

Thank you, Mr. Speaker.

And house appropriations concurred with a do pass recommendation. House bill 1130 gives school districts the option to reduce its local contribution deduction in the school state aid formula by the percentage of the local contribution, that comes from in lieu-of revenue for capital debt repayment.

The purpose of this bill is to allow school districts the option to use a higher percentage of their in lieu-of revenue to fund capital projects or for capital debt repayment. Nearly every school district in North Dakota has some sort of in lieu-of funding, but there are schools in which a large portion of their funding comes from in lieu-of funding. In lieu-of taxes are taxes in place of property taxes. Those taxes are based on a percentage of income the business generates - what the property produces. There are 6 different types of in lieu-of funding, but the majority of them are related to energy. For instance, with oil it's the gross production tax. With coal, it's the coal conversion tax and the coal severance tax. These pay in lieu-of taxes because it's based on what the property produces.

When you look at the school funding formula, there are basically three areas in which the approximately \$11,000 per pupil payment come from:

1. In lieu-of taxes
2. local property taxes
3. state aid

The formula is calculated out as to how much the school district should receive and then the in lieu-of and local property tax are subtracted out of that to figure out the state's share of the student's payment. Some districts that have high in lieu-of taxes and some districts have low in lieu-of taxes. For the most part, though, the districts that produce energy, have telecom, and Mobil home are the ones that have high in lieu-of taxes.

When a school passes a bond referendum for some kind of capital project they are able to collect funding for debt repayment based on the value of the property in their district, since in lieu-of is not based on property valuation but on what the property produces it is not considered in the mill rate and is only available for capital debt repayment as this body sets in the school funding formula. section 4b(2)a is current law, 4b(2)b is new language that allows districts the option to use school state aid formula by the percentage of the local contribution that comes from in lieu-of revenue.

This bill gives the option to chose the bigger portion of their in lieu-of taxes to be used for a school's capital projects or for capital debt repayment. When choosing-one of these options, it will increase the state share of state aid and reduces the sinking and interest mill to the locals.

HB1130 still allows things to be done the way they have always been done in terms of the sinking and interest relative to the total mills levied by a school district for all purposes - there are no changes there. But there are schools in North Dakota, typically, but not always, in the energy producing areas, that have less in property value but more of in lieu-of taxes that would benefit from a second option. Since the energy industry is the largest industry in North Dakota and those areas basically share their revenue with the rest of the state, your Education Committee felt it was appropriate to give another funding option for them when it comes to capital projects.

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