

School Funding and Property Taxes— Basics and Background

1. Looking at a property tax bill
2. Montana Constitution
3. Equality vs. Equity
4. School funding litigation
5. State K-12 spending and State General Fund Revenue sources
6. K-12 property tax trends by fund
7. School district funds as buckets
8. School district general fund basics
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10. What happened in 2018—block grants and GTB
11. Past studies, recommendations, outcomes
12. How to learn more

This overview of school funding and property taxes was assembled by Pad McCracken, LSD research analyst, and presented to a joint meeting of the Education Interim Committee and the Financial Modernization & Risk Analysis Study Committee of the LFC on March 20, 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. And yes, I realize that many of these slides are cluttered and busy; they are more for reference/contemplation/discussion than for a slick TED-like presentation.

Do you know what a mill is?

A mill is 1/1000 of a dollar of taxable value.

Do you know the mill value of property you own?

Mine is \$2.82. I pay \$2.82 on every mill levied in my taxing jurisdiction.

So, the 95 mills cost me about \$270. The 6 mills about \$17.

YEAR 2019 REAL ESTATE STATEMENT OF TAXES PAYABLE

PROPERTY ID NO: 2744 PROPERTY		
LOCATION:		
LEGAL DESCRIPTION: HOBACK AND CANNON ADDN, S30, T10 N, R03 W, BLOCK 607, LT E13 1/2 OF N 40 & S 100' OF 10		
SEC-TWN-RGE: 30-10 N-03 W		
	MARKET VALUE	TAXABLE VALUE
LAND	76,369	1,031
BUILDINGS	132,231	1,785
PERSONAL	0	0
TOTAL VALUE	208,600	2,816
COUNTY MILL VALUE		145,256

$$\text{Mill value} = 2,816 / 1,000 = \$2.82$$

[LFD resource on property tax basics](#)

General Tax Detail

Helena	429.95	County High Retirement	56.54	State University	16.90
Helena Fire Safety Levy	26.08	County Transportation	10.30	Vo-Tech	4.22
Helena GO 2008	20.10	* (SCHL SUBTOTAL)	153.26	* (STAT SUBTOTAL)	133.78
* (HLNA SUBTOTAL)	476.13	County Elementary	92.94		
All Purpose	106.86	County High School	61.96		
City-County Health	21.96	* (SCHM SUBTOTAL)	154.90		
County Extension	3.86	Elem Adult Education	9.52		
Detention Center Debt	12.48	Elem Bond	117.34		
Detention Services	28.16	Elem Building Reserve	31.96		
District Court	9.83	Elem Bus Rsv-Permissive	8.34		
Diversion Services	15.52	Elem General	296.04		
Entitlement Levy	50.50	Elem Technology	13.32		
Fairgrounds	9.32	Elem Transportation	99.26		
Library	61.58	Elem Tuition	31.76		
Mental Health	2.00	High Adult Education	8.34		
Parks	0.28	High Bond	4.28		
Permissive Medical Levy	30.42	High Building Reserve	17.52		
Public Safety	168.85	High Bus Rsv-Permissive	3.66		
Search & Rescue Const. Debt	2.06	High General	161.19		
Search & Rescue Operation	2.79	High Technology	13.06		
Senior Citizens	3.10	High Transportation	30.04		
Sheriff Retirement System Levy	2.84	High Tuition	11.82		
* (LCCY SUBTOTAL)	532.41	* (SD SUBTOTAL)	857.45		
County Elementary Retirement	86.42	State Equalization	112.64		

City

dollars

County

Countywide Schools
(for RET and TRANSP)

Countywide Schools
(for equalization; 33 + 22 mills)

dollars

School District

Statewide School Equalization (40 mills)

Statewide University (6 mills)
5-County Vo-tech (1.5 mills)

State
dollars

This area of my tax bill shows the dollars I pay for the levies in the various taxing jurisdiction in which my property is located.

Special Assessments

Description	Code	First Half	Second Half	Description	Code	First Half	Second Half
STREET MAINT #1	0001	103.08	103.08				
SOLID WASTE	0003	88.05	88.05				
STORM WATER UTL	0008	19.89	19.89				
LANDFILL MONITORING	0016	3.62	3.61				
URBAN FOREST MGMT	0061	19.50	19.50				
OPEN SPACE MAINT	0070	10.00	10.00				
LIGHT DISTRICT #362	0362	35.74	35.73				
FORESTVALE CEM	2121	4.54	4.53				
OPEN-SPACELANDS	2518	6.76	6.76				
WATER QUALITY INSIDE CITY	8000	4.40	4.40				

dollars

These are special assessments made on my property.

<p>This property may qualify for a Property Tax Assistance Program. This may include: Property Tax Assistance, Disabled or Deceased Veteran's Residential Exemption, the and/or Elderly Homeowner's Tax Credit. Contact the Local Department of Revenue at (406) 444-4000 for further information.</p>	General Taxes	District	Mill Levy	First Half	Second Half
	HLNA		169.08	238.07	238.06
	LCCY		189.06	266.20	266.21
	SCHL		54.43	76.63	76.63
	SCHM		55.00	77.45	77.45
	SD	01	304.50	428.73	428.72
	STAT		47.50	66.88	66.88
	Total Mill Levy		819.57	mills x \$2.82 = \$2,308	
	Total Special Assessments			295.58	295.55
	Total Taxes Due Current Year	2,899.04		1,449.54	1,449.50

dollars

Article X – Education and Public Lands

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.**

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.



