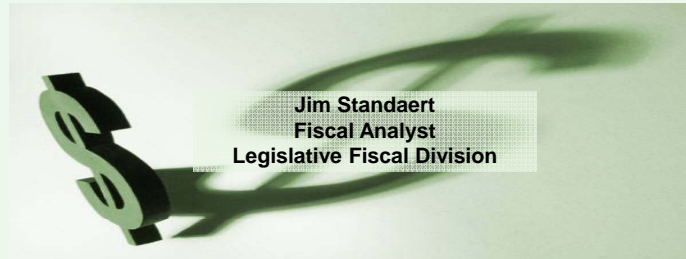




## School Finance Training

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September 16, 2011

Education and Local Government Interim Committee

1



Legislative Fiscal Division



## Montana School Funding History

### Three Cases

- Helena Elementary v State of Montana
- Columbia Falls v State of Montana - I
- Columbia Falls v State of Montana - II

### Issues

- Spending Equity/Tax Equity
- Sufficiency/Adequacy

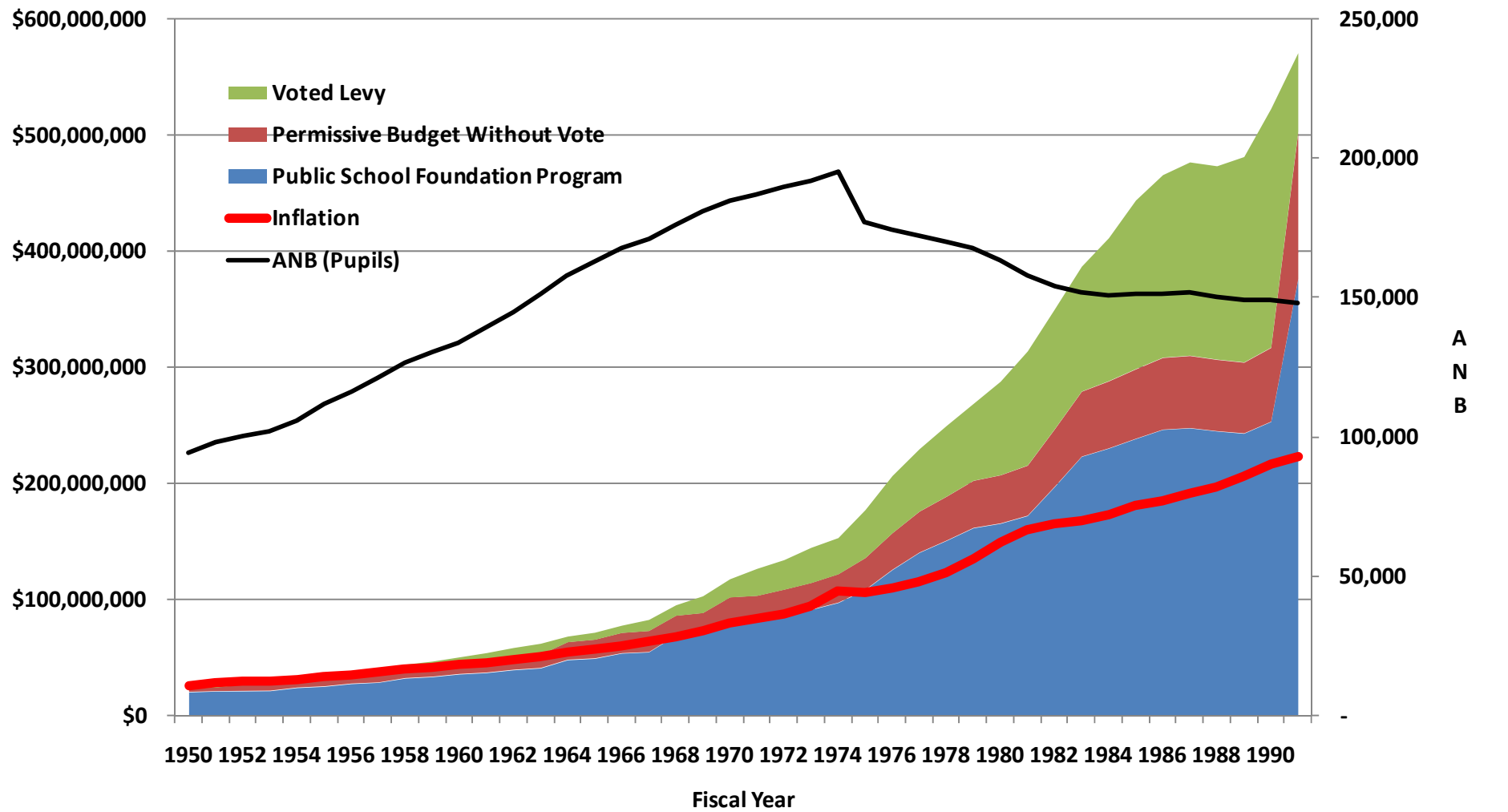
2



# Legislative Fiscal Division



### Montana K-12 Foundation Schedules, Permissive Amount, Voted Levies in the District General Fund - 1950 - 1991





## Helena Elementary v State of Montana

"It is not possible to examine and understand the relationship between any two of these variables without considering the third variable as well. That is, any attempt to discern the relationship between district wealth and spending per pupil, without also considering district tax effort, is overly simplistic and ill-conceived. *Helena Elem v State*: Pg 56 - 133

- Spending per pupil
- District tax wealth
- Tax Effort

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Differences in Spending per Pupil are the result of differences in:

- Size
- Level: elementary vs middle school vs high school
- Pupil needs: special education, gifted and talented
- Tax Wealth
- Nonlevy Revenue (although oil and gas revenue was part of property tax base – net proceeds)
- Tax effort
- Community preferences

