Montana Board of Public Education

Positions on Public School Funding and Structure

Research Conducted Over the Past Three Interims

November 2002 - December 2005

Prepared by:
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Montana Board of Public Education
Position Paper On Public School Funding and Structure

The Constitution of Montana, in Article X, Section 9 created the Montana Board of Public Education to ... *"(3)(a) ... exercise general supervision over the public school system and such other educational institutions as assigned by law."* Inherent in the general supervision clause is the responsibility of the Board of Public Education to provide leadership and direction to the goal of the people established in Article X, Section 1 ... *"(1) It is the goal of the people to establish a system of education which will develop the full educational potential of each person. Equality of educational opportunity is guaranteed to each person of the state."* Further, *"(3) The legislature shall provide a basic system of free quality public elementary and secondary schools."*

Based upon the foundation of our Constitution and the need to look at sustainable solutions to current and future challenges in the education of Montana students, the Montana Board of Public Education proposes that the Governor's Office, the Montana Legislature, and the Board of Public Education collectively commit to collaboration in addressing the complex issues facing Montana public education. Through this collaboration, we will work together to find broad-based solutions to meets the needs of Montana and its citizens in order to ensure progress and stability for K-12 education.

Considerations:

The solutions to the complex problems in the Montana public K-12 education system, including funding, require a multi-faceted long-term approach which takes into account the need for a quality system of education, the ability of our state and communities to support this need, and the benefit of operating the education system in an effective and efficient manner. Thus, it will be essential to review revenues and expenditures, along with structure and service delivery models in this proposed analysis.

The recently-conducted school funding adequacy study outlines the need for approximately $170 million to help provide our students with a basic education program that meets minimum standards of quality outlined in the state accreditation standards, content and performance standards, and federal requirements. State revenue projections show a deficit between $200 and $300 million for the coming biennium. Current taxing jurisdictions and structure have been in place in Montana for many years with the current system of taxation often scrutinized for equity and fairness.

It is important that Montana's educational system and its funding be comprehensively examined in a holistic manner and essential that we work collectively and collaboratively to seek viable long-term solutions, rather than limiting study to those issues and considerations put forth by special interest groups. To make progress it will be essential that all participants set aside partisanship and vested interests to reach accord on a fair, sustainable system that will set a direction for public education that successfully serves Montana's present and future needs.

Recommendations:

The Montana Board of Public Education requests that a group with broad educational and taxation expertise be assembled to analyze and make recommendations to the Governor's Office, Legislature, and the Board of Public Education. Although other issues and concerns may arise throughout this proposed study, it is the recommendation of the Board of Public Education that the group consider the following issues and identify appropriate solutions:

1. The development of a school funding system with the intent of simplifying the current system, including the analysis of funding school district base budgets via statewide distribution of a different taxation mechanism developed out of tax reform initiatives, which:
   - May include a combination of property taxes and other taxes dedicated to education along with other sources of existing or potential sources of revenue.
   - Should eliminate the concept of winners and losers via increases and decreases in property taxes (i.e., everyone pays their fair share).
   - Must include funding necessary to address the adequacy of educational needs.

2. The investigation of options to redistribute state funds to a more efficient system, which:
   - Should seek to eliminate scenarios that go against the common sense of the needs of students and the ability of taxpayers to meet those needs.
   - Must include funding necessary to address the adequacy of educational needs.

3. The examination of potential structures/systems that would be more efficient than the currently established school district boundaries, which:
   - Should examine Education Service District concept to provide regional administrative services, professional development services, curriculum development, clerk and school finance services, purchasing of supplies and materials, insurance, and transportation.
   - Should investigate a revised administrative structure for K-12 education across Montana.

The Board of Public Education commits to joining the Governor and Legislature as full partners in this process and, as so, to participate in the selection of a broad-based panel having expertise in taxation and education issues that will analyze the recommendations, and to help further outline the meaning and description of the recommendations forwarded to the experts.

We respectfully await your review and response to these recommendations and the possibility of a "call to action" in solving the challenges facing education in Montana at the current time.

Governor's K-12 Public School Funding Study Advisory Council

Legislative Interim 2001

Governor's K-12 Public School Funding Study Advisory Council

Report and Recommendations

December 31, 2001

INTRODUCTION

On May 5, 2001, Governor Martz signed House Bill 625, which requires that the Governor and the Superintendent of Public Instruction conduct a study of "K-12 public school funding and related issues". The Governor subsequently signed an Executive Order establishing the "K-12 Public School Funding Study Advisory Council" for the purpose of assisting her office in conducting the study called for by HB 625. This report outlines the results of the study activities undertaken by the Council and the recommendations of the Council based on those activities.

HOUSE BILL 625

House Bill 625 outlines twelve (12) discrete areas where the study contemplated by the legislation is required to "analyze" or "determine" various matters. The Governor, after consultation with the State Superintendent, is then required to prepare and submit a preliminary report to the Local Government and Education Interim Committee on the "findings and recommendations of the study".

The Interim Committee is then tasked with holding hearings and taking public comments on the preliminary report prepared and submitted by the Governor. By August 1, 2002, the Interim Committee is required to provide a summary of the hearings and its recommendations for changes to the preliminary report for the Governor's consideration. The Interim Committee may also make any other recommendations on school funding that the Committee considers appropriate and may prepare legislation for consideration during the 2003 session.

Upon receipt of the summary and recommendations from the Interim Committee, the Governor is required to issue a final report. If appropriate, she may also prepare legislation for consideration during the 2003 session.

THE COUNCIL AND ITS PROCESS

The Council is composed of representatives from the Governor's Office, the State Superintendent's Office and the Board of Public Education, as well as other representatives of the education and taxpayer community:

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At its first meeting, the Council set out to develop an organizational framework for addressing the discrete subsections outlined in HB 625. The Council ultimately attempted to place those thirteen subsections into three (3) broad conceptual categories:

- "units of funding"
- "tax equity"; and
- "governance"

While the Council recognized that there would be areas of "overlap" for some, if not most, of the specific HB 625 provisions, it has attempted to use that three-prong organizational framework as much as possible.

The Council conducted five (5) all-day meetings in Helena between July and December of 2001, with two additional telephone conferences in December to finalize this study report. In general terms, each meeting involved a review of prior meetings' discussions, actions, directions, etc., presentations of information from various sources, opportunities for interested parties to address the Council and concluding discussions between Council members regarding direction and decisions. The Council also received written comments submitted by interested members of the public. Agendas and minutes were prepared for each of the meetings and can be accessed through either the Governor's Office or the website at http://www2.state.mt.us/budget/Ed_Committee/.

As part of its study process, the Council solicited reports and information from staff at the Office of Public Instruction (OPI), the Governor's Office of Budget Program and Planning (OBPP), the Department of Revenue (DOR), the Legislative Fiscal Division (LFD) and the Legislative Audit Division (LAD). The Council is extremely grateful for the efforts of all of those staff members in assisting and supporting its study activities. As with meeting agendas and minutes, the staff reports are also available at the above-referenced website.

In addition to the staff reports, the Council (in conjunction with the Interim Committee) had the opportunity to hear formal presentations from two experts in the realm of school finance, John Augenblick and Michael Griffith of the Education Commission of the States (ECS). Members of the Council also had the opportunity to informally discuss school finance matters with yet another expert, Richard Rothstein. Both opportunities were invaluable to the Council in terms of hearing from experts with specific regard to some of the issues facing Montana's system.

EXECUTIVE SUMMARY

COUNCIL RECOMMENDATIONS

* Important

- Create a countywide levy to fund the property tax portion of the BASE budgets of all school districts in a county.
- Expand county retirement levy to fund district health insurance costs.
- Use a weighted GTB calculation for both the countywide BASE budget levy and the county retirement/insurance levy.
- Adopt the transportation funding structure proposed in HB 163 from the 2001 legislative session.
- Calculate the average number belonging (ANB) for a district with declining enrollment by using average enrollment over a 3-year period. currently in place
- Provide an annual inflator tied to the Consumer Price Index for the basic entitlement, per-ANB entitlement, and special education funding. currently in place
- Use the HB 124 block grant for debt service to expand school facility payments to all low-wealth school districts that have outstanding general obligation bonds and to increase the school facility payment.
- Allow school trustees to allocate the remaining balance of the district's HB 124 block grants to any budgeted fund of the district.

AREAS FOR FURTHER STUDY

- Further pursue concept of comprehensive study of the adequacy of school funding in Montana.
- Further explore concept of creating single Capital Projects Fund to serve purposes of existing funds for bus depreciation, building, building reserve, technology acquisition and lease or rental agreements.
- Further pursue recommendations of Governor Racicot's Task Force on Teacher Shortages/Teacher Salaries

DETAILS -- COUNCIL RECOMMENDATIONS

1) Create a countywide levy to fund the property tax portion of the BASE budgets of all school districts in a county

The Council recommends that the BASE budgets for all school districts in a county be funded with a countywide BASE budget levy. This levy would be applied against the taxable valuation of the county and would replace the BASE budget levies of individual school districts. Guaranteed tax base aid would subsidize the countywide levy in low-wealth counties. District non-levy revenue from oil, gas and coal production and the district general fund portion of the HB 124 block grants would be used to reduce the county BASE budget levy. All other non-levy revenues, including fund balance reappropriated, would be used to reduce the district's over-BASE levy.

The Council understands that the greatest level of equalization would be achieved if the district general fund portion of the House Bill 124 block grants were rolled into the GTB formula and distribution. However, the Council recommends that the HB 124 block grants for the district general fund be applied to reduce the countywide BASE budget levy. It is important to maintain the escalator (.76%) that is built into the HB 124 block grants.

2) Expand county retirement levy to fund district health insurance costs

The Council recommends that the county levy for retirement be expanded to fund the cost of district health insurance. In order to make this proposal revenue neutral for the state, the statewide guarantee level would be adjusted downward. The requirements for the elementary and high school programs will be combined into one permissive levy for the county.

The Council recommends that the legislature pursue the establishment of a state insurance pool for school district employees to reduce the risk and costs associated with health insurance coverage. Until the state insurance pool is established, the council recommends that the legislature limit the amount that can be budgeted in the countywide fund for an employee to the rate established in 2-18-703, MCA for state employees. These rates are set at $325/month for calendar 2002 and $366/month for calendar 2003. A district may at its discretion supplement the cost of health insurance premiums above the amount budgeted in the countywide fund.

The impact on local property taxpayers will vary depending on whether and how much districts increase their overall spending levels in response to moving health insurance costs out of the district general fund and into the county levy.

3) Use a weighted GTB calculation for both the countywide BASE budget levy and for the county retirement/insurance levy

The Council recommends the use of one measure for determining a county's eligibility for guaranteed tax base aid for any of the GTB subsidized county levies. The analysis presented to the Council showed that the weighted GTB formula does a better job of narrowing the disequalization in county levies than the unweighted formula. A weighted GTB formula guarantees a higher level of property tax revenue per student in a small school district than in a large one

4) Adopt the transportation funding structure proposed in HB 163 from the 2001 legislative session

The Council recommends that state and county transportation reimbursements be provided to school districts based on the rated capacity of the school bus and the bus miles traveled on routes approved by the county transportation committee. The Council recommends the elimination of the statutory requirement for a bus ridership count on high school buses. Under this proposal, buses of similar sizes will be eligible for the same reimbursement per bus-mile traveled regardless of the number of riders.

