

EDUCATION

How Montana pays for its public schools, in pictures

We break down the dizzyingly complex recipe that dishes state and local dollars into school district funds across Montana.

by Alex Sakariassen and Eric Dietrich
02.19.2024



*Educating Montana's youth is one of the state's most costly endeavors and a responsibility shouldered by citizens of all stripes: teachers, parents, voters, taxpayers. It's a promise baked into the very fabric of the state Constitution, which vows **to develop the full educational potential of each citizen**. How Montana tries to meet that lofty goal, financially speaking, is a constant point of policy wrangling. The intricacies of school budgeting are also a perennial source of confusion for Montanans who would like to better understand where the money comes from and how it's spent.*

*Recent school funding debates have focused heavily on **school choice initiatives** that supporters maintain give students **more freedom** in the type of education they receive and that critics argue will **divert essential state funding** from public schools to private enterprises. Additionally, the "95 mill" property tax that helps equalize revenues between tax-base-rich and tax-base-poor districts **has come under scrutiny** as part of the broader statewide debate over **rising property taxes** — a debate playing out as many large school districts **contemplate major budget cuts**.*

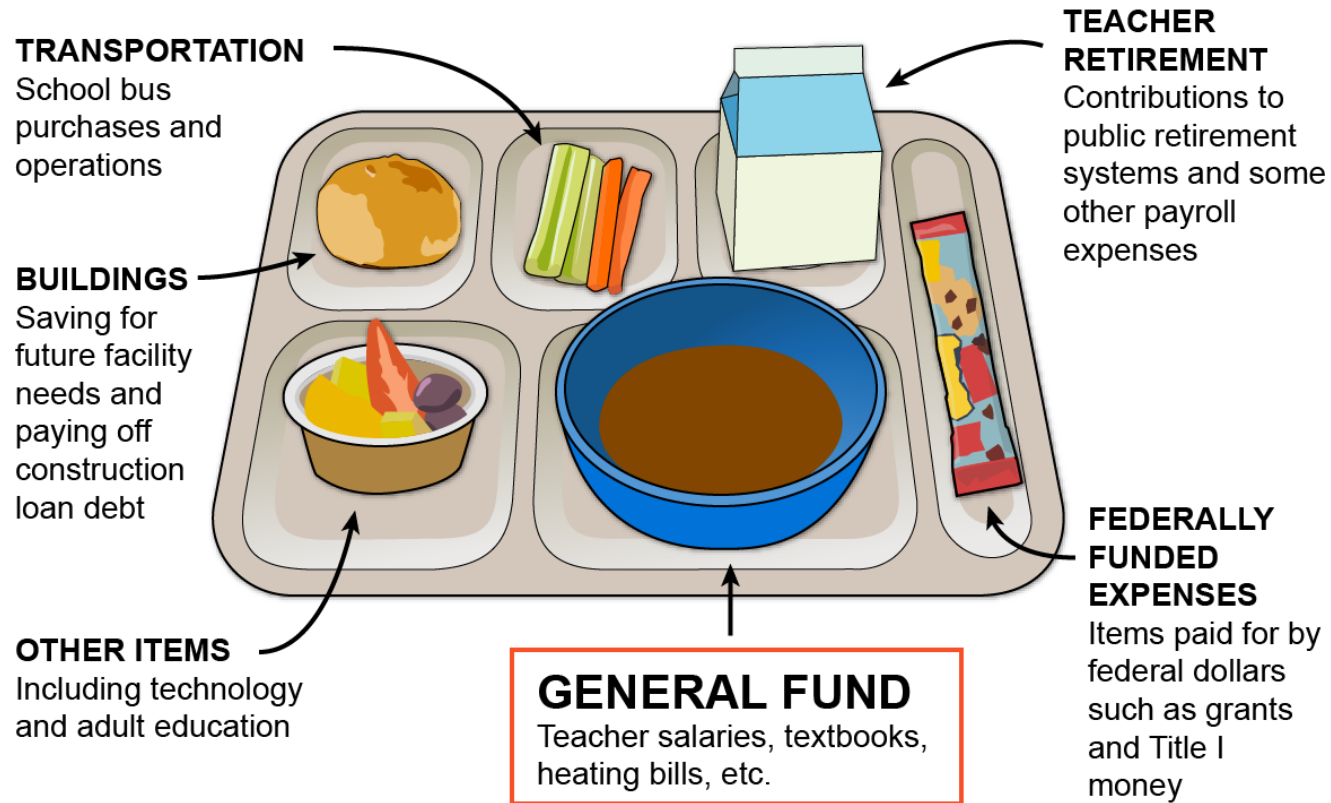
We hope this article can help Montanans more fully understand the financial recipe that feeds the state's public school system so they can be better prepared to contribute to those and other policy debates in the years to come.

Welcome to Big Rock Public Schools, a fictional elementary district that serves 640 students in kindergarten through eighth grade and employs about 51 licensed staff in a single school building. It's roughly typical of Montana's 235 elementary districts — neither especially big nor small, serving neither a particularly affluent nor low-income part of the state.

The graphic below represents the school district's budget: all the things it has to spend money on in a given school year. The budget is approved each year by the district's locally elected school board, though in some cases spending also requires voters' endorsement.

We're representing the budget for our fictional district as a cafeteria tray.

Components of the (fictional) Big Rock Public Schools budget



Each compartment in the tray represents a portion of the district budget that's typically segregated into its own account: teacher retirement payments, school bus upkeep and money set aside for building upgrades, among others. (Note that for simplicity's sake we've lumped together a few separate-but-related accounts, like transportation operations and school bus replacement).

