

Article X

Section 1. Educational goals and duties.

(1) **It is the goal of the people to establish a system of education which will develop the full educational potential of each person. Equality of educational opportunity is guaranteed to each person of the state.**

(2) The state recognizes the distinct and unique cultural heritage of the American Indians and is committed in its educational goals to the preservation of their cultural integrity.

(3) The legislature shall provide a basic system of free quality public elementary and secondary schools. The legislature may provide such other educational institutions, public libraries, and educational programs as it deems desirable. **It shall fund and distribute in an equitable manner to the school districts the state's share of the cost of the basic elementary and secondary school system.**



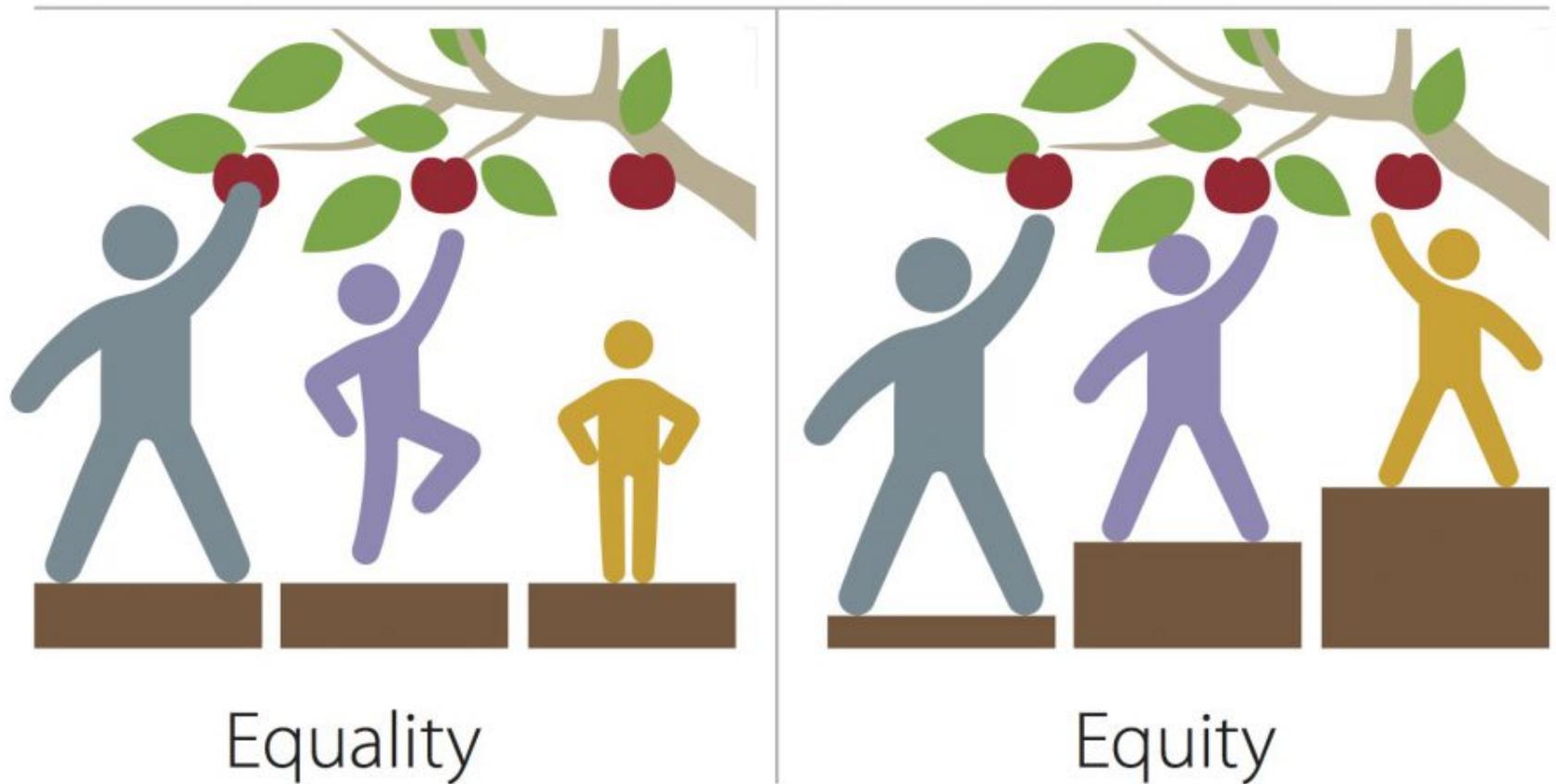
Constitutional Conventional delegates in House chambers, 1 December 1971, unidentified photographer. Montana Historical Society Photo Archives, Helena. ID No. PAC 86.15-71218.2

So... Provide fairly to every school district both the state money and the ability to acquire local money (through property taxes) such that district trustees can operate schools that maximize the potential of every kid.

