

1999 SENATE FINANCE AND TAXATION

SB 2387

1999 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 2387

Senate Finance and Taxation Committee

Conference Committee

Hearing Date 02/02/99

| Tape Number | Side A | Side B | Meter # |
|---|--------|--------|---------|
| 2,387 | x | | 0-5700 |
| | | | |
| | | | |
| Committee Clerk Signature <i>Anita Wald</i> | | | |

Minutes:

Sen Uarlacher opened to hearing on 2387, roll call taken-all present. A BILL RELATING TO PAYMENTS IN LIEU OF TAXES ON PROPERTY OWNED BY THE BOARD OF UNIV. & SCHOOL LANDS.

Sen Bowman - The intent of the original law, going back this land was set aside for schools. The 1889 Act, commonly known as the enabling Act. Grants section 16 in 36 of every townships to the States and this is the most important part of the directive. Support of the common schools, in each township and each county. It does not say to support the large populated areas. Over the years we have sold off, certain school lands. It enabled the school districts to put that on the tax base. Generate more revenue. The counties that have the school lands left, have to share their tax base with the rest of the State. We would have a fairness issue.

school districts based on population, to take the majority of the money, or are we going to start out with a level playing field?

Sen Stenehjem -How do we repay loss of land sold in the first place?

Sen Bowman-There is 2 levels that \$ goes into, based on population. and the population gives them the most back. They put that on their tax base and that brings in more revenue. A totally different approach of those who sold their land and of those who didn't sell the land.

Sen Stenehjem There are so many angles to this that it is hard to comprehend. Some of the school lands where the lease payments aren't so great, and some are producing good revenue off of it. The school that have more population will get more of the trust money.

Sen Bowman - Why do we allow the land that was sold, put all the \$ that generated from the tax base put in to that county, when we can take away that same revenue where the land is, from those counties.

Repr. Drovdal-Testimony submitted and attached.

Sen Solberg-If all land had been sold we would be back paying taxes. Property taxes go up and its the needs we have. This bill will redirect the money, back to the counties.

Mark Johnson NDACO Executive Director-Testimony submitted and attached.

Sen Christmann-Is this an average, 25 counties that you have chosen?

Mark Johnson- These are the significant ones.

Sen Stenehjem-I thought we were talking school lands, grasslands, nat'l grasslands, can you explain this?

Mark Johnson-We are not talking about Nat'l grasslands more of classification of lands.

Sen Bowman, helped us identify issues.

Opposition to bill 2387?

Bob Olheiser-Not here on opposition, Land Commissioner, Neutral testimony. The Land Board has not been able to discuss the merits of this specific bill you have in front of you. The Land Board has no official submission concerning the bill at this time. The Board consists of Gov. Schafer, Al Jaeger, Kathy Gilmore, Heidi Heitkamp, Dr. Sanstead. In the near future they will have an opportunity to discuss this issue, depending on what action you take here today. The fiscal note is that we are estimating that as it is written it would have an impact somewhere in 1 million 100 thousand \$. In shift of revenues from the common schools trust fund. Income that is disposable, goes to Dept. of Public Instr. There is category of revenue that is permanent trust fund money, that is never spent. Part of a current fund which is currently 450 million \$., not counting the land we manage. We deal with 2 forms of income, one is to distributed other is permanent trust fund money. We had to come up with an average number. Our best estimate. The retaining the integrity of the funds. The land granted to the state for schools is this appropriate to divert the funds, Constitution basically says no.

Sen. Kinnoin-Board scrutinizes this and last session we had a bill like it.

Wayne Sanstead-My roll on the Land Board has been to oppose these efforts to divert from Education, some of the funding that was dedicated to Educ. in the very beginning. We know that a fire was on the land, and we were asked to provide funds to help with giving money to help with the expense of the fire. We get into equity across the State, Fargo thinks they pay the greatest income tax that keeps the schools going inthe State of ND. The think the revenue is flowing westward. Think the tax burden is not equal. Long debates on this issue. Ilook at this at

Page 4
Senate Finance and Taxation Committee
Bill/Resolution Number sb 2387
Hearing Date 02/02/99

a \$9. loss per pupil. Other alternatives that we can look at. Not attack the funds, for their purposes.