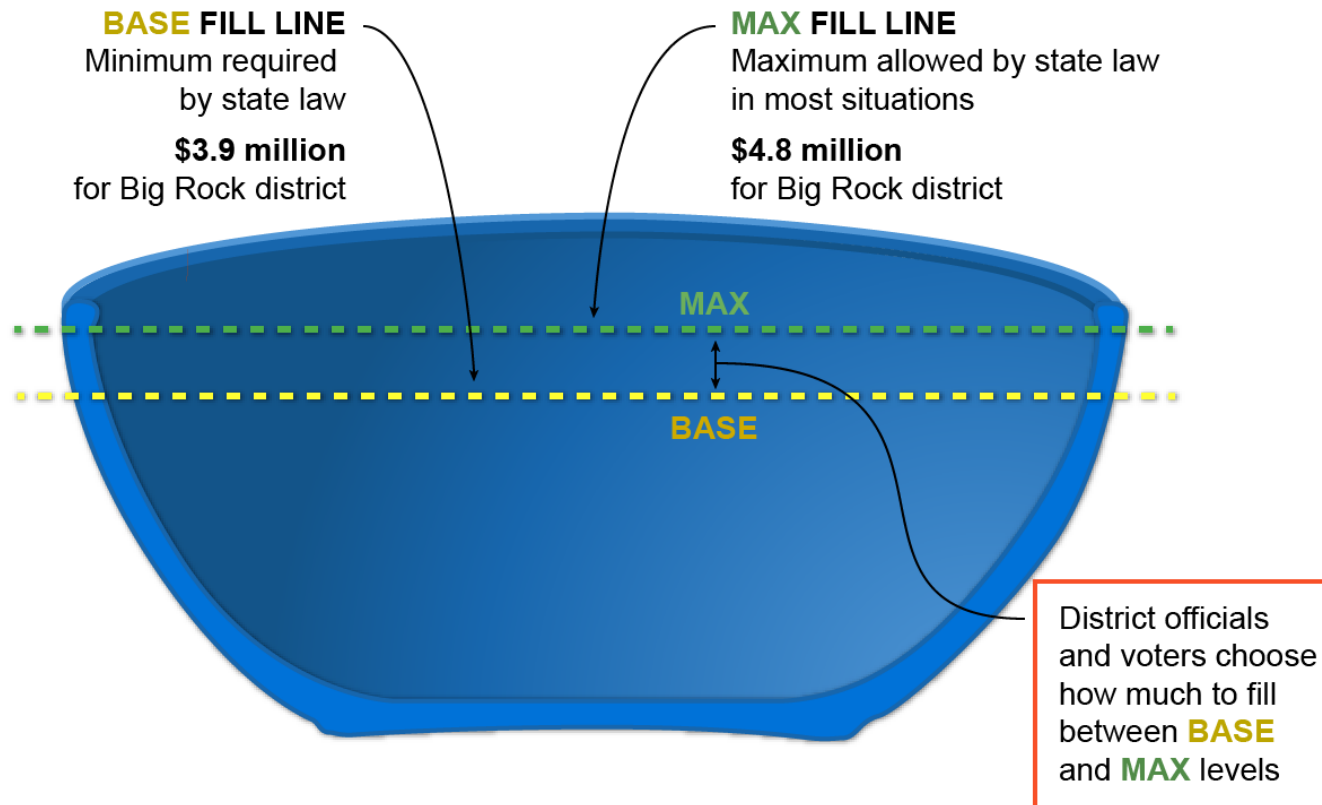
The most important account is the district's General Fund, which is analogous to an individual household's primary checking account. It's the pot of money from which school administrators

pay teachers, buy textbooks, fund extracurricular activities and cover other basic costs like utilities and liability insurance.

During the 2022-2023 fiscal year, Montana school districts collectively spent \$1.2 billion through their General Funds, according to an expenditure breakdown from the state Office of Public Instruction — a touch under half of all K-12 school spending.

We're representing the Big Rock Schools General Fund as a soup bowl.

The Big Rock General Fund budget fill lines



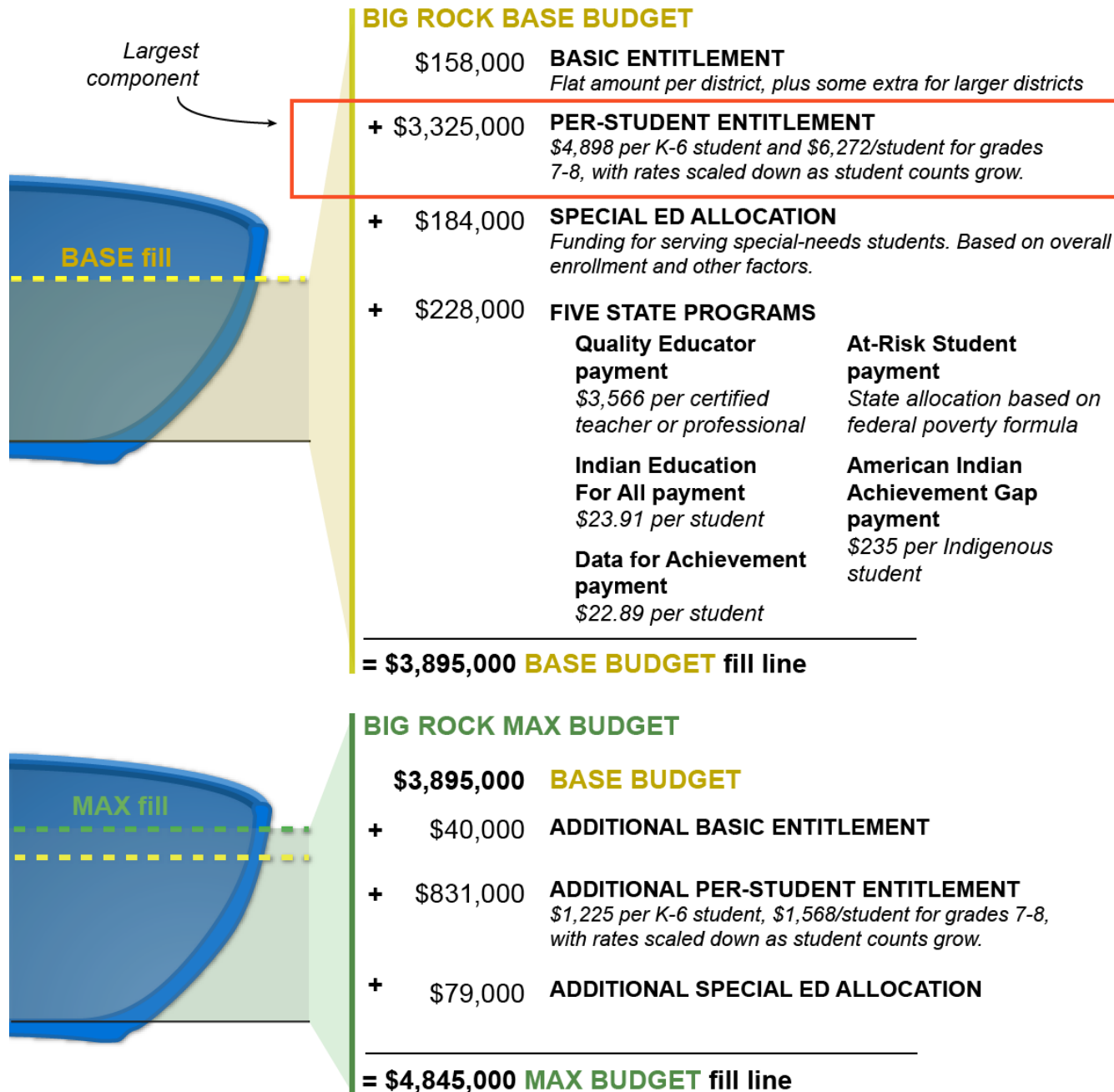
Montana’s school funding formula, outlined in state law by the Legislature, essentially tells school leaders how much money they must put in the soup bowl. The state formula specifies a “Base Amount for School Equity” — or BASE — fill line, which represents the legal minimum amount of General Fund money a district has to spend each year. In an effort to limit the school tax burden on homeowners, the Legislature’s formula also defines a MAX fill line, which in most situations dictates the maximum amount a district can budget for general education expenses.