This overview of school funding and property taxes was assembled by Pad McCracken, LSD research analyst, for the Revenue Interim Committee's HJ 35 Study of State and Local Tax Policy and presented on January 13, 2020. It is intended to give a BIG PICTURE overview of the topic and uses ROUND NUMBERS and data from VARIOUS RECENT YEARS. Content may not be suitable for accountant-types.

Equity is about fairness. In the picture below right, resources are allocated equitably in varying amounts in order to provide equality of opportunity. Similarly in Montana's school funding formula, resources are allocated based on need in varying amounts to reflect two realities:

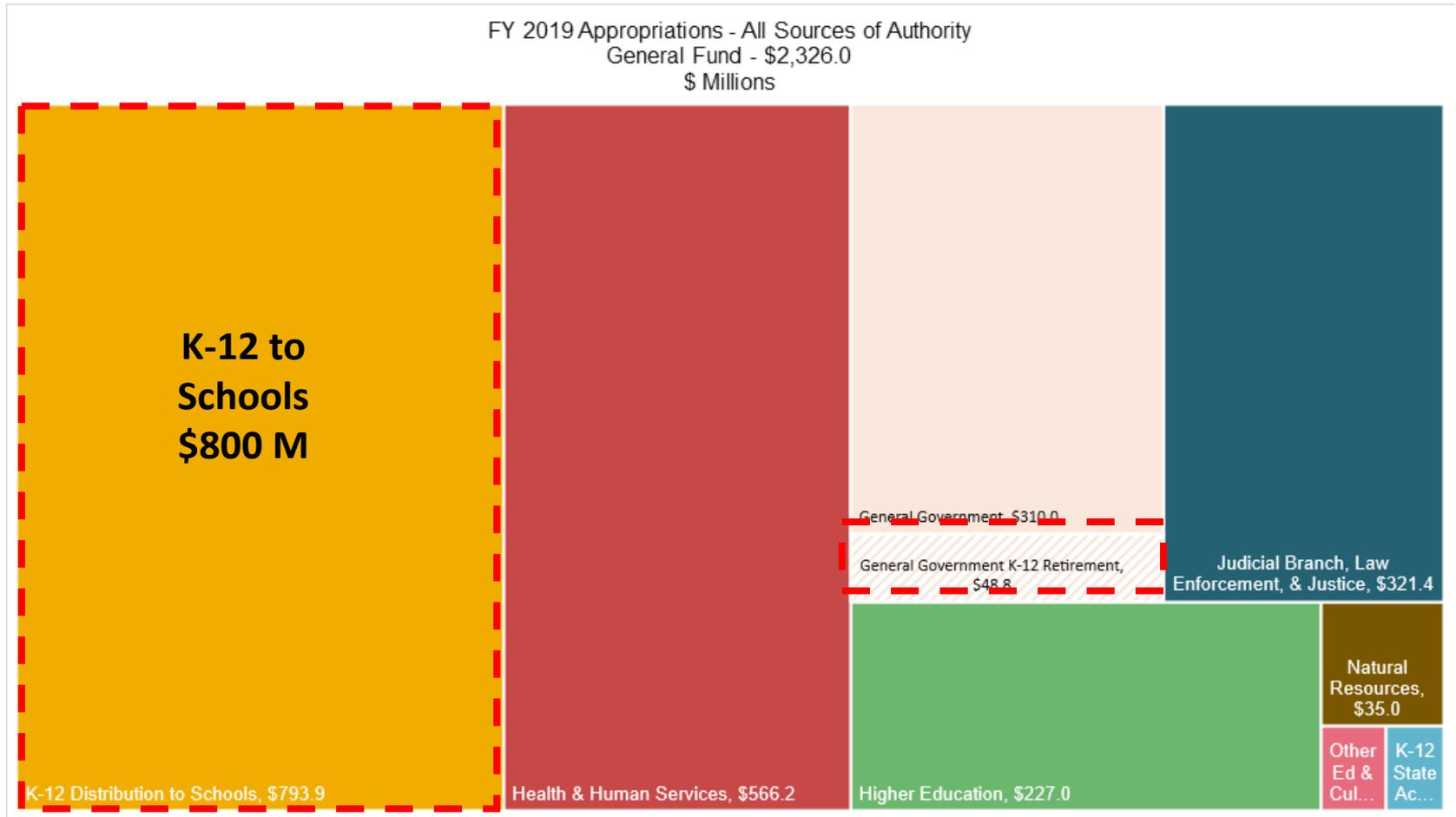
1. Kids (and schools/districts) require varying amounts of resources to develop their educational potentials; and
2. Districts have varying capacities to generate local revenue.



