

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

Pad McCracken, LSD and Julia Pattin, LFD

Section E Interim Budget Committee

September 13, 2023

State Sources of School Funding

as of July 1, 2023

Guarantee Account

1st Source of State
School Funding

Unchanged

Statutory Appropriation
~\$50 M

School Equalization and Property Tax Reduction Account (SEPTR)

2nd 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

3rd 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
\$496 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 going to reduce local property taxes through equalization mechanisms

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

55% of Δ



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 going to reduce local property taxes through equalization mechanisms

2nd 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 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.



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

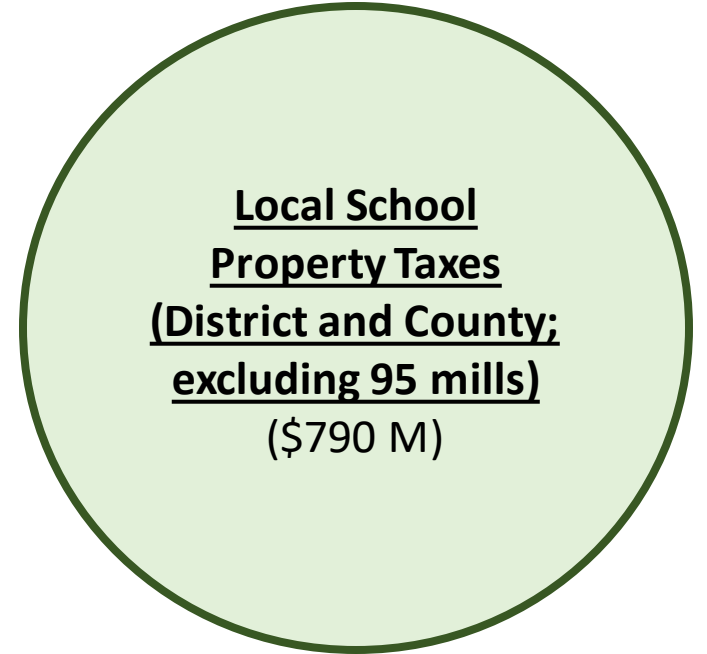
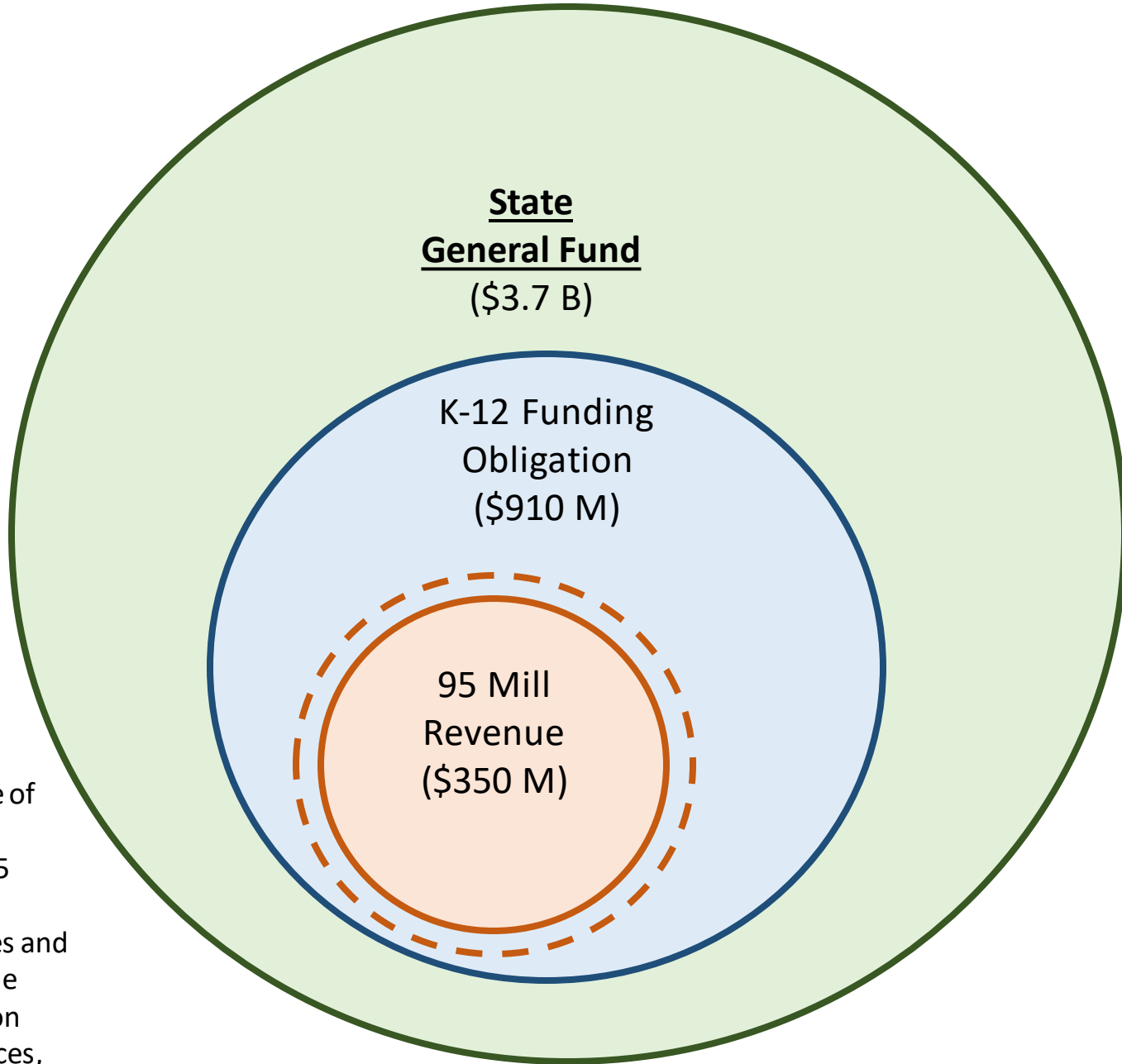
Increase countywide school retirement GTB to lower county property taxes

