

Previous School Funding Studies 2001-2016

Prepared for the 2025-26 School Funding Interim
Commission by Pad McCracken, Commission Staff

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Defining and Funding a Basic System of Free Quality Public Elementary and Secondary Schools

Final Report of the Quality Schools Interim Committee
October 2006
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A REPORT TO THE 65TH LEGISLATURE | September 2016
By the 2015-2016 School Funding Interim Commission

K-12 SCHOOL FUNDING: A 10-YEAR REVIEW

Local Control Minimum Public Education Charter Schools
Small Schools Mill Levies Special Education
Specific Learning Insurance Pay Infrastructure
Facilities Equitable Programs Testing
School Districts Oil Children Choices
Adequate Funding Stop Quality Education Ask
Qualified Teachers Deal Think

Those who do not remember previous interim studies are condemned to repeat them.

CURATE
CONDENSE
TRANSLATE
ILLUSTRATE
DISTILL

RALPH
SAYS

Helena Elem. v. State

This is known as the “equity” lawsuit. Numerous legislative changes came about following this lawsuit, including in 1993, a comprehensive rewrite of the school funding formula in HB 667.

1985-1993

Session and Study

The 2001 Legislature enacted HB 625 which required the governor and superintendent of public instruction to study school funding.

Columbia Falls v. State lawsuit was filed in 2002.

BPE publishes “Position Paper on Public School Funding and Structure” in late 2002.

2001

Session and Study

The 2003 Legislature added inflationary adjustments to the basic and per-ANB entitlements and created the “K-12 Public School Renewal Commission”.

2003

Session and Study and Special Session

The Columbia Falls v. State case was decided just prior to the 2005 Session.

The 2005 Legislature created a definition of “basic quality system” (20-9-309) and provided funding increases. And, after an intensive effort to rewrite the funding formula in a select committee came up short, created the Quality Schools Interim Committee (QSIC). Despite another intensive effort, QSIC was unable to complete the formula revision, and four new components were added to the existing formula, along with other investments, during the December 2005 Special Session.

2005

Session and Study

The first “decennial study”. Following some confusion about how, when, and by whom the decennial study would be conducted, SB 128 (2015) was enacted to clarify these matters.

Note that significant school funding changes had been made in SB 175 (2013).

2015

Session and Study

The 2025 Legislature enacted numerous school funding reforms as well as modifying the membership and duties of the School Funding Interim Commission.

2025

What can we learn? LOTS!

Perennial issues:

- Tax fairness
- School facilities
- Recruitment and retention
- School employee health benefits
- Special Education and Special Needs
- Simplification/understandability
- Reducing the number of district funds
- Keeping up with inflation
- The “consolidation question”
- Reliable revenue

Some issues have been addressed.*

For example, in the early 2000s there was no specific funding for Indian Education for All. IEFA was added to the definition of the basic system of free quality schools in 2005 and a funding component for it added in the December 2005 Special Session.

Some issues are “in the works”.

For example, after numerous efforts to do something about school employee health benefits, the 2023 Legislature enacted HB 338.

Some issues have received less attention.

For example, while the needs of students with limited English proficiency has been an “educationally relevant factor” since 2005, there has only recently been consideration of incorporating these needs into the formula.

* This is not a judgement of the completeness or adequacy of the solution.

New aspirational considerations for SFIC added to 5-20-301 in HB 153 (2025):

(c) in considering changes to the funding formula or in designing a new funding formula, strive for a funding formula that:

- (i) is understandable, transparent, and equitable, including adjustments for student needs, district characteristics, and local property wealth disparities;
- (ii) utilizes revenue sources that are stable and predictable;
- (iii) prioritizes funding the education of children in the current year, and not simply funding a system of schools based on prior year enrollment;
- (iv) reduces administrative burdens and costs and drives funding toward classroom instruction;
- (v) allows for parental choice within an expanded public education system;
- (vi) eliminates the need for tuition payments between school districts;
- (vii) minimizes property tax impacts related to the reappraisal cycle; and
- (viii) incorporates free market principles where appropriate and rewards school districts based on student academic growth, achievement, and proficiency rather than head counts and seat time;

The new aspirations are in addition to the existing definition of “basic system” and “educationally relevant factors” under 20-9-309, added in SB 152 (2005) and unchanged since:

(2) As used in this section, a "basic system of free quality public elementary and secondary schools" means:

- (a) the educational program specified by the accreditation standards provided for in 20-7-111, which represent the minimum standards upon which a basic system of free quality public elementary and secondary schools is built;
- (b) educational programs to provide for students with special needs, such as:
 - (i) a child with a disability, as defined in 20-7-401;
 - (ii) an at-risk student;
 - (iii) a student with limited English proficiency;
 - (iv) a child who is qualified for services under 29 U.S.C. 794; and
 - (v) gifted and talented children, as defined in 20-7-901;
- (c) educational programs to implement the provisions of Article X, section 1(2), of the Montana constitution and Title 20, chapter 1, part 5, through development of curricula designed to integrate the distinct and unique cultural heritage of American Indians into the curricula, with particular emphasis on Montana Indians;
- (d) qualified and effective teachers or administrators and qualified staff to implement the programs in subsections (2)(a) through (2)(c);
- (e) facilities and distance learning technologies associated with meeting the accreditation standards;
- (f) transportation of students pursuant to Title 20, chapter 10;

(3) In developing a mechanism to fund the basic system of free quality public elementary and secondary schools and in making adjustments to the funding formula, the legislature shall, at a minimum, consider the following educationally relevant factors:

- (a) the number of students in a district;
- (b) the needs of isolated schools with low population density;
- (c) the needs of urban schools with high population density;
- (d) the needs of students with special needs, such as a child with a disability, an at-risk student, a student with limited English proficiency, a child who is qualified for services under 29 U.S.C. 794, and gifted and talented children;
- (e) the needs of American Indian students; and
- (f) the ability of school districts to attract and retain qualified educators and other personnel.

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2015-2016 School Funding Interim Commission

No cost/adequacy study

Online survey asking for input (677 responses)

The issues that emerged and were taken up by the Commission were:

1. Recruitment and Retention
2. School Facilities
3. Special Education and Special Needs
4. District Size, Structure, and Equity
5. K-12 Employee Health Benefits

<https://archive.legmt.gov/content/Committees/Interim/2015-2016/School-Funding/Meetings/Aug-2016/SFC-FINAL-REPORT.pdf>

Prototypes					
Type	State Control	Percent State Share	Implementation Time	Program Cost	Administration Cost
Wyoming/Arizona	High- state controlled thru established school facilities boards, guidelines tied to state standards	High- WY- 100% AZ- 100%	High- completion of FCI, program standards, establish program, Est. 2-4 years	High- FY2004 WY- \$156 m per student \$1,880 AZ- \$489 million, per student \$493.00	High- 10-20 FTE, FY2004 WY- \$ 1 million AZ- \$1.7 million High
Washington State	Medium- state controlled, based on standards, high input from locals	Medium- State 50% of project cost, locals must provide bonding for balance, local funds used first	High- completion of FCI, program standards, establish program, Est. 2-4 years	High- FY 2004, \$170 million, per student \$171.00 Medium/High	High- 11 FTE FY2004, \$1.1 million
Treasure State Endowment Program added to current Montana system	Medium- state administered but locals submit projects, must meet criteria	Medium- grant process, state max per project is \$500,000	Medium- 6 months to 1year, utilize current TSEP as a model Medium	Medium - FY06-07, \$16 million, maximum of \$500,000 per project	Medium- 5- 7 FTE, FY2006 \$850,000
Montana current system	Low- state administered based on local decisions	Low- FY2004 approximately 25% of bond payments Low	Low- currently in place	Low, minimal	N/A

