

MINUTES

MONTANA SENATE 51st LEGISLATURE - REGULAR SESSION

COMMITTEE ON EDUCATION

Call to Order: By Senator H. W. Hammond, Chairman, on
February 6, 1989, at 1:00 pm in Room 402 at the
State Capitol

ROLL CALL

Members Present: Senators: H. W. Hammond, Dennis Nathe,
Chet Blaylock, Bob Brown, R. J. "Dick" Pinsoneault,
William Farrell, Pat Regan, John Anderson Jr., and
Joe Mazurek

Members Excused: None

Members Absent: None

Staff Present: Dave Cogley, Staff Researcher and
Julie Harmala, Committee Secretary

Announcements/Discussion:

Chairman Hammond announced the beginning of the hearing on
HB 230.

HEARING ON HB 230

Presentation and Opening Statement by Sponsor:

REPRESENTATIVE BERV KIMBERLEY, House District #90, stated
that he was before the committee in support of this bill and
it received support in both the second and third readings in
the House.

He added that he was carrying the bill for the Montana
School Board Association and it was also strongly supported
by the School Administrators of Montana and also the Montana
Education Association, plus a number of elementary school
districts.

He said that the bill is concerned with the fact that
presently high school trustees may waive tuition fees for
high school systems and they may do this at their own
discretion and simply what this bill would do is provide the
elementary trustees with the same option. Right now, he
explained the elementary trustees are required to uniformly

waive tuition fees in all cases or not waive tuition at all. There are a lot of special cases just as there are in high school, and yet the elementary people's hands are tied. Some of the special instances that could be thought of are individual cases of hardship, financial, or family reasons.

From his own personal experience he said he knows there is a problem. He has a grandson right now that is having a terrible time because he was changed from a school in Billings to a school in Laurel. He explained that because of a lot of things that have been brought to a head, it is necessary to move his grandson to another elementary school. The financial obligation is not a factor in this particular case but there still can be a problem.

He said the cooperation between districts to provide certain programs that would reduce the level of tuition is another consideration. This bill he said would be consistent with the public school's choice and also would be consistent with the policy of local control. This bill would allow elementary trustees to provide for unusual conditions.

List of Testifying Proponents and What Group they Represent:

BRUCE MOERER, The Montana School Board Association
ERIC FEAVER, The Montana Education Association

Testimony:

BRUCE MOERER stated that the MSBA asked Representative Kimberley to sponsor this bill because it came through the resolution process, and was a request originally from the Billings school board.

He said the situation is that high school trustees have the discretion to waive or partially waive tuition for out of district students. Elementary trustees do not have this discretion, they have to adopt a policy that applies to everyone. He explained that many districts now do charge tuition and there are situations where they would like to waive tuition for individual students, which could be for financial reasons, etc. He said there was a situation that came up in Absarokee, where some of the outlying elementary districts wanted to send students to Absarokee's middle school. These districts did not feel they could afford the complete cost but they could partially waive tuition for some of these students. The problem was that they could not uniformly waive the same share of tuition for other students in grades K-6.

He said the bill itself involves a real simple change on Line 22 & 23 of Page 1. By just scratching the word

"uniformly" and the words, "for all tuition payments," would make the tuition situation for the elementary trustees the same as it is for the high school trustees. This will also allow districts a little more flexibility. There are complaints about school boards and at times there are underlying reasons for the lack of flexibility which the legislature has not given them. He said with this bill there is no intention to change any of the policies of the trustees, but it will just give the local trustees a little bit more flexibility.

He suggested a do pass recommendation.

ERIC FEAVER of the MEA stated that this bill does provide equity for the elementary school district trustees with the same choices that high school trustees now have. It is fair that this bill be consistent with public school choice and local control. It would allow certain school districts that now do not offer programs, such as kindergarten, to utilize services of nearby school districts, such as kindergarten, by eliminating the problem of tuition payments.

He said the MEA urges a favorable consideration of HB 230.

List of Testifying Opponents and What Group They Represent:

None

Questions From Committee Members:

Senator Blaylock asked if under the bill it was possible for Absarokee to admit some middle school students from a district and not allow other students from other districts.

Bruce Moerer replied that this is possible but in several cases there have been other schools that have wanted to go to a larger district and this bill would allow them to save half the tuition costs. Theoretically he said there could be a situation come up where they did it for one and not for the other, but usually word gets around in areas like Absarokee and they will work on something. The only reason they maybe could not allow another school entrance, is if there was not enough room. He said he could not imagine a district not doing the same for one district as they did for another one.

Senator Nathe asked if this also included kindergarten.

Rep. Kimberley replied that this would be any elementary receiving district that could waive partial tuition. He said individuals could waive all or part of tuition for individual students or groups of students, depending upon

the circumstances.

Closing by Sponsor:

REPRESENTATIVE KIMBERLEY closed by thanking the committee for listening to the bill and reminded them that there had been a unanimous vote in the House in favor of HB 230.

DISPOSITION OF HB 230

Recommendation and Vote:

Senator Blaylock moved that HB 230 be concurred in.

Senator Nathe called for the question.

THE MOTION CARRIED UNANIMOUSLY THAT HB 230 BE CONCURRED IN.

Senator Brown will carry HB 230 to the floor of the Senate.

