

April 2002

## STATUS REPORT ON STATE SCHOOL AID AND OTHER MAJOR STATE GRANTS TO SCHOOL DISTRICTS

This memorandum provides the following information for the 2001-03 biennium:

- Appropriations to the Department of Public Instruction for state school aid and other major grants to school districts.
- Original and revised estimates for per student payments and weighted student units for the first and second years of the biennium.
- Status of appropriations for state school aid, teacher compensation payments, special education aid, revenue supplement payments, distributions from the state tuition fund, payments for limited English proficient students, reorganization bonus payments, and contingent state school aid distributions.

### 2001-03 BIENNIUM APPROPRIATIONS FOR STATE SCHOOL AID AND OTHER MAJOR GRANTS

The 2001 Legislative Assembly appropriated the following amounts for state school aid and other major grants to be distributed to school districts during the 2001-03 biennium:

|  | 2001-03<br>Biennium<br>Appropriation | 1999-2001<br>Biennium<br>Appropriation | 2001-03<br>Biennium<br>Increase<br>(Decrease) |
|--|--------------------------------------|--|---|
| State school aid   |                                      |  |   |
| Statutory per student payments                                 | \$522,264,541                        | \$520,678,909                          | \$1,585,632                                   |
| Less mill deduct and excess fund balance deduct                | 84,942,893                           | 78,072,650                             | 6,870,243                                     |
| General fund per student payments                              | \$437,321,648                        | \$442,606,259                          | (\$5,284,611)                                 |
| Limited English proficiency payments                           | 650,000                              | 400,000                                | 250,000                                       |
| Transportation payments  | 36,000,000                           | 36,000,000                             |   |
| Total state school aid - General fund                          | \$473,971,648                        | \$479,006,259                          | (\$5,034,611)                                 |
| Other major grants - General fund                              |                                      |  |   |
| Teacher compensation payments                                  | \$35,036,000                         |  | \$35,036,000                                  |
| Special education aid  | 49,898,695                           | \$46,600,000                           | 3,298,695                                     |
| Revenue supplement payments                                    | 2,200,000                            | 3,100,000                              | (900,000)                                     |
| Reorganization bonus payments                                  | 1,665,000                            |  | 1,665,000                                     |
| Total other major grants - General fund                        | \$88,799,695                         | \$49,700,000                           | \$39,099,695                                  |
| Total state school aid and other major general fund grants     | \$562,771,343                        | \$528,706,259                          | \$34,065,084                                  |
| Other major grants - Special funds                             |                                      |  |   |
| Tuition fund distributions                                     | \$67,239,025                         | \$53,528,217                           | \$13,710,808                                  |
| Total state school aid and other major state grants to schools | \$630,010,368                        | \$582,234,476                          | \$47,775,892                                  |

### PER STUDENT STATE SCHOOL AID, TUITION FUND PAYMENTS, AND WEIGHTED STUDENT UNITS

The number of weighted student units is calculated based on a weighting factor, specified in statute for each size category of school, multiplied by school district enrollment or average daily membership. North Dakota Century Code (NDCC) Section 15.1-27-35 defines "average daily membership" as the total days each student is in attendance or absent during the school year, including certain holidays, divided by 180 days. Section 15.1-27-20 provides that the number of weighted student units used for distributing per student state aid must be calculated using either the current year's enrollment or the previous year's average daily membership, whichever is greater. For a district with declining enrollment, the previous year's average daily membership will be greater. Consequently, the state school aid formula provides a mechanism to protect districts against fluctuating payments based on temporary

enrollment declines and also slows the reduction in state school aid for districts with continuous enrollment declines.

The per student state school aid payment amounts set in statute and the estimated tuition fund payments for the first and second years of the 2001-03 biennium are:

|                            | Legislative<br>Appropriation | Current<br>Estimate | Current<br>Estimate<br>Increase<br>(Decrease)<br>From Legislative<br>Appropriation | Current<br>Estimate<br>Percentage<br>Increase<br>(Decrease)<br>From Legislative<br>Appropriation |
|----------------------------|------------------------------|---------------------|--|--|
| 2001-02                    |                              |                     |  |  |
| Per student payments       | \$2,287                      | \$2,287             | \$0  | 0.00%  |
| Tuition fund distributions | 300                          | 300                 | 0  | 0.00%  |
| Total payments             | \$2,587                      | \$2,587             | \$0  | 0.00%  |
| Weighted student units     | 113,075                      | 113,072             | (3)  | -0.003%  |
| 2002-03                    |                              |                     |  |  |
| Per student payments       | \$2,347                      | \$2,347             | \$0  | 0.00%  |
| Tuition fund distributions | 300                          | 300                 | 0  | 0.00%  |
| Total payments             | \$2,647                      | \$2,647             | \$0  | 0.00%  |
| Weighted student units     | 110,791                      | 110,791             | 0  | 0.00%  |

