Note: *This report was published in March 2020 when revenue from the 95 mills went to the state general fund. As of July 1, 2023, revenue from the 95 mills goes to the new School Equalization and Property Tax Reduction Account following the passage of HB 587 (Jones; 2023).*

School Property Tax

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MARCH 31, 2020

INTRODUCTION

This report discusses property tax revenues in Montana as they specifically pertain to schools, in the context of research performed for the Legislative Finance Committee studies detailed in HB 715.[1] While not all property taxes paid go to schools, and not all school funding comes from property taxes, property taxes are nevertheless a major component of school funding.

Unlike most other functions funded by the state of Montana, the public school system and its funding system are established in the Montana Constitution. Title X of the Montana Constitution states that "it is the goal of the people to establish a system of education which will develop the full educational potential of each person. Equality of educational opportunity is guaranteed to each person of the state… [The legislature] shall fund and distribute in an equitable manner to the school districts the state's share of the cost of the basic elementary and secondary school system."[2] There have been a number of court cases concerning the adequacy and equity of public education funding in Montana, which have helped to shape the current school funding model.

The Montana Constitution guarantees the equality of educational opportunity across the state and requires the legislature to equitably distribute state support for public schools, but there is also a separate issue of tax equity across the state. In this report, we will investigate the following subjects:

1. The reason for an increase in school district mills levied between TY 2016 and TY 2019
2. Whether the changes made in HB 647 of the 2017 Legislative Session affected the variability of BASE school district general fund mills between TY 2016 and TY 2019
3. Whether there were any changes in over-BASE mills or non-general fund mills between TY 2016 and TY 2019
4. How many school districts were operating over-MAX in TY 1999 versus in TY 2019

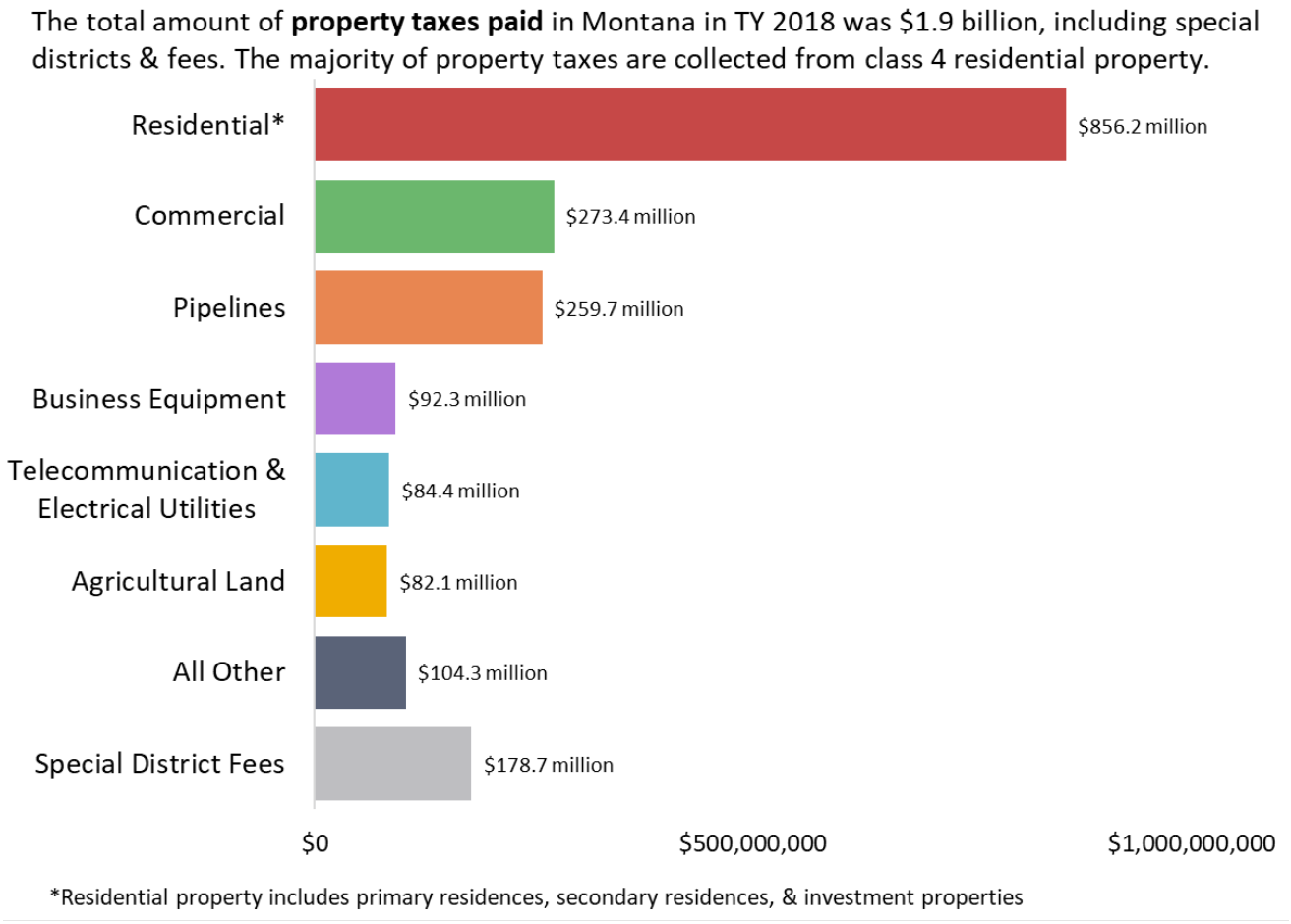
The completion of this report would not have been possible without assistance from the Montana Office of Public Instruction (OPI). The data used in this report are primarily from the OPI, with some supplemental data from the Montana Department of Revenue (DOR). The LFD would like to thank the OPI, DOR, and the Legislative Services Division (LSD) for their assistance and input during the research process.

[1] HB 715 (2019)
[2] Montana Constitution Title X

OVERVIEW OF PROPERTY TAXES IN MONTANA

WHERE PROPERTY TAXES COME FROM

Property taxes paid in Montana are based on three components—the value of a property, the tax rate for that particular type of property, and the number of mills levied in that particular tax levy district. Property values are reassessed on a regular basis by the DOR. The taxable value of a property is defined as the market value of that property multiplied by its tax rate. Tax rates are based on the type of property, each of which has a specific rate set in statute. The number of mills levied is based on individual property location, and a mill is defined as 1/1000 of the taxable value of a property. The state and each county, city, school, and other district (fire, weed control, etc.) levies a particular number of mills to fund the services they provide. The total taxes paid for a property is then calculated by multiplying the taxable value by the number of mills.



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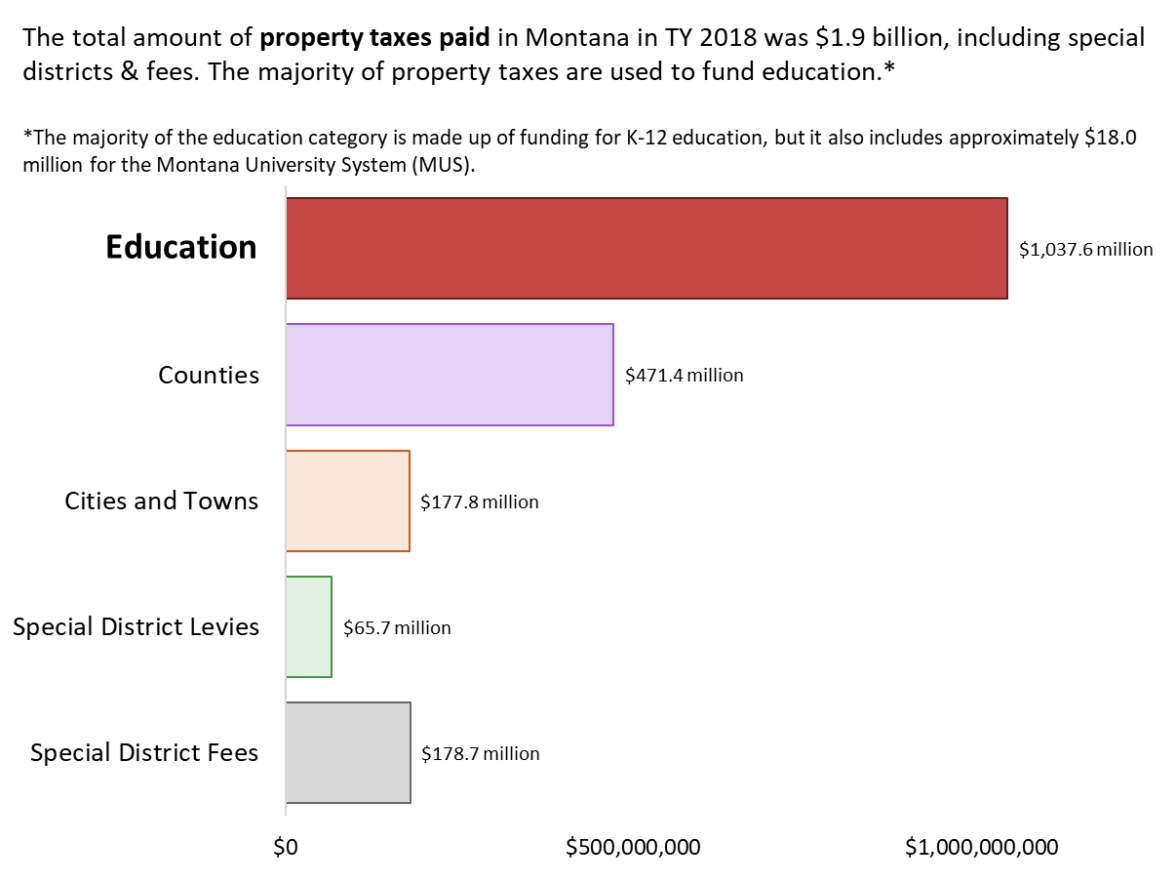
WHERE PROPERTY TAXES GO

