

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

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ROLL NUMBER

DESCRIPTION

1441

2007 HOUSE EDUCATION

HB 1441

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1441

House Education Committee

Check here for Conference Committee

Hearing Date: 31 January 2007

Recorder Job Number: 2393

Committee Clerk Signature

Jan Prindle

Minutes

Representative Merle Boucher, District 9, introduced the bill. (Testimony Attached.)

Representative Haas: It is hard to understand the how this could provide permanent property tax relief if it is permissive. The bill does nothing if there is property tax relief to restrict or reduce the school district's ability to put property tax back on as it is now or higher.

Representative Boucher: I have looked at number of the property tax relief bills that are out there at the present time and I review them, I call them loss leader bills. The initiatives that I have seen thus far are nothing more than dollar for dollar replacement bills. They come with a lot of strings attached because it leaves the school districts with a flat budget. They also come with strings attached in terms of caps and other types of restrictions. All of these bills are set up as two years at a time from there on is the big question is the legislature going to continue to support them and there are going to be the financial resources to move forward with them. They will have to go back to the public to address their financial needs. The reason we have the property tax dilemma that we have today is that the state contribution to public education proportionally decreased and local school districts were compelled to increase levies to balance their budgets. This approach is sustainable, flexible and allows the local school boards to make those decisions. I will take you through the steps and charts to

show what we're doing here and what we are accomplishing. He went through a chart that is attached to his testimony.

Representative Herbel: In any tax relief, there has to be accountability; if we make this permissive, I don't see that would be there.

Representative Boucher: One of the reasons property taxes have been levied is to fund gaps in the budget. So if the state steps to the plate and puts an adequate amount of dollars into the local school budget they should not have to go back and get those dollars from property taxes. So the immediate effect would be to at least hold taxes where they exist.

Representative Herbel: With us dealing with the school funding formula and that we are talking there and the property tax is the product of not funding schools, the funding has to go directly to the schools and the accountability has to be there. If you get a chance to look at the interim committee bill that's how it goes. If we tie those things together that makes the most sense to me.

Representative Boucher: That's what makes sense about what I put before you today. It gives them discretionary ability to make their own adjustments and deal with their own needs. We have the same people who elected us that elected their school boards. They trust us; I anticipate they trust them.

Representative Johnson: One of the concerns I have is that looking at the numbers in the Governor's proposed budget, he had \$80.0 million \$116.0 million for tax relief. Your numbers are about the same. Coming from one of those districts that are involved in this law suit, it appears to me it's not necessarily the money, it's the distribution. With you proposal, how does this address the distribution?

Representative Boucher: We probably haven't resolved the law suit issue. If we put in adequate dollars to fund their needs so they could maintain a handle on local property tax

levies but putting state dollars into their budgets at an adequate amount you would resolve a lot of those concerns.

Chairman Kelsch: There are no losers in the formula that is proposed in SB 2200. Everyone is guaranteed money because of the hold harmless of the bill. Some of those school districts need to go back and look at their history and look at the luxuries they have enjoyed over the years at the expense of other school districts. To just throw \$195.0 million at the school districts and say that is equity, we are not addressing other issues such as special ed, such as ELL, such as transportation. There are a lot of issues that need to be addressed when we just throw money at school districts. This does not have very much thought put into it.

Representative Haas: It sounds to me that you believe that if we really want to change the cost of education as to what the locals put up and what the state puts up, you believe we should pour enough money into it so that those percentages change. At the same time you told us that letting it being discretionary in how they use it is going to provide property tax relief. It may or may not. If assume that if a school board doesn't use their 30% for property tax relief and to say that it is still going to provide tax relief is a fallacy. What really happens is that the taxable value goes and if the district leaves their mil rate the same, property taxes go up. Did it ever occur to you that the real reason for dollar for dollar tax relief is to give property tax relief and to put in some controls to prevent taxes from returning to their former levels?

Representative Boucher: You make a good point. We can cap the mils and as evaluations go up as a property owner, I am going to see increases in my taxes. Property tax relief is not going to be obtained by simply capping the mils. If we don't adequately fund the state dollars they are going to have live and exist on the increase of the values.

