

2017 HOUSE EDUCATION

HB 1357

2017 HOUSE STANDING COMMITTEE MINUTES

Education Committee
Coteau A Room, State Capitol

HB 1357
1/30/2017
Job 27587

- Subcommittee
 Conference Committee

Committee Clerk Signature

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide for a legislative management study regarding the effects of placing limits on school district levies on the equitable application of the education funding formula.

Minutes:

Attachment 1.

Chairman- Mark S. Owens: opens hearing on HB 1357, waiting for person presenting the bill.

Representative Beadle: Is a simple study bill that is looking toward the educational funding formula, that we have been working on over the last few sessions. We have passed out, this bill comes with the request of the Fargo public schools to try to address an issue that they discovered, that it was not intended to happen, but has happened as a result of where they were at when the funding formula was put into place, as some of you may remember, when we looked at the funding formula, we took the existing tax base that everybody has, where the existing levy authority is, and we put a wade cap in there, we reduced down some of the authority and everything else. Another unintended consequence happened, because of where they were at in terms of their existing levy capacity when they had to reduce down in the formula coming back, it has created roughly a 4-million-dollar shortfall in the Fargo public school budget compared to what the formula should truly generate, based on the levy caps. This bill is put in as a study to try to look at how we can resolve that issue, the Fargo public schools is facing, they are the only school district in the state that is being impacted this way, and this was put into place to be a placeholder bill for in case the parties were able to come up with an actual solution for it, then this would be able to be amended accordingly into something that could fit, but in the mean time we wanted to make sure that we were studying the problem going forward, so we can figure out how to address it, so that Fargo public schools does not continue to lose revenue as they continue to grow, which is not the intention of the funding formula to begin with.

Chairman- Mark S. Owens: any questions from the committee.

Rep. Rich S. Becker: Fargo being one of the largest school districts in the state, can you elaborate a bit how they could be the only school district in the state impacted by this.

Representative Beadle: because of where they were from a property evaluation standpoint at the time, and the number of mills they were collecting. Because of where they were at from a property value standpoint, because they are one of the more land rich districts in the state, it just created this perfect storm scenario, where even people at the system office continued to say no, this cannot happen. It took the school administrator say yes it is happening and here is the data. That is how we discovered that Fargo is the only one that is.

Rep. Rich S. Becker: high property value

Chairman- Mark S. Owens: anyone else in support for HB 1357

Broc Lietz: see attachment 1 for testimony.

Chairman- Mark S. Owens: are there any questions. I find it interesting what you are talking about. Every time we dealt with property tax, we set up a scenario. Exempt all the caps and all the rules necessary, from that was new growth. The intent there was not to limit the expansion of the tax base, and now you are telling me this does limit the expansion of the tax base.

Broc Lietz: there is new growth that happened, but what happened here is because Fargo public schools is frozen of actual dollars collected prior year, we are then entitled if that is the right word, to \$44.4 million, so as new growth comes on the rolls, what happens is new growth adds to the breadth of the tax base, then existing for farmer's portion, the existing taxpayers see a reduction. Because the county certifies the budget, simply has to account for the \$44.4 million for us, they are spending that responsibility over a broader base, as there is growth. So yes, there is addition to the tax base, but it lowers the existing payments to Fargo public schools for that purpose.

Chairman- Mark S. Owens: it was going to hold you at 60 mils times an amount.

Broc Lietz: that is correct, yup. That is a separate issue I think that their allowance in the law for the specified mill, but the deduction did not follow suit, it is simply a math problem that did not put into account that this would happen, there is 2 separate things in play there.

Chairman- Mark S. Owens: anyone else in support of HB 1357. Anyone opposed to HB 1357. Any neutral testimony on 1357. Closing the hearing on HB 1357.

2017 HOUSE STANDING COMMITTEE MINUTES

Education Committee
Coteau A Room, State Capitol

HB 1357
1/30/2017
Job 27614

- Subcommittee
 Conference Committee

Committee Clerk Signature

Explanation or reason for introduction of bill/resolution:

A bill for an act to provide for a legislative management study regarding the effects of placing limits on school levies on the equitable applications of the education funding formula.