### STATE SCHOOL AID

The mill deduct factor for both years of the 2001-03 biennium is 32 mills. Pursuant to NDCC Section 15.1-27-05, the mill deduct factor is multiplied by the latest available net assessed and equalized property valuation of each district and that amount is subtracted from the per student state school aid, tuition apportionment, special education aid, transportation aid payments, and teacher compensation payments to which a district is otherwise entitled. The statewide taxable valuation used for distributing state school aid payments for the first year of the biennium was \$1.298 billion, which resulted in a mill deduct of \$41.5 million, the same as the amount used during the 2001 legislative session to calculate the appropriation. For the second year of the biennium, the actual statewide taxable valuation to be used for distributing state school aid payments is \$1.364 billion, \$19.6 million more than the amount used to calculate the state school aid appropriation. Consequently, the mill deduct for the second year of the 2001-03 biennium will be \$626,181 more than anticipated, resulting in a corresponding decrease in the general fund cost to distribute state school aid payments at the level specified in statute.

North Dakota Century Code Section 15.1-27-05 also provides that in addition to the mill deduct amount, the Department of Public Instruction must deduct the amount of a school district's unobligated general fund balance which is in excess of 75 percent of the school district's expenditures, plus an additional \$20,000. The estimated excess fund balance deduct used to calculate the state school aid appropriation was \$200,000 each year of the biennium. The amount to be deducted during the first year of the biennium is currently estimated to be \$300,000, resulting in a \$100,000 decrease in the general fund cost to distribute school aid payments at the level specified in statute. The estimated excess fund balance deduct for the second year of the biennium remains unchanged at \$200,000.

The following schedule shows state school aid expenditures, as budgeted and as currently estimated, for each year of the 2001-03 biennium:

| State School Aid Program - 2001-03 Biennium |                                      |  |  |  |  |  |  |
|---|--------------------------------------|--|--|--|--|--|--|
|   | 2001-03<br>Biennium<br>Appropriation | 2001-02<br>Fiscal Year<br>Budgeted<br>Expenditures | 2001-02<br>Fiscal Year<br>Current<br>Estimate of<br>Expenditures | 2001-02<br>Fiscal Year<br>Current<br>Estimate<br>(Over)<br>Under<br>Budget | 2002-03<br>Fiscal Year<br>Current<br>Estimate of<br>Expenditures | 2001-03<br>Biennium<br>Estimated<br>Payments | 2001-03<br>Biennium<br>Estimated<br>Remaining<br>Balance |
| Statutory per student payments              | \$522,264,541                        | \$260,384,838                                      | \$260,876,641  | (\$491,803)  | \$261,879,703  | \$522,756,344                                | (\$491,803) <sup>1</sup>                                 |

|                                       | 2001-03<br>Biennium<br>Appropriation | 2001-02<br>Fiscal Year<br>Budgeted<br>Expenditures | 2001-02<br>Fiscal Year<br>Current<br>Estimate of<br>Expenditures | 2001-02<br>Fiscal Year<br>Current<br>Estimate<br>(Over)<br>Under<br>Budget | 2002-03<br>Fiscal Year<br>Current<br>Estimate of<br>Expenditures | 2001-03<br>Biennium<br>Estimated<br>Payments | 2001-03<br>Biennium<br>Estimated<br>Remaining<br>Balance |
|---------------------------------------|--------------------------------------|--|--|--|--|--|--|
| Less deducts                          | 84,942,893                           | 41,724,014   | 41,824,014   | (100,000)  | 43,845,060   | 85,669,074                                   | (726,181) <sup>2</sup>                                   |
| General fund per student payments     | \$437,321,648                        | \$218,660,824                                      | \$219,052,627  | (\$391,803)  | \$218,034,643  | \$437,087,270                                | \$234,378  |
| Limited English proficiency payments  | 650,000                              | 325,000  | 325,000  |  | 325,000  | 650,000                                      |  |
| Transportation payments               | 36,000,000                           | 18,000,000   | 17,519,089   | 480,911  | 18,000,000   | 35,519,089                                   | 480,911  |
| Total state school aid - General fund | \$473,971,648                        | \$236,985,824                                      | \$236,896,716  | \$89,108   | \$236,359,643  | \$473,256,359                                | \$715,289 <sup>3</sup>                                   |

