

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA

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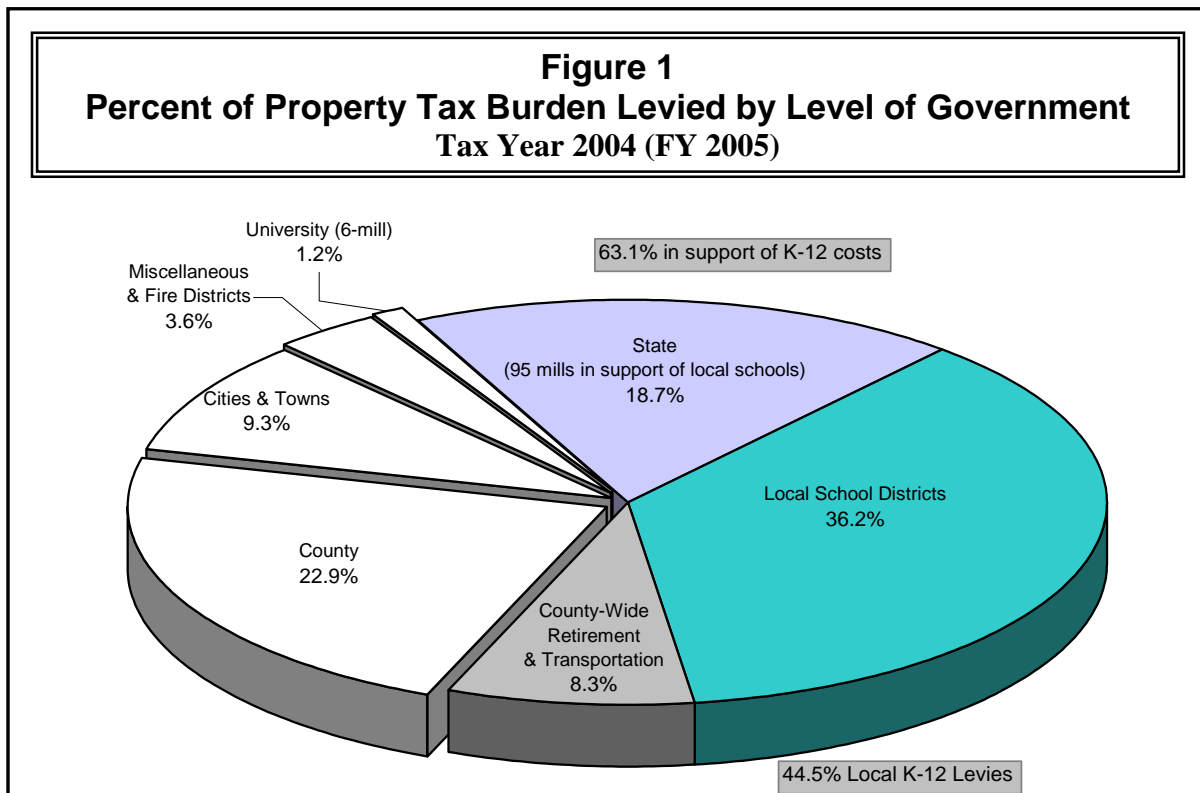


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DATE: July 21, 2005
TO: Quality Education Interim Committee
FROM: Judy Paynter, Revenue and Tax Policy Manager
Dan Dodds, Lead Tax Policy and Revenue Analyst
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SUBJECT: Property Tax Information Related to K-12

BACKGROUND

In tax year 2004, mill levy property tax collections totaled approximately \$914 million. Of this amount, **63.1%** was used for K-12 school costs, with **44.5%** being local levies. Figure 1 shows the distribution of tax year 2004 property tax by government type.



As Table 1 below shows, from January 1, 2000 to January 1, 2004, property taxable values grew by 6.44%. During the same period, the statewide average mill levy increased by over 19% and mill levy revenue increased by 26.75% statewide.

Table 1						
Total Statewide Taxable Value, Average Statewide Mill Levies, and Mill Levy Revenue						
Tax Year	Taxable Value (TV)		Total Mill Levies / Revenue			
	(TV)	% Change	Mill	% Change	Revenue	% Change
2000	1,672,312,858	-	431.257	-	\$ 721,196,083	-
2001	1,698,203,415	1.55%	451.435	4.68%	\$ 766,628,644	6.30%
2002	1,718,653,223	1.20%	481.098	6.57%	\$ 826,840,237	7.85%
2003	1,733,674,415	0.87%	509.617	5.93%	\$ 883,510,356	6.85%
2004	1,779,929,986	2.67%	513.569	0.78%	\$ 914,116,943	3.46%
Change '00 to '04	107,617,128	6.44%	82.31	19.09%	\$ 192,920,860	26.75%

K-12 PROPERTY TAX

As Table 2 illustrates, much of the growth in overall property tax revenue is attributable to K-12 school increases. From tax year 2000 to 2004 countywide retirement and transportation revenue increased **24.8%**, and local school mill levy revenue increased **34.45%**. The state 95 mills levied in support of K-12 schools is constant and the only growth in revenue is attributable to changes in statewide taxable values.

