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ROLL NUMBER

DESCRIPTION

1432

2001 HOUSE FINANCE AND TAXATION

HB 1432

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1432

House Finance and Taxation Committee

Conference Committee

Hearing Date February 5, 2001

Tape Number	Side A	Side B	Meter #
1	X		70
Committee Clerk Signature <i>Janice Stein</i>			

Minutes:

REP. AL CARLSON, CHAIRMAN Opened the hearing and read the fiscal note.

REP. ED LLOYD, DIST. 19 Introduced the bill as the prime sponsor. See attached written testimony, plus handouts relating to raising income tax instead of property tax.

REP. HERBEL Related to a handout, stating that statistics showed there were certain areas that are even far more disproportionate in the state of North Dakota, then there is on an average of the state, I happen to live in Walsh County, and Walsh and Pembina Counties are two of those counties that I represent, that are getting much harder than what that average is that you showed.

REP. LLOYD Stated, that on that same sheet, I calculated out that if you have seventy dollar per acre rent on land, if you took away the tax, which is seventeen dollars per acre, and take away about fifteen dollars worth of income tax, which is a twenty eight percent rate, forty six percent of the money he earned, goes to taxes, not counting FICA and any other taxes he might have to pay.

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REP. TOM BRUSEGAARD, DIST. 19, Testified in support of the bill as a sponsor of the bill.

He felt this is a fairness issue. He related back to when he was in college they taught him two ways to evaluate taxes, benefits received and ability to pay. Property tax funding, in the context of education, meets neither of these standards. On the ability to pay standard, the amount of land owned by a patron of the school district, bears absolutely no relationship on his ability to pay taxes, especially in the last ten years. Generally, more land means more debt. In a rural school district, it is not at all unusual for over sixty to seventy percent of the kids to come from non farm families, this is in Gilby, which is a farming community. When I go home, this is the number one issue I hear. We need to fix this problem. Gave an example of a non farm family with three children who owns a nice house in Gilby, will pay about six hundred and fifty dollars to the education of their children. A farm family with a thousand acres, which is a small farmer, will pay sixty five hundred for the same education. There is something wrong here.

REP. WINRICH I agree with two of the premises, one is that property taxes are too high and the other, that income taxes are very low in this state and could well be raised. I am not sure I agree with the third premise that sales taxes are also low and could be raised. Particularly in some of our major cities, where the cities themselves, have been forced to raise taxes to avoid increasing property taxes even more. Did you consider the possibility of not raising sales taxes and just doing the income taxes?

REP. BRUSEGAARD Obviously, that was an option. Having a high rate of sales tax across the river such as East Grand Forks, is something that legislators need to be concerned about. That opens up another can of worms, at dropping that down.

REP. LLOYD Responded to the question also, I wanted to mix taxes, but I am not so much for taxing cigarettes and alcohol and that type of thing for education. Yes, we have a problem with sales taxes. That was probably a mistake by the legislature several years ago, because at that time, we should have done something like this to fix it. I am not sure that that shouldn't still be used to manipulate the input to adjust it.

REP. KROEBER Did the interim tax education committee look at this or any other proposal seriously as to what to do about this problem?

REP. LLOYD I am unaware of what they exactly looked at. They did not look at this particular proposal.

REP. CARLSON In my experience in the legislature, I am nervous about someone stating a fairness issue. In my experience, they are taking something that I have and giving it to somebody else. This is redistributing wealth. I will go back to one of Rep. Lloyd's comments, about the fairness issue, then the second one, is the monies will be distributed on the same scale as previously used. We hear every day, the problem with equity of education funding, the need for consolidation, survivable districts, but yet, we are establishing a program here whose main focus is to put the money back exactly the way it was before, that everybody said was too expensive. What are we fixing?

REP. BRUSEGAARD From my perspective, if we quit using property taxes for a funding mechanism, we eliminate the need for a mill levy deduct. So while they are receiving a dollar for dollar replacement of their property money, the money they get from the state which is the foundation aid program, which this bill doesn't touch, will change and go out on a more fair basis.

REP. CARLSON We have about five bills in this committee which deal with various levels of making sure a farmstead or farm residence is not taxed, now we are removing the land tax, but yet, we are still not addressing the issue of residents, whereas, everyone of the rest of us, who live in a residence, will still pay tax, how do you address that issue?

