

LEG Days School Funding Training Recap

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School funding is constitutionally required

[Montana Constitution \(Article X, Part X, Section 1\)](#)

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 [the legislature] 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.**

Per [20-9-309, MCA](#), the legislature shall:

(a) determine the costs of providing the basic system of free quality public elementary and secondary schools;

(b) **establish a funding formula that:**

(i) is based on the definition of a basic system of free quality public elementary and secondary schools and reflects the costs associated with providing that system as determined in subsection (4)(a);

(ii) **allows the legislature to adjust the funding formula** based on the educationally relevant factors identified in this section;

(iii) is self-executing and includes a mechanism for annual inflationary adjustments;

(iv) is based on state laws;

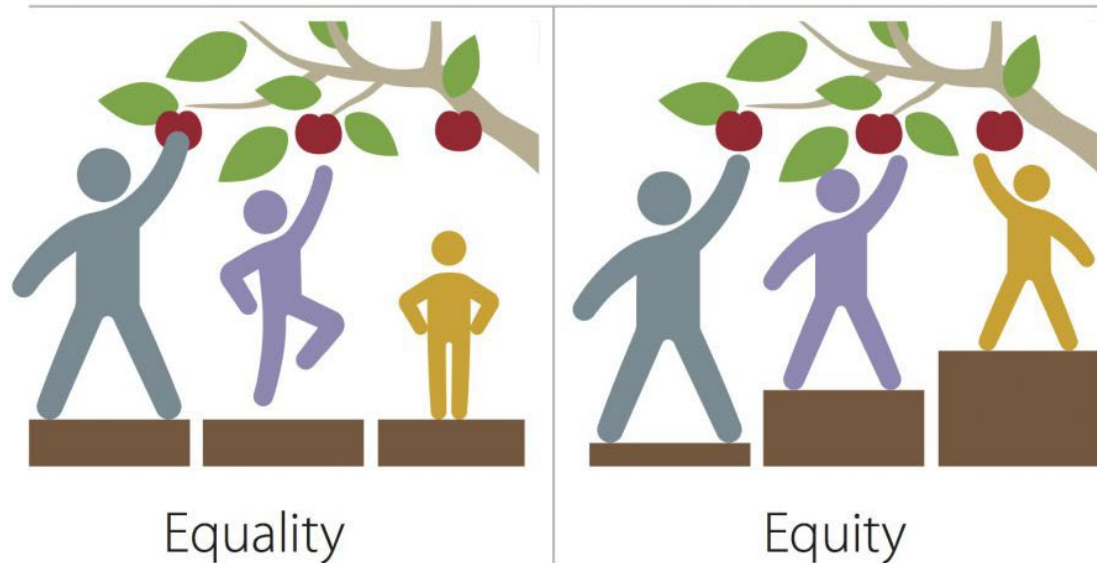
(v) is based on federal education laws consistent with Montana's constitution and laws; and

(vi) distributes to school districts in an equitable manner the state's share of the costs of the basic system of free quality public elementary and secondary schools; and

(c) consolidate the budgetary fund structure to create the number and types of funds necessary to provide school districts with the greatest budgetary flexibility while ensuring accountability and efficiency.

The only entity that can modify Montana's school funding formula is the Montana Legislature.

Equality vs. Equity



Equity is about fairness. In the right-hand picture, 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) Children (and schools/districts) require varying amounts of resources to develop their educational potentials; and
- 2) Districts have varying capacities to generate local revenue.

Montana's funding formula takes both kinds of need into consideration to ensure students across the state have quality schools. In this sense, **equitable** distribution of funding helps ensure the "**equality** of educational opportunity" guaranteed in Montana's constitution.