This proposal was contained in HB 163 (L. 2001), which is found in *Appendix B.* It has an estimated price tag of $3.4 million per year, split between the state and county. The Council recommends that the HB 124 block grants to the district and county transportation funds be redistributed in the form of increased state transportation reimbursements. In net, this proposal would result in shifts in property tax burdens among taxpayers, but would not increase the overall level of revenues or expenditures for pupil transportation.

5) Calculate the average number belonging (ANB) for a district with declining enrollment by using average enrollment over a 3-year period

The Council recommends that, with one exception, the average number belonging (ANB) for a school district be calculated by averaging the fall and spring enrollment counts for a district over a 3-year period. An exception is made for a district [specifically, a budget unit as described in 20-9-311(8)] that experiences growing enrollment. For these districts, the enrollment for the most recent year (i.e. the year prior to the current budget year) would be used for calculating ANB.

The Council also considered using the 3-year average for all districts regardless of the direction of enrollment growth. The Council recognizes that if averaging is applied to districts with growing enrollment, some kind of statutory protection is needed for districts that experience a sharp increase in enrollment.

If the concept of using a 3-year enrollment average for ANB purposes is adopted, it may be feasible to eliminate the "soft caps" established in 20-9-308 (3)(a)(i) without causing harm to districts. The Council recommends further analysis of the impact on school districts if the soft caps were eliminated in conjunction with the adoption of a 3-year averaging of enrollment for ANB purposes.

6) Provide an annual inflator tied to the Consumer Price Index for the basic entitlement, per-ANB entitlement, and special education funding

The Council recommends that the Present Law Budget that is presented to the Legislature for K-12 BASE Aid include an annual inflator that is tied to the Consumer Price Index. The Present Law Budget would thereby acknowledge both shifts in enrollment and the impact of inflation on the cost of educational services.

7) Use the HB 124 block grant for debt service to expand school facility payments to all low-wealth school districts that have outstanding general obligation bonds and to increase the school facility payment

The Council recommends that the funds that are presently allocated for HB 124 block grants to the debt service fund be redirected into school facility payments. Under current law, only low-wealth districts that sold general obligation bonds after July 1, 1991 are eligible for school facility payments. The Council proposes that all low-wealth school districts with outstanding general obligation debt be eligible for school facility payments. The remainder of the HB 124 block grant for debt service would be used to increase the percentage used to calculate the statewide mill value as defined in 20-9-366, MCA.

8) Allow school trustees to allocate the remaining balance of a district's HB 124 block grants to any budgeted fund of the district

For the HB 124 block grants that are not affected by other recommendations contained in this report, the Council recommends that school districts receive an unrestricted block grant. The district trustees would determine where to allocate these non-levy revenues among the budgeted funds of the district.

AREAS FOR FURTHER STUDY

Adequacy of School Funding

The Council had a number of discussions regarding the adequacy of funding for Montana's K-12 public schools. These discussions addressed the overall level of funding, the state's share of the funding, local tax burdens, special education funding, the allocation of funding among various size school districts and among elementary, middle school and high school programs, and concerns about recruiting and retaining teachers. Within the time and resources allocated for the council's work, the Council was unable to address these issues in a comprehensive manner. The Council believes, however, that those issues warrant further extensive study in a manner that involves the broadest range of stakeholders possible and a pooling of resources from as many sources as possible.

Combine the funds for bus depreciation, building, building reserve, technology acquisition, and lease or rental agreements into a Capital Projects fund.

The Council considered a recommendation, from the Fund Structure working group formed by the Council, that a single Capital Projects Fund be created to serve the purposes of the existing funds for bus depreciation, building, building reserve, technology acquisition, and lease or rental agreements. The working group recommended that the capital projects fund be a non-budgeted fund, however mill levies would be limited based on voter approval and percentages of asset costs. Separate accounting for various projects would be accomplished using project reporter codes. The Council believes that the recommendation has merit. Further study is needed to establish the appropriate revenue or expenditure controls for the fund. The Fund Structure Working Group's report is found in *Appendix A*.

Teacher Shortage/ Teacher Salaries

The Council discussed concerns related to current and projected teacher shortages in Montana. The Council acknowledges that a number of the factors causing these shortages are tied to funding. Low salaries in Montana, coupled with aggressive recruitment efforts of other states that offer higher salaries and benefits, have encouraged a majority of the graduates of Montana's teacher education programs to leave the state for employment. In 2000, Governor Racicot's Task Force on Teacher Shortages/Teacher Salaries prepared a set of recommendations for recruiting and retaining qualified teachers. The Council believes that these recommendations have merit and has included them in *Appendix C* of this report.

Montana K-12
School Renewal Commission

Legislative Interim 2003

History ...

- In September 2002, following the Board of Public Education planning session in July, and in preparation for the 2003 Legislative Session, the Board began discussion of concerns and responsibilities of our Constitutional charge to provide leadership and direction for the education system in Montana.
- The Board noted problems caused by inadequate school funding leading to disturbing examples of ... schools unable to meet the minimum basic accreditation standards, an educational workforce leaving the state to pursue other opportunities, and the great concern that this erosion affects a generation of students quickly (a child is only a 2nd grader once).
- Our discussions were many faceted and ultimately led us to believe that:
  - Our system is at a critical crossroads in its ability to provide Montana students with the quality education they deserve.
  - Solutions to the complex problems faced by our public schools, including funding, require collaboration to find broad-based answers to ensure progress and stability for K-12 education.
  - Solutions will require a multi-faceted, long-term approach addressing the need for a quality system of education, the ability of our state and communities to support this need, and the benefits of operating the education system in an effective and efficient manner.
  - Montana's educational system and its funding must be comprehensively examined in a collaborative, holistic manner to seek viable long-term sustainable solutions for the future direction of the system.
- In November 2002, the board crafted their thoughts on this topic into a Position Paper on Public School Funding and Structure.
- Realizing time was of the essence if progress was to be made during the 2003 Legislative Session, the Board set about developing collaborative partners in this effort. We approached the Governor's office through Lt. Governor Ohs who was serving as the Education Policy Advisor and had been involved with the ongoing discussions of the Position Paper. The Lt. Governor was receptive to the ideas presented and further pursued this with the Governor's office.
- In January 2003, a meeting was held with Governor Martz and her cabinet to discuss the position of the Board and our request of support for moving forward with a collaborative "call to action" to solve the challenges outlined. The Governor supported the concept and announced her support during the State of the State address to the Legislature.
- Following a great deal of discussion with our education community partners, the concepts in the Position Paper were crafted into legislation. The bill, HB 736, carried by Representative Roy Brown, had support from both Democrat and Republican leadership in the House and Senate. The bill passed and was signed by the Governor creating the K-12 School Renewal Commission.

28 members on committee

The Position Paper On Public School Funding and Structure...

- The thoughts of the Board of Public Education are found in the attached Position Paper.
- Since its initial inception, the goals have not changed and have led us to this important kick off today.
- Simply put, the vision of the BPE is to assemble a group of experts from across Montana to work collaboratively to find solutions to four issues. By threading together work that has been completed in the past, along with new concepts and ideas, the resolution of the issues may ultimately lead to the long term solutions necessary to promote the quality system of K-12 public schools that Montanans expect and support. The four issues are:
  1. Adequacy of funding.
  2. Simplification of the funding system so it is understandable.
  3. Stability, equity and sustainability of the revenue stream dedicated to support the system.
  4. Development of an effective, efficient delivery system of services (structure).

  The end product … "An understandable, adequately funded, sustainable, efficient system of public schools!"

Making it happen…

Though simple in its concept, the task ahead is daunting and requires the best minds in Montana to come together and work together to develop solutions. The Board believes:

- The support for accomplishing our work is demonstrated in the ground swell of interest from Montanans who support quality public education for our kids.
- Political agendas or other means that hamper our progress will not be welcome at this table. We must effectively 'check the guns' at the door and sit as Montanans to find what will work the best for all.
- The nature of the Commission will be to come to the table with the expertise of your constituency and great background of educational and taxation issues, but be fully aware that to accomplish the tasks ahead will likely require everyone to give up special interests for the betterment of quality Montana education.
- Commission members must represent their constituency but take time to identify those things that can be allowed (or given up) by their constituency for the collective good of the whole.

I am a lifelong educator and have spent more than the past year contemplating the needs outlined briefly for you today. From my perspective, there is nothing more important that we can do with our lives, our state's economy, and a stable future than offering each child in our state access to a high quality education in our system of public schools. I thank each of you before we begin this journey. Failure is not an option as we work to develop a system that meets the education needs of our state's most precious resource—the future!

Kirk J. Miller, Ed.D.

Chairman, Montana Board of Public Education

The Proceedings of the

Montana K-12 Public School Renewal Commission

Established by House Bill 736
58th Legislative Session
2003

Prepared by Dr. Dori Burns Nielson

Published by the Montana Board of Public Education

November 29, 2004

I. Executive Summary

On May 1, 2003, Governor Judy Martz signed House Bill 736 into law. (See Appendix A for the full text.) The bill established a Montana K-12 Public School Renewal Commission to study the structure and funding of Montana public schools. HB 736 was introduced by Rep. Ray Brown (R), Rep. Dave Wanzenreid (D), Sen. Jon Tester (D), and Sen. Fred Thomas (R).

The bill designated seven state officials and legislators as core members. Those core members identified key stakeholder groups to appoint representatives to serve on the Commission. Nominations were received from 16 groups, and 22 additional members were chosen.

The Commission began its work in July of 2003. On September 8, 2004, after many meetings and much deliberation, the Commission arrived at consensus on the following recommendations for changes in Montana K-12 education.

- Building a quality education on the foundation of the Montana Accreditation Standards
- Providing greater flexibility in the school calendar to expand learning opportunities and professional development
- Studying the regionalization of education services
- Eliminating barriers to voluntary consolidation of school districts, both statutory and financial
- Supporting a statewide school district employee insurance pool with state incentives for participation
- Restoring the position of Gifted and Talented Specialist and funding professional development and other outreach services
- Phasing in increased state support for Special Education services
- Providing adequate funding to cover the costs of operating and maintaining quality public elementary and secondary schools
- Modernizing revenue and taxation to promote equalization for taxpayers and schools to balance the benefits and burden
- Supporting state funding to expand kindergarten services [supported by majority consensus with dissenting Commissioners]
- Supporting state funding for *Indian Education for All* curriculum, policies, and rules
- Supporting state-facilitated public/private partnerships for local summer programs and extended school programs [supported by majority consensus with a dissenting Commissioner]
- Recognizing the importance of an adequate infrastructure [physical plant and equipment] as a key component of a quality education

The Commission reported their recommendations to the Legislative Interim Committee on Education and Local Government. (The full report is found in Section II of this report.) The Legislative Committee endorsed the recommendations of the Renewal Commission and urged individual lawmakers to carry the ideas to the 2005 Legislature.

The members of the Commission used a focused decision-making process to arrive at their recommendations. All members had an opportunity to be heard in a frank and respectful manner and all information was shared equally. Decisions were reached after full and open participation, all views were weighed without prejudice, and all relevant information was shared among commissioners before a decision was reached.

