MINUTES

MONTANA SENATE
59th LEGISLATURE - REGULAR SESSION

JOINT SELECT COMMITTEE ON EDUCATION FUNDING

Call to Order: By **CHAIRMAN DON RYAN**, on March 10, 2005 at 8:10 A.M., in Room 102 Capitol.

ROLL CALL

Members Present:
Sen. Don Ryan, Chairman (D)
Rep. Bill E. Glaser (R)
Rep. Holly Raser (D)
Sen. Bob Story Jr. (R)

Members Excused: None.

Members Absent: None.

Staff Present: Connie Erickson, Legislative Branch
Eddye McClure, Legislative Branch
Lois O'Connor, Committee Secretary
Jim Standaert, Legislative Branch

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

Committee Business Summary:

Discussion on Education Funding.

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SEN. ROBERT STORY, SD 30, suggested a school fund consolidation bill draft that is based upon the suggestions made in the K-12 Public School Funding Study: Structure of School Funds. **(See Exhibit 3 from the March 8, 2005, meeting.)** He said that the Subcommittee needed something to work from, otherwise it would be talking in circles.

REP. HOLLY RASER, HD 98, wanted to define the Subcommittee's broad policies first so that it knew what it was funding. She provided a work sheet and overview of general ideas that the state may fund directly, or indirectly fund with guaranteed tax base (GTB) support. She said that at this point, she did not want the Subcommittee to get "wrapped around the axle" about where the funding was coming from. It should concentrate on what needs to be in schools.

EXHIBIT(jes53a01)

REP. WILLIAM GLASER, HD 44, said that there are fixed costs associated with schools. Permissive levies are a way to roll up all other funds that have traditionally been used by schools to fund the basic system of education. Added to the permissive levies is GTB support which gets schools to the 80% funding level. Above the 80%, there needs to be a flexible cost of schools. Federal money, with the exception of impact aid funds, is the flexible cost of schools. Permissive levies are currently funding the state share of the fixed costs and voted levies are the flexible money that is above the 80%. He said the Legislature cannot solve the problem until the basic system is funded by the state.

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SEN. STORY felt that it would be a mistake to not count a portion of federal money toward the cost of the basic system. He said federal money is in the funding system to deal with issues such as at-risk students. As long as it is available, it should be counted below the 80% level. If the federal money is lost, the state can deal with that issue when it comes. His concern is how to deal with nonlevy revenue because it is more problematic.

SEN. DON RYAN, SD 10, said that schools have current expenditures which are yearly expenditures. If the yearly expenditures are required by the state, then it is the state's obligation to fund them and, they should be considered in the general operating fund of schools. He questioned, if the Subcommittee agreed or

disagreed in concept with **REP. RASER'S** ideas, what is the next step.

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SEN. STORY asked the Subcommittee to consider those districts that appear to be tax havens, i.e., does it want them to keep operating or does it want to do something different?

REP. RASER said that there are some schools that do not meet the isolation factors and must levy a certain amount of money to keep them going. **Lynda Brannon, MT Association of School Business Officials (MASBO),** said that if schools are currently isolated schools and if they have isolation approval through the Office of Public Instruction (OPI), districts need not pay a higher levy in areas receiving direct state aid. If districts want an isolation status and do not receive approval, local taxpayers have to pay the tax. Although it is law, it does not help tax havens. The only way to rid the state of tax havens is boundaries. She added that there will always be districts that have lower taxes than its neighbor. The question is whether they are considered a tax haven.

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REP. GLASER questioned what the state was gaining by having required mills sent to the state and then reappropriating it. He said that centrally assessed property is the Legislature's way of taking money from places like Colstrip. For instance, a farmer has a lot of class 8 machinery and the value of that machinery decreases. Logic tells a person that the farmer's taxes would decrease, but they do not. The farmer's taxes increase because the farmer has land. There will be significant amounts of positive and negative impacts from reducing taxes on one class of property. He said that class 8 property reduction is so broad that those people that the state may want to tax no longer pay taxes. He said that taxes will play a huge part in the end solution.

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SEN. RYAN said that school accounts and budgets are needed to find out what is required within the general fund for current expenditures each school year. **REP. GLASER** said if the state is going to use permissive levies, it has to have manageability of those funds and accountability to keep the support of the people.

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SEN. STORY said that the Legislature lifted its controls on how cities and counties raise and spend their money. The Legislature put counties on a general-mills-and-spend-it-how-you-want concept, but the cap remains to provide accountability. Because of different constitutional issues with schools, the Legislature created different funds for schools than it did for other forms of government. He still felt that the Subcommittee should generate as much flexibility for schools as possible. Schools would still be accountable to their taxpayers and the Legislature because they are, in essence, funding it.

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REP. RASER said if the Subcommittee agreed that the proposed general operating fund should include those functions that the state is requiring schools to do, Step 2 could be the level of accountability. **SEN. RYAN** said that schools would report expenditure data to OPI in much the same way as they do currently. The formula could then be adjusted, for heat costs for example. It may provide a way to put money into entitlements to determine what a school's general fund will be for the next year without adding to the cost of the student or classroom. It could be added to the fixed part of the component.

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Subcommittee members and staff discussed federal money and whether it was a portion of schools' budgeted funds. It was found that federal money was a part of schools' miscellaneous programs fund and that there were many strings attached to its use. However, it could be kept in a separate fund under the proposed general operating fund and still count toward what states are required to do with federal money.

