

STATUS REPORT ON STATE SCHOOL AID AND OTHER MAJOR STATE GRANTS TO SCHOOL DISTRICTS

This memorandum provides the following information for the 2003-05 biennium:

- Appropriations to the Department of Public Instruction for state school aid and other major grants to school districts.
- Status of appropriations for state school aid, teacher compensation payments, special education aid, revenue supplement payments, reorganization bonus payments, distributions from the state tuition fund, and contingent state school aid and teacher compensation distributions.
- Original and revised estimates for per student payments and weighted student units for the first and second years of the biennium.

2003-05 BIENNIUM APPROPRIATIONS FOR STATE SCHOOL AID AND OTHER MAJOR GRANTS

The 2003 Legislative Assembly appropriated the following amounts for state school aid and other major grants to be distributed to school districts during the 2003-05 biennium, as compared to the 2001-03 biennium:

| | 2001-03 Biennium Appropriation | 2003-05 Biennium Appropriation | 2003-05 Biennium Increase (Decrease) |
|--|--------------------------------------|--------------------------------------|---|
| State school aid | | | |
| Statutory per student payments | \$522,264,541 | \$555,800,961 | \$33,536,420 |
| Less mill deduct and excess fund balance deduct | 84,942,893 | 101,870,971 | 16,928,078 |
| General fund per student payments | \$437,321,648 | \$453,929,990 | \$16,608,342 |
| Limited English proficiency payments | 650,000 | 650,000 | 0 |
| Transportation payments | 36,000,000 | 34,800,000 | (1,200,000) |
| Total state school aid - General fund | \$473,971,648 | \$489,379,990 | \$15,408,342 |
| Other major grants - General fund | | | |
| Teacher compensation payments | \$35,036,000 | \$51,854,000 | \$16,818,000 |
| Special education aid | 49,898,695 | 49,898,695 | 0 |
| Revenue supplement payments | 2,200,000 | 5,000,000 | 2,800,000 |
| Reorganization bonus payments | 1,665,000 | 500,000 | (1,165,000) |
| Total other major grants - General fund | \$88,799,695 | \$107,252,695 | \$18,453,000 |
| Total state school aid and other major general fund grants | \$562,771,343 | \$596,632,685 | \$33,861,342 |
| Other major grants - Special funds | | | |
| Tuition fund distributions | \$67,239,025 | \$69,495,371 | \$2,256,346 |
| Total state school aid and other major state grants to schools | \$630,010,368 | \$666,128,056 | \$36,117,688 |

STATE SCHOOL AID

The 2003 Legislative Assembly provided a general fund appropriation of \$489,379,990 for per student, transportation aid, and limited English proficiency payments, an increase of \$15,408,342, or 3.3 percent, from the 2001-03 appropriation of \$473,971,648.

The following schedule shows state school aid expenditures, as budgeted and as currently estimated, for each year of the 2003-05 biennium:

| State School Aid Program - 2003-05 Biennium | | | | | | | |
|--|--------------------------------------|--|--|---|--|--|--|
| | 2003-05 Biennium Appropriation | 2003-04 Fiscal Year Budgeted Expenditures | 2003-04 Fiscal Year Actual Expenditures | 2003-04 Fiscal Year Actual Expenditures (Over) Under Budget | 2004-05 Fiscal Year Current Estimate of Expenditures | 2003-05 Biennium Estimated Payments | 2003-05 Biennium Estimated Remaining Balance |
| Statutory per student payments | \$555,800,961 | \$274,455,721 | \$272,417,558 | \$2,038,163 | \$281,360,016 | \$553,777,574 | \$2,023,387 |
| Less mill levy and fund balance deducts ¹ | 101,870,971 | 49,105,680 | 48,609,941 | 495,739 | 52,765,291 | 101,375,232 | 495,739 |
| General fund per student payments | \$453,929,990 | \$225,350,041 | \$223,807,617 | \$1,542,424 | \$228,594,725 | \$452,402,342 | \$1,527,648 |
| Limited English proficiency payments ² | 650,000 | 325,000 | 318,501 | 6,499 | 331,499 | 650,000 | 0 |
| Transportation payments | 34,800,000 | 17,400,000 | 17,372,600 | 27,400 | 17,400,000 | 34,772,600 | 27,400 |
| Total state school aid - General fund | \$489,379,990 | \$243,075,041 | \$241,498,718 | \$1,576,323 | \$246,326,224 | \$487,824,942 | \$1,555,048 ³ |

