

DRAFT STUDY PLAN FOR AN INTERIM STUDY OF TAXATION AND SCHOOL FUNDING

Prepared for the Revenue and Transportation Interim Committee

by

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INTRODUCTION

Senate Joint Resolution No. 31 requests an examination of the future viability of the use of property taxes to fund education, an examination of equalization through a statewide school equalization district that would levy taxes against specific classes of property, and an inquiry into the use of a statewide sales tax and use tax to provide education funding that would include property tax relief in a permanent manner. Specifically the study is to:

(1)(a) examine future demographics of property taxpayers, school age children, retirees, and other factors relating to the viability of property taxes to fund education; and

(b) examine the distribution or maldistribution of classes of taxable property in counties and school districts;

(2) study the feasibility of a statewide school equalization district with property tax levies against particular classes of property and other sources of statewide revenue; and

(3) study the use of a sales tax and use tax for funding to replace property taxes and provide tax relief for homes, commercial properties, and agricultural and forest lands.

The direction of the study is similar to many of the provisions contained in Senate Bill No. 554 (SB 554), introduced by Senator Jeff Essmann during the 2007 regular session. At the September 19, 2007, meeting, Committee staff summarized SB 554 to give the Committee a better understanding of what may be included in the study based on the provisions of SB 554.¹

SB 554 would have revised the funding of public schools and the revenue sources used to support schools. The bill included the following provisions:

- increase direct state aid for schools to 80%;
- eliminate the guaranteed tax base aid for school general fund, retirement, and school facilities reimbursement;
- eliminate the House Bill No. 124 reimbursements to schools;
- revise state support for school facilities reimbursement;
- revise state support for school retirement;
- revise state support for school transportation;

¹"Senate Joint Resolution No. 31 and Senate Bill No. 554", memorandum from Jeff Martin to the Revenue and Transportation Committee, September 19, 2007.

- eliminate all current statewide property tax levies, including the elementary and high school county equalization levies, the state equalization levy, the six-mill university levy,² and the vocational-technical levy;
- create a statewide school adequacy and equalization account (SAEA);
- create a new statewide school equalization district and impose a levy on most classes of business property for deposit into the SAEA
- impose a sales and use tax on tangible personal property and certain recreational services for deposit in the SAEA;
- redirect distribution of certain natural resource production taxes to SAEA;
- exempt most classes of business property from local school levies;
- revise and increase the property tax exemption on class eight business equipment;
- provide an individual income tax credit for sales taxes paid;
- provide an earned income tax credit based on the federal credit;
- refer the proposal to the electorate in November 2008.

The balance of this paper presents the study areas for the Committee's consideration and the schedule for doing the study.

DECEMBER 6 AND 7, 2007 MEETING

Demographics: One of the reasons contained in SJR 31 for conducting the study is the changing demographic patterns in Montana. The study resolution noted:

- Montana's population over the age of 65 will increase from 14% in 2007 to over 20% in 2019.
- That aging demographic shows itself in the number of counties with more than 20% of their population over the age of 65 rising from 4 of 56 counties in 2000 to 45 of 56 counties in 2025.
- During the same time period, the percentage of the state's population represented by children of elementary school attendance age will continue to decline.

On December 6, Larry Swanson, director, O'Connor Center for the Rocky Mountain West, will discuss demographic and economic trends related to this study.

Statewide school equalization district: A problematic provision contained in SB 554 is the separation of classes of property for levying mills for school funding purposes. The bill would have eliminated current statewide school equalization levies for schools and would have created a statewide school equalization district the levy for which would have been imposed on all classes of property except agricultural land, residential and commercial land and improvements, and forest land. These three classes of property would have been subject only to local school levies. On December 7, Lee Heiman, staff attorney, will present a legal analysis of having separate property tax systems for school funding.

²Senate Bill No. 16 (Ch. 82, L. 2007) refers to the electorate the question of whether to extend the university mill levy to January 1, 2019. The referendum will be voted on at the general election in November 2008.

School funds and school funding models: A revenue and schools working group, consisting of legislative branch staff, the Office of Budget and Program Planning staff, the Department of Revenue staff, and the Office of Public Instruction staff, has been reviewing the property tax structure and school funding. On December 7, OPI staff will present an overview of budgeted school funds, DOR staff will present revenue sources for school funding, and Legislative Fiscal Division staff will present an overview of school funding models. Plans have been in the works to improve and expand the school funding models in order to respond to a variety of policy proposals that may be considered by the Legislature. The discussion will focus on what the school funding models can and cannot do.

FEBRUARY 6 AND 7, 2008 MEETING

Update on Quality Schools Interim Committee reports: The Quality Schools Interim Committee was established during the 2005 legislative session to assess the educational needs in Montana, determine the costs of a basic system of free quality public elementary and secondary schools, determine the state's share of the costs, and develop a funding formula that equitably distributes the state's share of the costs of the basic system. That committee worked through November 2005 in anticipation of a special session on school funding in December 2005.

The Quality Schools Interim Committee developed a lot of information that may assist the Revenue and Transportation Committee in its study. SJR 31 refers to two reports, "Disparities in School Mill Levies" and "Property Tax Information Related to K-12", that were presented to that committee on July 21, 2005.

The first report analyzes differences in required mill levies (BASE budget levies, county retirement levies, and transportation levies) levied by school districts based on taxable value and nonlevy revenue (e.g., oil and gas revenue, coal gross proceeds, House Bill No. 124 reimbursements). The second report details trends in the distribution of property taxes by taxing entity (state, counties, municipalities, school districts) based on changes in taxable value and mill levies. It also shows changes in tax burdens by property type.

Other reports included "Disequalizing [A]ffects of State HB 124 Reimbursements", "Equalizing School Mills (K-12) Statewide", and "Schools Budgeting of Oil and Natural Gas and Coal Revenue".

Reviewing each of these reports at the February meeting would provide the Committee with a useful starting point for developing policy options at a later meeting.

APRIL 17-18, 2008 MEETING

This meeting would be for considering policy options. The committee may want to consider the following areas:

- identifying the school budgeted fund types to focus on -- e.g., general fund, retirement fund, transportation funds, capital funds;
- the role of guaranteed tax base aid in school funding and whether to maintain some level of that aid in school funding;
- the level of state support for school funding;
- methods for achieving funding levels:
 - reallocation of existing revenue sources;
 - revise school property tax mill levy structure;
 - other revenue sources;
- methods for property tax relief; and
- other options, including possible constitutional amendment to achieve revenue goals.

UNSCHEDULED MEETING (MAY OR JUNE, 2008)

The purpose of this meeting would be to analyze the impact of selected options. The Committee would evaluate the implications of policy changes on taxpayers and on school funding. The Committee would develop options and initial recommendations for consideration and request draft legislation if considered appropriate.

The Committee may want to delegate to the SJR 31 Subcommittee the responsibility of developing the initial options and requesting draft legislation. The full Committee would act on the recommendations at the July meeting.

MEETING OF JULY 10 AND 11, 2008

The Committee would act on draft legislation, if any; finalize recommendations; and approve outline for the final report.

SEPTEMBER 2008 MEETING

The Committee would review final report of its actions.