

MINUTES

**MONTANA HOUSE OF REPRESENTATIVES
52nd LEGISLATURE - REGULAR SESSION**

COMMITTEE ON PROPERTY TAX

Call to Order: By CHAIRMAN COHEN, on February 8, 1991, at 8:00 AM.

ROLL CALL

Members Present:

Rep. Ben Cohen, Vice-Chairman (D)
Rep. Ed Dolezal (D)
Rep. Orval Ellison (R)
Rep. Russell Fagg (R)
Rep. David Hoffman (R)
Rep. Ed McCaffree (D)
Rep. Mark O'Keefe (D)
Rep. Dave Wanzenried (D)

Members Absent:

Rep. Ted Schye (D)
Rep. Fred Thomas (R)

Staff Present: Julia Tonkovich, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

**Office of Public Instruction Presentation:
Public School Equalization/ Guaranteed Tax Base**

Dori Nielson, OPI, explained the General Fund's current structure. Exhibit 1 The General Fund supplies most funds for instructional costs, general operations and maintenance of school districts. The money coming out of the fund is driven by two other sections: the Average Number Belonging (ANB) section and the Foundation Schedule section. Exhibit 2 The Foundation Program is the base of the General Fund. Districts must budget (limit) the General Fund before they begin spending. Following is an overview of how money gets from the fund to specific school districts. First, schools must meet instructional accreditation standards established by the Board of Education. Second, they must provide a biennial report of the ANB count, which is a number based on regularly enrolled (not special education) students' attendance for 180 Pupil Instruction days and no more than 7 Pupil Instruction Related days (professional development, parent-teacher conferences, etc.). Special Education students are funded through another account. The General Fund provides for about 70% of allowable costs (direct instructional costs).

The Foundation Schedules also determine how much money is needed in the General Fund. These are amounts provided in statute which are multiplied by each district's ANB (head count) to determine its total foundation program payments. Rates are scaled -- smaller districts receive more per ANB than larger ones, and secondary schools receive more than elementary.

Jan Thomson, OPI, explained how the General Fund budget structure has changed since HB 28. **Exhibit 3** In FY90, the General Fund was separate from the comprehensive insurance fund. 45 mills were levied to support the Foundation Program, which was to fund 80% of the schedules. There was a 10 mill discretionary (permissive) levy, which allowed districts to choose to levy 6 mills for elementary schools and 4 for high schools to raise the additional 20% of schedules. There were no budget caps on the districts; anything above 45 Foundation mills and 10 permissive mills was voted on by taxpayers.

Ms. Thomson said in FY91, comprehensive insurance was included in the General Fund. 55 mills were levied at the county level (33 for elementary school districts, 22 for high school districts) and there was a 40-mill statewide levy. Districts' two spending limits for 1991 are 135% of the FY91 Foundation Program budget, or 104% of the FY90 General Fund budget, whichever is greater.

REP. DOLEZAL clarified the bar graph with a theoretical example. Districts must calculate how many mills to assign to a permissive mill levy. If the FY91 Foundation Program were \$100, districts could levy \$35 worth of permissive mills in addition to the \$100. If the FY90 General Fund budget were \$100, districts could levy \$4 worth of permissive mills. School districts can levy these mills without voters' approval.

Ms. Thomson further clarified the process. If the total Foundation Program amount were \$1 million, the school district calculates 135% of that, setting one possible limit at \$1.35 million. If the district had a \$1.4 FY90 General Fund budget, the district calculates 104% of that, setting \$1.456 as another possible limit. Using the greater of those two calculations, that school district's maximum spending limit is \$1,456,000. The \$1 million comes from the state via Foundation Schedules and Special Education funding. Permissive mills (which don't need voter approval) can be levied to the 35% range, bringing the total to \$1,350,000. This is where the guaranteed tax base range stops. For this county, anything over \$1.35 million, up to the \$1.456 million limit, must be voted on. This is not included in the guaranteed tax base, so there is no tax base subsidy. Some districts don't need to vote in anything because their whole budget falls under the guaranteed tax base range.

REP. COHEN added that because their budgets fall under the guaranteed tax base, these districts are eligible for additional money from the Foundation Program for every mill raised.

REP. FAGG asked how many school districts use the 104% calculation and how many use the 135% option.

Madalyn Quinlan, OPI, said approximately 130 (20%) use the 135% calculation; the remaining 400 (80%) use the 104% calculation.

