

**FINAL REPORT OF THE EDUCATION AND LOCAL GOVERNMENT
INTERIM COMMITTEE
2001-2002**

MEMBERS

Senator Linda Nelson
Presiding Officer

Representative Joan Andersen
Vice Presiding Officer

Senator Ed Butcher

Representative Gary Branae

Senator Alvin Ellis, Jr.

Representative Tom Facey

Senator Bill Glaser

Representative Jeff Mangan

Senator Don Ryan

Representative Gay Ann Masolo

Senator Debbie Shea

Representative Art Peterson
(Replaced By Representative Gilda Clancy)

COMMITTEE STAFF

Connie Erickson, Research Analyst

Eddy McClure, Staff Attorney

Pamela Joehler, Fiscal Analyst

Miko Owa, Secretary

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**PART ONE:
ORIGINS AND RESPONSIBILITIES OF THE COMMITTEE**

INTRODUCTION

The Education and Local Government Interim Committee (Committee) was originally created as the Education Interim Committee by Senate Bill No. 11 (Chapter 19, Laws of 1999). During the 1999-2000 interim, two study resolutions relating to local government issues were assigned to the Committee by the Legislative Council. The membership of the Committee was expanded to 12 with the addition of 4 members from the House and Senate Local Government Committees. The name of the Committee was informally changed to the Education and Local Government Interim Committee. During the 2001 legislative session, the Montana Legislature passed Senate Bill No. 10 (Chapter 210, Laws of 2001) that made significant changes to the legislative interim committee structure, including statutorily changing the name of the Education Interim Committee to the Education and Local Government Interim Committee and assigning specific local government responsibilities to the Committee.

COMMITTEE ADMINISTRATION

At its first meeting, on August 1, 2001, the Committee elected Senator Linda Nelson as Presiding Officer and Representative Joan Andersen as Vice Presiding Officer. Two subcommittees were appointed during the interim as follows:

Postsecondary Education Policy and Budget Subcommittee

Sen. Ed Butcher	Rep. Gary Branae
Sen. Don Ryan	Rep. Art Peterson
Sen. Royal Johnson	Sen. Emily Stonington
Regent Ed Jasmin	Regent Mark Semmens
Governor's Representative Steve Snezek	

House Joint Resolution No. 41 Subcommittee

Sen. Alvin Ellis Jr.

Rep. Jeff Mangan

Sen. Bill Glaser

The Committee was staffed by Connie Erickson, research analyst; Eddy McClure, attorney; and Miko Owa, secretary. Pamela D. Joehler, senior fiscal analyst with the Legislative Fiscal Division, staffed the Postsecondary Education Policy and Budget Subcommittee.

Over the interim, the Committee met seven times:

- ▶ August 1, 2001;
- ▶ October 3, 2001;
- ▶ November 2, 2001;
- ▶ January 11, 2002;
- ▶ March 11, 2002;
- ▶ July 10-11, 2002; and
- ▶ September 13, 2002.

In addition to the regular Committee meetings, the Committee held nine public hearings across the state in conjunction with House Bill No. 625.

STATUTORY RESPONSIBILITIES

The Committee is responsible for acting as a liaison with local governments and between both the Legislative and Executive Branches and the Board of Regents. In addition, the Committee has specific jurisdiction over the State Board of Education, the Board of Public Education, the Board of Regents of Higher Education, and the Office of Public Instruction, along with any entities attached to these agencies. Specifically, the Committee is responsible for:

- (a) reviewing administrative rules within its jurisdiction;
- (b) monitoring the operations of assigned Executive Branch agencies; and
- (c) reviewing proposed legislation of assigned agencies or entities.

The Committee is also responsible for conducting any interim studies that are assigned to it by the Legislative Council.

Administrative Rule Review

At the first meeting of the interim, on August 1, 2001, the Committee directed its staff attorney to monitor agency rules, provide a brief summary of the proposed rules, and bring forth any controversial rule to the Committee for discussion. The Committee did not review or discuss any administrative rules during the interim.

