



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

HB0587 - Generally revise school finance laws related to property taxes (Jones, Llew)

Status: As Introduced - Revised

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|---|--|---|
| <input type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input checked="" type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
Expenditures:				
General Fund	\$0	\$33,300,000	\$36,458,256	\$44,147,761
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	\$0	(\$33,300,000)	(\$36,458,256)	(\$44,147,761)

Description of fiscal impact: HB 587 establishes a school equalization and property tax reduction account state special revenue fund and directs revenues from school equalization levies (95 mills) to be deposited into this account. The bill defines a mechanism for adjusting various property tax reduction supporting formulas should revenue collections increase over time. There will be no general fund cost in FY 2024 and a cost of \$36.9 million in FY 2025.

FISCAL ANALYSIS

Assumptions:

1. HB 587 establishes the state special revenue school equalization and property tax reduction account that will receive the 95 mills for school equalization as defined in 20-9-331, 20-9-333, and 20-9-360, MCA. In current law, the 95 mills are distributed to the state general fund.
2. Beginning in FY 2024, each December the Superintendent of Public Instruction shall forecast an amount of revenue the account shall receive in that fiscal year by dividing the taxable value received under section 209-369, MCA, by 1,000 and multiplying the product by 95 or the number of mills calculated by the Department of Revenue per 15-10-420(8), MCA, for the applicable fiscal year. If the amount of change is more, or less, than \$2 million when compared to the same calculation using the prior year's information, further calculations occur. This will affect distributions of guaranteed tax base aid (GTB) to school districts in FY 2025 and could

affect county retirement GTB, state school major maintenance aid (SMMA) , and facility GTB (debt service assistance).

3. If the resulting difference is less by \$2 million or more, the Superintendent shall decrease the GTB multiplier for district general fund GTB under 20-9-366, MCA, so that the result will be a decrease in estimated general fund GTB aid equal to 85% of the reduction estimated in the change calculation. Additionally, if the resulting difference is less by \$2 million or more, the superintendent shall also decrease the county retirement GTB multiplier in 20-9-366, MCA, so that the result will be a decrease in estimated county retirement GTB aid equal to 15% of the reduction estimated in the change calculation.
4. If the resulting difference is greater by \$2 million or more, the superintendent shall adjust the county retirement GTB, the SMMA under 20-9-525, MCA, and facility GTB, 20-9-366 MCA, so that one-third of the increase change amount is distributed to schools and counties under these programs.
5. The distribution is to occur in the following order and not to exceed the prescribed maximum percentage. The maximum percentages are estimated to result in a distribution to local tax levies of approximately 70% statewide GTB subsidy to 30% statewide local tax effort with the exception of facilities GTB which results in an approximate ratio of 20% GTB support to 80% to offset local property tax levy.
6. Any estimated excess revenue to any of the tiered programs is to be provided to the next program in the order defined.
7. First, increases are to be used to adjust the county retirement GTB multiplier not to exceed a multiplier amount set to 305%.
8. Second, increases are to be used to adjust the state major maintenance aid support per dollar of local effort multiplier not to exceed a multiplier amount set to 365%.
9. Third, increases are to be used to adjust the debt service GTB multiplier not to exceed a multiplier amount set to 300%.
10. The following tables illustrate the three mechanisms estimated relationships estimated with maximum GTB state support distributions based on FY 2023 HJ 2 assumptions:

Current law:

	State GTB/SMMA	NLR, FBR, Levy	Total Program Need	Share State/Local
Retirement GTB (121%)	\$49.15 million	\$111.58 million	160.74 million	32% / 69%
State Major Maintenance* (187%)	\$11.86 million	\$11.95 million	\$23.81 million	50% / 50%
Debt Service GTB ** (140%)	\$2.5 million	\$131.65 million	\$134.15 million	2% / 98%

HB 587 Projections at maximum per the bill:

	State GTB/SMMA	NLR, FBR, Levy	Total Program Need	Share State/Local
Retirement GTB (305%)	\$112.54 million	\$48.20 million	\$160.74 million	70% / 30%
State Major Maintenance* (365%)	\$16.66 million	\$7.15 million	\$23.81 million	70% / 30%
Debt Service GTB** (300%)	\$26.83 million	\$107.32 million	\$134.15 million	20% / 80%

*Assumes all districts budget for SMMA the program in full.

**The current FY 2023 appropriation is \$2.5 million, full funding is estimated at \$14.56 million

11. Sections 20-9-331, 20-9-333, 20-9-360, 20-9-366, and 20-9-525, MCA, are amended to include references to the newly established school equalization and property tax reduction account described in this bill proposal and other adjustments to refer to the new requirements on new Section 1.
12. Section 20-9-366, MCA, is amended to adjust the general fund GTB multiplier in association with revenues generated under 16-12-111, MCA. This language continues the general fund GTB multiplier at 254% for FY 2023 and succeeding years. However, this bill does cap the statewide general fund GTB multiplier at 262%.
13. It is clarified in this bill that the state general fund GTB multiplier increases are to be made for the calculation of increase to district general fund GTB distribution utilizing state general fund revenue transfers of finalized data in the prior year and the year two years prior to the year of district GTB multiplier increase calculations.
14. The following tables illustrate the mechanism relationship estimated with current and maximum GTB state support distributions of district general fund GTB based on FY 2024 assumptions:

Current law:

	State GTB (millions)	Levy (millions)	Total Program Need (millions)	Share State/Local
District general fund GTB (254%)	\$253.56	\$165.46	\$419.02	61% / 39%

HB 587 Projections at maximum per the bill:

	State GTB (millions)	Levy (millions)	Total Program Need (millions)	Share State/Local
District GF GTB (262%)	\$257.85	\$161.17	\$419.02	62% / 38%

15. Section 20-9-366, MCA, is amended to increase the county retirement GTB statewide multiplier to 189% resulting in an estimated increase in state county retirement GTB distribution of \$33.3 million annually, beginning in FY 2025.
16. It is further clarified that the state special revenue guarantee account, established under section 20-9-622, MCA, is to be considered the first source of funding for state school equalization aid and that revenues received to the new state special revenue school equalization and property tax reduction account are to be considered the second source of funding for state school equalization aid.
17. For purposes of this fiscal note, statewide taxable valuations are estimated in HJ 2 as follows:

	FY 2023 (millions)	FY 2024 (millions)	FY 2025 (millions)	FY 2026 (millions)	FY 2027 (millions)
Executive Budget	\$3,558.260	\$4,535.638	\$4,614.558	\$4,900.661	\$4,993.773
HJ 2	\$3,577.180	\$4,484.782	\$4,584.517	\$4,927.078	\$5,040.920

18. Using the formula described in HB 587, the following increases would occur beginning FY 2025. Using HJ 2 taxable values the following is an estimation for the calculation of county retirement GTB multiplier adjustment for FY 2026:

	Tax Value (TV)	(TV/1000) X 95	Amt. of Change	1/3Amount of change	County Retirement Adjustment
FY2024	\$4,484,782,347	\$426,054,323			
FY2025	\$4,584,516,746	\$435,529,091	\$9,474,768	\$3,157,940	
FY2026					1.97%

19. 10. Using HJ 2 taxable values the following is an estimation for the Calculation of county Retirement GTB multiplier adjustment for FY2027:

	Tax Value (TV)	(TV/1000) X 95	Amt. of Change	1/3Amount of change	County Retirement Adjustment
FY2025	\$4,584,516,746	\$435,529,091			
FY2026	\$4,927,077,619	\$468,072,374	\$32,543,283	\$10,846,676	
FY2027					2.34%

20. Estimates indicate that no changes will occur to the SMMA or facility GTB multipliers in FY 2024 through FY 2027.
21. All funds directed to the new state special school equalization and property tax reduction account will result in a like decrease to the state general fund.

22. Annual increases to the revenue from the 95 mills results in a like decrease in the amount of general fund that would have been received in each year.
23. Under current law, all increases in 95 mill revenue related to property tax value increases are deposited in the state general fund and pay a portion of the state’s obligation to pay K-12 public school BASE aid projected to be \$893.6 million in FY 2024 and \$943.8 million in FY 2025. This bill redirects all of the revenue from the 95 mills to a new state special revenue account to be used as the second source of funding to pay for state equalization aid.
24. This fiscal note does not take into consideration any changes to the GTB multiplier from any other laws or fiscal notes.

	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Local Assistance (Retire GTB multiplier increase to 189%)	\$0	\$33,300,000	\$33,300,000	\$33,300,000
Local Assist (Retire GTB-1/3 95 Mill growth)	\$0	\$0	\$3,158,256	\$10,847,761
Local Assist (K-12 BASE Aid)	\$426,054,323	\$435,529,091	\$468,072,374	\$478,887,381
TOTAL Expenditures	<u>\$426,054,323</u>	<u>\$468,829,091</u>	<u>\$504,530,630</u>	<u>\$523,035,142</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	(\$426,054,323)	(\$468,829,091)	(\$504,530,630)	(\$523,035,142)
State Special Revenue (02)	\$426,054,323	\$435,529,091	\$468,072,374	\$478,887,381
TOTAL Funding of Exp.	<u>\$0</u>	<u>(\$33,300,000)</u>	<u>(\$36,458,256)</u>	<u>(\$44,147,761)</u>
<u>Revenues:</u>				
General Fund (01)	(\$426,054,323)	(\$435,529,091)	(\$468,072,374)	(\$478,887,381)
State Special Revenue (02)	\$426,054,323	\$435,529,091	\$468,072,374	\$478,887,381
TOTAL Revenues	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>


<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	\$33,300,000	\$36,458,256	\$44,147,761
State Special Revenue (02)	\$0	\$0	\$0	\$0

Effect on County or Other Local Revenues or Expenditures:

1. HB 587 will decrease local property taxes for county retirement by \$33.3 million in FY 2025, \$36.4 million in FY 2026, and \$41.1 million in FY 2027.

Technical Notes

1. Sections 20-9-331, & 20-9-333, MCA, are required to fund district BASE aid and currently contribute to the local contribution rate calculation (LCR) in the determination of Impact Aid funding to districts on or near federal lands. Interpretation of current law in association with HB 587 may result in the removal of these funds to contribute to the LCR calculation resulting in lower Impact Aid distributions to districts in the state.

_____ <i>Sponsor's Initials</i>	_____ <i>Date</i>	 <i>Budget Director's Initials</i>	4-20-23 <i>Date</i>
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