

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

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Section E Interim Budget Committee

December 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
~\$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)

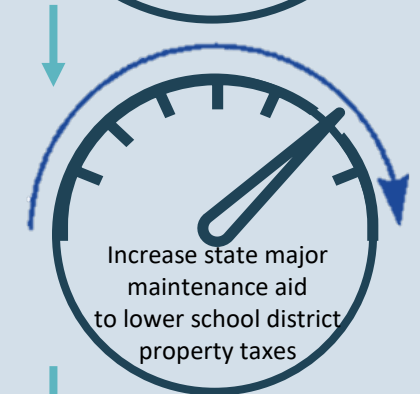
Receives revenue from the 95 mill statewide equalization levies, with 55% of estimated increased revenue over prior year triggering a reduction in local property taxes through equalization mechanisms

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

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



This calculation will first take place in December 2024 (FY 2025) estimating the amount of increased revenue to be received in FY 2026 and “dialing up” RET GTB accordingly, reducing county property taxes for school retirement in FY 2026. HB 587 also “hardcoded” an increase in RET GTB for FY 2025 – county property taxes for school retirement will decrease by about \$33 million next year.

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

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(School Equalization and
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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.

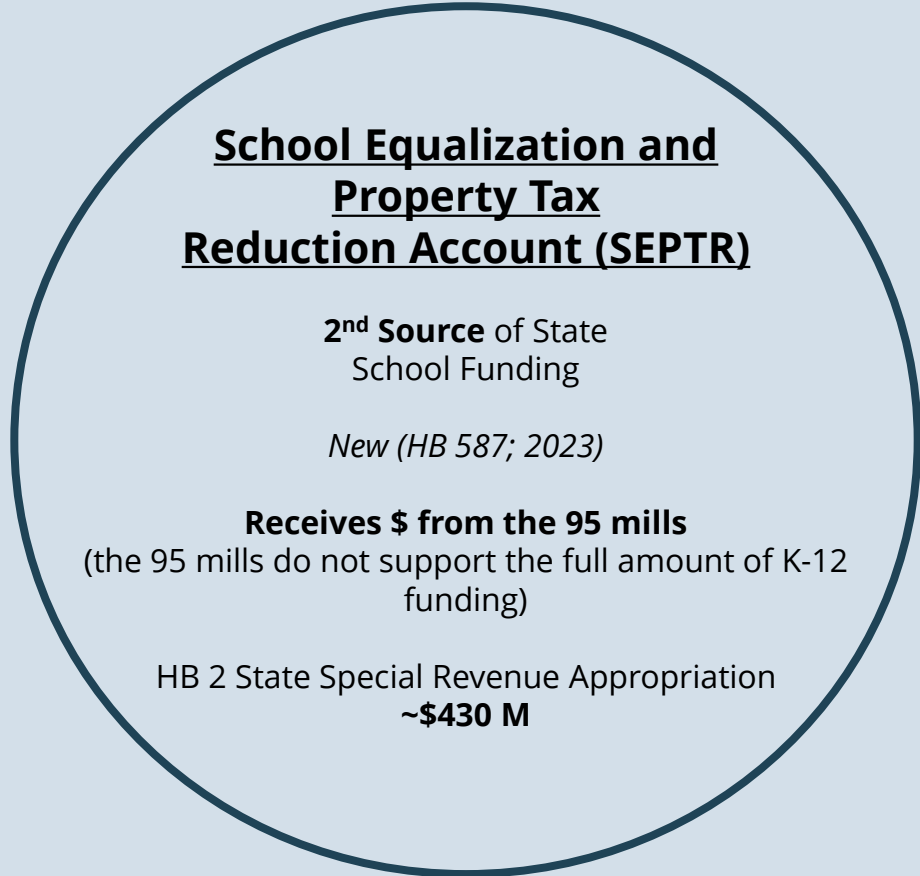


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Flow of \$ for FY 2024 (and beyond)



Note: additional information on the actual property tax collections deposited into the SEPTR for November will be available in the January LFD revenue update

October 2023: Property tax bills were mailed out



November 2023: First half of property tax bills are due and revenue from the 95 mills will be deposited into the SEPTR

- Payments may be slightly lower than typically expected due to counties under-collecting the 95 mills



December 2023: Payments to schools



May 2024: Second half of property tax bills are due and revenue from the 95 mills will be deposited into the SEPTR

- Payments may be slightly higher than typically expected due to counties offsetting the 95 mills difference from the November payment



June 2024: Payments to schools



July 2024: FY 2025 begins – “Hardcoded” \$33M increase in RET GTB effective



December 2024: first calculation under HB 587 takes place, likely further increasing RET GTB to lower county property taxes more in FY 2026



Questions?