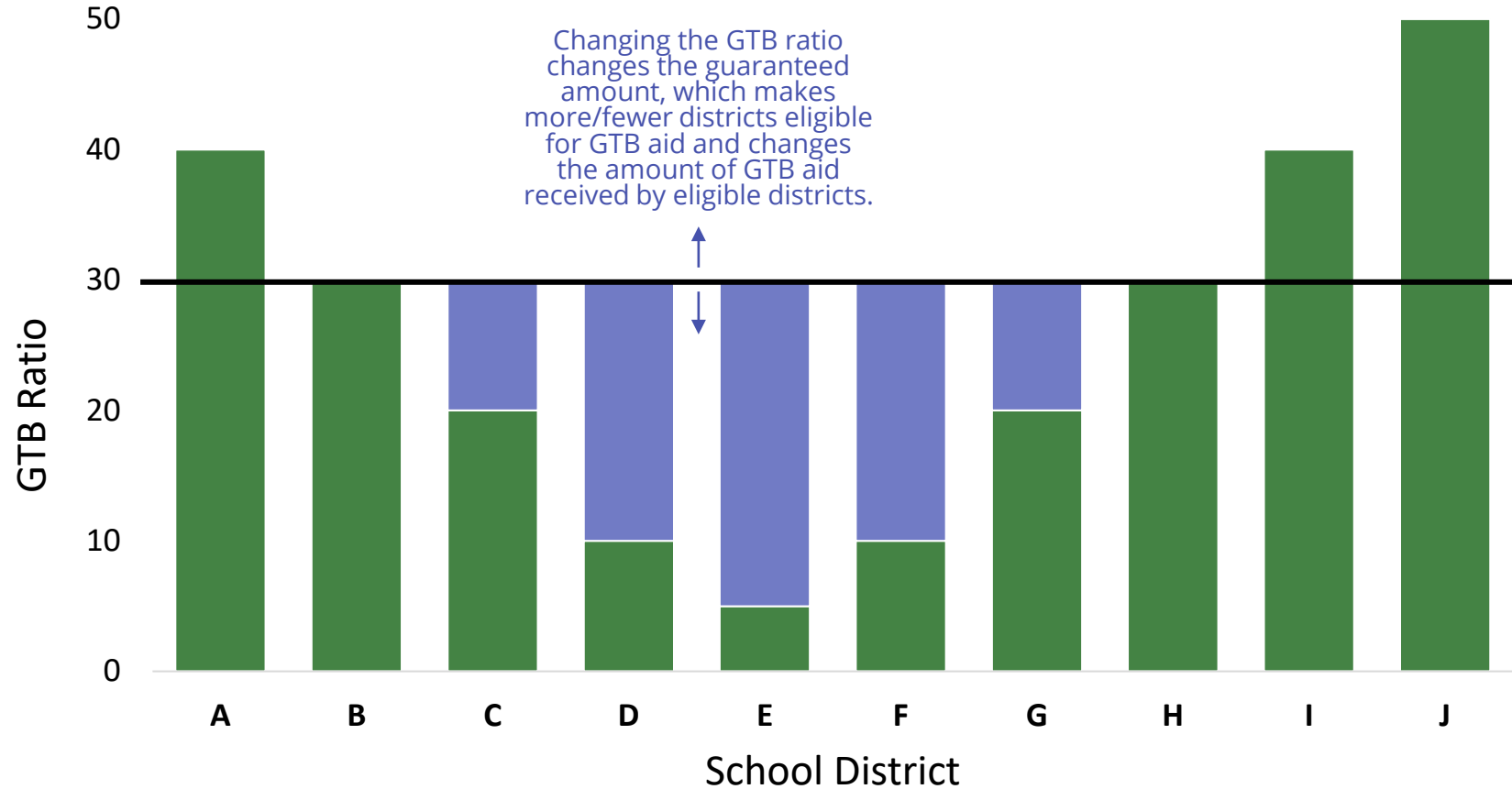
Guaranteed Tax Base (GTB) Aid





Guaranteed Tax Base (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 (sometimes ANB, but in our district general fund formula, the GTB area).



Guaranteed Tax Base (GTB) Aid

GTB provides support for 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, 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

This is due to the difference in tax bases for the districts.

The number of mills it would take to raise \$1.0 million for those two districts WITHOUT GTB are calculated below:

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

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.