Court Cases and Changes to Montana K-12 Finance

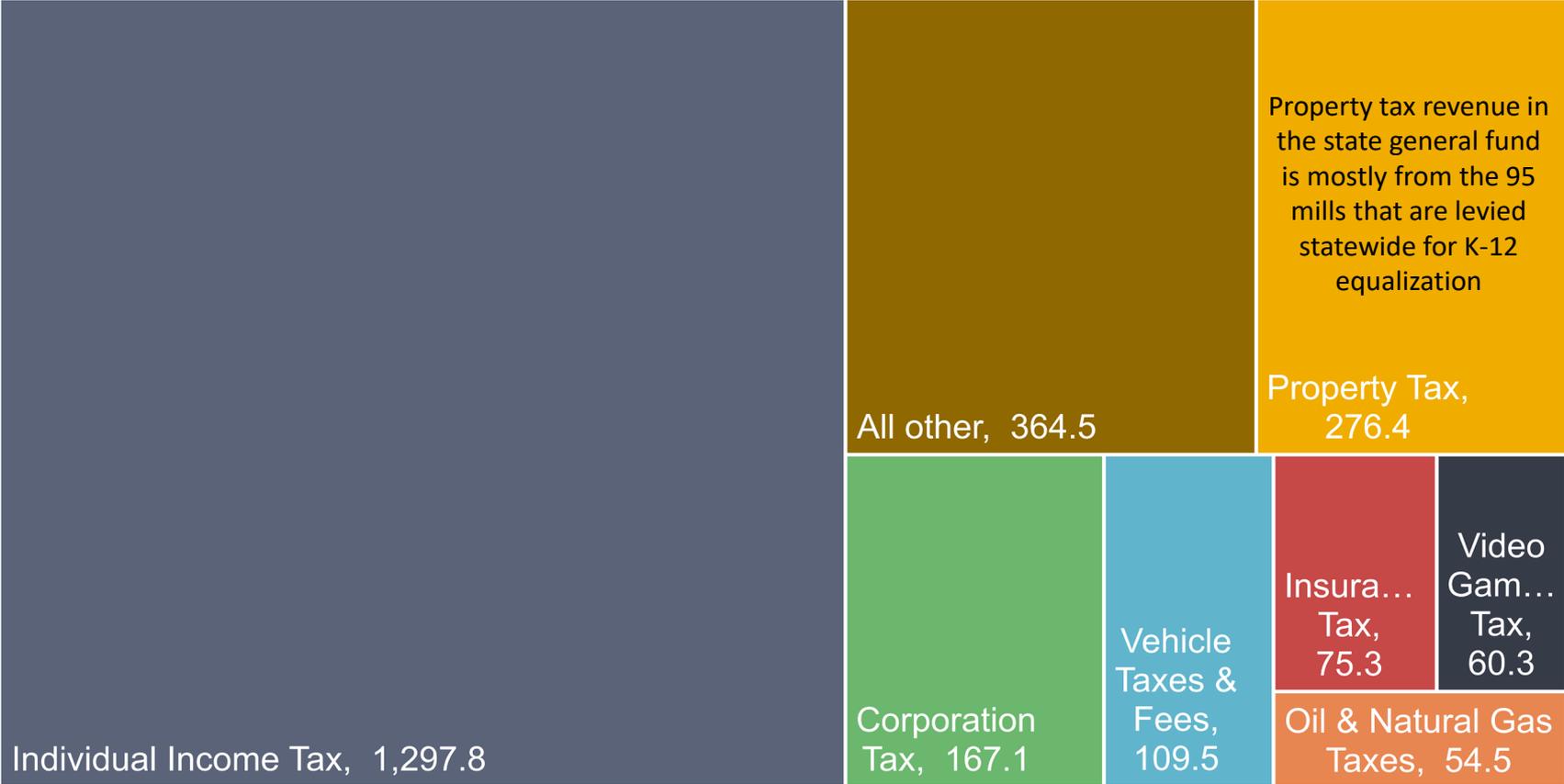
Year	Court Case	Finding	Legislation	Change to Formula
1989	Helena Elementary v. State (Equity)	Unequal spending per pupil means unequal educational opportunity; property poor districts were spending less	HB 28 (1989 special session)	<ul style="list-style-type: none"> Increased state share Created GTB payments Removed coal, oil, and natural gas from property tax base Created statewide 40-mill property tax levy; increased existing county equalization mills (new total = 95 mills)
1992	Lawsuits filed contending HB 28 had not fixed disparities		HB 667 (1993)	<ul style="list-style-type: none"> Eliminated existing Foundation Program Created new formula with BASE (minimum) and maximum budgets, basic and per-ANB entitlements GTB for debt service
2004	Columbia Falls v. State I (Adequacy)	Funding inadequate; basic system of quality school not defined; must fund Art X, Section 1(2) of the Montana Constitution (preservation of tribes' cultural integrity)	SB 424 (2003) SB 152 (2005) SB 525 (2005) SB 1 (2005 special session following QSIC)	<ul style="list-style-type: none"> (Annual inflationary adjustments to BE and per-ANB were added in 2003 during litigation) Defined basic system Created Quality Schools Interim Committee (QSIC) Created 4 new fully state-funded payments: QE; at-risk, IEFA, American Indian Achievement Gap
2008	Columbia Falls v. State II	Legislature has made good faith effort to address concerns regarding adequacy	Various	<ul style="list-style-type: none"> Increased GTB ratio; provided funding for facilities