2005 QSIC Facilities Report

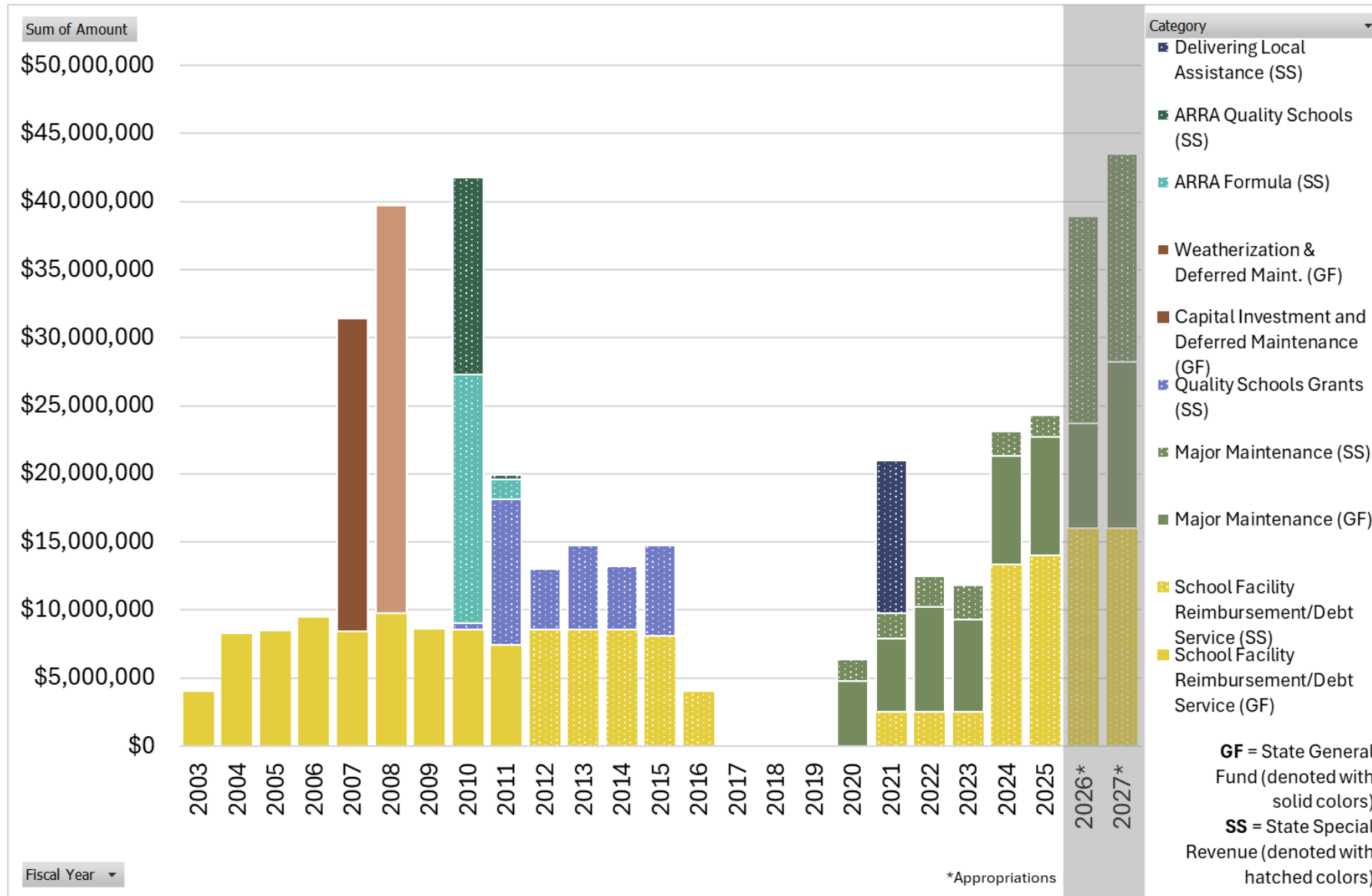
The 2015-16 SFIC asked for info on Wyoming's approach to school facilities. The 2005 QSIC had done a deep dive on this and developed the table to the left which compared various state approaches.

QSIC recommended a one-time state investment to support deferred maintenance and a statewide inventory to prioritize facility needs. In addition, the Quality Schools Grant Program was created in 2009.

The program was not liked by schools who found it unpredictable and highly political. The 2015-16 SFIC agreed, and the 2017 Legislature created the formulaic Major Maintenance Aid program. The program has been modified in recent years to provide greater stability to its revenue streams and increase the amount of aid available to school districts.

Neither QSIC or the 2015-16 SFIC was drawn to the highly centralized approach used by Wyoming and Arizona.

State School Facility Assistance 2003-2027



This graph reveals the importance of sustainable revenue sources for school funding.

Between 2016 and 2020 there was less state support AND greater burden on local taxpayers.

The LEG has in recent years made strong efforts towards ensuring reliable funding to support school facility needs.

Special Education

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

Recommendation of [K-12 Public School Funding Study Advisory Council](#) (2002)

2 160. In sum, evidence of the State's failure to adequately fund its share
3 of the elementary and secondary school system in Montana is evidenced by the following:

14 F. The increasing competition for general fund dollars between special
15 education and regular education, which lowers the available money to students in regular
16 education programs.

[Sherlock Decision in Columbia Falls v. State I \(2004\)](#)

2005 – The Legislature increased state special education funding by about \$3 million during the regular session but provided no additional money for special education during the December special session when addressing school funding. Increases in the years following were minimal and more special education costs costs fell on local funding within the general fund.

2013 – The Legislature enacted [SB 191](#) which allows a district to permissively levy within the tuition fund for the costs of providing a student's individualized education program (IEP) beyond what the district generates for that student in state and federal funding

2015-16 – Studied by SFIC

2017-18 – Studied by Education Interim Committee

2019-20 – Studied by subcommittee of Legislative Finance Committee

2021 – The Legislature enacted [HB 46](#) which incorporated the special education allowable cost payment into the BASE aid components and created a calculation for the payment based on both an inflationary adjustment and an enrollment adjustment.

