

Notes from Fund Structure Task Force Meeting
July 11, 2005
Conference Call 9:00am – noon

Attending:

Joan Anderson, OPI
Shirley Barrick, Fergus Co. Supt.
Karla Christensen, Garfield Co. Supt.
Don Davies, Auditor
Kathy Fabiano, Legislative Services
Nancy Hall, Governor's Office
Steve Johnson, Bozeman Public Schools
Thale Ludwick, Bainville K-12 Schools
Eddy McClure, Legislative Services
Donnie McVee, Great Falls Public Schools
Jim Standaert, Legislative Fiscal Division
Rachel Vielleux, Missoula Co. Supt
Bob Vogel, MTSBA
Linda Walter, Sheridan Schools
Susie Zentz, Canyon Creek School

Absent: Amy Carlson, Governor's Office

Overview – Reason for this group is to make recommendations for MCA changes to implement the new funding formula created by the Quality Schools Interim Committee (QSIC), especially any recommendations concerning the combination of funds and related issues. SB 152 requires using as few funds as possible.

Review of Gen Fund and Capital Projects Fund Illustration (pages 20 and 21 of 2005 Joint Select Committee Report)

Questions for Discussion:

1. Reserves

- Current reserves: Gen Fund 10% of next years' budget, Transportation Fund 20%, Retirement Fund 35%) Need reserves for cash flow purposes and emergencies.
- Current payment schedule doesn't provide enough cash flow at beginning of the year, so districts need reserves:
 - Sometimes 10% General Fund isn't quite enough, since taxes are collected in November.

- Transportation Fund only gets state/county money in March and May, and 20% isn't even enough to avoid cash overdraft.
- Retirement fund is dependent on county's tax collections in November, so 35% is needed.
- Timing of revenue sources is a factor in how much reserve is needed. If funding formula also changes timing of payments, that makes a difference in reserves needed.
- Excess reserves? (MCA 20-9-141, exceeds 10% operating reserve, Gen Fund only)
 - Practically every district could keep track of delinquent and protested tax receipts and maintain an excess reserve, but it's time consuming and often they choose not to. Often the amounts are small.
 - Some districts have huge tax protests (e.g., PPL) and get very large amounts when it's settled the next year or years later.
 - Maybe should not be able to keep excess reserves, because the districts usually are able to spend their whole budgets anyway, except in cases where the protest was very large.
 - Maybe districts should be able to keep them, since it often is used for special projects or for funding the over-BASE budget to lower taxes.
 - If excess reserves in general were not allowed, at least the special cases like PPL should be accommodated to allow districts to use the windfalls later.
 - One option may be to allow a larger reserve (15%?).
- If timing of revenues was earlier in the year, 10% of the expanded General fund might be fine, since the reserves of transportation and retirement would also be useable.
 - Could the state pay 25% of the last year's transportation payment at the first of the year, then adjust it during the year?

2. Budgets:

- Assuming the General Fund entitlements level ["dotted line" in middle of picture on page 20 of Joint Select Comm's report] would be permissively funded (state share and permissive local effort, subsidized), then should there be a cap on the amount a district can raise and spend above that?
 - Majority opinion: Yes, need a cap or wealthier districts will still have advantage and system wouldn't be equalized as required by MT's 1989 law suit. 25% disparity between high and low spenders has been accepted by courts in the past as "equalized."
 - Another opinion: No, the entitlement level is going to be "quality" and the state must equalize that, but any extras can be added at district discretion. Everyone still has equal access to quality system of education as required.

The ability to accept donations and raise money for capital projects is already dis-equalizing. Non-levy revenues like gas, coal, and oil already give some districts much greater ability to add to programs.

- If the state subsidized (equalized) the portion of budget above the entitlement line, every district could access the same dollars for the extras. Would have to be capped so state cost of subsidies could be controlled.
- Transportation is hard to equalize using a formula. There are differences in circumstances (distances and density) that cause large differences in needs and costs and local choices.
 - Some small districts don't have a transportation program at all. Could allow a budget for transportation if you have a transportation program, none if you don't.
 - Could be funded with the current system, then allow a percentage on top of that
- Retirement Option 1 makes huge spikes in payments for retirees, so it would be difficult to address in a capped fund.
 - Right now, if you need more, just add it on to the next year's budget and the county will pay it. Otherwise, you'd have obligations you couldn't pay.
 - May be possible to build a larger operating reserve (>10%) and be able to accommodate fluctuations using a budget amendment. Sometimes the retirement costs determined mid-year would be too large for that, though.
- If budgets were more detailed,
- Over time, what once was considered "Cadillac" is now the norm—e.g., technology was once over-and-above the normal programs, but now it's a necessary piece of all programs. So, the system needs to allow for that type of growth. SB 152 requires growth factor, but it won't be enough if it's a cost-of-living factor.
- Need to allow voters to approve extra funding for programs that they consider necessary but that aren't funded in the entitlements. For example, Full-Day K is very important to some districts.
- Once the cost of the quality program is defined, the Legislature could allow add-ons for certain things, and the system could still be equitable if everyone had the same opportunity to provide those extras.
- 25% disparity between high and low spenders has been accepted by some courts as acceptable. Is that acceptable in Montana?
- Should there be a "carryover" allowed for unused budgets?
 - If the unused budget could be added "above the line" or transferred to a non-budgeted fund, it would allow spending authority without increased taxes.

Public comment:

- SB 152 includes more than just the accredited programs in the definition of “quality.”
- Retirement funds currently have large amounts in reserves, but there are significant spikes in retirement costs that can quickly deplete the reserves. May not be something that can be built into the general fund, so maybe fund it in a separate fund.
- Compensated absences fund doesn’t currently cover teacher termination payouts, but it should. Consider leaving it outside the general fund and including teachers. Initial costs would increase for 1 or 2 years and then level out.
- Transportation is very diverse among districts, and we should leave it in a separate fund.
- Caps were a part of the first lawsuit’s solution. 25% spending disparity has been accepted by courts in many cases, and cap might be important but not absolutely necessary.
- Districts with low tax wealth need assistance in the capital projects area. If the capital projects fund includes a voted levy for special projects, it should be equalized.

Next steps:

July 21 & 22, 2005 – Interim Committee Meeting in Helena: Joan and Eddy will give a presentation about current system and the fund structure in the Joint Select Committee’s report. Also will list some questions that this group needs answers on in order to make recommendations. Interim Committee will be asked to address questions in discussions on August 19 (tentative date).

Next conference call is August 4, 9am – noon.

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