Increase state major maintenance aid to lower school district property taxes

Increase debt service assistance to lower school district property taxes

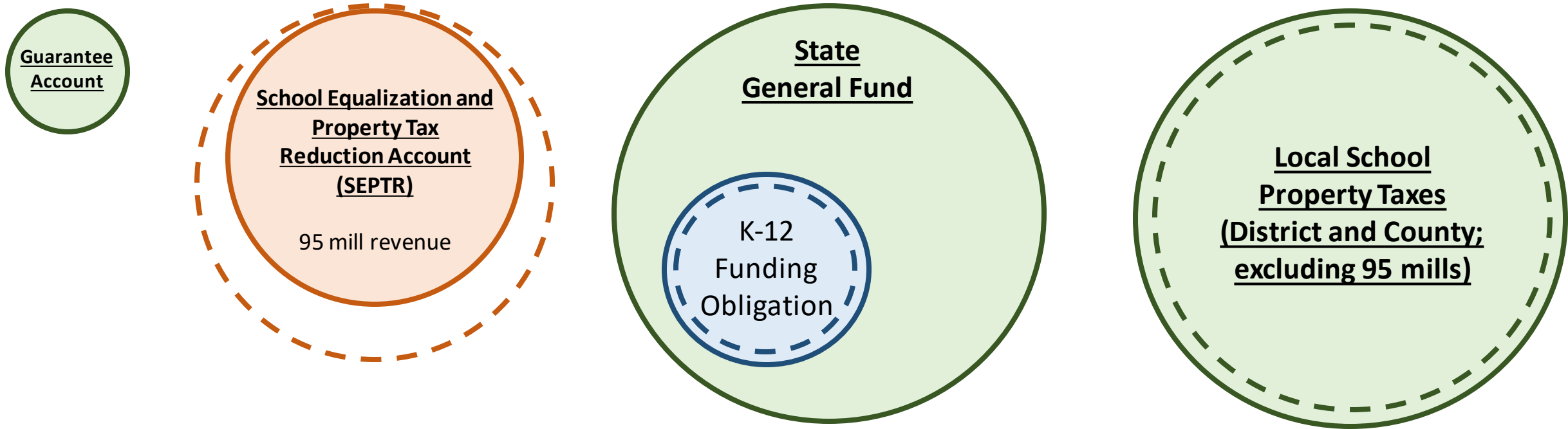
If there is a reduction in revenue brought in by the 95 mills from the prior year, BASE GTB and countywide retirement GTB are "dialed down" by the full amount of the decrease, shifting costs back onto local taxpayers

