

HB 1381
2025 Legislative Testimony
House Education Committee

Good afternoon. Chairman Heinert and members of the House Education Committee. For the record, my name is Steven Holen and I am the Superintendent of Schools for the McKenzie County Public School District #1 in Watford City. I am submitting written testimony in favor of HB 1381.

As the superintendent of schools for the McKenzie County Public School District #1 since 2005 and a member of the WDEA (NDAOGPC) for 10 years, the extent of the impacts on local communities and their corresponding school districts since the first drilled well in the Bakken Oil formation are well documented and certainly the nucleus of the growth and development of North Dakota to its current status and financial capacity. I was a superintendent during the phases of school finance of which in-lieu revenue was not accounted for in any capacity in the foundation aid formula, which then evolved to 50% of the imputed taxable valuation, 60% of imputed taxable valuation, and eventually the negotiated current status of 75% as a subtraction and no longer imputed with the taxable valuation of a school district. I participated in legislative discussions and testimony through those phases of which the value of the in-lieu revenue to address exponential infrastructure projects and needs was contrast to discussion of equity involving the foundation aid formula. While the definition of equity can be abstract and multi-faceted, it is understandable the discussion should be entertained in terms of a statewide funding system. However, the perceived challenges of equity in regards to the role of in-lieu revenue received by school districts in North Dakota should not prohibit such adjustments and corrections currently in law to address current needs and a growing number of school districts impacted by in-lieu funding at various levels and likely increasing in the future.

The inability to directly tax assets related to oil production has led to system of receiving gross production tax revenue as a form of in-lieu revenue, of which the actual taxable valuation and associated revenue has been neutralized or diminished compared to property tax revenue received from traditional means. This process has already impacted equity levels in terms of in-lieu revenue compared to traditional tax assessment process, therefore, it is problematic comparing it to traditional taxable property methods due to this fact. The current 75% subtraction is not based on any research-based methodology or related to actual expenditures, needs, or comparability factors. It was an arbitrary number that was negotiated over a decade ago that should not be viewed as a factor vetted or applied systematically to represent local contributions reflected in the foundation aid formula. As we have evolved in this current era of energy development and the corresponding needs, the opportunity to revisit factors related to the formula and defining local contribution should be pursued in HB 1381 as proposed. 50% was the first factor used in the formula over 15 years ago, there was no rationale of which 75% was eventually legislated at the time or discussion of why 50% was not an appropriate factor to reflect local, unique impacts related to energy development and burdened by the local community and taxpayer.

The North Dakota Legislative Assembly recently addressed tuition revenue received via Impact Aid by Grand Forks Public Schools and Minot Public Schools of which this factor was reduced to 0%. If this was addressed by the legislature previously and determined to be untouched by the foundation aid formula, why would 50% be unreasonable for other sources of in-lieu revenue? It seems equitable to consider HB 1381 due to recent actions taken with other sources of in-lieu revenue and allow the local school districts to address impacts and indebtedness without loss of state aid and impact local contribution through additional taxation.

It is time to revisit this factor impacting school districts in North Dakota and the increasing number of in-lieu revenue sources impacting school districts statewide. It is not feasible to use equity as a reason to not reconsider this subtraction; it is perhaps an argument for greater equity to address it and make corrections due to actions taken over the last several sessions and to recalibrate the importance of maintaining reasonable local sources to address unique needs and reduce infrastructure and indebtedness obligated at the local levels across the state.

I asked for your support of HB 1381 and the importance of allowing in-lieu revenue to be represented accurately in regards to local contribution and the North Dakota state foundation aid formula for K-12 public schools.

Thank you for your time and consideration.

Steve Holen