



SCHOOL FUNDING TASK FORCE

Wednesday, February 21, 2024
Roughrider Room, State Capitol
Bismarck, North Dakota

Senator Donald Schaible, Chairman, called the meeting to order at 10:00 a.m.

Members present: Senators Donald Schaible, Jay Elkin, David S. Rust; Representatives Pat D. Heinert, Jim Jonas, Eric James Murphy, Anna S. Novak, David Richter, Mark Sanford, Cynthia Schreiber-Beck; Citizen Members Levi Bachmeier, Brandt Dick, Rick Diegel, Steve Holen, Stephanie Hunter, Mike Lautenschlager, Luke Schaefer, Adam Tescher

Member absent: Citizen Member Maria Neset

Others present: Senator Brad Bekkedahl, Williston, member of the Legislative Management
See [Appendix A](#) for additional persons present.

It was moved by Representative Jonas, seconded by Representative Schreiber-Beck, and carried on a voice vote that the minutes of the November 28, 2023, meeting be approved as distributed.

ELEMENTARY AND SECONDARY EDUCATION STATE AID AND FUNDING FORMULA STUDY

Mr. Adam Tescher, School Finance Officer, Department of Public Instruction, provided information ([Appendix B](#)) regarding enrollment and school transportation funding. He noted:

- Fall enrollment for the 2024 school year totaled 115,767 students, 382 students more than 2023 enrollment and 1,095 students less than 2024 projections.
- While some communities will continue to experience growth, based on current birthrates and models, statewide enrollment is anticipated to decline.
- Total weighted student units for the 2024 school year were 714 student units less than estimated in the budget, resulting in savings of approximately \$7.6 million in the 1st year of the biennium.
- The deduction for in lieu of property tax revenue during the 2024 school year was approximately \$6.4 million more than estimated in the budget.
- The department anticipates the in lieu of property tax revenue and 60-mill property tax deductions in the formula will be more than budgeted in the 2nd year of the biennium and will result in additional savings to the state.
- Integrated formula payments for the biennium are estimated to be \$54.8 million less than anticipated in the budget and transportation aid grants are estimated to be \$8.2 million less than budgeted, resulting in total estimated unspent general fund appropriation authority of \$63 million at the end of the 2023-25 biennium.

Mr. Tescher provided information regarding transportation cost, reimbursement, number of rides, and cost per student for each school district for the 2023 school year. He noted:

- Transportation cost includes general, special education, and career and technical education transportation, but does not include transportation related to extracurricular activities. In addition to operating costs, transportation cost includes equipment purchases amortized over 8 years.
- When applying the 90 percent reimbursement limit, the department includes allocated administrative and school board costs. However those allocated costs are not included in the schedule provided.

- Statewide reimbursement totaled approximately \$24.9 million, or 31.8 percent of the total cost of \$78.4 million reported statewide. Reimbursement percentages vary by school district and special education unit and range from 0 to 90 percent.
- Using 2023 transportation data, if the state were to increase the transportation reimbursement to 50 percent, the total reimbursement would be approximately \$39.2 million per year, or \$14.3 million more per year than the current formula. Reimbursement of 70 percent of eligible transportation costs would require an additional \$30 million per year, for a total cost per year of \$54.9 million.
- Statewide, the reimbursement percentage has decreased in recent years because school districts are no longer reimbursed for transporting open-enrolled students.

In response to a question from a task force member, Mr. Tescher noted the state is in the process of phasing in small school district weighting factor increases; however, due to declining enrollment in small schools, the small school district weighting factors may need additional review.

In response to a request from a task force member, Chairman Schaible noted the task force may consider reviewing the clawback of on-time funding at a future meeting.

Dr. Steve Holen, Superintendent, McKenzie County Public School, provided information ([Appendix C](#)) regarding a school transportation study ([Appendix D](#)) conducted in partnership with the University of North Dakota (UND). He noted:

- The Bureau of Evaluation and Research Services within the College of Education and Human Development at UND conducted followup analysis to the initial information shared with the task force on November 28, 2023. The analysis explored models used in the business field that may address transportation cost outliers more effectively than the traditional regression models used in the initial analysis. However, the limitations remained the same as the first models and outliers still generated much higher values than actual expenditures. As a result, expected cost models should be interpreted with caution because they produced outliers with dramatically higher or lower expected funding amounts and regularly overestimated expenditures. Further research to improve models to provide reliable and reasonable estimates is recommended.
- While the current block grant funding mechanism is easy to understand and administer and provides local control over the use of the funds, it does not include inflationary factors and is not connected to actual cost. Current funding supports approximately one-third of transportation expenditures and the portion of expenditures supported by the state has been decreasing over recent years. There is a perceived inequity when school districts use local property tax and state school aid payments intended for direct educational services for transportation.
- Continued work may result in a statistical model that would reliably predict school district transportation cost; however, the model may be too complicated to implement.
- The task force may consider exploring a method to include transportation funding in the state school aid formula. Factors that seemed the most significant in the models include the physical number of schools, total rides, and number of reimbursement miles. There may be other factors, such as average cost per student, that could be considered.