The 28 Commission members represented a broad range of education stakeholders, including legislators, parents, state and county officials, educators, and the private sector. They met 17 times over a period of 15 months. The seven members who were designated as the Core Group by HB736 held two organizational meetings in July and August of 2003. They selected an additional 21 members from nominations made by key stakeholder groups.

In addition to the regular meetings of the Commission, members committed additional time to more fully address challenging issues. Three working groups were appointed to focus on Taxation and Revenue, Regional Services, and Barriers to Consolidation. Small groups researched funding formulas, extended school opportunities, cultural education, full-day kindergarten, educator recruitment and retention, and quality infrastructure. Representatives of the Commission met twice with the Legislative Interim Tax Reform Study Committee.

An outpouring of resources and support was received from the public, organizations, and agencies that made presentations and provided studies, reports, maps, publications, and other materials for the Commission.

The Montana K-12 Public School Renewal Commission worked together to comprehensively examine Montana's K-12 education system. The Commission's goal was to offer viable recommendations that would help the children of Montana receive an effective, understandable, adequately funded, sustainable, and efficient education.

II. Findings and Recommendations of the Commission

The School Renewal Commission began their work in the summer of 2003 using a facilitation process provided by the Montana Consensus Council. In March of 2004, after a review of the increasing workload and decreasing budget, the process was modified. With greater reliance on the leadership role of the chair and vice chair, and increased staff support from the Governor's Office and the Board of Public Education, a practical consensus process evolved. Decision making was an open participatory process, encouraging full expression of ideas and opinions before a decision was made. The chair was instrumental in assuring that all members had an opportunity to be heard in a frank and respectful manner, and that all relevant information was shared equally.

Based on the individual merit of the issues, items were moved by consensus agreement to a list which would be considered at a later date. The members then reviewed the items on that list, known as the parking lot, for possible recommendation by the Commission. Votes were taken with a visibly demonstrated "thumbs up" to affirm, "thumbs down" to disagree, or "thumbs sideways" to indicate disagreement but not to the extent of veto. If an item received all thumbs up or had some thumbs sideways, it was considered as a recommendation approved by consensus. If a vote included thumbs down, but had majority support, the recommendation was considered approved by majority consensus.

The recommendations of the Commission were compiled into the report that appears on the next five pages. That report is also available on the Board of Public Education Website at http://www.bpe.state.mt.us/. The report of the Commission's Findings and Recommendations was presented to the Legislative Interim Education and Local Government Committee on September 15, 2004, by the Commission Chair, Lieutenant Governor Karl Ohs, and the Vice Chair, Dr. Kirk Miller. The Legislative Committee endorsed the recommendations and urged individual lawmakers to carry the ideas to the 2005 Legislature.

Montana K-12 Public School Renewal Commission Findings and Recommendations,

September 15, 2004

The Montana K-12 Public School Renewal Commission will research and provide recommendations regarding the provision of a basic system of free, quality elementary and secondary schools.

HB House Bill 736, passed by the Fifty-third Montana Legislative Assembly, established a Montana K-12 Public School Renewal Commission to propose changes and new provisions regarding the several components of K-12 public education in Montana, including the revenue available for public education, the structure of school district governance, the methods of funding public education, and the roles of state and federal governments in public education.

The twenty-eight members of the Commission held fifteen meetings between July 2003 and September 2004, and are submitting this report of commission findings and recommendations to the Education and Local Government Interim Committee on September 15, 2004. A full report will be published by December 2004.

1.
Concept: Accreditation Standards
Statement: The Commission agrees that the Montana Accreditation Standards are the foundation upon which a Montana quality education should be built.
Vote: Consensus
Date of Vote: October 13, 2003

2a.
Concept: Flexibility
Statement: The Commission recommends greater flexibility in the school calendar and time (days/hours) requirements. The Commission also supports encouraging local school districts to provide expanded learning opportunities addressing the unique learning needs of all students by flexing time and resources.
Vote: Consensus
Date of Vote: August 16, 2004

2b.
Concept: Pupil Instruction Related Days
Statement: The Commission recommends greater flexibility in the school calendar and time (hours/days) requirements, without reducing the minimum aggregate hours of pupil instruction required by law, to allow local school districts to provide expanded professional development opportunities.
Vote: Consensus
Date of Vote: August 16, 2004

3.

Concept: Regionalization of School Services

Statement: The Commission strongly recommends an intensive study of regional Education Service Agencies (ESA) as a key component in restructuring and renewing public education in Montana. Through hours of deliberate discussion, research, and analysis of ESAs in other states, working group members determined that intensive study of this issue is warranted, as the potential benefits of an effective ESA system include:

- enhanced opportunities for students and educators;
- more streamlined and effective partnerships between state and local education governance;
- significant cost savings;
- greater accountability, communication, and coordination between local school districts.

Vote: Consensus

Date of Vote: August 16, 2004

4a.

Concept: Remove Statutory Barriers to Consolidation

Statement: The Commission recommends that statutes be clarified to eliminate barriers to voluntary consolidation of school districts. Eight specific recommendations were identified. The Commission recommends no change in state statute in five specific areas.

Vote: Consensus

Date of Vote: August 16, 2004

4b.

Concept: Remove Financial Barriers to Consolidation

Statement: The Commission recommends that tax inequities between school districts be addressed and that any new funding formula avoid building in disincentives to consolidation. The Commission believes that some structural features of the current funding system and the current taxation system create disincentives to consolidation when such consolidation might otherwise make sense. These structural features include:

- the fact that the basic entitlement is the same for districts of every size;
- the fact that the taxable valuations available to support schools vary widely from district to district

Vote: Consensus

Date of Vote: August 16, 2004

5.

Concept: Educator Recruitment and Retention

Statement: The Commission supports statewide school district employee insurance pooling with state incentives for participation.

Vote: Consensus

Date of Vote: July 19, 2004

6.

Concept: Gifted and Talented

Statement: The Commission supports legislation which would restore the position of Gifted and Talented Specialist in the Office of Public Instruction with an appropriate budget for an advisory council, professional development, liaison activities with post-secondary teacher preparation programs, and other outreach services.

Vote: Consensus

Date of Vote: July 19, 2004

7.

Concept: Special Education

Statement: The Commission supports legislation which would begin to "phase in" increased state support for Special Education for such programs as services for "high cost" students with disabilities, preschool services, extended school year services, and professional development activities. Increased state support for special education should be provided in a balanced manner with the goal of offsetting local expenditures for special education.

Vote: Consensus

Date of Vote: July 19, 2004

8.

Concept: Finance

Statement: The Commission recommends that all districts must receive adequate funding to cover the costs of operating and maintaining quality public elementary and secondary schools. This includes funding adequate to assure the following:

- An education that meets all standards and laws that govern the operation of public schools. This includes but is not limited to the Board of Public Education's accreditation standards, which constitute the foundation upon which a quality education is to be built.
- That all districts are able to attract and retain quality educators.
- Educational services that directly address the unique needs of all children, which includes at-risk, special needs, cultural differences, limited English proficient, and gifted and talented students.

Vote: Consensus

Date of Vote: September 8, 2004

9.

Concept: Revenue and Taxation Modernization

Statement: The Commission recommends the following revenue and taxation revisions to support school funding:

a. Implementation of a statewide equalization plan with an emphasis on homeowner equity and uniform property taxation.
b. Funding the base budget using statewide equalization.
c. Using **equalized funding** to fund 80-100% (maximized) budget.
d. Using a balanced taxation approach that includes existing statewide taxes such as property taxes, income taxes, and natural resource taxes

and also considers new revenue such as a general statewide sales tax to be used as a **mechanism for equalization.**

e. Using a balanced taxation approach that includes existing statewide taxes such as property taxes, income taxes, and natural resource taxes and also considers new revenue such as a general statewide sales tax to be used as a **mechanism for funding quality public schools.**

Vote: Consensus
Date of Vote: August 16, 2004

10.
Concept: Full Day Kindergarten
Statement: The Commission strongly supports the benefits of expanding kindergarten services to improve student learning and achievement and supports the Montana Legislature providing the statutory and budgetary flexibility to school districts so they can offer additional kindergarten services for all students. School districts should receive state funding proportionate to the level of service they provide for kindergarten students ranging from half time to full time programming.
Vote: Majority consensus (dissenting votes recorded)
Date of Vote: August 16, 2004

11.
Concept: Cultural Education
Statement: The Commission supports state-funded Indian Education for All curriculums and polices/rules developed through partnerships led by the Office of Public Instruction, Board of Public Education, and legislature including Indian educators, tribes, and others. These partnerships will develop and implement:

- Policies/rules that support and insure that all schools provide the necessary guidance to the school instructional staff and programs to include culturally appropriate instruction for students.
- Professional development for all school personnel to insure they are adequately prepared to provide instruction and supportive services for all students, including Indian students.
- Curriculum development and supportive instructional resources necessary to meet state accreditation guidelines as well as local district standards to integrate culturally appropriate American/Montana Indian Lessons in all curricular areas in grades K-12 for all students.
- Assessments standards that incorporate measurements for the achievement of all students and are tied to the goals of Indian Education for All.

These partnerships will provide educational opportunities to eliminate the wide disparity in educational achievement that exists between the American Indian students in Montana's Public Schools and their non-Indian peers as clearly documented by educational achievement research and data.

Vote: Consensus
Date of Vote: August 16, 2004

12.

Concept: Flexibility

Statement: The Commission supports state facilitated public/private partnerships for locally based summer programs and extended school programs for identified students.

Vote: Majority consensus (dissenting vote recorded)

Date of Vote: August 16, 2004

13.

Concept: Quality Infrastructure

Statement: The Commission recognizes that adequate infrastructure, in the form of physical plant and equipment, is a key component of a quality educational system. Overcrowded, substandard and inappropriate facilities negatively impact the learning environment. Although the Renewal Commission did not have the time or resources to explore in detail the infrastructure needs of Montana schools, the Commission recognizes:

- The importance of quality infrastructure;
- The unequal resources available to individual school districts to meet their infrastructure needs.

Vote: Consensus

Date of Vote: August 16, 2004

A Brief History of Montana School Funding

2005

"Montana Constitution: Progressive Spirit of the Rocky Mountain West"

Seminar Sponsored by the UM O'Connor Center for the Rocky Mountain West
August 12, 2005

Overview of Presentations by Members of the Quality School Interim Committee:

- *History of Recent School Funding Effort – Dr. Kirk J. Miller, Chairman, Montana Board of Public Education*
  - Developing a Context for Discussion of Montana School Funding
  - Governor's K-12 Public School Funding Study Advisory Council
  - Montana K-12 Public School Renewal Commission

- *Issues and Concepts for Consideration – Madalyn Quinlan, Chief of Staff, Montana Office of Public Instruction*
  - Legislation to address the issues during the 2003 and 2005 Legislative Sessions
  - Considerations in crafting the language in SB 152

- *2005 Legislative Session Work on Educational Issues – Senator Robert Story, Vice-Chair, Quality Schools Interim Committee*
  - SB 152
  - Select Education Committee legislation
  - Work of the Joint Select Committee on Education Funding
  - Creation of the Quality Schools Interim Committee

- *Current Status of the Work of the Quality Schools Interim Committee – Representative Monica Lindeen, Chair, Quality Schools Interim Committee*
  - Consultants hired to assist the Committee
  - Key issues to be decided by the Committee prior to recommending a call for a special session.

