MINUTES

MONTANA HOUSE OF REPRESENTATIVES
53rd LEGISLATURE - REGULAR SESSION

SELECT COMMITTEE ON SCHOOL FUNDING

Call to Order: By **CHAIRMAN JOHN COBB**, on March 9, 1993, at 3:00 p.m.

ROLL CALL

Members Present:
Rep. John Cobb, Chairman (R)
Rep. Ray Peck, Vice Chairman (D)
Rep. Bill Boharski (R)
Rep. Russell Fagg (R)
Rep. Mike Kadas (D)
Rep. Angela Russell (D)
Rep. Dick Simpkins (R)
Rep. Dave Wanzenried (D)

Members Excused: None

Members Absent: None

Staff Present: Andrea Merrill, Legislative Council
Eddye McClure, Legislative Council
Dori Nielson, Office of Public Instruction
Evy Hendrickson, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:
Hearing: **HB 667**
Executive Action: None

CHAIRMAN JOHN COBB outlined the committee's agenda for the next week.

Jim Gillett, Legislative Auditor's Office, addressed the committee concerning a memorandum he had prepared summarizing the action of the select committee at its March 4 meeting on the school funding equalization model. **EXHIBITS 1 and 2**

REP. KADAS said he had several points regarding some of the assumptions and one proposal for an amendment to the bill that he wanted to discuss with the committee.

Assumption #1
REP. KADAS noted that currently on mandated budget growth below

80%, districts are scheduled to grow 20% per year closer to the minimum. Staff members from the Office of Public Instruction had pointed out to him that that probably won't be the case, considering experience with the 135% permissive where almost every district went to the 135%. A more appropriate assumption would be that everyone will go to 80%. **Mr. Gillett** agreed that that change in assumptions would provide the maximum state exposure figure. He said he would come back to the committee with that change and what would have to be done to the payment factors to keep the proposal revenue neutral.

REP. SIMPKINS suggested setting both a minimum and a maximum amount, e.g., 20% minimum, 30% maximum, that a district could go up in one year; otherwise, it will be an uncontrollable factor and an astronomical number. **REP. BOHARSKI** suggested an alternative of a 4% growth limit; if the 20% growth is more than 4%, then the district can only go up 20%. **Mr. Gillett** said they would prepare models for the committee to look at: 20% or 104%, whichever is greater.

<u>Assumption #2</u>
The next assumption that **REP. KADAS** wanted to change was the 104%. Having been struck by the difference between general fund amounts and expenditures and actual expenditures, he believes the plan should be built on actual expenditures. Because those numbers are a year behind that being budgeted for (e.g., while budgeting for FY94, actual expenditures for FY93 aren't available so that districts would have to use FY92. His proposal is to take the previous year's actual expenditures (FY92 for FY94) times 108% because of that two-year difference. Including the ANB calculation the same way will respond to the problem faced by districts experiencing rapid growth.

Scott Seacat, Legislative Auditor, stated that, following that logic, it won't be 108%; it would be 108.16% because the 4% has to be inflated another 4%. **REP. KADAS** said that districts could live with that minor cut of .16%.

<u>Assumption #3</u>
REP. KADAS said that, if the legislature is going to change to expenditures, a different data set will have to be used rather than budgeted amounts. **Mr. Gillett** said that process will be easier or more difficult depending on how school districts collect and spend those funds.

REP. BOHARSKI indicated he had two problems with **REP. KADAS's** issues. First, under current law, a district, to the extent possible, will identify PL 874 leftover revenue as excess reserves as long as they have PL 874 receipts because then it doesn't have to be reappropriated to reduce mills or GTB ubsidies; this way there won't be any way of knowing how that affects expenditures. The other concern is that if the equalization program is tied to expenditures, districts will expend all their budgets by the end of the year; this could exacerbate the game-playing.

REP. KADAS said he understood **REP. BOHARSKI's** concern but felt the accurate picture of what districts are doing would be worth that risk.

Jim Gillett said that prudent managers don't ever plan to spend 100% of their budgets. When the 108% is computed, that should be taken into account. The prudent manager would probably leave 1% or 2% each year for emergencies. They will do some figures on that, too.

