



North Dakota Legislative Council

Prepared for the Education Committee
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SCHOOL DISTRICT ENDING FUND BALANCE STUDY – BACKGROUND MEMORANDUM

Section 2 of House Bill No. 1238 (2023) ([appendix](#)) directs the Legislative Management to study the implementation of effective parameters for the ending fund balance for a school district, governed by North Dakota Century Code Section 15.1-27-35.3, to allow a school district to achieve a credit score sufficient to bond at a reduced cost to taxpayers while providing equitable and adequate education. The study must include:

- Identification of efficient ways to analyze information on district expenditures;
- A review of the impact of a school district's ending fund balance on the district's short- and long-range planning, related facilities, staffing, and programming;
- An evaluation of possible trends between state investment, district expenditures, and student performance; and
- A review of the dramatic increase in behavioral and mental health issues of students, which are addressed by schools with school budgets, in addition to the traditional scope of academic preparation.

The North Dakota Council of Educational Leaders, the North Dakota School Boards Association, and the North Dakota Small Organized Schools offered testimony in support of House Bill No. 1238. There was no testimony offered in opposition to the study.

ENDING FUND BALANCE LAWS

North Dakota Statutory Provisions and Legislative History

Section 15.1-27-35.3 - Enactment and Limitations

Section 15.1-27-35.3, enacted with the passage of Senate Bill No. 2200 (2007), establishes the permissible amount of a school district's ending fund balance and provides for a reduction in state aid by any amount exceeding the statutory ending fund balance limitation.

The permissible ending fund balance is directly related to the school district's actual expenditures. As enacted, Section 15.1-27-35.3 limited a school district's ending fund balance to an amount equal to 50 percent of a school district's actual expenditures plus \$20,000, with a decrease slated for the following year. On July 1, 2008, the allowable ending fund balance was lowered from 50 to 45 percent of a school district's actual expenditures plus \$20,000.

Six years later, the Legislative Assembly decreased the ending fund balance limitation a second time with the passage of House Bill No. 1013 (2013). Proponents of the decrease reasoned that school districts do not need to maintain excessive cash on hand, particularly in districts receiving substantial funding from oil and gas revenue. Proponents reasoned that decreasing the allowable ending fund balance would result in property tax relief for constituents. As a result of House Bill No. 1013 (2013), on July 1, 2015, the ending fund balance limitation decreased from 45 to 40 percent of actual expenditures plus \$20,000, and on July 1, 2017, the limitation decreased again to 35 percent of actual expenditures plus \$20,000.

Senate Bill No. 2321 (2017) retained the ending fund balance limitation of 35 percent of actual expenditures but increased the additional amount a school district may retain from \$20,000 to \$50,000, or \$100,000 if the school district was in a cooperative agreement for 2 years. Supporters of the bill sought a substantial increase in the permissible ending fund balance to address the difficulty small schools faced when a significant cost, such as replacing a boiler, was incurred unexpectedly. Several rural school districts offered testimony in favor of the bill.

Senate Bill No. 2165 (2021) - Moratorium

In 2021, the statutory limitations on a school district's ending fund balance were suspended to prevent school districts from being penalized for increased cash on hand as a result of the Coronavirus (COVID-19) pandemic.

School closures resulted in lower than anticipated expenditures and an influx of federal funding disbursements in response to the pandemic created an unexpected surplus in cash. The Legislative Assembly determined penalizing schools for higher than usual ending fund balances was not the best course of action in this unprecedented scenario. With the emergency passage of Senate Bill No. 2165 (2021), the Legislative Assembly suspended the operation of Section 15.1-27-35.3 until July 1, 2023.

House Bill No. 1238 (2023) - Continued Moratorium and Study

House Bill No. 1238 (2023) extends from July 1, 2023, to July 1, 2027, the moratorium on the penalty for exceeding the unobligated general fund balance limitations. The Executive Director of the North Dakota Small Organized Schools provided testimony in support of House Bill No. 1238 during the 2023 Legislative Assembly. He noted small and rural schools face budgetary concerns when a large expenditure, such as an air handling system or bus purchase, arises and the school district's ending fund balance is insufficient to cover the expense. This bill also provides for this study which affords the committee an opportunity to review a variety of policy considerations and determine the desirable parameters for a school district's ending fund balance.

RELATED LEGISLATIVE MANAGEMENT STUDIES

Elementary and Secondary Education State Aid and Funding Formula Study

The Education Funding Committee reviewed school district ending fund limitations during the 2021-22 interim. The committee learned the ending fund balance limitation is a challenge for school districts that receive significant unpredictable revenue. For example, school districts dependent on federal funding, the timing of which can be inconsistent, may require more than the ending fund balance permits to remain operational.

