

## MINUTES

### MONTANA HOUSE OF REPRESENTATIVES 51st LEGISLATURE - REGULAR SESSION

#### SELECT COMMITTEE ON EDUCATION FUNDING

Call to Order: By Chairman Ray Peck on February 28, 1989, at  
1:45 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:

#### HEARING ON SB 203

#### Presentation and Opening Statement by Sponsor:

Senator Nathe stated that in the Senate Education Committee there were several things that they did to SB 203 in its original form. One change was that there shall be only 180 PI days. They moved retirement into the general fund.

SB 203 in its original form tries to accomplish three basic things: equalizing teachers' retirement, infusing money in the foundation program schedules, and dealing with caps. The Governor's amendments called for the infusion of \$50 - \$52 million which is an 18.6% increase in the foundation schedules. That translates to an 18.6% increase in the first year. In the second year it calls for an other increase in the schedules of 30.2%, which costs approximately \$100 million.

The Governor's amendments put on caps to freeze the spending of schools that were 116% above state average for the ANB category. For those district between 16% and 86% of the average for their foundation category, they were allowed between 0 and 8% growth in their total general fund expenditures. Those schools 85% and below, are capped at the 8% total growth.

The Senate changed the cap on the schools under 85% so they are no longer capped and they can move as fast as they want to, to get up close to 100%. Another amendment was to exempt PL 874 funds. PL 874 funds are completely exempted

from the caps.

This bill calls for the removal of tuition. There are schools in this state that have exceptional education programs. With the removal of tuition there was concern on the part of those schools that they would see an increase in students with special education needs. The special education problem has to be looked at down the road depending upon what the Select Committee decides to do.

The Governor recommended that we use \$6 million a year for special education and he also recommended that we put in \$900,000 a year for vocational education. Then you add on to this. If you go with the 18.6% in the foundation program schedules for retirement, another \$50 million. That would be about \$56.9 million in the first year of the biennium. The second year of the biennium, you would see the infusion of approximately \$100 million, and the \$50 million again on retirement, \$6 million a year again on special education, the \$900,000 on vocational education. You will also remember that Rep. Thomas has the amendments for SB 203 and HB 623 to provide for the infusion of \$10 million for transportation and \$5 million for comprehensive insurance and \$10 million in the capital outlay fund. There should be in the second year of the biennium approximately \$189 million. If it does cause budgeting problems for the school districts to try to phase-in immediately, then it is probably the option of this committee to delay the implementation, not of the special education funds, or the vocational funds, but to delay the implementation of the 18.6% the foundation schedules in to the second year of the biennium and have the infusion all at one time. (See Exhibit 1.)

Testifying Proponents and Who They Represent:

Rep. Fred Thomas  
Ken Nordtvedt, Director of the Department of Revenue

Proponent Testimony:

Rep. Fred Thomas stated that his amendments will do four main things.

1) The first thing they would do is put in the 10 mills from the permissive levy as a state levy so you have a total of 55 state mills.

2) In the three separate funds of transportation, capital and insurance, the figures of \$10 million and \$5 million would be distributed on top of the foundation program. This \$25 million would be distributed in FY 91, the second year of the biennium on a ANB basis back to the schools. That would be in addition to the foundation program.

The general fund is equalized at 85%, and then transportation, insurance and capital outlay are equalized to a degree.

3) Reserves will be reduced to a 20% level down from a 35%.

4) You also have 12 monthly payments for the foundation program so that gives timely support to the districts and makes it easier to operate.

These bills are specifically before you to address the lawsuit and the Court ruling that we must equalize education in Montana. The components of these bills are here and are open for your debate and we have given a couple of options that are subject to change, but they are here and ready to be used. We must pull together and develop a plan that must meet the Court's discussion. See Exhibit 2 and 3.

Ken Nordtvedt, Director of the Department of Revenue stated that the key ingredient of this equalization bill is that is it is designed to meet a measured level of equalization in response to the court ruling. It isn't a bill to increase or decrease funding schools; it is a bill to replace part of the cost of funding schools that is now at the local level unequalized with levies at the state level where it would be funded on an equalized basis.

The Court ruling not only tells us that we must get to equalization, it clearly says that we in the future must stay at a level of equalization. We cannot get to equalization in the coming years if the level of state funding to the foundation program falls back. That is why we have put to have caps on public school spending in Montana for the future.

Mr. Nordtvedt referred to a wall chart showing the differences in the high, average and low spending schools. He discussed how the Governor's caps would work.

The administration feels that it is essential that we move from heavy reliance on local property tax resources to fund schools to a state dominated funding system where we are trying to reach about 85% of the state support and that an intelligently designed capped system must be put into place so that the state government can decide what general overall level of growth of spending in schools the state can afford. We can no longer permit to happen what happened in the last 25 years, and that is that the growth of school spending went up at a faster rate than the state could afford so we kept building up bigger and bigger unequalized local property tax levies that led to a lawsuit and to the issue at hand. The state can now be responsible for whatever level of funding we have for education. We've got to have a properly designed capping system. Secondly, if there is any

part of school funding that belongs to the general fund, on an equalized basis, it is retirement fund, so we are trying to get that taken care of as well. There is room for negotiation on how to split this money between the two years and when to put the retirement fund into the general fund to make that transition more painless, but when we negotiate that, we've got to keep a focus on the essential points. The retirement fund belongs in the general fund, it should be funded on an equalized basis, that is equal dollar per student, and we have got to have some type of reasonable caps that control what the top schools are spending.

Najaria Esty supported this bill in its original form. See Exhibit 5.

Testifying Opponents and Who They Represent:

Nancy Keenan, Superintendent, Office of Public Instruction  
Claudette Morton, Executive Secretary to the Board of Public Education

Jim Goetz, Attorney for plaintiff school districts

Dale Zorn, Superintendent of Schools, Shelby, President of Montana School Administrators

Bruce Moerer, MSBA

Ernest Jean, Florence-Charlton Schools

Tom Bilodeau, MEA

Richard Shaffer, Superintendent, Dodson Public Schools

Pat Melby, Attorney for plaintiff in the underfunded lawsuit

Loren L. Soft, Executive Director of the Yellowstone Treatment Center (Yellowstone Boys Ranch)

Earl Leonard, Assistant Superintendent of Great Falls Public Schools

Terry Minow, Montana Teachers Federation

Larry H. Gruel, Chairman, Butte School Board

Bob Odermann, Butte Public Schools

Gary Forrester, Trustee, Lockwood

Christine Deveny, League of Women Voters

Steve Brown, Attorney, Indian Impact Schools

Mignon Waterman, School Trustee, Helena

Kay McKenna, Montana Association of County Superintendents

Shirley Berrick, Fergus County Superintendent of Schools

Rick Stuber, Superintendent, Culbertson Schools

Harv Bennett, School Trustee, Shephard

Calvin L. Spangler, Shephard Public Schools

Ramona Stout, Superintendent, Huntley Project Schools

Bill Cooper, School District No. 5

David C. Lloyd, Superintendent, Forsyth Public Schools

Opponent Testimony:

Nancy Keenan, Superintendent, Office of Public Instruction stated that on the Senate side, Sen. Gage made indication that this bill needs work. She said that she would point out some things that need work. In the Senate, SB 203 as introduced

was supported by most of the educational community, it was a good bill.

Retirement needs to be reimbursed on a dollar per dollar cost, not dollars per student, not through the ANB mechanism. This bill only funds 85% of current expenditures that school districts are spending right now. We advocate funding at 100% of current major expenditures and I think the reasons are obvious.

Ms. Keenan thinks the problem with caps is if you look at it state wide, schools in actuality are going to have less dollars and that is the bottom line. We advocate that you do fund special education at 100% of its cost. You don't need tuition because no matter where that kid is, you are going to be paying for him, so you don't need to have a tuition mechanism.

Claudette Morton, Board of Public Education said as one of the defendants of the underfunded schools law suit, we have been studying this for some time. The Board has said that it can only support a funding system which equalizes upwards. We do not believe that SB 203 or its companion HB 623 does that and therefore, we oppose it. We have heard concerns expressed in the legislature about the fact that it doesn't matter what the legislature does with regard to a funding system because we will all be back in court. We won't be back in court if you, the legislature, look at the real issues, and you deal with them appropriately. SB 203 in its present form is not the answer.

Jim Goetz said he approached this bill with two broad questions in mind: first, does it meet the mandate of the Montana Supreme Court, and second, does the funding mechanism do what is right for Montana, for its school children, and for its tax payers. In the Court case there was a broad commentary on the levels of spending by pointing out the present accreditation standards are not even being funded. The evidence of this trial said that these districts cannot afford the supplies for the school kids, cannot afford the equipment and the facilities. We have to be careful about meeting that aspect of the Court mandate, but more importantly the Court focused on discrepancies in spending per student, and that is the central measure of where the quality of educational opportunity is provided. That is what Judge Loble found in very findings. (See Exhibit 5.)

Because of these caps, the poor districts that are just over the 85% level are limited on how they can increase. That is not the way to try to close the gap on disparities. The Court referred to I-105 as basically a lock-in mechanism. The advice is the administration and the bill do not look at what needs to be looked at. They haven't presented the data or computer runs that show us what this bill does. It leaves us with accepting a proposal that may fail to meet

the Court test. I don't think we ought to do that because there was no hearing in the Senate, no meaningful inclusion of the plaintiffs and their lobbyist and the experts. I don't think the process gives us a great deal of confidence that this bill will accomplish what it needs to.

I think it is a bad idea to fund retirement on an ANB basis. There are costs out there that vary from school to school based on teachers' salaries, based on experience, and we all want to have an incentive for funding experienced teachers in school districts. These are according to the Court, educationally relevant factors that can and should be considered in terms of the right approach to funding retirement. I urge you to view this Court case as an opportunity because it is an historical opportunity to deal with the problems of educational funding and equality in Montana. If it is not, we have no recourse but to take this back to the Supreme Court because we started this and we have to solve an obligation to those school children and those school districts to make sure that their constitutional rights are met. I don't look forward to doing that.