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

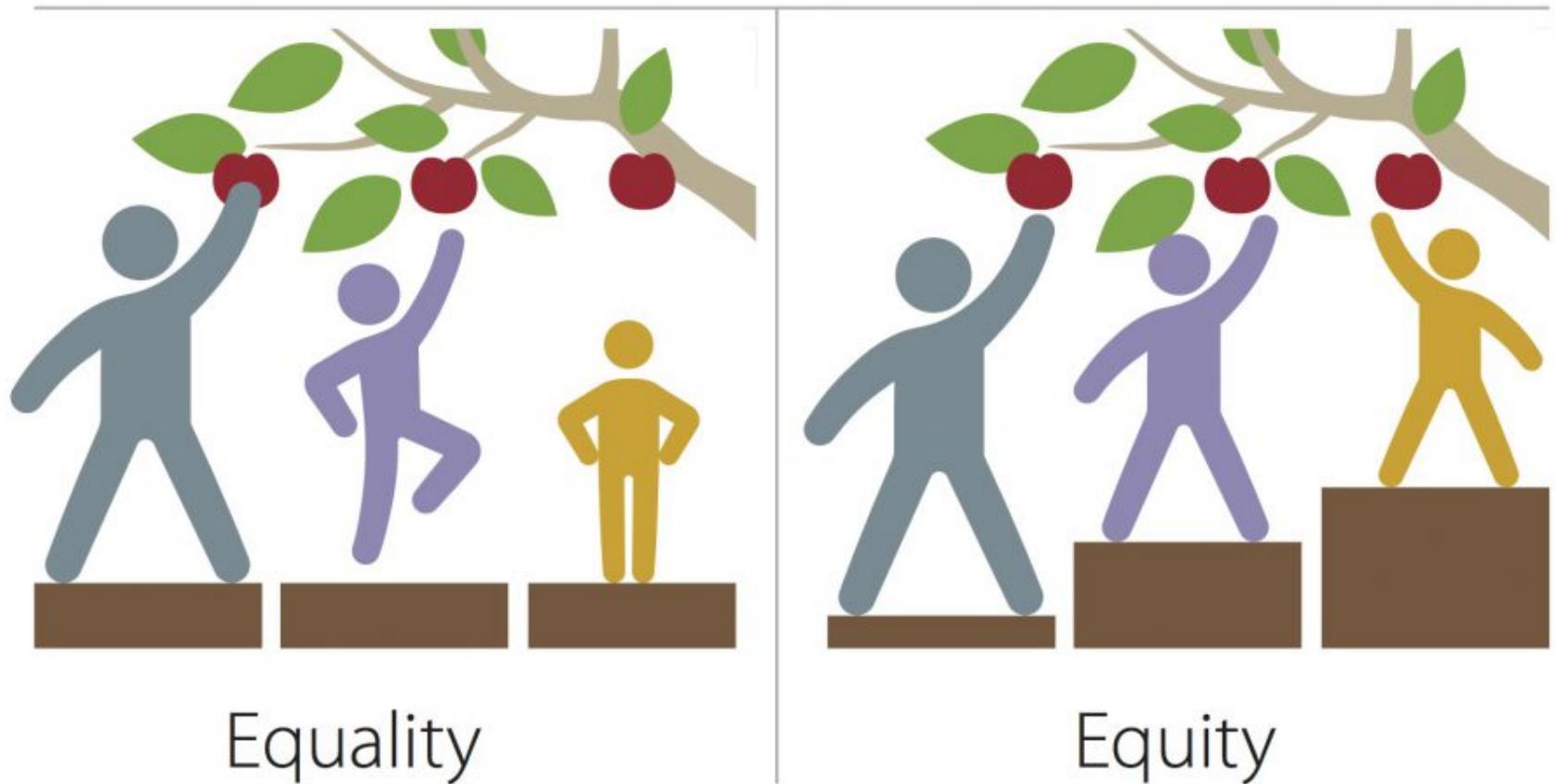
Article VIII – Revenue and Finance

Section 3. Property tax administration. The state shall appraise, assess, and **equalize** the valuation of all property which is to be taxed in the manner provided by law.

Section 4. **Equal** valuation. All taxing jurisdictions shall use the assessed valuation of property established by the state.

