



Education and Local Government Interim Committee

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57th Montana Legislature

SENATE MEMBERS

EDWARD B. "ED" BUTCHER
ALVIN A. ELLIS JR.
WM. E. "BILL" GLASER
LINDA J. NELSON
DON RYAN
DEBBIE SHEA

HOUSE MEMBERS

JOAN ANDERSEN
GARY BRANAE
TOM FACEY
JEFF MANGAN
GAY ANN MASOLO
ART PETERSON

COMMITTEE STAFF

CONNIE ERICKSON
RESEARCH ANALYST
EDDYE McCLURE
STAFF ATTORNEY
PAM JOEHLER
FISCAL ANALYST

March 12, 2002

MINUTES

South Campus Rm. 105-106
Great Falls, Montana

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed. Committee tapes are on file in the offices of the Legislative Services Division. **Exhibits for this meeting are available upon request. Legislative Council policy requires a charge of 15 cents a page for copies of documents.**

COMMITTEE MEMBERS PRESENT

Sen. Linda Nelson
Rep. Joan Anderson

Sen. Edward Butcher
Sen. Alvin Ellis
Sen. William Glaser
Sen. Don Ryan

Rep. Jeff Mangan

COMMITTEE MEMBERS ABSENT

Sen. Debbie Shea
Rep. Gay Ann Masolo
Rep. Tom Facey
Rep. Art Peterson
Rep. Gary Branae

STAFF PRESENT

Connie Erickson, Research Analyst
Eddy McClure, Attorney
Miko Owa, Secretary

VISITORS' LIST

Visitors' list (ATTACHMENT #1)
CALL TO ORDER AND ROLL CALL

The meeting was called to order at 7:00 p.m. by Sen. Nelson. Roll call (ATTACHMENT #2) was noted with all members present except for Rep. Masolo, Rep. Peterson, Rep. Facey, Rep. Branae, and Sen. Shea who were excused.

GOVERNOR'S PLAN

Jeff Hindoién, Governor's Office and Amy Carlson, Office of Budget and Program Planning, made a PowerPoint presentation to the public on the work of the Governor's Public School Funding Council (EXHIBIT #1). The presentation included a history of the study, the work of the Council, and the final recommendations.

The recommendations of the Council are as follows:

1. Create a countywide levy to fund the property tax portion of the BASE budgets of all school districts in a county.
2. Expand the county retirement levy to fund district health insurance costs.
3. Pursue the establishment of a statewide insurance pool for school district employees and require that all school districts join.
4. Use a weighted GTB calculation for both the countywide BASE budget levy and for the county retirement/insurance levy.
5. Adopt the transportation funding structure proposed in HB 163 from the 2001 legislative session.
6. Calculate the ANB for a district with declining enrollment by using the average enrollment over a 3-year period.
7. Provide an annual inflation adjustment tied to the Consumer Price Index for the basic entitlement, per-ANB entitlement, and special education funding.
8. Use the HB 124 block grant for debt service to expand school facility payment to all low-wealth school districts that have outstanding general obligation bonds and to increase the school facility payment.
9. Allow school trustees to allocate the remaining balance of a district's HB 124 block grants to any budgeted fund of the district.

The Council also looked at the issue of school district consolidation and found:

- no compelling evidence that reducing the number of districts would save costs; and
- no current significant "disincentives" to consolidation, except tax levels.

The Council encouraged school districts to look at the consolidation of education services when it benefits the students. Some examples of such a consolidation are greater use of distance learning technologies and cooperative arrangements among districts for administrative and educational services.

The Council recommended further study in three areas:

1. adequacy of school funding;
2. combining funds for bus depreciation, building, building reserve, technology acquisition, and lease or rental agreements into a capital projects fund; and

3. teacher shortages and teacher salaries.

A copy of the "Governor's K-12 Public School Funding Study Advisory Council Report and Recommendations" (EXHIBIT #2) was provided to the members of the public in attendance. Ms. Carlson also posted maps (EXHIBIT #3) for the public to view to show the changes in the mills for each county under Recommendation #1.

