Education Interim Committee

65th Montana Legislature

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TO: Education Interim Committee
FROM: Pad McCracken, Committee Staff
RE: Retirement GTB Followup from June
DATE: August 31, 2018

At your June 2018 meeting, I presented this memo "Retirement GTB Potential Issue and Options" which describes how school districts fund retirement costs (employer contributions to TRS and PERS) and how these costs are pooled at the county level with revenues raised through countywide mill levies. The state provides retirement guaranteed tax base aid (RET GTB) to "poorer" counties with lower ratios of taxable value to ANB than a statewide guarantee ratio. This type of "equalization aid" is one of the ways the state fulfills its constitutional obligation to "distribute in an equitable manner" the state's share of the costs of funding education.

The memo and a previous presentation posed the question of whether using ANB (enrollment) is the most equitable way of measuring a county's retirement funding need, largely because lower enrollment counties typically have lower student-to-teacher ratios and need to pay proportionally greater retirement costs per ANB than population-dense counties. One option that the memo presented was to change the current RET GTB formula and use the ratio of taxable value to the number of quality educators rather than ANB. This change would spread state RET GTB to more counties, but it would reduce the amount of aid received by some counties, particularly population-dense counties. The committee indicated a desire to look at this issue a bit more and asked staff to look into any ways that negative impacts to the more urban counties could be reduced.

One effect of our current formula that was not mentioned in the previous memo is a significant increase in state RET GTB obligation in the past decade or so.
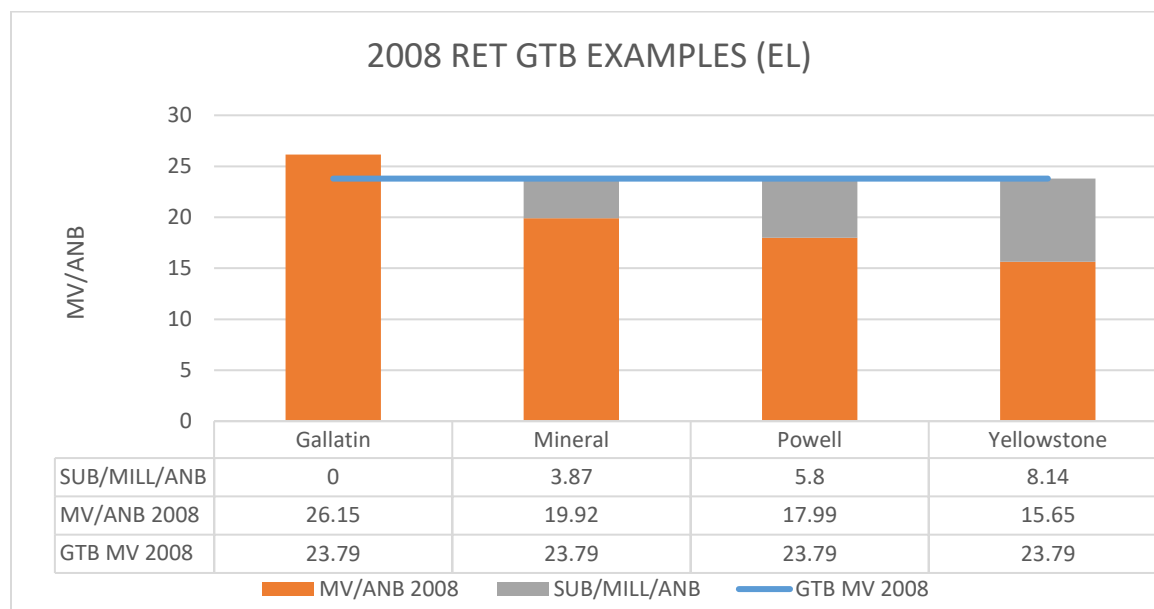
Why has the state obligation for RET GTB increased so much in the past decade, from roughly $26 million in 2010 to about $41 million in 2018? Has the state become more generous by increasing the RET GTB multiplier?