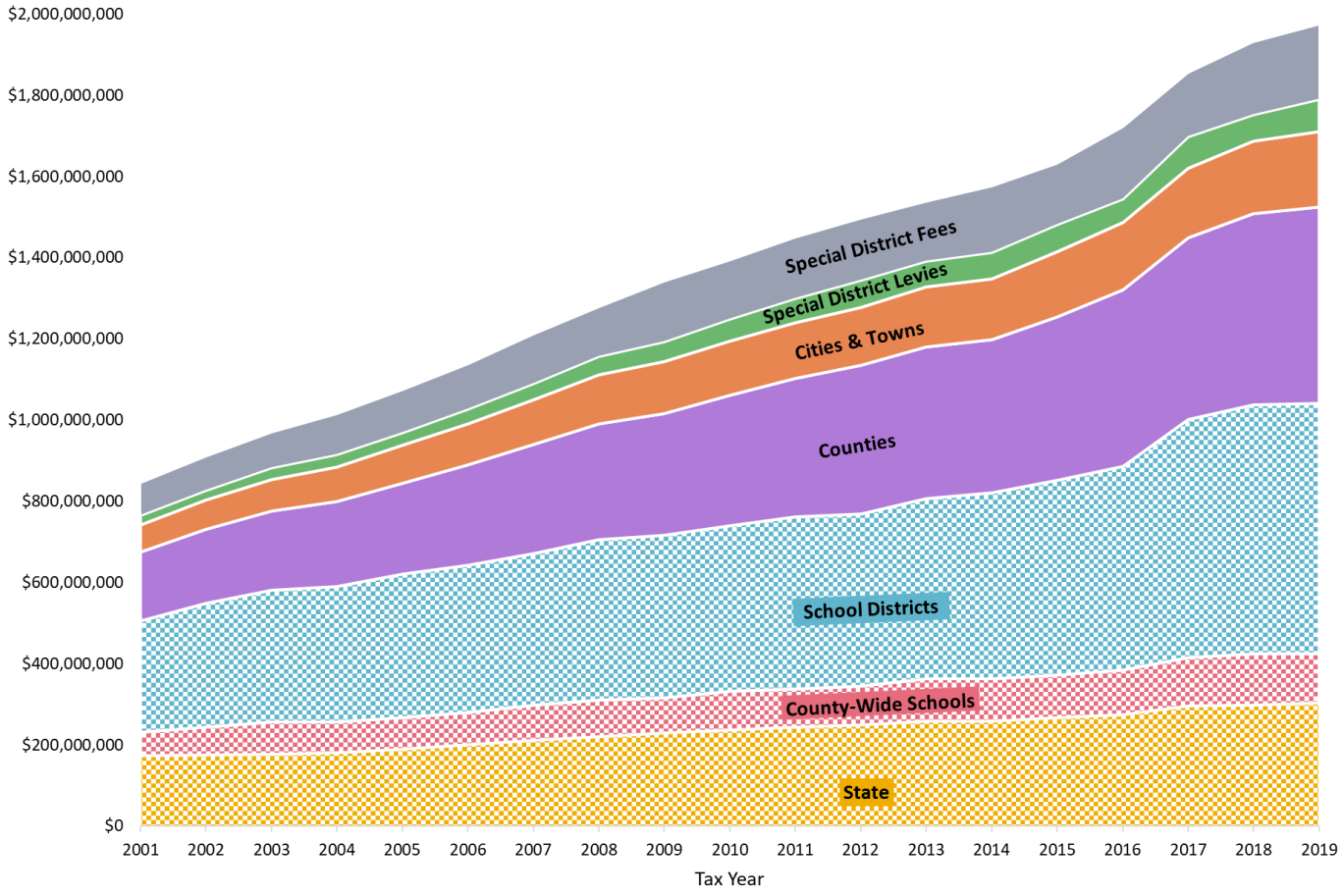
Property taxes at the state level are used to fund school equalization, universities, and vocational technology colleges. While the majority of mills levied are determined by local entities, all properties pay a county equalization levy of 55 mills and a state equalization levy of 40 mills (often referred to together as the 95 mills), which go to the state general fund for K-12 school funding. All Montana properties also pay 6 mills to fund the university system. Additionally, the five counties with vocational technology colleges pay an additional 1.5 mills to the state general fund for the purpose of funding those colleges. These five counties are Silver Bow County, Cascade County, Yellowstone County, Missoula County, and Lewis and Clark County.

Property tax collections are usually determined after a local government entity has set its budget for the year, and the number of mills levied is then determined based on that need. At the local level, property taxes fund district and countywide school funds, city and county services, and a variety of other services. The city and county portions of property taxes are primarily used to fund local services such as roads, bridges, district courts, public safety, and others. There are also a number of special districts in Montana, which may levy mills or charge fees for search and rescue, local parks, water and sewer, and a variety of other purposes. The majority of property tax revenue in Montana is used to fund education, but it is important to note that property taxes are not the only source of revenue used to fund education.



Growth in **property taxes collected** since TY 2001 is a combination of growth in property taxes paid to local governments (**counties**, **cities & towns**, **special district levies**, and **special districts fees**) and to public schools* (**state property taxes**, **county-wide school levies**, and **school districts**). School districts account for the largest portion of property taxes collected, and they accounted for a large portion of the increase from between TY 2016 and TY 2019. Special district levies accounted for the smallest portion of the increase, but had the largest compound annual growth rate at 7.067%. State property taxes had the smallest growth rate at 3.170%.

*Property taxes for schools are denoted by the hash mark pattern



Compound Annual Growth Rate TY 2001 - TY 2019	
Entity	Growth Rate
State	3.170%
Local	6.548%
County-wide Schools	4.102%
Schools	4.629%
Counties	5.971%
Cities	5.898%
Special Dist Levies	7.067%
Special Dist Fees	4.736%

For a brief background on property taxes, please reference the following resources:

- The Legislative Fiscal Division's (LFD) Property Tax Overview https://montana.maps.arcgis.com/apps/MapSeries/index.html?appid=0b1dbc05e74f40afb7e842e4f51972fb
- The LFD's January 2020 Property Tax Report https://leg.mt.gov/content/Publications/fiscal/2021-Interim/Jan-2020/Prop-Tax-Report.pdf

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HOW SCHOOL FUNDING WORKS

K-12 Education Revenue

Revenue for K-12 education in Montana comes from three main sources—the state of Montana, the federal government, and local governments. Revenue from the state accounted for 43.5% of all K-12 education revenue (as of TY 2016). School funding from the state is distributed to school districts by the Office of Public Instruction (OPI), based largely on number of students. The number of students in each district is referred to the Average Number Belonging (ANB).[3] State revenue includes revenue from several sources:

- State general fund revenue—of the approximately $800.0 million the state pays for K-12 education annually, only $300.0 million is generated through property taxes via the 95 mill levy. The remaining approximately $500.0 million is made up of other state general fund revenue sources
- Retirement funding— the state general fund provides almost $50.0 million annually directly to the teachers retirement system (TRS) and public employees retirement system (PERS) on behalf of K-12 educators and employees, in order to keep those systems actuarially sound. The state also provides approximately $40.0 million annually to counties as part of guaranteed tax base (GTB) aid to support eligible counties in funding school district retirement budgets
- The guarantee account— this state special revenue account receives earnings off of the Common School Permanent Trust and revenue generated on the state common school trust lands. These lands and the permanent trust were established when Montana became a state for the ongoing support of public schools. The guarantee account is the first source of K-12 funding; when more revenue is available in the guarantee account, less state general fund is required, and vice versa. The guarantee account receives approximately $50.0 million each year, but the amount can vary[4]

Local revenue accounted for 44.6% of all K-12 education revenue (as of TY 2016).

- Local property tax levies— these levies included required levies, voted mills, and permissive (non-voted) levies by the school districts and counties. In addition to school district levies, all county taxpayers support county-wide school retirement costs and certain transportation costs through permissive county-wide levies
- Local non-levy revenue (NLR)— NLR includes certain natural resource revenues and tuition payments. In TY 2017, block grants and NRD payments were eliminated, which increased both GTB payments and temporarily increased local property tax general fund BASE mills

[3] OPI Understanding Montana School Finance and School District Budgets (pg. 10 - 11)
[4] LFD Guarantee Account Brochure

- Fund balance re-appropriated— the difference between the end-of-year fund balance and the amount reserved for operations. It must be used to fund the next year's budget. The maximum amount of fund balance that may be re-appropriated to the general fund budget is limited to 15.0% of the ensuing year's maximum general fund budget[5]

Federal revenue accounted for the remaining 11.9% (as of TY 2016). Federal revenue for education comes from four main programs:

- Impact Aid Funding— federal funding for federally-connected children whose families live or work on nontaxable federal land (tribal land, forest land, national parks, military bases, etc.)[6]
- School Food Funding— federal funding for school lunches from the U.S. Department of Agriculture (USDA)[7]
- Individuals with Disabilities Education Act (IDEA) Funding— federal funding for the education of children with disabilities[8]
- Title I Funding— federal funding for schools with high percentages of low-income students[9]

K-12 School Budgeting

Each school district in Montana establishes a minimum Basic Amount for School Equity (BASE) budget and a maximum (MAX) budget, based on percentages of certain school funding components:

- The five fully state-funded components are the following:
    1. Quality Educator Payments— a per-FTE payment for teachers and other licensed professionals
    2. At-Risk Payments— a payment to schools to address at-risk students
    3. Indian Education for All Payments— a per-ANB payment to fund the constitutionally required education regarding the cultural heritage of American Indians
    4. American Indian Achievement Gap Payments— a per-American Indian student payment to help close the performance gap that exists between American Indian students and non-Indian students
    5. Data for Achievement Payments— a per-ANB payment used by school districts to pay for costs related to student data systems
- Special Education Payments— a per-ANB payment, regardless of the number of special education students

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[5] OPI Understanding Montana School Finance and School District Budgets (pg. 16)
[6] U.S. Department of Education - Impact Aid
[7] U.S. Department of Agriculture - School Lunch
[8] U.S. Department of Education - IDEA
[9] U.S. Department of Education - Title I

- Direct State Aid
    - Basic Entitlements— a per-district payment, based on whether it is an elementary district, middle school district, or high school district
    - Per-ANB Entitlements—a per-ANB payment based on the count of students attending school in the district
- Guaranteed tax base (GTB) funding— GTB payments help equalize differences in revenue generating capacity between school districts with different property tax bases[10]

The process for establishing a budget is as follows:

1. The BASE budget is calculated as 100.0% of the five fully state-funded components, 140.0% of the special education allowable costs payment, 80.0% of basic entitlement payments, and 80.0% of per-ANB payments.
2. The MAX budget is calculated as 100.0% of the five fully state-funded components, 200.0% of the special education allowable costs payment, 100.0% of basic entitlement payments, and 100.0% of per-ANB payments.
3. Each district adopts a district general fund budget of at least BASE, and with some exceptions, no more than MAX. The BASE portion of the adopted budget is funded first with 100.0% of the five fully state-funded components, 100.0% of the special education allowable costs payment, 44.7% of the basic entitlements, and 44.7% of the per-ANB payment.
4. The remaining portion of the BASE budget (40.0% of the special education allowable costs payment, 35.3% of the basic entitlements, and 35.3 % of the per-ANB payment) is funded with a combination of non-levy revenue, fund balance re-appropriated, and local property tax required levies.
5. If the remaining portion of the BASE budget is still not met, a district may qualify for GTB aid. GTB provides a per-mill subsidy that brings a district's revenue-generating capacity (as a ratio of property wealth/mill value to funding need) up to a statewide guarantee. Basically, GTB fills a district's unmet funding need up to the level of BASE budget funding. The state also provides GTB funding for school retirement systems.
6. Local school district trustees determine the final adopted budget between BASE and MAX, and the school funding formula dictates how that budget is funded.
7. There are exceptions that allow school districts to adopt over-MAX budgets. A district may adopt a budget over the MAX up to the amount of the prior year adopted budget plus the highest over-BASE levy authorized or imposed in the past five years. A flexible non-voted levy may also be imposed.[11]

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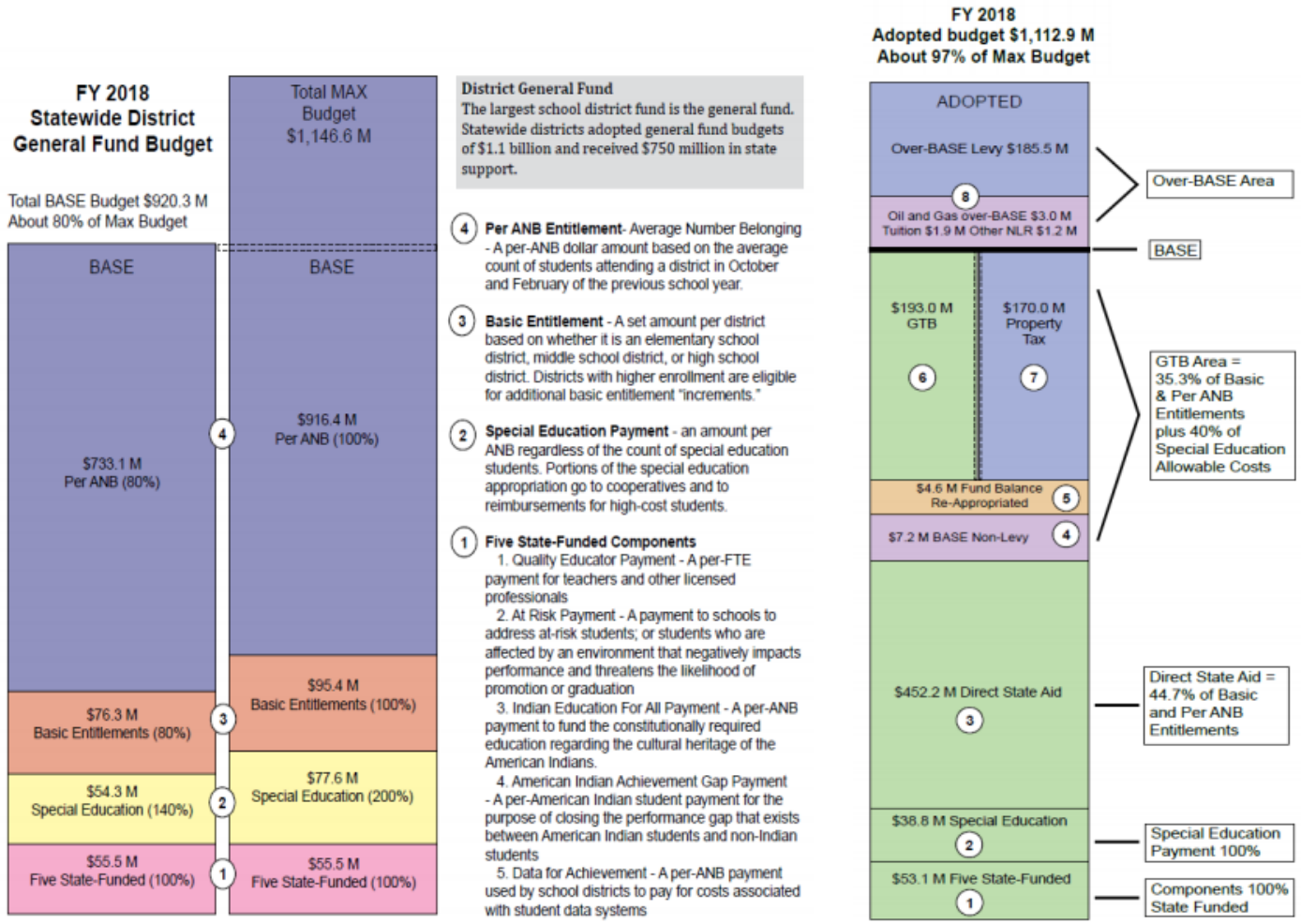
[10] LSD School Funding - Guaranteed Tax Base
[11] OPI Understanding Montana School Finance and School District Budgets (pg. 17)



This graphic was created by the Legislative Services Division (LSD).

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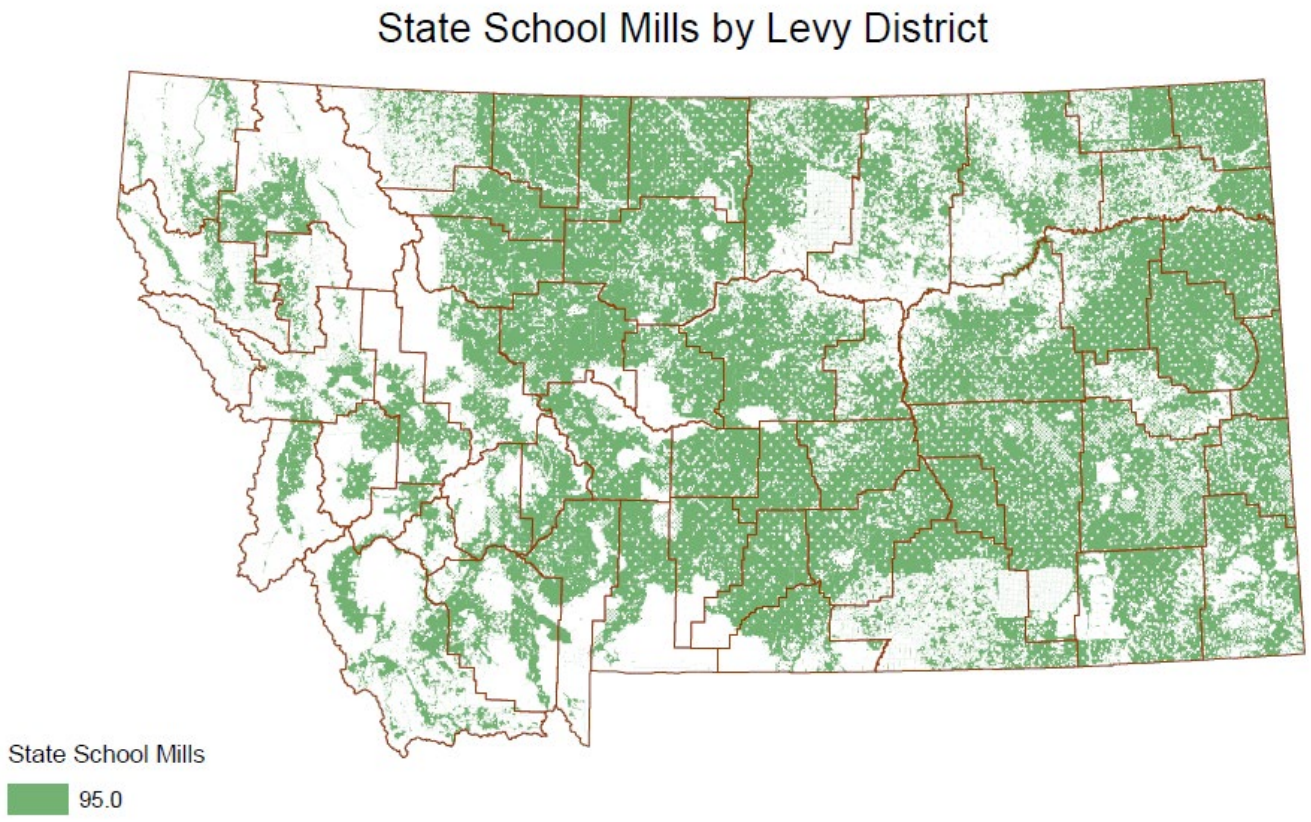
TYPES OF SCHOOL MILLS

Mills levied for schools include the state levy, county-wide school mill levies, required school district mill levies, voted school mill levies, and permissive (non-voted) school mill levies. The state levies 95 mills on all property in Montana, which go to the state general fund for K-12 school funding. This state-wide levy is made up of a county equalization levy of 55 mills and a state equalization levy of 40 mills.