K-12 is the Largest Part of State General Fund Spending (\$800 million/year)



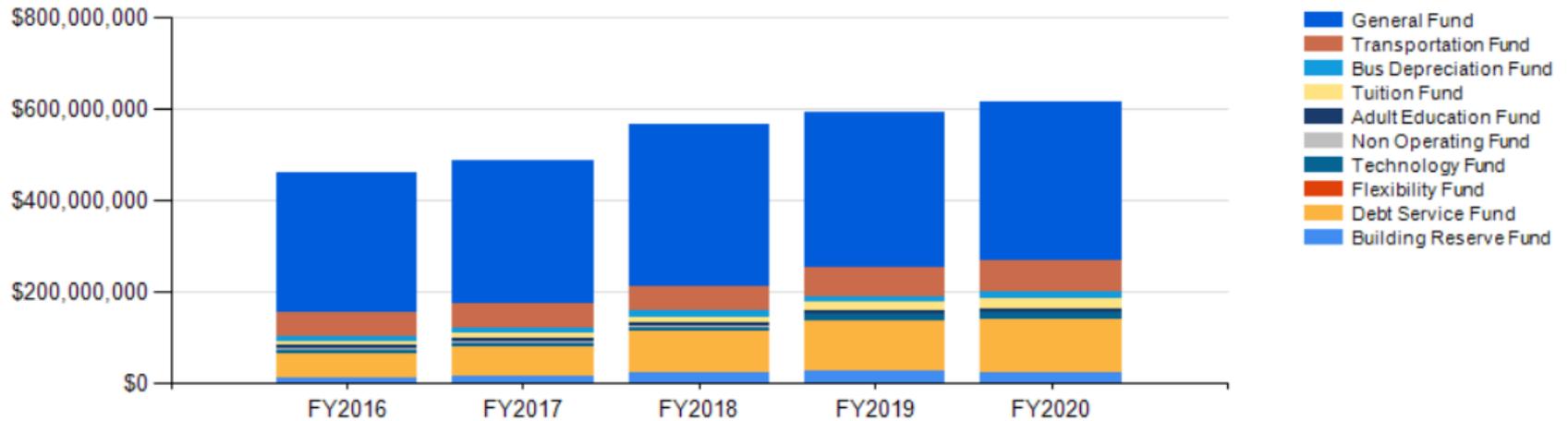
State general fund money comes from multiple sources, the largest being individual income tax. Revenue from the 95 mills (\$300 M) does not provide enough money to cover K-12 appropriations (\$800 M).

State General Fund Revenues FYE 2018 = \$2,405.4 million



Property taxes to support K-12 total about \$1 Billion

Property Taxes



Fiscal Year	General Fund	Transportation Fund	Bus Depreciation Fund	Tuition Fund	Adult Education Fund	Non-Operating Fund	Technology Fund	Flexibility Fund	Debt Service Fund	Building Reserve Fund
FY2020	\$348,057,857	\$67,802,819	\$15,436,320	\$23,327,158	\$6,719,110	\$0	\$14,586,683	\$0	\$118,409,828	\$22,409,945
FY2019	\$340,845,925	\$63,199,213	\$13,923,020	\$18,620,176	\$6,212,494	\$0	\$13,793,664	\$0	\$110,171,595	\$26,920,076
FY2018	\$355,589,794	\$55,671,878	\$12,744,372	\$14,495,833	\$5,411,066	\$12,640	\$12,757,034	\$0	\$89,224,873	\$22,839,038
FY2017	\$313,441,310	\$51,320,368	\$12,918,805	\$11,603,239	\$5,209,625	\$4,077	\$12,641,688	\$0	\$65,473,357	\$13,584,022
FY2016	\$308,270,868	\$51,077,649	\$12,223,472	\$8,577,312	\$5,025,269	\$36,060	\$12,126,623	\$0	\$51,768,970	\$12,072,009

Data as of: 10/28/2019

Note that this table does not include:

- Statewide 95 mills for K-12 (\$275 M)
- Countywide transpo (\$10 M) or RET levies (\$100 M)

<https://gems.opi.mt.gov/SchoolFinance/Pages/SchoolBudgetDashboard.aspx>

Budgeted District Funds (budgeted = levy-funded) in Perspective

(levies can be REQUIRED, PERMISSIVE, or VOTED; dollar amounts are statewide adopted budgets in millions from OPIBUD18; **dollar amounts in red** are state support amounts reported in GEMS for 2018 in budgeted funds with a mechanism for state support; mill ranges for FY 20)

