

MINUTES

MONTANA HOUSE OF REPRESENTATIVES  
51st LEGISLATURE - REGULAR SESSION

SELECT COMMITTEE ON EDUCATION FUNDING

Call to Order: By Chairman Ray Peck, on March 9, 1989, at 3:15 p.m.

ROLL CALL

Members Present: All members were present.

Members Excused: None

Members Absent: None

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

Discussion PIR Days:

Madalyn Quinlan stated that of 545 school districts there are 73 districts that go more than 180 days. They represent 13% of the districts and have about 35% of the students. (See Exhibit 1.)

She stated that of the total number of PI (pupil-instruction) days and PIR (pupil-instruction related) days used by every district in the state, PIR days represent about 3.17% or 5,553 ANB, due to the fact that we include PIR days in the ANB count. If you didn't count PIR days, the ANB count in the state would be about 3.17% less.

Discussion: Equalization Measures

Ms. Quinlan handed out a report entitled "Equalization of School District Expenditures. (See Exhibit 2.)

Ms. Quinlan stated that the question in setting a goal of 85% equalization is "what it is you are equalizing". The federal "wealth neutrality test" can be used to see how equalization would work for Montana. The federal regulations use revenues for current expenditures when they determine whether a state equalization plan meets the federal wealth neutrality test.

She stated that current expenditures are defined as expenditures for operation and maintenance, less capital outlay and debt service. On the other hand the state district

court decision upheld by the Supreme Court addressed inequities in the funding of current operations as well as capital outlay and this should be considered by the committee.

She said that the federal wealth neutrality test excludes capital outlay because they have a separate program for equalizing capital outlay.

Ms. Quinlan stated that equalized revenues are those revenues that are equally available to all districts. That is, an equal tax effort generates an equal yield for each district. In Montana the foundation program would be 100% equalized because each county levies 45 mills and in turn is guaranteed that the levy will generate the foundation amount for all districts. Therefore, an equal tax effort generates an equal yield through the foundation program.

She stated that the permissive program is equalized to the extent that the lowest mill levy needed for any district to raise its permissive amount is the amount that would be applied to all districts.

She also said that the only portion that is equalized in the voted levy is that amount available to the district with the lowest taxable valuation per ANB in the state.

Ms. Quinlan provided charts for the federal wealth neutrality test. The wealth neutrality test stipulates that at least 85% of the total dollars spent by districts be equalized and 15% could be unequalized. It is possible to have districts with more than 15% of their budget from unequalized sources as long as there are other districts who are spending less than 85% unequalized so that the whole thing balances to a 15% equalization of all school districts. (See Exhibit 1.)

Rep. Kadas asked Ms. Quinlan if on Table 1 of Exhibit 1, are PL 874 moneys included in the general fund total of \$445 million? Ms. Quinlan said yes.

Rep. Kadas asked Ms. Quinlan when you figure the total, what is equalized and what is unequalized, do they include PL 874 as part of the equalized expenditures or unequalized? Ms. Quinlan stated that it is part of the unequalized amount because it is not available to all districts.

Rep. Kadas said it seems to make the standard more difficult for the state to meet.

Rep. Peck asked Ms. Quinlan in 1988 how much PL 874 was included?

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Ms. Quinlan stated that school districts received \$16.5 million in PL 874 moneys in FY 88. There may be more than that in these figures because of receiving it one year and carrying it forward into the next year. It is hard to say what the actual PL 874 expenditures were.

Rep. Eudaily asked Ms. Quinlan on Table 1 of Exhibit 1, does it mean if we are going to meet the federal equalization test that we must include transportation and the full amount of tuition plus reserve funds and non operating funds? Ms. Quinlan stated that these expenditures are all included in the base that you would use to determine whether you have met the equalization standard.

Rep. Eudaily asked Ms. Quinlan whether retirement insurance and transportation can be equalized in a separate fund and be considered the 85%? Ms. Quinlan stated that you could do it in however many funds you want to equalize, but for all of the expenditures totalled, you have to have equalized 85% of the revenues available. In other words, you could leave retirement in a separate fund and you could choose to not equalize retirement at all and equalize everything else at 100% and you might still meet 85%/15%. The federal law doesn't say anything about the accounting system that you need to use, or whether it is one fund or two funds, but it does say that all of things have to be part of the base to meet the standard.

