



EDUCATION FUNDING FORMULA REVIEW COMMITTEE

Tuesday, June 16, 2020
Roughrider Room, State Capitol
Bismarck, North Dakota

Senator Donald Schaible, Chairman, called the meeting to order at 9:00 a.m.

Members present: Senators Donald Schaible, Joan Heckaman, Nicole Poolman, David S. Rust; Representatives David Monson, Marvin E. Nelson, Mark Sanford

Member absent: Representative Mark S. Owens

Others present: Senator Erin Oban, Bismarck, member of the Legislative Management
Dustin Assel, Legislative Council, Bismarck
See [Appendix A](#) for additional persons present.

It was moved by Senator Rust, seconded by Representative Nelson, and carried on a voice vote that the minutes of the January 8, 2020, meeting be approved as distributed.

ELEMENTARY AND SECONDARY EDUCATION STATE AID AND FUNDING FORMULA STUDY

Chairman Schaible said Mr. Mark Lemer, North Dakota Association of School Business Officials, and the following school district representatives had joined the meeting remotely:

- Dr. Mike Bitz, Superintendent, Mandan Public School District;
- Mr. Brandt Dick, Superintendent, Underwood School District 8;
- Mr. Daniel Ludvigson, Superintendent and Elementary Principal, Elgin/New Leipzig Public School; and
- Mr. Darin Scherr, Business and Operations Manager, Bismarck Public Schools.

Chairman Schaible said when the June 30 ending fund balance of a school district exceeds the limit set in statute, the excess is deducted from the district's state school aid funding. He said the Coronavirus (COVID-19) pandemic, which closed school buildings and limited school districts to online instruction, has resulted in some school districts, mostly smaller, accruing larger than anticipated ending fund balances as of June 30, 2020. He said stakeholders did not want school districts to spend funds unnecessarily to meet the limits set in statute when they may need the additional funding to address expenses related to the COVID-19 pandemic in the fall. He said it makes sense to allow the excess ending fund balance to remain with school districts and not reduce state school aid during the 2020-21 school year. He said a school district may reduce an ending general fund balance by transferring funds from the general fund to the building fund; however, the ability to transfer the funding from the building fund back to the general fund is limited.

At the request of Chairman Schaible, Mr. Dustin Assel, Counsel, Legislative Council, reviewed a bill draft [[21.0116.01000](#)] relating to the ability of a school district to temporarily transfer excess funds, accruing as a result of the COVID-19 pandemic, between the general fund and the building fund of the school district. Mr. Assel said the bill draft amends North Dakota Century Code Section 57-15-17 to provide any money transferred by a school district from the general fund to the building fund after March 13, 2020, and before July 1, 2020, may be transferred back into the general fund of the school district through June 30, 2021.

Chairman Schaible said the bill draft will benefit approximately 33 small school districts. He said if school boards decide to transfer excess funds related to the COVID-19 pandemic school facility closures, they should identify those funds and the reason for the transfer in school board minutes.

In response to a question from Representative Monson, Chairman Schaible said school boards may create a building fund without voter approval; however, any tax assessments to be deposited into the fund must be approved by voters.

In response to a question from Representative Nelson, Chairman Schaible said if a school district transfers excess funding from its general fund to the building fund before June 30, 2020, the district will not have an excess general fund balance at the end of the 2019-20 school year and will not be subject to a state school aid deduction during the 2020-21 school year. He said if the bill draft is not approved by the Legislative Assembly in 2021, the funding remains available to the school district in the building fund, where it will not affect the state school aid calculation. He said if the bill draft is approved by the Legislative Assembly, there would be no need to retroactively recalculate state school aid because the funding transferred to the building fund does not affect the state school aid calculation; however, the school district would be able to return the funding to the general fund without penalty.

Mr. Dick said there are a couple of reasons school districts will have ending fund balance issues. He said the closure of school buildings has resulted in lower than anticipated expenditures and higher than anticipated amounts of cash on hand. In addition, he said, ending fund balance limits are lower because the limits are based on a percentage of the lower than anticipated expenditures. He said this legislation will assist school districts to be fiscally responsible and allow them to carry forward funding to years when transition minimum payments are phased out and state school aid payments decrease.