Nick Whitman, executive director, NDEA, testified in favor of the bill. In reviewing the files in my office, the NDEA is not stranger to testifying in front of this committee to request

appropriation to support public education in the state. Recently we are focusing on a three legged campaign: fair and appropriate taxation, economic development and appropriate funding, and the school system. We believe that message has resonated with the public. Seventy five percent of the citizens of the state have indicated that they would support the state taking on a greater role in providing public education. We are pleased that that message has resonated through the halls of this legislature and we are seeing a number of positive education bills dealing with after school programs, kindergarten, pre-school programs, and similar. We have seen appropriation bills submitted by both political parties. Those entire efforts hinge on one thing and that is appropriate funding for public education. One of the things I found in our files was a study that was commissioned by the state indicated the appropriate level of funding to maintain the public school system was \$195.0 - \$200.0 million per year, not the biennium. This bill before you today comes the closest to doing that and certainly would provide some measure of much needed funds to our school districts across the state.

Representative Herbel: You say in your testimony that funding for education has declined. In constant dollars—explain what that means. Since I've been here, we have increased foundation aide by \$1800 per student.

Whitman: If you take into account cost of living and inflation in terms of looking at dollars that way, there has been an overall decline of 2%. It's not that there was a dollar to dollar decrease, but it has not kept up with the cost of living.

Bev Neilson, ND School Board Association, testified in favor of the bill. We are in support of the funding level indicated in this bill. That \$195.0 total that you have been talking about has about been settled on. From our perspective, rather than give direct aid to schools in a smaller amount the property tax relief in the larger amount. We would like to see it the other

way around. This comes closer to an adequate need type of funding. We also believe that when we reach adequate funding that reliance on property tax will diminish. It seems premature to invest so much money in property tax relief before we have done the adequacy study and decided what an adequate level of funding from the state would be. If we wait until next session and \$116.0 or more million has been committed to property tax relief and we want \$100.0 for adequacy that money has already been given out in property tax relief. We think \$195.0 million should go in direct aid to school and that property tax relief should be funded once the schools are adequately funded.

Chairman Kelsch: How would your association feel if we put \$195.0 million into education straight across the board? My guess is no property relief would go in. Per pupil payments would go up to \$5000 the first year and \$5200 the next year. We would come back the next time and we have not enjoyed the luxury of a large budget surplus and we have to come back and say we cannot sustain it. Guess what school districts, now you take a cut.

Nielson: You bring up a good issue. Sustainability is one of the concerns we have as well. Whether you give it to the school or in property tax relief, it needs to be sustainable. If it is not and there is a mil cap, we are going to be in a tough position too. What we want is that whatever we agree on, it must be sustainable and we would like that money to go to direct aid to schools.

Dean Bard, ND Small Organized Schools, testified in favor of the bill. I don't have a lot to say about this bill. The concept is pretty simple. We think it's a good result. Property tax relief has finally begun to be talked about regularly here in this legislative session. If school boards have the opportunity to give tax relief, they will. As to the 30% being voluntary, there is a possibility that some districts are not going to be able to put that full amount back in tax relief because as the percentage of state dollars to education has slid downward, we have

some pent up financial needs on the part of districts. For the most part this comes from teachers' salaries and they cannot give any salary increase. My thought is that districts only go to local taxpayers for money when they don't get it from the state. When you say that everybody gains under SB 2200, that is right; but some only gain a little bit. That is not in the best interest of a lot of the districts that I represent.

Doug Johnson, ND Council of Educational Leaders, testified in support of the bill. We have a resolution that says we would like the state to support 70% of the statutory cost of education with 30% coming from the local districts. This bill heads us toward that level. Sustainability is an issue and must be resolved. I consider this to be an adequacy payment more than anything else. Property tax relief is a provided option and I think school boards are sensitive to that issue.

Representative Herbel: Did you follow 2200 through the senate? Didn't that bill go 60/40 and do better than this one? It still gave more money from the state than this bill.

Johnson: Yes, it did do that. It was shift in the process but it did not give any additional new dollars. Yes, it does.

Representative Haas: Do you really believe that the state is going to funnel \$195.0 million to education without putting some restrictions on it and with out reducing property taxes dollar for dollar and then trying to control the escalation of property taxes?

Johnson: That's hard for me to say. That's something that has to be wrestled with.

Representative Haas: The dilemma the legislature faces is that education, including school boards and educational organizations, are reluctant to accept anything except more money into the program without any restrictions on anything else. In the last session, we presented a bill that would have increased funding by \$285.0 over the biennium. It would have implemented a full adequacy based formula and it would have reduced the GF levy to 80 mil

and the educational community couldn't accept that because that because it was a reduction in their ability to raise taxes at the local level. How do you expect to have it both ways?

