

FISCAL NOTE
Requested by Legislative Council
01/19/2015

Bill/Resolution No.: HB 1287

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2013-2015 Biennium		2015-2017 Biennium		2017-2019 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			\$(415,646,000)	\$415,646,000		
Expenditures						
Appropriations						

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2013-2015 Biennium	2015-2017 Biennium	2017-2019 Biennium
Counties			
Cities			
School Districts			
Townships			

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1287 changes the State Aid Distribution Fund and makes it the source of revenue for the state-paid property tax credit.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

HB 1287 increases the share of sales and motor vehicle excise tax that is distributed to the State Aid Distribution Fund (SADF) from the current level of 8.7% to 20% of total collections. This change reduces state general fund revenues and increases SADF revenues by an estimated \$415,646,000 (from \$320.011 million to \$735.657 million) in the 2015-17 biennium as shown in 1A above.

Under the provisions of the bill, one-half of the entire SADF will be distributed to cities and counties according to the current provisions governing the 8.7% SADF distribution. This will increase SADF revenues to cities and counties by an estimated \$47.818 million (from \$320.011 million to \$367.829 million) during the 2015-17 biennium.

The other one-half of the SADF revenue - estimated to total \$367.829 million - will be used for the state paid property tax credit for tax years 2016 and 2017. This will replace - and expand upon - the 12% tax credit currently estimated to total \$250 million for tax years 2015 and 2016. NOTE: The provisions of HB 1287 as written may exclude tax year 2015 from receiving a property tax relief credit.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*
- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

The funding provided through this bill for property tax relief would replace the current 12% property tax credit. The continuation of the 12% property tax credit is included in the executive budget at \$250 million. The interim Taxation Committee recommended HB1059, which contains a \$230 million appropriation to continue the program for the 2015-17 biennium.

Name: Kathryn L. Strombeck

Agency: Office of Tax Commissioner

Telephone: 328-3402

Date Prepared: 01/20/2015

2015 HOUSE FINANCE AND TAXATION

HB 1287

2015 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1287
1/21/2015
Job #22297

- Subcommittee
 Conference Committee

Committee Clerk Signature

Kimberly M. Tolson

Explanation or reason for introduction of bill/resolution:

A Bill relating to increased allocation of sales, gross receipts, use, and motor vehicle excise tax collections to the state aid distribution fund to provide increased allocations to political subdivisions and to provide for separate allocations of property tax relief.

Minutes:

None

Chairman Headland: Opened hearing.

Representative Jerry Kelsh: Introduced bill. Right now four tenths of one percent goes into the State Aid Distribution Fund. And that's split with counties and cities and townships and other subdivisions. What this bill would do, first of all I would like to make the remark that over the past several bienniums, we have struggled with property tax. The transparency of it, the reform of it, and also lowering it. I just came from across the hall, where the Governor's bill is being discussed. I was asked to be on that, and stopped there and lent my support to it. I think it would go a long ways, at least the transparency part of it, and maybe lowering the tax. This instead of a four-tenths of one percent would put one percent of the sales tax, the first one cent of the sales tax: half of it would go into the State Aid Distribution Fund, and half would go into property tax relief fund. On page 1, where it overstrikes the 12, I want to explain that. That law is due to expire this year. If you want to put the 12 percent back in, in this bill, that's fine. Just take that overstrike off. And we'd have the 12 ½ percent in there also. But then, the remaining 50 percent goes into that same property tax relief distribution/ property tax relief fund that the 12 percent went in. That's why John Walstad took that out, because it's going to expire, and has to be re-authorized if it's going to be there. So it doesn't eliminate the 12 percent. Other than that, the bill is pretty simple. 50 percent of it has to go for property tax relief. 50 percent of that one percent. I think that's property tax relief, but I also think it's property tax reform. And it's transparent. They know they're going to get so many dollars less tax. They know where it comes from. It may not always be the same dollar amount. Right now, the projection for the biennium of one cent sales tax, and that includes excise vehicle taxes and all those that we consider sales tax, it's about \$662-million, so it is a substantial amount of money that I think is going to the right place. People still complain about their property tax. And, if you tell them to go home and read it, I think they're satisfied that there is some relief. If they look at it for three years, it hasn't gone up. It may have gone up if they've added two or three more