Transpo \$97 (\$14)
Mills range 0-20 county;
0-100 district



District General Fund \$1,113 (\$740)
Mills range 0-65 BASE; 0-180 OverBASE



Debt Service \$98 (\$0)
Mills range 0-185



Flexibility \$51 (\$0)
No mills levied



Technology \$34 (\$0)
Mills range 0-20



Bus Depreciation \$56
Mills range 0-90*



Tuition \$18
Mills range 0-40



* excludes outlier

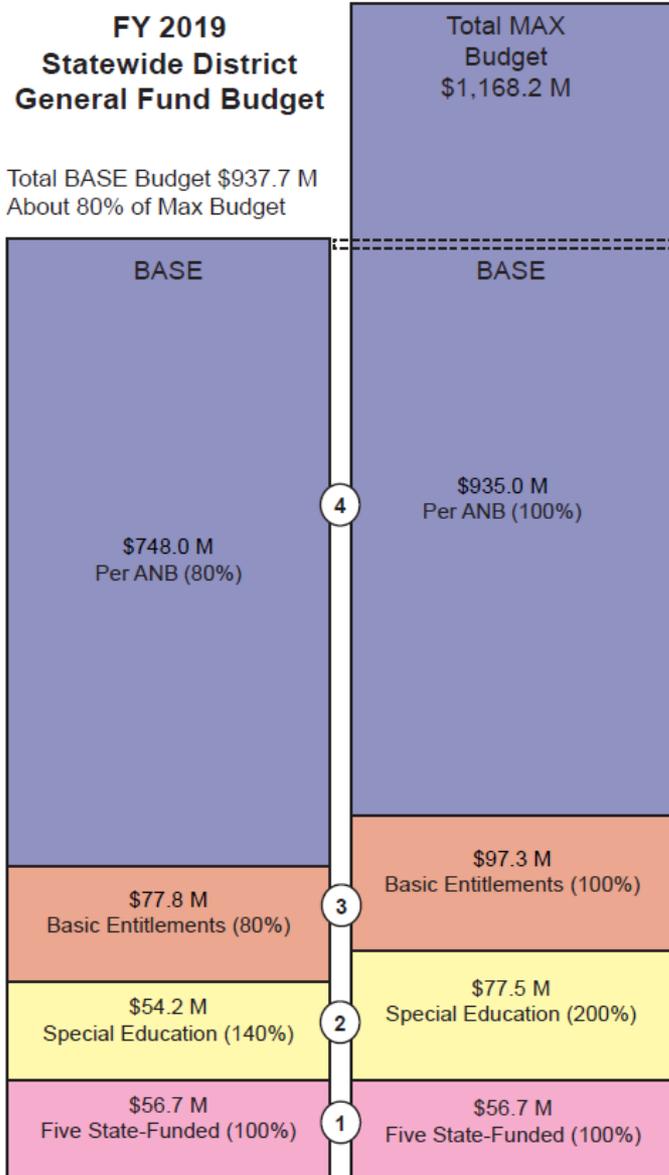
Building Reserve \$81 (\$0)
Mills range 0-65



