DOCUMENT RESUME

ED 370 170 EA 025 739

TITLE Education Finance--Background Memorandum.
INSTITUTION North Dakota State Legislative Council, Bismarck.
PUB DATE Jul 93
NOTE 19p.; Prepared for the Education Finance Committee.
PUB TYPE Historical Materials (060)

EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS *Educational Equity (Finance); *Educational Finance; Elementary Secondary Education; Equalization Aid; Fiscal Capacity; Resource Allocation; *School Support; State Courts; *State Legislation; Tax Allocation
IDENTIFIERS *North Dakota

ABSTRACT

This document provides background information on educational finance in North Dakota. It examines the use of nonproperty factors in financing education, the quality of education, legal action in the state regarding education finance issues, and the effects of any 1993 North Dakota legislation on education finance. The paper first describes changes in the original foundation program that provided financial aid to local school districts and outlines "constitutionally objectionable features" of the school finance system. In March 1993, a proposal was offered by the Superintendent of Public Instruction to create educational equity for North Dakota students. Also described are the State Senate Bill 2432, House Bill 1512, and House Bill 1003. The appendix contains a copy of Section 11 of the 1993 House Bill 1003 that directs the Legislative Council to study these areas. (LMI)

59027

Prepared by the North Dakota Legislative Council staff for the Education Finance Committee July 1993

ED 370 170

EDUCATION FINANCE - BACKGROUND MEMORANDUM

EA

59027

Prepared by the North Dakota
Legislative Council staff for
the Education Finance Committee
July 1993

EDUCATION FINANCE - BACKGROUND MEMORANDUM

Section 11 of 1993 House Bill No. 1003 (copy attached) directs the Legislative Council to study the use of nonproperty factors in financing education, the quality of education, legal action in this state regarding education finance issues, and the effects of any 1993 North Dakota legislation relating to education finance.

EDUCATION FINANCE - A HISTORICAL PERSPECTIVE

A foundation program designed to provide financial assistance to local school districts has been in effect in North Dakota since 1959, when the Legislative Assembly enacted a uniform 21-mill county levy and provided a supplemental state appropriation to ensure that school districts would receive 60 percent of the cost of education from nonlocal sources. This initial program was adopted by the 1959 Legislative Assembly because it recognized that property valuation demographics and educational needs varied from school district to school district. The Legislative Assembly embraced the broad policy objective that some higher cost school districts in the state "must continue to operate regardless of future school district reorganization plans." Taking into account the obvious financial burdens suffered by the low valuation - high per student cost school districts, the Legislative Assembly forged a system of weighted aid payments that favored schools with lower enrollments and higher costs. This initial program also recognized that higher costs were incurred by districts that provided high school services and, therefore, included a higher weighting factor for the allocation of aid to those districts.

Until 1973 the foundation aid program remained essentially unchanged. At that time, the Legislative Assembly responded to a growing crisis in the field of education finance in North Dakota. As a result, the funding program became more sophisticated and state government assumed a proportionately greater share of financing education. The base support payment per student which was and still is the amount used to determine the sum that each school district receives after the application of weighting factors was increased from \$260 to \$540 per student. The flat weighting factor for all high schools was changed to provide four classes of high school weighting factors and some adjustments were made in elementary school weighting factors as well. Another modification made by the 1973 Legislative Assembly was the reduction of the maximum mill levy for high school districts from 34 to 24 mills and the requirement that those districts with excess levies or unlimited levies reduce them. The 1973 changes also came at a time when federal and state courts were considering whether the level of spending for a student's elementary and secondary school education should depend upon the wealth of the student's school district. As the foundation program alternatives were being made, the conviction of the Legislative Assembly was that the matter of financing public schools was a state responsibility and that every effort should be made to ensure the most equitable system of providing equal educational opportunities to all North Dakota students.