HEARING ON HB 275

Presentation and Opening Statement by Sponsor:

REPRESENTATIVE LINDA NELSON, House District #19, stated that she came before the committee as the chief sponsor of HB 275. She said it was a simple bill that she was carrying for the Montana Association of School Business Officials. It removes unnecessary information that is required on the school district warrants. The reasoning is as follows; this portion of the law is out-dated and unnecessary because the county treasurers have no use for information concerning the appropriation item of a fund. If there was a question concerning an audit trail there would not be a problem because clerk's documents are permanent records and the auditors have these documents which tie the warrants to the codes at their disposal.

She said evidently at one time clerks did have to concern themselves with the appropriation items in a line item budget. Now, the only line items of a schools budget have to do with revenues. They use only the fund totals in regard to the expenditure portion of the budgets. She explained that at the present time several of the school's business software programs do not provide for the appropriation items to be printed on warrants, only the fund numbers, therefore technically the schools using these programs are in violation of the law. With the adoption of the new accounting codes several things have occurred which

make the typing of the line items a problem. The codes themselves have more digits, consequently appropriation line items take up more room on a warrant. More schools are on computer and some software combined several funds on one warrant, hence meaning more line items. Auditors perhaps knowing the great flexibility of computers and the line items available are requiring the use of more accounting codes to insure more accurate coding, causing a greater number of line items for printing.

She concluded by saying that HB 275 was just a housekeeping bill and she asked the committee for do pass recommendation.

List of Testifying Proponents and What Group they Represent:

JOHN CAMPBELL, The Montana School Business Officials
BRUCE MOERER, The Montana School Board Association

Testimony:

JOHN CAMPBELL of the MSBO said that he wanted to indicate their support of HB 275.

BRUCE MOERER of the MSBA, stated that they to are in support of HB 275. He said they felt that the requirement as it now exists is unnecessary and auditors feel that documentation in the districts at the level of school board minutes track where all the spending goes.

List of Testifying Opponents and What Group They Represent:

HENRY BADT, The Montana Association of County School Superintendents

Testimony:

HENRY BADT of MACSS, stated that there were two things to take into consideration and that is that part of the internal control of any accounting business is through checks and warrants. He said it is better if the account from which the warrant is drawn is listed because when individuals come to school and are checking on various warrants it is easier to back track a particular warrant and to find out which account it is drawn from if it is listed.

He told the committee that he hopes they keep this in mind when they are considering HB 275.

Questions From Committee Members:

Senator Brown asked if John Campbell would respond to the

testimony Henry Badt had just given.

John Campbell replied that the county treasurers are no longer required to keep the detailed records that they used to. He said that this was an archaic provision of law, that is to provide the full accounting code on a warrant. The county treasurers no longer have to keep those detailed records and they were only concerned with the cash position of the fund and there does not have to be an identical set of records kept by the school districts. He said as far as identifying the warrant as to what appropriation item it was charged to, these records are available.

Senator Blaylock asked if this bill fails, would it be more difficult for the auditor.

Henry Badt replied that an auditor would have to back track, looking at a warrant, then going back to the records to determine which account the warrant was drawn on.

John Campbell stated that the auditor does not work from the warrants, but from permanent records, which indicate the appropriation item that it was charged against.

Henry Badt added that auditors do do spot checks, going back to the records and files the warrant was drawn on.

Senator Blaylock asked if anything could be hidden.

Henry Badt replied that if the auditor is going to check on the warrants, they would have to back track.

Closing by Sponsor:

REPRESENTATIVE LINDA NELSON closed by thanking the committee for listening to her and for their consideration of HB 275.

DISPOSITION OF HB 275

Recommendation and Vote:

Senator Brown moved that HB 275 be concurred in.

Senator Anderson called for the question.

THE MOTION CARRIED, 8 TO 1, with Senator Pinsoneault voting against the motion.

Senator Brown will carry HB 275 to the floor of the Senate.

EXECUTIVE ACTION ON SB 203
(continued)Discussion:

Chairman Hammond stated that this bill was put together originally by the Superintendents from the northeastern part of the state and he said he thought the bill had been passed around the entire state and all had some input in putting SB 203 together.

Senator Brown asked if the committee thought there was a need any longer, with these payment schedules provided in this bill, to have a 20% reserve.

Senator Regan stated that some reserves were as high as 35% and she wondered if these funds would be reduced to a 20% maximum.

Senator Nathe replied that only if they receive state equalization aid. If these districts do not receive state equalization aid, then they 35% reserve funds.

Senator Regan asked, "If the current foundation programs require everyone to levy the mills for high school and elementary, if they levy the full mills, does the excess come back to the state? Would this bill provide that they would not have to be in the equalization program?" She then stated that she thought what was being done is that the very wealthy district, if they could fund their schools by less than the required millage for the foundation program, then they would not be a part of the equalization program.

Dave Cogley replied that this was not what the bill did. He explained that everyone would still be required to raise the same millage. (See Exhibit #1) Dave wrote a summary of what SB 203 did.

Senator Farrell asked where the interest from the 35% reserve fund was spent.

Dave Cogley replied that this bill reduces the amount of reserve that may be carried to the next ensuing school fiscal year, to 20% of the budget for that year if the school received state equalization aid. Any excess over 20% has to be computed back into the amount of money that is available to reduce any mill levies. These are primarily the additional mill levies to fund the general fund budget of a district. It is treated exactly the same way as the excess over 35% is currently treated.