Sen Christmann-Regular meeting of the Land Board?

Wayne Sanstead-May have to hold special meeting, because we just met last week.

Sen Urlacher closed the hearing.

DISCUSSION ON 02/03/99 TAPE 2 1720-3066 MOTION TO DO NOT PASS MADE BY SEN WARDNER SECONDED BY KROPLIN. 3 Y 4 N 0 ABSENT. 2ND VOTE, MOTION BY SEN SCHOBINGER TO DO PASS, SECONDED BY SEN. CHRISTMANN WAS 4Y - 3 N, AND 0 ABSENT.

FISCAL NOTE

(Return original and 10 copies)

Bill/Resolution No.: SB 2387 Amendment to: _____

Requested by Legislative Council Date of Request: 1-27-99

1. Please estimate the fiscal impact (in dollar amounts) of the above measure for state general or special funds, counties, cities, and school districts.

Narrative: As written, it is estimated that SB 2387 will result in a loss of approximately \$1,100,000 annually for the public schools of North Dakota (grades K-12). This is the Land Department's estimate of the total amount statewide that would be paid by the state's educational trusts if school trust lands were fully taxed as though they were in private ownership.

The projected distribution of this \$1,100,000 is listed below in the form of fiscal effect on counties, cities and school districts. The percent that we estimated for distribution to counties is 30%, to cities, 20% and to local school districts, 50%.

The Land Department would need an additional .25 FTE to administer SB 2387, if it became law.

2. State fiscal effect in dollar amounts:

| | 1997-99 Biennium | | 1999-2001 Biennium | | 2001-03 Biennium | |
|---------------|------------------|---------------|--------------------|---------------|------------------|---------------|
| | General Fund | Special Funds | General Fund | Special Funds | General Fund | Special Funds |
| Revenues: | 0 | 0 | 0 | 0 | 0 | 0 |
| Expenditures: | 0 | 0 | 0 | (\$2,200,000) | 0 | (\$2,200,000) |

What, if any, is the effect of this measure on the appropriation for your agency or department:

- a. For rest of 1997-99 biennium: 0
- b. For the 1999-2001 biennium: (\$15,960) Additional .25 FTE
- c. For the 2001-03 biennium: (\$16,438) Additional .25 FTE

4. County, City, and School District fiscal effect in dollar amounts:

| 1997-99 Biennium | | | 1999-2001 Biennium | | | 2001-03 Biennium | | |
|------------------|--------|------------------|---------------------|---------------------|-----------------------|---------------------|---------------------|-----------------------|
| Counties | Cities | School Districts | Counties | Cities | School Districts | Counties | Cities | School Districts |
| 0 | 0 | 0 | \$660,000 (@30%) | \$440,000 (@20%) | \$1,100,000 (@50%) | \$660,000 (@30%) | \$440,000 (@20%) | \$1,100,000 (@50%) |

If additional space is needed, attach a supplemental sheet.

Signed 

Typed Name Robert J. Olheiser

Department State Land Department

Phone Number 328-2800

Date Prepared: 1-31-99

Date: 2/3/99
 Roll Call Vote #: ①

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2387

Senate Senate Finance and Taxation Committee

Subcommittee on _____
 or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Not Pass

Motion Made By Wardner Seconded By Kroeplin

| Senators | Yes | No | Senators | Yes | No |
|--------------------|-----|----|----------|-----|----|
| SENATOR URLACHER | | ✓ | | | |
| SENATOR CHRISTMANN | | ✓ | | | |
| SENATOR SCHOBINGER | | ✓ | | | |
| SENATOR STENEHJEM | | ✓ | | | |
| SENATOR WARDNER | ✓ | | | | |
| SENATOR KINNOIN | ✓ | | | | |
| SENATOR KROEPLIN | ✓ | | | | |
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Total (Yes) 3 ~~4~~ No 4 ~~3~~

Absent _____

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:

Date: 2/3/99
Roll Call Vote #: 2

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2387

Senate Senate Finance and Taxation Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken No Pass

Motion Made By Sen. Schobinger Seconded By Sen Christmann

| Senators | Yes | No | Senators | Yes | No |
|--------------------|-----|----|----------|-----|----|
| SENATOR URLACHER | ✓ | | | | |
| SENATOR CHRISTMANN | ✓ | | | | |
| SENATOR SCHOBINGER | ✓ | | | | |
| SENATOR STENEHJEM | ✓ | | | | |
| SENATOR WARDNER | | ✓ | | | |
| SENATOR KINNOIN | | ✓ | | | |
| SENATOR KROEPLIN | | ✓ | | | |
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Total (Yes) 4 No 3

Absent _____

Floor Assignment Sen. Christmann

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)
February 4, 1999 4:27 p.m.