Documents for review of the Seminar Participants:

✓ "Developing a Context for Discussion of Montana School Funding". A document prepared for the January 22, 2005 Education Forum Sponsored by the Wheeler Center and MSU Economics Department by Kirk J. Miller.

✓ "Governor's K-12 Public School Funding Study Advisory Council Report and Recommendations" – Introductions and Executive Summary. Montana Governor's (Martz) Office, December 31, 2001.

✓ "The Proceedings of the Montana K-12 Public School Renewal Commission"– Executive Summary and excerpts. A paper prepared by Dori Burns Nielson, November 29, 2004.

"Developing a Context for Discussion of Montana School Funding"

2005 Education Forum
January 22, 2005

Sponsored by the Wheeler Center & MSU Department of Economics

Kirk J. Miller, Ed.D.
Chairman, Montana Board of Public Education

Montana Constitution – Article X

- (1) It is the goal of the people to establish a system of education which will develop the full educational potential of each person. Equality of educational opportunity is guaranteed to each person of the state.
- (2) The state recognizes the distinct and unique cultural heritage of the American Indians and is committed in its educational goals to the preservation of their cultural integrity.

Montana Constitution – Article X

- (3) The legislature shall provide a basic system of free quality public elementary and secondary schools. The legislature may provide such other educational institutions, public libraries, and educational programs as it deems desirable. It shall fund and distribute in an equitable manner to the school districts the state's share of the cost of the basic elementary and secondary school system.

Montana School Funding History

- Foundation Program - 1949
- Constitutional Convention - 1972
- Loble Decision - 1985
- HB 28 - 1989
- Further legal challenge due to equity
- HB 667 - 1993
- HB 22 - 1994

MQEC

- 2 Prong Approach
  - 1st, work together to enact meaningful education reform
  - 2nd, file a Constitutional Challenge in Court.
- Columbia Falls, et.al. vs State
- Judge Sherlock ruling – April 15, 2004
- Supreme Court preliminary order affirming Sherlock – November 9, 2004

Efforts to Study Montana School Funding/Education Issues

- 1975 - Board of Public Education definition of "Basic Equality Education"
- 1979 - Per-pupil funding increase
- 1985 - Loble decision overshadows other study efforts
- 1992 - Sherlock decision affirms Board of Public Education's inviolate Constitutional rule-making authority
- 2000 - Accreditation Task Force

Contemporary Studies

- 2001-02 - Governor's K-12 Public School Funding Advisory Council
- 2001-02 - Augenblick & Myers Adequacy Study
- 2003 - K-12 Public School Renewal Commission

Implications - - Some Thoughts ...

- Montana has yet to decide the differences between funding system equality and adequacy and how to address both issues.
- Montana must consider sustainability of the school funding mechanism.
- Decisions to educate our kids should be based on educational need and not tax policy – balancing the benefit and the burden.

Implications - - Some Thoughts ...

- Defining the system to meet student needs should be separate from establishing the basis for paying for the system. Interrelated, but separate.
- Montana's Accreditation Standards are the foundation upon which quality should be built.

Where Do We Go From Here ...

- Has Montana fully addressed its decision on the Equal Protection clause of the 14th Amendment (education clause)?
- Has Montana fully addressed decisions on Equity – both in expenditure per student and also equitable distribution of tax base per student?
- Defining "quality" using "educationally relevant" factors.

Where Do We Go From Here ...

- Determine the investment necessary to meet the definition.
- Establish a funding system that includes provision for future inflation.
- Establish a sustainable revenue stream that meets the needs of the system.

Where Do We Go From Here ...

- Understand the implications developing a new system will have on the lives of Montanans and on current allocation of revenue in other areas of need in our state.
- Use what we have learned to develop solutions by working together.
- Provide our Montana communities and schools with a message of "hope" while we work diligently to develop solutions!

Thank you for attending the Forum!

The challenge ahead will be solved through an understanding of past actions and the fortitude of legislators, leaders, and policy makers to move forward in the best interest of the children in Montana!

This research brief is intended to synthesize the background of education funding in Montana. The combination of issues are presented with the intention of giving the reader a description of where we have been and where we are now. The concepts outlined represent an overview to assist the reader in developing a context for what must now be done in Montana to provide a K-12 system of public schools that our children deserve.

Kirk J. Miller, Ed.D.
Chairman, Montana Board of Public Education

Montana Constitution Education Clause Language ...

Article X - Education and Public Lands

(1) It is the goal of the people to establish a system of education which will develop the full educational potential of each person. Equality of educational opportunity is guaranteed to each person of the state.

(2) The state recognizes the distinct and unique cultural heritage of the American Indians and is committed in its educational goals to the preservation of their cultural integrity.

(3) The legislature shall provide a basic system of free quality public elementary and secondary schools. The legislature may provide such other educational institutions, public libraries, and educational programs as it deems desirable. It shall fund and distribute in an equitable manner to the school districts the state's share of the cost of the basic elementary and secondary school system. (Montana Constitution, 1972).

History of School Funding in Montana, A recent look ...

- In 1949, Montana created a funding system that could best be characterized as a Foundation program (sometimes referred to as the Strayer-Haig Formula) establishing a minimum level of funding per pupil. The state aid was equivalent to the amount of minimum level not raised by local taxation. Districts were required to levy a certain number of mills to finance the program (along with state direct appropriation). Shortcomings of this system were that it allowed districts to spend above the minimum foundation level. Districts with larger taxable valuations were allowed to expand budgets at a pace greater than those districts with less taxable value. This inequity led to legal challenge. (Jean, 1998)
- At the time of the 1972 Constitutional Convention, the framers of Montana's new constitution expressed concern over the guarantee of equal educational opportunity. Both the text of Montana's education clause and the history of its formation show the state has two obligations with regard to public education: (1) an obligation to maintain a certain standard of educational quality across the state; and (2) an obligation to offer an equal opportunity to receive an education to that standard. Citing the California Supreme Court equal protection

decision *Serrano v. Priest*, which made a constitutional statement of equal protection principles, the Montana Constitution framers opted to include a general principle of educational quality in Article X, section 1(1). The convention delegates expressed concerns about the state's financial limitations, but stressed the importance of equality of educational standards across the state. (Wandler, 2004).

- Between 1950 and 1986, the amount of state funds for elementary and secondary schools had dropped from 81.2% to between 54% and 58% of the total funding. (Wandler, 2004).
- 1985, a coalition of 64 school districts filed a lawsuit in Helena District Court claiming that the funding of the education system in Montana, guaranteed under the Montana Constitution, was unconstitutional. *Helena Elementary School District No. 1 v. State* was filed alleging the Foundation program funding violated Article II, section 4, and Article X of the Montana Constitution.
- On January 13, 1985, the "Loble Decision" was handed down. This decision was challenged by the State of Montana and subsequently upheld by the Montana Supreme Court, confirmed:
  - That the State of Montana, " ... has failed to provide a system of quality public education granting to each student the equality of education opportunity guaranteed under Article X Section I of Montana's Constitution." (OPI, 2003).
  - Montana's public school finance system is unconstitutional.
  - Accreditation standards are minimum standards.
  - General fund, transportation fund, retirement, and facilities were all part of a basic system of education.
- In June of 1989, a special session of the Legislature was called to address the problem. During that session, HB 28 was passed in an attempt to solve the equity problem.
- HB 28 increased state support for the foundation schedules, reduced local property tax burdens, and instituted a Guaranteed Tax Base (GTB) (a mechanism designed to assist low wealth districts by subsidizing their tax base through state assistance).
- However, the under-funded coalition did not feel that this solved the equity problem and the funding disparity issue ended up back in District Court. The result was two additional equity lawsuits filed in 1991.
- Subsequent legislative action passed by HB 667 (1993 Legislative Session) rendered the two lawsuits moot and established the current method of funding for all public schools in Montana.
- HB 667 created a formula (based on a combination of the Flat Grant-funding per budget unit, Foundation Program-funding per student, and partial funding from GTB) that established maximum and minimum general fund budget levels for all school districts. This model was developed to be revenue neutral, i.e. to cost the state no more than it would cost the state under HB 28
- Each school district was required to be within that range (between the maximum and minimum) on or before 1998.
- Facing decreasing revenue and a projected shortfall in the State budget, Governor Racicot called a special session in January 1994. HB 22 passed during this special session reducing the State's share to schools by 4.5% (an amount approximating what other areas of government were targeted to be cut). HB 22 also eliminated the provision of "permissive" growth of budgets, requiring annual voter approval for any budget growth beyond growth in

the budget due to increased student numbers or mandatorily required to achieve equity.

- SB 460 (1999 Legislative Session) and SB 390 (2001 Legislative Session) expanded the capacity of districts to adopt budgets that exceed the Maximum level.
- From 1991 to 2003 the state share of School General Fund budgets has declined from 71.4% to 60.95%. (OPI, 2003). This reduction in the state share percentage has been passed on to local property taxpayers, raising concern about the fairness of the system.
- The inability of the funding system developed under HB 667 and modified by HB 22 to keep up with inflation has caused funding challenges in districts across the state. Those districts with declining enrollment have experienced the most significant impact. This has led some to believe that the equity required by the Loble decision has been achieved by simply making all schools poorer. This lends to discussions that equity and adequacy are quite different concepts.
- As a result of the above concerns, the Montana Education Coalition was formed in 2003.

Montana Quality Education Coalition (MQEC) ...

- MQEC is comprised of school districts and educational organizations from throughout Montana. Currently, MQEC member school districts serve over 67% of Montana's K-12 students. Statewide educational organizations include: MEA-MFT, School Administrators of Montana (SAM), Montana School Boards Association (MTSBA), Montana Rural Education Association (MREA), and Indian Impact Schools of Montana (IISM).
- The Montana Quality Education Coalition (MQEC) exists to secure and maintain adequate school funding necessary to provide quality education for all Montana children as guaranteed by Article X of the Constitution of the State of Montana.
- mqec_our_strategy.htmMQEC adopted a "Two Pronged" Action Plan. First, MQEC is committed to working with the executive and legislative branches of Montana, and with the entire education community, to identify and enact meaningful and lasting reform of Montana's school funding system. Second, the Coalition filed a constitutional challenge in court, asking the judicial branch to declare that the State has not met its obligations under Article X of the Constitution of the State of Montana.
- On April 15, 2004, Helena District Court Judge Jeffery Sherlock found, in the matter of *Columbia Falls, et.al. v. State*, the current system of funding for Montana's public schools to be in violation of Montana's Constitutional requirement that the legislature provide a system of quality public schools. In the ruling Judge Sherlock highlights:
  - Montana must increase funding for public education.
  - The current system is structurally flawed because it is not based on "educationally relevant" factors.
  - The minimum level of new funding in any new system must be adequate to allow every school to meet all standards (federal, state and local) required to provide a quality public education.
  - The recruitment and retention of quality educators is an important component of a quality system of public education.
  - Any funding differentials between elementary and high school districts must be based on

a determination of actual cost differentials.
  - A new funding system should be self-sustaining. It should include mechanisms to adjust for inflation, recognize and adjust for the impact of declining enrollment and provide for periodic review.
  - The Indian Education for All Act must be funded and implemented. (MQEC, 2004)
- On November 9, 2004 the Montana Supreme Court issued its preliminary order affirming Judge Sherlock's opinion in the school funding lawsuit.