Johnson: We supported that bill because you did have some provisions for increase on the other side of it.

Representative Mueller: We have referenced \$116.0 million in the Governor's budget as tax relief, can you tell us are there any strings attached to that reduction?

Johnson: I don't think there are strings attached. It's a dollar for dollar trade. It has a sunset clause and is only for the surplus dollars that are in our budget.

Representative Mueller: Everyone is pretty okay with the \$85.0 million. There's \$116.0 million on top of that. Do you see any difference in what we have proposed and what this bill tries to do?

Johnson: I think the difference between the two is this one is optional property tax relief and the other is mandatory.

Chairman Kelsch: You sat at the table for a year as part of the educational improvement commission and during that time the focus of that commission was on equity. In conversations we said it would have been great if we could have addressed adequacy; however, we had a difficult enough time trying to address equity. It is my belief and I believe the belief of many others in the state that it turned out to be a very fine product. The reason it worked so well is because we superintendents, special interest groups, legislators, and everyone working together across the table from each other in an open forum. We realized that adequacy was probably going to be as difficult, if not more, because there are so many components to adequate. Are we putting the cart before the horse when we have a state have not even defined what an adequate education is for every child in our state? We need to address it deliberately. But now it is okay??

Johnson: You are right we need to look at adequacy and there is not denying that. One of the things is that we do have a resolution that supports that 70/30% cost of education. That's what I base my testimony on today. We realize that the dollars have to be sustainable and that discussion needs to be carried on by the legislature. We would like to have more dollars there is no doubt about it. Any place we can do that it is our obligation to do that.

Dave Wisthoff, superintendent, Glenburn Public School, testified in favor of the bill. It is beneficial to our school. Last year we deficit spent \$91.0 and this year we're looking at \$105.0 deficit. We raised our taxes 18% last year and we're going to have to raise them another 18% this year. We cut out an administrator to try to save some money. We have made efforts to make AYP, that's a concern for all of our schools. We don't want to cut back on some of the things we have done that provided better education for our students but we are in that situation right now. Under printed form of the new so-called equity bill we stand to gain \$20.0 in new money. That's just not going to do it for us. We will receive \$80 per WPU. Another school in our area will receive \$1100 per WPU. We fail to see the equity in that. In the last two years we lost 3 teachers to a larger school district and they received \$5.0 – \$7.0 more pay by going to that district. We need to raise our wages if we are going to keep our teachers. \$20.0 is not going to allow us to do that.

Representative Haas: After two consecutive years of 18% increases, where is your mil rate?

Listoff: We're at 147 now and will add \$18% to that.

Solberg: You mentioned a difference of \$80 as opposed to \$1100. Was that a larger school?

Listoff: It's larger, but not much.

Representative Herbel: After you raise the mil, how much will you deficit spend.

Listoff: We fluctuate. We receive impact aid. Three years ago it was \$304.0 and last year it was \$167.0 and we have fewer students projected for next year. You never are for sure what

you're going to get with impact aid. Or school is approximately 50% or military related. If they live on base, their value is 1. If they live off the base, their value is .05. The majority we have do not live on the base.

Representative Herbel: Is the nearest school to you that you could do some cooperative work with?

Listoff: Minot—about 25 miles.

Representative Haas: I know you are new in the district but has your school board had any conversations with neighboring districts with the possibility of consolidation or reorganization?

Listoff: We were in a consolidation process. When the study was done and it showed that there would be no cost savings whatsoever to do that. Our district would have extended about 70 miles. We were in the process for a time but as the information came out there was no advantage.

There was no further testimony and Chairman Kelsch closed the hearing.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. **HB 1441**

House Education Committee

Check here for Conference Committee

Hearing Date: **31 January 2007**

Recorder Job Number: **2845**

Committee Clerk Signature

Jan Prindle

Minutes

Chairman Kelsch opened discussion of HB 1441.

Representative Hunsakor: My name is on this bill because we very much need more funding for education.

Representative Solberg: I visited with several administrators and they agree this is not overly complicated but a gallant effort to help schools and provide tax relief. I will vote for it.

Representative Johnson: This cannot work if the formula is not addressed. I will resist.