Senator Farrell asked if when the districts are dropped down to a 20% reserve if the interest this generates is included in the equalization payment.

Dave Cogley replied that the interest is included as part of the district's reappropriated revenue for county equalization.

Senator Farrell asked if it was Dave's estimation that it is better that the money in those school districts that is growing interest, be going into the local banks or to put the money into the board of investments for three months at a time, to be centrally located here at the state. Then drop the percentage to 5% or even 0%, if the state is going to make monthly payments.

Dave Cogley replied that this bill does talk about monthly equalization aid and monthly payments. If the state is to make monthly payments, they could leave 20% of that revenue in reserve funds. (Right now there is about 80 million dollars in cash reserves, statewide). He said that this money could be invested, which would probably make a lot better interest rate out of a central fund, than at the local level.

Senator Nathe pointed out that part of the reason the 20% is kept in, is because if there is a school district where 45 mills only raises 75% of the needed money, there must be funds to carry the district over. What the district would get from the state, would not be enough. There must be money to carry the district from July until the taxes start coming in, in November. If there is a district that is not getting 100% of their money from the state, they must have something to carry them from the end of the school year on June 30th, until they start collecting taxes again.

Senator Farrell asked if Senator Nathe was suggesting that the 20% be left in the counties from June to November. Senator Nathe said that all this is saying is that if a school qualifies for equalization aid, reserves must be dropped from 35% to 20%.

Dave Cogley stated that the only thing being addressed here in the 20% limit is the general fund reserve.

Senator Farrell said there is a lot more money that is going to be in other funds. He said if we are going to equalize he wants to be able to invest this money in a large sum rather than at the local level.

Senator Brown reminded Senator Farrell of a previous bill to take it from 35% down, ending up compromising at 20%. He

said where the problem was with this plan was with the accelerated payment schedule, also the banking industry is concerned because if the money is invested at the state level, the small local banks do not get to keep as much money. This is a huge amount of money and if we could reduce this to 10% without working any undue hardship on the school and with a frequent payment schedule, maybe this can be done.

Senator Farrell replied that the committee should know more about this before sending this bill out.

Senator Hammond said the local banks pay a large sum of the local taxes.

Senator Farrell stated that the local banks are not giving the best interest rates to the school districts that they could.

Senator Nathe pointed out that last session a bill was passed that allows school districts to put this money out to the bid. This money can be bid on by any bank in the state of Montana. If a school board want to put the money out for bid, they can.

Senator Regan said that only small amounts are being talked about and many banks are not going to be as interested as when they see X number of millions of dollars out for bid.

Senator Farrell said that some of the figures that he received from OPI are that there is about 80 million dollars in reserves and that this generates about 11 million dollars of income. If there was a centralized collection, taxes could be centrally assessed or centrally collected and about \$300 million every six months could be invested. Monthly payment could then be made back to the districts.

Senator Nathe stated that if something like this is going to be worked on, a sliding scale will have to be included, because the amount of reimbursement of state equalization aid, if qualified for, is going to depend upon the taxable valuation in each county and what the 45 mandatory mills raises. This is going to be a sliding thing, for example if there is a school up close to the top, they are not going to get that much money from the state and they are going to have to have something to carry them until November.

Senator Farrell replied that he assumed every district would have adjustments to make over the first year, but the rules are changing and these schools can no longer base it on what they are doing now, because once the equalization system is in place the schools will be getting a monthly payment. He

said what he was suggesting is not just state equalization but a possible 5% reserve.

Senator Nathe wondered how with only 5% would a school district like Colstrip that is going to "kick in" money to the state be carried through. Colstrip is going to kick in about \$609,000. With this plan they will receive no aid back from the state, and how will they get from the end of one fiscal year to when taxes start coming in again. A reserve must be carried because the fiscal year ends at the end of June. The district is starting over and they have no money, from the first of July until the first of November there must be a reserve to carry the district through in order to run the school. If a district does not qualify for an equalization payment they are left out in the cold.

Senator Farrell said that the left over money revert to the state for a two or three month investment before it is started to be paid back to the districts. He wondered if such a plan could be included in this bill.

Senator Regan stated that she thinks the problem is that districts do need money from July to November for repair, maintenance, and supplies that they do incur in the summer which is a very busy time for a district.

Senator Farrell said that the old system is being talked about now. "If these schools start receiving a monthly payment, doesn't everyone budget their monthly payments based on what they are going to spend for the next summer? Or is a system going to allow where if all the money is spent now and when supplies can not be bought, just come back to the legislature and they will up the monthly payment? If monthly payments are made, the districts will know a year ahead of time and this money can be budgeted.

Senator Hammond said that the only thing wrong with this, is that certain unexpected expenditures can occur.

Senator Regan said that when repair work for the schools is bid, the bid is only good for three months.

Senator Brown said that it is recognized that with a more frequent payment schedule the reserve will not have to be as great. He wondered what the rationale was, for settling on a 20% reserve. There needs to be a reserve, but the difference between 10% and 20% is a significant amount when talking about what is being paid for here.