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### Spending Per Pupil

- District general fund spending less state special education spending excluding impact aid districts  
 Exclude spending associated with educationally relevant factors
- Compare spending of top spending district (excluding districts with 5% of students) to spending of lowest spending district (excluding districts with 5% of students) – for each size category
- Federal Range Ratio Test – Criteria: 95<sup>th</sup> percentile district should spend no more than 125% of the 5<sup>th</sup> percentile district

### Structure of FY 1989 School Funding

Elementary ANB	# Teachers	Schedule Amounts		
		Fixed	Per ANB	Decrement
< 9	NA	\$ 20,158	\$ -	\$ -
10 - 17	NA	\$ 20,158	\$ 842.50	\$ -
14 - 17	Instr Aide	\$ 33,042	\$ 842.50	\$ -
18 - 25	one	\$ 27,741	\$ 842.50	\$ -
18 - 50	two	\$ 44,290	\$ 527.60	\$ -
41 - 100	three	\$ -	\$ 1,957.00	\$ 1.90
101 - 300	NA	\$ -	\$ 1,843.00	\$ 1.74
300 +	NA	\$ -	\$ 1,496.00	\$ -

**Legislative Fiscal Division**

## Structure of FY 1989 School Funding

High School ANB	# Teachers	Schedule Amount		
		Fixed	Per ANB	Decrement
< 24	NA	\$ 114,845	\$ -	\$ -
25 - 40	NA	\$ -	\$ 4,785.00	\$ 26.10
41 - 100	NA	\$ -	\$ 4,368.00	\$ 26.10
101 - 200	NA	\$ -	\$ 2,802.00	\$ 4.37
201 - 300	NA	\$ -	\$ 2,365.00	\$ 2.40
301 - 600	NA	\$ -	\$ 2,125.00	\$ 0.44
600 +	NA	\$ -	\$ 1,993.00	\$ -

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- Legislative Fiscal Division**
- ## Structure of FY 1989 School Funding (Cont.)
- State and County pays for Schedules (45 mills + other state)
  - Maximum general fund budget without a vote =  
104% of last year's budget, or 125% of foundation schedules
  - Special Ed – State allowable costs times number of Special Ed ANB
  - Can vote any amount above MGFBWV
  
  - Retirement totally funded by taxes at county level
  - Capital outlay totally funded by taxes at district level
- 9

**SOURCES OF REVENUE  
FOR SCHOOL DISTRICT GENERAL FUND BUDGET SUPPORT - FY 1989**

	<div style="border: 1px solid black; padding: 5px;"> <b>Total</b>  <b>\$480,612,000</b>  <b>\$3,219/ANB</b> </div>		
<b>TOTAL GENERAL FUND BUDGET</b>			
<b>MAXIMUM GENERAL FUND BUDGET WITHOUT A VOTE (PERMISSIVE BUDGET)*</b>	<div style="border: 1px solid black; padding: 5px;"> <b>\$176,604,000</b>  <b>\$1,183/ANB</b>  <b>37%</b> </div>	<b>DISTRICT</b>	District Voted Levy (property tax approved by district voters -- about 1/3 of the total budget).
	<div style="border: 1px solid black; padding: 5px;"> <b>\$60,791,000</b>  <b>\$407/ANB</b>  <b>13%</b> </div>	<b>STATE</b>	State Permissive Share (surplus equalization & legislative appropriation)
		<b>DISTRICT</b>	District Permissive Levy 6 mills maximum - elementary 4 mills maximum - high school (property tax approved by school board)
<b>FOUNDATION PROGRAM (80% of the Maximum Permissive Budget)</b>		<b>STATE</b>	Deficiency - Supplemental legislative appropriation if needed
		<b>STATE</b>	State Equalization Aid (earmarked revenue, legislative appro- priation, interest and income, and sur- plus from counties)
	<div style="border: 1px solid black; padding: 5px;"> <b>\$243,217,000</b>  <b>\$1,629/ANB</b>  <b>51%</b> </div>	<b>COUNTY</b>	County Equalization Aid Mandatory Basic County Levy 28 mills - elementary 17 mills - high school Taylor grazing fees Miscellaneous county collections County cash reappropriated (surplus deposited in state equalization aid account)

\*NOTE: "Maximum Permissive Budget" is determined by multiplying the per-pupil rate set forth in the law times the school's ANB and adding to this figure the approved allowable costs for special education.


**1985-86 spending per pupil disparity ratios, by size category, 95<sup>th</sup> percentile divided by 5<sup>th</sup> percentile**

Elementary


<= 9		3.59
10 - 17		3.12
18 - 40		2.30
41 - 100		2.72
101 - 300		2.35
300 +		1.65

High School

<= 24		1.97
25 - 40		2.39
41 - 100		2.39
101 - 200		2.11
201 - 300		2.35
301 -600		2.07
600 +		1.22




**Legislative Fiscal Division**



**1989 Taxable Value per Pupil 95<sup>th</sup> percentile divided by 5<sup>th</sup>**

Elementary	Spend/Pupil	TV per Pupil
<= 9	3.59	24.21
10 - 17	3.12	16.47
18 - 40	2.30	13.69
41 - 100	2.72	8.70
101 - 300	2.35	59.64
300 +	1.65	2.53


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Legislative Fiscal Division 

### 1989 Taxable Value per Pupil 95<sup>th</sup> percentile divided by 5th

High School	Spend/Pupil	TV per Pupil
<= 24	1.97	3.26
25 - 40	2.39	4.44
41 - 100	2.39	6.54
101 - 200	2.11	7.38
201 - 300	2.35	4.25
301 -600	2.07	24.96
600 +	1.22	1.64