Dale Zorn said that many school administrators are confused because they have not had consistent figures to work with. We aren't really able to make comparisons without the correct numbers. I want make three points going back to the consensus points that the educational community put together. Retirement should not be included in the general fund. If you fund it in the general fund, it begins to hurt programs. The committee should go back to Sen. Nathe's original bill where retirement was left out of the general fund. The cap proposal does not allow for the lower spending districts to catch up fast enough.

Bruce Moerer stated that the School Board Association would like to recognize Governor Stephens' efforts to comply with the Supreme Court ruling. The educational community has also been working over the last six months to develop a hard-earned consensus on a number of issues to give the legislature our input as you work to solve the problem. These consensus points were developed after much give and take, and when you look at them we would ask that you understand that they are a related package. It has been difficult to analyze the Governor's program to determine if it meets the equity set forth by the Courts that has been discussed before you already. We have not seen any numbers as to how the plan effects each individual district. We share the concerns on meeting the equity test that you have heard from the plaintiffs and we feel that the more appropriate level of funding in light of the Court ruling would be the level set forth in the original SB 203 before it was amended, which would be funding at the level of current expenditures. We feel this is an important first step and we need to bring districts up to a level that is

acceptable to the Courts. We have to strongly disagree with that Governor's plan that funds special education teachers' salaries based on state wide averages. The Court specifically said that special education was one of those education ally relevant factors that justify differences in spending per student. Special education costs should be funded on actual salaries for services for handicapped children. We think that funding for retirement should be completely equalized at the state level as far as revenue goes, but the money should be distributed to each school district on an actual cost bases. Another alternative would be to have the state assume the payment of those costs developed in the Senate Education Committee prior to the amendments for the Governor's plan. We feel that retirement is an educationally relevant reason not to spend equal dollars per student because it is a mandated cost. The school has no choice but to pay it. It is our recommendation to put SB 203 back to its original form, after it was first worked on in the Senate Education Committee, and prior to the adoption of the amendments to the Governor's program. If you use that as a starting point we can maybe go further and look at other options.

Ernest Jean see Exhibit 6.

Richard Florin, Assistant Superintendent of Schools, Havre stated that they have four major concerns: They have already established teacher contracts and contracts with classified personnel and don't have any choice about what is going to take place next year in terms of salaries. They have no ability to use those types of expenditures. We need some time to meet the transition for whatever bill you finally come up with for the funding of public education. I urge you not to do anything until FY 91, so that we do have some time to make the proper adjustments. Secondly, I would like to bring to you the fact that the Havre public school district has cut \$56,000 in the last two years as a result of I-105. A school district that has lost 25% of its taxable valuation, a school district that has eliminated employees from its employment is in addition to that going to be required to lose \$114,000 in this program from our current budgeted retirement account in elementary and an additional \$75,000 from our current budgeted retirement account in the high school. We can't afford any more of these kinds of reductions. The second thing about retirement is we have to keep in mind is that a fair portion of us are paying the retirement costs of transportation personnel out of our retirement budgets. We have in our district, \$300,000 worth of salaries for transportation people because they are our employees. Those districts that contract transportation, don't have to pay out of the retirement budget the amount of money necessary to recover those retirement. There is a major inequity then for school districts that contract opposed to those school districts who run their own programs. The same might be true for

custodial services. School districts are going to start to start to contract custodial services. Public education no longer has any guaranteed sources of revenue in SB 203 as amended. At least before the bill hit the Senate floor, we had a minimum amount of money we could depend on from the state. At some point and time, I would like to know why that amount of money and those guarantees were removed from this piece of legislation. I urge your consideration of SB 203 as its original form.

Tom Bilodeau, MEA see Exhibit 7.

Richard Shaffer see Exhibit 8.

Pat Melby supports the testimony of those who have testified ahead of him. There is one additional statement that he would like to make. The capping system should be is tied to the foundation program itself and not the average budgets. I urge this committee to consider this point in addition to the consensus points that were handed by in the educational community and to restore SB 203 to its present form.

Loren Soft see Exhibit 9.

Earl Leonard said he agreed with the many people that spoke before. We would like to see the retirement system remain as a separate fund. We would like to see that funded dollar per dollar and receive truthful funding, but not the average funding. With regard to the 180 day PI amendments, at the present time Great Falls has 185 PI days and we feel that this in keeping with what we are hearing about longer school terms. We would like to see that portion of the bill modified, or removed.

Terry Minow, MFT, stated that they oppose SB 203 as it is currently worded. Funding special education on average teacher salaries would be an obvious disadvantage to keeping an experienced teaching force. Those schools with experienced teachers would be penalized and be forced to dip into their general fund to pay for special education. Schools with low salaries and with inexperienced teachers would receive a windfall. The caps work in much the same way, that is, penalizing schools that have supported education and the high priority of education in their community. This bill as currently worded is not the positive step that Montanas education desperately needs.

Larry Gruel see Exhibit 10.

Bob Odermann, Butte Schools discussed how SB 203 and the caps would hurt Butte Schools.

Gary Forrester, Lockwood Schools stated that the board of trustees in Lockwood is in agreement that SB 203 before the amendments were passed is the best vehicle for satisfying



the Court action.

Christine Deveny see Exhibit 11.

Steve Brown stated that the Indian Impact Aid Schools opposes SB 203. I firmly believe that there is room for the educational community to sit down and work out some of the differences you have heard today. I don't think there is any disagreement that retirement needs to be equalized. To exclude PL 874 funds from the expenditure caps in the Governor's amendments is good public policy primarily because of the Constitution of this state. 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 culture. The American Indian children must be addressed as a part of the school funding issue.

Mignon Waterman stated that the Helena school district made major cuts in their budgets last year including \$2 million of cuts in our high school. We have made reductions in staff and we have cut by more than half our gifted and talented program and I am not sure that it will survive the cuts this year. With SB 203 as amended, we will have to make further reductions because there will be a loss of funding. We have been proud to have a quality educational system in Helena and it has been difficult to watch that deteriorate. We don't wish to be a part of seeing it deteriorate further. The education community has worked very hard to address some consensus points that will help education in Montana and will help the students. I urge you to look at those consensus points, and to look at the original Nathe bill. I urge you to strip the amendments that were placed on SB 203 and to work with the business community and the taxpayers and the educators in the state of Montana to come up with a solution that is good for kids, and is good for the Montana economy.

Kay McKenna, County Superintendent of Schools, Lewis & Clark County, stated that the first year I can see how perhaps the state might be able to fund the schools fairly well because they will have the reserves that they can use as an offset for moneys to fund the districts. I do worry about the second year because that reserve will be eaten up. I also worry about the next legislative session when you change your mind and then the school districts will have lost any reserve and will be ultimately broke.

Shirley Berrick stated that after reading SB 203 and doing the calculating on the outcome of the 13 school districts in Fergus County, I was very much surprised. We have also been faced with I-105 and now maybe with the possibility of loss in livestock and personal property tax which will amount to more than \$2 million for the county. We are concerned.

Rick Stuber said as SB 203 was originally drafted, it considered the consensus points from the educational community. The amendments are causing some fragmentation and I want to point out one specific example. If SB 203 does not eventually provide funding for all allowable costs of special education, then those school districts currently charging tuition should be allowed to continue that practice.

Harv Bennett stated that he is appalled at what he has seen in the last several years in the educational system. We don't know how to cope today; we don't know where we are headed. It appears that it will take another year or two to resolve this issue because we aren't going to see it done this year. When we elect and send the legislatures here, we deserve to see better. I can't believe that there are all of the amendments without the facts. I urge you to get on with this issue, get it behind us. If you look around the state at all the mill levies that have been passed, even in bad economic times, hardly any were turned down. If this legislature will come together with a proposal to fund the schools and if you are dedicated to education I will guarantee the citizens will pass the funding even, if it is a sales tax that will get more for education.

Calvin L. Spangler see Exhibit 12.

Ramona Stout see Exhibit 13.

Bill Cooper see Exhibit 14.

David C. Lloyd see Exhibit 15.

Questions From Committee Members:

Rep. Peck asked if Rep. Thomas was saying HB 623 and SB 203 are the same bills now with the amendments. Rep. Thomas stated that they should be identical as the amendments were written.

Rep. Peck asked Mr. Thomas if there was funding in either bill. Rep. Thomas said that was none.

Rep. Kadas asked Rep. Thomas you have said that your plan is equalized at 85% and there is quite a bit of confusion now over what it is we are equalizing. At least compared to HB 575, or compared to SB 203 as introduced, we used a different base when we figured a percentage. If we use the same base on this bill, it equalizes to no more than 69%, if you equalize 80% of the 100% of the average. Where did you come up with 85% or 80%? If I use the same numbers, I come up with 69%. Rep. Thomas stated that he did not do the numbers himself. If you take the general fund alone then we should be at 85% of the general fund, excluding

transportation, capital outlay and insurance. For those three items, there is a supplementary amount of money in the second year of the biennium that is \$25 million, to be distributed on the ANB basis. It does not come close to covering the cost of those three items, but it would cover is 50% of two of them and 30% of the third item.

Rep. Kadas asked Rep. Thomas that if the legislature appropriates an additional \$25 million and distributes that money on the basis of ANB, and particularly in the case of transportation and capital, how does distributing on the basis of ANB reflect reality in school districts? Rep. Thomas stated that it is in most out of proposals and consensus points, and the Governor's plan said that we need to study these three areas further and that we cannot just throw these into the general fund and fund then on an ANB basis. What this plan is designed to do is in the second year of the biennium is to help in three areas, transportation, capital and insurance. This is not going to be the ultimate answer to funding those three items. We have built in language that requires an interim study on those three items.

