

K-12 Funding Basics

School Funding Interim Commission

June 4, 2025

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School funding is constitutionally required

THE CONSTITUTION OF THE STATE OF MONTANA

Article X. Education And Public Lands

MONTANA CODE ANNOTATED (MCA) SECTION 20-9-309.

Basic system of free quality public elementary and secondary schools defined -- identifying educationally relevant factors -- establishment of funding formula and budgetary structure -- legislative review.

Handouts of the complete language are included in your binders.

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



Court cases and changes to Montana K-12 Finance

Year	Court Case	Finding	Legislation	Change to Formula
1989	Helena Elementary v. State (Equity)	Unequal spending per pupil means unequal educational opportunity; property poor districts were spending less (and often levying more mills)	HB 28 (1989 special session)	<ul style="list-style-type: none"> Increased state share Created GTB payments Created statewide equalization property tax levy of 40 mills; increased existing county equalization mills to 55 mills (new total = <u>95 mills</u>)
1992	Lawsuits filed contending HB 28 had not fixed disparities		HB 667 (1993)	<ul style="list-style-type: none"> Eliminated existing Foundation Program Created new formula with BASE (minimum) and maximum budgets, basic and per-ANB entitlements GTB for debt service
2004	Columbia Falls v. State I (Adequacy)	Funding inadequate; basic system of quality school not defined; must fund Art X, Section 1(2) of the Montana Constitution (preservation of tribes' cultural integrity)	SB 424 (2003) SB 152 (2005) SB 525 (2005) SB 1 (2005 special session following QSIC)	<ul style="list-style-type: none"> (Annual inflationary adjustments to BE and per-ANB were added in 2003 during litigation) Defined basic system Created Quality Schools Interim Committee (QSIC) Created 4 new fully state-funded payments: QE; at-risk, IEFA, American Indian Achievement Gap
2008	Columbia Falls v. State II	Legislature has made good faith effort to address concerns regarding adequacy	Various	<ul style="list-style-type: none"> Increased GTB ratio; provided funding for facilities

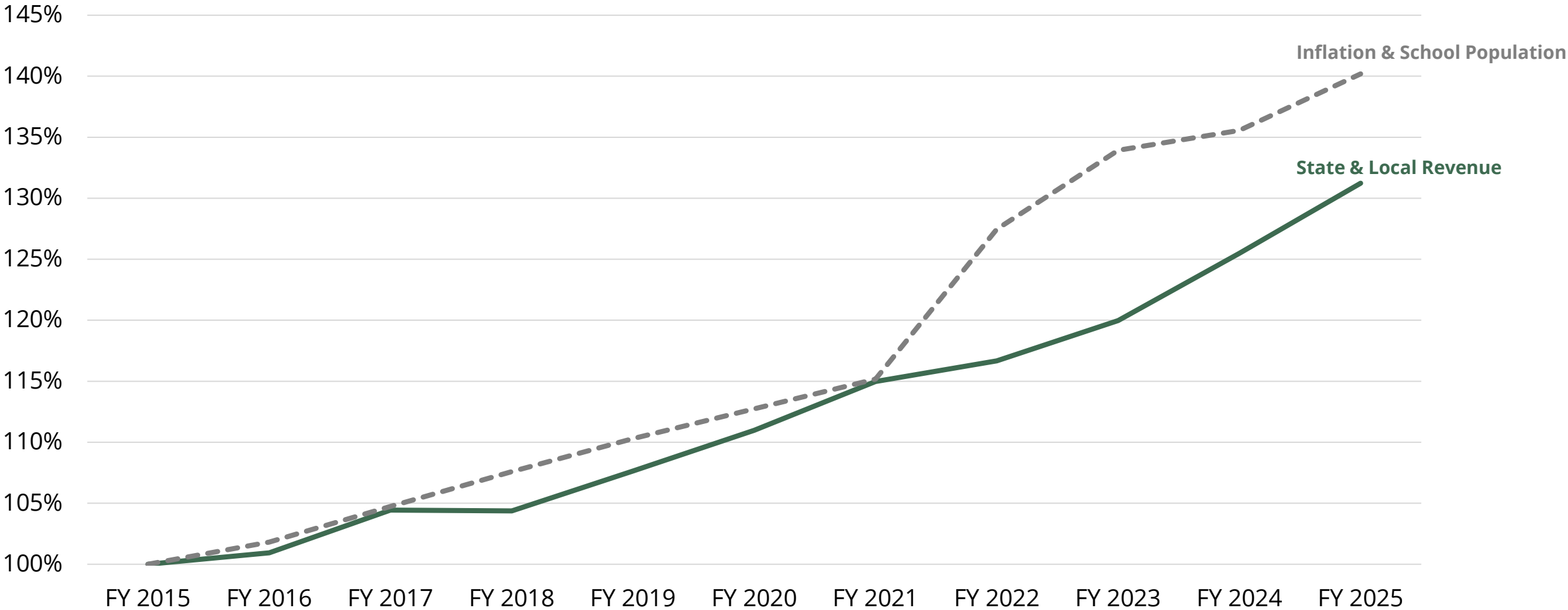
<https://www.legmt.gov/lfd/publications/school-funding-library/>

