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BUDGET AND PROGRAM PLANNING
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To: Revenue and Transportation Interim Committee

From: Nancy Hall, Senior Budget Analyst, OBPP

Subject: Disqualifying affects of state HB 124 reimbursements

The 2001 Legislature created the school district block grants, 20-9-630, MCA. The block grants are “based on the revenue received by each district in fiscal year 2001 from vehicle taxes and fees, corporate license taxes paid by financial institutions, aeronautics fees, state land payments in lieu of taxes, and property tax reimbursements pursuant to sections 167(1) through (5) and 169(6), Chapter 584, Laws of 1999.” The portion of these block grants distributed into the school district general fund is considered to be one type of non-levy revenue. Non levy revenues also include coal gross proceeds, oil and gas tax revenues and miscellaneous interest.

Montana public schools operate under a wide variety of demographics ranging from size of school to geographic barriers. 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 or minimum budget a district must adopt by law.

Montana schools budgets are funded as an elementary or a high school budget. A K-12 district, where the boundaries of the elementary and high school districts are the same, combines the elementary and high school data to form one budget. There are 51 K-12 districts in Montana. Table 1 represents the number of elementary and high school budget components by size based on ANB. K-12 districts’ elementary and high school components are included in the elementary and high school count.

Table 1
Profile of School Sizes

Elementary Size by ANB	Number of Elementary Districts	High School Size by ANB	Number of HS Districts
Closed	9		
40 or less	98	75 or less	61
41-150	92	76-200	49
151-400	71	201-400	24
401-850	26	401-1250	19
851-2500	18	>1250	7
>2500	7		
Total	321	Total	160

Current BASE Mill Levy Distribution

Table 2 represents the BASE mill levy requirements of districts based on fiscal year 2008 budget information.

<u>Mills levied</u>	<u>Elem Mills</u>	<u>HS Mills</u>
Zero	32	17
1-10	18	6
10-20	26	17
20-30	39	113
30-40	85	7
40-50	100	
50-60	12	
Total # of Districts	312	160

Why the HB 124 non-levy to school districts creates mill levy inequity among districts

Non-levy revenues are a significant source of differences in mill levies for schools. State distributed sources of non-levy revenue are HB 124 block grants, oil and gas tax, and coal gross proceeds. 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 and gas tax and coal gross proceeds are addressed in other reports. HB 124 block grants as defined in 20-9-630, MCA, are distributed through the Office of Public Instruction as block grants and are 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 HB 124 impact to local mills levied ranges from 0.39 mills to 254.92 mills.

Table 3 shows the highest and lowest per district HB 124 reimbursements by elementary, high school and K-12 district. It also shows the number of districts and median of each district type. There are nine school districts that have no students in FY 2008 who received block grant payments totaling nearly \$50,000.

Table 3			
District Distribution of State HB 124 Reimbursement			
	<u>Elementary</u>	<u>High School</u>	<u>K-12</u>
	<u>Districts</u>	<u>Districts</u>	<u>Districts</u>
# of Districts	261	109	51
Highest HB 124 reimbursement	\$3,221,439	\$1,668,572	\$522,581
Lowest HB 124 reimbursement	\$0	\$1,060	\$975
Median per district HB 124 reimbursement	\$21,448	\$49,401	\$83,113

Table 4 demonstrates the FY 2008 per ANB distribution of HB 124 Block Grants. There are 421 districts serving 147,608 ANB receiving \$43.97 million of HB 124 block grants in FY 2008.

Table 4			
Per ANB Distribution of State HB 124 Block Grants in FY 2008			
	<u>Elementary</u>	<u>High School</u>	<u>K-12</u>
	<u>Districts</u>	<u>Districts</u>	<u>Districts</u>
Number of Districts	261	109	51
ANB	88,118	42,419	17,071
Highest Per ANB State HB 124 Reimbursement	\$3,722	\$2,602	\$3,508
Lowest Per ANB State HB 124 Reimbursement	\$0	\$7	\$6
Median per ANB State HB 124 Reimbursement	\$302	\$355	\$455

Nine elementary schools receiving HB 124 block grant payments of nearly \$50,000 have no students and are closed (non-operating) for FY 2008. Table 5 lists the districts and the amount of the HB 124 block grant payment for each.