The 1973 amendments to the foundation program were due to expire at the conclusion of the 1973-75 biennium. However, the 1975 Legislative Assembly made permanent most of the basic modifications in the 1973 foundation aid program. The 1975 Legislative Assembly increased the base payment from $540 to $640 per student for the first year of the 1975-77 biennium and to $690 per student for the second year. The 1975 Legislative Assembly also made further adjustments in the weighting factors used to calculate aid for elementary school programs and included a new classification for seventh and eighth grade students, in recognition of higher costs associated with the junior high level of instruction. Another change involved fiscal protection for school districts with declining enrollments. It was provided that no district would receive less in foundation aid payments for a current year than that district would have received based on its enrollment the previous school year. As a result, districts with this enrollment profile were given a buffer period within which to adjust their fiscal circumstances and minimize traumatic revenue losses associated with declining enrollments. The increasing participation of the state in the financing of public school education continued and the appropriation for the foundation program was increased from $118 million during the 1973-75 biennium to $153.4 million for the 1975-77 biennium.

The 1977 Legislative Assembly raised the base payment under the foundation aid program to $775 per student for the first year of the biennium and to $850 for the second year. The total appropriation for foundation payments, including those made for transportation, amounted to $186.8 million.

The 1979 Legislative Assembly raised the base payment to $903 per student for the first year of the biennium and to $970 for the second year. The total foundation aid appropriation was $208.4 million. An additional $1 million was appropriated by the 1979 Legislative Assembly for the funding of free public kindergarten during the second year of the 1979-81 biennium.

The next major development affecting educational finance in North Dakota occurred with the approval of initiated measure No. 6 at the general election in November 1980. This measure imposed a 6.5 percent oil extraction tax and provided that 45 percent of the funds derived from the tax must be used to make possible state funding of elementary and secondary education at a 70 percent level.

Since the electorate approved the concept of funding public education at the 70 percent level, the 1981 Legislative Assembly amended the text of the initiated measure to provide that 60 percent of the oil extraction tax revenues be allocated to the school aid program. The Legislative Assembly did not alter the aspiration expressed in the original language of the initiated measure regarding funding of education by the state at the 70 percent level.

Initiated measure No. 6 also precipitated a change in the structure of the foundation aid program by providing for a tax credit that made the 21-mill county levy inapplicable to all but the owners of extremely high valued property. Initiated measure No. 6 allowed the property tax revenue lost to school districts because of the credit to be made up by additional state foundation aid appropriations. Rather than continue to maintain the 21-mill county levy in its significantly modified form, the 1981 Legislative Assembly eliminated the levy altogether and committed an increase in state education aid to compensate districts for all revenues that would have been derived from the levy and to bring the state contribution closer to the aspirational 70 percent level. The foundation aid appropriation in 1981 was $388.7 million. Aside from this modification, the 1981 Legislative Assembly did not restructure the state school aid program. Instead, it recognized that any significant change in the manner of financing education would be best accomplished after an extensive study by an interim committee.

During the ensuing interim, the system of school funding was subjected to substantial criticism because of purported funding inequities. Districts spending similar amounts per student and having similar assessed valuations were not levying similar amounts in property taxes to raise their proportion of the cost of education. It was alleged that the system encouraged some districts to levy much smaller amounts than their spending levels and assessed valuations would seem to justify.

The 1981-82 interim Education Finance Committee spent much of its time examining a new school funding concept known as the "70-30" concept. This proposition took into account the costs of education incurred by each school district. It was a significant departure from the existing formula in which the Legislative Assembly established specific dollar amounts as the educational support per student.

The "70-30" concept began by determining the "adjusted cost of education" for each school district. It took into account the gross expenditures of a school district and subtracted the following items:

1. Capital outlay for buildings and sites or debt service.

2. Expenditures for school activities and school lunch programs.

3. Expenditures for transportation, including the cost of schoolbuses.

4. Expenditures from state funds paid to the district for vocational and special education.

5. Expenditures from state tuition fund distributions.

6. All expenditures from federal funds except funds in lieu of property taxes.

When school district expenditures from all the above-mentioned funding sources were subtracted from each district's gross expenditures for the preceding school year, the result was the "adjusted cost of education." The "70-30" concept provided that the "educational support" for each year was to be the adjusted cost of education times an adjustment factor that would account for inflation. The amount of "educational support" for a school district, as calculated pursuant to this procedure, would represent the dollar amount equal to 100 percent of the total cost of education of the district.

Because the aspiration of initiated measure No. 6 was for the state to provide 70 percent of the cost of education on a statewide basis, the "70-30" concept contained an equalization factor designed to provide fair treatment to districts with different costs and assessed property valuation profiles. The mechanism in the "70-30" concept provided for the computation of a 30 percent equalization factor to be used as the basis for determining each district's state funding entitlement. The equalization mechanism was determined as follows:

1. The total of all school districts' adjusted cost of education for the previous fiscal school year times the inflation adjustment factor. This equaled the estimated statewide cost of education.