Funding Sources for K-12 Education

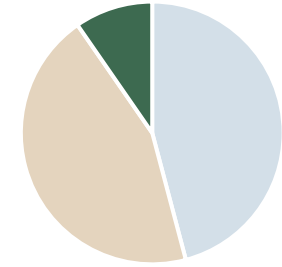
Federal
State
Local



K-12 Revenue: Federal

13% of K-12 revenue came from the federal government in FY 2022 (excluding federal COVID funds*)

*These numbers do not include federal COVID relief ESSER funds, since they were a one-time source of funding for the state and school districts



- **Impact Aid Funding** – federal funding for federally-connected children whose families live or work on nontaxable federal land (tribal land, forest land, national parks, military bases, etc.); totaled \$67 million in FY 2022
- **School Food Funding** – federal funding for school lunches from the U.S. Department of Agriculture (USDA); totaled \$88 million in FY 2022 (which is usually high in response to the Covid-19 pandemic)
- **Individuals with Disabilities Education Act (IDEA) Funding** – federal funding for the education of children with disabilities; totaled \$38 million in FY 2022
- **Title I Funding** – federal funding for schools with high percentages of low-income students; totaled \$61 million in FY 2022

K-12 Revenue: State

41% of K-12 revenue came from state sources in FY 2022 (excluding federal COVID funds)

Guarantee Account

1st Source of State School Funding (*unchanged*)

Receives earnings off the Common School Permanent Trust and revenue generated on the state common school trust lands

Statutory Appropriation
~\$50 M

➤ See the [Guarantee Account Brochure](#) for more information

School Equalization and Property Tax Reduction Account (SEPTR)

2nd Source of State School Funding (*new: HB 587; 2023*)

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

Beginning in FY 2026, 55% of any increase in the revenue from the 95 mills over the prior year's revenue will be used to increase various equalization mechanisms within the school funding formula and lower property taxes

HB 2 State Special Revenue Appropriation
~\$430 M

State General Fund

3rd and Final Source of State School Funding (ultimate backfill)
(*update: HB 587; 2023 – no longer receives revenue from the 95 mills*)

Receives revenue through a variety of taxes, with individual income tax being the largest source

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 approximately \$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

➤ In addition to county retirement GTB support, the state also contributes approximately \$50 million annually from the state general fund directly to the teachers retirement system (TRS) and public employees retirement system (PERS)

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

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

This portion of the law is already in effect (as of July 1, 2023)

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 Δ 

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.



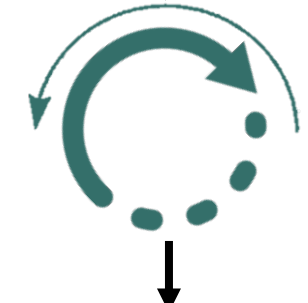
If there is a reduction in revenue (not just mills) brought in by the 95 mills from the prior year, **BASE GTB** and **countywide retirement GTB** are “dialed down” by the full amount of the decrease, shifting costs back onto local taxpayers

This portion of the law is effective beginning in FY 2025 (“hard coded” increase) and FY 2026 (“dialing” mechanism)

