

# School Equalization and Property Tax Reduction Account (HB 587, 2023 Session)

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Revenue Interim Committee

September 18, 2023

# State Sources of School Funding

as of July 1, 2023

## Guarantee Account

1<sup>st</sup> Source of State  
School Funding

*Unchanged*

Statutory Appropriation  
~\$50 M

## School Equalization and Property Tax Reduction Account (SEPTR)

2<sup>nd</sup> Source of State  
School Funding

*New (HB 587; 2023)*

**Receives \$ from the 95 mills**  
(the 95 mills do not support the full amount of K-12  
funding)

HB 2 State Special Revenue Appropriation  
~\$430 M

## State General Fund

3<sup>rd</sup> and Final Source of State  
School Funding (ultimate backfill)

*Update (HB 587; 2023) - no longer  
receives revenue from the 95 mills*

HB 2 General Fund Appropriation  
~\$500 M

(School funding is appropriated from  
the general fund in HB 2 as always, but  
will require less general fund due to  
the movement of the 95 mills to  
SEPTR)

State sources of school funding total \$1.0 billion for FY 2024 and include:

- \$880 million for BASE Aid
- \$12 million for state transportation reimbursements
- \$12 million for major maintenance aid
- \$15 million for debt service assistance

**New SEPTR Account**  
**(School Equalization and**  
**Property Tax Reduction)**

Receives revenue from the 95 mill statewide equalization levies, with 55% of increased revenue over prior year triggering a reduction in local property taxes through equalization mechanisms

2<sup>nd</sup> Source of State School Funding;  
any remaining state obligation comes from the general fund

55% of  $\Delta$



Each equalization mechanism is “dialed up” until the ratio of state to local revenue reaches approximately 70:30 (debt service 20:80) then the revenue increase from the 95 mills flows to next mechanism

Increase countywide school retirement GTB to lower county property taxes

Increase state major maintenance aid to lower school district property taxes

Increase debt service assistance to lower school district property taxes

If there is a reduction in revenue brought in by the 95 mills from the prior year, BASE GTB and countywide retirement GTB are “dialed down” by the full amount of the decrease, shifting costs back onto local taxpayers

**New SEPTR Account**  
**(School Equalization and**  
**Property Tax Reduction)**

Receives revenue from the 95 mill statewide equalization levies, with 55% of increased revenue over prior year triggering a reduction in local property taxes through equalization mechanisms

2<sup>nd</sup> Source of State School Funding;  
any remaining state obligation comes from the general fund

The SEPTR account also helps maintain a balance between state and local funding for K-12.

Historically, during Montana budget shortfalls K-12 costs have shifted onto local taxpayers.

When K-12 leans harder on local property taxes, the more the Legislature's constitutional duty to "distribute [K-12 funding] in an equitable manner" can be questioned.

55% of  $\Delta$



Utilizing a portion of the 95 mill increase means that the remaining increase can be used to fund annual increases in the existing K-12 formula. This maintains a balance between property tax and other taxes in the state general fund (largely income) in funding K-12.



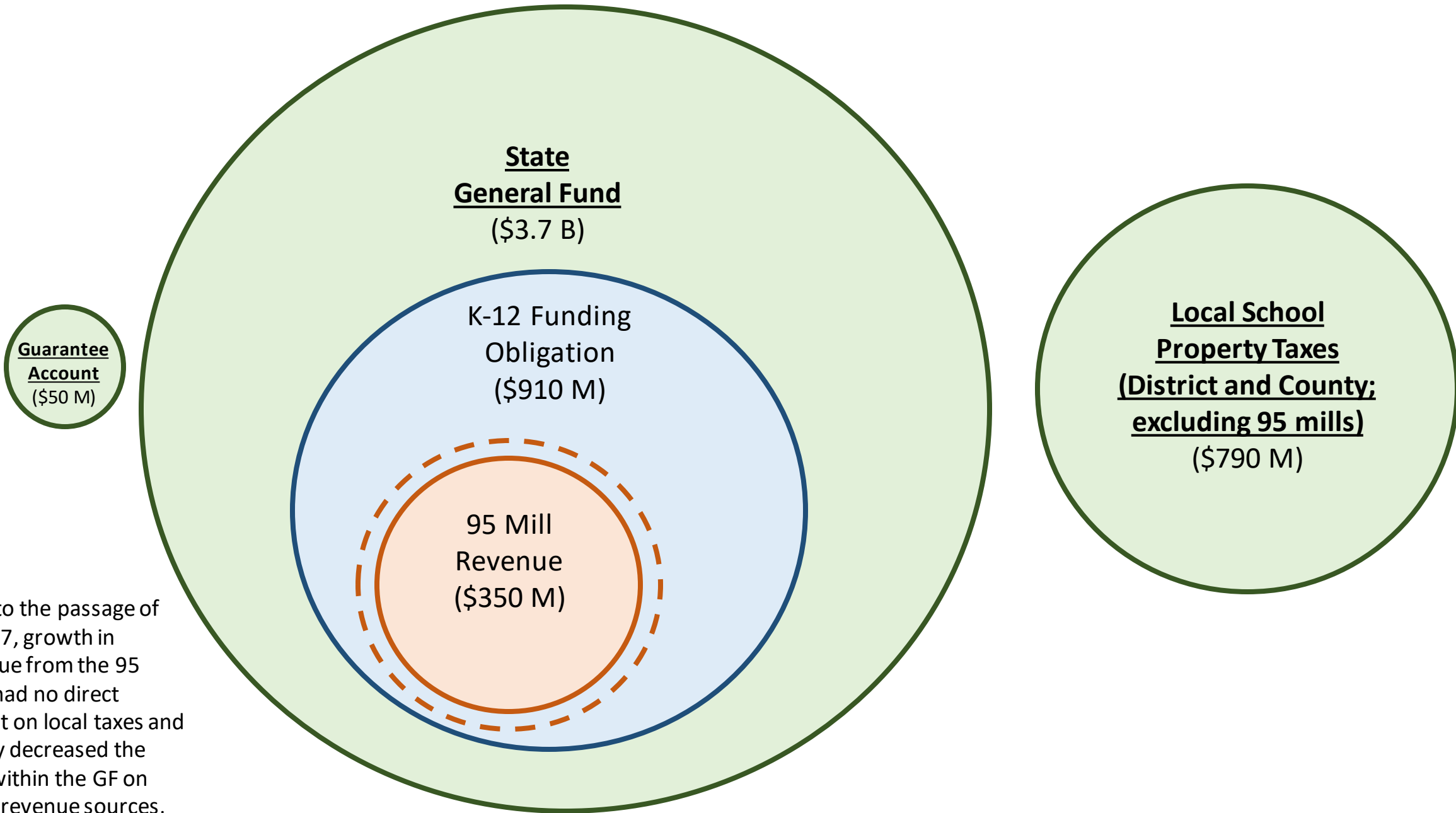
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Increase countywide school retirement GTB to lower county property taxes