Agency Monitoring

With regard to agency monitoring, the Committee felt that, given its other responsibilities, it would be too time-consuming for an in-depth review of each agency and all of the programs administered by each agency. Further, such a review would allow an agency to set the Committee's agenda. Instead, the Committee decided to identify issues in need of legislative attention and allocate an appropriate amount of time for staff analysis and agency presentations. In addition, the Committee would reserve time at each meeting for public testimony specifically related to the operation of an agency and, if necessary, provide for appropriate followup by staff and by the agency involved.

The Committee asked for the following presentations by agencies under its jurisdiction:

- The Committee invited the Board of Regents to engage in a dialogue with the Committee on issues affecting the Montana University System (MUS) and postsecondary education in general. On October 3, 2001, Margie Thompson, Chairwoman, and Ed Jasmin, Vice Chairman, met with the Committee and discussed the mission, vision, and goals of the Montana University System, as well as other issues such as tuition increases, transferring of credits between units, energy costs, the role of postsecondary education in economic development, and enrollment projections.
- The Committee invited the Board of Public Education to engage in a dialogue with the Committee on K-12 education issues. On January 11, 2002, Kirk Miller, Chairperson, Diane Fladmo, Vice Chairperson, and Randy Morris, member, met with the Committee to discuss the recent reauthorization of the federal

Elementary and Secondary Education Act ("No Child Left Behind") and its impact on Montana. The Committee was particularly interested in the assessment requirements of the federal legislation and the funding of special education.

Throughout the interim, the Committee heard presentations from the:

- ▶ Office of Public Instruction on the "Montana Statewide Education Profile-- Second Edition";
- ▶ Commissioner of Higher Education on associate degrees awarded through the MUS and community colleges, the Montana Higher Education Student Assistance Corporation, and the Montana's Family Education Savings Program;
- ▶ Attorney General's Office on Stroebe v. State, a school funding lawsuit;
- ▶ Department of Revenue on House Bill No. 124;
- ▶ Department of Public Health and Human Services (DPHHS) on Senate Bill No. 339;
- ▶ Chief Justice Karla Gray on Senate Bill No. 176; and
- ▶ Montana Association of Counties (MACo) and the Montana League of Cities and Towns on proposed legislation for the 2003 session.

Review of Proposed Legislation

One of the changes implemented by Senate Bill No. 10 was to give interim committees the responsibility to "review proposed legislation of assigned agencies or entities as provided in the joint legislative rules". Rule C-4.2 of the Legislative Council Rules of Procedure states that before November 1, 2002, an agency may submit a bill draft request to the Legislative Services Division if the request has been reviewed by the appropriate interim committee and approved for drafting by that committee. The purpose behind the rule is to "speed up" the drafting of agency legislation prior to November when individual legislators begin requesting legislation. The rule is not intended as an approval process for agency legislation beyond approval for drafting.

At its meeting on July 11, 2002, the Committee approved for drafting four requests from the Montana School for the Deaf and Blind and 13 requests from the Office of Public Instruction (OPI). At its final meeting of the interim on September 13, 2002, the

Committee approved for drafting two requests from the Board of Regents of Higher Education and one additional request from OPI.

Interim Studies

The Committee was assigned three interim studies:

1. *House Bill No. 625* (HB 625): a study of funding of K-12 public schools;
2. *House Joint Resolution No. 41* (HJR 41): a study of school district territory transfers; and
3. *House Joint Resolution No. 35* (HJR 35): a study of a prepaid tuition plan for the Montana University System.

The HJR 41 study was conducted by a subcommittee, while the HJR 35 study was done as a research paper by Committee staff. The Committee's role in the HB 625 study was to gather public comment and make recommendations on the work of the Governor's K-12 Public School Funding Study Advisory Council. For a more complete description of these studies, please refer to Part Two of this report.

