

**FISCAL NOTE**  
**Requested by Legislative Council**  
**01/07/2019**

Bill/Resolution No.: HB 1152

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

|                       | 2017-2019 Biennium |             | 2019-2021 Biennium |             | 2021-2023 Biennium |             |
|-----------------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|
|                       | General Fund       | Other Funds | General Fund       | Other Funds | General Fund       | Other Funds |
| <b>Revenues</b>       |                    |             |                    |             |                    |             |
| <b>Expenditures</b>   |                    |             | \$11,241,609       |             |                    |             |
| <b>Appropriations</b> |                    |             | \$11,241,609       |             |                    |             |

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

|                         | 2017-2019 Biennium | 2019-2021 Biennium | 2021-2023 Biennium |
|-------------------------|--------------------|--------------------|--------------------|
| <b>Counties</b>         |                    |                    |                    |
| <b>Cities</b>           |                    |                    |                    |
| <b>School Districts</b> |                    | \$11,241,609       |                    |
| <b>Townships</b>        |                    |                    |                    |

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1152 adjusts the baseline funding for school districts and decreases the percentage of in lieu of property taxes deducted from the integrated formula payment.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

This bill would adjust the baseline funding that was established using the 2012-13 school district revenue. In the 2018-19 school year, there are 98 school districts that have their payments adjusted by either the transition maximum or transition minimum.

This bill will also adjust the percentage deducted from the integrated formula payments for revenue the school districts receive in lieu of property tax. Currently either 75 percent or 100 percent is deducted from the formula. The new deduction would be 65% effectively allowing school districts to keep a higher percentage of their in lieu of property tax money.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

This bill will increase the expenditures in the integrated formula payment line by 11,241,609. Reducing the percentage withheld for in lieu of property taxes would increase the states expenditures by \$20,831,872. The reduction in the baseline funding calculation would decrease the states expenditures by \$9,590,263.

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

HB 1152 increases the state expenditure by \$11,241,609 in the integrated formula payment.

**Name:** Adam Tescher

**Agency:** Department of Public Instruction

**Telephone:** 7013283291

**Date Prepared:** 01/11/2019

Decreasing the Deduction Percentage

|                               | 2019-21            | 75-100%<br>Deduction | 65% Deduction     | Increase in State<br>Aid |
|-------------------------------|--------------------|----------------------|-------------------|--------------------------|
| 1300 Tuition                  | 31,566,970         | 75% 23,675,227       | 65% 20,518,530    | 3,156,697                |
| 2999 County                   | 69,011,687         | 75% 51,758,765       | 65% 44,857,596    | 6,901,169                |
| US Flood                      | 11,019,989         | 75% 8,264,991        | 65% 7,162,993     | 1,101,999                |
| REC Gross Receipts            | 15,966,352         | 75% 11,974,764       | 65% 10,378,129    | 1,596,635                |
| Mobile Home and other in-lieu | 13,974,545         | 100% 13,974,545      | 65% 9,083,454     | 4,891,091                |
| Telecom                       | 9,097,948          | 100% 9,097,948       | 65% 5,913,666     | 3,184,282                |
|                               | <u>150,637,490</u> | <u>118,746,241</u>   | <u>97,914,368</u> | <u>20,831,872</u>        |

Total Fiscal Note

|   |                   |
|---|-------------------|
| Decrease in Baseline Funding                      | (9,590,263)       |
| Increase cost for Adjust<br>Deduction Percentages | <u>20,831,872</u> |
| Fiscal Note                                       | 11,241,609        |

Baseline Funding Adjustments HB 1152

| CoDist | Dname                      |                  |                   | Decrease in     | Decrease in     | Decrease in         |
|--------|----------------------------|------------------|-------------------|-----------------|-----------------|---------------------|
|        |                            | Current Baseline | Proposed Baseline | Transition      | Transition      | Transition          |
|        |                            | Funding          | Funding           | Maximum 2019-21 | Minimum 2019-21 | Adjustments 2019-21 |
| 01-013 | Hettinger 13               | 2,774,578        | 2,757,297         | -               | -               | -                   |
| 02-002 | Valley City 2              | 10,599,612       | 10,578,759        | -               | -               | -                   |
| 02-007 | Barnes County North 7      | 4,523,477        | 4,508,400         | -               | 30,154          | 30,154              |
| 02-046 | Litchville-Marion 46       | 2,108,512        | 2,101,646         | -               | 15,062          | 15,062              |
| 03-005 | Minnewaukan 5              | 2,145,717        | 2,135,788         | 27,350          | -               | 27,350              |
| 03-006 | Leeds 6                    | 1,943,275        | 1,936,536         | -               | 13,477          | 13,477              |
| 03-009 | Maddock 9                  | 1,867,882        | 1,857,345         | -               | 21,074          | 21,074              |
| 03-029 | Warwick 29                 | 1,944,458        | 1,941,049         | 7,743           | -               | 7,743               |
| 03-030 | Ft Totten 30               | 927,740          | 923,802           | 13,777          | -               | 13,777              |
| 05-001 | Bottineau 1                | 6,389,294        | 6,295,028         | -               | 228,687         | 228,687             |
| 05-017 | Westhope 17                | 1,745,118        | 1,723,624         | -               | 50,806          | 50,806              |
| 05-054 | Newburg-United 54          | 1,233,999        | 1,221,341         | -               | 51,256          | 51,256              |
| 06-001 | Bowman Co 1                | 5,451,328        | 5,293,030         | -               | 362,078         | 362,078             |
| 06-033 | Scranton 33                | 1,603,544        | 1,561,152         | -               | 105,155         | 105,155             |
| 07-014 | Bowbells 14                | 1,112,769        | 1,081,874         | -               | 99,260          | 99,260              |
| 07-027 | Powers Lake 27             | 1,691,244        | 1,611,674         | -               | 285,303         | 285,303             |
| 07-036 | Burke Central 36           | 1,510,052        | 1,473,894         | -               | 72,316          | 72,316              |
| 08-001 | Bismarck 1                 | 103,120,774      | 102,599,789       | -               | -               | -                   |
| 08-028 | Wing 28                    | 1,085,765        | 1,076,596         | -               | -               | -                   |
| 09-001 | Fargo 1                    | 99,386,387       | 98,896,675        | -               | -               | -                   |
| 09-002 | Kindred 2                  | 5,981,948        | 5,952,939         | -               | -               | -                   |
| 09-004 | Maple Valley 4             | 3,566,371        | 3,547,177         | -               | 40,919          | 40,919              |
| 09-006 | West Fargo 6               | 71,805,703       | 71,585,102        | -               | -               | -                   |
| 09-017 | Central Cass 17            | 6,971,238        | 6,916,036         | -               | -               | -                   |
| 09-097 | Northern Cass 97           | 5,335,392        | 5,313,702         | -               | -               | -                   |
| 10-019 | Munich 19                  | 1,732,011        | 1,726,189         | -               | 14,246          | 14,246              |
| 10-023 | Langdon Area 23            | 4,024,850        | 4,008,984         | -               | 36,595          | 36,595              |
| 11-040 | Ellendale 40               | 3,641,395        | 3,630,501         | -               | 23,889          | 23,889              |
| 11-041 | Oakes 41                   | 4,773,350        | 4,761,878         | -               | -               | -                   |
| 12-001 | Divide County 1            | 3,408,124        | 3,263,072         | -               | 209,153         | 209,153             |
| 13-016 | Killdeer 16                | 4,487,258        | 4,321,835         | -               | 546,762         | 546,762             |
| 13-019 | Halliday 19                | 703,726          | 690,473           | -               | 26,507          | 26,507              |
| 14-002 | New Rockford-Sheyenne 2    | 3,188,844        | 3,175,827         | -               | -               | -                   |
| 15-006 | Hazelton-Moffit-Braddock 6 | 1,362,650        | 1,354,053         | -               | 23,521          | 23,521              |
| 15-015 | Strasburg 15               | 1,556,396        | 1,547,897         | -               | -               | -                   |
| 15-036 | Linton 36                  | 2,832,428        | 2,823,274         | -               | -               | -                   |
| 16-049 | Carrington 49              | 5,166,128        | 5,150,177         | -               | -               | -                   |
| 17-003 | Beach 3                    | 3,084,668        | 2,976,764         | -               | -               | -                   |
| 18-001 | Grand Forks 1              | 64,154,643       | 63,652,594        | -               | -               | -                   |
| 18-044 | Larimore 44                | 3,929,901        | 3,904,010         | -               | -               | -                   |
| 18-061 | Thompson 61                | 4,056,534        | 4,045,825         | -               | -               | -                   |
| 18-128 | Midway 128                 | 2,698,727        | 2,683,466         | -               | 30,522          | 30,522              |
| 18-129 | Northwood 129              | 2,753,495        | 2,747,201         | -               | -               | -                   |
| 19-049 | Elgin-New Leipzig 49       | 1,888,911        | 1,866,122         | -               | 62,715          | 62,715              |
| 20-007 | Midkota 7                  | 2,154,252        | 2,143,745         | -               | 34,516          | 34,516              |
| 20-018 | Griggs County Central 18   | 3,120,871        | 3,104,190         | -               | 40,394          | 40,394              |
| 21-001 | Mott-Regent 1              | 2,926,837        | 2,914,255         | -               | 27,018          | 27,018              |
| 21-009 | New England 9              | 2,503,691        | 2,470,059         | -               | 100,905         | 100,905             |
| 22-001 | Kidder County 1            | 3,766,715        | 3,734,049         | -               | -               | -                   |
| 23-003 | Edgeley 3                  | 2,749,284        | 2,739,851         | -               | 22,458          | 22,458              |
| 23-007 | Kulm 7                     | 1,754,230        | 1,747,048         | -               | 19,414          | 19,414              |
| 23-008 | LaMoure 8                  | 3,047,155        | 3,037,226         | -               | -               | -                   |