Nothing in the RET GTB formula has changed in the last decade; the state has not become more generous. One factor that has changed is increased retirement costs for districts. Employer costs are driven by salaries and the employer contribution rate set by the legislature. Since 2010, the employer contribution rates have increased from 7.17% to 8.47% for PERS and from 9.96% to 11.36% for TRS. School districts typically have employees in both PERS and TRS. Higher costs drive higher mills and since

RET GTB is a subsidy per mill, the state RET GTB obligation increases. Another factor that has changed that is more relevant to the RET GTB formula is the relationship between property values and enrollment in every county in Montana. Taxable values have increased everywhere, but some counties have seen greater increases than others. Some counties have experienced declining enrollment, while others have seen substantial growth in ANB.

Guaranteed Tax Base Aid is a means of equalizing the revenue generating capacity of various taxing jurisdictions (often school districts, but in the case of RET GTB, counties) based on the ratio of the jurisdiction's property wealth (in this case the amount of money raised by levying one mill, AKA the mill value, or MV) to its funding need (often enrollment, or ANB, is used as a proxy for this). In Montana's RET GTB formula a county's revenue generating capacity is simply its MV/ANB. Counties with a MV/ANB below the statewide guarantee receive a subsidy per mill levied for RET <u>per ANB</u>. The subsidy is simply the difference between the county's mill value per ANB and the statewide guarantee, which is the statewide MV/statewide ANB *1.21 (the 1.21 multiplier is a way of subsidizing counties not just up to the statewide average, but a bit beyond it). Let's look at a few example counties in both 2008 and 2018.
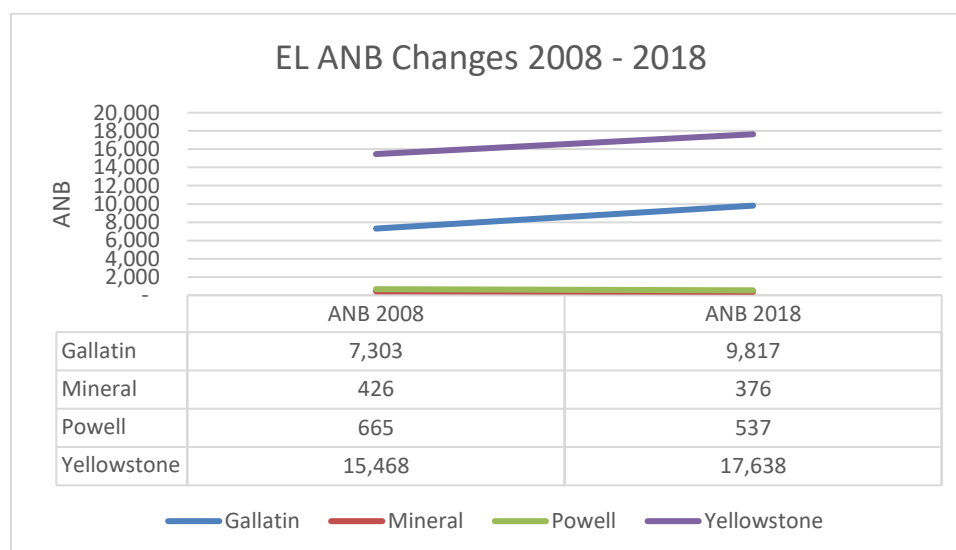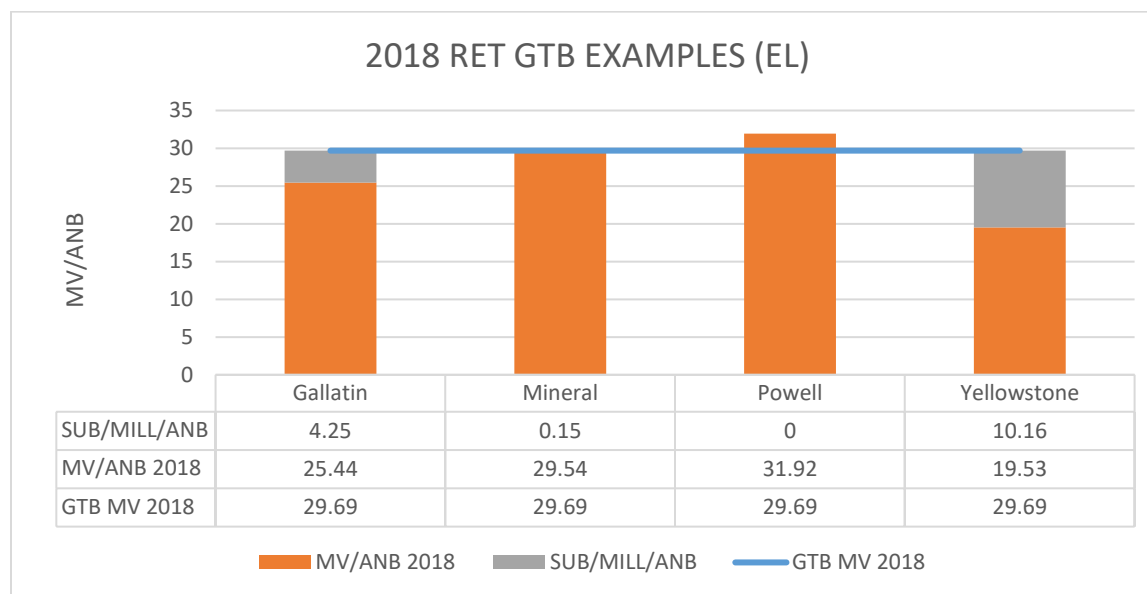
In 2008, 3 of the 4 counties below were eligible for RET GTB aid from the state; their subsidy per mill levied per ANB is shown in gray below. The county mill value per ANB is in orange and the statewide "guarantee" amount is the blue line. In 2008, Gallatin County was just above the threshold for RET GTB eligibility. The state cost to support EL RET GTB for these 4 counties totaled about $3.6 million in 2008.