Funding Overview



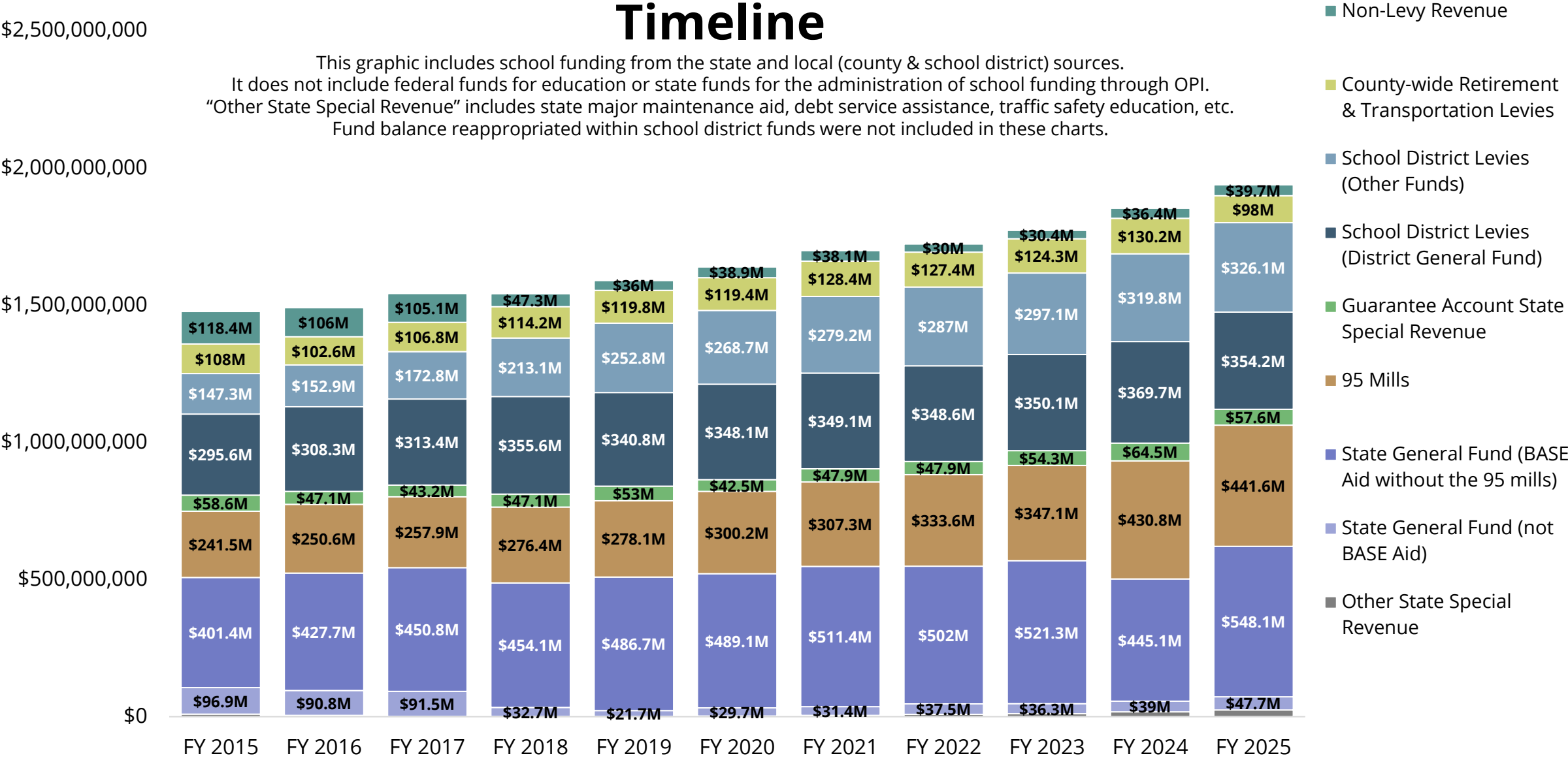
State & Local Revenue Sources Timeline

This graphic includes school funding from the state and local (county & school district) sources.
It does not include federal funds for education or state funds for the administration of school funding through OPI.
Fund balance reappropriated within school district funds were not included in these charts.



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\$2,500,000,000

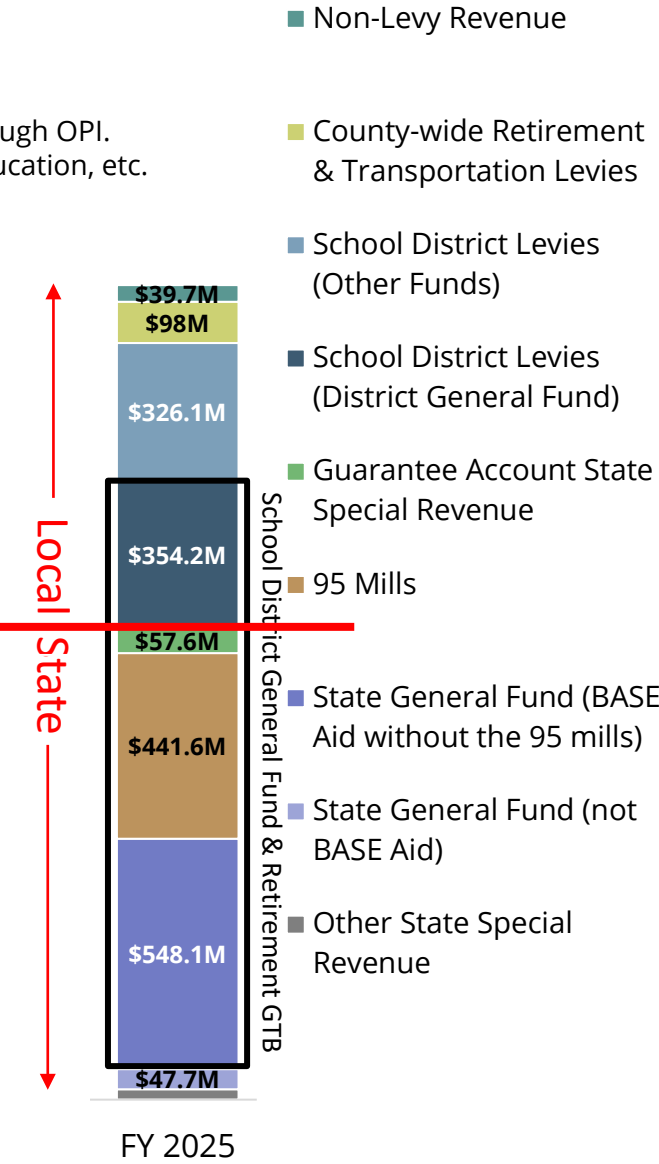
\$2,000,000,000

\$1,500,000,000

\$1,000,000,000

\$500,000,000

\$0



State & Local Revenue Sources

Timeline (nominal dollars)

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\$600,000,000
\$500,000,000
\$400,000,000
\$300,000,000
\$200,000,000
\$100,000,000
\$0