Minutes:

No attachments

Rep. Brandy Pyle: I move a do pass for the study for HB 1357.

Chairman- Mark S. Owens: we have a motion for a do pass for HB 1357, do I hear a second. Seconded by Rep. Denton Zubke. Discussion?

Rep. Pat D. Heinert: I am going to vote against this, one school district, it does not seem practical to me to support it.

Rep. Mary Johnson: well there are other school districts that (soft audio)

Chairman- Mark S. Owens: this is true that 12 percent limitation has caused a little discomfort in more than one district that I am aware of.

Vice Chairman- Cynthia Schreiber-Beck: I will concur with that statement with Rep. Mary Johnson and yours, that this is not an isolated incident.

Chairman- Mark S. Owens: any other discussion. Seeing none I will ask the clerk to do a roll call vote for a do pass vote on HB 1357. Do pass vote is successful, 13-1-0, Rep. Longmuir will carry this bill.

Date: 1/30/17

Roll Call Vote # 1

2017 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1357

House Education Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
Other Actions: Reconsider _____

Motion Made By Rep. Pyle Seconded By Rep. Zubke

Representatives	Yes	No	Representatives	Yes	No
Chairman- Mark S. Owens	✓		Rep. Andrew Marschall	✓	
Vice Chairman- Cynthia Schreiber-Beck	✓		Rep. Bill Oliver	✓	
Rep. Rich S. Becker	✓		Rep. Brandy Pyle	✓	
Rep. Pat D. Heinert	✓	✓	Rep. Matthew Ruby	✓	
Rep. Dennis Johnson	✓		Rep. Denton Zubke	✓	
Rep. Mary Johnson	✓		Rep. Ron Guggisberg	✓	
Rep. Donald W. Longmuir	✓		Rep. Corey Mock	✓	
	6	1		7	

Total (Yes) 13 No 1

Absent 0

Floor Assignment Rep. Longmuir

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1357: Education Committee (Rep. Owens, Chairman) recommends **DO PASS**
(13 YEAS, 1 NAYS, 0 ABSENT AND NOT VOTING). HB 1357 was placed on the
Eleventh order on the calendar.

2017 SENATE FINANCE AND TAXATION

HB 1357

2017 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Lewis and Clark Room, State Capitol

House Bill 1357
3/8/2017
Job # 28852

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide for a legislative management study regarding the effects of placing limits on school district levies on the equitable application of the education funding formula.

Minutes:

Attachments: #1

All Senators present.

Chairman Cook: Opened the public hearing on House Bill 1357.

Representative Beadle, District 27: Introduced HB 1357. This is a study. Previously you will remember when we adjusted the K-12 funding formula and in 2013 is when we had the substance change. One of the main factors is when we looked at the property rich school district vs the property poor. We provided some limitations in their levying authority accordingly as a way of us putting down property relief towards the people. It has been very successful and we have had relief for tax payers. We created a unique situation where we set all the thresholds and everything for the school districts. It created a situation that only impacts Fargo. Based on where they were from a levying authority when we passed the law changes, where their property valuations were, and what their enrollment numbers were and growing. It created this weird perfect storm scenario where they actually lose some of the money based off the property they have because it takes away so much out of the funding formula. It offsets their stuff by \$11M a year of what they should be receiving from the state, but because of where they were at. In terms of how they have to come down and meet the cap, they're not going to get that replaced. It's a nightmare scenario and has been has been relieved. That makes this no longer as urgent a concern but they still want to look at having it addressed. It's to look and see how we might make some adjustments to the funding formula and mill levying when it's in the K-12 funding formula to make sure no other school districts are put in a squeeze like Fargo was. DPI had been trying to find solutions. Fargo public schools vote referendum levying authority.

(0:03:45-0:06:14) Brandt Dick, Superintendent, Underwood School; Board Member, North Dakota Small Organized Schools: Testified in support of HB 1357. **(Attachment #1)**

Senator Bekkedahl: The 12% cap. In my district area there are a lot of smaller school districts that are under the 60 mil cap and the superintendents said that everyone takes the 12% cap maximum on their mill levy every year because if they don't they suffer negative consequences from the funding formula. My question was if you keep doing that, aren't you in essence raising taxes on your local people as well, when you keep increasing the mill levy rate.