Senator Nathe said that Superintendent Bob Richards from Miles City had pointed out that there is 45 mills in this plan and if more money is raised over the 100% of the funds

that are scheduled to be spent, then the districts are going to revert. There are also going to be schools that won't do this, but they are going to come close and they are going to feel that they want a 20% reserve. Say that a district's 45 mills only raises 80% of their schedules. This means the amount of money that they are going to get back from the state is only going to be 20% of the schedules. He asked where they would get that other 20% and if this is a problem, then there should be a sliding scale. He said some schools are going to have to be watched if one figure is settled on, because they are going to be hurt one way or the other, but they should not be "ground into the ground."

Senator Blaylock said that the lottery money is going up to 40%. This plan is flying in the face of what the Lottery Commission is saying. They need more money for prizes or the take is going to keep dropping.

Senator Nathe replied that this is money to be put into the schools and taken out of teacher's retirement.

Senator Blaylock asked what the strategy was for sending SB 203 over to the House without funding.

Senator Nathe replied that there is no strategy at all. What ever the legislature decides is fine because he said he is not about to put revenue sources in this bill and say this should be taken from property taxes or a sales tax. This is merely a vehicle for distribution with whatever the legislature comes up with as source of funding for the foundation program.

Senator Blaylock wondered if the Senate Education Committee was meeting its responsibility by sending its first major bill to the House without any funding. He said we can unload our problem this way, but he wondered if anything was really getting done.

Senator Hammond said he was bothered by the fact that the bill was already over in the House, because Rep. Roth requested it to be drafted as a loose bill.

Senator Farrell asked to get back to the bill and he wondered what the 17% was. If the districts are funded at 100% out of the general fund, he wondered if the 17% was a voted levy.

Dave Cogley replied that the 17% is the voted levy portion of the general fund budget. He explained that there were two ways to look at this. The 100% is the amount that would be provided by the foundation program. In addition to this, districts could levy as much as 17% more to make up their

total general fund budget.

Senator Farrell asked if this 17% was allowed to be unequalized.

Dave Cogley replied that it is in this bill. This 100%, plus 17%, actually represents 85%, plus 15% of the total general fund budget. If the total general fund budget is looked at, including the general fund budget with the additional levy and considered as 100% of the money spent under the general fund budget, the amount the foundation program is kicking in, equalized, is 85%.

He went on to explain the reason for dealing with the 100% and then the 117%, is to make it more clear what is actually happening between the general fund budget with a vote and a general fund budget without a vote. The general fund budget without a vote equals the foundation program under this bill. This is the amount of equalized funding available to the districts, which is 85% of the total amount a district can raise to fund its general fund budget.

Senator Brown said then it is the 17% that gets us from the 85%.

Senator Regan reminded the committee that this was just a simple math equation to figure this out.

Senator Nathe stated that teacher's retirement is a separate fund in this bill. Comprehensive insurance is included in the general fund.

Senator Regan pointed out that special education and transportation is not included.

Senator Mazurek wondered if consolidation of funds would make this more understandable. He said his understanding was that the education community has reached some agreement in this area and if this can be made simpler for people to understand at all levels it would be worthwhile. The education forum did come up with some consensus points and the combination of funds was one of them.

Senator Nathe pointed out that if this committee, as a group of non administrators, is going to start to put together funds, we would have to have people here like Dale Zorn of Shelby or Bob Richards from Miles City, right here with us. For example when talking about transportation, the depreciation reserve, if the district owns their own buses is handled differently than if the district contracts for their buses. We must be watching what we are doing to these districts out there, before we start mixing these

funds. There is a difference in the way that these funds are handled.

Senator Mazurek said that it was his understanding that the education community did reach some consensus on a lot of these issues. We could at least know where the areas of agreement are, as far as they are concerned.

Dave Cogley explained that with these consensus points there are two ways of equalizing the various funds. They can be pulled into the general fund and equalized through the foundation program or the funds can be equalized separately. What SB 203 proposes to do, is to equalize retirement separately. It would equalize it, to 90%, but it would be separate from the general fund. The Select Committee has heard from a number of educational agencies and most of them came and testified that they would just as soon see retirement equalized outside of the general fund.

Senator Farrell asked if the 15% voted levy portion does not include the funds that are outside the general fund. Supposing this was all based on property tax, it would equalize the general fund to 85%. Then the voted levy of 15% does not include all the funds.

Dave Cogley replied that the only thing included that is not in the general fund now is comprehensive insurance. This is the only outside fund being equalized in the general fund.

Senator Regan wondered if the committee could agree that there are three areas that are so complicated that for the time being we set them aside and discuss the other funds. Those would be; transportation, capital outlay, and special education. Maybe then we can start building some consensus in committee.

Senator Hammond stated that he agreed with Senator Regan on two of the suggestions, but he said special education is included in some form in every school in Montana.

Senator Regan said that she thought in this bill special education would be funded at 100%. There is some rationale for leaving it separate. In the last analysis this amount of money is not significant but in some districts it could be quite a chunk.

Senator Hammond said that it had its beginnings with federal money and then it grew into the budget and never really found a comfortable place.

Senator Pinsoneault stated that he agreed with Senator Blaylock that there was only until July 1 and how can

replacement or new money be discussed without talking about where it is going to come from. He suggested that maybe education should be isolated and other facets of government should be forgotten right now. A twenty cent gas tax for the first year to pay the bill is the quickest way to get money in the pot, a 25% surtax is another source, and a sales tax could be put in place in a year. But he said unless money is discussed it does not make sense.

He said he felt it must be simpler than 17 funds, but unless we start talking about money, we are talking into a vacuum.

