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**BUDGET AND PROGRAM PLANNING**  
 STATE OF MONTANA



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 To: Quality Schools Interim Committee  
 From: Nancy Hall, Senior Budget Analyst  
 Subject: Disequalizing affects of state HB124 reimbursements

Montana public schools operate under a wide variety of demographics. Circumstances also create wide diversity in the number of mills each district levies each year for their General Fund budget in order to reach the BASE budget limit.

Montana schools are funded in one of three categories: 1) elementary = K – 8<sup>th</sup> grades; 2) high school = 9<sup>th</sup> – 12<sup>th</sup> grades; and 3) K-12 schools = K – 12<sup>th</sup> grades funded as one budget unit. Table 1 shows the differences in ANB (average number belonging) and how many districts fall into each category.

**Profile of School Populations**

Elementary Sizes	Number of Elementary Districts
40 or less	102
41 – 150	72
151 – 400	54
401 – 850	20
851 – 2500	17
> 2500	6

High School Sizes	Number of High School Districts
75 or less	32
76 – 200	38
201 – 400	16
401 – 1250	17
> 1250	7

K-12 Sizes	Number of K-12 Districts	K-12 Elem	K-12 H S
400 or less	43	8	34
> 400	12	28	12
		10	6
		6	3
		3	

## Current BASE Mill Levy Distribution

The following tables represent the distribution of districts at various BASE mill levies based on fiscal year 2005 budget information. It is easy to see the inequity of district BASE mills levied across the state between elementary districts, high school districts and K-12 districts that combine the elementary and high school mills.

### Elementary Districts BASE Mill Levy Distribution Based on FY 2005 Budget Reporting

<u>Mills levied</u>	<u>Elem</u> <u>40 or less</u>	<u>Elem</u> <u>41-150</u>	<u>Elem</u> <u>151-400</u>	<u>Elem</u> <u>401-850</u>	<u>Elem</u> <u>851-2500</u>	<u>Elem</u> <u>&gt;2500</u>
zero	14	5	0	1	0	0
1 – 10	23	6	0	0	0	0
10 – 20	19	6	0	0	0	0
20 – 30	16	7	4	0	1	0
30 – 40	11	17	10	9	0	0
40 – 50	9	24	24	7	16	6
50 – 60	8	6	16	3	0	0
60 – 70	2	1	0	0	0	0
<b>Total # of Districts</b>	102	72	54	20	17	6

### High School Districts BASE Mill Levy Distribution Based on FY 2005 Budget Reporting

<u>Mills levied</u>	<u>HS</u> <u>75 or less</u>	<u>HS</u> <u>76-200</u>	<u>HS</u> <u>201-400</u>	<u>HS</u> <u>401-1250</u>	<u>HS</u> <u>&gt; 1250</u>
zero	2	1	1	1	0
1 – 10	1	2	0	2	0
10 – 20	6	3	1	6	0
20 – 30	12	17	9	8	3
30 – 40	11	15	5	0	4
<b>Total # of Districts</b>	32	38	16	17	7

### K-12 Districts BASE Mill Levy Distribution Based on FY 2005 Budget Reporting

<u>Mills levied</u>	<u>K-12</u> <u>&lt; 400</u>	<u>K-12</u> <u>&gt; 399</u>
zero	9	0
1 – 10	0	0
10 – 20	0	0
20 – 30	3	0
30 – 40	4	0
40 – 50	5	0
50 – 60	5	2
60 – 70	7	2
70 – 80	7	3
80 – 90	3	5
<b>Total # of Districts</b>	43	12

## **Why the current school funding formula does not provide tax equity**

In addition to the taxable values mentioned on Dan Dodds' report, non-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). The state-distributed funds cause a significant portion of the mill levy differences as applied in the current funding formula.

Non-levy revenue and fund balance re-appropriated are the first funding sources for the GTB area; they are used to fund this area before any mills are levied. After the non-levy revenue and fund balance re-appropriated are subtracted from the GTB area of the budget, then the number of mills needed to fund this area is determined. The state subsidizes each local mill at a rate that is dependent on the taxable value and size of the GTB area of the district. The districts with large taxable values relative to their GTB area receive little or no subsidy for each mill. Districts with less taxable value relative to the district GTB area receive a higher subsidy per mill. When non-levy revenue and fund balance reappropriated fund a significant portion of the GTB area, the number of local mills required is reduced.

### **Non-levy Revenue**

The non-levy tax revenues such as oil, gas and coal are addressed in Dan Dodds' report. HB124 is distributed through the Office of Public Instruction as a block grant and is not included in that report.