Representative Haas: We have been working on a comprehensive funding bill for two years. This particular bill will not work.

Representative Mueller: My sense is that SB 2200 will become law, but there is nothing to preclude running this through that formula.

Representative Herbel: The funding reform must have guaranteed tax relief. It cannot be permissive.

Vice Chairman Meier: I am concerned about sustainability. What if we have a drop next session?

Representative Solberg: In our briefing on SB 2200, they mentioned tax relief.

Chairman Kelsch: SB 2200 does not have property tax relief. We were to come up with an equity package. I believe they are talking about a separate bill—the property tax relief bill.

Representative Haas: This bill is way too vague in the way the funds are to be distributed.

If we were to pass it today, it would go through the current funding formula.

Representative Mueller: The old way of doing business is going away and that is good.

This does not tie them down to a formula. Equity is the issue but this bill also speaks to adequacy to some extent.

Chairman Kelsch: Today there is no definition of adequacy. To just throw money at it—I'm not sure that gets the job done. Getting to adequacy is going to be a much more difficult job and larger task than anyone expected.

Representative Haas: I move **Do Not Pass**

Representative Sukut: I Second.

A roll call vote was taken: I Second.

A roll call vote was taken: **Yes: 8, No: 5, Absent: 0**

Chairman Kelsch will carry the bill.

Date: 31 Jan 07
Roll Call Vote #: 1

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. 1441

House Education Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Not Pass

Motion Made By Haas Seconded By Sukat

Representatives	Yes	No	Representatives	Yes	No
Chairman Kelsch	✓		Rep Hanson		✓
V Chairman Meier	✓		Rep Hunskor		✓
Rep Haas	✓		Rep Mueller		✓
Rep Herbel	✓		Rep Myxter		✓
Rep Johnson	✓		Rep Solberg		✓
Rep Karls	✓				
Rep Sukat	✓				
Rep Wall	✓				

Total Yes 8 No 5

Absent 0

Floor Assignment Kelsch

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

REPORT OF STANDING COMMITTEE

HB 1441: Education Committee (Rep. R. Kelsch, Chairman) recommends DO NOT PASS
(8 YEAS, 5 NAYS, 0 ABSENT AND NOT VOTING). HB 1441 was placed on the
Eleventh order on the calendar.

2007 TESTIMONY

HB 1441

HB 1441
31 Jan 07

Boucher

**HB 1441 TESTIMONY
HOUSE EDUCATION COMMITTEE
CHAIRPERSON – REPRESENTATIVE RAEANN KELSCH**

Historically, North Dakotan's have believed that education is a key factor in personal, family and community growth.

State and local community leaders made certain that schools were appropriately and conveniently located throughout the state. In addition, collaborative state and local community funding responsibilities evolved. The state legislature appropriates tax monies from general and special fund sources and local community school boards procure funds from property tax levies. These collective resource dollars are used to finance the cost of K-12 public education.

Unfortunately, over the past couple of decades an ever increasing amount of educational funding responsibility has fallen upon the local school districts. During that span of time, the state's share of the education funding equation has fallen by about 30 percent, while the local communities' share has increased by about 190 percent.

Shifting more of the cost of school funding to our local communities has resulted in a sharp increase in mill levies and local property tax bills. It is an issue that citizens and taxpayers have voiced their concerns about for sometime.

It has become more obvious that citizen's disenchantment with the current property tax situation is increasing. Though they have been quite vocal about their concerns regarding growing property tax levies; North Dakotan's still strongly support their role (both in a state and local capacity) in the funding of public education. Their feelings were significantly confirmed by opinion polls that were conducted during the 2006 election campaign. Those who were surveyed consistently stated that an adequate investment in K-12 education was their number one concern.

Polls indicated that support ran as high as 75 to 80 percent in favor of the Legislature increasing the state's share of overall education funding. Both political parties made K-12 education funding and property taxes key issues in their past campaign.

Today I am setting forth a recommended investment plan for K-12 education and a local community property tax reduction strategy. I will succinctly refer to the plan as the "70-30 initiative."

This simple plan (a one page bill) directs the Legislature to invest 195 million new dollars, during the next two years in K-12 education. This investment is broken out in the following way:

1. Directs our schools to put 70% of their new money in educational instruction and services. References to services are intended to put focus on special education costs.
2. Gives schools the discretionary ability to direct up to 30% of their new money into property tax replacement (relief).
3. The school board has the discretion of putting any amount of the 30% portion into educational instruction and services if they agree to do so.

