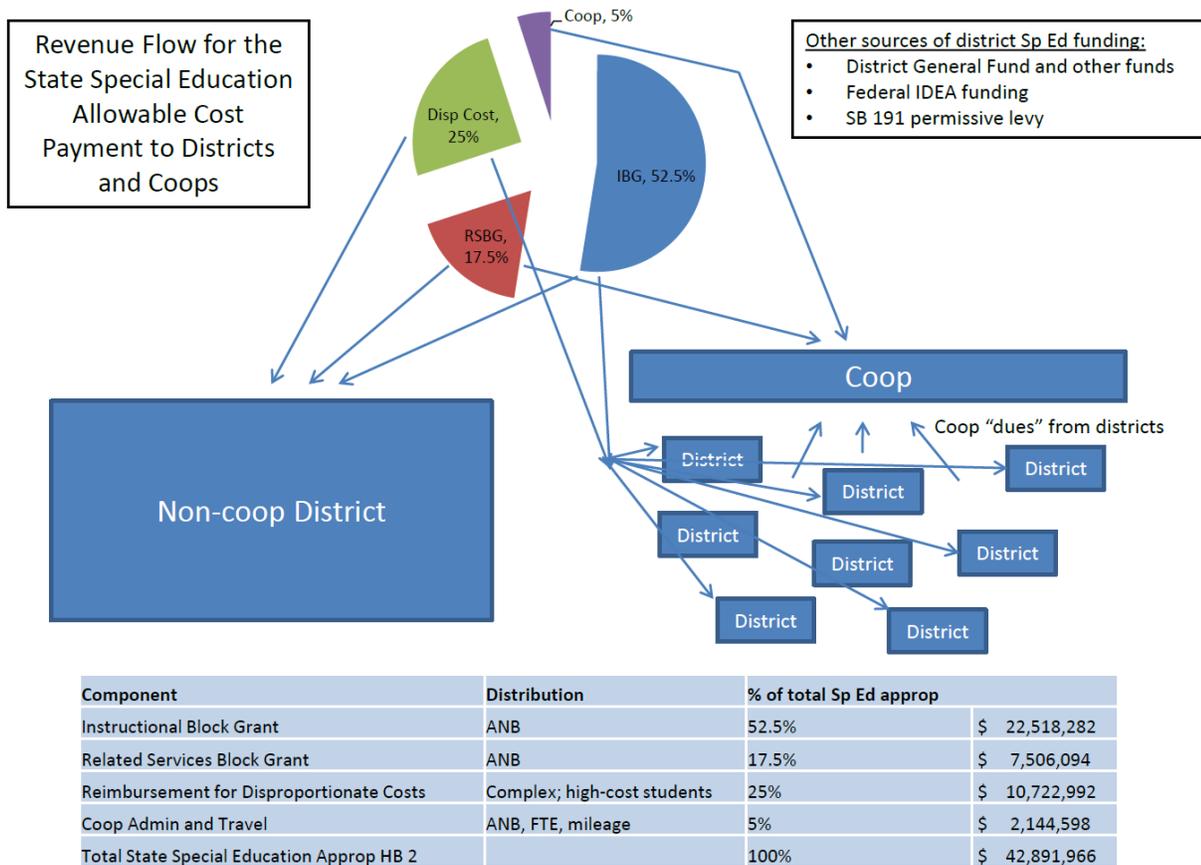
From OPI data

The commission also heard extensive public testimony in September on the issue of state funding being cut off for special education students at age 19 and on funding for gifted and talented programs. While initially the commission included special education (meaning educational programs to serve

students with disabilities) as one of its four main priorities, the topic was gradually broadened to include special needs, largely to include programs serving gifted and talented students.