Increasing a district’s budget above the BASE line generally requires the district’s school board to ask local residents to pay more via a mill levy vote, which authorizes the district to collect more property taxes than would be necessary to get the bowl to just the BASE fill line.

For our fictional Big Rock Schools, the BASE fill line is a \$3.9 million annual General Fund budget, while the MAX line is set at \$4.8 million.

The BASE and MAX lines are calculated using a complex formula in which the most important factor is the number of students enrolled in the district. Here's an overview of how that formula works:

How Big Rock's General Fund fill lines are calculated



Note: Our Big Rock enrollment counts and budget figures are generally based on Fiscal Year 2024 numbers

Note: Our Big Rock enrollment counts and budget figures are generally based on Fiscal Year 2024 numbers for Bigfork Elementary, with some rounding and simplification for clarity. Per-student amounts are derived from Fiscal Year 2024 values specified as totals for the overall MAX budget in Montana Code Annotated 20-9-306.

Most of the money in the BASE budget formula is driven by a per-student entitlement amount based on enrollment. The enrollment figure the state uses for budgeting is known as “Average Number Belonging,” or ANB, a figure each district determines by averaging the number of students in their classrooms as counted on **two fixed days** during the previous school year.

For our Big Rock Schools, that means the fill line levels are largely dependent on how many kids are in its classrooms — just like every other district in the state. Districts also receive a basic entitlement that increases with enrollment.

The Legislature adjusts the rates for those entitlement payments and other education programs as part of the state’s two-year budget cycle, typically following **a guidance statute** that suggests rates be increased by no more than 3% per year to account for inflation. As consumer inflation has outstripped that rate in recent years, **clocking in at 8.0% in 2022 and 4.1% in 2023**, the Legislature’s decision to maintain that comparatively slow pace of funding growth has become a **source of frustration for some lawmakers** and school officials.

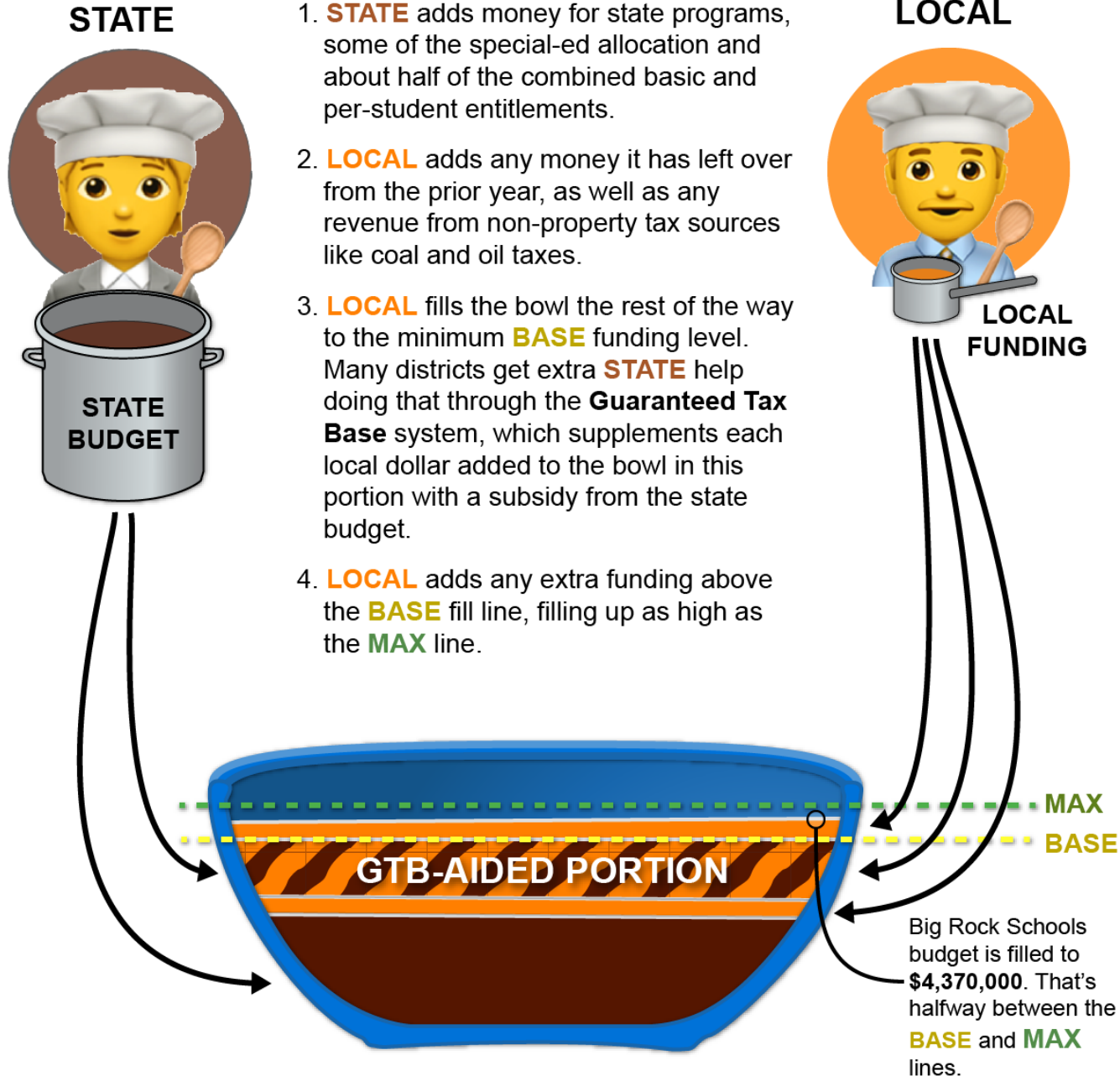
Specific details about this formula are available in the “**Understanding Montana School Finance**” guide published by the state public education office each year. The formula also gives districts the option to average their enrollment counts over a three-year period, creating flexibility that helps schools avoid sudden budget cuts if their enrollments decline.

