

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1521

2005 HOUSE FINANCE AND TAXATION

HB 1521

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB 1521**

House Finance and Taxation Committee

Conference Committee

Hearing Date **January 31, 2005**

| Tape Number | Side A | Side B | Meter # |
|---|----------|--------|-------------|
| 1 | X | | 40.6 |
| | | | |
| | | | |
| Committee Clerk Signature <i>Janice Stein</i> | | | |

Minutes:

REP. DAVE MONSON, DIST. 10 Introduced the bill. See attached written testimony.

REP. BELTER Is there any cap in here, does the bill prevent schools from raising taxes?

REP. MONSON The only way they can do it, is the same way the 185 mill cap is now, they have to go to the vote of the people. Right now, there is a cap of 185 mills, but of course, we have schools that are over 185, the only way they can go above 185 is if the people have voted to raise it above that, or if the people have voted to give them an unlimited levy. In most cases, that has not happened.

REP. BELTER We are lowering the levy from 185 to 150 mills, and replacing that revenue with an income tax, so the ratio of expenditure then, state tax support versus property tax support, in reality it wouldn't really change, would it?

REP. MONSON Yes, it goes way up. Property tax has been picking up a bigger and bigger percentage of the full cost of education in the school district, and the state's share keeps

shrinking, from fifty percent down to forty percent now. That is what part of the lawsuit is all about. It isn't necessarily because property taxes have gone up, mill levy wise, the levy cap has always been set at 185, but because valuations of the property in many cases, have gone up.

That is where the rut comes in, we are going in the wrong direction. To beat this lawsuit, we have to move in the direction of more revenue from the state to the schools and less dependence on property tax. This is one way to, hopefully, shift from property tax back to the state.

REP. BELTER Used an example of a school running on 185 mills, now they will go down to 150, you have another school that is running on 300 mills, when you do this, the 300 mill school will be operating on 265, as a percentage, the one running on the 300 mills, they will actually get less percentage of revenue, then what the property rich school will get?

REP. MONSON It won't be the same ratio. You will drop from 300 down to 275, and your \$600 per pupil will not be a very big percentage, it depends on how many students they have, there will be winners and there will be losers on this system. The biggest losers are those that are property rich. They will lose about \$270,000.

REP. FROELICH If we guarantee to lower the cap from 185 to 150, unless we go to the vote of the people, we can go above 150, we are going to replace it with this income tax, and it is roughly \$600/student. Now if our income from our income tax drops, instead of \$600 per student it might be \$500?

REP. MONSON That is true, any time you go from property tax which is stable and go to income tax which can fluctuate more, you are running a risk. The thing is, you put \$600 on the per pupil payment, once you have raised it, it probably won't come back down again.

REP. DROVDAL I thought this bill would allow a local school district to determine if they want to have an income tax put on the residents of their district as a replacement for property tax?

REP. MONSON No, at one time I thought about that making it an option, for each local school district to opt in or opt out, it became quite unworkable, and it just didn't provide the equity, because you were taking from poor people paying property tax to poor people paying the income tax, and you didn't go anywhere.

REP. DROVDAL It does go into the existing formula.

REP. MONSON If the House Education Committee decides not to change the flat formula now, this is going to go into the flat formula, it will still be better then it is now. If they do decide to change the formula in any way, this is just money that will go out in per pupil payments, that is my intent.

REP. DROVDAL In your deliberation, would it not shift from the property taxpayer, to the income tax and income is based on wealth, so would not the tax shift to the wealthier ones?

REP. MONSON Yes, that could very likely be. As you well know, property tax is paid whether you make money or not, it could be considered a regressive tax. Income tax is considered progressive, if you don't make any money that year, you don't have to pay any, so your tax burden is shared across the state.

REP. IVERSON You want to take money from Fargo and use it for a school district in Devils Lake

REP. MONSON I just used that as an example, Fargo is a property rich school district. No matter what you do to provide equity across the state, Fargo probably will not be a winner on any of these formulas. And, neither will the little tiny schools.

REP. SCHMIDT We have heard about these lawsuits, are those schools going to write a formula for the state, or are they just telling us to fix it?

REP. MONSON They are telling us to fix it.

REP. SCHMIDT Those schools can't write a formula?

REP. MONSON The only people that can write a formula, is the legislature. They take ideas from the schools, and they take ideas from the court.

REP. NICHOLAS If we pass this, how much better chance do we have to win the lawsuit, and secondly, what kind of a percentage does this give us to win that lawsuit?

REP. MONSON I am not a lawyer, I know the formulas, and what tweaking it here and there does, I think over the years, we have done some things that have gone absolutely the wrong direction.

REP. KELSH Is the levy cap lower then what the districts are levying now or what their maximum is?

REP. MONSON It lowers the cap from 185 to 150, if you are already over that cap, then it will drop it 35 mills, from wherever you are at.

REP. KELSH In a property rich district with a lot of kids like Fargo, have you done any quick calculations what that would do?

REP. MONSON I didn't even ask for runs to be done until last Friday, because I didn't even want to know. Frankly, I don't care. I did get a run done, because I thought someone would ask. Some win some lose. Fargo loses.

REP. DROVDAL How much will one mill raise across North Dakota?

REP. MONSON 35 mills raises about 102 million, about 3 million dollars per mill.

REP. FROELICH Is it possible to get that run?

REP. MONSON Everything is possible. I have them.

With no further testimony, the committee hearing was closed.