2. The estimated statewide cost of education for the current school year times 30 percent.

3. Based on the total valuation of all taxable property in the state for the previous year, the mill levy necessary to raise the dollar amount derived according to step 2, multiplied by the latest available taxable valuation of each school district. The product obtained is known as the "equalized 30 percent local share." A district's equalized 30 percent local share is subtracted from the district's adjusted cost of education to arrive at the district's state school aid funding entitlement.

Proponents of the concept maintained that the central strengths of the approach were its comprehensive equalization mechanism and its consideration of each district's own expenditure levels in determining the amount of state education aid to which the district was entitled. Opponents, however, argued that the scheme was structured in such a manner that it rewarded high spending school districts. Since a district's prior expenditure level provided the base for allocation of the state education aid, the district that had previously spent the most on education would receive a correspondingly larger state aid payment. The system would have penalized school districts that had been operating on extremely restricted budgets and which had given cost control a high priority. The committee did not recommend this funding concept to the Legislative Council.

The Legislative Assembly in 1983 left in place the existing educational funding mechanism and set the per student payment at $1,400 for the first year of the biennium and $1,350 for the second year of the biennium.

The 1983-84 interim Education "A" Committee also studied elementary and secondary school financing. Weighting factors, increases in the equalization deduct to 40 mills, and the excess mill levy grant concept were among the specifics studied by the committee. The committee recommended an increase in the per student foundation aid payments but declined to adopt recommendations regarding an increase in the equalization deduct and the provision of excess mill levy grants. Although the committee recommended foundation aid payments of $1,524 and $1,595 for the biennium, the Legislative Assembly reduced those figures to $1,425 and $1,455, respectively.

Although the 1985-86 interim Education Committee considered matters of educational finance, it was the 1987-88 interim Education Finance Committee that set specific goals and guidelines to be taken into account during its deliberations on educational finance issues. These goals included:

1. That the committee should take a futuristic view and examine issues such as transportation, reorganization, consolidation, and salaries as they will exist in 10 years.

2. That the committee should establish a vision of the qualities that young people are expected to possess once they have gone through the educational system and that teachers must develop the skills necessary to bring that vision and those expectations to students.

3. That an educational system should provide all children with access to an equal educational experience.

4. That an educational system should require financial input from local school districts and from the state.

5. That all aspects of the current educational system should be determined as viable or nonviable.

6. That steps should be taken to eliminate or reduce existing disparities in the educational finance system.

7. That an educational program should be responsive to technology and to the different ways that individuals learn.

8. That an educational finance system should, whenever possible, provide incentives rather than disincentives or directives.

9. That proposals should be examined in terms of their overall effects rather than their effects on individual districts.

10. That legislation should be proposed with a view to readily accommodating change.

The committee reviewed several proposals to revise the existing education finance formula and generally agreed that any formula approved by the committee should increase state aid to school districts by $35 million. The committee also discussed various proposals that would have taken into consideration, as part of the foundation aid program, payments to school districts from sources other than the state, in order to determine local abilities to support education. Because time was insufficient to consider these issues, the committee recommended that the Legislative Council study in lieu of property tax payments to school districts, school district revenues derived from oil, gas, and coal taxes, and other payments to school districts from the state, to determine whether these payments should be included as local resources when measuring a school district's contributions to the foundation aid program. The committee also recommended a resolution directing a study of the use of various factors in addition to property wealth which could be embodied in an educational finance formula in order to equalize educational opportunities and to meet the state constitutional guarantee of a free and uniform system of public school education.

The 1989-90 interim Education Finance Committee considered several bill drafts regarding income factors and in lieu of tax revenues. One draft would have deducted from a school district's foundation aid the amount derived by dividing the five-year average aggregate adjusted gross income for North Dakota from state income tax returns into the product of 20 mills times the latest available taxable valuation of property of the state, times the aggregate adjusted gross income from income tax returns for the school district.