FY 2015 FY 2016 FY 2017 FY 2018 FY 2019 FY 2020 FY 2021 FY 2022 FY 2023 FY 2024 FY 2025

Total FY 2015: **\$1.5B**
Total FY 2025: **\$1.9B**

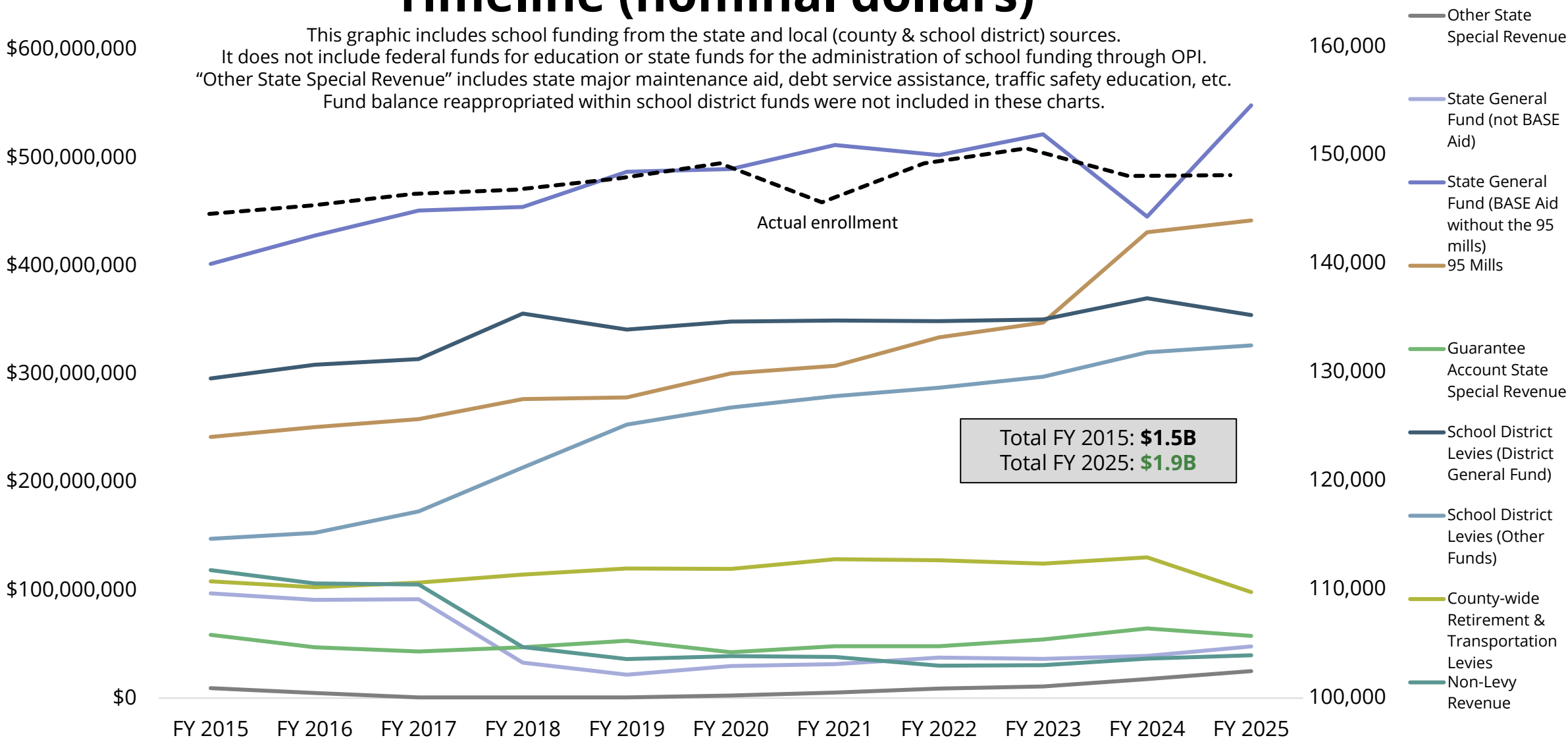
- Other State Special Revenue
- State General Fund (not BASE Aid)
- State General Fund (BASE Aid without the 95 mills)
- 95 Mills
- Guarantee Account State Special Revenue
- School District Levies (District General Fund)
- School District Levies (Other Funds)
- County-wide Retirement & Transportation Levies
- Non-Levy Revenue



State & Local Revenue Sources

Timeline (nominal dollars)

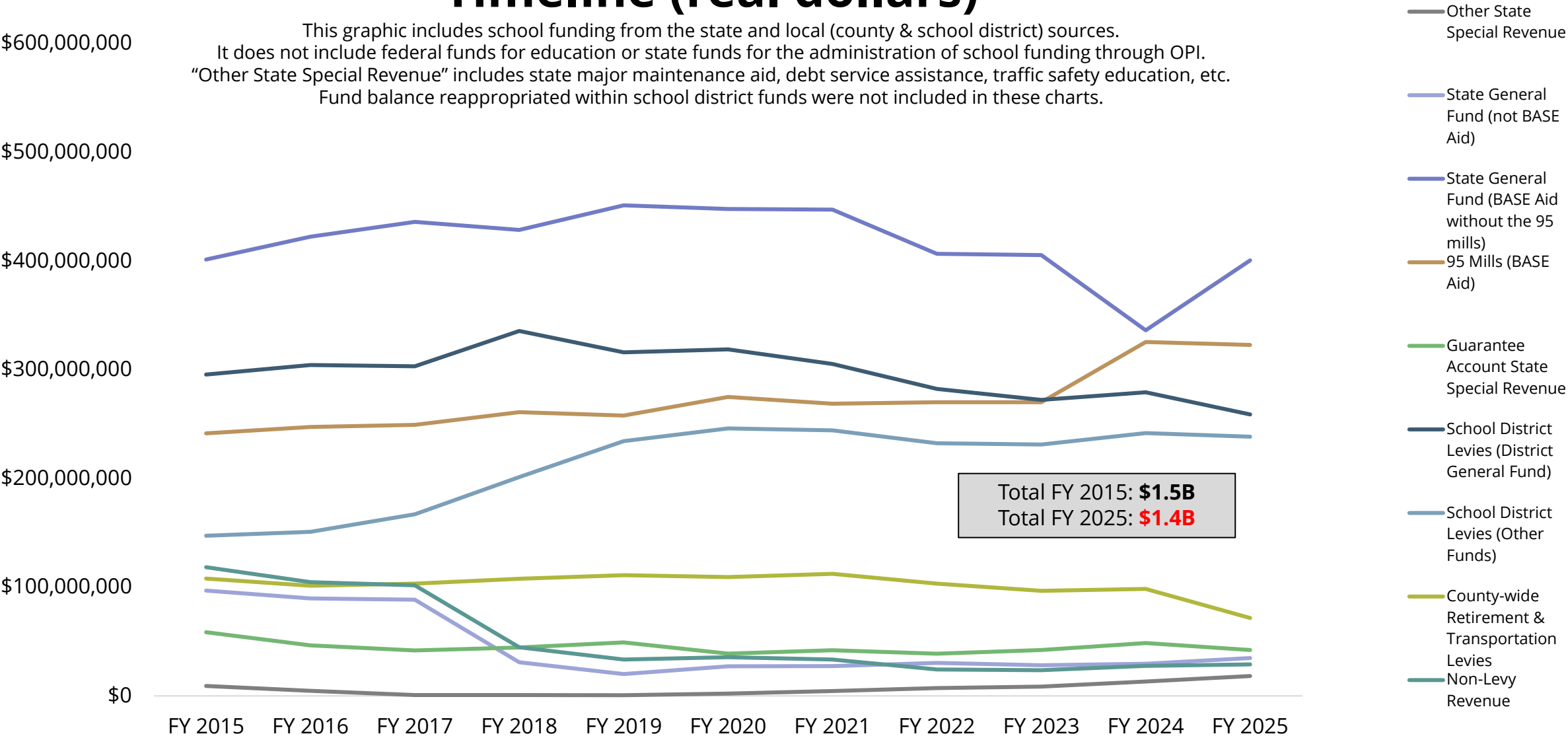
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State & Local Revenue Sources