In response to questions from task force members, Dr. Holen noted:

- School district transportation policies impact transportation cost. Further review of the tobit regression model could be done to identify outliers and determine why certain districts do not follow the model.
- A group of stakeholders has been meeting with representatives of UND to review the models. Future discussions could include representatives of the Department of Public Instruction (DPI) to determine less complicated options for funding. The group could present additional information at a future meeting.
- Montana has implemented a separate funding model for capital purchases related to transportation, including bus and infrastructure purchases.

A task force member expressed concern that expanding state transportation reimbursement may result in local school districts expanding services and further increase the cost of the program to the state.

In response to a question from Chairman Schaible, Mr. Tescher noted the state school aid formula includes a weighting factor and a minimum average daily membership for school districts with low enrollment in areas that cover 275 square miles and 600 square miles, respectively.

Chairman Schaible suggested Dr. Holen continue to work with UND, stakeholders, and task force members to bring suggestions for transportation aid funding to a future meeting.

Task force members expressed concern regarding the lack of commercially licensed bus drivers and the impact on school district transportation routes and costs.

Ms. Kirsten Baesler, Superintendent of Public Instruction, provided information ([Appendix E](#)) regarding accountability and advancing student outcomes. She noted:

- To avoid setting two goals, North Dakota set the state's accountability standards to match federal standards.
- The department used federal funding from the Elementary and Secondary School Emergency Education Relief (ESSER) Fund to pay for costs of school district administrators and business managers ([Appendix F](#)) attending an Edunomics Lab budget training at Georgetown University. Training was provided in outcome-based budgeting. Attendees are expected to complete the requirements of the certification program and share information with other superintendents and business managers in their region and at statewide conferences. Training materials, tools, and resources are also available to all of the school districts in the state.
- The Edunomics Lab has identified five levers ([Appendix G](#)) that state legislatures may use to help school districts maximize the value of funding provided for education.
- To address the loss of federal ESSER funding when it expires in September 2024, the department identified what programs worked and determined what resources would be available to continue those programs. The information was developed to provide guidance to school districts.

Ms. Amanda Peterson, Director of Educational Improvement and Support, Department of Public Instruction, provided information regarding school districts' use of ESSER funding and options to provide funding for these programs from other sources in the future. She noted:

- Many of the items school districts paid with ESSER funds will qualify for funding available through title programs and other supplemental funding streams in the future.
- In January 2024, the department released a resource for school districts to evaluate programs and identify funding.
- Categories that align with other federal funding streams include educator recruitment, high-quality instructional materials, developing and supporting leaders, and integrated student supports.
- The department maintains financial transparency and insights dashboards which provide information on funding and outcomes. The information is available by school district and statewide.

Mr. Tescher provided information regarding training to receive a certificate in education finance. He noted:

- The loss of ESSER funding will be more challenging for districts that used ESSER funds for ongoing costs and staff salaries. The loss of these funds will be less severe for districts that used the funding for one-time facility projects.
- The training emphasizes the budgeting process, including assessing cost per student for programs.

Mr. Luke Schaefer, Chief Executive Officer, Central Regional Education Association, provided information ([Appendix H](#)) regarding accountability and advancing student outcomes. He noted:

- Most school districts are part of the general school improvement program and use a process engaged by Cognia, which is focused on continuous improvement over a 5-year cycle.
- Schools that perform at lower levels participate in either the targeted support and improvement program or the comprehensive support and improvement program.
- High schools have more accountability measures than elementary (K-8) schools. High school accountability measures include choice ready, graduation rate, and GED completion.
- The Edunomics Lab provides tools for evaluating programs and prioritizing funding decisions. The tools will be shared with school districts at the end of March.

Dr. Aimee Copas, North Dakota Council of Educational Leaders, provided information ([Appendix I](#)) regarding programs school districts offer that are not measured by accountability standards. She noted:

- Many school districts have implemented innovative teaching methods and adopted personalized learning initiatives using technology and flexible learning environments.
- School districts engage in social-emotional learning to teach resilience, cooperation, and managing emotions.
- School districts provide multi-tiered systems of supports designed to address the academic, behavioral, and social-emotional needs of all students.
- To serve students, school districts also engage in community partnerships and parental engagement, extracurricular activities and clubs, cultural competency and equity initiatives, advanced academic and career preparation programs, wellness programs, and strategic planning and alignment.