Increase state major maintenance aid to lower school district property taxes

Increase debt service assistance to lower school district property taxes

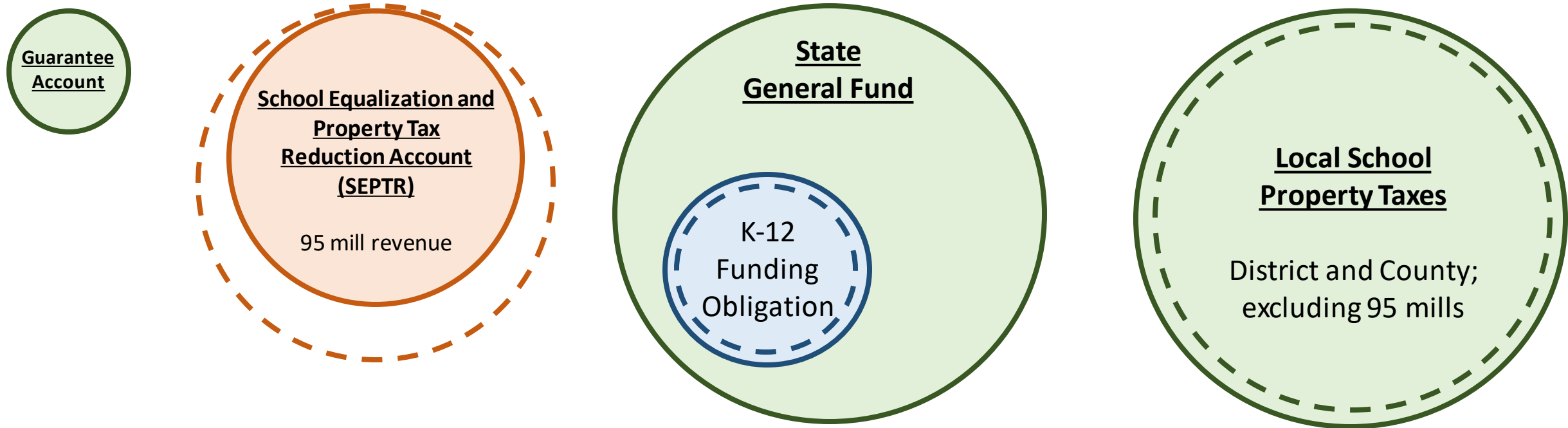
If there is a reduction in revenue brought in by the 95 mills from the prior year, BASE GTB and countywide retirement GTB are "dialed down" by the full amount of the decrease, shifting costs back onto local taxpayers



Prior to the passage of HB 587, growth in revenue from the 95 mills had no direct impact on local taxes and simply decreased the load within the GF on other revenue sources, like income tax

Note: values are for FY 2023

# ➤ “Static” 95 mills



Under HB 587 as designed with “static” 95 mills, as the 95 bring in more \$, the “load” on the state GF and local taxes will decrease