Timeline (real dollars)

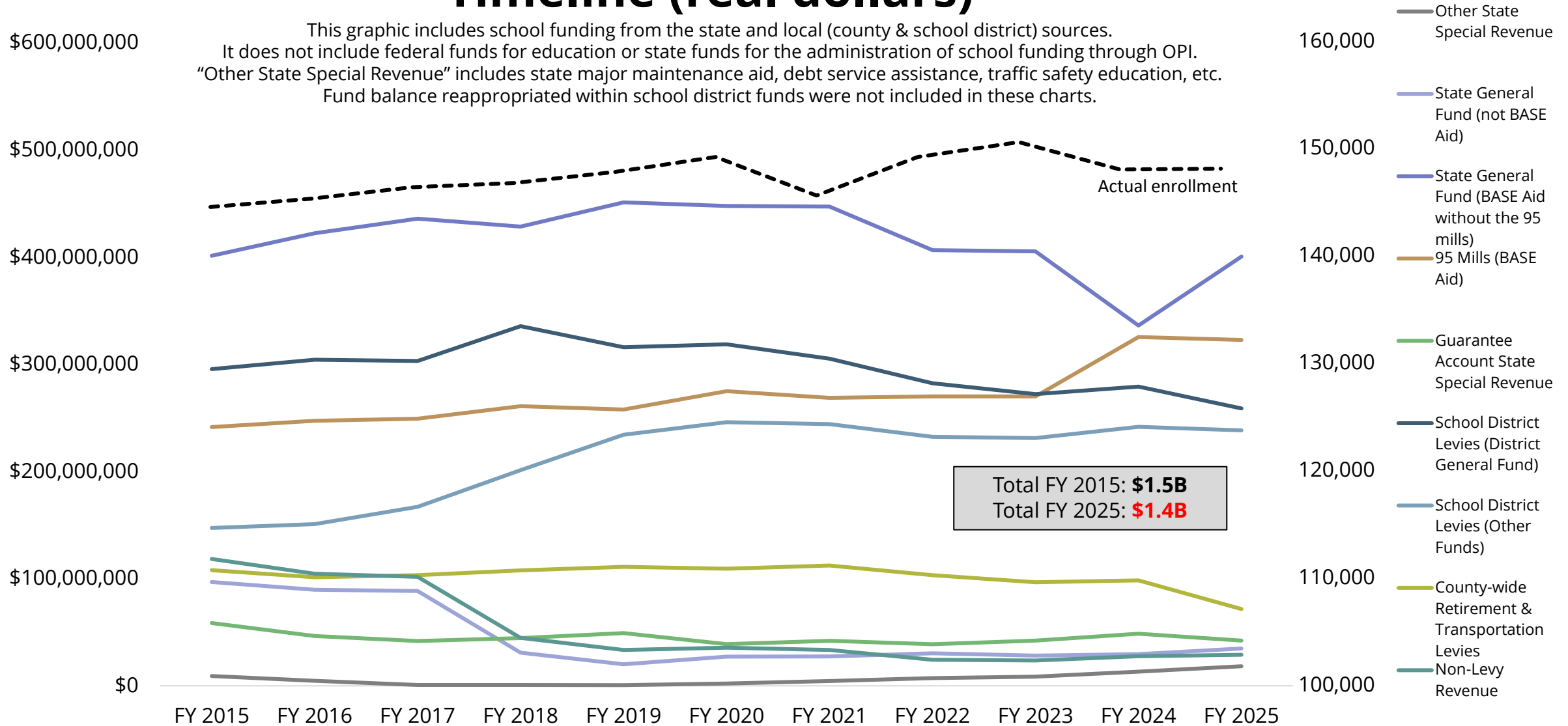
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State & Local Revenue Sources

Timeline (real dollars)