### **Special Education Funding Generally**

Special education funding in Montana is not based upon individual students being identified as disabled. Rather the amount appropriated by the state is based on the assumption that about 10% of the public school population will be identified as having disabilities. Based on their ANB, school districts receive two types of block grants, an Instructional Block Grant and a Related Services Block Grant. Smaller districts that belong to cooperatives turn over their block grants to the cooperatives that provide special education services. Local districts, however hire their special education teachers. Depending on the mix of special education students they have, districts may receive additional funding to reimburse them for providing specialized services for complex, high-cost students and cooperatives receive additional funding for staff travel and coop administration. The OPI prepared this [handout](#) on the basics of special education funding with the commission in January, and staff prepared the [diagram](#) below as a visual aid to show how the state payment flow varies depending on whether a district belongs to a special education cooperative or not (\$ amounts are FY 2015).



Districts are required to make a \$1 match for every \$3 they receive from the state for special education. Most districts are spending well beyond this match requirement amount. Statewide, districts are paying 41.3% of actual special education costs. While there was agreement from commissioners about increasing the state special education payment, there was not consensus about adding the special education payment to the list of district general fund components subject to statutory inflationary increases under [20-9-326, MCA](#). For those opposed, the rationale was less about excluding special education from inflationary increases, but more a discomfort with automatic increases generally. This is why the bill drafts LC SE01 and LC SE02 prepared for the commission’s consideration, while increasing the special education payment by the equivalent of inflation for each year of the 2019 biennium, do not add the payment to those receiving the ongoing statutory inflationary increase.

## Funding for Older Special Education Students

Another special education issue that the commission explored but ultimately did not reach consensus on pursuing was the question of extending state ANB funding to older special education students. Under Montana law, if a pupil turns 19 years old prior to September 10 of a school year, that student may not be included in a district's ANB count; this cuts off state funding for that student through the per-ANB entitlement and other ANB-driven funding components (Indian Ed for All, Data for Achievement, etc.). Rep. Christopher Pope (D-Bozeman) proposed changing this during the 2015 session in [House Bill 451](#)—which died.

Staff prepared this [brief on HB 451](#), and the commission reviewed and discussed this issue at its April meeting. HB 451 would not have required districts to provide services to older special education students; it would have allowed those districts that did provide services to count those students for ANB through age 21. Districts that currently offer programs for older students with Individualized Education Programs (IEPs) do so at their discretion and without state financial support.

According to data from the Office of Special Education Programs at US ED, Montana is the only state that does not ensure a “free and appropriate education” for students with disabilities through the age of 19, with nearly all other states doing so through age 20 or 21. Parents of students with disabilities testified that their children require more time to develop and that investing in these students earlier would pay off in the long run with an increase in self-sufficiency and a decreased need for other forms of public assistance later in life.

One of the questions raised both during the 2015 session discussion of HB 451 and during the commission's work was how many additional students this policy change would likely involve and what the total cost to the state might be. The fiscal note prepared for HB 451 estimated a total cost to the state general fund of about \$340,000 for the 2017 biennium, although the accuracy of this estimate was questioned during floor and committee debate. LFD staff produced an updated [fiscal analysis](#) for the commission, providing two scenarios: one using the number of 19, 20, and 21 year olds being served in 2016—36; and one using the number served in 2009—112. (The data in the analysis show that the number of older students receiving special education services has steadily declined and that the vast majority of these students have been 19 years old with only a handful receiving services at

age 21.) These two scenarios resulted in 2019 biennium state cost estimates of \$283,000 and \$879,000 respectively.

It is worth pointing out two realities in relation to the fiscal impacts of a proposal like HB 451. First, it is impossible to know how many more districts might choose to provide special education services to additional students if these students were eligible for state ANB funding. Second, eligibility for ANB funding would mean an increase of perhaps \$4,000 to \$6,000 in state revenue per additional student, depending on the district; any cost above that amount in providing services to these students would be borne largely by the district. Because this cohort would likely include the most severely disabled students, these costs could be substantial and a significant financial disincentive for districts providing services to these students may remain.