The proceeds from the "70-30 initiative" would be disbursed to the local school districts through the existing (present) funding formula, or a formula approved by the legislature. The bill does not express support for or opposition against any funding formula plan.

The "70-30 initiative" is a direct investment in educational instruction and services and is a responsible approach to addressing property tax relief. Supporters believe, what the citizens have told us regarding their wishes for K-12 public school investment, and their concerns about growing local property tax levies. I am confident that this is what they were asking us to do, and it is my belief it is the right thing to do.

Respectfully submitted:

Merle Boucher, Minority Leader
North Dakota House of Representatives

Additional \$195 million invested in K-12 education, of which, a minimum of 70% must be invested in direct education. The remaining balance the local school board has the discretionary authority to apply to direct property tax relief.

BREAKOUT OF THE \$195,000,000

70% education	\$136,500,000
30% discretionary tax relief	58,500,000
TOTAL INVESTMENT	\$195,000,000

Assuming the 30% is used as property tax relief and plugging the numbers into DPI's 2008-2009 projections.

PERCENT OF CONTRIBUTION:

	LOCAL	STATE	TOTAL
	53%	<u>47%</u>	
Property Tax Adjustment:	\$688,000,000	\$618,000,000	\$1,306,000,000
	<u>58,500,000</u>	<u>58,500,000</u>	
Subtotals:	\$629,500,000	\$676,500,000	= \$1,306,000,000
	48%	<u>52%</u>	
<u>PLUG IN NEW CLASSROOM MONEY</u>		<u>\$136,500,000</u>	
Subtotal:	\$629,500,000	\$813,000,000	= \$1,442,500,000

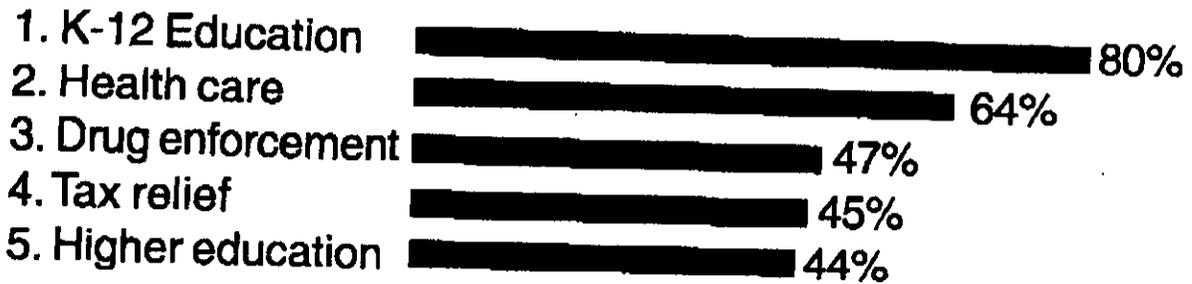
PERCENT OF CONTRIBUTION:

43.6%	56.4%
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Spending the Surplus

Eleven North Dakota community newspapers surveyed their readers about their views on how best to spend the state surplus. The top five responses:



SOURCE: North Dakota Prairie Poll

Area residents have ideas for state surplus

North Dakota's governor John Hoeven and his administration may have missed the mark with a proposal to spend a major portion of a projected state revenue surplus on property tax relief, according to the latest North Dakota Prairie Poll.

The poll asked people served by 11 community newspapers, including Rolla, to name their top three priorities for doling North Dakota's projected \$500 million revenue surplus.

The results showed people favoring K-12 education as a top priority almost two to one over tax relief.

Only 45 percent of those polled named tax relief among their top three priorities, while 80 percent named funding for K-12 education.

Gov. Hoeven held a press conference in September announcing a \$116 million tax cut plan for North Dakota property owners, providing 10 percent tax relief for residential property and five percent each for commercial and agricultural property.

Projections provided by the governor's office estimated the plan would result in a savings of about \$180 for someone with a home valued at \$100,000.