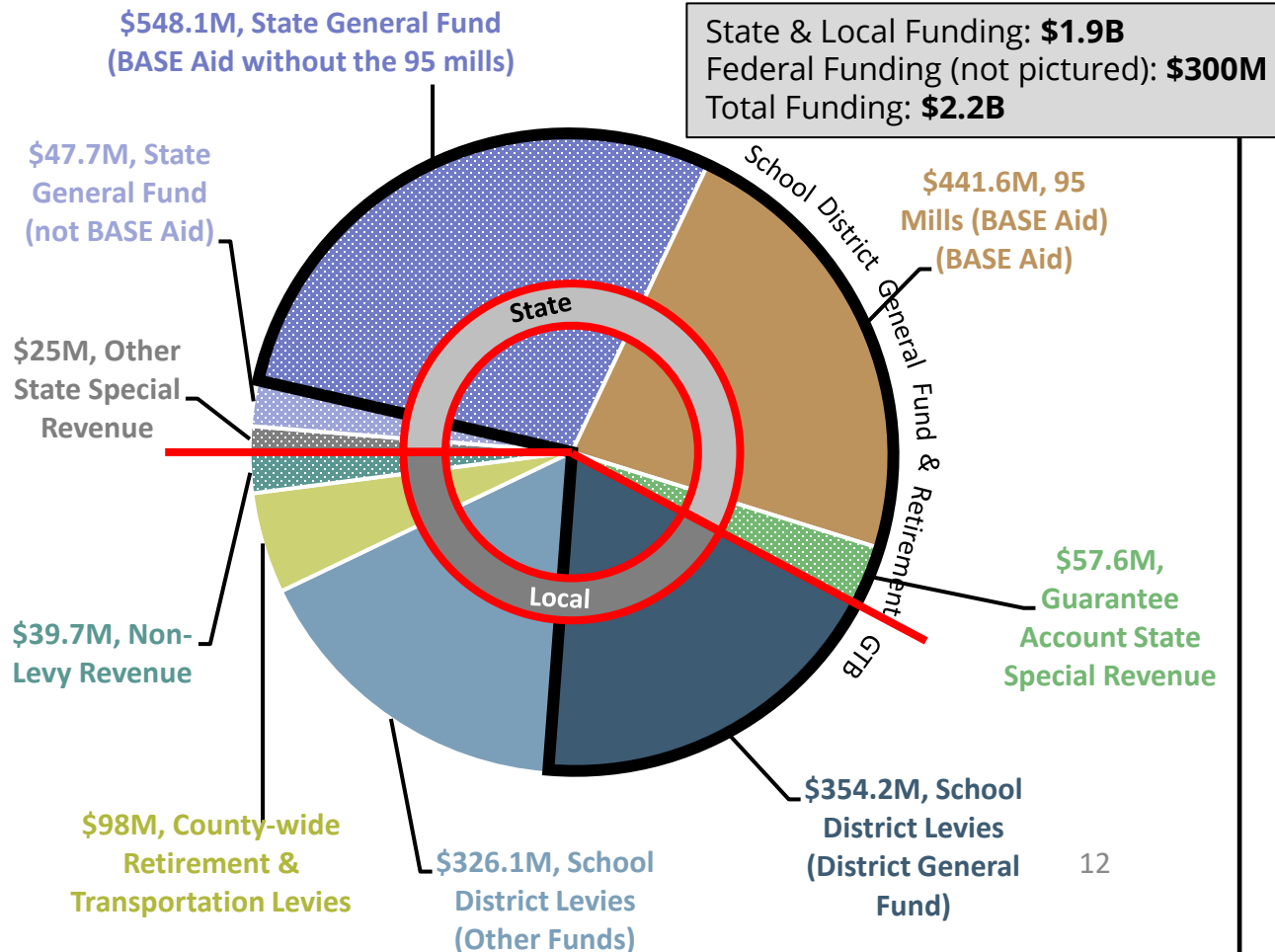
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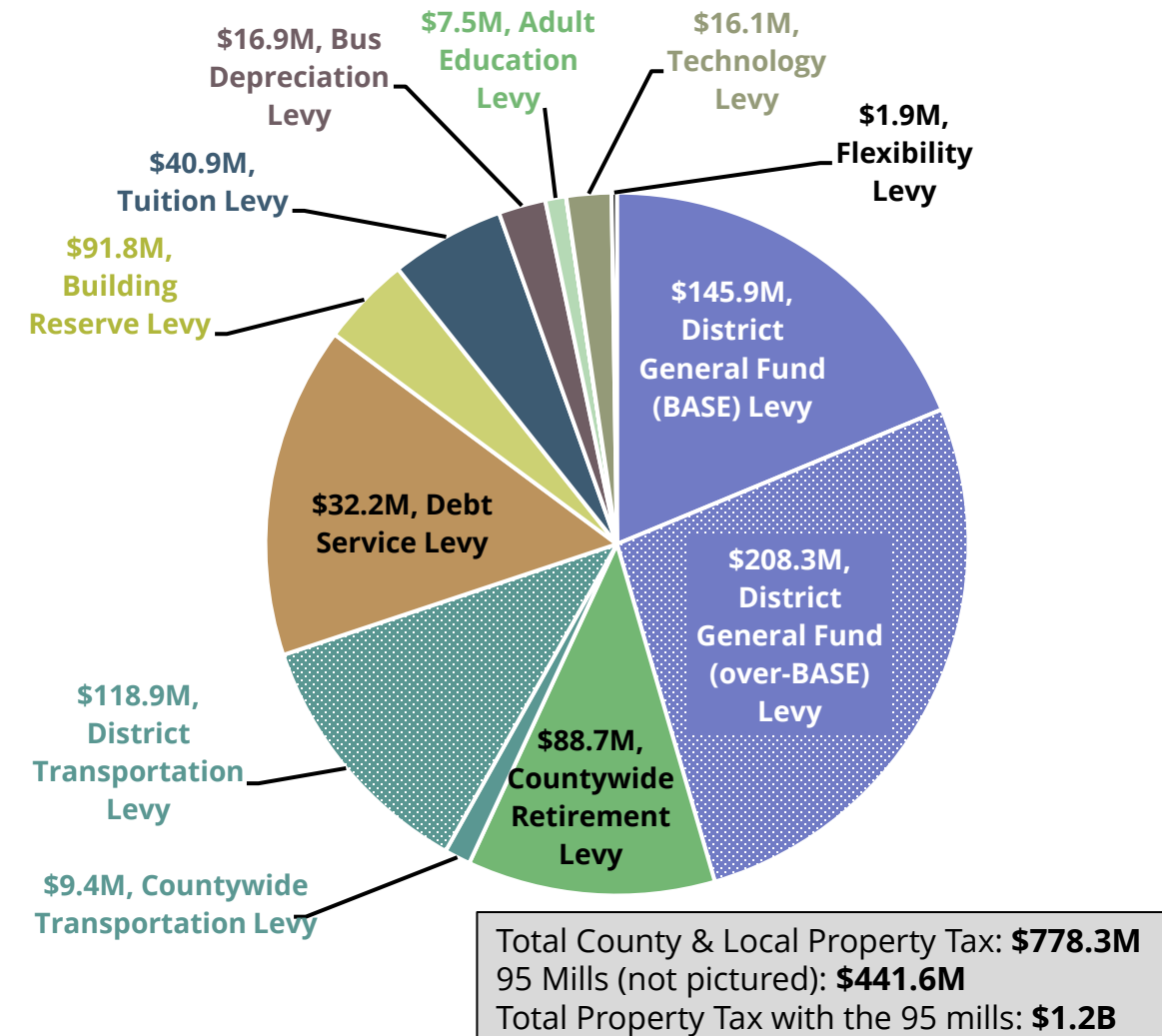
Funding Overview – FY 2025*

