1985

Breath of fresh air for school finance in Montana

Keith Lee Allred
The University of Montana

A BREATH OF FRESH AIR FOR SCHOOL FINANCE

IN MONTANA

by

Keith Lee Allred

B.A., University of Montana, 1959

M.A., University of Montana, 1962

Presented in partial fulfillment

of the requirements for the degree of

Education Specialist

UNIVERSITY OF MONTANA

1985

Approved by:

John J. Hunt

Chairman, Board of Examiners

C. C. Murray

Dean, Graduate School

June 6, 1985

Date

Like most states, Montana has struggled vigorously with issues of school finance reform over the past several years. The problems related to funding public schools in Montana have evolved into a principal policy concern of the chief executive, the legislature, school administrators, other public education agencies, and support and "watchdog" groups. Loss of federal aid to local districts, demands for a larger share of the financial resources of society by many special interest groups, a strained national economy, public attitude shift toward a conservative mood, and other variables have only intensified the policy concerns relating to appropriate school finance reform.

Montana now sits on the crossroads where the issues of school finance under deliberation and litigation across the nation press heavily upon the decision makers of the state. Inequities in this state's public school funding pattern are dramatically emphasized as a comparison is made between districts of per pupil expenditures, taxable value per pupil, and other tax issues. Interested parties take notice when the high school budget per pupil in one district is $1682 and another is $6699.[1] Observers were shocked when a report to the Joint Subcommittee on Education in July of 1982 illustrated a variance of about $320 taxable value per pupil in one district to over $10 million taxable value per pupil in another. Other inequities, such as the one created by the state's procedure for funding the School Retirement Fund, could be cited. Equity in funding structures for education in Montana simply is not in place.[2]

It should be noted that Montana made significant effort, beginning with the legislative enactment of this state's foundation program in

1949,[3] to provide equity of funding structures. The problem of inequity in this state's foundation program has been the result of the inflating cost of education, the tax base behind funding the foundation program, and failure of the legislative bodies through the years to keep the ratio of state support in the funding program at the 1949 level. For example, the state's share of school General Fund budgets (Foundation Program plus permissive levy) has fallen from 92.5% in 1949 to 66.5% at the present time.[4] An intervention in the present funding structures of significant magnitude is needed if an equity of fairness and reasonable solution is to be found. Upon establishing such a balance, monitoring and periodic adjustments need to be made to allow for changing variables, or a few years down the road, Montana school funding structures could easily be as far out of balance as they are now.

Concern, enhanced by continuing pressure to properly fund local school programs, has sparked threats of litigation against the state, increased concern among educators, citizens, and legislators, and the appointment of study committees to address the issues of concern. The matter is now grinding its way through the committee study process and emerging, in some cases, as tentative recommendations. Evidence that this effort will result in any positive outcome for equity will only be realized when and if the Montana State Legislature legislates changes that provide the tax vehicle for equity adjustments.

There seems to be no doubt in the mind of most Montana citizens, who have become concerned over equity in Montana funding structures, that the best solution can be achieved through the legislative process. Those school districts and individuals considering initiating litigation have withdrawn active pursuit of a law suit at this time. However, the feelings that led to the original threats remain intact.

As the result of the threat of a legal remedy and plain legislative concern, the 1981 Legislature passed House Joint Resolution 34 which authorized a joint interim subcommittee of both houses to study the matter of school finance and report their findings and recommendations to the 1983 legislative body. This Subcommittee on Education began its deliberation in August of 1981. With the aid of a legislative council staff researcher, the Subcommittee developed a study design and work plan to attack the problem. Key questions caused the Subcommittee to immediately focus on three major concerns:

1. "...whether...the school foundation program as currently structured and funded properly meets the mandate for the funding of public education as stipulated in Article X, Sections 1 and 3 of the Montana Constitution."
   Article X, Section 1 of the 1972 Montana Constitution states that, "Equality of educational opportunity is guaranteed to each person of the state." Concurrently, Section 3 mandates the legislature to "... provide a basic system of free quality public elementary and secondary schools.
2. "...consideration of ways in which the increasing pressure of local voted levies can be relieved."
   Reliance on local voted levies to complete funding of school General Fund budgets has risen steadily since the Foundation Program's initiation from 7.5% in 1949 to 33.5% in 1980-81. The non-voted share school General Fund budgets (Foundation

Program plus permissive levy) has fallen from 92.5% in 1949 to 66.5% now.

