



Revenue and Transportation Interim Committee

60th Montana Legislature

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February 7, 2008

TO: Revenue and Transportation Committee SJR 31 study subcommittee

FROM: Jeff Martin, Legislative Research Analyst

SUBJECT: Quality Schools Interim Committee School Property Tax and Nonlevy Revenue Reports

During the 2005-06 interim, several reports were presented to the Quality Schools Interim Committee dealing with school property taxes and nonlevy revenue. Two of those reports ("Disparities in School Mill Levies" and "Property Tax Information Related to K-12 Schools") were referenced in the SJR 31 study resolution as demonstrating "that wide variations exist in the distribution of the industrial and business equipment classes of property among the 400 plus school districts in the state and thereby contribute to the difficulty of equalizing school funding through a property tax mechanism". The SJR 31 study plan calls for these two reports to be presented to the SJR 31 subcommittee. For a variety of reasons, including updating these reports, the reports will be presented at the April meeting of the subcommittee.

Several other revenue reports were presented to the QSIC which may provide the subcommittee insights on school revenue. Depending on subcommittee interest, these other reports could also be presented. The Quality School reports are available on the legislative branch website at www.leg.mt.gov:

- in left-hand column point to "Interims";
- on drop-down menu click on "2005/2006 Interim";
- on 2005-06 interim committees webpage:
 - scroll down to "Quality Schools" and click to gain access to committee webpage;
 - scroll down to "Committee Activities"- Staff Reports.

Below are the highlights of the reports by meeting date.

- **July 21-22, 2005, meeting**
 - Disparities in School Mill Levies (*referenced in SJR 31 study resolution*)--School mill levies vary significantly between districts. This paper shows the extent of those differences in FY 2004 and how disparities in taxable value per student and natural resource revenue per student contribute to disparities in mill levies. It then discusses policy issues raised by those disparities.

- Disequalizing [E]ffects of State HB 124 Reimbursements--[N]on-levy revenues are a significant source of differences in mill levies. State distributed sources of non-levy revenue are HB 124 block grants, oil and gas tax, coal gross proceeds, and reimbursements (HB 20 and SB 417 - currently being phased out).¹ The state-distributed funds cause a significant portion of the mill levy differences as applied in the current funding formula. HB 124 block grants were not considered by the Legislature to be a permanent solution to replacing revenue lost to districts from tax reductions and other changes incorporated in HB 124 of the 2001 Legislative Session. Districts with higher taxable values tend to have larger HB 124 block grants. As a result of this distribution, tax equity is improved when the HB 124 block grants are eliminated.
- Property Tax Information Related to K-12 Schools and Related Charts and Tables (referenced in SJR 31 study resolution)--A substantial portion of the divergences between school district mill levies is caused by the large differences in taxable value between districts. Certain districts may have more taxable value because they are located in higher populated areas, or have higher concentrations of utility or industrial activity. Areas with sizeable populations generally also have greater school enrollments, while more rural areas can have large concentrations of industrial or utility property located within their boundaries, but have lower enrollment numbers. A uniform measurement of a school districts ability to generate property tax revenue is the amount of taxable value per enrolled student, or ANB (average number belonging) in each district.
- **September 23, 2005, meeting**
 - Equalizing School Mills [K-12] Statewide--This report deals with two questions on equalizing school mills statewide:
 - What is the impact on the variation in school mill levies if the school mill levies for required school funds are equalized? For purposes of this report required school funds are defined as the general fund base, local transportation, and countywide transportation and retirement; and
 - What is the impact on the variation in school mill levies if the school mill levies for all school funds except debt service are equalized?
- **November 1-2, 2005, meeting**
 - Schools Budgeting of Oil and Natural Gas and Coal Revenue--This report examines the amount of oil and natural gas production taxes and coal severance

¹HB 20 (Ch. 10, Sp. L. June 1989) reduced to a single rate (9%) the property tax rate on certain classes of property by combining personal property classes into class eight property . The legislation provided a reimbursement to local taxing jurisdictions for lost revenue. SB 417 (Ch. 570, L. 1995) provided a phased-in reduction of the class eight property tax rate from 9% to 6%. The legislation also provided a reimbursement to local taxing jurisdictions and phased out the reimbursement and the reimbursement contained in HB 20 beginning in tax year 1999. Tax year 2008 is the last year of the reimbursements under HB 20 and SB 417.

taxes schools budgeted in comparison to the amount the schools received for the school year. The report will show the total revenue allocated to schools and the revenue by school districts.

- Report on Mill Levy Impacts Under Various Revenue Options (Property Tax Liability Impacts if Certain Revenues are Equalized Statewide or Allocated Through the School Funding Models)--this report examines alternative funding mechanisms for four school funding sources. The premise of this report is statewide revenue neutrality for total dollars and by revenue source. However, the alternative funding mechanisms examined in this report do change where the revenue source is utilized and who pays the property tax. This report illustrates the change in property tax liability for each class of property and for residential property taxpayers by:
 - imposing statewide equalization levies for retirement and transportation;
 - eliminating the distribution of the current school general fund (BASE and over-BASE) HB 124 payment schedules to schools and using the funds to increase the state BASE GTB;
 - eliminating the current coal, oil and gas non-levy revenue for all school funds and increase the BASE GTB;
 - combining all of the above options and increasing the state BASE GTB;
 - establishing an equalized statewide mill levy for the property tax revenue for the BASE budget, countywide retirement, and countywide transportation, along with bringing the related budget amounts for local schools general fund HB 124 payments, oil and natural gas, and coal non-levy revenue to the state level to replace the current funding mechanisms.