In response to a question from Senator Heckaman, Chairman Schaible said funding made available to school districts through the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act has been allocated to school districts and will be distributed on a reimbursement basis.

Senator Rust said the excess ending fund balance deduction in the state school aid formula also is problematic for school districts that receive significant unpredictable revenue.

At the request of Chairman Schaible, Mr. Adam J. Tescher, Director, School Finance and Organization, Department of Public Instruction, provided information ([Appendix B](#)) regarding funding provided through the state school aid formula by school district for the 2019-20 school year and estimated funding for the 2020-21 school year. Mr. Tescher reviewed the equity reports as of May 1, 2020, including information by school district regarding funding and the percent each source—property tax, local revenue, and state funding—represents in the total formula calculation. He said the state school aid formula by school district for the 2019-20 school year, adjusted for transition minimums and maximums and the ending fund balance offset, totaled \$1.314 billion, of which \$263.9 million, or 20.1 percent, is provided by local property tax, \$58.3 million, or 4.4 percent, is provided by local in lieu of revenue, and \$991.6 million, or 75.5 percent, is provided by the state through integrated formula payments. He said the total deduction of \$4.6 million from state school aid relating to the ending fund balance offset for the 2019-20 school year was higher than average because one school district received an unexpected federal payment. He said because state school aid is paid based on the prior year enrollment, the Department of Public Instruction's (DPI) estimates for the 2020-21 school year are based on 2019 fall enrollment. He said the equity report for the 2020-21 school year includes a new column for the on-time adjustment. He said the adjustment allows school districts with increasing enrollment to be paid a .5 weighting factor for the number of students by which fall 2020 enrollment exceeds enrollment during the 2019-20 school year. He said the state school aid formula by school district for the 2020-21 school year, adjusted for transition minimums and maximums, is estimated to total \$1.387 billion; of which \$279.6 million, or 20.2 percent, is estimated to be provided by local property tax; \$55 million, or 4 percent, is estimated to be provided by local in lieu of revenue; and \$1,052.3 million, or 75.8 percent, is estimated to be provided by the state through integrated formula payments. He said because school districts have the ability to spend or transfer funding from their general fund to avoid the excess ending fund balance deduction, projections do not include any adjustments for the deduction. He said the local property tax contribution to 2020-21 state school aid is known because it is based on 2019 property values; however, the contribution from in lieu revenue will not be known until August or September of 2020. He said the additional weighted student units related to on-time funding also are based on an estimate.

In response to a question from Chairman Schaible, Mr. Tescher said the on-time funding weighting factor is being phased in and the weighting factor will increase by .1 each year until it reaches 1.0. He said beginning with the 2021-22 school year another weighting factor will be added to adjust for any over or under payment of the prior year's on-time funding.

In response to a question from Representative Sanford, Mr. Tescher said DPI has not studied unrestricted funds received by school districts outside the state school aid funding formula which might cause inequities in funding. He said impact aid is one type of funding source that remains outside the formula. He said private donations tend to be restricted. He said if local revenue exceeds a school district's state school aid calculation, DPI does not require the

school district to forward the excess revenue to the state. He said substantial amounts received by school districts from oil and gas tax allocations and federal funds may create inequities in funding.

At the request of Chairman Schaible, Mr. Tescher provided information ([Appendix C](#)) regarding the South Dakota sparsity payment formula, estimated calculations of a sparsity payment, and a map of North Dakota schools that would qualify for funding under the sparsity payment formula. Mr. Tescher said the South Dakota sparsity formula provides for a payment of 75 percent of the general state aid per student equivalent up to a maximum payment of \$110,000. He said the per student payment is higher in North Dakota than it is in South Dakota, resulting in many of the North Dakota districts reaching the maximum payment when applying the sparsity formula to North Dakota schools. He said the sparsity formula divides school districts into three categories--districts with less than 83 students, districts with 83 to 232 students, and districts with 233 or more students. He said the formula provides for smaller payments to districts with less than 83 students and more than 232 students. He reviewed the listing and map identifying school districts in North Dakota which would qualify for a sparsity payment under the South Dakota model. He said to be eligible for payment under the South Dakota model, school districts must:

- Offer grades through high school;
- Have a fall enrollment of fewer than or equal to 500 students and fewer than .5 students per square mile;
- Cover a land area greater or equal to 400 square miles;
- Be 15 miles or more from the nearest high school; and
- Levy the maximum property tax.

