17.0768.02000

FISCAL NOTE
Requested by Legislative Council
01/10/2017

Bill/Resolution No.: HB 1276

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.*

	2015-2017 Biennium		2017-2019 Biennium		2019-2021 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

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

	2015-2017 Biennium	2017-2019 Biennium	2019-2021 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 1276 generally limits the property tax increases that are allowed on residential and commercial property to 3% per year.

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.*

Section 1 of HB 1276 limits the allowable property tax increases per parcel of residential and commercial property to 3% per year (in dollars) in instances where there is not voter approval to exceed that level. The bill makes exceptions for new property and property expansions.

If enacted, HB 1276 will put constraints on the level of increases allowed by school districts as part of the school funding formula. This restriction may result in schools receiving less revenue in total due to the restriction on the local share. The school funding formula assumes the local share fluctuates based on changes in the taxable valuation of the district. This bill limits the tax amount on individual parcels but does not affect taxable valuation.

The bill also may constrain the growth in the state's 12% state paid property tax credit.

The actual impact of HB 1276, if it is enacted, will depend on the actions of the local taxing jurisdictions and any voter approval that may be sought.

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.*

Name: Kathryn L. Strombeck

Agency: Office of Tax Commisioner

Telephone: 701.328.3402

Date Prepared: 01/17/2017

2017 HOUSE FINANCE AND TAXATION

HB 1276

2017 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1276
1/18/2017
27061

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature	Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to a limitation on property tax increases by taxing districts without voter approval.

Minutes:

Attachments 1-12

Chairman Headland: Opened hearing on HB 1276.

Representative B. Koppelman: Introduced bill. Distributed written testimony. See attachment #1. Ended testimony at 7:10

Representative Steiner: Wouldn't you agree that the question of limiting property tax growth goes back to the voting box? Why aren't the voters fixing it in Fargo/West Fargo?

Representative B. Koppelman: I find it hard to believe on a local level we can look our citizens in the eye and say we are good fiscal stewards; we're fiscal conservatives. We tell them that even though their true and value went up 15% we only raised their taxes eight percent. Our state's mean income has gone up quite a bit in the western part of the state. This is a system that has long been broken. It is exacerbated by huge growth that we haven't seen in a long time. In our state we pride ourselves in having nonpartisan elections at the local level. We don't have a republican, democrat, libertarian, green party, or anybody else running for the school board or city commission. When we don't campaign or knock on doors how do you know the individual. I'm offering a solution to this broken system. (Ended at 13:33)

Representative Hogan: Obviously property tax is a huge issue but there are two sides of this equation; the taxation side and the service side. Do you have a way to assure that every unfunded state mandate would be funded by state government or federal government so those mandates are offset the property tax cap?

Representative B. Koppelman: On the local level the bill allows them to put that to the voters' approval with a simple majority vote, not a 60% like in school elections. I'm not a fan of state mandates and those certainly run by property tax. This is an appropriate step toward reform.

Chairman Headland: Is there support for HB 1276?

Representative Jim Kasper: This is an area I have been concerned with for the past three or four sessions. We've had caps before and it's never been passed. I hope the committee gives this very favorable support.

Chairman Headland: Testimony in support? Is there any opposition to this bill?

Dr. Aimee Copas, Executive Director for the North Dakota Council of Educational Leaders: Distributed written testimony in opposition. See attachment #2. Ended testimony at 23:05.

Rick Diegel, superintendent of schools in the Kidder County School District: Distributed written testimony. See attachment #3. Ended testimony at 30:25.

Representative B. Koppelman: It sounds to me that for your school district one of the unintended consequences of this bill is the differential between the 12% cap and the three percent cap. A simple solution to make your school district whole would be to amend that section in education to amend that down to three percent and at that point you wouldn't be upside down, correct?

Rick Diegel: True but we would get so far behind if taxable valuation keeps going. It would be years out in the future before we would ever catch up to the 60 mil deduct. If you're not a growing district or even just staying the same taxes will increase because the deduct increases.

Chairman Headland: Further opposition?

Jeff Fastnacht, Superintendent of Ellendale Public School: Distributed written testimony. See attachment #4. Ended testimony at 36:14.

Chairman Headland: Further opposition.

Kevin Ternes, Minot City Assessor: Distributed testimony. See attachment #5. Ended testimony at 43:45.

Chairman Headland: Further opposition?

ElRoy Burkle, Executive Director for North Dakota Small Organized Schools: Distributed testimony. See attachment #6. Ended testimony at 46:31.

Chairman Headland: Further opposition?

Terry Traynor, Association of Counties: Distributed testimony. See attachment #7. Ended testimony at 49:24.

Chairman Headland: Further opposition?

Casey Bradley, Stutsman County Auditor and Chief Operating Officer: Distributed testimony. See attachment #8. Ended testimony at 52:49.

Chairman Headland: Can you tell the committee your percent of increase in Stutsman County?

Casey Bradley: At the county level last year we did a negative increase and this year I think it was about 3.3% so over the last two years we've averaged way under the three percent.

Chairman Headland: If we were to pass a bill like this the three percent increase would become just an automatic increase to try and build some type of reserve whether you need it or not?

Casey Bradley: In order to get to the service we need in the social service bill we've always had to stay at the 20 mils or be over the 20 mils. That would substantially help the unknowns we run into. Taking the capacity away or going to the voters to ask would cost thousands of dollars and it wouldn't be realistic. This is not a solution that will be viable long term. It will have an eroding effect in our ability to meet initiated measures.

Chairman Headland: Further opposition?

Dave Piepkorn, City Commissioner for the City of Fargo: Distributed testimony. See attachment #9. Ended testimony at 59:02.

Chairman Headland: Further opposition.

Matt Magness, President of the Fargo Park Board: Distributed testimony. See attachment #10. Ended testimony at 1:04:30.

Chairman Headland: Further opposition?

Stephanie Dassinger, Deputy Director for the North Dakota League of Cities: Distributed testimony from **Maureen Storstad, Finance Director for City of Grand Forks**. See attachment #11.

Chairman Headland: Is there anyone else who would like to testify?

Jerry Coleman, Director of School Finance and Organization for the Department of Public Instruction: Distributed testimony. See attachment #12. Ended testimony at 1:08:10.

Representative B. Koppelman: For the current formula of 12% were to become hold harmless for the three percent then that is how the schools would be made whole under this bill, correct?

Jerry Coleman: There would be a way to do that. It would also require a replacement of state taxes.

Chairman Headland: Is there anyone else? Seeing none we will close the hearing on HB 1276.

2017 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1276
2/7/2017
27992

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature	Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to a limitation on property tax increases by taxing districts without voter approval.

Minutes:

No attachments

Vice Chairman Dockter: There are two bills related to this issue. We can get rid of this one because HB1361 can be used as the vehicle. **MADE A MOTION FOR A DO NOT PASS**

Representative Mitskog: SECONDED

Chairman Headland: Discussion?

Representative B. Koppelman: We are the entity that sets the rules for property tax. It is a state created animal that the locals administer and make decisions about so it is our job to set the ground rules on how that system works. This bill intends to do that as well as the other bill. Whichever vehicle the committee thinks is the best vehicle to do that, I'm going to support the committee.

Representative Ertelt: I don't see a problem sending both bills on and let the conference committee sort out details.

Chairman Headland: That's not quite how it works. The trouble with this bill is that it creates inequities between one property owner to the next. In the Ellendale example, different properties would end up with different tax rates. I see that as a problem we really don't want to create. Is there anything else?

Representative B. Koppelman: Can we hold this bill and place it after the one we're passing so I can explain to people why I'm voting the way I am on my own bill?

Chairman Headland: Yes. That would be the intention to run them together. Is there anything else?

ROLL CALL VOTE: 13 YES 1 NO 0 ABSENT

MOTION CARRIED FOR A DO NOT PASS

Representative Steiner will carry this bill.

Date: 2-7-17
Roll Call Vote #: 1

2017 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1276

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. Dockter Seconded By Rep. Mitskog

Representatives	Yes	No	Representatives	Yes	No
Chairman Headland	✓		**Representative Hogan**	✓	
Vice Chairman Dockter	✓		**Representative Mitskog**	✓	
Representative Ertelt	✓				
Representative Grueneich	✓				
Representative Hatlestad	✓				
Representative Howe	✓				
Representative Koppelman	✓				
Representative Olson	✓				
Representative Schobinger	✓				
Representative Steiner	✓				
Representative Toman		✓			
Representative Trottier	✓				

Total (Yes) 13 No 1

Absent 0

Floor Assignment Rep. Steiner

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

REPORT OF STANDING COMMITTEE

HB 1276: Finance and Taxation Committee (Rep. Headland, Chairman) recommends **DO NOT PASS** (13 YEAS, 1 NAYS, 0 ABSENT AND NOT VOTING). HB 1276 was placed on the Eleventh order on the calendar.