Other portions of the fill-line formula include a special education allocation and five state-funded programs:

- **Quality Educator program** — a payment districts receive for each full-time teacher or other licensed employee. Under [the TEACH Act](#), passed in 2021, districts can also earn a second payment for each teacher in their first three years of employment who receives a pay raise.
- **At-Risk Student program** — a state payment to help districts meet the needs of at-risk students who may face academic challenges that threaten their ability to graduate.
- **Indian Education for All program** — an enrollment-based payment to help schools meet the [Montana Constitution's requirement](#) that K-12 instruction include lessons about Indigenous culture and history.
- **American Indian Achievement Gap program** — a payment districts receive for each enrolled Indigenous student to help close academic achievement gaps.
- **Data for Achievement program** — a per-student payment that helps districts cover the costs of participating in [state-level data collection](#) related to student performance and achievement.

When the time comes for district officials to adopt their budgets for the coming school year every August, both the state budget and local property taxes are tapped to fill the General Fund bowl:

STATE and LOCAL servers take turns filling the bowl

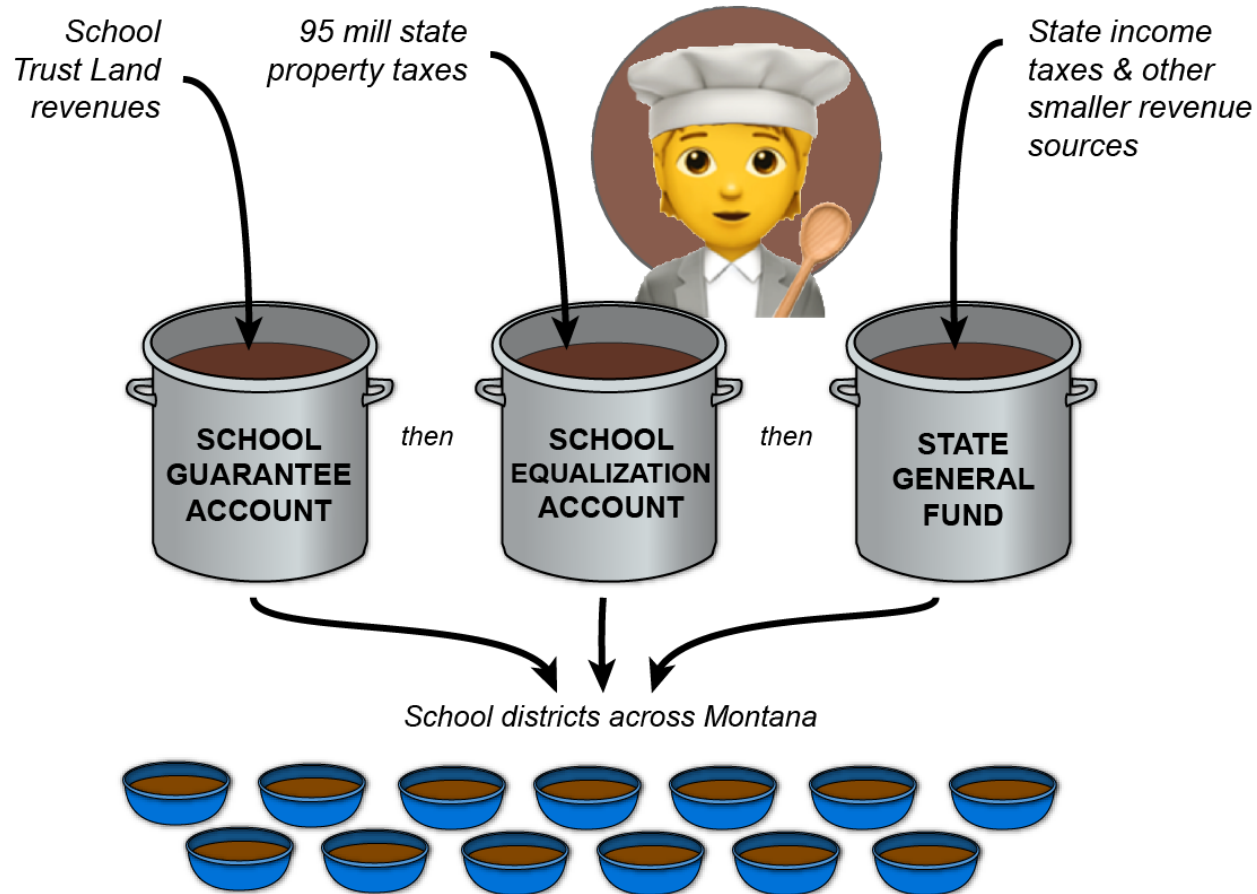


The first portion of the soup bowl is filled from the state budget, which supplies funding for the five state programs detailed above, some of the special-education money, and about half of the combined basic and per-student entitlements. Some local funding is spooned in next: any money left over from the prior year, as well as non-property tax revenues like the portion of state oil production tax collections that is routed to schools.