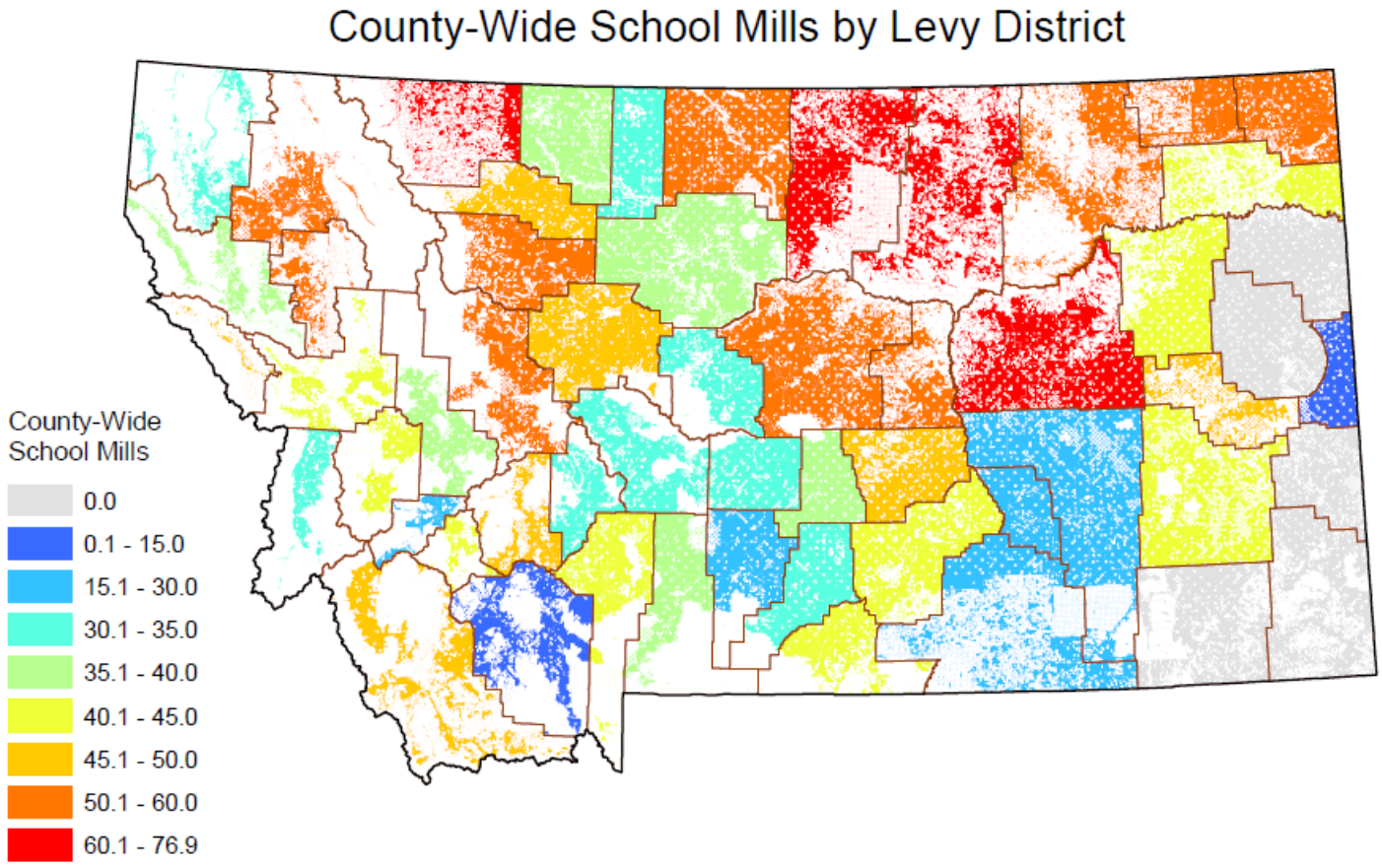
In addition to the 95-mill levy, the state levies an additional 6 mills statewide for the Montana University System, and the state also levies 1.5 mills in Cascade, Lewis & Clark, Missoula, Silver Bow, and Yellowstone counties for the five vocational technology colleges located in those counties. Gallatin County levies its own countywide 1.5 mills to support the vocational technology college located there.

Note that the white portions of the map are public lands (federal, state, tribal, etc.) and are not subject to property tax. Tax-exempt federal lands include those administered by the Bureau of Land Management, the National Park Service, and the U.S. Fish and Wildlife Service, which are all bureaus of the Department of the Interior (DOI). Other tax-exempt federal lands are those administered by the U.S. Forest Service, which is part of the U.S. Department of Agriculture (USDA), and federal lands for federal water projects and some military installations.[12] State land primarily consists of school trust

[12] U.S. Department of the Interior - PILT

lands, managed by the Department of Natural Resources and Conservation (DNRC). Other state lands include state wildlife management areas (WMA) and fishing access sites (FAS), which are managed by Montana Fish, Wildlife, and Parks (FWP). Tax-exempt tribal lands include tribal trust property on reservations; privately owned property on reservations is not tax-exempt.[13]

All county taxpayers support county-wide school retirement costs and a portion of transportation costs through county-wide school levies.



[13] U.S. Department of the Interior - Bureau of Indian Affairs

Each school district also levies a certain number of mills to fund K-12 education within their district. Most these mills are levied for the school district general fund, but each district also has funds for specific purposes—which may include transportation (separate from the county-wide transportation levy), bus depreciation, tuition, adult education, technology, flexibility, building reserve, and debt service. Tax levies in the transportation, bus depreciation, tuition, and adult education funds are permissive (non-voted). Voter approval is required for tax levies in the technology, flexibility, and debt service funds. The building reserve fund has both permissive and voted sub-funds.

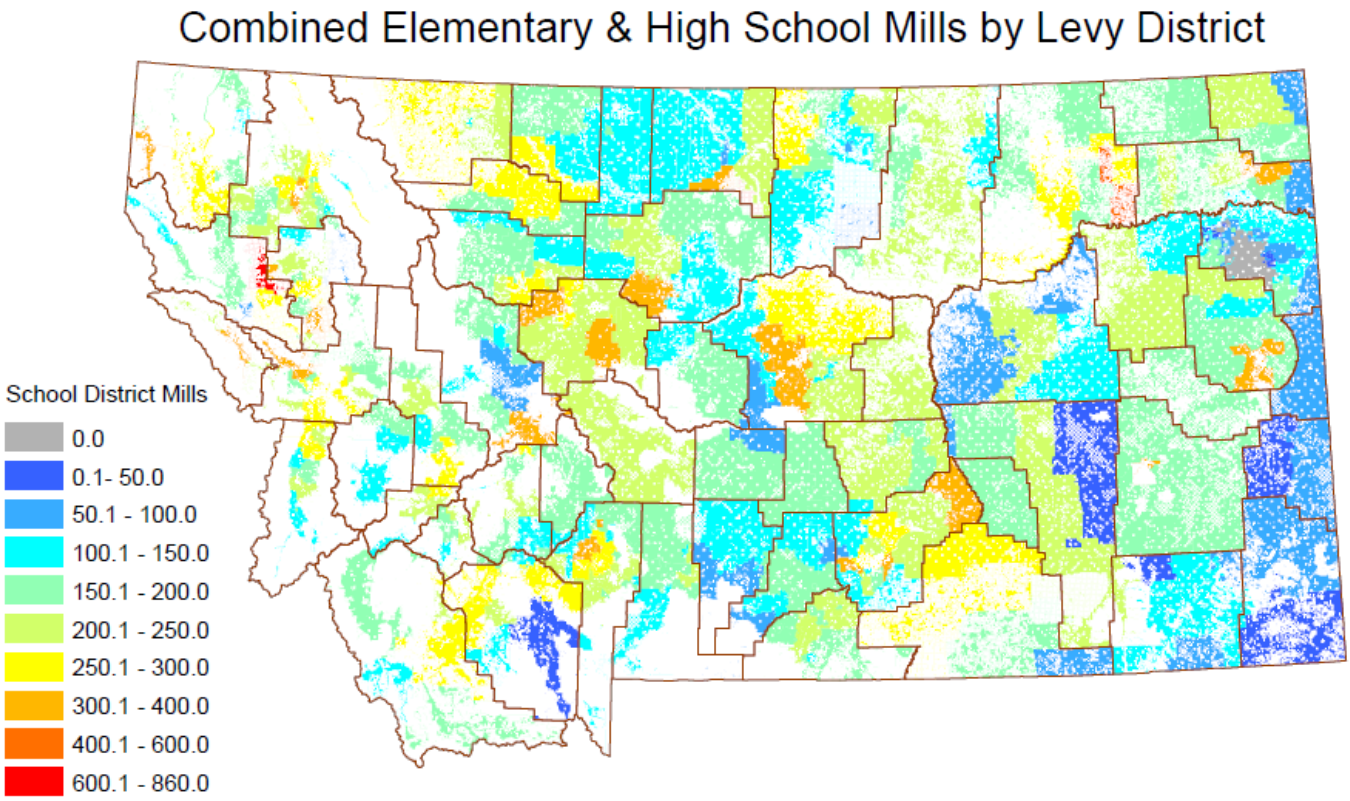
Note that school districts generally are categorized as elementary school districts, high school districts, or K-12 school districts. In areas where elementary and high school districts are separate entities, each district levies its own mills. In areas with single unified K-12 districts, the school mills are levied together. For presentation purposes, we have combined the mills for elementary and high school districts which levy mills in the same taxing jurisdiction, so that the number of school mills is comparable across the state.

Each school district property tax levy is made up of mills levied for:

- District General Fund— this fund is used for the basic instructional and operational costs of the district not provided for in another fund, including salaries and benefits (other than retirement) for most employees, instructional materials, and basic facility operational costs
- Transportation Fund— this fund is used for to-and-from school transportation costs including buses, fuel, and drivers (not for extracurricular activities or field trips)
- Bus Depreciation Fund— this fund is used to accumulate funds for bus replacement and additional school buses. The amount budgeted may not, over time, exceed 150.0% of the original cost of a bus or communication systems and safety devices installed on the bus
- Tuition Fund— this fund is used in limited cases to pay tuition for a student who attends school outside the student's district of residence. Students may be attending under mandatory or discretionary agreements paid by the resident school district. The use of this fund has increased since FY 2013, after the passage of SB 191 in the 2013 legislative session allowed districts to levy mills to pay for the cost of implementing a resident special education student's Individualized Education Program (IEP)
- Adult Education Fund— this fund is used for basic and secondary general education and vocational or technical education for individuals 16 years of age or older who are not regularly enrolled, full-time students
- Technology Fund— this fund is used for the purchase, rental, repair and maintenance of technology equipment, and associated technical training for school district personnel
- Flexibility Fund— this fund is used for technology, facility expansion, student assessment and evaluation, curriculum development, and certain other types of expenditures
- Building Reserve Fund— this fund is used for school major maintenance projects. A district may budget $15,000 ($30,000 for a K-12 district) plus $100 per ANB for the prior fiscal year. This is referred to as the SMMA (State Major Maintenance Amount). In addition to this amount,

local effort revenues for the school major maintenance amount may consist of permissive levies not to exceed 10 mills (or 20 mills for K-12 district), deposits, and transfers