REP. KADAS asked for clarification on how special education will be handled under the proposal. **Mr. Gillett** responded that from the outset in modeling the system the notion has been to omit the special education and then add allowable costs back in. **REP. KADAS** asked whether a district with a lot of special ed costs gets any additional spending authority because of that significant bulge of allowable costs versus a district of the same size that doesn't have all the special ed children. **Mr. Gillett** said that two things mitigate that: the budget growth allowed and counting special ed ANB.

REP. KADAS wondered whether the committee couldn't include something for special ed. on the order of the current system of calculating 135% on the foundation program including special ed. **Mr. Gillett** said it was possible and that he was reviewing **SEN. HALLIGAN's** bill which could have just this effect. A portion of that is accomplished by including special ANB with regular ANB.

Dori Nielson, OPI, said that, in order to accomplish that, the committee may need to do some more assumptions about shifts in money. District expenditures are very different from one district to another, and special ed. costs could end up generating GTB contributions.

CHAIRMAN COBB cautioned the committee that, since action will be taken on this bill on Thursday, members should be careful about making major changes without knowing the effect that those changes will have on schools.

Ms. Nielson said that a minor change could address the issues raised, but assumptions need to be agreed on and figures run to assist the committee in making a simple amendment in the bill. **Mr. Gillett** agreed with that.

REP. KADAS, noting that special education has to be equalized, said he is concerned that a district with a lot of special ed students will be considerably lower in average dollars per student than a district the same size that doesn't have a great many special ed students.

Ms. Nielson said that she will have a brief explanation at the next meeting of how this can be addressed.

Mr. Gillett said that he had been working with **Dr. Jack Gilchrist** about the 2500 ANB stop-loss on the per student reduction factor. They both believe that 1500 is a more appropriate number than 2500 for equalizing the higher ANB-range schools. This raises state costs about $5 million.

REP. KADAS addressed an amendment he is drafting on non-levy revenue. He said there are five different kinds of non-levy revenue: local government severance tax ($6.7 million), motor vehicle fees ($5.7 million), financial institutions tax of corporate license tax ($770,000), net proceeds tax ($362,000), and coal gross proceeds ($1.9 million) for a total of $15.5 million. These have a large impacts on individual districts' wealth, particularly the resource taxes. That is one of the fundamental problems, and he would like to take that wealth away from them. The amendment would take wealth away from urban districts with the motor vehicle tax and the bank tax in hopes of equalizing further. All that will go into the state equalization aid account (SEA) to provide extra funding. He will have a plan for this on Thursday.

CHAIRMAN COBB then opened the floor for public comment.

Kathy Fabiano, Office of Public Instruction, discussed problems that OPI would face to implement this law by July 1, 1993. She said several things would help them in this effort: They will have to implement the bill and interpret the statutes without written rules since even emergency rules take 30 days notice. OPI will need authority to make payments made from August through whenever budgets are processed based on an estimate. They would like as much time as possible by requiring that counties: take the money electronically or through STIP, transmit data electronically from districts to OPI; and hold down budget amendments by changing the way ANB is calculated (from spring enrollment of two years prior and the fall enrollment of the immediately prior year) to perhaps averaging two enrollment counts.

Ms. Fabiano said OPI would have to have time to re-do forms, reprogram the computer edits on those forms, reprogram the system that calculates district monthly payments, and calculate and communicate to districts what their minimum and maximum budgets are.

Ms. Fabiano asked the committee to take the attractive parts of the bill -- the minimum/maximum budgets, the increase of equalization dollars by shifting more of them to ANB, locking in the amount of money the state pays to schools, and reducing the spending disparities to districts -- and incorporate them into the current system rather than starting over with a whole new set of terminologies and calculations. She indicated that districts are still having problems with HB 28.

She said that OPI is down 5% in personal services, and she would not guarantee that the office could administer this bill correctly with less staff than she had before. Either she needs more money for staff in the bill for administration or she needs current level returned.