Table 2												
K-12 Property Tax Revenue												
Tax Year	Countywide Ret./Trans. Mills				Local School Mills				State 95 Mills			
	Mill	% Change	Revenue	% Change	Mill	% Change	Revenue	% Change	Mill	% Change	Revenue	% Change
2000	36.08	-	\$ 60,331,513	-	148.12	-	\$247,703,606	-	95	-	\$159,762,132	-
2001	34.92	-3.21%	\$ 59,298,643	-1.71%	161.25	8.87%	\$273,843,006	10.55%	95	0.00%	\$162,236,161	1.55%
2002	40.51	16.02%	\$ 69,623,769	17.41%	176.48	9.44%	\$303,311,154	10.76%	95	0.00%	\$164,189,834	1.20%
2003	46.46	14.68%	\$ 80,545,859	15.69%	186.77	5.83%	\$323,803,244	6.76%	95	0.00%	\$165,635,942	0.88%
2004	42.30	-8.95%	\$ 75,290,839	-6.52%	187.11	0.18%	\$333,040,884	2.85%	95	0.00%	\$170,035,864	2.66%
Change '00 to '04	6.22	17.25%	\$ 14,959,326	24.80%	38.99	26.32%	\$ 85,337,278	34.45%	0	0.00%	\$ 10,273,732	6.44%

Shown in Table 3, combining tax year 2004 countywide mill levy revenue, local school mill levy revenue, and the state 95 mills levied in support of schools totaled \$578.4 million in tax year 2004: a 23.64% increase since tax year 2000, or an average annual change of 5.45%.

This overall K-12 school property tax growth of 23.64% is substantially higher than the growth in statewide taxable value.

Table 3				
K-12 Summary				
Tax Year	Total K-12			
	Mill	% Change	Revenue	% Change
2000	279.20	-	\$ 467,797,251	-
2001	291.17	4.29%	\$ 495,377,811	5.90%
2002	311.99	7.15%	\$ 537,124,757	8.43%
2003	328.23	5.21%	\$ 569,985,045	6.12%
2004	324.41	-1.16%	\$ 578,367,586	1.47%
Change '00 to '04	45.21	16.19%	\$ 110,570,335	23.64%

The amount of revenue generated for K-12 schools outpaced the growth in taxable value by nearly four (4) times. For reference, the consumer price appendix (CPI) grew by 9.7% over this period, or at an average annual rate of 2.3%.

In tax year 2000, if a parcel of property with a taxable value of \$1,000 paid the average mill in support of K-12 schools, it would have a tax liability of \$279.20 (\$1,000 x 279.20 mills) in support of K-12 schools. If we assume this same parcel of property continued to pay the average mill, and had a change in value equal to the statewide average in tax year 2004, tax liability in support of K-12 schools would have increased to \$345.30 (\$1,000 x 6.44% growth x 324.41 mills). This is an increase of \$66.10 (23.64%) over the four-year period, or an average annual change of 5.45%.

It is important to highlight the significant difference between taxable value growth (6.4%) and mill levy revenue growth of schools (23.6%) in contemplating any reform of school funding at the state level. K-12 mill levies grew by over 16% from tax year 2000 to tax year 2004. If a constant mill levy in support of K-12 schools were used to replace local revenues, the current growth trend in property tax revenue for schools would not continue; revenue growth would be limited to taxable value growth only.

As shown in Table 4 below, the statewide property tax base has changed since tax year 2000. Some of the larger classes of property, class 9, class 12, and class 13 have considerably declined in value. During the same time period, class 4, residential and commercial real property grew 17.3% due to new growth and rapid value increases of existing property. In calendar year 2000, class 4 property represented 54.9% of the total taxable value statewide. In calendar year 2004, class 4 property grew to comprise 60.5% of total taxable value statewide. It is likely that class 4 will continue to grow as a percent of total taxable value into the future.

