

ANALYSIS OF THE FOUNDATION AID STABILIZATION FUND FOR THE 2017-19 AND 2019-21 BIENNIUMS

	2017-19 Biennium		2019-21 Biennium	
		\$		\$
Beginning balance		\$621,854,625		\$419,207,625
Add estimated revenues				
Oil extraction tax allocations	\$176,430,000 ¹		\$213,290,000 ¹	
Total estimated revenues		176,430,000		213,290,000
Total available		\$798,284,625		\$632,497,625
Less estimated expenditures and transfers				
Department of Public Instruction - State school aid (2017 HB 1013; 2019 SB 2013)	\$110,000,000		\$110,000,000	
Department of Public Instruction - One-time funding for state school aid (2017 HB 1013)	185,000,000			
Department of Public Instruction - One-time funding to rewrite the state automated reporting system application (2019 SB 2013)			1,200,000	
Department of Public Instruction - One-time funding for regional education association merger grants (2017 HB 1013)	100,000			
Department of Public Instruction - One-time funding for rapid enrollment grants (2017 SB 2272; 2019 SB 2265)	6,000,000 ²		3,000,000 ²	
Department of Public Instruction - One-time funding for music education grants (2019 SB 2265)			800,000 ²	
Department of Public Instruction - One-time funding for English language learner grants (2017 SB 2272)	500,000 ²			
Career and Technical Education - One-time funding for grants to school districts and area centers, including \$50,000 for the Marketplace for Kids program (2017 SB 2019)	2,477,000 ²			
Transfer to the school construction assistance revolving loan fund (2017 SB 2272; 2019 SB 2214)	75,000,000 ²		75,000,000 ²	
Total estimated expenditures and transfers		379,077,000 ³		190,000,000 ³
Estimated ending balance		\$419,207,625		\$442,497,625
Less required reserve of 15 percent of the general fund appropriation for state school aid and career and technical education grants to school districts and area centers during the prior biennium		269,168,800 ⁴		214,831,704 ⁵
Estimated ending balance available		\$150,038,825		\$227,665,921

¹Estimated revenues - Estimated allocations for the remainder of the 2017-19 biennium and the 2019-21 biennium are based on the March 2019 revenue forecast and include the fiscal impact of oil extraction tax allocation adjustments in Senate Bill No. 2362 (2019). The bill changes the method of allocating oil extraction tax revenue related to the state's share of revenue associated with production on tribal lands, increasing the allocation to the foundation aid stabilization fund.

²The Legislative Assembly approved Senate Bill No. 2272 (2017), which provides for a transfer of \$75 million from the foundation aid stabilization fund to the school construction assistance revolving loan fund and for appropriations from the foundation aid stabilization fund to the Department of Public Instruction for rapid enrollment grants (\$6 million) and English language learner grants (\$500,000). The Legislative Assembly also provided, in Senate Bill No. 2019 (2017), one-time funding of \$2,477,000 from the foundation aid stabilization fund for grants to school districts and area centers, including \$50,000 for the Marketplace for Kids program. In Senate Bill No. 2265 (2019) the Legislative Assembly provided \$3 million from the foundation aid stabilization fund for rapid enrollment grants to qualifying school districts during the 1st year of the 2019-21 biennium and \$800,000 from the foundation aid stabilization fund for music education grants for grades kindergarten through grade five. Senate Bill No. 2214 (2019) provides for a transfer of \$75 million from the foundation aid stabilization fund to the school

construction assistance revolving loan fund and legislative intent that the 67th Legislative Assembly appropriate \$110 million from the foundation aid stabilization fund to the Department of Public Instruction to provide ongoing funding for state school aid and transfer an additional \$75 million from the foundation aid stabilization fund to the school construction assistance revolving loan fund.

³Expenditures - Prior to December 8, 2016, Section 24 of Article X of the Constitution of North Dakota provided the principal of the foundation aid stabilization fund could only be used to offset foundation aid reductions made by executive action due to a revenue shortfall. Senate Concurrent Resolution No. 4003 (2015), approved by voters in November 2016, amended Section 24 of Article X of the Constitution of North Dakota 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.

⁴Amendments to the Constitution approved by the voters, as provided in Senate Concurrent Resolution No. 4003 (2015), require the balance in the foundation aid stabilization fund be at least 15 percent of the general fund appropriation for state aid to school districts for the most recently completed biennium as determined by the Office of Management and Budget. Any excess balance in the fund is available for education-related purposes. The Legislative Assembly, in Senate Bill No. 2272 (2017) and House Bill No. 1155 (2017), amended North Dakota Century Code Section 54-44.1-12 to provide any reductions to the general fund appropriation to the Department of Career and Technical Education for grants to school districts due to allotment are also to be offset by funding from the foundation aid stabilization fund. Senate Bill No. 2272 also created a new section to Chapter 54-27 indicating that state school aid includes general fund appropriations for state school aid, transportation aid, and special education aid in the Department of Public Instruction as well as general fund appropriations for career and technical education grants to school districts and area centers in the Department of Career and Technical Education. Based on general fund appropriations to the Department of Career and Technical Education for career and technical education grants to school districts and area centers during the 2015-17 biennium, this change increases the required reserve during the 2017-19 biennium by \$3,397,900. The adjusted appropriation for integrated formula payments, transportation aid, and special education grants totaled \$1,990,940,000 during the 2015-17 biennium, of which \$219,134,000 is provided from the state tuition fund, \$116,053,293 is from the foundation aid stabilization fund, and \$1,655,752,707 is provided from the general fund. Based on this level of funding from the general fund during the 2015-17 biennium, the required balance in the foundation aid stabilization fund during the 2017-19 biennium would be \$251,760,806. However, the Office of Management and Budget reported in its 2017-19 executive budget documents a required reserve balance of \$265,770,900, which is the reserve balance required based on the original 2015-17 biennium state school aid appropriations. Therefore, based on original 2015-17 biennium appropriations for state school aid appropriations and for career and technical education grants to school districts and area centers, the required reserve totals \$269,168,800 for the 2017-19 biennium.

