

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 51st LEGISLATURE - REGULAR SESSION

SELECT COMMITTEE ON EDUCATION FUNDING

Call to Order: By Chairman Ray Peck, on January 24, 1989,
at 2:30 p.m.

ROLL CALL

Members Present: All members were present.

Members Excused: None

Members Absent: None

Staff Present: Madalyn Quinlan, Andrea Merrill, Dave
Cogley, Jeanne Flynn

Announcements/Discussion: The Select Committee will discuss
PL 874 money and the issue of retirement in the general
fund budget at the next meeting.

Sen. Regan, Sponsor, Senate Bill 198: In response to House
Joint Resolution 16 last session, the Board of
Education, the Joint Interim Subcommittee on Education,
and the Legislative Finance Committee's Education
Subcommittee all attempted to address the Loble Court
suit. We were charged with trying to cost out the
current accreditation standards, as well as the
proposed standards. The two-year study involved 25
extra reports and was staffed by Madalyn Quinlan and
Sandy Whitney. The result of this study is Senate Bill
198. I have introduced this bill in the Senate at the
request of the Legislative Finance Committee and I know
it has been introduced in the House, but I prefer that
it not be. I know that in the Select Committee's
attempt to put together some funding mechanism, you
need all pieces of the puzzle so I would urge that you
take Senate Bill 198 in an informal manner and consider
its provisions and make it a part of your study.

Madalyn Quinlan, Office of the Legislative Fiscal Analyst:
This bill adjusts the foundation program schedules
based on the cost study that was done by the
Legislative Finance Committee and its staff. The
instructions under House Joint Resolution 16 were to
first cost out the current accreditation standards and
then to determine the cost of meeting the proposed
accreditation standards as determined by Project

Excellence. There is 125% cap that is phased in on general fund budgets over a four-year period. The bill adjusts the schedules in both FY 1990 and 1991. The schedules have a teacher experience factor incorporated into the base foundation program amount and, depending on the level of teacher experience within a school district, there is an additional factor applied to those foundation program amounts. A school district with 65% of their teachers with more than seven years experience, receive 1.27% above the base amount. The other aspect of this legislation is that districts would be guaranteed 100% the foundation program amount. The state would subsidize districts for the next 10% through a power-equalized mill levy. Each mill levy by a district is guaranteed to raise \$100 per student. To the extent that a district raises more than that through mill levy, then those dollars are sent to the state to be redistributed. The sources of funding for this proposal are the current funding sources. There is no new source of revenue proposed in this bill. There is discussion in the reports that this proposal would require 131 mills to achieve the level of funding needed.

Rep. Peck: In relation to the cost study that was done, there were some objections and questions on methods used, indicating that it really doesn't take into account all of the costs. There is a letter from an administrator's group on that. Are you aware of what it says? Ms. Quinlan stated that she would refer back to HJR 16 which was based on the assumption was that the accreditation standards would serve as the instructional component in defining basic education. That is where the guidance came from.

Rep. Peck said this unique feature of teacher experience may need a little more amplification. Are you saying that any district in which 65% or more of the staff has more than seven years experience qualifies for 27% more in foundation schedule funding? Ms. Quinlan said there are three different levels of teacher experience. A district with 65% or more of its teachers having three years or less of accredited experience is assigned a teacher expense factor of 1, the base amount. A district with 35% or more of its teachers having more than three and not more than seven years of accredited experience is assigned a teacher experience factor of 1.16. The highest rating a district would get is when 65% of its teacher have more than seven years of experience and they receive a teacher experience factor of 1.27.

Rep. Peck asked do you apply that in total as a multiplier of the schedule amount for the district? Ms. Quinlan said yes.

Rep. Eudaily asked how does the bill treat PL 874 funds? Ms. Quinlan stated that PL 874 funds are not included in the expenditure cap until the state meets the federal test for being able to equalize these funds. If the state tries to include PL 874 funds in its equalization formula without approval from the federal government, we could jeopardize the receipt of these funds by school districts.

Rep. Eudaily asked if the phase-in period of four years. Has the Board of Public Education come up with a phase-in period for the proposed accreditation standards?

Claudette Morton, Executive Director, Board of Public Education stated that the board plans were to go into effect in 1992 and 1994. There are specific cost items that would be in effect 1992 and 1994 and so forth.