With that money in the pot, state and local entities split the space that's left below the BASE fill line through the Guaranteed Tax Base program, which is intended to help school districts with small tax bases fill their bowls without putting undue burden on local taxpayers. This is the "GTB-Aided Portion" of our soup bowl graphic above.

Once the bowl is filled to the BASE line, any extra funding the district puts in comes entirely from local tax dollars. In the case of our example Big Rock Schools budget, the district has topped the bowl off with local dollars to about halfway between its BASE and MAX fill lines, budgeting for \$4,370,000 in annual General Fund spending.

State support for district General Funds comes from three big pots



** Before 2023, when the School Equalization Account was created by House Bill 587, the 95-mill tax collections were mixed in with the General Fund before being distributed to school districts.*

The state uses multiple portions of its budget to help fill district General Funds. The first pot the state draws on is the **School Guarantee Account** (an entirely different thing than the Guaranteed Tax Base program), which is largely filled with revenue from grazing, timber harvests, recreation fees and resource extraction on state-owned trust lands. Collections from the state's 95 mill

school equalization property taxes (more about those below) are similarly routed to school districts through a special-purpose School Equalization Account.

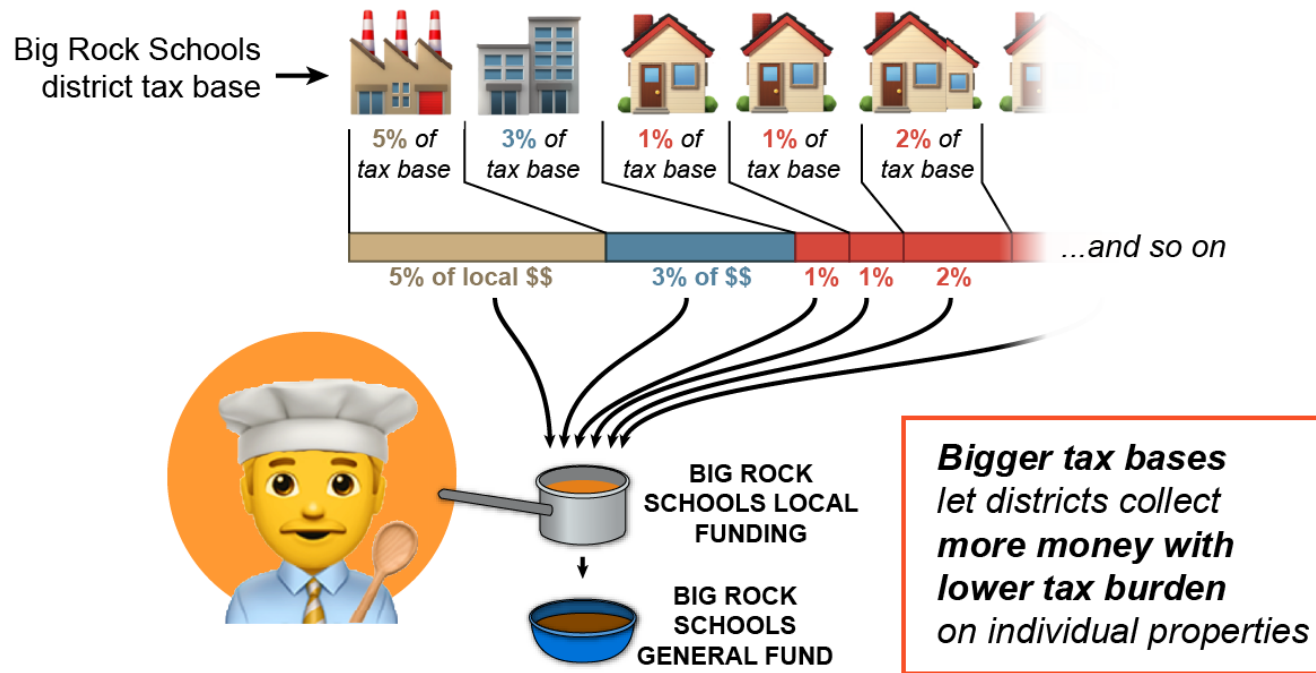
Once those two pots are scraped clean, any extra state funding responsibility is paid for out of the state General Fund, which is **primarily filled by state income taxes**.

Before the Legislature adjusted the system last year, 95 mill revenues were mixed into the state General Fund before school funding was withdrawn. That shift, and the General Fund's continued use as a school funding backstop, has given **some critics of the state's current tax system reason to argue** that the 95 mill tax could be scaled back without directly cutting into school funding.

(The Legislature's new process, encapsulated in **House Bill 587**, also specifies that when revenues from the 95 mill tax rise in the future, some of that new money will be routed to teacher retirement accounts so districts can lower the local taxes they levy to cover teacher retirement funds in the years ahead.)

Local school funding comes primarily from property tax dollars

Property taxes are collected proportionally to each property's share of the tax base



Locally collected school dollars come mostly from property taxes. Each property within the district pays a share proportionate to its tax valuation (for example, if your neighbor's house is valued twice as much as yours, they pay twice your share of local school taxes).