Module No: SR-23-1962
Carrier: Christmann
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2387: **Finance and Taxation Committee (Sen. Urlacher, Chairman)** recommends **DO PASS** (4 YEAS, 3 NAYS, 0 ABSENT AND NOT VOTING). SB 2387 was placed on the Eleventh order on the calendar.

1999 TESTIMONY

SB 2387

**TESTIMONY TO THE
SENATE FINANCE & TAXATION COMMITTEE**
Prepared February 2, 1999 by the
North Dakota Association of Counties
Mark Johnson, NDA Co Executive Director

Concerning Senate Bill No. 2387

Chairman Urlacher and members of the Finance and Taxation Committee, I am Mark Johnson, Executive Director of the North Dakota Association of Counties. I am here on behalf of North Dakota's counties to express our support for Senate Bill 2387, and the equity it provides to those school districts, counties, fire districts, and townships that contain large tracts of state grazing lands.

1722 Political subdivisions provide services for the benefit of those owning, leasing and living on all land in the state. Currently, taxes or "payments-in-lieu" of taxes, are paid on land owned or leased by the State Game and Fish Department; land owned by the North Dakota National Guard; land acquired by the State Land Board after January 1, 1980; cultivated State lands acquired before 1980, as well as, Federal Grassland; Fish and Wildlife Land; and other Federal property. State grazing land is the single largest category of government owned property that does not contribute directly to the cost of local schools, roads, social services, fire protection and other services.

1800
Counties plow and maintain the roads that service these lands. Local fire districts provide fire protection. County weed boards spray the noxious weeds in the road ditches boarding this land. The list of services provided is extensive, but the cost of these services are paid by neighboring landowners in increased property taxes on their land.

1855

Approximately \$2.2 million in revenue is generated by these exempt grazing lands. Currently, these funds are placed in the School Lands Trust Fund, which is distributed to all public schools throughout the state based on enrollment figures. Most of these grasslands exist in the western part of North Dakota, but the schools serving these areas receive only a fraction of the revenue generated by these lands. Current law creates an unfair distribution of these important funds. If Senate Bill 2387 is passed, the \$2.2 million would be split and a fairer distribution of these funds would result. The schools serving that land would benefit, and the counties, townships, and fire districts would also be better funded to respond to the needs of the people renting that land. 1930

An October 8, 1990 Attorney General's opinion stated that if the in-lieu of tax funds are used for services beneficial to grant lands, it is indeed Constitutional. Just as the Land Board has deemed it appropriate, and beneficial to grant lands, to use trust fund revenue for leasehold improvements, we believe it is appropriate and beneficial to those state lands to make payments-in-lieu of taxes for fire protection, road improvements and other essential services.

This is not an issue of gainers and losers of revenue, but of equity and investing in the long-term protection of these lands. Local governments are providing services to those leasing state land, basically by taxing other landowners to a greater degree. 2035

Mr. Chairman and committee members, this bill creates a fair distribution of this revenue and provides property tax relief to landowners in these grassland areas. On behalf of all 53 counties, I strongly urge you to return a "Do Pass" recommendation on Senate Bill 2387. 2038