Rep. Kadas asked Rep. Thomas, with regard to the interim study, what role do you think the legislature ought to play in that study? Rep. Thomas stated that there will probably be on going studies that the Legislative Finance Committee would be involved in and giving input to the interim study going on.

Rep. Kadas said that the bill doesn't have the legislature involved in any way. Rep. Thomas stated the legislature will set up a specific interim study. It could be amended to have OPI do it, but the bill presented has the budget office making a recommendation to the next legislature. There could be another study done by another government agency.

Rep. Harrington agreed with Rep. Thomas that we aren't going to take care of all of the problems, but don't you think it is creating greater problems because you are shoving this back on the districts. Rep. Thomas stated that we won't cover every school district and frankly some of those high spending districts he doesn't care about because those districts are spending so much money in comparison that we have to limit their budgets. There is no way that we can come out of this equalization situation without some districts losing funding that they've got right now and that is part of equalization.

Rep. Harrington asked Rep. Thomas if he could clarify his position that he feels that there is overspending on retirement? Rep. Thomas stated that obviously you couldn't overspend in retirement, but it is a portion of what you are paying for payroll.

Rep. Harrington asked Rep. Thomas, do you feel that teachers are overpaid in the state of Montana? Rep. Thomas said that he didn't say that.

Rep. Harrington said that some districts let teachers stay only for three or four years, and then they move on so they are low cost. But how about districts that have teachers that have 20 - 30 years or more? Is there some way that this bill could be amended to address that inequality? Rep. Thomas said when you have distribution back to districts on an ANB basis, you have a very difficult situation. When you have experienced faculty and they are in the higher brackets of pay, how do we address the Supreme Court decision? The question isn't how much we want to spend, the question is how will we equalize education in Montana. In my estimation we were dictated to equalize, and equalize means that you have a very basic denominator, and that is the children and so many times we forget the children. Sen. Nathe responded by saying the issue that you hear regarding retirement as amended is an interesting one with regards to Court decisions. The Loble decision hit very hard on the great disparities of teacher retirement throughout the state. How do we get into compliance with equalization, do you use averages? Equalization by itself seems to imply using averages.

Rep. Grinde stated that Mr. Nordtvedt's proposals seem to be scrutinized quite heavily on the issue of fairness and could Mr. Nordtvedt respond? Mr. Nordtvedt stated that equalization is not reimbursing the schools dollar for dollar to their present cost. We have schools that are spending quite a big amount on all of their budgetary items including retirement costs which are not independent, but are a fixed cost. If we are to reimburse schools dollar per dollar for anything except for special education, we will be moving exactly away from equalization. We have to face the fact that what equalization means is the state is going to provide equal financial support for all children in the same circumstances in the state. We selectively subsidize some schools at a higher rate and then we subsidize other schools at a lower rate. We've got to subsidize down from the state on a equal basis, that is the essence of equalization.

Rep. Eudaily asked Mr. Goetz how do we address the educationally relevant factors without throwing the equalization out again. Mr. Goetz responded by saying in retirement this legislative body could say that we want teacher experience and we want an incentive for it. Therefore, we are not going to penalize districts that have an experienced faculty and therefor we aren't going to fund directly on ANB basis for retirement but we are going to have a formula that accounts for experience, that would be a legitimate educationally relevant factor. It would be a more common sensical way to address that issue rather than blindly say you have to fund the same amount of money per ANB throughout

the state regardless of the differences in the cost because you have collective bargaining agreements or experienced faculty or you have low student\teacher ratios in small schools. Those are all educationally relevant factors.

Rep. Peck stated that these amendments are a continuation of the Governor's plan and is it possible to postpone this year? Rep. Thomas state that the plan is, in regard to these amendments, that the permissive levy amount would be continued in the next school year. I don't think that it is written in stone that the first step that this plan must begin July 1. It is written in stone that you must have a plan by this time, but it could be moved into the second year of the biennium. That is certainly something that I could look at.

Rep. Peck asked do you know what is out there for transportation costs? Do you know that there are dollars in the transportation budgets for hauling kids in town and it is the option of the local districts to fund all of that? Rep. Thomas stated that the plan to put \$10 million towards transportation is not an attempt to solve equalization, but it is step towards helping the districts in the second year of the biennium. In the mean time, study that area and try and come up with a plan to equalize and do whatever has to be done at that time.

Rep. Peck asked Rep. Thomas if he was going to differentiate among districts that are in compliance and those that are hauling kids inside the 3-mile limit? Rep. Thomas stated that the \$10 million would be distributed on an ANB basis.

Rep. Peck asked Sen. Nathe if he considered a statewide teacher salary and if so why did you reject the idea? Sen. Nathe stated that was one of the options that was discussed. Statewide teachers salaries are something that we may be looking at down the road if we are going to be looking at equalization.

Rep. Peck asked Sen. Nathe how he felt about no funding in the bill? Do you feel we ought to have to go through two operations to try to settle this issue? Sen. Nathe responded by saying he really does because you can feel the controversy that was generated in here over the way to equitably distribute money. If you were arguing about whether there should be a sales tax in here or if we should mix the sales tax, income tax surcharge and property tax, I feel you would further complicate the process if we had a funding mechanism tied right into this bill at this time.

Rep. Kadas asked Sen. Nathe that as legislators we have to be cautious of what the experts say and to try to work with their criticism and try to develop a bill that they have looked and worked on. Now you've got this bill here today that you have absolutely no support for. Where does that

leave you, where does that leave us? What can we do with this bill? Sen. Nathe stated that you have the power to amend this bill. The experts that I was referring to were the clerks of the school districts and those were the ones that I was referring to that were never brought in. We have brilliant minds that move money around and they are the ones that really understood the flow, like superintendents if they are from a large school district. With regards to amending the bill, you have got to deal with the political realities. You also have to remember that any bill of this magnitude is going to have a lot of fingerprints on it. We haven't even started the funding part of it yet and something like this bill is bound to be shaped and changed.

Rep. Kadas asked Sen. Nathe if he was aware that the House passed a motion that specifically made this bill a revenue bill? Rep. Kadas stated that this bill was a revenue bill for purposes of transmittal dates. Sen. Nathe stated that he doesn't know if the rules allow for that between both Houses. There were no chances taken on any interpretation of whether it was or was not a revenue bill.

Rep. Kadas asked Mr. Nordtvedt whether the Governor's proposal to equalize retirement would have paid for that with a mandatory mill levy in the neighborhood of 22-24 mills? Where is that in this bill? Mr. Nordtvedt stated that it isn't in this bill. They took it out because they wanted to separate the funding questions from the equalization plan questions. We did have the revenue source tied to what we thought was a widely held consensus that retirement costs should be equalized. To strip the revenue questions from the equalization planning question we took that out of the bill.

Rep. Kadas asked Mr. Nordtvedt if it is still the administration's position that retirement costs ought to be paid for by mandatory mill levies? Mr. Nordtvedt stated that it is the administrations position that as low a statewide property tax levy as we can reasonably get away with should be in the final equalization plan. The revenue source for this plan we proposed today is about \$175 million of new state money per year. We are going to have to find a source of \$175 million a year of new state revenue. It can come from the obvious funds that many people have discussed. State wide property levies, higher levels of income taxes or other miscellaneous taxes, sales taxes, or some combination or all of those.

Rep. Kadas asked Mr. Nordtvedt what he meant by as low or reasonable property tax as possible? Mr. Nordtvedt stated that the administration has tried to stress the disadvantage to the state economy and certain regions of the state of relying too heavily on statewide property mills to fund equalization, so we would like to keep that as low as possible, but we can't set a number because we are not in a

debate over the revenue mix.

Rep. Kadas asked Mr. Nordtvedt, in the second year of the biennium, whether the bill increases the schedules by some 50%? Mr. Nordtvedt stated that is the proposal 54.3% higher than the schedules are today. Rep. Kadas asked how do you arrive at that number? Mr. Nordtvedt stated so that the new general fund that would include retirement reaches the 85% equalization level.

Rep. Kadas asked Mr. Nordtvedt 85% of what? Mr. Nordtvedt stated that if you add up all of the present general fund spending in the state of all of the schools, plus all of the retirement costs, by two years down the line, 85% of that pot of money will be supplied by the state on an equalized basis. The other 15% of that will be supplied by the voted levies.

Rep. Kadas asked Mr. Nordtvedt how come you chose to equalize just the general fund and you didn't include the other auxiliary funds of transportation and capital costs? Mr. Nordtvedt stated the goal is to eventually reach 85% with these funds as well, but I think much of the discussion has indicated that the education community still needs to find the best way for the state to fund things like transportation and insurance at the 85% level. We are going to study that and hope we have proposals for the next legislature to bring that part of school expense up to the 85% equalization level.

Rep. Kadas asked Mr. Nordtvedt, for the 85% of the general fund, how many dollars does it take for a 54.6% increase in the schedules. Mr. Nordtvedt stated that takes \$152 million in state funding in the foundation program.

Rep. Kadas asked Mr. Nordtvedt with regard to caps, why did you pick 116% as your zero percent increase. Mr. Nordtvedt stated that the caps are a judgment call as to how fast you want to tighten the caps between the middle spending and the high spending schools and liberalize the caps for the low spending schools to create a system which will tend to bring spending levels closer together.

Rep. Kadas asked Mr. Nordtvedt whether the 116% will move up every year? Mr. Nordtvedt stated that it is 116% of the average and if your caps are allowing state spending to grow, which they are by about 4% on the average, then you will always be measured compared to a higher spending level.

Rep. Kadas asked Mr. Nordtvedt if you have the schools funded at 80% of the average and you've got other schools that are funded at 117%, the difference between those schools is considerably more than 85% of each other. I don't think you have equalized 85%. Mr. Nordtvedt stated that is not the concept of equalization that you can

generally use for a whole system.