REP. SIMPKINS chaired the committee from this point.

Ms. Fabiano addressed PL 874 funds because it is not addressed in the bill at all. The bill requires that districts use their federal impact aid in the 80% area, the area subsidized by state aid. According to the most recent letter from the U.S. Department of Education, districts cannot be required nor can they choose to use PL 874 in an area that reduces their state aid. If the bill will go into effect in FY94, OPI needs amendments that clarify that PL 874 may not be used to reduce the district's levy within the 80% area. The bill needs to provide that PL 874 money be budgeted either in a separate fund or over and above the 80% area so that it does not reduce the district's entitlement to state aid.

REP. BOHARSKI asked that an amendment be drafted similar to the one for his bill, HB 459, that clearly forbids a district from using PL 874 in any way if it results in reduction of state aid. **Ms. Fabiano** said that OPI is appealing that decision from the U.S. Office of Education; if that appeal is successful, this amendment will not be necessary.

Madalyn Quinlan, Office of Public Instruction, talked about the problem of non-levy revenue which is not addressed in the model. A district that has access to local government severance taxes, coal board proceed taxes or motor vehicle taxes may be able to fully fund their portions of the base entitlement and the base per pupil amount without any mill levies. That is a taxpayer equity issue the committee should address. One option is using non-levy revenue to fund the "above the minimum but below the maximum" amount with the state recapturing any amount above that. She noted that **REP. KADAS** is also drafting an amendment to deal with non-levy revenue to be the first source of funding for the state share; while this could work, it is cumbersome and there may be some questions about this money which is allocated for district purposes being used for state purposes.

Ms. Quinlan suggested that, if the committee goes ahead with that proposal -- using non-levy revenue attributable to district general fund mills to fund the state direct aid -- a system be set up similar to HB 62 of the July 1992 Special Session in that the money is collected at the county level and sent to the state so that the district doesn't receive the money and get confused about how much has to come back to the state and how much is theirs to work with.

She added that there will be some shift in non-levy revenue among other taxing jurisdictions. For example, the motor vehicle fees are distributed among all taxing units -- county government, city government, school districts -- and if these districts no longer have access to non-levy revenue, their mill levies will go up and it will shift away from the county and city governments to the school districts and then to the state.

Ms. Quinlan said there are two cases where there will be a lot of non-levy revenue: one is those districts that have oil, gas and coal production and consistently have access to that money; the other is protested taxes or a tax audit where for one or two years a district would have more revenue. She said that districts can either use the protested taxes money to lower their mill levies or they can put it in excess reserves. At any time they can pull those out and have an amount of money in excess of what they need to fund their budget.

Asked for her recommendation on how to handle non-levy revenue, **Ms. Quinlan** noted two options: One is to use it to fund the non-subsidized area and to recapture any amount over that. The second would be to do what **REP. KADAS** is proposing which would be to use it in the state equalization aid account.

Mr. Gillett said that in the current model the non-revenue money is used first to reduce the subsidized levies; then to reduce the unsubsidized levies, either in the 80-100% range or between the minimum and the maximum; then to reduce the mill requirement for any over maximum budget in high spending districts.

REP. BOHARSKI asked, if the committee goes for recapture of the non-levy money, what kind of impact it would have on OPI. **Kathy Fabiano** responded that any time a policy is changed, there's a snowballing effect.

Loran Frazier, School Administrators of Montana, said that **Dr. Ernie Jean** had submitted written comments the previous day. He said that several superintendents have said they would like the bill effective on passage and signature which would give the schools a little more planning time.

Tom Bilodeau, MEA, outlined MEA's position, particularly if this will be implemented July 1, that there ought to be an allowance for districts to maintain current budget level. Personnel contracts will be in place, and assumptions will have been made about budget levels for the coming year. That should be done by permissive authority to the boards.

Mr. Frazier also indicated that, especially for those districts above the maximum, having levies permissive to start with would give them an opportunity to establish the levy in the following year.

Mr. Frazier said that, since the retirement issue is addressed partially in the bill, if GTB is granted at 242% of the state average taxable valuation, maybe the retirement GTB aid should also be at 242%.