Local Government Responsibilities

Because of a lack of interim studies specifically pertaining to local governments, the Committee asked Gordon Morris, Montana Association of Counties, and Alec Hansen, Montana League of Cities and Towns, to offer suggestions to the Committee on possible study topics for the interim. Mr. Morris and Mr. Hansen both agreed that the implementation of House Bill No. 124, a.k.a. "The Big Bill", was very important and needed to be monitored and that the cost of health care and health insurance was also a major issue for local governments. In addition, Mr. Morris requested that the Committee also monitor the implementation of Senate Bill No. 339 (state assumption of welfare) and Senate Bill No. 176 (state assumption of the district courts), and Mr. Hansen asked the Committee to revisit Senate Bill No. 213 (local option taxes). The Committee agreed to:

- ▶ monitor the implementation of House Bill No. 124;
- ▶ monitor the state assumption of welfare programs (Senate Bill No. 339);
- ▶ monitor the transition to state assumption of district court funding (Senate Bill No. 176); and

- ▶ monitor the interim study of health care costs and health insurance costs (Senate Joint Resolution No. 22).

For a more complete description of the Committee's local government activities, please refer to Part Three of this report.

Postsecondary Education Responsibilities

The Postsecondary Education Policy and Budget (PEPB) Subcommittee was appointed in November of 2001. In addition to the members from the Committee, the Legislative Finance Committee and the Board of Regents each appointed two members and the Governor's Office appointed one member. The Subcommittee met five times over the interim. As a result of its deliberations, the Subcommittee offered two proposals to the full Committee. The first was a proposed agreement between the Legislature and the Board of Regents that identifies policy goals and accountability measures that will be used as an assessment tool for policymakers, the University System, and the public to evaluate the achievement of the policy goals. The goals and measures are as follows:

1. Prepare students for success through quality education.
 - a. completion rates
 - b. retention rates
2. Promote access and affordability.
 - a. affordability compared to other states
 - b. state support as a percent of personal income and per capita income
3. Deliver efficient, coordinated services.
 - a. transferability among institutions
 - b. percent of expenditures in instruction, administration, athletics, etc.
4. Be responsive to market and employment needs and opportunities.
 - a. job placement rates by field or program
 - b. growth in FTE enrollment, certificates, and degrees conferred in 2-year education
5. Contribute to Montana's economic and social success.
 - a. research and development receipts and expenditures
 - b. technology transfers (licensing and commercialization)

6. Collaborate with the K-12 school system and other postsecondary education systems.
 - a. collaborative programs with K-12
 - b. average SAT or ACT scores of first-time, full-time MUS freshmen

The agreement includes reporting requirements to the education standing committees and the appropriate appropriations subcommittee. Originally, the PEPB Subcommittee drafted the agreement as legislation, but the Subcommittee members later decided that if introduced in the Legislature, the agreement would most likely be altered beyond what the Subcommittee and the Regents wanted. The Committee approved the agreement.

The Subcommittee also recommended to the full Committee that a separate interim committee be created to handle the postsecondary education responsibilities. However, the Committee was reluctant to create an additional interim committee, so directed staff to draft legislation creating a permanent postsecondary education subcommittee of the full Committee.

A copy of the Subcommittee's final report, entitled *Public Postsecondary Education Policy Goals, Accountability Measures & Reporting*, may be found in Appendix C of this report. A separate copy is also available from the Legislative Services Division.

***PART TWO:
INTERIM STUDIES***

HOUSE BILL NO. 625

House Bill No. 625 required the Governor and the Superintendent of Public Instruction to conduct a study of funding for K-12 public schools. To assist in conducting the study, the Governor was authorized to appoint an advisory council. The research was to be completed by the advisory council by December 31, 2001, and the preliminary report on the findings and recommendations submitted to the Committee. The Committee was to then hold public hearings across the state to gather public comment on the preliminary report and provide to the Governor by August 1, 2002, a summary of the hearings and recommendations for changes to the report. Upon receipt of the Committee's report, the Governor would issue a final report and, if appropriate, prepare legislation for consideration by the 2003 Legislature. The Committee also had the option of preparing legislation for the 2003 session.