Baseline Funding Adjustments HB 1152

| CoDist | Dname                      |                  |                   | Decrease in     | Decrease in     | Decrease in         |
|--------|----------------------------|------------------|-------------------|-----------------|-----------------|---------------------|
|        |                            | Current Baseline | Proposed Baseline | Transition      | Transition      | Transition          |
|        |                            | Funding          | Funding           | Maximum 2019-21 | Minimum 2019-21 | Adjustments 2019-21 |
| 24-002 | Napoleon 2                 | 2,457,679        | 2,450,241         | -               | -               | -                   |
| 24-056 | Gackle-Streeter 56         | 1,313,079        | 1,305,109         | -               | 19,024          | 19,024              |
| 25-001 | Velva 1                    | 3,651,787        | 3,631,989         | -               | -               | -                   |
| 25-057 | Drake 57                   | 1,216,209        | 1,209,557         | -               | 15,743          | 15,743              |
| 25-060 | TGU 60                     | 4,230,060        | 4,205,192         | -               | 53,821          | 53,821              |
| 26-004 | Zeeland 4                  | 748,448          | 746,480           | -               | 3,936           | 3,936               |
| 26-009 | Ashley 9                   | 1,656,546        | 1,649,457         | -               | 17,470          | 17,470              |
| 26-019 | Wishek 19                  | 2,147,758        | 2,136,090         | -               | -               | -                   |
| 27-001 | McKenzie Co 1              | 6,617,973        | 6,465,615         | -               | -               | -                   |
| 27-002 | Alexander 2                | 1,345,500        | 1,312,509         | -               | 174,814         | 174,814             |
| 27-036 | Mandaree 36                | 1,334,598        | 1,304,739         | 103,709         | -               | 103,709             |
| 28-001 | Wilton 1                   | 2,444,025        | 2,414,690         | -               | -               | -                   |
| 28-004 | Washburn 4                 | 2,721,362        | 2,682,459         | -               | -               | -                   |
| 28-008 | Underwood 8                | 2,619,946        | 2,571,624         | -               | 107,313         | 107,313             |
| 28-050 | Max 50                     | 2,024,522        | 1,996,391         | -               | -               | -                   |
| 28-051 | Garrison 51                | 4,095,068        | 4,031,684         | -               | 133,026         | 133,026             |
| 28-072 | Turtle Lake-Mercer 72      | 2,167,671        | 2,131,553         | -               | 86,635          | 86,635              |
| 28-085 | White Shield 85            | 1,059,534        | 1,039,968         | 64,185          | -               | 64,185              |
| 29-003 | Hazen 3                    | 5,019,913        | 4,908,912         | -               | -               | -                   |
| 29-027 | Beulah 27                  | 6,803,544        | 6,657,329         | -               | -               | -                   |
| 30-001 | Mandan 1                   | 31,014,434       | 30,824,839        | -               | -               | -                   |
| 30-013 | Hebron 13                  | 1,927,871        | 1,912,569         | -               | -               | -                   |
| 30-039 | Flasher 39                 | 1,953,127        | 1,944,719         | -               | -               | -                   |
| 30-048 | Glen Ullin 48              | 1,885,878        | 1,878,409         | -               | -               | -                   |
| 30-049 | New Salem-Almont 49        | 2,822,204        | 2,798,462         | -               | -               | -                   |
| 31-001 | New Town 1                 | 12,550,060       | 11,469,269        | -               | 3,366,846       | 3,366,846           |
| 31-002 | Stanley 2                  | 6,221,015        | 6,119,626         | -               | 289,036         | 289,036             |
| 31-003 | Parshall 3                 | 3,062,893        | 3,016,554         | -               | -               | -                   |
| 32-001 | Dakota Prairie 1           | 3,949,594        | 3,929,264         | -               | 46,570          | 46,570              |
| 32-066 | Lakota 66                  | 2,346,234        | 2,335,533         | -               | 21,402          | 21,402              |
| 33-001 | Center-Stanton 1           | 2,794,834        | 2,743,650         | -               | 124,484         | 124,484             |
| 34-006 | Cavalier 6                 | 4,068,927        | 4,012,003         | -               | 44,762          | 44,762              |
| 34-019 | Drayton 19                 | 2,011,775        | 1,993,573         | -               | 48,023          | 48,023              |
| 34-043 | St Thomas 43               | 1,094,485        | 1,081,330         | -               | 26,310          | 26,310              |
| 34-100 | North Border 100           | 5,800,547        | 5,735,348         | -               | 130,397         | 130,397             |
| 34-118 | Valley-Edinburg 118        | 3,025,378        | 3,008,047         | -               | 34,661          | 34,661              |
| 35-001 | Wolford 1                  | 701,509          | 698,316           | -               | 7,642           | 7,642               |
| 35-005 | Rugby 5                    | 5,280,307        | 5,247,389         | -               | -               | -                   |
| 36-001 | Devils Lake 1              | 15,083,070       | 15,021,963        | -               | -               | -                   |
| 36-002 | Edmore 2                   | 1,179,676        | 1,173,891         | -               | 11,568          | 11,568              |
| 36-044 | Starkweather 44            | 1,027,891        | 1,024,035         | -               | 7,712           | 7,712               |
| 37-019 | Lisbon 19                  | 5,813,372        | 5,793,187         | -               | -               | -                   |
| 37-024 | Enderlin Area 24           | 3,314,404        | 3,294,396         | -               | -               | -                   |
| 38-001 | Mohall-Lansford-Sherwood 1 | 4,262,215        | 4,189,139         | -               | 146,153         | 146,153             |
| 38-026 | Glenburn 26                | 2,753,218        | 2,695,639         | -               | -               | -                   |
| 39-008 | Hankinson 8                | 3,067,110        | 3,053,729         | -               | -               | -                   |
| 39-018 | Fairmount 18               | 1,495,407        | 1,490,262         | -               | 11,311          | 11,311              |
| 39-028 | Lidgerwood 28              | 1,883,495        | 1,873,472         | -               | -               | -                   |
| 39-037 | Wahpeton 37                | 11,514,914       | 11,468,927        | -               | -               | -                   |
| 39-042 | Wyndmere 42                | 2,584,774        | 2,577,639         | -               | -               | -                   |
| 39-044 | Richland 44                | 2,950,794        | 2,939,734         | -               | -               | -                   |
| 40-001 | Dunseith 1                 | 3,568,017        | 3,559,500         | 31,185          | -               | 31,185              |

