

HB 1381**Chairman Beard – Senate Education Committee****March 18th, 2025**

Good afternoon. Chairman Beard and members of the Senate Education Committee. For the record, my name is Steven Holen and I am the Superintendent of Schools for the McKenzie County Public School District #1 in Watford City. I am testifying in favor of HB 1381 and its proposed changes to Section B of the State Aid to Schools Payment Worksheet involving the foundation aid formula.

Section B of the State Aid to Schools Payment Worksheet addresses contributions from other local revenue to be subtracted from the total foundation aid formula amount in the same manner as local property tax. Essentially, every school district in North Dakota receives some form of other local revenue, or in-lieu revenue, to varying levels. It is reasonable to consider other local sources of revenue outside of traditional property tax, however, the determination of what level is considered has been long debated in previous legislative sessions. The challenge in comparing lieu revenue sources to traditional property tax is they are not equitable in their calculation or nature as each source has its own formula to determine the in-lieu tax obligation by the entity. The telecommunications payment in lieu of property tax has been unchanged since 1999, for example, and set by NDCC of which no inflationary factors are included in the same manner as taxable valuation used for property tax. The current subtraction factor of 75% was not based on statistical analysis or comparisons of formulas, it was based on a negotiated level that fit budgetary expectations at that time. It is reasonable to consider if the subtraction factor of 75% is fair compared to traditional property tax, especially in cases involving other formula distributions and the lack of impact on the taxable valuation of the school district which includes other consequences and support for school district initiatives and capital projects.

In the case of Gross Production Tax, as an in-lieu revenue for school districts with oil and gas production, the payment to school districts is provided through an extensive formula based on production levels and significantly less than the actual taxable valuation of the property that was deemed exempt from property tax in NDCC. Additional impact is experienced regarding school construction and bond referendums of which the in-lieu revenue is not included in the taxable valuation of the school district to reduce the individual tax responsibility of the local taxpayer with a successful vote. Essentially, oil and gas producers in North Dakota are not directly supporting school construction and indebtedness due to the nature of the in-lieu tax formula and should be accounted for, at some level, to allow for property tax relief involving school construction and infrastructure projects, outside of general operations. The 75% apportionment only allows 25% to be maintained to account for such infrastructure or indebted obligations, as well as the current sinking and interest apportioned factor. The consideration of 65% would allow any school district receiving other local revenue to maintain a higher percentage locally and to reduce taxpayer contributions to address unique needs related to the other local revenue source. It allows local revenue to stay local and address issues related to the activity in their area that drives the other local revenue sources, which can be flood control

efforts or wind energy as other examples. The higher the levels of other local revenue, generally, the greater impacts exist related to that service or payment in the existing areas.

Historically, the subtraction began at 75% in 2013 of which prior the revenue from other sources, such as the gross production tax, was included at 60% and prior to that at 50%. It was not a direct subtraction as per the current process, it was calculated into an imputed taxable valuation and met a threshold (150% of state average) to be deducted. Prior to this legislation, the other local revenue was not accounted for regarding state funding to K-12 school districts. The factor to consider involving previous accounting levels is the lack of a definitive factor that addresses the unique nature of the other revenue sources and how to address in the foundation aid formula. HB 1381 looks to reset this factor to 65% of which provides a financial benefit to essentially all North Dakota K-12 school districts. Concerns with equity are understood, however, equity should be viewed more in a global sense rather than simply comparing sources of revenue as equal when there are differences in their calculation and intent. The state contribution that would increase due to this factor decreasing to 65% should be viewed as property tax relief and acknowledge the unique challenges that often are present with certain revenue sources, especially related to oil and gas development, and K-12 school districts.

The North Dakota Legislative Assembly recently addressed tuition revenue received via Impact Aid by Grand Forks Public Schools and Minot Public Schools of which this factor was reduced to 0%. If this was addressed by the legislature previously and determined to be untouched by the foundation aid formula, why would 65% be unreasonable for other sources of in-lieu revenue given this enactment? It seems feasible to consider HB 1381 due to this recent action regarding a significant other revenue source that impacted two larger school districts in North Dakota.

It is reasonable and judicious to revisit this factor impacting school districts in North Dakota and the increasing number of in-lieu revenue sources impacting school districts statewide. The rationale of equity as a reason to not consider HB 1381 should be revisited and examined; it is perhaps an argument for greater equity to address it and make corrections due to actions taken over the last several sessions and to recalibrate the importance of maintaining reasonable local revenue sources to address unique needs including infrastructure and indebtedness obligated at the local level across the state. While equity is a valid pursuit in the foundation aid funding formula, it should not be used as an excuse to avoid discussions on recalibrating and accounting for the increasing volume of in lieu tax revenue received by school districts across the state; this is not a western North Dakota issue, but a statewide issue. If not now, in the future when development triggers this revenue to be used by a school district.

The House of Representatives provided substantial support for HB 1381 and inclusion in HB 1013 further exemplifies this support. I ask for your support of HB 1381 to help maintain local revenue sources at a higher percentage to address local needs and avoid extensive subtractions in the foundation aid formula.

Thank you for your time and consideration, I will stand for any questions at this time.