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB 1521**

House Finance and Taxation Committee

Conference Committee

Hearing Date **February 1, 2005**

| Tape Number | Side A | Side B | Meter # |
|---------------------------|--------|----------|-----------|
| 1 | | x | 30 |
| | | | |
| | | | |
| Committee Clerk Signature | | | |

Minutes:

COMMITTEE ACTION

REP. WEILER Made a motion for a **do not pass**.

REP. GRANDE Second the motion. **Motion carried.**

10 yes 3 no 1 absent

REP. WEILER Was given the floor assignment.

FISCAL NOTE

Requested by Legislative Council
01/18/2005

Bill/Resolution No.: HB 1521

1A. **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.*

| | 2003-2005 Biennium | | 2005-2007 Biennium | | 2007-2009 Biennium | |
|-----------------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|
| | General Fund | Other Funds | General Fund | Other Funds | General Fund | Other Funds |
| Revenues | | | \$102,744,000 | | | |
| Expenditures | | | | | | |
| Appropriations | | | \$102,822,000 | | | |

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

| 2003-2005 Biennium | | | 2005-2007 Biennium | | | 2007-2009 Biennium | | |
|--------------------|--------|------------------|--------------------|--------|------------------|--------------------|--------|------------------|
| Counties | Cities | School Districts | Counties | Cities | School Districts | Counties | Cities | School Districts |
| | | | | | | | | |

2. **Narrative:** *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

HB 1521 raises individual income taxes, reduces the school district mill levy to 150 mills, and appropriates additional revenue for foundation aid payments.

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.*

The individual income tax increases contained in HB 1521 are estimated to increase state general fund revenues by \$102.744 million in the 2005-07 biennium. The bill appropriates a similar amount to augment foundation aid payments.

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, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

| | | | |
|----------------------|----------------------|-----------------------|----------------------------|
| Name: | Kathryn L. Strombeck | Agency: | Office of Tax Commissioner |
| Phone Number: | 328-3402 | Date Prepared: | 01/28/2005 |

Date: 2-1-05
Roll Call Vote #: 1

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1521

House FINANCE & TAXATION Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Not Pass

Motion Made By Rep. Weiler Seconded By Rep. Grande

| Representatives | Yes | No | Representatives | Yes | No |
|-------------------------|-----|----|-----------------|-----|----|
| BELTER, WES, CHAIRMAN | ✓ | | | | |
| DROVDAL, DAVID, V-CHAIR | ✓ | | | | |
| BRANDENBURG, MICHAEL | ✓ | | | | |
| CONRAD, KARI | | ✓ | | | |
| FROELICH, ROD | ✓ | | | | |
| GRANDE, BETTE | ✓ | | | | |
| HEADLAND, CRAIG | ✓ | | | | |
| IVERSON, RONALD | A | | | | |
| KELSH, SCOT | | ✓ | | | |
| NICHOLAS, EUGENE | ✓ | | | | |
| OWENS, MARK | ✓ | | | | |
| SCHMIDT, ARLO | | ✓ | | | |
| WEILER, DAVE | ✓ | | | | |
| WRANGHAM, DWIGHT | ✓ | | | | |

Total (Yes) 10 No 3

Absent 1

Floor Assignment Rep. Weiler

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

REPORT OF STANDING COMMITTEE (410)
February 1, 2005 12:12 p.m.

Module No: HR-21-1536
Carrier: Weiler
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1521: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO NOT PASS (10 YEAS, 3 NAYS, 1 ABSENT AND NOT VOTING). HB 1521 was placed on the Eleventh order on the calendar.

2005 TESTIMONY

HB 1521

Testimony on HB1521 Rep. David Monson

Good morning Chairman Belter and members of the House Finance and Tax Committee. For the record, I am Rep. David Monson from Dist. 10 in NE ND.

HB 1521 is a bill that I believe may solve several problems for ND. You are probably aware that the State of ND is presently being sued by the patrons in a number of school districts across the state who feel that the amount of money that we pay per pupil to their school district is not an adequate amount to provide an adequate education. They also are claiming that the way the state funds the present formula is inequitable. The present formula distributes state money raised from sales and income taxes to school districts on a per pupil basis. However, the local school district has to levy property taxes in varying amounts from district to district to meet the rest of the costs of the education in their schools. Some with lots of valuable property can get by with low levies, and others with low valuations can't raise much locally at all. The hue and cry from the people across the state seems to be that property taxes are way too high and that the state should be paying a larger portion of the cost of K-12 education. How do we do that? The simplest way to start moving in that direction is with this bill. This bill would lower the property tax cap that K-12 schools can levy from 185 mills to 150 mills. That amount is roughly \$102 Million across the state. Next this bill raises about \$102 Million by putting a surtax of 22% or a factor of .22 on personal income tax. If this bill passes it would provide property tax relief which people seem to want, and it would give the state the money needed to raise the per pupil payment from the state to the local school districts by about \$600 per pupil. This would give the state a little better chance of winning the lawsuit against us since it moves us away from the dependence on property tax and toward more dependence on the state which is constitutionally responsible for the K-12 educational system. I believe this is a win-win situation. This bill does not have a provision in it to change the current formula, and, in fact, it does not have a provision in it to mandate that this \$102 Million in added income revenue even goes to the schools. If this bill passes I would expect that we would simply add about \$600 per pupil into the K-12 funding bill and the link between this bill and K-12 funding would be complete.

Thank you for your time, and I would be happy to answer any questions you may have.