Understanding School Finance
For
North Dakota P-12 Schools

Chapter 1: A Short History of State and Federal Involvements In P-12 Education

Chapter 2: Taxes and Funding Public Education in North Dakota

Chapter 3: The School Funding System in North Dakota

Chapter 4: Major Issues, Problems, and Potential Solutions

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Chapter 1

Understanding School Finance:
A Short History of Federal and State
Involvements in K-12 Education

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Introduction

Governor Hoeven has appointed a special Task Force to examine how North Dakota can add $60,000,000 in aid to schools and do it in a way that makes the funding of education in our state more adequate and equitable. It was his leadership with this initiative that caused the school districts suing the state to put their lawsuit on hold and join the effort to resolve the issues about school funding provided by the North Dakota Legislature to the schools of this state.

Purpose and Organization of the Monograph

To assist the taxpayers of the state, and perhaps even some members of the Task Force and/or the Legislature, to understand more fully and clearly the implications of changing the North Dakota school funding law, a group from the Educational Leadership Department of the University of North Dakota is collaborating to provide information they believe will be helpful. To that end, a monograph, including four chapters, will be published and widely distributed. This chapter will focus on the development of school finance in America and on the US and State Constitutional obligations of the Legislative branch of government and its obligations as these apply to the public elementary and secondary schools. A second chapter will address the major sources of taxation used to finance schools in North Dakota. The tax on property will be emphasized, but other taxes will also be discussed. The third chapter will focus on how the process for funding schools is done. It will include information to assist an individual citizen to calculate her/his property tax as well as a system for understanding where the taxes for the school district are generated and how they are computed. The final chapter will describe what the writers see as the inadequacies of the current funding plan, believe to be the important issues for citizens in North Dakota to consider when attempting to determine how North Dakota schools should be financed, and propose an alternative approach to school funding for our schools. The proposed alternative will include options (and their implications) to be considered by citizens, the Task Force, and the North Dakota Legislative Assembly.
Historic Roots of School Finance

While the roots of taxation for funding education reach back into Europe, we will begin this discussion with what is called “The Old Deluder Satan” laws of the Massachusetts Bay Colony passed in 1647. The law proclaims that a “chief project of yould deluder, Satan, is to keepe men from the knowledge of y Schriptures.” The law goes on to say that every town in the jurisdiction, after it reaches 50 households, is to appoint a townsperson to teach all the children to read and write. Further, this teacher is to be paid either by the parents or by the inhabitants in general. Later, when the town expands to 100 households, the citizens shall establish a grammar school to instruct youth so they will be fit for study at the university. A failure to uphold this law would result in a fine to the town of 5 £ per year which was to go to the school and to be assessed yearly until the community established the school. From this you can see that publicly financed schools actually preceded the founding of our country.

The colonies grew and there was a continuing desire of many colonists to be free from the rule of the King of England. The colonists revolted. The King sent soldiers and sailors to put down the rebellion, but they were defeated in the American Revolution. The colonists then had to establish a government to deal with their common interests and needs. To this end, the Second Continental Congress met in the House of Burgesses in Williamsburg, VA, and wrote the Articles of Confederation in November of 1777. These laws named the union of these states The United States of America and spelled out the rules for the governance of our new nation.

Under the governance of the Articles of Confederation, the Congress passed the Land Ordinance of 1785 and the Northwest Ordinance of 1787. These ordinances had to do with surveying the land in territory belonging to the United States that was generally west of the Appalachian Mountains, north of the Ohio River, and east of the Mississippi. These ordinances set out Townships in land sections of six miles by six miles or thirty-six square miles. Each square mile was numbered and the law provided that “there shall be reserved the lot No. 16, of every township, for the maintenance of public schools, within the said township; also one-third part of all gold, silver, lead and copper mines, to be sold, or otherwise disposed of as Congress shall hereafter direct.” Here we have the first national laws for the public support of education.

Many important documents, speeches, and newspaper articles influenced the country’s leaders about how the government was to be structured. None, however, were equal in importance to the new Constitution that provided a stronger central government. In May of 1787, the Federal Convention met in Independence Hall in Philadelphia, PA, to revise the Articles of Confederation that leaders could see wasn’t working well. By September, the convention members had adopted the new United States Constitution. The revised document had to be ratified by the states and that was accomplished in 1789.

The US Constitution and Bill of Rights as Related to School Funding

In 1789, James Madison drafted the Bill of Rights. These first ten amendments to the US Constitution were revised and adopted by the Congress in that same year. These also had to be
ratified by three quarters of the states and that was completed in 1791. Thus, the Bill of Rights became part of the US Constitution in our very early history.

Several parts of the Constitution and of the Bill of Rights pertain to federal involvement in education. For the purpose of this discussion, we will only examine those parts that have substantial impact on the financing of education by the federal government. First, we want to point out what is called the “reserved powers” clause spelled out in the Tenth Amendment. It says, “The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.” Because education is not specifically mentioned in the US Constitution, it is widely agreed that it is a right and a responsibility “reserved to the states” sometimes referred to as one of the “state’s rights.”

Most citizens know that the federal government has a Department of Education and that the federal government supplies finances to schools in a variety of ways. If education is a state’s right, how is that possible? The basic answer is found in Article I, Section 8 of the US Constitution, which begins, “The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States…” This is sometimes called the “general welfare” clause by educators and it gives the federal government the power to become involved in anything that is considered to be in the overall interests of the nation, things like the education of the citizenry which has enormous national implications.

Federal involvement in schools was somewhat limited until the Soviet Union put Sputnik in orbit in 1957. In those days of the “space race,” it was thought that the United States was educationally behind the Soviets. The Congress and the President agreed that there was a need for money to assist education to produce more scientists and engineers. As a result of this common view, a substantial amount of federal money was invested in secondary and elementary education through the National Science Foundation. In addition, the Congress and President Dwight Eisenhower passed the first National Defense Education Act (NDEA) in 1958. The law emphasized mathematics, science, and foreign language, but it also had an impact on all the instructional areas of the schools. President Kennedy, elected in 1960, forwarded that initiative by challenging Americans to put a man on the moon in 10 years, a goal that was achieved. After Kennedy’s tragic assassination, his successor, Lyndon Johnson, initiated the “great society” program that included a declared “war on poverty.” In 1965, Johnson led the Congress in reauthorizing the National Defense Education Act with a new K-12 emphasis intended to close the achievement gap between advantaged students and disadvantaged students. Large sums of money were spent on low performing children in a variety of different programs. Some 30 years later, President George W. Bush led the Congress in 2000 in another reauthorization of the same program under the new name No Child Left Behind (NCLB). The NCLB legislation had similar but also broader goals. It also had rigid requirements for annual student academic improvement in reading and math and then later in science and social studies. It also proposed stiff “subject matter” qualifications for teachers. Local educators argued that the student academic achievement was unrealistic. Local administrators argued that knowledge of subject matter was not the most important knowledge base for effective teaching and that the teachers in their schools were already highly qualified. The federal guidelines pitted many state educators against the federal bureaucracy. The issue of whether the state and local government was to control the
education of children was a major consideration of the State Education Agencies, the State Teacher Associations, the school districts, and the other professional societies in their differences with the federal Department of Education.

There are many other federal programs that support schools. These include the federal school lunch program assistance, special education, English as a second language programs, etc. The purpose here is not to provide an exhaustive explanation of federal involvements in education, but instead to show the way schools get funding support and the reasons that support the decision to provide such funding.

One of the provocative issues associated with the federal government’s involvement in education is that of funding. If school districts accept federal dollars, any federal dollars, they are obligated to follow the rules of the federal government. The rules of the federal government impose many restrictions and obligations on local school districts. In addition, the federal government has a history of failing to fund laws they pass at the level of commitment that was promised to states and local school districts. The laws about special education are a dramatic case in point. The feds promised to fund special education at 40% of the cost of delivering the programs. Their contribution now is actually about 11% of that cost. So, why do schools accept federal dollars? It’s because their overall contribution amounts to about 10% of most school district’s budgets. It’s more than districts can afford to turn down.

The North Dakota Constitution
as Related to School Funding

We will turn now to a discussion of the state obligations for funding education. There are 50 states, plus the District of Columbia, so there are 51 different ways that schools are funded. Supreme Courts from several states have declared their state’s school finance programs to be unconstitutional. The arguments surround an approach to educational funding called the school foundation program and how the laws that govern the foundation program distribute resources to school districts. There is a widely agreed theory in school finance that asserts that every student in a state’s education system is, at least theoretically, potentially equal in value to the state, and so the resources for educating each student should be **equitable** so that every student has as good a chance as every other student to get a high quality education. Equitable is a much more difficult word to define than is the word equal. Equity means, for example, that the wealth of one school district should not give a decided advantage or disadvantage to children being educated in that district over other children in the state. Putting this concept into practice is an extremely difficult thing to accomplish. We believe it can never be accomplished so that it is unfailingly fair. At the same time, we believe it can be accomplished in a way that is substantially fair. It is the violation this concept that has twice caused coalitions of school districts in North Dakota to sue the state for a redress, as a means to insist that the system for funding schools be made more fair. We believe that school districts decide to sue the state because they sincerely believe that children in their schools suffer when they perceive they are not getting the district’s fair share of funding provided by the state. And, yes, of course there are other considerations too.
The North Dakota Constitution addresses education extensively. Article VIII, Sections 1, 2, 3, and 4 all address K-12 education. These sections are quoted below:

Section 1. A high degree of intelligence, patriotism, integrity and morality on the part of every voter in a government by the people being necessary in order to insure the continuance of that government and the prosperity and happiness of the people, the legislative assembly shall 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. This legislative requirement shall be irrevocable without the consent of the United States and the people of North Dakota.

Section 2. The legislative assembly shall provide for a uniform system of free public schools throughout the state, beginning with the primary and extending through all grades up to and including schools of higher education, except that the legislative assembly may authorize tuition, fees and service charges to assist in the financing of public schools of higher education.

Section 3. In all schools instruction shall be given as far as practicable in those branches of knowledge that tend to impress upon the mind the vital importance of truthfulness, temperance, purity, public spirit, and respect for honest labor of every kind.

Section 4. The legislative assembly shall take such other steps as may be necessary to prevent illiteracy, secure a reasonable degree of uniformity in course of study, and to promote industrial, scientific, and agricultural improvements.

It is Article VIII, Section 2 of the ND Constitution that is most applicable to the financing of K-12 school issues. It says the Legislature is to provide a “uniform system of free public schools throughout the state” that includes all the grades in the public school system. The word “uniform” suggests the equality that was discussed earlier. There are so many things that effect equality when attempting to establish it in school financing. There is property wealth, there is income wealth, there is renewable wealth, there is one time “severance” wealth, there is “evenness” in assessment, there is the cost of functioning, there is efficiency, there is the problem of qualifications associated with those who deliver educational services, and on and on. How do we meet our Constitutional obligations and our obligations as citizens and at the same time devise a system that is fair and just, a system we would be happy to live with, a system we believe would provide our children with a first rate education no matter where we lived or which community we relocated to in North Dakota?

The United States Constitution also has pertinent information in the Fourteenth Amendment, Section 1 (ratified in 1868) called the equal protection clause. It is a citizenship right that requires equal protection of the laws to all citizens of the United States.

1. All persons born or naturalized in the United States, and subject to the jurisdiction thereof, are citizens of the United States and of the State wherein they
reside. No State shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property, without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws.  

The North Dakota Constitution speaks on the same issues in Article I, Sections 21 and 22. It states:

Section 21. No special privileges or immunities shall ever be granted which may not be altered, revoked or repealed by the legislative assembly; nor shall any citizen or class of citizens be granted privileges or immunities which upon the same terms shall not be granted to all citizens.

Section 22. All laws of a general nature shall have a uniform operation.

This makes it clear that if one citizen is entitled to a particular quality of education in North Dakota then every citizen, even though s/he be a child, is entitled to the same particular quality of education in the state. These protections make it clear that the Legislative Assembly, as the representative of the people, is obliged to provide an equitable educational opportunity to all the children of the state.

Providing adequate funding to support the elementary and secondary schools of North Dakota is, at best, a difficult problem for government. We live in a state that is sparsely populated. We think it is wrong to expect children to ride a long time on school buses getting to and from schools. This likely means we will have to support some rather small schools, because of the sparse population in portions of the state. Schools with a small student body find it difficult to get the advantages of economy of size. We think most parents do not want their elementary and secondary school children to have to live away from home in order to attend school. We are experiencing a major decline in enrollments in the K-12 schools. Our youth are attracted to higher paying jobs located in America’s cities, thus limiting the new sources of income and revenue for the state to draw on for solutions to problems. These phenomena, and others, impact schools all across rural America. Still, difficult as it may be, the problem must be resolved.