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:

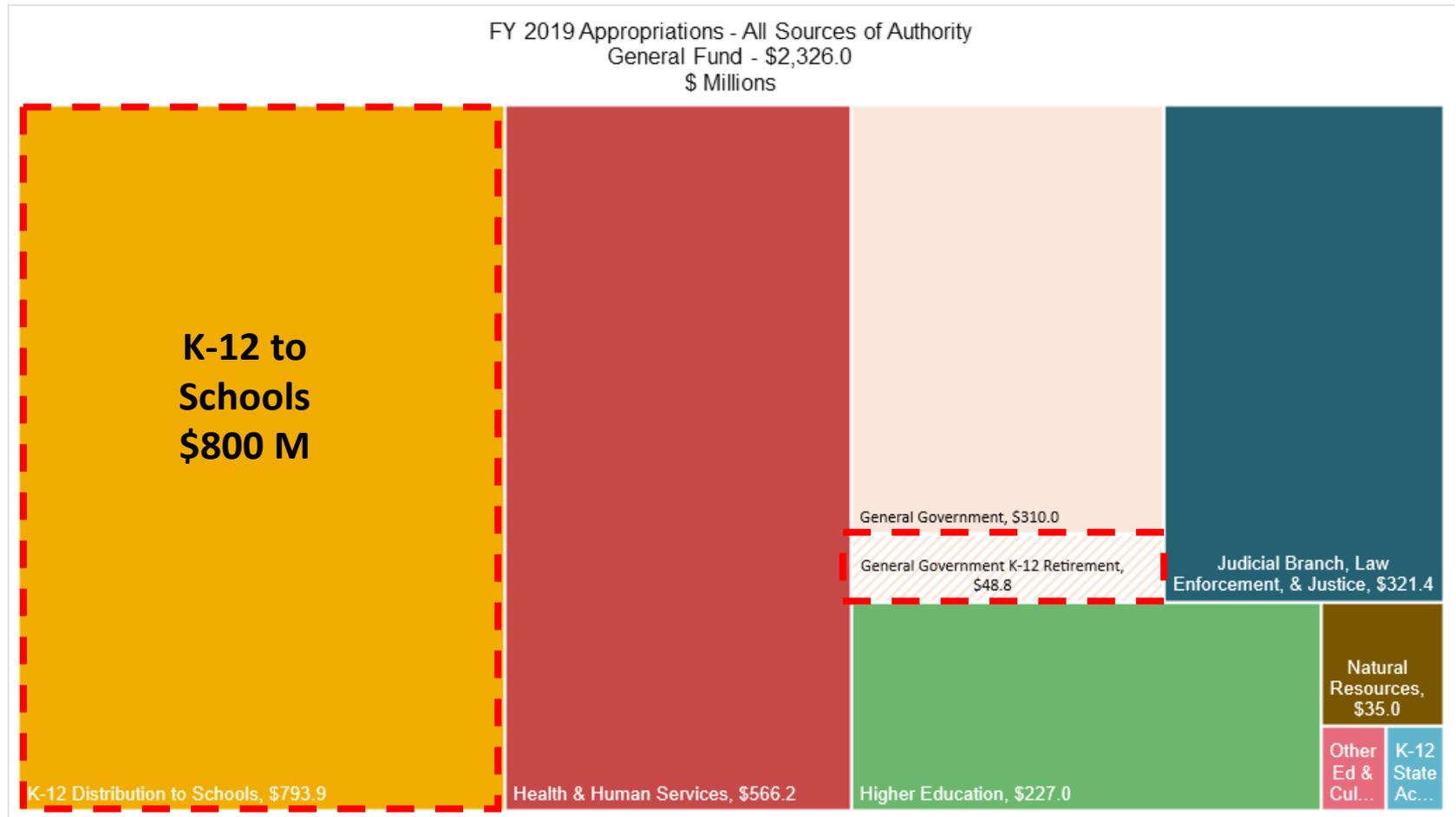
1. Kids (and schools/districts) require varying amounts of resources to develop their educational potentials; and
2. Districts have varying capacities to generate local revenue.