quarters of land or something like that, but in general it's gone down from probably 30-45 percent. Somewhere in that area. So I think we've done reasonably well. There is one problem, probably, that we give all the property tax relief to education. That doesn't do anything for the counties. They still have to levy what they need to use, and have to raise their salaries, the cost of building and maintaining roads, human services. That all continues to increase, and to cover those increases they have to put on some more mills at times, and so it appears at times like the counties are the real culprits here, and that's not the case. If we would spread the same amount over everybody, the same amount of tax relief we give just to education, and I don't have a problem with it, it's just that it would seem more fair if the counties and the townships wouldn't have to raise their mill levies to cover their expenses. I will take any questions that the committee may have.

(5:15)

Representative Hatlestad: Dollar-wise, between the 12 percent and the one cent sales tax, are we looking at about half again as much for the one percent?

Representative Kelsh: I think there's about \$1.6 billion in property tax over the biennium. So it would probably be fairly close to the same amount. Maybe even the 12 percent is a little bit more. I'm not saying we eliminate the 12 percent. Don't get me wrong. I'm just trying to provide more property tax relief, give it to a lot more subdivisions, counties especially, give them a little bit more money, give them more property tax relief. I can't tell you the exact dollars. I'm just going by 12 percent of 1.6-billion, I think that's where the total property tax bill is. I'd just be guessing.

Chairman Headland: In the allocation of the revenues that are in section two, all that's changing is the difference between the .435% that is distributed through state aid, and it's changing it to one-half percent, right? The allocation by the state treasurer still follows the same pattern as is currently being done?

Representative Kelsh: You're exactly right. This doesn't touch the formula at all. Other than puts a little more money in the way the half-cent instead of the .4 percent is the difference, in that it has to change the numbers a little bit. The township still gets some, fire districts, all those that are listed under here. Also rural ambulance districts, conservation districts, and it can go on to hospitals, Garrison Diversion. It does exclude school districts and other taxing authorities within a city like maybe a park board because they have a taxing authority of their own. I'm assuming that's under a city. Sometimes it's under a county, too.

Chairman Headland: I can see how this would benefit the political subdivisions who would benefit from this extra money. Is it going to benefit the property tax payer in any way? I don't see any language or anything that would reduce budgets. I just see more money flowing, and the opportunity to spend, spend, spend at the local level.

Representative Kelsh: As I said before, only 50% can be spent by the county. The other goes into the exact same fund that the 12 percent of property tax revenues goes into, and it has to be used under the exact same conditions as that 12 percent is used. That's to lower property taxes in the local subdivisions. That's the big difference. It gives them a little more

money, which they need. It also demands that there is property tax relief with the 50 percent that goes into 57-20-7.2. I looked it up in the Century Code, and that's exactly where the 12 percent goes, and it has to be handled the same way that the 12 percent that we put in there goes.

Chairman Headland: I understand that half of the one percent, it's the increase in the state aid distribution that there really is no accountability in, how that extra money can be spent. When I first read the bill, I assumed when the 12 percent was overstruck, that you were replacing the 12 percent with this new money from sales tax, but your intent would be to have this in addition to that.

Representative Kelsh: That's exactly correct.

Representative Haak: Could you walk me through how the state aid distribution fund started and what the intent was?

