

## NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

**EDUCATION FUNDING COMMITTEE**

Thursday, July 27, 2017  
Roughrider Room, State Capitol  
Bismarck, North Dakota

Senator Donald Schaible, Chairman, called the meeting to order at 10:00 a.m.

**Members present:** Senators Donald Schaible, Kyle Davison, Ralph Kilzer, Erin Oban; Representatives Pat D. Heinert, Richard G. Holman, Dennis Johnson, David Monson, Mark S. Owens, Mark Sanford, Cynthia Schreiber-Beck

**Members absent:** Senator David S. Rust and Representative Denton Zubke

**Others present:** Senator Joan Heckaman, New Rockford, member of the Legislative Management  
See [Appendix A](#) for additional persons present.

The Legislative Council staff reviewed the [Supplementary Rules of Operation and Procedure of the North Dakota Legislative Management](#) for the 2017-18 interim.

**COMMENTS BY COMMITTEE CHAIRMAN**

Chairman Schaible welcomed the committee. He said as the committee studies the education funding formula, committee members and others are encouraged to identify possible savings and efficiencies. He said the committee should seek ways to improve education without increased funding. He said the committee will review the current funding formula to address concerns and seek improvements.

**ELEMENTARY AND SECONDARY EDUCATION  
STATE AID AND FUNDING FORMULA STUDY**

At the request of Chairman Schaible, the Legislative Council staff presented a memorandum entitled [Elementary and Secondary Education State Aid and Funding Formula Study - Background Memorandum](#) relating to the committee's study of elementary and secondary education state aid and the funding formula. She said the committee has been assigned, pursuant to 2017 House Bill No. 1318, a study of the delivery and administration of elementary and secondary education in the state, including how state aid for elementary and secondary education is determined and distributed, and pursuant to 2017 House Bill No. 1423, a study of the portion of the elementary and secondary education funding formula which relates to the utilization of in lieu of property tax funds. She said two lawsuits have prompted changes in the way the state supports elementary and secondary education. An agreement to stay litigation in the second lawsuit required the Governor create the North Dakota Commission on Education Improvement to propose improvements to the system of delivering and financing public elementary and secondary education in the state.

The Legislative Council staff said the North Dakota Commission on Education Improvement, as initially configured, consisted of the Lieutenant Governor--in his capacity as the Governor's designee, the Superintendent of Public Instruction, four members of the Legislative Assembly, four school district administrators, and three nonvoting members representing education interest groups. The commission was instructed to recommend ways in which the state's system of delivering and financing public elementary and secondary education could be improved and to specifically address the adequacy of education, the equitable distribution of funding, and the allocation of funding. The commission's recommendations became the basis for 2007 Senate Bill No. 2200, which provided for a new education funding formula. The bill consolidated education funding that had been assigned to a variety of previously existing funding categories and established new weighting factors that reflected the added costs of providing education to certain categories of students and the added costs of providing various statutorily mandated services. In addition, the new formula factored in the variable cost of providing services and programs in small, medium, and large school districts. In 2007, special education payments were increased and the state took on the full obligation of paying any amount over 4.5 percent of the average cost per student for the most costly 1 percent of special education students statewide. After the 2007 legislative session, the North Dakota Commission on Education Improvement contracted with Lawrence O. Picus and Associates (Picus) to identify the resources needed to ensure an adequate education for all students. In 2009, after reviewing the Picus report, the North

Dakota Commission on Education Improvement made its own recommendations to the Legislative Assembly, many of which were enacted in 2009 House Bill No. 1400. At the conclusion of the 2009 legislative session, the North Dakota Commission on Education Improvement began its third and final interim effort and provided its recommendations to the 2011 Legislative Assembly.

The Legislative Council staff said, during the 2009-11 and 2011-13 bienniums, property tax relief was provided through statewide school district mill levy grants. She said at a cost of \$299 million for the 2009-11 biennium, Senate Bill No. 2199 reduced school district property tax levies by up to 75 mills and replaced the revenue that the school districts would have lost through direct grants. She said 2011 House Bill No. 1047 provided \$341.8 million to extend the 75 mill school district property tax reduction concept through the 2011-13 biennium. She said during the course of the 2011 legislative session, concerns were articulated about the school district mill levy reduction program and about the state's ability to sustain its involvement in the program.