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Legislative Fiscal Division 

### Same Size – Unequal spending – Same tax effort – Unequal wealth

	Size	Spending/ANB	District Mills	Wealth - TV/ANB
Belfry Elem	118	\$ 4,548	27.90	\$ 97,642
Ramsay Elem	113	\$ 2,938	27.90	\$ 40,691
Sidney HS	506	\$ 3,301	10.80	\$ 124,713
Hamilton HS	506	\$ 2,219	12.00	\$ 15,914

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Legislative Fiscal Division				
Same Size – Unequal spending – Unequal tax effort – Unequal wealth				
	Size	Spending/ANB	District Mills	Wealth - TV/ANB
Noxon Elem	133	\$800 more	33.55	\$ 38,084
Fort Shaw Simms El	133		60.00	\$ 8,121
Whitewater El	63	\$ 5,119	12.36	\$ 209,794
Ulm Elem	66	\$ 2,845	78.62	\$ 10,565
Choteau HS	157	\$ 4,358	21.60	\$ 73,889
Fairfield HS	137	\$ 3,657	44.36	\$ 21,848

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Legislative Fiscal Division				
Same Size – Same spending – Unequal tax effort – Unequal wealth				
	Size	Spending/ANB	District Mills	Wealth - TV/ANB
Twin Bridges	150	\$ 2,688	99.17	\$ 8,207
Alberton El	161	\$ 2,786	33.87	\$ 29,558
Sidney HS	506	roughly the	10.80	\$ 124,713
Fergus HS	488	same	42.26	\$ 22,532

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## Deficiencies in Opportunities Between Districts

- Many schools have no science labs and insufficient supplies
- Many schools have outdated typewriters, dictation devices, and computers, and insufficient storage when they do have these things
- Many schools have inadequate libraries and outdated materials like encyclopedias
- Many districts have old textbooks or inadequate numbers of textbooks
- Many districts have shortages of basic supplies, art supplies, etc.

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## Deficiencies in Opportunities Between Districts (Continued)

- Many districts cannot afford gifted and talented programs
- None of the plaintiff districts were able to provide in-service training
- Many plaintiff districts have no extracurricular programs
- Many districts have serious difficulties with their facilities and maintenance is deferred

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## **District Court (upheld by Supreme Court) Found the following in the Helena v State of Montana Case**

- Highly unequal general fund spending per ANB
- Unequal spending per ANB means unequal educational opportunities across districts
- Unequal spending is the result of too much reliance on local property taxes
- Retirement spending is too dependent on local property taxes and also inequitable
- Capital outlay is too dependent on local property taxes and also inequitable

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## **Legislature responded by passing HB 28 in special session in Summer 1989**

- New law effective for FY 1991
- Increased state share by raising Schedules, minimum of 17%
- Substantially increased state share by having State and County pay 100% of schedules
- Widened Permissive Amount = 35% of schedules
- State creates GTB payments to help districts pay for Permissive amount, based on lack of wealth
  
- Removed coal, oil and gas from the property tax base – created local government severance taxes, and gross proceeds tax – liability neutral
- Increased county equalization levies from 45 mills to 55 mills
- Created a new Statewide property tax levy – 40 mills
- Total statewide mills increased from 45 to 95 mills

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### Impact of oil and gas removal from tax base and increased state mills

Tax Year	Taxable Value	State Mills	State Revenue
1989	1,907,403,949	45	\$ 85,833,178
1990	1,573,360,769	95	\$ 149,469,273
			\$ 63,636,095

State share of district general fund spending increased from a little over 55% to 71%