Senator Nathe stated that this bill is the first one to come out and he said he did not think there was money in Senator Regan's bill and Rep. Kadas' bill

Senator Mazurek replied that Representative Kadas' bill does have money in it.

Senator Hammond said that if the committee tries to put money into this bill it will change it because this is not what was intended with this bill. He said that the committee was going to have to make up their minds, whether this would be used as a committee bill, using it as a pattern, or whether this bill should be killed or passed.

Senator Farrell said he wanted to talk first about whether this bill made an exemption for any state wide levy from the property tax limitations of I-105. He wondered if this bill was saying that teacher's retirement was more important than local government.

Senator Nathe said he would like to be told how teacher's retirement was going to be equalized at 22 mills without excluding everything in 105.

Senator Regan said that she had heard it downstairs and also here in committee, in terms of I 105 there are going to be a number of bills that will affect taxes. (raising or relieving) When the tax relief has come through, 105 is no longer in effect. She said she truly believes there will be some adjustments made. 105 said when tax relief has taken place, it is no longer in existence. She said that when she hears a lot of discussion about raising taxes in her area, this probably means that we have been the victims all along, not those who are going to now join us in spreading this burden out.

Senator Nathe stated that this bill is a result of a taxation policy created by the state legislature where huge inequities or disparities in taxable evaluations are allowed.

Senator Regan wondered if it was premature to take up just this one bill when there is another funding bill. All of these bills will require work, examination and amendments.

Senator Mazurek said that he felt the committee was getting off to the right start and hopefully this bill will be the vehicle. What needs to be done is to go through the issues that have been identified as being similar, what the recommended changes are, what the pros and cons are and how the system should remain the same and how it should be changed. At this point he said the committee should talk about building an equalized system for distribution.

Senator Hammond passed out to the committee A Summary of School funding Equalization Proposals. (See Exhibit #1) He suggested that the committee go through each point included in this proposal and see if the committee can develop a consensus.

The committee started with #1 of Exhibit #1, which addressed 17 funds for all school costs and reserves for each.

Senator Mazurek asked "Is HB 575 actually Governor Schwinden's Advisory Council's bill?" Senator Hammond replied, "Yes."

Senator Regan stated that in SB 198 the issue of all those other funds was not taken up. Instructional costs were concentrated upon. Instructional costs in the retirement and workers compensation were costed out. Other funds were incidental and transportation, capital out lay and special education were not addressed.

She said she was bothered by the comprehensive insurance in SB 203 is that it is about 1% of the total budget. It is such an insignificant amount that it is not included in SB 198. The fear was that the districts would go cadillac style if they thought the state would pick up all the costs.

Senator Farrell said that he understood the fright of a statewide mill levy to pay for it, but what about a statewide insurance plan that each district would participate in. It could be bid out to insurance companies every year.

Senator Blaylock said he thought this concept was good but there have been problems with the statewide insurance for the state employees. Some insurance companies thought it was too expensive and employees have gone back to Blue Cross. Also this would be flying in the face of local control.

Senator Farrell said that costs could be cut by one-third by paying an individual insurance company.

Senator Regan stated that when looking at comprehensive insurance we are looking at real property and liability, not medical or life insurance.

Senator Mazurek (See Exhibit #2) explained that this hand-out contained the points the education community agreed upon. #2 and beyond deals with the foundation program being equalized. #5 states that the comprehensive insurance would be fully funded by the foundation program, which would be equalized.

Senator Nathe stated that a definition of comprehensive insurance as it is used in Exhibit #2 and by the superintendents who put SB 203 together would be necessary before this can be discussed.

A member from the Legislative Auditor's office explained that the comprehensive insurance fund between districts can vary a lot as to what is included. There are districts that do not levy anything for comprehensive insurance and there are others that are fairly high. This does not include employee health insurance which is a general fund budget item. There are very few districts that have a comprehensive insurance fund that is big enough to include this sort of an item. The vast majority of districts pay for health insurance out of the general fund. What is normally included in any comprehensive fund is liability insurance, building insurance, fire, and worker's compensation.

He said there were groups of districts in Montana that have self-insurance plans.

Senator Regan added that Billings has self insurance for liability.

Senator Mazurek added that this is part of the county pool.

Bruce Moerer of the MSBA stated that cities are self insured for liability and counties just for worker's compensation. He said they checked on the feasibility of having an insurance pool for schools, both for liability and for general property coverage. It was found that there was an extremely strong resistance in the business community to this idea. Secondly there really is not enough of a premium level for liability to have a real strong pool. There is too much exposure to do this. Also it was found that liability was unable to be gotten if property was taken away

because most of the insurers will bid property and liability as a package. He said they were looking at worker's compensation and there may be a viable program that will save schools money. Also he said they are trying to do a joint purchase agreement with all the member districts in the state for liability and property. Self insuring just can not be done because there is not a large enough base. We are a small part of the total insurance coverage in the state of Montana. There is a health insurance, The Montana Unified School Trust that goes in with the MEA and the school administrators and there still is not the premium amount that Blue Cross and Blue Shield do.

Senator Regan asked what percentage of general fund budget is for building and liability insurance.

Eric Feaver replied that it is 1.85%.

Senator Regan stated that this is so small and when insurance is looked at she feels that the problem about contamination, liability, and property should be left outside of the general fund. By leaving it out entirely, the state does not fund it. It is left at the local level where the buildings are and they deal with the local businessmen and they have liability coverage. There is such a variation from district to district in terms of their buildings.

