NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

FINANCE AND TAXATION COMMITTEE

Wednesday, April 12, 2006
Roughrider Room, State Capitol
Bismarck, North Dakota

Senator Herb Urlacher, Chairman, called the meeting to order at 10:00 a.m.

Members present: Senators Herb Urlacher, John M. Andrist, Dwight Cook, Michael A. Every, Harvey Tallackson, Rich Wardner; Representatives Wesley R. Belter, Kari Conrad, David Drovdal, Pam Gulleson, C. B. Haas, Lyle Hanson, Craig Headland, Gil Herbel, Ronald A. Iverson, Phillip Mueller, Mark S. Owens, Arlo E. Schmidt, Dave Weiler, Clark Williams, Dwight Wrangham

Members absent: Senator Ben Tollefson; Representatives Larry Bellew, Kenton Onstad

Others present: See Appendix A

It was moved by Senator Tallackson, seconded by Representative Drovdal, and carried on a voice vote that the minutes of the March 16, 2006, committee meeting be approved as distributed.

TAX DEPARTMENT

Chairman Urlacher called on Ms. Marcy Dickerson, State Supervisor of Assessments and Director of the Property Tax Division, Tax Department, for testimony in response to several requests of the committee. A copy of Ms. Dickerson's testimony is attached as Appendix B.

Ms. Dickerson said she was requested to compare the effects of property, income, and sales taxes on different taxpayers. She said Exhibit A attached to her testimony is a chart that illustrates how taxpayers in differing circumstances are affected differently under one or more of the three major tax types.

Ms. Dickerson said she was requested to review tax treatment of agricultural land acquired by individuals whose primary interest in acquiring the property is hunting. She reviewed the statutory definition of agricultural property and the conclusions from recent opinions of the Attorney General regarding agricultural land classification. She said she is not aware of any Attorney General's opinion addressing the status of land classified as agricultural and used for hunting or recreational purposes. She said when someone acquires land for hunting or other recreational purposes, as long as the land continues to be used for raising agricultural crops or grazing farm animals, the Property Tax Division takes the position that the land still qualifies as agricultural land for property tax purposes. She said there is no statutory language requiring the land to be used "primarily" for raising agricultural crops or grazing farm animals. She said if agricultural land is not used for raising crops or grazing animals but just lies idle, it retains its agricultural classification. She said agricultural property retains that status until the land is devoted to another use.

Ms. Dickerson reviewed provisions of law from Minnesota, Montana, and South Dakota relating to agricultural classification of property for property tax purposes.

In response to a question from committee counsel regarding the ease of administration of other states' laws, Ms. Dickerson said there will always be difficult issues to address but it might be helpful to provide a statutory definition of nonagricultural use or to require a change of classification if a high sales price is paid for the property.

Representative Herbel said he believes conservation reserve program (CRP) land creates a problem because in some cases CRP land is used by the owner primarily for recreational purposes but that land can also be used as part of an agricultural operation. He asked whether there would be any way to distinguish these uses. Ms. Dickerson said that would be a very difficult issue and further complicating matters is the fact that income from CRP land is added to the consideration of farm income under the agricultural property valuation formula. Representative Herbel asked whether there are any states that have separate treatment for different kinds of CRP land uses. Ms. Dickerson said she is not certain but she could look into that issue.

Representative Mueller asked how other states tax property that receives a recreational classification, as the committee needs to understand the issue because the benefit to nonresidents is always raised in discussions about providing property tax relief. Ms. Dickerson said some states provide homestead property tax reductions for residents and she could look for more details on tax relief for resident landowners.

Representative Herbel asked what would happen when a CRP contract runs out and the owner decides he can make more money renting the land for hunting. Ms. Dickerson said the classification of that property would remain agricultural because there is no standard requiring primary use for agriculture and the property would continue under its previous agricultural classification.

Senator Cook said if North Dakota followed the South Dakota model for classification for nonagricultural acreage, he suspects there would be administrative problems and it would take time for an assessor to make adjustments. Ms. Dickerson said reassessment would be required for a significant amount of property. She said this would be a major problem to overcome for assessors in some areas. She said options to assess the value of such property would be to use the sales ratio study to establish market value or use a capitalization approach such as the one used in South Dakota.

