

Education Funding and Taxation Committee

October 18, 2012
Harvest Room, State Capitol
Bismarck, North Dakota

K-12 Funding Formula Options
Jerry Coleman, Director
School Finance



DEPARTMENT OF PUBLIC INSTRUCTION
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Scenarios

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10:28 AM

Objective: Fully integrate the state's total share of funding (State aid/MLRG) into the school funding formula.

	#1 Full Foundation Aid - State/Local Funding	#2 Full Foundation Aid - State Funded	#3 Roll MLRG Into State Aid Formula	#4 Phase-out MLRG	#5 Current Formula
Concept	Provide an adequate amount of funding through a combination of state and local funds.	State take responsibility for funding 100% of the Cost of Education.	Distribute all state funding through existing state aid formula.	Freeze MLRG allocations and phase out over a 10 year period, increasing formula funding by the amount of the reduction	1. State aid formula - equalized state share. 2. State property tax buy down through replacement grants to school districts.
Framework	<ul style="list-style-type: none"> Adequacy target established based on PICUS study. Use the current formula weighting structure. Local contribution set at 95 mills and 75% of other identified local in-lieu revenue. State funding brings funding up to the adequacy target. Establish a baseline for hold harmless using net state aid formula, MLRG grants. Eliminate MLRG program. 	<ul style="list-style-type: none"> Adequacy target established based on PICUS study. Use the current formula weighting structure. State fully funds to the adequacy target. Offset Federal un-restricted and AB tuition revenue (requires federal approval). Establish a baseline for hold harmless using net state aid formula, MLRG grants and "lost taxing authority" (used 90 mills and other local revenue). Eliminate MLRG program. <p>Rewrite taxing authority.</p> <ul style="list-style-type: none"> General fund levies necessary only for supporting non-instructional activities. Local in-lieu taxes to school districts eliminated. 	<ul style="list-style-type: none"> Fully integrate the state's total share of funding (State aid/MLRG) into the current school funding formula. Increase the per student rate to distribute the additional funding. Implement a hold harmless factor based on baseline state aid formula and MRLG. Eliminate MLRG program. 	<ul style="list-style-type: none"> Freeze MLRG grants and reduce by 10% each year adding the reduction to the state aid formula appropriation. The current formula remains unchanged. Eliminate MLRG program. 	1. State aid formula: <ul style="list-style-type: none"> Per student formula to distribute the appropriation. Equalized for other local revenue sources Hold harmless mechanism based on baseline state aid per wsu. 2. Mill levy reduction grants: <ul style="list-style-type: none"> Grants to school districts based on the number of mills levied over 100 in taxable year 2008. Capped at 75 mills. Grants limited to state average increase in property valuation In exchange for a general fund mill levy cap of 110.
Annual Estimate based on 2012-13 payment year data	State Aid \$660 million <u>#1 Revenue Worksheet Draft Full Fnd State-Local</u>	State Aid \$918 million <u>#2 Revenue Worksheet Draft Full Fnd 100% State</u>	State Aid \$651 million <u>#3 Revenue Worksheet Draft Integrate</u>	State Aid/MLRG \$632 Million <u>#4 Revenue Worksheet Draft MLRG Factor</u>	State Aid \$463 million <u>MLRG \$169 million</u> Total \$632 million <u>#5 Revenue Worksheet Draft Current</u>

Workgroup Consensus Option

Note: Assumes additional school property tax reductions of up to 60 mills

School Finance System Goal Statement:

- Coherent rationale for providing adequate funding, on a per student basis, to educate students to state standards.
- Funding provided through a combination of state and local sources (including in-lieu).
- Reduced reliance on local property taxes to support basic educational operating costs.
- Sufficient local revenue generating capability to support other legitimate school activities.
- Transition period to minimize relative gains and losses.

Concept:

- Center on existing formula framework:
 - Weighted student units
 - Equalized for other local revenue sources
- Freeze mill levy reduction grants and distribute that level of funding through a factor in the formula.
- Going forward, additional funding is distributed through increases in the per student rate.

What has to happen:

- Establish a MLRG baseline at the current 75 mills plus an additional 60 mills.
- Rewrite the general levy authority to establish a 60 mill cap.
- Repeal existing MLRG program.
- Create a fixed formula factor for each school district to replace the mill levy reduction grants.

What is the impact:

- General Fund mill levy rate caps permanently reduced by 2/3 - from 185 mills to 60 mills.
- Districts are initially held harmless to current levels that will erode over time.
- All *new* state funding would be distributed through increases in the per student rate.
- Local flexibility is available through 10 additional mills (bought down to 50, can go to 60) or voter approval.
- The state funding must increase \$150 million annually to fund the additional property tax relief provided.

Systems consistent with higher student performance should have the following characteristics:

- Increased local control over both the level and allocation of resources
- A coherent rationale for the base level of funding to each district
- Appropriate adjustments for legitimate differences in the costs of educating students in various districts
- Balanced with the need for equity as well as maintaining limits on property taxation

Jennifer Imazeki: School Funding Formulas: What Works and What Doesn't? Lessons for California