

1999 HOUSE GOVERNMENT AND VETERANS AFFAIRS

HCR 3042

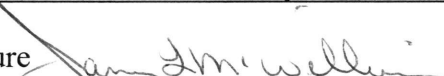
1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HCR 3042

House Government and Veterans Affairs Committee

Conference Committee

Hearing Date 2-12-1999

Tape Number	Side A	Side B	Meter #
2	X		3.3 - 13.5
Committee Clerk Signature 			

Minutes: Some of the individuals testifying submit written testimony. When noted please refer to it for more detailed information.

Representative Klein, Chairman of the GVA Committee opened the hearing on February 11, 1999.

Summary of the Resolution: Relating to the allocation of funds from settlements with tobacco product manufacturers.

Testimony in Favor:

Representative Gunter, Appeared before the committee to introduce the resolution.

Clare Carlson, Governors Office submitted written testimony which he read in it's entirety **(please refer to his testimony)**.

Representative Klemin, Aren't we going to recognize these funds for anything else in the future besides what they are locked into?

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House Government and Veterans Affairs Committee

Bill/Resolution Number HCR 3042

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Carlson, This is the voice of the people and we are not necessarily locked into this.

Representative Klemin, Wouldn't this be kind of a new use of the constitution?

Carlson, I am not a lawyer.

Representative Kliniske, There are about 9 of these proposals floating around up here, do you know how many of these are constitutional amendments?

Carlson, I am not sure.

Representative Devlin, We look like we would be locking ourselves into various areas and I am nervous about this.

Representative Kroeber, Wont there be some federal guidelines that if you do not use 50 percent of this money for public health, there maybe some restriction.

Carlson, I am not sure.

Testimony in Opposition: None.

Representative Klein, Closed the hearing on HCR 3042.

Committee Action:

Representative Klemin, I don't think we should be putting stuff like this in the constitution.

Representative Haas, Even if it was the right thing to do, I couldn't vote for it. Majority of that money should be in a trust. There are a lot of different proposals floating around. It's also premature,

Representative Thoreson, I have a problem with locking this in. Times and needs change, I don't think it's an appropriate thing to do.

Representative Cleary, Made the motion for a Do Not Pass.

Representative Haas, Seconded the motion.

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House Government and Veterans Affairs Committee

Bill/Resolution Number HCR 3042

Hearing Date 2-12-1999

Motion Passes: Do Not Pass **14-1-0**.

Representative Hawken, Is the carrier for the bill.

Date: 2-11-98

Roll Call Vote #: 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HCR 3042

House GOVERNMENT AND VETERANS AFFAIRS Committee

Subcommittee on _____

or

Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Not Pass

Motion Made By CLEARY Seconded By HAAS

Representatives	Yes	No	Representatives	Yes	No
CHAIRMAN KLEIN	✓		REP. WINRICH	✓	
VICE-CHAIR KLINISKE	✓				
REP. BREKKE	✓				
REP. CLEARY	✓				
REP. DEVLIN	✓				
REP. FAIRFIELD	✓				
REP. GORDER		✓			
REP. GRANDE	✓				
REP. HAAS	✓				
REP. HAWKEN	✓				
REP. KLEMIN	✓				
REP. KROEBER	✓				
REP. METCALF	✓				
REP. THORESON	✓				

Total (Yes) 14 No 1

Absent 0

Floor Assignment HAWKEN.

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

REPORT OF STANDING COMMITTEE (410)
February 11, 1999 3:57 p.m.

Module No: HR-28-2630
Carrier: Hawken
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HCR 3042: Government and Veterans Affairs Committee (Rep. Klein, Chairman)
recommends **DO NOT PASS** (14 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING).
HCR 3042 was placed on the Eleventh order on the calendar.

1999 TESTIMONY

HCR 3042

Testimony of Clare Carlson, Office of the Governor
House Government and Veterans Affairs Committee
Feb. 4, 1999
HCR3042

Mr. Chairman and members of the Government and Veterans Affairs Committee. My name is Clare Carlson, representing the office of Gov. Schafer. I am here to testify in support of HCR3042

There are several proposals before the Legislature dealing with the allocation of revenues from the tobacco settlement reached with the states. We recognize that this will continue to be a subject of extensive legislative debate and negotiation, and believe the proposed constitutional amendment is an important contribution to that discussion.

Let me first mention that the governor is in full agreement with the majority leadership in the House and Senate. We must not make any spending decisions based on the tobacco money before it is actually deposited in our state treasury.

Gov. Schafer made that caution very clearly in his State of the State address: "Considerable uncertainty remains about when, if and how much money North Dakota will receive. I argue – I believe – spending dollars we do not yet have would be fiscally irresponsible."

HCR3042 represents the recommendation the governor included in the State of the State, in which address, in which he proposed a specific formula for distribution of the funds. The purpose of the Constitutional amendment before you is to ask the people of North Dakota to lock in a formula to assure fiscal responsibility and the prevention of an unwanted creation and expansion of state government programs.

As Gov. Schafer said, "Even with the best of intentions, the millions of dollars that will come to North Dakota in the next 25 years might tempt less fiscally conservative leaders to grow government, launch new programs, or bail us out of a fiscal mistake."

As for the specific formula, the goal was the primary goal of public health and fiscal responsibility. The constitutional amendment embraces the formula of 10 percent going for public health; 45 percent directly to the Common Schools Trust fund for K-12 education; and another 45 percent for property tax relief.