Efforts to Study Montana School Funding/Education Issues ...

- Over the years a number of efforts have been extended to study school funding. Between 1957 and 1991, the Legislature, the Office of Public Instruction, and the Board of Public Education completed a number of school funding studies with few resulting in substantive change to funding amounts or guarantees.
- The School Foundation Program Study Committee compared actual costs of school district "essentials" in 1949 and 1962. The committee found the Montana districts were justified to spend 2.75 times as much in response to the real effects of inflation rate, enrollment increases, and state and national educational program changes. The committee recommended increased state funding levels. (Wandler, 2004).
- In 1973, the Senate ordered the Board of Public Education to define "A basic quality education" under the new 1972 Constitution. Although the study was completed, there is no record of authorizing resolution in the published Laws of Montana. (Wandler, 2004)
- In 1975, the Board of Public Education, in a report to the 45th Legislature, defined a "basic quality education" as "a process which can enable students to transform their potential into actuality." Along with the definition, the Board reported eight curricula dimensions and made recommendations to the Legislature, including a recommendation to adjust per-pupil funding amounts according to the cost of providing necessary resources. This definition (according to Merrill) was criticized as being too vague and out-come based. During the same session, OPI recommended increasing per-pupil funding based on analysis of actual district expenditures and the legislature increased funds accordingly. (Wandler, 2004).
- In 1979, OPI recommended increased per-pupil funding in response to another study showing expenditures had increased beyond the guaranteed level, and that the expenditure level be studied annually. Per-pupil increases were enacted by the legislature but the annual expenditure review was not. (Wandler, 2004).
- Other studies were recommended in 1987 but were overshadowed by the *Helena Elementary v. State* case and subsequent legislative response.
- In 1992, the Legislature challenged the Board of Public Education's rule-making authority over the issue of requiring schools to develop programs for gifted/talented students. Helena District Court Judge Sherlock delivered an opinion favoring the Board's inviolate constitutional rule-making authority.
- In 1999-2000, an Accreditation Task Force, co-chaired by the Board of Public Education and OPI, reviewed and revised Montana's Accreditation Standards. This group of 21 stakeholders representing all areas of the state, recommended changes after careful line-by-

line consideration and careful deliberate discussion. The Board of Public Education followed the established public hearing process and adopted the newly revised rules in 2001. (Montana Accreditation Standards, 2001).

Governor's K-12 Public School Funding Advisory Council ...

- The 2001 Legislature, through HB 625, enacted a K-12 Public School Funding Study and established the K-12 Public School Funding Advisory Council to study the provisions during the 2001 interim. The bill charged the Governor and Superintendent of Public Instruction to study 12 outlined issues with findings and recommendations to be presented to the Education Interim Committee.
- On December 31, 2001 the Advisory Council issued its report outlining 8 recommendations and 3 areas for further study. In January of 2002, Governor Martz and Superintendent McCulloch responded to the report by memo to the Education and Local Government Interim Committee. In the spring of 2002, the interim committee held public meetings across Montana to discuss the findings. In August of 2002, the interim committee endorsed 8 recommendations from the Council for legislative consideration. In September of 2002, the Governor's Office endorsed 5 of the recommendations and included them in the executive budget for the 2003 Legislative session.
- The recommendations included:
  - A statewide levy to fund the property tax portion of the BASE budgets (endorsed by interim committee but not the Governor).
  - Establish a state health insurance pool.
  - Revise the transportation funding structure.
  - Calculate ANB for a district by using averaging over a 3 year period.
  - Provide an annual inflation adjustment in the formula (endorsed by interim committee but not the Governor).
  - Use HB 124 (2001) block grants for debt service to fund facility projects, and allow district trustees to allocate the remaining balance of a district's HB 124 (2001) block grants to any budgeted fund. (Funding Advisory Council, 2001).
- Areas recommended for further study included: a comprehensive study of the adequacy of school funding, further explore combining district budgeted funds, and to further pursue the recommendations of Governor Racicot's Task Force on Teacher Shortage/Teacher Salaries. (Funding Advisory Council, 2001).

Adequacy Study (Augenblick and Myers) ...

- In 2001-02, a group of educational entities (led by the Montana School Board Association) commissioned Augenblick and Myers to engage in a study designed to determine the funding levels necessary for different school districts to produce specific levels of education.
- The professional judgement approach was used to define an adequate education. 83 Montana citizens with knowledge of education issues contributed to the information contained in the

report.
- The study results were published in August 2002. (Augenblick and Myers, 2002).

Montana K-12 Public School Renewal Commission ...

- In November of 2002, the Board of Public Education, in preparation for the 2003 Legislative Session, developed a Position Paper on Public School Funding and Structure. In order to establish collaborative partners in this effort, the Board approached the Governor's office through Lt. Governor Karl Ohs and later Governor Martz to move forward with a collaborative "call to action" around the concepts outlined in the position paper. Governor Martz supported the concept and announced her support during the State of the State Address to the Legislature in January 2003. Following a great deal of discussion with the education community the concepts from the position paper were crafted into legislation. HB 736, sponsored by Rep. Roy Brown and supported by both Democrat and Republican leadership in the House and Senate passed and created the Montana K-12 Public School Renewal Commission. (Miller, 2003).
- In July of 2003, 28 Commission members were selected to represent a broad range of education stakeholders including legislators, parents, state and county officials, educators, and the private sector. The commission met 17 times over a period of 15 months.
- Three working groups were appointed to focus on Taxation and Revenue, Regional Services, and Barriers to Consolidation.
- Members of the Commission met twice with the Legislative Interim Tax Reform Study Committee.
- The report of the Commissions Findings and Recommendations was presented to the Legislative Interim Education and Local Government Committee on September 15, 2004 by Commission Chair, Lt. Governor Karl Ohs, and Vice Chair, Dr. Kirk Miller. The interim committee endorsed the recommendations and urged individual lawmakers to carry the ideas to the 2005 Legislature.
- The Commission arrived at consensus on the following recommendations for changes in Montana K-12 education:
  - Building a quality education on the foundation of the Montana Accreditation Standards.
  - Providing greater flexibility in the school calendar to expand learning opportunities and professional development.
  - Studying the regionalization of education services.
  - Eliminating barriers to voluntary consolidation of school districts, both statutory and financial.
  - Supporting a statewide school district employee insurance pool with state incentives for participation.
  - Supporting restoring the position of Gifted and Talented Specialist and funding professional development and other outreach services.
  - Supporting the phase-in of increased state support for Special Education services.
  - Providing adequate funding to cover the costs of operating and maintaining quality public elementary and secondary schools.

- Modernizing revenue and taxation to promote equalization for taxpayers and schools to balance the benefits and burden.
- Supporting state funding to expand kindergarten services [supported by majority consensus with dissenting Commissioners].
- Supporting state funding for *Indian Education for All* curriculum, policies, and rules.
- Supporting state facilitated public/private partnerships for local summer programs and extended school programs [supported by majority consensus with a dissenting Commissioner].
- Recognizing the importance of an adequate infrastructure [physical plant and equipment] as a key component of a quality education.

- The School Renewal Commission worked together to comprehensively examine Montana's K-12 education system. The Commission's goal was to offer viable recommendations that would help the Children of Montana receive an effective, understandable, adequately funded, sustainable, and efficient education. (School Renewal Commission, 2004)

Implications for the Future – Some Thoughts on Where We Go From Here ...

- Has Montana fully addressed its decision on the Equal Protection clause of the 14th amendment (education clause)?
- Has Montana fully addressed decisions on Equity - Both in expenditure per student and also equitable distribution of tax base per student?
- Defining "quality" using "educationally relevant" factors.
- Determine the investment necessary to meet the definition.
- Establish a funding system that includes provision for future inflation.
- Establish a sustainable revenue stream that meets the needs of the system.
- Understand the implications developing a new system will have on the lives of Montanans and on current allocation of revenue in other areas of need in our state.
- Use what we have learned to develop solutions by working together.
- Provide our Montana communities and schools with a message of "hope" while we work diligently to develop solutions!

The experts assembled today at this Education Forum will provide us with a sense of where we need to move to meet the challenges facing education funding in Montana.

The challenge ahead will be solved through an understanding of past actions and the fortitude of legislators, leaders, and policy makers to move forward in the best interest of the children in Montana!

Resources/Materials Cited ...

- Constitution of the State of Montana as adopted by the Constitutional Convention March 22, 1972, and as ratified by the people June 6, 1972, Referendum No. 68. Published by the Montana Secretary of State, January 2003.

- "A Question of Equity: The http://www.mqec.org/ Economics of Public School Finance", a paper by Ernie Jean, Ed.D. presented to the Montana Board of Pubic Education, May 22, 1998.

- "Loble to 1998: School Finance in Montana", a paper by Ernie Jean, Ed.D., 1998.

- "Understanding Montana School Finance and School District Budgets", a paper prepared by the Montana Office of Public Instruction, March 2003.

- "Will Montana Breathe Life into it's Positive Constitutional Right to Equal Educational Opportunity?", a comment paper by Hillary A. Wandler for the Montana Law Review, Summer 2004.

- "School Funding in Montana", a presentation prepared by the Montana Office of Public Instruction, May 1998.

- Montana Quality Education Coalition (MQEC) information found at http://www.mqec.org/

- Montana School Accreditation Standards and Procedures Manual. Montana Board of Public Education and Office of Public Instruction, June 2001.

- Governor's K-12 Public School Funding Study Advisory Council Report and Recommendations. Montana Governor's (Martz) Office, December 31, 2001.

- "Presentation on the Calculation of the Cost of a Suitable Education in Montana in 2001-02 Using the Professional Judgement Approach", a paper by John Augenblick, John Myers, and Justin Silverstein, August 2, 2002.

- "Montana Board of Public Education Position Paper on Public School Funding and Structure", a paper by the Montana Board of Public Education, November 22, 2002.

- "Montana K-12 School Renewal Commission Overview Remarks", a paper by Kirk J. Miller, Chairman of the Montana Board of Public Education, July 11, 2003.

- "The Proceedings of the Montana K-12 Public School Renewal Commission", a paper prepared by Dori Burns Nielson, November 29, 2004.

Quality Schools Interim Committee

Legislative Interim 2005

Comments to the Quality Schools Interim Committee

Kirk J. Miller, Ed.D., Chairman, Montana Board of Public Education
May 4, 2005

Thank you for the opportunity to participate in this historic process that will hopefully lead to holistic solutions to meet the educational needs of all public school children in Montana. The development of a sustainable, self-executing, understandable funding system for Montana's public schools, based on the definitions established in SB 152 and the assessment of educational needs, is important work for all of Montana. This process and the work of the committee can not fail, for in the balance is the hope of providing appropriate educational opportunities to every Montana child which in turn is the greatest economic development engine we have in our state. I commend the work of the Legislature through the 2005 Session to address the critical issues of K-12 education. I believe however, that the true work is just beginning. I offer my services, and the services of our Executive Secretary, Steve Meloy, on behalf of the Board of Public Education to assist with this process in any way that is determined to move toward the goal of providing the envisioned system for Montana children.