2017 TESTIMONY

HB 1276

#1 p.1 of 6
1-18-17
HB 1276

HB 1276

Chairman Headland and Members of the Finance and Tax Committee,

I am Rep. Ben Koppelman from West Fargo, representing District 16.

I am here today on behalf of my constituents and constituents of other districts who find the seemingly automatic, stealth property tax increases (that on average greatly outpace inflation and incomes as well as the Consumer Price index) to be unfair and unsustainable. As I went door to door prior to the last election, the number one concern, by far, was the increase in property taxes, and it was clearly the desire of my constituents to have the state implement property tax reform.

The concept of property tax reform through annual limits of how much property taxes can increase is not a new concept in the legislature, however, these bills typically get bogged down in arguments of being against so called "local control" as well as technical arguments that voice concerns over difficulty of administration, inequitable taxation, or being unworkable by manipulating the taxable valuation. I hope to adequately explain my bill in an attempt to neutralize these objections.

First, let's examine what the bill actually does. HB 1276 limits the amount of property tax owed on an individual parcel of residential or commercial property to an annual increase of 3% (in terms of dollars). If the taxable valuation calculation yields a decrease in tax or an

#1 p. 2 of 6
1-18-17
HB 1276

increase of 3% or less, than that would be the tax due. This bill specifically accounts for tax credits and abatements coming on or off of properties as well as improvements of property and taxes to repay bonded indebtedness by excluding them from the limitations.

Now on to the concept of being against or limiting local control. Let's review a document that best defines "local control". The Tenth Amendment to the US Constitution states: ***The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.*** It mentions the state, and it mentions the people, it doesn't mention the political subdivisions. I would offer to you that this bill extends more local control to the "people"(constituents) by limiting how much local governments may confiscate from their wallets on an annual basis without their consent. This bill does not "cap" the budget of a political subdivision, it simple makes a slight adjustment to the rules that the state set up years ago which originally gave authority to the political subdivisions, giving them the authority levy property tax with some limitations. It only seems appropriate for the state to amend such rules as needed from time to time.

This bill is relatively easy to understand and implement since it leaves the tax calculation system the same as it currently is. It doesn't change

#1 p. 3 of 6
1-18-17
HB 1276

how true and full valuation or taxable valuation are derived, nor does it change how mills are added or subtracted from the tax levy. This allows for a re-set of sorts to occur on an annual basis, which allows parcels which had hit the 3% limit the previous year to "catch-up" during years where the parcel doesn't hit the 3% limit.

Consumer Price Index, or CPI has long been a metric that can be used to measure incomes and inflation. It has only increased by more than 3% five times since 2000, with the highest rate being 3.8% in 2007. However, property taxes increases for the individual property owner have greatly outpaced incomes and inflation in recent years. Over the past 4 years, the increases in property tax statewide have averaged 6.5% per year. That is 6 times the rate of inflation as measured by CPI. This is unsustainable, and our citizens are begging us to reform this tax.

Mr. Chairman and members of the committee, please join me in taking the first step toward property tax reform. I would be happy to answer any questions.

U.S. Department of Labor
Bureau of Labor Statistics
Washington, D.C. 20212

Consumer Price Index
All Urban Consumers (CPI-U)
Midwest
All Items
1982-84=100

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Avg	Percent Change Dec.-Dec.	Percent Change Avg.-Avg.
1990	124.5	124.9	125.5	125.8	126.0	126.9	126.9	128.4	129.4	130.0	130.4	130.2	127.4	5.7	4.9
1991	130.5	130.8	131.3	131.5	132.3	132.6	132.4	132.8	133.4	133.6	134.0	134.1	132.4	3.0	3.9
1992	134.1	134.3	134.8	135.1	135.5	136.0	136.3	136.7	137.2	137.4	137.6	137.7	136.1	2.7	2.8
1993	138.1	138.6	139.0	139.4	139.8	140.0	140.0	140.4	140.9	141.5	141.4	141.2	140.0	2.5	2.9
1994	141.5	142.1	142.6	142.9	143.3	144.0	144.3	145.2	145.6	145.3	145.8	145.7	144.0	3.2	2.9
1995	146.1	146.7	147.3	148.1	148.3	148.7	148.8	148.9	149.4	149.6	149.5	149.5	148.4	2.6	3.1
1996	150.2	150.8	151.7	152.3	152.7	152.9	153.2	153.4	154.0	154.4	155.0	155.3	153.0	3.9	3.1
1997	155.5	155.9	155.9	156.1	156.3	156.7	156.6	157.2	157.5	157.7	157.7	157.3	156.7	1.3	2.4
1998	157.6	158.0	158.4	159.0	159.4	159.5	159.8	159.5	159.9	160.1	160.1	159.8	159.3	1.6	1.7
1999	160.4	160.5	161.0	162.2	162.2	162.5	162.9	163.2	164.3	164.3	164.6	164.4	162.7	2.9	2.1
2000	164.9	165.9	167.1	167.0	167.5	169.7	168.8	168.2	170.0	170.1	170.3	170.2	168.3	3.5	3.4
2001	171.9	172.1	171.7	172.8	174.2	173.8	172.5	173.0	174.6	172.6	172.5	171.9	172.8	1.0	2.7
2002	172.1	172.5	173.6	174.7	174.8	175.3	175.3	175.8	176.2	176.3	176.1	175.5	174.9	2.1	1.2
2003	176.2	177.8	178.6	177.8	177.7	178.4	178.1	178.8	179.5	179.1	178.9	178.4	178.3	1.7	1.9
2004	179.4	180.2	181.0	181.5	182.9	183.3	183.2	183.3	183.6	184.5	184.8	183.8	182.6	3.0	2.4
2005	184.1	185.2	186.3	187.7	187.4	187.8	188.4	189.7	192.5	192.1	190.3	189.7	188.4	3.2	3.2
2006	190.8	190.7	192.0	193.0	193.6	194.1	194.6	195.1	193.7	192.3	192.8	192.9	193.0	1.7	2.4
2007	193.068	194.458	196.389	197.405	199.194	199.263	198.989	198.551	199.714	199.455	200.762	200.227	198.123	3.8	2.7
2008	201.427	201.896	203.723	205.393	207.168	208.968	210.071	209.351	209.252	206.019	201.737	199.582	205.382	-0.3	3.7
2009	200.815	201.453	202.021	202.327	203.195	205.350	204.814	205.632	205.601	205.706	206.247	205.613	204.064	3.0	-0.6
2010	206.564	206.563	207.359	207.777	207.987	207.886	208.211	208.639	208.788	208.689	208.816	209.270	208.046	1.8	2.0
2011	210.388	211.090	212.954	214.535	215.899	215.954	216.099	216.586	216.968	215.653	215.614	215.173	214.743	2.8	3.2
2012	216.368	216.855	218.975	219.405	219.145	219.017	218.956	220.462	221.125	220.375	219.483	219.033	219.100	1.8	2.0
2013	219.282	221.599	222.121	221.931	223.049	223.775	222.902	223.046	223.252	222.171	221.718	221.194	222.170	1.0	1.4
2014	222.247	223.493	225.485	226.214	226.565	227.588	226.997	226.587	226.913	225.793	224.396	222.821	225.425	0.7	1.5
2015	221.545	222.301	223.550	223.797	224.732	225.946	225.853	225.830	225.184	225.050	224.009	222.722	224.210	0.0	-0.5
2016	223.301	223.196	224.621	225.609	(r)226.476	(r)227.835	(r)226.786	(r)227.097	227.636	227.358	226.673				

(r) Revised.