Retirement \$171 (\$40)
Mills range 0-60 county

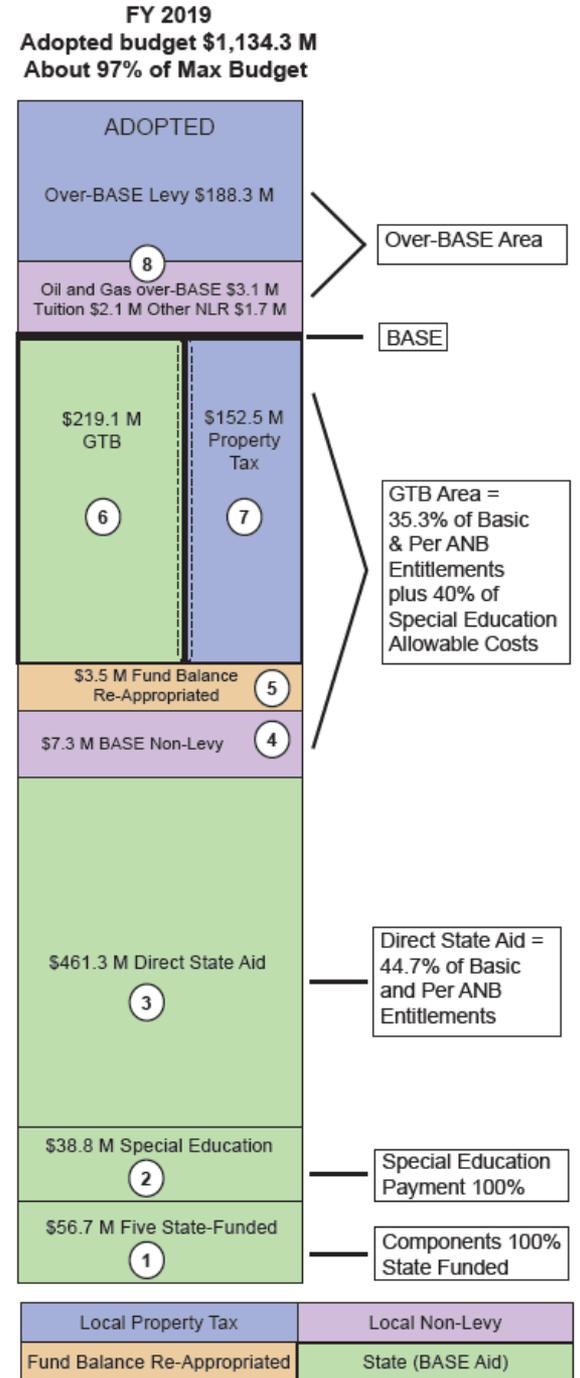


Concept of major importance: we have a formula to establish a district's budget limits (below) and a formula for how a district's adopted budget is funded (right).

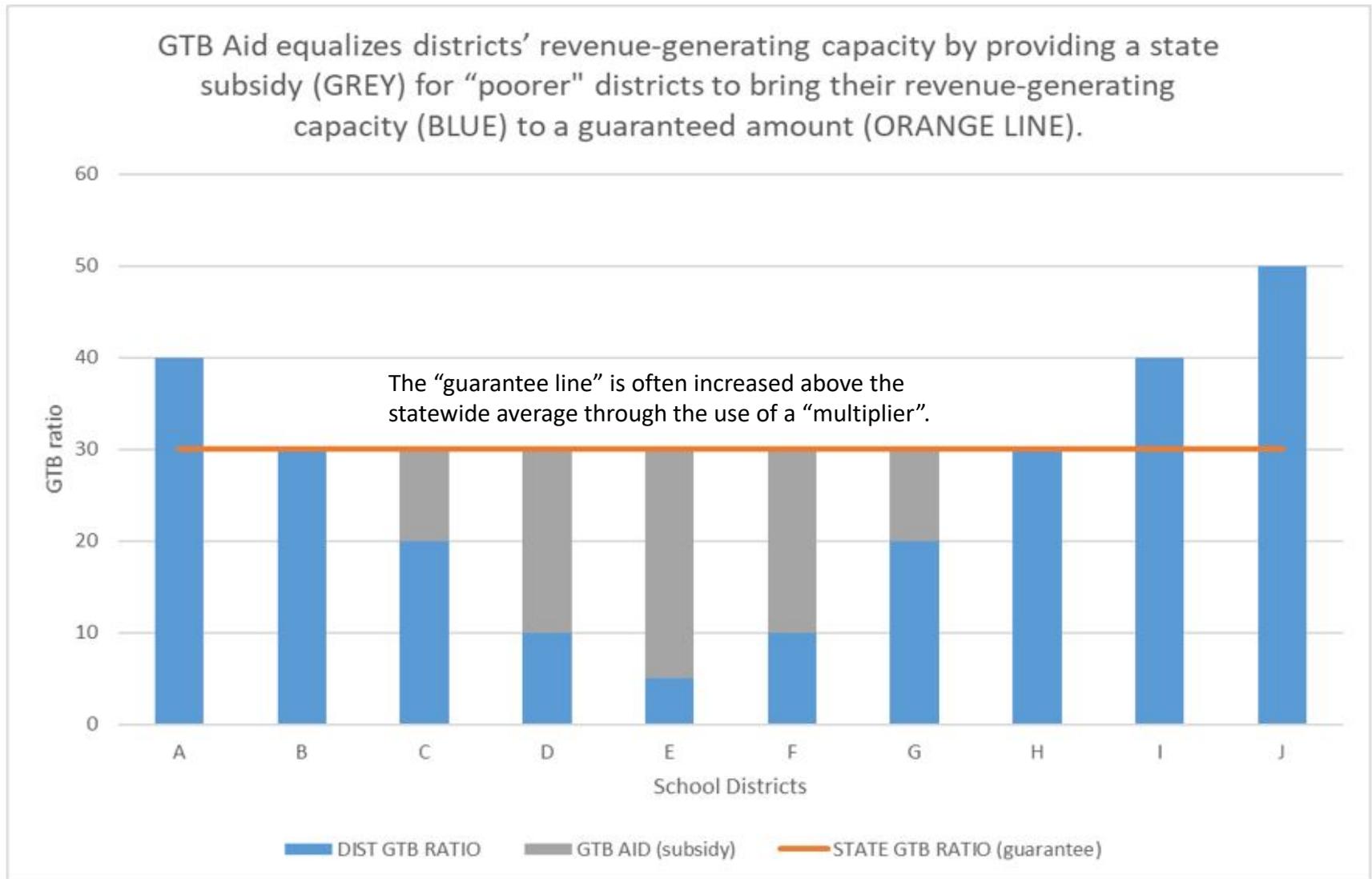


District General Fund
The largest school district fund is the general fund. Statewide, in FY 2019 districts adopted general fund budgets of \$1.13 billion and received \$776 million in state support.