Senator Pinsoneault suggested that this might be considered as a phase-in plan. It may be one that we can look to five years from now to equalize on a step by step basis.

Senator Hammond said that there must be a great deal of indecision of where this should be. He said he could see where larger districts could do this much more easily than smaller places. The smaller places have the ability to group together within counties and within areas to get an acceptable bid.

Senator Mazurek stated that it seemed that if it was equalized, it might make it easier to try to do something on a statewide basis, to get everyone involved in it, but to do it purely on a local basis, would be tough.

Senator Mazurek said that he felt that Rep. Kadas' proposal, with two funds, is probably not acceptable but a general fund, retirement, transportation, capital outlay, and a local enterprise funds could be five essential funds rather than seventeen. He said he wondered who would be out there that could tell us if this was a good idea or not.

Eric Feaver said that there was an education entity that has been involved in making up the consensus points.

Senator Regan asked if adult education was equalized. She wondered if adult education was included because it was not mandated by the court case. The court case dealt with K-12, therefore she felt adult ed should go under the enterprise fund.

Senator Brown said that there is a need for local control for these enterprise funds. Then perhaps with the wisdom of this educational reform, narrowing it down to five funds would be a good idea.

So he said he wanted to move that the bill would include the funds that Senator Mazurek just enumerated, the general fund, the retirement fund, the transportation fund, the capital outlay fund, and the enterprise fund.

Senator Regan said that if a general portion of the budget is going to be equalized, adult ed will be equalized and she said she was not sure if this should be equalized.

Senator Mazurek added that it is important to recognize that this is not included in equalization. Accounting at the local level is what is being discussed, so adult basic ed still fits in, this is just where it is accounted for.

Senator Farrell asked if adult ed was included in the general fund right now.

Senator Hammond replied that there is a separate levy for it, but it is accounted for in the general fund.

Senator Farrell stated that he thought it should be in the enterprise fund rather than in the general fund, when thinking down the line and the equalization of all the funds.

Bruce Moerer stated that the only difference is, is that with adult education compared to the rest of the enterprise funds, is that they do not depend on tax revenue. Enterprise funds are basically a cash in, cash out type of thing. It is money for hot lunch programs etc.. Adult ed money is not this type of money, it comes through a tax levy. There is a difference in the type of funding source that is put into the enterprise funds.

Senator Farrell asked Bruce Moerer if he was saying that a mill levy could not be run and be called an enterprise fund.

Bruce Moerer said that he could not answer this.

Senator Regan stated that she noticed in the enterprise fund there is sick leave, and sick leave is a portion of compensation. Problems are being created here when we even list sick leave because this should just be out of here entirely.

Senator Mazurek suggested that nothing is said except "enterprise funds." Nobody necessarily has all of these enterprise funds.

He suggested that adult ed be left in the general fund and be recognized as not necessarily being equalized. This will have to be reserved for another day when it is more fully understood. If putting it into the general fund means it must be equalized, then it will have to be addressed later.

Senator Hammond asked how these funds are brought into the general fund and how they were originally channeled through and how an amount was arrived at.

Eric Feaver replied that some of the money comes out of the Education Trust Fund. The amount is figured from the number of students that are in the district's adult education program.

Senator Mazurek suggested that someone be present while these decision were being made that could answer some of the committee's questions. At least in terms of how things work now.

Senator Hammond replied that Bob Stockton from OPI may come.

Senator Mazurek asked why 90% had been settled on in this bill.

At Senator Nathe's request, Dave Cogley replied that one reason was that the superintendents thought they would be fortunate to equalize at 90%. The practical part of it is that the district would still have the levy to insure funding of the retirement costs. Also having 10% leeway insured some local control.

Senator Nathe stated that the school superintendents feel very strongly about not having retirement in the general fund because it is a mandated cost and if it ever starts to back slide, education can not be robbed from in the general fund.

Senator Brown stated that he did not care about the separate fund but this is something that equalization of this aspect

of the cost of education helps us do it right with the constitution, and there is little difference between 90% and 100%. This is equalized money.

Senator Blaylock said that he felt retirement is something that has to be equalized because in some counties this is eating them alive.

Senator Farrell asked if it would be proper to make the motion to accept eliminating the retirement levy, and put retirement in the general fund.

Senator Brown replied that what he thinks should be done is to keep the lottery going into the general fund but 100% of retirement should be equalized.

Senator Hammond said that the 90% seems to be arbitrary so this could be changed to 100%.

Senator Nathe said that this bill is entirely on property and the lottery money goes into state equalization.

Dave Cogley explained that if retirement is in the general fund it is going to be equalized per ANB. As written in the bill in a separate fund, it provides for the individual needs of each district, but is not equalized per student.

Senator Nathe stated that this bill is equalizing teacher's retirement on the actual costs. The districts will get tax relief, they will only have to levy the 22 mills and they will get the money to pay teachers' retirement. This is actually equalizing county by county. The number of students there are determines the amount of teachers' retirement that is gotten back if the district only goes by ANB.

Senator Hammond announced that the committee would take up this point at the next hearing.

Amendments and Votes:

Senator Brown moved that five funds (the general fund, retirement, transportation, capital outlay, and an enterprise fund) be moved into SB 203, with the assumption that adult education is in the general fund.

