



# North Dakota Legislative Council

Prepared by the Legislative Council staff  
LC# 23.9301.03000  
December 2022

## EXPLANATION OF BILL DRAFT [LC# 23.0073.03000] TO INCREASE STATE FUNDING FOR K-12 EDUCATION

This memorandum provides an explanation and estimated fiscal impact of bill draft [LC# 23.0073.03000], which provides increased state funding for K-12 education and a corresponding decrease in the amount a school district may levy for the costs of education.

The K-12 education funding formula was established to determine the base level of funding required to educate students. The formula provides a base level funding amount of \$10,136 per weighted student unit. A school district's weighted student units are calculated by adjusting the actual number of students in attendance in a district by a variety of other factors, including the size of the school district and the resources needed to educate students with special needs. The base level amount calculated for a school district under the formula is funded by a combination of state and local sources. The amount a school district is expected to contribute to its total base level formula amount equals 60 mills times the taxable valuation of the school district plus 75 percent of in lieu of property tax revenue in the district. The state is required to contribute the remaining amount a school district is entitled under the formula in the form of a state aid payment.

The bill draft decreases a school district's contribution of 60 mills times the taxable value of the school district to an amount equal to 30 mills times the school district's 2022 taxable value for taxable year 2023, and the school district's 2022 taxable value increased by 5 percent per year, beginning with taxable year 2024 and each year thereafter, which results in an estimated increase of \$332 million in education costs being assumed by the state for the 2023-25 biennium. To account for the increased cost of education being assumed by the state, the bill draft provides a corresponding reduction in the amount a school district may levy for the costs of education. The bill draft replaces a school district's 70-mill general fund levy authority with levy authority equal to the amount generated by 30 mills on a school district's 2022 taxable valuation for taxable year 2023, and the school district's 2022 taxable value increased by 5 percent per year, beginning with taxable year 2024 and each year thereafter, and a levy of 10 mills on the school district's current taxable valuation. The bill draft does not modify the amount a school district may levy for purposes other than general fund purposes.

The bill draft removes the language prohibiting a school district from levying more mills in dollars than it levied in the prior year, plus 12 percent, due to the large reduction in a school district's overall general fund levy authority. Tying a large portion of a school district's levy authority to the amount generated by a levy of 30 mills against a fixed taxable value that increases by 5 percent per year serves to impose a valuation cap on a large portion of a school district's overall levy authority, resulting in tax relief for taxpayers. The bill draft also removes a school district's option of calculating an alternative levy amount by using the highest amount levied in any of the 3 preceding taxable years, with adjustments, pursuant to North Dakota Century Code Section 57-15-01.1.

The bill draft modifies Section 57-20-07.3 to provide a credit against payments in lieu of taxes paid by centrally assessed companies, including rural electric cooperatives (RECs), in an amount equivalent to the amount realized from the mill levy reduction. This credit is in addition to the credit provided to RECs when the state assumed the payment of social services costs that were previously funded by up to 20 mills of property tax. The rural electric cooperatives are subject to payments in lieu of tax, rather than the standard property tax that applies to investor owned utilities (IOUs), so mill levy reductions are not automatically passed through to RECs in the manner in which they are passed through to IOUs. The credit provisions added to Section 57-20-07.3 are provided to keep RECs and IOUs on an equal playing field.

The bill draft modifies the information displayed on a taxpayer's property tax statement to include the additional legislatively provided tax relief and requires all taxing districts to express levy amounts in terms of dollars rather than mills when communicating with the public. The bill draft also repeals obsolete sections of law and updates references to 60 mills with the new 30-mill cap.