Av
1.1

CPI only exceeded 3% 5 times since 2000. Highest rate during same timeframe was 3.8% in 2007

HB1376
1-18-17
p.4of6
#1

#1 p.5 of 6
1-18-17
HB 1276

General Property Taxes by County
Payable in 2013-2016

County	2013 Total Ad Valoerm Property Taxes	Percent Change	2014 Total Ad Valoerm Property Taxes	Percent Change	2015 Total Ad Valoerm Property Taxes	Percent Change	2016 Total Ad Valoerm Property Taxes	Percent Change
Adams	3,040,005	12.6	3,145,493	3.5	3,319,560	5.5	3,587,397	8.1
Barnes	16,939,763	4.2	15,426,554	-8.9	15,804,305	2.4	17,277,674	9.3
Benson	5,244,552	4.9	5,108,902	-2.6	5,626,520	10.1	5,982,152	6.3
Billings	1,043,266	13.3	1,721,699	65.0	1,916,509	11.3	2,229,009	16.3
Bottineau	10,090,483	8.2	9,402,435	-6.8	10,628,214	13.0	11,035,588	3.8
Bowman	4,385,060	13.5	4,048,843	-7.7	4,375,314	8.1	4,643,060	6.1
Burke	3,171,618	15.9	3,621,460	14.2	4,528,332	25.0	4,951,376	9.3
Burleigh	87,880,694	4.8	83,274,094	-5.2	92,834,718	11.5	100,676,847	8.4
Cass	191,534,773	3.2	172,035,017	-10.2	185,537,551	7.8	203,289,801	9.6
Cavalier	8,622,146	11.2	8,421,941	-2.3	9,511,093	12.9	10,030,845	5.5
Dickey	8,217,795	3.3	7,915,935	-3.7	8,183,481	3.4	8,886,527	8.6
Divide	3,535,146	19.3	3,929,407	11.2	4,745,620	20.8	5,783,059	21.9
Dunn	4,403,200	9.3	4,885,813	11.0	5,449,176	11.5	7,162,328	31.4
Eddy	2,935,761	9.1	2,723,543	-7.2	2,865,089	5.2	3,067,572	7.1
Emmons	4,998,407	8.1	4,530,549	-9.4	4,971,208	9.7	5,587,048	12.4
Foster	4,718,434	5.0	4,555,697	-3.4	5,169,402	13.5	5,493,418	6.3
Golden	1,899,861	7.0	1,847,968	-2.7	1,818,431	-1.6	1,956,069	7.6
Grand	79,763,228	4.9	74,847,935	-6.2	79,584,089	6.3	83,443,986	4.9
Grant	3,533,096	8.4	3,079,428	-12.8	3,532,112	14.7	4,119,426	16.6
Griggs	4,725,873	12.2	4,287,204	-9.3	4,411,435	2.9	4,582,952	3.9
Hettinger	4,708,783	19.8	4,261,384	-9.5	4,460,550	4.7	4,866,684	9.1
Kidder	2,946,328	-5.6	2,874,721	-2.4	3,037,514	5.7	3,178,204	4.6
LaMoure	6,515,873	8.7	6,366,874	-2.3	6,859,522	7.7	7,873,920	14.8
Logan	2,819,296	5.2	2,663,948	-5.5	3,010,343	13.0	3,257,009	8.2
McHenry	7,772,537	11.5	7,092,922	-8.7	8,037,499	13.3	8,004,510	-0.4
McIntosh	3,679,627	2.5	3,224,790	-12.4	3,423,221	6.2	3,679,933	7.5
McKenzie	5,681,790	33.3	9,618,269	69.3	14,315,877	48.8	19,943,645	39.3
McLean	9,235,942	3.1	8,233,454	-10.9	9,423,379	14.5	12,538,222	33.1
Mercer	7,380,068	7.7	6,909,050	-6.4	7,262,094	5.1	7,947,574	9.4
Morton	30,743,540	3.1	28,155,390	-8.4	29,913,583	6.2	31,823,916	6.4
Mountrail	10,996,135	14.7	12,014,776	9.3	14,612,878	21.6	17,087,073	16.9
Nelson	5,609,595	6.1	5,096,543	-9.1	5,053,859	-0.8	5,320,502	5.3
Oliver	2,411,610	4.4	2,203,417	-8.6	2,429,579	10.3	2,631,210	8.3
Pembina	12,176,848	12.1	11,063,957	-9.1	11,801,210	6.7	12,490,430	5.8
Pierce	5,716,931	7.5	5,692,467	-0.4	6,695,098	17.6	6,906,629	3.2
Ramsey	12,447,069	5.9	11,201,313	-10.0	13,199,444	17.8	13,529,935	2.5
Ransom	7,461,625	4.8	6,903,101	-7.5	7,348,529	6.5	7,733,818	5.2
Renville	3,806,846	10.7	3,681,803	-3.3	3,952,463	7.4	4,554,550	15.2
Richland	22,291,733	5.1	21,130,518	-5.2	22,880,143	8.3	24,258,002	6.0
Rolette	3,745,751	2.3	3,375,835	-9.9	3,633,664	7.6	4,137,257	13.9
Sargent	7,337,556	6.9	6,971,645	-5.0	7,332,098	5.2	7,621,805	4.0
Sheridan	2,180,058	6.0	2,032,243	-6.8	2,193,688	7.9	2,395,728	9.2
Sioux	742,983	-0.8	639,383	-13.9	800,217	25.2	873,196	9.1
Slope	1,332,317	13.0	1,311,685	-1.5	1,222,715	-6.8	1,329,198	8.7
Stark	26,481,769	15.6	30,345,625	14.6	37,782,938	24.5	44,513,068	17.8
Steele	5,822,761	4.2	5,784,906	-0.7	5,751,197	-0.6	5,819,301	1.2
Stutsman	24,480,683	4.1	22,756,567	-7.0	25,527,745	12.2	26,229,043	2.7
Towner	4,456,802	8.0	4,431,461	-0.6	4,583,523	3.4	4,849,415	5.8
Traill	11,157,620	5.3	10,607,475	-4.9	11,247,195	6.0	12,318,394	9.5
Walsh	13,790,821	5.7	13,072,916	-5.2	14,060,687	7.6	15,054,165	7.1
Ward	65,939,042	22.3	68,124,737	3.3	78,768,111	15.6	89,821,403	14.0
Wells	6,799,723	6.6	6,432,130	-5.4	7,428,143	15.5	8,054,409	8.4
Williams	25,588,681	28.0	33,148,597	29.5	45,431,625	37.1	54,553,304	20.1
Total	814,941,904	7.5	786,233,819	-3.5	878,292,489	11.7	968,981,591	10.3

4yr
6.5% Avg

Source: North Dakota Office of State Tax Commissioner. Property Tax Division, "Property Tax Statistical Report."

#1 p. 6 of 6
1-18-17
HB 1276

NORTH DAKOTA PROPERTY TAX SYSTEM

Total Proposed Local Budget ± **Adjustments to the Proposed Budget After Input From Public Hearings** − **All Non-Property Tax Revenue** (• State Aid • Unobligated Cash • Fees, etc.) = **Property Tax Revenue Needed (Levy in Dollars)**

True and Full Value (Agricultural Value) (Market Value) × **50%** = **Assessed Value** × **9% Residential / 10% Commercial / 10% Agricultural / 10% Centrally Assessed / 3% Wind Generator or 1.5% Wind Generator** = **Total Taxable Value of All Property in the Taxing District**

Property Tax Revenue Needed (Levy in Dollars) ÷ **Total Taxable Value of All Property in the Taxing District** = **Mill Rate**

Your Property's Taxable Value × **Mill Rate** = **Consolidated Tax** − **12% State Paid Credit** = **Your Net Property Tax Due**

All property in North Dakota is subject to property tax unless it is specifically exempted. Except for a one-mill levy for the State Medical Center, property taxes are administered, levied, collected and expended at the local level for the support of schools, counties, cities, townships and other local units of government. The State does not levy a property tax for general government operations.

The property tax is an "ad valorem" tax, that is, it is based on the value of the property subject to tax.

12% STATE PAID CREDIT

	Ad Valorem Taxes	State Paid Tax Credit	Net Tax
Levied in 2013 - Payable in 2014	$786,233,820.42	$94,348,058.46	$691,885,761.96
Levied in 2014 - Payable in 2015	$878,292,488.95	$105,395,098.69	$772,897,390.26
Levied in 2015 - Payable in 2016	$968,981,590.74	$116,277,790.90	$852,703,799.84

#2 p.1 of 4
1-18-17
HB1276

Testimony in Opposition to HB 1276
NDCEL
Dr. Aimee Copas – Executive Director
1/18/2017

Good morning Chair Headland, Vice Chair Dockter and members of the committee. My name is Dr. Aimee Copas and I serve as the Executive Director for the North Dakota Council of Educational Leaders which represents our school's leaders including the Superintendents, Principals, County Superintendents, Business Officials, Career and Technical Education Directors, Tech Ed Directors, Special Ed Directors, Athletic Directors and REA Directors. We come to you in opposition to HB1276 which limits property tax increases by taxing districts without voter approval.

This limitation has challenges on its face on the basis of the challenging times we are all facing with budgetary cuts with complementary increases in operational costs which are largely outside of the control of many of our entities. A piece of understanding how this impacts schools must be accompanied with a good understanding of how the funding of our schools actually works on the basis of our foundation aid formula.