Senator Cook asked if Ms. Dickerson can determine how much agricultural land North Dakota has within city limits of major cities. Ms. Dickerson said it would be necessary to determine whether the information should be provided by acreage or valuation. Senator Cook said both acreage and valuation would be useful information.

Ms. Dickerson said she was requested to prepare a revision of charts previously provided to the committee on the effect of a $150 million property tax reduction. She said 2005 property tax statistics are now available and these were used in preparation of the new charts. She said a $150 million property tax reduction represents a 22.73 percent reduction in total property taxes levied statewide. She said the charts in Exhibit B were revised to reflect a 22.73 percent reduction.

Ms. Dickerson said she was also requested to provide information showing the general fund levy limitation for taxing districts and the current general fund mill rates of school districts, cities, and counties in the state. She said the normal general fund mill levy limitation may be exceeded by political subdivisions under North Dakota Century Code Section 57-15-01.1, which allows a levy equal to the highest levy in dollars in the previous three years. She said 24 school districts, 276 cities, and 25 counties levied general fund amounts in 2005 which exceeded the normal statutory general fund mill levy limitation. She said Exhibit C shows 2005 general fund mill rates reported by county auditors on the abstract of tax lists.

Ms. Dickerson said Exhibit D is a spreadsheet provided to the committee at a previous meeting which shows the results of a survey of counties by the Property Tax Division. She said from that survey it appears nonresident ownership accounts for approximately 7.22 percent of total 2003 property taxes in the 29 counties that responded to the survey.

Representative Schmidt said he is disappointed with the number of counties that did not respond to the request for information on nonresident property ownership. He asked whether it would be possible to obtain more complete responses.

Senator Andrist said his own research indicates 30 to 40 percent of property in northwest North Dakota is owned by nonresidents. He said the survey results are based on the mailing address for tax statements. He asked whether residents of the area gather and forward tax statements to nonresidents who might be the owners of property. Ms. Dickerson said that could occur and responses to the survey would not show that nonresident ownership. She said the survey was based on mailing addresses for tax statements and it would also be possible for a resident to have a tax statement mailed to him at an out-of-state address.

Senator Andrist asked if the committee could obtain better information from the Soil Conservation Service or other sources. Senator Urlacher said it would be important to try to obtain more solid estimates regarding nonresident ownership and he asked Ms. Dickerson to check into other ways to identify nonresident property ownership.

Chairman Urlacher called on Ms. Kathryn Strombeck, Research Analyst, Tax Department, for a presentation of responses to questions asked by the committee. A copy of Ms. Strombeck's prepared testimony is attached as Appendix C.

Ms. Strombeck said the first issue addressed in her testimony relates to the estimated share of property, sales, and individual income taxes paid by nonresidents in North Dakota. She said using the best information and estimates available, nonresidents pay 7.2 percent of North Dakota property taxes, 7.8 percent of North Dakota sales and use taxes, and 6.5 percent of North Dakota individual income taxes.

Ms. Strombeck said she was requested to provide statistics on the number of homeowners, renters, and mobile home owners in North Dakota. She said according to the 2000 census for North Dakota, there were 257,152 occupied housing units in the state, including 122,078 owner-occupied units, 83,154 renter-occupied units, and 26,014 mobile home units. She said the census statistics also include a final category of "unspecified" housing.

Ms. Strombeck said she was requested to determine the sales tax rate reduction that could occur if all sales tax exemptions were removed, if $150 million per year of additional revenue were made available to schools to reduce property taxes, and if the general sales tax rate were reduced with the overall effect being revenue-neutral. She said based on these assumptions, a sales tax rate of 4.3 percent, with no exemptions, and an additional $150 million annual revenue to school districts would generate approximately the same amount of revenue as is currently received. She pointed out that some sales tax exemptions apply to sales that are subject to special taxes, such as sales of motor fuels or coal, and special consideration of these other taxes may be required if sales taxes are applied.