Rep. Eudaily asked if the board definitely adopted this phase-in period. Ms. Morton said that is still one of the issues the board is looking at.

Rep. Kadas stated that no PL 874 moneys apply to the 125% cap. So a district could get state equalization aid, 10% more in equalized funding, 15% unequalized mills, and then on top of that, could they use all PL 874 money they get? Ms. Quinlan said yes, that is right.

Rep. Kadas said that after the federal government approves the formula as being equalized, only a certain amount of the PL 874 moneys that are paid as payment in lieu of taxes can be equalized. Ms. Quinlan stated that the PL 874 moneys that are not specifically identified for students living on Indian reservations or handicapped students can be used. The amount that is referred to as non-exempt could be counted as district resources when the state measures a district's local wealth before they make the foundation program payment.

Rep. Kadas said it would be counted against the district's share of the foundation program? Ms. Quinlan said it would be counted as part of the district's share of the foundation program therefore, the state amount would be less by that amount.

Rep. Kadas asked that under this bill, the state share is then going to increase and there is really going to be no local share until you get into the equalized and

unequalized voting? Ms. Quinlan said that it depends on how statewide levies are treated. Some of the funding proposals, for example the Governor's Advisory Council plan creates a 140 mill statewide levy that would be considered a state resource. If on the other hand you created a levy and called it a county levy, then that money would be viewed by the federal government as the part of the local share.

Rep. Kadas asked how is this done in this bill? Ms. Quinlan said that this bill doesn't have any levies in it.

Rep. Kadas asked if we were to fund it with any other tax revenue that would be state revenue it wouldn't meet that local effort definition. The only way that we can really meet that local effort is if we fund it with property tax money in the same way the 45 mill levy is now collected. We could increase the 45 mill levy, and if we kept it statutorily the same in all other respects, except that it's more than 45, then we would still meet that local effort mandate? Ms. Quinlan said correct. You are using the word test and I hope you don't mean the tests where you can equalize these funds or not. This is just to determine the local contribution rate. School districts will still get some minimum amount from the federal government and that averages about \$2000 per student. Many school districts in the state are already at that minimum.

Rep. Kadas asked how much of the total is not exempt, and how much is for handicapped and Indian reservation? Ms. Quinlan said about 30% is exempt.

Rep. Kadas said that equalization of the first 10% above the foundation program is based on \$100 per ANB per mill. That is what the district would be receiving if they voted for a mill levy. Could you explain to me how you got to \$100 and what does this do to school districts in general.

Ms. Quinlan stated that the Legislative Finance Committee looked at a series of options that ranged from about \$20 per student to \$120 per student. They chose a guarantee of \$100 per student because somewhere between 96% and 98% all of students in the state would be subsidized.

Rep. Kadas stated that any number you took whether it was 100 or 50 or 40 or 10, if everyone had to abide by that number you would equalize. You said 98% to 96% are better off, so how much does that cost the state?

- Rep. Eudaily stated that she didn't address retirement in this, is that correct? Ms. Quinlan said no, that is not correct. Retirement expenditures have been rolled into the foundation program amount.
- Rep. Peck asked Ms. Quinlan if she did address special education, transportation, capital expenditures but, everything else is addressed. Ms. Quinlan stated that comprehensive insurance isn't in there either.
- Rep. Harrington asked are the new schedules based on average cost? Ms. Quinlan said the smaller school districts receive an increase under this proposal because the intent is to provide every district with enough funding to cover the cost of the mandated program. The cost of books, supplies, teachers salaries, janitorial services, are all added in the cost per district size. It was not done on averages.
- Rep. Kadas stated that the Finance Committee's decision to not include special education, transportation, capital outlay was not that those things should not be equalized but, it was that they should be studied.
- Rep. Bradley said that this Committee is considering a variety of bills that deal in one way or another with the school funding issue. While my sales tax bill goes far beyond that in content I thought it would be appropriate that it be brought before you. As proposed, 30% of the revenue raised which we estimate to be \$77 million per 1% of tax, is ear marked for education. There is elimination of the mandatory county retirement levy of approximately \$70 million. 30% of the revenue that would be collected would go a long way to help a system that drastically needs to be reformed. It seems that before we look at a wholesale increase of statewide millage, we need to get that whole system in shape. It needs help from some other type of revenue.
- Rep. Peck asked if there would be 30% for the public school foundation program? Rep. Bradley said that is correct.
- Rep. Kadas asked if retirement put into the general fund? Rep. Bradley said yes, that is where it was in the early 70's.
- Sen. Nathe stated that SB 203 includes the comprehensive insurance in the general fund budget. It does not put the retirement in the general fund budget. It calls for funding 100% of the schedules that we set here. That is 85% of the actual cost of running a school.