**MONTANA PUBLIC SCHOOL  
GENERAL FUND STRUCTURE IN FY 1991**

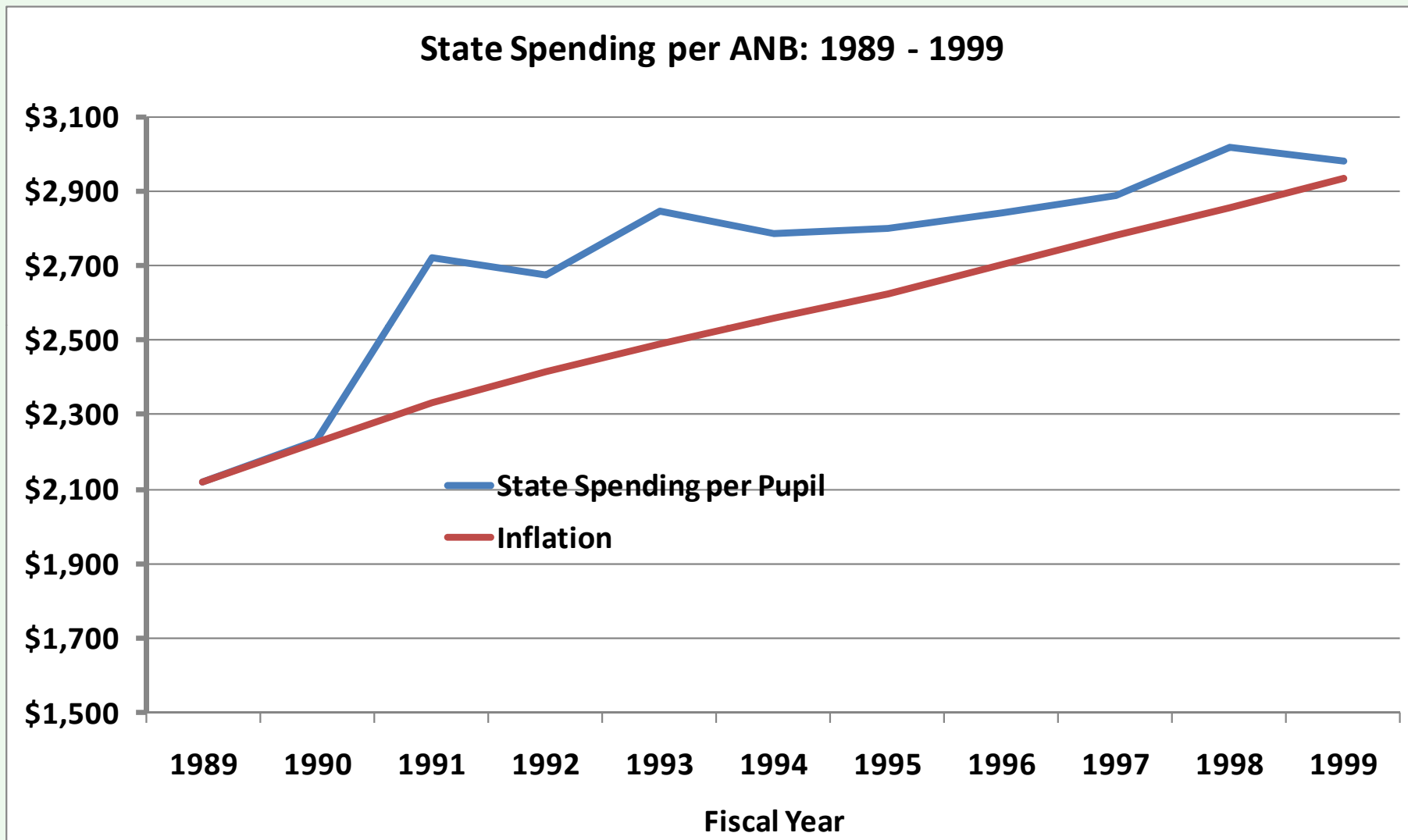
		<b>Total</b> <b>\$567,839,041</b> <b>\$3,850/ANB</b>
<b>MAXIMUM OF GF BUDGET</b>	<b>DISTRICT VOTED LEVY</b>	
GREATER OF: * 135% OF CURRENT YEAR'S FP AMOUNT * 104% OF PREVIOUS YEAR'S GF BUDGET	* PROPERTY TAXES * P.L. 81-874	<b>\$65,572,442</b> <b>\$443/ANB</b> <b>11.5%</b>
<b>PERMISSIVE AMOUNT</b>	<b>PERMISSIVE LEVY</b>	
* 35% OF FOUNDATION PROGRAM AMOUNT	* NONLEVY REVENUE VEHICLE FEES, INTEREST, TUITION, FLAT TAX, P.L. 874 CASH REAPPROPRIATED  * DISTRICT MILL LEVY * STATE GTB AID IF ELIGIBLE	<b>\$126,109,050</b> <b>\$852/ANB</b> <b>22%</b>
<b>TOTAL FOUNDATION PROGRAM AMOUNT</b>	<b>STATE EQUALIZATION</b>	
* 100% OF FP SCHEDULES	* 40 MILL LEVY * NET LOTTERY REVENUE * INCOME TAX (41.3%) * CORPORATION TAX (28.5%) * COAL SEVERANCE TAX * U.S. MINERAL ROYALTIES * 15% COAL TRUST INTEREST * SCHOOL TRUST INCOME * COUNTY SURPLUS * DIRECT APPROPRIATIONS	<b>\$376,157,549</b> <b>\$2,541/ANB</b> <b>66%</b>
	<b>COUNTY EQUALIZATION</b>	
	* 33 MILLS FOR ELEMENTARY * 22 MILLS FOR HIGH SCHOOL  * OTHER REVENUE VEHICLE FEES, FEDERAL FOREST, TAYLOR GRAZING, MSC. REVENUES	