The Legislative Council staff said when the Legislative Assembly convened in January 2013, the principal education funding package contained a new proposal for funding elementary and secondary education, which included property tax relief provided through an integrated formula. Introduced as House Bill No. 1319, she said, the new proposal was initially defeated on the morning of the 80<sup>th</sup> day of the legislative session, but later the content was attached as an amendment to House Bill No. 1013 and enacted. She said the legislative appropriation for the state school aid program followed substantially the executive budget recommendation to integrate property tax relief in the K-12 state school aid funding formula. She said the formula change discontinued the mill levy reduction grant program and provided the state will determine an adequate base level of support necessary to educate students by applying an integrated payment rate to the weighted student units. She said this base level of support will be provided through a combination of local tax sources, local revenue, and state integrated formula payments. She said the local funding requirement is set at 60 mills and a percentage of identified local in lieu of property tax sources and local revenues. Base level support not provided by local sources is provided by the state through the integrated formula payment. In addition, she said, school districts are allowed an additional 10 mill levy for general fund purposes, an additional 12 mill levy for miscellaneous purposes, and a 3 mill levy for a special reserve fund. She said the legislation provided for a district's weighted student units to be multiplied by integrated formula payment rates of \$8,810 during the first year of the 2013-15 biennium and \$9,092 during the second year, an inflationary increase based on total expenditures per student suggested by Picus during the 2008 study conducted for the North Dakota Commission on Education Improvement. She said minimum and maximum payment levels were established using a statutorily defined baseline funding level that includes:

- All state aid received by the district in accordance with North Dakota Century Code Chapter 15.1-27 during the 2012-13 school year;
- The district's 2012-13 mill levy reduction grant, as determined in accordance with Chapter 57-64, as it existed on June 30, 2013;
- An amount equal to that raised by the district's 2012 general fund levy or that raised by 110 mills of the district's 2012 general fund levy, whichever is less;
- An amount equal to that raised by the district's 2012 long-distance learning and educational technology levy;
- An amount equal to that raised by the district's 2012 alternative education program levy; and
- An amount equal to:

75 percent of all revenue received by the school district and reported under code 2000 of the North Dakota School District Financial Accounting and Reporting Manual, as developed by the Superintendent of Public Instruction in accordance with Section 15.1-02-08;

75 percent of all mineral revenue received by the school district through direct allocation from the State Treasurer and not reported under code 2000 of the North Dakota School District Financial Accounting and Reporting Manual, as developed by the Superintendent of Public Instruction in accordance with Section 15.1-02-08;

75 percent of all tuition received by the school district and reported under code 1300 of the North Dakota School District Financial Accounting and Reporting Manual, as developed by the Superintendent of Public Instruction in accordance with Section 15.1-02-08, with the exception of revenue received specifically for the operation of an educational program provided at a residential treatment facility and tuition received for the provision of an adult farm management program;

75 percent of all revenue received by the school district from payments in lieu of taxes on the distribution and transmission of electric power;

75 percent of all revenue received by the school district from payments in lieu of taxes on electricity generated from sources other than coal;

All revenue received by the school district from mobile home taxes;

75 percent of all revenue received by the school district from the leasing of land acquired by the United States for which compensation is allocated to the state under 33 U.S.C. 701(c)(3);

All telecommunications tax revenue received by the school district; and

All revenue received by the school district from payments in lieu of taxes and state reimbursement of the homestead credit and disabled veterans' credit.

From this baseline total, she said, the legislation called for a subtraction of 60 mills multiplied by the district's taxable valuation, not to exceed the amount in dollars subtracted the prior year plus 12 percent, and a subtraction of the specified portion of the in lieu of taxes revenues listed in the preceding paragraph.

The Legislative Council staff said the board of a school district was authorized to levy an amount sufficient to cover a multitude of expenses; however, the enactment of House Bill No. 1013 provided for the consolidation of these levies. She said the bill authorized the board of a school district to levy:

- A tax not exceeding the amount in dollars that the school district levied for the prior year, plus 12 percent, up to a levy of 70 mills on the taxable valuation of the district, for any purpose related to the provision of educational services;
- No more than 12 mills on the taxable valuation of the district, for miscellaneous purposes and expenses;
- No more than 3 mills on the taxable valuation of the district for deposit into a special reserve fund, in accordance with Chapter 57-19; and
- No more than the number of mills necessary, on the taxable valuation of the district, for the payment of tuition, in accordance with Section 15.1-29-15.

The Legislative Council staff said during the 2013-14 interim, the Education Funding Committee was assigned a study, pursuant to Section 58 of 2013 House Bill No. 1013, of state-level and local-level responsibility for the equitable and adequate funding of elementary and secondary education in the state. She said the dollar amounts by which a district's weighted student units were multiplied, in order to arrive at a funding level for the 2013-15 biennium were determined by applying an inflationary increase to the "adequate" funding level that the Picus study recommended as part of its final report to the North Dakota Commission on Education Improvement in 2008. Given the passage of 5 years and changes in the state's economic and demographic circumstances, she said, the Legislative Assembly determined it would be appropriate to review and clarify state-level and local-level responsibility for the equitable and adequate funding of elementary and secondary education. She said to meet its study directive, the interim Education Funding Committee asked Picus to review its 2008 recommendations and conduct a recalibration using an evidence-based model and the most recent data available. She said based on available information and assumptions, Picus recommended recalibrated weighting factors and increased payment rates from the 2013-15 biennium levels of \$8,810 and \$9,092 to \$9,347 and \$9,442. She said the committee did not recommend the Picus funding model.