THE MOTION CARRIED UNANIMOUSLY.

ADJOURNMENT

Adjournment At: 2:50 pm


SENATOR H. W. HAMMOND, Chairman

HH/jh

Senmin.206

ROLL CALL

EDUCATION

COMMITTEE

51th LEGISLATIVE SESSION -- 1989

Date 2-6-89

NAME	PRESENT	ABSENT	EXCUSED
<u>Chairman Swede Hammond</u>	✓		
<u>Vice Chairman Dennis Nathe</u>	✓		
<u>Senator Chet Blaylock</u>	✓		
<u>Senator Bob Brown</u>	✓		
<u>Senator Dick Pineseault</u>	✓		
<u>Senator William Farrell</u>	✓		
<u>Senator Pat Regan</u>	✓		
<u>Senator John Anderson Jr.</u>	✓		
<u>Senator Joe Mazurek</u>	✓		

Each day attach to minutes.

SENATE STANDING COMMITTEE REPORT

February 6, 1989

MR. PRESIDENT:

We, your committee on Education and Cultural Resources, having had under consideration HB 230 (third reading copy -- blue), respectfully report that HB 230 be concurred in.

Sponsor: Kimberley (Brown)

BE CONCURRED IN

Signed: H. W. Hammond
H. W. Hammond, Chairman

SENATE STANDING COMMITTEE REPORT

February 6, 1989

MR. PRESIDENT:

We, your committee on Education and Cultural Resources, having had under consideration HB 275 (third reading copy -- blue), respectfully report that HB 275 be concurred in.

Sponsor: Nelson, L. (Brown)

BE CONCURRED IN

Signed: *H. W. Hammond*

H. W. Hammond, Chairman

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

Helen MacPherson, Secretary, Legislative Council

February 6, 1989

Some language changes in the bills on the following chart are nonsubstantive. In drafting school funding equalization bills, an attempt was made to use consistent language and style in the areas in which the same issue or goal was addressed. For instance, the term "attendance agreement" replaced "tuition agreement" in the bills that eliminate tuition payments. The term "maximum-general-fund-budget-without-a-vote" is replaced with "foundation program" or "foundation program amount" in the bills eliminating the permissive levy and making the foundation program fund 100% of the general fund budget without a vote.

Other changes reflect clean-up of provisions left over from legislative changes made in the past. For instance, references to "vocational technical center fund" are deleted because of the transfer of those centers to the Board of Regents in 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 Montana Code Annotated user. For instance, see Section 34 of Senate Bill 203, amendment of 20-9-333(2)(d), MCA.

GLOSSARY OF ABBREVIATIONS USED IN CHART

ANB -- average number belonging

Ave. -- average

BPE -- Board of Public Education

Bldg./debt -- district debt service, building fund, building
reserve

Elem. -- elementary schools

FP -- Foundation Program

FY -- school fiscal year

GF -- school district general fund for operation and
maintenance

H.S. -- high schools

Spec. ed. -- special education

Transp. -- transportation

Workers' comp. -- Workers' compensation insurance

Schurman

<u>CURRENT</u>	<u>HB 575, KADAS</u>	<u>SB 203 NATHE</u>	<u>SB 198 REGAN</u>
1. <u>17 funds</u> for all school costs; reserves for each	Only 2 budgeted funds: general, bldg./debt. Reserves for each	Retain current funds except add comprehensive insurance to GF	Retain current funds except add retirement and workers' comp. to GF
2. <u>County retirement levy</u> , using lottery for equalization; (25-mill average)	Eliminate levy; retirement in GF; lottery \$ to state equalization	Separate fund but 90% equalized with state levy; lottery \$ to state equalization	Eliminate levy; retirement in GF; lottery \$ to state equalization
3. <u>District levy for comprehensive insurance</u> ; (5-mill average)	Insurance in GF, funded as part of FP	Included in GF as part of FP	Retain as separate fund, but workers' comp. in GF
4. <u>Separate tuition account</u>	No tuition charges; students counted in school attended. Attendance agreements	No tuition charges; students counted in school attended. Attendance agreements	No change
5. <u>No limit on total expenditures</u> ; FP schedules not based on actual costs	FP schedules reflect FY 87 ave. expenditures per district size for all budgeted items but bldg./debt; voted cap at 117% of FP payment by 1995 (FP—85%, voted—15%)	FP schedules reflect 100% of FY 88 GF expenditures. Voted cap at 117% of FP	Study of proposed standards used as cost basis for new FP schedules; cap at 125% of FP (FP 80%, voted 20%)
6. <u>Mandatory 45-mill levy</u> , collected at county (28 mills elem., 17 mills h.s.)	Mandatory 103 mills for elem., 63 mills, h.s. Substitutes for all nonvoted county/district levies except bldg./debt.	No change	No change
7. <u>Permissive levies</u> for elem. and h.s.	Eliminate permissive levy	Eliminate permissive levy	Eliminate permissive levy