# ➤ “Floating” 95 mills

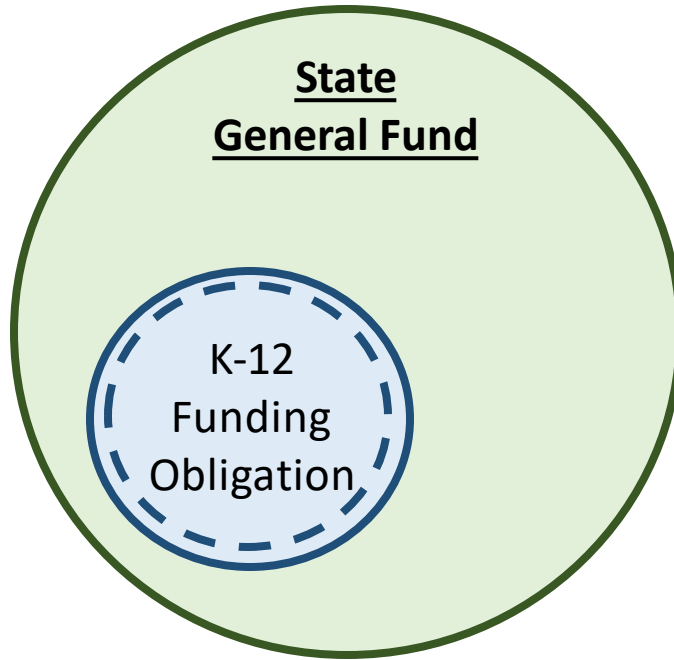
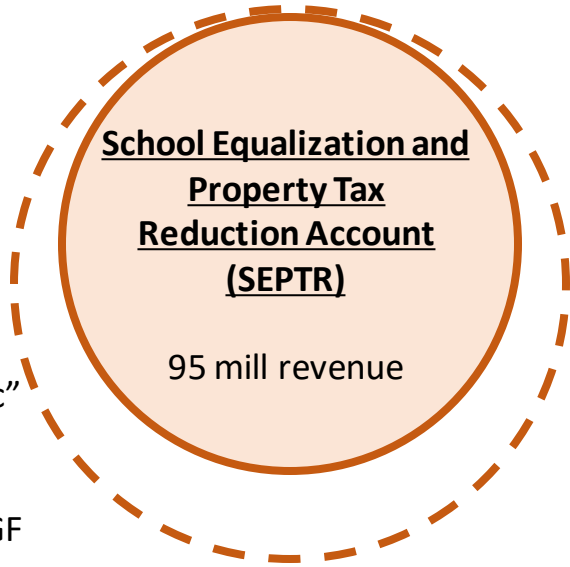
Guarantee Account

School Equalization and Property Tax Reduction Account (SEPTR)  
≤ 95 mill revenue

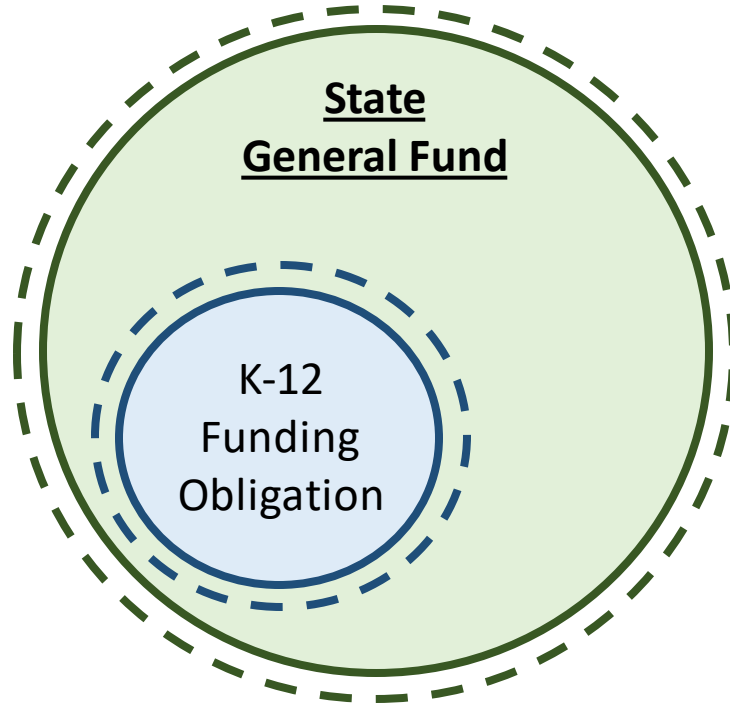
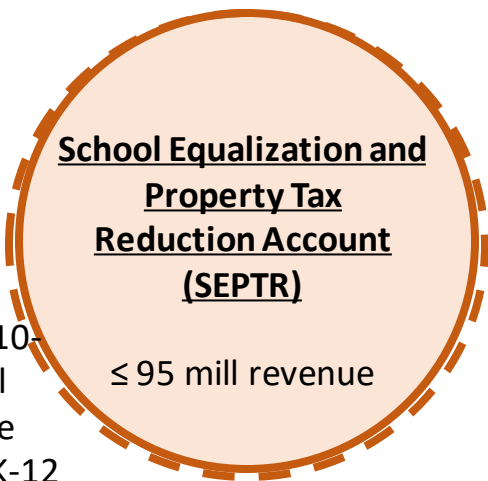
State General Fund  
K-12 Funding Obligation