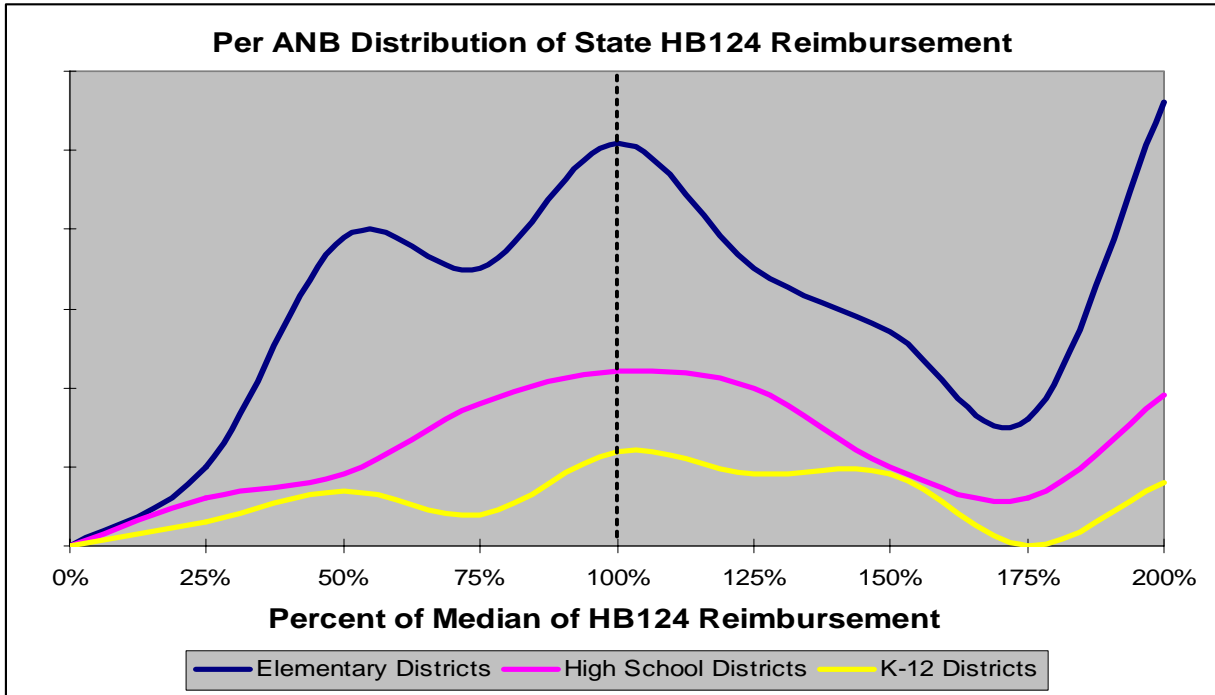
### **HB124 Block Grants**

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.

The following table shows the highest and lowest per ANB state HB124 reimbursements by elementary, high school and K-12 district. It also shows the number of districts and median of each district type.

<b>Range of Per ANB Distribution of State HB124 Reimbursement</b>			
	<u>Elementary Districts</u>	<u>High School Districts</u>	<u>K-12 Districts</u>
# of Districts	269	110	52
Highest Per ANB State HB124 Reimbursement	3348	2136	3967
Lowest Per ANB State HB124 Reimbursement	4	5	13
Highest – Lowest	3344	2131	3954
Median Per ANB State HB124 Reimbursement	293	342	439

The Per ANB distribution of state HB124 reimbursements varies greatly within each type of district, as does the median within each type of district.



**Other Minor Reasons for Mill Levy Differences in the Current Funding Formula**

Some districts continue to have lower or higher mills even if non-levy revenues are removed. These districts tend to be anomalies for several possible reasons. Some districts tend to allow large fund balances to roll forward to offset the next year’s BASE budget and thus have few or no BASE mills. Not all districts spend their budget during the year leaving a fund balance to reappropriate to the next year’s budget. Some districts have significantly increasing enrollment. Since the subsidy per mill is determined by the prior year’s GTB area, the current funding formula requires a higher guarantee level and fewer mills from districts with declining enrollments (decreasing GTB areas) and a lower guarantee level and more mills than it does from districts with increasing enrollments. This anomaly may be acceptable, as it is temporary.

If the non-levy revenues are removed, all districts will pay additional taxes to replace the revenue lost unless the state redistributes savings through the school funding formula. Some districts will lose relatively more revenue than others. Any option that is chosen to return the revenue back to districts through the school funding formula will not necessarily return the same revenue to the same districts that lost the revenue. There will be winners and losers, but tax levels will be more equal.

**Conclusion**

The current school funding formula has inherent different tax requirements needed to fund the BASE or required minimum budget. These differences are significant across the state and vary by size of district.