Another would have deducted the following amounts from a school district's foundation aid payment:

1. The average North Dakota federal adjusted gross income per individual income tax return for the school district divided by the average North Dakota federal adjusted gross income per individual income tax return for all school districts, times the latest taxable valuation of all property in the school district, multiplied by 30 mills.

2. Three percent of the money that the school district received from the state tuition fund for students who did not attend public schools in the school district.

3. Three percent of all federal revenues that the school district received as payments in lieu of taxes, including federal impact aid, if deducting the federal impact aid would not result in the loss of federal funds to school districts.

4. Three percent of the revenue that the school district received from oil, gas, and coal taxes.

A third bill draft would have changed the deduction to an amount equal to the average federal adjusted gross income per student for the district, divided by the average federal adjusted gross income per student for the state, times the taxable valuation of property in the school district, times 20 mills. The concept behind use of the income factor was that if the average income of residents of the school district were higher than the state average, the ratio would be greater than one. A ratio greater than one would increase the amount that was to be multiplied by the mill factor and deducted from the school district's state aid.

While the committee recognized that changes in the educational funding system of the state should be made, the committee also believed the state's financial situation had to be better defined and understood before alternative funding methods could be pursued. Consequently, the interim committee made no recommendations regarding school finance issues.

The 1991-92 interim Education Committee was directed to study an educational funding formula that included all sources of wealth and revenue in order to measure a school district's ability to support education, and at the same time, incorporated enrollment factors, required a minimum level of local effort, and provided additional dollars for categories of students falling below the statewide averages for per student expenditures. Such a formula was embodied in 1991 House Bill No. 1563 and because it failed to pass, was referenced in the committee's study directive.

The committee compared the per student payments provided for in 1991 House Bill No. 1563 with those provided for in statute and found that 129 districts would have gained funds while 137 would have lost. Although in the end the committee made no recommendation regarding the proposed funding formula, the deliberations afforded the committee an opportunity to consider the meaning of "equalization." Testimony suggested that equalization means the process of compensating for differences in order to reach equality and that equity means there must be a direct and close correlation between a district's tax effort and the educational resources available to it, i.e., a district must have substantially equal access to similar revenues per student at similar levels of effort. However, testimony also suggested that equalizing the amount of education dollars available is simply not enough and that achieving equal educational opportunities may very well require an unequal distribution of dollars.

The committee was less successful in defining "equal educational opportunity." The "committee found that to be an ethereal phrase, understood in its broadest general perspective, yet incapable of the definition needed for conceptualizing its application to various funding formulas."

BISMARCK PUBLIC SCHOOL DISTRICT NO. 1 V. STATE OF NORTH DAKOTA

Amid continuing questions regarding the equity of educational financing, legal action was initiated over two years ago for the purpose of declaring North Dakota's system of public school financing unconstitutional. The complaint charged that disparities in revenue among the school districts have caused corresponding disparities in educational uniformity and opportunity which are directly and unconstitutionally based upon property wealth.

On February 4, 1993, after hearing 35 witnesses and receiving over 250 exhibits, Judge William F. Hodny issued 593 findings of fact and 32 conclusions of law. Among the substantive conclusions are the following:

1. Under Article VIII, Sections 1 and 2, of the North Dakota Constitution, the financing of public elementary and secondary education is a state responsibility in that the Legislative Assembly is irrevocably mandated to "make provision for the establishment and maintenance of a system of public schools which shall be open to all children of the state of North Dakota and free from sectarian control."

2. Article VIII, Section 2, of the North Dakota Constitution, imposes a duty on the Legislative Assembly to "provide for a uniform system of free public schools

throughout the state . . . ." Such a duty is a continuing duty requiring the maintenance of such a uniform system even as conditions of life and state change over the years.

3. The constitutional standard of equal protection proscribes any system which makes the quality of a child's education a function of district wealth rather than the wealthy (sic) of the state as a whole.

4. Despite the fundamental character of education under the North Dakota Constitution, the North Dakota school financing system classifies its recipients on the basis of the taxable wealth of a school district as measured by its taxable valuation per pupil and tax revenue generated from in lieu of property tax sources in violation of the equal protection and uniform system provisions of the North Dakota Constitution.

5. The North Dakota school financing system also violates Article VIII, Section 2, of the North Dakota Constitution, which requires the Legislative Assembly to provide for a "uniform system of free public school throughout the state . . . ."

