

# MICROFILM DIVIDER

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*Dennis Hall*  
Operator's Signature

10/3/03  
Date

2003 HOUSE FINANCE AND TAXATION

HB 1381

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2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1381

House Finance and Taxation Committee

Conference Committee

Hearing Date January 28, 2003

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

Minutes:

**REP. WESLEY BELTER, CHAIRMAN** Called the hearing to order.

**REP. LONNY WINRICH, DIST. 18.** Introduced the bill. See attached written testimony plus income tax ranges for North Dakota and various other states. Also attached is a copy of "Matters at Hand: Musings of a tax crank".

**REP. BELTER** When you say the bill is revenue neutral, you are saying there should be a decrease in property tax, equivalent to the revenue raise here?

**REP. WINRICH** Yes

**REP. WEILER** Stated there would be a guarantee that the income taxes would go up, but there is no guarantee that property taxes would go down?

**REP. WINRICH** That is correct. That is an important consideration. In thinking about this bill and trying to figure out what to do with it when I put it in, I had to come to the conclusion that the record of the legislature in attempting to control property taxes across the state, has not

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been a record of great success. We have levy limits on almost all of the local subdivisions. Gave an example of the counties whose general levy limit right now is 34 mills. If you look at the testimony which was submitted in connection with the consolidation of county mill levies, a bill we heard earlier, twenty three of our fifty three counties are already over that 34 mills. They assessed mill rates in excess of the normal limit. In the bill concerning the three school districts in Richland County, which we heard earlier, one of those school districts is over the normal 185 mill limit. The levy limits have continually demanded attention from the legislature to grant special exemptions. We have a number of counties and school districts that have given those exemptions and simply, don't live within the statutory levy limit. We need to recognize that there has to be a cooperative effort between the state and the local subdivisions. I view this bill as a sort of, tentative first step in that direction. If the school districts respond, as I think we have told them they should, in this bill, and reduce property taxes accordingly, then, I think there is some chance for success. If property taxes remain at the same level, then I suspect in two years, the legislature will retaliate and we will have tried and failed. I think that is better than not trying at all. We have to depend on the judgement of these local governing officials to act responsibly, within the authority granted under the constitution and the statutes.

**REP. OLE AARSVOLD, DIST. 20**, Testified in support as a co-sponsor of the bill. He stated he served fifteen years on the school board and sixteen years in this legislature, and has had a chance to follow the income tax structure as a state, and the property tax structure locally. He stated there was a time when that tax structure was progressive and equitable. He submitted a handout which illustrates two tax paying families. See copy attached. The tax comparisons were related to two families from the same school districts which have comparable incomes, however,

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they have different assets. Note the difference in property tax obligations. The mill levies were left out, because we don't pay taxes with mill levies, we pay them with dollars.

**REP. GROSZ TO REP. WINRICH** Stated that Minnesota had tried this a couple of years ago, and wondered if anyone knew what the results of that was.

**REP. WINRICH** Stated that he had heard from people in East Grand Forks, that there had been, in the past, a comprehensive system in Minnesota. His understanding from the news stories is that the new governor is retreating from that position. He stated he did not know any direct results from the previous program. He stated the conventional wisdom of cities on the eastern border of North Dakota, is that if you have a relatively high income, relative to the size house that you need, or something like that, possibly all the children are gone, don't need a very big house or anything, those people are better off in North Dakota, because the income taxes are so low, but the property taxes are relatively high. If you are in the opposite situation and you have a lot of children, need a big house, lots of property, but have relatively low income, in your middle years, then you are better off in Minnesota, because you get a much better property tax break there.

**SANDY CLARK, REPRESENTING THE NORTH DAKOTA FARM BUREAU** Testified in support of the bill. The farm bureau vigorously supports the passage and concept of this bill. This bill will go a long ways to provide actual funding education through a combination of property taxes and income taxes. At one time, property represented wealth. That is no longer true today. We no longer have the same basis we had several years ago when the funding mechanism was put into place. School districts receive the largest share of property taxes and ag landowners do pay the largest share of property taxes, consequently, farmers and ranchers carry

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the greatest share of the school tax burden. We talk about where the property is, maybe we should be talking about, where the income is. By and large, those schools districts with high valuations and high property taxes, have fewer students and less gross income. At the same time, the majority of the students are located in the urban areas that have less property but have higher income levels. Along with this philosophy, you eliminate the mill levy deduct. We realize that equity and equality are two different things, however, we have spent a long time crying about equity in the distribution of funding for education, but this bill does address the real problem of providing equality in where the funds are generated.