Gregg Groepper, OPI, said that the 104% cap represents the 1988 expenditures with inflation adjustments.

REP. O'KEEFE reminded the committee that two bills dealing with caps are coming up this session, and both bills would lower the cap. Mr. Groepper said one bill, introduced by REP. BOHARSKI, entails freezing the districts' budgets, depending on how far each district is above Foundation Program spending. This bill has already been heard. REP. KADAS' bill sets two caps: one keeps the permissive limit at 135%, and the second cap would be 170% of the Foundation Program, and freezes anything above that. Caps are necessary partially because of the lawsuit which claimed there was too great a range of spending per student. After HB28, the range has narrowed, but some feel that it hasn't narrowed enough. Instead of putting lots of money into the poorer districts and letting the wealthier districts raise budget levels to keep up with inflation, some recommend freezing the budgets of the richer districts at last year's expenditures, and allowing the other districts to catch up over time. According to OPI, that's not good for education, because there are some costs beyond districts' control, such as utilities and building costs.

REP. COHEN said there are two reasons for caps. One is to bring the "rich schools" and the "poor schools" closer in spending by not letting the "rich schools" spend more. The other reason is inflation.

Ms. Thomson clarified the concept of guaranteed tax base. OPI makes a separate guaranteed tax base calculation for elementary and secondary districts by obtaining the taxable value of all state school districts from the Department of Revenue as well as reports of non-levied revenue that the County Treasurers are depositing into the school district's General Fund during the school year. These are totaled together at the end of the fiscal year to determine all revenue sources. OPI takes the total deposited in the General Fund last year and the mills levied last year and work backwards to find a taxable value. OPI obtains a tax value of non-levied revenue which is added to the district's actual taxable value, resulting in a new mill value. OPI does this for all the districts in the state to come up with a state amount. The mill value (with the non-levied revenue) is determined and then divided by the students in the district; this is the mill value per student. The state mill value/student is compared to the district mill value/student, and the state subsidizes the difference. The state only subsidizes districts whose mill values/student are less than average. Exhibit 4

REP. FAGG asked whether there is a recapturing provision for

those districts whose mill value/student is above average. Ms. Thomson said there was no such provision in the guaranteed tax base program.

REP. MCCAFFREE asked whether all districts receive money from the state. Ms. Thomson said not under the guaranteed tax base program. Although there had been discussion of putting a recapturing provision into HB 28, the provision was not included.

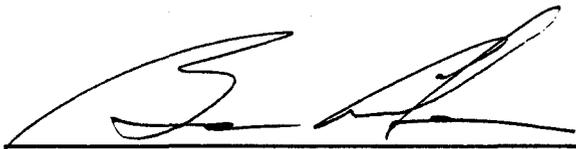
REP. COHEN clarified that there is no recapturing of funds for the Foundation Program for districts which are above the 135% Foundation level but below the 104% General Fund level, and that nothing prevents wealthier districts from spending extra mills.

Ms. Quinlan explained the recapturing process. OPI recaptures on county equalization levies, but not on districts. Rosebud is the only county this year that sends money back to the state under the 55 mill levy. The 55 mills levied there generate more revenue than the county needs for its Foundation Program, so it sends the excess back to the state. However, the Colstrip school district doesn't send any money back to the state for the district mills it levies. Counties give excess revenue back to the state; districts don't.

Ms. Quinlan discussed sources of revenue. In the Foundation Program, of \$392 million for FY91, \$300 million comes from state revenue sources. The county levies 55 mills. If this amount will not completely fund the Foundation Program, the state gives the county enough money to close the gap, or "equalize." Counties need to use all non-property tax sources (motor vehicles tax, tuition, interest earnings, etc.) before they levy. For example, if a county needed \$100,000 and had \$50,000 in non-tax sources, it would levy for the remaining \$50,000. If the county receives \$13,000/mill, it needs to levy close to four mills.

ADJOURNMENT

Adjournment: 8:50 AM


BEN COHEN, Chair


JULIA TONKOVICH, Secretary

BC/jmt

HOUSE OF REPRESENTATIVES

PROPERTY TAX SUBCOMMITTEE

ROLL CALL

DATE

2/08/91

NAME	PRESENT	ABSENT	EXCUSED
REP. BEN COHEN, VICE-CHAIR	X		
REP. ED DOLEZAL	X		
REP. ORVAL ELLISON	X		
REP. RUSSELL FAGG	X		
REP. DAVID HOFFMAN	X		
REP. ED MCCAFFREE	X		
REP. MARK O'KEEFE	X		
REP. TED SCHYE		/	
REP. FRED THOMAS		X	
REP. DAVE WANZENRIED	X		
REP. DAN HARRINGTON, CHAIRMAN			

2/08/91

Subcomm P. Tax

104% of previous years GF budget.