Many of these factors contribute to changes that cause what once may have been a balanced system to become unbalanced. The factors themselves do not provide decision makers a clear path to changes that result in an equitable education for all the children of the state. However, when forces, no matter what kind, get out of balance and lead to inequitable school funding, it becomes a major challenge of legislators to rebalance them. Providing a quality education to all the states children is one of the major responsibilities of the legislative assemble. Their choice and challenge is only how to accomplish this equitable balancing.

End Notes
3 [http://en.wikipedia.org/wiki/Tenth_Amendment_to_the_United_States_Constitution](http://en.wikipedia.org/wiki/Tenth_Amendment_to_the_United_States_Constitution)
6 [http://www.usconstitution.net/const.html#Am14](http://www.usconstitution.net/const.html#Am14)
Chapter 2

Understanding School Finance:
Taxes and Funding Public Education
in North Dakota

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In this chapter, we will discuss the various kinds of taxes, fees, and other sources of money we pay to underwrite the costs of educating children in North Dakota. In Chapter 1, we said that each state had a different system for funding education. It follows then that every state has a different system of taxation for funding schools. In this article we will only be discussing some of the taxes, fees, and other sources of revenue used to support the K-12 schools in North Dakota. With regard to taxes, we address the local property tax and the state tax sources from which the state, and therefore the schools, get the most dollars. We believe it is essential for you to have some understanding of taxation in order for you to understand whether the state has or lacks a fair and equitable system for funding schools. We hope that by expanding this understanding we can contribute to the public discussion about school funding so that individual citizens will feel more confident to raise questions and offer thoughtful ideas about ways to solve the issues of adequacy and equity in providing needed resources for our schools.

ABOUT “OTHER” WAYS SCHOOLS GET MONEY

Schools get money in many different ways to accomplish many different goals. We’ll just bet you have had students from a nearby school knock on your door this year to sell you something (chocolate, pizza, a magazine subscription, a booklet of coupons for services) and you have driven past a parking lot where students wave for you to come in and get a car wash, and you have given a cake or a pie or cookies for a school bake sale, and you have attended a chili supper or a carnival at the school, and all for good purposes—taking the choir on a trip, taking the American History students to Washington, DC, buying technology for the school library, and the like. The dollars provided are used for good purposes and assist the students in a positive way, but they are neither taxes nor fees. Most often they are not even deductible on your income taxes, because you get a product or service for your dollars.

Businesses and private citizens are often asked to donate for some good school cause—lockers for the dressing rooms in the new gym, band uniforms, carpeting for the hallways
to reduce the interruption of noise in classrooms, and other needed things that are beyond the resources of the school. Donations to schools are at least tax deductible in most cases.

Many schools invite parents to work at the school and many parents volunteer. Some read to children, some listen to children read, some grade papers for the teacher, some copy handouts, some tutor kids having difficulty in a subject, some tutor kids who are advanced in a subject, some gather library books for a particular unit of study, some discuss trips they have taken to different countries, and on and on. Parents do many, many different things to help students and teachers! While no money changes hands, the contribution has a high dollar value. Most volunteers do not even think about a way to get paid or some tax relief for this sort of contribution. Their reward is in having helped, in the learning done by some child or group of children, in the appreciation of the teacher and the principal for the assistance.

These examples and the ones in the previous paragraphs illustrate some of the ways citizens contribute valuable resources to schools. But, no taxes and no fees are included in these examples. These are gifts of the heart. We can tell you that these gifts are appreciated deeply. We also know that sometimes school personnel fail to make the contributor understand the depth of appreciation that is felt. If a school has failed to make you feel their appreciation, we’re sorry, and at the same time we are very confident that they truly did appreciate your contribution and will appreciate anything further you do to assist children by freeing teachers, by giving direct assistance to kids, or by otherwise contributing your dollars to help the school create a stimulating climate that is conducive to learning.

**ABOUT FEES**

When tax dollars run short, schools often feel they must resort to charging fees. Recently in Minnesota when there was a major budget shortfall at the state level much of it was passed on to school districts. Many schools had to cut teachers and programs. Often this was not enough to cover the shortfall so they began to charge fees for a whole variety of things—laboratory fees for science classes, fees to participate in various sports, locker fees, and the like. The dollars from those fees were, we think, mingled with the other resources of the school (in the general fund) to pay the ongoing costs for educating children.

The school administrators and school board members we know almost uniformly dislike using fees to secure funds and only do this in emergency circumstances. One of the reasons is that many families cannot afford the fees. Some large families have five or six children in school who are involved in multiple activities. Fees may hit them very hard. To assist hard hit families and to relieve families who cannot afford these fees, boards and administrators feel they must give some sort of waiver. At the same time, they really need the funds. This then means that either the fee will have to be increased for those who can pay or a board member or an administrator has to go into the community and find businesses and/or individuals who are willing to be benefactors. Further, the waiver can be embarrassing to an individual student or to a family. Fees generally are not seen as a good way of doing the business of financing schools.
ABOUT TAXES

Information about taxes in North Dakota can be found in the Century Code on the worldwide web at http://www.legis.nd.gov/information/statutes/cent-code.html, then paging down to the table and clicking on 57 Taxation.

Property Taxes: The major ways we pay to support schools are through property taxes, income taxes, sales taxes, corporate taxes, and energy taxes. These are the major sources of tax revenue at the state level in North Dakota. Income taxes and sales taxes go into the state’s general fund and the state Legislature allocates money from that general fund to finance the services the state provides its citizens, including the service of educating the children and youth. Property taxes are paid at the county level and distributed by the county to the various political subdivisions within the county. Energy taxes are collected at the state and county level and are used to reduce the impact of the energy business on political subdivisions and to help fund state general fund expenditures.

Let’s talk about property taxes first. Experts sometimes call them ad valorem taxes. These are taxes on real estate and sometimes on other property. Personal property was taxed in North Dakota at one time, but is not taxed now. Before property can be taxed it must be appraised to determine its full and true or market value. The market value of residential and commercial property is determined by an assessor who reviews the property, compares it to other property in the area, considers what other property in the area sells for, and then sets the market value of that piece of property. Agricultural property is similarly assessed, but an additional factor is applied and that is the productivity of the land as determined by records kept at North Dakota State University in Fargo. Once the market value is determined, the property is given an assessed value and a taxable value. State law sets the assessed value of property at 50% of the market value. The taxable value of property is a percentage of the assessed value. In North Dakota, the taxable value of residential property is 9% of assessed value and 10% of commercial and agricultural assessed value. Here is an example of how this system works.

(1) A house and lot is given a Market Value of $100,000.00.
(2) The Assessed Value, then, is 50% of Market Value or $50,000.00.
(3) The Taxable Value, then, is 9% of Assessed or $4,500.00.
(4) If the property in this example was commercial or agricultural, then the taxable value would be $5,000.00 or 10% of Assessed Value.

People in North Dakota are used to thinking about property taxes in terms of mills levied (1 mill = .1 of 1¢ or 1 mill = .001 of $1 or a 1 mill levy would produce $1 in taxes for every $1,000 of taxable value), but in reality, taxes are levied in terms of dollars and then a calculation is made to determine the mill rate of a political subdivision such as a school district. The tax is computed by multiplying the number of mills times the taxable value of the property. So, if in the example above a school district has a mill rate of 180 mills, the taxes due for the school on this property would be $810.00 ($4,500.00 x .180 mills). The concept of taxable value is very important in understanding the school finance system in North Dakota because this is the only resource that is considered in determining the wealth of a school district.
Property tax is called a “regressive” tax. This is because of the way the tax is distributed. The distribution falls in greater proportions on poorer citizens than on wealthier citizens. It falls more heavily on older, retired people living on social security and on farmers during seasons when they have had bad weather, crop disease, or insect infestation. Said another way, the property tax falls more heavily on those who are less able to pay than on those who are more able to pay. For instance, consider the retired family living mostly on social security who owns a home that they paid for over a long period of time. They now have a valuable asset but very limited income to live on, making it difficult to pay taxes. We believe that nearly every North Dakotan knows a senior citizen who has had to choose between food and medications or home repair and automobile insurance because they have so little income. One doesn’t have a choice about whether to pay taxes. If the taxes are not paid, the sheriff can come to your home, move your belongings onto the street, sell your property at auction, deduct the taxes, and give you what remains, that is, if anything remains. In North Dakota, we get about 43.15% of the cost of educating the children going to K-12 schools from property taxes. The state provides about 40.48%, the federal government about 14.04% and the counties about 1.43% (Finance Facts, NDDPI, 2006). These percentages are averages for the state. Individual school district percentages will vary greatly from these numbers.

There are other problems with property taxes. Fairness in the assessments within a given political subdivision and the fairness of the assessments across these subdivisions can be a problem. The assessment is supposed to be based on the true market value of the property. This value is the actual amount for which the property could be sold. Property owners often think their property is overvalued when compared with that of their neighbors. Property owners in one part of a community often think their property is overvalued when compared with property in a different part of the community. This also is the case when comparing property values from one county to another. Realistically we know there are ample opportunities for assessors to make mistakes, but property owners also have the right to appeal what they perceive to be an unfair assessment. There also is the opportunity for assessors to illegally give special favors though we think that seldom happens. We also know assessors are subject to a variety of political influences and pressures at the local level. Beyond these problems, all assessors charged with the responsibility of making assessments do so with different understandings of what is fair as well as about the way to assess different properties fairly. So, we are suggesting there is a good deal of opportunity for legitimate concern on the part of citizens. And, we suspect there is a minimal amount of mischief as well.

A subject that frequently comes up during any discussion of assessment is that farmers are not assessed on their farm buildings. This includes the family dwelling. Some farmers live in homes that would result in a stiff assessment and tax bill if their houses were in town. On farms, only the agricultural land is assessed as the buildings are considered part of the land and needed to conduct their business. Many people who own a house in town see this as a tax break for farmers. The farmer sees this as an adjustment for those years when he is defeated by the weather in making a crop and has little income but has to pay taxes anyway.

An additional problem with property taxes is that subdivisions other than school districts must get all or most of their resources from them. Among these subdivisions are counties, cities,
and park districts. When all these taxing political subdivisions are added to the mix, the cost of property taxes can become quite high. We think that is now the case in North Dakota.

We know too that the same property in a different location would be worth more or less. We all consider how financially advantageous it would be if the home we now partially or wholly own was located in Silicone Valley of suburban San Francisco or on Manhattan Island in New York City. We could sell that home, move to North Dakota (or nearly anywhere in mid America), buy a very comfortable home, and have a huge nest egg left over to assist us with retirement expenses, college tuition, or the care of our aging parents. The truth is that we know a three bedroom, three bathroom home with 2,600 square feet of living space has a very different market value if it is located in Fargo than it would in Solen or Killdeer or Alexander or St. Thomas. We know too that the number of students currently enrolled in a school can have a dramatic impact on how many dollars and therefore mills are needed to support the schools. For example, Billings County District #1 has only $4,988,496 in assessed valuation but that provides $42,275 in support of each student in the school district. To provide education to their children, the district only needs to levy 40.09 mills and the district has no debt. By comparison, Fargo District #1 has $204,886,521 in assessed valuation that backs each child with only $18,060. Fargo also has a special assessment of 4.03 mills and a capital building retirement fund that costs an additional 26.40 mills. Including these special funds the district must levy 318.62 mills to provide education to their children. However, these data do not show the impact of the widely disparate levies on individual taxpayers. The rancher in Billings County may require and therefore own many acres of land to feed a moderate size cattle herd and be paying as much tax as a middle class family in Fargo living in the 2,600 square feet house described earlier.

Even when all parties have good intentions, the complexity of dealing fairly with property taxes that provide such a large percentage of the resources to support public education makes it desirable to more fairly balance this system of taxing as a means for getting financial support for schools.

**A WORKSHEET FOR CALCULATING YOUR SCHOOL PROPERTY TAX**

**Step One**

Market value is the amount a person could potentially sell their property for and is based on appraisals and other factors described in this chapter.

Enter your property’s **MARKET VALUE** which you can find on your current County Tax Statement or by calling your County Auditor.

Enter your Market Value: $____________

**Step Two**

Example: If the Market Value is $100,000, then the Assessed Value would be $50,000 or half the Market Value.

Determine your property’s **ASSESSED VALUE** by dividing the Market Value identified in Step One by 2.

Enter your Assessed Value: $____________
Step Three

Determine your property’s **TAXABLE VALUE** by multiplying the Assessed Value by .09 (% set by law) if the property is residential or by .10 if it is either commercial or agricultural.

Enter your Taxable Value: $________________

Example: Using the Assessed Value from Step Two, the residential taxable value would be $4,500 (.09 X $50,000) or the commercial would be $5,000.

Step Four

Determine the **MILL RATE** for the General Operating Fund in your school district. You can get this information from the School District Business Officer or the County Auditor.