¹The mill deduct factor for the first year of the 2003-05 biennium is 34 mills and the mill deduct for the second year of the biennium is 36 mills. Pursuant to North Dakota Century Code (NDCC) Section 15.1-27-05, the mill deduct factor is multiplied by the latest available net assessed and equalized property valuation of each district and that amount is subtracted from the per student state school aid, tuition apportionment, special education aid, transportation aid, and teacher compensation payments to which a district is otherwise entitled. Section 15.1-27-05 also provides that in addition to the mill deduct amount, the Department of Public Instruction must deduct the amount of a school district's unobligated general fund balance which is in excess of 75 percent of the school district's expenditures plus an additional \$20,000.

²North Dakota Century Code Section 15.1-27-12 provides that school districts are entitled to an additional payment for each student with limited English proficiency. As amended by the 2003 Legislative Assembly, Section 15.1-27-12 provides for a new four-tiered payment structure. Schools receive payments based on the level of a student's English language skills as determined using the language survey instrument specified in statute. The Department of Public Instruction is to calculate the total weighted number of students eligible for payment for each year by determining the sum of all English language learner students weighted as follows: 10 times the number of Level I students, 8 times the number of Level II students, 4 times the number of Level III students, and the number of Level IV students. The department is to determine the per student amount used to calculate payments for the first year of the biennium by dividing the total weighted number of students eligible for payment into 49 percent of the total amount appropriated for the biennium and the per student amount used to calculate payments for the second year of the biennium by dividing the total weighted number of students eligible for payments into 51 percent of the total amount appropriated. Payments are required to be distributed by May 30 of each year.

³The estimated remaining balance represents .3 percent of the biennial appropriation. The anticipated savings is due to the number of weighted student units for the first year of the biennium being 454, or .4 percent, less than originally estimated. Any remaining balance will be distributed pursuant to Section 37 of Senate Bill No. 2421 (see section entitled **Contingent Distributions - Per Student and Transportation Aid Payments**).

TEACHER COMPENSATION PAYMENTS

The 2003 Legislative Assembly appropriated \$51,854,000 to continue the current level of teacher compensation payments of \$1,000 for first-year teachers and \$3,000 for second-year returning teachers. The appropriation was calculated based on the assumption that for each year of the biennium, 8,559 returning teachers would qualify for the \$3,000 payment and 250 first-year teachers would qualify for the \$1,000 payment. Section 38 of Senate Bill No. 2421 provides that each school district shall use an amount equal to at least 70 percent of all new money received for per student payments and tuition apportionment payments for the purpose of increasing the compensation paid to teachers. School districts may be exempted from the requirement if the board of the school district determines by an affirmative vote of two-thirds of its members that complying with the provisions would place the school district in the position of having insufficient fiscal resources to meet its other obligations. The following schedule shows budgeted, actual, and currently estimated teacher compensation payments for each year of the 2003-05 biennium:

| Teacher Compensation Payments - 2003-05 Biennium | | | | | | | |
|---|--------------------------------------|----------------------------------|--|--|---|---------------------------------|--|
| | 2003-05 Biennium Appropriation | 2003-04 Fiscal Year Budget | 2003-04 Fiscal Year Actual Expenditures | 2003-04 Fiscal Year Actual Expenditures (Over) Under Budget | 2004-05 Fiscal Year Current Estimate | 2003-05 Biennium Estimate | 2003-05 Biennium Estimated Remaining Balance |
| Teacher compensation payments | \$51,854,000 | \$25,927,000 | \$25,438,618 | \$488,382 | \$25,927,000 | \$51,365,618 | \$488,382 ¹ |
| Qualifying instructional full-time equivalent positions | 8,809 | 8,809 | 8,656 | 153 | 8,809 | | |

¹The estimated remaining balance represents approximately .9 percent of the biennial appropriation. The original estimate for the number of qualifying instructional personnel was based on school district reports available during the 2003 legislative session. The actual number of qualifying personnel will vary each year to reflect school district personnel changes. Any remaining balance will be distributed pursuant to Section 36 of Senate Bill No. 2421 (see section entitled **Contingent Distributions - Teacher Compensation**).