Guarantee Account
(\$50 M)



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

➤ “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

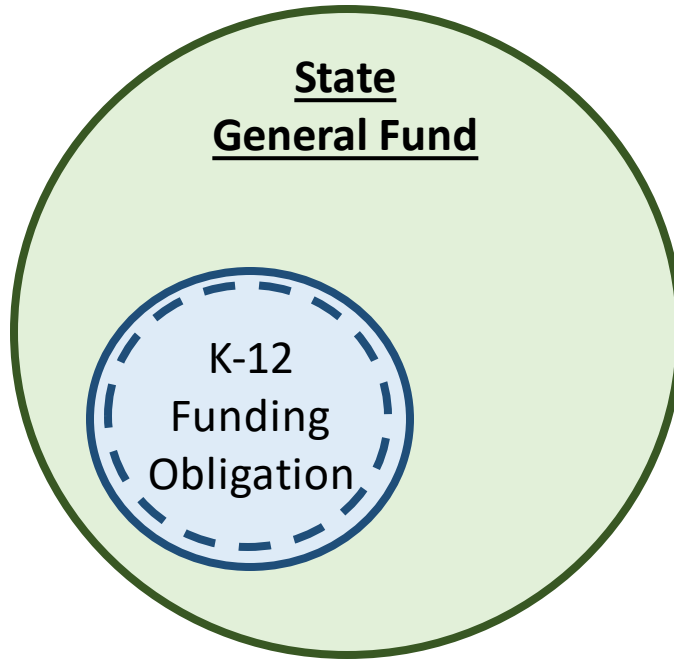
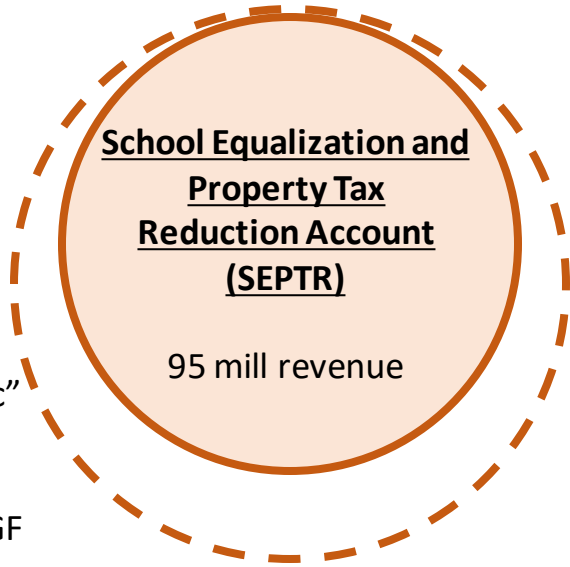
Guarantee Account