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

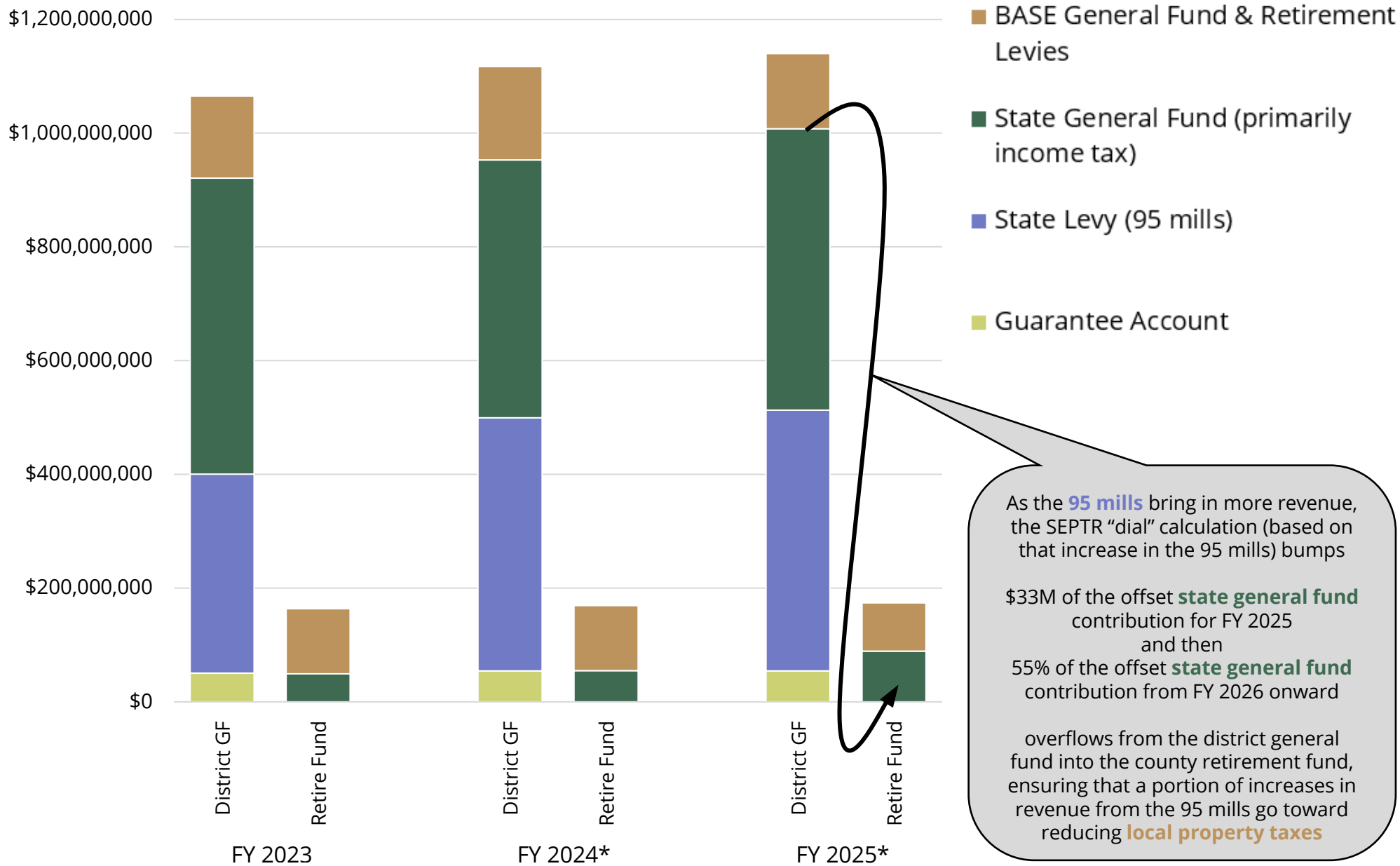


Increase **state major maintenance aid** to lower school district property taxes



Increase **debt service assistance** to lower school district property taxes

How the SEPTR "dial" will affect funding for FY 2024 and FY 2025

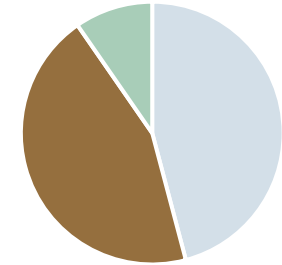


*FY 2024-2025 are estimated



K-12 Revenue: Local

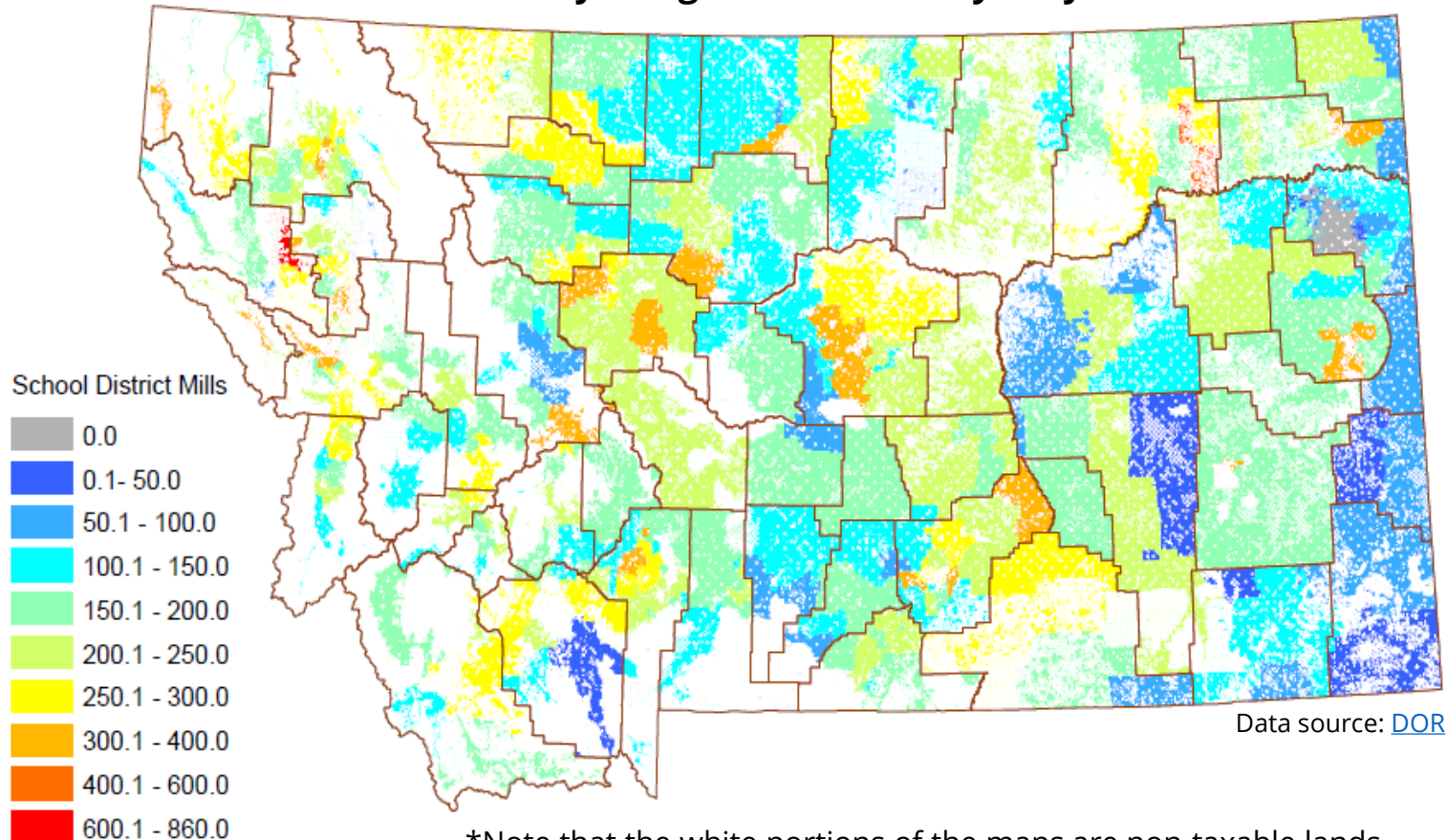
42% of K-12 revenue came from local sources in FY 2022
(excluding federal COVID funds)



- **Local property tax levies** – including required levies, voted mills, and permissive (non-voted) levies by the school districts. All county taxpayers also support countywide school retirement costs and certain transportation costs through permissive countywide levies
- **Local non-levy revenue (NLR)** – NLR includes certain natural resource revenues and tuition payments
- **Fund balance reappropriated** – the difference between the end-of-year fund balance and the amount reserved for operations. It must be used to fund the next year's budget. The maximum amount of fund balance that may be reappropriated to the general fund budget is limited to 15.0% of the ensuing year's maximum general fund budget

Variation of School District Property Tax Levies

Combined Elementary & High School Mills by Levy District - FY 2019



*Note that the white portions of the maps are non-taxable lands such as federal forests, state trust lands, and tribal reservations

Mills levied for schools include the state levy, countywide school mill levies, required school district mill levies, voted school mill levies, and permissive (non-voted) school mill levies.

- Most school district mills are levied for the school district general fund, but each district also has funds for specific purposes

Sources of variation:

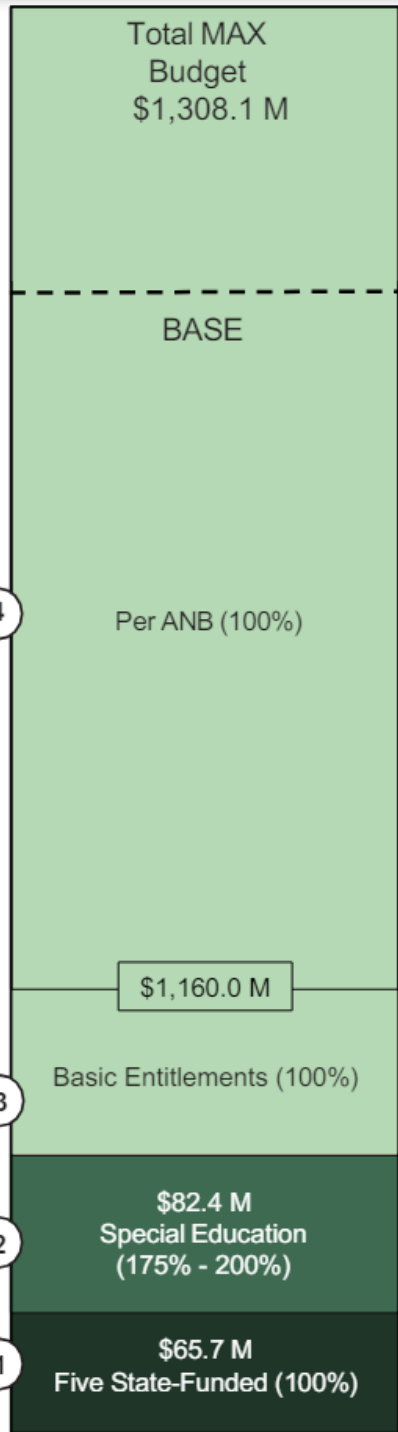
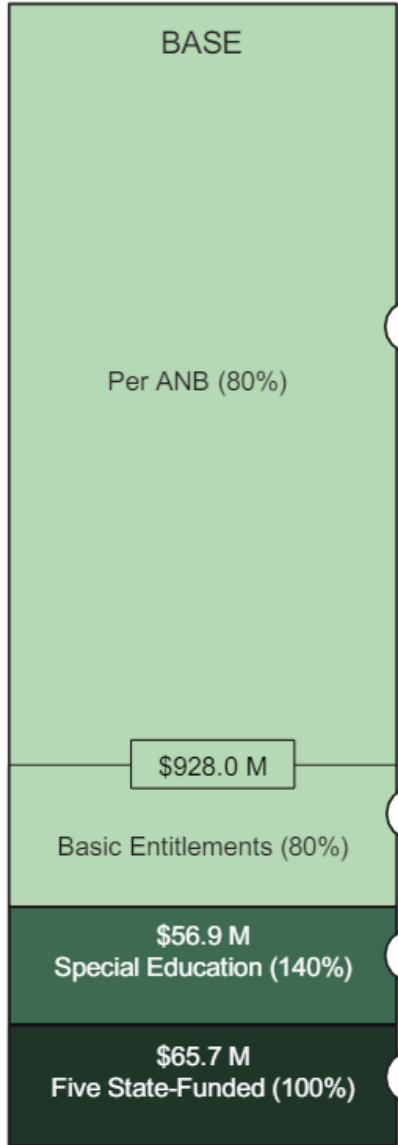
- Taxable value per student
- Non-levy revenue
- Cost to provide services
- **Local decisions**