SPECIAL EDUCATION

The 2003 Legislative Assembly provided a general fund appropriation of \$49,898,695 for special education payments to be distributed as follows, pursuant to Section 7 of 2003 Senate Bill No. 2013:

- \$13 million to reimburse school districts or special education units for excess costs incurred relating to contracts for students with disabilities.
- \$400,000 to reimburse school districts or special education units for gifted and talented programs.
- \$36,498,695 distributed on a per student basis as required by NDCC Section 15.1-27-10.

Special education average daily membership payments for the first year of the 2003-05 biennium were \$182 per student, and the payments are estimated to be \$185 per student for the second year of the biennium. The following schedule shows budgeted and actual special education expenditures through June 30, 2004:

| Special Education Comparison of Budgeted to Actual Expenditures Through June 30, 2004 | | | | |
|---|--------------------------------------|--|--|---|
| | 2003-05 Biennium Appropriation | Budgeted Expenditures Through June 30, 2004 | Actual Expenditures Through June 30, 2004 | Actual Expenditures (Over) Under Budgeted Amounts |
| Total special education payments | \$49,898,695 | \$24,489,348 | \$24,878,314 | (\$388,966) ¹ |

¹Actual expenditures through June 30, 2004, are \$388,966, or 1.6 percent, more than estimated.

REVENUE SUPPLEMENT PAYMENTS

The 2003 Legislative Assembly provided a general fund appropriation of \$5 million to the Department of Public Instruction for revenue supplement payments to school districts. North Dakota Century Code Section 15.1-27-11 provides a formula for the distribution of revenue supplement payments to school districts that are below the statewide average taxable valuation per student and below the statewide average educational expenditure per student. The following schedule shows budgeted and actual revenue supplement payments through June 30, 2004:

| Revenue Supplement Payments Comparison of Budgeted to Actual Expenditures Through June 30, 2004 | | | | |
|---|--------------------------------------|--|--|---|
| | 2003-05 Biennium Appropriation | Budgeted Expenditures Through June 30, 2004 | Actual Expenditures Through June 30, 2004 | Actual Expenditures (Over) Under Budgeted Amounts |
| Revenue supplement payments | \$5,000,000 | \$2,500,000 | \$2,500,000 | \$0 |

REORGANIZATION BONUS PAYMENTS

Senate Bill No. 2421 provides a general fund appropriation of \$500,000 for reorganization bonus payments to be distributed pursuant to NDCC Section 15.1-12-11.1. The bonus amount for a reorganized district is based on the number of students, the number of square miles in the reorganized district, and the number of districts reorganizing. The department provided a \$500,000 school district reorganization bonus to the consolidated school district of North Shore, Berthold, and Plaza in January 2004.

In addition, NDCC Section 15.1-12-11.2 provides that school districts may receive an advance bonus payment of \$15,000 per district for the purpose of studying and planning for reorganization. If the districts eventually reorganize, the money advanced is deducted from their bonus. If the districts do not reorganize, the money advanced must be repaid. As of the date of this report, two school districts--Carrington and Sykes--have requested and received advance bonus payments totaling \$30,000.

TUITION FUND DISTRIBUTIONS

The state tuition fund consists of the net proceeds from all fines for violation of state laws, leasing of school lands, and the interest income from the state common schools trust fund, pursuant to NDCC Section 15.1-28-01. Section 15.1-28-03 directs the Office of Management and Budget, on or before the third Monday in February, April, August, October, and December of each year, to certify to the Superintendent of Public Instruction the amount of the state tuition fund. The Superintendent of Public Instruction apportions the money in the fund among the school districts in the state in proportion to the number of school-age children residing in each district (census units). The following schedule shows budgeted and actual state tuition fund distributions through June 30, 2004:

| State Tuition Fund Comparison of Budgeted to Actual Distributions Through June 30, 2004 | | | | |
|--|---|---|---|---|
| | 2003-05 Biennium Appropriation | Budgeted Distributions Through June 30, 2004 | Actual Distributions Through June 30, 2004 | Actual Distributions (Over) Under Budgeted Amounts |
| State tuition fund distributions | \$69,495,371 | \$34,747,685 | \$34,685,736 | \$61,949 ¹ |

¹Actual tuition fund distributions through June 30, 2004, are \$61,949, or .2 percent, less than budgeted. Actual tuition fund distributions for the biennium are anticipated to be close to appropriated amounts.