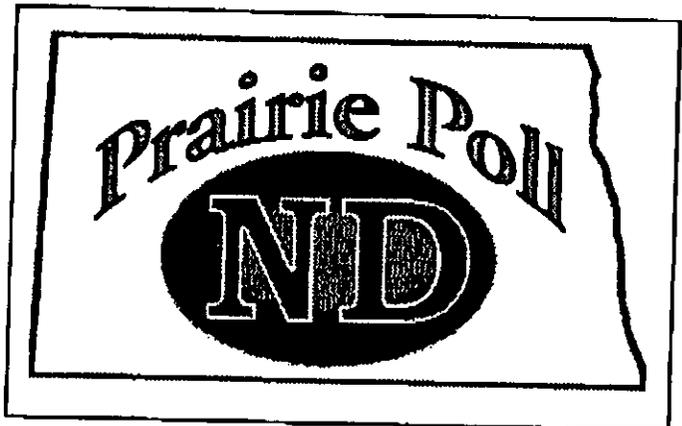
The administration earlier pledged an additional \$60 million for K-12 education, calling it another effort to reduce the property tax burden on North Dakotans.

The Prairie Poll shows voters around the state may be less interested in a tax cut than in providing a good education for North Dakota students.

In fact, K-12 education was the top choice in all 11 communities surveyed. Tax relief was among the top three choices in only four communities; Stanley, Carrington, Watford City and Grafton.

Support for tax relief ranged from a high of 62 percent in Stanley and Carrington, to a low of 24 percent in Crosby. In Rolla, support for tax relief was 42 percent. Support for more K-12 education funding ranged from a high of 92 percent in Garrison to a low of 60 percent in Rolla.

Respondents were not asked to rank their top three choices. Health care subsidies were named among the top three priorities by



64 percent of people polled across the state, including 52 percent in Rolla.

Drug enforcement and treatment also edged out tax relief as a top priority, with 47 percent. The trend was consistent in Rolla with 60 percent voting in favor of drug enforcement and 42 percent favoring tax relief.

Higher education was nearly even with tax relief as a top priority statewide, including Rolla where 52 percent of those voted in favor of higher education.

Included in the list of respondent's choices respondents for surplus use were economic development, tourism and expansion of the Heritage Center. Those were the least popular priorities of the seven suggested.

The poll was conducted by a group of newspapers serving the communities of Stanley, Garrison, New Town, Rolla, Crosby, Lisbon, Napoleon, Carrington, Watford City, Kenmare and Grafton.

(NOTE: This story was printed in a dozen weekly newspapers across the state and appeared in the Turtle Mountain Star in Rolla on November 13, 2006)

Getting near the end of this survey, let me ask you a question about the state budget . . .

16. As you may know, North Dakota currently has a large budget surplus. Some of the possible uses that have been suggested for the budget surplus include reducing property taxes, reducing the corporate income tax, providing more funding for education, and putting money aside in a rainy day fund to protect against a future downturn. For each one of the following possible uses, please tell me whether you consider it to be (a) the top priority for the surplus, (b) an important priority for the surplus, but not necessarily the top, (c) somewhat of a priority, or (d) a low priority.

THIS TABLE HAS BEEN RANKED BY THE PERCENTAGE WHO SAY TOP PRIORITY

	Top Priority	Important Priority, Not The Top	Somewhat Of A Priority	A Low Priority	Not Sure	
Providing more funding for the public schools for grades K to twelve	53	24	15	8	-	[245]
Reducing property taxes	36	25	24	14	1	[243]
Holding down tuition rates at the state colleges and universities	34	32	24	9	1	[247]
Expanding the homestead tax deduction for senior citizens and disabled North Dakotans	24	31	34	9	2	[248]
Putting money aside in a rainy day fund to protect against a future downturn	24	25	32	18	1	[246]
Reducing the corporate income tax	6	9	28	53	4	[244]

17. In the election for state tax commission, which one of the following issues would be the most important to you personally?

