

FISCAL NOTE
Requested by Legislative Council
01/17/2017

Bill/Resolution No.: HB 1388

- 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			\$825,000,000			
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		\$105,000,000	
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 1388 repeals school district general, miscellaneous, tuition and special reserve levy authority, repeals the 12% state paid property tax credit program and modifies the K-12 funding formula to replace funding.

- 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 2 modifies the K-12 funding formula.

The modified formula multiplies a school district's weighted student units times the statutory per student payment rate, adds the amount raised by the district's 2016 general fund levy, miscellaneous levy, tuition levy and special reserve fund levies, and subtracts a designated percentage of in-lieu of property tax revenue. The result is the amount of state aid to which a school district is entitled.

The bill eliminates or sunsets the following:

- Baseline funding provisions in the K-12 funding formula.
- School district general, miscellaneous, tuition and special reserve levies.
- 12% state paid property tax credit.
- Tax exemptions for tax increment financing, renaissance zone and single-family residential property.

HB 1388 increases state aid formula expenditures an estimated \$1,104,000,000, provides reductions in local property revenues by an estimated \$720,000,000 and decreases the state's commitment to the 12% state paid property tax credit by an estimated \$279,000,000.

See attachment for the assumptions and analysis used to determine the amounts.

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.*

HB 1388 increases state expenditures an estimated \$825,000,000.

Funding sources have not been determined.

Name: Jerry Coleman

Agency: Dept. of Public Instruction

Telephone: 701-328-4051

Date Prepared: 01/27/2017

HB 1388 Fiscal Note

	HB 1324			HB 1388		
	2017-18	2018-19	2017-19 Total	2017-18	2018-19	2017-19 Total
\1 Total Formula Amount	1,215,418,572	1,233,862,302	2,449,280,874	1,215,418,572	1,270,829,564	2,486,248,136
\2 Transition Maximum Adjustment	(12,606,567)	(12,762,580)	(25,369,146)			-
\2 Transition Minimum Adjustment	44,510,150	45,260,545	89,770,696			-
Adjusted Formula Amount	1,247,322,156	1,266,360,268	2,513,682,423	1,215,418,572	1,270,829,564	2,486,248,136
\3 Contribution from Property Tax	(237,557,973)	(253,263,405)	(490,821,378)	320,270,531	320,270,531	640,541,061
Contribution from In-Lieu of Property Tax	(53,680,049)	(53,421,222)	(107,101,271)	(53,680,049)	(53,421,222)	(107,101,271)
State School Aid Formula Payment	956,084,133	959,675,641	1,915,759,774	1,482,009,053	1,537,678,873	3,019,687,926
Other State School Aid Formula Commitments	10,230,581	10,330,581	20,561,161	10,230,581	10,330,581	20,561,161
Total Formula Expenditures	966,314,713	970,006,222	1,936,320,935	1,492,239,634	1,548,009,453	3,040,249,087
HB 1388 difference from HB 1324						1,103,928,152

Reconciliation:

Base Level funding in HB 1013	1,916,640,000
Cost to continue in HB 1324	19,680,935
Additional cost added by HB 1388	1,103,928,152
\4 12% state paid property tax credit	(279,000,000)
Added state cost of HB 1388	824,928,152
\5 Projected Local Property Tax Reduction	719,455,720
Increase in school district funding	105,472,432

NOTES:

HB 1324 is the K-12 education policy bill as introduced at cost to continue. It is used here to contrast the differences to HB 1388

- \1 Per student payment rates in HB 1324 are \$9,646/\$9,646. Per student payment rates in HB 1388 are \$9,646/\$9,935.
- \2 Transition minimum and maximum (baseline) adjustments are not included in HB 1388.
- \3 Contribution from property tax is 60 mills in HB 1324. HB 1388 eliminates the 60 mill deduction and instead adds an amount raised by school district's 2016 general miscellaneous, tuition and special reserve levies.
- \4 Projected cost to continue funding the 12% state paid property tax relief credit using an average annual increase of 7%
- \5 Amount raised by school district's 2016 general, miscellaneous, tuition and special reserve levies increased 7% each year for property valuation increase:

2017 HOUSE FINANCE AND TAXATION

HB 1388

2017 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1388
1/30/2017
27573

- Subcommittee
 Conference Committee

Committee Clerk Signature

Mary Brucher

Explanation or reason for introduction of bill/resolution:

A bill related to taxes levied for Fargo board of education building expenses, determination of school state aid payments, school district tuition payment levies, tax increment financing and renaissance zone property tax incentives, property tax exemptions for new single-family residential property, school district levies, and information provided on property tax statements; and relating to tax levies for teacher retirements, minimum local effort and taxable valuation considerations for purposes of determining school state aid payments, school district special reserve funds, and the state-paid property tax relief credit.