Ms. Strombeck said consideration of legislation introduced in 2005 to extend the sales tax base led to the discovery that previous estimates on the revenue effect of sales tax exemptions for services found that two exempt services were not included in the consideration. She said real estate commissions and day care expenditures were not considered. She said if these two items are included, the overall rate could be reduced to 4.1 percent and would continue to generate the current level of revenue and would allow $150 million annually for property tax relief.

DEPARTMENT OF PUBLIC INSTRUCTION

Chairman Urlacher called on Mr. Jerry Coleman, Department of Public Instruction, for presentation of information in response to questions raised by the committee.

Mr. Coleman said the first issue he was requested to investigate is whether other states use core curriculum as a factor in providing state funding assistance to schools. Mr. Coleman said he contacted the Education Commission of the States regarding this question and the commission cannot identify any state that uses core curriculum as a component in state funding for education.

Mr. Coleman said the other question he was requested to address relates to phasing in a shift to 70 percent state and 30 percent local funding for education over a period of four bienniums. He distributed copies of the information he prepared to illustrate the effect of this change. A copy is attached as Appendix D.

Mr. Coleman said the information was prepared using the same approach and assumptions that were used in the information reviewed by the committee at the previous meeting regarding phasing in the funding shift over three bienniums. He said the tables prepared show a change to a 70-30 split or a 65-35 split in the percentage of state and local funding for educational expenditures.

Senator Andrist asked whether the information provided identifies extracurricular costs. Mr. Coleman said these estimates are based on 84 percent of educational expenditures, which accounts for costs for education and administration. He said the committee selected this as the basis for computations. He said the 16 percent of remaining expenditures includes transportation, capital projects, extracurricular activities, and other expenditures.

Representative Conrad asked whether federal funding for education is reflected in these estimates. Mr. Coleman said these estimates are based only on state and local expenditures for education.

Chairman Urlacher called on Senator Wardner who distributed copies of information he prepared to illustrate the net impact for each biennium based on the information presented by Mr. Coleman for phasing in over four bienniums a shift to a 70 percent state share of education funding. A copy of the information distributed by Senator Wardner is attached as Appendix E. He said he prepared this information to focus on new dollars, "buydown" dollars, net impact, and the mill levy decrease that would result from this shift in funding. He said in this illustration he used the term "buydown" dollars rather than "shift" dollars as was used in the illustration considered at the previous meeting. He said the term "buydown" dollars better illustrates the intention of providing property tax relief. He said it is the "buydown" dollars that committee members should focus on because that is the actual property tax relief to be considered.

Representative Weiler said use of the phrase "new" dollars reflects the growth in education costs and his understanding of the information presented is that in the fifth biennium the state will have accomplished the intended property tax relief and will not have to fund new "buydown" dollars but would only have to fund the "new" dollars. Senator Wardner said that is correct.

Representative Gulleson said she believes the funding shift in the illustration would provide property tax relief taxpayers want. She said the funding shift over three bienniums reviewed at the previous committee meeting had a greater share of property tax relief in the first biennium. She asked if the property tax relief in this example has greater property tax relief in the early part of the illustrated shift of funding. Senator Wardner said this illustration does not include more property tax relief in the first biennium. He said this example spreads property tax relief evenly over four bienniums.

Representative Conrad said she believes the committee needs to separate out non-property tax revenues from county shares of funding. Senator Wardner said he respectfully disagrees and that oil and coal tax revenues that are allocated to school districts should be considered because they are taxes imposed in lieu of property taxes.

Senator Andrist asked how the relief to school districts in this illustration would affect the current state education funding distribution formula and mill levy deducts. He said the Legislative Assembly needs to assure no unintended funding losses for schools. Senator Wardner said the illustration does not include any attempt to address the issues involved in distribution of funds to school districts. He said the illustration is meant to show the additional cost to the state and resulting financial assistance to school districts on a statewide basis. He said if the committee proceeds with an approach like this it will be necessary for the committee to determine how property tax relief will be allocated among individual school districts.