Representative Kelsh: It was from personal property taxes. Your couch in your house, if you had a horse, or if you bought a new dining room table, there was a person who came around every year and said, "I see you got a pony for your kids. We gotta tax that. I see this table is new from last year. You got a davenport that is new." That was taxed under personal property. The life of a personal property tax assessor was pretty short. They didn't appreciate their job because everybody was upset with them. So that got replaced, and it started out as one percent. Then as the state budget got worse, that kept going down. It was at six-tenths until about '89, I would say; then it was lowered to four-tenths. And they have lived up to it ever since then. Before that, the budget was balanced on moving the number of dollars that went up and down. It wasn't always the six-tenths of one percent. Sometimes it was probably around that four-tenths. That's probably where that number came from. That's the history of how this got started, But, if you can imagine, go onto a farm with five or six combines at half-a-million dollars apiece, four or five quad-tracks and four-wheel-drives at another half-million apiece, what that personal property tax would cover. It was on your herd of cows. It was the dairy equipment you had in the barn. It was personal property. Anything you had was personal property and you paid tax on it. And when they repealed that, this is where the state aid distribution fund got started.

Representative Haak: You're saying it started at one percent that you're advocating now, but because the state was running out of money, or had a much smaller budget, then it decreased and it's never gone up?

Representative Kelsh: Yes it was at the one percent and that went directly to the counties that collected it. When the law was changed to start out at one percent, and again..if you would have been here in the mid-80s...we cut school funding from 1400 down to 1200 in 1985 because there just wasn't the money to do it. So, to balance the budget, money was taken from what was supposed to go to local subdivisions to balance the rest of the budget. Then, in the late 80s, it was dropped to the four-tenths, and that's where it's been ever since. And this is an attempt to rectify that, to give money back to the local subdivisions.

Chairman Headland: Representative Haak, we can have legislative counsel prepare a memorandum on the history of the state aid distribution fund, if you would like.

Representative Trottier: Should this be tied to anything restricting the county? For example, we'll do this for your county if you do not raise your taxes by over five percent.

Representative Kelsh: I have another bill that allows them to use the 50 percent for road maintenance, infrastructure basically. Not to build new buildings. I don't want that. But for infrastructure, and if they don't use it, they can put 50 percent of it aside for a designated project, and the other half has to go into the property tax reduction fund. I don't know what I'm going to do with it. It's in, but it depends a little bit on what happens with this. But anyway, I don't know, tying it, I think we all understand with costs and road repair, buying machinery and all those things. The closer you get to the west, we've had bills in Education where they talk about, they'll have a bid and then on the bottom of the bid, a "Bakken premium," of about 20-30-40 percent, and that's what they'll have to pay. We haven't hit that, but it's affected what's happened here because our contractors can go west and do the job out there, too, and get the Bakken premium. So I don't know how much we want to tie these folks. We all want decent roads. In our area, my home town has a very large grain handling system, and the trucks come in. And they also have a fertilizer, chemical and seed business. Trucks go out loaded. Sprayers and all that. So the roads are used heavily. There are times of year, I don't know how the weight restrictions are lived up to. Our county did, however, along with four other counties, hire a person to just check on that. We're trying to hold down those maintenance costs. They're horrific. A mile road is half-a-million dollars to resurface. So, to really tie them, I don't know. I guess I would have no objections if they could make it up somehow. Ransom County puts together all their budget requests. The paper got ahold of it, and there was going to be a 27 percent increase in property tax. Some of you may have heard about it, but when the commission got done, it was just over 5 percent. The people were congratulating the commission on holding down their expenses. It was just kind of interesting that the paper was reporting what all the requests were. I have no solution for it. I have never thought of that, that they get say 20 percent more funding probably out of it. From .4 to .5 percent of what one cent is what they get to spend. The rest goes into property tax relief.

Representative Trottier: It would also help all the entities in realizing that we have to keep it at that. And they'd have a legitimate excuse. "We can't spend on this. We can't spend on that." It would just stop some spending. We look at our own personal budgets, maybe we can't keep them to five percent. I don't know what the magic number would be. If they wanted to go over that, then they would need a vote of the people or something like that. But somehow to restrict some of these budgets.