*handout
by Mark Johnson*

C8-Feb-95

*funds generated
if Land is
placed on
Tax roll
\$*

| COUNTY | ACRES GRANT | STATE LAND | AVG TAKABLE VALUE PER SECTION | COUNTY LEVY | BY SECTION AVERAGE | | TOTAL LEVY | |
|-----------------------------|-------------|------------|-------------------------------|-------------|--------------------|--------------|------------|----------|
| | | | | | 1994 average | 1994 average | | |
| | | | Sections | | TOWNSHIP LEVY | SCHOOL LEVY | | |
| BILLINGS | 31,093 | | 48.6 | \$1,768 | 46.130 | 23.000 | 18.400 | 87.530 |
| BOWMAN | 29,310 | | 45.8 | \$3,273 | 103.260 | 21.630 | 148.590 | 273.480 |
| BURLEIGH | 27,921 | | 43.7 | \$4,170 | 82.640 | 18.770 | 208.110 | 309.520 |
| DIVIDE | 21,141 | | 33 | \$3,712 | 90.960 | 29.820 | 184.170 | 304.950 |
| DUNN | 26,122 | | 46.8 | \$3,359 | 91.340 | 32.580 | 176.320 | 300.240 |
| GOLDEN VALLEY | 28,971 | | 45.3 | \$2,443 | 117.010 | 27.870 | 166.350 | 311.230 |
| GRANT | 33,643 | | 52.6 | \$3,178 | 115.400 | 20.980 | 170.640 | 307.020 |
| KIDDER | 28,643 | | 44.8 | \$4,673 | 102.250 | 12.390 | 178.060 | 292.700 |
| MCHENRY | 23,344 | | 36.5 | \$3,758 | 89.680 | 23.310 | 181.050 | 294.040 |
| MCKENZIE | 64,714 | | 101.1 | \$3,193 | 41.990 | 13.330 | 123.200 | 278.520 |
| MCLEAN | 21,036 | | 32.9 | \$4,346 | 39.060 | 19.360 | 190.580 | 249.000 |
| MOUNTRAIL | 32,445 | | 50.7 | \$2,934 | 119.090 | 23.270 | 194.540 | 336.900 |
| SHERIDAN | 26,425 | | 41.3 | \$3,950 | 92.050 | 23.280 | 178.890 | 294.220 |
| SIOUX | 23,435 | | 36.6 | \$2,318 | 119.980 | 29.280 | 169.880 | 319.140 |
| SLOPE | 23,605 | | 36.9 | \$2,906 | 76.300 | 17.820 | 134.960 | 229.080 |
| WILLIAMS | 38,417 | | 60 | \$3,189 | 123.150 | 26.170 | 205.780 | 355.100 |
| AVERAGE | 30,017 | | 46.9 | \$3,323 | 90.643 | 22.679 | 164.345 | 277.667 |
| AVERAGE REVENUE PER SECTION | | | | | \$301.22 | \$75.36 | \$546.14 | \$922.72 |

*7520
40,995
56,403
37,255
41,147
34,443
51,322
61,276
40,332
57,628
35,602
50,115
47,997
27,225
24,560
67,945
43,270*

*These sixteen Counties
contain over 67% of
Grant Land in state
but only 22.2% of
school age population
Age 6-17*

| County | Acres State Grant Land | * Rent per Acre | * Paid to State as Land Rent | ** Received as Foundation Aid @ 26.31 per Student | Profit or (Loss) |
|---------------|---------------------------|--------------------|---------------------------------|---|---------------------|
| Billings | 31,093 | \$ 2.12 | \$ 65,980 | \$ 6,919 | \$(59,061) |
| Bowman | 29,310 | 2.97 | 87,059 | 19,285 | (67,774) |
| Burleigh | 27,921 | 6.98 | 195,043 | 298,302 | 103,259 |
| Divide | 21,141 | 4.06 | 85,896 | 11,365 | (74,531) |
| Dunn | 26,122 | 4.41 | 115,334 | 17,285 | (98,049) |
| Golden Valley | 28,971 | 1.79 | 52,099 | 11,339 | (40,760) |
| Grant | 33,643 | 5.93 | 199,798 | 14,838 | (184,960) |
| Kidder | 28,643 | 5.94 | 170,402 | 16,601 | (153,801) |
| McHenry | 23,344 | 5.98 | 139,764 | 33,308 | (106,456) |
| McKenzie | 64,714 | 2.48 | 160,581 | 39,807 | (120,774) |
| McLean | 21,036 | 5.84 | 123,562 | 62,302 | (61,260) |
| Mountrail | 32,445 | 4.55 | 123,843 | 42,780 | (81,063) |
| Sheridan | 26,425 | 5.59 | 147,770 | 6,393 | (141,373) |
| Sioux | 23,435 | 3.14 | 73,685 | 30,019 | (43,666) |
| Slope | 23,605 | 2.75 | 65,061 | 2,867 | (62,194) |
| Williams | 38,417 | 3.40 | 130,899 | 121,920 | (8,979) |
| Cass | 40 | .00 | 0 | 415,716 | 415,716 |
| Cavalier | 596 | 7.22 | 4,309 | 27,967 | 23,658 |
| Grand Forks | 2,073 | 4.07 | 8,450 | 318,140 | 309,690 |
| Richland | 513 | 6.26 | 3,214 | 80,192 | 76,978 |
| Rolette | 6,845 | 4.71 | 32,258 | 97,846 | 65,588 |
| Stark | 6,453 | 5.78 | 37,361 | 127,314 | 89,953 |
| Ward | 11,040 | 6.62 | 73,091 | 275,834 | 202,743 |