Discussion: Student Counts

Dori Nielson, Office of Public Instruction stated that there are five different concepts regarding student counts: average daily attendance has to do with actual number of students that went to school that day; average daily membership is the average of students who are enrolled whether it be 6 days or 100 days; average number belonging count the total number of students present and absent and in our case we do it for every day of the school year. The classroom unit method is based on the number of students per teacher. Weighted student unit measures the additional resources needed for each student.

Rep. Peck asked Ms. Nielson that for average daily attendance, is it most common to select six or seven dates on which to take the attendance or can you keep a daily register? Ms. Nielson stated that it is very common to use six or seven dates.

Discussion: Tuition

Rep. Peck asked Bob Runkel, special education supervisor, OPI, if doing away with tuition might impact special education and special education cooperatives particularly? Mr. Runkel

stated that an abolition of tuition with regard to special education would have a significant impact. Currently special education students who are in self-contained classrooms, in other words, who are placed in special education for more than one half of the school day, are not counted as ANB. Districts are not entitled to ANB funding for students that are full-time special education. As a consequence, there are a lot of indirect costs to districts that are not funded for self-contained children. These costs include the proportionate time the principal spends working with these kids and heat and lights, etc. There is no method of recovery for those costs. The major concern is that currently we have in place, since the last legislative session, a method for calculation of tuition for self-contained students. That was developed as an effort to insure that districts who are able to serve severely handicapped children will continue to accept these children into the district.

- Rep. Peck asked if a district has to justify cost, or do they automatically get factors depending on the degree of handicapping? Mr. Runkel stated that it depends on the circumstance and it depends on the degree of handicapping. The multiple factors are two times the standard tuition for moderately handicapped, three times for severely handicapped and four times for profoundly handicapped students.
- Rep. Peck stated asked without tuition, those children who do not generate ANB would not be adequately compensated in your view? Mr. Runkel stated that is correct.
- Rep. Kadas asked Mr. Runkel that under the current system we are covering all of the costs except the indirect costs? Mr. Runkel stated yes, if we were funded at \$35.1 million for special education, then we would be providing the full amount for allowable costs. That \$35.1 million is based on 1987 - 1988 salaries. Controls on other expenditures such as supplies and equipment were limited to \$15 per student, so the \$35 million of direct allowable cost is a very conservative estimate.
- Rep. Gilbert asked Mr. Runkel if all of the students at the Yellowstone Treatment Center are considered by OPI to be in special education even though they are not mentally disabled but there because of a court order? Mr. Runkel stated that all of the children at Yellowstone Treatment Center, perhaps with one child as an exception are considered special education handicapped and are identified as emotionally disturbed which is a special education handicapping condition just like mental retardation. They are all self contained so

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that the Yellowstone Treatment Center is not collecting ANB funding from any of the students.

Rep. Eudaily asked Mr. Runkel if the sending district is reimbursed for any tuition sent on to the receiving district? Mr. Runkel stated they are not. Tuition is not an allowable special education cost.

Rep. Kadas asked Mr. Runkel if the district pays the tuition? Mr. Runkel stated that is correct.

Rep. Glaser asked Ms. Quinlan if on Table 1 we were talking about the general fund and does that include all of the PL 874 money? Ms. Quinlan stated that it includes all of the PL 874 moneys that were put in any one of these funds. It is possible that PL 874 money that went into a capital outlay account as well.

Rep. Glaser stated that there should be more like \$23 million. Rep. Kadas stated that was for FY 1987.

Steve Brown attorney for Indian Impact Aid Schools, stated that the figure for FY 1987 is \$23.4 million. As we now understand it, what the indian impact aid schools and other eligible PL 874 districts applied for and received approval for in FY 88 is \$21.9 million. That does not mean that all of that \$21.9 million will actually be received in FY 88.

Rep. Schye stated that a lot of the PL 874 schools didn't get their 1986 money until 1987. There was a gap where they didn't get any money.

Motion:

Rep. Eudaily moved that the committee adopt 85% of the FY 88 base as the amount to be equalized.

Discussion:

Rep. Kadas stated that if it includes the PL 874 money then it is \$459 million.

Rep. Harrington stated that he is against the motion because in many of these schools it will cause very serious problems because we will cap them below what they are spending right now.

Rep. Kadas asked Rep. Eudaily if it was his intent that the system we establish meet the PL 874 standard over the long term. Rep. Eudaily stated that would be correct.