The committee also considered how to treat excess funds resulting from the COVID-19 pandemic, which would be subject to the ending fund balance limit. In general, a school district may reduce its ending fund balance by transferring funds from the school's general fund to the building fund. However, in doing so the school district limits the subsequent use of those funds because transfers from the building fund back to the general fund are restricted. Approximately 33 school districts transferred excess funding from their general fund to their building fund in the spring of 2020 to avoid an excess fund balance deduction to their state school aid payment. In response, the committee recommended, and the Legislative Assembly approved, House Bill No. 1028 (2021) which amended Section 57-15-17 to temporarily allow the return of funding to a school district's general fund before June 30, 2021. The temporary exception allowed school districts to use excess funding resulting from the COVID-19 pandemic.

SCHOOL DISTRICT TOTAL EXPENDITURES DATA

The total expenditures of a school district vary widely. Applying an ending fund balance limitation to a school district with relatively low total expenditures can be limiting. The expenditure disparities between school districts can be illustrated by comparing school districts within the lower and upper bounds of school expenditure data from the 2021-22 school year. The total expenditures for Manning and Zeeland were \$382,282 and \$1,396,205, respectively, compared with Fargo and Bismarck, spending \$189,592,783 and \$194,559,620, respectively. For additional data, see the Department of Public Instruction's most recent [School Finance Facts](#) report.

YOUTH BEHAVIORAL HEALTH AND MENTAL HEALTH

This study requires a review of the dramatic increase in behavioral and mental health issues of students, which result in additional school district expenditures. Kindergarten through grade 12 students continue to report increased mental health challenges, which in many cases were exacerbated by the COVID-19 pandemic. Many students face short- or long-term challenges in managing social relationships, learning, decision-making, anxiety, depression, worry, and isolation. Data collected by the World Health Organization indicates half of all mental illnesses begin by the age of 14. Statistics provided in the 2020 North Dakota Young Adult Survey indicate 1 in 10 young adults in North Dakota seriously considered suicide in 2020 and 1 in 50 attempted suicide. The early onset and prevalence of these health challenges makes early intervention and support critical.

Mental Health Legislative Trends

State legislatures have approached behavioral and mental health issues in education by enacting legislation to:

- Support a positive school climate;
- Require mental health and wellness curricula;
- Promote suicide prevention services;
- Create task forces to study student behavior and discipline;
- Promote professional development related to mental health;

- Permit student absenteeism related to mental health; and
- Require staffing ratios for mental health professionals.

Mental Health Professionals

School counselors deliver fundamental services to a broad range of students, whereas school psychologists provide comprehensive services to students in need of mental health care. The National Association of School Psychologists recommends providing one psychologist for every 500 students; the American School Counselor Association recommends one counselor for every 250 students. States with staffing ratio policies generally require the highest concentration of mental health professionals at the high school level.

North Dakota requires one counselor for every 300 students in kindergarten through grade 12, permitting up to one-third of the counselors required in grades 7 through 12 to be career advisors. There is no requirement for school psychologists.

North Dakota Behavioral Health Legislation

In 2017, the Legislative Assembly amended Section 50-06-01 with the passage of Senate Bill 2039 to define "behavioral health" as the planning and implementation of preventive, consultative, diagnostic, treatment, crisis intervention, rehabilitation, and suicide prevention services for individuals with mental, emotional, or substance use disorders, and psychiatric conditions.

In 2019, the Legislative Assembly passed several bills to address behavioral health issues, including Senate Bill No. 2012, which:

- Directed the Department of Human Services to establish and implement a program to provide comprehensive community-based services for individuals who have serious behavioral health conditions;
- Provided \$1.5 million in Behavioral Health School Grants for school districts; and
- Provided \$300,000 for the North Dakota Prevention and Early Intervention Pilot Grant to provide behavioral services in schools.

For the 2022-23 school year, all Behavioral Health School Grant funding was allocated to 23 eligible school districts and special education units.

In 2023, the Legislative Assembly passed House Bill No. 1386, which granted discretion to school districts to provide behavioral health professional development that previously had been mandatory.

STUDY APPROACH

In conducting this study, the committee may wish to receive testimony from:

- Representatives of the Department of Public Instruction regarding:
 - Possible trends between state investment, district expenditures, and student performance;
 - Analysis of district expenditures; and
 - Analysis of increased expenditures related to behavioral and mental health issues.
- Education stakeholders, including schools, school districts, administrators, and teachers, regarding:
 - Effects of ending fund balances on small and rural schools; and
 - Analysis of the effects ending fund balance requirements have on a district's short- and long-range planning, related facilities, staffing, and programming.
- Representatives of the North Dakota Council of Educational Leaders regarding:
 - The credit score necessary for a school district to achieve optimal bonding rates;
 - Effects of an ending fund balance on a school district's credit score;
 - The financial burden lower credit scores for school districts place on taxpayers; and
 - Whether differentiation of ending fund balance requirements depending on school size is appropriate.

ATTACH:1