Mr. Tescher said the map presented does not consider whether the school district was within 15 miles of the nearest high school or whether the district was levying the maximum amount of property tax. He said those criteria may further limit districts qualifying for the sparsity payment. He said some districts may be increasing the levy by the maximum 12 percent each year, but still remain below the 60 mill local property tax contribution.

Representative Nelson suggested the committee receive information regarding transportation funding in South Dakota and whether transportation reimbursement in North Dakota would encourage more open enrollment students than transportation funding provided by South Dakota.

At the request of Chairman Schaible, Mr. Tescher provided a summary ([Appendix D](#)) of school districts continuing to receive transition minimum payments. Mr. Tescher said when the state school aid formula was adopted in 2013, it included two calculations for determining a district's minimum funding--total dollar baseline and per pupil baseline. He said the total dollar baseline provided that regardless of the extent of enrollment decline, a school district could not receive less money than it received in the 2012-13 school year. He said the per pupil baseline provided a district could not receive less money per student than the district received in the 2012-13 school year, even if the per pupil payment from all sources exceeds the formula per pupil payment. In addition, he said, new students generate the same per pupil funding as the baseline set during the 2012-13 school year. He said if the enrollment of a school district receiving the baseline per student payment declined, it was protected by the total dollar baseline. He said in Senate Bill No. 2265 (2019) the Legislative Assembly reset school districts' baseline funding to the 2018-19 school year which, for districts receiving minimum payments, was their minimum based on the 2012-13 school year. He said the bill provides transition minimum adjustments will be reduced by 15 percent each year beginning in the 2021-22 school year and any new students will be funded at the statutory per pupil rate and not the baseline per pupil rate. For the 2019-20 school year, he said, 102 of the 174 school districts operating in the state received a transition minimum adjustment, of which 51 school districts received the total dollar baseline minimum. He said during the 2018-19 school year, 86 school districts received a transition minimum adjustment, of which 22 school districts received the total dollar baseline minimum.

In response to a question from Chairman Schaible, Mr. Tescher said, prior to 2019, when a K-12 school district reduced its grade levels to either a K-6 or K-8 school district, the total baseline minimum was not adjusted and the school district continued to be eligible for the same total dollar baseline funding the district received as a K-12 school district. He said Senate Bill No. 2265 addressed the total dollar baseline funding for school districts transitioning from a K-12 school district to an elementary district. He said the total dollar baseline now is reduced in proportion to the reduction in grade levels. He said the school districts are eligible for the per pupil baseline minimum until it is phased out.

In response to a question from Mr. Dick, Mr. Tescher said the number of school districts receiving a transition minimum adjustment is anticipated to decrease from 102 school districts during the 2019-20 school year to 90 school districts during the 2020-21 school year. He said a 2 percent increase in the integrated formula payment rate may have brought some school districts onto the formula or some school districts may be gaining enough students to move from the total dollar minimum baseline to the formula.

At the request of Chairman Schaible, Mr. Tescher provided an analysis ([Appendix E](#)) of potential changes to the school size weighting factors proposed by the North Dakota Council of Educational Leaders. Mr. Tescher said school size weighting factors provide additional funding on a sliding scale to school districts with enrollments of fewer than 900 students. He said data from the May 2020 equity report for the 2019-20 school year, which is based on 2018-19 enrollment, was used to analyze the phase-in of the proposed set of school district size weighting factors over the same 7-year period the transition minimum will be phased out. He said the analysis does not make allowances for alternative weighting factors or ending fund balance offsets. He said elementary district weighting factors in the analysis may need further adjustment. He said phasing in the increased school size weighting factors is estimated to result in an additional 2,000 weighted student units over 7 years; however, the transition minimum adjustment, costing \$49.5 million during the 2019-20 school year, is reduced to zero in the 7th year. He said the net effect of the savings related to the phasing out of the transition minimum adjustments and the additional cost related to the potential changes to the school size weighting factors is a net reduction in state aid from \$996.2 million in the 2019-20 school year to \$967.6 million in year 7 of the analysis.