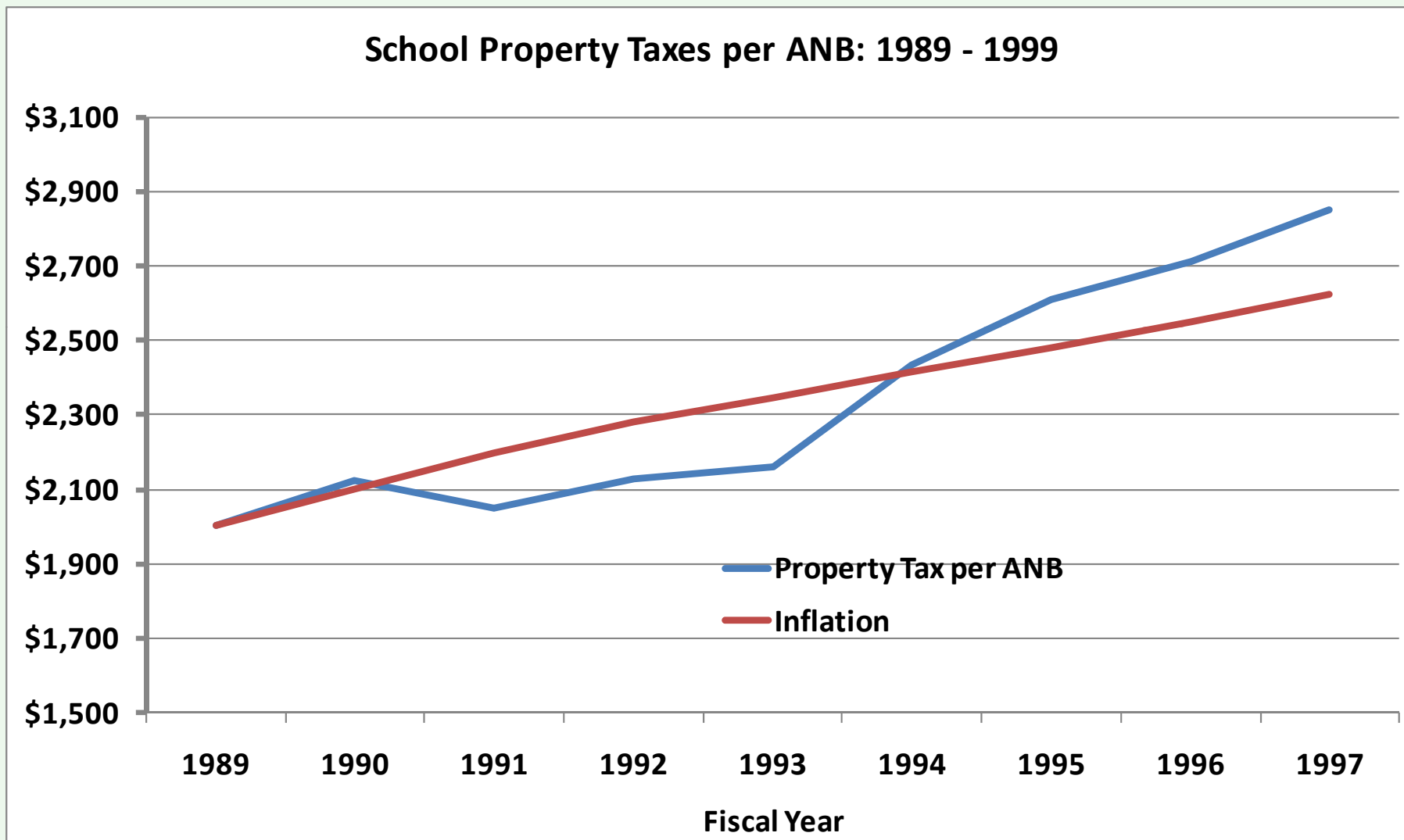


**Another suit was filed in 1992 –  
contended that HB 28 had not fixed the  
disparities in the system.**

# Legislative Fiscal Division

## State Spending per ANB: 1989 - 1999







Legislative Fiscal Division			
<b>Spending per pupil disparity ratios, by size category, 95<sup>th</sup> percentile divided by 5<sup>th</sup> percentile – Evidence in Second Helena Suit</b>			
Elementary	FY 1986	FY 1991	FY 1992
< 9	3.59	2.64	2.62
10 - 17	3.12	2.65	2.19
18 - 40	2.30	2.07	2.99
41 - 100	2.72	2.82	2.82
101 - 300	2.35	2.26	1.85
300 +	1.65	1.41	1.45

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Legislative Fiscal Division			
<b>Spending per pupil disparity ratios, by size category, 95<sup>th</sup> percentile divided by 5<sup>th</sup> percentile – Evidence in Second Helena Suit</b>			
High School	FY 1986	FY 1991	FY 1992
< 24	1.97	1.50	2.96
25 - 40	2.39	1.98	2.05
41 - 100	2.39	2.08	2.53
101 - 200	2.11	1.86	2.91
201 - 300	2.35	2.23	1.83
301 - 600	2.07	1.89	2.09
600 +	1.22	1.22	1.38

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### HB 667 – Passed in the 1993 Regular Session

- Legislature eliminated old Schedules – Created new Formula
- New Formula based on a regression of 1991 actual spending data
- Created a Base (minimum) Budget and a Maximum budget
- Grandfathered in high spending districts and allowed them to continue spending above maximum, with a vote
- Districts below Base budget allowed 5 years to phase-in budgets up to Base budget



### HB 667 – Passed in the 1993 Regular Session

HB 667 Formula

	Elementary	High School
Basic Entitlement	\$ 18,000	\$ 200,000
Per-ANB Entitlement	\$ 3,500	\$ 4,900
Decrement	\$ 0.20	\$ 0.50
Stop Loss - ANB at which Decrement stops	1,000	800



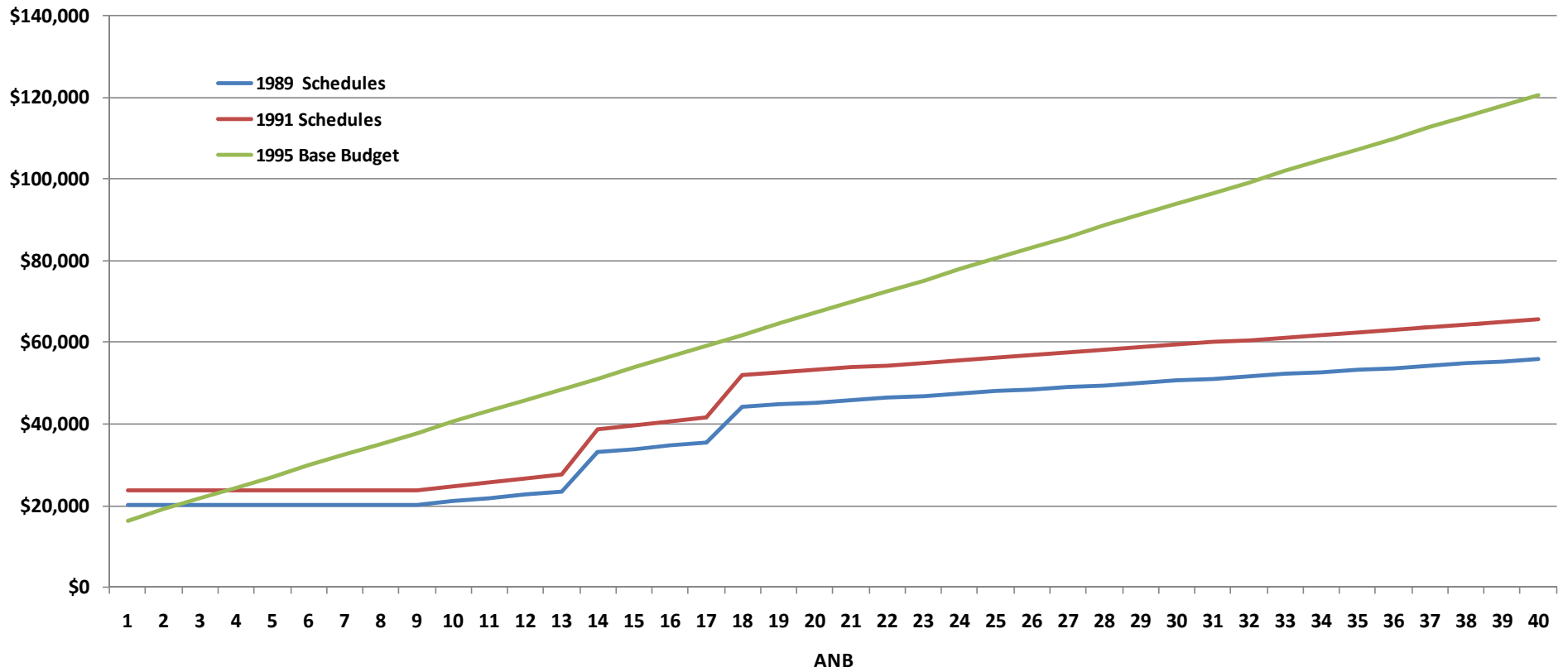
## HB 667 – Passed in the 1993 Regular Session