## Baseline Funding Adjustments HB 1152

| CoDist | Dname                |                  |                   | Decrease in     | Decrease in     | Decrease in         |
|--------|----------------------|------------------|-------------------|-----------------|-----------------|---------------------|
|        |                      | Current Baseline | Proposed Baseline | Transition      | Transition      | Transition          |
|        |                      | Funding          | Funding           | Maximum 2019-21 | Minimum 2019-21 | Adjustments 2019-21 |
| 40-003 | St John 3            | 2,309,500        | 2,294,243         | 47,392          | -               | 47,392              |
| 40-004 | Mt Pleasant 4        | 2,625,129        | 2,602,926         | -               | -               | -                   |
| 40-007 | Belcourt 7           | 8,870,163        | 8,870,163         | -               | -               | -                   |
| 40-029 | Rolette 29           | 1,656,662        | 1,649,152         | -               | -               | -                   |
| 41-002 | Milnor 2             | 2,259,409        | 2,256,395         | -               | -               | -                   |
| 41-003 | North Sargent 3      | 2,276,223        | 2,262,811         | -               | -               | -                   |
| 41-006 | Sargent Central 6    | 3,009,598        | 2,994,920         | -               | 29,355          | 29,355              |
| 42-016 | Goodrich 16          | 519,481          | 513,359           | -               | 14,801          | 14,801              |
| 42-019 | McClusky 19          | 1,119,599        | 1,112,613         | -               | 18,462          | 18,462              |
| 43-003 | Solen 3              | 1,634,923        | 1,631,402         | 10,472          | -               | 10,472              |
| 43-004 | Ft Yates 4           | 1,916,403        | 1,911,813         | 5,994           | 3,082           | 9,076               |
| 43-008 | Selfridge 8          | 762,496          | 759,773           | -               | -               | -                   |
| 45-001 | Dickinson 1          | 25,898,200       | 25,669,643        | -               | -               | -                   |
| 45-009 | South Heart 9        | 2,402,897        | 2,367,029         | -               | -               | -                   |
| 45-013 | Belfield 13          | 2,358,455        | 2,315,549         | -               | -               | -                   |
| 45-034 | Richardton-Taylor 34 | 2,997,640        | 2,964,816         | -               | -               | -                   |
| 46-010 | Hope 10              | 1,823,332        | 1,817,270         | -               | 12,122          | 12,122              |
| 46-019 | Finley-Sharon 19     | 2,093,271        | 2,085,685         | -               | 15,172          | 15,172              |
| 47-001 | Jamestown 1          | 20,040,436       | 19,985,090        | -               | -               | -                   |
| 47-003 | Medina 3             | 1,757,851        | 1,750,394         | -               | 10,159          | 10,159              |
| 47-010 | Pingree-Buchanan 10  | 1,749,756        | 1,742,395         | -               | -               | -                   |
| 47-014 | Montpelier 14        | 1,277,363        | 1,275,429         | -               | -               | -                   |
| 48-010 | North Star 10        | 2,711,947        | 2,702,000         | -               | -               | -                   |
| 49-003 | Central Valley 3     | 2,640,133        | 2,626,322         | -               | 27,622          | 27,622              |
| 49-007 | Hatton Eielson 7     | 2,140,048        | 2,130,505         | -               | -               | -                   |
| 49-009 | Hillsboro 9          | 4,318,543        | 4,299,382         | -               | 52,294          | 52,294              |
| 49-014 | May-Port CG 14       | 5,005,323        | 4,987,677         | -               | 38,517          | 38,517              |
| 50-003 | Grafton 3            | 7,660,085        | 7,626,136         | -               | -               | -                   |
| 50-005 | Fordville-Lankin 5   | 1,092,091        | 1,088,717         | -               | 6,748           | 6,748               |
| 50-008 | Park River Area 8    | 4,442,742        | 4,422,034         | -               | -               | -                   |
| 50-020 | Minto 20             | 2,099,301        | 2,091,279         | -               | -               | -                   |
| 51-001 | Minot 1              | 65,450,495       | 64,443,743        | -               | -               | -                   |
| 51-004 | Nedrose 4            | 2,493,142        | 2,483,043         | -               | 54,447          | 54,447              |
| 51-007 | United 7             | 5,227,983        | 5,208,268         | -               | -               | -                   |
| 51-016 | Sawyer 16            | 1,522,245        | 1,511,969         | -               | 20,551          | 20,551              |
| 51-028 | Kenmare 28           | 3,307,244        | 3,296,721         | -               | -               | -                   |
| 51-041 | Surrey 41            | 3,585,169        | 3,548,958         | -               | -               | -                   |
| 51-070 | South Prairie 70     | 1,806,823        | 1,769,927         | -               | -               | -                   |
| 51-161 | Lewis and Clark 161  | 4,395,171        | 4,374,818         | -               | 46,022          | 46,022              |
| 52-025 | Fessenden-Bowdon 25  | 2,104,303        | 2,100,152         | -               | 10,776          | 10,776              |
| 52-038 | Harvey 38            | 4,372,280        | 4,372,280         | -               | -               | -                   |
| 53-001 | Williston 1          | 25,729,892       | 25,519,818        | -               | -               | -                   |
| 53-002 | Nesson 2             | 2,666,624        | 2,638,383         | -               | -               | -                   |
| 53-006 | Eight Mile 6         | 1,737,691        | 1,722,106         | -               | -               | -                   |
| 53-015 | Tioga 15             | 4,184,162        | 4,022,819         | -               | 514,686         | 514,686             |
| 53-099 | Grenora 99           | 1,803,357        | 1,785,866         | -               | 60,320          | 60,320              |
| 03-016 | Oberon 16            | 517,296          | 515,563           | -               | -               | -                   |
| 04-001 | Billings Co 1        | 1,329,125        | 1,181,842         | -               | 428,147         | 428,147             |
| 08-033 | Menoken 33           | 356,261          | 353,292           | -               | 11,793          | 11,793              |
| 08-035 | Sterling 35          | 532,684          | 526,012           | -               | 13,344          | 13,344              |
| 08-039 | Apple Creek 39       | 718,296          | 711,478           | -               | 13,635          | 13,635              |
| 09-007 | Mapleton 7           | 1,317,645        | 1,311,742         | -               | 20,552          | 20,552              |

Baseline Funding Adjustments HB 1152

| CoDist      | Dname          |                  |                   | Decrease in     | Decrease in     | Decrease in         |
|-------------|----------------|------------------|-------------------|-----------------|-----------------|---------------------|
|             |                | Current Baseline | Proposed Baseline | Transition      | Transition      | Transition          |
|             |                | Funding          | Funding           | Maximum 2019-21 | Minimum 2019-21 | Adjustments 2019-21 |
| 09-080      | Page 80        | 1,289,196        | 1,282,771         | -               | 15,606          | 15,606              |
| 13-037      | Twin Buttes 37 | 276,939          | 266,714           | 29,415          | -               | 29,415              |
| 15-010      | Bakker 10      | 206,548          | 206,096           | -               | 1,285           | 1,285               |
| 17-006      | Lone Tree 6    | 368,076          | 357,872           | -               | 23,933          | 23,933              |
| 18-125      | Manvel 125     | 1,207,095        | 1,199,802         | 23,839          | -               | 23,839              |
| 18-127      | Emerado 127    | 1,011,656        | 1,002,499         | -               | 26,667          | 26,667              |
| 19-018      | Roosevelt 18   | 1,200,744        | 1,192,560         | -               | 16,367          | 16,367              |
| 25-014      | Anamoose 14    | 1,029,071        | 1,024,385         | -               | -               | -                   |
| 27-014      | Yellowstone 14 | 1,057,798        | 1,040,378         | -               | -               | -                   |
| 30-004      | Little Heart 4 | 231,663          | 230,011           | -               | 5,971           | 5,971               |
| 37-006      | Ft Ransom 6    | 410,615          | 410,121           | -               | 986             | 986                 |
| 44-012      | Marmarth 12    | 172,583          | 157,085           | 23,183          | -               | 23,183              |
| 47-019      | Kensal 19      | 715,164          | 713,074           | -               | 4,394           | 4,394               |
| 53-008      | New 8          | 4,151,119        | 4,127,614         | -               | 151,903         | 151,903             |
| 08-025      | Naughton 25    | 145,391          | 144,949           | -               | 1,364           | 1,364               |
| 08-045      | Manning 45     | 118,903          | 118,285           | -               | -               | -                   |
| 27-018      | Earl 18        | 5,871            | 5,088             | 1,678           | -               | 1,678               |
| 27-032      | Horse Creek 32 | 54,532           | 52,957            | -               | 6,439           | 6,439               |
| 30-017      | Sweet Briar 17 | 103,152          | 102,721           | -               | -               | -                   |
| Grand Total |                | 969,360,908      | 960,707,522       | 389,921         | 9,200,342       | 9,590,263           |

**2019 HOUSE EDUCATION**

**HB 1152**

# 2019 HOUSE STANDING COMMITTEE MINUTES

**Education Committee**  
Coteau A Room, State Capitol

HB 1152  
1/15/2019  
30808

☐ Subcommittee  
☐ Conference Committee

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| Committee Clerk: Bev Monroe by Donna Whetham |
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## **Explanation or reason for introduction of bill/resolution:**

Relating to state foundation aid payments to school districts.

## **Minutes:**

|                       |
|-----------------------|
| Attachment 1, 2, 3, 4 |
|-----------------------|

**Chairman Owens:** Opened the hearing on HB 1152.

**Rep. Brandenburg:** This is a bill to dealing with funding formulas and the amount imputed into the funding formula. Centrally assessed 75% of that is imputed into the funding formula. We understand property tax and 100% of that is imputed into the funding formula, but now you have oil wells, wind farms or even coal and that was put at 75%. What does this mean? If you have \$1 million dollars of new property taxation, 50% would go to the county and the other 50% would go to education. Out of the \$500,000 only 25% gets to stay at the school district. It is from new income. When this formula came about it was only dealing with oil and coal. Now we are dealing with more of the people in the state. Moving this from 75% to 65% will change it so the local will get to keep \$175,000 of the \$500,000 and \$325,000 would be imputed into the funding formula. The fiscal note states about \$11 million. Everyone has their own opinions. So is the question is, is this the right way to do it?

**Sen. Brad Bekkedahl, District 1 Williston:** In support of HB 1152. (See Attachment #1) (5:34-11:20)

**Rep. Hoverson:** The \$11 million in expenditures is not actually an expense, it is just \$11 million less they would get because of going from 75% to 65%. That amount would be moved more toward the local entity?

**Sen. Bekkedahl:** As I understand it, there would need to be a general fund appropriation into this calculation of this. I believe there was a fiscal note of about \$20 million and there is some deducts that would occur with this as well about \$9 million. Leaving about \$11 million that the general fund would have to replenish.