I have attached a Q&A sheet summarizing our proposal, as well as a copy of the governor's remarks on tobacco from the State of the State. They are self-explanatory, so let me close my remarks. I would be happy to answer any questions.



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Q&A on Schafer Plan for Tobacco Settlement Money

Q: How is the governor proposing to allocate money from the tobacco settlement with the states?

A: Gov. Schafer calls for this breakdown: 10 percent for local public health programs; 45 percent to the Common Schools Trust Fund to support education; and 45 percent in property tax relief.

Q: How much money will the tobacco settlement generate for North Dakota?

A: It's unclear. The following chart outlines the proposed dollars according to the tobacco settlement reached with U.S. tobacco companies. However, the federal government may lay claim to an estimated 50 percent of the money as "recoupment" for past Medicaid expenditures. Gov. Schafer and the National Governors Association have made protecting the state dollars a priority for this session of Congress.

Year	1998	1999	2000	2001	2002
North Dakota	\$8,784,330.94	\$0.00	\$23,467,889	\$25,341,550	\$30,427,805
	2003	2004 to 2007	2008 to 2017	2018 to 2025	
	\$30,715,771	\$25,635,605	\$26,144,364	\$29,295,743	
	<u>Total</u>				
	\$717,089,369				

Higher tobacco prices and public health programs should also reduce tobacco usage, thereby decreasing settlement revenues.

We are using \$25 million in annual revenues as a reasonable estimate.

Q: Is 10 percent for public health programs sufficient?

A: Yes. At \$2.5 million annually, it represents a 600 percent increase over current expenditures on state aid to local public health programs, and will be targeted at locally supported health initiatives.

Separately from dollars allocated to the states, the tobacco settlement also created an industry-funded \$1.45 billion national public education fund for tobacco control. The fund is established to carry out a nationwide sustained advertising and education program

to counter youth tobacco use and educate consumers about tobacco-related diseases. North Dakota will also benefit from that money.

Q: The Schafer plan calls for putting 45 percent of settlement dollars into the Common Schools Trust Fund. How much money would that generate for schools?

A: Interest income from the Common Schools Trust Fund is allocated to the state tuition fund, which also consists of the net proceeds from all fines for violation of state laws, leasing of school lands (NDCC 15-44-01). The Superintendent of Public Instruction apportions the money in the fund among the school districts in proportion to the number of school-age children residing in each district (census units). This year the figure is \$216 per census unit.

In recent years, the Common Schools Trust Fund's investments have returned an annual average of 11 percent, exceeding projections. Instead, we will use the more conservative "asset allocation" estimate of 8.75 percent return (based on the variety of assets managed by the Land Department).

Forty-five percent of the \$25 million estimated revenue would be \$11,250,000 deposited each year into the Common Schools Trust Fund. At 8.75 percent interest, that would generate \$984,375 for schools the first year and increasing by that amount each year.

After 25 years, we would be generating \$24,609,375 more annually for schools. Estimating 120,000 census units, that's the equivalent of \$205 -- nearly doubling the current distribution.

Q: What about the property-tax relief?

A: In 1998, general property taxes amounted to \$424 million. A \$11.25 million rebate would represent 2.7 percent being returned to property tax payers.

By one estimate, there are 150,000 taxpayers paying an average of \$2,800 annually in property taxes. Therefore, the Schafer proposal would amount to a \$75 per taxpayer rebate.

Gov. Schafer believes this money should be returned in the most direct way possible, spurring economic growth. The Office of Management and Budget is still working on mechanisms and administration.

Gov. Ed Schafer
State of the State Address
Jan. 5, 1999

Excerpts on tobacco:

I want to discuss the tobacco settlement and what it means for North Dakota. Over the life of this 25-year agreement, North Dakota could receive more than \$700 million – \$30 million in this biennium alone.

I stress "could." Considerable uncertainty remains about when, if and how much money North Dakota will receive. I argue – I believe – spending dollars we do not yet have would be fiscally irresponsible.

We should have two goals for all potential settlement money: public health and fiscal responsibility. We can address both of these with the following plan.

First, I am proposing we devote 10 percent of any tobacco settlement dollars to public health programs, including important initiatives on diabetes, drug and alcohol abuse, and tobacco prevention and cessation. This will fund programs primarily driven at the local level, and will provide a six hundred percent increase over current state spending for local public health!

Then, we should place 45 percent of any dollars from the tobacco settlement in the Common Schools Trust Fund. How often have we looked back a decade or two after a new revenue source starts flowing and said, "We should have set that money aside, let it build, and used the interest"?

We can show foresight by allocating this new, potentially great and still uncertain source of revenue for the education of future generations of North Dakota's children – money that simultaneously relieves the burden on local property tax payers.

The remaining 45 percent of settlement dollars should be returned to the pockets of North Dakota taxpayers. Our taxpayers have borne the burden of the tobacco-related health care costs for many years. The tobacco settlement compensates states for their costs, so it is only appropriate that the state compensates the taxpayers.

I am proposing that the money be delivered as an annual property tax rebate. In comparison to other states in our region, North Dakota's tax system is well balanced and generally fair. Yet there is a growing sense that property taxes should be scaled back, and tobacco settlement dollars could help us achieve this goal.

I am also asking the Legislature to send a constitutional amendment to the state's voters asking them to make this funding allocation permanent. Even with the best of intentions, the millions of dollars that will come to North Dakota in the next 25 years might tempt less fiscally conservative leaders to grow government, launch new programs, or bail us out of a fiscal mistake.