- Debt Service Fund— this fund is used to pay off debt the district has incurred from issuing bonds, typically for construction
- Non-operating school districts levies— non-operating school districts have no school and thus no students, but they generally pay neighboring districts to educate students living within the non-operating district's boundaries



For more information on school funding basics, please reference the following resources:

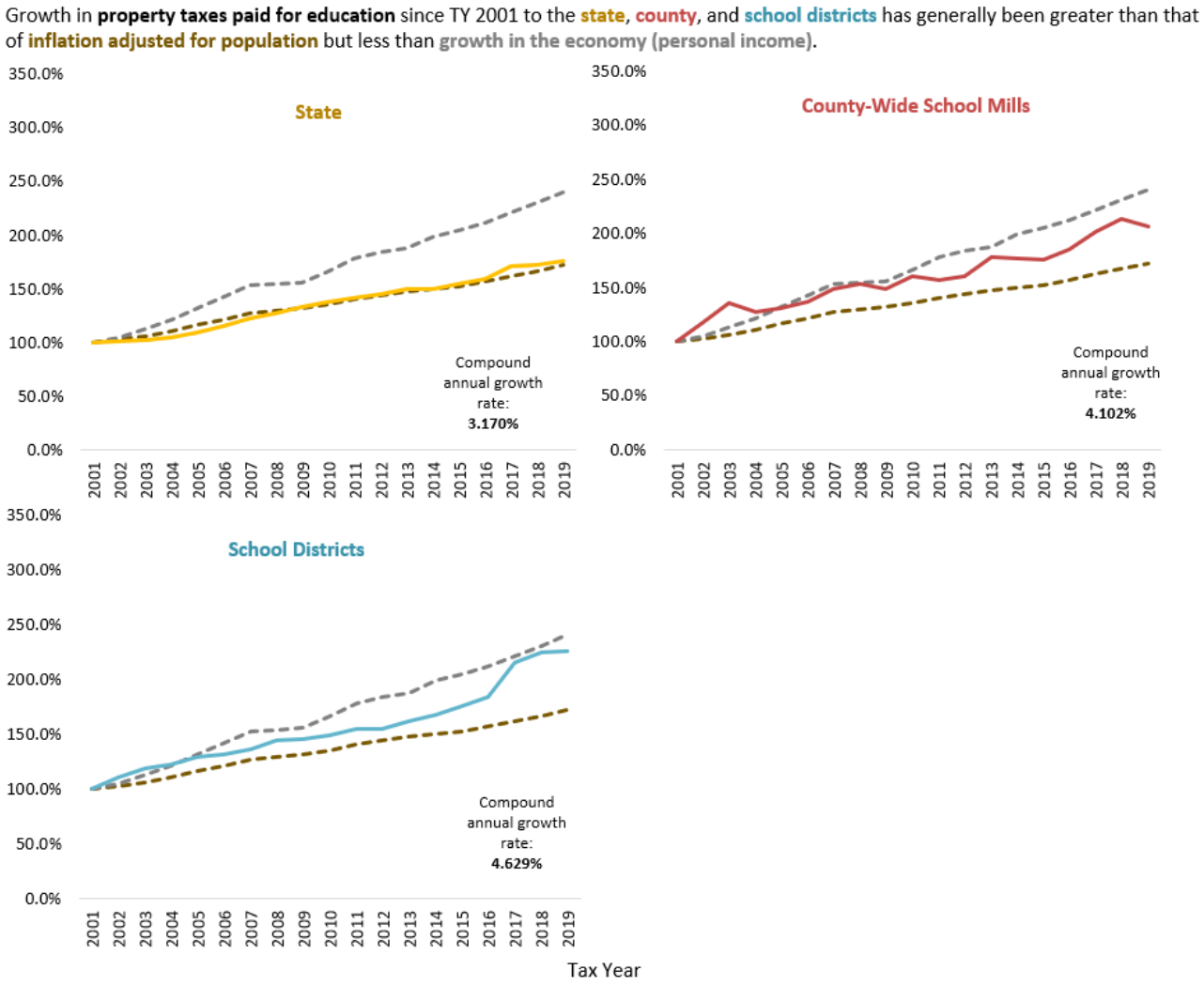
- The Legislative Services Division's (LSD) School Funding Basics PowerPoint https://leg.mt.gov/content/Committees/Administration/Legislative-Council/2019-20/Committee-Topics/LegWeek/School-funding-property-tax.pdf
- The Legislative Fiscal Division (LFD) & LSD's K-12 Funding Big Picture Overview https://montana.maps.arcgis.com/apps/MapSeries/index.html?appid=bda33944e0b44c7e8af074546babc06b
- The LFD & LSD's School District General Fund Basics https://montana.maps.arcgis.com/apps/MapSeries/index.html?appid=fa1576cba6c646cdbb2f706ea5369482

SCHOOLS AND PROPERTY TAXES

Property tax is only one component of school funding in Montana, but it accounts for a large portion of the revenue for education. For the rest of this report, we will be focusing on property taxes and how they relate to school funding.

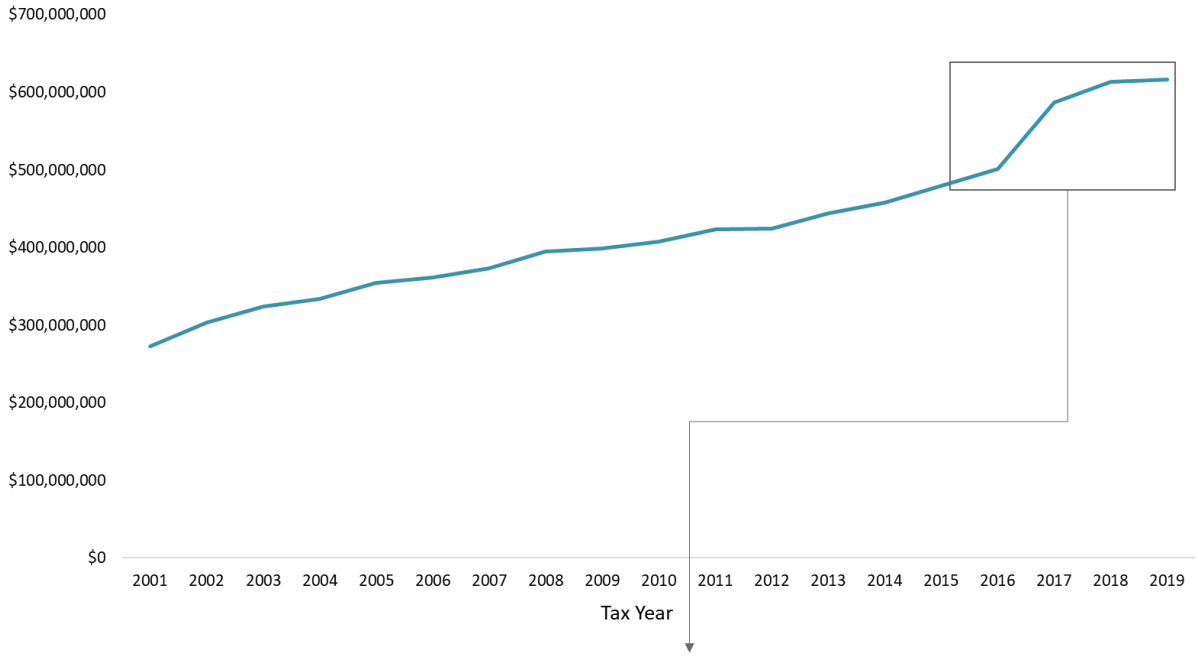
INCREASE IN SCHOOL PROPERTY TAXES BETWEEN TY 2016-2019

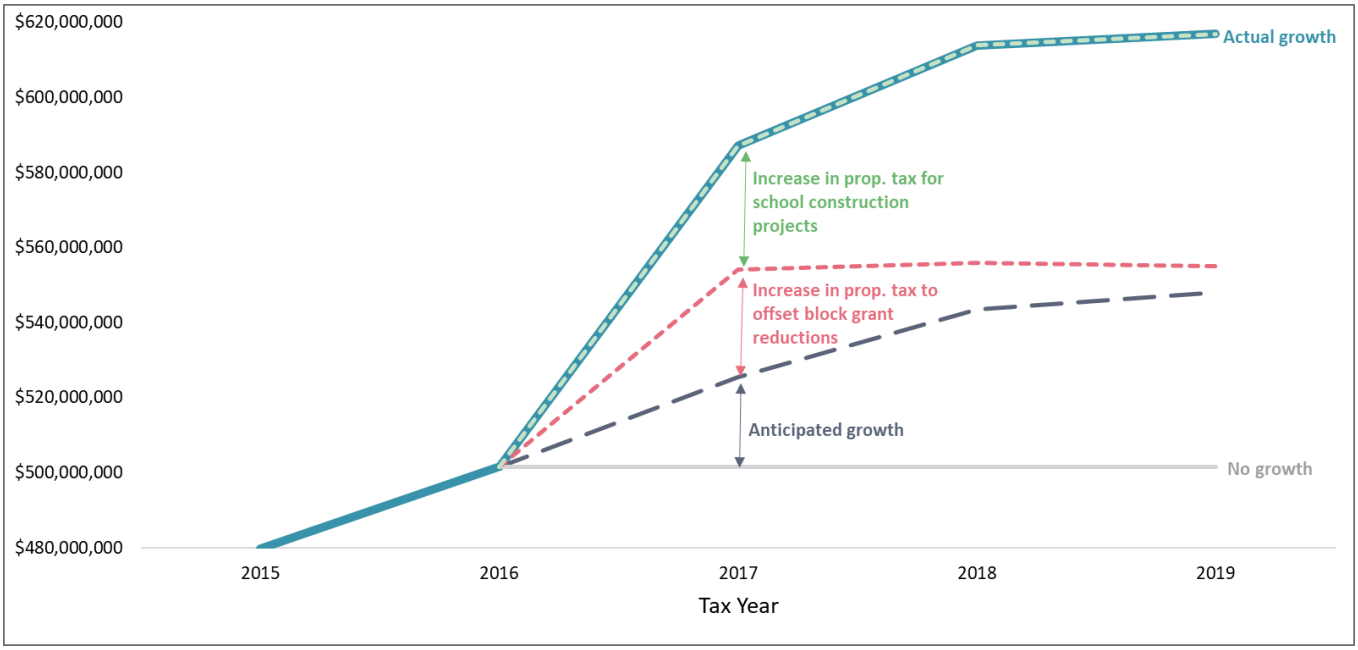
The growth in property taxes paid for education can be broken down into the amounts paid to the state, to the counties, and directly to school districts. Two economic benchmarks are used for analysis of growth trends: growth in economy as measured by personal income and the combined rate of population and inflation. These are used as measurements of comparison related to Montana's economy. The growth of these indicators is indexed to TY 2001, and the source of data used to calculate these benchmarks is IHS Markit. All three sources of property taxes for education have grown above the rate of inflation adjusted for population but below the rate of the economy (personal income).