Enter your Mill Rate: $_______________

The mill rate (number of mills) for school taxes is determined by the County Auditor by dividing your entire school district’s taxable value into the dollars levied by the school board.

Step Five

Determine the **TAXES OWED** on your property for the school district’s General Operating Fund by multiplying the Mill Rate (number of mills) times your property’s Taxable Value.

Enter your Taxes Owed: $_______________

Example: If the Taxable Value is $4,500, and the general fund Mill Rate is 185 mills, your Taxes Owed would be $832.50 ($4,500 X .185). For commercial property it would be $925.

**Income Taxes:** These taxes are collected at the state level. The federal income tax was first used in the United States in Abraham Lincoln’s administration to help pay for the costs of the Civil War. All income taxes are on earnings. Some states have no income taxes. North Dakota does. The state income tax in North Dakota like the federal income tax is a graduated tax. Those who make more pay more. The payroll tax rates for North Dakota are shown in Table 7 below. At an earlier time in ND history, state taxes were just a percentage of the federal rate.

**Table 7—Annual Payroll Period**

<table>
<thead>
<tr>
<th>(a) Single Person (including head of household)</th>
<th>(b) Married person</th>
</tr>
</thead>
<tbody>
<tr>
<td>If the amount of wages (after subtracting withholding allowances) is:</td>
<td>The amount of income tax to withhold is:</td>
</tr>
<tr>
<td>The amount of income tax to withhold is:</td>
<td></td>
</tr>
<tr>
<td>Not over</td>
<td>$3,500</td>
</tr>
<tr>
<td>Over</td>
<td>But not over-</td>
</tr>
<tr>
<td>$3,500</td>
<td>$32,000</td>
</tr>
<tr>
<td>$68,500</td>
<td>$68,500</td>
</tr>
<tr>
<td>$156,500</td>
<td>$156,500</td>
</tr>
<tr>
<td>$338,000</td>
<td>$338,000</td>
</tr>
</tbody>
</table>

Selected from http://www.nd.gov/tax/indwithhold/pubs/guide/index.html 8
So, the rules for the federal government are essentially the same as for the state. Thus, both federal and state income taxes are graduated. The meaning of “graduated” in this case is that the more you make the higher the amount of taxes you pay. The theory is that those who make more money can afford to pay a greater share of the cost of operating the government. North Dakota lawmakers apparently agree with that approach. A simple illustration will help to illustrate the rationale for the graduated income tax. Payroll deductions are the way most people pay for taxes, health insurance, and retirement contributions. Experience tells us that the lower income person has the smallest deduction, in part, because they make the lowest income and also if health insurance is included it usually covers just the employee and not the employee’s family. Employees’ payroll deductions include social security, Medicare, federal taxes, state taxes, and, let’s assume, a single, low-end health coverage plan. Let’s estimate that an employee’s deductions are at 25% of the person’s earned income. One person, working a full-time (40 hours) job, making minimum wages (in North Dakota, $5.15 per hour) would earn $206 per week before deductions. After deductions, this person has $154.50 left each week to buy groceries, pay the rent, pay doctor and pharmacy bills, pay for transportation to and from work, buy clothing, and all the other things for which ordinary people need money. Increasing the payroll deductions even 5% for another benefit would reduce that person’s “lifestyle” if one could call living on $154.50 per week or $8,034 a year a lifestyle. Let’s compare that to a mid-level income earner. The mid-level earner is under contract for $65,000 per year and also has a 25% payroll deduction for the same set of benefits except that the health insurance is for a family plan. This income would then result in a gross earning of $1,250 per week. With a 25% deduction for benefits, this person would still have $937.50 per week to pay the costs of living. A 5% deduction for an additional benefit wouldn’t likely make much difference to that individual. In fact, a 10% deduction for an additional benefit would only reduce the weekly salary to $843.75 resulting in an after deductions income of $43,875 a year, nearly 5 times the minimum wage worker’s weekly income. The lifestyle that person could maintain on that salary would be substantially better than that of the person with a $154.50 weekly income. For further comparison let’s examine what would happen to a person earning a high income. S/he sells Porsche automobiles and earns commissions that result in a $200,000 yearly income. This annual income less the 25% payroll deduction that also includes a full family health policy and contributions to a 401k account would be substantial. S/he would earn $2,884.62 per week. After an additional deduction of 10% for another benefit, this person would still have $2,596.16 weekly or $134,999.80 yearly to spend on his/her needs and wants. That’s nearly 17 times the minimum wage worker’s income. Clearly, this person could afford to pay more taxes based on most people’s values.

Income taxes, when distributed appropriately, are considered fair. In this system, the person pays at a rate that s/he apparently can afford. Those people who make less pay less, those who make more pay more, those who make a great deal pay substantially more. Below are data from the Minnesota Budget Project that show how that state determines such a distribution.

**One goal of any tax system is fairness. Fairness can be defined in many different ways, but one common way is by looking at what portion of income taxpayers are contributing in taxes. Fortunately, Minnesotans have a tool for looking at this issue —the Tax Incidence Study. The Tax Incidence Study shows that Minnesota’s state and local tax system has the following characteristics:**
Minnesota’s tax system is slightly regressive, with high-income Minnesotans paying a smaller percentage of their incomes in state and local taxes than Minnesotans with less income.

Each tax varies in its impact. Lower-income Minnesotans pay more of their total taxes as sales and excise taxes; upper-income people pay more of their total taxes as income taxes.

Tax changes made in the surplus years have reduced taxes for all income levels.

Table 2: Share of Income and of Taxes Paid (2000)

<table>
<thead>
<tr>
<th>Decile</th>
<th>Income</th>
<th>Share of All Income</th>
<th>Share of All Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$8,945 and under</td>
<td>1.0%</td>
<td>1.6%</td>
</tr>
<tr>
<td>2</td>
<td>$8,946 - $14,734</td>
<td>2.1%</td>
<td>1.8%</td>
</tr>
<tr>
<td>3</td>
<td>$14,735 - $20,731</td>
<td>3.1%</td>
<td>2.9%</td>
</tr>
<tr>
<td>4</td>
<td>$20,732 - $27,424</td>
<td>4.2%</td>
<td>4.2%</td>
</tr>
<tr>
<td>5</td>
<td>$27,425 - $35,029</td>
<td>5.5%</td>
<td>5.6%</td>
</tr>
<tr>
<td>6</td>
<td>$35,030 - $44,822</td>
<td>7.0%</td>
<td>7.7%</td>
</tr>
<tr>
<td>7</td>
<td>$44,823 - $56,869</td>
<td>8.9%</td>
<td>9.6%</td>
</tr>
<tr>
<td>8</td>
<td>$56,870 - $72,622</td>
<td>11.3%</td>
<td>12.1%</td>
</tr>
<tr>
<td>9</td>
<td>$72,623 - $102,411</td>
<td>14.9%</td>
<td>15.8%</td>
</tr>
<tr>
<td>10</td>
<td>$102,412 and over</td>
<td>41.9%</td>
<td>38.7%</td>
</tr>
</tbody>
</table>

Sales Taxes: Like income taxes, some states have sales taxes and others don’t. The tax paid on purchases is a tax on the utilization or consumption of consumer products. In North Dakota, citizens pay 5% sales taxes on most of their ordinary purchases. The sales tax is reduced to 3% for some major purchases such as qualifying pieces of farm equipment and mobile homes. There is a 5% excise tax on the purchase of automobiles. The highest sales tax is on alcohol at 7%, and the lowest sales tax is on natural gas and is only 2%. No sales tax is charged when the citizen buys a house in town or a farm. In addition, some cities have added a “small” sales tax to help finance various projects. When this is done, the citizens vote to approve the tax before it is charged to the purchaser. The merchant collects the tax owed when the purchase is made and the merchant then deducts his/her fee for collecting the sales tax and sends the rest to the state treasurer. When a portion of the sales taxes is collected, the state returns the money to the appropriate political subdivision.

Like property taxes, sales taxes are considered regressive because the poor tend to pay a greater percentage of their resources in sales taxes than do the wealthy. This is because poor people must spend nearly everything they earn to survive while those with much larger incomes use their excess income to save and invest with the intent of making still more money to add to their income.
Some states exempt food, clothing, services, and medicine from the sales tax in order to soften the tax burden on the poor. This may not work effectively. The poor often spend much less on these items than the wealthy. In that event, a sales tax would be even more regressive.

**Capital Expenditure Taxes:** School buildings wear out. School populations change. New family housing may change where school children are concentrated. School functions and requirements change. Old school buildings may be judged to be unsafe. There are many reasons that school districts may need either to build new buildings or remodel older ones. Doing either of these things requires a major expenditure of funds. To get an infusion of dollars, the school district usually sells bonds to raise the money to finance major expenditures for property. The bonds are then paid off in payments. However, before the bonds can be sold, the citizens of the school district get to vote on whether they are willing to be taxed over a specified period of time at a particular mill rate to raise the money to pay off the bonds. To demonstrate citizen agreement, a supermajority of the voters, 60%, must vote in favor of financing the investment. This, nevertheless, results in additional property tax. Buying new classrooms or a new gym with bonds is not so different from the family buying a new car on payments. The major difference is that citizens have to approve buying the cost of a school building project before the school board can sell the bonds. (At our homes, this is somewhat like securing the permission of a spouse to buy a car before you can sign the agreement with the auto dealer and bring the car home.) (intended to be humorous).

In addition, school districts also may establish a Building Fund by a vote of the people. If the people approve, the school board can levy up to 20 mills for the purpose of building a new building or doing remodeling of existing buildings.

**Severance, Conversion, and Extraction Taxes:** Severance taxes are typically applied to coal, natural gas, and oil. These are not renewable resources. These natural resources can only be taken from the ground one time. Thus, when taken, these resources have been severed. Taxes are levied on these resources in North Dakota. Where these resources are present in profusion, they represent considerable wealth, but are not considered in the definition of wealth of a school district. Some people believe these resources do not belong to individuals, because of the accident of where they own land, but belong to the entire state. The coal, oil, and gas severance tax laws are complex. A portion of the tax dollars they generate goes to the state for general fund expenditures, a portion to the county in which the coal is mined, the oil is pumped, or the gas is extracted. Still, another portion goes to the schools. The rationale for some of the tax going to counties is that the trucks hauling coal and oil damage local roads that need repairs and there are other county expenses incurred by these industries. Local schools get some of the dollars because of the impacts on school buses, potential increases in enrollments, and increased salary costs. The rest of the tax on these resources goes into the state’s general fund and is used to help pay all the state’s expenses. The reason for this rationale is that political subdivisions cannot tax the property such as oil rigs and buildings at well sites, gasification plants, power plants, or the minerals under the land surface. Therefore, these taxes are in lieu of property, use, and sales taxes and are collected to replace the property, use, and sales taxes normally collected by the political subdivisions and the state. These ideas help to explain the reasons behind some
of the laws influencing the North Dakota taxation of oil, gas, and coal. The way in which these
taxes are levied is explained at the North Dakota Tax Web site.

Taken from http://www.nd.gov/tax/  

Coal Severance Tax

The coal severance tax is imposed on all coal severed for sale or industrial purposes, except coal used for heating buildings in the state, coal used by the state or any political subdivision of the state, and coal used in agricultural processing and sugar beet refining plants in the state or adjacent states. The tax is in lieu of sales and use taxes on the coal and property tax on minerals in the earth. Coal is taxed at a flat rate of 37.5 cents per ton. An additional 2-cent per ton tax is levied for the Lignite Research Fund. A 50% reduction in the 37.5-cent tax is allowed for coal burned in a cogeneration facility designed to use renewable resources to generate 10% or more of its energy output. Counties may grant a partial or complete exemption from the counties' 70% portion of the 37.5-cent tax for coal that is shipped out of state.

Taken from http://www.nd.gov/tax/coal/  

Oil Severance Tax

A 5% rate is applied to the gross value at the well of all oil produced, except royalty interest in oil produced from a state, federal or municipal holding and from a Native American holding within the boundary of a reservation. Both the producer and purchaser of the oil are required to submit reports to the Tax Commissioner on a monthly basis. The reports show the volume and taxable value of sales of the production from each well. The producer remits the tax on oil not sold at the well. The purchaser is primarily responsible for remitting the tax on oil bought during a production month. The Tax Commissioner has the authority to waive a producer's filing requirement if certain conditions are met. Purchasers are required to file monthly reports electronically.