Representative Kelsh: I had this in last year, Mr. Chairman, or two years ago. And I had several requests. I thought it was a good idea to bring it back, and I hope you folks do, too.

Chairman Headland: We will take testimony in support for HB 1287.

Terry Traynor, Association of Counties: County commissioners, on their weekly conference call, struggled with this bill. Cautiously support, is what they directed me to say. As Rep. Kelsh mentioned, the state aid distribution fund is the original property tax relief. It

took away a very onerous personal property tax that no one liked, particularly the assessor. It was really hard to assess a tractor when it was hidden in your neighbor's shelterbelt, but I really appreciate Rep. Kelsh bringing this forward because I think it's unique; it combines a small incremental growth in revenue for local government with a way to fund property tax relief. We're cautious because, since 1997 when the Legislature made the commitment to continually fund the 4-tenths of a penny, which has now grown to 43.5 percent, the Legislature has allowed it to grow. As the state's economy has expanded, that sales tax has brought in more money locally. It's allowed local government to keep that level of state funding equal to the growth in their cost. So it's been very very good. Those commissioners that were around since '69 when property taxes were repealed, they went through the years when, which was every year before 1997, it was frozen. It was whatever the Legislature could afford and it was a battle every session for local government to come in and they were stacked up against human services funding, corrections, higher ed, elementary and secondary ed, and it was very difficult. This has been a very good partnership since '97. So we're cautious whenever we start tinkering. I'd like to address the amount, and I really think we're talking 49, let's say \$50-million more in actual revenue to local government. That's \$25-million a budget year. Split that in half for the rural..\$12-million. You take out about 12-15 percent of that for the townships, and some more for everything else. My calculations, a small county..Adams or Hettinger..they're going to get \$10,000 of increased revenue. Cass County might get several hundred-thousand. As a proportion of their budget, this is fairly small, but it is very much appreciated. Any revenue that they don't have to put on the property tax is helpful. And I think it's a unique idea. I think it definitely deserves the support of the county commissioners and that's why I'm here today.

Representative Froseth: The fiscal note states "The provisions of HB 1287 as written, may exclude tax year 2015 from receiving a property tax relief credit." That means that the second year of this biennium, that 12 percent may not be paid out. Is that what that means?

Terry Traynor: I really can't comment on the tax credit piece of that as I don't know really understand how that works.

Vice Chairman Owens: It was suggested earlier to fund this and help the counties out. Does that mean that like education, we should then, depending on how much new money we give you, further restrict the mill levy authority?

Terry Traynor: As I said, I'd like to see what the numbers area. You're talking about a township getting \$100. You're talking about a small county getting \$10,000. It's such a small amount in the budget, I don't know how you do that. It isn't like we're taking school funding from 50 percent of their funding to 70 percent. It's a fairly incremental change.

Chairman Headland: I think we can have somebody from the tax department clarify the fiscal note for us.

Richard Schlosser, North Dakota Farmers Union: We have had long-standing policy with regard to state aid distribution increases. We support a balanced tax structure and local control. We support restructuring or reforming the property tax, and we oppose elimination. To meet these goals, we propose increasing the percentage of the sales, etc.

through the state aid distribution. As Rep. Kelsh said, this provides both property tax relief and more importantly, it does do something that's sort of unique that we've been working with on property tax relief before. So it does address the issue that we're talking about reform. Secondly, with respect to some of the questions that were asked here, we do some education programs also at NDFU. Virtually every bushel that originates on every farm in my home county, LaMoure County, starts out on a township road, county road and goes to a state highway to an elevator. The same way with livestock, going to pasture in the spring, and coming home, calves going to market. That infrastructure is essential to the success that we see as those of us in the ag community say, the number-one industry in ND. And I'm just saying that because we've been here a long time and we see ourselves as sustainable. But we do some education programs with respect to our members, also that you need to be following the laws out there with respect to what's going on in the townships and the counties. No overloads, make sure that those overweight permits are done properly. So we've worked with the ND DOT in setting up several seminars throughout the state with respect to how you can load your truck properly, and be legal, your splits on your axles. It is quite an intense, day-long education process. We also work on the legislative side to make sure that some funding comes back to those local political subs to really beef up our infrastructure to where we need to be, and to deal with some of the weather problems that we've had, particularly in my county, with respect to a lot of the flooding and the wet conditions that we've had, on some of the county and township roads. And also in dealing with a lot of the changes in agriculture that we're seeing. More product going to product because of the cropping changes. And also the education side, we also see that some responsibility on our side, and we need to deal with this through an education process of whomever needs to deal with, as far as transporting our commodities to market. We support this, and we did have some concerns that you had; somebody mentioned the 12 percent overstrike. We did visit with some of the sponsors, and we think this will be put back in because it's a sunset.