Local School Property Taxes  
District and County; excluding 95 mills

Under HB 587 if the 95 “float down” under 15-10-420(1)(a), the SEPTR will grow very slowly and the “load” from the state’s K-12 funding obligation will have to shift; possibly requiring tax increases for the state GF and/or local taxes



**“Static” 95 mills**  
Under HB 587 as designed with “static” 95 mills, as the 95 bring in more \$, the “load” on the state GF and local taxes will decrease

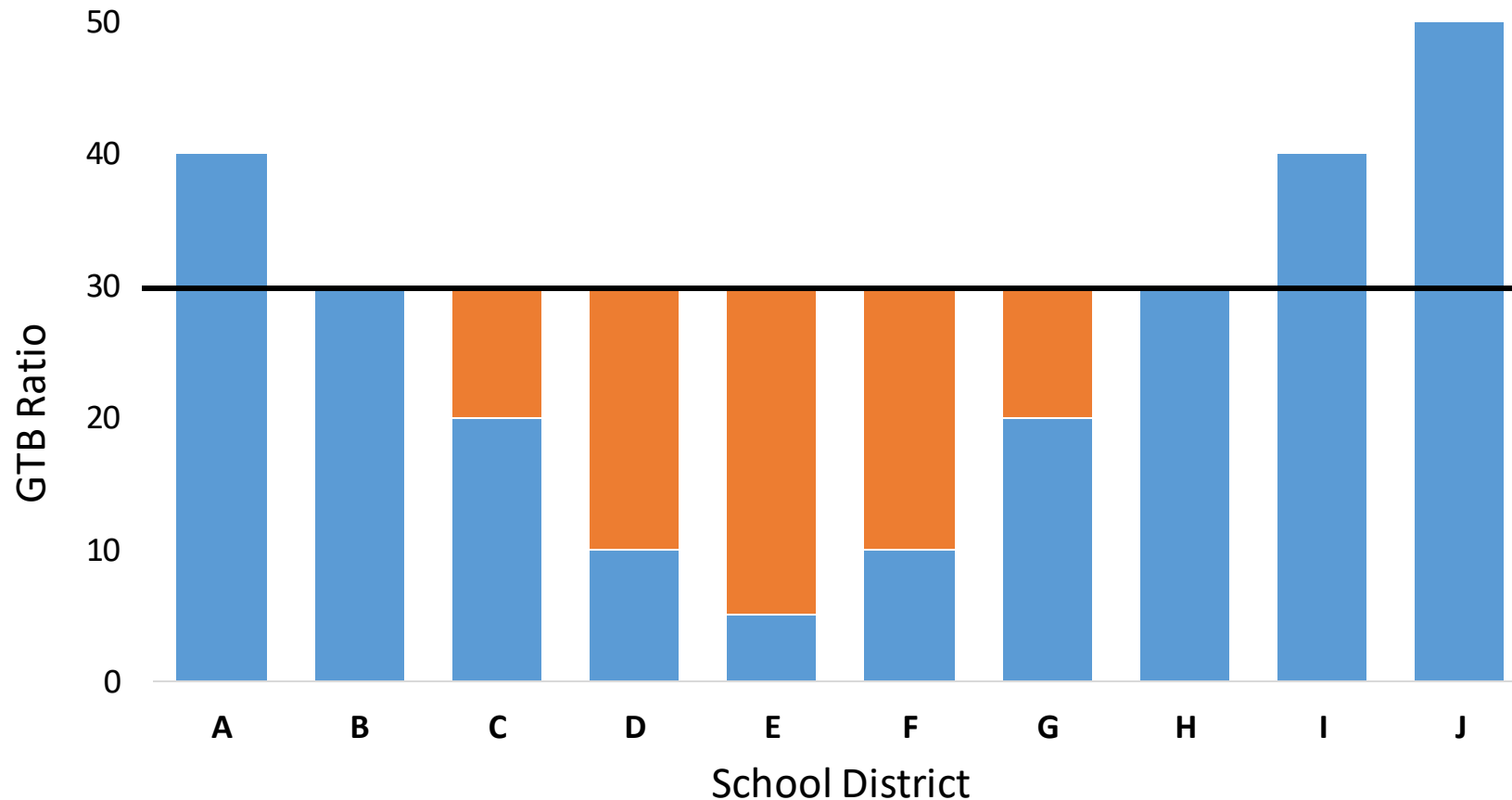


**“Floating” 95 mills**  
Under HB 587 if the 95 “float down” under 15-10-420(1)(a), the SEPTR will grow very slowly and the “load” from the state’s K-12 funding obligation will have to shift; possibly requiring tax increases for the state GF and/or local taxes



# GTB Aid

GTB aid equalizes districts' revenue-generating capacity by providing a **state GTB aid subsidy** for districts with less property tax wealth to bring their **revenue-generating capacity (based on the district GTB ratio)** to a **guaranteed amount**



A district's **revenue-generating capacity** is measured as a ratio of the district's property wealth (taxable value) to its local funding needs and costs.