The K-12 Public School Funding Study Advisory Council was appointed in the summer of 2001 and held five full-day meetings in Helena between July and December of 2001. The Committee monitored the work of the Advisory Council by having the Advisory Council provide updates at every Committee meeting and by receiving the minutes of each Advisory Council meeting. In October of 2001, the Committee and the Advisory Council held a joint meeting in Helena with John Augenblick, a nationally known school finance expert, and Michael Griffith of the Education Commission of the States. Augenblick and Griffith provided some broad background information on school funding across the country, including some trends in school finance. Finally, the pair addressed alternative approaches for dealing with the fiscal impact of declining enrollment, ways to adjust state aid to rural schools to reflect uncontrollable costs, and the use of pupil weights in special education funding.

The Advisory Council presented its preliminary report to the Committee on January 11, 2002. In its preliminary report, the Advisory Council made the following recommendations:

1. Create a countywide levy to fund the property tax portion of the BASE budgets of all school districts in a county.
2. Expand the county retirement levy to fund school district health insurance costs; pursue the establishment of a statewide health insurance pool for school district employees.
3. Use a weighted GTB calculation for both the countywide BASE budget levy and the county retirement/insurance levy.
4. Adopt the transportation funding structure proposed in House Bill No. 163 from the 2001 legislative session.
5. Calculate the ANB for a district with declining enrollment by using average enrollment over a 3-year period.
6. Provide an annual inflation adjustment tied to the Consumer Price Index for the basic entitlement, per-ANB entitlement, and special education funding.
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.
8. Allow school district trustees to allocate the remaining balance of a district's HB 124 block grants to any budgeted fund of the district.

From March through May, the Committee conducted nine public hearings across the state in Shelby, Great Falls, Lewistown, Miles City, Wolf Point, Billings, Butte, Stevensville, and Kalispell. The hearings were well-attended, and those in attendance were not hesitant to offer their comments on the recommendations and on school funding in general. Following the public hearings, the Committee met in Helena on July 10-11, 2002, to review the comments, make its recommendations, and prepare its report to the Governor. The Committee's recommendations were as follows:

1. Create a statewide levy to fund the property tax portion of the BASE budgets of all school districts in the state.
2. Pursue the establishment of a statewide health insurance pool for school district employees.
3. Adopt the transportation funding structure proposed in House Bill No. 163 from the 2001 legislative session.
4. Calculate the ANB for a district with declining enrollment by using average enrollment over a 3-year period.

5. Provide an annual inflation adjustment tied to the Consumer Price Index for the basic entitlement, per-ANB entitlement, and special education funding.
6. 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.
7. Allow school district trustees to allocate the remaining balance of a district's HB 124 block grants to any budgeted fund of the district.

The Committee submitted its report to the Governor on August 1, 2002. At the Committee's final meeting of the interim on September 13, 2002, Lieutenant Governor Karl Ohs delivered Governor Martz's response to the Committee's report on HB 625. In her response, Governor Martz thanked the Committee for its hard work and stated that her office will explore the following ideas in preparation for the 58th Montana Legislature:

1. Establish a state health insurance pool for school district employees.
2. Propose a transportation funding structure as outlined in HB 163 (2001 session).
3. Calculate the ANB for a district by using the average enrollment over a period of time.
4. Use HB 124 block grants for debt service to expand school facility payments.
5. Allow school district trustees to allocate the remaining balance of a district's HB 124 block grants to any budgeted fund of the district.

For a complete copy of the Committee's report to the Governor, please refer to Appendix A of this report.