While some commissioners felt strongly that a proposal along the lines of HB 451 was necessary in meeting Montana's constitutional goal of an educational system that develops the full educational potential of each person, others questioned the costs and whether it was the responsibility of the K-12 education system to teach basic life skills. Special education state and federal law that has been in place since 1975 requires that special education students with severe disabilities receive education tailored to their needs, which means that they receive life skills instruction from the time they are identified as having disabilities until they graduate from high school. Because the costs of providing services for this student population usually exceed the state funding and the proposed program is voluntary, it is unlikely that the number of districts providing this opportunity will increase dramatically. Following discussion at the June meeting, the issue was not pursued further by the commission.

### **Special Education Cooperatives**

Montana has 21 special education cooperatives, which are composed of about 80% of Montana school districts and serve 36% of students with disabilities. The cooperatives are established to allow small, rural districts to share the costs of providing a Free Appropriate Public Education (FAPE) to students with disabilities. For example, a small district may require speech therapy for a student for several years, and then in subsequent years need weekly visits from a school psychologist for a

different student. While a large district might have full-time specialists who move between schools within the district as needed, cooperatives employ itinerant specialists who travel sometimes great distances between districts to meet these needs. This is why cooperatives receive the 5% allocation of the special education payment for administration and travel and why it is distributed in part on mileage. This [map](#) shows the geographic boundaries of Montana's cooperatives and this [handout](#) lists member and nonmember districts within each cooperative.

Because the state special education payment has been fairly flat for a number of years, the revenue available to cooperatives has not increased. Representatives from several cooperatives testified about the financial predicament this has left them in and the need for increased state funding.

At the April meeting, members of a task force on funding for special education cooperatives convened by Superintendent of Public Instruction Denise Juneau presented a proposal to the commission for addressing special education funding generally and cooperative funding specifically. They proposed the following:

1. Including the special education payment with other general fund components that receive inflationary adjustments; and
2. Increasing the special education payment by an additional \$2 million in each year of the 2019 biennium and adjusting the percentages of the special education allocation so that this additional \$2 million is channeled to cooperatives.

As stated earlier, the commission was not in agreement about adding the special education payment to the list of funding components receiving automatic inflationary adjustments, but at the May meeting the commission requested [three bill drafts](#) for consideration, all of which increase the special education payment in different ways and to different degrees:

- LC SE01 -- Increases special education payment by inflation (about \$2 million for 2019 biennium; helps districts and coops)
- LC SE02 -- Increases special education payment by inflation + \$2 million annually for coops through appropriation and changes in distribution % (about \$6 million for 2019 biennium; helps districts and coops, but coops more)

- LC SE03 -- Increases special education payment by \$2 million annually for coops through appropriation and changes in distribution % (about \$4 million for 2019 biennium; helps coops; district funding amounts relatively unchanged)

The commission was provided with more in-depth [fiscal analysis](#) of the three drafts at the June meeting, including the approximate impacts of each proposal on school districts around the state. After discussion at the final meeting in August, the commission decided to advance all three drafts for consideration by the 2017 Legislature.

### Gifted and Talented

Advocates for programs serving gifted and talented students testified at each of the commission's meetings, emphasizing the importance of serving this group and the lack of state financial support and the resulting lack of consistent, quality programming across the state. They pointed to the constitutional goal of developing the full educational potential of each student, reminding commissioners that this applied to students at all points on the ability continuum, and that not meeting this goal for gifted and talented students was a loss not only to the potential of these students, but to the potential of the state and nation in terms of scientific discovery, technological innovation, and economic development.

Staff compiled [statutory and administrative rule sections](#) related to gifted and talented education for commission reference, and Michael Hall with OPI provided [information](#) on the current grant program for gifted and talented programs. Under the accreditation standards, districts are required to provide educational services to gifted and talented students. Apart from the 2009 biennium when \$1,250,000 was appropriated annually for the grant program, the annual appropriation has been \$250,000 for the past decade. Districts apply for a noncompetitive grant that requires a local match and is allocated based on district enrollment. The commission heard testimony to the effect that these grant amounts end up being so small, many districts, especially small districts, do not even apply. That only 69 districts are grantees in the 2017 biennium would appear to support this assertion.