However, between TY 2016 and TY 2017 property taxes paid to school districts increased by $85.6 million, which may be partially due to the elimination of the distribution of general fund block grants to school districts in HB 647 from the 2017 Legislative Session, in addition to anticipated growth and other increases for school construction projects.

Property taxes paid to school districts have grown 125.8% since TY 2001 (with a compound annual growth rate of 4.629% per year). However, in TY 2017 there was a spike in growth of property taxes paid to school districts, which amounted to an increase of $85.6 million above TY 2016. **Elimination of the distribution of general fund block grants to school districts** resulted in an increase in school property taxes (and state GTB payments) to offset the reduction. This trend should return to normal by TY 2020 as the amount of GTB aid increases. Several **school construction projects** in larger population counties also contributed to the increase in property taxes.





District general fund block grants were distributed to school districts as non-levy revenue to reimburse districts for various legislative changes in property taxation beginning in the early 2000s and offset local property taxes and the guaranteed tax base (GTB) in the school funding formula. The legislature eliminated the school district general fund block grants totaling $54.4 million for both TY 2017 and TY 2018. Eliminating block grants in the district general fund created an increase in local property taxes and in state GTB payments. The offset in state GTB aid totaled $25.7 million in TY 2017 and $42.2 million in TY 2018. In order to replace the net reduction resulting from the elimination of block grants, school districts increased property tax collections by approximately $28.7 million in TY 2017 and $12.2 million in TY 2018. This increase in property tax collections is expected to decrease in TY 2019 and return to normal in TY 2020 as the state provides more GTB aid through increasing the GTB multiplier in the formula.

Additionally, several school building projects in larger population counties contributed to the increase in property taxes. Cascade County, Flathead County, Gallatin County, Lewis and Clark County, Missoula County, and Yellowstone County had the largest increases in property taxes for school building reserves and school debt service.

- In Cascade County, the increase between TY 2016 and TY 2019 was approximately $8.5 million, with the largest increases for the Great Falls elementary school levy district and the Great Falls high school levy district
- In Flathead County, the increase between TY 2016 and TY 2019 was approximately $10.1 million, with the largest increases for the Flathead high school levy district and the Kalispell elementary school levy district
- In Gallatin County, the increase between TY 2016 and TY 2019 was approximately $10.4 million, with the largest increase for the Bozeman high school levy district
- In Lewis and Clark County, the increase between TY 2016 and TY 2019 was approximately $7.7 million, with the largest increases for the Helena elementary school levy district and East Helena K-12 school levy district
- In Missoula County, the increase between TY 2016 and TY 2019 was approximately $8.8 million, with the largest increases for the Missoula high school levy district, Missoula elementary school levy district, Hellgate elementary school levy district, and Frenchtown K-12 school levy district
- In Yellowstone County, the increase between TY 2016 and TY 2019 was approximately $7.5 million, with the largest increase for the Billings elementary school district
- In the other 50 Montana counties, the increase between TY 2016 and TY 2019 was approximately $8.7 million, with the largest increases for the Beaverhead County high school levy district, Belgrade elementary school levy district, Manhattan high school levy district, and Hamilton K-12 school levy district

The chart below details the increase in property taxes paid to school districts for building reserves (permissive levy for major maintenance) and debt service (voted levies for new construction) for TY

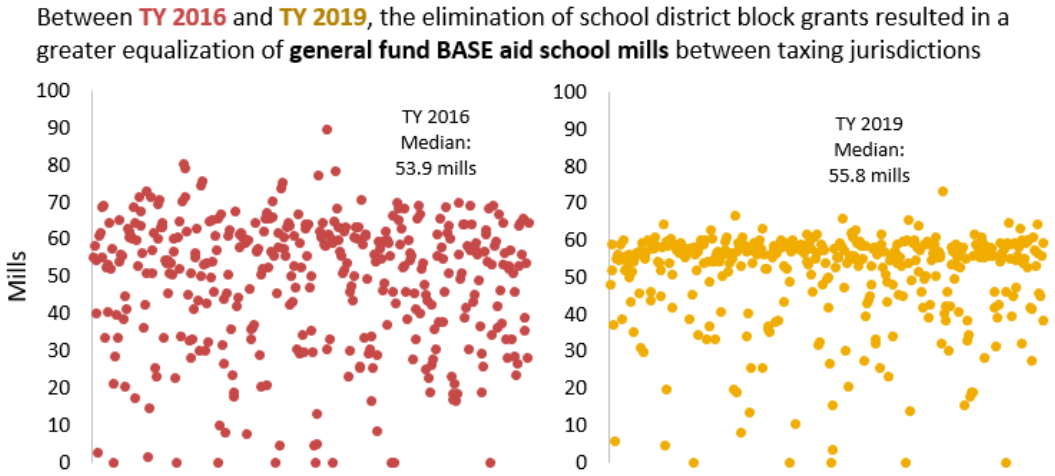
2016 through TY 2019 and the interaction between block grant reductions and GTB increases for TY 2017 through TY 2020. Please see the Appendix (Figure 1) for a more detailed breakdown of debt service and building reserves for all 56 counties.

Property Tax Collection Increases for School Districts from TY 2017 - TY 2020				
	TY 2017	TY 2018	TY 2019	TY 2020
TY 2016 Collections (No Growth)	501,637,637	501,637,637	501,637,637	501,637,637
Anticipated Growth	61,726,693	70,293,427	68,758,579	no data yet
General Fund Block Grants	(54,412,104)	(54,412,104)	(54,412,104)	(54,412,104)
Guarantee Tax Base (GTB) Aid	25,691,942	25,652,969	25,615,919	25,608,873
GTB Increase	-	16,500,000	21,800,000	27,100,000
Additional Collections to Offset Block Grant Reduction	**28,720,162**	**12,259,135**	**6,996,185**	**1,703,231**
Cascade County	5,502,874	9,008,566	8,495,034	no data yet
Flathead County	7,807,313	10,605,844	10,134,273	no data yet
Gallatin County	576,827	8,060,061	10,443,946	no data yet
Lewis & Clark County	3,541,804	7,741,203	7,713,502	no data yet
Missoula County	8,659,317	8,895,815	8,833,549	no data yet
Yellowstone County	2,899,987	8,799,446	7,467,622	no data yet
All other Montana counties	4,018,409	4,923,356	8,674,468	no data yet
Increase from TY 2016 for School Construction Projects (above that of Anticipated Growth)	**33,006,531**	**58,034,292**	**61,762,394**	**no data yet**
Actual Property Tax Collections	**587,192,594**	**613,900,481**	**616,902,277**	**not enough data**

Between the increased property tax collections to offset the reduction of block grants, totaling $28.7 million in TY 2017 and the increase in school building construction projects totaling $33.0 million, approximately $61.7 million of the $85.6 million increase between TY 2016 and TY 2017 can be explained. The remaining $23.9 million is in line with typical growth in school district property tax collections. From TY 2001 through TY 2016, the average growth in school district property tax collections was $15.2 million per year, with the smallest growth in TY 2009 totaling $3.9 million and the largest growth in TY 2002 totaling $30.1 million.

VARIABILITY OF MILLS

With the elimination of school district general fund block grants for TY 2016 through TY 2019 discussed above, the number of mills levied for general fund BASE aid was more equalized across taxing jurisdictions in Montana. The median number of BASE mills shifted only slightly from 53.9 to 55.8 mills from TY 2016 to TY 2019. Several different measures can be used to assess the variability of school mills. In this case, because the distribution of mills levied is not statistically normal, the median absolute deviation (MAD) can be used to assess variability. The MAD is statistically robust, meaning that it is less affected by outliers and non-symmetrical distributions. In TY 2016, the MAD was 10.2, meaning that the median of the differences between the general fund BASE aid mill levies and the overall median was approximately 10.2 mills. In TY 2019, the MAD was 3.4, meaning that the median of the differences between the general fund BASE aid mill levies and the overall median was approximately 3.4 mills. The change in the MAD between TY 2016 and TY 2019 indicates that variability of general fund BASE mills levied between different school districts decreased substantially over the three-year time period.



Though general fund BASE aid mills were more equalized in TY 2019 than in TY 2016, the elimination of block grants did not have the same result for the other types of school mills. The number of general fund over-BASE mills did not change dramatically between TY 2016 and TY 2019. The median shifted slightly from 57.1 mills in TY 2016 to 53.1 mills in TY 2019, but the overall variability of general fund over-BASE mills did not change dramatically. In TY 2016, the median absolute deviation was 22.7, meaning that the median of the differences between the general fund over BASE school mill levies and the overall median was approximately 22.7 mills. In TY 2019, the MAD was 21.7, meaning that the median of the differences between the general fund over BASE school mill levies and the overall median was approximately 21.7 mills. The change in the MAD between TY 2016 and TY 2019 indicates that variability of general fund over BASE school mills levied between different school districts did not experience much change over the three-year time period. The scatter plot charts for general fund over-BASE school mills in TY 2016 and TY 2019 can be found in the Appendix (Figure 2).

