

October 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 Biennium Appropriation	1999-2001 Biennium Appropriation	2001-03 Biennium Increase (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 Appropriation	Current Estimate	Current Estimate Increase (Decrease) From Legislative Appropriation	Current Estimate Percentage Increase (Decrease) From Legisla- tive Appropriation
2001-02				
Per student payments	\$2,287	\$2,287	\$0	0.00%
Tuition fund distributions	300	310	10	3.33%
Total payments	\$2,587	\$2,597	\$10	0.39%
Weighted student units	113,075	113,172	97	0.086%
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 deducted during the first year of the biennium was approximately \$250,000, resulting in a \$50,000 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 Biennium Appropriation	2001-02 Fiscal Year Budgeted Expenditures	2001-02 Fiscal Year Actual Expenditures	2001-02 Fiscal Year Actual Expenditures (Over) Under Budget	2002-03 Fiscal Year Current Estimate of Expenditures	2001-03 Biennium Estimated Payments	2001-03 Biennium Estimated Remaining Balance
Statutory per student payments	\$522,264,541	\$260,384,838	\$260,300,828	\$84,010	\$262,765,625	\$523,066,453	(\$801,912) ¹
Less deducts	84,942,893	41,724,014	41,874,985	(150,971)	43,877,060	85,752,045	(809,152) ²
General fund per student payments	\$437,321,648	\$218,660,824	\$218,425,843	\$234,981	\$218,888,565	\$437,314,408	\$7,240
Limited English proficiency payments	650,000	325,000	261,765	63,235	325,000	586,765	63,235
Transportation payments	36,000,000	18,000,000	17,472,560	527,440	18,000,000	35,472,560	527,440
Total state school aid - General fund	\$473,971,648	\$236,985,824	\$236,160,168	\$825,656	\$237,213,565	\$473,373,733	\$597,915 ³

¹ 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, the actual payments were slightly more than that amount.

² The variance is attributable to the net effect of the excess fund balance deduct being approximately \$50,000 more than estimated for the first year of the biennium and the mill deduct being \$626,181 more than estimated for the second year.

³ 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 .086 percent more 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, actual, and currently estimated teacher compensation payments for each year of the 2001-03 biennium:

Teacher Compensation Payments - 2001-03 Biennium							
	2001-03 Biennium Appropriation	2001-02 Fiscal Year Budget	2001-02 Fiscal Year Actual Expenditures	2001-02 Fiscal Year Actual Expenditures (Over) Under Budget	2002-03 Fiscal Year Current Estimate	2001-03 Biennium Estimate	2001-03 Biennium Estimated Remaining Balance
Teacher compensation payments	\$35,036,000	\$8,883,820	\$8,753,720	\$130,100	\$26,037,250	\$34,790,970	\$245,030 ¹
Qualifying instructional FTE	8,884	8,884	8,786	98	8,786		

¹ The estimated remaining balance represents approximately 0.7 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 year of the 2001-03 biennium were \$176 per student, and the payments are estimated to be \$180 per student for the second year of the biennium. The amounts are unchanged from original estimates. The following schedule shows budgeted and actual special education expenditures through June 30, 2002:

Special Education Comparison of Budgeted to Actual Expenditures Through June 30, 2002				
	2001-03 Biennium Appropriation	Budgeted Expenditures Through June 30, 2002	Actual Expenditures Through June 30, 2002	Actual Expenditures (Over) Under Budgeted Amounts
Total special education payments	\$49,898,695	\$25,037,209	\$24,676,424	\$360,785 ¹

¹ Actual expenditures through June 30, 2002, are \$360,785 or 1.4 percent less than estimates. No end-of-biennium balance is anticipated for special education aid. The department is to distribute any remaining funds on a per student basis pursuant to Section 8 of 2001 House Bill No. 1013.

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 statewide 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 June 30, 2002:

Revenue Supplement Payments Comparison of Budgeted to Actual Expenditures Through June 30, 2002				
	2001-03 Biennium Appropriation	Budgeted Expenditures Through June 30, 2002	Actual Expenditures Through June 30, 2002	Actual Expenditures (Over) Under Budgeted Amounts
Revenue supplement payments	\$2,200,000	\$1,100,000	\$1,097,383	\$2,617 ¹

¹ Actual expenditures through June 30, 2002, 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 June 30, 2002:

State Tuition Fund Comparison of Budgeted to Actual Distributions Through June 30, 2002				
	2001-03 Biennium Appropriation	Budgeted Distributions Through June 30, 2002	Actual Distributions Through June 30, 2002	Actual Distributions (Over) Under Budgeted Amounts
State tuition fund distributions	\$67,239,025	\$33,619,513	\$33,556,808	\$62,705 ¹

¹ Actual tuition fund distributions through June 30, 2002, are .2 percent less than budgeted. Actual tuition fund distributions for the biennium are anticipated to be close to appropriated amounts.

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. The following schedule shows actual and current estimated payments for limited English proficient students for each year of the 2001-03 biennium:

Payments for Limited English Proficient Students - 2001-03 Biennium					
	2001-03 Biennium Appropriation	2001-02 Fiscal Year Actual Expenditures	2002-03 Fiscal Year Current Estimate	2001-03 Biennium Estimate	2001-03 Biennium Estimated Remaining Balance
Limited English proficiency payments	\$650,000	\$261,765	\$325,000	\$586,765	\$63,235 ¹

	2001-03 Biennium Appropriation	2001-02 Fiscal Year Actual Expenditures	2002-03 Fiscal Year Current Estimate	2001-03 Biennium Estimate	2001-03 Biennium Estimated Remaining Balance
Limited English proficient students		857 ²	950		
¹ Funding provided for payments for limited English proficient students is included in total state school aid and therefore, 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).					
² The actual number of limited English proficient students for the 2001-02 school year was 857, including 215 level I students, 261 level II students, and 381 level III students.					

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.

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 four school districts--Drake, Anamoose, Goodrich, and McClusky--have requested and received advance bonus payments totaling \$60,000.

House Bill No. 1301 does not provide authority to distribute any remaining appropriation; therefore, if not used for reorganization bonus payments, the remaining appropriation of \$456,000 will be returned to the general fund at the end of the biennium.

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:

1. **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.
2. **"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.
3. **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. Sufficient funds were not available so no declining enrollment payment was made at the end of the first year. The current estimate of state school aid expenditures indicates an end-of-biennium unspent balance of approximately \$600,000. If the current projection is realized, the \$600,000 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 \$245,000 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.