Rep. Harrington asked Sen. Nathe why there should be some hurt and pain in this equalization issue. There shouldn't be, but there probably will be. Sen. Nathe if you are going to equalize as distorted as this issue is, if we have a certain time frame in which we have to do things their, someone has to come down, someone has to be brought up or someone has to be frozen. In any of those scenarios someone is going to feel pain. I think that is just given because we don't have the \$300 or \$400 million laying around to bring everybody up to the high spending level. I don't like to see it.

Rep. Schye asked Sen. Nathe about what happened in the Senate. There are a lot of us that feel the public was left out of the Senate hearings on the Governor's amendments and this is the first time that they have been in on them. With the administration saying on the 55th day that we have to have a bill done, do you think this is realistic given that the people who came here to testify still can't get the information they need. Do you feel we can have this bill done on the 55th day? Sen Nathe stated that it depends on how much time you want to put in between now and then. I would assume there is a little flexibility with regards to the 55th legislative day.

Rep. Gilbert asked Mr. Nordtvedt how are we going to equalize teacher retirement? I hear that we should create a separate accounting entity for teacher retirement and fund it dollar per dollar, but if you do that, don't we create the same inequity that we have right now because those schools that have more teachers than they really need get paid more money so that makes the whole system out of balance. We really haven't addressed equalization at all, what we have really done is funded the same thing the state has funded through mandatory mills. Mr. Nordtvedt said that he agreed exactly.

Rep. Gilbert stated that Mr. Nordtvedt has been highly criticized because we aren't bringing the bottom schools up fast enough. It will take a tremendous amount of money we don't have, and the alternative is to take these top people and drag them down. I think we should do that because they are the ones that got us in this mess to begin with.

Speaker John Vincent asked Sen. Nathe if he would be willing to contact the administration and find out what kind of flexibility this committee has regarding the time frame. Sen. Nathe stated that he certainly would.

Speaker Vincent asked Sen. Nathe a lot of the people came in and testified that had your bill been in its original form, they would be proponents but were now opponents. Would you be willing to suggest that this committee take this bill, return it to its original form, and use that as a good place to start from there? Sen. Nathe stated that it is entirely



up to this committee.

Speaker Vincent asked Sen. Nathe do you stand by your bill and the Governor's bill in the sense that it can and should be implemented? Sen. Nathe stated yes, with mechanical corrections that should be done.

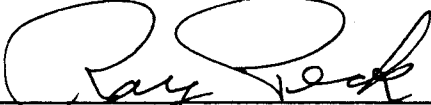
Rep. Kadas asked Mr. Nordtvedt what equalization means, what is your interpretation of what the Loble decision means in terms of percentage of equalization? Mr. Nordtvedt stated basically equalization within the state has to provide a common base for the education of all Montana children and teenagers, to supply a base amount of money on an equal basis to all of the children, and it has to essentially be at the level that is close to our concept of what a basic education is.

Closing by Sponsor:

Both Sen. Nathe and Rep. Thomas made brief closing comments.

ADJOURNMENT

Adjournment At: 5:15 p.m.

  
\_\_\_\_\_  
REP. Ray Peck, Chairman

RP/jf

4704.min

DATE 2-28-89

Form CS-30A  
Rev. 1985

**A SUMMARY OF  
SCHOOL FUNDING EQUALIZATION  
PROPOSALS**

Prepared for the

Select Committees on Education

House Education and Cultural Resources Committee

Senate Education and Cultural Resources Committee

by

Andrea Merrill, Staff Researcher, Legislative Council

Dave Cogley, Staff Attorney, Legislative Council

Madalyn Quinlan, Associate Fiscal Analyst,  
Office of Legislative Fiscal Analyst

February 6, 1989

Revised February 27, 1989

Summary of Senate Bill 203  
(third reading copy)  
Prepared for the Select Committee on Education  
by Dave Cogley  
Committee staff

This bill, as amended by the Senate, makes the following changes in the current system of public school funding:

Effective for school year 1989-1990 (FY 90):

- (1) eliminates the county school retirement levy and district retirement fund, and provides for retirement, social security, and unemployment insurance to be budgeted in the district's general fund (sections 1, 2, 5, 8, 24, 28, 30, and repeal of 20-9-501, 20-9-531, 20-9-532). Any reserves or balance in a district's retirement fund on July 1, 1989, must be transferred to the district's general fund (section 52). Lottery revenue is rerouted to the foundation program (sections 44 and 48). The foundation program schedule for school year 1989-1990 is increased by 18.6% to provide for retirement distribution from the foundation program (sections 34 and 35).
- (2) eliminates the district permissive levy of up to 10 mills (repeal of 20-9-352).
- (3) increases the foundation program schedule amounts for school year 1989-1990 by 18.6% to reflect the inclusion of retirement costs (sections 34 and 35). The schedule revision contains no other increases for FY 90, leaving FY 90 funding at current level for what is presently included under the foundation program schedule. The governor is proposing, in a separate appropriation bill, to increase state funding of special education by \$6 million each year of biennium.
- (4) provides a mechanism for limiting general fund expenditures of each district by limiting increases in a school's general fund budget (per pupil) based on the district's expenditures (budgeted amount) per pupil in the prior school year (section 33). Generally the lower the level of spending per pupil during the prior year (in comparison with other districts in the same schedule category), the greater the increase the district is allowed. The higher the level of spending per pupil the prior year, the less a district is allowed to increase. Districts which budget 116% or more of the average, per pupil, of all districts in the same schedule category are frozen at current level.
- (5) provides for equalization of special education distributions by establishing average salaries of special education personnel as the allowable cost which will be reimbursed (section 24).

fund" are deleted because of the transfer of those centers to the board of regents by House Bill 39 (1987). Some statutes currently contain incomplete references to revenue sources designated by other statutes, and an attempt was made to provide a complete listing of such other statutes for the convenience of the code user. For instance, see section 43, amendment of 20-9-333 (2)(d). In some instances an MCA section is repeated in the bill. The first version is effective for FY 90, the second for FY 91. See sections 26, 27, and 53.

Amendments to House Bill No. 623  
Second Reading Copy

Requested by Representative Thomas  
For the Select Committee on Education

Prepared by Dave Cogley  
February 21, 1989

1. Title, line 15.

Following: "LEVY"

Insert: "AND RAISE THE BASIC COUNTY LEVY BY AN EQUIVALENT NUMBER  
OF MILLS"

2. Title.

Following: line 24

Insert: "APPROPRIATING MONEY TO PARTIALLY EQUALIZE DISTRICT  
EXPENDITURES FOR INSURANCE, TRANSPORTATION, AND CAPITAL  
PROJECTS;"

3. Page 61, line 25.

Strike: "28"

Insert: "34"

4. Page 64, line 14.

Strike: "17"

Insert: "21"

5. Page 79.

Following: line 2

Insert: "NEW SECTION. Section 49. Appropriation. (1) In  
fiscal year 1991 there is appropriated the following amounts  
from the general fund to the office of the superintendent of  
public instruction to be distributed to the public school  
districts as equalization aid for the districts' costs for  
transportation, insurance, and capital projects:

Transportation	\$10 million
Capital projects	\$10 million
Comprehensive insurance	\$5 million

(2) The superintendent of public instruction shall determine the amount per average number belonging (ANB) by dividing each category amount in subsection (1) by the total ANB of all the districts in the state in fiscal year 1990. The distribution to each district is the amount per ANB multiplied by the ANB of the district in fiscal year 1990. The superintendent shall prorate the distribution to any joint school district. The distribution made in each category must be credited to the corresponding district fund and may not be used for any other purpose.

(3) The superintendent of public instruction shall notify the county superintendent of each county by the fourth Monday in July of the amount of equalization money available in each

category, calculated separately for elementary and high school districts and prorated for any joint school district, so that each county superintendent may use the amounts to calculate the levy requirements for the districts in the county.

(4) The superintendent shall make all distributions by October 1, 1990, and shall keep a complete record of the distribution to each district.

Renumber: subsequent section

TABLE 27A: VARIATIONS IN GENERAL FUND PER ANB FOR ELEMENTARY  
DISTRICTS BY DISTRICT SIZE, 1985-86

DISTRICT SIZE	HIGH	LOW	RATIO H/L	C.V.	95TH	5TH	RATIO 95/5
-----	----	----	-----	----	-----	-----	-----
ALL	19,959	1,406	14.2	.268	4,020	1,911	2.1
<= 8	19,959	2,495	8	.479	7,735	2,495	3.1
9-17	5,446	1,724	3.2	.275	4,597	1,872	2.5
18-40	5,931	1,406	4.2	.418	5,612	1,507	3.7
41-100	7,701	1,597	4.8	.379	5,895	1,885	3.1
101-300	6,778	1,815	3.7	.328	5,027	1,881	2.7
> 300	5,167	1,702	3	.197	3,435	1,921	1.8

-----  
Data Source: OPI





TABLE 27B: VARIATIONS IN GENERAL FUND PER ANB FOR SECONDARY DISTRICT  
BY DISTRICT SIZE, 1985-86

DISTRICT SIZE	HIGH	LOW	RATIO H/L	C.V.	95TH	5TH	RATIO 95/5
-----	-----	-----	-----	-----	-----	-----	-----
ALL	20,163	2,170	9.3	.440	6,632	2,684	2.5
< 24	18,393	7,728	2.4	.316	18,393	7,728	2.4
25-40	20,163	5,848	3.4	.324	20,163	6,632	3
41-100	14,889	3,118	4.8	.352	9,011	3,138	2.9
101-200	14,716	3,119	4.7	.459	6,526	3,142	2.1
201-300	7,793	2,404	3.2	.316	6,513	2,404	2.7
301-600	8,806	2,170	4.1	.427	5,851	2,219	2.6
> 600	3,916	2,828	1.4	.057	3,187	2,828	1.1

-----  
Data Source: OPI

PLAINTIFF'S  
EXHIBIT  
27B


## WITNESS STATEMENT

NAME Nafaria Esty BUDGET \_\_\_\_\_ADDRESS 511 Henderson, BozemanWHOM DO YOU REPRESENT? my children, students in Montana public schools.SUPPORT ☒ in its original form OPPOSE \_\_\_\_\_ AMEND \_\_\_\_\_

COMMENTS: School students in Bozeman are being hurt by budget constraints imposed by I. 105- Elementary students are in large classes, compared to student in those grades ten years ago. Our School District can not get additional revenue; our programs are being cut, or scaled back to deal with these realities.