PUBLIC COMMENT

Sally MacMillan, Retired Teacher, Great Falls, asked about the transition to the state general fund from the School Foundation Program. Mr. Hindoien said that the School Foundation Program ceased to exist by virtue of the litigation that created the new formula. He said that the new system is made up of direct state aid and the GTB component. Sen. Glaser said that the current schedule is considered to be the Foundation Program as we think of it today. He said that school funding in Montana is based on average numbers and as a result of that every school district is affected differently. Sen. Ellis said that the Foundation Program ceased to exist during the special session of 1989 when they established GTB and mill subsidies to make the effort more equivalent across the state.

Arthur Vender, Retired Teacher, said that there is nothing in the proposal to give school districts an incentive to hire experienced teachers and that issue needs to be addressed. He also said that the BASE portion that the state is paying needs to be increased.

Rep. Larry Lehman, asked for clarification regarding the statement "94% pay between 60 and 80 mills". He also commented that mills in different counties produce different dollar amounts. Ms. Carlson said that to the tax payer, the mill amount is approximately the same, though to the school district it is different. She said that the issue was addressed from the taxpayers' view. She said that in the 94% statement, she is referencing tax payers in the category.

Rep. Callahan, asked how the Governor felt about the recommendations and if there was a plan to address the remaining issues. Mr. Hindoien said that as a part of this process there is not a mechanism to further pursue the remaining issues. He also said that the Governor is encouraged by the work that has been done, particularly the mechanism to deal with declining enrollment and the inflator. However, he said that the Governor is waiting for public feedback as well.

Ann Hagen-Buss, Great Falls, said that she does not think the state needs to continue to study the fact that not enough money is being spent on education. Mr. Hindoien said that the figures she is quoting are not what the state is spending, it is a relative share. Ms. Hagen-Buss asked about the difference in the state's relative share. Sen. Glaser concurred with Mr. Hindoien's statement and said that all of the taxes blend in such a way that on each individual school district you cannot say what is spent. He said that only averages can be looked at. Sen. Butcher said that we have lost an incredible amount of state tax base over the last several years. Ms. Hagen-Buss said that business has been given large tax breaks with little to show for it. Sen. Ellis said that tax breaks have been given to both businesses and residential property owners. He said that the business equipment tax rate is actually 25% higher. Ms. Hagen-Buss said that the number of schools that have closed is a good representation of the problem the state is having. Mr. Hindoien said that there is a separate process being conducted to address the issue of

adequacy, which in turn, will determine the cost of a quality education.

Lynne Scalia, Centerville School District said that tax payers have been very supportive of the schools and would like to know what the recommendations will do to the local tax payer. Mr. Hindoien said that with respect to declining enrollments, the reductions that would be forced upon a school district based upon the formula would be less. He said that there will also be some effect on the general fund, but would not move the maximums and minimums.

Bob Oderman, Great Falls, asked about the HB 124 block grant and longevity. He also asked about ANB funding and if that cost will have to be absorbed by the school districts across the state. Mr. Hindoien said that the ANB averaging will come from the state general fund. Ms. Carlson provided a brief history of HB 124. She said that the block grants in HB 124 is revenue set aside for schools. However, she does not believe that that revenue will continue to be distributed in the block grant form. She said that block grants are not designed to be a long term funding solution. Rep. Mangan said that to get rid of the block grant, the legislature will have to remove the sunset provision.

Rep. Mangan asked the public about the annual inflation number and what they would like to see it be and if they would like to see the money continue to be distributed through HB 124. Sen. Ellis asked if school districts would like greater spending flexibility.

Mr. Oderman said that if the county or school district have a clear source of increasing local revenue and the level could be maintained, then our local tax payers will not be affected. However, if the amount decreases then state funds will be necessary. He said that if there was an inflation indicator to maintain that then that would be fine.

Sen. Glaser said that Mr. Oderman is talking about a district that is an average district and so long as the money continues to flow, Great Falls will get approximately the same share as they are currently getting. However, there are many districts who are not average and those districts will be treated differently.

Mr. Oderman said that the revenue in the block grant funding structure was brought to the state level in order to help the state administratively. He said that his understanding was that the money would then be redistributed to schools under a leveling process. He said that if money was taken away from some school districts then it would be more difficult to pass levies.