Brandt Dick: You would find in those school districts the taxable valuation has increased greatly. That the percentage of state vs local is not at the 80/20 that the legislation has strived for the last sessions. In our district we are 65 state funding and 35 local and other districts are closer to that 50/50. Overtime, yes, the funding burden has been passed to the property owners in those areas where the taxable valuations has increased greatly.

Sen Bekkedahl: Are we doing some long term damage to the tax payers in those districts by taking the 12% increase every year and why is it that they have to take the increase because they're trying to increase the state share coming back to them? If they don't take the 12% they don't get the maximum state reimbursement they're looking.

Brandt Dick: The way the funding formula works is, part of the funding formula is based on the total dollars it takes to educated a student and they subtract 60 mills. That 60 mill deduct is more like 25 or 28 mills in some districts. So that is going up 12% every year, so every year that deduction is increasing. So local school districts are saying they have to increase by 12% just to cover deduction the greater deduction every year. I think a study is needed for the funding formula just for that situation. All of a sudden they lose great tax evaluations, deducted from last year, but now they are levying on this year.

Senator Dotzenrod: As a state we have been in a period where there is rapid increase of valuations. Is that part of what is going on in that 60 mils? It appears to me that what is happening is because of the increases. The last few years you can look back and see we have taken those increases.

Brandt Dick: You are correct. Any increase above 12% causes that 60 mill deduct to be lower than 60 mills and over time we have to catch up. 3% is a low number that tax evaluations are going to be seen. There are areas in the state that we will see increase.

Vice Chairman Bekkedahl: Closed the hearing on HB 1357.

2017 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Lewis and Clark Room, State Capitol

House Bill 1357
3/8/2017
Job # 28859

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide for a legislative management study regarding the effects of placing limits on school district levies on the equitable application of the education funding formula.

Minutes:

Attachments: n/a

All Senators present.

Vice Chairman Bekkedahl: The testimony indicated there was a worthwhile venture to have a study out there.

Chairman Cook: And a shall consider study, so it's a management decision.

Senator Unruh: I think it aligns with a bill that we are hearing down the road. HB 1361 has limitations on mill levies. I don't think they talked about that during the hearing at all.

Chairman Cook: This an equity issue. I mentioned 32 mill levy deduct to Jerry Coleman, none of you even know what I'm talking about do you?

Committee Discussion whether the bill should go back to education committee.

2017 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Lewis and Clark Room, State Capitol

House Bill 1357
3/8/2017
Job # 28908

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide for a legislative management study regarding the effects of placing limits on school district levies on the equitable application of the education funding formula.

Minutes:

Attachments: n/a

All Senators present.

Chairman Cook: HB 1357, was a study. Can I call on you Senator Unruh?

Senator Unruh moved a do not pass on HB 1357.

Committee discussion on information garnered from the education committee, it's being studied in another area. This was related specifically to Fargo, had they not had the vote last night. The bill sponsor suggested this might be mote.

Vice Chairman Bekkedahl seconded the motion.

Roll Call Vote was taken: 6 ayes, 0 nays, 0 absent.

Motion carried.

Senator Unruh will carry the bill.

Date: 3/8

Roll Call Vote #: 1

2017 SENATE STANDING COMMITTEE
ROLL CALL VOTES

BILL/RESOLUTION NO. 1357

Senate Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar

Other Actions: Reconsider _____

Motion Made By Sen. Unruh Seconded By Sen. Bekkedahl

Senators	Yes	No	Senators	Yes	No
Chairman Dwight Cook	✓		Senator Jim Dotzenrod	✓	
Vice Chair Brad Bekkedahl	✓				
Senator Lonnie J. Laffen	✓				
Senator Jessica Unruh	✓				
Senator Scott Meyer	✓				

Total (Yes) 6 No 0

Absent 0

Floor Assignment Sen. Unruh

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1357: Finance and Taxation Committee (Sen. Cook, Chairman) recommends DO NOT PASS (6 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1357 was placed on the Fourteenth order on the calendar.