# GTB Aid

GTB Aid provides support for school districts (and counties for school retirement) with low tax value and/or high student areas. When combined with the school funding formula, this promotes base level equal opportunities for students across Montana.

For example, due to the difference in tax bases for these districts, Ennis K-12 and Superior K-12 school districts have relatively comparable enrollment (ANB), and Superior K-12 receives GTB aid while Ennis K-12 does not.

School District	ANB	Taxable Value	GTB	BASE Levy Revenue	Mill Value	Number of Mills
Ennis K-12	425	\$191.4M	\$0	\$1,217,878	\$191,381	6.36
Superior K-12	351	\$5.2M	\$791,827	\$249,824	\$5,196	48.08

The number of mills it would take to raise \$1.0 million for those two districts WITHOUT the per-mill GTB subsidy are calculated below. It would take Superior K-12 192.46 mills to collect \$1.0 million, while Ennis K-12 would need only 5.23 mills to do the same. GTB aid helps equalizes the tax burden for education between different areas.

School District	ANB	Taxable Value	GTB	Levy Revenue	Mill Value	Number of Mills
Ennis K-12	425	\$191.4M	\$0	\$1,000,000	\$191,381	5.23
Superior K-12	351	\$5.2M	\$0	\$1,000,000	\$5,196	192.46

# How does HB 587 affect local mills for retirement?

- Generally, high-mill counties with a higher numbers of kids compared to their taxable values will receive the largest reduction in their retirement mills (because they will receive additional retirement GTB aid from the state that will offset local property taxes for retirement)

County	Countywide Education Retirement Mills FY 2024	Countywide Education Retirement Mills FY 2025	Countywide Education Retirement Mills FY 2026	Countywide Education Retirement Mills FY 2027	Change in Retirement Mills FY 2024-2027
Prairie	41.45	17.47	9.73	4.62	(36.83)
Petroleum	33.79	16.01	13.81	9.97	(23.82)
Powell	35.57	22.74	19.01	12.92	(22.65)
Hill	35.85	22.75	19.61	14.03	(21.82)
Fergus	36.70	23.10	20.52	15.26	(21.44)
Sheridan	29.51	13.54	11.77	8.24	(21.27)
Blaine	35.68	23.33	21.47	16.78	(18.90)
Teton	33.64	21.63	19.56	14.91	(18.73)
McCone	34.00	22.57	20.54	15.83	(18.17)
Lewis & Clark	30.86	19.94	17.47	12.69	(18.17)
Flathead	30.51	19.41	17.12	12.52	(17.99)
Treasure	26.07	29.38	32.72	8.19	(17.88)
Lake	32.17	20.87	18.91	14.45	(17.72)
Missoula	30.54	19.60	17.38	12.83	(17.71)
Golden Valley	35.80	35.55	35.57	18.10	(17.70)
Yellowstone	30.81	19.88	17.71	13.22	(17.59)
Broadwater	23.26	10.40	8.69	5.74	(17.52)
Cascade	29.84	19.22	17.04	12.44	(17.40)
Dawson	31.16	20.24	18.29	13.95	(17.21)
Beaverhead	29.76	19.26	17.10	12.59	(17.17)
Meagher	21.85	11.54	8.67	4.77	(17.08)
Silver Bow	28.02	18.03	15.87	11.50	(16.52)
Roosevelt	29.96	19.45	17.84	13.67	(16.29)
Deer Lodge	27.29	17.87	15.85	11.22	(16.07)
Custer	29.34	19.12	17.42	13.29	(16.05)
Rosebud	33.33	22.77	21.40	17.30	(16.03)
Pondera	29.64	18.80	17.19	13.61	(16.03)

# How does HB 587 affect local mills for retirement?

- Generally, low-mill counties with lower ratios of kids to taxable values will receive the smallest reduction to their retirement mills. Since these counties generally receive very little retirement GTB aid from the state or no GTB aid at all, they will receive a smaller reduction of retirement mills (if any)