2008 RET GTB EXAMPLES (EL)

	Gallatin	Mineral	Powell	Yellowstone
SUB/MILL/ANB	0	3.87	5.8	8.14
MV/ANB 2008	26.15	19.92	17.99	15.65
GTB MV 2008	23.79	23.79	23.79	23.79

Legend: MV/ANB 2008 — SUB/MILL/ANB — GTB MV 2008

In 2018, with increased taxable values statewide, the statewide guarantee mill value per ANB climbed from about $24 to nearly $30. Changes at the individual counties meant that Gallatin County became eligible, while Powell County became ineligible, and Mineral County nearly so. Yellowstone County added about 2,000 ANB and its subsidy per mill per ANB increased by about 25% from $8 to $10. The state cost to support EL RET GTB for these 4 counties increased from $3.6 million in 2008 to about $6.6 million in 2018. As ANB becomes more concentrated in population dense counties, these counties will appear needier in our RET GTB formula and require more and more state money. Fewer rural counties will be eligible for state support (as has happened in the past decade) but the concentration of students in a small number of counties will continue to drive state costs higher.[1] Some of this is certainly justified,

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[1] Because RET GTB is included with K-12 BASE Aid in the biennial state budgeting process, it doesn't appear that the 57% increase in RET GTB since 2010 has received much legislative attention.

money should follow kids to a certain extent, but retirement costs are more directly related to the number of teachers (and teacher salary) than to the number of students.

2018 RET GTB EXAMPLES (EL)

	Gallatin	Mineral	Powell	Yellowstone
SUB/MILL/ANB	4.25	0.15	0	10.16
MV/ANB 2018	25.44	29.54	31.92	19.53
GTB MV 2018	29.69	29.69	29.69	29.69

Legend: MV/ANB 2018 ∙ SUB/MILL/ANB ∙ GTB MV 2018

EL ANB Changes 2008 - 2018

	ANB 2008	ANB 2018
Gallatin	7,303	9,817
Mineral	426	376
Powell	665	537
Yellowstone	15,468	17,638

Legend: Gallatin ∙ Mineral ∙ Powell ∙ Yellowstone

How might the impact of switching from ANB to QE in our RET GTB formula be softened?