The Legislative Council staff said in 2015 the Legislative Assembly approved Senate Bill No. 2031 which provided increases in the integrated payment rate of 3 percent per year during the 2015-17 biennium, based on the integrated formula payment rate during the second year of the 2013-15 biennium. She said integrated payment rates were set at \$9,365 during the first year and \$9,646 for the second year of the 2015-17 biennium. In addition, she said, the bill removed the sunset on the K-12 integrated formula for state school aid, adopted by the 2013 Legislative Assembly. She said the 2015 Legislative Assembly also approved Senate Concurrent Resolution No. 4003, which proposed a constitutional amendment to allow the Legislative Assembly to appropriate or transfer the principal balance of the foundation aid stabilization fund in excess of 15 percent of the general fund appropriation for state school aid for the most recently completed biennium for education-related purposes. She said the resolution was approved by voters in November 2016. In 2016, she said, the Governor ordered two allotments totaling 6.55 percent and transfers from the foundation aid stabilization fund to offset foundation aid reductions made by executive action due to revenue shortfalls during the 2015-17 biennium totaled \$116,053,293.

The Legislative Council staff said in 2017 the Legislative Assembly considered House Bill No. 1324 which included changes to the percentages of local in lieu of taxes revenues deducted from the total integrated formula payment when determining state funding. However, she said, formula changes approved in the bill did not include changes to local revenue offsets, but did include increases to formula minimum and maximum payments and an adjustment to set the integrated payment rate at \$9,646 for each year of the 2017-19 biennium, the same as the

second year of the 2015-17 biennium. She said the Legislative Assembly provided an appropriation of \$1,935,204,163, of which \$1,334,657,258 is from the general fund, \$295,000,000 is from the foundation aid stabilization fund, and \$305,546,905 is from the state tuition fund for state school aid integrated formula payments. She said of the \$295,000,000 provided from the foundation aid stabilization fund, \$185,000,000 is considered one-time funding. She said this level of funding represents an increase of \$18,564,163 from the 2015-17 biennium adjusted appropriation for integrated formula payments of \$1,916,640,000. She said to determine the 2017-19 biennium appropriation for integrated formula payments, the Department of Public Instruction (DPI) estimates state school aid integrated formula payments will total \$2,513,812,883 during the 2017-19 biennium, of which \$491,638,009 will be provided through local property tax contributions, \$107,101,271 will be provided through local in lieu of taxes and revenue contributions, and \$1,915,073,603 will be provided by the state. She said in addition to the state's share of state school aid integrated formula payments, the appropriation for 2017-19 biennium integrated formula payments includes additional costs related to child placement and budget variances totaling \$20,130,560, to provide a total appropriation of \$1,935,204,163. As of June 2017, she said, it is estimated local contributions during the 2017-19 biennium will increase by approximately \$74.4 million from the 2015-17 biennium, of which \$71.5 million is from property taxes. She said in addition to the \$1.935 billion provided for integrated formula payments, the Legislative Assembly provided \$55.4 million for transportation aid payments, \$19.3 million for special education contract payments, and \$6 million for rapid enrollment grants.

The Legislative Council staff said prior to December 8, 2016, the principal of the foundation aid stabilization fund was only available upon order of the Governor to offset foundation aid reductions made by executive action due to a revenue shortfall. However, she said, the approval of 2015 Senate Concurrent Resolution No. 4003 allowed the Legislative Assembly to appropriate or transfer the principal balance of the foundation aid stabilization fund in excess of 15 percent of the general fund appropriation for state school aid for education-related purposes. She said in 2017 the Legislative Assembly approved Senate Bill No. 2272 and House Bill No. 1155 which amended Section 54-44.1-12 to provide any reductions to the general fund appropriation to the Department of Career and Technical Education (CTE) for grants to school districts due to allotment are now also offset by funding from the foundation aid stabilization fund. She provided an analysis of the foundation aid stabilization fund for the 2015-17 biennium and 2017-19 biennium for the committee's review. She said based on the analysis, an estimated \$108.6 million will be available in the foundation aid stabilization fund on June 30, 2019.

