Educational Considerations

Volume 25
Number 2 *Public School Funding in the United States: Volume II*

Article 10

4-1-1998

School Funding in Montana

Ernie Jean
University of Montana

Recommended Citation
Jean, Ernie (1998) "School Funding in Montana," *Educational Considerations*: Vol. 25: No. 2.
https://doi.org/10.4148/0146-9282.1379

It appears that the condition of funding Montana schools is returning to what was in existence in 1989—i.e., a relationship between state funding and local funding.

School Funding in Montana

Ernie Jean

General Background

A foundation program method to finance public elementary and secondary schools in Montana was instituted in 1949 and still serves as the distribution vehicle for school funds through 1998. As it was designed in 1949, the state was to provide 80% of the revenue to fund the foundation program with the remainder from district and county tax sources. The balance between those funding sources gradually shifted in their relationship where the percentage of state participation in 1986 was approximately 55% of the revenue necessary to fund the schedules.

In 1986, 64 school districts filed suit in district court challenging the method the state used to finance public elementary and secondary schools relative to the state's constitution. In what became one of the nation' s first court challenges to the equity of a state's funding mechanism, the *Helena District #1 et. al v. State of Montana* was tried. The plaintiff districts prevailed in district court. The state appealed to the Montana Supreme Court, who, in January 1989, affirmed the district court decision.

The court ruled the Montana system to fund school's general operations levy (i.e. the General Fund) as well as the retirement, transportation, and debt service funds was inequitable. The legislature took this funding issue under consideration and attempted to resolve the disparity in funding by attempting to remodel the existing method in such a way as to make it more equitable.

What evolved in legislative action taking six months and a gubernatorial veto was a 'new" approach to financing Montana schools. This new system utilized a Guaranteed Tax Base (GTB) component within the framework of a foundation plan. In the 1990 legislation, the GTB aid was permissive to districts and acted as supplemental to the local district tax levy.

The 1990 approach capped a district's growth at 4% of the previous year's budget or 135% of the foundation program amount, including special education. (See Table 1) To finance the additional state support, a 40 mill tax levied statewide on property was instituted in addition to the 55 mills currently levied on all property in each county for the school equalization account. As in the past, and since 1979, a full recapture of those funds flowed to the school equalization account. Beginning in 1990 the revenue from the 95 mills levied statewide went directly to the school equalization account. Also, any amount of a district's budget beyond the permissive amount was funded solely from local district taxation (a tax levied against local property) after being submitted and subsequently approved by the majority of voters within the district.

Ernie Jean is Assistant Professor, University of Montana

Neither the debt service or transportation funds were addressed in this first legislative attempt to solve the equity issue in Montana. However, the retirement fund was equalized within each county utilizing a similar GTB system.

From its passage in 1989 and its enactment in the budget year of 1990, the "under funded" schools as well as a new coalition of small, rural schools attempted to get the Montana Supreme Court to retain jurisdiction. The court refused. In 1992, both groups filed suit claiming the new method to finance Montana's public elementary and secondary schools did not achieve equity in providing revenue to schools. Further, the rural schools argued that the new system of GTB was distributed unfairly to the small schools.

In the 1991–92 school year, there were 538 school districts in Montana. However, this number is somewhat misleading in that Montana funded districts as either K–8 or 9–12. School systems, having both an elementary and secondary units, would have two distinct budgets (even though both may be within the same city limits). A more appropriate number of districts within the state would be to note there were 154 combined administrative units (containing elementary and secondary districts). The total administrative units, counting the above, was 381.

Districts received foundation program revenue based upon schedules legislatively set during Montana's biennial sessions. Montana used a method of Average Daily Membership (ADM) called Average Number Belonging (ANB). ANB is counted for the 180 pupil instruction (PI) days, as well as for up to 7 pupil instruction related (PIR) days. The ANB figures used by districts were derived from the previous year figures.