Minutes:

Attachments 1-4

Chairman Headland: Opened hearing on HB 1388.

Representative Scott Louser: Introduced bill. The state of North Dakota does not assess property values, levy mills, collect funds, or spend property tax but we are in the property tax game and we can't seem to find a way out. This bill eliminates the K-12 mill levies for education in favor of the state of North Dakota paying the full bill of K-12 education. It would also eliminate the 12% buy down that we are providing local political subdivisions, which is an ever increasing number. We don't have control over the valuation increases. That is based on mill levies that are being levied locally and we have no control over that. This bill retains the mill levies that are in place now and going forward where voters have voted to tax themselves for new school buildings. It keeps the level of funding for the school districts at their previous year's budget which would require a block grant from the state back to the school boards. It may require some school districts to come back to the legislature requesting a standalone appropriation. If the legislative body doesn't feel that's warranted it will require the school boards and districts to reprioritize their budgets. This bill competes with the discussion of paying social services through the counties but we can't afford to do both so this would be one or the other. This has the effect of reducing the local property taxpayers' tax bill. If 40-50% of their bill is being paid to K-12 education and the state takes that over, the property tax bill should then be reduced making their property taxes truly local. The local property taxpayer will pay taxes based on what is assessed to them by their cities, counties, and their park districts. The state would be out of the property tax game with the exception of the one mill for the med school. This bill would make the K-12 budget the most important and the largest budget item every session. This bill doesn't eliminate the Fargo School

District. This doesn't change the per pupil funding. I don't believe this has an element of conflicting with the constitution for equity funding because once we have made the school districts whole the first biennium everybody will get the same increase. It doesn't change the system of valuation or mills. This doesn't change the way any school district is treated from any other school district. Distributed information on school districts. See attachment #1.

Chairman Headland: Have we passed this concept on to a study in the past?

Representative Scott Louser: I believe it was studied in the property taxes. I've talked to leadership, appropriations, and members of this committee asking for them to explain what I'm seeing; how much we are paying as a state towards K-12 education and the answer has been uniformly "I'm not sure" or "I'm not sure I can explain it." I think this is something we need to take a look at when we're spending nearly a billion dollars a year in K-12 education plus a 12% buy down that the state isn't getting credit for. How much is left to pay for out of the bucket that we have of \$300 million? This is a concept not approached by the state yet. I've put a lot of thought into this.

Chairman Headland: Are there questions for Representative Louser?

Representative Steiner: How would you handle the small but necessary schools? Would you have three levels of blocks or are you thinking one block and recognizing you have six students in a classroom versus 24 kids in a classroom?

Representative Louser: It doesn't matter the size of the school district. This bill proposes to take their prior year's budget and move it forward into the next biennium. If the legislature can afford to do a two percent across the board increase then everybody gets a two percent, small school or large school. The per pupil element stays so the larger schools are recognized for their per pupil increase.

Chairman Headland: At some point who's going to decide if that small and necessary school is small and necessary? When there is no local buy in and the state is picking up the tab I think the decision might shift from local to state.

Representative Louser: We're paying with the prior year's budget so every school district is made whole.

Chairman Headland: Do you think that any school, even if it's down to a dozen kids, isn't going to close the school as long as we're going to keep sending them a check?

Representative Louser: That's a local decision they are going to have to make. I think the effect would be that they would potentially stay open because the state is paying.

Chairman Headland: Is there any support to HB 1388? Is there any opposition?

Brandt Dick, Superintendent of Underwood School District: Distributed testimony in opposition. See attachment #2. Ended testimony at 24:34.

Chairman Headland: Is it your belief that we already have a few studies that will be studying education so we wouldn't need to study this concept or do you think we should study this concept?