The Legislative Council staff said in April 2017, DPI prepared a preliminary estimate of funding required to continue current state school aid integrated formula payments during the 2019-21 biennium. She said based on 2019-21 biennium estimated average daily membership (ADM) and taxable valuation changes, based on the percentage change from the 2015 tax year to the 2016 tax year, DPI has estimated the adjusted formula amount for integrated formula payments will total \$2.609 billion, an increase of \$95 million from the 2017-19 biennium. Of this increase, she said, an estimated \$65.8 million will be provided locally, through estimated increases in property tax contributions. She said DPI projects contributions from in lieu of property tax revenue will decrease slightly, by \$300,000, for a net increase in local contributions of \$65.5 million. She said the remaining \$29.5 million of estimated cost-to-continue integrated formula payments during the 2019-21 biennium will be provided by the state. She said in addition to funding required to continue integrated formula payments at the same level during the 2019-21 biennium, additional funding from the general fund will be required to replace one-time funding provided for state school aid payments during the 2017-19 biennium, including \$185 million from the foundation aid stabilization fund and \$4.3 million from the state tuition fund. She said funding available from the common schools trust fund is estimated to increase by \$62 million and will offset a portion of the funding required to continue state aid and to replace one-time funding. She said the estimated net increase in funding from the general fund required for the cost-to-continue integrated formula payments and to replace one-time funding from special funds will total approximately \$157 million for the 2019-21 biennium.

The Legislative Council staff presented the following proposed study plan for the committee's consideration:

1. Receive information from DPI regarding how state aid for elementary and secondary education is determined and distributed under the state aid funding formula.
2. Receive information from the Tax Commissioner regarding the impact of the state aid funding formula on property taxes assessed for elementary and secondary education in the state.
3. Receive information from DPI and others regarding the delivery and administration of elementary and secondary education in the state.
4. Receive information from DPI regarding a summary of local property tax and in lieu of property tax revenue, by revenue type, offset annually in the state aid funding formula since 2013.
5. Receive information from DPI and others regarding the impact of state aid provided through the formula, including information regarding total funding provided for elementary and secondary education in the state.

6. Gather and review information regarding inequities in the application of the portion of the elementary and secondary education formula relating to the utilization of in lieu of property tax funds.
7. Gather and review information regarding potential changes to the funding formula to ensure equity, adequacy, and sustainability.
8. Gather and review information regarding short- and long-term policy and statutory changes that may result from or be necessitated by 21<sup>st</sup> century technological advances and global economics.
9. Develop committee recommendations and prepare any legislation necessary to implement the committee recommendations.
10. Prepare a final report for submission to the Legislative Management.

Ms. Kirsten Baesler, Superintendent of Public Instruction, provided information ([Appendix B](#)) regarding a summary of the various entities responsible for the delivery and administration of elementary and secondary education in the state. She said responsibility for the delivery and administration of elementary and secondary education in the state falls under four authorities in the state, including the Superintendent of Public Instruction referenced in the constitution, entities under the control of the Governor, legislatively created and controlled entities, and nongovernment entities. She said the Superintendent of Public Instruction oversees the divisions of DPI, the State Library, School for the Deaf, and North Dakota Vision Services - School for the Blind. She said although DPI does not directly supervise special education units, DPI collaborates with special education unit boards to ensure compliance with federal regulations. She said the Education Technology Council and the Statewide Longitudinal Data System Governing Board are within the Information Technology Department and under the control of the Governor. She said the Education Standards and Practices Board (ESPB), CTE, and regional education associations (REAs) are statutory. She said REAs receive funding through the state school aid formula, CTE receives an agency appropriation from the Legislative Assembly, and ESPB has a continuing appropriation. She said nongovernmental entities providing education services include the Anne Carlsen Center, North Dakota American Indian Education Association, North Dakota Association of Technology Leaders, North Dakota Council of Educational Leaders, North Dakota School Boards Association, North Dakota United, North Dakota Leadership and Educational Administration Development, North Dakota STEM Network, and State Association of Non Public Schools.

In response to a question from Representative Monson, Ms. Baesler said ESPB is funded by licensing fees, but DPI provides funding to ESPB for a mentoring program.

In response to a question from Senator Davison, Ms. Baesler said DPI's budget does not include funding for nongovernmental entities. She said it is possible some of these entities receive public funding through other government program grant opportunities.

In response to a question from Chairman Schaible, Ms. Baesler said the state has a unique structure for elementary and secondary educational services. She said in many states services are more centralized. She said there are advantages and disadvantages to the state's decentralized structure.

In response to a question from Representative Holman, Ms. Baesler said the Bureau of Indian Education is responsible for the education of Native American children. She said some schools educating Native American children are tribally controlled and others are local public schools that enter a memorandum of understanding with the bureau. She said the delivery of funding and support is different for each agreement, but public schools educating Native American children also receive additional federal funds. She said the governance and funding for Native American children in local public schools is very complex.