6. The dependency of the state on the vastly disparate tax bases of school districts to finance its constitutional obligation makes the definition of a "uniform" education a function of the tax base of school districts rather than constitutionally permissible criteria related to education.

7. The taxable wealth of a school district is a constitutionally impermissible factor in the funding of a "uniform" system of free public schools.

8. State and local governmental action drew the school district boundary lines that determined how much local wealth each school district would contain.

9. State sources of revenue are inadequate to remedy the unconstitutional defects of a school financing system based on widely varying school district tax bases.

Although Judge Hodny stated that the "equal protection and education provisions of the North Dakota Constitution do not impose requirements of absolute uniformity or equality" and that "unequal expenditures are constitutionally permissible if not related to the taxable wealth of school districts, if more resources are needed for some children to achieve an equal education opportunity than are needed by other children, and if based on legitimate cost differences among districts," he went on to list the following as "constitutionally objectionable features of the North Dakota school financing system":

1. Disparities in current revenue per student which are the result of variations in school district taxable wealth.

2. The 22-mill deduct in the foundation formula which fails to equalize for variations in district wealth because the deduct is below the state average school tax rate for current revenue and leaves much of the school millage outside of the foundation formula.

3. The low level of foundation educational support which fails to ensure substantial equality of resources for children in similarly situated school districts.

4. The use of cost weightings that are inaccurate and unjustifiable benefit districts with large amounts of taxable wealth.

5. The flat grant allocation of tuition apportionment which ignores the vast differences in taxable wealth among school districts and operates as a minimum guarantee for wealthy districts.

6. The features of the transportation aid program that exacerbate existing resource disparities by reimbursing some, often wealthy, districts for more than the actual cost of transportation to the district and require other, often poorer, districts to fund a substantial share of transportation costs from other revenue sources.

7. The features of the special education funding program that exacerbate existing resource disparities by giving higher spending districts an advantage in obtaining state reimbursement of special education costs and require school districts to fund a large share of the extra costs of special educational programs from the disparate tax bases of school districts.

8. The features of state aid for vocational education that exacerbate existing resource disparities.

9. The state system for funding school facilities is the unequal taxable wealth of school districts.

10. The payment of state aid to wealthy districts that maintain large ending fund balances.

11. The failure of the state to ensure that resource differences among school districts are based on factors relevant to the education of North Dakota children rather

than on the unequal taxable wealth of North Dakota school districts.

ORDER FOR JUDGMENT

In the order for judgment, Judge Hodny declared that the North Dakota school financing system was in violation of Article VIII, Sections 1 and 2, and Article I, Sections 21 and 22, of the North Dakota Constitution and directed the Superintendent of Public Instruction to prepare and present to the Governor and the Legislative Assembly plans and proposals for the elimination of the wealth-based disparities among North Dakota school districts.

Finally, Judge Hodny provided:

> In the event the defendants fail to establish, within six months from the date of entry of judgment, a public school financing system that will fully comply with the North Dakota Constitution, at the expiration of four years from the date of entry of judgment, the Court, upon a motion of one or more of the parties or upon the Court's own motion, will consider such additional relief as may be necessary to eliminate the disparities in educational funding and opportunity declared unconstitutional. Any decision by the defendants seeking to comply with the Court's Order must be retroactive to July 1, 1993, in terms of its financial compensation to school districts unless such is shown too impractical or impossible.

PROPOSAL BY THE SUPERINTENDENT OF PUBLIC INSTRUCTION

In response to Judge Hodny's order, Superintendent of Public Instruction Wayne Sanstead, on March 15, 1993, presented "A Plan Providing Educational Equity for North Dakota Students." The plan included recommendations in the following areas:

Foundation Aid

Using a 12-point set of basic instructional standards, the superintendent determined that the instructional cost per student was $1,792. To that amount the superintendent added related costs such as school administration, general school district administration, plant operations, maintenance, etc., to arrive at a per student cost of $3,134. The superintendent then recommended this amount be the guaranteed per student foundation amount. It was presumed this amount would be composed of the state general fund appropriation, tuition apportionment, federal revenue in lieu of taxes, mineral revenue in lieu of taxes, excess school district general fund balances, and a uniform county mill levy.