- ④ **Per ANB Entitlement**- Average Number Belonging - A per-ANB dollar amount based on the average count of students attending a district in October and February of the previous school year.
- ③ **Basic Entitlement** - A set amount per district based on whether it is an elementary school district, middle school district, or high school district. Districts with higher enrollment are eligible for additional basic entitlement "increments."
- ② **Special Education Payment** - an amount per ANB regardless of the count of special education students. Portions of the special education appropriation go to cooperatives and to reimbursements for high-cost students.
- ① **Five 100% State-Funded Components (\$56.7 M)**
 1. Quality Educator Payment - A per-FTE payment for teachers and other licensed professionals (\$40.4 M; \$3,245/FTE)
 2. At Risk Payment - A payment to schools to address at-risk students; or students who are affected by an environment that negatively impacts performance and threatens the likelihood of promotion or graduation (\$5.5 M)
 3. Indian Education For All Payment - A per-ANB payment to fund the constitutionally required education regarding the cultural heritage of the American Indians. (\$3.3 M; \$21.76/ANB)
 4. American Indian Achievement Gap Payment - A per-American Indian student payment for the purpose of closing the performance gap that exists between American Indian students and non-Indian students (\$4.3 M; \$214/AI student)
 5. Data for Achievement - A per-ANB payment used by school districts to pay for costs related to student data systems (\$3.2 M; \$20.84/ANB)

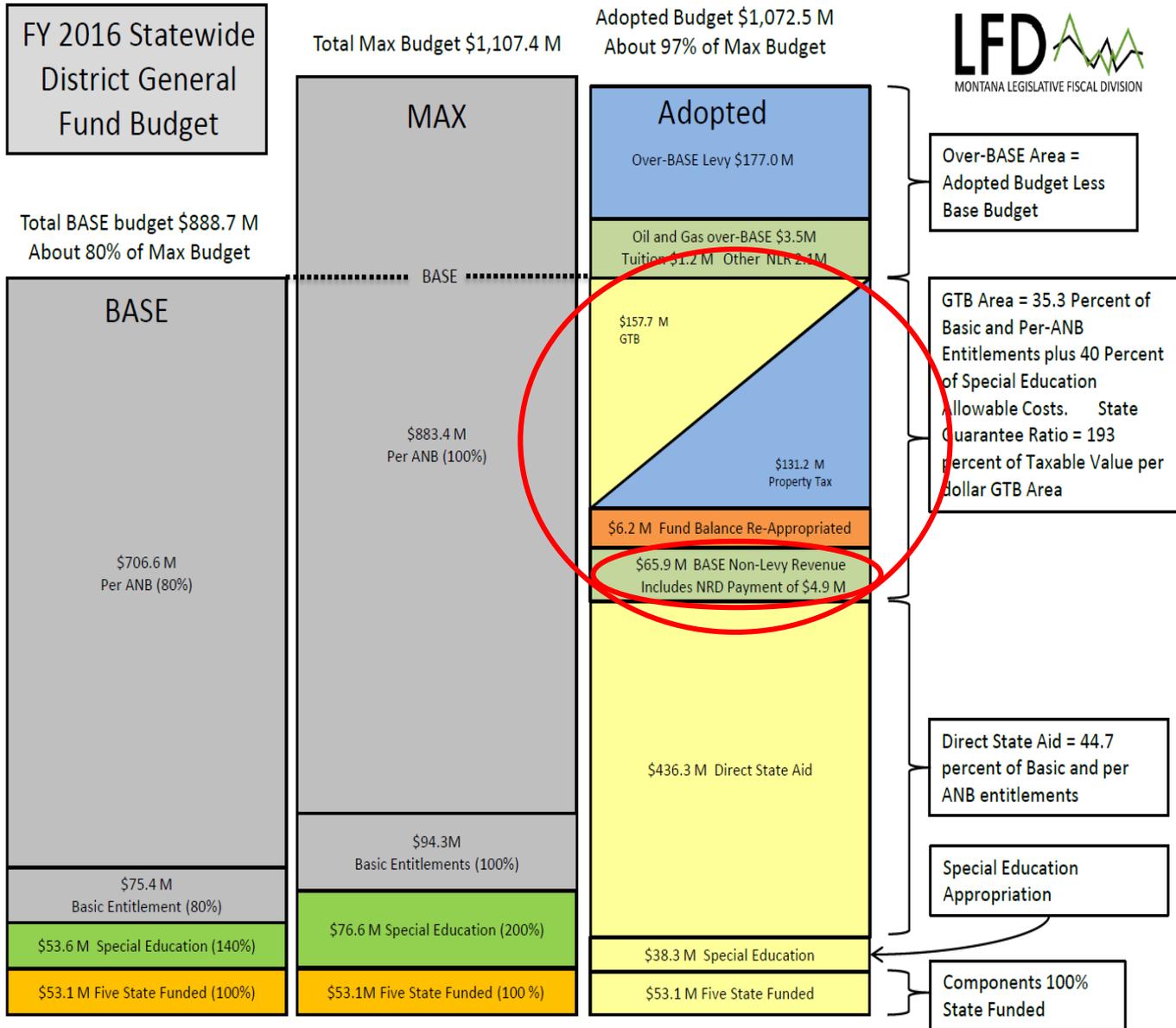


GTB Basics



A district's revenue-generating capacity is measured as a ratio of the district's property wealth (taxable value) to its local funding needs/costs (sometimes ANB, but in our district general fund formula, the GTB area).