In response to a question from Senator Davison, Ms. Baesler said in most states career and technical education, REAs, and the statewide delivery of distance education are under the umbrella of their education departments. She said in most states the teacher licensing board is also within the education department. She said regarding information technology in other states, delivery and support is generally a function of the education department, but infrastructure and networking needs are met by the technology department of the state.

In response to a question from Senator Oban, Ms. Baesler said benefits of multiple entities providing educational services include access to assistance from a variety of entities and missions, while challenges include varying missions and communication which can create silos, duplication, and inefficiencies.

Ms. Baesler provided information ([Appendix C](#)) regarding local education associations, schools, enrollment, school staff, and graduates, including public and nonpublic institutions. She said unduplicated fall enrollment for the 2016-17 school year was 106,863 students. She said enrollment has been increasing each year since the state's

lowest enrollment of 93,406 students during the 2008-09 school year. She said DPI projects unduplicated fall enrollment to increase to 108,604 students for the 2017-18 school year and to 110,692 students for the 2018-19 school year.

In response to a question from Representative Johnson, Ms. Baesler said DPI collects information regarding the number of students that file with their local district to be home schooled and will provide the information to the committee.

Mr. Adam J. Tescher, Director, School Finance and Organization, Department of Public Instruction, provided information regarding how state aid for elementary and secondary education is determined and distributed under the integrated state aid funding formula, a summary of local property tax revenue and the amount and types of in lieu of property tax revenue offset annually in the integrated state aid funding formula since 2013, the impact of state aid provided through the formula, and the application of the portion of the funding formula relating to the utilization of in lieu of property tax funds. He said the state's share of funding for state school aid has shifted from 54 percent in 2009 to 77 percent during the 2016-17 school year. He said because there was no increase in the per pupil integrated payment rate during the 2017-19 biennium and property tax revenue is likely to increase, the state's share of state school aid funding is estimated to decrease slightly to 75 percent.

In response to a question from Representative Sanford, Mr. Tescher said compared to other states, North Dakota provides a large portion of the funding for elementary and secondary education.

Chairman Schaible said the committee will receive information regarding a comparison of states' funding for elementary and secondary education at a future meeting.

In response to a question from Representative Sanford, Mr. Tescher said in the past, North Dakota was among the states with very low teacher pay, but the state has improved its ranking and now ranks with states of similar size and demographics.

Mr. Tescher reviewed a copy of the state aid to schools payment worksheet with the committee, including program weights and transition adjustments.

Chairman Schaible said the committee will review the state school aid calculation for several school districts at a future meeting to identify how various parts of the formula affect schools differently.

Mr. Tescher provided a history of annual ADM, weighted student units, total state school aid formula amount before local offsets, transition maximum and minimum adjustments, contributions from property tax and in lieu of taxes revenue, ending fund balance offsets, total state aid, total state and local funding, and state and local funding per weighted student unit, since the implementation of the integrated formula during the 2013-15 biennium and DPI's estimates for the 2017-19 biennium. He also provided a summary of actual in lieu of taxes revenue received by school districts each year from the 2013-14 school year through the 2016-17 school year. He said in lieu of taxes revenues deducted at 75 percent in the formula include tuition; United States flood lease revenue; county revenues from coal, oil, and gas; and electric generation, distribution, and transmission tax revenues. He said in lieu of taxes revenues from telecommunications taxes, mobile home taxes, and other in lieu of taxes are offset 100 percent in the formula. He said amendments to provide all in lieu of taxes revenues be offset 75 percent in the formula would increase the state's share of state school aid approximately \$2.8 million per year, or \$5.6 million per biennium, based on revenues reported for the 2016-17 school year.

Mr. Tescher provided information regarding the state school aid payment schedule. He said DPI's payments to school districts in August, September, and October total 30 percent of the districts' estimated payments. He said DPI adjusts payments in November to provide 60 percent of the districts' actual payments. He said DPI provides more state school aid in the beginning of the school year, in the months prior to the collection of property tax revenue.

Chairman Schaible suggested DPI review the basis for the percentages by which in lieu of taxes revenues are offset in the formula.

Chairman Schaible called on Mr. Levi Bachmeier, Policy Advisor, Governor's office, to provide information regarding the Governor's elementary and secondary education initiative. He said the Governor collaborated with DPI to convene the first ever Governor's Summit on Innovative Education. He said speakers provided examples of changes that have the potential to lower costs and improve outcomes. He said surveys completed by attendees indicated a need for professional development opportunities and more time to collaborate. He said none indicated a need for additional funding. He said districts were encouraged to define their high school graduate. He said the

Governor's office is in the process of defining innovative education and is interested in reviewing systems, technology, accountability, and relevance, including work-based skills. He said the Governor has committed to implementing an innovative task force, including teachers, parents, and administrators to creatively blend policy changes and funding to improve outcomes.