Brandt Dick: I think anything we can do to study the funding formula would be very important. Over time with the way the mill deduct has been presented we're open to any study. It is a complicated situation and it's going to take time to study it.

Chairman Headland: Are there any questions? Is there further opposition? Seeing none we will close the hearing on HB 1388.

Additional testimony distributed once the hearing was closed. See attachment #3 from Blake Crosby, North Dakota League of Cities and #4 from Jim Gilmour, Fargo Planning Director.

2017 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1388
2/1/2017
27758

- Subcommittee
 Conference Committee

Committee Clerk Signature

Mary Brucher

Explanation or reason for introduction of bill/resolution:

A bill related to taxes levied for Fargo board of education building expenses, determination of school state aid payments, school district tuition payment levies, tax increment financing and renaissance zone property tax incentives, property tax exemptions for new single-family residential property, school district levies, and information provided on property tax statements; and relating to tax levies for teacher retirements, minimum local effort and taxable valuation considerations for purposes of determining school state aid payments, school district special reserve funds, and the state-paid property tax relief credit.

Minutes:

No attachments

Chairman Headland: I don't think I'll ever be in favor of fully funding K-12 education at the state level.

Representative Grueneich: MADE A MOTION FOR A DO NOT PASS

Vice Chairman Dockter: SECONDED

Chairman Headland: Discussion.

Representative Steiner: I like the idea of block grants where we can get out of the property tax business. It's too bad it wasn't amended into a study. I think the idea had merit but I'm going to resist this one.

Representative Ertelt: I think it merited a study.

Chairman Headland: I believe we had a similar concept two years ago and it was turned into a study but it wasn't chosen by legislative council.

Representative Steiner: We have a different governor now. Governor Dalrymple called educators together often when he set up the equity formula. I didn't agree with the 75% subtraction of oil tax revenue from western schools which led us to all kinds of problems. We now have a new governor and I think the block grant system is an improvement because you can get out of the increases by giving them that amount. I realize we can't do both social

services, the 12% buy down, and this. I think you need to study the school funding formula frequently rather than just once.

Representative B. Koppelman: We've been hearing now for several years that we're funding 75-80% of education. If it's 18% that we're taking over and our 12% responsibility was \$280 million how does half of that become \$800 million plus the locals? I probably won't be in favor of this bill.

Representative Hogan: I don't get this at all. It's very confusing and I don't understand it. I'll be supporting the do not pass.

Chairman Headland: Any further discussion?

ROLL CALL VOTE: 10 YES 4 NO 0 ABSENT

MOTION CARRIED

Vice Chairman Dockter will carry this bill.

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

**2017 HOUSE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. 1388**

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. Grueneich Seconded By Rep. Dockter

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) 10 No 4

Absent 0

Floor Assignment Rep. Dockter

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

REPORT OF STANDING COMMITTEE

HB 1388: Finance and Taxation Committee (Rep. Headland, Chairman) recommends **DO NOT PASS** (10 YEAS, 4 NAYS, 0 ABSENT AND NOT VOTING). HB 1388 was placed on the Eleventh order on the calendar.

2017 TESTIMONY

HB 1388

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COMPARISON OF STATE, LOCAL, AND FEDERAL REVENUE SOURCES FOR SCHOOL DISTRICTS AND THE AMOUNT OF REVENUE DERIVED FROM VARIOUS LEVIES IN SELECT SCHOOL DISTRICTS

This memorandum was requested to provide a comparison of the amount of school district revenue attributable to state, local, and federal sources as well as the amount of property tax revenue generated by various mill levies in the five largest and five smallest school districts. Pursuant to information published by the Department of Public Instruction for the 2014-15 school year, total school district revenues were derived from the following sources:

Revenue Source	Amount	Percentage of Total Revenue
State sources	\$911,014,413 ¹	66.27%
Local sources	\$304,826,123 ²	22.17%
Federal sources	\$121,066,427	8.81%
County sources	\$28,817,375 ³	2.10%
Other sources	\$8,921,696	0.65%

¹State sources consist of \$851,877,952 in state school aid, \$26,639,140 in transportation aid, \$13,404,392 in other revenue, \$12,817,038 in special education funding, and \$6,275,890 in career and technical education funding.