**Chairman Owens:** Any questions? Any further support for HB 1152?

**Rep. Kempenich, District 39:** In support of HB 1152. The problem we are running into though is that the way we have changed the funding formula it has created a lag for what the foundation aid has been able to do for the districts that are receiving this. It affects everyone across the state. Granted it hits the oil districts the hardest, but we are trying to move it back so it will help the local. There is an offset here with the foundation aid. (12:43-14:31)

**Chairman Owens:** Any other support of HB 1152?

**Rep. Nelson District 9:** In support changing things to make it work for school districts and discussed a proposed amendment. (See Attachments #2 and #3) (14:30-29:27)

**Chairman Owens:** Any questions?

**Rep. Ron Guggisberg:** Do you have any idea on what the fiscal note would be on the amendment?

**Rep. Nelson:** For the two air base schools it would be \$8 million and if we just quit doing it, it would be approximately \$12-14 Million. It has been a total of about \$80 million dollars since we passed the school funding formula.

**Vice Chairman- Cynthia Schreiber-Beck:** When you were doing the statistical analysis did you pull up the average cost per pupil which is utilized in the school statistics. Belcourts' cost is well over \$12,000 per student and our state payment is about \$10,000. With some of the schools their average per pupil is far greater than what the state is paying and some are far less. I am not sure where you got the statistics. (31:28)

**Rep. Nelson:** Statistics are from Department of Public Instruction six- year comparison, you just considered Federal funding that by Federal law we are not supposed to consider. I realize some of the districts have a high per student payment. But Federal funds often come with strings attached. Impact add probably the least. The problem comes if we are declared illegal then you would go through a 90 administrative and then anyone can sue the state over it and there is no sovereign immunity. The other Federal funds actually don't have that. How do you say they don't need the money unless you consider the Federal funds which you can't do. (33:20).

**Chairman Owens:** Further support for HB 1152?

**Steve Holen, Superintendent of Schools, McKenzie County Public School District #1, Watford City:** In support of HB 1152. (See Attachment #4). (33:37-38:47)

**Chairman Owens:** You referenced the sinking and interest fund, do you know how many mills you gave for that?

**Steve Holen:** At this time we are just under 11 mills in our sinking and interest fund. That will be revised because of our bond referendum that was passed last week. We will be adding another 13 mills to that. In the near future we will be at 24 – 25 mills. We also had an obstacle with a High School project and we had a debt capacity that we couldn't exceed

so we also used our building fund for some of our indebtedness. We did pledge revenues in lieu of some of the repayment of that project.

**Chairman Owens:** Any other support, opposition, or neutral testimony?

**Amy DeKok, Legal Counsel for North Dakota School Boards Association:** Neutral testimony. We represent all 178 operating school districts and their governing boards. This issue of state aid and calculation under the formula is a tough issue for our association. We recognize the concern of the school districts who rely on in lieu of revenue for their operations. The state aid formula may not work equitably for all school districts. We are concerned that HB 1152 may benefit some school districts potentially at the expense of others and that the proposed changes to the formula would decrease the total amount of state funds available to all school districts. HB 1152 may create winners and losers in school districts with respect to funding. 41:00

**Chairman Owens:** You were neutral?

**Amy DeKok:** Yes.

**Chairman Owens:** Any other comments or questions? Any other neutral testimony?

**Brandt Dick, Superintendent Underwood School District:** Neutral testimony. If you look at the fiscal note, the \$20 million and the \$11 million net, of that \$9 million is taken from schools that are under transition minimum or maximums to give in a sense to make up for the baseline that was reset. When you look through it you can see my school district would actually be a negative \$107,000 but long term a 10% gain in lieu of over time. I think it is important for the committee to understand you are taking \$9 million from approximately 80 school districts and giving it to the other districts. I just wanted to mention this.

**Chairman Owens:** Any other neutral. Seeing none. Hearing is closed on HB 1152.

# 2019 HOUSE STANDING COMMITTEE MINUTES

**Education Committee**  
Coteau A Room, State Capitol

HB 1152  
1/30/2019  
32134

☐ Subcommittee  
☐ Conference Committee

|                             |
|-----------------------------|
| Committee Clerk: Bev Monroe |
|-----------------------------|

## Explanation or reason for introduction of bill/resolution:

Relating to state foundation aid payments to school districts

## Minutes:

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**Chairman Owens:** HB 1152 changes the in lieu of, it reduces the 65% across the board for \$11.5M. We have another bill that does that plus takes the sinking and interest fund down to zero. It does a lot more than this bill. The sinking fund will add quite a bit of flexibility when paying the bond and paying the debt on their loans, rather than having it pulled back out of the per pupil payment (PPP).

**Rep. Longmuir:** This other bill will be addressing taking the sinking and interest to zero?

**Chairman Owens:** Correct.

**Rep. Longmuir:** As a former school board member that really helps a lot. What happens is you become penalized by the sinking and interest fund and I would **move a Do Not Pass on** HB 1152, based on the fact that we will be addressing this issue in two bills.

**Representative Denton Zubke: Seconded.**

**Chairman Owens:** Any discussion?

**A Roll Call Vote was taken: Yes 12, No 0, Absent 2. Rep. Longmuir carries HB 1152.**

Date: 1-30-19  
Roll Call Vote #: 1

**2019 HOUSE STANDING COMMITTEE  
ROLL CALL VOTES  
BILL/RESOLUTION NO. 1152**

House Education Committee

☐ Subcommittee

Amendment LC# or Description: \_\_\_\_\_

Recommendation: ☐ Adopt Amendment  
☐ Do Pass ☒ Do Not Pass ☐ Without Committee Recommendation  
☐ As Amended ☐ Rerefer to Appropriations  
☐ Place on Consent Calendar  
Other Actions: ☐ Reconsider ☐ \_\_\_\_\_

Motion Made By Rep D. Longmuir Seconded By Rep D. Zubke

| Representatives          | Yes | No | Representatives | Yes | No |
|--------------------------|-----|----|-----------------|-----|----|
| Chairman M. Owens        | ✓   |    | Rep. Guggisberg | ✓   |    |
| V. Chair. Schreiber-Beck | ✓   |    | Rep. Hager      | ✓   |    |
| Rep. Heinert             | ✓   |    |                 |     |    |
| Rep. Hoverson            | A   |    |                 |     |    |
| Rep. D. Johnson          | ✓   |    |                 |     |    |
| Rep. M. Johnson          | ✓   |    |                 |     |    |
| Rep. Johnston            | ✓   |    |                 |     |    |
| Rep. Longmuir            | ✓   |    |                 |     |    |
| Rep. Marschall           | A   |    |                 |     |    |
| Rep. Pyle                | ✓   |    |                 |     |    |
| Rep. Strinden            | ✓   |    |                 |     |    |
| Rep. Zubke               | ✓   |    |                 |     |    |
|                          |     |    |                 |     |    |
|                          |     |    |                 |     |    |

Total (Yes) 12 No 0

Absent 2

Floor Assignment Rep. D. Longmuir

If the vote is on an amendment, briefly indicate intent:

**REPORT OF STANDING COMMITTEE**

**HB 1152: Education Committee (Rep. Owens, Chairman)** recommends **DO NOT PASS** (12 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). HB 1152 was placed on the Eleventh order on the calendar.

**2019 TESTIMONY**

**HB 1152**

House Education Committee  
Honorable Representative Mark Owens, Chairman  
House bill 1152  
Testimony by Senator Brad Bekkedahl

January 15, 2019

Chairman Owens and Committee,

I am here to support the changes to NDCC 15.1-27-04.1, adjusting the baseline funding under Section 1(f) from revenue received and reported under code 2000 of the North Dakota School District financial accounting and reporting manual.

This bill would change the subtraction percentage of in-lieu-of property tax revenue from 75% and 100% to 65%. If these are classified as "revenue in-in-lieu of property taxes", then these dollars should be treated the same as property tax dollars. First of all, in the formula calculations, we don't subtract from the formula any property taxes levied for Miscellaneous, Special Reserve, Building, Special Assessment, Sinking and Interest, and any dollars generated by levying more than 60 mills. Secondly, using these numbers from the 2017-2018 school year for Williston School District #1, we calculate 80.02 mills for the General fund levy and 124.46 mills total levy. If we take the maximum 60 mills for General fund levy and divide by the total number of mills levied of 124.46, we arrive at 48.2% that should be subtracted, which is much less than the current 75% and/or 100% subtraction. This is a significant difference. Third, "in-lieu-of dollars are not all treated the same. Some are subtracted at 75%, while others are a 100%. HB 1152 treats them all the same and lowers the subtraction of all from 75% to 65%. Lastly, these levied dollars are not treated like the 60 mill property tax deduction. In 2017-18, using the statewide average, only 65.86 of the 97.97 mills were for the General fund, which is 67%, not 75% as currently used in formula.

Mr. Chairman, as you can see, there is a fairness issue in the way the current subtraction works in the formula, and HB 1152 placing the deduction at 65% more accurately reflects the true state average and should be adopted as the new formula deduct standard. In this time of enrollment growth for many schools, this added revenue will be important in managing increased expenses. I appreciate the committee for their consideration of a Do Pass recommendation for HB 1152, and I am happy to stand for questions at this time.

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Chairman Owens, members of the House Education Committee.

I am here today to talk to you about some problems in our school funding formula.

I have several schools in my district which receive a significant amount of federal funds due to federally connected students. In my district these are Native Americans, but this problem is not just a Native American one.

While there are several different federal funding sources, the federal monies share a common thing. They are to be used to supplement, not supplant (replace) state funds. The largest amount of the funds I am speaking of today are federal impact aid so a little bit about that.