Chairman Headland: Is there further support for HB 1287?

OPPOSITION: None

Chairman Headland: Closed the hearing on HB 1287.

2015 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1287
2/10/2015
23575

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A bill relating to increased allocation of sales, gross receipts, use, and motor vehicle excise tax collections to the state aid distribution fund to provide increased allocations to political subdivisions and to provide for separate allocations of property tax relief.

Minutes:

No attachments

Chairman Headland: Any thoughts on this bill? It's a big transfer of state revenues to local government in the name of property tax relief.

Representative Klein: Made a motion for a DO NOT PASS.

Vice Chairman Owens: Seconded.

Representative Mitskog: People are looking to the state for property tax relief so is there anything that's going to happen with that this session?

Chairman Headland: The state is reducing budgets right now and this is a giveaway of a pretty big chunk of revenue that's used to fund those. It would be nice to offer more property tax relief to the citizens but we also have to take care of the needs of the citizens as well. I'm supporting the do not pass.

Representative Froseth: It wasn't clear to me what happens to the state in lieu of property tax payments that goes back to the schools if this money is distributed?

Chairman Headland: I think this money was meant to be in addition to that. It doesn't touch that; it takes state sales tax and distributes it to the counties over and above what they were already getting.

Representative Trottier: Two months ago this would have looked real good but with our current circumstances I have to vote against it.

Representative Strinden: Representative Kelsh's other bill that has 50% of required infrastructure investment is my favorite of the two although I'm going to support both of

them. Representative Kelsh told me that this brings the percentage back up to where it was in the 1990s or 1980s.

Chairman Headland: As a percentage you are probably right but as a dollar figure this is a lot more money than it was back then.

Representative Dockter: We have to remember we still have the bill with a 12% commitment which is around \$250 million just to give everyone the relief that we gave last session that we will have to pass. I would love to pass something like this but with our financial situation I can't support this bill.

**ROLL CALL VOTE: 10 YES 4 NO 0 ABSENT
MOTION CARRIES FOR A DO NOT PASS**

Representative Klein will carry this bill.

Date: 2-10-15
Roll Call Vote #: 7

2015 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1287

House Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
Other Actions: Reconsider _____

Motion Made By Rep. Klein Seconded By Rep. Owens

Representatives	Yes	No	Representatives	Yes	No
CHAIRMAN HEADLAND	✓		REP HAAK		✓
VICE CHAIRMAN OWENS	✓		REP STRINDEN		✓
REP DOCKTER	✓		REP MITSKOG		✓
REP TOMAN	✓		REP SCHNEIDER		✓
REP FROSETH	✓				
REP STEINER	✓				
REP HATLESTAD	✓				
REP KLEIN	✓				
REP KADING	✓				
REP TROTTIER	✓				

Total (Yes) 10 No 4

Absent -

Floor Assignment Rep. Klein

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

REPORT OF STANDING COMMITTEE

HB 1287: Finance and Taxation Committee (Rep. Headland, Chairman) recommends **DO NOT PASS** (10 YEAS, 4 NAYS, 0 ABSENT AND NOT VOTING). HB 1287 was placed on the Eleventh order on the calendar.