For a complete review of the work of the Advisory Council, including meeting minutes and staff reports, please refer to the Council's website at www2.mt.gov/budget/css/ed_committee/ed_committee.asp.

HOUSE JOINT RESOLUTION NO. 41

In 1994, individuals residing in both Rosebud and Big Horn Counties petitioned their respective county superintendents requesting a territory transfer from the Lame Deer High School District back to the Colstrip and Hardin High School Districts. The Lame Deer High School District had been created the year before with land from both Colstrip and Hardin. Both county superintendents granted the respondents' request to transfer the territory. The Lame Deer High School District appealed the decision to the Superintendent of Public Instruction, who reversed the county superintendents' decisions. The respondents then appealed the State Superintendent's decision to their respective district courts, who affirmed the county superintendents' decisions. Lame Deer High School appealed the decision to the Montana Supreme Court, which consolidated the cases and issued a decision on December 19, 2000, that reversed the decisions of the district courts.

The Supreme Court held that the current law granting county superintendents the power to transfer territory from one school district to another was an unconstitutional delegation of legislative power because the statute was too broad and lacked specific criteria to be considered when deciding to grant or deny a petition for transfer. The Legislature may delegate its legislative function to an administrative agency, but it must provide clear and ascertainable limits, objective criteria, or clear and definitive legislative standards to control the exercise of discretion and decisionmaking authority of the agency.

Prior to the convening of the 2001 Legislature, Senator Alvin Ellis Jr. requested that a bill be drafted to require that both school districts involved in a territory transfer approve the transfer before the petition could be submitted to the county superintendent. This approach had been tried in previous legislative sessions but had always failed because opponents claimed that a transfer would never take place because the district from which the territory was to be removed would never consent to the transfer. When the Supreme Court issued its decision in the Hayes v. Lame Deer case in December 2000, Senator Ellis requested that his bill draft be changed to address the issues raised in the Court's decision. The result was Senate Bill No. 111 (SB 111).

Basically, SB 111 would have required a county superintendent to approve a transfer of territory if both school districts approved the transfer in writing. If the district that would transfer territory did not approve, the county superintendent would be required to hold a hearing on the petition. In making the final decision, the county superintendent was required to weigh the beneficial and the harmful effects that the transfer would have on the educational benefits for those residing in the territory proposed for transfer and on those remaining in the district. The county superintendent was to determine whether the educational benefits outweighed any educational harm by considering the economic effects on each district, the effect on students, and the social and cultural effects on each district.

Many of the opponents to the bill expressed concerns that the bill was still too vague and did not provide sufficient guidance to the county superintendent in making a final decision. After a rewrite of the bill in the Senate, amendments were proposed in the House Education Committee to clarify the remaining questions, but the amendments were not approved. Because the bill attempted to address a constitutional problem with the current statutes, the House Education Committee decided it might be appropriate to refer the bill to the House Judiciary Committee. While the Judiciary Committee was well-equipped to deal with the law and constitutional questions, the Committee's general unfamiliarity with school law and the duties of county superintendents and school district trustees, coupled with the time constraints of a legislative session, resulted in frustration and confusion in dealing with the issue and with lobbyists' requests for changes. SB 111 was eventually tabled in the House Judiciary Committee.

In response to the Lame Deer decision and the failure of SB 111, Representative Joan Andersen requested a study resolution to review the laws governing school district territory transfers with the idea of developing a procedure that addressed the constitutional issues raised by the Montana Supreme Court as well as the issues raised by the opponents to SB 111. House Joint Resolution No. 41 (HJR 41) mandated a broad study of "the laws governing school boundary transfers" but also listed specific issues that the study should address:

- ▶ procedure for asking for a transfer of territory;
- ▶ requirements to be met before a transfer can be considered;
- ▶ role of the boards of trustees involved in a territory transfer;
- ▶ role of the county superintendent in a territory transfer;

- ▶ criteria to be used in deciding if a territory transfer should take place; and
- ▶ an appeals process.