Because of the system of two separate budget units, Montana uses two foundation schedules, one elementary and one secondary. The amounts in each schedule reflect a decreasing amount per pupil to a maximum of 301 for secondary and 601 for elementary. After these maximum ANB numbers each additional ANB above the maximum received the amount of the maximum number per ANB. The secondary schedules also reflects more money per ANB than does an elementary ANB.

To encourage districts to provide students in the 7th and 8th grade students with an expanded curriculum, the state apportions revenue to the elementary budget for 7th and 8th grade students at the secondary schedule level. This is done only for those schools who have a state approved 7th and 8th curriculum.

In 1991–92 transportation was financed on a "reimbursement" basis for approved costs of providing transportation service. Reimbursement was statutorily established based on an amount per bus mile. This "on-schedule" amount was funded equally between the state transportation fund and a county-wide permissive tax (on property). Any amount of budgeted amount above the "on-scheduled" amount is financed within the district but is a permissive levy. This amounts to $0.85 per bus mile, which was set in 1991. Districts may receive an additional amount $0.0213 per capacity unit above 45 in each bus—i.e. an additional $0.0213 for each student more than 45 per bus.

The retirement fund was financed as a permissive levy on property county-wide. This was supplemented through the use of a GTB formula with revenue coming from the state. In this case, the GTB is computed on the average county mill value per ANB the state provided approximately 28% of the costs of retirement.

Special education was financed by legislative appropriation and distributed to schools on an allowable cost basis for those students identified and placed in special education.

Students who spent more than half-time in special education were not counted in the ANB calculation and thus received no state foundation aid support. Special education "cooperatives" were funded in like manner as well. In 1990–91 there was $33.8 million allocated to fund special education. Of that total $29.5 million flowed to districts and $4.3 million to fund the state's 26 special education cooperatives.

In the fall of 1992 make up of the state's legislature changed. The people of Montana elected a new governor, who still from the Republican party, was more centralist than his predecessor. The House of Representative majority also swung to the Republican party as well. Given this change in political make up, facing a rising discontent among school districts with 1990 method to fund elementary and secondary schools, as well as two different court challenges, the legislature worked in earnest to find a method to equitably fund schools that would keep the state out of court, remain relatively revenue neutral, and satisfy the measure of equity established by the court.

The speaker appointed a Select Committee on School Finance. He provided this committee with broad legislative powers and provided this committee with the charge to develop such a system to meet all of the above criteria. The chair of this committee approached two statisticians from the state auditor's office to construct a "mathematical" model, irrespective of the model in existence in Montana, or any model existing in the nation.

What eventually developed was a method to finance schools which was proposed to the legislature under a committee bill enrolled as HB 667. This bill eventually was passed and signed into law. It is the vehicle used to finance elementary and secondary schools today.

This system maintains several aspects of previous funding measures, however. First, ANB continues to be used to determine pupil counts. However, two qualifying dates were used to determine those enrolled—i.e. the first Monday in October, and February 1. This figure still drives any pupil calculation of revenue. The foundation program schedules were also maintained. A GTB finance calculation was also included in the new system (although it was calculated much differently).

The basic model was to determine what a maximum budget might be within a given set of funding parameters as determined by a district's ANB. This would determine a "budget cap". Next, using formula calculations, a "base" budget was determined. The base was approximately 80% of maximum, which included special education. The rationale for this framework was taken from the court—i.e. to achieve a system in which the budget available to students would be no greater in ratio than 1 to 1:25. If all schools budgets could be forced to exist between the base and the maximum, than this would be a reality. (See Table 2)

To begin to develop the maximum budget each elementary district was given $18,000 and each secondary district was given $200,000. The flat allocation was termed the "Base Entitlement". Schools who had an approved 7th and 8th curriculum were funded at the secondary level. A prorated amount of K–6 was allocated of the elementary flat amount as well as a prorated 7th 8th of the secondary amount was allocated[1]

A second entitlement was the "Per Student Entitlement". This entitlement was based upon a statutorily defined amount per ANB decreasing for each additional ANB to a maximum of 800 in the secondary and 1000 in the elementary. This amount was fixed at $3,500 for each elementary ANB (decreasing by $0.20 per ANB to 1000. At 1001 the amount for 1000 ANB was applied for each additional student) and $4,900 for each secondary ANB (decreasing by $0.50 per ANB to 600. At 801 the amount for 800 ANB was applied for each additional ANB).