<sup>1</sup> The variance is primarily attributable to the "hold harmless" provisions of NDCC Section 15.1-27-20. Although the actual number of weighted student units is very close to original estimates, most districts experienced enrollment declines. Section 15.1-27-20 provides that districts with declining enrollment will be paid on the basis of the previous year's average daily membership. Although for the 2001-02 fiscal year the department budgeted approximately \$6.7 million for these "hold harmless" adjustments to the per student state aid payments, it appears that actual payments will be slightly more than that amount.

<sup>2</sup> The variance is attributable to the net effect of the excess fund balance deduct being approximately \$100,000 more than estimated for the first year of the biennium and the mill deduct being \$626,181 more than estimated for the second year.

<sup>3</sup> The appropriation was calculated based on an anticipated decline of 2,284 weighted student units between the first and second years of the biennium. The actual number of students was .003 percent less than estimated for the first year of the biennium; the original estimate for the number of students for the second year has not been revised. If the actual number of students for the 2002-03 school year is less than anticipated, costs for per student state aid and transportation payments will be reduced and the remaining balance will increase accordingly. Any remaining balance will be distributed pursuant to Sections 14 and 15 of 2001 House Bill No. 1344 (see section entitled **State School Aid - Contingent Distributions**).

### TEACHER COMPENSATION PAYMENTS

The 2001 Legislative Assembly appropriated \$35,036,000 for teacher compensation payments of \$1,000 the first year of the biennium and an additional \$2,000 the second year to approximately 8,884 FTE instructional personnel. The appropriation was calculated based on the assumption that during the first year of the biennium, 8,884 FTE positions would qualify for \$1,000 payments; the second year, 8,634 returning teachers would qualify for the second-year payment of \$3,000, and 250 first-year teachers would qualify for the \$1,000 payment. House Bill No. 1344 defines eligible personnel and creates a procedure for the distribution of teacher compensation payments to school districts. On or before October 1 of each year, a school district may file a claim with the Department of Public Instruction for the reimbursement of money the district anticipates spending during the school year to increase teacher salaries. The following schedule shows budgeted and currently estimated teacher compensation payments for each year of the 2001-03 biennium:

| Teacher Compensation Payments - 2001-03 Biennium |                                      |                                  |   |   |   |                                 |  |
|--|--------------------------------------|----------------------------------|---|---|---|---------------------------------|--|
|  | 2001-03<br>Biennium<br>Appropriation | 2001-02<br>Fiscal Year<br>Budget | 2001-02<br>Fiscal Year<br>Current<br>Estimate | 2001-02<br>Fiscal Year<br>Current<br>Estimate<br>(Over) Under<br>Budget | 2002-03<br>Fiscal Year<br>Current<br>Estimate | 2001-03<br>Biennium<br>Estimate | 2001-03<br>Biennium<br>Estimated<br>Remaining<br>Balance |
| Teacher compensation payments                    | \$35,036,000                         | \$8,883,820                      | \$8,786,000                                   | \$97,820  | \$25,858,000                                  | \$34,644,000                    | \$392,000 <sup>1</sup>                                   |
| Qualifying instructional FTE                     | 8,884                                | 8,884                            | 8,786   | 98  | 8,786   |                                 |  |

<sup>1</sup> The estimated remaining balance represents approximately 1.1 percent of the biennial appropriation. The original estimate for the number of qualifying instructional personnel was based on school district reports available during the 2001 legislative session. The actual number of qualifying personnel will vary each year to reflect school district personnel changes. House Bill No. 1344 provides that any end-of-biennium undistributed balance in the teacher compensation payments appropriation will be distributed as additional per student payments.

