

Montana Constitution Article X, § 1

(1) 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.

* * *

(3) The legislature shall provide a basic system of free quality public elementary and secondary schools. . . . It 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.

Equalization (95 mills) are rooted in lawsuits: Helena Elementary School District No. 1 v. State of Montana

Findings:

- “We do not find any other instance in which the Constitution ‘guarantees’ a particular right.”
- State's funding system was inadequate.
- The guarantee of equal educational opportunity was binding on all three branches of government, the legislature as well as the executive and judiciary, whether at the state, local, or school district level.
- Fiscal difficulties in no way justify perpetuating inequities.
- The Legislature has the power to increase or reduce various elements of the school funding system.
- State could not rely on the constitutional provision for local control as an reason or justification for spending disparities between the school districts of the state.
- The system of funding denied the poorer school districts a significant level of local control because they had fewer options due to fewer resources.
- Spending disparities among the school districts translated into a denial of equality of educational opportunity.

Montana Constitution Article X, § 8

- State could not rely on the constitutional provision for local control as an reason or justification for spending disparities between the school districts of the state
- The system of funding denied the poorer school districts a significant level of local control because they had fewer options due to fewer resources.

Montana School Funding History

Three Cases

- Helena Elementary v State of Montana
- Columbia Falls v State of Montana - I
- Columbia Falls v State of Montana - II

Issues

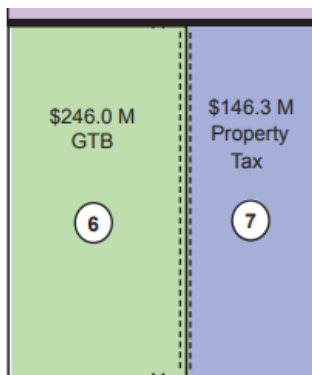
- Spending Equity/Tax Equity
- Sufficiency/Adequacy

The 95 Equalization Mills (series of steps), The Guaranteed Tax Base (GTB) Concept, and Direct State Aid (DSA) are very much linked to these lawsuits and the Sufficiency/Adequacy/Equity concept.

Guaranteed Tax Base Aid (GTB) effectively transfers money from high tax value and/or low student areas to low tax value and/or high student areas. When combined with the school formula, this promotes base level equal opportunities for students across Montana. It also helps equalizes the tax burden for education between different areas.

Row Labels	Sum of ANB Total	Sum of GTBA	Sum of LEV B EL	Sum of LEV B HS	Sum of GTB and BASE LEV	Sum of EL BASE MILLS	Sum of HS BASE MILLS	Sum of MILLV	Total Mills
Ennis K-12 Schools	425	\$ -	\$742,906	\$ 474,973	\$ 1,217,878	3.88	2.48	\$ 191,381	6.36
Superior K-12 Schools	351	\$ 791,827	\$147,483	\$ 102,488	\$ 1,041,797	31.14	16.94	\$ 5,196	48.08
Mills to raise 1M without GTB									
Ennis K-12 Schools			\$500,000	\$ 500,000		2.61	2.61	\$ 191,381.00	5.23
Superior K-12 Schools			\$500,000	\$ 500,000		96.23	96.23	\$ 5,196.00	192.46
Without GTB it would take Superior K12 192.46 mills to raise 1 million dollars whereas Ennis can do the same for 5.23 mills.									

Statewide GTB 2020 School GF



Direct State aide and GTB to Public Schools previous this session totals approximately 900 million dollars. The GTB portion (State GF, Retirement GTB, and Maintenance) that lower property tax sum to approx. 300M dollars. Thus about 1/3rd of state distribution lowers local mills.

Current Law

State General Fund

The revenue from the 95 mills for school equalization are mixed with all other state general fund revenue

The “equalization” mills are not visibly connected to education when mixed. When the 95 mills brings in more revenue it does help fund schools, but there is no guarantee that the local property taxpayer will benefit from permissive mills being lowered.

Proposed in LC 102

State General Fund

No longer receives the 95 mills revenue

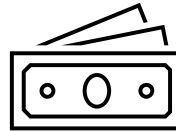
Shrinks by several hundred million dollars

Becomes the 3rd and final source of state K-12 funding behind the Guarantee Account and new School Equalization and Property Tax Reduction (SEPTR) Account

New SEPTR Account

Receives 95 mill revenue
35% of any increased revenue over prior year going to reduce local property taxes through equalization mechanisms and
65% going to BASE aid to maintain balanced load between property and income (and other) taxes

2nd Source of State School Funding



Each GTB mechanism is “dialed up” until the ratio of state to local revenue reaches 2:1, then the revenue increase from the 95 mills flows to next mechanism