Special education remained on an "allocation basis" under this new approach. However, it was placed within the general fund. The state provided GTB aid for that portion of the special education budget of the district's special education allowable cost payment. Designed within this bill, and beginning in 1994–95 required districts to provide $1.00 of local revenue to match every $3.00 in allowable special education funds that it receives from the state. (See Table 3).

The base budget was determined by a calculating 80% of the two entitlement and a calculated portion of the special education revenue. These two figures became the benchmark figures to drive subsequent budget calculations. These figures were used to determine if growth in budgets were possible or budgets were either frozen or reduced.

The auditors office ran a scattergram of 1990–91 school district budgets, utilizing this system to determine where district budgets would fall in relation to the base and maximum budget benchmarks. The bill dictated that:

1. Those districts that were below the base were to mandatorily grow to the base within 5 years or less.
2. Those districts above the maximum were frozen at their previous year's level.

Budgets BELOW the Base

School districts whose previous years budget was below the base were provided three options of budget growth:

1. Increase 4% above the previous year's budget
2. Increase 4% above the previous year's mean budget per ANB for the district times the new ANB. (This would benefit those districts who had increases in ANB).
3. A mandatory growth between the previous year's budget and the base. This mandatory growth amount to 20% the first year, 33% the second year, 50% the third year, 66% the fourth year, and 100% (or to the base) the fifth year).

A district whose budget was below the base was required to grow at least the mandatory amount. However, a district was permitted to permissively grow to the greatest (or to any level up to the greatest) of any of the options.

Budgets BETWEEN the Base and Maximum

The districts whose previous year's budget was between the base and the maximum were limited to maintain the previous years budget unless the difference was presented to the voters and they approved an increase. However, the increases were limited to:

1. Increase 4% above the previous year's budget
2. Increase 4% of the previous year's mean budget per ANB for the district times the new ANB. (Again, this would benefit those districts who had increases in ANB).

In no case, however, could a district that was once above the base level, reduce its budget below the base budget level.

For those districts where enrollments were declining, growth really wasn't an option.

Budgets ABOVE the Maximum

Those districts above the maximum were frozen at the level of their previous year.

This legislature attempted to address inequities in capital outlay. The original court action required redress in the general fund, retirement, transportation, and capital outlay. This and previous legislative sessions resulted in measures to provide equity in all of the funds except for capital outlay.

For all capital projects after 1 July 1991, and for the bien-

https://newprairiepress.org/edconsiderations/vol25/iss2/10
DOI: 10.4148/0146-9282.1379

nium 93–94 and 94–95, the legislature established a reimbursement payment system with a maximum limit of \$220–\$330 per ANB. However, the legislature only funded \$2 million for the biennium. This funding was insufficient to satisfy the law for all of the capital projects that qualified. Thus, qualifying districts receive a prorated share of the allocation. Each year the amount of money allocated to districts for equity in capital projects would vary depending upon the amount of capital projects that qualify and the amount allocated by the legislature. Table 4 shows the amount of capital dollars qualifying for state support and, since the legislature has never allocated enough to fully fund the law, the amount of the prorated percentage.

Facing decreasing revenue and a projected shortfall in the state's budget, the governor called a special session of the legislature for November 1993. As part of the legislative budget cutting, education received its share of the ax cutting measures. The approached used by the legislature was to make across the board type cuts of all programs. Cuts of 4.5% were made in most governmental budgets and education was no exception.

The cut was accomplished by reducing the "Base Entitlement" from \$18,000 in the elementary and \$200,000 for secondary to \$17,190 and \$191,000 respectively. The "Per Student Entitlement' was similarly reduced from \$3,500 for elementary and \$4,900 for secondary to \$3,343 for elementary and \$4,680 for secondary.

Also included in the cuts were to limit those districts above the maximum to 95.5% of their previous year's budget. Those districts between the base and the maximum budgets were limited in that manner as well. Those districts below the base were not touched. The concept of moving districts to the base remained.