Taken from http://www.nd.gov/tax/oilgas/pubs/history.pdf  

Gas Severance Tax

The gross production tax on gas is an annually adjusted flat rate per thousand cubic feet (mcf) of all nonexempt gas produced in the state. The annual adjustments are made according to the average producer price index for gas fuels. Rates through June 30, 2005 are as follows:
### Oil Extraction Tax

**Imposition and Rates**

The oil extraction tax is levied on the extraction of oil from the earth. The tax rate is 6 1/2% of the gross value at the well of crude oil. However, the rate is reduced to 4% for oil produced from the following:

- A vertical or horizontal new well, after the appropriate exemption expires.
- A work-over well after the exemption expires.
- Incremental oil from a qualifying secondary or tertiary recovery project, after the 5-year or 10-year exemption expires.
- Non-incremental oil from a qualifying secondary recovery project that has reached an average production level of at least 25% over normal operations for six consecutive months.
- Non-incremental oil from a qualifying tertiary recovery project that has reached a production level of at least 15% over normal operations for one month and continues to be operated as a qualifying project.

A qualifying secondary recovery project is a unit that uses water flooding and is certified by the North Dakota Industrial Commission. A qualifying tertiary recovery project is a unit that uses an enhanced recovery method which conforms with federal tax code provisions and is certified by the North Dakota Industrial Commission.

<table>
<thead>
<tr>
<th>Time Period</th>
<th>TaxRate</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1, 2002 - June 30, 2003</td>
<td>$.0824</td>
</tr>
<tr>
<td>July 1, 2003 - June 30, 2004</td>
<td>$.0615</td>
</tr>
<tr>
<td>July 1, 2004 - June 30, 2005</td>
<td>$.1037</td>
</tr>
</tbody>
</table>

Exempt from the tax is gas used on the lease for production purposes and the royalty interest in gas produced from a state, federal or municipal holding and from a Native American holding within the boundary of a reservation.

Shallow gas produced during the first 24 months of production from and after the first date of sales from a shallow gas zone after June 30, 2003, is exempt from gross production tax. This exemption is ineffective for gas wells completed or recompleted after June 30, 2007.

Monthly reports to the Tax Commissioner are required from both the producer and the purchaser/processor of the gas. The producer remits the tax on unprocessed gas and the purchaser/processor remits the tax on processed gas. The Tax Commissioner has the authority to waive a producer's filing requirement if certain conditions are met. Purchasers/processors are required to file monthly reports electronically.

*Taken from [http://www.nd.gov/tax/oilgas/pubs/history.pdf](http://www.nd.gov/tax/oilgas/pubs/history.pdf)*
The oil extraction tax is paid monthly with the gross production tax on a combined reporting form.

Taken from http://www.nd.gov/tax/oilgas/pubs/history\textsuperscript{14}

__________________________

End Notes

\textsuperscript{7} http://www.legis.nd.gov/information/statutes/cent-code.html
\textsuperscript{8} http://www.nd.gov/tax/indwithhold/pubs/guide/index.html
\textsuperscript{9} http://www.mncn.org/bp/incid03.htm
\textsuperscript{10} http://www.nd.gov/tax/
\textsuperscript{11} http://www.nd.gov/tax/coal/
\textsuperscript{12} http://www.nd.gov/tax/oilgas/pubs/history.pdf
\textsuperscript{13} http://www.nd.gov/tax/oilgas/pubs/history.pdf
\textsuperscript{14} http://www.nd.gov/tax/oilgas/pubs/history.pdf
Chapter 3

Understanding School Finance:
The School Funding System
In North Dakota

By

Kent Hjelmstad, Assistant Professor of Educational Leadership, UND
Sherryl Houdek, Assistant Professor of Educational Leadership, UND
Larry Klundt, Associate Professor and Chair of Educational Leadership, UND
Donald K. Lemon, Professor of Educational Leadership Emeritus, UND

In order to understand the arguments and issues surrounding the educational finance adequacy and equity issues, one must first have a working knowledge of the state’s foundation system for funding its K-12 schools as well as the funding system for special education, career and technical education, English language learners, etc., and can be found beginning on page 6 of this monograph. Historically, the state has always funded schools through state funds and through the delegation of taxing authority to local school districts. This chapter will address the state’s foundation aid program. Even though there has been a foundation aid program since the 1950s, the current program was adopted by the state Legislature in 1973, with the passage of Senate Bill 2026. This bill was a result of compromises among legislators from rural, city, large, and small school districts. It was intended to provide more state funds to schools and create equity to satisfy the court mandates of the time. The court mandates arose from a famous case identified as Serrano v. Priest. To learn more about this case, you can access it at http://library.findlaw.com/1999/Dec/1/129939.htm on the Find Law Web site.

STATE FOUNDATION AID PROGRAM

There is a good deal of language (jargon) associated with school finance. The North Dakota Foundation Aid Program is filled with this jargon and it is imperative that we define these terms at the outset. But first, we will present the formula for calculating-school foundation aid which includes some of the school finance language and then we will provide explanations of the language (jargon) that will help you make sense of the formula.

The state foundation aid program can be expressed as a formula that takes into account a school district’s average daily membership (ADM) and a weighted factor for economy of scale that results in weighted pupil units, the state’s appropriation for K-12 education or per pupil payments, and a school district’s wealth or equalization factor commonly called “the deduct.” The formula can generally be written in two parts as follows:
Average Daily Membership \textit{times} the Weighted Factor \textit{equals} the Weighted Pupil Units

Total Weighted Pupil Units \textit{times} the State Base Per Pupil Payment \textit{equals} the State Entitlement minus the Equalization Factor \textit{equals}
the State Payment to School Districts

It is important for you to know what each of the formula elements are and how they are determined to appropriately understand the formula and the problems (equity and adequacy) that are perceived about the formula. So, let’s begin with Average Daily Membership (ADM).

**Average Daily Membership (ADM):** The ADM of a school district is determined for each school district by totaling the number of days all students were enrolled during the year and dividing that sum by the number of students enrolled during the year. This information can be obtained from your local school district business manager, superintendent, or the North Dakota Department of Public Instruction’s (NDDPI) Web site (www.dpi.state.nd.us).[16]

**Weighted Factor:** This is a ratio that is determined by the state Legislature in consultation with the North Dakota Department of Public Instruction. The \textit{weighted factors (ratios) are based on costs per pupil in each of the grade and size categories over time and are illustrated in Table 1 below}. The current weighted factors can be found in the North Dakota Century Code (NDCC), Section 15.1-27.[17] You will notice that the “grades 9-12 with 300 + students” category has a weighted factor of 1.0. This means that this size school will get 1 full base per pupil payment for each student enrolled. The rest of the weighed factors in Table 1 are a ratio based on cost per pupil compared to the “grades 9-12 with 300 students” cost per pupil. As a result, the weighted factor increases as the enrollments get smaller. The concept is that there are efficiencies in schools based on size (i.e., the smaller the school, the less efficient to operate). For example, if you have a school with 100 students per grade, it is easy to have 4 classes of 25, each with 1 teacher. If you have a school with 34 students per grade, you would probably have 2 classes and 2 teachers, each with 17 students. The school with 100 students per grade is more efficient to operate as schools get money based on the number of students they have enrolled each year. Of course, this can cause debate regarding efficiency v. quality.

**Weighted Pupil Units (WPUs):** Weighted Pupil Units are determined by multiplying the schools average daily membership (ADM) times the state determined weighted factor (Table 1). The sum of the WPUs in each category results in the school district’s total weighted units and is multiplied times the base per pupil payment in the foundation aid formula. This information can be obtained from your local school district business manager, superintendent, or the North Dakota Department of Public Instruction’s (NDDPI) Web site (www.dpi.state.nd.us).[18]

**Per Pupil Payments:** This is a dollar amount set by the Legislature as a per pupil payment. The Legislature takes into account the amount of money they believe they have available for K-12 education, plus an amount that could be raised if the state levied 38 mills against the state’s taxable value (obtained by summing the total to each school district’s taxable value—see Chapter 1) for 2005-06 and 41 mills for 2006-07. The amount available for appropriation is then divided by the estimated ADM for the state to determine the per pupil
payment. The base per pupil payment for 2005-06 is $2,765, and for 2006-07 it is $2,879. In case you are interested, the total appropriation passed by the Legislature for per pupil payments for the 05-07 biennium is $483,403,759. This information can be found in NDCC 15.1-27, the State Budget, the NDDPI, or at the Legislative Council.

Table 1

<table>
<thead>
<tr>
<th>Category</th>
<th>Weighted Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preschool</td>
<td>1.1871</td>
</tr>
<tr>
<td>Kindergarten</td>
<td>0.6562</td>
</tr>
<tr>
<td>Grades 1-6 &lt;100 students</td>
<td>1.3619</td>
</tr>
<tr>
<td>Grades 1-6 &gt;100 students</td>
<td>1.0067</td>
</tr>
<tr>
<td>Grades 7-8</td>
<td>1.0080</td>
</tr>
<tr>
<td>Grades 9-12 &lt;120 students</td>
<td>1.2836</td>
</tr>
<tr>
<td>Gr. 9-12: 120-299 students</td>
<td>1.0254</td>
</tr>
<tr>
<td>Gr. 9-12: 300 + students</td>
<td>1.0000</td>
</tr>
</tbody>
</table>

The effect of the weighted factor on school size is displayed in Table 2 below. It has been stated that the base per pupil payment for 05-06 is $2,765 and that for 06-07 it is $2,879. (Note: This is the number in Table 1 in the bottom row that has a weighting (or ratio) of 1.0000. It is the ratio at which the per pupil payment of $2,765 generates the one-to-one correspondence of exactly $2,765 in the 2005-06 school year as shown in the bottom row of Table 2 below.) As one can see in Table 2, the smaller the school, the larger the weighted factor, and the larger the payment. The effect is illustrated when the base per pupil payment for each year of the biennium is multiplied times the weighted factor for each grade category. For example, when one multiplies the weighted factor for grades 9-12 <120 students category times the base per pupil payment for 05-06, the per pupil payment becomes $3,549.15 compared to $2,765 for the largest high schools. The rest of the table (see page 23 for Table 2) shows this calculation for each category.

State Entitlement: This is the amount of money due the school district prior to the equalization factor being applied (subtracted), and is determined by multiplying the total WPUs times the base per pupil payment.

Equalization Factor: The equalization factor is the most controversial portion of the North Dakota foundation aid formula as it is the portion of the formula used to provide equity in school funding. The equalization factor is expressed in mills and currently is set at 38 mills for 2005-06 and is 41 mills for 2006-07. The equalization factor expressed in mills is multiplied times the school district’s taxable value. The result of this calculation is subtracted from the district’s state entitlement and results in the district’s state payment. The State Payment is the amount sent to
the district after all of the elements of the formula have been applied. (Note: See Chapter 2 for explanations of mills and taxable values.)

In 1973, the Legislature said that the equalization factor for each district would be 20 mills times the district’s taxable value. This amount would be subtracted from the district’s entitlement in order to “equalize” based on the district’s wealth since only property taxable value is used to determine a school district’s wealth (see page 23 for Table 3). The Legislature has been “tinkering with or increasing” this factor over the years, and the 2005 Legislature set the equalization factor at 38 mills for 2005-06 and at 41 mill’s for 2006-07.

The effect of this part of the formula is that it results in districts with high taxable value getting less state aid than those with low taxable value. Table 3 attempts to illustrate this concept by using three fictional districts with exactly the same number of WPUs and base Per Pupil Payments, but with different taxable values. As one can see in Table 3, District A is the wealthiest, followed by District B and then C. When the equalization factor is applied (i.e., 41 mills times the taxable value of each district) and then subtracted from the state entitlement, it results in each district getting a different amount from the state with the richest getting the least and the poorest getting the most.