Court Cases and Changes to Montana K-12 Finance

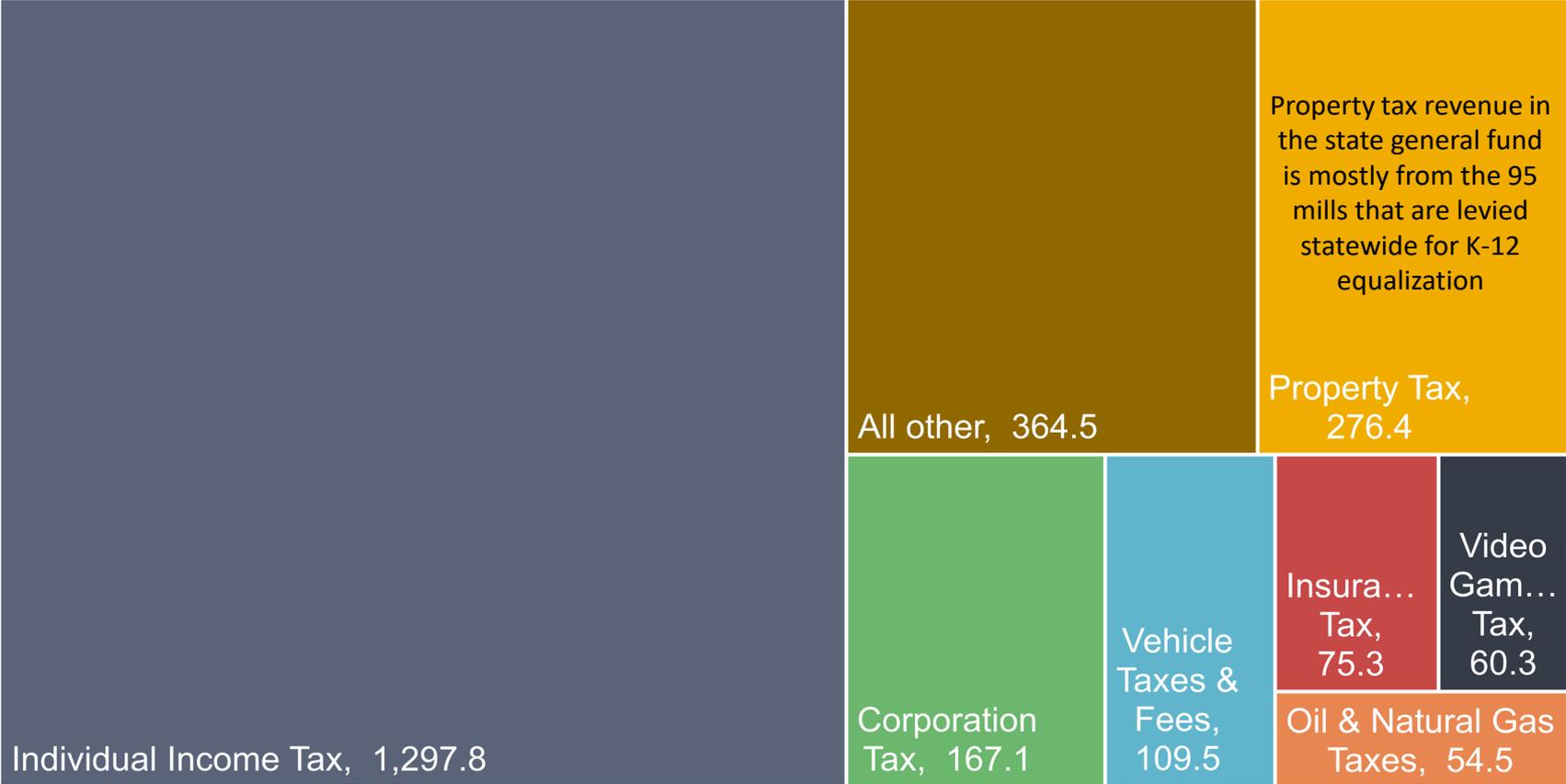
Year	Court Case	Finding	Legislation	Change to Formula
1989	Helena Elementary v. State (Equity)	Unequal spending per pupil means unequal educational opportunity; property poor districts were spending less (and often levying more mills)	HB 28 (1989 special session)	<ul style="list-style-type: none"> Increased state share Created GTB payments Created statewide equalization property tax levy of 40 mills; increased existing county equalization mills to 55 mills (new total = <u>95 mills</u>)
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)



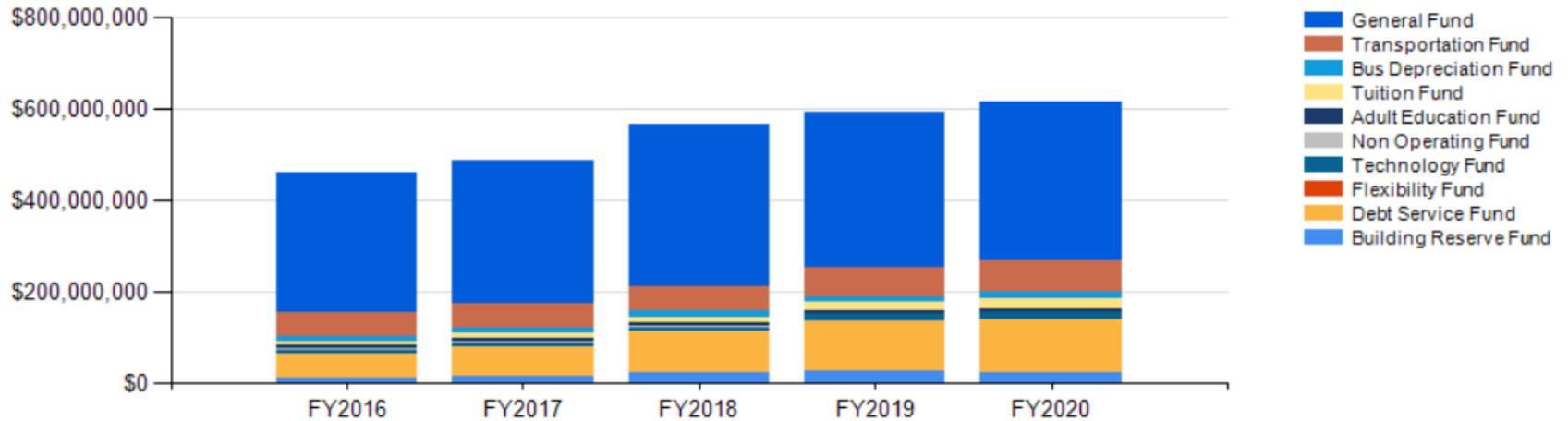
State general fund money comes from multiple sources, the largest being individual income tax. Revenue from the 95 mills (\$300 M) does not provide enough money to cover K-12 appropriations (\$800 M).

