

Good Morning Chairman Kannianen and the Tax and Finance Committee. For the record my name is Doug Larsen and I am the Senator from district 34.

- This bill is bold and impactful.
- This bill is constitutional.
- This bill is not a subsidy.
- This bill is what your constituents want and need.
- This bill will actually have a substantially positive impact on our entire workforce system.

**This is a true tax reduction that is good for all North Dakotan's and all of North Dakota.**

Before I introduce the bill before us today, I would like to point out where North Dakota ranks nationally on taxation. This is based on taxation per capita.

According to Page 6 of our Red Book—per capita we are 6<sup>th</sup>. Bernie Sander's Vermont leads the nation, followed by Hawaii, Delaware, Minnesota, California, and then North Dakota.

This bill is long, but simple. It removes the final 60 mills from our K-12 school funding. It puts the burden of funding our schools directly on the state. It also would add a ½ cent sales tax increase. Though I have not officially seen the fiscal note, working with legislative council I understand it will be in the neighborhood of \$660M for the property tax reduction and offset by about \$200M with the ½ cent increase for a net reduction of about \$460M per biennium.

As I mentioned a moment ago, this measure is constitutional. Article VIII, Section 2 of our State Constitution reads, "The legislative assembly shall provide for a uniform system of free public schools throughout the state, beginning with the primary and extending through all grades up to and including schools of higher education, except that the legislative assembly may authorize tuition, fees and service charges to assist in the financing of public schools of higher education."

We can argue about those words mean, but they are verbatim from a document we have all sworn to uphold. Removing these 60 mills does not relieve the local school districts of all costs—but of the costs needed to reach the funding formula of \$10,237 per student. They would still retain 10 mills of discretionary fundings.

They also allow the schools to retain the ability to create infrastructure using bonds against property taxes. There are a variety of options schools can utilize that this bill doesn't touch.

But, from a 'general' funding standpoint, this takes us from approximately 70 to 75% to essentially 100% of general funding.

This bill will affect all property. Whether you own the home, rent the apartment, work for the business owner or support a business as a patron—the benefits are there. Obviously if you are the homeowner or business owner you understand the primary effect of this cut. But as an employee, this will give the business owner more of an opportunity to add benefits and invest in resources. The vast majority of our businesses are small businesses of 10 or fewer people. I can attest personally, the uncertainty of COVID and the devastating inflation that followed have put a bind on what an employer can do. Personally, I have had the conversation with employees that though I want to give them a larger wage—I simply cannot afford it at the time. I believe I am not unique—at least as a business owner in this regard.

If you are renter, this may mean your rent won't go up or up as much as it would have otherwise—but maybe more importantly it would reduce the size of an obstacle that could be keeping you from being a homeowner. I am certainly not rent shaming—but promoting the idea of enabling property ownership. By making a significant reduction in one's property taxes you reduce a monthly payment. This isn't just a concept—this is real.

Why this is not a subsidy? Because as state we have developed a funding formula that very specifically states what each student is worth. There are variations on this and though the formula itself is a bit complicated—it is developed and agreed to. In time it will change, but this change will happen regardless. It changes by an amount controlled by the legislature.

This would be a bill that I spent a lot of time trying to figure out. I looked at doing a similar bill to what you heard earlier that pertained to primary residence. Because that bill could be seen as a subsidy or as a way of making businesses pay the tab and the fact that all communities don't have the same businesses or other tax base it became difficult for me to not see how it could not be abused.

In this case, I understand a concern could be, 'what will stop the other taxing districts from adding to their budget to eliminate the savings. At this point I would like to suggest an amendment to the bill that would cap tax district growth to 3.5%. Anything above this growth would need to go before the vote of the people. Presently the amendment would require a majority vote, would be for 1 year and would exclude 'new construction.' This is meant to allow the area to growth without penalty.

I would also like to propose a second amendment that would establish an interim study on possible efficiencies that could be found and implemented within our K-12 system. To include a salary scale used in other states. Though I would expect this idea to be seen as a possible change and therefore protested, I would add it is a study.

Now we have heard that our property taxes just keep going up. I just spoke of two measures that could be implemented that would assist in controlling future increases, but I think it is worth the time to look at what our property taxes have actually done.

In 2013 our property taxes were \$918.72 Million. They have grown, but before we get to that something else to consider as we look at property tax increases is our population growth that we have experienced. This is still a relatively new phenomenon as for decades after decades we experienced a negative population growth—especially in the western portions of our state. Growth has at least two costs to it—the initial cost and if the new member stays there will be the ongoing cost increase.