CONTINGENT DISTRIBUTIONS - PER STUDENT AND TRANSPORTATION AID PAYMENTS

Section 37 of Senate Bill No. 2421 provides that if any funds appropriated for per student and transportation aid payments remain unspent after all statutory obligations are met, the Department of Public Instruction shall distribute the funds as follows:

1. The first \$250,000 for providing reimbursements to the chief administrators of joint powers agreements.
2. The next \$1 million for providing reorganization bonuses, pursuant to NDCC Section 15.1-12-11.1, to school districts having reorganizations effective after July 1, 2003, and before July 1, 2005.
3. Any remaining amounts as additional per student payments on a prorated basis according to the average daily membership of school districts during the 2004-05 school year.

The current estimate of per student and transportation aid payments indicates an end-of-biennium unspent balance of approximately \$1,555,000. If the current projection is realized, the first \$250,000 will be distributed as reimbursements to the chief administrators of joint powers agreements, the second \$1,000,000 will be distributed as reorganization bonuses, and any remaining funds will be distributed as additional per student payments.

CONTINGENT DISTRIBUTIONS - TEACHER COMPENSATION

Section 36 of Senate Bill No. 2421 provides that if any funds appropriated for teacher compensation payments remain unspent after all statutory obligations are met, the Department of Public Instruction shall distribute "hold harmless" payments to school districts. The payments will be calculated as follows:

1. The department must calculate the difference between:

- a. The total payments the district will receive during the 2003-05 biennium for per student payments at the rates of \$2,509 and \$2,623 and teacher compensation payments as appropriated by the Legislative Assembly.
 - b. The total payments the district would have received during the 2003-05 biennium for per student payments if the rates had included the total amount appropriated for teacher compensation payments.
2. If the amount a district would have received in "b" above exceeds the amount a district is estimated to receive in "a" above, the department must calculate the difference and pay that amount to the district on or before June 30, 2005. If insufficient funds are available to make all of the payments required by this section, the department shall prorate the available amount among the eligible districts.
 3. If any money remains after completing the payment requirements of subsections 1 and 2, the department shall use the remaining money to provide additional per student payments on a prorated basis according to the average daily membership of school districts during the 2004-05 school year.

The current estimate of teacher compensation payments indicates an end-of-biennium unspent balance of approximately \$488,000. If the current projection is realized, the funds will be distributed to school districts as required by Section 36 of Senate Bill No. 2421.

PER STUDENT STATE SCHOOL AID, TUITION FUND PAYMENTS, AND WEIGHTED STUDENT UNITS

The number of weighted student units is calculated based on a weighting factor, specified in statute for each size category of school, multiplied by school district enrollment or average daily membership. North Dakota Century Code Section 15.1-27-35 defines "average daily membership" as the total days each student is in attendance or absent during the school year, including certain holidays, divided by 180 days. Section 15.1-27-20 provides that the number of weighted student units used for distributing per student state aid must be calculated using either the current year's enrollment or the previous year's average daily membership, whichever is greater. For a district with declining enrollment, the previous year's average daily membership will be greater. Consequently, the state school aid formula provides a mechanism to protect districts against fluctuating payments based on temporary enrollment declines and also slows the reduction in state school aid for districts with continuous enrollment declines.

The per student state school aid payment amounts set in statute and the estimated tuition fund payments for the first and second years of the 2003-05 biennium are:

| | Legislative Appropriation | Current Estimate | Current Estimate Increase (Decrease) From Legislative Appropriation | Current Estimate Percentage Increase (Decrease) From Legislative Appropriation |
|----------------------------|------------------------------|---------------------|---|--|
| 2003-04 | | | | |
| Per student payments | \$2,509 | \$2,509 | \$0 | 0.0% |
| Tuition fund distributions | 335 | 332 | (3) | (0.9%) |
| Total payments | \$2,844 | \$2,841 | (\$3) | (0.1%) |
| Weighted student units | 108,381 | 107,927 | (454) | (0.4%) |
| 2004-05 | | | | |
| Per student payments | \$2,623 | \$2,623 | \$0 | 0.0% |
| Tuition fund distributions | 335 | 332 | (3) | (0.9%) |
| Total payments | \$2,958 | \$2,955 | (\$3) | (0.1%) |
| Weighted student units | 106,258 | 106,258 | 0 | 0.0% |