

## Guaranteed Tax Base Mechanisms in Montana School Funding

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Guaranteed tax base (GTB) mechanisms help to equalize the differences in revenue generating capacity between districts with different property tax bases and in doing so help balance the principles of educational local control and equality of opportunity embodied in the Montana Constitution.

The relative poverty or wealth of a district is a function of the district’s property tax base, usually measured by taxable valuation (TV) or mill value (MV; where  $MV = TV \times .001$ ) compared to the district’s funding need, often measured by student enrollment (in Montana, ANB). This ratio is often expressed as  $TV/ANB$  or  $MV/ANB$ . When two districts have identical TVs, but one has 1000 students to educate and the other 100 students, the district with 1000 students is relatively poorer. Likewise, if two districts each have 1000 students to educate, but one has half the TV of the other, it is relatively poorer. Montana uses GTB to equalize the revenue generating capacity in three areas of our school funding system. These are shown in the first column of the table below.

In order to equalize, Montana’s GTB mechanisms establish a state guarantee ratio which serves as the threshold under which a district is eligible for GTB aid. The degree to which a district is under the threshold determines the degree to which a district or county (for retirement funding) receives aid from the state. Montana uses multipliers to establish state guarantee ratios that are higher than what the statewide average ratio would otherwise yield. This allows more GTB aid to flow to more districts; these multipliers are shown in the fourth column of the table below. (For example, the guarantee ratio for BASE GTB is not statewide  $TV/GTB$  Area, but  $TV \times 1.93/GTB$  Area.)

One issue with GTB aid is that it can potentially cede control of the state budget by allowing local spending decisions to impact the amount of state aid needed for distribution. Montana maintains state control of total GTB aid by establishing BASE budget limits which effectively cap BASE GTB aid (though local decisions regarding allocation of nonlevy revenue in the BASE budget do impact GTB aid) and by directing the superintendent of public instruction to prorate as necessary the school facility reimbursement payments to stay within the appropriation and available funding limits. It’s less clear how GTB aid for school retirement is capped at the state level.

<b>Funding component</b>	<b>Taxing jurisdiction</b>	<b>Measurement of relative wealth</b>	<b>Guarantee multiplier</b>	<b>GTB aid calculated as</b>	<b>GTB aid capped by</b>	<b>Statutes</b>
District General Fund (BASE budget area)	District	$TV/GTB$ Area <sup>1</sup> (State) (District)	193%	\$/mill levied for district BASE budget	# of mills levied by district in BASE; BASE budget limit	<a href="#">20-9-366</a> <a href="#">20-9-367</a> <a href="#">20-9-368</a> <a href="#">20-9-369</a> <a href="#">20-9-370</a> <a href="#">20-9-371</a>
Retirement Fund	County	$MV/ANB$ (State) (County)	121%	\$/mill levied for county retirement	# of mills levied by county for retirement budgets	
School Facility Reimbursements (Debt Service GTB)	District	$MV/ANB$ (State) (District)	140%	\$ lump sum payment for debt service assistance	a complex formula, statutory prorate, available revenue	

<sup>1</sup> GTB area is statutorily defined as that portion of a district’s BASE budget minus direct state aid, the 5 core components, and the state special education payment. It is closely related to ANB, but due to the numerous adjustments for educationally relevant factors, it is not a direct proportional relationship. It is another way of measuring a district’s funding need.