

Testimony in favor of HB1225, Elimination of transition maximum

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House Education Committee, Representative Mark S. Owens, Chairman.

Members of the House Education Committee.

HB1225 is an elimination of the transition maximum part of the foundation aid formula. Only 11 schools are still affected, to a total sum of over \$8 million dollars last year. When the formula was put in place, these schools were concerned and they were told they would be on formula in 6 years or so, well we are 8 years in and they still aren't there.

And what it comes down to it seems is they are poor school districts who receive varying amounts of federal aid in order to educate their students. Some of it is Federal Impact Aid, some is Bureau of Indian Education, some is other Title 1 funds. In any case, the common thread among all those is the law is that the federal aid is to supplement not supplant state funds. Schools are not supposed to receive less money than it would take to educate their students in the absence of the federal aid.

Yet these school districts, but the very fact they are hitting the transition maximum receive less state and local dollars for education than the vast majority of schools in the state, and six of them, as we will discuss later, experience even more deductions due to having effectively no tax base. We in North Dakota take money from the poorest schools.

At the same time, we give extra money to those schools that have the greatest wealth, or did at the time the base was established. So that would be the Mill Levy Reduction Grants in 2013 on the electronic testimony. At the time the base funding was established, property tax relief, not education was a big part of school funding. The reduction grants came to a total of about 30% of the Foundation Aid payment. Then, due to transition minimums, we locked that property tax reduction into the money some schools received. If you had a lot of property, your base funding as I read it was as much as \$3000 per student extra, while on the poor side, it was as low as \$0.

At the same time, the property tax total paid also went into the base funding formula, so again, property rich school districts received a higher base resulting in increased state money right up to present day.

There is another issue with the federal funds. Those funds are not just for day to day operations of the schools. They are also supposed to be available to build schools and do those other things that the poor school districts cannot do using property tax. Yet our formula, takes the money they should have available to them to build. I know St. John this year had to use temporary classrooms to hold students. They can't tax to build, and the state pulls back the money they could use to pay bonds and build permanent.

I should mention there is a school building grant program in Impact Aid, but it seems to get about \$25 million a year to split among 1100 schools. It really isn't something that can be counted on to be

available when schools need it, and due to increasing enrollments, some of the poorest schools need it now.

I have put the amounts the transition maximum has cost the 11 schools still affected. As you can see for just those 11 schools the total is just shy of \$100 million. It would be a bit more except a couple of the schools now also hit the transition minimums. So for instance Belcourt and Dunseith had less withheld this year because they also hit the transition minimums. Seems strange indeed that a schools so far below formula could hit the minimum, but that fact saved them over a couple million dollars this year.

Often I get people at this point will pull out some sheet and say look, after adding in the federal money, they get similar amounts or even higher per student. The thing about that is they just considered for state spending what they cannot consider, it gets back to the federal funds being supplementing, not supplanting state money. And something I've never seen is that at the least, building funds should also be considered in that comparison, since the federal funds are also their building fund.

In the end, North Dakota's school equity funding is not equitable, it is a system where we take from the poor schools and give more to the wealthy. There is a system a few state have taken where we could get certified as equitable funding and then we could indeed consider many of the federal funds in our school funding. We are so far away from qualifying for that and it is a lot of work that doing that is always dismissed immediately. So we are left with we need to give all schools, from state and local funds, enough to adequately teach students, and whatever they get in federal funds will supplement that.

I should also point out that federal funds are subject to sequestration. When one of the tax bills passed one year, the sequestration rate went to 100% for a week or ten days until Congress exempted the bill from the budget balancing process. The schools that receive Impact Aid have experienced sequestration at various rates but often around 10%. And while support has generally been strong, no guarantee exists for the program or funding for it.

Impact aid has different flavors. One pays for land taken for federal use and there are school districts that receive that. Many of them are around Lake Sakakawea and receive some compensation for the land under the lake. But it's not enough to affect our formula.

The big effect comes with federally connected students. We see Impact Aid to our Air Force Base Schools which we will talk about later this morning, and in schools with large numbers of Native Americans. The idea is these federally connected students often come with little or no property tax base and since schools use property tax for funding, this is to provide for their education by supplementing state and local funding.