County	Countywide Education Retirement Mills FY 2024	Countywide Education Retirement Mills FY 2025	Countywide Education Retirement Mills FY 2026	Countywide Education Retirement Mills FY 2027	Change in Retirement Mills FY 2024-2027
Carbon	27.55	19.37	16.84	12.16	(15.39)
Sanders	26.79	17.21	15.37	11.56	(15.23)
Big Horn	28.41	18.53	16.98	13.26	(15.15)
Park	28.10	23.25	19.29	13.03	(15.07)
Glacier	26.50	17.16	15.51	12.01	(14.49)
Phillips	23.26	13.53	12.33	9.55	(13.71)
Valley	23.48	14.46	13.13	10.31	(13.17)
Jefferson	26.64	17.64	16.80	13.87	(12.77)
Liberty	23.97	18.39	15.68	11.49	(12.48)
Mineral	16.47	7.75	6.31	3.99	(12.48)
Toole	19.19	11.86	10.05	6.74	(12.45)
Gallatin	23.22	19.64	16.44	11.20	(12.02)
Lincoln	21.06	13.81	12.37	9.41	(11.65)
Garfield	25.82	23.65	20.31	14.36	(11.46)
Daniels	17.09	8.77	7.84	5.65	(11.44)
Ravalli	19.90	12.66	11.20	8.57	(11.33)
Musselshell	18.53	11.61	10.40	7.79	(10.74)
Chouteau	30.57	24.98	25.32	20.62	(9.95)
Granite	21.10	19.89	18.26	12.96	(8.14)
Stillwater	18.65	16.78	15.29	11.88	(6.77)
Wheatland	25.37	25.33	24.26	22.31	(3.06)
Sweet Grass	19.54	18.88	17.92	16.77	(2.77)
Judith Basin	19.75	19.60	18.94	18.25	(1.50)
Wibaux	7.20	7.11	6.97	6.83	(0.37)
Fallon	0.00	0.00	0.00	0.00	-
Richland	0.00	0.00	0.00	0.00	-
Madison	3.80	3.98	3.75	3.90	0.10
Carter	3.28	3.42	3.59	3.74	0.46
Powder River	0.00	0.00	0.06	0.48	0.48
<b>Statewide Average</b>	<b>24.85</b>	<b>17.03</b>	<b>15.35</b>	<b>11.20</b>	<b>(13.65)</b>

# HB 587

## Scenario:

What would happen  
if the 95 mills begin  
to “float” in FY 2026?

### ➤ Assumptions:

- The retirement GTB ratio is 1.89 for FY 2025 (current law)
- If the 95 mills “float” down:
  - The 95 mills would remain static for FY 2024 and FY 2025, and hypothetically the 2025 legislature could make a change in statute such that the 95 mills would float down
  - The 95 mills would “float” to 93.15 in FY 2026 and 94.87 in FY 2027
  - The retirement GTB ratio would remain at 1.89 for FY 2026
- If the 95 mills are “static,” the retirement GTB ratio would be 2.03 for FY 2026 and 2.76 for FY 2027 (per the HB 587 fiscal note)

# What would happen if the 95 mills begin to “float” in FY 2026?

- Generally, high-mill counties with a higher numbers of kids compared to their taxable values would receive an increase in mills (retirement mills + the 95) if the 95 mills were to “float,” compared to if the 95 mills are “static”
  - These counties will receive additional retirement GTB aid from the state in the “static” scenario, and that GTB aid will offset local property taxes for retirement
  - These counties would not receive the additional retirement GTB aid from the state in the “floating” scenario, and that GTB aid would not be available to offset local property taxes for retirement
- The counties that receive **higher GTB aid** from the state would have a relatively large increase retirement mills in the “floating” scenario, which would be only minimally offset by the same small reduction to the 95 mills for all counties

County	Countywide Education Retirement Mills + the 95 Mills FY 2025	Countywide Education Retirement Mills + the "95 Mills" FY 2026	Countywide Education Retirement Mills + the "95 Mills" FY 2027	Change in Retirement Mills + the "95 Mills" (Float) FY 2025-2027	Change in Retirement Mills + the 95 Mills (Static) FY 2025-2027	Difference
Treasure	124.38	125.87	121.20	(3.18)	(21.19)	18.02
Golden Valley	130.55	128.72	128.90	(1.65)	(17.45)	15.80
Rosebud	117.77	116.15	120.18	2.42	(5.47)	7.89
Blaine	118.33	116.22	119.41	1.08	(6.55)	7.63
McCone	117.57	115.27	118.28	0.71	(6.74)	7.44
Fergus	118.10	115.25	117.44	(0.67)	(7.84)	7.18
Teton	116.63	114.18	116.77	0.14	(6.72)	6.86
Garfield	118.65	115.03	116.13	(2.53)	(9.29)	6.77
Petroleum	111.01	108.43	111.72	0.71	(6.03)	6.75
Lake	115.87	113.48	116.05	0.17	(6.42)	6.59
Pondera	113.80	111.68	115.06	1.25	(5.19)	6.44
Jefferson	112.64	111.21	115.19	2.55	(3.77)	6.32
Hill	117.75	114.21	115.35	(2.40)	(8.72)	6.32
Dawson	115.24	112.79	115.22	(0.02)	(6.29)	6.28
Roosevelt	114.45	112.31	114.82	0.36	(5.79)	6.15
Custer	114.12	111.87	114.30	0.18	(5.82)	6.00
Big Horn	113.53	111.38	114.21	0.68	(5.27)	5.96
Yellowstone	114.88	112.17	114.17	(0.71)	(6.65)	5.94
Chouteau	119.98	120.32	121.54	1.56	(4.36)	5.92
Powell	117.74	113.58	113.78	(3.97)	(9.83)	5.86
Carbon	114.37	111.35	112.99	(1.38)	(7.21)	5.82
Sheridan	108.54	106.25	109.06	0.53	(5.29)	5.82
Missoula	114.60	111.82	113.64	(0.96)	(6.77)	5.81
Park	118.25	113.84	113.82	(4.43)	(10.21)	5.78
Beaverhead	114.26	111.54	113.35	(0.91)	(6.67)	5.76
Flathead	114.41	111.57	113.26	(1.15)	(6.90)	5.74
Cascade	114.22	111.46	113.06	(1.16)	(6.78)	5.62