Many local school districts across the United States include within their boundaries parcels of land that are owned by the Federal Government or that have been removed from the local tax rolls by the Federal Government, including Indian lands. These school districts face special challenges — they must provide a quality education to the children living on the Indian and other Federal lands and meet the requirements of the Every Student Succeeds Act, while sometimes operating with less local revenue than is available to other school districts, because the Federal property is exempt from local property taxes.

Since 1950, Congress has provided financial assistance to these local school districts through the Impact Aid Program. Impact Aid was designed to assist local school districts that have lost property tax revenue due to the presence of tax-exempt Federal property, or that have experienced increased expenditures due to the enrollment of federally connected children, including children living on Indian lands. The Impact Aid law (now Title VII of the Elementary and Secondary Education Act of 1965 (ESEA)) provides assistance to local school districts with concentrations of children residing on Indian lands, military bases, low-rent housing properties, or other Federal properties and, to a lesser extent, concentrations of children who have parents in the uniformed services or employed on eligible Federal properties who do not live on Federal property.

Over 93 percent of the \$1.3 billion appropriated for FY 2016 is targeted for payment to school districts based on an annual count of federally connected school children. Slightly more than 5 percent assists school districts that have lost significant local assessed value due to the acquisition of property by the Federal Government since 1938. More than \$17 million is available for formula construction grants. I didn't distinguish between the different types in my presentation, there is some land but the majority is due to the children.

The Impact Aid law (now Title VII of the Elementary and Secondary Education Act of 1965) has been amended numerous times since its inception in 1950. The program continues, however, to support local school districts with concentrations of children who reside on Indian lands, military bases, low-rent housing properties, and other Federal properties, or have parents in the uniformed services or employed on eligible Federal properties. The law refers to local school districts as local educational agencies, or LEAs.

Schools that receive significant impact aid in ND are the Air Base School districts at Minot and Grand Forks, or schools with a significant number of Native Americans.

The problem is that these dependent schools through the funding formula of the state experience a maximum cap which holds back state monies to which they would otherwise be entitled and holds back money for property tax base which they do not have. In addition to taking back tuition dollars paid with the federal funds. I believe the pattern in North Dakota really is that Federal Impact Aid often supplants state money instead of supplementing state money. When I ask questions I am told they, meaning the schools with federally connected students, don't need the state monies, but how does one reach that conclusion without considering the federal supplemental monies, funds which are not supposed to be considered.

I do not say the state looks directly in the formula at the amount of Federal Impact Aid a school gets and then holds back state funding. What happens is more based on the same criteria as Federal Impact Aid is given, that is it is given because with the federally connected students there is no corresponding tax base, little real estate to pay the property tax that has been used to fund education. What happens is that the property tax is used in setting the base funding for a school district but the federal funding to replace it is not, and then the state pulls back money based on low property value. I think the last is what most clearly shows that the districts of extreme property poverty, which are the districts with the most federally connected students, are targeted by the funding formula.

This is really a double hit for those school districts first when the state moved to its current formula in 2013 it used 2012 state and local funding as the base and then capped the percentage amount the school could receive over the base. So federal monies of any kind were not counted in the base, while the property tax and the property tax relief funding the state was doing in 2012 were counted. This resulted in a high base for schools with real estate to tax and a very low base funding numbers for the schools dependent on receiving Federal aid. In addition to having a low base, schools have a deduction applied to them for 20% of the average taxable valuation in the state, but only if they are below the 20% level. So first they have a low base, then the state deducts taxes they don't receive from property they don't have and only from the schools with very low tax bases, the federally connected schools.

There are schools which do not receive federal impact aid which are also hurt by this same thing because they receive other federal funding. Bureau of Indian Education funding and Title 1 funding is treated the same as Federal Impact Aid. One school which receives, significant impact aid, Belcourt, also receives many other federal funds so it illustrates that. It receives a lot of Bureau of Indian Education funding. So, though it received \$321,992 of impact aid in 2016, the maximum cap in the state funding formula held back \$6,083,187 because all the federal funding is treated similarly, like it never existed when establishing base funding, and Belcourt has the lowest taxable valuation per student in the state at only \$525 about 1 1/3 percent of the average taxable valuation per student. So literally no property tax went into setting the base funding level.

To give an idea of the overall effect. Of schools receiving federal impact aid in 2016, of a total of \$24,784,814 received by ND schools in 2016 as impact aid, those schools had a total of \$17,527,071 held back ultimately from them by the state formula to educate their students. To be clear, if they received no federal money, the same amount of formula state aid would be withheld except for the Air Force Bases.

We really have two separate ways state money is withheld from the schools educating federally connected students and I will explain the cases separately.

The Air Base schools and the schools with very low taxable value per weighted student average attendance are the two categories. I would note that that value includes the Air Base schools with a taxable valuation of zero, but how they are set up to provide education to their students is different and so where the formula affects those students is also different.

I will treat the Air Base schools separately and first.

#### A. AIR BASE SCHOOLS.

The situation with the Grand Forks Air Force Base (GFAFB) and Minot Air Force Base (MAFB) School districts is unique in ND and how the funds are handled is relatively straightforward. Both school districts do not educate their students directly but send their students to neighboring school districts. The majority of the GFAFB students go to Grand Forks Public Schools and the majority of MAFB go to Minot Public Schools.

For this the Air Base school districts pay tuition. The state then reduces state aid to the districts educating the students by 75% of the tuition paid. The agreements are for whatever impact aid the Air Base school districts receive less administration and operating balances.

MAFB is a blended component unit of the Minot Public School District. A legally separate entity which the Minot Public School District is financially responsible for. The same statement holds true for the GFAFB and Grand Forks.

The Air Base school districts receive zero in state funding directly because they do not have any enrolled students, though under the formula, their base is zero and thus they would receive nothing even if they did educate the students themselves. The Air Base schools then pay much of what they receive in impact aid, after spending some on administration and operations, to the public-school districts as tuition. While holding back some reserves, which changes the percentages year by year.

Because the payment is made as tuition, the state then withholds 75% of the tuition paid to the school districts from the state aid the districts receive. The net effect is that much of the federal impact aid is used to replace state aid, typically about half of the total federal impact aid given for the Air Base students.

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The question would be does the single step of turning the federal impact aid into tuition mean that the state can then figure the impact aid into its funding for the education of the Air Base students, or does that supplanting of state monies violate federal rules/law?

#### B. SCHOOLS WITH LOW TAXABLE VALUATIONS. (Tribally Connected)

For this I will largely use the Background memorandum on Elementary and Secondary Education State Aid and Funding Formula Study currently used this interim by the Education Finance Committee of the State Legislature.

SB2200 in 2007 represents a significant starting point. (Bottom page 11) It actually featured an additional equity payment for schools with lower than average per student taxable valuations. Section 22 page 14.

The bill also included a reduction based on ending fund balance which evidently affected some school or schools received federal impact aid. It is Section 26 on page 16.

This was corrected in the following legislative session with a refund found in Section 57 page 34 of HB1400. It is one of the few historical specific mentions of Federal Impact Aid.

Also in 2007, property tax relief started in a significant way. The important thing was that by 2012, the base year for the current funding, property tax relief was 1/3 as much as state aid, mill levy reduction grants were figured into the base funding for the current formula. This contributed to those schools with little tax base having a lower base funding figure which affects them to this day.

The push for property tax relief is really where the state formula is most related to Federal Impact Aid. Federal Impact Aid is targeted towards school districts which have federally connected students and often no corresponding property tax base to pay for the education.

In 2013, a big change was made to school funding in North Dakota.

I obtained a spreadsheet from Mr. Eric Hill in the federal impact aid office of the schools in North Dakota receiving federal impact aid since and including 2012. This is attached and forms the foundation for my spreadsheets. The other important data source is the six year comparison on the ND Dept. of Public Instruction website. <https://www.nd.gov/dpi/uploads/146/201319Actual.pdf>

When I sorted the schools by property valuation per weighted student average, something very striking becomes evident. There are nine of the schools, all with the lowest property valuations, which still are having significant funds withheld because even with the formula allowing the maximum cap to go up by a percentage, starting at 110% in 2013 and increasing to 120% in 2014, 130% in 2015 and going and staying at 140% in 2016, 2017 and 2018, the schools still are having significant funds withheld and all those having funds withheld are below the formula number for state and local financing per weighted

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student average, even with the state creating a tax base for some of them on paper that doesn't exist in reality.

I am including two views of the same spreadsheet which I split so you can read them.

Explaining the columns. The first column is the number of the county. If you look at DPI information it almost always is arranged in order by county. The number tells you where to look. If you look at Department of Public Instruction reports. Then the school district names, followed by the taxable valuation per weighted student average. Then there are the alternating columns of Federal Impact Aid received, and then in red the amounts held back from the school which the formula would give them, except their base funding was so low. Much of the reason for that is that the Federal Impact Aid, indeed any federal monies are not counted in the base level of funding.

The other view just takes the 9 schools still hitting the maximum in the formula.

We see the computed mills. That is how many mills would need to be taxed to produce the 60 mill deduct the state takes. For instance Belcourt would have to tax a bit more than 1000 mills or in other words the state deducts a bit more than the total taxable valuation of the school district from their state funding. School taxes are capped at 60 mills unless there is a vote approving more.