School District Funds

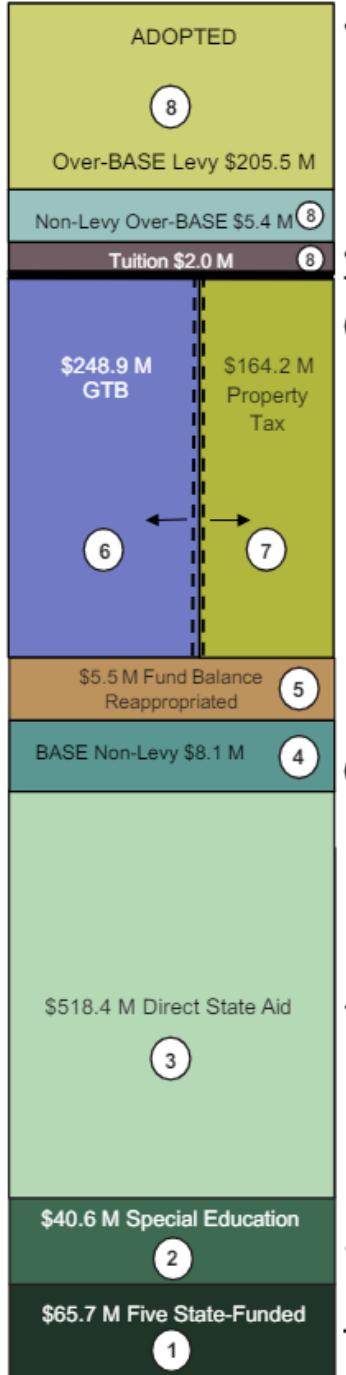


**FY 2024
Statewide District
General Fund Budget**

Total BASE Budget \$1,050.5 M
About 80% of Max Budget



About 97% of Max Budget



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

There are 2 parts to the school district general fund formula:

We have a formula to establish a district's general fund budget limits (left) and a formula for how a district's adopted budget is funded (right).

➤ See the [School District General Fund Interactive Tool](#) to look at these district general fund charts by school district.

School District Budgeted Funds

in relative proportion to budget size

All of these funds receive both property tax revenue and revenue from other sources. The property tax levies for the funds are set in different ways– some are required levies, some are permissive levies (non-voted), and some are voted levies.

Retirement Fund *(permissive levy)*

For **employer (district) contributions** to the teacher retirement system (TRS) and the public employee retirement system (PERS)*, based on statutorily established rates; retirement benefits are paid by TRS and PERS, not districts; also for FICA and unemployment insurance; funded through **countywide levy with state RET GTB support**

Debt Service Fund *(voted levy)*

used to service (pay off) the debt the district has incurred from issuing (selling) bonds, typically for major construction; funded through **district levy and state debt service assistance** (GTB-like)

Transportation Fund *(permissive levy)*

used for **to-and-from school transportation costs** including buses, fuel, and drivers (not for extracurricular activities or field trips); funded with **countywide and district levies and state reimbursement**

Building Reserve Fund

(blend of permissive & voted levies)

used for school major maintenance projects and safety improvements; funded with transfers, **district levies and State Major Maintenance Aid** (GTB-like)

Adult Education Fund *(permissive levy)*

used for general and vocational education and for individuals 16 years of age or older who are not regularly enrolled students; can be used to supplement advanced opportunity aid; funded through **district levy**

Tuition Fund *(permissive levy)*

used to pay tuition for a student who attends school outside the student's district of residence and for certain special education costs; funded through **district levy**

Technology Fund *(voted levy)*

used for the purchase, rental, repair and maintenance of technology equipment, and associated technical training for school district personnel; funded through **district levy and state tech payment**

Flexibility Fund *(permissive levy)*

used for technology, facility expansion, student assessment and evaluation, curriculum development, and certain other types of expenditures; funded through **transfers, grants, and a limited district levy to supplement transformational learning aid**

Bus Depreciation Fund *(permissive levy)*

used to accumulate funds for bus replacement and additional school buses; funded through **district levy**

School District General Fund

(required levy for the BASE budget, voted levy for the over-BASE portion)

used for the **basic instructional and operational costs** of the district not provided for in another fund, including salaries and benefits (other than retirement) for most employees, instructional materials, and basic facility operational costs; funded with **district levies and state aid, including BASE GTB aid**



Resources & Sources

Brochures

- [K-12 Funding Basics – District General Fund](#)
- [Guarantee Account Brochure](#)

Story Maps

- [K-12 Funding in Montana - Big Picture Overview Story Map](#)
- [Montana Special Education Funding Basics Story Map](#)
- [School District General Fund Story Map](#)
- [School District Retirement Fund Story Map](#)
- [School District Transportation Fund Story Map](#)
- [School District Debt Service Fund Story Map](#)
- [Property Taxes in Montana Story Map](#)

Property Tax Resources

- [Property Tax Library](#)

Interactive Tools

- [Property Tax Interactive Model](#)
- [School District General Fund Interactive Tool](#)
- [School Mills Interactive Map](#)
- [School Enrollment, Revenues, and Expenditures Tool](#)

Data Sources

- [Office of Public Instruction Financial Data Files](#)
- [Dept. of Revenue Biennial Reports \(Property Tax\)](#)
- [OPI Understanding Montana School Finance and School District Budgets](#)

School Funding Resources

- [School Funding Library](#)