3. "...consideration of the relationship between basic educational program established in the standards for accreditation and the foundation program amount."

   The educational community has frequently debated whether accreditation standards imposed on schools result in higher educational costs than those allowed for in Foundation Program schedules; however, no statewide study has ever been completed to settle the debate.[5]

Consideration of these three major areas of concern began immediately as the Subcommittee met August 7, 1981. Input was received from several vitally interested parties over several meetings. Legislators, school administrators, Office of Public Instruction staff members, special interest groups, staff from the Education Finance Center of the Education Commission of the States and others provided a broad background of information for the Subcommittee.

It became evident before too long into the study that the concerns that caused the formation of the Subcommittee were in fact real and demonstrable. Testimony given, information provided, and research shared from several sources were summarized, options were presented, and recommendations were made at the sixth meeting of the Subcommittee held July 21, 1982. Options and recommendations of staff centered around a guaranteed tax base program in the area of the voted levy, elimination of the Permissive Levy, equalization of Retirement costs, and funding changes for small high schools. A brief narrative on these follows.

Guaranteed Tax Base

It should be noted that the Foundation Program provides uniformity while the Guaranteed Tax Base allows diversity.[6]

Montana's existing funding structure follows the foundation program without an effective budget limitation mechanism.[7] The uniformity provided by Montana's foundation program approach seems appropriate in structure to provide for a minimum level of funding for all public schools. However, the present funding structure doesn't achieve an equalization of fiscal outcomes because of a lack of strict limitations on budgets in excess of the foundation program. As cited earlier, the funding structure in use, although it is built around the foundation program concept, allows per pupil expenditures ranging from $1682 to $6699.[8]

The concept of strict limitation of budgets in excess of the foundation program has been considered the last three legislative sessions and rejected each time. It appears that local control over budget levels is more important to Montanans than large foundation program schedule increases. Because local control and the diversity it creates are inconsistent with uniformity provided by a foundation program, other alternative funding mechanisms were considered to modify this disparity.

Some degree of modification of the inequities in Montana's funding structures could be achieved by the continued support of the foundation program and the equalization of fiscal opportunities in the voted levies. Voted levies could be equalized to some degree if the state adopted an environment of "fiscal neutrality" in which any district can obtain at least an average level of funding in the voted area provided it puts forth a tax effort the same as the average. Under such a plan the district's state aid in the voted area equals the deficiency between the amount of revenues the district is able to raise using a levy on its property and the amount the same levy would raise if applied to the guaranteed tax base based upon the state average taxable value per pupil. This approach built around the present foundation program to fund minimum program and a guaranteed tax base to fund a portion of the voted levy amount over and above the foundation program is consistent with local control and an alternative that approaches a marked degree of the equalization of fiscal outcomes.[9]

The guaranteed tax base would not provide property tax relief, but it does improve state equalization. The funding of the guaranteed tax base tied to property tax would result in higher property taxes in some wealthier school districts and lower property tax in some of the poorer districts.[10] Other fund sources could be brought into play for funding this approach and maintain or lower present tax efforts. The guaranteed tax base applied to the voted area of funding schools has some real promise in equalization and deserves serious consideration by Montana's decision makers.

Elimination of the Permissive Levy

A draft copy of a bill, subject to revisions, designed to eliminate the permissive levy was presented to the Subcommittee in July of 1982. This draft bill would eliminate the permissive levy as it's now known, provide a new definition of the foundation program, increase basic county levies in support of local and state equalization of the foundation program, amend sections of law to conform with the new definition, and repeal inappropriate sections of statues.

By eliminating the permissive levy, the present budget-without-a-vote level of the funding structure would be eliminated and the entire structure would be simply referred to as the foundation program. Increasing the basic county levy from 40 mills to 55 mills would generate about $7.3 million additional revenue that would be recaptured by the state and applied elsewhere in the funding structure.