²Local sources consist of \$260,165,293 in tax revenue, \$23,048,094 in other revenue, \$14,326,935 in tuition payments, \$6,635,232 in lieu of tax revenue, and \$650,568 in transportation funding.

³County sources consist of \$23,017,056 of oil and gas revenue, \$2,294,217 of coal production revenue, \$2,025,511 of other revenue, and \$1,480,592 of coal conversion revenue.

The following table provides the amount of revenue that would be generated on a \$100,000 home and a \$200,000 home by the total number of mills levied in the five largest and five smallest school districts for the 2015-16 school year and the amount of revenue that would be generated by the number of mills levied in relation to capital projects and debt service.

School District	Total K-12 Fall Enrollment For 2015-16 School Year	Revenue Derived From a \$100,000 Home From All Mill Levies ¹	Revenue Derived From a \$100,000 Home From Specified Mill Levies ²	Revenue Derived From a \$200,000 Home From All Mill Levies ¹	Revenue Derived From a \$200,000 Home From Specified Mill Levies ²
Bismarck 1	12,346	\$451.89	\$126.88	\$903.78	\$285.48
Fargo 1	11,167	\$748.58	\$109.40	\$1,497.15	\$246.15
West Fargo 6	9,438	\$628.70	\$255.12	\$1,257.39	\$574.02
Minot 1	7,529	\$442.13	\$74.00	\$884.25	\$166.50
Grand Forks 1	7,264	\$438.12	\$61.44	\$876.24	\$138.24
Manning 45	13	\$393.80	\$0	\$787.59	\$0
Bakker 10	11	\$237.24	\$0	\$474.48	\$0
Naughton 25	7	\$221.36	\$0	\$442.71	\$0
Horse Creek 32	6	\$121.64	\$0	\$243.27	\$0
Central Elementary 32	5	\$108.63	\$0	\$217.26	\$0

¹The number of mills used to calculate the revenue generated from a home with a taxable value of \$100,000 or \$200,000 is the sum of the mills levied by each specified school district for the district's general fund, tuition fund, miscellaneous fund, special reserve fund, building fund, special assessments, sinking and interest fund, and judgments.

²The number of mills used to calculate the revenue generated from a home with a taxable value of \$100,000 or \$200,000 is the sum of the mills levied by each specified school district for the district's building fund, special assessments, sinking and interest fund, and judgments.

COMPARISON OF THE AMOUNT OF REVENUE DERIVED FROM VARIOUS LEVIES IN SELECT SCHOOL DISTRICTS

This memorandum was requested to provide the amount of property tax revenue generated by various mill levies in select school districts for the 2013-14 school year and the 2014-15 school year.

The following table provides the amount of revenue that would be generated on a \$100,000 home and a \$200,000 home by the total number of mills levied in specified school districts for the 2013-14 school year and the amount of revenue that would be generated by the number of mills levied in relation to capital projects and debt service.

School District	Total K-12 Fall Enrollment For 2013-14 School Year	Revenue Derived From a \$100,000 Home From All Mill Levies ¹	Revenue Derived From a \$100,000 Home From Specified Mill Levies ²	Revenue Derived From a \$200,000 Home From All Mill Levies ¹	Revenue Derived From a \$200,000 Home From Specified Mill Levies ²
Bismarck 1	11,670	\$457.56	\$137.79	\$915.12	\$275.58
Fargo 1	10,995	\$744.08	\$118.58	\$1,488.15	\$237.15
West Fargo 6	8,461	\$639.90	\$300.33	\$1,279.80	\$600.66
Minot 1	7,417	\$368.91	\$28.71	\$737.82	\$57.42
Grand Forks 1	7,121	\$473.13	\$69.12	\$946.26	\$138.24
Williston 1	3,183	\$364.59	\$51.80	\$729.18	\$103.59
Dickinson 1	3,146	\$338.94	\$45.00	\$677.88	\$90.00
McKenzie County 1	1,021	\$365.81	\$63.41	\$731.61	\$126.81
Central Cass 17	809	\$336.47	\$69.66	\$672.93	\$139.32
Stanley 2	616	\$423.09	\$102.78	\$846.18	\$205.56
Lisbon 19	611	\$388.56	\$98.78	\$763.11	\$197.55

¹The number of mills used to calculate the revenue generated from a home with a taxable value of \$100,000 or \$200,000 is the sum of the mills levied by each specified school district for the district's general fund, tuition fund, miscellaneous fund, special reserve fund, building fund, special assessments, sinking and interest fund, and judgments.