# What would happen if the 95 mills begin to “float” in FY 2026? (cont.)

- Generally, low-mill counties with lower ratios of kids to taxable values would experience minimal change to their in mills (retirement mills + the 95) if the 95 mills were to “float,” compared to if the 95 mills are “static”
  - The counties that receive **no GTB aid** from the state would have equal retirement mills in both the “static” and “floating” scenarios, and these counties would receive the same small reduction to the 95 mills for all counties
  - The counties that receive **minimal GTB aid** from the state would have a relatively small increase retirement mills in the “floating” scenario, which would be offset by the same small reduction to the 95 mills for all counties

County	Countywide Education Retirement Mills + the 95 Mills FY 2025	Countywide Education Retirement Mills + the "95 Mills" FY 2026	Countywide Education Retirement Mills + the "95 Mills" FY 2027	Change in Retirement Mills + the "95 Mills" (Float) FY 2025-2027	Change in Retirement Mills + the 95 Mills (Static) FY 2025-2027	Difference
Lewis & Clark	114.94	111.88	113.27	(1.67)	(7.24)	5.58
Liberty	113.39	110.09	112.01	(1.38)	(6.90)	5.52
Glacier	112.16	109.80	112.38	0.22	(5.14)	5.37
Silver Bow	113.03	110.19	111.66	(1.36)	(6.53)	5.16
Granite	114.89	111.81	113.07	(1.82)	(6.93)	5.11
Deer Lodge	112.87	110.19	111.32	(1.55)	(6.65)	5.11
Gallatin	114.64	110.83	111.30	(3.34)	(8.44)	5.10
Stillwater	111.78	109.55	111.91	0.13	(4.90)	5.03
Sanders	112.21	109.60	111.32	(0.89)	(5.65)	4.76
Phillips	108.53	106.41	108.68	0.15	(3.97)	4.12
Valley	109.46	107.21	109.42	(0.04)	(4.14)	4.11
Lincoln	108.81	106.37	108.22	(0.59)	(4.40)	3.81
Daniels	103.77	101.80	104.24	0.47	(3.13)	3.60
Meagher	106.54	103.00	103.36	(3.18)	(6.77)	3.59
Musselshell	106.61	104.33	106.31	(0.29)	(3.82)	3.52
Toole	106.86	104.02	105.01	(1.85)	(5.11)	3.26
Ravalli	107.66	105.10	106.74	(0.92)	(4.09)	3.17
Prairie	112.47	104.18	102.77	(9.71)	(12.86)	3.15
Broadwater	105.40	102.71	103.88	(1.52)	(4.66)	3.14
Mineral	102.75	100.10	101.34	(1.41)	(3.76)	2.35
Wheatland	120.33	117.45	118.82	(1.51)	(3.02)	1.51
Sweet Grass	113.88	111.07	112.17	(1.70)	(2.11)	0.40
Powder River	95.00	93.21	95.57	0.57	0.48	0.09
Carter	98.42	96.74	98.61	0.19	0.32	(0.13)
Fallon	95.00	93.15	94.87	(0.13)	-	(0.13)
Richland	95.00	93.15	94.87	(0.13)	-	(0.13)
Madison	98.98	96.90	98.77	(0.21)	(0.08)	(0.13)
Judith Basin	114.60	112.09	113.12	(1.48)	(1.35)	(0.13)
Wibaux	102.11	100.12	101.70	(0.41)	(0.28)	(0.13)
<b>Statewide Average</b>	<b>112.03</b>	<b>109.48</b>	<b>111.17</b>	<b>(0.86)</b>	<b>(5.83)</b>	<b>4.97</b>

# Blaine County



County	Countywide Education Retirement Mills + the 95 Mills FY 2025	Countywide Education Retirement Mills + the "95 Mills" FY 2026	Countywide Education Retirement Mills + the "95 Mills" FY 2027	Change in Retirement Mills + the "95 Mills" (Float) FY 2025-2027	Change in Retirement Mills + the 95 Mills (Static) FY 2025-2027	Difference
Blaine	118.33	116.22	119.41	1.08	(6.55)	7.63

➤ **Blaine County would pay 7.63 more mills if the 95 mills “float” than if they are “static”**

- In the “floating” scenario, Blaine County would have a 1.21 mill increase for retirement, which would be only minimally offset by the 0.13 mill reduction to the “95 mills,” resulting in a net **1.08 mill increase**
- In the “static” scenario, Blaine County would have a **6.55 mill decrease** for retirement due primarily to the local property tax offset from state retirement GTB aid