Based on testimony received from advocates and the OPI, commissioners questioned how to ensure the greatest impact from any increased funding—would providing money to districts to conduct

programs at their discretion be best, or should the focus be on funding that ensures all teachers are trained in identifying and serving these high-ability students?

As requested by the commission for the May meeting, staff prepared a [memo](#) with possibilities and considerations for increasing funding for gifted and talented programs. Rep. Kelker requested the commission's permission to work on a bill draft creating a new funding component for gifted and talented. A draft, [LC GFTD](#), was prepared for the June meeting, but not discussed at length. At the final meeting in August, the commission discussed this draft, but ultimately reached agreement on advancing a proposal to simply increase the existing \$250,000 annual appropriation for the grant program by \$1,250,000 each year of the 2019 biennium.

### Further Study of Special Needs Costs

Also discussed at the May meeting was the need for a more in-depth investigation of the programmatic needs and costs in serving all students with special needs, which under Montana's current statute at 20-9-309, MCA, includes:

- students with disabilities and those qualifying for 504 plans<sup>2</sup>;
- at-risk students;
- English language learners; and
- gifted and talented students.

Staff was instructed to work with Reps. Kelker and Lamm in preparing a study resolution, LC SNSY, to examine how the state might improve its funding structure for programs serving these groups of students.

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<sup>2</sup> 504 plans are generally for those students who have a disability but do not need specialized instruction and an individualized instruction program (IEP) but rather require some degree of accommodation to ensure equal access to educational services. Section 504 has a broader definition of disability than IDEA.

### Commission Findings on Special Education and Special Needs

1. Special education cooperatives are struggling to cover costs in providing basic services and state support has been flat.
2. Flat state support for special education has led to greater local share of special education expenditures.
3. Needs and costs for special education are increasing and changing.
4. Gifted and talented programs are locally determined by school districts.
5. Gifted and talented education has not been an educational priority (ex. lack of teacher training, inconsistent or no identification of students, variability of programs if they exist at all).

### Commission Recommendations on Special Education and Special Needs

1. [LCs SE01, SE02, and SE03](#)—options for increasing the state special education payment
2. LC TBD—increase the appropriation for grants for gifted and talented programs by \$1.25 million in each year of the 2019 biennium
3. [LC SNSY](#)—requesting study of costs of special needs and exploration of different special needs funding mechanisms
4. OPI, BPE, and teacher preparation programs should ensure that prospective and practicing teachers are able to identify and serve gifted and talented students

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## District Size, Structure, and Equity

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This is the topic that morphed the most over the course of the commission's work. Respondents to the statewide survey ranked "equitable distribution of the state share" as the third highest priority behind recruitment and retention and adequacy of the state share. At the initial meeting in September 2015, commissioners discussed their priorities and several mentioned a desire to look at district structure and boundaries, with a focus on efficiencies, voluntary consolidation, impacts on taxation and transportation.

In advance of the January meeting, staff prepared briefs on:

- [District Structure and Reorganization](#), which explained the statutory mechanisms of annexation, consolidation, and attachment as well as current financial incentives for consolidation and additional funding for remote schools; and
- the [Decrement](#), which is the funding mechanism that decreases a district's per-ANB entitlement amount up to a "stop-loss point."

Staff also queried ECS about school district consolidation and disseminated this [response](#).

At the January meeting, Mr. Griffith [presented](#) on issues related to consolidation and shared that consolidation is often a very contentious topic, especially when it is mandated. He also stated that states see mixed results in terms of cost savings and student achievement due to consolidation and that Montana's current structure, which includes elementary, high school, and K-12 districts, complicates matters; most states have over time moved to unified K-12 districts. Commissioners asked Mr. Griffith about any research related to student achievement and long bus rides. Mr. Griffith indicated that the general consensus is that students are negatively impacted when bus rides are longer than an hour.