Foundation Aid Formula

- The majority of school funding comes through state foundation aid. With the recent levy and cap limits to local levy authority school districts have become exceedingly reliant on state foundation aid.
- The foundation aid formula has moved from being property-centric to student-centric.

#2 p.2014
1-18-17
HB 1276

There are some important factors to properly understand the funding formula:

- The formula is based on your school's Spring Average Daily Membership (ADM) from the previous year, which doesn't account for any school districts exhibiting growth.
- ADM is based on the total number of days that a student has been enrolled. If a student starts at the beginning of the school's calendar year and completes the year, that students would represent 1 ADM.
- Deductions for in-lieu taxes and a significant portion of the local levy have been added to equalize funding.
- Minimum and maximum payments are in place, but are based on the state funding received in the 2012-2013 school year. As such, it doesn't account for declining enrollment beyond the ability to use the previous years ADM.
- Your district's "total weighted ADM" will be multiplied by a weighting factor depending on the student enrollment in your district. This number of "total weighted student units" is then multiplied by the per student payment rate. After deductions Contributions for Local Property Tax and Other Local Revenue, you will reach your state aid payment

State Payments are determined through a number of different calculations based on the following categories:

- Student Membership
- Other Program Membership
- Formula Adjustments
- Contribution from Other Local Revenue
- Contribution from Property Tax
- Baseline Funding
    - **Total Formula Payment (Weighted ADM x Student Payment) is not the funding that districts receive.** The intent of the deductions for local contribution and in-lieu taxes were to equalize state aid payments across school districts. Essentially, the concept is that the foundation aid amount is what is needed to adequately educate a child and is inclusive of state AND local revenue.

#2 p.3 of 4
1-18-17
HB 1276

- **The local levy authority has dwindled in the last decade from 185 mills to 110 mills to 70 mills (60 general fund + 10 board discretionary). Note: These 70 mills are limited by 12% growth regardless of property valuation increases, decreases, cost increases, etc.**

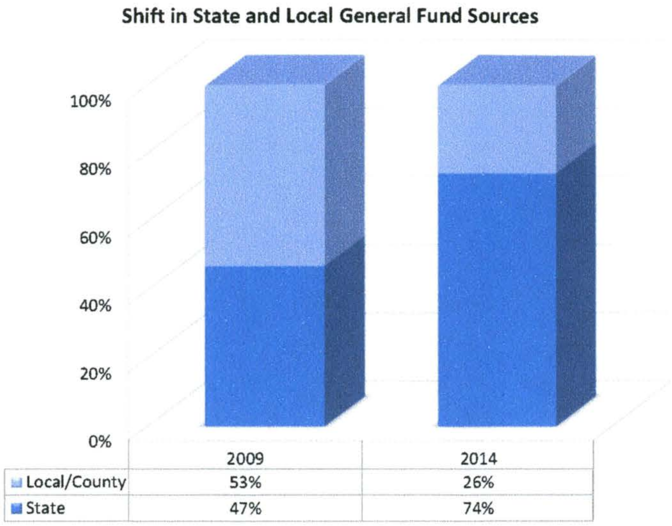
During a difficult financial times is a challenging time to tie the hands of locally elected officials to do their jobs and determine within the current authority that is granted to them the amount of increase that is needed. To assume that a statewide mandate of 3% and taking that decision making authority even further away from them. This erodes on of most sound principals our state has been founded on and that is local control and trusting our locally elected officials.

With me I have a couple school superintendents that will provide specific examples and will be able to accurately answer questions regarding the impact of the 3% cap. With that, I will ask for your recommendation of a Do Not Pass on HB 1276, and ask for Jeff Fastnacht and Rick Diegel to join me at the podium to provide their district examples and answer questions you may have.

#2 p. 4 of 4
1-18-17
HB 1276

North Dakota K-12 School Funding Formula

In 2013, the state implemented a K-12 funding formula tied to the cost of providing an adequate education and funded it with a combination of state and local taxes. Local property tax levy authority was decreased significantly with statewide taxes making up the difference. Statewide taxes are now funding approximately 75% of the cost of education.



The local share is 60 mills on taxable valuation and 75%-100% of other local in-lieu of property tax revenue. The state funds the remainder up to the adequate amount.

The formula is student driven and uses various weights to account for the increased costs associated with school district size and serving students with special needs. A base per student funding rate is set by the legislature designed to generate the resources necessary to educate students to state standards. In addition, there are transitional adjustments included to minimize budget impacts that inevitably occur when making major changes.

In the end, North Dakota's K-12 funding formula provides a base of financial support per student sufficient to provide an adequate education by school districts, regardless of where the student lives or what the taxable valuation is of the district.

K-12 School Funding Formula		
Part One: Calculate Base Funding Amount		Example
	Student Membership (ADM)	300
+	Other Program Weighted ADM	30
=	Weighted ADM	330
x	School District Size Factor	1.13
=	Weighted Student Units	373
x	Per Student Rate	9,092
=	Total Formula Amount	3,391,316
+/-	Transition Adjustments	-
=	Total Adjusted Formula Amount	3,391,316
Part Two: Determine State Aid Payment		
Local Share	60 mills times taxable valuation	600,000
	75%-100% of other local in-lieu revenue	60,000
State Share	Difference is State Aid Payment	2,731,316

The Legislature, through the interim Education Funding Committee, contracted with Picus-Odden and Associates to conduct a recalibration study to confirm the adequacy of that base level of support.

The consultants use an evidenced – based (EB) model to determine the resources necessary to educate students to college and career ready proficiency. Included in the model are all of the components necessary to meet the standards. This includes core staffing, administration, operations, professional development, technology and instruction materials. Their report was presented to the Interim Education Funding Committee in June, 2014. The report can be found in the meeting minutes at http://www.legis.nd.gov/assembly/63-2013/interim/15-5088-03000-meeting-minutes.pdf?20141016152129.

#3 p.1 of 2
1-18-17
HB 1276

Kidder County Public School District #1

High School Principal - Steele & Tappen
nell Schmidt
Elementary Principal - Steele & Tappen
Ryan Larson
PK-12 Assistant Principal - Tappen
Serena Schmidt
Business Manager
Sonya Larson

RICHARD DIEGEL, Superintendent

Steele Administrative Office
PO Box 380 101 4th St SE
Steele, ND 58482
Phone: 701.475.2243
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Secretary: Darci Mittleider

Tappen Administrative Office
PO Box 127 325 2nd St NE
Tappen, ND 58487
Phone: 701.327.4256
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Secretary: Rhoda Lachenmeier

Board of Education:
Burdell Johnson, President
Mandy Rath, Vice President
Jason Schmidt, Director
Ty DeWitz, Director
Mona Thompson, Director
Shari Pfaff, Director
Josh Rode, Director

Testimony in opposition to HB 1276

Good morning chairman Headland and members of the House Finance and Taxation Committee, my name is Rick Diegel, I am the superintendent of schools in the Kidder County School District and I am testifying in opposition to HB 1276.

- I absolutely get the concerns about rising property taxes, however I feel the enemy here is NOT school districts, the real enemy here is current funding formula. This formula has a "60 mill deduct", which is based on the value of 60 mills in your district. Each year, when taxable valuation increases, the amount that is deducted increases. Therefore, I have to raise local taxes that amount just to stay even.
    - The following are the increases in Kidder County's deduct:
        - For 2014-2015 - $58,974
        - For 2015-2016 - $32,582
        - For 2016-2017 - $100,834 – Still will increase an additional $74,528, however we hit the 12% maximum that can be deducted. This will be made up in future years.
- Last fall I had approximately 30 people attend my Zero Mill Increase meeting last fall. However, we took a lot of time and explained the funding formula and I was very blunt in telling them that with this funding formula, we will be increasing taxes every year as long as taxable valuation increases, causing the deduct to increase. People asked a lot of questions, and they still left the meeting upset their taxes were increasing, they just were no longer mad at the school district.
- The other flaw in this formula occurred to the Kidder County District last year when the Robinson School District closed and joined our district. There was a time when Tom Decker was here that combining and joining districts was encouraged, but it is not under this formula. You may have noticed the large jump in the deduct this year in the information I presented earlier. The reason for this is that Robinson School district ceased to exist, and joined Kidder County. We gained 3 students from this closure, but also gained $1,735,872 in taxable valuation. Because of the 60 mill deduct, that means simply because of taking in the Robinson School District, my 60 mill deduct increased $104,100. If you

take away the gain that I received from students, that is still a $75,000 total loss for the Kidder County School District, and I would have gained those 3 students whether I took in the Robinson School District land or not, so the loss is probably the entire $104,100. There is something wrong with a funding formula that punishes a district for joining with another district and punishes our local tax payers.