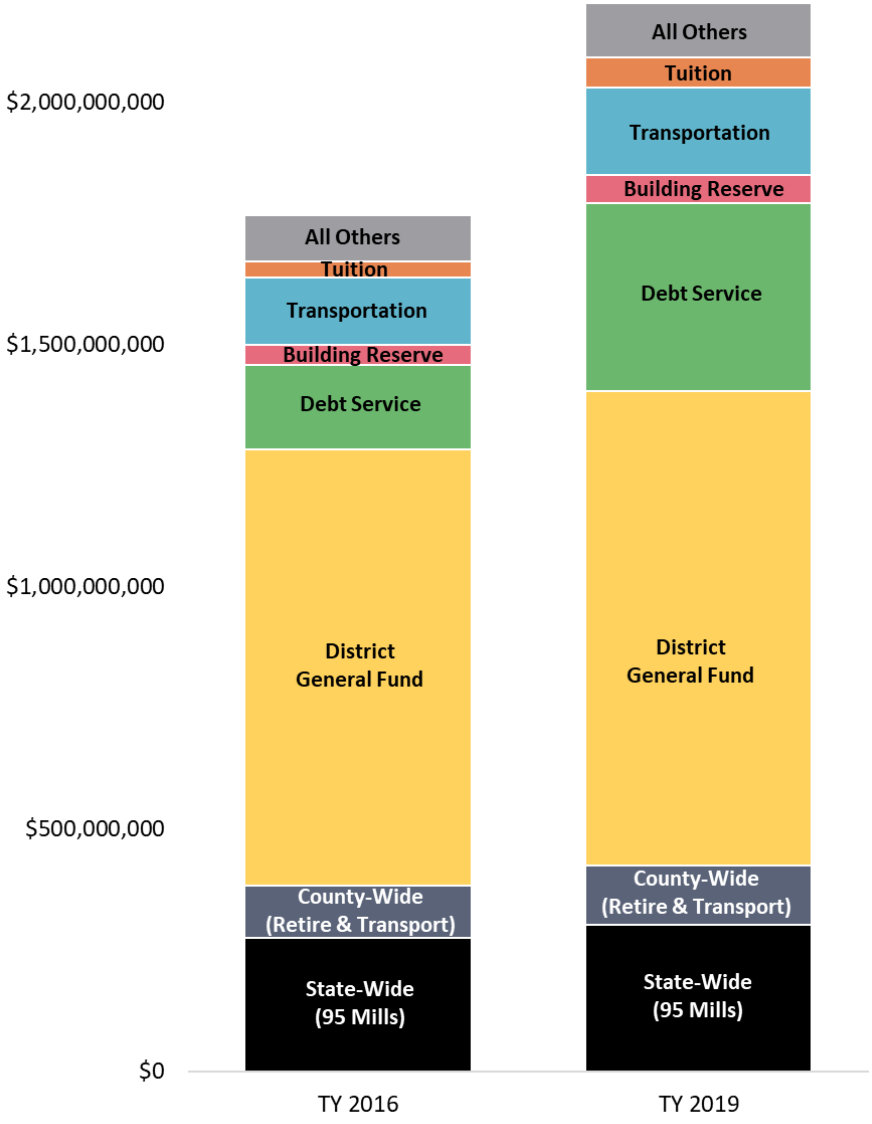
The number of non-general fund mills include those levied for transportation, bus depreciation, tuition, and adult education, debt service, building reserve, technology and flexibility. The median increased from 46.2 mills in TY 2016 to 57.8 mills in TY 2019, but the overall variability of non-general fund mills did not change dramatically. In TY 2016, the median absolute deviation was 25.3, meaning that the median of the differences between the non-general fund school mill levies and the overall median was approximately 25.3 mills. In TY 2019, the MAD was 28.7, meaning that the median of the differences between the non-general fund school mill levies and the overall median was approximately 28.7 mills. The change in the MAD between TY 2016 and TY 2019 indicates that variability of non-general fund school mills levied between different school districts only increased slightly over the three-year time period. The scatter plot charts for non-general fund school mills in TY 2016 and TY 2019 can be found in the Appendix (Figure 3).

The increase in non-general fund property tax mills was largely due to growth in levies for debt service. Between TY 2016 and TY 2019, total debt service across all districts in the state grew from $174.9 million to $387.9 million. The largest increases were for new schools in Cascade County, Flathead County, Gallatin County, Lewis & Clark County, Missoula County, and Yellowstone County.

Montana law allows tuition levies in order to pay for tuition costs students who attend school outside the district in which they reside, and for the actual cost of services for an in-district student with an individualized education program (IEP). An IEP is developed under the Individuals with Disabilities Education Act (IDEA) for each student with a disability who requires special education, in order to meet the unique needs of each student.[14]

The growth in the tuition fund, while small in comparison to the total, reflects an increase in permissive levies for tuition to pay special education costs. In order to levy additional mills for special education tuition, the actual costs for an individual student's IEP must exceed the funding the district receives per ANB. A school district may levy mills to make up for the difference between the actual cost of service and the per ANB funding the district receives, and the student must reside within the district.

The majority of **property taxes levied for schools*** are for the **district general fund**, but the largest increase in property taxes for schools between TY 2016 and TY 2019 was for **debt service** due to school construction projects. **All Others** includes levies for bus depreciation, adult education, non-operating districts, technology, and flexibility.



*Note that this graphic includes school funding from the state, counties, & school districts.

[14] U.S. Department of Education - IEP

DISTRICTS OPERATING OVER MAXIMUM

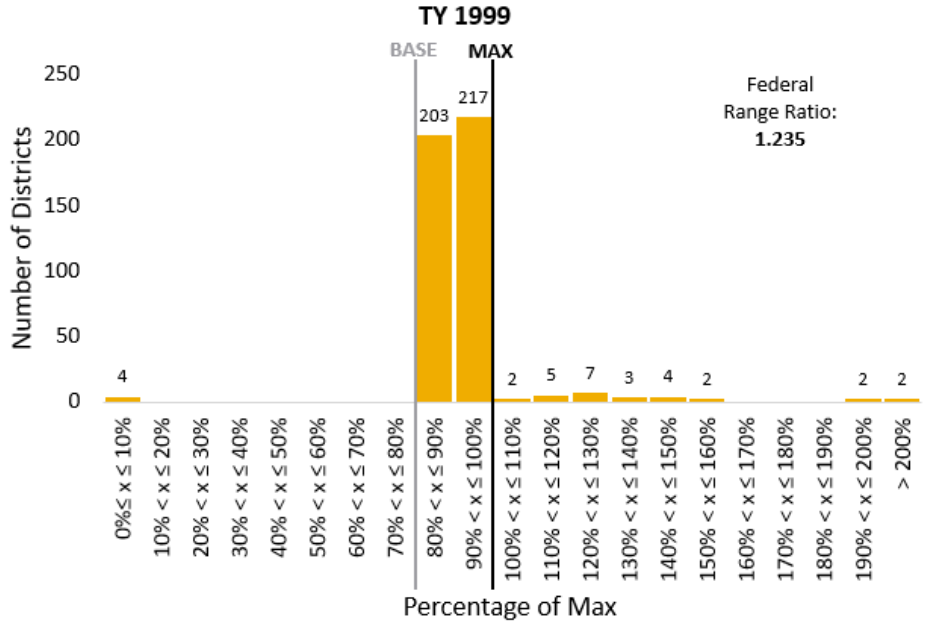
Most school districts operate with a budget somewhere in between their BASE and MAX budgets. However, there are a few exceptions that allow school districts to adopt over-MAX budgets. A district may adopt a budget over the MAX up to the amount of the prior year adopted budget plus the highest over-BASE levy authorized or imposed in the past five years.[15]

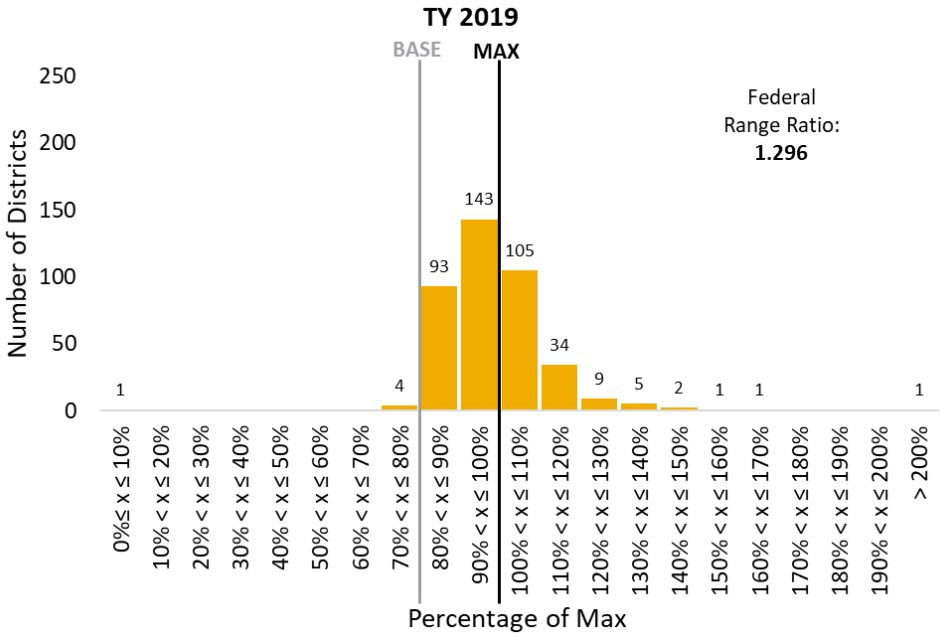
The Montana Constitution guarantees the equality of educational opportunity, and that school funding is distributed in an equitable manner. Several different measures can be used to assess equity of school funding; the federal range ratio[16] can be calculated by computing the 95th percentile of funding per pupil and dividing it by the 5th percentile of funding per pupil. This value indicates the range approximate percentage difference (excluding outliers) of funding at the high end of the distribution compared to the low end.

In order to allow for some variability, but not so much variability as to create funding disparities between districts, the approximate value of this ratio should be 1.25, or 125.0%, meaning that that there should be an approximate 25.0% difference between low and high ends of the distribution of funding per pupil. Thus, in Montana the BASE and MAX budget limits were created to have about a 25.0% difference. Over the last 20 years, an increasing number of school districts have been operating over-MAX, increasing this difference. In TY 1999 in Montana, the federal range ratio was 1.235, or 123.5%, meaning that there was an approximate 23.5% difference between low and high ends of the distribution of funding per pupil. In TY 2019 in Montana, the federal range ratio was 1.296, or 129.6%, meaning that there was an approximate 29.6% difference between low and high ends of the distribution of funding per pupil.

[15] OPI Understanding Montana School Finance and School District Budgets (pg. 17)
[16] NCES - Education Equity

In TY 1999, most districts operated strictly between their BASE and MAX budget limits. By TY 2019, more districts were operating above their MAX budgets.