- Rep. Kadas stated that if we equalize at 100% and then put the cap at 117% then we are guaranteed of always meeting the PL 874 standards. The other extreme is equalizing 85% of the total cost, that means you will meet the PL 874 standard once and not again. It will probably take more study.
- Rep. Eudaily asked Ms. Quinlan if it is necessary to go to 90% in order to protect the PL 874 money? Is there danger in doing the 85% if one district goes over that? Ms. Quinlan stated that if the relationship is less than 85% equalized, then you could not equalize PL 874 moneys.
- Rep. Grinde stated that whatever we do we will increase taxes. It has come down to what this state can afford. He said he thinks 85% is equitable to all of the parties that are involved.
- Rep. Peck stated that he agrees with Rep. Grinde, but he is concerned about the potential of never arriving at the ability to include PL 874 funds into an equalization plan with the 85%.
- Rep. Grinde stated that the committee should exclude the PL 874 money.
- Rep. Glaser stated that the Indian population does have to get this money from somewhere. The federal government gives them a similar amount each year and the arrival is very irregular. In areas where there is a small component of Indians involved compare the total to population, their maybe some of that PL 874 money should be utilized in the capping system to prevent some of those schools from over spending.
- Rep. Eudaily asked Ms. Quinlan what funding level was in the gray bill. Ms. Quinlan stated that the estimated cost of SB 203, the gray bill, is about \$451 million. That would put you somewhere between 80% and 85% of FY 88 expenditures.
- Mr. Cogley stated that the 100% of FY 87 expenditures was general fund plus comprehensive insurance and was around \$450 million. That is considerably less than what we are looking at here.
- Ms. Quinlan stated that if retirement were included, because they did want to equalize retirement but through a separate fund, then the total cost goes up to about \$504 million and that is \$451.5 million plus \$52.7 million of retirement costs.
- Rep. Kadas stated that he hopes Rep. Eudaily would withdraw his motion. He said he thinks there is some consensus that the

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committee would try to equalize to the PL 874 standard. That is the only real hard guidance that we have gotten from the Court in terms of setting a standard. He also thinks that it is important that whatever bill the committee adopts, we adopt it in a way that we will continue to meet the standard year after year.

Motion Withdrawn:

Rep. Eudaily withdrew his motion.

Discussion:

Rep. Harrington stated that he would like to know what happens to the 85%, 90% and 95% level so we know where we are going and what we are doing to those districts.

Rep. Kadas stated that the committee should put tuition back in.

Mr. Groepper stated that Mr. Runkel pointed out that there is a problem in special education, even if you fund it at 100% of the allowable cost because some level of indirect costs are not reached. For Yellowstone Treatment Center, which does not charge those additional costs, even if we were to fund special education at 100%, they would have no way of recovering their indirect costs.

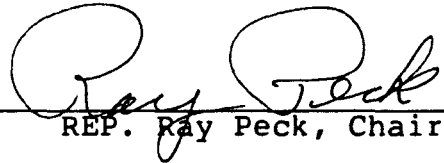
Mr. Cogley stated that one solution is to reinstate tuition for special education, and that would mean going back in and reinstating all of the current tuition provisions. The other solution is to provide an ANB count for special education self contained students. The Treatment Center is the only one in this particular situation. It is a real school district but they don't have any tax base.

Rep. Kadas stated that there still is the Miles City problem with the special education because they have such a unique program that everyone wants to get into it.

Ms. Merrill stated that one choice for the Yellowstone Treatment Center is to define it in such a specific way that the obligation to fund it becomes an appropriation or budget obligation for OPI.

ADJOURNMENT

Adjournment At: 5:00 p.m.

A handwritten signature in cursive script, appearing to read "Ray Peck", is written over a horizontal line.

REP. Ray Peck, Chairman

RP/jf

5504.min



DAILY ROLL CALL

SELECT COMMITTEE ON EDUCATION FUNDING

DATE 3-9-89

NAME	PRESENT	ABSENT	EXCUSED
Chairman Peck	X		
Vice Chairman Eudaily	X		
Rep. Gilbert	X		
Rep. Glaser	X		
Rep. Grinde	X		
Rep. Harrington	X		
Rep. Kadas	X		
Rep. Schye	X		



JUDY RIPPINGALE  
LEGISLATIVE FISCAL ANALYST

STATE OF MONTANA

*Office of the Legislative Fiscal Analyst*

STATE CAPITOL  
HELENA, MONTANA 59620  
406/444-2986

EXHIBIT 1  
DATE 3-9-89  
HB \_\_\_\_\_

March 9, 1989

TO: House Select Committee on Education  
FROM: Madalyn Quinlan *MJQ*  
Associate Fiscal Analyst  
SUBJECT: Equalization of School District Expenditures

At its March 2nd meeting, the select committee agreed that the new school equalization plan should provide at least 85 percent equalization of school district expenditures. In the discussion that followed, it became obvious that committee members differed in their understanding of the definition of equalization. To evaluate the degree to which the various school funding proposals "equalize" school district expenditures, the following concepts might be helpful to the committee.