There are school districts in North Dakota that do not qualify for state foundation aid because their taxable value is very high and they have few students (and sometimes with other factors like a high cash balance), causing the deduct to be larger than their state entitlement.
Now that you have a much keener understanding of the state foundation aid formula, let’s apply another formula using a different imaginary example and fill in fictitious amounts regarding the formula. Here we selected some elements that are typical of a North Dakota with average wealth. For simplicities sake, we did not include preschool or kindergarten:

District Taxable Value: $3,548,926
Equalization Factor: $3,548,926 x .041 = $145,506

<table>
<thead>
<tr>
<th>Grades 1-6</th>
<th>ADM</th>
<th>WF</th>
<th>WPU</th>
</tr>
</thead>
<tbody>
<tr>
<td>95</td>
<td>1.3619</td>
<td>=</td>
<td>129.38</td>
</tr>
<tr>
<td>32</td>
<td>1.0080</td>
<td>=</td>
<td>32.25</td>
</tr>
<tr>
<td>68</td>
<td>1.2836</td>
<td>=</td>
<td>87.28</td>
</tr>
</tbody>
</table>

Total WPU: 248.91

Average Daily Membership times the Weighted Factors equals the Weighted Pupil Units (248.91)

Total Weighted Pupil Units (248.91) times the State Base Payment ($2,879) equals the State Entitlement ($716,612) minus the Equalization Factor ($145,506) equals the State Payment to School District ($571,106)

A rural district in North Dakota with a taxable value of just over $3.5 M and average daily attendance of 195 would be a district of average wealth. The foundation aid formula in North Dakota is designed to give school districts that are perceived to have less wealth more state money and those school districts that are perceived to have more wealth less state money. From this example, one could generalize that the foundation aid formula that is in place does equalize as it is intended to do, but the writers would point out that many other elements of school funding are not equalized and that is part of the adequacy and equity problem. The aspects of school funding in North Dakota that are not addressed by the formula, both in terms of equity and adequacy, are special education, career and technical education, English Language Learner programs, summer school, teacher compensation, tuition apportionment, and revenue supplemental payments. These programs will be discussed in the remainder of this chapter.
SPECIAL EDUCATION FUNDING

North Dakota special education funding is done in a different way. It is not equalized on the basis of wealth through the foundation aid formula. In North Dakota, the funding of special education is basically provided as a dollar amount per pupil and paid out by the state on the basis of each school district’s average daily membership. This concept is based on the idea that each district has about 10% of their ADM identified as special needs children. The ADM payment for special education for the 2005-06 year is $188 and for 2006-07 it will be $190 per student in ADM. As an example, if a school district has 400 students in ADM, they would receive $76,000 (400 x $190) in state funds to help educate their district’s special needs students. In addition, school districts and special education units may write contracts for multiple-handicapped, low-incidence, high-cost students. These contracts are intended to cover the cost of providing education for these high-cost students such as a student who is blind, deaf, and has cerebral palsy. Basically, with high-cost students, the school district pays 2.5 times the average cost per pupil in regular education, which would be approximately $18,000. The rest of the cost presumably is covered by a contract, paid by state funds, but still is limited to 80% of the total cost of educating the high-cost student. Often, the state underestimates the number of dollars needed for high-cost students and districts and units get stuck for the excess expenses. The state appropriation was $52.5 million dollars for the 05-07 biennium of which $36.6 million was for ADM payments, $15.5 million for contracts, and $400,000 for gifted and talented programs. In addition to the state appropriations, school districts receive funding from the federal government for special education. Overall, the state and federal governments together are providing only about 26% of the costs of special education in North Dakota even though the federal government promised to provide 40% of the funding when they enacted the law.

CAREER AND TECHNICAL EDUCATION

The State Board for Career and Technical Education (SBCTE) has governing authority for all programs that are essentially vocationally and technically oriented. These programs include, but are not limited to, vocational agriculture, industrial technology (carpentry, auto tech, etc.), family and consumer science (formerly called home economics), and distributive education (business). Basically, these courses are funded by grants from the state and federal government that cover a portion of the teacher salaries and other program costs. School districts write for grants from the SBCTE to obtain these funds annually. In addition, school district general fund dollars are used to support these programs. There is a different reimbursement schedule for Career and Technical Education Centers than for individual school districts. Generally, these programs have been hurt by the passage of the No Child Left Behind (NCLB) federal legislation as more funds are now funneled to reading, math, science, and social studies instead of to vocational classes. The 2005 Legislature appropriated $21,500,116 in state funds administered by the SBCTE for career and technical program reimbursements to schools and vocational centers.
TEACHER COMPENSATION PROGRAM

When Governor John Hoeven was campaigning in 2000, he promised that he would provide for a more adequate teacher compensation package than currently was being offered by school boards across the state. This resulted in legislation that created teacher compensation payments to school districts. There was a great deal of effort put forth to define the terms “compensation” and “teacher.” These definitions can be found in the North Dakota Century Code (NDCC), section 15.1-27-36. This program provided funds to school districts based on the number of full-time equivalent (FTE) teachers who were employed in their district. The amount was set at $3,000 for experienced teachers and $1,000 for teachers who were employed for the first time since becoming licensed to teach. Currently, $50,912,120 is appropriated by the Legislature for this purpose. School districts are required to spend 70% of all new money (meaning state funding that had not been previously approved by legislation and appropriated) in per student payments and tuition apportionment for increasing teacher compensation, unless two thirds of the members of a school board votes for an affirmation that implementing this law would put the district in jeopardy of not being able to meet its other obligations for financing the district. If the school board votes for such an affirmation, they are free to use the new income for any other legal school district expenditure.

TUITION APPORTIONMENT

Tuition apportionment is the term given to money that is sent to school districts from the profits of the School Permanent Trust Fund. This fund was established in the North Dakota Constitution in 1889 and was designed to be used to support public education. This provision of the Constitution is a direct result of the Land Ordinances of 1785 and 1787 that set aside section 16 of each township for schools (see Chapter 1 in this 4 part series). In North Dakota, the Constitution set aside two sections, 16 and 36, for the support of public schools. Over the years, much of this land was sold and the proceeds were placed in the Trust Fund. Other monies that are placed in the Trust Fund are revenues from lease payments on school land paid by farmers, ranchers, oil and gas companies, and coal companies. In addition, all royalties from oil, gas, and coal that are severed from school land are placed in the Trust Fund. By the way, if you ever received a speeding ticket, you have contributed directly to the Trust Fund as all fines for moving violations collected by counties also are placed in the school Trust Fund.

The Statement of Revenues, Expenditures and Changes in Fund Balances for the State of North Dakota showed a balance of $739,671,913 in the Trust Fund at the end of the June 30, 2005, fiscal year. The proceeds and interest are dispersed to the schools each year; however, the principal is protected by the Constitution and may not be used for any purpose other than investing for revenue producing reasons. The state Tuition Apportionment payment per census unit is estimated at $351 for 2005-06 and for 2006-07 and the total appropriation for the biennium was $71.6 million. The payment is distributed on the basis of school census (number of students age 6 through 17) and is not equalized based on wealth of a school district. An example might be that a school district has a census count of 400 students age 6-17. This school district will get $140,400 (400 census units [students] x $351) in tuition apportionment. Table 4 illustrates how the system works. The table is illustrative and does not reflect any North Dakota
School districts. Table 4 also illustrates a potential problem that some school finance experts believe should be fixed.

Table 4

<table>
<thead>
<tr>
<th>School</th>
<th>Census Includes Parochial Students</th>
<th>Tuition Apportionment (census x $351)</th>
<th>ADM Excludes Parochial Students</th>
<th>Tuition Apportionment (ADM x $351)</th>
</tr>
</thead>
<tbody>
<tr>
<td>District A</td>
<td>7,815</td>
<td>$2,743,065</td>
<td>7,600</td>
<td>$2,667,600</td>
</tr>
<tr>
<td>District B</td>
<td>3,200</td>
<td>$1,123,200</td>
<td>2,600</td>
<td>$912,600</td>
</tr>
<tr>
<td>District C</td>
<td>950</td>
<td>$333,450</td>
<td>975</td>
<td>$342,225</td>
</tr>
</tbody>
</table>

School districts multiply their census number times the tuition payment to determine the total payment they will receive from Tuition Apportionment and is shown in the left half of Table 4. If the system was based on average daily membership rather than census as demonstrated in the right half of Table 4, school districts with significant numbers of students enrolled in private schools would lose money and this would be re-distributed to the other public schools in the state, giving those with few students enrolled in private schools more money.

SUMMER SCHOOL

The state of North Dakota also helps finance summer programs for public schools. These funds are distributed to school districts based on weighted pupil units for high school students and for remedial elementary students. These funds are not equalized. For the 2005-06 school year, the base payment rate is $1,307 and for 2006-07 it is $1,315 for high schools and for summer elementary remedial programs the payments are $1,861 for 2005-06 and $1,872 for 2006-07. The formula for summer school works in a similar manner to the regular year foundation aid formula and uses the same weighted factor for the three school size categories. However, the method of determining the number of days membership is different. Basically, it is important to determine the aggregate number of computed days (see formula below) to figure out how much summer school money a school district will get. The formula for science and vocational courses uses 150 hours to determine computed days membership and other programs use 120 days. The following formula is used to determine the computed days membership:

Total hours of membership divided by (150 hours for science and vocational courses) and by (120 hours for other summer school programs) times one fourth times 180 days equals the Computed Days Membership

The following formula is used to determine the actual amount of dollars a school will receive for its summer science, vocational, and other classes:

Foundation aid payment = Aggregate Computed Days Membership divided by 180 days times the weighted factor times the Base Payment Rate
Again, these funds are not subject to any equalization based on wealth of the school district and are sent directly to school districts.

ENGLISH LANGUAGE LEARNER (ELL) PROGRAMS

Students who come to North Dakota schools and English is their second language and with no English skills at all create special instructional problems for the public schools. As a result, the Legislature has created a per student payment for English language learner (ELL) students. These funds also are not subject to equalization based on a school district’s perceived wealth. In order to be eligible for this program, each school must submit to the State Superintendent an application that includes a description of their ELL program, a result of their assessment, and any other information required by the Superintendent. The assessment that is conducted is to identify the proficiency of the ELL students and weight them accordingly. For example, students who are determined to have preliterate English language skills and a proficiency level of I are weighted at 10.0; those determined to have beginning English language skills and a proficiency level of II are weighted at 8.0; those determined to have intermediate English language skills and a proficiency level of III are weighted at 4.0; and those determined to have basic English language skills and a proficiency level of IV are weighted at 1.0. The NDDPI determines the per student amount by dividing the total weighted students eligible to receive payments in the first year of the biennium into 49% of the total appropriation and then dividing the total number of weighted students into 51% of the total appropriation for the second year. The appropriation amounted to $650,000 for the 05-07 Biennium.

REVENUE SUPPLEMENT PAYMENTS

This program is for school districts that have below the state average taxable valuation and below the state average educational expenditure per student. This program was appropriated $5 million for the 05-07 biennium. For schools to be eligible for this program, they must meet these five criteria: (1) Be a high school district; (2) Have a cost of education per student less than the state average; (3) Have a taxable valuation per 1-12 (grades) ADM less than the state average; (4) Have a general fund levy including tuition and transportation levies of at least 180 mills; and (5) Have an ending general fund balance less than 35% of general fund expenditures plus $20,000. If the State Superintendent determines that the district meets these criteria, then the Superintendent shall (1) Determine the difference between the latest available statewide average taxable valuation per student and the taxable valuation per student in the district; (2) Multiply the result by the number of students in ADM in grades 1-12; (3) Multiply that result by the number of general fund mills levied by that district in excess of 150, but less than 210; and (4) Multiply that result by the factor 0.420461955, which is set by the Legislature. Here are some made-up facts about a fictitious school district that are applied to illustrate the revenue supplement formula:
**School District Information**

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable Valuation</td>
<td>$8,045,002</td>
</tr>
<tr>
<td>Average Daily Membership, 1-12</td>
<td>465</td>
</tr>
<tr>
<td>Taxable Value Per Student</td>
<td>$17,293</td>
</tr>
<tr>
<td>Average Cost Per Pupil</td>
<td>$5,966</td>
</tr>
<tr>
<td>General Fund Mill Rate</td>
<td>189.81</td>
</tr>
<tr>
<td>Cost Per Pupil</td>
<td>$5,965.73</td>
</tr>
<tr>
<td>Ending Fund Balance</td>
<td>5%</td>
</tr>
</tbody>
</table>

**State Information**

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statewide Average Taxable Value Per Student</td>
<td>$18,735</td>
</tr>
<tr>
<td>Statewide Average Cost Per Pupil</td>
<td>$6,384</td>
</tr>
</tbody>
</table>

When one compares the school district information to the five criteria outlined in the above paragraph, this district qualifies for revenue supplement payments. When one applies the formula as outlined above, this is the result:

1. Determine the difference between the latest available statewide average taxable value per student and the taxable value per student in the district:

   \[
   \$18,735 - \$17,293 = \$1,442
   \]

2. Multiply the result by the number of students in ADM in Grades 1-12:

   \[
   \$1,442 \times 465 = \$670,530
   \]

3. Multiply that result by the number of general fund mills levied by that district in excess of 150, but less than 210: \((189.81 - 150.00 = 39.81)\):

   \[
   \$670,530 \times 0.03981 = \$26,694
   \]

4. Multiply that result by the factor \((0.420461955)\):

   \[
   \$26,694 \times 0.420461955 = \$11,234
   \]

This is the school district’s revenue supplement payment.

The funding of K-12 public education is complex and it is a daunting task to attempt to understand how it works and how it fits together. This chapter has attempted to help you understand that. If you would like to estimate the total revenue of your school district (i.e., federal revenue, state revenue, and local revenue), a worksheet provided by the North Dakota Department of Public Instruction is at the end of this chapter.

Chapter 1 of this monograph was intended to assist the reader to have a better understanding of the historic basis for American school funding in general and of North Dakota funding in particular. Chapter 2 was intended to explain the taxes that are paid by citizens to support their schools (and some other portions of state government) as well as some of the
problems associated with different kinds of taxes. The purpose of Chapter 3 was to help citizens learn how the state school foundation aid program works and how it is used to financially support the public education of North Dakota children and youth. We know that it takes some effort for the reader to work through this to a point of understanding, but it is worth the effort. Our intent has been to provide you with accurate, clear, and understandable information that would help you build a knowledge base and conversational expertise for discussions about the way schools in our state are funded. We think there will be little to justifiably argue about in the information we have provided in these three chapters.