Districts with bigger tax bases — those, for example, with high-value industrial or resort properties in their jurisdiction — can collect more money overall while collecting less from individual taxpayers. Inversely, districts with smaller tax bases or lots of students to educate can have a hard time filling their budgets.

The Guaranteed Tax Base program, which uses state dollars to supplement local funding as the soup bowl is filled to the BASE line, is an effort to resolve such disparities.

The state funding formula assigns each district a “GTB ratio” that scores how wealthy the district’s tax base is relative to how much help the district needs getting its budget to the BASE fill line. That ratio is used to calculate how the shared portion of the bowl is split between state and local dollars.

Montana's Guaranteed Tax Base math

The state compares a district's "budget need" with the tax base it can draw on as it collects local property taxes, producing a "GTB ratio." High-need and/or low-resource districts get aid that, in theory, guarantees they can pay their bills.

Big Rock Schools tax base



\$34.9 million
(taxable property value)

Big Rock Schools "budget need"

35% of basic and per-student
entitlement amounts
+
40% of special-education allocation
\$1.55 million

$$\text{Big Rock Schools } \text{district GTB ratio} = \frac{\text{\$\$ in district tax base}}{\text{\$\$ of "budget need"}} = \frac{\$34.9 \text{ million}}{\$1.55 \text{ million}} = \mathbf{22.5}$$

A similar calculation is done using figures for the state as a whole. The result is multiplied by a factor set by the state Legislature so more GTB aid is given to districts.

$$\text{Statewide GTB ratio} = \frac{\text{\$\$ in state tax base}}{\text{\$\$ of total statewide "budget need"}} \times \mathbf{254\%} = \mathbf{33.6^*}$$

the GTB multiplier

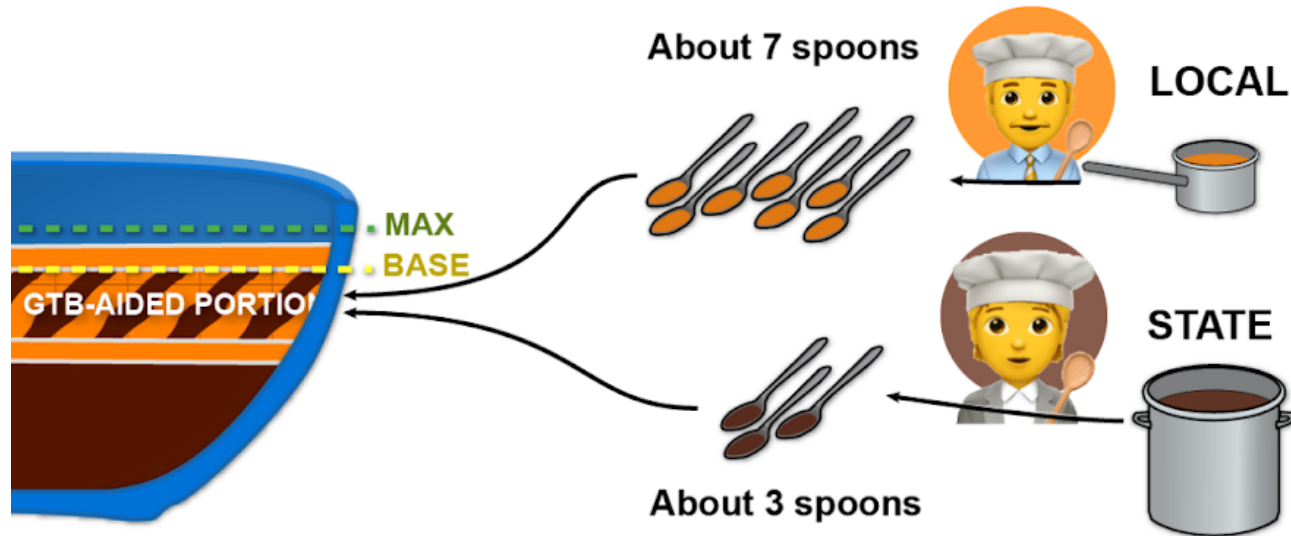
When a district's ratio is smaller than the statewide ratio, it gets help filling its bowl to its BASE line. How much help a district gets depends on how the two ratios compare:

$$\frac{\mathbf{22.5} \text{ district ratio}}{\mathbf{33.6} \text{ state ratio}} = \mathbf{67\%} \text{ of Big Rock's GTB-assisted portion covered by local dollars}$$

↓

33% remaining portion covered by state dollars

Put another way: While filling the GTB-aided portion of the bowl, the state adds in three spoonfuls of funding for every seven our district puts in.