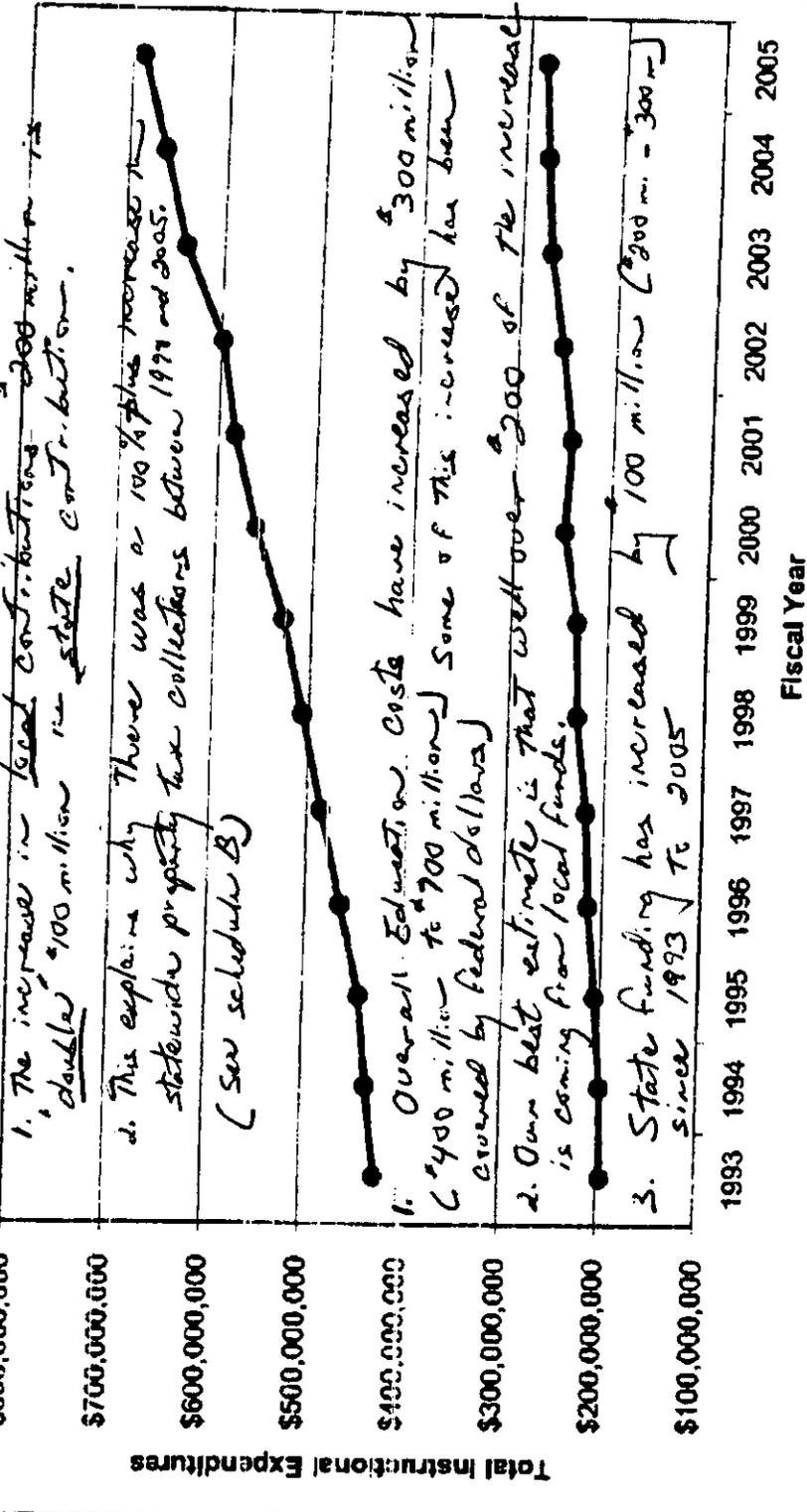
THIS TABLE HAS BEEN RANKED BY THE HIGHEST PERCENTAGE

Using the state budget surplus for education and property tax relief.....	39	[249]
Making sure that out-of-state companies pay their fair share of state corporate income tax, so others do not have to carry the burden	37	>
Making on-line filing, or e-filing, of state income tax returns free and more easily available for all North Dakotans	17	
None/other (VOL)	2	
Not sure	5	

e-mail Bond

North Dakota K-12 Instructional Expenditures

A. When you compare bullet 2 and 3 from below:



1. The increase in local contributions ^{is} ~~has~~ doubled ^{from \$100 million in 1993 to \$200 million in 2005.} state contributions.

2. This explains why there was a 100% plus increase in statewide property tax collections between 1993 and 2005. (See schedule B)

1. Overall Education Costs have increased by \$300 million (\$400 million to \$700 million) Some of this increase has been covered by federal dollars.

2. Our best estimate is that well over \$200 of the increase is coming from local funds.

3. State funding has increased by 100 million (\$200 m. - \$300 m.) since 1993 to 2005

● Instructional Expenditures ● State Share Est.