## SPECIAL EDUCATION

The 2001 Legislative Assembly provided a general fund appropriation of \$49,898,695 for special education payments to be distributed as follows, pursuant to Section 8 of 2001 House Bill No. 1013

- \$12.67 million to reimburse school districts for special education contract costs.
- \$400,000 to reimburse school districts for gifted and talented programs.
- \$36.83 million distributed on the basis of student average daily membership, pursuant to NDCC Section 15.1-27-10.

Special education average daily membership payments for the first and second years of the 2001-03 biennium are estimated to be \$176 per student and \$180 per student, respectively. The current estimates are unchanged from original estimates. The following schedule shows budgeted and actual special education expenditures through December 31, 2001:

| <b>Special Education Comparison of Budgeted to Actual Expenditures Through December 31, 2001</b>  |   |  |  |  |
|---|---|--|--|--|
|   | <b>1999-2001<br/>Biennium<br/>Appropriation</b> | <b>Budgeted<br/>Expenditures<br/>Through<br/>December 31,<br/>2001</b> | <b>Actual<br/>Expenditures<br/>Through<br/>December 31,<br/>2001</b> | <b>Actual<br/>Expenditures<br/>(Over) Under<br/>Budgeted<br/>Amounts</b> |
| Total special education payments  | \$49,898,695                                    | \$14,250,166   | \$14,102,038   | \$148,128 <sup>1</sup>   |
| <sup>1</sup> Actual expenditures through December 31, 2001, are 1.0 percent more than estimates. No end-of-biennium balance is anticipated for special education aid. If necessary to distribute the entire appropriation, the department could adjust the second-year per student payment. |   |  |  |  |

## REVENUE SUPPLEMENT PAYMENTS

The 2001 Legislative Assembly provided a general fund appropriation of \$2.2 million to the Department of Public Instruction for revenue supplement payments to school districts. North Dakota Century Code Section 15.1-27-11 provides a formula for the distribution of revenue supplement payments to school districts that are below the state-wide average taxable valuation per student and below the statewide average educational expenditure per student. The following schedule shows budgeted and actual revenue supplement payments through December 31, 2001:

| <b>Revenue Supplement Payments Comparison of Budgeted to Actual Expenditures Through December 31, 2001</b> |   |  |  |  |
|--|---|--|--|--|
|  | <b>1999-2001<br/>Biennium<br/>Appropriation</b> | <b>Budgeted<br/>Expenditures<br/>Through<br/>December 31,<br/>2001</b> | <b>Actual<br/>Expenditures<br/>Through<br/>December 31,<br/>2001</b> | <b>Actual<br/>Expenditures<br/>(Over) Under<br/>Budgeted<br/>Amounts</b> |
| Revenue supplement payments  | \$2,200,000                                     | \$836,000  | \$834,011  | \$1,989 <sup>1</sup>   |
| <sup>1</sup> Actual expenditures through December 31, 2001, are .2 percent less than budgeted.             |   |  |  |  |

## TUITION FUND DISTRIBUTIONS

The state tuition fund consists of the net proceeds from all fines for violation of state laws, leasing of school lands, and the interest income from the state common schools trust fund, pursuant to NDCC Section 15.1-28-01. Section 15.1-28-03 directs the Office of Management and Budget, on or before the third Monday in February, April, August, October, and December of each year, to certify to the Superintendent of Public Instruction the amount of the state tuition fund. The Superintendent of Public Instruction apportions the money in the fund among the school districts in the state in proportion to the number of school-age children residing in each district (census units). The following schedule shows budgeted and actual state tuition fund distributions through December 31, 2001:

| <b>State Tuition Fund Comparison of Budgeted to Actual Distributions Through December 31, 2001</b> |   |   |   |   |
|--|---|---|---|---|
|  | <b>2001-03<br/>Biennium<br/>Appropriation</b> | <b>Budgeted<br/>Distributions<br/>Through<br/>December 31, 2001</b> | <b>Actual<br/>Distributions<br/>Through<br/>December 31, 2001</b> | <b>Actual<br/>Distributions<br/>Over (Under)<br/>Budgeted Amounts</b> |
| State tuition fund distributions   | \$67,239,025                                  | \$19,345,052  | \$19,426,334  | \$81,282 <sup>1</sup>   |

<sup>1</sup> Actual tuition fund distributions through December 31, 2001, are .4 percent more than budgeted. Actual tuition fund distributions for the biennium are anticipated to be close to appropriated amounts. Each additional \$115,000 results in an additional \$1 per student per year.