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

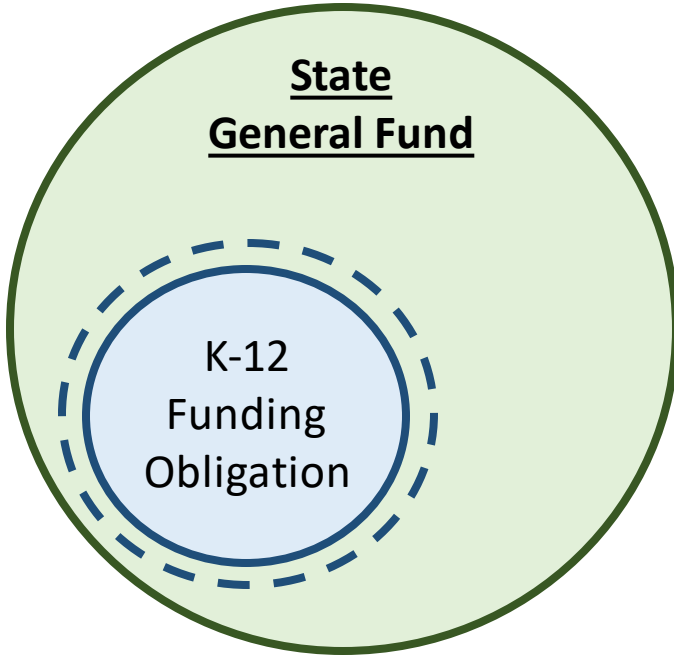
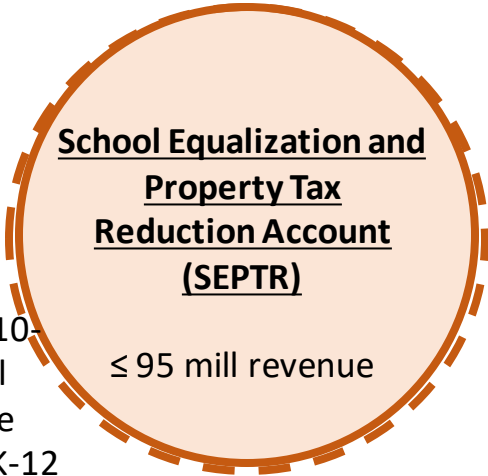
State General Fund
K-12 Funding Obligation