Next are the amounts the state figures the local property should contribute followed by what 60 mills, the maximum would actually contribute. The difference is in column S.

Then comes is the formula amount the state figures the school receives from state and local but note that it uses the formula number in column Q. So column T is actually inflated, not a real figures. Note that the formula funding amount per weighted student average is \$9646 with the actual average being \$9897. If you look down the column you can see how the very low property schools compare starting with Belcourt only having a formula funding of \$6972. Remember though that funding includes the phantom money so the actual funding per WSU is shown in the last column for those nine schools. Note for instance that the first two, Belcourt and Fort Totten are about \$3500 per student less in funding other than federal than the average of the state.

I haven't gone through each school to see how much Bureau of Indian Education Funding it receives. I do know that Belcourt with the greatest amount of money held back is funded more by Bureau of Indian Education monies than Federal Impact Aid. This is reflected by your office considering them less dependent on Federal Impact Aid when you evaluate schools. Generally, in North Dakota Dept. of Public Instruction reports, all the federal monies are lumped together, they are treated the same as far as I know. Just with most schools that don't receive Federal Impact Aid, federal funding is a relatively small part of their income, the Bureau of Indian Education schools being the exception.

After the schools have millions held back for hitting the cap because federal funds were not counted in the base. Then the state pulls back more.

The state creates a phantom tax base equal to 20% of the state average taxable per student, and multiplies that by 60 mills and adds it into the school's funding as if it is real money if they have less than

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20% average valuation. This impacts the six lowest valuation schools. When this funding formula was created, the Department of Public Instruction originally tried to set it at 40% which would have impacted all nine Federal Impact schools still hitting the maximum formula cap. We fought that and it got reduced to 20, but what rational would specifically take money from the poorest schools for fictional taxes they don't receive?

This is what really shows the link to Federal Impact Aid. The very thought behind Federal Impact Aid is you have these federally connected students and a very poor tax base because the federal land is not taxable. The state targets those very schools with the very poorest tax base. Those with the most federally connected students.

The state goes directly to those with a very poor tax base and takes money away from them. While never mentioning the Federal Impact Aid, it goes directly against the very rational for the funding in the first place.

What reason can there be for taking away state money from schools with a very poor, indeed the poorest, property tax base, except the reasoning that they don't need it because they are going to get federal money? I can't think of one. To hold back money from the very poorest school districts would make no sense whatsoever if the federal money wasn't from the very start being considered, just never spoken of.

While not a direct dollar percentage taken like the tuition for the Air Bases is done, the effect overall is great. Many of the schools have more held back than they get in Federal Impact Aid, but very few schools that do not receive Federal Impact Aid are affected at all.

There are only 4 other school districts other than those receiving federal impact aid which still hit the funding cap and have money held back.

They are:

1. White shield, a Bureau of Indian Education funded school on Fort Berthold Reservation
2. Mandaree, also a Bureau of Indian Education funded school on Fort Berthold Reservation
3. Manvel a school without a High School just north of GFAFB, I really don't know why they still hit the formula maximum. I talked to the business manager but she didn't understand it herself.
4. Earl 18 a very unusual school district having a very high taxable valuation and a weighted student average of about 4 total the last few years with a huge amount of taxable valuation per student.

So even with those four schools two are receiving federal funds that are supposed to supplement, not supplant state funding, but it is not the impact aid program.

I should mention that impact aid is subject to sequestration. School districts have had 8% or so depending on the year held back. When one tax bill was passed the sequestration rate was 100% for about a week before Congress exempted that bill. I would note that the state formula does not replace a single sequestered dollar.

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Conclusion: The state holds money back from the school districts that are the poorest in property and the ability to tax property. These same school districts are very dependent on federal funds, knowing that, they get back to about the same level of funding per student, but they do not have money for building projects or other acceptable uses of the federal money.

I believe it would be relatively easy to fix the formula going forward. Removing the maximum cap completely would only affect a couple of school districts not receiving a major portion of their funding from federal sources.

In addition, the claw back for not having 20% of the average taxable valuation really must go.

And then one other concern is that the schools should be allowed to have a significant fund of these federal monies so that they can build or repair facilities or do other things proper things and not be put in the situation of spend it right away or lose it. If the origin is federal funds there should not be a limit on carryover, because these are funds to build schools. There is 2007 impact aid grants but what we have seen is schools wait many years, if not decades for funding under that program.

The Air Base school funding could be fixed by not deducting for tuition when the source of the funds are federal.

I am available to answer any questions you may have.

Sincerely

Representative Marvin E. Nelson, District 9, North Dakota.

| ND Applicants                          | Total Payment<br>2012 | Total Payment<br>2013 | Total Payment<br>2014 | Total Payment<br>2015 | Total Payment<br>2016 | Total Payment<br>2017 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Belcourt County Public School Board #7 | 329,682.43            | 252,306.13            | 360,220.73            | 331,387.35            | 321,992.29            | 269,405.97            |
| Beulah Public School Dist. #27         | 1,066.00              | 1,066.00              | 1,136.09              | 1,113.40              | 1,002.97              | 1,066.00              |
| Devils Lake School District #1         | 313,863.06            | 307,779.33            | 205,730.21            | 271,373.59            | 180,906.52            | 200,471.47            |
| Dunseith School District #1            | 1,905,005.99          | 1,772,825.92          | 1,949,424.99          | 1,842,889.83          | 1,422,451.73          | 2,041,468.37          |
| Eight Mile School District #6          | 16,604.61             | 13,119.86             | 2,309.09              | 0.00                  | 0.00                  | 0.00                  |
| Emerado Elementary School              | 22,309.99             | 38,990.36             | 12,913.04             | 12,572.52             | 15,653.78             | 12,651.01             |
| Fort Totten School District #30        | 915,838.07            | 813,808.70            | 941,812.55            | 988,241.75            | 1,041,971.74          | 958,636.00            |
| Fort Yates School District #4          | 1,204,242.25          | 1,082,943.47          | 1,237,807.98          | 1,062,952.80          | 930,141.05            | 858,135.32            |
| Garrison School District #51           | 60,566.00             | 60,566.00             | 62,445.31             | 61,716.42             | 61,743.38             | 69,848.13             |
| Glenburn School District #26           | 97,381.70             | 92,067.63             | 42,193.59             | 14,088.34             | 4,852.93              | 13,959.24             |
| Grand Forks AFB School District #140   | 4,113,855.74          | 2,712,692.90          | 3,375,892.79          | 3,184,646.88          | 3,581,056.75          | 3,247,567.70          |
| Hatton School District #7              | 3,483.36              | 0.00                  | 0.00                  | 0.00                  | 0.00                  | 0.00                  |
| Hazen Public School Dist. #3           | 7,658.18              | 6,755.97              | 7,736.08              | 7,654.35              | 7,634.62              | 7,482.00              |
| Larimore School District #44           | 22,958.32             | 13,923.92             | 16,624.43             | 17,754.18             | 13,908.93             | 14,701.30             |
| Minnewaukan Public School District     | 1,359,276.16          | 1,324,238.45          | 1,408,316.93          | 1,449,013.72          | 1,506,805.64          | 1,262,357.71          |
| Minot AFB School District #160         | 7,175,358.78          | 7,229,682.07          | 8,227,059.22          | 7,950,088.80          | 7,729,905.19          | 7,007,145.44          |
| Mt. Pleasant School District #4        | 39,464.42             | 27,540.03             | 13,997.28             | 10,973.58             | 12,384.49             | 23,739.19             |
| New Town School District #1            | 1,991,351.31          | 1,755,749.94          | 1,774,853.47          | 1,797,079.66          | 2,174,766.82          | 2,038,313.91          |
| Northwood Public School District #129  | 0.00                  | 0.00                  | 0.00                  | 0.00                  | 0.00                  | 446.86                |
| Oberon School District #16             | 241,104.86            | 252,453.79            | 279,548.21            | 296,064.23            | 254,456.79            | 269,327.01            |
| Parshall School District               | 1,013,149.42          | 837,622.59            | 1,028,639.54          | 549,444.43            | 1,007,323.52          | 960,925.93            |
| Rolette School District #29            | 24,875.29             | 16,742.56             | 21,725.05             | 24,151.57             | 38,634.16             | 0.00                  |
| Selfridge School District #8           | 380,076.79            | 330,044.32            | 401,587.07            | 415,755.20            | 482,385.06            | 472,669.24            |
| Solen School District #3               | 1,140,152.32          | 1,140,473.19          | 1,129,042.80          | 1,011,492.19          | 1,009,667.67          | 1,105,526.19          |
| St. John School District #3            | 1,643,635.03          | 1,409,734.85          | 1,576,041.28          | 1,602,584.57          | 1,538,890.12          | 1,739,273.09          |
| Turtle Lake-Mercer School Dist. #72    | 4,040.23              | 3,595.00              | 4,049.71              | 4,031.40              | 4,031.97              | 3,984.00              |
| Twin Buttes School District #37        | 121,535.62            | 98,636.59             | 13,580.25             | 17,412.28             | 56,316.50             | 21,351.72             |
| Underwood School Dist. #8              | 26,849.32             | 25,463.53             | 26,713.86             | 26,240.63             | 26,148.71             | 25,185.00             |
| Warwick School District #29            | 1,472,710.76          | 1,569,577.47          | 1,700,273.56          | 1,462,448.13          | 1,359,780.95          | 1,494,150.27          |
| Total Payments                         | 25,648,096.01         | 23,190,400.57         | 25,821,675.11         | 24,413,171.80         | 24,784,814.28         | 24,119,788.07         |