Voted Budget (if necessary)	
Permissive Budget Amount (limited to 35%)	
Special Education Allowable Costs	
Foundation Program Schedule Amount	

HB 28

\$1,456,000	
\$350,000	\$106,000
\$50,000	
\$950,000	

FY 91

FY90 GF Budget
\$1,400,000

Sehoul District General Fund Budget

2/8/91

OFFICE OF PUBLIC INSTRUCTION
PUBLIC SCHOOL EQUALIZATION AID GLOSSARY

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ACCREDITATION STANDARDS

- standards established by the Board of Public Education for the instructional programs of public schools in Montana
- public schools must meet these standards to be eligible for foundation program funding

ANB (Average Number Belonging)

- a school membership number based on student attendance and absences for 180 PI days and no more than 7 PIR days
- regularly enrolled students count for ANB, full-time special education students do not
- a count which is used to calculate foundation program amounts for school districts

BUDGETED FUND

- a fund for which a budget must be adopted in order to expend money
- examples are: general fund, retirement fund, transportation fund, tuition fund

COUNTY EQUALIZATION

- county revenue used to support the foundation program

FOUNDATION PROGRAM

- a vehicle for providing state funding for free public schools in Montana which is financed by:
 - county equalization funds
 - state equalization aid
 - appropriations for special education

FOUNDATION PROGRAM SCHEDULES

- financial schedule amounts provided in statute which are multiplied times the ANB of a district to determine the amount of foundation program payments to each district
- the rates are scaled so that smaller schools receive more per ANB than larger, and high schools receive more than elementary schools

GENERAL FUND

- foundation program funds are deposited into this fund
- the general maintenance and operational costs of a school district are reported in this fund

GTB (Guaranteed Tax Base Aid)

- the state equalization assistance available to districts with less than average taxable valuation per ANB
- based on the number of mills levied in support of the permissive amount

PERMISSIVE AMOUNT

- the budgeted amount of the general fund which may be adopted by the trustees of the district to raise revenue to supplement the foundation program payments
- up to 35% of the foundation program amount may be financed by a permissive levy

PIR DAYS (Pupil Instruction Related Days)

- those days of teacher activities, approved by the office of public instruction, which are devoted to improving the quality of instruction
- the PIR days may not exceed 7 for calculation of ANB

PI DAYS (Pupil Instruction Days)

- days when school districts provide organized instruction for pupils enrolled in public schools while under the supervision of a teacher
- 180 PI days are required to meet accreditation standards
- no more than 180 PI days may be used for calculation of ANB

SPECIAL EDUCATION ALLOWABLE COSTS

- those instructional costs defined in statute which are used to determine the amount of the special education appropriation which is available to each district special education program

SPENDING LIMITS (Caps)

- the upper limit for general fund budgets of a district
- the greater of 135 percent of the foundation program amount or 104 percent of the prior year's general fund budget

STATE EQUALIZATION AID

- moneys deposited in the state special revenue fund to support the foundation program

VOTED AMOUNT

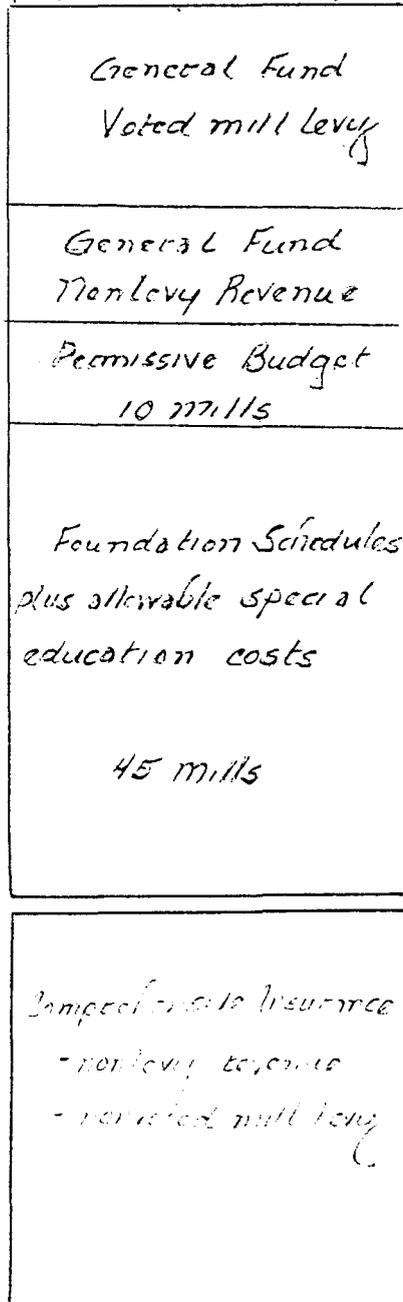
- the budgeted amount of the general fund which is above the permissive amount and within the spending limit
- the amount raised by a levy that must be approved by the voters of a district