Expenditure Base

The federal regulations use revenues for "current expenditures" in determining whether a state's equalization plan meets the federal wealth neutrality test. Current expenditures include expenditures for operation and maintenance, exclusive of capital outlay and debt service for capital outlay.

The state district court decision, which was upheld by the state Supreme Court, specifically addressed inequities in the funding of general fund expenditures, retirement, transportation, capital outlay, and special education. The funding of these expenditures does not have to be equalized through the foundation schedules, but would be part of the base used

to evaluate the overall level of school equalization. By including capital outlay as one of the elements leading to inequities in the funding system, the court chose a broader base than that used by the federal government for equalizing P.L. 874. (The federal government has a separate program for funding capital outlay for federally impacted districts. Therefore, it is consistent for the federal regulations to leave capital outlay out of the P.L. 874 equalization test.)

### Measuring Equalization

The federal regulations for equalizing P.L. 874 funds defines "equalized revenues" as those revenues that are equally available to all districts. That is, equal tax effort generates an equal yield for each district. Unequalized revenues are those revenues that are available to some districts but not all districts.

Foundation program revenues are 100 percent equalized because each county levies 45 mills and is guaranteed that this levy will generate the foundation program amount for its districts. Equal tax effort generates equal yield through the foundation program.

The extent to which the present permissive program is equalized is determined by the lowest mill levy needed for any district to raise its permissive amount. Since Squirrel Creek can raise its permissive amount with only .05 mills, then only .05 of the mills levied by any other district are equalized mills. The remaining district revenues in the permissive program are unequalized. All of the state revenues in the permissive program are equalized.

The only portion of the voted levy that can be considered equally available to all districts is the revenue per mill that is raised by the district with the lowest taxable valuation per ANB. In fiscal 1989, the

district with the lowest taxable valuation per ANB is Heart Butte with a taxable valuation per ANB of \$222. One mill levied by the Heart Butte school district will generate \$.22 per student. Therefore, if on the average an elementary district can raise \$18 per student per mill, only \$.22 of this amount is considered equalized revenue, while the remaining \$17.78 is considered unequalized.

To look at the total level of equalization for the state, the federal government sums the equalized revenues for each district and compares this sum to total revenue for all districts. The ratio of equalized-to-total revenues must be at least 85 percent in order to meet the federal wealth neutrality test, which is one of two tests the state may meet in order to incorporate P.L. 874 revenues in its equalization plan.

The following pages show how equalization is calculated under the federal wealth neutrality test.

FEDERAL WEALTH NEUTRALITY TEST

EXAMPLE: The following shows a state with three school districts, each with 100 students, and the degree of equalization in the state's school funding system.

Budget	District A 100 Students	District B 100 Students	District C 100 Students	State 300 Students
Foundation	\$147,592	\$147,592	\$147,592	\$442,776
Permissive				
District	\$3,947	\$11,731	\$20,797	\$36,475
State	\$32,951	\$25,167	\$16,101	\$74,219
Over-schedule	\$55,109	\$66,181	\$115,466	\$236,756
Total Budget	\$239,599	\$250,671	\$299,956	\$790,226

Taxable Valuation

Taxable Value	\$657,840	\$1,955,172	\$3,466,100	\$6,079,112
Value of Mill/ANB	\$6.58	\$19.55	\$34.66	\$20.26

Mill Levies

Foundation	45.00	45.00	45.00
Permissive	6.00	6.00	6.00
Over-schedule	83.77	33.85	33.31
Total Mills	134.77	84.85	84.31

Degree of Equalization

	Equalized	Unequalized	Total	
Foundation	\$442,776	\$0	\$442,776	
Permissive	\$86,060	\$24,634	\$110,694	
Over-Schedule	\$99,288	\$137,468	\$236,756	
Total	\$628,124	\$162,102	\$790,226	Degree of Equalization = 79.49%

Equalized Permissive = 6 mills \* \$6.58/ANB \* 3 + \$74,219 = \$86,060

Equalized Over-Schedule = \$6.58/ANB \* (83.77+33.85+33.31) \* 100 ANB = \$99,288

## FISCAL 1988 SCHOOL DISTRICT EXPENDITURES

To calculate current expenditures for operation and maintenance, exclusive of capital outlay and debt service, the general fund, retirement, comprehensive insurance, transportation, bus reserve, tuition, and non-operating fund expenditures for fiscal 1988 are totaled in Table 1 below.