*FY 2025 is estimated

State & Local Revenue Sources for Schools



County & Local Property Tax Levies for Schools



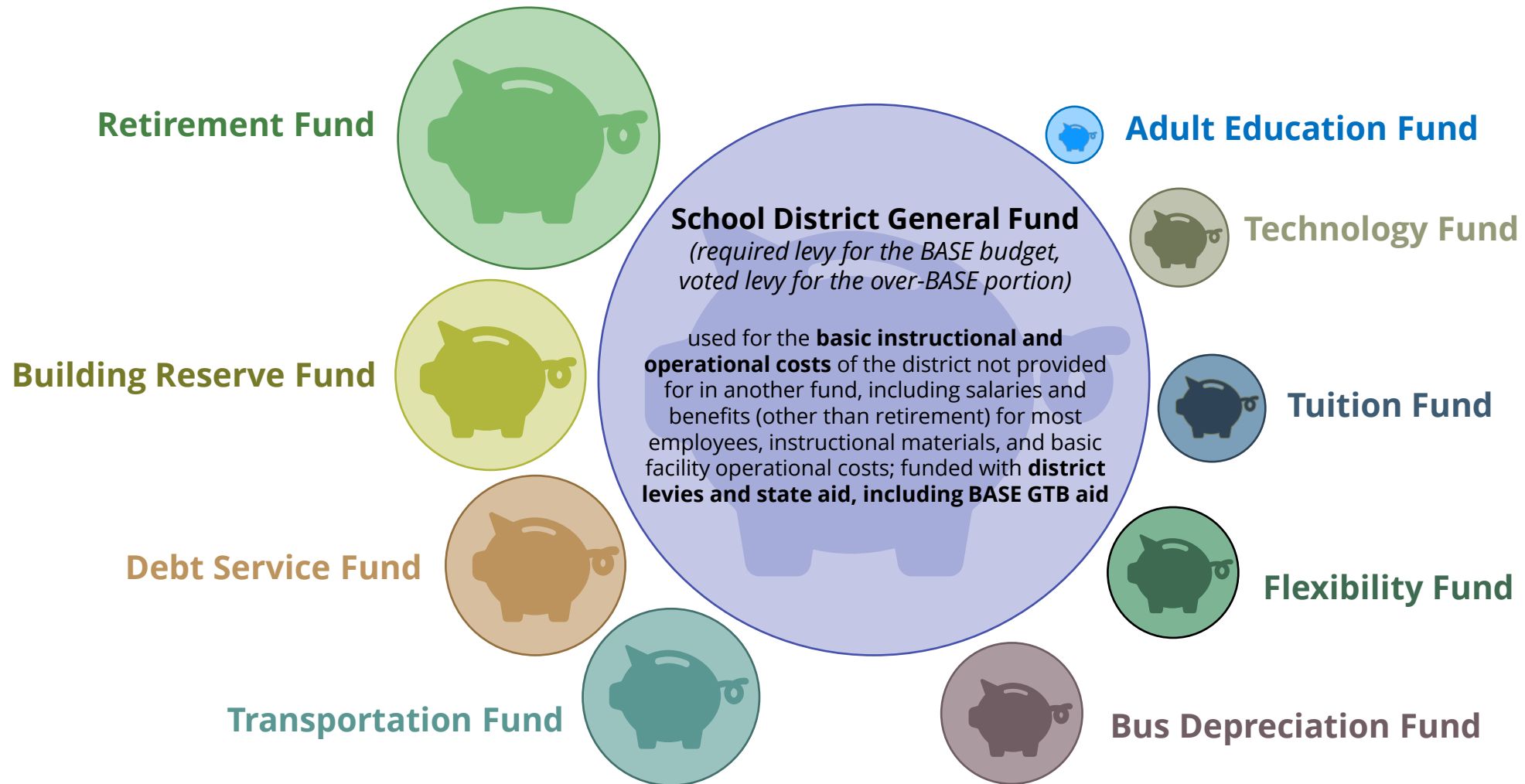
- This graphic does not include federal funds for education or state funds for the administration of school funding through OPI
- Non-property tax sources are denoted by the patterned slices



“THE FUNDING FORMULA” AKA THE SCHOOL DISTRICT GENERAL FUND

The School District General Fund is only a portion of all school funding.

Budgeted funds only, shown by relative size. There are also many non-budgeted funds not pictured– these funds do not receive property tax revenue.



The Funding Formula

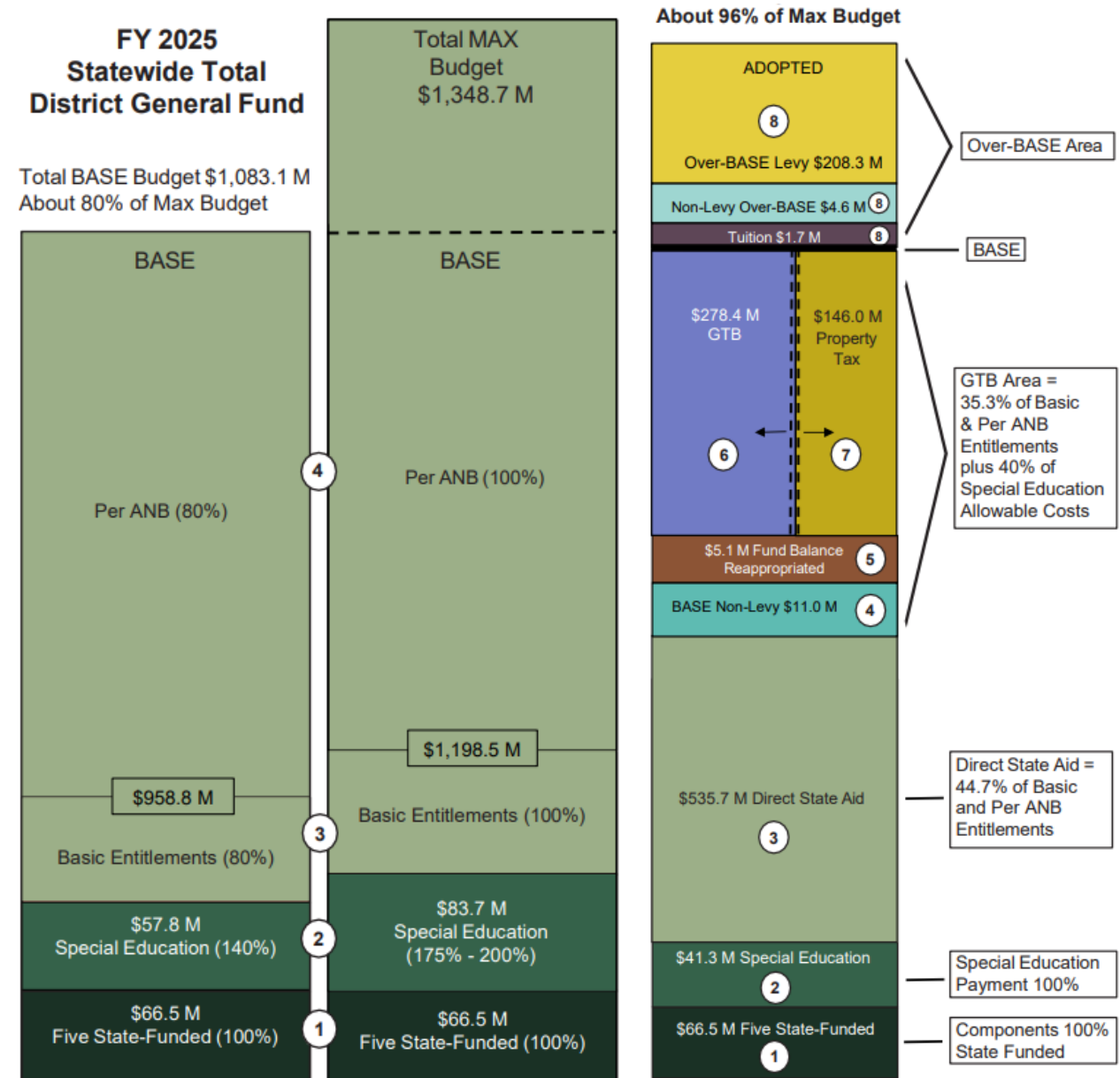
The Office of Public Instruction distributes state and federal funding to school districts over the course of the year, using the school funding formula (for the district general fund).