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| county | ND Applicants                           | Actual Taxable<br>Per WSU | 2012 Federal<br>Impact Aid | Max deduction<br>2013-14 | 2013 Federal<br>Impact Aid | Max Deduction<br>2014-15 | 2014 Federal<br>Impact Aid | Max Deduction<br>2015-16 | 2015 Federal<br>Impact Aid | Max Deduction<br>2016-17 | 2016 Federal<br>Impact Aid | Max Deduction<br>2017-18 | 2017 Federal<br>Impact Aid | Max Deduction<br>2018-19 budget |
|--------|---|---------------------------|----------------------------|--------------------------|----------------------------|--------------------------|----------------------------|--------------------------|----------------------------|--------------------------|----------------------------|--------------------------|----------------------------|---------------------------------|
| 40     | Belcourt County Public School Board #7  | 525                       | 329,682.43                 | 7,281,012.00             | 252,306.13                 | 7,040,083.00             | 360,387.35                 | 6,441,025.00             | 331,387.35                 | 6,020,832.00             | 321,992.29                 | 6,082,187.00             | 269,405.97                 | 6,182,013.00                    |
| 3      | Fort Totten School District #30         | 1,119                     | 915,838.07                 | 801,005.00               | 813,808.70                 | 811,661.00               | 941,812.55                 | 732,649.00               | 988,241.75                 | 662,991.00               | 1,041,971.74               | 733,802.00               | 958,636.00                 | 718,024.00                      |
| 13     | Twin Buttes School District #37         | 1,286                     | 121,535.62                 | 176,106.00               | 98,636.59                  | 138,721.00               | 13,580.25                  | 126,893.00               | 17,412.28                  | 114,982.00               | 56,316.50                  | 126,585.00               | 21,185.00                  | 138,422.00                      |
| 43     | Fort Yates School District #30          | 5,019                     | 1,204,242.25               | 1,032,904.00             | 1,082,943.47               | 110,427.00               | 1,237,807.98               | 1,102,768.00             | 1,062,952.80               | 909,053.00               | 930,141.05                 | 908,887.00               | 858,135.32                 | 934,727.00                      |
| 40     | St. John School District #3             | 5,420                     | 1,643,635.03               | 1,230,360.00             | 1,409,734.85               | 1,126,907.00             | 1,576,041.28               | 1,003,316.00             | 1,602,584.57               | 913,960.00               | 1,538,890.12               | 874,488.00               | 1,739,273.09               | 886,144.00                      |
| 40     | Dunseith School District #6             | 5,750                     | 1,905,005.99               | 1,941,133.00             | 1,772,825.92               | 1,829,090.00             | 1,949,424.99               | 1,726,766.00             | 1,842,889.83               | 1,646,469.00             | 1,422,451.73               | 1,684,180.00             | 2,041,468.37               | 1,709,572.00                    |
| 43     | Solen School District #3                | 9,653                     | 1,140,152.32               | 444,046.00               | 1,140,473.19               | 325,398.00               | 1,129,042.80               | 234,745.00               | 1,011,492.19               | 170,959.00               | 1,009,667.67               | 188,749.00               | 960,925.93                 | 209,477.00                      |
| 3      | Warwick School District #29             | 11,162                    | 1,472,710.76               | 984,083.00               | 1,569,577.47               | 865,345.00               | 1,700,273.56               | 731,801.00               | 1,462,448.13               | 635,290.00               | 1,359,780.95               | 652,030.00               | 1,494,150.27               | 635,290.00                      |
| 3      | Minnewaukan Public School District #129 | 13,247                    | 1,359,276.16               | 661,193.00               | 1,324,238.45               | 549,035.00               | 1,408,316.93               | 422,764.00               | 1,449,013.72               | 281,585.00               | 1,506,805.64               | 276,173.00               | 1,262,357.71               | 268,320.00                      |
| 36     | Devils Lake School District #1          | 22,820                    | 313,863.06                 | 0.00                     | 307,779.33                 | 0.00                     | 205,730.21                 | 0.00                     | 271,373.59                 | 0.00                     | 180,906.52                 | 0.00                     | 200,471.47                 | 0.00                            |
| 29     | Hazen Public School Dist. #3            | 25,922                    | 7,658.18                   | 0.00                     | 6,755.97                   | 0.00                     | 7,736.08                   | 0.00                     | 7,654.35                   | 0.00                     | 7,634.62                   | 0.00                     | 7,482.00                   | 0.00                            |
| 53     | Eight Mile School District #30          | 28,364                    | +                          | 198,671.00               | 13,119.86                  | 79,447.00                | 2,309.09                   | 0.00                     | 0.00                       | 0.00                     | 0.00                       | 0.00                     | 0.00                       | 0.00                            |
| 38     | Glenburn School District #26            | 34,137                    | 97,381.70                  | 0.00                     | 92,067.63                  | 0.00                     | 42,193.59                  | 0.00                     | 14,088.34                  | 0.00                     | 4,852.93                   | 0.00                     | 13,959.24                  | 0.00                            |
| 40     | Rolette School District #29             | 34,447                    | 24,875.29                  | 79,685.00                | 16,742.56                  | 0.00                     | 21,725.05                  | 0.00                     | 24,151.57                  | 0.00                     | 38,634.16                  | 0.00                     | 0.00                       | 0.00                            |
| 3      | Oberon School District #16              | 35,290                    | 241,104.86                 | 47,380.00                | 252,453.79                 | 18,828.00                | 279,548.21                 | 0.00                     | 296,064.23                 | 0.00                     | 254,456.79                 | 0.00                     | 269,327.01                 | 0.00                            |
| 43     | Selfridge School District #8            | 35,530                    | 380,076.79                 | 85,083.00                | 330,044.32                 | 20,348.00                | 401,587.07                 | 0.00                     | 415,755.20                 | 0.00                     | 482,385.06                 | 0.00                     | 472,669.24                 | 0.00                            |
| 29     | Beulah Public School Dist. #27          | 36,695                    | 1,006.00                   | 0.00                     | 1,066.00                   | 0.00                     | 1,136.09                   | 0.00                     | 1,113.40                   | 0.00                     | 1,002.97                   | 0.00                     | 1,066.00                   | 0.00                            |
| 31     | New Town School District #1             | 37,903                    | 1,991,351.31               | 0.00                     | 1,755,749.94               | 0.00                     | 1,774,853.47               | 0.00                     | 1,797,079.66               | 0.00                     | 2,174,766.82               | 0.00                     | 2,038,313.91               | 0.00                            |
| 18     | Larimore School District #44            | 38,243                    | 22,958.32                  | 0.00                     | 13,923.92                  | 0.00                     | 16,624.43                  | 0.00                     | 17,754.18                  | 0.00                     | 13,908.93                  | 0.00                     | 14,701.30                  | 0.00                            |
| 18     | Northwood Public School District #129   | 39,725                    | 0.00                       | 0.00                     | 0.00                       | 0.00                     | 0.00                       | 0.00                     | 0.00                       | 0.00                     | 0.00                       | 0.00                     | 446.86                     | 0.00                            |
| 18     | Emerado Elementary School               | 44,444                    | 22,309.99                  | 0.00                     | 38,990.36                  | 0.00                     | 12,913.04                  | 0.00                     | 12,572.52                  | 0.00                     | 15,653.78                  | 0.00                     | 12,651.01                  | 0.00                            |
| 49     | Hattton School District #7              | 46,459                    | 3,483.36                   | 0.00                     | 0.00                       | 0.00                     | 0.00                       | 0.00                     | 0.00                       | 0.00                     | 0.00                       | 0.00                     | 0.00                       | 0.00                            |
| 28     | Garrison School District #51            | 53,849                    | 60,566.00                  | 0.00                     | 60,566.00                  | 0.00                     | 62,445.31                  | 0.00                     | 61,716.42                  | 0.00                     | 61,743.38                  | 0.00                     | 69,848.13                  | 0.00                            |
| 40     | Mt. Pleasant School District #4         | 55,619                    | 39,464.42                  | 0.00                     | 27,540.03                  | 0.00                     | 13,997.28                  | 0.00                     | 10,973.58                  | 0.00                     | 12,384.49                  | 0.00                     | 23,739.19                  | 0.00                            |
| 31     | Parshall School District                | 62,229                    | 1,013,149.42               | 0.00                     | 837,622.59                 | 0.00                     | 1,028,639.54               | 0.00                     | 549,444.43                 | 0.00                     | 1,007,323.52               | 0.00                     | 960,925.93                 | 0.00                            |
| 28     | Underwood School District #8            | 67,313                    | 26,849.00                  | 0.00                     | 25,463.53                  | 0.00                     | 26,713.86                  | 0.00                     | 26,240.63                  | 0.00                     | 26,148.71                  | 0.00                     | 25,185.00                  | 0.00                            |
| 28     | Turtle Lake-Mercer School Dist. #72     | 71,180                    | 4,040.23                   | 0.00                     | 3,595.00                   | 0.00                     | 4,049.71                   | 0.00                     | 4,031.40                   | 0.00                     | 4,031.97                   | 0.00                     | 3,984.00                   | 0.00                            |