**REP. WEILER** I understand this is supposed to be a revenue neutral bill, with \$95,000 increase in property taxes, would you feel similar about this bill, if it forced the property taxes to go down, but we said we don't know if the income taxes will go up?

**SANDY CLARK** We would be very happy to see property taxes go down. On the other hand, where would this funding come from if not from some mechanism.

**GRANT JOHNSON, FARMER, FROM ALMONT, ND** Testified in support of the bill. See attached written testimony.

**DEAN BARD ON BEHALF OF NORTH DAKOTA SMALL ORGANIZED SCHOOLS**

Testified in support of the bill. Submitted a handout titled "Legislative Program 2003", see attached copy. North Dakota school districts rely heavily on the property taxes for income. This has been manifested in a number of different ways. The recent court case which dealt with the question of whether or not our method of funding education was constitutional or not, is the evidence of that fact. Related to the handout regarding taxation and funding, it is their belief that seventy percent of the cost of education should be met by a foundation aid program. That has

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continually slid downwards, until we are down to forty six or forty seven percent now. The remainder has to come from other sources, which includes local taxation. There are situations where school districts exceed the 185 mill levy requirement, and they do that through either the specified levy or an unlimited levy. It is done legally, but if it becomes hurtful, it is the surrounding community's concern. It has been our intent for a long time, that other types of methods of exacting taxes should be brought into the mix. We should be looking at the matter of wealth, as it pertains to income. The the back page of the pamphlet, we have adopted something that deals with that. This bill would bring us closer to that type of system.

**REP. IVERSON** I am concerned what you mean about wealth, are you talking about raiding 401 K's?

**DEAN BARD** Oh no, 401 K's are exempt. It deals with income. We have differences with different areas of the state where there are large sources of income, generally, that is in the more settled areas of our state, as opposed to the rural areas, where we don't have that kind of income. That is why, all kinds of income should be brought into the picture.

**REP. HEADLAND** Without language specifically directing school districts to offset their increase in foundation aid for property taxes, do you see the school district that might be up against the limit today, lowering their property taxes, to make this offset even, when they probably have more wants then needs in their school?

**DEAN BARD** As I read the bill, that thought came to mind. Yes, there are instances where that could happen. That certainly is not what the bill contemplates taking place though. If you are concerned about that, you could put language in that would correct that. Make sure the money is filtered back to the patrons of that district.

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**NANCY SAND, REPRESENTING THE NORTH DAKOTA EDUCATION**

**ASSOCIATION**, Testified in support of the bill. She stated they have supported measures that would provide more of a responsibility at the state level for funding education. For that reason, they are in support of the bill. In the early 80's, there were measures relating to that. At that time, the state support for education turned to foundation aid, and tuition apportionment, in particular, that has dropped considerably since that time. The burden has been placed on the local tax dollars. There is a difference on that evaluation across the state. There is some indication, if there isn't some action in this legislature, that there may be another lawsuit. I don't know what the outcome of that would be, but perhaps, a bill like this, would indicate that there is some type of legislation to equalize the burden throughout the state.

**REP. GROSZ** Have you or your organization done a trend analysis on the number of students that are enrolled in our public institutions compared to the increase in property taxes?

**NANCY SAND** I want to say no, because I don't understand your question or the purpose behind it.

**REP. GROSZ** I am looking at this from a different perspective. I am looking at the expense side. Is there a way we could control it from the other side. I believe foundation aid payments have gone up every year, property taxes have gone up every year, and our student population has decreased, I am looking at that side of the equation.

**NANCY SAND** The last legislature did make a bold move in trying to make some adjustments. Foundation aid goes out based on the number of students. If your student enrollment goes down, even though there may be an increase in foundation aid, at some places, because of the trend of enrollment, the reverse would be true if the enrollment goes up, however, there is a factor that we