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SEN. STORY was not in favor of the state paying $10,000 for an at-risk student, for example, and having another $1,000 of federal money sitting on top of it. **REP. RASER** said that federal funds are a part of what the state is using to address the needs of students. It is being used to supplement the state's effort not supplant it.

REP. GLASER said that many problems with the existing system are that it is based and distributed on the average. The state requests that schools do certain things, and needs are required for those requests. He said that either adjustments to budgets need to be made to meet the need or the state must fund everything that is needed. The state cannot simply fund schools

on the average because educational-opportunity costs are different throughout the state.

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SEN. STORY questioned whether **REP. GLASER** was talking about adequately funding an equitable opportunity or equitably funding an adequate opportunity. **REP. GLASER** assumed that the state would be delivering services, not money. He felt that the Court should have said that the state needed to deliver services and adjust its formula for the state's share. **Mr. Copps** spoke about New York's school funding calculation that assumes that every district is different and funding is based upon services.

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SEN. RYAN did not feel that the budget authority of school districts would be raised if the state simply raised the amount of direct state aid. It had to be put in the entitlements and then budget adjustments could be made to meet those entitlements. He also felt that the Subcommittee should discuss the concept of homeowner equity.

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SEN. STORY said that the Subcommittee's first step should be the consolidation of school funds to create one general operating fund that the state had to pay for and what should be included in that fund. He felt that countywide levies for retirement and the technology acquisition and depreciation fund should be included. He was unsure about the transportation fund because each district does transportation differently. He also promoted the idea that the proposed general operating fund be permissive because districts could not vote it.

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Mr. Melton said that many school districts use the technology depreciation funds for the purposes of actual equipment and to create the ability to restore and replace their technology on an ongoing basis. It is the only purpose that districts can use that levy for. He urged that the technology acquisition and depreciation fund be split to maintain some element for depreciation. Speaking of transportation and bus depreciation, **Mr. Melton** said that the Subcommittee is mixing operational and capital funds. A school district that contracts for transportation usually rolls up the costs for depreciating buses and transportation into one levy.

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REP. RASER feared that if the Subcommittee discussed specific funds at this point that it would end up driving the funding formula rather than the broad structure driving the funding accountability system. She said that staff needed to know the details in order to draft legislation to amend statute but that is not where the Subcommittee needs to be. It needs to set its broad concepts before draft legislation is prepared.

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REP. GLASER agreed that the Subcommittee did not have the ability to request draft legislation. He suggested that staff prepare outlines based upon Subcommittee decisions made to date. The outlines could then be condensed further. **SEN. STORY** agreed, stating that the process is like taking two steps forward and one step back because there will always be areas that need revisiting.

Ms. Quinlan said that **Steve Johnson** made a good argument for putting the compensated absence liability fund into the general fund. However, if there is the possibility that the fund would be put in jeopardy, it should be deposited into a protected reserve within the general fund because it is a liability that school districts have. In addition, the lease and rental agreement fund could be perceived as both a revenue for general school operations and capital projects. It would be an opportunity to give school flexibility based on where they thought the revenue should go.

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Mr. Copps agreed that it would be helpful to think in terms of what is required--at this point, nothing above the 80% level. He said discussions always break down when people attempt to put together what is required below the 80% level and what can be voted above the 80% level.

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Joan Anderson, OPI, asked if funding is not done on the average, how else would the state know how much money to put in the system for teacher salaries, for example. **REP. GLASER** said that in the end, the state must fund on the true constitutional requirement--the needs of schools which is different throughout the state. If funding is done on the average, there will be schools that cannot comply with the requirements. **Mr. Copps** said that ANB is the classic example of funding on the average. Classroom units move

the state away from funding on the average. **Ms. Anderson** felt that even a classroom unit needed averaging at some point to come up with the true cost, such as energy efficiency.

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SEN. STORY said that since most of the funding is going to be confined to the proposed general operating fund, that is the area where the Subcommittee should spend its time because the general fund will fund all of the components within the definitions. Once that is roughly identified, the Subcommittee can then worry about the cost and where the funds will come from to pay for it.

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REP. RASER asked if it would be considered equitable if the state decided to provide GTB support for all voted levies and ensure that districts had equal access to the money if they want to go above the basic system. **Mr. Copps** said that there is a federal test that allows disequities in a certain range, but equity is not required above the basic system. **SEN. STORY** added that the Constitution only requires equal opportunity to a quality, basic system. If the Legislature funds a quality, basic system with state, local, and federal revenue, it has met its obligation and should not be concerned if school districts want to fund something above the basic system.

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Following a brief discussion, the Subcommittee requested that staff (1) review the definition of a basic system of free quality public elementary and secondary schools as outlined in SB 152--the definition bill,(2) identify what the current funds are that are going into the general operating budget, and (3) identify where staff thinks there are issues where policy decisions may need to be made.

The Subcommittee will meet Monday, March 14, through Thursday, March 17, 2005.

ADJOURNMENT

Adjournment: 9:55 A.M.

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SEN. DON RYAN, Chairman

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LOIS O'CONNOR, Secretary

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Additional Exhibits:

EXHIBIT(jes53aad0.PDF)