# Richland County



County	Countywide Education Retirement Mills + the 95 Mills FY 2025	Countywide Education Retirement Mills + the "95 Mills" FY 2026	Countywide Education Retirement Mills + the "95 Mills" FY 2027	Change in Retirement Mills + the "95 Mills" (Float) FY 2025-2027	Change in Retirement Mills + the 95 Mills (Static) FY 2025-2027	Difference
Richland	95.00	93.15	94.87	(0.13)	-	(0.13)

➤ **Richland County would pay 0.13 less mills if the 95 mills “float” than if they are “static”**

- In the “floating” scenario, Richland County would have no changes to retirement mills since the county pays 0.00 mills for retirement, which would be combined with the 0.13 mill reduction to the “95 mills,” resulting in a net **0.13 mill decrease**
- In the “static” scenario, Richland County would have the same **0 mill decrease** for retirement since the county does not pay any retirement mills and does receive retirement GTB aid from the state in either scenario



# Mineral County



County	Countywide Education Retirement Mills + the 95 Mills FY 2025	Countywide Education Retirement Mills + the "95 Mills" FY 2026	Countywide Education Retirement Mills + the "95 Mills" FY 2027	Change in Retirement Mills + the "95 Mills" (Float) FY 2025-2027	Change in Retirement Mills + the 95 Mills (Static) FY 2025-2027	Difference
Mineral	102.75	100.10	101.34	(1.41)	(3.76)	2.35

➤ **Mineral County would pay 2.35 more mills if the 95 mills “float” than if they are “static”**

- In the “floating” scenario, Mineral County would have a 1.28 mill decrease for retirement (due to increased taxable value from the 2026 reappraisal cycle), which would be combined with the 0.13 mill reduction to the “95 mills,” resulting in a net **1.41 mill decrease**
- In the “static” scenario, Mineral County would have a **3.76 mill decrease** for retirement due primarily to the local property tax offset from state retirement GTB aid

# Madison County

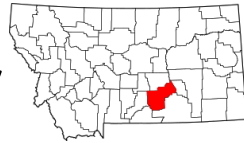


County	Countywide Education Retirement Mills + the 95 Mills FY 2025	Countywide Education Retirement Mills + the "95 Mills" FY 2026	Countywide Education Retirement Mills + the "95 Mills" FY 2027	Change in Retirement Mills + the "95 Mills" (Float) FY 2025-2027	Change in Retirement Mills + the 95 Mills (Static) FY 2025-2027	Difference
Madison	98.98	96.90	98.77	(0.21)	(0.08)	(0.13)

➤ **Madison County would pay 0.13 less mills if the 95 mills “float” than if they are “static”**

- In the “floating” scenario, Madison County would have a 0.08 mill decrease increase for retirement (due to increased taxable value from the 2026 reappraisal cycle), which would be combined with the 0.13 mill reduction to the “95 mills,” resulting in a net **0.21 mill decrease**
- In the “static” scenario, Madison County would have the same **0.08 mill decrease** for retirement since the county does not receive GTB aid in either scenario to offset local property taxes for retirement

# Yellowstone County



County	Countywide Education Retirement Mills + the 95 Mills FY 2025	Countywide Education Retirement Mills + the "95 Mills" FY 2026	Countywide Education Retirement Mills + the "95 Mills" FY 2027	Change in Retirement Mills + the "95 Mills" (Float) FY 2025-2027	Change in Retirement Mills + the 95 Mills (Static) FY 2025-2027	Difference
Yellowstone	114.88	112.17	114.17	(0.71)	(6.65)	5.94

➤ **Yellowstone County would pay 5.94 more mills if the 95 mills “float” than if they are “static”**

- In the “floating” scenario, Yellowstone County would have a 0.58 mill decrease for retirement (due to increased taxable value from the 2026 reappraisal cycle), which would be combined with the 0.13 mill reduction to the “95 mills,” resulting in a net **0.71 mill decrease**
- In the “static” scenario, Yellowstone County would have a **6.65 mill decrease** for retirement due primarily to the local property tax offset from state retirement GTB aid

# Carter County



County	Countywide Education Retirement Mills + the 95 Mills FY 2025	Countywide Education Retirement Mills + the "95 Mills" FY 2026	Countywide Education Retirement Mills + the "95 Mills" FY 2027	Change in Retirement Mills + the "95 Mills" (Float) FY 2025-2027	Change in Retirement Mills + the 95 Mills (Static) FY 2025-2027	Difference
Carter	98.42	96.74	98.61	0.19	0.32	(0.13)

➤ **Carter County would pay 0.13 less mills if the 95 mills “float” than if they are “static”**

- In the “floating” scenario, Carter County would have a 0.32 mill increase increase for retirement (due to increased taxable value from the 2026 reappraisal cycle), which would be only minimally offset by the 0.13 mill reduction to the “95 mills,” resulting in a net **0.19 mill decrease**
- In the “static” scenario, Carter County would have the same **0.32 mill increase** for retirement since the county does not receive GTB aid in either scenario to offset local property taxes for retirement



Questions?