COMMISSION ON EDUCATION IMPROVEMENT

Chairman Urlacher called on Lt. Governor Jack Dalrymple, Chairman of the Commission on Education Improvement, for a report on how the commission is proceeding with its study of enhanced education funding. Lt. Governor Dalrymple said the Commission on Education Improvement has not made any final decisions. He said the commission has been working on an outline of desired changes in education funding responsibilities of state and local governments and to address equity and adequacy issues related to those responsibilities. He said the establishment of the Commission on Education Improvement came about in the settlement entered in the lawsuit filed by several school districts to challenge current state funding for education. He said the commission was established to carry through on the commitment of the state in the settlement to provide $60 million of new state funds for education and to improve the equity of funding allocation among school districts.

Lt. Governor Dalrymple said it is important to understand that the efforts of the Commission on Education Improvement and the state will be part of a multibiennium process. He said it is clear to all participants and stakeholders that the necessary changes cannot be accomplished in a single biennium. Lt. Governor Dalrymple said one of the basic assumptions of the commission is that more state funding for education will be needed and a good portion of that additional funding must be allocated with the goal of enhancing equity among school districts in funding educational opportunities. He said the apparent consensus of education leaders and commission discussion is that the mill levy deduct used in current funding allocations is not the appropriate tool to use in moving forward on education funding. He said the mill levy deduct is very unpopular among school districts, including those either above or below average in property wealth per student. He said it appears the commission has reached agreement that the mill levy deduct should be replaced. He said it also appears from discussions that per student funding is believed to be the most appropriate basis for allocation of state funds among school districts.

Lt. Governor Dalrymple said the Commission on Education Improvement hopes to bring all school funding into a comprehensive funding formula. He said one exception would be for transportation costs, which are viewed as a service that should be separately addressed by the Legislative Assembly.

Lt. Governor Dalrymple said the commission is studying the use of an equalization payment. He said this approach would be an attempt to determine the amount of taxable valuation per student a school district is lacking in comparison to its peer group. He said peer groups of school districts are based on large, medium, and small enrollments. He said this approach is intended to compare taxable valuation per student to a statewide average and attempt to get an average amount of valuation behind each student. He said the objective is to factor in all forms of wealth available to a school district, including tuition payments and energy tax revenues, in determining taxable valuation per student.

Lt. Governor Dalrymple said the commission still has a substantial amount of work to do but several general principles are becoming clear. He said more funds will be needed from state sources for kindergarten through grade 12 education. He said there must be a focus on increased state funding to schools that have been short of funding in the past due to lower than average taxable valuation per student. He said weighting factors in the current funding formula appear appropriate and consideration should be given to consolidation of weighting factors into a single factor for each school district. He said teacher compensation is an important element in education funding which will be a part of the commission's recommendations to target a share of new funds to the classroom. He said tuition apportionment is being reviewed and the hope is that it will be incorporated into a single funding formula.

Lt. Governor Dalrymple said the commission believes separate attention must be given to several areas. He said special education funding consideration is pending consultant recommendations. He said it is hoped that funding for English language learner programs can be blended into the funding formula with weighting factors. He said vocational and technical education funding will require special consideration. He said joint powers agreements are a relatively recent development and more time will be needed to see how they develop. He said there could be substantial benefits from these agreements and time might show it is appropriate to recommend more funding to encourage these agreements.

Senator Urlacher asked whether Lt. Governor Dalrymple believes the commission will make recommendations to encourage school district consolidation. Lt. Governor Dalrymple said consolidation per se probably will not be the subject of a commission recommendation. He said use of capital construction funding assistance to encourage combining school districts is being discussed. He said the concept is that funding for capital construction for consolidated districts at very favorable rates and terms could encourage districts to consolidate when considering facilities' improvements.