Special Education

The superintendent recommended that special education be built into the foundation aid program by dividing the 13 disability categories of special education into three broad levels of funding. The mild level would be based on the statewide average of nine percent of all students and would be weighted at 1.0. The moderate and severe levels would be paid according to the actual numbers of students in those categories. The weightings would be set at 2.5 and at 5.0, respectively. Included was a level of funding for gifted student programs which was based on five percent of the total enrollment.

Vocational Education

The superintendent recommended the establishment of two categories of vocational and technical education, based on high cost and moderate cost programs. The high cost programs would be weighted at 0.6975 and the moderate cost programs would be weighted at 0.2824.

Transportation

The superintendent recommended the establishment of six categories of transportation reimbursement based upon density factors related to the number of students transported per square mile. Transportation payments would be based on the actual number of students transported and weighted at the density payments listed herein, times the guaranteed foundation amount:

Density	Weight
0.001 to 0.250	0.2495
0.251 to 0.500	0.2036
0.501 to 0.750	0.1720
0.751 to 1.000	0.1481
1.001 to 1.999	0.1308
2.000 +	0.1819

State General Fund Appropriation

The superintendent recommended that the state fund education at the 65 percent level for the 1993-95 biennium and at 70 percent by the end of the 1995-97 biennium.

Uniform County Mill Levy

The superintendent recommended that the local share of the guaranteed foundation aid amount come from a uniform county levy of 180 mills. The amount raised by this levy would be distributed to the school districts in the county on a per student basis.

Tuition Apportionment

The superintendent recommended that income from the common schools trust fund become a state funding source for the foundation aid program.

Federal Revenue in Lieu of Local Property Taxes

The superintendent recommended that such federal funds become part of the guaranteed foundation aid amount.

Mineral Revenue in Lieu of Local Property Taxes

The superintendent recommended that such mineral revenues become part of the guaranteed foundation aid amount.

Excess Fund Balance

The superintendent recommended that, for the 1993-94 school year, all school district general fund balances in excess of 75 percent of the prior year's general fund expenditures would be recaptured by the state. In subsequent years, the excess balance would become part of the district's guaranteed foundation aid amount. The percent of allowable fund balances would be set at 65 percent for 1994-95, 55 percent for 1995-96, 45 percent for 1996-97, and 35 percent for subsequent years.

Optional District Levy and Guaranteed Tax Base

The superintendent recommended that each school district be given the opportunity to levy an additional 25 mills above the 180-mill uniform county levy. Of this amount, 20 mills would be equalized to ensure that each mill would generate revenue at the level of 125 percent of the state average taxable valuation per student.

Minimum School District Size

The superintendent recommended that all land in North Dakota must be part of a high school district by July 1, 1996, and that all school districts with less than 150 students in grades kindergarten through 12 become part of a larger administrative unit by July 1, 1996. School sites having less than 150 students could receive supplemental payments if they qualified as an isolated school.

School Construction

The superintendent recommended the provision of $25 million for a revolving school construction fund and suggested that future assistance would be needed to provide equalization of capital construction costs.

1993 LEGISLATIVE RESPONSES

The 1993 Legislative Assembly dealt with three principal education funding bills--Senate Bill No. 2432, introduced by Senators Lips, Lindgren, and Evanson and Representatives Brodshaug, Gates, and Rydell; House Bill No. 1512, the submission by the House Blue Ribbon Committee; and House Bill No. 1003, the vehicle used by the Senate Education Committee to propose its funding formula and the bill which was eventually sent to a conference committee and then passed by both the House and the Senate.

Senate Bill No. 2432

Senate Bill No. 2432, as introduced, provided that each school district is entitled to receive the sum of $2,800 times the number of full-time equivalent students in grades kindergarten through 12, less the amount raised by the district in levying 150 mills on the taxable valuation of all property in the district, and less all in lieu of tax dollars received by the district.

It also allowed for a supplemental levy of 26.78 mills and provided that any district levying this amount was entitled to receive from the state the difference between the amount raised by the levy and the amount arrived at by multiplying $500 by the number of full-time equivalent students residing in the district and attending kindergarten through grade 12 in the district. The bill also provided for an additional payment of $200 per student for isolated schools, i.e., schools that are 20 miles or more from the nearest public school.