HB 647 (2017) provides an example of the interplay of the school funding formula and property taxes



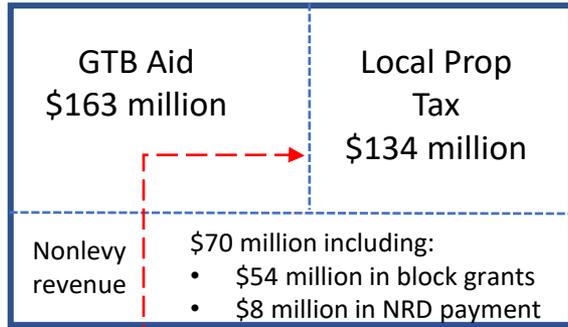
The major changes to the K-12 funding formula in the 2017 Legislature are related to the elimination of two district general fund sources of nonlevy revenue:

1. general fund block grants; and
 2. the natural resource development K-12 funding payment (NRD)
- and increases to state-funded Guaranteed Tax Base Aid (GTB).

These changes will affect property taxes in varying ways and to varying degrees in all Montana school districts over the next several years.

On the next slide we'll examine the circled areas in greater detail. Note that the dollar amounts on this slide reflect FY 2016 and that the next slide will reflect FY 2017 and future years, fund balance re-appropriated will be excluded, and the diagonal line splitting GTB and local taxes will be reoriented vertically.

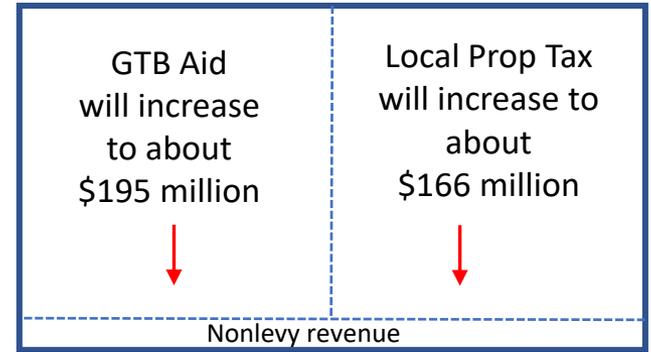
2017 (GTB 193%)



The elimination of block grants and the NRD payment in 2018 decreases nonlevy revenue significantly and results in increases in both GTB and local property taxes (BASE mills).

#2

2018 (GTB 193%)

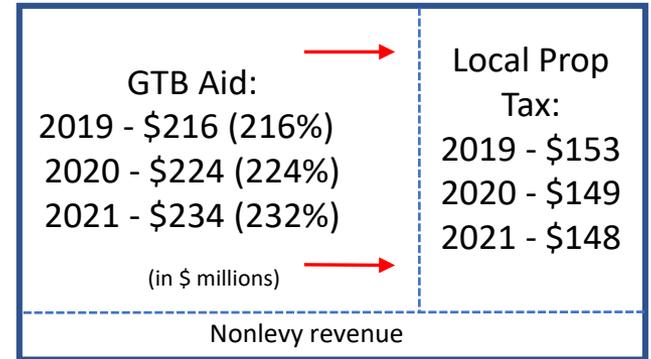


#1

The share of GTB and local taxes varies from district to district based on local property tax wealth. Wealthier districts receive less or no GTB Aid; poorer districts receive more.

But as the state funding that previously went to districts as block grants is redistributed by increasing the GTB multiplier over the next few years, GTB aid will increase and local property taxes (BASE mills) will generally decrease. More districts will be eligible for more GTB aid. However, some wealthy districts will still not be eligible for GTB aid and will pay more in BASE taxes than before. This is the result of distributing more state aid through equalizing GTB aid.

2019 – 2021 as GTB multiplier increases (in \$ millions)



#3

Data as per model 05-02-17K-12ModelMaster Note—statewide local taxes are not expected to return to 2017 level due to projected ANB increases and inflationary adjustments to entitlement amounts

Questions?

Want to learn more?

- Your legislative staff are here for you! LFD/LSD resources include:
 - [K-12 Funding overview](#)
 - [District General Fund](#)
 - [District Transportation Fund](#)
 - [District Retirement Fund](#)
 - [District Debt Service Fund](#)
 - [Special Education Funding](#)
- [OPI school finance resources and staff](#)
- Your local school district administrators and business officials and statewide org [MASBO](#)
- [NCSL](#) and [ECS](#)