

PROGRESS REPORT ON WORK OF THE QUALITY SCHOOLS INTERIM COMMITTEE

A Report Prepared for the

Legislative Finance Committee

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INTRODUCTION

This report summarizes the work of the Quality Schools Interim Committee (QSIC) since adjournment of the 2007 legislature, a period in which the QSIC has met 14 times. In that time the QSIC took the following actions:

WHAT HAS THE QSIC DONE

1. Hired R.C. Wood and Associates to assess the needs and determine the costs of a basic system of quality education in Montana;
2. Hired Montana State University professors (Stoddard and Young) to conduct, by October 1, 2005, an analysis of the relationship between compensation, and recruitment and retention for teachers (and other staff);
3. Approved that R.C. Wood perform, by October 1:
 - a. A needs assessment questionnaire to be filled out by district personnel;
 - b. A needs assessment questionnaire to be filled out by the public;
 - c. A cost analyses using four nationally recognized methodologies; These include:
 - i. the professional judgment method;
 - ii. the successful schools method;
 - iii. the advanced statistical method; and
 - iv. the evidence based method.
 - d. an analysis of the accreditation standards to calculate the required number of personnel resources.
4. Defined eight new statewide entitlements that would comprise the new school funding formula. These are:
 - a. A per student entitlement;
 - b. A classroom entitlement; (So far only the per classroom entitlement has been fleshed out.)
 - c. An accredited program entitlement;
 - d. An operations and maintenance entitlement;
 - e. A special education entitlement;
 - f. A transportation entitlement;
 - g. A capital projects entitlement; and
 - h. A debt service entitlement.
5. Directed staff to determine these entitlements based on known expenditure data for fiscal 2004. Each entitlement contains a method for counting units (i.e. per student, per classroom, per district) and a cost per unit based on fiscal 2004 expenditures inflated to fiscal 2007.
6. Directed staff to build a new school district general fund from the first five entitlements (listed above) and make no alterations to the current transportation funding structure;
7. Recommended that the new capital projects entitlement contain \$23 million in one-time money from the state general fund for deferred maintenance and energy efficiency and between \$2 and \$2.5 million for a study to assess the long term capital needs of school districts (no specific dates for the allocation of this money were specified);

8. Recommended that the new classroom entitlement, which was approved at fiscal 2004 spending inflated to fiscal 2007, be adjusted by the following:
 - a. An increase in the salary component of the classroom entitlement of \$3,500 plus associated salary benefits (i.e. retirement, social security, medicare, etc) equal to an additional 16.5 percent, costing the state an additional \$36 million per year;
 - b. A guarantee level for health insurance expenses for every school district of \$7,015 per classroom (compared with an average of \$5,600 spent in fiscal 2004 inflated to fiscal 2007), for a total system cost of \$5.0 million;
 - c. A guarantee level of \$800 per classroom in professional development per year for a cost of \$2.5 million per year.
9. Recommended maintenance of the current structure of special education in which special education dollars are distributed to all school districts respective of actual numbers of special education students.
10. Received the reports submitted by R.C. Wood and Associates and Stoddard and Young. A summary of preliminary findings is in an appendix to this report. The range in estimates of the additional financial resources required by the Montana school system was from \$0 to \$340 million per year from all state, local and federal sources.

WHAT DOES THE QSIC HAVE LEFT TO DO

The QSIC has much work to complete. The following list includes those things remaining to do:

1. Complete the classroom entitlement. How to count classrooms has not been totally resolved. Under the current formulation, the classroom counting methodology for large AA high schools and class C elementaries produces estimates of numbers of classrooms that are substantially below the number of regular education teachers currently employed.
2. Specify and complete the accredited program entitlement, the operations and maintenance entitlement, the special education entitlement, and the per student entitlement. For each of these, fiscal 2004 expenditure data reveal wide unexplained variations between districts, even between districts of similar sizes.
3. Determine how special populations (at-risk, American Indian, limited English proficient) will be funded. Determine how Indian education for all will be funded.
4. Develop district comparisons of general fund budget authority under the new funding formula (the sum of all the entitlements added together) and under the old formula. This will be made more difficult because of the inclusion of the retirement fund in the new general fund. Under current law, retirement costs are paid for by the county, not the district.
5. Determine the state share of the new general fund. The committee has not considered whether the current system of direct state aid and guaranteed tax base aid will be continued. If it is continued, or if some other system of funding the new Base general fund budget is employed, the committee will want to produce district-by-district mill levy impacts compared to current mill levies.