### HB 667 General Fund Revenue

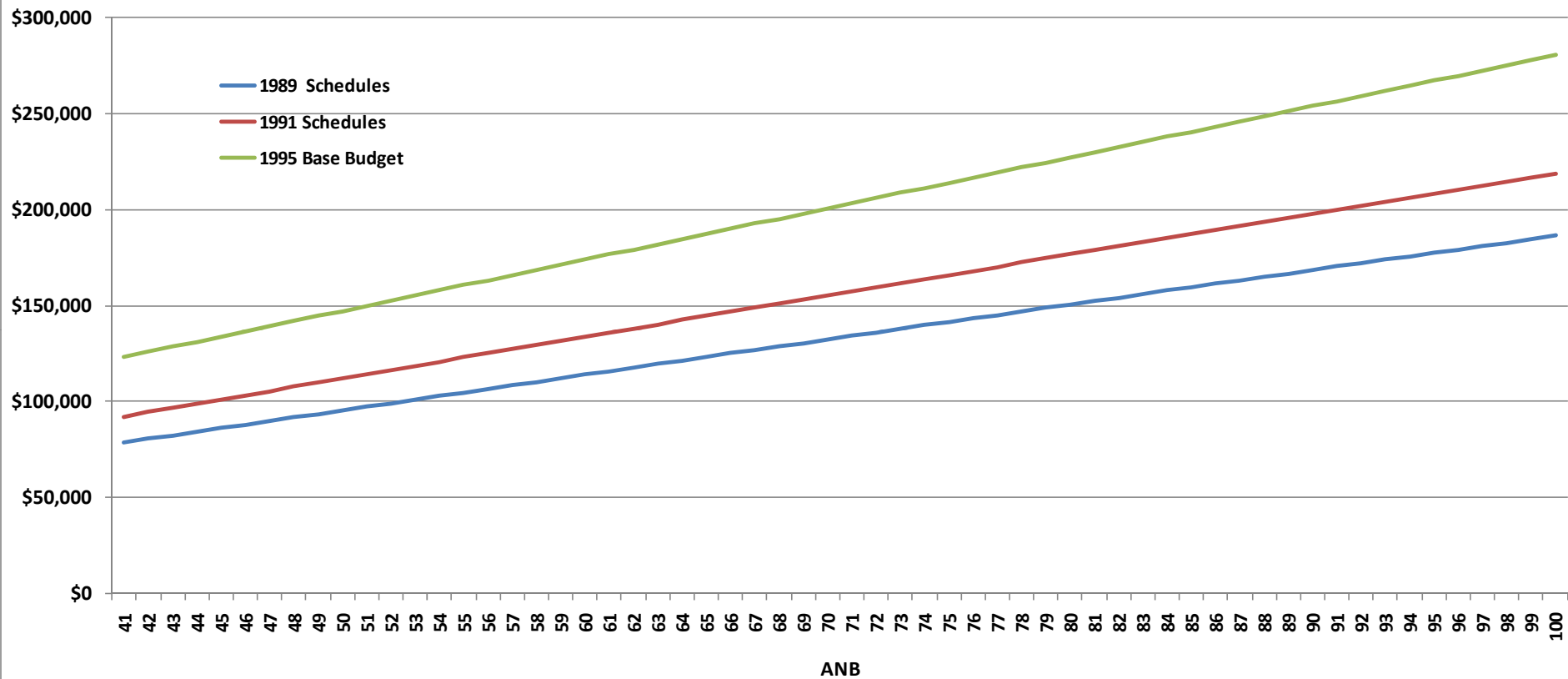
	Elementary	High School
Direct State Aid	40%	40%
GTB Area	40% + 40% Spec Ed Allowable Costs	
Mandatory Base Taxes	Enough to fill up to Base Budget	
Nonlevy and Fund Balance Reappropriated	Must count in GTB Area first	
OverBase Taxes	Must Vote Increase - allowed 4% Increase	