Montana has about 400 school districts serving roughly 150,000 students. In school funding, we use an enrollment metric called Average Number Belonging (ANB) when to talk about a district's enrollment.

There are 2 parts to the school funding 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).

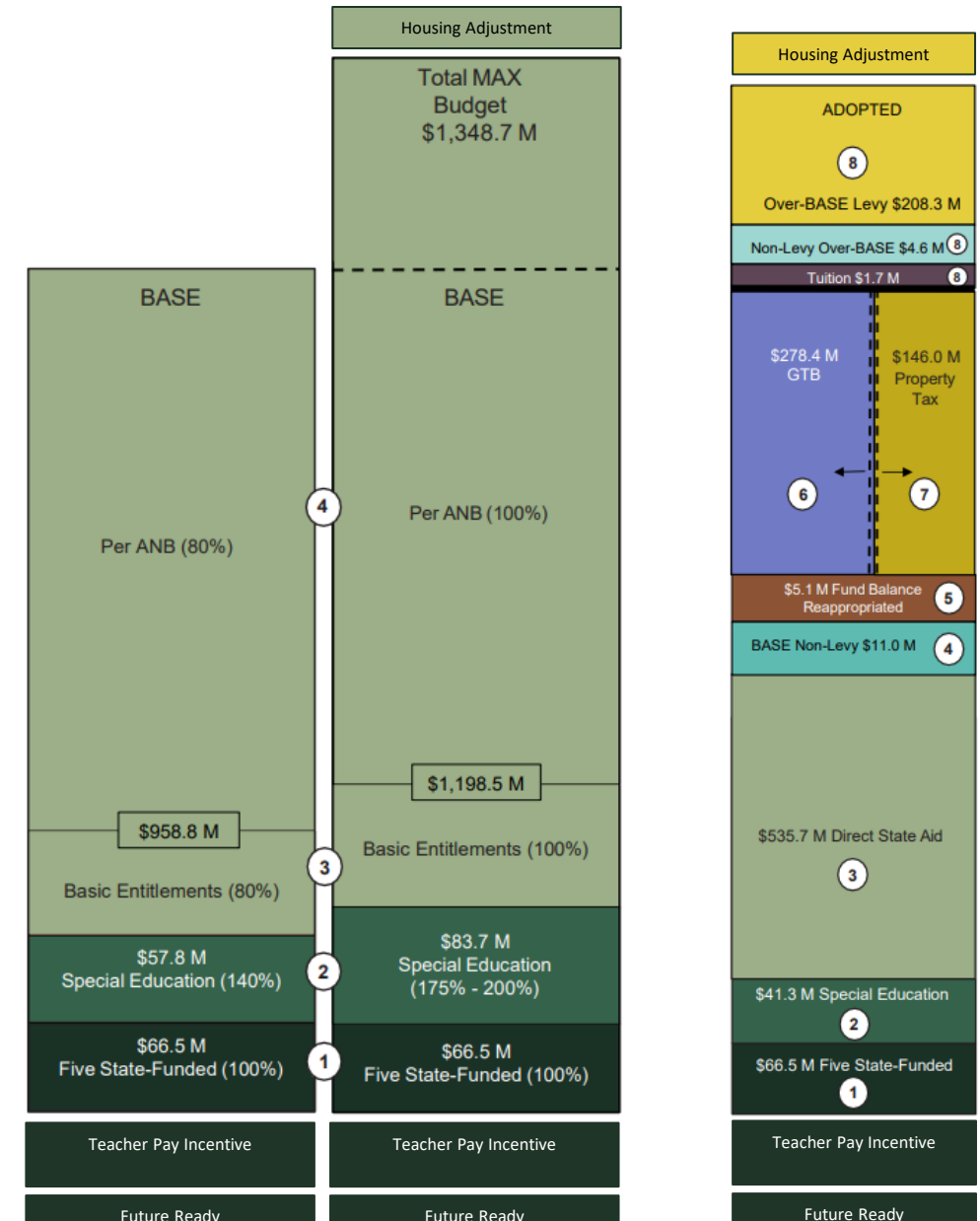
- See the [School District General Fund Interactive Tool](#) to look at these district general fund charts by school district.

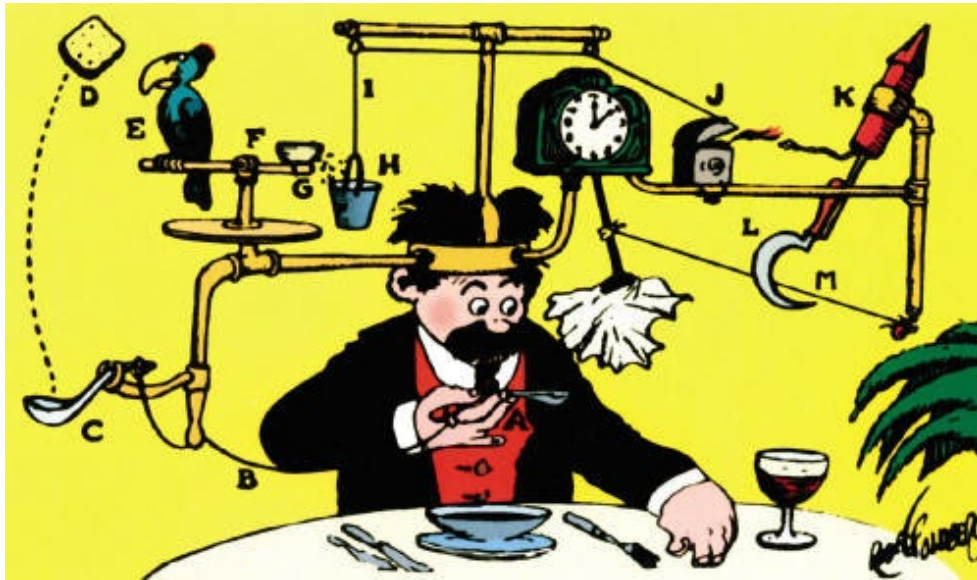


STARS Act

HB 252, 2025 Session

- For a district that meets the benchmark for starting teacher pay, the district gets a teacher pay incentive through an enhanced Quality Educator (QE) payment. This raises the district's budget limits
 - As the QE payment is 100% state funded, there is no local property tax increase
- For a district that graduates students with dual credits, industry recognized credentials, etc., the district gets a new Future Ready payment. This raises the district's budget limits
 - As the Future Ready payment is 100% state funded, there is no local property tax increase
 - The amount of the payment is based on the per-ANB entitlement but is not added to the per-ANB payment
- For districts in or near counties with median housing costs higher than the statewide median, the district's MAX budget calculation is increased by percentages
 - This provides the district with higher budget authority and a larger over-BASE budget area. This area is generally filled with local voted levies. There is no state cost for this change





Whether you view Montana's K-12 funding formula as an overly complicated, nonsensical, Rube Goldberg-esque contraption or as a sophisticated, adaptable, high-performance machine...