Chapter 4 will be, as people sometimes say, “A horse of a different color.” Our intent in Chapter 4 is to communicate three things to the reader: (1) Our views of what are the inadequacies and inequities of the existing foundation aid program supported with examples; (2) What things citizens, legislators, and Task Force members should be keeping in the forefront of their thinking as they go about the work of revising the way schools in North Dakota are funded; and (3) What we propose as a new school foundation funding program that we think deserves serious consideration by citizens, legislators, and the Task Force appointed by the Governor.
To calculate the estimated pupil payment for the 2006-2007 school year, use the appropriate lines below. Convert the kindergarten program from whole to half days. For example a 60 full day kindergarten program equals 120 half days (may not exceed 180 half days). Weighted units for the elementary and high school categories are guaranteed at the highest number of students in the next lower category. NOTE: The payment will be based on the greater of ADM or enrollment, with the following exceptions: (1) the ADM will be reduced by the number of students that are attending another school district under the provisions of open enrollment, and (2) the comparison will only be made between current grade levels (e.g. – If a district ceases to offer grades 9-12, the ADM versus enrollment comparison will only be made for grades PK-8). Payments for the previous school year are adjusted to the higher of actual ADM for that school year or the previous year, whichever is higher.

### STATE SOURCES SCHOOL DISTRICT EQUALIZATION FACTORS:

<table>
<thead>
<tr>
<th>Pupil Payments</th>
<th>Students</th>
<th>Weighting Factor X</th>
<th>Weighted Pupil Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Preschool Special</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Kindergarten (Convert full days to</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1/2 days)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Grades 1-6 (less than 100)</td>
<td></td>
<td>1.1258 X 0.6710 = X</td>
<td></td>
</tr>
<tr>
<td>4. Grades 1-6 (100 or more)</td>
<td></td>
<td>1.3854 X 1.0064 = X</td>
<td></td>
</tr>
<tr>
<td>5. Grades 7-8</td>
<td></td>
<td>1.0043 =</td>
<td></td>
</tr>
</tbody>
</table>

6. Grades 9-12 (Less than 120) 7. Grades 9-12 (120-299) 8. Grades 9-12 (300 or more)

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>X 1.2864 X 1.0303 =</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X 1.000 = Total Weighted</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pupil Units</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

X $2,879

| 9. Pupil Payment          | $        |
| 10. Transportation (block grant) | $        |

<p>| 11. Tuition Apportionment (Adjusted for students open enrolled in/out of district) | $349 | 2005 Census (age 6-17) x = $ |</p>
<table>
<thead>
<tr>
<th>Description</th>
<th>Formula</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>12. Special Education ADM Payment (convert KG students to ⅓ ADM)</td>
<td>$190 x ADM</td>
<td>$</td>
</tr>
<tr>
<td>13. Teacher Compensation Payments</td>
<td>$(30,000 x the number of eligible teacher FTE employed by the school district September 15, 2006. ($1,000 for 15 year teachers)</td>
<td>$</td>
</tr>
<tr>
<td>14a. Mill Deduct:</td>
<td>Mills .041 x Taxable Valuation</td>
<td>$</td>
</tr>
<tr>
<td>14b. Excess Fund Balance Deduct: General Fund Ending Fund Balance – (50% of General Fund Expenditures + $20,000)</td>
<td>= $</td>
<td></td>
</tr>
<tr>
<td>14c. Minimum Levy Deduct: General Fund, Tuition and Transportation mills levied below 140 mills</td>
<td>Mills x Taxable Valuation $</td>
<td>$</td>
</tr>
<tr>
<td>14. Total NDCC 15.1-27-05 Equalization Deductions (Subtotal Lines 14a, 14b, 14c)</td>
<td>= $</td>
<td>$</td>
</tr>
<tr>
<td>15. Net State Pupil, Transportation, Tuition Apportionment, Special Education ADM, and Teacher Compensation Payments</td>
<td>(Subtotal of Lines 9, 10, 11, 12, 13 minus line 14)</td>
<td>$</td>
</tr>
<tr>
<td>16. Other Special Education</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>17. Vocational Education</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>18. Other State (Technology Grants, Supplemental Payments, English Language Learner, etc)</td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>19. Total Estimated State Aid (Add Lines 15 through 18)</td>
<td></td>
<td>$</td>
</tr>
</tbody>
</table>

**FEDERAL SOURCES:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>20. Vocational Programs</td>
<td>$</td>
</tr>
<tr>
<td>21. Special Education Programs</td>
<td>$</td>
</tr>
<tr>
<td>22. Title I Program Aid</td>
<td>$</td>
</tr>
<tr>
<td>23. Title II Professional Development Programs</td>
<td>$</td>
</tr>
<tr>
<td>24. Title V Innovative Programs</td>
<td>$</td>
</tr>
<tr>
<td>25. Title III English Language Acquisition</td>
<td>$</td>
</tr>
<tr>
<td>26. Child Nutrition Programs</td>
<td>$</td>
</tr>
<tr>
<td>27. Title XIII Impact Aid</td>
<td>$</td>
</tr>
<tr>
<td>28. Other Federal Revenue</td>
<td>$</td>
</tr>
<tr>
<td>29. Total Federal Revenue (Add Lines 20 through 28)</td>
<td>$</td>
</tr>
</tbody>
</table>
### COUNTY SOURCES:

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>31</td>
<td>Oil and Gas Gross Production Tax</td>
<td>$</td>
</tr>
<tr>
<td>32</td>
<td>Coal Severance</td>
<td>$</td>
</tr>
<tr>
<td>33</td>
<td>Coal Conversion</td>
<td>$</td>
</tr>
<tr>
<td>34</td>
<td>Other County</td>
<td>$</td>
</tr>
<tr>
<td>35</td>
<td>Total County Sources (Add Lines 31 through 34)</td>
<td>$</td>
</tr>
</tbody>
</table>

### LOCAL SOURCES:

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>36</td>
<td>General Fund Levy (From Worksheet Page 4)</td>
<td>$</td>
</tr>
</tbody>
</table>

### Other Fund Group 1 Levies (Amount levied depends upon needs):

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Formula</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>37</td>
<td>H.S. Tuition Levy</td>
<td>Mills</td>
<td>Taxable Valuation $ = $</td>
</tr>
<tr>
<td>38</td>
<td>H.S. Transportation Levy</td>
<td>Mills</td>
<td>Taxable Valuation $ = $</td>
</tr>
<tr>
<td>39</td>
<td>Judgment Levy</td>
<td>Mills</td>
<td>Taxable Valuation $ = $</td>
</tr>
<tr>
<td>40</td>
<td>Asbestos Removal Levy</td>
<td>Mills</td>
<td>Taxable Valuation $ = $</td>
</tr>
<tr>
<td>41</td>
<td>Technology Levy</td>
<td>Mills</td>
<td>Taxable Valuation $ = $</td>
</tr>
<tr>
<td>42</td>
<td>Remodeling Levy</td>
<td>Mills</td>
<td>Taxable Valuation $ = $</td>
</tr>
<tr>
<td>43</td>
<td>Alternative Education Programs Levy</td>
<td>Mills</td>
<td>Taxable Valuation $ = $</td>
</tr>
</tbody>
</table>

### Other Fund Group 1 Revenue:

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>44</td>
<td>Interest Income</td>
<td>$</td>
</tr>
<tr>
<td>45</td>
<td>Revenue From Patrons</td>
<td>$</td>
</tr>
<tr>
<td>46</td>
<td>Revenue From Other Districts</td>
<td>$</td>
</tr>
<tr>
<td>47</td>
<td>Other Local Revenue</td>
<td>$</td>
</tr>
<tr>
<td>48</td>
<td>Total Local Revenue (Add Lines 36 through 47)</td>
<td>$</td>
</tr>
<tr>
<td>49</td>
<td>Total Estimated Fund Group 1 Revenue (Lines 19 + 29 + 35 + 48)</td>
<td>$</td>
</tr>
</tbody>
</table>
OTHER FUNDS: The allowable increase does not apply to the following levies.

<table>
<thead>
<tr>
<th>50. Special Reserve Levy</th>
<th>Mills</th>
<th>x</th>
<th>Taxable Valuation $</th>
<th>=</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>51. Building Fund Levy</td>
<td>Mills</td>
<td>x</td>
<td>Taxable Valuation $</td>
<td>=</td>
<td>$</td>
</tr>
<tr>
<td>52. Special Assessment Levy</td>
<td>Mills</td>
<td>x</td>
<td>Taxable Valuation $</td>
<td>=</td>
<td>$</td>
</tr>
<tr>
<td>53. Sinking and Interest Levy</td>
<td>Mills</td>
<td>x</td>
<td>Taxable Valuation $</td>
<td>=</td>
<td>$</td>
</tr>
<tr>
<td>54. 57-15-17.1 Bonding Levies</td>
<td>Mills</td>
<td>x</td>
<td>Taxable Valuation $</td>
<td>=</td>
<td>$</td>
</tr>
<tr>
<td>55. Bond Judgment Levy</td>
<td>Mills</td>
<td>x</td>
<td>Taxable Valuation $</td>
<td>=</td>
<td>$</td>
</tr>
</tbody>
</table>

GENERAL FUND LEVY WORKSHEET

School districts may use any one of various methods to calculate the maximum levy for the general fund:

1. Eighteen percent increase over last year’s levy as authorized by NDCC 57-15-14, up to a maximum of 185 mills.
2. The maximum number of mills authorized by the electors of the district, NDCC 57-15-14.
3. The amount levied in dollars in the base year (the highest amount levied in dollars in property taxes of the three taxable years immediately preceding the budget year, NDCC 57-15-01.1).

The following formulas will work for most school districts. School districts should review NDCC 57-15 and contact their county auditor to determine if any adjustments apply.

**Districts levying at or below 185 mills:**

| 1. Maximum General Fund Levy Mills | x | Taxable Valuation $ | = | $ |
| 2005-2006 General Fund Levy Mills | x | Taxable Valuation $ | = | $ |

(The amount on line 3 cannot be larger than the amount on line 1.)

**Districts levying over 185 mills:**

4. The amount in dollars in the base year $
References


NDCC, Chapter 15.1-27 State Aid

http://www.dpi.state.nd.us/finance/finance/rate0506.pdf

http://www.dpi.state.nd.us/finance/finance/summer06.pdf

http://www.dpi.state.nd.us/finance/finance/remelem06.pdf


End Notes

15 http://library.findlaw.com/1999/Dec/1/129939.htm
16 www.dpi.state.nd.us
17 North Dakota Century Code (NDCC), 15.1-27
18 North Dakota Century Code (NDCC), 15.1-27
19 North Dakota Century Code (NDCC), 15.1-27
20 North Dakota State Budget
21 North Dakota Department of Public Instruction
22 North Dakota Legislative Council
Chapter 4

Understanding School Finance:
Major Issues, Problems, and Potential Solutions

By

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PROBLEMS WITH THE CURRENT SYSTEM

There are several issues and problems related to the North Dakota school financing system as outlined in the North Dakota Century Code. This chapter will attempt to identify and explain those issues and problems as well as suggest some potential solutions to address the issues and problems.

Problem 1: Definition of Wealth for Equalization Purposes

As you are aware from reading Chapters 2 & 3, the definition of school district wealth in North Dakota only includes taxable real property. There are many other sources of wealth that are enjoyed by school districts. For example, some have wealth in the form of oil, gas, coal, and federal impact from which school districts receive revenue in lieu of property tax payments by the federal government or various energy companies. The problem this presents is that the revenue received from these sources is not equalized as property tax collections are and potentially violates the equal protection clause of the North Dakota Constitution.

Many people believe that individual income of school district residents is another indicator of wealth as those with higher incomes are better able to pay property tax. Some people believe that the value of a business, not just its buildings and land, should be part of a school district’s wealth. Others believe that the value of tax exempt property (churches, government buildings such as courthouses, universities, etc.) should be part of the wealth of a school district, which would result in some urban school districts seeing a huge increase in their taxable value and might even move them from being perceived as poor districts to wealthy districts.

Because of all the above issues, it is imperative that the definition of school district wealth be expanded to include much more than real taxable property. This can be done in a variety of ways:
(1) A foundation aid formula could be devised that does take into account all of the sources of revenue that districts have and the state adds money to the district’s revenue to allow each district to achieve a preset per pupil spending level. A new foundation aid formula will be proposed as a separate section to this chapter.