Mr. William Nachatilo, Superintendent of Schools, Butte, said his district will see a reduction in the elementary and high school budgets more than any other district in the state. Because of historical budget patterns, the Butte district will drop to the 98th percentile for the next five years. They are afraid they will be placed in the position where trying to pass any type of voted levy will become almost impossible and they will have to make serious cuts over an extended period of time.

Tape 2, Side 1

In a positive response to a suggested amendment on permissive levies in the first couple of years and on phasing in the cuts, **Jim Gillett** said that the legislature will most likely increase the minimumbudget level upward over the years which will cause the maximum level to move up towards the current high spenders. He said that many districts are experiencing enrollment increases which also causes a district to move towards the current spending limit.

Mr. Bruce Moerer, Montana School Boards Association, suggested that the committee consider a three-year rolling average for ANB count. That would mitigate the serious declines in enrollment and allow some planning time.

Mr. Gillett said that the 2% spend-down provision for high spending districts was attached as a permanent part of the law so that if districts found themselves in a declining enrollment situation in future years, they wouldn't have to come down the entire amount to maximum in one year.

Mr. Don Waldron, lobbyist for the Montana Rural Education Association, said that, although his organization is interested in this system, they do not feel the proposal answers the problems raised in their lawsuit concerning funding of large schools versus small schools.

Members of the audience discussed the quandary that schools are finding themselves in concerning April levy elections. Trustee elections have to be held in April, and every election costs a certain amount of money. Districts are wondering whether to run both elections together.

ADJOURNMENT

Adjournment: 5:00 p.m.

John Cobb

REP. JOHN COBB, Chairman

Evy Hendrickson

Evy Hendrickson, Secretary

JC/eh

HOUSE OF REPRESENTATIVES
53RD LEGISLATURE - 1993
SELECT COMMITEE ON SCHOOL FUNDING

ROLL CALL

DATE 3-9-93

NAME	PRESENT	ABSENT	EXCUSED
JOHN COBB, CHAIRMAN	✓		
RAY PECK, VICE CHAIRMAN	✓		
BILL BOHARSKI	✓		
RUSSELL FAGG	✓		
MIKE KADAS	✓		
ANGELA RUSSELL	✓		
DICK SIMPKINS	✓		
DAVE WANZENRIED	✓		

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EXHIBIT 1
DATE 2-9-93
HB 667

MEMORANDUM

To: Representative John Cobb
Representative Ray Peck

From: Jim Gillett

Date: March 8, 1993

Re: House Select Committee on Education Funding

Representative Cobb has asked that I prepare a memo summarizing the results of the actions taken by the select committee at its meeting on March 4, 1993 as they relate to the select committee's school funding equalization model. The substantive decisions are discussed below:

1. The committee approved a motion to alter the original decision regarding budget growth limitations for districts between the minimum and maximum budget levels. The committee decided to limit growth to the greater of 104% of the prior year's budget or 104% of the prior year's "budget per ANB". In no case can budget increase cause the district to exceed the maximum level.

   Mandated budget growth requirements for school districts spending below the minimum level were not changed. These districts' budget growth was not limited until their budgets reach or exceed the minimum level.

   Budget reduction requirements for school districts spending above the maximum budget level were not changed.

2. The committee approved a motion to include special education ANB which are currently not in the regular education ANB in the model. The committee also requested that the payment factors in the model be adjusted to maintain the "state cost neutral" status of the bill. The new payment factors are:

State support percentage - base	from 50% to 45%
Guarantee percentage - base	from 30% to 35%
Mill guarantee percentage of current guaranteed value	from 200% to 195%

3. The committee requested that OPI and the school district representatives present at the meeting determine "what it would take" to implement a plan such as this on July 1, 1993 and what the issues that need to be addressed are.