At the request of Chairman Schaible, Dr. Aimee Copas, Executive Director, North Dakota Council of Educational Leaders, provided information ([Appendix D](#)) regarding the delivery and administration of elementary and secondary education in the state, impact of state aid provided through the funding formula, and application of the portion of the funding formula relating to the utilization of in lieu of property tax funds. She said limits on school district property tax levy authority have districts more reliant on state school aid. She said the formula has transitioned from a property-centric formula to a student-centric formula. She said the formula is based on prior year spring enrollment and does not account for recent school district student enrollment increases. She said during the 2016-17 school year, the formula did not provide hold harmless base funding for 88 school districts, or approximately half of the school districts in the state. She said formula minimum and maximum payments are based on the level of state funding provided in the 2012-13 school year and except for using the prior year ADM, the formula does not account for declining student enrollment. She said when school district property valuation increases result in property tax revenue that exceeds the previous year revenue by more than 12 percent in dollars, the state is required to pay a larger share of the foundation aid calculation because the district is unable to tax at the full 60 mills. She said if districts were allowed to tax at the full 60 mills, the offset in the foundation aid formula would decrease the funding required from the state. She said of the 176 school districts in the state, 70 districts, or 40 percent, are unable to tax at 60 mills due to property valuation increases that generate revenues in excess of the 12 percent limitation. She said 55 districts are taxing at or near their full general fund authority (67 to 70 mills). She said 46 districts are also taxing at or near the maximum of 12 mills allowed for miscellaneous purposes. She said if additional funds are needed, school districts levying the maximum allowed for the general fund and for miscellaneous purposes must receive voter approval for an excess mill levy. She said some districts may vote to increase their levy beyond the caps, while others may not, leaving the state with large disparities in funding between districts. She said holding the per student integrated formula payment flat at \$9,646, with the 12 percent maximum increase in place, has presented challenges for school districts as costs continue to increase. She said adjustments to the formula are difficult because school district finances vary widely across the state. She suggested the committee review the finances of various types of school districts, including districts with:

- Growing ADM and rapidly growing property valuations (over 12 percent growth);
- Declining ADM and property valuation growth;
- Steady ADM and property valuation fluctuations;
- Growing ADM and declining property valuations;
- Declining ADM and property valuations; and
- Maximum levies experiencing difficulty providing adequacy and equity.

Mr. Mark Lemer, Business Manager, West Fargo School District, provided information regarding the effect of limiting the growth of school district general fund mill levies to a percent of the growth in school district taxable valuation. He reviewed examples, included in testimony provided by Dr. Copas, of the effect of the current 12 percent limit on the growth of the general fund mill levy, a potential 3 percent limit on the growth of the general fund mill levy, and the removal of the limit on the growth of the general fund mill levy. He said when growth in the taxable valuation of a school district exceeds the limit on growth in the formula, the state is required to increase its share of state school aid because the local share of property tax offset in the formula is below the 60 mills provided in the formula. He said if the 12 percent limit on the growth of the general fund mill levy were reduced to 3 percent, the state's share of the state school aid formula would increase. He said if the limit on the growth of the general fund mill levy were removed and the local property tax offset in the formula were 60 mills for all school districts, the state's share of the state school aid formula would decrease.

In response to a question from Chairman Schaible, Mr. Lemer said a bill was introduced during the 2017 legislative session to limit the increase in property taxes to 3 percent per year. He said the fiscal note for the bill, which was ultimately defeated, indicated the legislation would have shifted approximately \$34 million of state school aid funding from local property taxes to the state during a biennium.

In response to a question from Representative Monson, Mr. Lemer said removing the 12 percent limit on the growth of the general fund mill levy would not change the total state school aid provided to districts. He said removing the 12 percent limit would remove a taxpayer protection provision in the formula. He said taxpayers are assessed individually and some may experience property valuation increases in excess of 12 percent. He said individual taxpayers may not necessarily benefit from the 12 percent limit, because the limitation is applied in the aggregate.

In response to a question from Representative Sanford, Mr. Lemer said additional state spending related to districts not offsetting the full 60 mills in the formula could be calculated to determine how much funding would be available to increase the per pupil integrated payment rates without increasing the state's appropriation for state school aid.