Representative Haas said the commission is considering designating peer groups of small, medium, and large school districts and he asked whether there are inequities in funding between the groups and how those inequities might be addressed. Lt. Governor Dalrymple said adequately addressing the differences between school districts is a big part of the challenge faced by the commission. He said there has traditionally been a much higher cost per student among smaller school districts. He said examination of data on cost per student reveals that there appear to be some natural breaks in cost per student between the peer groups under consideration. He said within the peer groups, there is fairly good uniformity in cost per student. He said he does not believe there is more inequity between peer groups than might exist within peer groups. Representative Haas said he does not see property tax relief directly addressed from the commission's plans. Lt. Governor Dalrymple said if equity and adequacy for funding for education is improved, it will help define how much funding per student is needed. He said property tax relief would be a component of improved funding because enhanced funding will provide better teachers, better programs, property tax relief, or a combination of these things.

Representative Belter asked whether the commission has discussed a target level of 70 percent of state funding for education costs. Lt. Governor Dalrymple said the plaintiffs in the school districts lawsuit presented a working paper suggesting a 70 percent funding concept but the commission has not adopted that position.

Representative Belter asked whether the commission has discussed mechanisms to assure property tax relief. Lt. Governor Dalrymple said the commission has not discussed requiring tax relief. He said he believes the majority of property tax relief that would be derived by school districts would occur in school districts that have historically been taxed at the highest rates.

Senator Cook asked whether the commission has devoted consideration to school districts providing education in only kindergarten through grade 8. Lt. Governor Dalrymple said the commission is assuming the Legislative Assembly does not want to restructure kindergarten through grade 8 districts after the most recent legislative consideration of that issue. He said special problems exist with these districts because they are not representative of typical school districts. He said valuation per student in these districts is skewed and it appears special consideration will be required.

Representative Boucher asked how Lt. Governor Dalrymple would distinguish property tax relief from enhanced funding for education. Lt. Governor Dalrymple said that is a complex issue but as equity and adequacy are improved, property tax relief should result. He said this will be an ongoing area of consideration that will probably take several bienniums to sort out.

Representative Herbel asked whether the commission has considered the effects of shifts of funding among school districts and whether a "hold harmless" provision should be included. Lt. Governor Dalrymple said it will take time to make necessary and appropriate changes in education funding and we will measure equity as we go. He said if the state makes the funding adjustments correctly, there should be no losers among school districts.

Representative Iverson asked why the commission has not placed a greater emphasis on encouraging school consolidations. Lt. Governor Dalrymple said over the years consolidation has been a very difficult legislative issue. He said he believes the objective of the commission is to enhance funding to allow all school districts to provide an adequate level of educational services.

Representative Haas asked whether the commission has attempted to define adequacy in terms of educational funding. Lt. Governor Dalrymple said the commission has not attempted to define adequacy but he has no doubt the commission will make that attempt. He said in its current stage of discussions, consideration has focused on funding equity among school districts. He said it will probably be next biennium before the commission will seek to define adequacy of educational funding.

Senator Andrist asked whether Lt. Governor Dalrymple believes the Legislative Assembly could increase equity in education funding without tax policy changes. Lt. Governor Dalrymple said if enhanced funding for education is provided over several bienniums, it could be possible to do so through economic growth in the state and resulting increases in state revenue.

In response to a question from Representative Herbel, Lt. Governor Dalrymple said the commission has not established a deadline but will probably be finalizing its recommendations for 2007 legislation late this year.

Representative Hanson asked if the members of the Finance and Taxation Committee can be added to the mailing list to receive minutes of the Commission on Education Improvement. Lt. Governor Dalrymple said he would do that.

Lt. Governor Dalrymple said a final point he wants to emphasize is that the Commission on Education Improvement views its study and recommendations as a nonpartisan effort and is proceeding on that basis.

HOMESTEAD CREDIT

Chairman Urlacher called on committee counsel for presentation of a memorandum entitled *Property and Income Tax Benefits for Homestead Property in All States*. Committee counsel said the memorandum provides a very brief comparison of property and income tax reductions targeted to residents of the state providing the benefit. He said these types of tax reductions are usually provided in the form of a homestead tax credit available only for the primary residence occupied by the taxpayer. He said each state program is unique and has distinctive features and it would take many pages to fully describe each state program. He said the memorandum briefly describes who is eligible for tax relief, what sort of tax relief is provided, and whether income limitations are imposed to qualify for the tax relief. He said it appears about half of the states provide property tax relief for residents of the state without limitations based on income. He said North Dakota provides property tax relief for homeowners and renters 65 years of age or older or disabled but the relief is only available for individuals with income below statutory limits. He said North Dakota does provide a reduced taxable valuation for residential property compared to other property types.