To eliminate the permissive levy seems most logical as all but a token number of districts in Montana impose the permissive levy annually. Currently, this shift seems to have a degree of support from across the State.

Equalization of Retirement Fund Costs

Presently, Montana's funding structure directs the funding of the school district's Retirement Fund to an automatic levy upon the property of the county in an amount equal to 100% of cost. Of all property tax supported funds in Montana, the Retirement Fund has grown most dramatically over the last few years, and therefore, has caused a marked imposition upon property tax. Two proposals to equalize this fund have been placed before the Subcommittee.

First, one proposal recommends that a set amount per pupil be allocated by the state legislature for the Retirement Fund of each district. It is estimated that $100 per pupil would generate $15.4

million. Any fractional part of a $100 per pupil contribution by the state would generate funds proportionately.

The mill level in the fifty-six counties during 1981-82 ranged from 47.34 mills in Mineral County to 2.14 mills in Powder River County. A contribution of $100 per pupil by the state would reduce that range to a high of 29.16 mills in Mineral County to a low of .98 mills in Sheridan County. A contribution of $50 per pupil would create a range with a high of 38.25 mills in Mineral County to a low of 1.70 mills in Sheridan County.[11] This model would provide some property tax relief to all counties, but significant relief would be felt in most low tax wealth counties.

The second proposal that has been made would move the entire Retirement Fund into the foundation program and fund it therein according to the expenditure need. This proposal places the funding upon the funding structure and rate determined by the legislature. Should the legislature's funding structure and rate not fund the Retirement Fund totally, the balance needed by a district would become part of the voted levy. Funding the deficit by the voted levy presents some real problems in that a negative vote would make it impossible for a district to pay all the employer's share of the Retirement Fund.

Small High School Funding

A study of non-isolated, small high schools in the State indicates that Montana rewards its smallest high schools with proportionately more foundation program money on a per pupil basis than is allowed for larger high schools. Presently, there are 69 operating small high schools with less than 100 students. Most of these schools are within 20 highway miles of another school. This suggests that many of these small schools might combine to provide more program and services to students and attempt to spend state and local financial resources more efficiently.[12]

This proposal will run into emotionally laden opposition. Consolidation is not a popular topic in the rural areas of Montana. However, research indicates a savings of $1.3 million the first year should such consolidation occur.

Montana sits on the "frontier" of possibilities in developing and implementing school funding structures that will provide some equalizing of the tax effort. What route most clearly opens the pathway to greater equalization of the funding effort? Although not entirely clear, tentative research and projections promise that the guaranteed tax base in the voted levy area would have a long range impact on such equalization if united with elimination of the permissive levy. The other proposals before the Joint Subcommittee on education address some degree of equalizing. Perhaps the effort of picking and choosing needs should concentrate upon the long range effect. Solution(s) without long range impact will only delay the solution of the concern. High expectations and considerable hope for education rest with the state legislature as it convenes in January of 1983.

FOOTNOTES

[1]Montana Taxation - 1982, Montana Tax Foundation, Inc., 1982; Helena, Montana; pp. 34-36.

[2]Odden, Allan and Augenblick, John, School Finance Reform in the States: 1981, Education Commission of the States, January, 1981, Denver, Colorado, pp. 7-17.

[3]Staff Report, February of 1982, Joint Subcommittee on Education; p. 1.

[4]Staff Report, July 27, 1982, Joint Subcommittee on Education; p. 1.

[5]Ibid., p. 1-6.

[6]Colberg, Stephen R., "A Study of Guaranteed Tax Base: Supplemental Funding to Improve Equalization Between Low-Wealth and High-Wealth School Districts", Office of Public Instruction, July, 1982, p. 1.

[7]"School Finance in Montana", Office of Public Instruction Publication F6947-404/78, 1978.

[8]Op. Cit., p. 35.

[9]Op. Cit., p. 2.

[10]Op. Cit., p. 17.

[11]"A Comparison of Current Combined High School and Elementary Retirement Levies and Levy Amounts Under Proposed State Equalization of the Retirement Levies", Legislative Interim Joint Committee on Education, July, 1982, p. 1.

[12]"Proposed Foundation Program for Nonisolated High School District", Legislative Interim Committee on Education, July, 1982, pp. 1-5.