- If HB 1276 passes, and our new limit to increase local property taxes falls from 12% from the previous year to 3%, I would hope that the maximum increase that the 60 mill deduct could increase would also be lowered to 3%. Currently they match at 12%. It simply isn't fair if the 60 mill deduct could increase 8%, but I could only increase my local levy 3%, I couldn't even make up the new dollars that is being deducted from me. However, if the 60 mill deduct is limited to only grow by 3%, many districts will hit that limit, causing the state aid payments to be higher since the deducts will be lower.

I know this is very confusing, and if any of you would like to sit down privately and discuss it, I'd be happy to do it.

#3 p. 2 of 2
1-18-17
HB 1276

Are there any questions?

#4 p.1 of 3
1-18-17
HB 1276

Ellendale Public School

Superintendent
Jeff G. Fastnacht

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High School Principal
Matthew Herman
Elementary Principal
Dan Girard
Business Manager
Lana Norton

Board of Education
Cay Durheim, President
Scott Wertz, Vice Pres
Kent Schimke, Director
Charlene Kinzler, Director
Michele Thorpe, Director

HB 1276 – Relating to a Limitation on Property Tax Increase
Testimony in Opposition
Ellendale Public School – Supt. Jeff Fastnacht
North Dakota Association of School Administrators – President Jeff Fastnacht

Good day Chair Headland, Vice Chair Dockter, and members of the House Finance and Taxation Committee. For the record, my name is Jeff Fastnacht and I serve as the Superintendent for Ellendale Public School as well as the President of the North Dakota Association of School Administrators. I stand before you today providing testimony in opposition of HB 1276.

The limitations on a school's taxing authority are presently limited by the mill levy caps already within statute. This bill would dramatically restrict the authority of locally elected school board members to properly manage their districts finances even within those already stringent restraints.

I am concerned that the changes proposed with HB 1276 would have a dramatic negative impact on schools within the foundation aid formula. At the present time the value of 60 mills is deducted from school's foundation aid as a local assessment. Provisions are in place presently to ensure schools are held harmless if the 60 mill deduct would escalate faster than their ability to generate those funds locally. I am concerned that the limitations proposed by this bill are not tied to the foundation aid formula in a similar fashion.

I have supplied to the committee a snap shot of the past three years of school taxation on the patrons of Ellendale School. If you look at the line named "Increase from Previous" in the top section, this reflects the percentage increase in my school's total request from year to year. In 2016 that increase was 1.70%, under the 3% outlined in this bill. However, actual tax payers in my district will see varying difference in the percentage increase of their school tax in dollars. Looking at the other three yellow boxes we have 1.11, .88, and 3.81 percent. Based on this bill should Taxpayer R1 and B have to pay more to reduce the request for tax payer R2 to 3%? How would this be calculated, by an increased mill on taxpayers R1 and B? Does the school get to increase the tax on R1 and B to obtain their requested dollars?

One more cause for concern. In some instances, schools are forced to tax based on the actions of other entities. The City of Ellendale several years back improved roads and assessed a special assessment. Commonly schools will use a special assessment of their own to generate the funds to pay for the improved streets. If a school was requesting zero dollars in a special assessment levy year one, how can they generate any dollar's year two to pay for an assessment like this. Simplistically, three percent of zero is zero.

It is my view this bill is trying to change the taxing methodology, but this bill is silent on how it intends to get there, which is concerning.

I oppose this or any bill that takes local control from locally elected school officials.

I stand for any questions.

#4 p. 3 of 3
1-18-17
HB 1276

HB 1276 - Relating to the Limitation on Property Tax Increase

Testimony in Opposition

by Jeff Fastnacht, Supt. Ellendale Public Schoo

	2016	2015	2014	2013
District Valutaion	$ 16,854,654.00	$ 16,288,506.00	$ 15,746,273.00	$ 14,688,210.00
Valuation Growth	3.48%	3.44%	7.20%	
$ Requested GF	$ 1,184,600.00	$ 1,135,995.00	$ 1,090,000.00	$ 987,000.00
$ Requested Total	$ 1,600,389.78	$ 1,573,679.00	$ 1,437,300.00	$ 1,404,500.00
Increase from Previous	1.70%	9.49%	2.34%	
Mill Rate	94.96	96.97	91.27	95.63
Taxpayer Implications				
Total School Tax				
Taxpayer R1 JF				
Tax Value	$ 5,297.00	$ 5,130.00	$ 4,671.00	
School Tax $	$ 503.00	$ 497.46	$ 426.32	
% Change	1.11%	16.69%		
Taxpayer B TV				
Tax Value	$ 4,443.00	$ 4,319.00	$ 4,319.00	
School Tax $	$ 421.91	$ 418.22	$ 394.20	
% Change	0.88%	6.09%		
Taxpayer R2 MT				
Tax Value	$ 4,761.00	$ 4,491.00	$ 4,091.00	
School Tax $	$ 452.10	$ 435.49	$ 373.38	
% Change	3.81%	16.63%		

What is the correlation between a taxing entities % increase and the actual increase for a single tax payer?

#5 p. 1 of 4
1-18-17
HB 1276

NORTH DAKOTA HOUSE FINANCE AND TAXATION COMMITTEE

1/18/2017

House Bill No. 1276

TO: Chairman Headland, House Finance and Taxation Committee

FROM: Kevin Ternes, Minot City Assessor

Thank you for accepting my testimony on behalf of House Bill No. 1276.

As I understand the intent of the bill it would be to keep an individual property's taxes from going up more than 3% compared to the prior year with exceptions.

According to state law now, the local assessor estimates the market value of the property and that calculation is called True and Full Value. Then the Assessed Value is calculated at 50% of the True and Full Value. Then the Taxable Value is calculated at a certain percentage of the Assessed Value depending on whether the property is commercial or residential. Then the mill levy is applied to that Taxable Valuation. It's a rather complicated process as mandated by state law now. This bill requires several additional calculations to be made on each property's assessment without simplifying the already cumbersome process.

HB 1276 is going to require that somewhere in this process of calculating 3 values and one resulting property tax amount a 3% cap is going to have to be calculated for each parcel. That's after considering what exceptions to the cap are allowed under this proposal. I am not sure how the local assessor would code various exceptions to the cap for individual properties now as they would be uploaded to the county's billing system.

The final arrival at an annual True and Full Value as estimated by the local assessor can be the culmination of many things to include new construction, a total or partial remodel of a building, a real estate market that is increasing or decreasing in value, a lost or expired exemption or credit, or a new updated rental or lease agreement for commercial property that is replacing an old rent agreement from years ago. Sometimes the market indicates certain houses or groups of neighborhoods or styles of homes are more popular than the prior year. It would be cumbersome for some software programs to somehow code the various reasons why an assessment would have gone up and to group the exceptions as it is uploaded to a county's property tax billing software and what the "cap" applied would be in the 4 step calculation

#5 p.2 of 4
1-18-17
HB 1276

process that currently has to take place. At the very minimum, I don't think software could be readied or re-written by the end of 2017 for the 2018 assessments. And I'm not certain how an automated system would work to fully comply with this bill or if each parcel would have to be handled separately.

In addition to assessors who round an assessment valuation to the nearest $100 or $200 or $1,000 in True and Full Value for simplicity I'm not sure how a 3% cap would affect the overall totals in the final analysis with those programs that round figures. Without an individual code from the assessor for each assessment that went up, the county's system won't know whether that is one of the exceptions to the freeze as listed in this bill or not.

I would ask that the committee give us some guidance on what types of "improvements" we should consider as the exception. Would it include new repairs or construction type remodeling that requires a local building permit or not? Would a new kitchen count as an improvement or would the taxpayer say it's not an improvement but rather just a repair? We would probably all agree that new decks, porches, garages and living area additions are considered improvements. But is new siding and windows, complete new floor covers and kitchen which always changes the condition and therefore market value of a home also to be considered an improvement? I'm afraid an adequate list of examples of what is an improvement or not is going to be very important to facilitate a 3% cap program with certain exceptions on an already 4 step calculation process.

In addition a house can go up in market value for various reasons. For instance a new $5,000 deck or new roof, siding and windows, plus the neighborhood might have changed on average a plus 5%. Now the assessor looks at the finished product and compares that to other comparable sales in their database or model. But this is going to require the assessor to somehow decide how much was a market increase, how much was a result of repairs(non improvements), how much was new improvements, calculate all that somehow within their software, add what can be allowed, and cap at 3% what can't be allowed. I'm quite perplexed at how the calculations would be made and further how to explain it to the taxpayer.

So these are just a few of the questions raised as to how to administer this bill:

Does the assessor provide an actual True and Full Value to the County Auditor AFTER improvements, or before and then add additional True and Full Value for improvements?