* July 1, 1993 to June 30, 1994 rental

** Based on 1991 - 1992 N.D. Educational Directory on Population over 5 and under 18

Total rent divided by student population = \$26.31 as Foundation Aid derived from land rental

TESTIMONY

Prepared by Representative David Drovdal ✓
Tuesday February 2, 1999

Chairman Urlacher and members of the Senate Finance and Taxation Committee. For the record my name is Representative David Drovdal from District 39 which includes McKenzie, Billings, Golden Valley, Slope and Bowman Counties.

SB2387 is an idea that you have most likely seen before, but whose time is right. It is a good neighbor bill, an equity bill, a bill to address responsibility. Our forefathers in their infinite wisdom established a plan to fund education in the creation of this state. They determined that two sections of each township would be set aside to help fund common schools. As education developed, that concept developed into funding education equally across the state by census with each student receiving the same amount. The state established the Board of University and School Land to administer the land and the trust fund for it. They have done their job well, but there is an inequity that persists in the formula. During early development some of the land was sold and put on local property tax to support local government and local education. A number of years ago it was decided by state policy that a moratorium be placed on the sale of state land. That has been lifted, but because of public outcry, there has been little or none of this land sold to the public. But that's not the point. 1028

Over the years, a policy has been developed in both Bismarck and Washington, D.C. that lands that belong to government or nonpublic organizations should pay their fair share of the cost to maintain the infrastructure of the area they are located in. For example, Bankhead Jones' land has an "in lieu of" for property tax, wildlife groups are required to pay an "in lieu of" fund before they can acquire agricultural land. BLM land rules require that local needs are given a priority in the application of the funding received by the State. 1087

It is time that state lands pay their fair share to support the infrastructure in the area in which they are located, at the same rate as private citizens. 1100

The last time this idea was discussed, the North Dakota State Land Department said they did not mind so much, because they would just raise the minimum bid required from the lease. I do not recall how many bids were for the minimum bid.

Page 2, February 2, 1999

SB2387

Representative David Drovdal

In today's society, we are finding many people owning land and renting it to operators. Some of them inherit the land, some purchase for investment, some have retired and use the rent income to live on and some have quit because of hard times. However, they hold the land as an investment. This has proven to help the farmers and ranchers that are still operating by making land available without a big investment. To require the school lands to pay their fair share is the same as having land owners, who do not live in the district of the land, pay property tax.

1199 I will use land that I have, as an example as to why this idea's time has come. I rent land that borders some state land in McKenzie County. I pay property tax on the land, but the price I charge for the rental is established by the state land across the road. In order to utilize the rented land, roads must be maintained, fire equipment must be available, ambulances, police departments and schools for the children for their tenants must be provided for. As a good neighbor, they must be required to take care of first things first and pay your dues in the townships that in which you are located. This should be the first order of business. After reviewing the fiscal rate, it is true that this would redirect some monies from one district to another. An example would be a district that the school land, which had been sold and put into private land, would lose some. Whereas a district that had land that was still controlled by the land department would receive some extra. Please remember that the property tax from the land that has been sold goes only to the district in which the land is located and not shared with other districts.

1276
1326 Thank you for your time and I ask for your favorable consideration on this bill. I would be glad to answer any questions.

Representative David Drovdal