HJR 41 was assigned to the Education and Local Government Interim Committee. Because the Lame Deer decision left school districts and voters without a procedure for transferring territory from one school district to another school district, a major objective of the HJR 41 study was to develop legislation for consideration by the 58th Legislature.

At the first meeting of the interim in August of 2001, the Committee decided that the full Committee should conduct the study. Work began on the study in November of 2001. However, in January of 2002, the Committee decided to appoint a subcommittee to complete the study and draft the legislation. The Subcommittee met in Great Falls, Miles City, Billings, Butte, Kalispell, and Helena. Subcommittee deliberations centered on two issues: the petition requirements and the criteria to be used by the county superintendent in making the decision. Even though the Supreme Court decision centered on the decisionmaking criteria, or lack thereof, the issue that entangled the Subcommittee was the requirements for the petition. There were two schools of thought. One group wanted the petition requirements so stringent that no one would be able to get a petition approved. Others felt that the petition requirements should be minimal but the criteria for making the decision should be stringent. The Subcommittee opted for somewhat of a middle ground in its final recommendation.

The legislation recommended by the Subcommittee outlines the following procedure for transferring territory from one school district to another school district. The process begins with a petition signed by 60 percent of the registered electors qualified to vote at general elections in the territory proposed for transfer. The territory to be transferred must be contiguous to the district to which it is to be attached, must include taxable property, and must have school-age children residing on it. Also, the territory must not be located within 3 miles, over the shortest practicable route, of an operating school in the district from which it is to be transferred. Finally, the receiving school district must approve the transfer. Once the preceding criteria are satisfied, the petition must be presented to the county superintendent along with a legal description of the territory to be transferred and a description of the receiving district, the reasons for the transfer, and the number of school-age children residing in the territory. If both the receiving and the transferring school districts approve the transfer, the county superintendent shall

grant the transfer. However, if the transferring district does not approve, the county superintendent shall hold a hearing. At the hearing, the petitioners must present evidence of the proposed transfer's effect on the educational opportunity for the students in both districts, on student transportation, and on the economic viability of the proposed new districts. The decision of the county superintendent must be based on the best and collective interests of the students in both districts. The standard of proof is a preponderance of the evidence. Either district may appeal the decision to the district court. The county superintendent's decision must be upheld unless the court finds that the decision constituted an abuse of discretion.

Work on the legislation was completed by the Subcommittee in July, and the bill draft was approved by the Committee at its final meeting on September 13, 2002. The Committee's bill draft can be found in Appendix B of this report.

HOUSE JOINT RESOLUTION NO. 35

House Joint Resolution No. 35 (HJR 35) requested that a study be conducted on the feasibility of establishing a higher education tuition prepayment program within the Montana University System (MUS). The idea for a tuition prepayment program was brought to the Legislature by Representative Christopher Harris, partly in response to the tuition increases approved by the Board of Regents for the MUS and partly in an attempt to provide another way for families to pay for their children's college educations. Originally, Rep. Harris planned on introducing legislation to implement a tuition prepayment program based on the program enacted by the state of Washington. But upon further review of the Washington program, Rep. Harris felt that it was too complicated and bureaucratic. He wanted something less complicated and that "fit" Montana. As a result, he introduced HJR 35, calling for a feasibility study of establishing a tuition prepayment program within the MUS. While the resolution did not rank very high in the interim study poll, LSD staff recommended, and the Legislative Council concurred, that the study be conducted as an individual staff research project with its findings, conclusions, and recommendations presented in a research paper to be reviewed by the Committee. The research paper, entitled *Buy Now, Use Later: A New Approach to Paying for a College Education*, was completed and presented to the

Committee on September 13, 2002. A copy for the research paper may be found in Appendix D of this report. A separate copy of the report is available from the Legislative Services Division.