As shown in the following table, switching from ANB to QE would reduce the overall state obligation by about $5 million, from $41.1 million to $36.3 million. One way to reduce the impact of changes on counties would be to increase the RET GTB multiplier from 1.21 to 1.28 and hold the state obligation steady at about $41 million/year. This would make more counties eligible for more RET GTB aid. The table on the following page shows total state RET GTB and county mills for (1) current law, (2) changing to QE, and (3) changing to QE AND increasing the multiplier to 1.28. When the multiplier is increased, two additional counties, Stillwater and Treasure, become eligible for RET GTB and all counties receiving RET GTB see increases in state aid and decreases in mills. There is still a negative impact to most of our more urban counties. Increasing the multiplier to approximately 1.42 would basically "hold harmless" all counties in this change in the RET GTB formula from ANB to QE, but it would require about $50 million from the state.

All figures based on 2018 data from OPI RET GTB model. <mark>Yellow</mark> highlighted counties become eligible if change from ANB to QE. <mark>Blue</mark> highlighted become eligible if change to QE and multiplier increased.

COUNTY	Current Law TOT RET GTB AID	If QE TOT RET GTB AID	If QE @ 1.28 TOT RET GTB AID	Current Law TOT RET mills	If QE TOT RET mills	If QE @ 1.28 TOT RET mills
Beaverhead	$ 232,388	$ 145,076	$ 201,251	44.17	48.20	45.61
Big Horn	$ 1,182,542	$ 1,203,094	$ 1,250,808	37.54	36.70	34.73
Blaine	$ 823,435	$ 918,798	$ 952,472	50.66	44.08	41.77
Broadwater	$ 197,800	$ 245,031	$ 280,907	29.94	26.98	24.72
Carbon	$ -	$ 245,172	$ 304,428	42.20	36.12	34.65
Carter	$ -	$ -	$ -	3.35	3.35	3.35
Cascade	$ 4,492,719	$ 3,775,420	$ 4,202,228	45.77	50.19	47.55
Chouteau	$ -	$ 44,441	$ 92,775	35.48	33.73	31.82
Custer	$ 637,134	$ 549,591	$ 598,472	37.76	41.68	39.49
Daniels	$ -	$ 27,470	$ 53,356	35.24	31.67	28.31
Dawson	$ 242,856	$ 213,383	$ 267,177	39.58	40.72	38.63
Deer Lodge	$ 375,002	$ 337,508	$ 363,023	33.75	36.58	34.65
Fallon	$ -	$ -	$ -	0.00	0.00	0.00
Fergus	$ 288,980	$ 464,040	$ 533,304	46.43	41.32	39.29
Flathead	$ 3,368,668	$ 2,268,434	$ 2,853,259	43.11	47.64	45.23
Gallatin	$ 1,240,914	$ 226,383	$ 590,318	42.20	45.74	44.47
Garfield	$ -	$ 35,916	$ 44,892	39.36	32.70	31.04
Glacier	$ 1,987,321	$ 1,944,881	$ 2,030,729	55.71	57.30	54.11
Golden Valley	$ -	$ 115,096	$ 123,029	36.42	17.61	16.33
Granite	$ -	$ 43,617	$ 61,392	28.96	25.50	24.09
Hill	$ 1,576,673	$ 1,462,346	$ 1,572,997	52.91	55.84	53.02
Jefferson	$ 279,944	$ 413,147	$ 462,108	40.57	36.06	34.39
Judith Basin	$ -	$ -	$ -	28.05	28.05	28.05
Lake	$ 1,692,856	$ 1,903,846	$ 2,043,162	48.05	44.71	42.50
Lewis & Clark	$ 3,476,259	$ 2,397,350	$ 2,745,751	41.86	49.96	47.35
Liberty	$ -	$ 29,311	$ 34,450	19.50	16.51	15.98
Lincoln	$ 986,290	$ 801,675	$ 872,738	31.97	37.21	35.18
Madison	$ -	$ -	$ -	9.25	9.25	9.25
McCone	$ -	$ -	$ -	32.45	32.45	32.45
Meagher	$ -	$ -	$ -	25.00	25.00	25.00
Mineral	$ 99,258	$ 475,953	$ 488,323	50.45	16.18	15.04
Missoula	$ 4,577,592	$ 4,470,343	$ 4,900,289	42.29	42.77	40.82
Musselshell	$ 159,935	$ 222,744	$ 244,062	42.95	38.00	36.30
Park	$ 152,779	$ 237,647	$ 330,400	44.60	42.68	40.58
Petroleum	$ 80,060	$ 98,296	$ 99,889	26.07	15.16	14.23
Phillips	$ -	$ 299,271	$ 333,652	39.44	23.55	21.72
Pondera	$ 310,008	$ 417,692	$ 445,313	42.12	35.54	33.86
Powder River	$ -	$ -	$ -	8.86	8.86	8.86
Powell	$ -	$ 237,863	$ 258,603	44.15	30.75	29.59
Prairie	$ -	$ 44,331	$ 56,050	30.82	22.63	20.47
Ravalli	$ 2,505,046	$ 2,456,420	$ 2,563,157	24.35	24.96	23.61
Richland	$ -	$ -	$ -	0.00	0.00	0.00
Roosevelt	$ 882,336	$ 1,116,111	$ 1,188,616	44.59	38.03	35.99
Rosebud	$ -	$ -	$ -	12.63	12.63	12.63
Sanders	$ -	$ -	$ -	37.24	37.24	37.24
Sheridan	$ -	$ 308,713	$ 367,257	51.87	34.79	31.54
Silver Bow	$ 1,087,860	$ 727,873	$ 840,630	28.98	34.80	32.98
Stillwater	$ -	$ -	$ 14,875	34.87	34.87	34.51
Sweet Grass	$ -	$ -	$ -	34.82	34.82	34.82
Teton	$ 122,390	$ 323,655	$ 359,023	43.56	34.00	32.32
Toole	$ -	$ -	$ -	35.36	35.36	35.36
Treasure	$ -	$ -	$ 8,342	20.46	20.46	18.90
Valley	$ -	$ 466,227	$ 533,371	45.90	31.22	29.09
Wheatland	$ -	$ -	$ -	26.43	26.43	26.43
Wibaux	$ -	$ -	$ -	16.11	16.11	16.11
Yellowstone	$ 8,087,390	$ 4,551,940	$ 5,565,820	47.93	57.76	54.95
TOTALS	$ 41,146,435	$ 36,266,103	$ 41,132,694	1934.09	1782.45	1700.96