Table 4						
Property Taxable Values - Tax Years 2000 and 2004						
Tax Class	Description	Tax Year 2000		Tax Year 2004		2000 to 2004 % Change
		Taxable Value	% of Tax Base	Taxable Value	% of Tax Base	
1	Mine Net Proceeds	5,178,965	0.3%	8,032,414	0.5%	55.1%
2	Gross Proceeds Metal Mines	8,460,976	0.5%	10,428,300	0.6%	23.3%
3	Agricultural Land	139,255,994	8.3%	139,901,823	7.9%	0.5%
4	<i>Residential and Commercial Real</i>	918,122,252	54.9%	1,076,984,542	60.5%	17.3%
5	Pollution Control Equipment	37,449,237	2.2%	34,024,275	1.9%	-9.1%
6	Livestock	17,941,172	1.1%	-	0.0%	NA
7	Non-Centrally Assessed Public Util.	155,867	0.0%	974,316	0.1%	525.1%
8	Business Equipment	109,560,688	6.6%	117,240,984	6.6%	7.0%
9	Non-Elec. Gen. Prop. Of Electrical Util.	230,832,978	13.8%	219,992,824	12.4%	-4.7%
10	Forest Land	8,658,284	0.5%	6,791,382	0.4%	-21.6%
12	Railroad and Airline Property	49,557,929	3.0%	45,074,061	2.5%	-9.0%
13	Telecommunication & Electric Property	147,138,517	8.8%	120,485,065	6.8%	-18.1%
Totals		1,672,312,859		1,779,929,986		6.4%

In tax year 2004 the property on cyclical reappraisal, class 3 agricultural land, class 4 residential and commercial, and class 10 forest land comprise 68.7% of the total taxable value statewide, while the remaining classes comprise 31.3%.

Table 5 shows the average mill levy and estimated total property tax burden by tax class for tax years 2000 and 2004. Highlighted in the table, class 4 property now pays 64.6% of the total property tax mill levy burden, up from 59.6% of property taxes levied in tax year 2000. Without changes to property taxation, this trend for class 4 property is likely to continue because over the last decade residential and commercial property has seen its percent of tax burden consistently grow as a percent of total tax burden. As a point of reference, in 1998 class 4 property paid approximately 54% of total property taxes levied.

Tax Class	Description	Tax Year 2000			Tax Year 2004			(%) Percent Change in Tax Burden
		Average Mill Levy	Tax Burden	% of Total	Average Mill Levy	Tax Burden	% of Total	
1	Mine Net Proceeds	332.69	1,723,001	0.2%	376.33	3,022,810	0.3%	75.4%
2	Gross Proceeds Metal Mines	380.12	3,216,216	0.4%	424.97	4,431,674	0.5%	37.8%
3	Agricultural Land	384.32	53,518,598	7.4%	458.16	64,096,755	7.0%	19.8%
4 Res	Residential Real Property	456.77	305,064,295	42.3%	533.55	422,605,537	46.2%	38.5%
4 Com	Commercial Real Property	499.94	125,112,177	17.3%	590.22	168,167,095	18.4%	34.4%
Sub 4	Subtotal Class 4	468.54	430,176,472	59.6%	548.54	590,772,632	64.6%	37.3%
5	Pollution Control Equipment	365.12	13,673,327	1.9%	439.24	14,944,788	1.6%	9.3%
6	Livestock	378.95	6,798,816	0.9%	0.00	-	0.0%	-100.0%
7	Non-Centrally Assess Public Util.	512.08	79,817	0.0%	593.28	578,038	0.1%	624.2%
8	Business Personal Property	430.05	47,116,259	6.5%	511.63	59,983,543	6.6%	27.3%
9	Non-Elec. Gen. Prop. Elec. Util.	406.68	93,875,141	13.0%	478.13	105,185,373	11.5%	12.0%
10	Forest Land	397.49	3,441,593	0.5%	464.39	3,153,869	0.3%	-8.4%
12	Railroad and Airline Property	407.11	20,175,533	2.8%	485.21	21,870,480	2.4%	8.4%
13	Telecomm. & Electric Property	322.15	47,401,309	6.6%	382.43	46,076,982	5.0%	-2.8%
Totals		431.26	721,196,083		513.57	914,116,943		26.8%

DISTRIBUTION OF TAXABLE VALUE BY SCHOOL DISTRICT

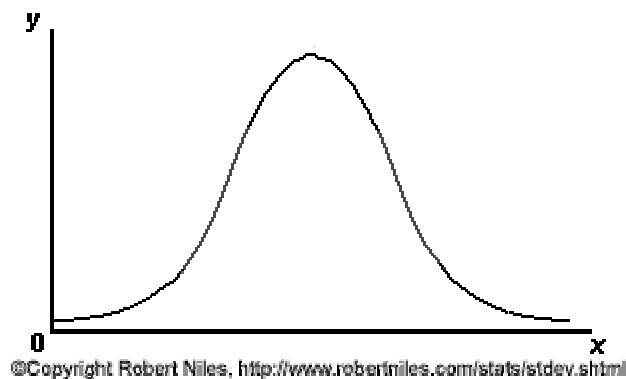
Up to this point the report has dealt with total school property tax mill levy revenues, and the changes in taxable value and tax liability within tax classes. However, it is also important to recognize that large differences in taxable value and tax liability exist amongst school districts across the state. In prior presentations the differences in mill levies have been shown. A substantial portion of the divergences between school district mill levies is caused by the large differences in taxable value between districts.