**This amount is calculated using the previous year's budget.*

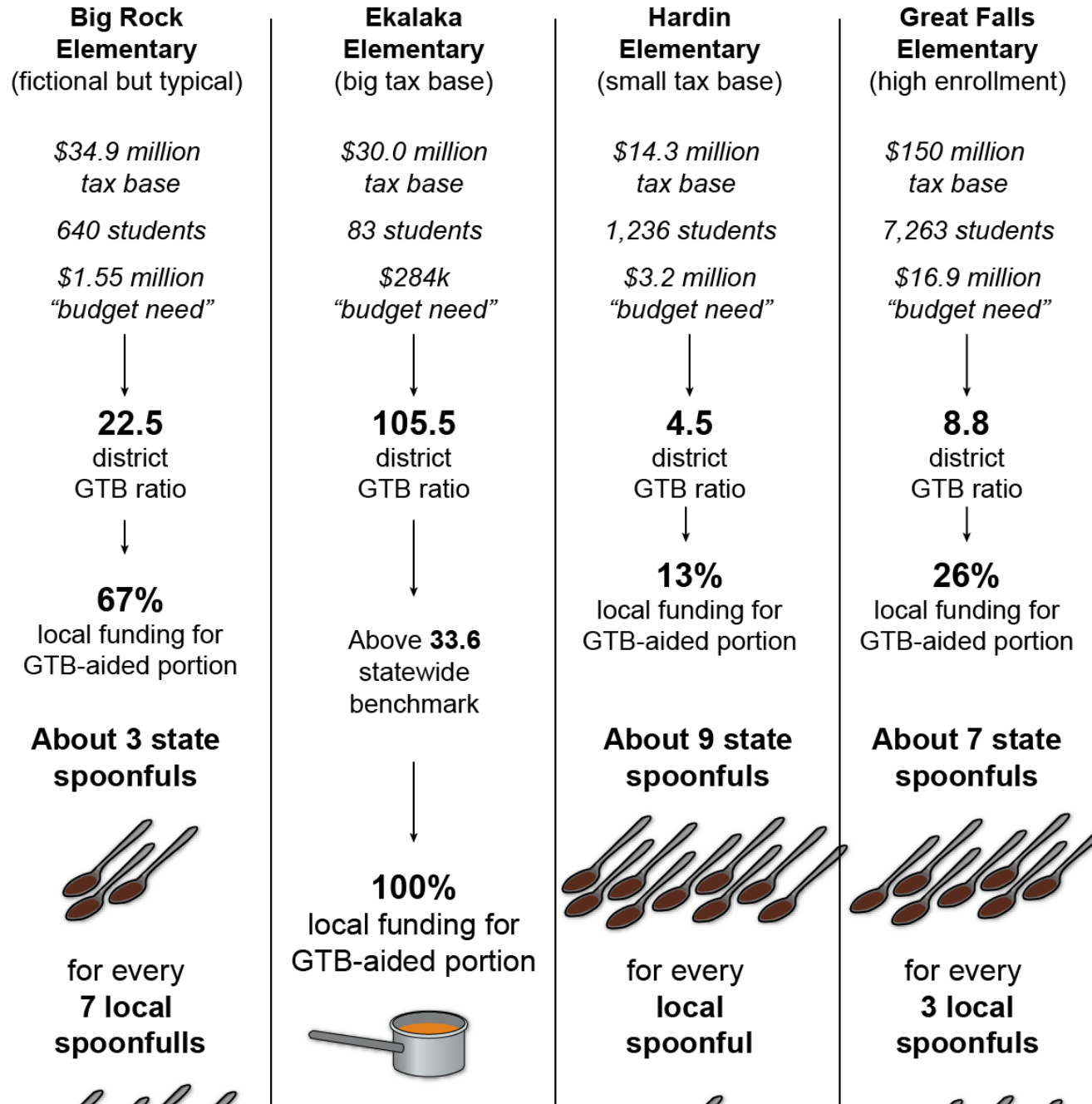
Each district's GTB ratio is compared to a statewide benchmark. Above-benchmark districts are considered wealthy enough to fund the remaining portions of their budgets without additional help (they still get the initial part of their bowl filled by the state). Below-benchmark districts get help from the state depending on how far below the benchmark they are.

The math that produces the statewide benchmark includes a multiplier factor, currently set by the state Legislature at 254%. While it's an obscure detail down in the depths of the school funding formula, the GTB multiplier is one of the most important pieces of the state's education policy because it controls how funding in the GTB-aided portion of the bowl is split between state and local funding sources. When the Legislature increases the multiplier, it makes more districts eligible for guaranteed tax base funding and gives more state dollars to eligible districts, reducing

how much districts have to collect from local property taxes. Decreasing the factor reduces how much the state spends to help districts fill their bowls, lowering state General Fund spending and putting more pressure on local taxpayers.

The Guaranteed Tax Base provides more help for poorer districts

And also helps high-enrollment urban districts that have larger budgets to fill.





The richest parts of Montana as measured by the Guaranteed Tax Base formula tend to be either resort communities a la Big Sky or small communities with a substantial tax base from natural resource operations, such as Ekalaka and Colstrip. Schools in those areas don't qualify for state help in getting their budget bowls filled to the BASE line.

Middle-of-the-road districts like our fictional Big Rock Schools also tend to have their remainder portion funded mostly by local, rather than state, dollars. Poorer districts and larger districts with bigger budgets, in contrast, tend to get much more help from the state.

The 95 mill tax serves as the flip side of the school equalization funding formula, pulling more money from tax-base-rich areas than it does from comparatively poorer ones. That's because it assesses an essentially flat tax: \$95 in school taxes for every \$1,000 in taxable value on a statewide basis.

As a result, taxes paid by high-value properties such as oil pipelines and Yellowstone Club homes benefit schools across the state, instead of just those in their local jurisdictions.

The 95 mills* school equalization tax collects money for GTB aid

More school equalization money is collected on a per-taxpayer basis from tax-base-rich areas.

*95 mills = a flat tax rate of \$95 per \$1,000 in taxable value**

BIG HORN COUNTY (includes Hardin)

\$24.9 million in county tax base \$914 per property	$\xrightarrow{\text{x 95 mills}}$	\$2.4 million in 95 mill collections \$87 per property
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CASCADE COUNTY (includes Great Falls)

\$223 million in county tax base \$2,512 per property	$\xrightarrow{\text{x 95 mills}}$	\$21.2 million in 95 mill collections \$239 per property
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CARTER COUNTY (includes Ekalaka)

\$73.5 million in county tax base \$6,098 per property	$\xrightarrow{\text{x 95 mills}}$	\$7.0 million in 95 mill collections \$579 per property
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**SCHOOL
EQUALIZATION
ACCOUNT**

**The 95 mills are often broken into separate line items on actual tax bills. Taxable value is a fraction of market value. The specific ratio is set by the Legislature and varies by property type. As of 2024 the ratio is 1.65% for residential properties.*

Taxpayers in Ekalaka's tax-base-rich Carter County, for example, pay more than six times as much into the 95 mill tax on a per-property basis as do taxpayers in Big Horn County, where Hardin is the county seat.