General Fund Budget Structure 2/8/91

HB28

Total General Fund *

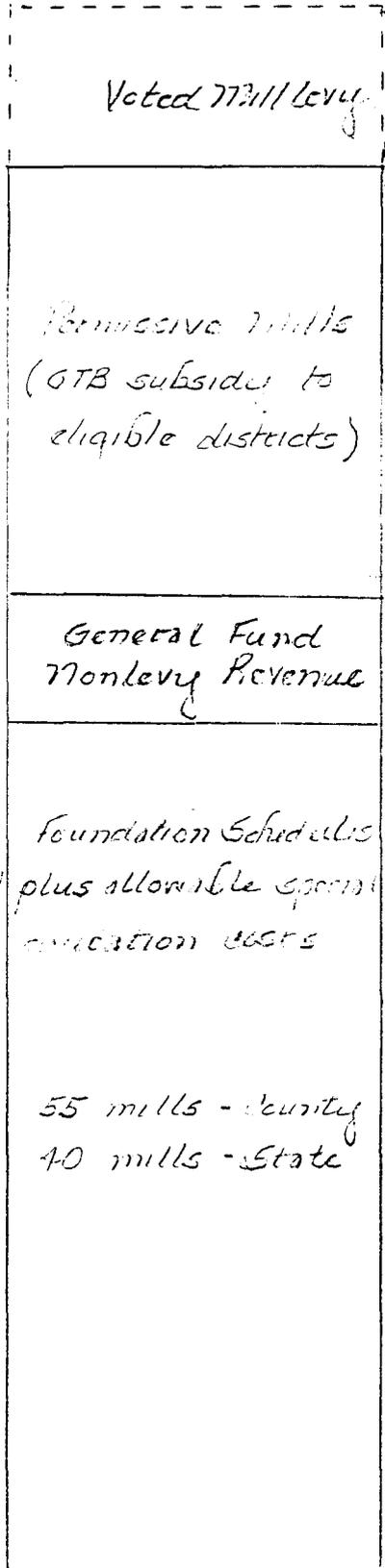
Pre-HB28
Total General Fund &
Comprehensive Insurance
(No Budget Cap)



20% of
Schedules

80% of
Schedules

Maximum General
Fund Budget
without a vote.



Budget
Limits

Limited to
35% of F.P.

100% of
Schedules

FY90

FY91

* Beginning in FY91 comprehensive insurance costs are included in the general fund.

CALCULATION OF GTB SUBSIDY

(A) DISTRICT NAME	(B) DISTRICT T.V.	(C) FY91 NONLEVY REVENUE	(D) FY91 GF MILLS	(E)* T.V. NONLEVY REVENUE	(F) GTB T.V.	(G) MILL VALUE	(H) DISTRICT ANB	(I) MILL VALUE PER ANB
ELEM A	10,000,000	75,000	20.00	3,750,000	13,750,000	13,750	3000	4.58
ELEM B	1,500,000	10,000	10.00	1,000,000	2,500,000	2,500	200	12.50
ELEM C	8,000,000	50,000	15.00	3,333,333	11,333,333	11,333	2500	4.53
ELEM D	4,500,000	15,000	15.00	1,000,000	5,500,000	5,500	800	6.88
ELEM E	5,000,000	5,000	20.00	250,000	5,250,000	5,250	700	7.50
	29,000,000			9,333,333	38,333,333		7,200	5.32