I offer a couple of comments prior to the start of the committee work for your consideration. These comments are largely based on my experience in working on the Governor's K-12 School Funding Advisory Council during the interim following the 2001 Legislative session and the Montana K-12 Public School Renewal Commission during the interim following the 2003 Legislative session. Thoughts to consider:

- Previously completed scientific work and study findings over the past 10 years should be used to inform the work yet to be done.
  - Example -- The resource citations in the School Renewal Commission Report published November 29, 2004 may be one of the most contemporary lists of resources that received the scrutiny of Montanans concerned about education. All committee members should be familiar with and use the information as cited in future deliberations.

- The committee must agree on acceptable assumptions when entering the process so that what is being considered will not be dismissed out of hand at the culmination of the process.
  - Example – Numerous studies have been completed over the years analyzing significant factors related to education. None of those studies were initiated by the participants agreeing to the assumptions necessary to get answers to the nagging questions before embarking on the work of the study. Therefore, when the final findings of the study group were developed (usually by some democratic – consensus – majority vote process), political camps of those for or against parts of the recommendation formed. This ultimately has led to bits and pieces of holistic solutions to challenges being adopted which ultimately denigrates (and makes more complicated) the ability to solve the big issues. If assumptions are agreed to in advance of embarking on the study to assess educational needs, it would then be a responsibility of each and every member of the committee to work together using the findings of the study (whatever they may be) to put

in place those recommendations. Having agreed to acceptable assumptions gives a much stronger ability to remove political pressure and move forward in the best interest of kids.

- In looking at the RFP process, consider blending a Montana Education Expert (researcher, facilitator, education historian) with that of a National Education Researcher so that the committee has the benefit of sound knowledge of the current system and the implications of recommended changes to the system, as well as national expertise in systems that appear to be working.
  - Example – A coordinator of the process with strong historic and working knowledge of the K-12 (P-20) system with excellent facilitator skills (possibly from the Montana University System) would be of great assistance in reviewing recommendations and making preparations for next steps, ultimately leading to successful crafting of recommendations. Past experience with the groups I identified above lead me to recommend that it is imperative to include a Montana expert. Because the issues to be debated and considered are so complicated, greater progress will be made if the coordinator of the work has great knowledge of what currently exists and probably has ideas for where it should go. This type of person can assist the committee in weighing recommendations from the national expert and facilitate the next steps.

I hope these comments will be productive as the Committee embarks on its mission. I again offer assistance in any way that will move toward the education system we all want for the children of our state. Thanks for your consideration. I look forward to our work in the future.

To: Quality Schools Interim Committee
Montana Board of Public Education
Trustees Havre School District #16 & A
From: Kirk J. Miller, Ed.D.
RE: QSIC Report and Recommendations
Date: November 8, 2005

Report

Meeting Update

The Quality Schools Interim Committee (QSIC) met on November 1-2, 2005. The Committee debated issues related to the establishment of nine components of a new funding formula. At the end of the two day meeting, the Committee took action on a multitude of items: establishing the components of the new formula, establishing the new Quality Line (Q-Line), and requesting a bill be drafted to reflect the work of the Committee.

The significant importance of the issues discussed was demonstrated in public comment from 38 members of the public. The issues ranged from questions about the complicated nature of the new formula and untested ability to actually perform in the manner prescribed; what would the ultimate cost of the new formula be and what is the state's share; and what revenue and taxation issues need to be solved to make the formula work. The testimony of the public and interplay with the Committee included: a call to war if taxation changes were embraced by the Committee; uncertainty if the new formula would adequately meet the needs of our students in our schools; emotional testimony from committee members committed to doing the right thing for kids with the weight of the structure of the state in the balance; and fading support (though continued offer of assistance) of the education community to believe that what is being done will meet the future needs of Montana's kids.

The Committee took action on seven items on November 1 that enabled the Legislative and OPI staff to create spreadsheets that show the new Q-Line for each district in Montana. On November 2, the committee revised the initial Q-Line recommendations and took action on 19 further items to create the framework of a formula with nine components. The 20th action item of the day resulted in the Committee's request that legislation be drafted to reflect the actions of the Committee with a review of the bill draft to occur on November 18. Finally, upon revisions to the initial draft on November 18, a public communication network and timeline would be established. Also, the final discussions on taxation and revenue necessary to fund the system are to occur at the November 18 meeting.

The New School Funding Formula

The new school funding formula was adopted by the Committee intending to address the Montana Supreme Court decision in Columbia Falls Elementary vs. State, as well as fund a quality system of elementary and secondary schools. Whether the new formula accomplishes these intended outcomes is yet to be determined. The Committee's new formula recommendation consists of nine components.

Six of the components are intended to be combined to establish the new general fund for schools. Included below are the title of the component, the factors that make up the component, the proposed funding (per the Status Sheet on November 2, 2005), and the relative percentage the component is of the total general fund:

1. Per Student – Covers costs associated with textbooks, supplies, extra-curricular & co-curricular activities, and assessment. Also, this component applies a multi-risk formula to allocate funds on the basis of at-risk status. Proposed Funding: $74,881,867. Percent of Total: 7.7%

2. Classroom – Covers costs associated with teachers, instructional paraprofessionals, health insurance and retirement, allowance for substitutes, instructional supplies and equipment, and professional development. Proposed Funding: $508,132, 428. Percent of Total: 52.5%

3. Accredited program – Covers costs associated with administration (superintendent and principals), counselors, librarians, clerk, secretaries, student support staff, office supplies, dues, audits, nursing services, and health services. Proposed Funding: $213,728,406. Percent of Total: 22.1%

4. Operations and Maintenance – Covers costs associated with operation of school facilities. The Committee used 138 square feet per student in elementary and 173 square feet per student in high school and established a $4.50 per square foot amount on that basis. Proposed Funding: $105,388,259. Percent of Total: 10.9%

5. Special Education – Covers costs associated with the delivery of special education services, i.e. special ed teachers, special ed paraprofessionals, health insurance and retirement, and supplies. This is to be distributed according to current law. Proposed Funding: $62,949,571. Percent of Total: 6.5%

6. Indian Education for All – Cover costs associated with meeting the needs of Indian Education for All. Distributes annually, $22 per ANB for costs of implementation and supplies. Distributes $50 per ANB on a one time only basis for start up costs of developing curriculum. Proposed Funding: $3,000,000 and ($7,000,000 one time only). Percent of Total: 0.3%

Total General Fund Proposed Funding: $968,080,531. Globally used 3 year averaging for student numbers.

The remaining three components outside of the general fund, are intended to remain the same as presently funded at this time (exception is Capital Projects) and consist of:

7. Transportation – Proposed Funding: $45,379,948.

8. Capital Projects – Committee approved an appropriation of $23,000,000 in one time only funding for weatherization and maintenance to be distributed on a per ANB basis. Also approved $2,000,000 in one time only funding for a study of school facilities. Proposed Funding: ($25,000,000 one time only)

9. Debt Service – Proposed Funding: $39,375,797.

Grand Total Funding Proposal is $1,052,836,277 plus $32,000,000 in one time only funds.

The weight of each of the components in the general fund is established by the action of the Committee to set amounts based upon research information from the R.C. Wood consultant group and the work of Legislative staff during the seven months the Committee has been meeting. A status sheet showing the level of each component was utilized to estimate the new funding level as the Committee took action. The final form of the Status Sheet is yet to be distributed reflecting the actions taken on November 2. It appears, however, that the recommended component funding levels create a formula that requires about $64 million more than currently adopted budgets established for 2005-06. It further allows the new maximum Q-Line about $257 million more than currently adopted budgets.

The new Q-Line is estimated for each district and is to be funded through a combination of direct state aid (DSA), permissive local taxes, and guaranteed tax base (GTB). Simply put, all schools would receive funding to the Q-Line. A district could then vote to go above the established Q-Line by up to 20% depending on the needs of the district. The final decision on how the 20% above the Q-Line will be funded (either by all local taxes or by a combination of local and GTB) is yet to be debated by the Committee.

Revenue to Achieve the Q-Line

The revenue necessary to create this new system and fund it to the Q-Line is perhaps the largest variable that still exists for the Committee to decide. A presentation by the Governor's budget office on the Property Tax Impacts of Equalizing School Revenues led to the most passionate public comment heard by the Committee to date. The quest to balance the benefits and burdens of property taxation so that all Montanans pay their "fair share" for the education of our kids is definitely one of the most complex matters in front of Montana. I would merely state the "fair share" is in the eye of the beholder and that more than 100 years of history on taxation in our state has created belief systems that may be insurmountable in believing that balanced property taxation for school kids can be achieved. Though it would be the appropriate thing to do for all of Montana's kids,

the political reality of it happening was definitely present in the room on November 2 in the testimony of the Oil and Gas Counties, as I'm sure it would be if timber industry taxation, natural resource industry taxation, centrally assessed property taxation and all other tax classifications were required to change. This has been worked on by interim committees the past three sessions and probably about 60 years before that time, yet no change occurs. It is evident to this Committee member that a new approach will be necessary to solve the revenue issues in Montana and the kids of Montana deserve our very best shot at making this happen.

Recommendations

The following information is the recommendation I forward as a member of the QISC to help the Committee and Montana reach a solution that meets the mandate of the Supreme Court and, more importantly, meets the needs of adequately funding a basic system of quality public schools to educate the children of Montana. I have borrowed information from Committee recommendations and others who have worked on this matter for 10 years and more. (I recognize Lance Melton, Executive Director of the MTSBA, Steve Meloy, Executive Secretary for the Board of Public Education, and other members of the education community for the research numbers and comments provided in much of the recommendation outlined below.)

Flaws in the New Funding Formula

First, there may be disproportionate relief provided to the smallest independent elementary districts (i.e., the range of increase for what are essentially one room school districts is between 40% and 300%). I'm sure there will be consternation from the trustees of these schools wondering how they would spend additional funds of that magnitude. On the other end of the spectrum, there are school districts educating about 31,000 ANB (roughly 20% of the population) that are scheduled to have a lower Q-Line than their present budgets. Based on consistent testimony in front of the Committee, I know these schools believe they are stressed in maintaining a quality system with their existing funding, and will be puzzled as to how the numbers sorted out with an anticipation that they could provide quality for even less. An anomaly is, similar sized K-12 systems (e.g. Westby for example) would see a substantial reduction.

Second, one of the primary problems underlying the Q-Line at this time may be an overly-conservative estimate of the teachers necessary to provide quality. This is why I was consistent in my testimony and input to the Committee that the classroom unit numbers provided by the Professional Judgment cost model were more realistic and defensible as a solution. The gap between the classes funded (8,900) and the classroom teachers that we know exist (10,400) carries with it a heavy projection of shortfall - $54 million annually if you just compute the statewide average teacher pay for the 1,500 teachers not reflected in the model at this time. Further, many additional factors, such as health insurance, professional development, substitutes, and paraprofessionals, were built

upon a classroom unit number that is not reflective of providing quality programs to our students.