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



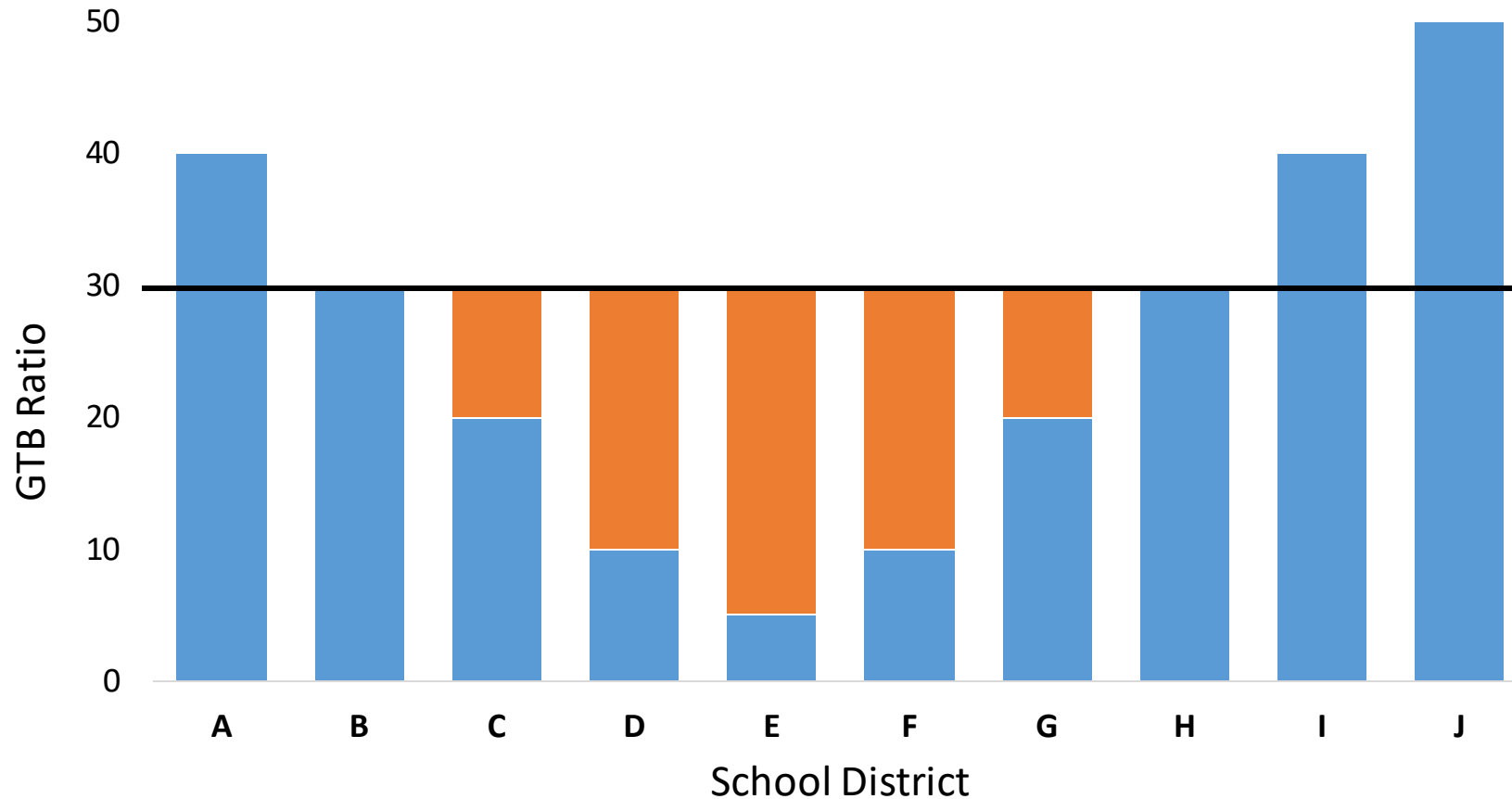
“Static” 95 mills
Under HB 587 as designed with “static” 95 mills, as the 95 bring in more \$, the “load” on the state GF and local taxes will decrease



“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

HB 587 Scenarios

➤ 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 the mills would “float” to 93.15 in FY 2026
 - The retirement GTB ratio would remain at 1.89 for FY 2026
- If the 95 mills are “static,” the retirement GTB ratio for FY 2026 would be 2.03 (per the HB 587 fiscal note)
- Local government budgets and school budgets are held constant to isolate the effects of changes to the 95 mills

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

- Across the board, floating the 95 mills would reduce total property taxes. However, certain counties would benefit more relative to others
- Generally, low-mill high-value counties would receive the largest reduction to taxes paid from the 95 mills. Since these counties generally do not receive retirement GTB aid from the state, they would not see as large of corresponding increase in local property taxes paid for retirement (if any)