From 2013 until 2015 we saw about 32,000 new residents in North Dakota and from 2015 to 2020 we saw another 23,425 new residents. This represented a more than 7.7% growth in our population and whether they moved to Fargo, Watford City, Stanley, Dickinson, and the Bismarck area—this growth did a variety of things. It created the need for more housing which expanded a tax base, created a market that drove value, and it created a cost to the communities of which they reside. This might sound overly simplistic, but they all live in 'local areas' and will all have a direct impact on local property taxes.

Going back to 2013, again our numbers were \$918.72M and in 2022 they are 1,409.59 in 2022. This represents a growth of 4.875% year over year. I got this information also from the 'red book' page 65. My point isn't to argue that property taxes have not gone up more than they should have—but only to suggest a percentage and present a mechanism that could be used locally to control tax increases—while allowing for local control, if some areas want the growth.

I am not saying that we have not seen unnecessary growth in the local tax base—but understand that we are the local tax base. We are the fabric of our community. With that comes opportunity and responsibility. Just yesterday I presented a bill in Health and Human Services. Though I won't go into the details of the bill, it was initially what we would have called a 'constituent' bill. If approved, it will provide an opportunity to someone that potentially 'misused' their medical marijuana card to have earned a second chance. As I got to know my constituent a little better, the bill became 'our' bill.

During her testimony she caught me off guard as she thanked me for listening to her. You can go back and listen if you would like. She didn't necessarily thank me for the bill, but thanked me for listening to

her. She had called the department, she had called the Governor's office and she called one of her local legislators. Only one of those three entities listened.

My point isn't that I am a great person—you already knew that. My point is our job, as part of the fabric of our various communities is to listen and to take action when able to improve the lives of our constituents.

We have heard the line, you subsidize what you want more of. If you want more corn, you subsidize it. If you want more local government you subsidize it. As we look at this bill that is about the funding of -- 60 mills of K-12 funding, let's look back at the Department of Public Instruction total appropriations over the past 5 biennium's. In 13-15 we had a total appropriation of \$2,165,610,084—in the 21-23 biennium it grew by over \$780M to \$2,946,430,623.

Before I tell you the percentage of overall growth, I would like pivot back to Health and Human Services. In 2013-2015 their budget was \$3,036,452,594—which grew by almost \$1.9 billion in the 21-23 to a \$4,926,346,122.

The growth of DPI was 36.1% over that 5 bienniums, Health and Human Services ... 62.2%.

In case anyone was wondering what the highest percentage of growth was of what I checked, Higher Education was the winner at 159.1%.

Work Force development—I do not think there is a better tool to retain citizens than home ownership.

- Page 32 on the map we are 40<sup>th</sup> at \$579. Our next closest is New Mexico at \$567. The rest of the state's below us essentially have no income tax.
- The next page shows you the income taxes in other states. Of the states that have a flat tax, the lowest is Pennsylvania at 3.07%. Contrast that—their lowest bracket for all citizens is 3.07%. Meanwhile, our 'highest' bracket is 2.9% of which you don't even start paying that until you earn over \$458,349. In other words, if being the lowest 'flat tax' state is the ultimate goal ... we can accomplish that by raising our income taxes on all income levels and still have that distinction.

These aren't my numbers—they come directly from the red book.

I do think we need to ask ourselves if lowering our income tax is really going to have the effect on the work force that we are short or if it is a tax cut that will benefit the few.

I believe home ownership is a goal that we can strive to make accessible to more and the more owner we have, the better communities we have and the easier it is to recruit and as importantly retain a work force.

We are part of the fabric of our community. We interact with our voter base and we know what they want. As well we are part of our community and we know what allowing tax payers to keep more of their money will do.

For some, on fixed incomes it will allow them to retain the American dream, for the aspiring—it will enable to reach the threshold, for the more established it will allow for more travel or enjoyment, for the business community it might be survival or growth—both are good things.

Income tax is paid when the wages are good. In other words, you should have the funds available.

Now, I would wrap up my testimony by again stating that this bill would add a ½ cent sales tax increase. This is a consumption tax. And though taxation very well may be theft, a sales tax is often seen as less egregious than one that could enable the government to take your property. I would point out that though there are arguably some taxes on essentials like clothing, we do not tax groceries, natural gas, electricity, or water—we are only 1 of 7 states that have that distinction. I would also say that a least a portion of that taxation would come from out of state travelers and the increase would not put us in any uncharted waters in regard to sales tax rates of other states.

As I started my presentation, I acknowledge that is measure is

- Bold, but it is impactful to all residents of North Dakota.
- This bill is constitutional. At the least it ends an argument once and for all
- This bill is not a subsidy. We have a formula and it addresses it.
- This bill is what your constituents want and need. You don't need to hear this from me. I would suggest if you have knocked doors, the topic has come up. We have the resources do something big for our community and now is the time. This helps all districts. There are winners and winners.
- This bill will actually have a positive impact on all of the components that make up our workforce.