School District General Fund - FY 1994 - 156,950 ANB			Per ANB Values
	Total FY94 General Fund Budget \$612.0 M	Max Bud = Basic entitlement + per ANB entitlement + 153% of Special Ed Allowable Costs	
Overbase Area = Maximum Budget Less Base Budget	OverBase Budget \$29.2 M	FY94 Maximum Budget \$722.5 M	\$ 4,603
	OverBase Property Taxes \$34.8 M	FY94 Base Budget \$582.8 M	\$ 3,713
GTB Area = 40 Percent of Basic and Per-ANB Entitlements plus 40 Percent of Special Education Allowable Costs. State Guarantee Ratio = 175 percent of Taxable Value per dollar GTB Area	GTB \$111.8 M	<b>Components of Maximum Budget</b> Elementary Basic Entitlement = \$18,000  Middle School Basic = W. Average  High School Basic = \$200,000  Elementary Per ANB = \$3,500 less \$.20/ANB up to the 1000th ANB  High School Per-ANB = \$4,900 less \$.50/ANB up to the 800th ANB	
	Base Property Tax \$105.1 M		
	Fund Balance Reappropriated \$26.6 M		
Direct State Aid = 40.0 percent of Basic and per ANB entitlements	Base Nonlevy Revenue \$34.4M		
	Direct State Aid \$270.7 M		State Aid \$ 2,619
Special Education	Special Ed - \$28.5 M	State Share 67.2 Percent	
		Instructional Block Grant - \$128.04/ANB; Related Services BG - \$40.93/ANB	

Schedules for 1989 and 1991 vs Base Budget 1995 - <= 40 ANB



Schedules for 1989 and 1991 vs Base Budget 1995 - 41 ANB - 100 ANB





## HB 667 – Other Provisions

- Created new Impact Aid Fund
- Required State GTB and Local property tax match for Special Ed Allowable costs
- Instituted GTB for debt service on Capital outlays

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## HB 667 Provisions FY 1995 - 1999


- HB22 – Special Session of December 1993
  - Reduced Entitlements by 4.5 percent – stayed there 1995 – 1997
  - Forced Districts to lower budgets by 4.5 percent and required votes to increase them
- HB 47 in the 1997 regular session raised the basic entitlements back to the original amounts for FY 1998
- It wasn't until FY 2000 that the elementary per-ANB entitlement exceeded the original HB 667 per-ANB entitlement
- It wasn't until FY 2001 that the high school per-ANB entitlement exceeded the original HB 667 per-ANB entitlement

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School District Entitlements						
Component	FY1994 Actual	FY95-97 Actual	FY1998 Actual	FY1999 Actual	FY2000 Actual	FY2001 Actual
<b>Bill Authorizing Entitlement Change</b>	HB667	HB22	HB47	HB47	SB100	SB100/ HB4
<b>Basic (Per District) Entitlements</b>						
Elementary	<u>\$18,000</u>	<u>\$17,190</u>	<u>\$18,000</u>	<u>\$18,000</u>	<u>\$18,000</u>	<u>\$18,540</u>
Percent Change		-4.5%	4.7%	0.0%	0.0%	3.0%
High School	<u>\$200,000</u>	<u>\$191,000</u>	<u>\$200,000</u>	<u>\$200,000</u>	<u>\$200,000</u>	<u>\$206,000</u>
Percent Change		-4.5%	4.7%	0.0%	0.0%	3.0%
Middle School	Weighted Average of Elementary and High School Basic Entitlements					
Percent Change						
<b>Per ANB Entitlements</b>						
Elementary	<u>\$3,500</u>	<u>\$3,343</u>	<u>\$3,376</u>	<u>\$3,410</u>	<u>\$3,529</u>	<u>\$3,763</u>
Percent Change		-4.5%	1.0%	1.0%	3.5%	6.6%
High School & Middle School	<u>\$4,900</u>	<u>\$4,680</u>	<u>\$4,726</u>	<u>\$4,773</u>	<u>\$4,821</u>	<u>\$5,015</u>
Percent Change		-4.5%	1.0%	1.0%	1.0%	4.0%

**•Count Special Ed ANB in 1995**

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**Legislative Fiscal Division**



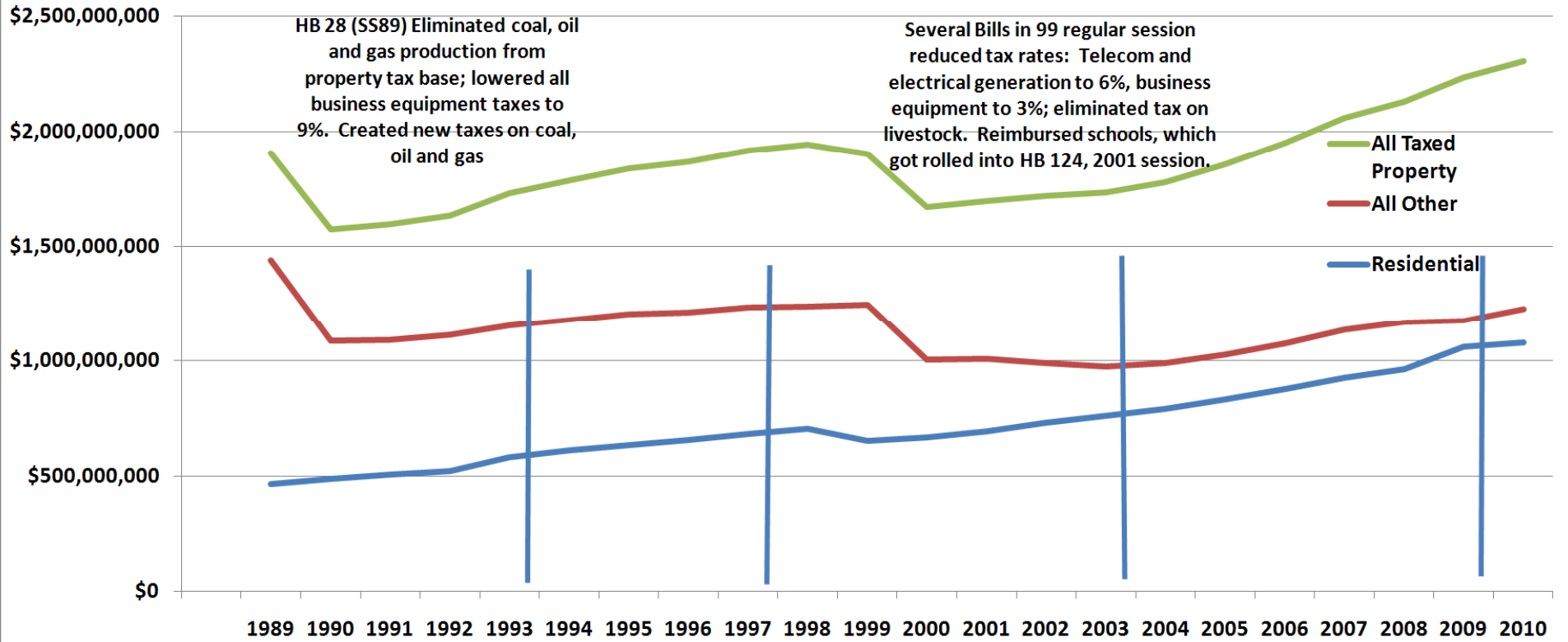
## What happened to Tax Base during the Period?