Committee counsel said Minnesota property tax relief is often a topic of interest in legislative discussions. He said the state of Minnesota imposes a state general property tax that applies only to commercial-industrial, public utility, railroad, mineral, and seasonal recreational property. He said the rate of the statewide tax is determined annually to generate the amount of the mandated levy, based on a base year levy of $592 million in 2002. He said all revenue from the state general property tax goes to the state general fund. He said Minnesota has also enacted refundable income tax credits in times of budget surpluses and for 1997 and 1998 a credit of 20 percent of property taxes paid by resident homeowners and renters was allowed. He said Minnesota also had a nonrefundable credit against income taxes for increases in lake cabin property taxes for 1998 and 1999. He said Minnesota also has a $300 million per year market value homestead credit to buy down property taxes of residential property. He said the market value homestead credit replaced the previous education homestead credit, which had a similar purpose. He said the state of Minnesota has provided funds to buy down property taxes since 1967.

HOME RULE SALES TAXES

Chairman Urlacher called on committee counsel to review a bill draft [70039.0200] relating to limits on transfer of home rule sales tax revenue to school districts. Committee counsel said the bill draft was considered by the committee at its previous meeting. He said the bill draft has been revised to prohibit transfer of county or city home rule sales tax revenue to school districts except for payment of bonded indebtedness incurred before the effective date of the bill draft or for capital construction and associated costs approved by the electors of the county or city before the effective date of the bill draft. He said the previous version of the bill draft would have allowed use of funds in payment of a contractual obligation incurred before the effective date of the bill draft. He said the term contractual obligation could encompass many things, including a joint powers agreement, and it was determined a change was required. He said he consulted with Representative Belter and this draft includes an exception for capital construction and associated costs approved by the voters. He said capital construction and associated costs would include land acquisition; site improvements; building purchase, construction, demolishing, remodeling, or renovation; equipment for building mechanical and electrical systems; and architect, engineer, and legal services associated with the project.

It was moved by Representative Headland and seconded by Representative Weiler that the committee approve and recommend to the Legislative Council the bill draft to limit transfer of home rule sales tax revenue to school districts.

Representative Conrad said in Minot consideration is being given to funding a community bowl, which might involve sales tax funding that could benefit the school district, so she would oppose this motion.

Representative Gulleson said she supports the concept of keeping sales tax funds out of school funding considerations. She said she has some concerns about smaller cities where joint funding of projects might be necessary and could include sales tax revenue.

Representative Belter said the overriding concern in suggesting the bill draft is that larger cities with a large retail sales base may get into funding education through sales taxes. He said if this occurs there will be permanent distortion of education funding equity in the state.

Chairman Urlacher called on Ms. Connie Sprynczynatyk, Executive Director, North Dakota League of Cities, for comments on the bill draft relating to limitation of home rule sales tax revenue transfer to school districts. Ms. Sprynczynatyk said the voters of over 100 cities have approved city home rule and in most cases there has been sales tax authority allowed to the city. She said city sales tax revenue is most often dedicated to capital improvements, infrastructure needs, economic development, and similar community projects. She said city officials she has heard from do not support the Fargo initiative to provide city sales tax revenue to reduce school district property taxes. However, she said, cities are also cautious about attempts to limit home rule authority through state law. She said city home rule sales tax revenues have been used judiciously by cities for joint projects with other political subdivisions, sometimes providing benefits directly or indirectly to school districts. She said Bismarck voters will consider a June ballot measure that includes several community projects, including some funding for a school capital project.