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



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



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



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



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



Bus Depreciation \$56
Mills range 0-90*

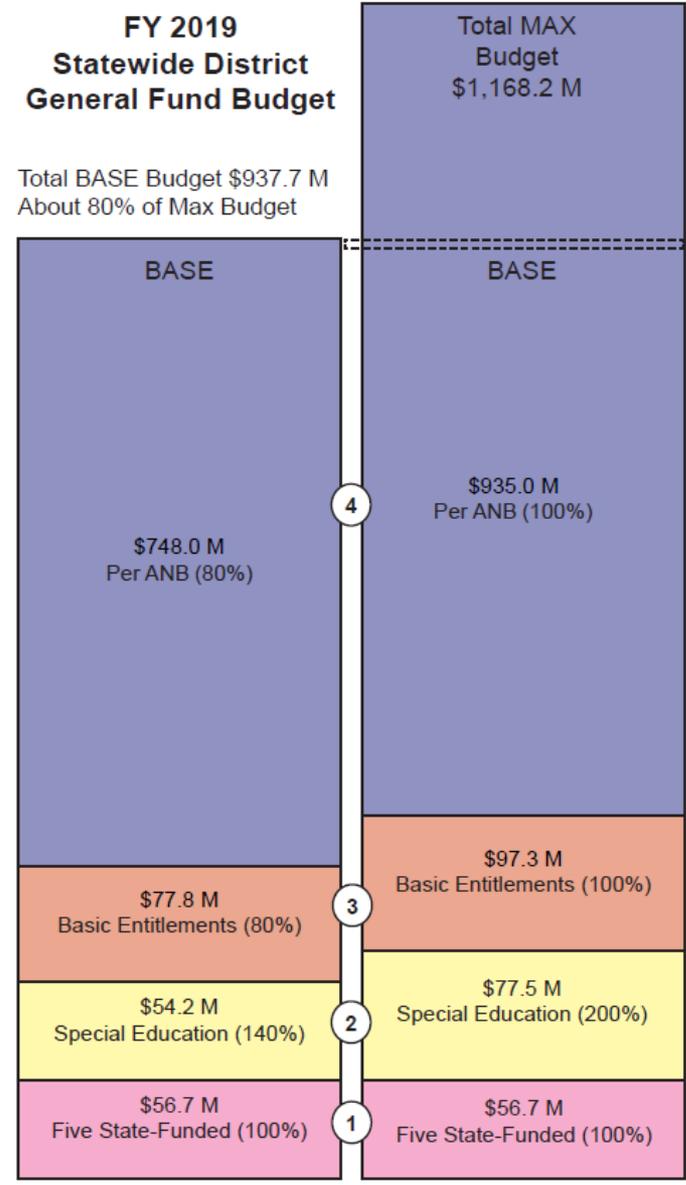


Tuition \$18
Mills range 0-40



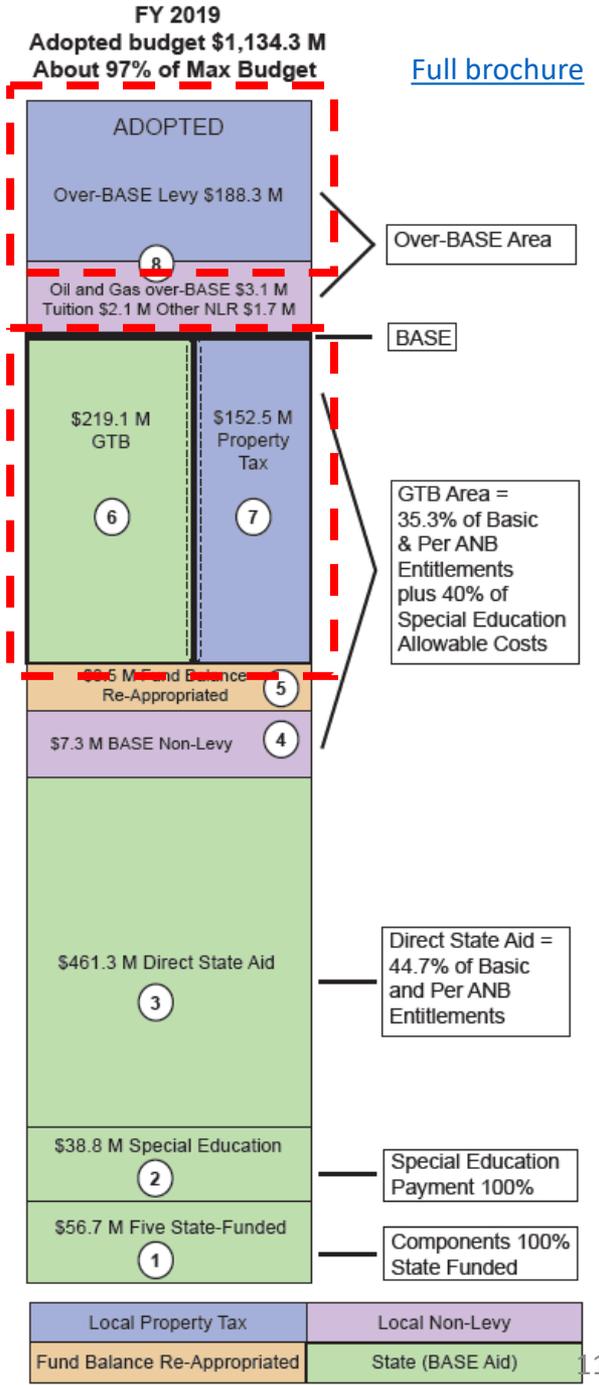
* excludes outlier

Concept of major importance: we have a formula to establish a district's general fund budget limits (below) and a formula for how a district's adopted budget is funded (right). Adopted general fund budgets are often supported by property taxes in both the BASE and overBASE.