Lance Melton and Dave Puyear, executive directors of the Montana School Boards Association and Montana Rural Education Association respectively, discussed current cooperative efforts between districts. Mr. Melton distributed this [history of statutory changes](#) that have enabled districts to collaborate more effectively, and Mr. Puyear highlighted [Montana Cooperative Services](#), a clearinghouse for the purchase of school supplies that leverages volume purchasing for lower prices.

The OPI also presented on the [Regional Education Service Areas](#) (RESAs) operating in Montana and the services and support they provide to districts in terms of professional development, collaboration, collective purchasing, and shared human resources.

Also, at the January meeting, Mary Craigle with the Census and Economic Information Center in the Department of Commerce [presented](#) on population trends impacting schools in Montana. Projections predict an 11% increase in the number of Montanans under age 18 in the next 10 years, but increases will likely be concentrated in counties with larger population centers with a continued decline in most rural areas.

The January meeting was three solid days and the commission took in much information and engaged stakeholders during three separate breakout sessions. After these sessions and discussion, the commission decided to set aside further exploration of district boundary changes or consolidation and instead focus its attention on tax equity issues between districts. The thinking was that these tax issues might create financial disincentives to consolidation or annexation, as well as impact the equitable distribution of state funding to districts. The exploration included examination of the role of nonlevy revenues and means by which BASE mills might be further equalized through the formula. This pivot reflected the work and recommendations of previous study efforts referenced earlier, and the topic was eventually reframed as “District Size, Structure, and Equity.”

In advance of the April meeting, staff provided commissioners with information on:

- [guaranteed tax base mechanisms](#) in Montana school funding, which are the principal means by which differences in revenue generating capacity are equalized. Without these subsidizing mechanisms, “poorer” districts with lower property tax values per ANB would need to levy even more mills.
- [the role of nonlevy revenues](#) in district general fund budgets. While nonlevy revenues provide 6-7% of total general fund revenues statewide, it is their distribution and especially the concentration of natural-resource-derived nonlevy revenues in a relatively small number of districts that adds to their “disequalizing” impact on BASE mills. The various school block grants also confound equalization as their distribution is based on district revenues in the late 1990s and have not been adjusted for demographic changes.

## Primary Sources of Nonlevy Revenues in District General Funds FY 2015

Nonlevy revenue source	# of districts	Low	High	Total (millions)
Interest earnings	374	\$3	\$100,000	\$0.8
Coal gross proceeds	9	\$22,000	\$860,000	\$2.3
O&G production taxes	103	\$1	\$1,800,000	\$12.5
HB 124 GF block grants	411	\$27	\$3,800,000	\$54.4
HB 124 Combined Fund block grants	78	\$35	\$60,000	\$0.5
SB 96 GF block grants	399	\$13	\$230,000	\$3.2
SB 96 Combined Fund block grants	61	\$9	\$10,000	\$0.1
Total				\$73.8

- [options for equalizing BASE mills](#) that began with a refresher on how district general funds are established and funded, and continued with the following table showing the wide variations in the formula-driven and in essence *required* BASE mills. The paper then described several ways in which BASE mills might be equalized, beginning with a reminder that equalization generally means “winners and losers.”

Type	Low BASE Mills	High BASE Mills	Mean BASE Mills	Median BASE Mills
EL	0 (6 districts)	54.0	32.4	36.6
HS	0 (4 districts)	28.1	18.0	20.2
K-12	0 (3 districts)	79.9	47.5	51.3

After discussing the possibilities presented, the commission directed staff to prepare fiscal analyses on a few of the BASE mill equalization options for the May meeting and requested information on federal Impact Aid funding and on districts with general fund budgets in excess of the maximum.