Chairman Urlacher called on Ms. Bev Nielson, North Dakota School Boards Association, for comments on the bill draft. Ms. Nielson said the association does not take a position on the bill draft but there is one issue she would like to point out. She said if the voters of Fargo approve the initiative regarding transfer of city sales tax revenue to the school district and this bill draft becomes effective and terminates those transfers, the school district would need authority to increase its property tax levy to make up for the loss of revenue.

Chairman Urlacher called on Dr. David Smette, Superintendent, Jamestown Public Schools, for comments on the bill draft. Dr. Smette said he would support approval of the bill draft. He said adding city sales tax as a revenue source for school districts would be a real clinker for education equity funding.

Chairman Urlacher called on Mr. Ken Yantes, Township Officers Association, for comments on the bill draft. Mr. Yantes said the Township Officers Association adopted a policy in December 2005 to support this bill draft approach to eliminate city sales taxes as an option for school district property tax reduction.

Representative Williams said the Legislative Assembly will review this bill draft and provide more detailed testimony and consideration. He said he would like to call for a vote on the motion to approve the bill draft.

The question was called and **the motion carried**. Voting in favor of the motion were Senators Urlacher, Andrist, and Wardner and Representatives Belter, Gulleson, Haas, Hanson, Headland, Herbel, Mueller, Owens, Schmidt, Williams, and Wrangham. Voting in opposition to the motion were Senator Every and Representative Conrad.

LEVIES IN MILLS STUDY

Chairman Urlacher called on committee counsel to review a bill draft relating to the committee's study of alternatives to expressing property tax levies in mills. Committee counsel said the bill draft [70035.0100] has not been changed since it was reviewed by the committee at the previous meeting. He said the bill draft relates to the annual property tax statement provided to taxpayers by the county treasurer. He said current law requires only that the tax statement must include the true and full value of the property and the total mill levy applicable. He said the bill draft expands the information that must be included in, or provided with, the annual property tax statement. He said the true and full value of the property would be required to be provided for the immediately preceding taxable year and for the taxable year to which the tax statement applies. He said the bill draft would also require information to show, for each taxing district levying taxes against the property and the consolidated levy for all taxing districts levying against the property, the taxes levied in dollars for the preceding year, taxes levied in dollars for the taxable year for which the tax statement applies, taxes expressed in dollars of taxes per $1,000 true and full value of the property for the preceding taxable year, and taxes expressed in dollars of taxes per $1,000 of true and full valuation of the property for the taxable year to which the tax statement applies.

Chairman Urlacher called on Mr. Terry Traynor, North Dakota Association of Counties, for comments on the bill draft. Mr. Traynor said the association circulated the bill draft among county officials for comments. He said Mr. Les Korgel, McLean County Auditor and Treasurer, would make some comments about the bill draft on behalf of the association. Mr. Korgel distributed copies of his prepared testimony, a copy of which is attached as Appendix F.

Mr. Korgel said his first concern is that the bill draft would be an unfunded mandate to most counties. He said tax forms and computer programs that generate current forms would have to be changed. He said McLean County is considering a change to a statement covering multiple parcels of property to reduce costs. He said the savings in McLean County could be $2,000 to $2,500 in postage, envelope, paper, printer, and labor costs.

Mr. Korgel said his second concern is that the information required by the bill draft might be misleading to taxpayers. He said comparisons based on true and full value are meaningful if they are for the same kind of property. He said the problem is that taxpayers will compare residential property to agricultural property and market value of these properties is determined in a different manner. He said there is also a different tax rate for residential property and commercial and agricultural property. He said another problem is that new property, split property, and properties that were exempt will not have a meaningful prior year's history.

Mr. Korgel said the bill draft removes the words real estate and substitutes the word property with regard to the tax statements. He said the words real estate should be retained because different kinds of property are subject to different forms of taxes.

Mr. Korgel distributed copies of sample real estate tax statements from Bottineau County and McLean County. He reviewed the information contained in these statements.