(2) Formulas could be developed that result in an imputed value being added to the real property taxable wealth of school districts for energy and impact aid revenues of school districts. In other words, adding the amount of taxable value it would take to raise the same dollar amount in property tax that schools are now receiving from other sources such as oil, gas, coal severance, and impact aid.

(3) Adding the value of tax exempt property, income level of individuals, and the value of businesses to the wealth of a school district should be debated. The writers imagine this will be a highly contentious debate. For example, if the State Capitol building as well as all of the other state buildings’ taxable value was added to the wealth of the Bismarck school district, the taxable value would increase tremendously. This, of course, under the current formula, would increase the “deduct” (see Chapter 3) for Bismarck substantially, while at the same time not giving any new revenue to the district. If this were to happen, the state could pay the Bismarck district per pupil payments in lieu of paying property tax. Let’s say hypothetically that the Capitol building [not including the other buildings on the grounds] has a market value of $400,000,000; then it would have an assessed value of $200,000,000 and a taxable value of $20,000,000 (refer to explanations given in Chapter 3) which would be added to the Bismarck district’s total taxable value and would therefore increase the amount deducted through the equalization factor of the foundation aid formula. If the mill rate for Bismarck is 185 mills, this would increase their revenue by $3,700,000. However, because state property is not taxable, neither of these currently happen. Many small school board members and administrators believe the value of the state, county, and city property should be added to the taxable value of districts like Bismarck. But they do not believe that additional revenue should be given to Bismarck as they do not get the taxes from the property value. Therefore, if we apply the taxable value ($20,000,000) to the district’s total, and apply the deduct, they will lose approximately $840,000. If we allow Bismarck to tax the State Capitol, they would receive $3,700,000 in property tax. We think the solution is to apply the non-taxable property to the total district taxable value, then develop a way to pay the district dollars in lieu of property tax or alternatively let them tax the property. Of course, this is something the state has resisted strongly when similar consideration was given to school lands, for example.

Problem 2: The Legislative Appropriations for School Districts Are Inadequate and the No New Tax Pledge of Politicians

The history of legislative appropriations for foundation aid to school districts indicates that the amount is not keeping up with the increased costs of salaries, supplies, materials, or for maintenance and operations. As a result of inadequate state appropriations for schools, the districts have had to raise their property tax levies to the point that it has become very burdensome for most people, especially those with growing families and those who are on fixed incomes. When one considers inflation plus a modest 3-4% increase each biennium since 1981,
it would take more than $400 million to equal the purchasing power that the per pupil payment had in 1981. (This is something that Joe and I calculated for a tax increase proposal back in the ‘90s)

The problem of inadequate appropriations is directly linked to the issues surrounding taxation in North Dakota. When the state provides inadequate financial support, property taxes must be increased to satisfy the demands of the people for education, social services, recreation, and other services such as highways and roads at the local level. If the property tax burden is to be lowered, the obvious solution is that state taxes must be increased.

**Problem 3: Using Weighted Factors in the Formula**

The weighted factor issue is related to the rural legislators who wish to make sure that the smaller schools received money in addition to the base payment (see Chapter 3) due to economies of size. As you recall from Chapter 3, the larger a school’s enrollment, the more efficient they appear because they can have more students per teacher than smaller schools. The cost per pupil in small schools with less than 100 students in grades 1-6 is generally larger than the cost per pupil in grades 1-6 of schools that are larger or more than 100 students. When the ratio is determined as described in Chapter 3, this has resulted in small schools having higher weighted factors and therefore receiving more money per pupil than larger schools. Currently, there are eight weighted factor categories. Many people believe that there should be fewer categories. One solution could be reduce the factors to K-12 school size rather than grade categories. For example, let’s say that schools having enrollments of 150 and less would have a factor of 1.5; 151 to 450 the factor would be 1.25, and over 450, the factor would be 1.0. Another potential solution is to eliminate the weighted factors altogether and create a separate “sparcity” payment for schools that are isolated.

**Problem 4: Lack of Vertical Equity in the Formula**

Vertical equity is a concept that creates equity in state payments within school districts for costs per pupil based on the type of educational needs students might have or desire. For example, schools have career and technical education, special education, home education, etc. Each of these programs produces a larger cost per pupil than the regular education programs. In other words, it costs more to educate a special education student than it does a regular education student. It also costs more to educate students in vocational classes than regular classes and, of course, it costs more to educate students who are home bound or hospitalized or for some other reason are not able to attend school. Currently, the North Dakota formula does not take into account any vertical costs. Instead, the Legislature makes additional and separate appropriations for special education, career and technical education, etc.

This problem should be addressed in any reform of the school finance program in North Dakota. A potential solution is to place all of the appropriated dollars for these programs into the foundation aid program and distribute them based on a ratio related to the severity of the disability or the cost of the vocational program. For example, it could mean that some severely disabled students would qualify for 3 base payments, while others with less severe disabilities
might qualify for 1.5 base payments. The same logic could be applied to auto mechanics and family and consumer science.

Problem 5: Teacher Compensation as a Separate Appropriation

Since 2001, the state has been making a separate appropriation to schools specifically earmarked for teacher salaries. The purpose has been to raise salaries so they are more comparable and competitive with other states. While this has helped raise salaries considerably, it adds to the complexity of the finance program in North Dakota. Many people believe that the funds currently appropriated for teacher compensation should be part of the foundation aid appropriation and that teacher salaries should be determined by the local school boards. A potential solution to this problem is to put the money in foundation aid and then require the schools to allocate at least 90% of their state foundation aid base entitlement to teacher salaries. After all, the state is only picking up about 45% of the cost annually. A very good argument can be made that the state is already funding salaries at 100% as the foundation aid payments only account for about 45% of the district expenditures. If the state stepped up to the plate by adopting the plan proposed at the end of this chapter and began providing at least 70% or more of the funding, then a lower percentage could be contemplated. Another approach that could be considered would be to develop a system whereby the state paid 100% of all instructional costs and the local tax would cover things such as transportation, food service, athletics, operations, and maintenance. However, this also causes concern as the richer districts would be able to provide many more amenities in local programs than poorer districts.

Problem 6: Allocation of Tuition Apportionment Funds

As you recall from the earlier discussion on tuition apportionment, the Legislature decided early in our history that this money would be distributed to schools based on their census of people from ages 6-17. Over the years, some people have decided that they believe these dollars should be allocated to schools based on their average daily membership rather than on the school district census. If this were to happen, it would shift money from school districts in which private schools are located to school districts that do not have private schools. It seems that the best solution is to not change the current statutes and continue the long-held practice of distributing money based on census.

The problem with this system, however, is that the distribution of the tuition apportionment dollars is not equalized based on district wealth. Again, the solution appears to be to use the imputed formula system that was described in section (2) of Problem 1.

Problem 7: Declining Enrollments and Sparsity Factors

The shrinking population in North Dakota is presenting a serious problem for schools as well as all of the other political subdivisions that provide services to people. It is very difficult to sustain services such as education, law enforcement, medical services, and social services when there are fewer than six people per square mile. This is the case with our state today as about two thirds of our counties have become "frontiers" again as the population has dwindled to the frontier definition or level.
The school financing program in North Dakota is based on population. As the number of school age children declines, the number of dollars generated by the foundation aid formula declines as well. The problem that results is that the costs to provide the educational experiences for children do not decline at the same rate as the decline in revenue. For example, if a school district were to lose 15 students, that is a sizeable amount of revenue, and about one teacher’s salary. However, schools can not cut a teacher based on this loss, as these 15 students generally are spread out through the K-12 grades. It might take several years of declining enrollments before a teaching position can be cut.

It seems that a viable solution is to develop a sparsity formula that would provide extra money to school districts that are declining rapidly. For example, criteria could be developed that would identify a school that should receive sparsity funds. These criteria could include a reasonable distance from another high school, percentage of decline over the past three years, and wealth of the district.

**THINGS TO KEEP IN MIND WHILE CHANGING THE SYSTEM OF FUNDING SCHOOLS**

It should go without saying that finding solutions to all these problems identified with the current school financing system should be in the forefront of the thinking of all those having the responsibility for revising and improving that system. These problems are of such a magnitude that they eliminate the possibility of minor adjustments applied to the current system. The writers believe there are other problems that must be dealt with directly.

**Thinking about Property Taxes, Other Taxes, and Their Fairness**

One major issue has to do with taxes. The property tax, as the major source of income for schools, cities, counties, and park districts, is excessive and unfair. As noted in Chapter 2, it is a regressive tax. Further, because of the limited dollars amounts that can be raised from this source, too many functions of government are now being supported. So, we all need to be thinking about how to make changes in the taxing system that would be fair and would provide the support of all governmental functions at an appropriate level. The writers believe that means there must be a limit on the amount of property tax used to support schools and that beyond that amount the appropriate tax source for education is the income tax. Minnesota uses what the writers consider to be a helpful and fair way of determining how much tax should come from different levels of income. (See the discussion about Income Tax and Table 2 in Chapter 2 to review this concept.)

**Thinking about What We Want to Get from Our Education System**

The writers believe everyone needs to seriously consider the amount of state money that should be used to support the schools in North Dakota. We know that the children of North Dakota are the state’s most precious resource. We believe that providing adequate and equitable opportunity for a world-class education is in both the short-term and long-term best interests of our state and is clearly a powerful and reachable economic development plan that is both within
the spirit and the letter of the Economic Roundtable Report that has given so much guidance to the Legislative Assembly over the last few biennia. If our students received a world-class K-12 education, they could and would go out into the world and do many good things—including becoming the captains of industry and business. They would know the advantage to locating their companies in North Dakota and would bring enormous resources including a youthful population back to the state. Further, citizens all across America would covet the education provided children in North Dakota and some, perhaps many, would be willing to pull up stakes and move to North Dakota so their children could have the advantage of the world-class education provided here. We think this is not a “pie in the sky” idea, but a truly reachable outcome that most North Dakotans would give their sincere support. To accomplish this, we would have to make two changes in the thinking that seems to have guided us in the past. First, we would have to emphasize the long-term instead of the short-term view of our future. Second, we would have to think of the taxes we pay for high quality schools as an investment in our future rather than as a burden. This high quality education would be one of the things that would attract business, manufacturing, and research and development enterprises to North Dakota. The new jobs that would be created would help us keep our young people here. And, those who left and found success elsewhere would want to bring their businesses back to North Dakota so their employees could have the benefits of the kind of education and quality of life experiences they had here as children and youth. This would be good business.

Thinking About the Responsibilities of Citizens Related to School Financing

The writers believe that it is essential that a large segment of the adult population in North Dakota needs to become much better informed about the way in which our state gathers and spends its tax resources and the consequence of those actions. Then citizens need to find a voice to express their views of what should be done to fund education (and other governmental programs) available to citizens of the state. The purpose of the first three chapters of this monograph was to provide citizens accurate and clear information on these topics. The purpose of this chapter is to provide our best thinking about what the factual information provided in those first three chapters means and what should be done about it. We do not expect that you will agree completely with everything we say. But, we ardently hope you will give serious thought to these ideas, and then discuss these ideas with your neighbors, with school employees, with members of the Task Force, and with your legislators. In support of these ideas, Thomas Jefferson once wrote, "If a nation expects to be ignorant and free in a state of civilization, it expects what never was and never will be." Thomas Jefferson to Charles Yancey, 1816. ME 14:384. He also wrote, "The information of the people at large can alone make them the safe as they are the sole depositary of our political and religious freedom." Thomas Jefferson to William Duane, 1810. ME 12:417. We agree with Jefferson that the appropriate depositary of power is vested in the people and that their informed enlightenment is essential to our continued freedom.

Thinking About Equality of Opportunity

The writers believe the truth of the assumption that every child is potentially as valuable as every other child to the future of North Dakota. It is for this reason that every child in public school should have an equal opportunity to develop her/his talents to the maximum of his/her
ability! Of course, we know that every student does not take full advantage of the opportunity that is provided. That is unfortunate, but it does not absolve us from the responsibility of providing the opportunity. The accident of where a child is born or where her/his family finds employment or chooses to live should not dictate the quality of her/his education. This does happen now because the resources to education are not distributed based on equity. As you noted when reading Chapter 3, most of the sources of school funding are not equalized. This is a problem that can be and should be corrected. All sources of school funding should be equalized so that every citizen in any location in the state can count on the highest quality of educational opportunity for his/her children.

Thinking about What Quality Education Contributes to a Community and a Society

The writers believe that legislators, generally speaking, make their decisions based on their perceptions of what the citizens in their legislative districts want. We believe they are honorable people who intend to be careful and frugal in the way they deal with your tax dollars. They want to get the most possible in services for you and secure high quality services for the lowest dollar amount. We don’t have any quarrel with that point of view. What we think has not been made clear to them is that the citizens of North Dakota want a world-class education system.