A related issue, tuition and out-of-district attendance agreements, was also reviewed in April. Staff provided an [overview of Montana tuition laws](#) and included a [summary chart](#) from OPI. After discussion, commissioners requested more information on an unintroduced bill draft from the 2013 session that revised tuition laws in an attempt to address concerns about the costs of education being transferred onto taxpayers of a “receiving district” and increase parent and student choice. The commission discussed this [summary chart](#) of the bill at its May meeting but determined not to pursue this topic further.

To address some of the common misconceptions about Impact Aid, staff prepared a [short quiz](#) for the May meeting. With commissioners' curiosity piqued, Nicole Thuotte, school finance specialist with OPI, walked through the [payment vouchers](#) of two similarly sized districts that receive varying amounts of Impact Aid and concluded by referring to [The Basics of Impact Aid](#). Impact Aid is revenue paid to districts because the district is educating children who either reside or whose parents work on nontaxable federal land (tribal land, military bases, national forests and parks). The idea is that the school district is educating these students because of their *connection* to federal lands that provide no local tax revenue and therefore the federal government needs to provide aid making up for that unavailable revenue. Impact Aid totals about \$50 million per year in Montana and flows to about 75 school districts.

School finance staff from OPI provided a [spreadsheet](#) comparing districts' percentage of maximum general fund budgets with per pupil expenditures. Districts are required to establish general fund budgets of at least 80% of the maximum general fund budget. This minimum is referred to as the BASE (Base Amount for School Equity). While the formula does establish maximum budgets, statute allows districts to exceed this max under certain circumstances (generally related to declining enrollment) and over 100 districts adopted "overmax" budgets in 2016, most exceeding maximum by just a few percentage points, but a handful approaching 150% of maximum. OPI distributed an additional [handout](#) that shows how various legislative changes have impacted the number of districts adopting general fund budgets above the maximum.

The commission waded into the fiscal analyses of its selected options for equalizing BASE mills. Spreadsheets and maps are accessible via the [May meeting webpage](#). The three options were:

- Equalizing BASE mills statewide. This option replaced the varying local levies required to bring each district to BASE with a statewide levy of about 50 mills. A district currently levying less than 50 would see an increase and a district currently levying over 50 would see a decrease. Besides the district-based winners and losers, there are also major impacts on certain classifications of property that complicated this option.
- Eliminating the existing HB 124 General Fund Block Grants. The commission examined the disequalizing effects of these block grants. This option eliminated them and distributed that revenue by increasing GTB.

- Including nonlevy revenue in the GTB calculations. Under current law, the nonlevy revenue (block grants, oil and natural gas revenue, coal gross proceeds) available to a district to fund its BASE budget is not used to determine a district's eligibility in receiving GTB aid. Subsequently, a number of districts appear "poorer" than they arguably are and are eligible to receive a per mill GTB subsidy.

It is quite easy to get "in the weeds" and "wrapped around the axle" discussing this intersection of school funding and tax policy. Despite the effort the commission put into this area, their exploration may be better understood as a scouting mission to aid future expeditions. Discussions archived in the audio and video recordings as well as numerous spreadsheets showing the district impacts of the options explored can be found on the commission website and the commission expressed the desire that their efforts be utilized and continued.

### **Commission Findings on District Size, Structure, and Equity**

1. The continuing population decline in rural Montana will result in increasing financial problems for rural school districts.
2. A significant number of rural high school districts have "consolidated" their extra-curricular programs.
3. Geography and travel time considerations mean that Montana will likely always have a number of small, isolated, and necessary districts and schools.
4. Existing statutory framework is sufficient in allowing local control for district reorganization decisions (annexation and consolidation). While the commission is not proposing measures that would mandate consolidation of school districts, it is understood that voluntary consolidation would simplify and bring efficiencies to the funding system. The consolidation of *districts* does not imply or require the closure of *schools*.
5. Interlocal agreements, multidistrict cooperatives, and budgetary flexibility are important means of providing districts with the ability to meet their needs, create efficiencies, and share resources.
6. Technology and digital learning can be an affordable option for providing course offerings to small rural districts. Ensuring that all schools have access to broadband is one way of guaranteeing the equality of educational opportunity.