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| county | ND Applicants                           | Actual Taxable | computed mills | Formula computed | amount produced | Deduction for under | 2017 state/local funding            | 2017     | Additional Deduction from |
|--------|---|----------------|----------------|------------------|-----------------|---------------------|-------------------------------------|----------|---------------------------|
|        |   | Per WSU        | Impact Aid     | property tax     | with 60 mills   | 20% valuation       | per WSU \$9646 forumula \$9897 avg. | WSU      | state/local per WSU       |
| 40     | Belcourt County Public School Board #7  | 525            | 1,054.23       | 927,136.00       | 52,767.00       | -874,369.00         | 6,872.00                            | 2,192.80 | \$398.75                  |
| 3      | Fort Totten School District #30         | 1,119          | 543.05         | 102,704.00       | 11,348.00       | -91,356.00          | 6,772.00                            | 230.70   | \$395.99                  |
| 13     | Twin Buttes School District #37         | 1,286          | 435.50         | 22,969.00        | 3,164.00        | -19,805.00          | 7,419.00                            | 51.63    | \$383.59                  |
| 43     | Fort Yates School District #30          | 5,019          | 131.90         | 135,715.00       | 61,738.00       | -73,977.00          | 6,879.00                            | 327.23   | \$226.07                  |
| 40     | St. John School District #3             | 5,420          | 90.84          | 184,633.00       | 121,949.00      | -62,684.00          | 7,643.00                            | 436.67   | \$143.55                  |
| 40     | Dunseith School District #6             | 5,750          | 109.64         | 307,038.00       | 168,025.00      | -139,013.00         | 7,613.00                            | 828.44   | \$167.80                  |
| 43     | Solen School District #3                | 9,653          | 53.72          | 100,602.00       | 112,363.00      | 0.00                | 8,948.00                            | 245.04   |                           |
| 3      | Warwick School District #29             | 11,162         | 60.00          | 137,630.00       | 137,630.00      | 0.00                | 7,604.00                            | 311.18   |                           |
| 3      | Minnewaukan Public School District #129 | 13,247         | 60.00          | 202,685.00       | 202,685.00      | 0.00                | 8,832.00                            | 346.01   |                           |

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1152

Page 1, line 1, replace "section" with "sections"

Page 1, line 1, after "15.1-27-04.1" insert "and 15.1-27-35.3"

Page 1, line 2, after "districts" insert "; and to repeal section 15.1-27-04.2 of the North Dakota Century Code, relating to state foundation aid minimum local effort"

Page 3, line 6, overstrike "(1)"

Page 3, line 8, overstrike "(a)" and insert immediately thereafter "(1)"

Page 3, line 11, overstrike "(b)" and insert immediately thereafter "(2)"

Page 3, overstrike lines 13 through 16

Page 3, line 19, overstrike "(1)"

Page 3, line 21, overstrike "(a)" and insert immediately thereafter "(1)"

Page 3, line 24, overstrike "(b)" and insert immediately thereafter "(2)"

Page 3, overstrike lines 26 through 29

Page 4, line 8, after the period insert "In determining the deduction for tuition revenue listed in paragraph 3 of subdivision f of subsection 1, the superintendent of public instruction may not consider tuition revenue related to federal impact aid."

Page 4, after line 11, insert:

**"SECTION 2. AMENDMENT.** Section 15.1-27-35.3 of the North Dakota Century Code is amended and reenacted as follows:

**15.1-27-35.3. Payments to school districts - Unobligated general fund balance.**

1. a. The superintendent of public instruction shall determine the amount of payments due a school district and shall subtract from that the amount by which the unobligated general fund balance of the district on the preceding June thirtieth is in excess of forty percent of its actual expenditures, plus twenty thousand dollars.
- b. Except as provided in subdivision c, beginning July 1, 2017, the superintendent of public instruction shall determine the amount of payments due to a school district and shall subtract from that the amount by which the unobligated general fund balance of the district on the preceding June thirtieth is in excess of thirty-five percent of its actual expenditures, plus fifty thousand dollars.
- c. Beginning July 1, 2017, the superintendent of public instruction shall determine the amount of payments due to a school district and shall subtract from that the amount by which the unobligated general fund balance of the district on the preceding June thirtieth is in excess of

thirty-five percent of its actual expenditures, plus one hundred thousand dollars if the school district is in a cooperative agreement with another school district to share academic resources, and the school districts are considering reorganization under chapter 15.1-12. An eligible school district may receive payments under this provision for a maximum of two years.

2. For purposes of this section, a district's unobligated general fund balance includes all moneys in the district's miscellaneous fund, as established under section 57-15-14.2.
3. For purposes of this section, the amount of federal impact aid moneys included in a district's unobligated general fund balance must be calculated based on the proportion of federal impact aid received for the school year relative to the total revenue received for the school year.

**SECTION 3. REPEAL.** Section 15.1-27-04.2 of the North Dakota Century Code is repealed."

Renumber accordingly

**HB 1152**  
**Chairman Owens**  
**House Education Committee**  
**January 15<sup>th</sup>, 2019**

Good Morning. Chairman Owens and members of the House Education Committee, for the record, my name is Steve Holen and I am superintendent of schools for the McKenzie County Public School District #1 in Watford City. I am here to testify in support of HB 1152.

HB 1152 addresses the concept of in lieu revenue and how these revenues are accounted for and addressed within the foundation aid formula. By definition, to be in lieu of something is to replace it or substitute for it. In lieu revenue is provided in place of revenue (property tax) that is not collected by a school district and is received in another form. The purpose of in lieu revenue is to replace lost property tax value by accounting for it and fulfilling the purpose of a general property tax by supporting education services and resources. In theory, in lieu revenue is to be treated in the same fashion as its intended property tax authority and remaining true to its definition and purpose as an educational funding source.

The state foundation aide formula currently subtracts 75% of in lieu revenues (and some of them at 100% that includes mobile home and telecommunications taxes) from the total payments made to school districts and the rationale behind the subtraction has been debated since its conception in 2007 with the initial 60% imputation, followed by 70% imputation and eventually the current 75% subtraction utilized today. The question of why 75% is subtracted and how this percentage was determined is somewhat unknown, however, the best explanation has been the fact the in lieu revenue is solely designated to the general fund and not the other funds levied by a school district. The remaining 25% must account for the fact the in lieu revenue can, or perhaps should, be used to support other school functions such as buildings and grounds, debt repayments, or other special and essential purposes. However, the incentive to use in lieu funds for purposes other than general operating expenses is non-existent due to the current language and handling of in lieu revenue in the foundation aide formula. The foundation aid formula is designed to address student education and general operating expenses; it does not provide funding for any other level of services beyond the general fund. The apply any subtractions to other funds beyond the general fund is extending beyond the scope of the foundation aide formula and creating potential inequity in terms of impacts on other non-general fund levies and utilization.

The MCPSD #1 uses a significant portion of its gross production tax revenue pledged against debt service payments; however, loses general fund and general operating capacity due to the subtraction of these funds and the assumption of use for general fund and operating purposes. One can even argue the in lieu revenue, due to its volatile nature, should be used for infrastructure and not general fund and ongoing

expenses; however, the current system incentivizes the use of these funds for general operating expenses based on the subtraction occurring to all in lieu funds; regardless of the other levies that may be levied by the school district. In the end, the assumption the subtraction was only designated for the general fund and not other school district priorities related to infrastructure and debt capacity is simply difficult to comprehend in terms of practical use of these funds.

The average proportion of general fund levies to total levies, using statewide data, is around the 65% subtraction that is referenced in this bill. This means the proportion of general fund to total levies is better reflected by accounting for 65%, instead of 75%, and essentially matching the proportion of mills used for general fund purposes and to account for use of in lieu revenue for sources other than simply the general fund. In aligning the subtraction percentage to the actual average mill levies allocated to the general fund; it solidifies the rationale behind the percentage and allow for greater understanding of its purpose when discussed in future sessions and ongoing. In the end, 65% is a more accurate representation of the appropriate subtraction based on data and actual average distribution of mills across the state. In lieu revenue should be accounted for in the foundation aid funding formula, however, it needs to be addressed in a fair manner that upholds the intent of the in lieu of property tax revenue and does not essentially provide a penalty to the school district for receiving these funds as an in lieu revenue.

In summary, the 75% subtraction for in lieu revenue used in the current foundation aide formula was not implemented based on facts or intent of the revenue itself – it was simply negotiated as a possible value. The subtraction percentage should accurately reflect the amount of dollars generated in property tax that goes toward general fund expenses compared to the total mill levy. All school districts receive some level of in lieu revenue; it is time to treat his fairly and appropriately to avoid this revenue providing undue challenges to school districts already facing dramatic challenges in addressing the educational needs of its students.

Thank you for your time and consideration. I can answer any questions at this time.