A third issue is the projected level of the new maximum budget. If it is contingent upon voter approval (as is likely), it should be higher than 20% over the new Q-Line. Even the strictest of equity measures (the Federal Range Ratio Method) allows for spending disparities of 25% between the 95th and 5th percentile spending districts. The additional flexibility would be well appreciated by school districts.

A fourth issue is health insurance. A statewide health insurance plan may be the way to go, (I have strongly supported this from the very beginning of the work of the Committee) but it must come with adequate funding to ensure that districts have the resources necessary to provide for this benefit without taking money away from other important expenditures. Given that school districts are currently paying approximately $90 million for health insurance statewide while the estimated cost of participation in the state plan is $120 million, the inclusion of this proposal should be funded with at least another $30 million over the present amount in the Q-Line funding.

Last but not least, many believe it is important for the Committee to avoid being controlled by predetermined spending levels, as that will interfere with the goal of creating a stronger school system. If the estimated costs without regard to predetermined cost control comes in too high to pay with existing funds, that will create the necessary discussion of revenues that must take place at some point in the process. In the meantime, if cost controls are controlling and limiting the discussion, there is no way to arrive at a valid decision on what it will cost for quality. Even if we all decide we cannot afford it, we should know what it is.

Revenue Development

Based on the revenue discussions to date, the formula cannot fund $64 million more than present spending without at least keeping all local property taxes at their current levels. That will mean that, under the best of circumstances, a district with a Q-Line Budget higher than their present budget will likely see the difference funded with increased local taxes and/or a conversion of voted levies to mandated base levies. When the taxpayers understand that fact, there will likely be a significant rift created between the schools and the taxpayers upon whom they will have to call for any increase in the Q-Line Budget going forward. It is almost certain that any budget over the Q-Line will require voter approval (though I will support weighted GTB or power equalization above the Q-Line).

In summary, that means that, fully implemented, the state's current solution will provide approximately $64 million in addition to the present year's funding levels. So, with professional judgment estimates at between $270 and $330 million, the state's plan will be to have funded a total increase of approximately $104 million ($40 million increase in the present year's BASE plus the statewide cost of the Q-Line budget of $64 million). With that increase of $104 million will come a mandate for school district participation in the state health plan at an estimated cost of $120 million annually.

Districts should be aware of these factors as they measure whether the proposal will be good or bad for them.

The final solution will require additional revenue be dedicated to the children of our state. Because of the complications of adjustment to property taxation as described in this document, I recommend a new form of taxation be implemented. Over the years a number of sales tax bills and payroll tax bills have been presented in the Legislature. Embracing a new form of taxation dedicated totally to adequately funding education with a fair base reduction of statewide property taxes to bring property taxation closer to equity appears to be the most justified solution to this complex matter. We have looked at a number of scenarios that will work; the Committee will have to have the political will to move forward on a taxation recommendation.

Potential Solutions to Making this Work

While it is true that the new funding formula lacks necessary details at this time, there are components that could be fleshed out, improved and implemented knowledgeably without the risk of unintended consequences potentially embedded in the entire package. The Court has held that a reasonable phase-in of a remedy would be acceptable. Elements the Committee has discussed that are relatively easy to digest and estimate include:

- Classroom Entitlement: There is a significant flaw in the current calculations, but that flaw could be easily remedied. Right now, the model provides for 8,900 classrooms, which is significantly short of the 10,400 or so classroom teachers that we know exist in our public schools. A classroom entitlement of $4,000 premised on the true number of classroom teachers serving children in our public schools would be a good first step to a solution and could be implemented on top of our present system with very little complication. The cost would be between $44 million and $47 million, depending on whether we seek to cover classroom teachers only or all certified staff.
- Health Insurance: The Committee has approved a motion to require school district participation in the state health plan. The implications of such a mandate is relatively easy to estimate. With a state employee contribution scheduled for $506 per month starting January 1, it would cost approximately $120 million on a statewide basis to cover the 19,500 estimated school employees working at least 20 hours per week. Compare that to the existing contributions of school districts, estimated at $90 million, and the gap could be funded to schools at $1,500 per employee to mitigate the costs of participation. The respective employer/employee contributions could be left to local bargaining to ensure against an unfunded mandate and to ensure continued local control over the bargaining process.
- Indian Education for All and At Risk Funding: The Committee has voted to address at risk issues and Indian Education for All. There is both data from the National Center for Education Statistics as well as a concrete proposal from our

American Indian Education Community that could provide tangible estimates of cost in addressing these issues. The Montana Indian Education Association, for example, has advanced a proposal for $100 per pupil ($14 million statewide) to implement Indian Education for All. Additionally, we know that 19.4% of our state's children are eligible for free and reduced lunch, a common proxy for at risk status. Distributing a weighted ANB for such children and/or funding full day kindergarten are just two ways that the Committee could address at risk components.

- Facilities: The Committee has approved a distribution of $23 million (one time funds) to schools for deferred maintenance and energy efficiency projects. The Committee resolved to distribute that money on a per pupil basis.

The above proposals are not the only proposals among the work of the Quality Schools Committee that could be implemented in a first phase with full knowledge of the consequences. They do represent, however, concrete aspects of the Committee's work which, if refined and adequately funded, could be implemented in a special session with full knowledge of the consequences to our public schools.

As the Committee moves on with its work, consideration to a phased-in approach could be the solution to the impending collision between the lack of time remaining in this calendar year and the complexities of implementing the entire QSIC proposal all at once.

The best interest of Montana's economic future and human capital lies in the balance of the decisions to be made. The Committee has worked together to analyze the current system and prepare legislation for consideration of Montana's legislative body. Complete attention to the recommendations in this document may just lead to a final resolution that provides a stable, self-sustaining funding system for the students in our schools. I request your serious contemplation of these recommendations so that we are able to move forward at our meeting on November 18 leaving concrete solutions that can be debated by the entire Legislature in a December special session. Our children deserve nothing less!

Kirk J. Miller, Ed.D.
Chairman, Montana Board of Public Education
Superintendent, Havre Public Schools
Ex-Officio Member, Quality Schools Interim Committee

cc: Steve Meloy, Board of Public Education
Jack Copps, MQEC
Lance Melton, MTSBA
Eric Feaver, MEA-MFT
Darrell Rud, SAM
Dave Puyear, MREA
Bruce Messinger, QSIC Working Group
Ivan Small, QSIC Working Group
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November 29, 2005

Honorable Mike McGrath
Attorney General
State of Montana
215 North Sanders
P. O. Box 201401
Helena MT 59620-1401

Re: Columbia Falls School Dist. v. State of Montana

Dear General McGrath:

I have just returned from a meeting of the MQEC Board of Directors, at which Superintendent McCulloch presented the elements of the "Montana Kids First Act." It was an encouraging meeting, and we sincerely appreciate the efforts that have been made to find common ground for meaningful action in a Special Session.

I am enclosing for your information a copy of a Motion that was passed by the MQEC Board, with the handout from Superintendent McCulloch attached. As reflected in the Motion, MQEC remains willing, indeed eager, to work with the State to pursue a comprehensive remedy. I would hope that the efforts to seek common ground for the Special Session could be expanded to create dialogue and a process by which we might find common ground for a comprehensive remedy.

Please let me know if you have any questions or concerns. Thank you.

Sincerely,

MOLLOY LAW FIRM

BY: COPY
JAMES P. MOLLOY

JPM:spj

c: Brian K. Gallik, Esq.
Jack Copps

Montana Kids First Act

	Regular Session 2005 FY 2006 Appropriated	Regular Session 2005 FY 2007 Appropriated	Cost of Proposal State Share	Special Session 2005	
SB 152 Quality Education Components				On-going	One-Time Only
Present Law Base FY07	$569.375	$574.355			
Students with Special Needs					
Full Day Kindergarten (HB 47)			$11.400	$11.400	
Co retirement funding for federally-salaried employees (SB 147)			$4.000	$4.000	
Increase state special education funding	$2.103	$2.945			
Task Force on At-Risk Students			$0.075		$0.075
Gifted and Talented students	$0.100	$0.100			
Indian Education for All					
ANB Distribution to Schools ($57/pupil)			$8.000	$8.000	
ANB Distribution to Schools ($50/pupil)			$7.000		$7.000
"Ready to Go" Grants to schools	$0.550	$0.550			
Accredited Programs					
3-year averaging and entitlement increases	$24.437	$23.406			
Secondary vocational education	$0.285	$0.285			
Qualified and Effective Teachers and Staff					
$3000 per educator entitlement (HB 111 - all educators)			$38.900	$38.900	
Facilities					
Inventory of Facility Conditions			$2.000		$2.000
Support for debt service payments	$1.988	$1.988			
New Proposals	$29.463	$29.274		$62.300	$9.075
Total Appropriation for FY07	$598.838	$603.629	$675.004		

OFFICE OF THE GOVERNOR
STATE OF MONTANA

BRIAN SCHWEITZER
GOVERNOR

JOHN BOHLINGER
LT. GOVERNOR

December 5, 2005

Dear Educator/Trustee:

Investing in our kids and K-12 public education is important to Montana's future. To address this vital issue I called the Legislature into Special Session to convene at 9 am Wednesday, December 14.

My funding proposal for quality education, as described in the attached press release, is based on the following principles. It will:

- ✓ Provide an historic $227 million increase in K-12 funding without raising taxes.
- ✓ Directly address the issues in the lawsuit.
- ✓ Invest in our kids' education.
- ✓ Be affordable and provide sustainable on-going revenue for years to come.
- ✓ Provide flexibility for local decisions.
- ✓ Be equitable for students.
- ✓ Be responsive to taxpayers.

I want to recognize the Quality Schools Interim Committee for their hard work and commitment to Montana's children. You will see many of their bi-partisan ideas included in my proposal.

My hope for this upcoming special session is that the Legislature will get the job done quickly so they can be home with their families this holiday season.

Thank you for your dedication to Montana's K-12 students.

Sincerely,

BRIAN SCHWEITZER
Governor

STATE CAPITOL • P.O. BOX 200801 • HELENA, MONTANA 59620-0801
TELEPHONE: 406-444-3111 • FAX: 406-444-5529 • WEBSITE: WWW.MT.GOV

FOR IMMEDIATE RELEASE:
Monday, December 5, 2005

CONTACT: Sarah Elliott 444-9725

Governor Calls Special Session of the Legislature
Unveils School Funding Proposal

(HELENA) – Governor Brian Schweitzer today called a special session of the legislature beginning Wednesday, December 14th. There are four days left over from the 2005 regular session. "Investing in our kids and K-12 public education is an important investment in our future and will help move Montana forward," Governor Schweitzer said. "We also have to shore up our retirement systems for teachers and public employees which will also help property taxpayers." The call of the session includes the following:

- K-12 school funding
- Teacher's Retirement System (TRS)
- Public Employee's Retirement (PERS)
- Confirmations of 3 appointments
- Revenue estimates
- Feed Bill

"Montana has good schools and great teachers," said Governor Schweitzer. "Our proposal would invest an additional $227 million, the largest increase in history without raising taxes to continue to have the best schools in the country."

Governor Schweitzer offered a proposal that is sustainable, affordable and provides an equitable solution to the school funding challenge. "The bipartisan Quality Schools Interim Committee laid the groundwork for this proposal and their work is to be commended," said Governor Schweitzer. "This proposal gives more money to schools and allows local control for districts."