Increase countywide school retirement GTB to lower taxes

Increase state major maintenance aid to lower taxes

Increase debt service assistance to lower taxes

Increase state transpo reimbursement to lower taxes

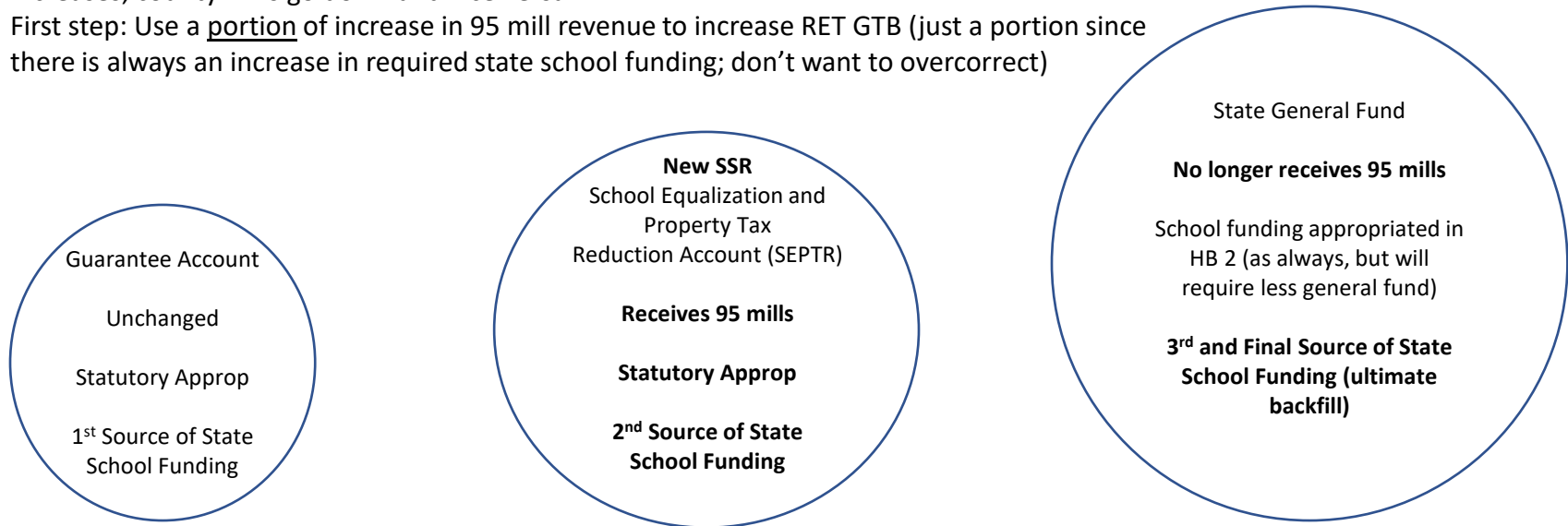
95 Mills Concept LC 102 - Jones

Problems:

- 95 mills are bringing in more and more money that does not always help buy down local mills
- Local Communities are leaning harder and harder on prop tax, resulting in:
- Property tax fatigue; some desire to cut the 95 mills

Concept:

- Tie increases (and decreases) in 95 mill revenue to adjustments to GTB: if 95 mill revenue increases, county mills go down and vice versa
- First step: Use a portion of increase in 95 mill revenue to increase RET GTB (just a portion since there is always an increase in required state school funding; don't want to overcorrect)



In any FY, the 95 mill revenue will be estimated in the previous session's HJ 2, but actuals will be known late July following FYE. With current 2-year reappraisal cycle, the big jump in 95 mill revenue will always be first year of the biennium. Current RET GTB multiplier is 121% (BASE GTB multiplier is 254%). Statewide county RET levies are ballpark \$110 M; state RET GTB is ballpark \$48 M.

FY 22	FY 23	FY 24	FY 25	FY 26	FY 27 +
95 mills = \$330 M	HJ 2 95 – \$335 M	Increase RET GTB in LC 102 based on 95 mill revenue increase as <u>estimated</u> in HJ 2 HJ 2 95 - \$427 M	In February (normal GTB calculation time), Compare <u>projected</u> 95 mill (levy only) rev in FY 25 to FY 24 and adjust RET GTB HJ 2 95 - \$435 M	In February (normal GTB calculation time), Compare <u>projected</u> 95 mill (levy only) rev in FY 26 to FY 25 and adjust RET GTB	And so on...

Current

COUNTY PROP TAX FOR SCHOOL RET \$110 M	STATE GTB FOR SCHOOL RET \$48 M
--	--

LC 102

COUNTY PROP TAX FOR SCHOOL RET \$TBD M	STATE GTB FOR SCHOOL RET \$TBD M (dialed up with a portion of 95 mill revenue increase each year)
---	---

While the first permissive mill area we reduce is the County retirement GTB mills, other GTB areas will follow in the future as the 95 mills bring in more dollars. As property tax is more stable than income tax, this also serves to stabilize school funding.

Once the 95 mills are hard linked in this manner, any additional monies brought in by the school equalization mills will always benefit at some level local property taxpayers in particular in areas that are serving students. There will always be a benefit to local income taxpayers that would otherwise generally cover the Direct State Aide that goes to schools.