6. Determine if the new general fund will allow permissive and/or voted budget authority above the new Base Budget. If so, will there be a new maximum budget? At what level above the mandated Base budget will the maximum budget be set? Will there be a hold harmless provision for the budget of the school district? Will there be a hold harmless provision for the district's taxpayers?
7. Determine the sources of additional state revenue if this becomes necessary. The QSIC received a report from the office of budget and program planning regarding the impacts on various classes of property taxpayers of increasing the statewide mills for education, holding total property tax revenue to the school system constant. The shifts between classes were large, however every class would pay similar mills. The study did not consider the impacts of an increase in new revenue requirements.
8. Determine in which fiscal year the new formula will be implemented. This is especially problematic:

IMPLICATIONS FOR A SPECIAL SESSION

Implementing The New Formula in Fiscal 2007:

- 1) In order for the new funding formula to be in place for fiscal 2007, OPI must provide new budget forms for use by superintendents and school boards by March 1, and the computer programming for the new MAEFAIRS system by the middle of May. The urgency of these deadlines is magnified if it is decided that the new law will allow a voted levy that current law requires be voted on in May and announced and set 40 days before.
- 2) In order for the new funding formula to be in place for fiscal 2007, it would seem that a special session placing the new general fund formula in law must take place before December 31, 2005 in order to allow OPI the time to develop their new budget forms, make alterations to computer programs and educate superintendents in the new system. In addition, school districts generally engage in contractual arrangements with personnel based on their budget projections. If the new general fund budget is not known by March 1, contractual arrangements will be delayed.
- 3) If the new formula is to be in place for fiscal 2007, and a special session must be held before December 31, the writing of the legislation probably must begin by November 1, 2005. In that case the specification of all the entitlements, state share, and mill levy impacts must be completed by then.

Implementing The New Formula in Fiscal 2008

If the new formula is implemented in fiscal 2008, it probably means that the special session placing into law the new general fund formula and the related new revenue structure could occur as late as September 1, 2006, but probably not after. It probably could not be left until the regular session in 2007 because of the same OPI implementation issues and contractual arrangement issues as mentioned above. It is likely that waiting until the regular session to place the new funding formula in law will mean that the new formula could not be implemented until fiscal 2009.

Implementing The New Formula in Fiscal 2008 and Providing for a Transition in Fiscal 2007.

1. A transition to the new formula may be possible for fiscal 2007 with the new general fund formula implemented in fiscal 2008.
2. This transition could take many forms:
 - a. The current formula could be employed for fiscal 2007 and some of the decisions already made to enhance the new formula could be attached to it. This would require a special session probably sometime before March 1, 2006. This would require a second special session to place the new general fund formula in law before September 1, 2006.
 - b. The current formula could be employed (with changes for fiscal 2007) and the new general fund structure placed into law for implementation in fiscal 2008 all in one special session, again probably before March 1, 2006.
 - c. If the new funding formula were placed in law before March 1, 2006 for implementation in fiscal 2008, it would become present law for the 2007 legislature when budgeting for the 2009 biennium. This would give time to QSIC, the educational community and the legislature to fine tune the new funding formula.

SUMMARY

The Quality Schools Interim Committee has performed a tremendous amount of work since the end of the 2007 legislative session. It has a tremendous amount of work yet to do. If a new school funding formula is to be placed in law for implementation in fiscal 2007, the QSIC must complete its fiscal work by November 1, 2005 and the changes in law written in time to allow a special session in December 2005. This will be extremely difficult. If a new funding formula enacted is in law for implementation in fiscal 2008, the urgency is reduced, however there will still be issues regarding timing even if the legislature wishes to do nothing about funding in fiscal 2007. If the legislature wishes to implement the new funding formula in fiscal 2008 and enhance spending on K-12 in fiscal 2007, the legislature may face two special sessions, or only one if both are placed in law at the same time before March 1, 2006.