Transportation reimbursements were set at 35 cents per mile, plus 50 percent of the difference between the mileage payment and the transportation operating expenditures reported by the school district to the Superintendent of Public Instruction for the most recent year, plus the five-year average cost of transportation equipment, as determined by the Superintendent of Public Instruction. The total transportation reimbursement was capped at 70 percent of a school district's actual costs.

Senate Bill No. 2432 also would have repealed North Dakota Century Code Chapter 15-27.6--the provisions relating to school district consortia--and eliminated weighting factors at both the high school and elementary school levels.

House Bill No. 1512

House Bill No. 1512, as introduced, imputed in lieu of tax dollars with a discernible property value and then added varying percentages of the value to the total taxable valuation of a school district. It directed a gradual process by which weighting factors would come to reflect the five-year average cost of education per student. It set ever-increasing mill levies and provided that, with the 1997-98 school year, the latest net assessed and equalized valuation of property in a school district would be multiplied by the number of mills equal to 30 percent of the state average school district general fund mill levy.

Among the most controversial provisions of House Bill No. 1512, as introduced, was one requiring that every school district be part of a high school district by July 1, 1996, and another requiring that school districts have a minimum of 150 students in full-time equivalent average daily membership.

The bill provided for special education reimbursements according to severe, moderate, and mild categories of disabilities and increased the per student transportation payments to $1.25 by the beginning of the 1996-97 school year. Caps were placed on the amount of transportation reimbursement that a district could receive. The caps began with 100 percent for the current year and receded to 80 percent by the 1996-97 school year.

Distribution of the state tuition fund was altered so that by July 1, 1996, the fund would be distributed among the school districts of the state in the same proportion as the amount of foundation aid received by a district bears to the total amount of foundation aid distributed by the state.

With respect to school construction funding, House Bill No. 1512 required that the Superintendent of Public Instruction review and prioritize all construction projects to determine, in addition to existing requirements, the current and projected use patterns, the utility and condition of the existing facilities, the appropriateness of the project's proposed scope, the existing and projected square footage per student, and the immediacy of construction needs.

Finally, the bill gradually reduced the size of school district interim funds so that by July 1, 1996, school district interim funds could not exceed 50 percent of the annual appropriation for all purposes other than debt retirement and appropriations financed from bond sources.

House Bill No. 1003

House Bill No. 1003, as introduced, was essentially an appropriation bill governing expenditures of the Department of Public Instruction. As it progressed through the legislative system, it became the vehicle for numerous offerings by the Senate Education Committee, and after consensus by the conference committee and final passage, it became the principal 1993 education funding enactment.

House Bill No. 1003 set the state support for education at $1,572 per student for the first year of the 1993-95 biennium and at $1,636 for the second year and raised the mill deduct from 21 mills to 23 and then 24 mills.

Weighting factors were set at 25 percent of the difference between the prior statutory amount and the five-year average cost of education per student, as determined by the Superintendent of Public Instruction, for the first year of the biennium, and at 50 percent of the difference for the second year of the biennium.

State transportation payments were capped at 100 percent for the first year of the 1993-95 biennium and at 90 percent for the second year of the biennium. Any savings resulting from imposition of the 90 percent cap during the second year of the biennium are to be used by the superintendent to increase the per student transportation payments available under North Dakota Century Code Section 15-40.1-16.

With respect to tuition payments, the bill reiterated the current statutory requirement that school districts which admit nonresident students charge tuition. However, the bill allowed an exception for school districts that admit nonresident students from other districts offering the same grade level services.

Finally, the bill directed the Legislative Council to conduct this study and appropriated $75,000 for purposes associated with the study, such as necessary travel and professional consultant services.

ATTACH:1

SECTION 11. LEGISLATIVE COUNCIL STUDY OF EDUCATION FINANCE. The legislative council shall appoint a committee consisting of fourteen members. The house and senate majority leaders shall each recommend four members, and the house and senate minority leaders shall each recommend three members. The legislative council shall ensure that the committee contains a balanced representation. During the 1993-95 interim, the committee shall study the use of nonproperty factors in financing education, quality of education, legal action in this state regarding education finance issues, and the effect of any legislation passed by the fifty-third legislative assembly that relates to education financing, and may consider any other matters related to education. The legislative council shall report its findings and recommendations, together with any legislation necessary to implement the recommendations, to a special session of the fifty-third legislative assembly or to the fifty-fourth legislative assembly.