Does the assessor provide an actual True and Full Value without, then a total True and Full Value with improvements?

Does the assessor provide an actual True and Full Value, code the property as having been improved, then the County Auditor applies the Assessment rate, then the Taxable Value

#5 p. 3 of 4
1-18-17
HB 1276

rate, and then Mill Levy rate to the parcel based on the code that it is to be frozen or not to be frozen?

Beyond our uncertainty as to how to administer the process, property tax increase caps also do in fact create inequities among dollars paid as a percentage of the actual market value. That is an accepted fact and has been studied for years. For instance, in Minot there were several years since 2011 until 2015 where certain parts of the city simply showed a greater market appreciation then other parts of town. In other cities it's not uncommon for certain newer, more modern neighborhoods to show a greater market value increase then the older neighborhoods with the smaller homes. If one neighborhood appreciates 2% in one year, while across town another neighborhood appreciates 4% or5% a year, it won't take long for a 3% cap on taxes owed will clearly benefit one class of homes or neighborhood over the other. You most certainly will have some cities in one county that might show a growth rate of more than 3% in some years over another city which will give the more valuable or popular city a lower effective tax rate then the non-growth city or area of the county.

This inequity be front and center for taxpayers to see as it will appear at the bottom of the current tax statement that indicates an effective tax rate. In Minot now, every taxpayer who owns a residential home has an effective tax rate of 1.12% as listed on their tax statement. That rate is the same for everybody who owns a residential property if they are in the Minot School District. The first year a 3% cap or any % cap is attempted, that effective tax rate will differ and will be lower for owners of more popular, faster market value appreciating houses or neighborhoods then in the older neighborhoods with smaller older homes. I wonder if this will be harder to explain to taxpayers as they compare their property tax bills then the explanation now which is everybody is assessed at market value and the tax rate is the same. The final line on the tax statement, the net effective tax rate will be lower for the newer, more popular homes then the older, smaller homes. When people start paying different effective tax rates on their property, I don't see how we can explain that as fair and equitable.

In addition you could have a home or neighborhood that was froze at 3% caps that could over several years of growth for instance be 10% below the market. Then a year comes along where the market levels off or drops a few percentage points. In that immediate year of a slowdown, the neighborhood reaping the benefit of a 3% growth cap would still be going up (because ND assesses at market value) in taxes while everybody is level or dropped off because the higher growth neighborhoods are still in the process of trying to catch up to the actual market value at 3% increments and were paying tax on an artificially low assessment. That will be another tough phone call to explain to taxpayers why their assessment is going up when the market leveled or dropped off.

#5 p. 4 of 4
1-18-17
HB 1276

To summarize, as an assessor I would ask for additional clarification on the exceptions specifically Section 1, 1 (a) in the definition of "improvements", additional time to implement the software to sort through all the calculations, and also ask that you consider the unintended result of different effective tax rates listed on property tax statements, namely lower for those folks whose properties are more popular and generally newer.

#6
1-18-17
HB 1276

North Dakota Small Organized Schools

NDSOS

Mr. ElRoy Burkle
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January 17, 2017

Dear North Dakota House Finance and Taxation Committee Members,

For the record, my name is Mr. ElRoy Burkle, Executive Director North Dakota Small Organized Schools (NDSOS), representing 141 North Dakota Public School Districts. NDSOS goes on record of opposing HB 1276.

We realized these are difficult financial times in North Dakota State Funding. However, with the uncertainty of state funding for Career and Technical Education, Information Technology, Center for Distance Learning, DPI – Transportation (HB 1073) and other K12 related reductions, reducing school districts taxing limit from the current 12% limit to the proposed 3% limit will greatly impact schools' ability to adequately fund existing programs. The 12% limit will be a challenge. A 3% limit will create hardships for schools experiencing slight enrollment increases, stable enrollments, and obviously, declining enrollments.

Research also must be considered as to how this proposed bill will impact school district funding specific to NDCC 15.1-27-04.1.4.a. "4. After determining the product in accordance with subsection 3, the superintendent of public instruction shall: a. Subtract an amount equal to sixty mills multiplied by the taxable valuation of the school district, provided that after 2013, the amount in dollars subtracted for Page No. 6 purposes of this subdivision **may not exceed the previous year's amount in dollars subtracted for purposes of this subdivision by more than twelve percent; and ."** An over simplified example would be if a school district's tax value increased 10%, their deduction would increase by more than what they could tax keeping the same mill rate if this bill were to pass as written. This would be detrimental to schools, especially small, rural schools.

Thank you for your time and consideration.

Respectfully,

Mr. ElRoy Burkle, Executive Director
North Dakota Small Organized Schools (NDSOS)
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Jamestown, ND
701-230-1973
elroy.burkle@k12.nd.us or eburklendsos@yahoo

#7 p.1 of 2
1-18-17
HB 1276

Testimony To The
HOUSE FINANCE & TAXATION COMMITTEE
Prepared January 18, 2017 by
Terry Traynor, Assistant Director of the
North Dakota Association of Counties

REGARDING HOUSE BILL No. 1276

Thank you Chairman Headland and committee members for the opportunity to address House Bill 1276 on behalf of county government. The county officials that make up the North Dakota Association of Counties believe they understand the goal of this bill, but they also believe that the adverse impacts would greatly exceed its benefits, and therefore urge a Do Not Pass.

As may have been noted already, the taxing limitation proposed by this bill is stated beginning on Page 1, line 12 as; *"The amount of property tax levied in dollars by a taxing district* *<u>on an individual parcel</u>* *of commercial or residential property may not exceed the amount the taxing district levied on that parcel in dollars in the preceding taxable year by more than three percent..."* As the members of this committee are aware; property tax changes from year to year must vary from parcel to parcel – as a reflection of valuation adjustments. Overall property taxes can go down in a taxing jurisdiction, while a particular parcel may see an increase in taxes because the valuation of that property may have risen in excess of the jurisdiction-wide average. It doesn't seem logical to trigger a jurisdiction-wide vote, if a handful of parcels see a tax increase, while the majority does not.

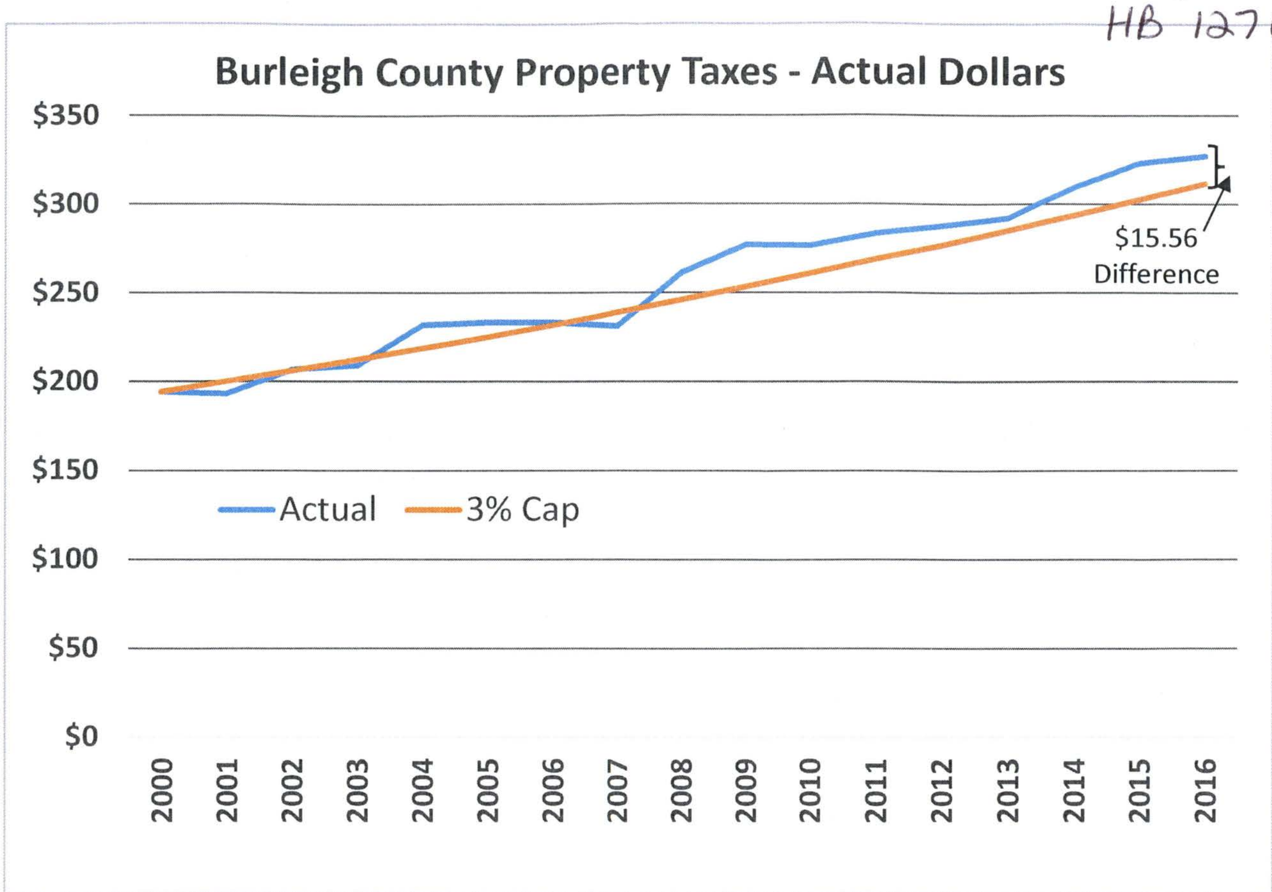
Even if the limitation was tied to an average tax adjustment, county officials fail to see the need for this bill – when looking at taxes over the long term. On the reverse of this sheet, you will see a chart of the actual county taxes paid *"on an individual parcel"* in Burleigh County – a county often seen as a high taxing area. As you can see, when compared to an annual 3% increase, some years are above and some are below, but by the end of the most recent fifteen-year period, the variance from 3% is extremely small. It actually amounts to $1 per year.