The Governor's school funding proposal proposes ongoing revenue for these educationally relevant components:

- Quality Educator Component to help recruit and retain teachers - $23 million
- Indian Education for All Component -$3 million
- At-risk Student Components - $2.5 million
- Close American Indian Student Achievement Gap - $1.65 million

The Governor's school funding proposal proposes one time only money to further assist school districts:

- Teacher's and Public Employee's Retirement for recruitment and retention - $125 million

- Buildings Operation and Maintenance for a Facility study and weatherization and deferred maintenance $25 million
- Indian Education for All $7 million
- Energy Costs Relief $1 million

"This special session is about finishing the job," said Governor Schweitzer. "This is a session to roll up our sleeves, work together and get the job done for Montana kids."

In addressing the Supreme Court ruling, Governor Schweitzer and the legislature during the 2005 regular session defined a quality education and provided an historic increase of funding for schools -- $88 million in public K-12 school funding, including support of $4.4 million for Indian Education for All.

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GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Funding For Quality Schools - Fiscal 2007
2005 Regular Session New Funding Appropriated

The 2005 Session provided $88 Million in K-12 School funding.

Component	Total Cost	State Share	Local Share
Entitlement Increases above inflation $250 per elementary student & $100 per high ☑ District Court issue elementary funded less than high school ☑ Improving the funding for all schools above inflation	$ 20,016,655	$ 15,585,515	$ 4,431,140
3-Year Averaging ☑ Addressing fixed costs as recoginized by the District Court *Current year ANB ~143,150 3 year averaging ~146,139*	9,629,273	7,190,785	2,438,488
Special Education ☑ SB 152 Students with Special Needs	2,944,722	2,944,722	-
Gifted and Talented ☑ SB 152 Students with Special Needs	100,000	100,000	-
Indian Education for All ☑ SB 152 Indian Education for All ☑ District Court Decision - Article X, section 1(2)	550,000	550,000	-
School Facility -- Facility Reimbursement ☑ District Court Decision	1,987,842	1,987,842	(1,987,842)
Funding for Quality Schools	**$ 35,228,492**	**$ 28,358,864**	**$ 4,881,786**

Funding For Quality Schools - Fiscal 2007
2005 Special Session Governor's Proposed Funding

Component	Units	Cost Per Unit	Total Cost	State Share	Local Share
Ongoing					
1. **Quality Educator Component** ~ based on a student teacher ratio allowing schools to choose how to spend funds. ☑ SB 152 The number of students in a district ☑ SB 152 Isolated Schools with low population density ☑ SB 152 Urban Schools with high population density ☑ SB 152 Attract and Retain qualified educators and other personnel					
ANB / Educator Ratio 13:1	Educators				
$2,000 per quality educator	11,325.0	$ 2,000	$ 22,650,000	$ 22,650,000	$ -
Additional $2,000 per quality educator <41 ANB *(108 Elem & 28 HS Districts)*	216.7	$ 2,000	433,400	433,400	-
Total QEC Educators			23,083,400	23,083,400	-
Retirement Costs *(Maximum if all QEC funds applied to salaries)*			3,462,510	934,878	2,527,632
2. **Close American Indian Student Achievement Gap Component** ☑ SB 152 American Indian Students	ANB				
($100 per American Indian student)	16,500	$ 100	1,650,000	1,650,000	-
3. **Indian Education for All Component** ☑ District Court Decision - Article X, section 1(2) ☑ SB152 Indian Education for All *($20.40 per ANB, minimum $100 per district)*			3,000,000	3,000,000	-
4. **At Risk Component** ☑ SB 152 Students with Special Needs *(Based on Title I formula)*			2,500,000	2,500,000	-
Sub-total Ongoing Funding Special Session			**$ 33,695,910**	**$ 31,168,278**	**$ 2,527,632**

Component	Total Cost	State Share	Local Share
One Time Only			
A. **Indian Education for All Component** ☑ District Court Decision - Article X, section 1(2) ☑ SB152 Indian Education for All *($47.50 per ANB)*	7,000,000	7,000,000	-
B. **Building Operation and Maintenance** ☑ District Court Decision			
Facility Study	2,500,000	2,500,000	-
Weatherization & Deferred Maintenance *($1,000 per district & $150 per ANB)*	23,000,000	23,000,000	-
C. **Energy Costs Relief** *($6.85 per ANB)* *(To be used for utilities or transportation only)*	1,000,000	1,000,000	-
D. **Teacher's Retirement System** ☑ SB 152 Attract and Retain qualified educators	100,000,000	100,000,000	-
E. **Public Employee's Retirement System** ☑ SB 152 Attract and Retain qualified educators and other personnel	25,000,000	25,000,000	-
Sub-total One Time Only Funding	**$ 158,500,000**	**$ 158,500,000**	**$ -**
Total Special Session Funding for Quality Schools	**$ 192,195,910**	**$ 189,668,278**	**$ 2,527,632**
Total Funding for FY 2007 Quality Schools (Regular and Special Session)	**$ 227,424,402**	**$ 218,027,142**	**$ 7,409,418**

12/5/2005

Quality Schools Interim Committee Report

Prepared for North Central MASS
By Kirk Miller
May 4, 2006

Overview

Committee Created by 2005 Legislation SB 525

Charge:

- **Assess educational needs of children served by basic system defined by Legislature.**
- **Determine total costs of providing the basic system.**
- **Determine state's share of total costs.**

Overview

Charge:

- **Construct a funding formula based on:**
  - **Definition of basic system of free quality public elementary and secondary schools (SB 152).**
  - **Assessment of educational needs**
  - **Work of the 2005 Legislative Joint Select Committee.**

Overview

Charge:

- Allows Legislature to adjust funding formula based on educationally relevant factors identified by the Legislature (SB 152).

Overview

Committee Members:

- Senator Dave Lewis
- Senator Don Ryan
- Senator Robert Story – Vice Chair
- Senator Jon Tester
- Representative Bill Glaser
- Representative Monica Lindeen – Chair
- Representative Holly Raser
- Representative Pat Wagman

Overview

Committee Members:

- Kirk Miller – Board of Public Education Ex-Officio
- Linda McCulloch – State Superintendent – Ex-Officio
- David Ewer – Governor's Budget Director – Ex-Officio

Overview

Committee Members:

- Working Group – Legislative Staff, Office of Public Instruction Staff, Bruce Messinger, John McNeil, Ivan Small

Overview

Meetings:

- Began May 4, 2005 and finished December 5, 2006.
- 15 Committee Meetings and two conference calls.
- Record of meetings at www.leg.state.mt.us/css/committees/interim/2005_2006/qual_schools/

Assessment of Educational Needs – Consultant Reports

- RC Wood & Associates' Final Report, October 15, 2005 entitled "Determining the Cost of Providing an Adequate Education in the State of Montana."
  - Used four methodologies to determine cost – (Year One Annual Spending Increase)
    - Successful school/school district - ($96.2 Million)
    - Professional Judgment – ($329 Million)

Assessment of Educational Needs – Consultant Reports

- Used four methodologies to determine cost – (Year One Annual Spending Increase, continued):
  - Evidence-based model – ($20.6 Million)
  - Advanced statistical analysis - ($34.4 Million)

Assessment of Educational Needs – Consultant Reports

- American Indian Achievement Gap – Unique to Montana - $16 Million
- Small and isolated districts funded based on basic classroom unit.
- Legislature to periodically review levels of efficiency.

Assessment of Educational Needs – Consultant Reports

- Stoddard & Young Recruitment, Retention and Teacher Salary Report, September 30, 2005
  - How are recruitment and retention related to salary and other factors?
  - How would salary increases affect recruitment/retention?

Assessment of Educational Needs – Consultant Reports

- Findings: Smaller and isolated Montana districts have lower salary, higher turnover, more difficulty attracting qualified applicants.
- Conclusion: Raising starting salaries in low paying districts by $2,000 would approximately offset the small and isolated district turnover and difficulty in attracting candidates.

Constructing a Funding Formula

November 2, 2005 Committee action establishing:

- Components of a new formula
- Quality Line (Q-Line)
- Requested a bill draft to reflect the work of the Committee

Constructing a Funding Formula

Components of a new formula:

- Six components intended to be combined to establish the new general fund.
  1. Per student - $74.9 Million, 7.7% of total
  2. Classroom - $508.1 Million, 52.5% of total
  3. Accredited Program - $213.7 Million, 22.1% of total

Constructing a Funding Formula

4. Operations and Maintenance - $105.4 Million, 10.9% of total
5. Special Education - $62.9 Million, 6.5% of total
6. Indian Education For All - $3 Million, 0.3% of total (7 Million OTO)

Total General Fund proposed funding - $968.1 Million

Constructing a Funding Formula

- Three components outside of general fund to remain as presently funded at this time:

7. Transportation - $45.4 Million
8. Capital Projects - $25 Million OTO
9. Debt Service - $39.4 Million

Grand Total - $1,052.8 Million plus $32 Million OTO

Constructing a Funding Formula

Important Q-Line Concepts:

- Required $64 Million more than currently adopted budgets to meet Q-Line.
- Q-Line funded by DSA, permissive local taxes and GTB.
- All schools would receive Q-Line funding.
- Local district could vote up to 20% above Q-Line.
- More revenue dedicated to education would be necessary.

Flaws in the New Formula

- Winners and losers – disproportionate relief to smallest independent elementary districts.
- Underestimation of Q-Line based on consultant projections, mainly educator count.
- 20% above Q-Line by locals was underestimated.

Flaws in the New Formula

- Health Insurance – not enough funds in Q-Line to make this happen.
- Committee couldn't avoid being controlled by pre-determined spending levels – ultimately interferes with creating a stronger school system.

Bill Draft

LC 0001 – 187 page bill draft – an act generally revising school funding:

- Public comment summary and testimony reviewing the draft was provided to the Committee.
- Concern from the education community about the breadth and depth of the changes in LC 0001.

What Happened

- December 5 QSIC Meeting, the Committee failed a motion to adopt LC 0001, 7-1 (Ryan).
- Legal Counsel Petesch response to Senator Tester's request of whether the QSIC has complied with SB 525 indicates the Committee has met all requirements.

What Happened

- Governor Press Conference announces:
  - School Funding Proposal
  - Special Session call beginning December 14
- Motion to adjourn Committee passes 7-1 (Wagman).

2005 Special Session December 15-16, 2005

- Passed SB 1 (24 pages) increasing ongoing state funding for schools by $37 Million. Also adds $34.5 Million in one-time money for 2006-07.
- Established new formula components (ongoing)
  - Quality Educator - $24.5 Million
  - Indian Education For All - $3 Million
  - At-Risk Student - $5 Million
  - Close American Indian Achievement Gap - $3.3 Million

2005 Special Session December 15-16, 2005

- One-Time Money
  - School Facility study, weatherization and deferred maintenance - $25 Million
  - Indian Education For All - $7 Million
  - Energy Cost Relief - $2 Million
  - TRS and PERS Systems - $125 Million

What's Next?

- Measuring the effect of the formula. revisions on local school districts.
- Accountability for obligated funds.
- Status of the school funding lawsuit.
- Does the bridge lead somewhere?
- What more should be accomplished?