2017 TESTIMONY

HB 1357

Attachment 1

HB 1357

1/30/17

**House Education Committee
HB 1357**

Chairman Owens and members of the House Education Committee, my name is Broc Lietz. I am the Business Manager for the Fargo Public Schools and I am here today to testify in favor of HB 1357. This bill would have the interim legislative committee study the application of the 60 mill deduction for Contribution from Property Tax in the K-12 funding formula.

Specifically, the study would look at the impact of the application of this deduction on school districts that have frozen property tax revenue.

I understand the concept of the 60 mill deduct. Theoretically, the 60 mill Contribution from Property Tax is deducted from the state aid payment and the value of those mills is collected at the local level and there is no lost revenue to the district, which holds true when a school district is at or below the 60 mill state cap. I believe there is an unintended consequence for a school district that is above the state cap. The reason I believe this to be unintended by the legislature, is because at the time that the local deduction was introduced into the funding formula, there was a provision for district that are levying under the state cap. Their deduction is equal to their local levy and the dollars are captured with the local property tax collection. (ex.: if a district is levying 50 local mills, their deduction is 50 time the value of a mill). While at the same time, there were no districts currently impacted by being over the state cap, so consideration was not given for a situation that did not exist.

However, for Fargo Public Schools, the local effort deduction in the formula continues to increase while the local property tax collection is frozen. The revenue lost from the deduction is not captured by the local tax collection.

2016-17 Property Tax Collection: \$44,479,103

2016-17 Local Effort Deduction (60 X \$317,913): \$19,074,780

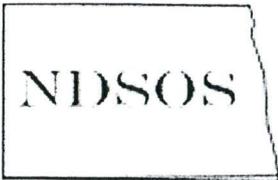
2017-18 Property Tax Collection: \$44,479,103

2017-18 Local Effort Deduction (60 X \$351,294): \$21,077,640

This is a loss of \$2 million dollars in foundation aid, while the contribution of property tax remains the same. With the current proposal for K-12 funding this session, Fargo Public Schools would actually see a reduction in State Foundation Aid even though we will experience student growth.

I want to reiterate, I do not believe this to have been the intention of the funding formula, merely an oversight given the fact that the situation has not presented itself.

Fargo Public Schools encourages a **DO PASS** recommendation in HB 1357, while also encouraging consideration of an amendment that would address the application of the reduction prior to the end of the session.



North Dakota Small Organized Schools

HB 1357 3/8/17 #1

Mr. ElRoy Burkle
Executive Director
1419 9th Ave NE
Jamestown, 58401
elroy.burkle@k12.nd.us
701-230-1973

Mr. Larry Zavada
President
401 3rd Ave SW
Wolford, ND 58385
larry.zavada@k12.nd.us
701-583-2387

Mrs. Janet Brown
Business Manager
925 Riverview Drive
Valley City, ND 58072
janet.brown@k12.nd.us
701-845-2910

Chairman Cook and Members of the Senate Finance and Taxation Committee,

For the record, my name is Brandt Dick, Superintendent of Underwood School and Board Member of the North Dakota Small Organized Schools (NDSOS)--representing 141 North Dakota Public School Districts--and member of North Dakota Association of School Administrators (NDASA) Legislative Focus Group finance member. We go on record to support HB 1357.

The present funding formula with the 12% cap have produced variability in mill levy rates for schools across the state. HB 1361 would decrease this cap to 3% and would produce much greater variability than presently exists. A study is needed for many parts of the K-12 funding formula, including what happens to those districts where taxable valuation decreases, something that did happen to a few school districts this year. The long term effect of this mill levy variability could lead to taxpayers from one school district asking questions as to why their mill rate is so much higher compared to the mill rate of other school districts, a study is needed.

Thank you for your time and consideration. I stand for questions.

Respectfully,

Brandt J. Dick
Superintendent/AD
Underwood School District
Phone: 701-442-3201
Fax: 701-442-3704
brandt.dick@underwoodschool.org

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The mission of NDSOS is to provide leadership for the small/rural schools in North Dakota and to support legislation favorable to their philosophy while opposing legislation that is harmful.