**PART THREE:
LOCAL GOVERNMENT ACTIVITIES**

HOUSE BILL NO. 124

House Bill No. 124 (HB 124), a.k.a. "The Big Bill", was one of the major pieces of legislation passed by the 2001 Legislature. HB 124 came out of the work of the Local Government Funding and Structure Committee in the 1999-2000 interim. The purpose of HB 124 was to simplify the funding of local governments by combining revenue from various sources into a single statutory appropriation that was paid out to local governments in an entitlement share payment that was based on previous revenue plus a growth factor. The growth factor was tied to the Montana economy. HB 124 provided a property tax cap on local government growth and allowed this cap to grow at 1/2 the rate of inflation. HB 124 also provided block grants for school districts and for countywide school transportation and the retirement fund.

Brad Simshaw and Larry Finch, Tax Policy and Research, Department of Revenue, gave a presentation on HB 124 to the Committee on November 2, 2001. They explained the entitlement share concept and how it worked. They also provided information on the first quarter payment to local governments that was made on September 15, 2001. Both MACo and the Montana League of Cities and Towns reported that HB 124 was working very well. Some problems had been identified, but the Department of Revenue was working with local governments to resolve them. Most likely, there will be amendments offered to the legislation at the 2003 session. The Committee asked MACo and the League to report to the Committee on any problems that might arise during the interim of which the Committee should be aware.

SENATE BILL NO. 339

The purpose of Senate Bill No. 339 (SB 339) was to provide a stable, dependable revenue source for public assistance programs through state assumption of funding and to ensure that counties had a meaningful role in the administration of these

programs. This latter purpose was achieved by requiring the state to enter into agreements with the counties regarding the standards of operation for the local offices of public assistance, e.g., office hours, office facilities, staffing, etc. In addition, county commissioners must be involved in the hiring of primary supervisors in the local offices.

At the November 2, 2001, meeting of the Committee, Hank Hudson, Administrator of the Human and Community Services Division, DPHHS, spoke to the Committee about SB 339 and its implementation. He reported that implementation was going very well with only a minimum of difficulty. MACo echoed his comments, and again the Committee asked MACo to report to the Committee on any problems that might arise during the interim of which the Committee should be aware.

SENATE JOINT RESOLUTION NO. 22

Rising health care costs and health insurance rates are fast becoming major problems for local governments. To help address the problem of health insurance costs, the 2001 Legislature passed House Bill No. 409 (HB 409) that exempted increases in a local government's tax levy for health insurance premiums from the property tax limitation imposed by Initiative No. 105 in 1986. While HB 409 provides a way to fund health insurance premiums, it does nothing to cut or even stabilize health insurance costs. Senate Joint Resolution No. 22 (SJR 22) called for a study of ways to address this health care crisis, including purchasing pools, provider reimbursement rates, access to affordable prescription drugs, strategies to decrease the number of uninsured Montanans, factors causing the substantial increase in health insurance rates, and the feasibility of recreating the Health Care Advisory Council. The SJR 22 Subcommittee began its work in August of 2001. Staff of the Education and Local Government Committee attended many of the Subcommittee's meetings and provided updates to the Committee on a regular basis. In addition, Senator Linda Nelson, Presiding Officer of the Committee and a member of the SJR 22 Subcommittee, was able to answer questions that Committee members had regarding the work of the Subcommittee.

Minutes of the SJR 22 Subcommittee meetings as well as staff reports are available from the Legislative Services Division or can also be found on the Subcommittee's

website at

http://leg.mt.gov/Interim_Committees/Economic_Affairs/subcommittees/sjr22.