CONCLUSIONS

There are five key take-aways from this report:

1. The large increases in school district mills levied between TY 2016 and TY 2019 are due in part to the elimination of school district block grants (per HB 647 in the 2017 Legislative Session), which were replaced partially with GTB funding from the state and partially with increases in school district property taxes. These increases should return to previous averages in TY 2020. The other portion of the increase was due to large increases in non-general fund mills for major maintenance projects (funded via the building reserve fund) and new construction projects (funded via the debt service fund).
2. The measures implemented by the Montana legislature in HB 647 of the 2017 Legislative Session (the reduction of school district block grants) may have helped to equalize the number of BASE mills levied for public education across the state. Between TY 2016 and TY 2019, the variability in the number of BASE mills decreased substantially. As of TY 2019, the majority of school districts levied approximately 50-60 BASE mills, with a small number of outliers levying a number of mills outside those values.
3. However, other types of mills were not affected by the elimination of school district block grants the same way as the BASE mills were. The number of over-BASE general fund mills did not change much between TY 2016 and TY 2019. Non-general fund school mills even increased between TY 2016 and TY 2019, primarily due to increase in mills levied for new construction projects (debt service fund).
4. More schools were operating over their MAX budget in TY 2019 than in TY 1999. The percentage of difference between funding at the high end of the distribution of per-pupil funding compared to the low end increased over the past two decades, indicating there may a growing disparity in per-pupil funding across the state of Montana.
5. While schools are a constitutionally required service, the variance in the number of mills paid across the state for this service varies substantially.

APPENDIX

Figure 1

Change in School Debt Service & Building Reserve Funds between TY 2016 and TY 2019							
County Name	TY 2016			TY 2019			TY 2016 - TY 2019
	Debt Service	Building Reserve	**TY 2016 Total**	Debt Service	Building Reserve	**TY 2019 Total**	DIFFERENCE
Beaverhead	595,897	25,000	**620,897**	4,701,872	225,783	**4,927,655**	4,306,758
Big Horn	1,430,243	125,000	**1,555,243**	970,473	549,622	**1,520,095**	(35,148)
Blaine	-	276,853	**276,853**	-	124,185	**124,185**	(152,668)
Broadwater	346,922	-	**346,922**	361,040	75,000	**436,040**	89,118
Carbon	2,168,589	17,500	**2,186,089**	2,113,481	340,323	**2,453,804**	267,715
Carter	626,902	-	**626,902**	634,134	367,035	**1,001,169**	374,267
Cascade	1,220,756	75,000	**1,295,756**	17,815,943	1,223,629	**19,039,573**	17,743,817
Chouteau	-	85,000	**85,000**	-	134,651	**134,651**	49,651
Custer	-	900,000	**900,000**	-	750,000	**750,000**	(150,000)
Daniels	286,314	-	**286,314**	143,934	34,774	**178,708**	(107,607)
Dawson	-	600,000	**600,000**	-	610,501	**610,501**	10,501
Deer Lodge	-	-	**-**	-	130,937	**130,937**	130,937
Fallon	-	-	**-**	-	32,627	**32,627**	32,627
Fergus	227,695	457,750	**685,445**	29,551	585,190	**614,741**	(70,704)
Flathead	35,038,032	49,500	**35,087,532**	93,644,226	4,591,266	**98,235,492**	63,147,961
Gallatin	37,462,828	14,913,346	**52,376,174**	94,091,069	16,162,292	**110,253,362**	57,877,187
Garfield	-	8,500	**8,500**	-	-	**-**	(8,500)
Glacier	956,107	90,000	**1,046,107**	1,192,373	102,619	**1,294,992**	248,885
Golden Valley	-	-	**-**	-	30,682	**30,682**	30,682
Granite	339,099	-	**339,099**	231,010	61,135	**292,145**	(46,954)
Hill	1,173,241	150,000	**1,323,241**	2,043,140	246,118	**2,289,258**	966,018
Jefferson	529,675	-	**529,675**	670,977	207,436	**878,413**	348,738
Judith Basin	164,902	40,000	**204,902**	132,497	117,335	**249,832**	44,930
Lake	2,076,713	791,000	**2,867,713**	2,035,972	1,240,967	**3,276,939**	409,225
Lewis & Clark	2,757,081	8,270,000	**11,027,081**	18,077,790	10,258,227	**28,336,018**	17,308,937
Liberty	8,567	180,000	**188,567**	724	180,000	**180,724**	(7,843)
Lincoln	1,659,966	820,000	**2,479,966**	1,748,875	1,054,539	**2,803,414**	323,448
Madison	540,985	139,400	**680,385**	236,809	313,568	**550,377**	(130,009)
McCone	-	120,000	**120,000**	-	359,969	**359,969**	239,969
Meagher	676,203	50,000	**726,203**	677,425	38,419	**715,844**	(10,359)
Mineral	-	80,000	**80,000**	252,138	105,095	**357,233**	277,233
Missoula	40,001,257	5,720,000	**45,721,257**	88,824,957	5,316,551	**94,141,508**	48,420,251
Musselshell	1,007,233	-	**1,007,233**	820,961	94,134	**915,095**	(92,138)
Park	3,910,637	403,980	**4,314,617**	3,950,876	751,409	**4,702,285**	387,667
Petroleum	63,575	-	**63,575**	-	22,320	**22,320**	(41,255)
Phillips	540,805	100,000	**640,805**	-	34,534	**34,534**	(606,271)
Pondera	774,384	130,000	**904,384**	808,182	351,800	**1,159,982**	255,598
Powder River	-	-	**-**	-	-	**-**	-
Powell	3,728,333	975,000	**4,703,333**	3,757,236	335,404	**4,092,640**	(610,693)
Prairie	-	-	**-**	-	24,012	**24,012**	24,012
Ravalli	1,829,246	75,000	**1,904,246**	5,219,345	824,923	**6,044,268**	4,140,022
Richland	-	-	**-**	-	496,305	**496,305**	496,305
Roosevelt	-	80,000	**80,000**	-	351,193	**351,193**	271,193
Rosebud	-	375,000	**375,000**	-	23,314	**23,314**	(351,686)
Sanders	95,394	-	**95,394**	99,319	245,916	**345,234**	249,840
Sheridan	268,382	150,000	**418,382**	268,300	170,000	**438,300**	19,918
Silver Bow	129,361	3,500,000	**3,629,361**	2,630,721	688,113	**3,318,834**	(310,527)
Stillwater	517,785	44,000	**561,785**	1,496,810	300,627	**1,797,437**	1,235,652
Sweet Grass	-	200,500	**200,500**	-	361,228	**361,228**	160,728
Teton	436,244	228,124	**664,368**	545,747	279,167	**824,914**	160,545
Toole	567,463	140,000	**707,463**	593,082	295,547	**888,628**	181,166
Treasure	-	40,000	**40,000**	-	-	**-**	(40,000)
Valley	1,545,373	269,596	**1,814,968**	1,408,654	192,000	**1,600,654**	(214,315)
Wheatland	-	160,000	**160,000**	-	209,252	**209,252**	49,252
Wibaux	-	-	**-**	-	38,729	**38,729**	38,729
Yellowstone	29,174,254	571,000	**29,745,254**	35,655,116	6,794,016	**42,449,132**	12,703,878
TOTAL	$174,876,443	$41,426,049	**$216,302,492**	$387,884,758	$58,454,419	**$446,339,176**	$230,036,685

Figure 2

Between **TY 2016** and **TY 2019**, the number of **general fund over-BASE school mills** levied did not change dramatically across taxing jurisdictions

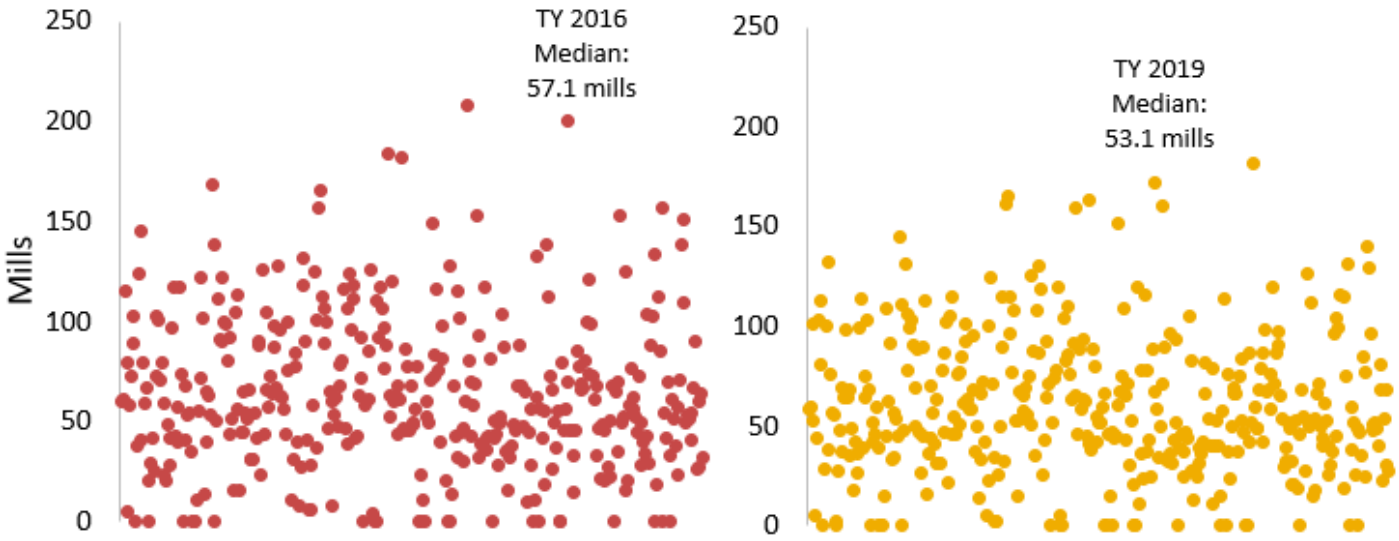


Figure 3

Between **TY 2016** and **TY 2019**, the number of **non-general fund school mills** (including debt service, building reserves, tuition, etc.) levied increased overall across taxing jurisdictions, in part due to school construction projects across the state

*Rocky Boy combined elementary & high school district levied 1,083.1 mills in TY 2016 and 798.4 mills in TY 2019 and is not displayed on these charts