<u>CURRENT</u>	<u>HB 575, KADAS</u>	<u>SB 203 NATHE</u>	<u>SB 198 REGAN</u>
8. <u>Voted levies unlimited except for I-105</u>	Voted levies limited to 117% of FP plus transp. & spec. ed.; excluded from I-105	Voted levies limited to 117% of FP; excluded from I-105	Retain but cap at 25% above FP by FY 94; phase-in limit until then; 1st 10% of voted equalized by guarantee and recapture
9. <u>State revenue sources earmarked for FP</u>	No change except add lottery	No change except add lottery	No change except add lottery
10. <u>County revenues received from federal forest funds, Taylor Grazing, motor vehicle, misc., used for county equalization</u>	No change	No change	No change
11. <u>PL 874 not counted as resource for equalization</u>	PL 874 counted under cap when state meets federal equity test	No change	PL 874 counted under cap when state meets federal equity test
12. <u>General fund reserve limit of 35%; no penalty for exceeding limit</u>	20% limit on GF reserve by FY 95 except districts receiving no state equalization. Excess cash reappropriated or reverted to FP; appeal to OPI in special cases	20% limit on GF reserve except districts receiving no state equalization	No change
13. <u>FP structure & schedules based on school size</u>	No change in categories; adjusted 216% to account for FY 87 average costs	No change in categories, adjust \$ amount by factors to reflect FY 88 GF spending statewide; provide inflation index for automatic adjustment in future years	New schedules w/teacher experience factors and new school size categories

<u>CURRENT</u>	<u>HB 575, KADAS</u>	<u>SB 203 NATHE</u>	<u>SB 198 REGAN</u>
14. Minimum <u>180-day</u> school year with no maximum; no limit on days creates disequity in FP payments	Funding is per student, not per days; see no. 15	No change	No change
15. Payments based on <u>average number belonging</u> (ANB is 150,000, but actual pupils approx. 130,000)	ANB redefined; ANB based on ave. of 6 student counts per year	No change	Retain ANB method for new schedules
16. <u>Building/debt service</u> not equalized	Legislative interim study	No change	No change; study suggested in HJR 16 work
17. <u>Transportation</u> program separate	Transportation in GF. State funding of FY 90 costs-\$30M. OPI & BPE study & distribute for FY 91; subject to expenditure cap	No change	No change; study suggested in HJR 16 work
18. <u>Special education</u> separate appropriation; part of school general fund; separate accounting and OPI oversight	No change but payment subject to expenditure cap	No change	No change
19. Elementary and high school <u>districts</u> may be separate	No change	No change	No change
20. Current <u>payment schedule</u> is 5 times per year	12 monthly payments of at least 8%	Monthly payments with 20% 1st month	No change
21. Additional components or issues	Adult educ. in GF; studies in No. 16 & 17		State guarantee of \$100/ANB for 1st 10% above FP

CURRENT

HB 575,
KADAS

SB 203
NATHE

SB 198
REGAN

22. Phase in

Effective for FY 91
school year; cap in
effect for FY 95;
5-year grace period
for limits on
districts

Effective for FY 90
school year; cap in
effect for FY 95

4-year phase-in
of expenditure
cap, effective
July 1, 1989

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OFFICE OF PUBLIC INSTRUCTION

Nancy Keenan
SuperintendentSTATE CAPITOL
HELENA, MONTANA 59620
(406) 444-3095

February 3, 1989

Education Community Consensus Points

1. A comprehensive solution to the Supreme Court decision would not be implemented in FY90. There would be a five year phase-in period. For FY90, the foundation schedule would be increased to equal the Consumer Price Index (July to July). For FY90 and beyond, special education would be fully funded at the allowable cost level.
2. The state would fund most of the present budgeted funds under a general fund category, including the present general fund, comprehensive insurance, tuition, and adult education.
3. For the present, capital outlay and transportation funds would not be combined or equalized. They would be set aside for further study and be separate from the general fund. Non-budgeted enterprise funds need not be included in equalization.
4. The school employee retirement would be a separate fund, and would be fully funded and equalized.
5. Comprehensive insurance would be fully funded as part of the foundation program and would be equalized.
6. In-state tuition would no longer be charged. Students would be counted in the school attended.
7. If there is to be a cap on school district expenditures, it should be calculated on all budgeted funds except capital outlay. Initiative 105 and SB 71 would be repealed.
8. The foundation program would be funded at 100% of current statewide expenditures. If there is to be a cap on expenditures, the cap would be phased in over a period of five years.
9. The local permissive levy would be eliminated.
10. State revenue sources for the foundation program would remain.

11. PL 874 funds would not be included in the funds available for equalization. The issue would be studied by OPI during the interim and a recommendation made to the next legislature. Options to be considered would be leaving the funds out of the resources for equalization and/or a weighted ANB for Native American students.
12. Foundation program would be distributed in 12 equal payments.
13. Reserves would be limited to 20%, assuming the state distributed school funds monthly in 12 equal payments. The Superintendent of Public Instruction would be authorized to grant appeals on the reserve limitation to prevent a school from being penalized due to an unusual circumstance outside a school's control.
14. No change would be made to current structure of the foundation program schedules. The amounts would be adjusted according to the consensus proposals.
15. Funding for the school year would be based on 180 days PI, with 7 additional days for PIR.
16. Foundation program payments would continue to be based on ANB.
17. Special education would remain a separate appropriation and would be fully funded at the allowable cost level.
18. School district consolidation is not to be included as part of the equalization issue discussion.
19. Non-property tax revenues received at the local level would be equalized through the foundation program.
20. State mandated equalized property tax would be collected and distributed through the ANB schedule in a manner that would not jeopardize PL 874 funds.