7. The Montana Digital Academy can be an effective and important tool for ensuring equality of educational opportunity to Montana's smaller districts and schools.

### **Commission Recommendations on District Size, Structure, and Equity**

1. Further study is needed to develop a definition of "isolated and necessary school" based on geography and travel time. This definition can then be used to ensure identified schools have sufficient financial capability, perhaps through additional state support or budgetary flexibility, in order to guarantee the equality of educational opportunity.
2. Technology should be leveraged for effective, efficient instruction and to support equality of educational opportunity.
3. Further study is needed to ensure that unequal tax burdens on districts do not impede equality of educational opportunity. The commission's exploration of BASE mill equalization should be used as a starting point and guide for future efforts.
4. The Legislature should ensure that the funding formula does not create financial disincentives to district annexation or consolidation.

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## K-12 Employee Health Benefits

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Originally viewed as a component of the recruitment and retention topic, the subject of school employee health benefits was eventually carved out as its own topic. A number of the respondents to the initial commission survey mentioned the cost of health insurance as a major issue in their districts:

*Health insurance and facilities are two of our district's greatest financial challenges.*

*Health insurance costs need to be addressed. We need a statewide insurance pool of all school employees to spread the risk and keep costs affordable for smaller schools.*

*I believe the Commission needs to look at allowing school districts the same power afforded cities and counties in a permissive levy for health insurance premiums.*

*K-12 SHIP and statewide health insurance were good ideas. Health insurance continues to be a major problem.*

*Examine the possibility of creating a permissive tax to cover health care costs for school districts. If this cost could be shared with the state and local tax payers, general funds could go to instruction where it should be applied.*

When the commission was polled and asked to rank topics in the “parking lot” after the first meeting, health insurance was the top priority.

Staff prepared a [memo](#) in response to an information request from Rep. Robert Mehlhoff (D-Great Falls) following the 2015 session. The memo describes the large variations in health care benefits and premium costs in the plans provided by Montana’s school districts with some larger districts self-funding plans and offering benefits similar to the state employee plan and a handful of the smallest districts offering no health benefits at all. It also shows the costs of health care benefits taking up an increasing percentage of district general fund budgets and provides some policy options and considerations.

Once again the commission utilized the 50-state knowledge that ECS provides and requested information on statewide health benefit pools. The [response](#) provides pros and cons of the different forms a statewide pool can take and then gives state examples of each. It refers to several studies finding potential cost savings through the formation of larger employee pools.

In advance of the April meeting, staff prepared a [brief on previous Montana legislative proposals to form a statewide pool](#). Of note is that of the four proposals described, three of the bill sponsors served on this commission. In order to tap into that experience, panel discussions were held at both the April and May meetings with representatives from MEA-MFT, the Montana School Boards Association, and the Montana Unified School Trust offering their perspectives. While a number of policy questions grow out of a conversation about creating statewide K-12 employee pool, two of the first questions that need to be addressed are:

1. Will this be a new, separate plan established for K12 employees or will it utilize the existing state employee plan?
2. Will districts be required to participate or will it be optional?

During discussion of this issue, commissioners acknowledged that because districts are coming into this from such varied circumstances, the attractiveness of creating a statewide plan varies greatly. For example, small districts that struggle to offer good benefit plans may be in favor of the statewide approach, while large districts that have invested time, effort, and money in developing self-funded programs may not want to have their current situation changed. With an acknowledgement of the magnitude of previous efforts in this regard and of uncertainty of changes in federal health care policy due to the 2016 election, the commission determined the best course of action was to create a task force during the 2017-18 interim to study the issue.

### **Commission Finding on K-12 Health Benefits**

1. The topic of health benefits for school employees is complex, in flux, and requires in-depth study.

### **Commission Recommendation on K-12 Health Benefits**

1. [LC HLTH](#)—bill draft to create task force to study public employee health benefits