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)



[Full brochure](#)

Over-BASE Area

BASE

GTB Area = 35.3% of Basic & Per ANB Entitlements plus 40% of Special Education Allowable Costs

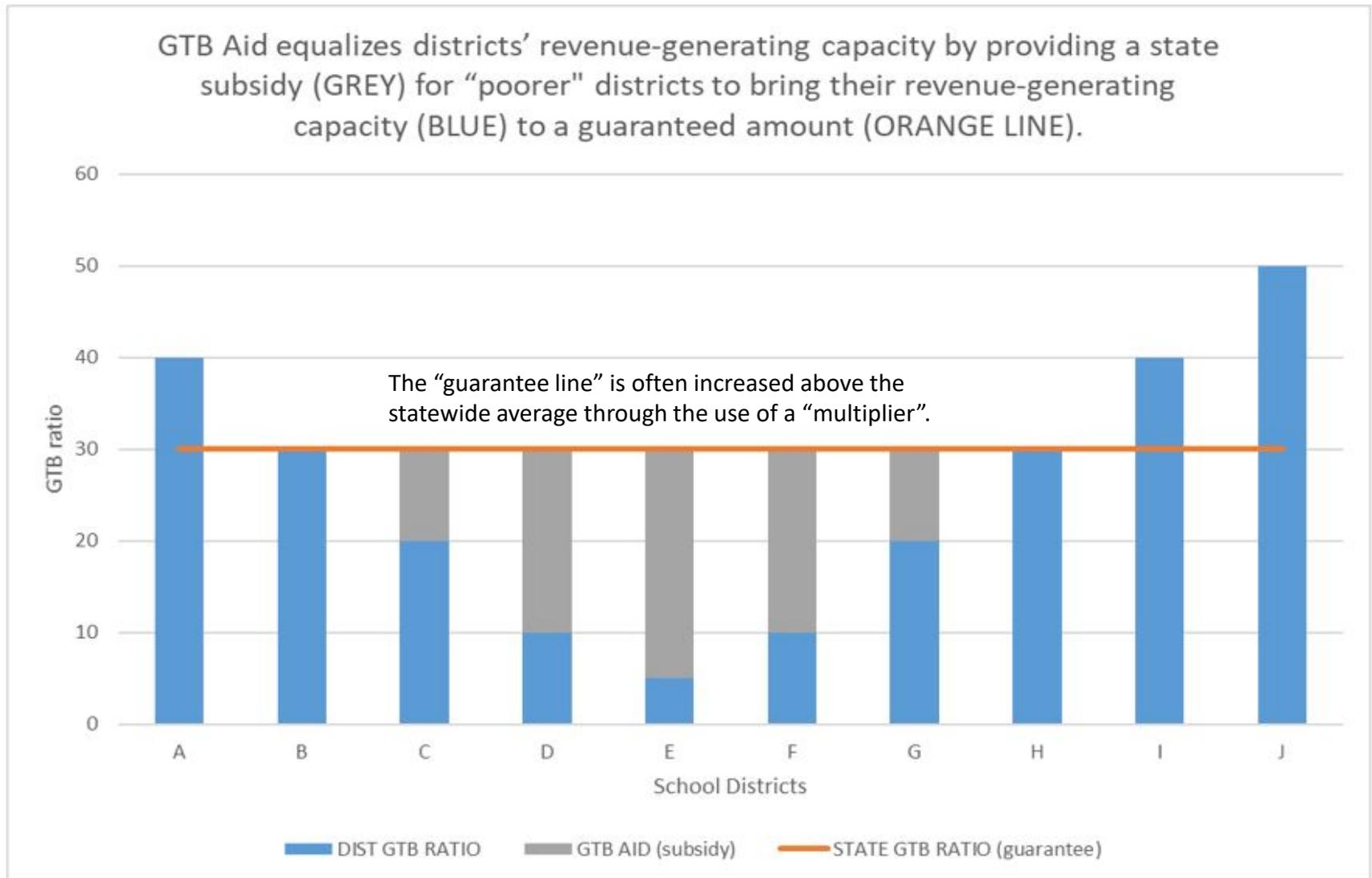
Direct State Aid = 44.7% of Basic and Per ANB Entitlements