⁵The appropriation for integrated formula payments, transportation aid, and special education grants totals \$2,009,904,163 during the 2017-19 biennium, of which \$305,546,905 is provided from the state tuition fund, \$295,000,000 is from the foundation aid stabilization fund, and \$1,409,357,258 is provided from the general fund. In addition, general fund appropriations for career and technical education grants to school districts and area centers in the Department of Career and Technical Education totaled \$22,854,100 during the 2017-19 biennium. Based on this level of funding from the general fund during the 2017-19 biennium, the Office of Management and Budget, in its 2019-21 executive budget documents, reported a required reserve balance of \$214,831,704 for the 2019-21 biennium. In 2019, the Legislative Assembly provided \$2,178,702,429 for integrated formula payments, transportation aid, and special education grants during the 2019-21 biennium, of which \$377,764,000 is provided from the state tuition fund, \$110,000,000 is from the foundation aid stabilization fund, and \$1,690,938,429 is provided from the general fund. In addition, general fund appropriations for career and technical education grants to school districts and area centers in the Department of Career and Technical Education totaled \$24,887,780 during the 2019-21 biennium. Based on this level of funding from the general fund during the 2019-21 biennium, it is anticipated the required reserve balance for the 2021-23 biennium will be approximately \$257,373,931, \$42,542,227 more than the reserve required for the 2019-21 biennium.

FUND HISTORY

The foundation aid stabilization fund was created in 1994 when the voters of North Dakota approved a constitutional amendment--now Section 24 of Article X of the Constitution of North Dakota--to provide that 20 percent of oil extraction tax revenue be allocated as follows:

- 50 percent (of the 20 percent) to the common schools trust fund; and
- 50 percent (of the 20 percent) to the foundation aid stabilization fund.

In November 2016 voters approved Senate Concurrent Resolution No. 4003 (2015), which amended the Constitution of North Dakota 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 education-related purposes. In addition the Legislative Assembly approved Senate Bill No. 2039 (2015), which included certain provisions effective December 1, 2016, based on the approval of Senate Concurrent Resolution No. 4003 by voters. Those provisions of Senate Bill No. 2039 established a scholarship endowment fund and a school construction assistance loan fund and provided for transfers from the foundation aid stabilization fund to the school construction assistance loan fund (the lesser of \$200 million or 50 percent of the balance of the fund on December 1, 2016), and to the scholarship endowment fund (the lesser of \$200 million or 50 percent of the balance of the fund on December 1, 2016). Other provisions of Senate Bill No. 2039 provided any accessible funds that remain in the foundation aid stabilization fund, after completion of the required transfers to other funds, must be used for education-related purposes, including state aid to school districts and education-related property tax relief to school district patrons. The Legislative Assembly approved Senate Bill No. 2272 (2017), which provided for uses of the foundation aid stabilization fund and repealed Sections 9 and 10 of Chapter 153 of the 2015 Session Laws related to the transfers to the scholarship endowment fund and the school construction assistance loan fund.

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. Section 54-44.1-12 provides the Director of the Budget may order an allotment to control the rate of expenditures of state agencies. This section provided that an allotment must be made by a specific fund and all departments and agencies that receive money from a fund must be allotted on a uniform percentage basis, except that appropriations for foundation aid, transportation aid, and special education aid may only be allotted to the extent the allotment can be offset by transfers from the foundation aid stabilization fund. The Legislative Assembly approved Senate Bill No. 2272 (2017) and House Bill No. 1155 (2017), which amended Section 54-44.1-12 to provide any reductions to the general fund appropriation to the Department of Career and Technical Education for grants to school districts due to allotment are offset by funding from the foundation aid stabilization fund. Senate Bill No. 2272 also created a new section to Chapter 54-27 indicating that state school aid includes general fund appropriations for state school aid, transportation aid, and special education aid in the Department of Public Instruction, as well as general fund appropriations for career and technical education grants to school districts and area centers in the Department of Career and Technical Education.

The Legislative Assembly approved Senate Bill No. 2362 (2019), which changed the method of allocating oil extraction tax revenue related to the state's share of revenue associated with production on tribal lands, increasing the allocation to the foundation aid stabilization fund.

Section 24 of Article X of the Constitution of North Dakota provides the interest income of the foundation aid stabilization fund must be transferred to the general fund on July 1 of each year. However, the State Treasurer's office allocates the interest income to the general fund on a monthly basis. For the period July 1, 2017, through March 31, 2019, \$808,029 of interest from the foundation aid stabilization fund has been allocated to the general fund.