My children, and many other Montana children need not only equalization, as Judge Lobel addressed, but an actual increase of the average district, to provide them a quality education.

Without this, Montana's future is in threat. As a parent of school children in Montana I respectfully beg you to take these facts into consideration. I trust you to create

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY. 

FLORENCE-CARLTON SCHOOL DISTRICT 15-8  
5540 OLD HIGHWAY 93  
FLORENCE, MONTANA 59833

EXHIBIT 6  
DATE 2-28-89  
SB 203

DR. ERNEST WILLIAM JEAN,  
SUPERINTENDENT 273-6751

GERALD E. McVAY,  
ELEM. PRINCIPAL 273-6741

HUBERT DEGLON,  
JH/HS PRINCIPAL 273-6301 (FOR THOSE ON STEVENSVILLE EXCHANGE, PLEASE CALL 777-3902)



## MEMO

TO: HOUSE EDUCATION COMMITTEE

FROM: Dr. Ernest William Jean, Florence-Carlton Schools

DATE: 28 February 1989

RE: Senate Bill 203, as amended

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The following relates specifically to how Senate Bill 203 affects Special Education.

I would like to point to several inadequacies in that bill as it relates to special education. In this issue, I am also presenting opinions as expressed by my Director of Special Education and I am speaking for CASE (Council of Administrators of Special Education.) Since the time is relatively short and a lot of my comments relate how this bill affects my school, I will attach a handout which I have prepared for the Committee. I would like, however, to speak about special education.

Senate Bill 203 appears not to take into account the special needs of Special Education Cooperatives or the special needs of each school district. By moving retirement into the general fund and eliminating the county retirement levy, and the resulting revenue apportioned to the school districts based on ANB, there is no way to fund the retirement budget of any Special Education Cooperative. As a further problem, school districts who have their own special education programs are in similar circumstances. Since special education students do not receive ANB, and are not counted in the child count of a school, there would be no retirement received by a school district for these students. As an example, in our school district, we have a special education program with five students with multiple severe disabilities. Within that program, we have one certified teacher and two teaching assistants for the instruction of those students. Even if the Florence Carlton School received ANB for those students, that payment would not be sufficient to pay the retirement costs of this staff.

The second comment I would like to make is that the proposal speaks to an increase of special education of \$6 million dollars. This figure falls short of the estimated amount of money needed to fund special education costs statewide. It

is difficult to determine what percentage this would be of allowable costs, but it would certainly would not be 100%. Therefore, to say that this \$6 million dollars would make up for the shortfall is simply an inaccurate statement. Money needed to fund the needs of special education students would have to be diverted to fund the retirement costs of special education personnel.

Third, averaging the salaries of special education as a method to pay staff costs would probably hurt those schools who are below average. However, statewide, this would not in the long term create a system more than to pay for an average program. Special education programs who have staff who have a great amount of years tenure within the Cooperative or special education program would receive less and less state supported revenue for their retirement since only the average costs would be paid to the district or Cooperative.

Lastly, I would like to address tuition costs which are to be eliminated in this proposal. While it appears on the surface to be very similar to tuition for regular education students, I would submit that this is not the case. It is not unheard of to have a student transfer into a district from a neighboring district or placed in the district by a state program, i.e., SRS. that would take a significant increase in special education costs to educate. Since these

students are in high cost programs, to eliminate tuition would be to the detriment of the student. As an example, one severely multiple handicapped student could cost the district a significant amount of money, possibly in the range of \$50-60,000 or more for each student. What this would do is force districts to refuse to take a child from a neighboring district into this program.

In summation, we believe that this bill, unless amendments are made to account for the problems discussed above, would create in a very short time, a significant burden on local districts to make up for the shortfall in special education. The needs of these special education students would obviously suffer.

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Montana Education Association

1232 East Sixth Avenue • Helena, Montana 59601 • 406-442-4250

EXHIBIT 7  
DATE 2-28-89  
SB 203

FEBRUARY 28, 1989

BEFORE THE HOUSE SELECT COMMITTEE ON EDUCATION

SB203

The MEA, along with the entire public education community represented by the Ed Forum, stands in critical opposition to SB203 as it presently appears before the House Select Committee on Education Funding. In the MEA's view, the Governor's version of SB203 presents three fundamental flaws, as well as a host of other failings which threaten to devastate the funding base and comprehensive educational programs of many local school districts. It is the Association's opinion that SB203 -- in its present form -- constitutes bad legal, school finance, and public education policy.

**SB203's MAJOR FLAWS:**

- 1) The Level of Proposed State GF Foundation Funding is Too Low. State Funding of Only 80% of Actual Current GF Costs is Inadequate to Meet the Program Needs of Most Districts and Students.
- 2) The Level of State Funding, Coupled with GF Caps Based on Current Average Spending by District Size Groupings, Results in Maintenance of Gross Inequities of Spending Levels for Which Educationally Relevant Explanations are Not Available. (See attached: LFA's Table 3 "Disparity Within Foundation Program Categories - 2/20/89.")
- 3) The Absence of a Formula-Driven and Automatic Foundation Program "Growth Factor" Threatens the Long-Term Sufficiency and/or Equity of Any Education Funding Reform Measure. (See attached: Figure 2 "The Decline of State Support for Public Education" and p.28 "The Need for a Growth Factor.")

**SOME OTHER FAILINGS OF SB203:**

- 1) Distribution of Retirement Monies Through the GF on an ANB Basis Undermines State Funding for Local District's Educationally Relevant Cost Needs Relating to High Employee Retention Rates and Will Require These Districts to Spend Locally Generated GF \$ to Cover Mandated Retirement Costs Not Met Through Foundation Payments.

- 2) Distribution of Special Education Monies to Districts Based on the "Average Statewide Special Education Teacher Salary" Ignores Actual, Locally Determined and Educationally Relevant Pay Levels and Will in Those Districts Having Above Average Special Ed Costs Result in the Curtailment of Special Education Services and/or Use of Locally Generated GF \$ to Subsidize Mandated Special Education Programming.
- 3) Imposition of a 180 Day Pupil Instruction Year in FY91 Will Abruptly and Arbitrarily Undermine the Level of Local District Funding, Educational Program Offerings, and Local School Board Control for Dozens of Districts.

#### SOME POSITIVE ASPECTS OF SB203:

- 1) Recognition of Need to Address Full Funding of Special Education Costs (+\$6m per yr).
- 2) Exclusion of PL-874 \$ From Caps and/or Equalization Consideration.
- 3) Re-Scheduling of Foundation Program Payments to Twelve Payments Per Year.
- 4) Implicit Recognition of "Equalization Up" Through Maintenance of High Spending District Levels (albeit in the absence of a FP "growth factor" sufficient to close spending level disparities).

#### RECOMMENDATION:

The MEA believes that the time has come to hammer-out the details of a workable, politically sound, educationally wise, lasting and sufficient education funding reform bill. In the Ed Forum's opinion, many of the specific items for such a bill have already been identified and codified in the draft of SB203 as passed by the Senate Education Committee (a variant of the same appears as Representative Thomas' originally introduced HB623), and/or in Representative Kadas' HB575.

In the interests of promoting expeditious and closely scrutinized work, the MEA suggests that the House Select Committee -- in conjunction with the House Education Committee -- refer these bills to a working sub-committee at the earliest possible date.



Table 3  
Disparity within Foundation Program Categories  
Governor Stephen's School Equalization Plan excluding P.L. 874 Funds from Cap  
Fiscal Years 1989 through 1992