SENATE BILL NO. 176

Another piece of major legislation passed by the 2001 Legislature was Senate Bill No. 176 (SB 176) that called for state assumption of the costs of funding district courts, excluding county attorneys, public defenders, and clerks of district court. To assist in the implementation of SB 176, a District Court Council was appointed consisting of the Chief Justice of the Supreme Court and four district court judges. In addition, the Council had four nonvoting members: a chief juvenile probation officer, a clerk of district court, a county commissioner, and a court reporter. The major responsibility of the Council was to develop and adopt policies and procedures to administer the state funding of district courts. The policies and procedures were to address such issues as workload, resource allocation, personnel policies, information technology, and issues specific to court reporters, such as work schedules, transcript fees, and equipment.

The Council began its work in August of 2001. Over the next year, the Council met almost monthly as it worked to complete its tasks prior to July 1, 2002, when state assumption would actually take place. Staff of the Education and Local Government Interim Committee attended most of the Council's meetings and provided written reports to Committee members. At the Committee meeting on July 10, 2002, Chief Justice Karla Gray appeared before the Committee to discuss state assumption of district courts. The 2001 Legislature appropriated \$800,000 for implementation and \$18.3 million for operation. The operation appropriation was not sufficient. No funding was provided for computer linkups for new employees at a cost of about \$260,000. In addition, space was not available on the Capitol campus to accommodate the new employees the Supreme Court needed to administer the district courts. Commercial space had to be rented at a cost of \$10.77 per square foot compared to \$4.71 on the Capitol campus. Some costs being assumed are not quantifiable, such as criminal indigent defense. Some of these costs will fall back on the counties for fiscal year 2003. Somewhere between 34 and 39 employees are below the entry salary, and it will cost about \$100,000 to raise them to entry level. All in all, the Supreme Court will be

asking for a significant funding increase in the 2003 session. Other personnel issues of concern were employees currently funded by federal grants. These grants end in October and will need to be extended in order to keep these employees. Accrued leave time by district court employees is potentially troublesome. When these employees leave, it will cost a great deal of money to pay out this accrued time. Chief Justice Gray said that the District Court Council will propose some cleanup language for SB 176 but will not propose substantive changes.

**PART FOUR:
AVAILABLE MATERIALS**

The following materials relevant to the Education and Local Government Interim Committee and its subcommittees are available either from the Legislative Services Division or on the Committee's website at http://leg.mt.gov/Interim_Committees/Education_Local_Gov/index.htm.

Minutes of Meetings (including exhibits)

Education and Local Government Interim Committee

August 1, 2001	March 11, 2002 - Shelby
October 3, 2001	July 10-11, 2002
November 2, 2001	September 13, 2002
January 11, 2002	

Postsecondary Education Policy and Budget Subcommittee

December 20, 2001	May 17, 2002
January 10, 2002	June 9, 2002
March 13, 2002	

House Joint Resolution No. 41 Subcommittee

March 12, 2002 - Great Falls	April 18, 2002 - Butte
April 2, 2002 - Miles City	May 22, 2002 - Kalispell
April 17, 2002 - Billings	July 11, 2002 - Helena

House Bill No. 625 Public Hearings

March 11, 2002 - Shelby	April 17, 2002 - Billings
March 12, 2002 - Great Falls	April 18, 2002 - Butte
March 13, 2002 - Lewistown	May 21, 2002 - Stevensville
April 2, 2002 - Miles City	May 22, 2002 - Kalispell
April 3, 2002 - Wolf Point	

Staff Reports and Memoranda

Draft Work Plan for the 2001-2002 Interim, Education and Local Government Committee, August 2001, Connie Erickson, Legislative Services Division

Study Plan for House Joint Resolution No. 41: School District Territory Transfers, August 2001, Connie Erickson, Legislative Services Division

Study Plan for House Joint Resolution No. 35: Higher Education Tuition Prepayment Program, September 2001, Connie Erickson, Legislative Services Division

School District Territory Transfers in Other States, October 2001, Connie Erickson, Legislative Services Division

Buy Now, Use Later: A New Approach to Paying for a College Education, September 2002, Connie Erickson, Legislative Services Division

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APPENDIX A

APPENDIX B

APPENDIX C

APPENDIX D