In other action during this session, the budget growth options originally established remained in affect. However, a district was now required to vote any budget growth beyond the mandatory growth required to move to the base.

Concurrently to budget cutting, the method of funding special education was changed. Instead of allocating revenue to districts on an allowable cost method, districts receive special education funds based upon the district's total ANB. The total amount of revenue to the state for special education was divided by the total amount of ANB for the state to arrive at the number. It amounted to an "Instructional Block Grant' of \$128.04 per ANB. This was to fund special educational programs within the district. A "Related Service Block Grant" was also allocated to each district to pay for the operations for occupational therapy, physical therapy, psychological service and administration. Th grant amounted to \$40.93 per ANB. Portions of these grants were calculated into the maximum budgets. This amount varies each year.

No substantive changes in the system to provide revenue for Montana schools occurred in the general session of the legislature in 1995[2], other than districts working within the constraints of the system—i.e. those districts below the base moving their budgets to the base.

In the legislative session of 1997 a concerted effort was mounted by the educational community, and concerned legislators, bolstered by the governor, to replace the 4.5% to the entitlement. The Republican controlled Senate and House did not agree with the governor's request (despite the fact that the governor was extremely popular and also a Republican). In a compromise effort the 1997 session passed an increase in the entitlement. The base entitlement moved to what was originally determined (i.e. \$18,000 and \$200,000 respectively).

The per student entitlement was increased to \$3376 and \$4726 respectively for the first year of the biennium. They also increased those amounts to \$3410 and \$4773 in the second year of the biennium.

The legislature also allocated \$76.26 per ANB for technology. To receive this money, districts are required to match the legislated amount. However, this revenue need not be placed in the general fund and therefore can be carried over budget years. The legislature left the door fairly wide open (even

Table 1
General Fund Revenue by Category in Montana Schools[3]

YR	LOCAL	%	STATE*	%	FEDERAL	%	OTHER	%	Total	%
1991	113948112	0.205	420465889	0.755	21581688	0.03878	546780	0.0010	556542469	
1992	126254217	0.221	422625949	0.739	21878077	0.03827	958280	0.0017	571716523	0.027
1993	124825618	0.216	426789230	0.738	20779131	0.03592	6084118	0.0105	578478097	0.012
1994	160161024	0.273	425012941	0.724	25307	0.00004	1918318	0.0033	587117590	0.015
1995	180626867	0.297	426108682	0.701	17184	0.00003	1405820	0.0023	608158553	0.036
1996	194482405	0.311	428747654	0.686	8674	0.00001	1710097	0.0027	624948830	0.028
									Total	**0.123**

Table 2
ANB In Montana Schools[4]

YR	Elementary	High School	Total	Average Total Revenue Per ANB	Percent Change	Average Local Revenue Per ANB	Percent Change	Average State Revenue Per ANB	Percent Change
1991	105593	42407	148000	3760.422		770		2841	
1992	106579	41890	148469	3850.747	0.0240	850	0.10	2847	0.002
1993	108523	42614	151137	3827.508	-0.0060	826	-0.03	2824	-0.008
1994	111497	45457	156954	3740.698	-0.0227	1020	0.24	2708	-0.041
1995	114758	47811	162569	3740.926	0.0001	1111	0.09	2621	-0.032
1996	114734	49045	163779	3815.806	0.0200	1187	0.07	2618	-0.001
			Totals		**0.0147**		**0.54**		**-0.079**

though they labeled the money for technology) for districts to spend this money. It was, however, not be spent for any salary item.

Conclusion

With the current system of funding Montana schools, it is likely that the level of equity required by the court will be reached. However, from the data, it appears that the conditions of funding Montana schools is returning to what was in existence in 1989—i.e. the relationship between state funding and local funding.

There has been progress in achieving equity in retirement and transportation as well as capital outlay. With respect to the latter, however, there is insufficient revenue allocated to make substantial progress.