Certain districts may have more taxable value because they are located in higher populated areas, or have higher concentrations of utility or industrial activity. Areas with sizeable populations generally also have greater school enrollments, while more rural areas can have large concentrations of industrial or utility property located within their boundaries, but have lower enrollment numbers. A uniform measurement of a school districts ability to generate property tax revenue is the amount of taxable value per enrolled student, or ANB (average number belonging) in each district.

In context, if a school district had \$10,000 in taxable value per ANB and the average school mill levy (including the state 95 mills) of 324.41, then for each student enrolled, the district would generate \$3,244 ($\$10,000 \times 324.41$ mills) in property tax revenue.

In the appendix of this report are four pages that show taxable value in respect to ANB. Each of the four pages will show the distribution of school districts by specific category of property within a range of taxable value per student (ANB). The top of each page shows a table and chart for elementary school districts, and the lower portion shows the same distribution by high school and K-12 school districts.

When looking at distributions, one concept commonly used as reference is the normal distribution. A normal distribution of data means that most of the examples in a set of data are close to the "average," while relatively few examples tend to one extreme or the other. Sometimes referred to as a 'bell' curve, if you looked at normally distributed data on a graph, it would look like the graph below.



Distributions are typically set around the mean. However, since our groupings are by school districts the more appropriate point of reference is the median. The median is noted and shown on the charts located in the appendix. For purposes of this analysis, our charts are more for display purposes than statistical. Since our charts use unequal groupings to show taxable value per ANB, our charts will not show a typical probability distribution. However, the concept of close-fitting groups is important and the charts show how school districts are grouped, and that some school districts have significantly higher or lower taxable values per ANB than other districts. As the charts will show, much of the divergence is due to high concentrations of one type of property.

The first page in the appendix labeled A-1 shows total taxable value per ANB by school district. For example, as listed in the table for elementary districts, 60 elementary districts, or 21.5% had between \$10,000 and \$15,000 in taxable value per ANB in tax year 2004 (FY 2005). The table also shows a cumulative percent, for example, 34.8% of elementary districts had between \$0 and \$15,000 in taxable value per ANB. Notice on the chart for elementary districts that the distribution is fairly normal with a slight skew to the right, which indicates that there is a grouping of school districts with above normal ratios of taxable value per student. The chart for high school and K-12 districts is more evenly distributed, with fewer districts falling on either side of major groupings. One reason high school and K-12 districts are more evenly distributed than elementary

districts is because they will generally encompass larger geographic areas, and high concentrations of property in one area is leveled by other property and higher enrollment within their boundaries.

The second page in the appendix labeled A-2 shows similar tables and charts, but only includes the taxable value of tax classes 3, 4, and 10: property that is reappraised on the 6-year reappraisal cycle. The charts show a tighter grouping for both elementary and high school districts, with less districts standing apart from the median. As expected, the tight grouping indicates that the taxable value of classes 3, 4, and 10 are more evenly distributed based on enrollment.

The third appendix page labeled A-3 includes all property *other* than classes 3, 4, and 10. As the table and charts illustrate, there is no pattern or grouping of school districts and there is a wide range of taxable values per ANB. The table verifies that this type of property is more concentrated in certain areas. Interestingly, the distribution for elementary districts shows the exact opposite of a normal distribution, where the groupings on either side of the distribution (or tails) are higher at the ends than in the center of the chart; the 'bell' is inverted. This means that a typical elementary district either has very little property of this type, or large amounts. (Note that for display purposes that different ranges of taxable value per ANB groupings were used in I-3 and I-4)

To further illustrate the range in taxable values per ANB, the last appendix page labeled A-4 shows the taxable value per ANB of only class 13, telecommunication and electric generation property. As the tables and charts show, most districts (90% of elementary districts and 89.1% of high school and K-12 school districts) have less than \$1,500 of taxable value per ANB, while a select few have in excess of \$100,000 of taxable value per ANB.

SUMMARY

This report, using historical data highlights three property tax issues: (1) K-12 school property tax mill levy revenue is growing at four times the rate of taxable value, and more than twice as fast as the CPI; (2) certain classes of property are growing significantly faster than others; and (3) taxable values per ANB for schools and by type of property vary significantly which can distort mill levies and tax burdens across school districts. These three issues and the information provided illustrate how school funding reform and property taxation are interrelated.

No simple solution exists in property tax reform that will resolve every issue. However, these issues raise numerous tax policy questions.

PROPERTY TAX - TAX POLICY QUESTIONS

1. Should K-12 school property tax mill levy revenue grow at four times the rate of taxable value, and more than twice as fast as the CPI?
2. Does the differences in growth between classes of property cause a problem?
3. Does the significant variation in taxable values per ANB for schools concern taxpayers and policy makers?