The rest of the Big Rock Schools budget tray

ALL SPENDING \$7,132,000 for the 2023-24 school year

GENERAL FUND \$4,370,000 – 61% of budget

TRANSPORTATION

\$670,000
9% of budget

BUILDINGS

\$147,000
2% of budget

TEACHER RETIREMENT

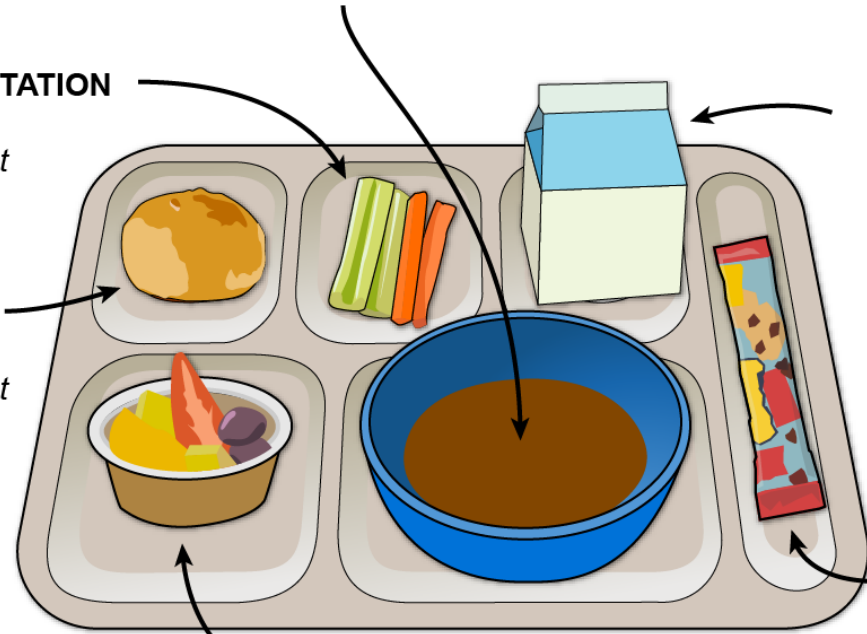
\$732,000
10% of budget

FEDERALLY FUNDED EXPENSES

\$425,000
6% of budget

OTHER ITEMS

\$787,000
11% of budget



While the funding formula we've discussed so far only accounts for the General Fund — that roughly \$4.4 million in the Big Rock Schools' soup bowl — that's far from the only compartment on the tray for school districts across the state. Districts also manage other accounts with their own funding formulas and their own specific purposes, such as transportation, building funds, and teacher retirement (again, we've lumped some of those together for simplicity's sake).

For example, our cafeteria tray above has a compartment specifically for vegetables, a small but nutritionally key part of lunch. That's not a bad way to think about a district's transportation needs. To access their education, some students need to ride a bus to school, and schools need to pay for those buses, along with the drivers and fuel to operate them. District officials cover those costs through a transportation fund and a bus depreciation fund, which stores dollars for later use in replacing aging buses.

As is the case with its General Funds, a district's transportation needs are covered by a combination of local taxes set by the elected school board and state dollars, with the state's share calculated by the state public education office based on how many miles a district's buses travel and how many students they transport. When non-General Fund accounts are filled by local taxes, those collections can in some cases be authorized by school boards through what's known as a permissive levy, while in other cases school boards must seek the greenlight for those taxes from voters.

Similar cost sharing also helps fill other tray compartments, with different formulas determining how much local and state funding goes toward particular expenses. The state, for example, supplements the local tax dollars that districts use to pay for major building maintenance projects and to make debt payments on construction bonds. State dollars also help local taxpayers pay for teacher retirement contributions, technological equipment, vocational training, and the costs associated with students attending school in districts other than the one they live in.

While district General Funds are composed entirely of state and local dollars, some of those other compartments in the tray benefit from a source of funding we've touched on only briefly: the federal government. According to OPI, money from the U.S. Department of Education, the Department of Agriculture and other federal agencies accounted for roughly 19% of the overall funding that flowed to Montana public schools in 2023, compared to about 40% from the state and about 36% from local property taxes. Largely due to an influx of federal relief funding for

40%

Percentage of all school district dollars that came from the state budget in 2023

36%

Percentage that came directly from local property taxes

schools, that federal share was slightly higher than pre-pandemic levels, which hovered around 12%. The remaining 5% of 2023 funding came from other sources, such as oil and gas taxes.

Federal contributions to education in Montana range widely, from support for [school nutrition programs](#) to [Title I disbursements](#) to districts with high concentrations of low-income students. Most of those funds are controlled by formulas developed at the federal level and flow into accounts that are managed separately from the state and local tax dollars we've focused on here. As such, we've represented Big Rock Schools' cut of federal funding above as a breakfast bar on the side of the tray. The millions of dollars Montana schools received in one-time [federal COVID-19 relief funding](#) in recent years was also treated separately, though some of that money did pass

through state coffers en route to districts.

There's no question that Montana's school finance formula is an extremely complicated recipe, one that combines a host of ingredients from various sources into a whole that, ideally, provides a fulsome and accessible education to the state's youngest inhabitants. As dizzyingly complex as the formula is, though, a few things are worth keeping in mind for anyone who's trying to follow school budget debates — or trying to make sense of what political candidates say about education policy on the campaign trail this year.

First, for all the wonky details we've covered here, the fundamental school finance issue is how the cost of paying teachers, buying textbooks, and all the other expenses required to run a school district are divided between local dollars (i.e., property taxes) and the state budget (mostly funded by income taxes, the 95 mills tax, and trust land revenues). Additionally, while local school boards and their voters have the ability to modulate school budgets between the BASE and MAX fill lines, the contours of the state-local funding breakdown — and the math that determines the way those fill lines are calculated — is firmly in the hands of state lawmakers.

There's more to be written about Montana's school funding formula and how well it's meeting the state's education needs. We'll be doing that in the coming months as Montanans look to elect a new superintendent of public instruction and emissaries to the 2025 Legislature. In the meantime, we welcome your thoughts and questions at asakariassen@montanafreepress.org and edietrich@montanafreepress.org.

This story was updated Feb. 19 to clarify that about 40% of all school district dollars are supplied by the state budget, not 40% of General Fund dollars.

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