Mr. Levi Bachmeier, Business Manager, West Fargo Public Schools, provided information ([Appendix J](#)) regarding the impact of the elimination of property tax on funding for K-12 education. He distributed copies of the 2023 DPI *School Finance Facts* ([Appendix K](#)) and a summary, by school district since 2001, of building fund levies and sinking and interest fund levies on a \$250,000 home ([Appendix L](#)). He noted:

- Funding for K-12 education is derived from multiple sources, including the foundation aid stabilization fund, the common schools trust fund, state general fund, local property tax, and other local revenue.
- A proposed constitutional measure is circulating to prohibit political subdivisions from raising revenue through property tax levies. The measure also prohibits general obligation bonds secured with a property tax levy; however, school districts issue debt beyond general obligation bonds. Clarification may be needed regarding which types of debt or bonds property tax could continue to fund.
- School district property tax levies benefit four funds, the general fund, special reserve fund, building fund, and sinking and interest fund. The general fund includes assessments for the local contribution to the K-12 funding formula and up to 10 additional mills, the cost of tuition, and up to 12 mills allowed for miscellaneous purposes.
- In addition to state school aid and any general fund levy not deducted in the formula, school districts may use the special reserve fund and other limited sources to provide funding for their operations.
- A school district building fund may be used for facility needs and debt service for facilities. The fund may also include taxes assessed to pay for the cost of special assessments charged to the school district.
- The sinking and interest fund is used to pay principal and interest costs on voter-approved building projects.
- The measure requires the state to provide property tax revenue replacement payments to political subdivisions in an amount equal to the amount of tax levied, excluding tax levied for the payment of bonded indebtedness, during the calendar year in which the measure was approved by voters.
- Some options to fund the replacement of property tax may include using a portion of the oil extraction and production tax allocation; increasing direct general fund investment in K-12; non-property tax local revenue sources, such as fees or sales tax; or reducing the integrated formula payment rate to make available resources to pay the constitutionally required tax revenue replacement payments.
- Some school districts will have temporarily approved excess levy authority when the measure becomes effective and other districts could drastically increase their property tax for 1 year. Funding from the excess levy authority would be part of the tax replaced by the state in perpetuity. Funding based on a certain time period may also cause inequitable funding among the districts.
- The measure prohibits the levying of property taxes for ongoing facility needs or future construction expenses. Mechanisms the Legislative Assembly could consider to support facility needs include direct one-time appropriations to school districts, state and local cost sharing, or including facility funding in the state aid formula. The Legislative Assembly may also decide funding for facilities should be provided from other local sources.

In response to a question from a task force member, Mr. Bachmeier noted if the measure is approved, school board action related to certain levies and voter approval of general fund levies to supplant sinking and interest levies could commit the state to significant increases in tax replacement payments into the future.

Ms. Kylee Merkel, Legislatively Directed Programs Business Banker, Bank of North Dakota, provided information ([Appendix M](#)) regarding the status of the school construction assistance revolving loan fund and funding scenarios. She noted:

- As of February 1, 2024, there were \$314.7 million of loans outstanding in the school construction assistance revolving loan fund and approximately \$8.6 million was available for new loans. The Bank anticipates repayments through June 2024 will total \$14.9 million, making approximately \$23.5 million available for loan applications due in March 2024. Based on the current portfolio, the Bank estimates \$29.4 million will revolve annually, making \$58.7 million available for loans each biennium.
- In 2023, the Legislative Assembly increased the loan maximums which will reduce the number of projects that can be funded with the revolving payments. Loans are funded in the order prioritized by DPI.
- A deposit of \$75 million into the school construction assistance revolving loan fund in each of the next 2 bienniums, for a total of \$150 million deposited in the fund, would allow the fund to generate \$130 million of revolving funds for new loans each biennium.
- A deposit of \$100 million into the school construction assistance revolving loan fund in each of the next 2 bienniums, for a total of \$200 million deposited in the fund, would allow the fund to generate \$150 million of revolving funds for new loans each biennium.
- In addition to lower interest costs, school districts using the school construction assistance revolving loan fund save interest over the construction period and bond issue costs.

Chairman Schaible suggested the Bank forward information regarding savings realized by school districts using the school construction assistance revolving loan fund to the task force.

Mr. Geoff Simon, Executive Director, Western Dakota Energy Association, provided information regarding the purpose of the school construction coalition. He noted school districts that have formed the coalition have inadequate or obsolete facilities and all are struggling to generate funding needed to make improvements.