We know that in most districts in the state fewer than 25% of the adult population have children now attending public schools. So, what about all those who have no children in school? These people frequently are aunts and uncles or grandparents of kids who are in school. Further, every citizen who lives in a community with good schools has many advantages that come from these schools right now, today. Good schools work at making learning interesting, even fun. These schools work at keeping kids who have difficulties of any kind in school and learning. If these kids were not in school and learning, they would be on the streets, mostly with nothing to do. With no source of income, at least some of them would resort to crime to obtain money—perhaps taking things from peoples’ garages and the like. Senior citizens might be afraid to walk uptown to get groceries. There would be more vandalism. Kids who got put into a lock-up somewhere would be costing many more dollars to house and educate than it would cost to provide a world-class education right at home. There would likely be more drug use among those not attending school. These kids would be influencing kids who do attend school to try drugs. Kids doing drugs make a lot of other mistakes too, which likely include some criminal kinds of mistakes. All the damages that would be likely will push up the cost of police protection and home insurance. However, with a world-class school, kids would not only be in school, many more would be making the most of their opportunity. Kids would be learning useful skills as well as preparing themselves for success in adult life. Many would be in school projects where they would do helpful things for their communities—serving as interns in businesses, building a habitat house for a less fortunate family, helping to pick up trash in the city park, etc. Citizens need to quit asking legislators to take the “No New TAXES Pledge” and legislators need to refuse to take any such pledge. Citizens need to let legislators know they don’t want them to waste tax dollars, but they do want them to use them to provide a higher quality of education than they are now providing—a world-class education. We think you should be thinking about what a world-class education would cost and then providing it.
Thinking About the “If It Ain’t Broke” Cliche and about Change

We hear the cliche, “If it ain’t broke, don’t fix it.” We believe we have made a case that school finance is broken in North Dakota. Some will not agree that the system is broken, so it is common sense to address the “ain’t broke” argument which then will be forwarded in one form or another. An examination of the apparent wisdom expressed in this idea can be shown to be a faulty assumption. For instance, if I had a perfectly good Model T truck, I wouldn’t want to argue that it is what I should use to haul my grain to the bin or elevator. If I had a perfectly good Royal or Underwood typewriter, I wouldn’t want to argue that my secretary/bookkeeper should use it in favor of a Dell Pentium computer as a way to correspond with customers, suppliers, and sales personnel. And so far as arguing about the paperback bookkeeping ledger v. the computer—let’s not even go there. The tools we use to do our jobs change and the level of needed investment in how to do the job and how to gain in market share, or even keep one’s market share level, is a changing target. Most of the adult population in the United States lives in a different world than the one into which we were born. The Industrial Revolution and the Information Society have come and mostly have gone. We now live in a Global Society. Just consider, if you spent your days shopping for only products that were made of raw materials that came from the USA and that were then manufactured into goods in the USA, you would have to do without a lot of things you consider essential to your life. Further, the things you could purchase you probably would not be able to afford. We now are bound up with the rest of the world to the extreme. Often, we call to get help from a technician at the factory or company headquarters and discover we are talking with someone in China or India or Romania. The world has changed. We hardly noticed as it was changing, but the change is profound and it has the potential to be good or bad for us, for our society, and for the way of life we have come to expect. Thomas Friedman, Pulitzer Prize winning author and syndicated columnist with the New York Times, has a new book titled The World is Flat: A Brief History of the Twenty-First Century. When he says the “world is flat,” he means the same thing we mean when we say “the playing field is level.” We can compete without advantage or disadvantage. How did this happen? Events from the 1980s to today have brought the use of technology, particularly the computer, its software, and the internet, into play in such a way that it allows a single individual anywhere in the world to have the same access to market her/his product or service as does every other individual or business. Further, Friedman says that the competition is fierce and other societies are working day and night to take over first place from the USA as the economic leader and therefore the superpower of the world. He asserts that the United States doesn’t have to give up its first-place position, but we can’t hang on to it by doing the same old things in the same old way. First, we have to recognize that we must change the way we do business. Second, we must be willing to ship “physical labor” jobs out of the country in favor of “knowledge worker” jobs. Third, we have to prepare our children and youth to handle the knowledge worker jobs. To do this, we will need to provide a much richer and more demanding education than we have provided to our children. The evidence is all around us. We must make significantly larger investments in education and we must demand that these investments produce the higher quality of education needed to fill the knowledge worker jobs. Friedman says we just have one chance to get this right, otherwise another society, another nation will replace us at the top. Furthermore, we have to get it right every time. So, in the now famous words of American citizen Todd Beemer on United Airline’s Flight 93, “Are you guy’s ready? Let’s roll!” This is the resolve we need.
SCHOOL FUNDING MODEL PROPOSAL

In order to deal with the equity and adequacy issues that are facing the state of North Dakota, it is imperative that a new way of looking at the entire school funding system has to be developed and implemented. Throughout this monograph, the writers have been discussing several problems regarding the current system. The problems focus on the distribution of funds where that distribution has not been done with equity and certainly the funds fail to meet the criteria of adequacy to provide for the “world-class” educational system that the people want and children deserve. Therefore, we are proposing the following ideas as a beginning:

• That perfect equity is generally impossible.

• That a system based on fiscal neutrality should be developed. A fiscal neutral system would be one that allows for school districts to raise equal dollars per pupil for a given tax rate and one that makes local and state dollars equal across all school districts in North Dakota. This would mean that the power of school districts to raise funds through property tax would be equalized and that through state allocations each school district can function as if it had an equal property tax base.

• That a system based on horizontal and vertical equity should be developed. Horizontal equity would require that students who are alike should be treated the same—“equal treatment for equals.” This assumes that all elementary, middle, and high school students are alike or similar. Vertical equity would require that the system also recognize that there are differences between students and that some need more services than others. These differences include, but are not limited to, children with disabilities, children with economic disadvantages, and children with limited English language skills. Additional vertical equity considerations should include programs in career and technical education, advanced placement courses, lab science courses, districts with sparse populations, and transportation.

• That each district should be required to levy a specific mill rate on their taxable value with allowances for a 15% and 25% excess levy if the school board and voters approve the excess levy.37

Based on these ideas, the proposed model makes the following assumptions:

• Every district in North Dakota would levy 185 mills.

• If the mandatory levy generates more dollars than necessary to operate any school district, the excess funds would be “recaptured” or claimed by the state.

• The state would set an adequacy or target per pupil expenditure amount that would be at least 90% of the national average cost per pupil as calculated by the United States Department of Education.
Each district would be allowed to establish an excess levy of 15% with a majority vote of the school board and an excess levy of 25% with a majority vote of the qualified electors in the school district.

That all revenue sources (i.e., local, state, and federal) are included in the model.

That a power equalizer is included so that the power of school districts to raise funds through property tax would be equalized and that through state allocations each school district can function as if it had an equal property tax base.

Allocations would be made by the state to satisfy vertical equity considerations.

The following table presents a model of how a new system might work based on the foregoing assumptions. This table includes four school districts with varying enrollments, taxable values, and sources of revenue. The total amount of dollars available for each district to spend is targeted at $10,000 per pupil prior to applying the optional 25% excess levy.

<table>
<thead>
<tr>
<th>PROPOSED STATE FUNDING MODEL</th>
<th>District - 972</th>
<th>District - 116</th>
<th>District - 8600</th>
<th>District - 977</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable Value Per Pupil</td>
<td>$ 10,018.00</td>
<td>$ 46,172.00</td>
<td>$ 12,361.00</td>
<td>$ 9,888.00</td>
</tr>
<tr>
<td>Required Mills</td>
<td>185</td>
<td>185</td>
<td>185</td>
<td>185</td>
</tr>
<tr>
<td>Local Revenue Per Pupil</td>
<td>$ 1,853.33</td>
<td>$ 8,541.82</td>
<td>$ 2,286.79</td>
<td>$ 1,829.28</td>
</tr>
<tr>
<td>State Recapture</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>County Revenue Per Pupil</td>
<td>$ 1,014.00</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Federal Revenue Per Pupil</td>
<td>$ 156.00</td>
<td>$ 823.00</td>
<td>$ 1,446.00</td>
<td>$ 574.00</td>
</tr>
<tr>
<td>Total Revenue Per Pupil</td>
<td>$ 3,023.33</td>
<td>$ 9,364.82</td>
<td>$ 3,732.79</td>
<td>$ 2,403.28</td>
</tr>
<tr>
<td>Total State Aid Per Pupil</td>
<td>$ 6,976.67</td>
<td>$ 635.18</td>
<td>$ 6,267.22</td>
<td>$ 7,596.72</td>
</tr>
<tr>
<td>Total Available Per Pupil</td>
<td>$ 10,000.00</td>
<td>$ 10,000.00</td>
<td>$ 10,000.00</td>
<td>$ 10,000.00</td>
</tr>
<tr>
<td>25 % Excess Levy (46.15 mills)</td>
<td>$ 463.33</td>
<td>$ 2,135.46</td>
<td>$ 571.70</td>
<td>$ 457.32</td>
</tr>
<tr>
<td>Power Equalizer (State Contribution)</td>
<td>$ 1,672.12</td>
<td>-</td>
<td>$ 1,563.76</td>
<td>$ 1,678.14</td>
</tr>
<tr>
<td>Total Allowable Expenditure</td>
<td>$ 12,135.46</td>
<td>$ 12,135.46</td>
<td>$ 12,135.46</td>
<td>$ 12,135.46</td>
</tr>
</tbody>
</table>

In order to understand this model, an explanation of each part of the model is necessary. An attempt will be made to help the reader understand the details. The writers are hopeful that the following bulleted format will be useful:

- The district number (District 972) actually represents the enrollment of the district that is represented in this table.

- The **taxable value per pupil** is determined by dividing the school districts total taxable value by the by the census (age 6-17) of each district. This value also can be found in the NDDPI publication Finance Facts.
• The **required mills** represent the number of mills that every district would be mandated to levy.

• The **local revenue per pupil** is determined by multiplying the 185 mills times the taxable value per pupil ($10,018 x .185 = $1,853.33). The result is displayed in dollars that represent how much each of the four districts could raise per pupil locally. This, of course, means that some school district mill rates will be increased to 185 and that some will be decreased to 185 for general fund purposes.

• The **state recapture** row is the number of dollars that a district can generate without state aid that is over the $10,000 per pupil expenditure target. This money would go into the state general fund and redistributed to other school districts in the form of state foundation aid. This recapture amount would be taken only from the property tax levy and not the county and federal funds. In this example, none of the districts would be subject to the state recapture.

• The **county revenue per pupil** simply represents the amount of dollars a school district gets from county sources. This primarily would be composed of gas, oil, and coal revenues. The total amount of revenue from the county for each school district is divided by the number of students in that district to determine the county revenue per pupil.

• The **federal revenue per pupil** represents the total dollars a school district receives in federal funds such as title programs and federal impact aid divided by the enrollment of the district.

• The **total revenue per pupil** is just a sum of all of the revenue a school district can generate with 185 mills, county resources, and federal resources divided by the district enrollment.

• The **total state aid per pupil** is the difference between what the school district can generate through local, county, and federal sources and the $10,000 targeted expenditure.

• The **25% excess levy** would be applied if the qualified electors voted by simple majority for the levy. In this example, it would add 46.25 mills to the local revenue. The dollars per pupil this levy would raise for each district is displayed on this row.

• The **power equalizer** is another state contribution that would equalize the dollars that districts could raise with an additional 25% levy. In this example, District 116 can raise $2,135.26, so the state contribution would bring the other three up to the same amount.

• The **total allowable expenditure** is the total amount that these school districts could spend per pupil including the 25% excess levy.
Proposed Foundation Aid Formulas

What follows is a proposed foundation aid formula that addresses each of the points made in the section on the School Funding Model Proposal. The writers believe it corrects the Problems with the Current System. Finally, the writers believe it gives thoughtful consideration to the Things to Keep in Mind While Changing the System of Funding Schools. We recommend that North Dakota citizens and the Governor’s Task Force on School Finance study this approach and formula. We believe that doing so will result in recommending this approach and formula to the Governor and to the Legislative Assembly. We thank the reader for taking the time to give it serious consideration.

Proposed Foundation Aid Formula for North Dakota K-12 School Funding

1. School District Taxable Valuation times 185 mills divided by School District ADM (or fall enrollment, whichever is largest) = Local Revenue Per Pupil.

2. School District County Revenues divided by School District ADM (or fall enrollment, whichever is largest) = County Revenue Per Pupil.


4. Total Revenue Per Pupil = Local revenue per pupil + county revenue per pupil + federal revenue per pupil.

5. State Aid = School District Total Revenue Per Pupil plus the difference between the target expenditure (Total Amount Available) and the School District Total Revenue Per Pupil.

End Notes

33 Letter from Thomas Jefferson to Charles Yancey, 1816. ME 14:384

34 Letter from Thomas Jefferson to William Duane, 1810. ME 12:417