County	Countywide Education Retirement Mills FY 2023	Change in Taxes Paid on the 95 Mills if the 95 Mills Float FY 2026	Change in Local Property Taxes Paid for Retirement if the 95 Mills Float FY 2026	Percent Reduction to Total Taxes Paid if the 95 Mills Float FY 2026
Madison	5.75	(\$742,107)	\$0	-1.05%
Carter	2.97	(\$142,561)	\$0	-0.78%
Wibaux	7.60	(\$67,935)	\$0	-0.57%
Fallon	0	(\$118,359)	\$0	-0.57%
Judith Basin	22.44	(\$47,746)	\$0	-0.54%
Wheatland	26.96	(\$37,340)	\$662	-0.45%
Richland	0	(\$112,549)	\$0	-0.43%
Powder River	0	(\$20,614)	\$49	-0.43%
Sweet Grass	22.80	(\$64,708)	\$0	-0.43%
Granite	31.09	(\$46,045)	\$10,085	-0.41%
Golden Valley	41.07	(\$14,591)	\$0	-0.40%
Treasure	24.61	(\$9,721)	\$0	-0.36%
Ravalli	25.00	(\$288,160)	\$115,772	-0.30%
Lincoln	31.54	(\$121,762)	\$55,875	-0.28%
Broadwater	27.22	(\$57,179)	\$26,856	-0.24%
Mineral	28.81	(\$28,049)	\$9,791	-0.23%
Musselshell	11.54	(\$26,487)	\$11,230	-0.22%
Sanders	33.42	(\$98,533)	\$57,387	-0.19%
Toole	35.70	(\$44,745)	\$19,953	-0.18%
Gallatin	33.26	(\$1,532,169)	\$1,026,295	-0.18%
Valley	44.04	(\$57,872)	\$28,965	-0.17%
Stillwater	24.77	(\$131,747)	\$79,034	-0.17%
Phillips	40.55	(\$29,861)	\$15,147	-0.15%
Meagher	29.28	(\$23,634)	\$14,981	-0.15%
Daniels	51.06	(\$12,639)	\$5,548	-0.15%
Flathead	39.90	(\$996,751)	\$697,140	-0.14%
Jefferson	29.40	(\$85,571)	\$58,114	-0.14%

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

- Generally, high-mill low-value counties would receive the smallest reduction to taxes paid from the 95 mills. Since these counties generally receive retirement GTB aid from the state, they would experience a corresponding increase in local property taxes paid for retirement to offset the reduction in GTB
- While floating 95 mills would reduce total property taxes, it would also increase the burden of K-12 funding on the state general fund, so a larger amount of general fund revenue (income tax, etc.) would be necessary to make up the difference

County	Countywide Education Retirement Mills FY 2023	Change in Taxes Paid on the 95 Mills if the 95 Mills Float FY 2026	Change in Local Property Taxes Paid for Retirement if the 95 Mills Float FY 2026	Percent Reduction to Total Taxes Paid if the 95 Mills Float FY 2026
Beaverhead	40.57	(\$70,440)	\$49,083	-0.13%
Park	34.22	(\$187,579)	\$142,582	-0.13%
Carbon	35.17	(\$131,915)	\$97,180	-0.13%
Liberty	32.52	(\$20,121)	\$13,649	-0.12%
Glacier	53.10	(\$64,609)	\$39,910	-0.12%
Deer Lodge	41.70	(\$56,633)	\$36,511	-0.12%
Lake	40.12	(\$221,281)	\$169,380	-0.12%
Lewis & Clark	40.49	(\$413,017)	\$282,690	-0.10%
Cascade	39.00	(\$416,469)	\$285,291	-0.10%
Powell	36.51	(\$48,320)	\$37,087	-0.10%
Silver Bow	36.56	(\$183,545)	\$116,664	-0.10%
Yellowstone	37.26	(\$925,473)	\$655,345	-0.10%
Pondera	32.08	(\$40,242)	\$28,982	-0.10%
Prairie	30.58	(\$10,288)	\$7,206	-0.10%
Roosevelt	26.67	(\$61,519)	\$43,923	-0.09%
Teton	43.19	(\$50,936)	\$40,620	-0.09%
Missoula	35.99	(\$692,062)	\$485,575	-0.08%
Custer	36.96	(\$45,270)	\$31,667	-0.08%
Big Horn	14.24	(\$43,731)	\$29,671	-0.08%
Hill	45.01	(\$89,659)	\$70,331	-0.08%
Dawson	39.83	(\$49,958)	\$36,519	-0.07%
Sheridan	54.26	(\$27,162)	\$19,509	-0.07%
Garfield	31.86	(\$20,568)	\$17,490	-0.07%
Rosebud	28.59	(\$108,969)	\$93,941	-0.06%
Petroleum	56.10	(\$3,583)	\$2,855	-0.06%
Fergus	40.19	(\$107,654)	\$92,082	-0.06%
McCone	42.58	(\$15,502)	\$13,219	-0.04%
Blaine	53.39	(\$31,281)	\$27,022	-0.04%
Chouteau	35.47	(\$61,057)	\$61,023	0.00%
Statewide	31.79	(\$9,158,280)	\$5,259,893	-0.18%