Dr. Alan J. Peterson, State Director, North Dakota Center for Distance Education, provided information ([Appendix E](#)) regarding the delivery of elementary and secondary education in the state and changes necessitated by 21<sup>st</sup> century technology and global economics. He said the North Dakota Center for Distance Education began as a correspondence school in 1935 to serve rural students choosing to drop out of school after the 8<sup>th</sup> grade. He said the center was first administered by the North Dakota University System, then by DPI, and most recently by the Information Technology Department. He said the center does not receive funding through the state school aid formula and receives no local tax funding. He said the center received an appropriation of \$6 million from the state's general fund and \$3 million from special funds received from earnings for the 2017-19 biennium. He said the center does not design courses, but provides anytime enrollment to over 300 online courses, including elective and core classes, for prekindergarten through grade 12. He said the center also provides certificate and diploma programs, administrative support, teacher development, and ND SmartLabs. He said courses are marketed to students, parents, and other stakeholders, but approval is required from school districts, DPI, and CTE. He said most of the center's students are individual learners, outside of a classroom. He said the center also serves full classrooms when a teacher is not available or when a district wants to offer elective classes not previously available. He said the digital delivery of education at the center and the traditional delivery of education in schools enhance each other and both can be enhanced by a ND SmartLab. He said courses are delivered to 175 school districts and course completion is 96 percent.

In response to a question from Representative Monson, Dr. Peterson said in the past there was a plan to make the center self sustaining by meeting the home school demand for material in many states, which later diminished as states closed their borders to out-of-state providers or made licensing difficult. He said the mission of the center was changed to serve North Dakota students. He said 85 percent of the students served are from North Dakota and 15 percent are from out of state. He said nonresident students pay a higher fee than resident students. He said the center could not continue under the current model without state funding.

In response to a question from Representative Owens, Dr. Peterson said the center is not the only provider of distance learning in the state. He said courses are distributed by CTE and other out-of-state providers. He said the center plans to survey all of the schools in the state to determine what online courses are offered and make the information available on their website.

In response to a question from Representative Sanford, Dr. Peterson said the center is monitored by DPI and accredited.

In response to a question from Senator Davison, Dr. Peterson said the center employs teachers across the state and can offer teachers part-time work to complete a contract that might otherwise be part time with a school district.

In response to a question from Senator Oban, Dr. Peterson said a ND SmartLab includes computers, software, and project kits adapted to K-12 that are updated throughout the duration of the contract. He said the center charges the same rate as the SmartLab vendor. He said the projects are computer driven and provide blended learning opportunities in smaller school districts that are unable to establish this type of program on their own.

Mr. Wayne Kutzer, Director and Executive Officer, Department of Career and Technical Education, provided information ([Appendix F](#)) regarding the delivery of elementary and secondary education in the state and changes necessitated by 21<sup>st</sup> century technology and global economics. He said CTE does not deliver career and technical education, but rather encourages, supports, and incentivizes local school districts with funding to provide the programming. He said CTE provides funding to schools to assist with additional costs related to career and technical education programs and as an incentive for schools to offer the programming to students. He said 20,828 students in grades 9 through 12 were enrolled in career and technical education courses during the last school year, of which 6,538 took two or more courses. He said career and technical education program areas include agriculture, business, career development, family and consumer sciences, health sciences, information technology, marketing, technology and engineering, and trade, industry, and technical training. He said career and technical education programming must meet certain requirements related to credits hours, class size, teacher certification, curriculum, an advisory committee, and facility and equipment. He said the budget for CTE is approximately \$39.9 million for the 2017-19 biennium. He said agency operations account for 12.8 percent, or \$5.1 million, of CTE's budget and the remainder is allocated as follows:

- \$27.9 million - 70 percent to secondary schools;

- \$4.8 million - 12 percent to 2-year campuses;
- \$300,000 - .7 percent to elementary and middle schools; and
- \$1.8 million - 4.5 percent for adult farm management.

Mr. Kutzer reviewed reimbursement rates for the 2017-19 biennium. He said CTE pays 27 percent of the cost of programs at local school districts and 40 percent of the cost of programs at area career and technology centers. He said area centers, created by school districts or REAs, receive a higher percentage reimbursement rate to incentivize cooperation between districts. He said transmitting school districts also receive a bonus 4 percent reimbursement for each school district they serve through a cooperative arrangement. He said these bonus reimbursements to school districts sharing their courses total approximately \$1.1 million per biennium and are part of CTE's secondary school budget. He said 10 area centers in the state include 92 member school districts. He said area centers and consortiums must meet certain minimum requirements, including a minimum number of schools and programs offered. He provided a list ([Appendix G](#)) of area career and technology centers, including member school districts and programs, and a list ([Appendix H](#)) of career and technical education courses offered during the 2016-17 school year, including transmitting and receiving schools and number of students enrolled. He said challenges include interactive television distance and delivery equipment, instructional resources, engaging students, meeting the same standards as face-to-face instruction, enrollment loss in conventional classes, program delivery versus course delivery, scheduling, incorporating student organizations, and facility limitations.

In response to a question from Representative Sanford, Mr. Kutzer said dual-credit programs are possible. He said CTE has discussed dual-credit possibilities with the 2-year campuses.