### **PAYMENTS FOR LIMITED ENGLISH PROFICIENT STUDENTS**

North Dakota Century Code Section 15.1-27-12 provides that school districts are entitled to an additional payment for each student with limited English proficiency. As amended by the 2001 Legislative Assembly, Section 15.1-27-12 provides for a new three-tiered payment structure. Schools receive payments based on the level of a student's English language skills, as determined using the language survey instrument specified in statute. Schools will receive payments of \$425 for each level I student, \$325 for each level II student, and \$225 for each level III student. Payments are required to be distributed by May 30 of each year. As of the date of this report no payments have been distributed.

The actual number of limited English proficient students for the 2001-02 school year has not yet been determined; however, the department's preliminary estimates indicate approximately 840 students may qualify. The appropriation amount was based on an estimated 985 qualifying students each year. Because the actual number of students and their classification as English proficiency level I, II, or III has not been determined for 2001-02, the total cost of limited English proficiency payments for the 2001-02 school year has also not been determined. Based on preliminary estimates of the number of qualifying students, the appropriation may exceed the amount required to distribute the statutory payments.

### **REORGANIZATION BONUS PAYMENTS**

House Bill No. 1301 (2001) provides a general fund appropriation of \$1,665,000 for reorganization bonus payments, to be distributed pursuant to NDCC Section 15.1-12-11.1. The bonus amount for a reorganized district is based on the number of students, the number of square miles in the reorganized district, and the number of districts reorganizing. Three consolidated districts became eligible for reorganization bonuses in December 2001 and received payments totaling \$1,149,000, resulting in a remaining appropriation of \$516,000 available for additional reorganizations during the 2001-03 biennium. House Bill No. 1301 does not provide authority to distribute any remaining appropriation if it is not used for reorganization bonus payments. Consequently, if additional districts do not qualify, the remaining \$516,000 will be returned to the general fund at the end of the biennium.

In addition, NDCC Section 15.1-12-11.2 provides that school districts may receive an advance bonus payment of \$15,000 per district for the purpose of studying and planning for reorganization. If the districts eventually reorganize, the money advanced is deducted from their bonus. If the districts do not reorganize, the money advanced must be repaid. As of the date of this report no districts have requested an advance bonus payment.

### **STATE SCHOOL AID - CONTINGENT DISTRIBUTIONS**

House Bill No. 1344 (2001) provides contingent payments if any funds appropriated for per student state school aid, transportation aid, and teacher compensation remain unspent after all statutory obligations are met. Contingent payments are authorized for:

- Declining enrollment (first \$2 million available)** - Payments for declining enrollment experienced during the period 1997-98 to 2000-01. Total payments are estimated to be approximately \$2 million, if funds are available.
- "Hold harmless" (amounts available from \$2 million to \$4 million)** - Payments to districts that receive less during the 2001-03 biennium in state aid and teacher compensation payments than they would have received if the amount appropriated for teacher compensation payments had been added to the state aid appropriation. Total "hold harmless" payments are limited to \$2 million, if funds are available.
- Additional per student payments (amounts available over \$4 million)** - Additional per student payments will be distributed with any funds remaining unspent from the amounts appropriated for:

Teacher compensation payments, after all statutory obligations are met.

State aid, after all statutory obligations have been met and the contingent payments for declining enrollment and "hold harmless" are distributed.

House Bill No. 1344 allows for a declining enrollment payment during the first year of the biennium, if sufficient funds (approximately \$1.2 million) are available at the end of the first year. Current estimates do not indicate adequate funds will be available for a 2001-02 payment. The current estimate of state school aid expenditures indicates an end-of-biennium unspent balance of approximately \$700,000. If the current projection is realized, the \$700,000 will be distributed at the end of the 2001-03 biennium as payments for declining enrollment and no funds will be available for "hold harmless" or additional per student payments.

Teacher compensation payments are estimated to be approximately \$400,000 less than budgeted for fiscal year 2002. If these savings are realized, the money would be available for distribution as additional per student payments.

The distribution of these funds is contingent upon funds being unspent at the end of the 2001-03 biennium. Consequently, no distributions have been made as of the date of this report.