➤ Blaine County



County	Countywide Education Retirement Mills FY 2023	Change in Taxes Paid on the 95 Mills if the 95 Mills Float FY 2026	Change in Local Property Taxes Paid for Retirement if the 95 Mills Float FY 2026	Percent Reduction to Total Taxes Paid if the 95 Mills Float FY 2026
Blaine	53.39	(\$31,281)	\$27,022	-0.04%

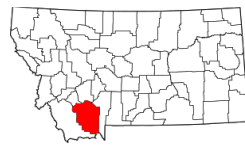
If the 95 mills were to “float” down in FY 2026:

- Blaine County would have an overall **reduction in total taxes paid** of 0.04%
- Blaine County would have a **decrease in taxes paid on the “95 mills”** of approximately \$31,000 and an **increase in local taxes paid for retirement** of approximately \$27,000 to offset the decrease in retirement GTB aid from the state

Blaine County has higher overall mills and lower value than Madison County

- In FY 2023, Blaine County paid 53.39 mills for retirement

➤ Madison County



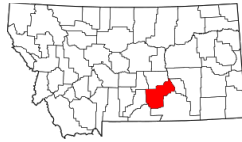
County	Countywide Education Retirement Mills FY 2023	Change in Taxes Paid on the 95 Mills if the 95 Mills Float FY 2026	Change in Local Property Taxes Paid for Retirement if the 95 Mills Float FY 2026	Percent Reduction to Total Taxes Paid if the 95 Mills Float FY 2026
Madison	5.75	(\$742,107)	\$0	-1.05%

If the 95 mills were to “float” down in FY 2026:

- Madison County would have an overall **reduction in total taxes paid** of 1.05%
- Madison County would have a **decrease in taxes paid on the “95 mills”** of approximately \$742,000 but **NO increase in local taxes paid for retirement** because Madison County does not receive retirement GTB

- In FY 2023, Madison County paid 5.75 mills for retirement

➤ Yellowstone County



County	Countywide Education Retirement Mills FY 2023	Change in Taxes Paid on the 95 Mills if the 95 Mills Float FY 2026	Change in Local Property Taxes Paid for Retirement if the 95 Mills Float FY 2026	Percent Reduction to Total Taxes Paid if the 95 Mills Float FY 2026
Yellowstone	37.26	(\$925,473)	\$655,345	-0.10%

If the 95 mills were to “float” down in FY 2026:

- Yellowstone County would have an overall **reduction in total taxes paid** of 0.1%
- Yellowstone County would have a **decrease in taxes paid on the “95 mills”** of approximately \$925,000 and an **increase in local taxes paid for retirement** of approximately \$655,000 to offset the decrease in retirement GTB aid from the state

Yellowstone County has higher overall mills and lower value than Madison County

- In FY 2023, Yellowstone County paid 37.26 mills for retirement

➤ Carter County



County	Countywide Education Retirement Mills FY 2023	Change in Taxes Paid on the 95 Mills if the 95 Mills Float FY 2026	Change in Local Property Taxes Paid for Retirement if the 95 Mills Float FY 2026	Percent Reduction to Total Taxes Paid if the 95 Mills Float FY 2026
Carter	2.97	(\$142,561)	\$0	-0.78%

If the 95 mills were to “float” down in FY 2026:

- Carter County would have an overall **reduction in total taxes paid** of 0.78%
- Carter County would have a **decrease in taxes paid on the “95 mills”** of approximately \$143,000 but **NO increase in local taxes paid for retirement** because Carter County does not receive retirement GTB

- In FY 2023, Carter County paid 2.97 mills for retirement



Questions?