Endnotes

[1] Assume an elementary school district with an enrollment of 1800 students. Of this 1800 students, 400 students are in the 7th and 8th grade. The base entitlement would be calculated as:

$\frac{1400}{1800}$ times $18,000 = $13,999 $\frac{400}{1800}$ times $200,000 = $44,444

The total base calculation for the elementary district in this example is $58,443.

[2] The Montana legislature meets in biennium session starting in January on odd numbered years.

[3] Office of Public Instruction, Budget Office, August 1997.

[4] Legislative Fiscal Division, Budget Analysis 1999 Biennium (January 1997), State of Montana.

[5] Office of Public Instruction, Budget Office, August 1997.

Table 3
Special Education Funding[5]

Year	Base	% Change	Pupil	% Change
1994	$128.04		$40.93	
1995	$122.73	<0.042>	$43.68	0.067
1996	$118.89	<0.032>	$38.88	<0.11>
1997	$116.25	<0.022>	$38.43	<0.01>
		<0.092>		**<0.061>**

Table 4
Capital Outlay[6]

Year	Maximum	Budgeted	%
FY94	$1,113,315	$1,000,000	79.65%
FY95	$1,380,762	$1,000,000	72.42%
FY96	$1,486,269	$1,393,112	91.81%
FY97	$2,519,285	$1,999,997	79.39%

Figure 1

HB 28

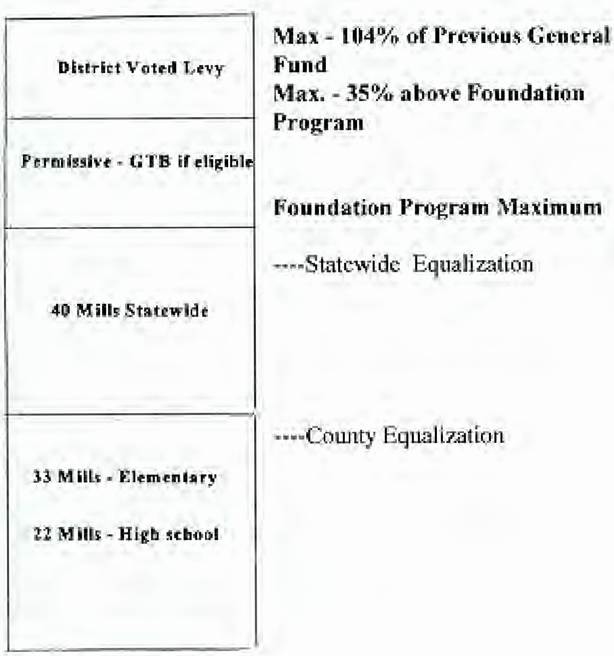
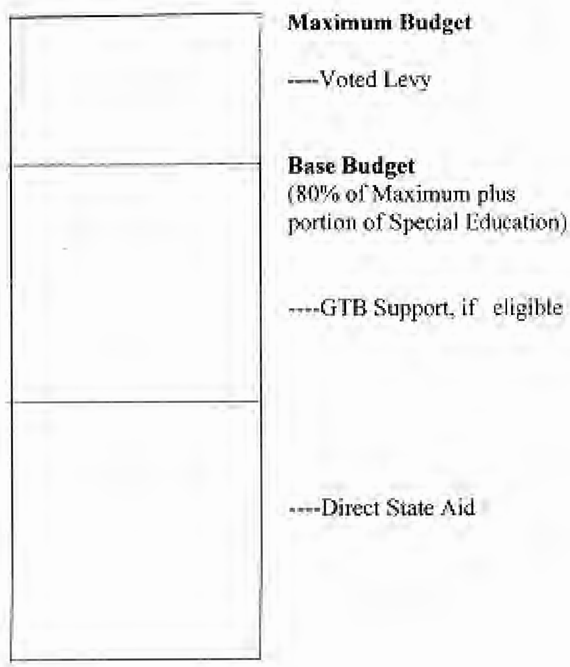


Figure 2

HB 667



https://newprairiepress.org/edconsiderations/vol25/iss2/10
DOI: 10.4148/0146-9282.1379