If GTB is meant to equalize, why do we still have such a wide range of actual mills being levied for retirement?

GTB can only equalize for the factors within its formula. RET GTB generates a subsidy per mill based solely on two factors: mill value and ANB.

Some counties levy very few RET mills, perhaps because their RET costs are low (could be efficiency of operations based on geography and demography and/or lower salaries) or perhaps they have access to nonlevy sources of revenue or accumulated cash balance (such as ongoing or accumulated revenue from oil and natural gas production taxes).

Conversely, some counties may levy a high number of mills, even with the equalizing power of RET GTB. These counties may have small dispersed populations that require many small schools all with small class sizes and therefore a proportionally high number of teachers and other employees. They may also have higher salaries, which directly impacts RET costs. RET GTB helps hold mills down to some degree, but it takes more RET GTB from the state the more mills levied.

How does RET GTB and GTB generally interact with Montana's constitutional guarantee of equality of educational opportunity and provision for local control?

As a preface to answering this question, I will refer to a point made by school funding experts Allan Odden and Larry Picus in their textbook *School Finance: A Policy Perspective.* Odden and Picus point out that the principles of equal educational opportunity and local control are at times difficult to reconcile. For example, if local control is paramount and in one district local trustees determine to offer a barebones basic education, while in another district trustees choose to offer more robust educational opportunities, equality of opportunity is jeopardized.

Guaranteed tax base aid (GTB) was incorporated into many state K-12 funding formulas in the 1980s, largely because of *equity* lawsuits that pointed out that school districts with lower taxable values per student often spent far less per student and because of this were not able to offer the same educational opportunities as districts with more property wealth per student. They simply had a much harder time generating revenue than wealthier districts. GTB *equalizes* this revenue generating capacity in a manner that allows each district to make decisions. In essence, each district is provided the necessary state support to make these determinations regarding educational opportunity *despite* differences in property tax wealth. This is how Montana uses GTB to balance those two potentially competing principles.[2]

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[2] One potential concern in this regard is that the overBASE budget area of district general funds is not equalized via GTB. Districts with low taxable value per student may be forced to levy much higher mills in order to adopt an overBASE budget than wealthier districts or those with access to nonlevy revenues.