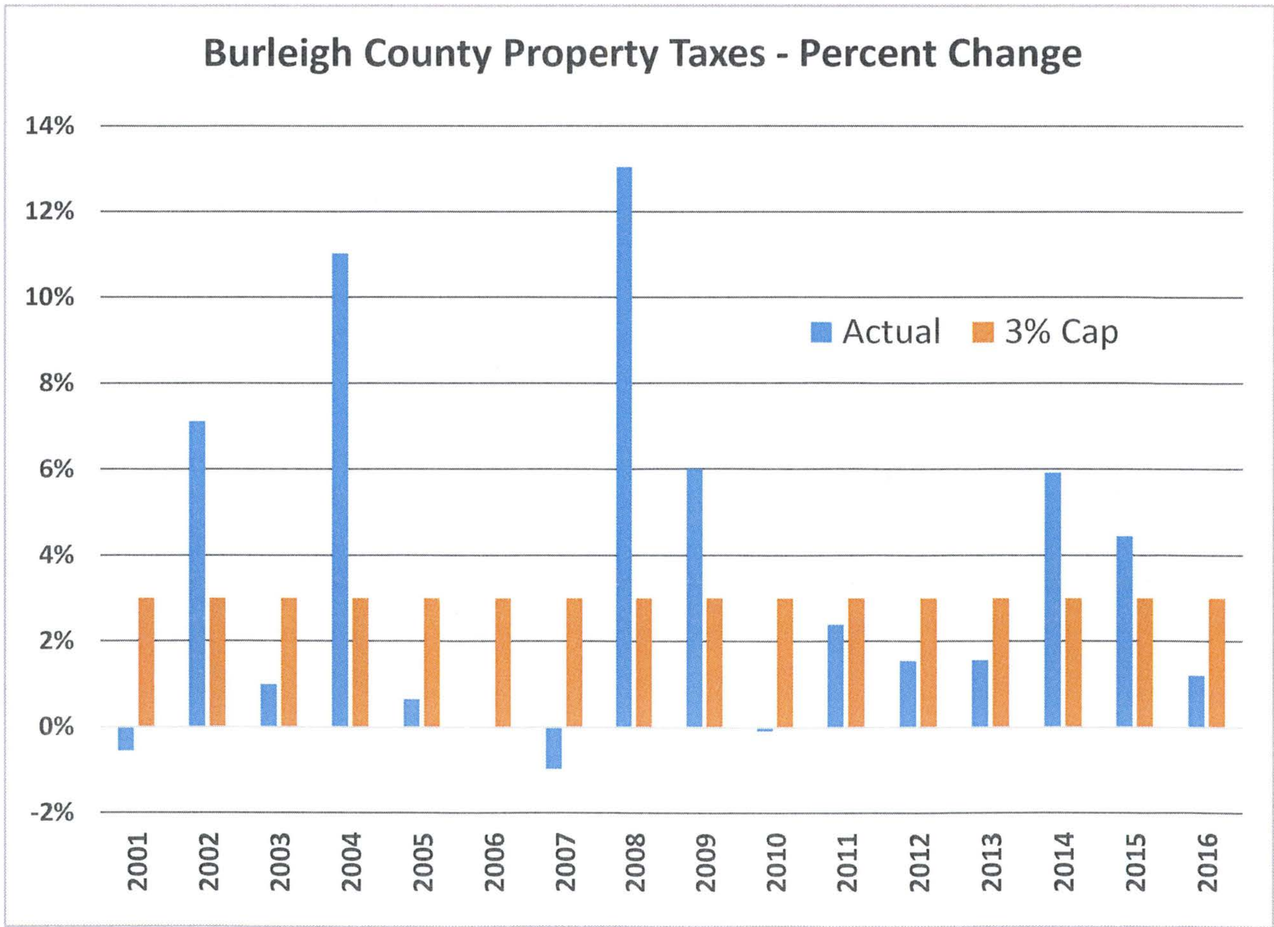
When you consider the lower chart – comparing the annual percentage changes – you see that some years the county needed to make a significant adjustment, and many years taxes increased by less than 3% or even decreased. Clearly the county board has been adjusting taxes to meet very specific budgetary needs of each particular year. It seems that holding a county election six times in fifteen years would ultimately cost this taxpayer more than the $15.56 variance.

And finally, county officials truly believe that this bill, even if it could be implemented, would just mandate maximum tax increases each year. As an elected official could not know if the next year, or the year after, would involve a snow emergency, a flood, or a protest, it would only be prudent to "take the maximum" to ensure that any potential increase three, five or fifteen years down the road was preserved and they had not jeopardized their citizens.

As a legislature, you have increased the notices of tax adjustment, and we anticipate additional changes this session. Ultimately, control of property taxes is a local responsibility of the governing boards and the citizens. Adequate information and active participation is the key – not artificial limitations that encourage, rather than discourage, property tax growth. Please give HB1276, a Do Not Pass recommendation.

#7 p. 2012
1-18-17
HB 1276





#8 p.1 of 2
1-18-17
HB 1276

Testimony for
House Finance and Taxation Committee
January 18, 2017
Prepared by:
Casey Bradley, Stutsman County Auditor/COO

HB 1276: Property Tax Caps and Individual Property Mill Rates

I would like to thank Chairman Headland and committee members for the opportunity to address HB 1276. My name is Casey Bradley; I currently serve as the Auditor and Chief Operating Officer for Stutsman County. I understand the intent of this proposed bill is to limit property tax increases without voter approval. In my opinion simply placing a cap on property taxes is not an effective tool and will lead to grave consequences that will ultimately lessen the quality of life for North Dakota citizens and the economic viability of our local governments. This bill causes a great deal of concern for me because of the drastic swings we've seen in demand for services along with the fact that the bill is not even viable as written.

First to address the viability of this bill, if you would refer to the last sentence of the first paragraph of Section 1, specifically "the amount the taxing district levied on that parcel in dollars in the preceding year" this statement mandates that taxes be calculated based on the prior year's tax statement by parcel. This statement also means that every parcel in every county would have its own mill rate for every taxing jurisdiction in the state, with the exception of the 1 mill for the State Hospital. This is not even possible without expending millions of dollars of taxpayer funds to reprogram every tax system in the state, if it is even possible. Also, other portions of this bill would become invalid because there would be no such thing as a "mill rate applied to all other properties" as is mandated by Section 1.

Stutsman County has experienced substantial swings costs in nearly every aspect of our operations. The measures that were pasted last year are yet another great example of the unknown and unfunded consequences we will have to deal with in local government. Because our only real substantial source of funding at the county level is property tax, the passage of this bill would likely have an eroding effect on the viability of county government and other units of local government across the state. As the state is currently experiencing, limited revenue means the loss of services. At least at the state level, there are other revenue sources and capacities to increase revenues in the future if the demand for services exists. This bill ensures that local governments do not have that capacity nor will we have the capacity to meet future needs or unfunded mandates that are passed on to us.

We have worked extensively with the legislature and the interim committees to help create solutions to help people better understand property taxes and have been actively involved in adapting those processes to better inform the public. As was discussed in the last session when

#8 p. 2 of 2
1-18-17
HB 1276

similar legislation was proposed, we already have levy limits in place called local elections. This bill does nothing more than erode the viability of local government while circumventing the role of locally elected officials.