(E)* = (C/ (D) * 1000

Exhibit 4 Subcomm.
P. Tgx
2/8/91

Office of Public Instruction
Public School Equalization Account
Revenue Estimates

07-Feb-91

Beginning Fund Balance	FY 1991		
	20.592		
State Revenue			
Individual Income Tax	124.102	Individual Income Tax	41.3%
Corporation Tax	20.234	Corporate License Tax	28.5%
Coal Severance Tax	5.523	Coal Severance Tax	11.3%
Common School I & II	36.961	Common School Interest/Income	95.0%
U.S. Mineral Royalties	25.497	U.S. Mineral Royalties	100.0%
Education Trust Interest	1.191	Local Impact Interest	67.5%
SEA Interest	0.629	SEA Interest	100.0%
Coal Trust Interest (15%)	6.245	Coal Trust Interest	15.0%
Net Lottery *	9.145	Net Lottery	100.0%
Statewide 40 Mills	62.573	40 Mills	100.0%
Miscellaneous	7.337		

Total State	\$299.437		
County Revenue			
Countywide Mill Levy	86.037		
Elementary Transportation	(3.754)		
Cash Reappropriated	2.653		
Forest Funds	1.252		
Taylor Grazing	0.114		
Miscellaneous	18.706		
High School Tuition	(0.802)		

Total County	\$104.206		
Total State and County Revenue			
	\$403.643		
Expenditures			
Foundation Schedules	347.887		
Permissive GTB	30.766		
Retirement GTB	13.616		

Total Expenditures	\$392.268		
Ending Fund Balance			
	\$31.967		
	=====		

* House Bill 28 (L.1989) accelerated the distribution of net lottery revenue. The public school equalization account received two year's worth of lottery payments in fiscal 1991.

Exhibit 5 Subcomm. P. T9x
2/8/91

School Equalization Account Revenues

Exhibit 6
Subcomm. P. Tax
2/8/91

Budgeted Funds outside
the general fund:

- transportation
- tuition
- debt service
- building reserve
- Adult Education
- Retirement (county GTB)

#13.6M

Voted Levy Requirement

Permissive (nonvoted) Levy
(state subsidy for GTB
eligible districts) #30.8M

Permissive Budget Amount
(35% of Foundation Program)

Other anticipated nonlevy
revenue: Motor Vehicle Fees,
tuition, flat tax, interest, cash
reappropriated.

→ Total Foundation Program

Allowable Special Education

(#29.2M)

→ Foundation Program
Schedule Amount. (#347.83

State Equalization

Includes:

- All lottery net income
- revenue from 40 mill levy
- income tax (41.3%)
- corporation tax (28.5%)
- coal severance tax
- U.S. mineral royalties
- Coal trust interest (15%)
- Education trust interest (67.5%)
- Common School interest/income

(Millions)

11.975
62.573
124.102
20.234
5.523
25.497
6.245
.175
36.961

County Equalization

33 mills for elementary
22 mills for high school

(86.037M)

Maximum General
Fund Budget:
The greater of -
✓ 135% of the current
year's foundation prog.
✓ 104% of the previous
year's general fund
budget.

Exhibit 7

2/8/91

Subcomm. P. TGX

District Taxable Value = 2,500,000
Value of 1 mill = 2,500
ITB subsidy per mill = 2,500

Voted Budget Amt
\$106,000

$$(106,000 \div 2500 = 42.40)$$

42.40 mills

Permissive Budget Amt.
\$350,000

Anticipated Nonlevy
Revenues

Motor Vehicle	(\$50,000)
Puition	(\$5,000)
Flat Tax	(\$100,000)
Interest	(\$10,000)
Cash Reapp.	(\$35,000)
	<hr/>
	(\$200,000)

Net levy requirement
\$150,000

$$(150,000 \div 5000 = 30.00)$$

30 mills

District Overschedule Budget Amounts

Exhibit 8
 Subcomm. P. Tax
 2/8/91
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FACT SHEET

DISTRICT	NO. 2	
FY91 ANB for FP Purposes	1330	(a)
FY90 GF Budget Amount	2,409,750	(b)
FY91 District Taxable Valuation	8,161,900	(c)
FY91 Foundation Schedule Amount	2,544,290	(d)
FY91 Sp. Ed. Allowable Costs	340,000	(e)

Anticipated Revenues:

FY91 HB20 Reimbursement	32,863	(f)
FY91 Flat Tax Reimbursement	116,000	(g)
Motor Vehicle Fees	5,577	(h)
Cash Reappropriated (1q - 1r)	18,050	(i)
Tuition/Fees	22,592	(j)
Interest/Income	81,113	(k)
Other Non-Tax Revenue	20,393	(l)
<u>Corp. License</u> 18,522		
<u>Other</u> 1,871		

Total Non-Tax Revenue	296,588	(m)
Statewide Mill Value per ANB	20.76	(n)
District Mill Value per ANB	7.58	(o)
State Subsidy per ANB	13.18	(p)
FY90 Cash Balance	500,000	(q)
Reserve Limit*	481,950	(r)
(1b x 20%)	778,758	
Zc		

*Assumes district reserves are limited to 20%.

Ex. 8
2/8/91
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SPENDING LIMITS

FP Amount = ANB Payment + State Payment for Special Education

DISTRICT

NO. 2

FY91 FP Amount
(1d + 1e) x 135% 3,893,792 (a)

FY90 GF Budget Amount
(1b) x 104% 2,506,140 (b)

Maximum GF Budget:

Greater of (a) or (b) 3,893,792 (c)

EXHIBIT 8
DATE 2/08/91
HB Subcomm P. Tax
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LEVIES

DISTRICT

NO. 2

Total FY91 GF Budget (a) 3,893,792
(2c)

Less:

Schedule Amount 2,544,290
(1d)

+ Special Ed. Allowable Costs 340,000
(1e) -----

= Foundation Program Amount (b) 2,884,290

Total Overschedule Amount (c) 1,009,502
(3a - 3b)

Overschedule Permissive Amount (d) 1,009,502
(3b x 35%)

Overschedule Voted Amount (e) 0
(3c - 3d)

Ex. 8
2/8/91
p. 4065

LEVIES

DISTRICT	NO. 2	
PERMISSIVE LEVY:		
Permissive Amount:	(a)	1,009,502
(3d)		
Less: (anticipated)		
HB20 Reimbursement	32,863	
(1f)		
Flat Tax Reimbursement	116,000	
(1g)		
Tuition/Fees	22,592	
(1j)		
Motor Vehicle	5,577	
(1h)		
Interest/Income	81,113	
(1k)		
Cash Reappropriated	18,050	
(1i)		
Other Non-Tax Revenue	20,393	
(1l)		
Total Non-Tax Revenue	(b)	296,588
Revenue Shortfall/(Surplus)*	(c)	712,914
(4a - 4b)		
Funding:		
District Taxable Value/Mill		8,162
(1c / 1000)		
District GTB Value/Mill		17,529
(1p x 1a)		
Total Revenue/Mill	(d)	25,691
Mills Needed to Fund Shortfall		27.75
[4c (if>0) / 4d]		

*Any revenue surplus must be applied to reduce the voted overschedule amount. If no voted levy is allowed under the spending limitations, the surplus must be carried forward as cash reappropriated in the subsequent school fiscal year.

EXHIBIT 8
DATE 2/08/91
HB Subcomm P. Tsx
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LEVIES

DISTRICT

NO. 2

VOTED LEVY:

Overschedule Voted Amount (3e)	(a)	0
Non-Tax Revenue Available to fund voted amount (4c - if surplus)	(b)	0 -----
Revenue Shortfall (5a-5b)	(c)	0
District Taxable Value/Mill (1c / 1000)	(d)	0
Mills Needed to Fund Voted Amount (5c / 5d)		0

Exhibit 9
 2/8/91
 Subcomm. P. Tax

Office of Public Instruction
 December 7, 1990

Summary of General Fund Budget Data
 Fiscal Years 1990 and 1991

	Fiscal 1990	Fiscal 1991	% Change
General Fund Budget	\$529,616,443	\$569,551,946	7.5%
Comprehensive Insurance	14,127,281	0	-100.0%
	-----	-----	
Total General Fund + CI	543,743,724	569,551,946	4.7%
ANB	149,090	148,011	-0.7%
Foundation Program	229,914,758	347,886,567	
State Share of Permissive & GTB	40,621,345	30,765,730	
Allowable Special Education	29,085,206	29,166,944	
	-----	-----	
Total State Aid to Districts	299,621,309	407,819,241	36.1%
Percent of GF Budgets	55.10%	71.60%	
General Fund Budget/ANB	3,647	3,848	5.5%
Elementary	3,217	3,420	6.3%
High School	4,697	4,914	4.6%