²The number of mills used to calculate the revenue generated from a home with a taxable value of \$100,000 or \$200,000 is the sum of the mills levied by each specified school district for the district's building fund, special assessments, sinking and interest fund, and judgments.

The following table provides the amount of revenue that would be generated on a \$100,000 home and a \$200,000 home by the total number of mills levied in specified school districts for the 2014-15 school year and the amount of revenue that would be generated by the number of mills levied in relation to capital projects and debt service.

School District	Total K-12 Fall Enrollment For 2014-15 School Year	Revenue Derived From a \$100,000 Home From All Mill Levies ¹	Revenue Derived From a \$100,000 Home From Specified Mill Levies ²	Revenue Derived From a \$200,000 Home From All Mill Levies ¹	Revenue Derived From a \$200,000 Home From Specified Mill Levies ²
Bismarck 1	11,989	\$466.20	\$155.12	\$932.40	\$310.23
Fargo 1	11,145	\$744.08	\$118.58	\$1,488.15	\$237.15
West Fargo 6	8,970	\$639.90	\$297.05	\$1,279.80	\$594.09
Minot 1	7,723	\$415.85	\$61.56	\$831.69	\$123.12
Grand Forks 1	7,206	\$438.12	\$69.12	\$876.24	\$138.24
Dickinson 1	3,401	\$381.87	\$112.32	\$763.74	\$244.64
Williston 1	3,371	\$427.05	\$104.22	\$854.10	\$208.44
McKenzie County 1	1,325	\$390.60	\$137.52	\$781.20	\$275.00
Central Cass 17	796	\$270.00	\$0	\$540.00	\$0
Stanley 2	675	\$344.07	\$99.63	\$688.14	\$199.26
Lisbon 19	616	\$445.14	\$98.78	\$890.28	\$197.55

¹The number of mills used to calculate the revenue generated from a home with a taxable value of \$100,000 or \$200,000 is the sum of the mills levied by each specified school district for the district's general fund, tuition fund, miscellaneous fund, special reserve fund, building fund, special assessments, sinking and interest fund, and judgments.

²The number of mills used to calculate the revenue generated from a home with a taxable value of \$100,000 or \$200,000 is the sum of the mills levied by each specified school district for the district's building fund, special assessments, sinking and interest fund, and judgments.

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HB 1388 Testimony

Chairman Headland and members of the committee, for the record my name is Brandt Dick, Superintendent of Underwood School District, board member of North Dakota Small Organized Schools (NDSOS), and member of North Dakota Association of School Administrators (NDASA) Legislative Focus Group finance member. I am here to speak in opposition of HB 1388.

Included with my testimony is a copy of Underwood School District's foundation aid worksheets from the last three years. This is presented to show the affects HB 1388 would have on Underwood School District.

There are many concerns with this bill, this testimony will focus on three such issues— elimination of Tuition Levy, elimination of Special Reserve Levy, and the reality of having every district placed on the formula.

The Tuition Levy is used by school districts to provide revenue for students that local districts are not equipped to provide the education, and to pay for tuition to agencies that do educate these students. Underwood School District did levy for tuition this year as we are being charged \$175 per day tuition to educate one of our students. In addition, we pay an addition \$60 per day to transport this student. When multiplied by the 175 school days this student is in session, the total is over \$40,000. Underwood School District realizes that this will not be the reality every year, but while it is, the district needs an avenue to cover these costs. By placing this in the new baseline funding for each district, it creates challenges that will be brought up each subsequent session.