Table 5		
HB 124 Payments to Closed Districts		
<u>County</u>	<u>District</u>	<u>HB 124 Block Grant Payment</u>
Carter	Alzada Elementary	\$6,176.59
Custer	S Y Elementary	\$2,513.36
Custer	Twin Buttes Elementary	\$3,110.78
Garfield	Van Norman Elementary	\$1,400.63
Judith Basin	Raynesford Elementary	\$5,307.53
Lewis & Clark	Craig Elementary	\$801.46
Lincoln	Sylvanite Elementary	\$1,317.11
Meagher	Ringling Elementary	\$1,188.82
Phillips	Landusky Elementary	\$28,041.58
Total		\$49,857.86

Table 6 shows the top ten elementary, high school and K-12 districts' HB 124 Block Grant per ANB compared to the average statewide school budgets per ANB for each district type. The statewide budgets include all school district budgeted funds: general fund, transportation fund, bus depreciation fund, tuition fund, retirement fund, adult education fund, non operating fund (nine districts with no ANB), technology fund, flexibility fund, debt service fund and building reserve fund.

Table 6			
Average FY 2008 HB 124 Block Grant Payments per ANB			
Top 10 Elementary Districts			
<u>Elementary Statewide Budgets per ANB</u>	<u>County</u>	<u>District</u>	<u>Block Grant per ANB</u>
\$7,801	Liberty	Whitlash Elementary	\$3,722
	Blaine	North Harlem Colony Elementary	\$2,914
	Rosebud	Colstrip Elementary	\$2,570
	Sweet Grass	Melville Elementary	\$1,859
	Stillwater	Molt Elementary	\$1,850
	Sanders	Trout Creek Elementary	\$1,680
	Sanders	Noxon Elementary	\$1,502
	Sweet Grass	McLeod Elementary	\$1,351
	Phillips	Saco Elementary	\$1,296
	Cascade	Deep Creek Elementary	\$1,251

Average FY 2008 HB 124 Block Grant Payments per ANB			
Top 10 High School Districts			
<u>High School Statewide Budgets per ANB</u>	<u>County</u>	<u>District</u>	<u>Block Grant per ANB</u>
\$9,855	Rosebud	Colstrip H S	\$2,602
	Phillips	Saco H S	\$1,972
	Phillips	Dodson H S	\$1,765
	Sanders	Noxon H S	\$1,634
	Liberty	Chester-Joplin-Inverness HS	\$1,347
	Roosevelt	Froid H S	\$1,288
	Dawson	Richey H S	\$1,148
	Toole	Shelby H S	\$1,070
	Hill	North Star HS	\$1,032
	Valley	Hinsdale H S	\$1,011

Average FY 2008 HB 124 Block Grant Payments per ANB			
Top 10 K-12 Districts			
<u>K-12 Statewide Budgets per ANB</u>	<u>County</u>	<u>District</u>	<u>Block Grant per ANB</u>
\$10,550	Daniels	Peerless K-12 Schools	\$3,508
	Sheridan	Medicine Lake K-12 Schools	\$1,119
	Valley	Opheim K-12 Schools	\$1,119
	Fallon	Baker K-12 Schools	\$1,026
	Fallon	Plevna K-12 Schools	\$948
	Daniels	Scobey K-12 Schools	\$810
	Prairie	Terry K-12 Schools	\$760
	Sheridan	Westby K-12 Schools	\$726
	Petroleum	Winnett K-12 Schools	\$704
	Treasure	Hysham K-12 Schools	\$650

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 the non-levy revenue 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 inherently different tax levy requirements needed to fund the BASE or required minimum budget. These differences are significant across the state and vary by size of district. Non levy revenues, including HB 124 block grants, add to the inequity of district mills.