Chairman Urlacher called on Mr. Traynor, who presented written testimony on behalf of the Association of Counties, a copy of which is attached as Appendix G. Mr. Traynor said county officials support providing taxpayers with the maximum amount of information possible and in a manner that is most understandable, efficient, and cost-effective. He reviewed a table showing for each county the population, number of real property parcels, number of mobile homes subject to taxes, and property tax software used to generate property tax statements. He said there are five commercial software applications currently in use and four counties have their own individually developed software applications. He reviewed a copy of a tax statement produced by the "Dakota Programs" system used in 22 counties.

Mr. Traynor said there are 15 primary entities authorized by law to levy property taxes. He said the number of taxing entities will complicate tax statements as required by the bill draft.

Mr. Traynor said an attachment to his testimony shows information from the Grand Forks County property tax web site. He said this is the direction the association hopes to see more counties pursue by implementing web-based tax payments systems. He said the Grand Forks County web site has 10 years of valuation and tax data plus detailed information on special assessments, property characteristics, and other information. Mr. Traynor said he hopes the attachments demonstrate that counties have collectively and individually worked through automation to improve the billing process for the property tax system.

Mr. Traynor said in asking opinions of county officials regarding the bill draft, most frequent questions related to the cost of programming changes, whether all 15 taxing entities must be shown on tax statements, how to handle property that has been subdivided since the previous tax year, and how to maintain the trend for tax statements to consolidate parcels for the same taxpayer on as few sheets as possible.

Mr. Traynor said addressing the technical and implementation questions would help greatly with the acceptance of the bill draft concept but the cost issue will remain to be dealt with.

Chairman Urlacher said it appears it would be appropriate for committee counsel to meet with concerned county officials to resolve some of the issues raised and make necessary revisions in the bill draft.

Representative Owens said he does not believe using true and full value of property will be confusing. He said that is the amount most people understand. He said using taxable valuation and a number of mills is incomprehensible to most taxpayers. He said the reason for this study is to provide information that most people can understand.

COMMITTEE DISCUSSION

Chairman Urlacher requested committee discussion on what committee members would like to consider and discuss at the next committee meeting.

Representative Mueller said the committee has reviewed a substantial amount of information about the necessary additional state funding to provide property tax relief. He said it might be useful for the committee to review tax revenue enhancement options.

Representative Haas said the committee has considered differentiation of agricultural land based on use. He said the committee should obtain more detail on how other states approach these classification and assessment issues.

Representative Hanson said nonresident ownership of property continues to be one of the critical issues in discussion of property tax relief. He said the survey conducted by the Tax Department received responses from only 29 counties. He said another attempt should be made to get more complete information from counties regarding nonresident property ownership.

Representative Herbel said the time for committee decisions is approaching. He said committee members should determine whether they would support 70-30, 65-35, 60-40, or other shares of state and local funding for education. He said committee members should decide what they believe is the necessary period of time to phase in the changes and how to generate the necessary revenue. He said the committee has received a great deal of information that should serve as background for these decisions.

Senator Wardner said he agrees with Representative Herbel and the committee should decide whether or not to proceed and how to formulate the components of any committee recommendation. He said it is important for committee members to remember that the new revenue needed is the "buydown" dollars shown on the information sheet he distributed to the committee. He said the "new" dollars reflect growth in the cost of education and these costs would be met from growth in the economy or other sources.

Representative Conrad said she has investigated information on other states that require a minimum property tax levy for education support. She said she would like information to be provided to the committee on the approaches used in these states.

Committee counsel said the tax revenue enhancement review suggested by Representative Mueller could include detailed review of exempt services and miscellaneous exemptions under the sales tax. He said it might also be useful to review the status of similar services and exemptions in South Dakota.

Committee counsel said the committee has reviewed the number of mills levied by school districts in the state. He said the committee has not looked in detail at statutory limits on school district property tax levies. He said information could be presented to review these statutory limitations.

Chairman Urlacher discussed potential dates for the next meeting with committee members. After general discussion, Chairman Urlacher said the apparent consensus is that May 30 would be the tentative date for the next meeting.

The meeting was adjourned at 3:45 p.m.

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John Walstad
Code Revisor

ATTACH:7