Special Education Payment 100%

Components 100% State Funded

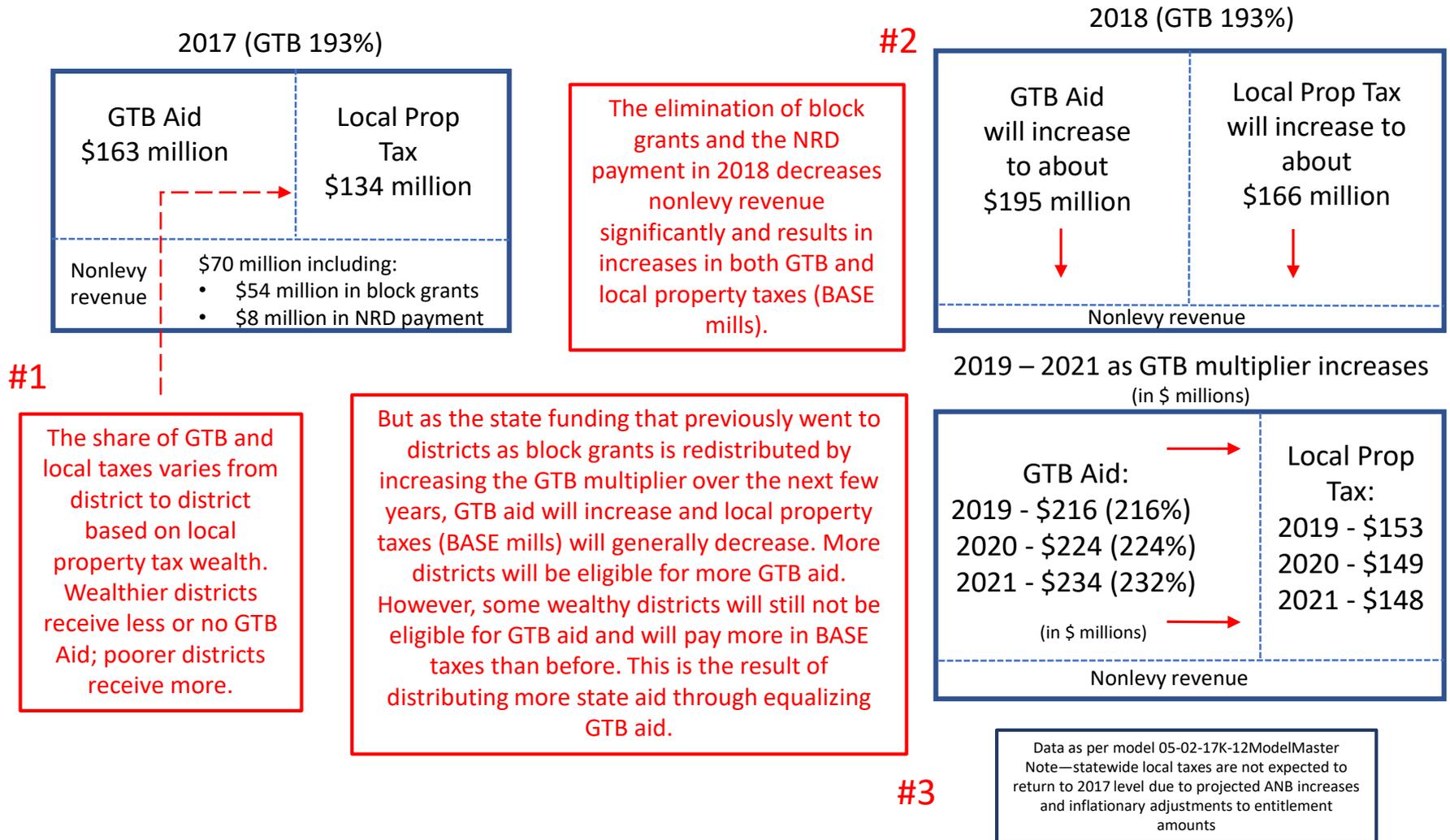
Local Property Tax	Local Non-Levy
Fund Balance Re-Appropriated	State (BASE Aid)

GTB Basics



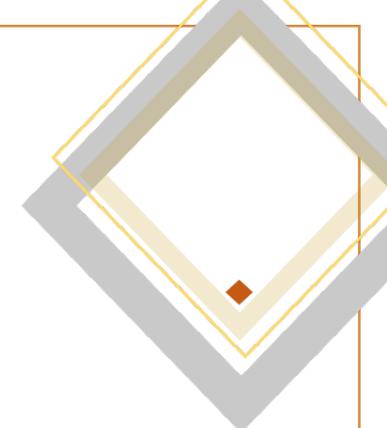
A district's revenue-generating capacity is measured as a ratio of the district's property wealth (taxable value) to its local funding needs/costs (sometimes ANB, but in our district general fund formula, the GTB area).

HB 647 (2017) provides an example of the interplay of the school funding formula and property taxes. The elimination of school district block grants and the NRD payment resulted in noticeable property tax increases in 2018 across the state. Increasing the GTB multiplier from 193% in 2017 to 232% in 2021 will bring statewide BASE property taxes back down.



What's this all about?

SB 307 (2017; Llew Jones) created a new permissive levy for a subfund within the building reserve for major maintenance (and a mechanism for state support). The legislation also added a new requirement that trustees notice any intent to increase nonvoted levies in the upcoming year by March 31.