Chairman Schaible invited Mr. Lemer to provide information ([Appendix F](#)) regarding the proposed changes to school district size weighting factors modeled by DPI. Mr. Lemer said a group of stakeholders analyzed the spending of various sized school districts and noted that small districts were spending more than the weighting factors provide. He said the analysis is very close to supporting the proposed factor of 1.72 for the smallest school districts, which would double the benefit of the school size weighting factor for the smallest school districts of 1.36. He said separate sets of weighting factors are used for elementary districts and high school districts. He said when stakeholders attempted to analyze the spending of elementary districts, they determined there were too few districts to create an accurate representation. He said stakeholders explored applying one set of factors to both elementary and high school districts. To account for lower spending at the elementary school level, he said, DPI adjusted the proposed K-12 factors by 92 percent for the elementary districts. He said additional adjustments to the elementary factors may be needed for certain sized elementary districts. He said the goal is to keep the school size weighting factor adjustments cost neutral. He said the reduction in transition minimum adjustments for the 1st year is estimated to save the state \$8 million and the increase in school size weighting factors will cost \$2 million, for a net savings of approximately \$6 million.

In response to a question from Mr. Dick, Chairman Schaible said implementing a sparsity formula payment program would be separate from the weighting factor increases, however the changes eventually will need to be analyzed together to determine the fiscal impact to school districts and the state.

In response to a question from Chairman Schaible, Mr. Tescher said for districts that reorganize, a special factor is established for 4 years to prevent the school district from losing funding through reorganization or by entering a cooperative agreement. He said for the analysis of the weighting factor increases, these special factors were removed. He said these special factors will require consideration when adjusting the school size weighting factors.

Chairman Schaible said consideration also must be given to ensuring school districts do not make more money by separating or leaving a cooperative agreement.

At the request of Chairman Schaible, Dr. Bitz presented an interactive map ([Appendix G](#)) prepared by Mr. Jeff Fastnacht, Assistant Superintendent, Mandan Public School District. Mr. Bitz said the map, based on the South Dakota sparsity model, identifies North Dakota one-room, K-6/K-8, and K-12 school districts with fewer than 100 students and fewer than 400 square miles.

Chairman Schaible said in some cases the funding formula may discourage reorganization or cooperative agreements. He suggested the committee consider whether certain K-6 and K-8 school districts meet the criteria of isolated and necessary school districts or whether their students could be served more efficiently by nearby K-12 school districts.

In response to a question from Mr. Dick, Chairman Schaible said based on the criteria of the South Dakota sparsity formula, the school districts on the map would not qualify for a sparsity payment because the districts have fewer than 400 square miles.

ELEMENTARY AND SECONDARY EDUCATION TRANSPORTATION STUDY

At the request of Chairman Schaible, Mr. Assel reviewed a bill draft [[21.0033.02000](#)] relating to reimbursement for elementary and secondary education transportation costs. Mr. Assel said the bill draft codifies student transportation aid payment sections as the provisions existed on June 30, 2001, updates provisions to reflect current practices and reimbursement rates included in Section 10 of Senate Bill No. 2013 (2019), and prohibits school districts from receiving transportation reimbursement for certain students participating in open enrollment and tuition waiver agreements. He said except for the language included in DPI's appropriation bill each biennium,

there are no statutory references to transportation aid payments to school districts. He said the bill draft was presented to the committee at the last meeting. He said revisions to the previous bill draft include removing a section related to the certification of information related to transportation payments by the business manager of each school district to the county superintendent of schools. He said the information is already required to be reported directly to DPI to receive transportation payments. He said the first and last section of the bill draft were amended to pay ridership regardless of whether the student is open enrolled from another school district. He said the bill draft also was revised to disallow transportation aid mileage payments for tuition waiver agreements between school districts.

In response to a question from Mr. Dick, Chairman Schaible said the bill draft should meet the committee's objective to reimburse open enrollment ridership, but not mileage.

Chairman Schaible asked committee members to review the bill draft and plan to discuss it further at the next meeting.

Chairman Schaible distributed testimony ([Appendix H](#)) submitted by Mr. ElRoy Burkle, Executive Director, North Dakota Small Organized Schools.