This bill does provide for a cap to be phased-in by the year 1995. This does cap the reserves that a school district can maintain at 20% except for those districts who receive no equalization aid under this program. It does do away with the 10 mills that are permissive at this time. SB 203 indexes the rate of increase in the scheduled amounts to an annual rate of inflation that is tied to the consumer price index. This bill reallocates all of the lottery money to state equalization. It provides for equalization of teacher retirement by using property tax which provides for 90% of the costs. It does do away with the tuition payments between districts.

Frank Loehding, Superintendent of Schools, Peerless said there are many superintendents in this state and they met and figured out what we should have in funding proposals. We wanted to include comprehensive insurance in the general fund budget. If we equalized it at 90% some schools would be able to get a cadillac policy. That is the only fund we wanted to combine with the general fund budget. If there are only two funds that allow for transfer of funds within those two funds, you then could take money from the transportation fund and use that to buy text books with it. If we have separate funds, we will then be funded for the amount of money needed in those separate funds.

Our current school foundation program is funded at 50% of our needs and we think that any equalization program should fund at 100% of needs. We could then go above the 100% with a 17% voted levy that would be phased in over a five year period. We took the 87 expenditures of all the schools in the state which is approximately \$447 million, then took the amount of money that we received from the foundation program which was approximately \$225 million and used that ratio to find out how much we would have to modify each figure in the foundation schedule by to come up with a new foundation schedule.

Rep. Kadas asked what the total state expenditure of \$447 million and that is your average. What level are you trying to set the actual foundation program at. Is it at 100% of the average or is it at 80% of the average? Mr. Loehding said it is at 100%. If you took the new foundation schedules for all the schools in the state, figured out what each school will get, the total would be \$447 million. There is another \$61 million that comes from the permissive amount so you take the \$225 million and the \$61 million and that is how much you are really getting from the state.

Rep. Kadas asked would you support an 85 or 90 levy mandatory for funding? Mr. Loehding said yes, we would.

Rep. Peck said you are accepting everything that is out there in educational progress into your mathematics. You aren't saying this is basic quality education? Mr. Loehding said yes, we are saying that what we spent in 1987, was not wasted money.

Basically we want retirement left out of the general fund budget. And we want it funded at 90%. There would be a state-wide levy to fund that 90% and the other 10% would be funded through mandatory county levies.

Rep. Peck asked would that require 20 to 25 mills? Mr. Loehding said yes, retirement is about a \$50 million total package.

Rep. Kadas asked does the \$50 million total include just the district contribution? Mr. Loehding said it is just the district contribution. This includes all employees so there is PERS in there and everything else.

Rep. Glaser said do you intend to lock into place the great inequity in retirement dollars per ANB from one place in the state to the other? We have some counties that have been spending \$500 per student for retirement, and then we have other counties that are spending about \$150 per student for retirement, were you aware of that? Mr. Loehding said that he knew there was a probably some discrepancy. It requires state equalization aid in monthly payments, with 1/5 of the payments being made in July, and the rest in eleven payments made in the remaining eleven months.

Rep. Peck asked are you going to index the schedules to the CPI, that is the general CPI index that you are using or is there a specific index or a number of those indexes? Mr. Loehding said there is a specific one that is in the bill.

Rep. Eudaily asked on the 20% reserves for the districts, would you leave the other at 35% for those that are not receiving state equalization? Mr. Loehding said that is correct. The reason for that is that they would not be receiving that 1/5 payment in July and then monthly payments, and they wouldn't get any money in until November.

ADJOURNMENT

Adjournment At: 4:15 p.m.



REP. RAY PECK, Chairman

RP/jf

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