In closing, I would like to thank Chairman Headland and the committee for allowing me to voice my concerns on this bill. I highly recommend a do not pass recommendation because of this bill's crippling effect on local government along with the bills viability to even be implemented as written. Capping our ability to provide critical public services and subverting local elected officials will undoubtedly have disastrous effects on our communities.

#9
1-18-17
HB 1276

House Finance and Taxation Committee

HB 1276 – City of Fargo Testimony

Honorable Chairman Headland and members of the House Finance and Taxation Committee, I am Dave Piepkorn a City Commissioner representing the City of Fargo.

We voice our opposition to HB 1276 as it imposes an arbitrary property tax revenue cap that would be impossible to administer and is not in alignment with current laws relating the valuation of property. This bill moves from a mill levy tax rate that is uniformly applied to all taxable property to an individual parcel based system. The Cass County Auditor informed us that this system would not be feasible due to the increased complexity of having to calculate the taxes at the parcel level.

The City of Fargo's Home Rule Charter contains a voter approved mill levy cap of 64 mills. We have approved our tax levies below this cap for years and have actually lowered the tax mill levy by 5.25 mills (9%) over the past two years due to higher than normal property valuation increases. We currently levy 53 mills. Our City Commission is aware of the need to control property tax growth and we are approving budgets that reflect this concern. Our 2017 budget requests were carefully scrutinized during our budget sessions last fall. Property taxes only fund about 25% of our General Fund expenditures.

We approved a General Fund budget with a mere 1.7% increase due to sharply falling state aid revenues. This was accomplished by a significant reduction in one-time capital spending. We are all subject to financial uncertainty that arises from changing economic conditions, natural disasters, or other unforeseen events. We need our taxing flexibility to deal with unforeseen events and the ability to take care of our growing community. This is especially important during a time when we are experiencing a major decline in our State shared resources. It is our desire to retain our current locally approved mill levy cap and would urge a DO NOT PASS vote on this bill. Thank you for the opportunity to share our opinions at this hearing.

#10 p.1 of 3
1-18-17
HB 1276

Testimony of Matt Magness, Park Board President
Fargo Park District
To Finance and Taxation Committee
In Opposition to HB 1276
Wednesday, January 18, 2017

Chairman Headland and Members of the Committee, my name is Matt Magness, and I am the President of the Fargo Park District. We are opposed to House Bill 1276.

House Bill 1276 caps the tax dollars to a maximum increase of 3% from year to year that a taxing district can levy.

Park Districts already have maximum mill levies for operations, capital and special funds. The proposed cap in HB 1276 is not necessary with the current mill levy limitations as passed in the 2015 Legislative Assembly. These maximum mill levy caps protect the property taxpayer from excessive levying by Park Districts. We understand the call for property tax relief, but do not believe this is the best approach.

The current mill levy system and mill levy caps work. As our various communities experience economic recession or growth, the current mill levy system allows the resources for Park Districts to respond accordingly.

For a community or region of our state experiencing rapid growth, the 3% annual maximum increase in tax dollars will severely cause distress for a Park District as they work to develop Park and Recreation amenities and programming. In the past 17 years, Fargo has experienced rapid growth, adding 27 parks between 3 to 22 acres each, 30 plus miles of recreation trail, and arena, pool and golf facilities because of increased demand for recreational activities. Along with the new facilities, we have renovated or upgraded many other facilities and added many new recreational programs. These new and existing facilities and programs are heavily utilized today.

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#10 p. 2 of 3
1-18-17
HB 1276

If park and recreational facilities are not constructed at the time of the growth, many times they never happen. While it might not seem significant at the time, we can identify negative impact in our community as a neighborhood or development area matures without adequate recreational facilities and programs. We have several areas today in the Fargo community where we are trying to develop recreational facilities and programs now where they were not included when the area was initially developed. It is very difficult.

If the proposed 3% cap had been passed as part of the 2001 Legislative Assembly, many of these new facilities would not have been possible. The 3% cap, if passed in 2001, would have reduced the cumulative property tax revenues for the Fargo Park District approximately $34 million. Our total general operating budget would be reduced from what is today by 32%, or $6.5 million. The Fargo Park District has a mission to provide quality recreational and leisure services at an affordable price to improve the quality of life for all residents of Fargo. This would not be achievable today if the 3% cap was implemented by the 2001 Legislative Assembly. Our youth program fees are currently set below direct program costs, usually at 50% of direct cost. Adult program fees are set equal or above direct program costs. We must provide youth programs at an affordable level to not limit access to programs based on ability to pay. Today, our fees could be substantially higher or the programs for youth and adults might not be offered with caps in place.

I share this information as a view to the impact of HB 1276. We have many parts of our state that are experiencing rapid growth. While most is in the western part of the state, there is growth throughout the great state of North Dakota. The 3% tax dollar cap that is proposed will cause communities to not be able to develop parks, recreation facilities and programs that must happen as developments are created in various communities. Today, the impact of the 3% cap might appear minimal, but the long term negative impact for our future generations in North Dakota is substantial.

#10 p.3 of 3
1-18-17
HB 1276

The Fargo Park District is opposed to HB 1276 and urges the committee to recommend a do not pass on this bill. I would be happy to answer any questions. Thank you.

#11 p.1 of 2
1-18-17
HB 1276

Michael R. Brown
Mayor

City of Grand Forks

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TESTIMONY ON HOUSE BILL 1276

North Dakota House Finance and Taxation Committee

Maureen Storstad, Finance Director
City of Grand Forks, ND

January 18, 2017

Mr. Chairman and members of the committee, my name is Maureen Storstad, and I am the Finance Director for the City of Grand Forks. I want to thank you for the opportunity to provide testimony and express my concern and opposition to this legislation and what is, perhaps, its unintended consequences.

I have to express my concern regarding significant possible consequences of implementing this legislation:

- In North Dakota, there are three factors for calculating the amount of property tax assessed on a piece of real estate: the value of the property, the amount of value not subject to the tax due to exemptions, and the tax (mill) rate. The city assessor calculates the value of the property, taking into consideration any exemptions (in April). The tax (mill) rates are set by local governments according to state law (in October)

    - It is my understanding the intent of the bill would be to keep an individual's property taxes from going up by more than 3% as compared to the prior year with exceptions. Property tax is based on not just the mill levy, but also the property's valuation. We do not certify the levy individually by property, as it would not be possible to have a separate mill levy for each specific property. That would lead me to understand that the value would need to be constrained and limited to 3%, with exceptions, in order to make this legislation possible. This would involve needed changes to the software currently used by our City

#11 p. 2 of 2
1-18-17
HB 1276

Assessor, and I'm not certain what cost would be involved and also administrative cost to accommodate the needed changes that would result with the passage of this bill.

- In order to comply with the State sales ratio study, the market value would still need to be maintained on each property each year. I anticipate a disparity resulting over time between the market value and the value that would be used for property tax calculation purposes. Over time, in this scenario an individual property value could continue to rise, even if the market value is in decline in a given market.

- It has been our practice to value property fairly and equitably. We have always met the state requirement of our median sales ratio falling between 90% and 100% of True & Full Value. In years of large valuation increases, we have made efforts to reduce the number of mills to offset these increases in value. Since 2000, the City of Grand Forks has reduced 40.3 mills as we have made this one of our priorities and I believe we have a good track record.

It is for these reasons that I would recommend a DO NOT PASS recommendation of House Bill 1276.

Thank you for your consideration.

#12
1-18-17
HB 1276

TESTIMONY ON HB 1276
HOUSE FINANCE AND TAX COMMITTEE
January 18, 2018
by Jerry Coleman, NDDPI
701-328-4051
Department of Public Instruction

Mr. Chairman and members of the committee:

My name is Jerry Coleman and I am the Director of School Finance and Organization for the Department of Public Instruction. I am here to provide testimony on the impact this bill will have on school district funding through the K-12 formula.

The K-12 school funding formula establishes a funding level that, on a weighted student basis, provides the baseline funding for operating schools. This includes teachers, classrooms, operations, administration and other costs necessary to provide an adequate education.

This baseline level is funded through a combination of state and local taxes. The local share is 60 mills on the taxable valuation of the school district and percentage of other in-lieu of property tax revenue. The state funds the remainder.

The 60 mill local share is calculated on taxable valuation of the school district and is not tied to actual tax receipts from property taxes.

This bill limits the amount of tax collected on individual parcels independent of taxable valuation. Unless the K-12 formula is modified so state taxes pick up the reduction in local taxes, school districts will receive less in total funding than the baseline funding level promised.