In response to a question from Senator Davison, Mr. Kutzer said access is not a problem. He said local school districts choose where they receive programming and who they work with. He said finding instructors is challenging, especially for distance learning.

Senator Davison said instead of incentivizing multiple school districts to provide courses to other school districts, CTE could review courses and promote the higher quality programs. He said fewer redundancies in courses may also help solve the instructor shortage. He said there seems to be a need for more collaboration and efficiency among school districts delivering the classes.

In response to a question from Senator Davison, Mr. Kutzer said some online classes have a hybrid component that might include equipment or a facilitator.

In response to a question from Senator Davison, Mr. Kutzer said the receiving school may or may not have to pay the transmitting area center, depending on whether or not the receiving school is a member of the area center and the area center's membership policies. He said CTE collects information regarding the rates charged by transmitting schools and area centers.

In response to a question from Senator Oban, Mr. Kutzer said six states have a separate career and technical education agency. He said the technical education program began in the state in 1917 and was transferred to the University System in 1937. He said in 1955 vocational education was administered by a board and in 1967 the Legislative Assembly established the current CTE structure.

Mr. Lyle Krueger, Assistant Director, Missouri River Area Career and Technical Center, provided information ([Appendix I](#)) regarding course offerings and the schools and students anticipated to be served during the 2017-18 school year. He said the Missouri River Area Career and Technical Center (MRACTC) offers 32 courses to 35 participating school districts, 29 of which are members schools of MRACTC. He said 620 students are currently enrolled for fall classes. He said MRACTC partners with other area centers when necessary to offer certain courses. He said MRACTC was established in 2008 as a collaborative experience and offers blended learning courses. He said courses require some hands-on and face-to-face experiences and some of the courses offered provide dual credit. He said each program has an advisory committee which includes students, parents, teachers, and industry partners. He said MRACTC is evaluated by CTE and accredited by AdvancED.

In response to a question from Senator Davison, Mr. Krueger said MRACTC charges nonmember school districts \$300 per student per semester or \$600 per student per year for courses.

Mr. Tim Meyer, Teacher, Missouri River Area Career and Technical Center, provided information regarding a science, technology, engineering, and mathematics (STEM) course at MRACTC. He said the STEM course has approximately 50 students enrolled and is a hands-on project-based learning experience. He said last year the course set aside time each week to allow students to work on individual projects. He shared a news story about a student enrolled in the course.

In response to a question from Senator Davison, Mr. Meyer said most of the projects developed in the STEM course have minimal cost. He said teacher training and time to collaborate with peers are challenges.

### OTHER COMMITTEE RESPONSIBILITIES

The Legislative Council staff presented a background memorandum entitled [Other Duties of the Education Funding Committee - Background Memorandum](#). She said in addition to the study responsibilities assigned to the Education Funding Committee for the 2017-18 interim, the committee has been assigned to:

- Receive an annual report from the Superintendent of Public Instruction by the end of February on the financial condition of school districts (Section 15.1-02-09);
- Receive from the Superintendent of Public Instruction the compilation of annual school district employee compensation reports (Section 15.1-02-13); and
- Receive a report from the Superintendent of Public Instruction annually during the 2017-19 biennium regarding the use of teacher loan forgiveness funds received under 2017 Senate Bill No. 2037, including the amount distributed, the number of eligible individuals receiving funds, the recruitment and retention of individuals participating in the program, the average starting salaries of individuals participating in the program, and the effectiveness of the program as determined under criteria developed by the Superintendent of Public Instruction (Section 4 of 2017 Senate Bill No. 2037).

In response to a question from Chairman Schaible, Ms. Baesler said the school district employee compensation report would be available after November of each year and DPI is working with the University System office to determine when information regarding the teacher loan forgiveness program might be available, but anticipates it will be near the end of each calendar year.

Chairman Schaible asked committee members to provide suggestions for changes or additions to the proposed study plan.

Chairman Schaible said, seeing no changes or additions, the proposed study plan is adopted as presented.

### COMMITTEE DISCUSSION AND STAFF DIRECTIVES

Chairman Schaible said the next meeting will be in mid-September. He said the Education Commission of the States will provide information regarding a comparison of the state's elementary and secondary education funding system to other states. He said the committee will also review the state school aid calculations for certain school districts. He suggested the committee also receive information from REAs regarding their funding structure and from Native American schools regarding their funding structure.

Senator Davison suggested CTE gather information regarding rates charged by consortiums for career and technical education, including charges to members and nonmembers for courses and provide the information to the Legislative Council staff for distribution to the committee.

No further business appearing, Chairman Schaible adjourned the meeting at 3:26 p.m.

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Sheila M. Sandness  
Senior Fiscal Analyst

ATTACH:9