APPENDIX

For three days at the end of August the QSIC heard preliminary findings from R.C. Wood and Associates and from Stoddard and Young. A final report was received from Stoddard and Young on October 3. The final report from R.C. Wood has not been received. The preliminary findings are detailed below. There has not been enough time to analyze the final reports.

SUCCESSFUL SCHOOLS

The Successful Schools Method identified schools in Montana that were successful based on selected criteria: test scores; improvement in test scores; accreditation status; graduation rates and; district reported funding sufficiency. Spending levels were adjusted for proportions of special education, limited English proficient, poverty and American Indian students. The expenditure differential between successful and not successful schools was computed as the amount needed to adequately fund all schools. The results ranged from no added cost to a \$102 million increase in annual spending depending on the criteria for “success.”

PROFESSIONAL JUDGMENT

The Professional Judgment method developed cost projections by asking a panel of 15 Montana education professionals to review the Augenblick and Myers (A&M) resource requirements and make revisions as they believed appropriate. (Augenblick and Myers performed a professional judgment analysis using panels of professional educators in 2002 for the plaintiff schools in the lawsuit). In general, the RC Wood panel recommended greater resource levels than identified previously in the A&M study. The Professional Judgment method is the most detailed of the methods used. The panel made specific recommendations for numbers of teachers, principals, counselors, librarians, aides and so forth and spending allotments for supplies and materials, substitute teachers, equipment, technology, assessment and security. The total cost for the school system was estimated at \$340 million additional dollars per year.

ADVANCED STATISTICAL

The Advanced Statistical method loosely applied the accreditation standards to current schools and concluded the current funding was adequate to comply with standards. The cost of special education was studied and found to be adequate based on the high percentage of districts reporting adequate resources. The consultant found there was insufficient information to determine the funding needs for at-risk or gifted and talented students and school facilities and recommended funding for studies to determine the levels needed. An estimated cost for Indian-education-for-all was developed here which was not addressed in the other methodologies. The major costs were \$12 million for curriculum development and startup materials and \$4 million for travel, training and ongoing professional development and materials. The recommended increase in annual costs of \$65 million included \$16 million for Indian-

Education-for-All, \$31 million for recruitment and retention of teachers, \$7 million for school transportation and \$4 million for student assessment. Seven million dollars was recommended for studies to determine the amount needed for programs for at-risk and gifted and talented students and school facilities. Once studies are completed costs may rise considerably as the resultant findings are implemented.

EVIDENCE BASED

The Evidence Based method did not generate a cost for schools in total but identified specific programs for which there is some evidence of success in schools. The consultants stated that the evidence is anecdotal on some of the suggested programs and that they may not be cost effective for all districts. The programs include funding for full day kindergarten, full-time building principals, family outreach, professional development, technology and reductions in class size. The costs of full day kindergarten at \$11 million and professional development at \$4 million were identified. Costs for other suggested programs were not provided.

RECRUITMENT, RETENTION AND TEACHER SALARIES – STODDARD AND YOUNG

Stoddard and Young of MSU analyzed data on teacher pay and recruitment. Their research concluded: from 1987 to 1999 difficulty in hiring was unrelated to salary; more recent experience from 2003 to 2005 showed low salary districts, small and isolated districts were facing the most difficult problems recruiting qualified teachers, had higher turnover and were more likely to have mis-assigned teachers leading to accreditation problems. Higher salary growth and more generous insurance plans were identified with lower turnover. High schools faced greater problems with mis-assigned teachers. They also found that isolated districts were also likely to have lower salaries. This report recommended a \$2000 increase in the lowest paying districts to help them come closer to the other schools in the state by reducing turnover, easing the recruitment of teachers and lowering the incidence of mis-assigned teachers.