OTHER COMMITTEE RESPONSIBILITIES

At the request of Chairman Schaible, Mr. Tescher provided a financial transparency update. Mr. Tescher said the federal Every Student Succeeds Act requires states to report per pupil expenditures, including actual personnel and nonpersonnel expenditures, of federal, state, and local funds for each local education agency and each school in the state for the preceding fiscal year. He said the 2018-19 school year is the 1st year the report is required. He said the report required some districts to revise accounting systems to monitor expenditures by funding source at a building level. He said of the 174 school districts, 110 districts have only one building. He said DPI asked districts to focus reporting on the cost of education, including instruction and support personnel costs, technology, books, school administration, district and general administration, and operation and maintenance of the plant. He said because the state school aid formula combines state and local funds, DPI only required school districts to separate federal funds for reporting. He said DPI is working to meet the June 30, 2020, deadline to post the required reports for the prior fiscal year on its website. He said the data will include charts and users will have the ability to compare costs by building and district to statewide averages. He said users will be able to review how school districts allocate funding by building. He said the information also could be used to compare test scores by building and district.

In response to a question from Chairman Schaible, Mr. Tescher said the new dashboard is in addition to the statewide longitudinal data system and DPI manages it through a contract with the Information Technology Department. He said the dashboard will be available to the public at <https://insights.nd.gov>.

In response to a question from Senator Rust, Mr. Tescher said school districts have the flexibility to charge expenditures to a building or to the district's central office, which is then allocated to each building. He said this flexibility may make comparisons between districts difficult.

In response to a question from Senator Rust, Mr. Tescher said reviewing expenditures by building may identify buildings in which staff is paid more because they are more experienced and buildings in which salaries are lower because staff may be newer and less experienced. He said the information could highlight inequities and districts could use the information to ensure students are treated equitably districtwide.

In response to a question from Senator Heckaman, Ms. Kirsten Beasler, Superintendent of Public Instruction, said many of the state's school districts have submitted certification for federal funds available from the federal Elementary and Secondary School Emergency Relief Fund through the CARES Act. However, she said, most school districts are delaying requests for reimbursement to avoid exceeding ending fund balance limits as of June 30.

In response to a question from Senator Rust, Ms. Baesler said funding for state school aid formula payments is exempt from the reductions in the governor's 2021-23 biennium budget guidelines.

At the request of Chairman Schaible, Mr. Tescher provided an annual report ([Appendix I](#)) regarding the financial condition of school districts pursuant to Section 15.1-02-09. Mr. Tescher said the annual report, entitled *School Finance Facts*, is published in February for the preceding school year and is available on DPI's website. He said the report includes statewide and district information regarding mill levy rates, revenues, expenditures, average cost per pupil, enrollment, teachers and salaries, and number of graduates. He said based on the equity report previously presented to the committee, the state provides 75 percent of state school aid funding. He said, as noted

on page A-2, when other funding sources included in the annual report are considered, the percentage of funding provided by the state drops to 62 percent.

In response to a question from Senator Heckaman, Mr. Tescher said special education contract appropriations have been less than actual qualified reimbursement requests the last 2 bienniums. However, he said, if the funding is not sufficient for the biennium, DPI has the authority to provide reimbursement to school districts during the next biennium.

Senator Rust said the committee has studied many elements of the formula; however, it seems funding challenges next biennium will require the committee to prioritize formula changes based on limited state funding.

Chairman Schaible said it is likely there will be no extra funding available next biennium and the goal is to hold school districts harmless. He said scheduled increases in the on-time funding factor, increasing enrollment, and the cost to continue state school aid will require additional funding next biennium. He said phasing out transition minimum adjustments will result in savings that could be used to fund changes in formula weighting factors. He said adjustments to the school size weighting factors seem to be the best way to bring school districts on to the formula. He suggested the committee continue to review weighting factor scenarios to determine the most equitable plan to bring all school districts on to the formula.

Chairman Schaible thanked Mr. Ludvigson for his assistance to the committee. He said the committee anticipates inviting an administrator from a tribal school to continue the discussion on transition maximum adjustments.

No further business appearing, Chairman Schaible adjourned the meeting at 11:49 a.m.

Sheila M. Sandness
Senior Fiscal Analyst

ATTACH:9