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Table 1  
School District Current Expenditures for Operation and Maintenance  
Fiscal 1988 Trustee Reports  
(Millions)

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<u>Budgeted Fund</u>	<u>Expenditures</u>
General Fund	\$445.851
Retirement	52.724
Comprehensive Insurance	10.620
Transportation	28.436
Tuition	1.110
Bus Reserve (Depreciation)	1.860
Non-operating Fund	<u>.029</u>
Total Budgeted Expenditures	<u>\$540.630</u>

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If the legislature establishes a goal of 85 percent equalization of school district funding, then total district expenditures will be determined by the level of equalized revenue available to districts. For example, if equalized revenues in fiscal 1991 are set at the level of total fiscal 1988 budgeted expenditures, then the level of equalized revenue be \$540.630 million. The goal of 85 percent equalization could be met if districts were allowed to spend no more than \$95.405 million from unequalized sources on top of the \$540.630 million from equalized sources.

Table 2 shows for various levels of equalized revenues, the unequalized revenues that could be budgeted while maintaining the 85 percent equalization standard.

FEDERAL WEALTH NEUTRALITY TEST

EXAMPLE: The following shows a state with three school districts, each with 100 students, and the degree of equalization in the state's school funding system.

Budget	District A 100 Students	District B 100 Students	District C 100 Students	State 300 Students
Foundation	\$147,592	\$147,592	\$147,592	\$442,776
Permissive				
District	\$3,947	\$11,731	\$20,797	\$36,475
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Over-schedule	\$55,109	\$66,181	\$115,466	\$236,756
Total Budget	\$239,599	\$250,671	\$299,956	\$790,226

Taxable Valuation

Taxable Value	\$657,840	\$1,955,172	\$3,466,100	\$6,079,112
Value of Mill/ANB	\$6.58	\$19.55	\$34.66	\$20.26

Mill Levies

Foundation	45.00	45.00	45.00
Permissive	6.00	6.00	6.00
Over-schedule	83.77	33.85	33.31
Total Mills	134.77	84.85	84.31

Degree of Equalization

	Equalized	Unequalized	Total
Foundation	\$442,776	\$0	\$442,776
Permissive	\$86,060	\$24,634	\$110,694
Over-Schedule	\$99,288	\$137,468	\$236,756
Total	\$628,124	\$162,102	\$790,226

Degree of  
Equalization =  
79.49%

Equalized Permissive = 6 mills \* \$6.58/ANB \* 3 + \$74,219 = \$86,060

Equalized Over-Schedule = \$6.58/ANB \* (83.77+33.85+33.31) \* 100 ANB = \$99,288

March 8, 1989

TO: House Select Committee on Education  
 FROM: Madalyn Quinlan  
 Associate Fiscal Analyst  
 SUBJECT: Public Instruction Days Used by School Districts

The following table shows the number of school districts having a school term of more than 180 days and the ANB in those districts.

Table 1  
 Pupil Instruction Days Used by School Districts  
 1988-89 School Year

<u>PI Days</u>	<u>--- Districts ---</u>		<u>--- ANB ---</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
180	472	86.61	97,596	65.36
181	21	3.85	4,369	2.93
182	38	6.97	30,181	20.21
183	8	1.47	4,964	3.32
184	4	0.73	300	0.20
185	<u>2</u>	<u>0.37</u>	<u>11,907</u>	<u>7.97</u>
Total	<u>545</u>	<u>100.00</u>	<u>149,317</u>	<u>100.00</u>



**Table 2**  
**Allowable Equalized and Unequalized Expenditures**  
**at 85 Percent Equalization Standard**  
**(Millions)**

<u>Fiscal 1988</u> <u>Expenditures</u>	<u>Percent of</u> <u>FY 1988 Base</u> <u>to be Equalized</u>	<u>85%</u> <u>Equalized</u> <u>Revenues</u>	<u>15%</u> <u>Unequalized</u> <u>Revenues</u>	<u>Total</u> <u>Revenues</u>
\$540.630	100	\$540.630	\$ 95.405	\$636.035
540.630	95	513.599	90.635	604.234
540.630	90	486.567	85.865	572.432
540.630	85	459.536	81.095	540.630
540.630	80	432.504	76.324	508.828
540.630	75	405.473	71.554	477.027