Mr. Joshua Johnson, Superintendent, Valley City Public School District, provided information ([Appendix N](#)) regarding a school construction coalition survey. He noted:

- The survey received responses from 111 school districts, of which 77 school districts had a 5 percent debt limit and 26 school districts had a 10 percent debt limit. A total of 8 school districts responded that they were unsure of their debt limit.
- Of the respondents, 65 school districts had not done a facility assessment. Some states require school districts to perform periodic facility assessments.
- Most of the respondents indicated aging facilities with deferred maintenance, inadequate space for appropriate educational delivery, and parts availability were challenges. Approximately 30 percent indicated enrollment growth and additional facility needs were challenges.
- Building fund levies in 134 school districts range from 0.2 mills to 27.6 mills. There are 48 school districts levying over 10 mills for their building fund. Some school districts are using the building fund levy to repay debt.

Ms. Sonia Meehl, School Board President, Oakes Public School, provided information regarding data the coalition has compiled. She noted:

- Information from the North Dakota Insurance Reserve Fund indicates the average age of school buildings in the state is 55 years; however, some of the ages are based on the latest renovation and not the original build date. The total estimated value of school buildings was \$4.8 billion and there were 343 school or education-related buildings with varying classifications and descriptions.
- The composition of taxable property varies greatly by school district and impacts the ability to raise funds for construction. Based on 2022 valuations, agricultural land made up 19.1 percent of total statewide taxable valuation; however, in Oakes School District #41, agricultural land made up 61 percent of the taxable valuation in the school district, which results in a larger tax burden for fewer taxpayers.

Dr. Richard Faidley, Superintendent, Williston Basin School District, provided information regarding the coalition's next steps. He noted:

- Revenue sources vary widely by school district and create challenges for school construction funding solutions that can be applied to all school districts in the state.

- Facility assessments and a review of referendum votes, funding sources, and funding models are needed.
- Next steps include in-depth data analysis, comparative funding programs, and a final presentation on concepts.

In response to a question from a task force member, Mr. Faidley noted sales tax could be a viable source for some school districts, but others would be unable to generate enough sales tax revenue to pay for needed projects.

Representative Murphy provided information ([Appendix O](#)) regarding the challenges of financing school construction in the state. He noted:

- The State of Kansas provides funding for school construction on a sliding scale from 5 to 95 percent of the cost.
- In Wyoming, the state assesses building needs and pays for the cost of new buildings, eliminating local control.
- If the state provides funding, considerations should include a mechanism to control the cost of school district wants versus needs; criteria to determine when there is a need for a new building versus remodeling the existing building; school district qualifications for the program; local control over the project, if any; a retroactive program, if any, to offset the cost of buildings just constructed; and how to address school districts with fewer than 100 students.
- The value of 1 mill ranges from \$39 in Twin Buttes to \$575,472 in Bismarck. This disparity in value results in the need for more mills and a larger burden per \$100,000 of property value.
- While location impacts cost, there are also design considerations that may add to the cost, but do not impact function. A proposed commonly accepted K-12 school design for 450 students could be built for approximately \$50 million. Laboratory space and other needs would increase the cost of middle and high school designs. A state construction program could benefit from economies of scale in purchasing, limited plan changes, and construction management.
- A proposal for a state assistance program for school construction could include a sliding scale based on the number of students, value of a mill, and access to federal funding; a requirement to use state-approved plans, bulk purchasing, and construction management; and limited local control over finishes and exterior design.

Representative Richter provided information ([Appendix P](#)) regarding the use of in lieu of property tax local revenue to finance school construction. He noted school districts are currently able to reduce all in lieu of property tax revenue types by the percentage of mills levied by the school district for sinking and interest relative to the total mills levied before deducting 75 percent of the revenue in the state school aid formula. Alternatively, he suggested school districts could choose to use a percentage of the in lieu of property tax revenue, based on the percentage in lieu of property tax revenue represents of the total local contribution deducted in the state school aid formula, for school construction. The amount allowed for school construction would be exempt from deduction in the state school aid formula in a similar manner as the funding allocated to the sinking and interest levy exemption.

In response to requests from task force members, Chairman Schaible noted the task force could review:

- School construction funding models in Kansas and Wyoming.
- The cost per square foot to build schools in various parts of the state.
- Trends in property value increases by taxable property class.
- Proposals to integrate transportation funding in the state school aid formula.
- Funding for consolidated districts and whether formula adjustments are needed for those districts.
- The impact of the 12 percent limit on property tax assessment increases and how tax levied will compare to the property tax deducted in the state school aid formula when all school districts have been phased into the 60-mill deduction after June 30, 2025.
- The in lieu of property tax revenue deduction for the homestead and disabled veterans' property tax credits to determine whether or not it may be more appropriate to include the property value subject to the credits in the 60-mill deduction rather than deducting a portion of the in lieu of property tax revenue in the state school aid formula.

No further business appearing, Chairman Schaible adjourned the meeting at 4:31 p.m.

Sheila M. Sandness
Senior Fiscal Analyst

ATTACH:16