EXHIBIT 2
DATE 3-9-93
HB 667

MEMORANDUM

To: Representative John Cobb, Chairman
Representative Ray Peck, Vice-Chairman
House Select Committee on Education

From: Jim Gillett
Legislative Auditor's Office

Date: February 16, 1993

Re: Decisions that need to be considered when considering school funding equalization model presented to your committee on February 9, 1993

1. What should each school district's "base entitlement" be?
   Elementary?
   High School?

   ANSWER: **Elementary 18,000**
   High School 200,000

   Should an inflation index be included in the law for this entitlement?

   ANSWER: NO

2. What should the "per student allocation" be?
   Elementary?
   High School?

   ANSWER: **Elementary 3,500**
   High School 4,900

   Should an inflation index be included in the law for this allocation?

   ANSWER: NO

3. What should the "per student reduction" factor be?
   Elementary?
   High School?

   ANSWER: **Elementary 20 cents**
   High School 50 cents

Should the per student reduction factor no longer be applied after a selected level of ANB is reached?

ANSWER: 2500 High School & Elementary

4. What percentage of the "base entitlement" should the state support with direct payments to school districts?

ANSWER: 50%

5. What percentage of the "base entitlement" should the state support through guaranteed tax base (GTB) aid?

ANSWER: 30%

6. What percentage of the "base entitlement" should the district be required to pay with local money not subsidized by the state?

ANSWER: 20%

7. What percentage of the "per student allocation" should the state support with direct payments to school districts?

ANSWER: 45%

8. What percentage of the "per student allocation" should the state support through guaranteed tax base aid?

ANSWER: 35%

9. What percentage of the "per student allocation" should the school district be required to pay with local money not subsidized by the state?

ANSWER: 20%

10. To what level should the GTB mills be subsidized?

ANSWER: 200% of the current level

11. How long a period will school districts budgeting less than their "mandatory general fund budget" be given to bring their budgets up to the mandatory level?

ANSWER: 5 years

Should this increase be applied to per pupil budgets or total budgets?

ANSWER: Per ANB

12. At what rate should school districts budgeting above their "maximum general fund budget" be required to reduce their budgets to the maximum level?

ANSWER: **2% per year**

Should this rate be applied to per pupil budgets or total budgets?

ANSWER: **Per ANB**

13. What limitation, if any, should the legislature place on the annual budget increases of school districts which are currently spending between the "mandatory" and "maximum" budget levels?

ANSWER: **None**

Should this rate be applied to per pupil budget or total budget?

ANSWER: **N/A**

Should this factor be linked to an inflation index of some kind?

ANSWER: **N/A**

14. Will school districts spending above the maximum level be required to vote any budget amount which is above the maximum budget?

ANSWER: **Yes**

Will this vote, if required, be combined with the vote, if any, resulting from question 15?

ANSWER: **N/A**

15. Will school districts spending between their mandatory and maximum budget levels be required to vote all or part of their budget amount which is between those levels or should that budget amount be adopted at the discretion of the district trustees?

ANSWER: **No**

Will this vote, if required, be combined with the vote, if any, resulting from question 14?

ANSWER: **N/A**

EXHIBIT 2
DATE 3-9-93
HB 667

16. Should school districts with multiple schools be allowed additional "base entitlement" amounts for each additional school?

ANSWER: **No**

If so, what should the dollar amount of these entitlements be?

ANSWER: **N/A**

Should the additional entitlements be for each school or for a selected number of ANB?

ANSWER: **N/A**

17. How, if at all, should P.L. 81-874 impact aid funds be considered in the funding mechanism?

ANSWER: **No**

18. At what location in the funding mechanism should "non-levy" revenue be considered?

ANSWER: **GTB mills level**

19. In order to help with the wealth neutrality of the system, should all or a portion of the unsubsidized portion of the budgets be supported with GTB aid?

ANSWER: **No**

If so, at what level should the mills be guaranteed?

ANSWER: **N/A**

20. Should their be a mechanism to phase in the effects of budget reductions resulting from decreases in enrollment?

ANSWER: **No**

JHG/j/i8.mem

HOUSE OF REPRESENTATIVES
VISITOR'S REGISTER

Select School Funding COMMITTEE BILL NO. HB 667

DATE 3-9-93 SPONSOR(S)

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