Foundation Category	School District		General Fund incl. Retirement -- Expenditure Per ANB --				-- Percent of Average --			
			Fiscal 1989	Fiscal 1990	Fiscal 1991	Fiscal 1992	Fiscal 1989	Fiscal 1990	Fiscal 1991	Fiscal 1992
1 Elementary 0-9 ANB	Carter	High	\$14,421	\$14,421	\$14,421	\$14,421	248.6%	236.2%	204.4%	197.4%
		Ave.	\$5,802	\$6,106	\$7,057	\$7,306	100.0%	100.0%	100.0%	100.0%
	Blackfoot	Low	\$2,352	\$2,656	\$3,456	\$3,732	40.5%	43.5%	49.0%	51.1%
2 Elementary 10-17 ANB no aide	Belle Creek	High	\$9,523	\$9,523	\$9,523	\$9,523	253.2%	243.4%	227.9%	219.0%
		Ave.	\$3,761	\$3,912	\$4,179	\$4,348	100.0%	100.0%	100.0%	100.0%
	Camas Prairie	Low	\$1,753	\$2,242	\$2,917	\$3,150	46.6%	57.3%	69.8%	72.4%
3 Elementary 14-17 ANB with aide	Hiawatha	High	\$7,421	\$7,421	\$7,421	\$7,421	209.8%	197.8%	174.4%	166.5%
		Ave.	\$3,537	\$3,751	\$4,256	\$4,458	100.0%	100.0%	100.0%	100.0%
	Pleasant Valley	Low	\$2,310	\$2,574	\$3,349	\$3,617	65.3%	68.6%	78.7%	81.1%
4 Elementary 18-25 ANB 1 Teacher	Auchard Creek	High	\$2,711	\$2,764	\$2,839	\$2,999	108.2%	105.2%	93.4%	95.0%
		Ave.	\$2,506	\$2,628	\$3,040	\$3,158	100.0%	100.0%	100.0%	100.0%
	Cottonwood	Low	\$2,302	\$2,491	\$3,240	\$3,316	91.9%	94.8%	106.6%	105.0%
5 Elementary 18-50 ANB 2 Teachers	Ft. Peck	High	\$5,605	\$5,605	\$5,605	\$5,605	193.5%	186.2%	168.3%	162.0%
		Ave.	\$2,896	\$3,011	\$3,331	\$3,459	100.0%	100.0%	100.0%	100.0%
	McCormick	Low	\$1,770	\$1,911	\$2,393	\$2,585	61.1%	63.5%	71.8%	74.7%
6 Elementary 41-100 ANB 3 or more Teachers	Myola	High	\$9,451	\$9,451	\$9,451	\$9,451	234.5%	226.4%	214.1%	206.4%
		Ave.	\$4,031	\$4,174	\$4,415	\$4,578	100.0%	100.0%	100.0%	100.0%
	Fishtail	Low	\$1,779	\$2,296	\$2,987	\$3,226	44.1%	55.0%	67.7%	70.5%
7 Elementary 101-300 ANB	Geraldine	High	\$6,327	\$6,327	\$6,327	\$6,327	191.0%	183.9%	173.8%	167.0%
		Ave.	\$3,312	\$3,440	\$3,641	\$3,788	100.0%	100.0%	100.0%	100.0%
	Independent	Low	\$1,957	\$2,113	\$2,637	\$2,848	59.1%	61.4%	72.4%	75.2%
8 Elementary 301 or more ANB	Lodge Grass	High	\$5,887	\$5,887	\$5,887	\$5,887	199.9%	192.3%	184.0%	176.8%
		Ave.	\$2,945	\$3,062	\$3,200	\$3,330	100.0%	100.0%	100.0%	100.0%
	Shepherd	Low	\$2,140	\$2,312	\$2,622	\$2,832	72.7%	75.5%	81.9%	85.0%
9 High School 0-24 ANB	Roy	High	\$21,439	\$21,439	\$21,439	\$21,439	179.5%	172.6%	166.0%	159.5%
		Ave.	\$11,944	\$12,419	\$12,915	\$13,438	100.0%	100.0%	100.0%	100.0%
	Lavina	Low	\$7,544	\$8,148	\$8,800	\$9,504	63.2%	65.6%	68.1%	70.7%
10 High School 25-40 ANB	Lambert	High	\$14,707	\$14,707	\$14,707	\$14,707	157.0%	151.4%	145.3%	140.0%
		Ave.	\$9,366	\$9,716	\$10,120	\$10,506	100.0%	100.0%	100.0%	100.0%
	Harrison	Low	\$5,127	\$5,537	\$6,819	\$7,365	54.7%	57.0%	67.4%	70.1%
11 High School 41-100 ANB	Plenty Coups	High	\$14,650	\$14,650	\$14,650	\$14,650	206.4%	199.3%	192.1%	185.2%
		Ave.	\$7,099	\$7,350	\$7,625	\$7,910	100.0%	100.0%	100.0%	100.0%
	Centerville	Low	\$4,054	\$4,379	\$4,729	\$5,107	57.1%	59.6%	62.0%	64.6%
12 High School 101-200 ANB	Lodge Grass	High	\$9,076	\$9,076	\$9,076	\$9,076	178.7%	171.7%	164.7%	158.1%
		Ave.	\$5,079	\$5,287	\$5,510	\$5,741	100.0%	100.0%	100.0%	100.0%
	Park City	Low	\$3,544	\$3,827	\$4,236	\$4,575	69.8%	72.4%	76.9%	79.7%
13 High School 201-300 ANB	Cut Bank	High	\$6,347	\$6,347	\$6,347	\$6,347	150.9%	145.2%	139.3%	134.0%
		Ave.	\$4,206	\$4,372	\$4,556	\$4,737	100.0%	100.0%	100.0%	100.0%
	Corvallis	Low	\$2,742	\$2,962	\$3,364	\$3,633	65.2%	67.7%	73.8%	76.7%
14 High School 301-600 ANB	Browning	High	\$6,125	\$6,125	\$6,125	\$6,125	155.3%	149.4%	143.6%	138.0%
		Ave.	\$3,943	\$4,101	\$4,266	\$4,438	100.0%	100.0%	100.0%	100.0%
	Hamilton	Low	\$2,839	\$3,067	\$3,314	\$3,579	72.0%	74.8%	77.7%	80.6%
15 High School 601 or more ANB	Butte	High	\$4,290	\$4,328	\$4,402	\$4,503	112.4%	109.2%	106.8%	105.1%
		Ave.	\$3,816	\$3,964	\$4,120	\$4,284	100.0%	100.0%	100.0%	100.0%
	Billings	Low	\$3,421	\$3,647	\$3,866	\$4,080	89.6%	92.0%	93.8%	95.2%

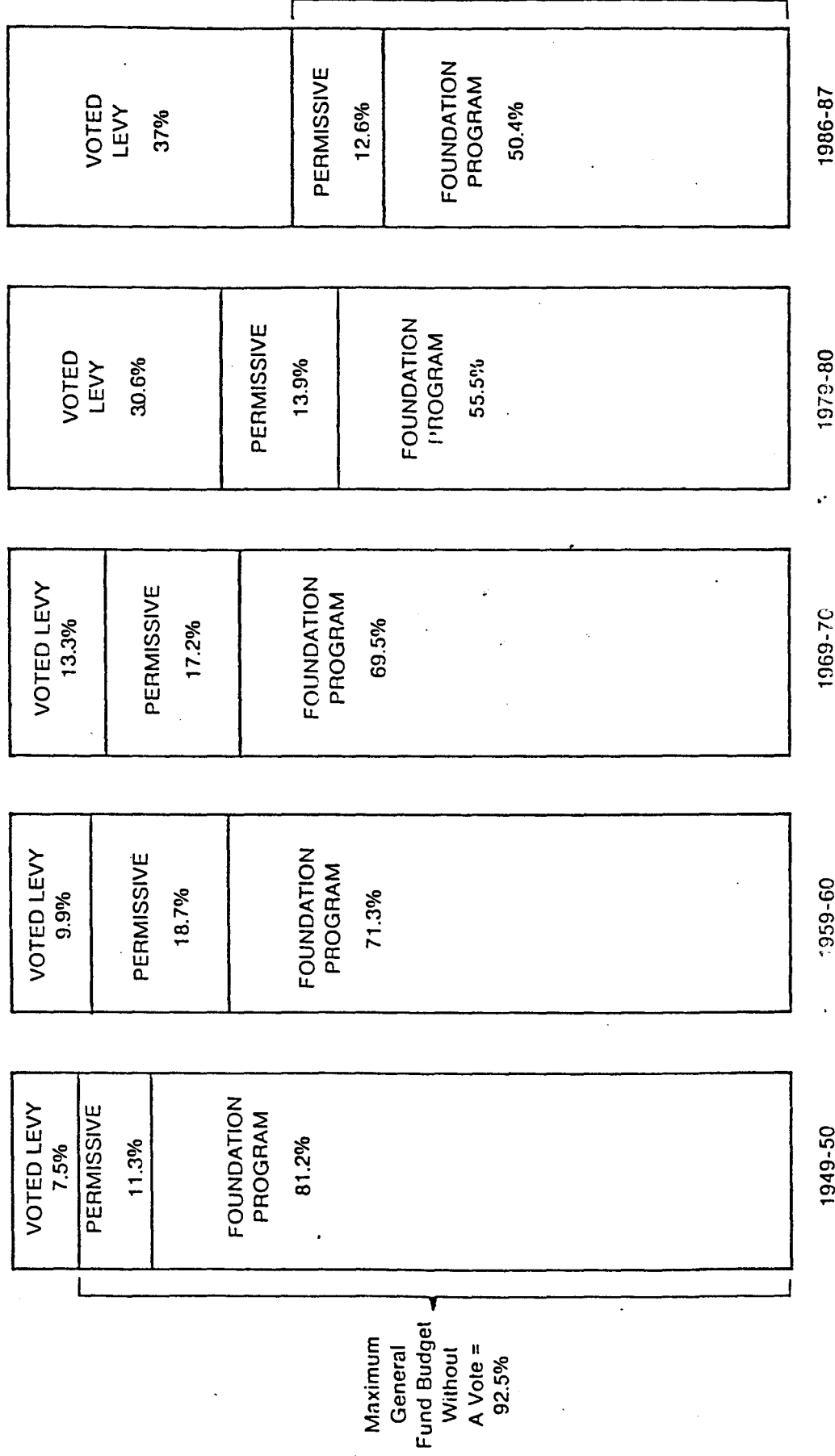
Note:

Category 4 (Elementary with 18-25 ANB and one teacher) has only 2 school districts. The 30.1 percent increase in the foundation schedules in fiscal 1991 causes Cottonwood Elementary's spending to exceed that of Auchard Creek.

# STATEWIDE GENERAL FUND BUDGETS\*

1949-50 THROUGH 1986-87

## "The Decline of State Support for Public Education"



\*Data for 1949-50, 1959-60 and 1969-70 extracted from *Financing the Public Schools of Montana*, by George R. Bandy (1981). Data for 1979-80 and 1986-87 extracted from OPI and MEA files. Figures may not total due to rounding.

### THE NEED FOR A "GROWTH FACTOR"

Maintaining an equitable "state/local split" may well dictate imposition of school expenditure caps. Historically, the education community has opposed expenditure caps because of the state's failure over time to adequately fund the foundation program. Simply put, absent sufficient state equalized funding, caps were rejected because districts needed a local revenue option to meet necessary educational costs.