REP. BRUSEGAARD We are not eliminating the land tax. We are reducing the general fund, the education portion of it. If we fix the problem, I would guarantee you, you wouldn't see sideline bills that are just taking a little chink out of the armour. Without a doubt, the other bill I introduced, that is exactly what it was.

REP. DROYDAL One of the comments I know I will hear when I get home, is, if we pass these taxes and replace property taxes, what is to keep the local entities to turn around and raise property taxes up again?

REP. BRUSEGAARD The dead cat bounces, if you drop anything from high enough, it is bound to bounce back up again. If you go across the river in Minnesota, they have reformed their property tax structure four times in the last twenty years, and it keeps coming back up. This bill, as I understand it, eliminates the statutory authority for school districts to tax for the general fund. This is not reform, it is repeal.

REP. CARLSON We have another bill before us which is taking the used farm equipment and farm parts, and removing the sales tax from the farm side of the issue. I am a builder, I buy a bobcat, I pay full sales tax, I go to get it fixed, I pay full parts, but on the other side of the equation, it may well be merited, but when we talk about fairness in equity, on a hundred thousand dollar house, it will cost my homebuyer two thousand dollars more in sales tax on that house. How do I go home and tell my customer, because I am going to pass it along.

REP. LLOYD Answered, stating this bill is not the problem. The problem is we have failed to address this issue as much as fifteen years ago. We had these other incidental type things occurring here and there. As far as I am concerned, if you reduce the property tax for the farmers, by fifty percent on all of their property, they should be paying on their house. There is no way we can address all of this in such a small bill as this.

REP. CARLSON That is why I brought up the issue of school funding, this isn't a little tiny issue. It is a great big issue. If this were to pass, and there is a nine percent sales tax on items in the city of Fargo, let me tell you, there would be some screaming and hollaring and knashing of teeth. Questioned some of the numbers which were used on the fiscal note..

REP. LLOYD Stated the fiscal note is outdated. The fiscal note I presented is four hundred seventy two on one side and four hundred seventy seven on the other, for a five million dollar difference.

REP. HERBEL Addressed one of the issues Rep. Carlson brought up, whereby, he was in business at one time, the cost of his sale went up, he was able to raise the price of the product he had and passed it on to the customer. Unfortunately, Rep. Lloyd can't raise the price of his beef, because it doesn't work that way in the farm business. So, there is a distinction between those two.

REP. CARLSON We have heard many types of bills. We have heard some that freeze property taxes, directed to the methodology of how land is valued.

REP. OLE AARSVOLD. Testified in support of the bill as a co-sponsor of the bill. He submitted and addressed handouts relating to tax dollars paid for the current years in Trail County, and per capita comparisons of individual income tax collections. He related to situations

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in 1970. He correlated stocks in the DOW versus land values. He stated we are using biblical evaluations such as using property as a measure of wealth. I think it is time we bring school finance into the twentieth century before the twenty first century is over.

REP. CARLSON In your district as your land has increased in taxable value, has your county lowered the mill levy at all?

REP. AARSVOLD Generally, I would say the increase in value has kept the schools at a par, by levying the same number of mills, they have been able to meet the inflating costs that they face. A bigger problem is, our inability as a legislature to provide foundation aid payment to offset those inflationary costs they have experienced, and also, declining enrollment.

REP. CARLSON In the last five years, has land sold for more value than it did five years prior?

REP. AARSVOLD In my observation, land in Trail County, is worth less than it was five years ago.

REP. CARLSON It would be interesting to see what the market has done.

REP. AARSVOLD My position is, we must tax whatever revenue source based on its ability to pay that tax. It seems in this day and age, we are using an outmoded tax structure to fund.

REP. RENNERFELDT How many school districts do you have in your political district?

REP. AARSVOLD Far fewer than we had when I came to the legislature twelve years ago. I believe we still have six operating school districts, and I think when I came in, we had eleven.

REP. WINRICH We obviously have a lot of problems with our tax system. I don't think anyone is happy with it. I wonder if we as committee members and as bill sponsors, might think of the possibility of combining some of these bills we have before us, maybe even to the point of