RESOLUTION # 219
EAST HELENA SCHOOL DISTRICT
NOTICE OF INTENT TO INCREASE NONVOTED LEVIES
MARCH 9, 2020

As an essential part of its budgeting process, the East Helena Board of Trustees is authorized by law to impose levies to support its budget. The East Helena Board of Trustees estimates the following increases/decreases in revenues and mills for the funds noted below for the next school fiscal year beginning July 1, 2020, using certified taxable valuations from the current school fiscal year as provided to the district:

Fund	Current Year Levies		Final SB307 Notice			
	\$	Mills	Est. Change Of Revenue	Est. Change Of Mills	Est. Annual Tax Impact \$100K home	Est. Annual Tax Impact \$200K home
Transportation	396137.00	22.91	77,033.00	4.45	\$ 6.01	\$ 12.02
Bus Depreciation	185,057.00	10.7	(98,557.00)	(5.70)	(7.70)	(15.39)
Adult Ed	17,294.67	1.00	0.00	0	0.00	0.00
Building Reserve	60,000.00	3.47	17,701.00	1.10	1.49	2.97
Tuition	518,400.00	29.97	(94,734.00)	(5.48)	(7.40)	(14.80)
Total	1,176,888.67	68.05	98,557.00	(5.63)	\$ (7.60)	\$ (15.20)

Based on approval of SB307 the District may choose to use the permissive Building Reserve levies listed above for Building Improvements, technology improvements and improving energy efficiency.

These estimates are the District's maximum estimates at the current time. If the District's taxable value increases as expected, the mill and taxpayer cost increases will be less than presented here. These estimates are preliminary and changes are expected before the final budgets are set in August.

Dated this 9th day of March, 2020.

We can learn quite a bit about property taxes in East Helena School District from this notice. For example, one mill raises about \$17,300 in the district, meaning the total taxable value for the district is about \$17,300,000.

While the law requires this notice for any increases, East Helena trustees chose to show decreases in permissive (nonvoted) levies as well.

2002 recommendations from the Education and Local Government Interim Committee as part of the K-12 Public School Funding Study required by [HB 625](#) (2001; Musgrave)

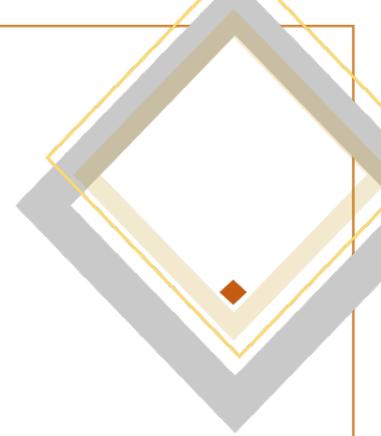
1. Create a statewide levy to fund the property tax portion of the BASE budgets of all school districts in the state. School district nonlevy revenue from oil, gas, and coal production and the district general fund portion of the HB 124 block grants will be used to reduce the state BASE budget levy. All other nonlevy revenue, including fund balance reappropriated, will be used to reduce a school district's over-BASE levy. The statewide levy will be phased in over a 5-year period. **NOT DONE but the block grants were eliminated and the GTB multiplier was increased in [HB 647](#) (2017; Don Jones) which did decrease the variability of BASE mills**
2. Pursue the establishment of a state health insurance pool for school district employees. **NOT DONE**
3. Adopt the transportation funding structure proposed in House Bill No. 163 from the 2001 Legislative Session. **DONE in [SB 424](#) (2003; Nelson) but reimbursement rates have not changed since**
4. Calculate the ANB for a district with declining enrollment by using the average enrollment over a 3-year period. **DONE in [HB 63](#) (2005; Villa)**
5. Provide an annual inflation adjustment tied to the Consumer Price Index for the basic entitlement, per-ANB entitlement, and special education funding. **MOSTLY DONE in [SB 424](#) (2003; Nelson) for BE and per-ANB; other new components in [SB 175](#) (2013; Llew Jones); special ed still does not receive statutory adjustments under [20-9-326](#), but the LFC Education subcommittee is considering a bill draft to do so**
6. Use the House Bill No. 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. **NOT DONE but school facility payments were increased in [SB 424](#) (2003; Nelson)**
7. Allow school district trustees to allocate the remaining balance of a district's House Bill No. 124 block grants to any budgeted fund of the district. **SORT OF DONE in [SB 424](#) (2003; Nelson) but almost all block grants to school districts were eliminated in [HB 647](#) (2017; Don Jones)**

2016 findings and recommendations from the School Funding Interim Commission (aka “The Decennial Study”)

Commission Recommendations on District Size, Structure, and Equity

1. Further study is needed to develop a definition of “isolated and necessary school” based on geography and travel time. This definition can then be used to ensure identified schools have sufficient financial capability, perhaps through additional state support or budgetary flexibility, in order to guarantee the equality of educational opportunity. **NOT DONE**
2. Technology should be leveraged for effective, efficient instruction and to support equality of educational opportunity. **WORK IN PROGRESS**
3. Further study is needed to ensure that unequal tax burdens on districts do not impede equality of educational opportunity. The commission’s exploration of BASE mill equalization should be used as a starting point and guide for future efforts. **Equalization of BASE mills has improved with the elimination of block grants and increase in the GTB multiplier since HB 647, but overBASE mills and other non general fund mills may be disequalizing.**
4. The Legislature should ensure that the funding formula does not create financial disincentives to district annexation or consolidation. **WORK IN PROGRESS**

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](#)