The question of what constitutes a “small isolated school” has not been addressed.

Existing statutes related to isolation conflate “school” and “district” and result in nearly all schools being considered “isolated” and funded in the same manner.

The “separate budget unit” mechanism (for schools like Babb in the Browning Elementary School District and Seeley Lake High School in the Missoula High School District) does provide additional funding to schools at a distance from other schools of the district, but not to small, isolated school districts.

As a result of comparing the state of Montana with other selected states the overall policy observation was offered as to the conclusion that the state of Montana faces a series of fiscal challenges if it is to fund a quality education. These fiscal challenges are exacerbated given the number of small schools and small school districts and the necessary state and local funding to meet the legislative mandates of a quality education. The critical element is to identify isolated schools and school districts as opposed to simply funding all small schools and school districts. Thus, this essential policy issue must be addressed in understanding the distinctions between small isolated schools and school districts from that of simply small schools and school districts.

[Determining the Cost of Providing an Adequate Education in the State of Montana](#) - R.C. Wood & Associates Final Report to QSIC (2005)

having to first dissolve. The committee believes that the K-12 structure is the most efficient school district structure and does not recommend allowing K-12 districts to be dissolved to consolidate with a stand alone elementary district.

From [Appendix K](#) 2003 K-12 Public School Renewal Commission

1. Further study is needed to develop a definition of “isolated and necessary school” based on geography and travel time. This definition can then be used to ensure identified schools have sufficient financial capability, perhaps through additional state support or budgetary flexibility, in order to guarantee the equality of educational opportunity.
4. Existing statutory framework is sufficient in allowing local control for district reorganization decisions (annexation and consolidation). While the commission is not proposing measures that would mandate consolidation of school districts, it is understood that voluntary consolidation would simplify and bring efficiencies to the funding system. The consolidation of *districts* does not imply or require the closure of *schools*.
4. The Legislature should ensure that the funding formula does not create financial disincentives to district annexation or consolidation. Findings and recommendation in the [2015-16 SFIC Final Report](#) related to District Size, Structure, and Equity

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,

From Board of Public Education "[Position Paper on Public School Funding and Structure](#)" Nov 2002

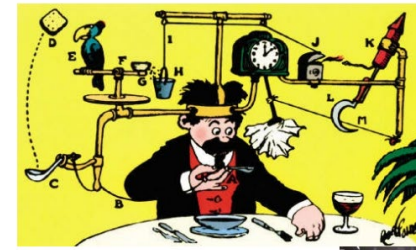
WHEREAS, due to repeated adjustments, revisions, and court decisions, the statutes governing the education system in Montana are plagued by inconsistent language, conflicting provisions, confusing funding mechanisms, and overlapping organizational structures that make it difficult for educators, parents, the legal community, and the general public to understand; and

From preamble of [HB 736 \(2003\)](#) creating the K-12 Public School Renewal Commission

74. First, the school financing scheme evidenced by HB 667 is clearly complicated and hard to understand. Not only is that the opinion of the numerically-challenged author of this opinion, but also the opinion of well-respected national and state education leaders.

(See e.g. Myers Test.; Miller Test.)

Judge Jeffrey Sherlock in [2004 Columbia Falls I decision](#)



It's YOURS!

And from [20-9-309, MCA](#):

(4) The legislature shall... establish a funding formula that... allows the legislature to adjust the funding formula...

Your sophisticated machine is meant to be fine tuned from time to time!



Whether you view Montana's K-12 funding formula as an overly complicated, nonsensical, Rube Goldberg-esque contraption or as a sophisticated, adaptable, high-performance machine...

https://archive.legmt.gov/content/Committees/Interim/2025-2026/SFIC/June-4-2025/K12_Funding_Basics_SFIC_06-04-2025.pdf

Overly complicated or highly sophisticated is for policymakers to decide, but the comments from the early 2000s predate multiple new components and mechanisms in the formula.

Diving Deeper

The School Funding Library curated by Legislative Fiscal and Services Divisions includes a tab for “Litigation Background & Historical Materials”:

<https://www.legmt.gov/lfd/publications/school-funding-library/>

The Montana Quality Education Coalition (MQEC) website has an excellent school funding history timeline with links to study reports and court decisions:

<https://www.mqec.org/school-funding-history>

The Board of Public Education has a robust record of the 2003 K-12 Public School Renewal Commission’s work (which also includes summaries of the efforts made in 2001):

<https://bpe.mt.gov/Home/Reports-and-Recommendations>