It's YOURS!

And from [20-9-309, MCA](#):

(4) The legislature shall... establish a funding formula that... allows the legislature to adjust the funding formula...

Your sophisticated machine is meant to be fine tuned from time to time!



The “Constitutional Players”



From NCSL's 2016 ["No Time to Lose" report](#):

Element #4: Individual reforms are connected and aligned as parts of a clearly planned and carefully designed comprehensive system.

Top performing countries have adopted a comprehensive, systemic approach to building world-class education systems. They understand that success is not achieved by adopting only one or two “silver bullet” policies; instead, these countries have reimagined and re-engineered their entire systems. Typically, this vision is established at the national level with the ministry of education, while states or provinces are charged with implementation. This is not dissimilar to how states can enact reform: with a clear vision at the state level, while local entities are responsible for implementation.

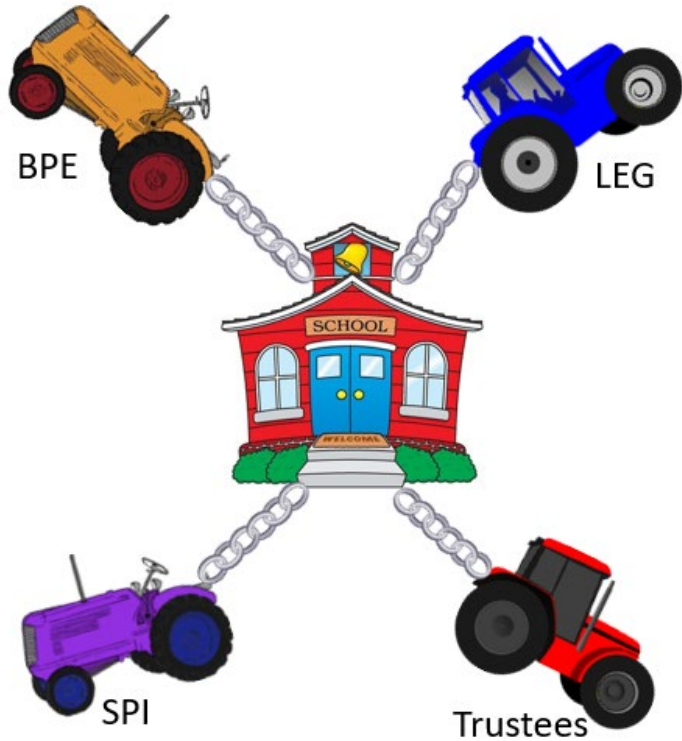
For example, the top-performing countries understand that schools will struggle without high-quality early childhood education and that high-quality early childhood education will not be a wise investment unless followed by high-quality instruction in the schools. They also understand that increasing teacher pay without rethinking the pool of teaching applicants may be unwise unless preparation programs are more rigorous. Likewise, they realize that a more rigorous program is pointless without creating a more attractive teaching profession.

Unlike top-performing countries, states commonly take a piecemeal approach, where policymakers fail to set overarching goals for the education system and instead experiment with individual strategies that can sometimes change from year to year. States have designed and implemented many different education reform policies that are not always connected and consequently do not have the desired impact.

Clearly, a decentralized system of education governance exists and is traditionally preferred in the U.S., where state and local boards, agencies, governors, and legislatures all control and often set differing priorities for their own systems. Parents, teachers, and students are frustrated with reform efforts that come and go, leaving them with a system built on an ever-shifting foundation.

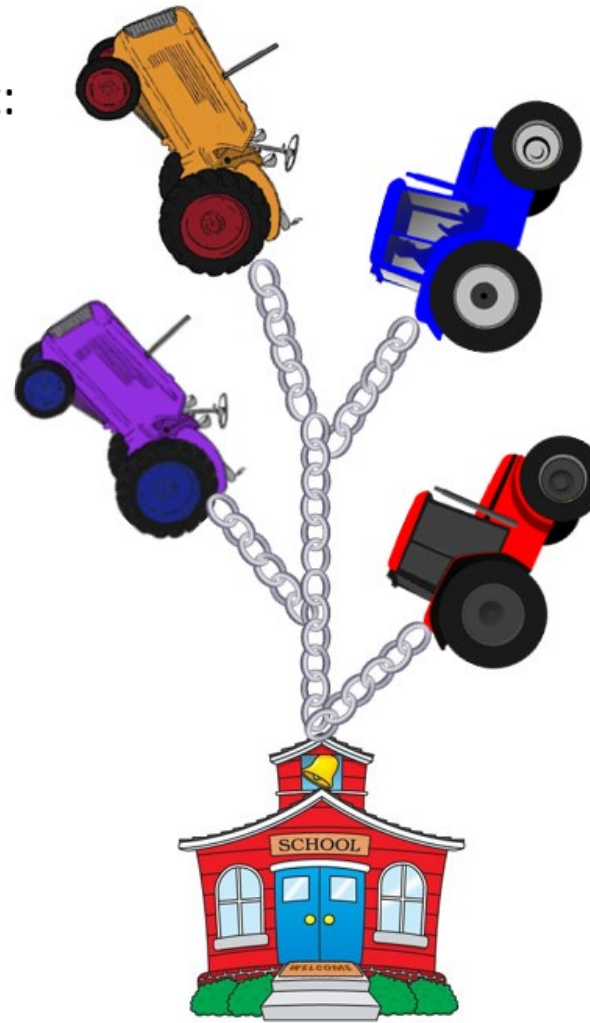
States are well-positioned to instead create the kind of clear vision and systemic reform that high-performing countries do. State systems more closely resemble education governance in the high-performing countries. With input from stakeholders, state legislatures, state boards of education, governors and state education agencies can agree to a clear vision for the state and allow local entities to implement specific strategies.

With four Constitutional “drivers” of K-12 education, which question is more important:



Who's driving???

Or...



Where are we going?

Beginning in 2022, the Legislature has instigated multiple gatherings of “the Constitutional Players” to address the “Where are we going?” question.

See the Constitutional Players handouts in your binders for more information.



School Funding Resources:

<https://www.legmt.gov/lfd/publications/school-funding-library/>

Property Tax Resources:

<https://www.legmt.gov/lfd/publications/property-tax-library/>

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Questions?