- 1989 – HB 28 (special session, 1989) – Removed Coal, oil and gas production from property tax base, and created new coal gross proceeds tax, and local government severance tax
  - HB 20 also reduced business equipment tax from 11% - 16% to 9%, with reimbursement
- 1995 - business equipment taxes further reduced to 6% phased in over 3 years, with reimbursement
- 1999 – Several bills reduced tax rates for telecom, electrical generation to 6%, business equipment to 3% and eliminated taxes on livestock

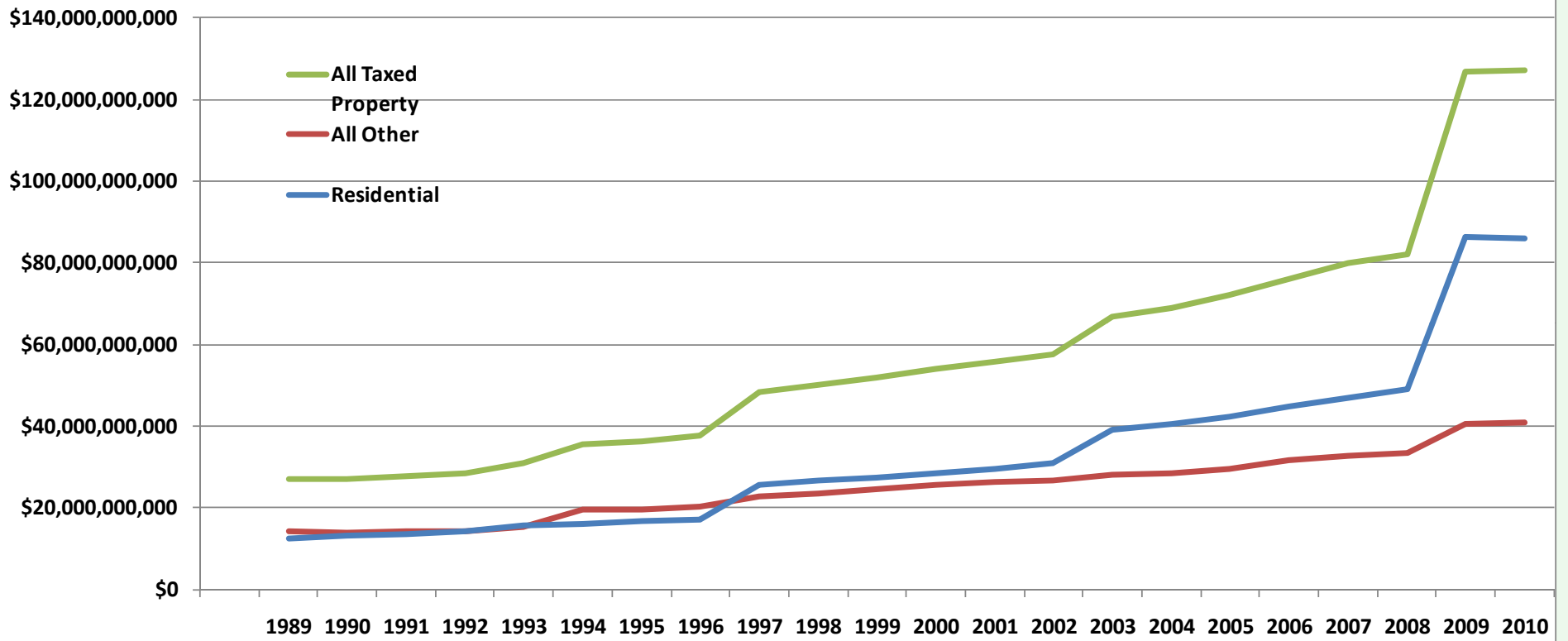
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## Taxable Value - Residential, All Other and Total Taxable Value - TY1989 - TY2010



**Market Value - Residential, All Other and Total Market Value - TY1989 - TY2010**



## Outline for Next Meeting

### Period: 1999 – 2013

- Property Tax Reductions and HB 124 Reimbursements
- Adequacy Lawsuit – Columbia Falls – I
  - Allegations by Plaintiffs
  - What the Judge Found
- 2005 Session – Legislative Response
  - Define educational needs of students
  - Assess cost of providing needs (Woods and Assoc.)
  - Special session of 2005 – 4 new components
- Columbia Falls v State of Montana II
  - New Allegations by Plaintiffs
  - What the Judge Found
- New Legislative Responses in the 2009 and 2011 Sessions

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## Questions?

- What did Jim Forget?
- What should Jim address next time?
- What other questions do you have?

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