Rep. Mangan said that HB 124 was designed to fluctuate and counties and school districts should not see declines, but increases.

Mr. Oderman said that in Great Falls, they had been receiving increases in motor vehicle general fund revenues and that has not happened for the last two years.

Sen. Nelson said that HB 124 was to simplify the process and there are apt to be small problems with such a large bill.

Sue Dickinson, asked about state lottery funds for education. Mr. Hindoien said that the issue of revenue sources was not looked at as a whole.

Sen. Nelson said that the money went to education initially, but the funds were de-earmarked two sessions ago.

Sen. Glaser said that the primary reason for the change was because it was such an insignificant amount of money.

Brian Dunn, Superintendent of Schools, Great Falls, said that any kind of inflationary index is a good thing. He also said that sooner or later disparities must be corrected and we need to be moving towards that. He said that the idea of declining enrollment is a critical factor in Great Falls and he likes the idea of the average ANB. He also said moving away from local levies is a good idea because it is more equitable. But does it adversely impact local control?

Sen. Ryan said that he thought the Council was charged to look at the funding formula but fell behind. He said that the basic entitlement for an elementary district and a high school district is fundamentally not equitable, simply by the fact that if school districts consolidate, we allow them to keep the basic entitlement for a period of years and gradually phase it out. However, we don't allow a large district who spends a lower ANB to split into two districts. He said that ANB is also on a declining scale per student. He said that there is a fundamental flaw in the system because we recognize that. Sen. Ryan asked Ms. Rachel Vielleux if consolidation leads to a better district.

Ms. Vielleux said that in Missoula County, there was no fundamental change, as there was a great deal of cooperation between the two school districts. She said that in Beaverhead County, she is hearing that unification will do nothing but put the elementary teachers on the high school salary and there will be no increased cooperation. She said that there is a perception that unification will save money, but every year it costs an additional \$500,000, because the elementary teachers were not on the same salary schedule as the high school.

Sen. Ryan said that Ms. Vielleux is now able to keep and attract more elementary teachers in that district. He also said that it is because of the funding formula with the basic entitlement that has caused that cap. He would contend that the education community feels as if they are providing a better product.

Ms. Vielleux said that currently 98% of the budget goes towards salaries, and that cannot be tolerated for long periods of time.

Rep. Lehman asked the Council if the three year ANB averaging is a stop-gap measure. Mr. Hindoen said that they arrived at that as the best answer working within the existing formula.

Rep. Ripley said that some of the solutions presented are viable, but the study did not go far enough. He said that the current funding formula is not broken, but it may be time to create a new formula for funding education. He does support the 3-year averaging and inflation adjustment as short-term solutions.

Ms. Scalia provided a personal example of the difficulties communities are having in funding education through local levies. A recent catastrophic illness of a staff member has increased the health insurance premium to over \$800 a month. Her district cannot attract teachers because of these costs.

Rick Losleben, Vaughn School District, asked about the retirement fund being covered under the statewide pool system and if that would put the school district under their maximum. Mr. Hindoien said that if you are at or above the maximum, it wouldn't move where you are in your budget, but it would pull the amount being spent in the general fund out and put it on the retirement levy. So you would have new space in the general fund. Mr. Losleben said that this would be good for his district. He asked if the school district could continue to pay more for health insurance. Mr. Hindoien said that if the school district is paying more in health insurance than the state, then that will continue to be borne out of the general fund. Mr. Losleben said that he liked the three-year averaging for ANB. Mr. Losleben asked if the inflation recommendation was the only increase to the entitlements. Mr. Hindoien said that the inflation adjustment will be a statutory increase in the entitlements only. The recommendation does not account for any increases enacted by the legislature.

David Reeves, Board Member, Great Falls, said that the time frame and funding provided for the Council was not enough to address the real problem. He said that the real problem is how the funding works right now and how cumbersome the process is.

Gary Greseth, Superintendent, Ulm, thanked the Committee for the work that they have done.

ADJOURNMENT

The meeting adjourned at 9:12 p.m.

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