Proposals to impose caps without assurances of enhanced foundation program support will over time undoubtedly engender considerable opposition. The opposition will have the historical record on its side. Moreover, a strong legal argument can be made that insufficient state foundation support over any time period of inflation and/or expanded educational expectations, jeopardizes maintenance of "a quality education."

Accordingly, the MEA supports a high level state to local split effectuated by an annual cap on the condition that the foundation program would include an automatic, formula-driven "growth factor" built into it. A growth factor would provide regularized and guaranteed foundation increases but would not preclude the legislature from voting additional foundation support.

Many growth factor variants are available. For example, it could be based on inflation, state revenue growth, or -- preferably -- on the prior fiscal year's (or biennium's) total statewide voted levy. The latter option would sum the number of voted levy dollars raised statewide in a given year. The resulting sum would then be added to and considered the state's responsibility to fund as the subsequent year's foundation program.

Example: 85/15 Split, Annual Cap & Voted Levy Growth Factor

	FY A:	FY B:	FY C:
(A) Foundation Program	\$500m	\$540m	\$575m
(B) General Fund Cap (A+17%)	\$585m	\$631m	\$673m
(C) Voted Levy = Growth Factor	\$ 40m	\$ 35m	\$ 50m
(D) Other Misc Local Revenues	\$ 20m	\$ 20m	\$ 20m
(E) Total General Fund (A+C+D)	\$560m	\$595m	\$645m

Such a foundation program growth factor would keep foundation support in line with locally determined educational costs and revenues. It would also equally spread those additional costs statewide in the following year.

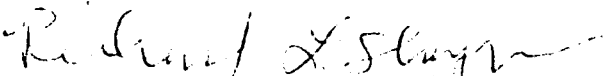
28 February 1989

For the record, my name is Richard L. Shaffer, and I am superintendent of the Dodson Public Schools.

The attached information is our best estimate of the impact on our school district of SB203, if implemented as amended some 87 times and then transmitted to this committee.

In the initial year, we will be forced to try to make up a deficit of \$8,300 resulting from the single act of combining the retirement fund budget and general fund budget. That may seem a small amount of money, but becomes very significant to my district when you take into account the multiple additional cost increases we face, including utilities which will rise 10-15 %, medical insurance premiums projected to rise 25-50 %, inflation which is once again on the rise, the continued burden of the workmen's compensation surtax on employers, an actual 50% increase in the cost of paper and paper products, tenure laws which prohibit salary reductions even to save jobs, the preceding three year period during which the public schools have seen average foundation program increases of approximately 1/3 of one percent/year, to say nothing of the limitations imposed by I 105.

We urge the return of SB203 to it's form incorporating the consensus points reached by the Montana education community in exhaustive meetings during the fall. That form of this bill, while not completely satisfactory to any of us, is certainly more palatable than one which strips school districts of needed funds, especially under the guise of equalization and representations to the public that somehow new money is being pumped into education.

  
Richard L. Shaffer, Superintendent  
Dodson Public Schools  
Box 278  
Dodson, MT 59524  
383-4361/4362

Dodson S.D. 2 A (C)

Box 278

Dodson, MT 59524

ELEMENTARY BUDGET

	1987-88	1988-89
General Fund Budget	\$362,983	388,582
Maximum GFB w/o Vote (FP w 7/8)	213,055	202,780
Retirement	39,956	45,259
Comprehensive Insurance	5,100	6,798
Special Education Allowance	21,026	19,647
ANB	99	93
Max GFB + Retirement for 1988-89		248,039

Using SB203 18.6 % addition to present schedules:

Calculation of Elementary Max GFB:

For K-6:  $K/6 + 7/8 \text{ ANB} = 67 + 26 = 93$ ; El. Schedule for 93 =  
 $172,812.60 \times 1.186 = 204,955.74 / 93 = 2203.83/\text{pupil} \times 67 \text{ kids in K/6} =$   
 $147,656.61$

For 7-8:  $K/6 + 7/8 = 67 + 26 = 93$ ; HS Schedule for 93 =  $280,004.40 \times$   
 $1.186 = 332,085.22 / 93 = 3570.81 \times 26 \text{ kids in 7/8} = 92,841.06$

Total =  $147,656.61 + 92,841.06 = 240,497.67$

Check the preceding number above by:

Max 88-89 GFB w/o vote  $\times 1.186$  ( $202,780 \times 1.186$ ) 240,497

Deficit Using 1.186 Method ( $248,039 - 240,097$ ) 7,542

	HIGH SCHOOL BUDGET	
General Fund Budget	\$302,487	263,128
Max GFB w/o Vote (FP)	172,365	154,703
Retirement	31,669	26,645
Comprehensive Insurance	4,900	5,487
Special Education Allowance	-	-
ANB	39	34
Max GFB + Retirement for 1988-89		181,348

Using SB203 18.6 % addition to present schedules:

Max 88-89GFB w/o Vote  $\times 1.186$  183,478

Excess using 1.186 method ( $183,478 - 181,348$ ) 2,130

NET DISTRICT LOSS:

Elementary loss (7,542) - High School gain (2,130) = \$5,412

Additional loss for 1989-90, not counting changes in ANB:

Elementary Retirement	\$1,338
High School Retirement	1,540
Total	$2,878 + 5,412 = 8,290$



Ex. 9  
2-28-89  
SB 203

## POSITION STATEMENT

FROM: YELLOWSTONE EDUCATION CENTER, PUBLIC SCHOOL DISTRICT  
NO. 58, YELLOWSTONE COUNTY, BILLINGS, MONTANA

DATE: FEBRUARY 28, 1989

RE: SB 203 AS AMENDED AND PASSED BY THE SENATE

=====


If Senate Bill 203 as amended and passed by the Senate is signed into law, School District No. 58 will financially be unable to remain a public school district. The loss of tuition for elementary special education students and the inclusion of the Retirement Fund into the General Fund without equalization funding are the two issues causing the financial burden.

The alternative for SD 58 is to move to a non-operating district status for one year and then allow annexation to another public district at the end of the one-year period. When the non-operating status starts, Yellowstone Treatment Centers, a private non-profit corporation would have the option of opening a private school for the purposes of providing education services for students in the treatment program at Yellowstone Treatment Centers.

Yellowstone Education Center, as a private school, would require payment on a monthly basis from the sending elementary school districts. It is understood that this funding will be supplied by the State Office of Public Instruction in the same manner presently used for secondary students placed at private institutions. Assuming steady elementary enrollment at Yellowstone Education Center, the additional State funding will be approximately \$240,000 for the first year. In the event funding is not available at the State level, the burden will fall on local districts.

The out-of-district student attending school this year requires that the tuition be paid to the receiving district the following year. The funding schedules for districts with a tuition liability for the first year of the new funding plan need a special schedule allowance to enable the district to fund the tuition liability.

It is the desire at School District No. 58 to maintain the public school as long as financially possible. Yellowstone Treatment Center, a private corporation, also is supportive of maintaining the public status of the school district.

  
\_\_\_\_\_  
Chairman, School District No. 58

School District No. 58  
1732 South 72nd Street West  
Billings, Montana 59106-3599  
(406) 656-2198

  
\_\_\_\_\_  
Executive Director, Y.T.C.

A Program of Yellowstone Treatment Centers at Yellowstone Boys and Girls Ranch

Comments of Larry H. Gruel, Chairman, Butte School Board

Thank you for this opportunity to express our concerns regarding this bill dealing with the equalization of school funding. In its present form the bill has concepts and changes we agree with, but concerns about the spending caps are creating severe heartburn.

Butte has a history of providing high effort support to education. Massive decreases in taxable valuation, increased costs, and declining enrollment forced Butte into a cost containment mode even before I-105 exacerbated the situation. Even after eliminating programs like the Accelerated Learners Program - even after closing neighborhood schools - even after reducing class offerings and sports programs - we have had to ask our taxpayers for funds over and above I-105 levels. Each year our local taxpayers have supported those requests by passing mill levies on the first vote.

We are now faced with the specter of not being able to take our case to our local taxpayers. As they stand now, the spending caps will force additional cuts in programs and personnel because the caps tell us, in effect, "Butte, we can no longer allow you to vote higher taxes on yourself".

This change in the rules of the game puts us in a situation where we may not be able to meet commitments made under the old rules without taking a meat axe to our already reduced education programs.

Our analysis of the present bill shows that our elementary budget would be frozen at current levels and that our high school budget could not be increased enough to cover expected increases in our present programs. It appears that any increases in the cost of instructional materials, any increases in utility costs, any increased building maintenance costs, any increased personnel costs - can only be paid for by cutting more programs.

The magnitude of the dollars may require cuts in tenured staff, which raises another whole set of questions. I think you can see why the concept of spending caps causes major concerns in Butte.

I am aware of the mandate the legislature has to force the dollars-spent-per-student numbers closer together, and I can suggest no alternatives to the idea that spending caps must be a part of any plan to drive expenditures to a common denominator.

I ask that you consider a phase-in of the spending caps - a phase-in that works toward equal cost per student but allows for the fact that even if programs are frozen at a given level, some of the costs of that program will rise due to factors beyond the control of the local School Board.

It took time for the existing situation to develop; I feel it is reasonable to take time to fix it. Thank you.



Senate Bill 203  
House Select Committee on  
Education Funding

February 28, 1989

LWVM Contact: Chris Deveny  
442-2617

Mr. Chairman, members of the committee, my name is Christine Deveny here today representing the League of Women Voters of Montana.

Members of the Montana League's eight local chapters have long been active in monitoring local school districts, and many of our members have and do serve as local school district trustees. The League's interest and concern for quality education in Montana initiated a comprehensive study of public education financing that was completed in 1986. Our study results were aimed at informing our membership as an organization of lay people, and not as a special interest group on education policy.

The recent Supreme Court decision confirmed the school funding inequities our study revealed; namely that the constitutional mandate for equality of educational opportunity is not being met by our current education funding system; and heavy reliance on local voted levies results in funding disparities among school districts. Based on the results of our study, the League has adopted a strong position of support for an equitable public education financing system in Montana. We advocate increased state-wide funding of public education on an equalized basis, with the funding resources coordinated at the state level.

The League of Women Voters of Montana wishes to go on record in opposition to Senate Bill 203. We feel this funding proposal fails to meet the equalization mandate of the Supreme Court by not providing a high enough level of funding, and by not assuring that equalization will occur in a reasonable amount of time. SB 203 provides only partial short-term solutions to the equalization problem, when what is needed is a more permanent and fair equalization framework that can be the basis for state and district school financial planning. In order for legislators and the public to make informed decisions about the future of Montana's education system, we believe that a good education funding proposal must also include revenue sources.

over



In equalizing education funding, the League favors a formula which includes a broad scope of school services and costs. In particular, school district general funds, employee retirement, insurance, transportation, and special education should be fully funded and equalized. It would be reasonable to phase-in this formula over a period not longer than five years, providing that during those phase-in years, foundation schedules would be increased to account for inflation. Equalization of these items must be based on their actual cost per district, not on averages as SB 203 proposes. Equalization of these items can not be acheived if all costs are not covered for all districts. The use of averaging to address equalization would also result in extremely long delays before equalization was reached.

The League opposes the use of caps, or other measures where local districts would be required to reduce their level of school funding. We oppose any equalizing in a downward direction, and can only accept the concept of capping when equalization is based on a very high standards of accreditation.

We urge the committee not to accept the funding plan proposed in SB 203. We ask you to continue to work to develop a system of equalization that fully meets the mandate of the Supreme Court decision, and that provides the equality of educational opportunity guarenteed by Montana's constitution.

Thank-you.



## Shepherd Public Schools

7842 Shepherd Road  
P.O. Box 8  
Shepherd, Montana 59079

EXHIBIT 12  
DATE 2-28-89  
SP 203

Calvin L. Spangler  
Superintendent  
Phone 373-5873

Karen Cook  
District Clerk  
Phone 373-5873

Hal Spackman  
High School Principal  
Phone 373-5300

David Sharstrom  
Elementary Principal  
Phone 373-5516

February 27, 1989

Dear Legislator:

This is a letter in opposition to S.B. 203 as amended and urge you to oppose such a bill.

This bill as amended would cause Shepherd Public School to have more financial problems than it is currently facing. This is not equity as Shepherd would only receive 72% of what is called equity funding. In comparison, if a student only receives a 72% on school work, it is a D-, and surely the state should not fund some schools at the D- level while others receive an A+ level.

This funding seems to reward the big spenders and penalize the more fiscally conservative districts. This is exactly what the court suit was about. Shepherd School was not involved in the lawsuit, however, to force our school to cut back our already low budget (lowest in the state) per student is a financial blow no school should be forced to accept.

I do believe that equity must be achieved more rapidly for the financially poorer districts, as to allow them to continue to suffer is not equity for our students.

Thank you for taking this time to read and consider Shepherd School's problems. If you would like to visit with me, please feel free to contact me. I urge you, again, to oppose S.B. 203 as currently amended.

Sincerely,

Calvin L. Spangler  
Superintendent

CLS/rs

# HUNTLEY PROJECT SCHOOLS

STRICT OFFICE  
Ramona Stout - Superintendent  
Darlene Ostrum - Clerk

PRINCIPALS  
T. J. Phillips - High School  
Nicholas Scheuring - Jr. High  
Ron Scherry - Elementary

February 27, 1989

Governor Stephens' amended SB203

Dear Legislative Committee:


On behalf of Huntley Project School District #24, I would like to express our opposition to SB203 as amended by Governor Stephens. Our concerns are primarily financial ones as it has become more difficult each year for the past three years to develop or even maintain a quality educational program for our students with no increase in funding.

It was an exceptional effort, I believe, when the educational community of the Montana school superintendents, the Montana School Board Association and the Montana Education Association were able to draft a group of consensus proposals which were presented to the Senate by Dennis Nathe in the original SB203. It is these original proposals that will provide for the needs of Montana schools. They are proposals that Boards, administrators and teachers can stand together to support.

The original proposals also provided for equity as mandated. Schools would be able to provide a quality educational system for their students as the new Accreditation Standards mandate because for most, there would be a much needed increase in funding.

I know that the Legislature has some very difficult tasks ahead of them. Please consider what the educational community is saying and change SB203 back to its original form. Thank you for your consideration.

Sincerely,

  
Ramona Stout  
Superintendent

# MEMORANDUM

EXHIBIT HDATE 2-28-89SB 203

## SCHOOL DISTRICT NO. 5

Phone: 755-5015 — 233 First Ave. East  
Kalispell, Montana 59901

February 27, 1989

To: Ben Cohen

From: Bill Cooper

Re: SB 203 - HB 618

A quick look at the partial material available on Amended Senate Bill 203 looks DISASTEROUS for School District #5; and, apparently, will not meet the muster of Loebble. The more important points are as follows:

1. Folding retirement into General Fund to be offset by a 18.6% increase in the Foundation Program leaves School District #5 \$300,000 short in paying its retirement cost. Cost which will have to come from continuous cuts in services to children. There is no mention of where workmen's compensation, etc., will come from either.
2. "Averaging teacher cost for Special Ed." takes money away from the larger districts, who now are educating the vast majority of special ed. students and, I dare say, all but a few of the most handicapped. Smaller schools will receive more than they need to meet their Special Ed. needs under this "averaging technique."
3. The Foundation category breakdown and averaging (15 separate categories and flawed averaging system) seems to continue to reward small schools for being small at the expense of the larger schools who in reality are educating the majority of students in the state. I'm not at all sure that the rich won't get richer and the poor, poorer.
4. Reducing the number of days of instruction to 180 costs us three days of state ANB income. The public is telling us that more, not less, time is needed to provide quality education.
5. Cap concept is good but, too low.
6. The reduction in Reserve amounts is sound.

The Nathe Bill as originally presented would do more for education in general and the Flathead Valley, in particular, than the governor's amended version. Please take all the time necessary to study both the original bill and the amended version carefully. We need to "get it right" the first time. The Governor's Bill, in my opinion, will not wash nor will it meet the test of Loebble. It is not good for education and if it's not good for education, it's not good for economic development nor a

strong economy in the State of Montana.

HB 618, if approved, will give you the time needed to overhaul the funding mechanism for schools. I think a special session to solve this unbelievably complex issue is a more responsible approach to problem solving than the Governor's under the gun "edicting."

Thanks for listening.

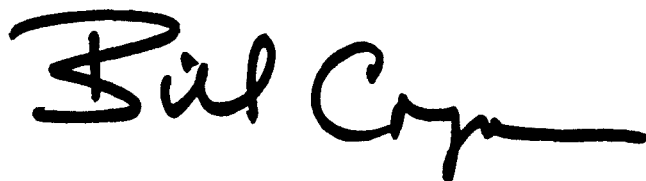
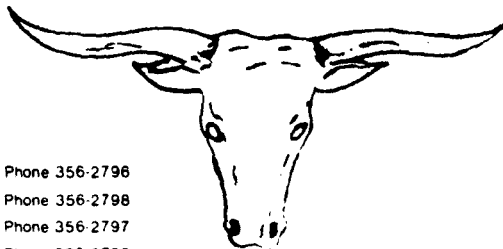
A handwritten signature in black ink, reading "Bill Cohn". The signature is written in a cursive, flowing style. The first name "Bill" is written with a large, sweeping 'B' that loops around. The last name "Cohn" is written with a long, horizontal stroke at the end.

EXHIBIT 15  
DATE 2-28-89  
SD 203



DAVID C. LLOYD, Superintendent  
KATHLEEN TRUSCOTT, District Clerk Business Manager  
CONNIE COPE, Payroll Clerk  
MICHAEL V. LYGSTAD, High School Principal  
JOHN BYRON, Middle School Principal  
JOHN SCHUMACHER, Elementary School Principal  
DENNIS KOPITZKE, Activities Director

Phone 356-2798  
Phone 356-2798  
Phone 356-2797  
Phone 356-2705  
Phone 356-2791  
Phone 356-2986  
Phone 356-2705

FORSYTH PUBLIC SCHOOL  
*The Dogies*

SCHOOL DISTRICT NO. 4  
AND  
FORSYTH HIGH SCHOOL DISTRICT  
P.O. BOX 319  
FORSYTH, MONTANA 59327

March 1, 1989

Governor Stan Stephens  
State Capitol Building  
Helena, Montana 59620

Dear Sir:

While I understand the pressure upon you and your administration in this legislative session to deal with the school funding issue, I would like to point out a basic fact which will apply if your eighty to eighty-five percent level of support is carried through here in Rosebud County and in Forsyth School District.

To achieve this funding level, you equalize the state share across the board with a massive state levy. That will increase our school taxes here approximately 100 percent or more.

My point is this: If taxes are increased to that level in this county, how can we ask for even more, then, to address the remaining twenty percent of funding needed to meet our budget and run our schools? We will therefore be short an inordinate amount of money that is needed for our school to survive.

If we had been profligate in our school spending, I could see some reasons for being so punished. This has not been the case. We here in Forsyth have been acting with restraint concerning school expenditure for some time. As a result of that restraint, we will see our budget drastically reduced and any reserves we have wiped out, while districts which may have overspent themselves will be rewarded for their excess.

Some funding mechanism is needed to address that situation as I am sure most, if not all, schools in the energy counties will face the same dilemma: An inability to reach their current budget level through voluntary levy in their districts. Those levies would have little or no chance of passage.

Thank you for allowing me to express this concern.

Sincerely,

David C. Lloyd  
Superintendent

Copies to: Ray Peck, Chairman, Subcommittee  
Nancy Keenan, Superintendent, Office of Public Instruction  
Representative Roger Knapp  
Senator Cecil Weeding