This would be similar to challenges Superintendents had with the Mill Levy Reduction Grants (MLRG) that were implemented for a time in our state history. Similar to arguments that were heard when the MLRG were set as a baseline, future arguments will arise when school districts will have to pay for the tuition of students and the elimination of the tuition levy will cause issues. They will point to how unfair it is for some districts to have the tuition levy as part of their baseline funding even though some of those schools may no longer need that revenue. These districts who do not presently have a tuition levy will feel that when they now need it, they will have no opportunity to find a revenue source for the above mentioned situation. For the 2015-16 school year, 31 districts had a tuition levy. Underwood did not utilize this levy in 2015-16, but did levy for tuition for 2016-17, I do not know how many districts had a tuition levy in 2016-17, but am quite certain that the number of districts who do have a tuition levy does fluctuate from year to year.

The second aspect of this bill that is problematic is the elimination of the Special Reserve levy. The special reserve levy is a rainy day fund. Recently, this fund was capped to a level of 15 mills of taxable valuation of a school district. School districts have limits put on ending fund balances, special reserves, and HB 1388 is now looking at elimination of the special reserve fund. These have all come despite pleas of schools to allow for local control. There were 57 school districts that had a special reserve levy in the 2015-16 school year. Underwood did have a special reserve levy in 2015-16, but did not levy for this amount in 2016-17 as we instead levied a tuition levy. Our special reserve levy is getting close to the 15 mill maximum allowed by the state. NDCC does provide guidance as to how much can be

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transferred from this fund, and provides guidance to schools. The removal of this fund would be another step of taking control from local school districts in making financial decisions that are made to provide long-term solutions to have revenue available in case there are unforeseen needs that arise. Listening to testimony for SB 2272, it was discussed that the Coal Construction fund would be utilized to allow for these emergency situations. While I agree with this concept, would not the state be better serve to allow schools to have revenue available to fund their own emergencies that arise without going to the state? The Special Reserve fund provides such an avenue and would be a great loss.

The final reason I will address in opposition to this bill is that it instantly puts all school districts on this newly created formula. In the transition to the present formula, school districts were held harmless by either a total dollar amount, or an amount per student. In the State aid worksheets provided, line 67 on the 2014-15 worksheet, or line 64 of the 2015-16 and 2016-17 worksheets show that Underwood School District is one of those schools presently not on the formula. HB 1388 provides no provision for these schools. Line 31 of the 2014-15, and Line 28 of the 2015-16 and 2016-17 worksheet shows that this amount of adjustment for Underwood School is decreasing from a high of \$436,401.26 during 2014-15 to the amount this year of \$380,637.99. Slowly, more and more schools are getting on the formula, but there are several schools that will take time to be on the formula.

There were other schools who were held harmless by a total dollar amount. These districts were those that experienced great decrease in the number of students during the reset year. Due to increase in property values, these districts are seeing their amount of state aid decrease.

The NDASA Legislative Focus Group finance committee is made up of 7 Superintendents and 1 business manager from across the state. We have had very good discussions on the funding formula and the challenges that arise with the formula. We have asked questions like, "What happens if taxable valuations go down?" "Are the weighting factors for schools correct?" "Why are some districts at the maximum levy of 70 mill general fund levy, 12 mills miscellaneous purposes?" "What would happen if the 12% cap was removed?" These and other questions have been discussed at great length.

With the reality of no new money, challenge of some districts seeing growth, others seeing decline, the reality of rural districts trying to find a way to recruit and retain quality instructors, revenue will be needed. We feel local school boards are best empowered to make the decision on what amount is needed to fund the local school districts from local property owners of whom the board represents, and HB 1388 is not the answer to challenges that school districts face.

We do feel there are challenges with the present formula, and the Finance Committee previously mentioned would be more than willing to assist and continue to discuss any studies that arise from this session. The above MLRG were a problem for the state legislators as over time, any increase in taxable valuations of school districts were being paid for by the state in the mill levy buy down. The new funding formula shifted that increase in taxable valuation burden to local taxpayers, with the 60 mill deduct. HB 1357 and HB 1423 are two such studies that could aide in finding solutions to the challenges that have arisen with the funding formula. I will stand for questions.

January 30, 2017
House Finance and Taxation
HB 1388
Rep. Headland, Chair

#3
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For the record, I am Blake Crosby, Executive Director of the North Dakota League of Cities, representing the 357 incorporated cities across the state. Approximately 77% of the population of North Dakota lives in those cities.

HB 1388 is a complicated bill with many moving pieces. I'm not going to stand here and admit I understand the connectedness between all the pieces so I will restrict my comments to Renaissance Zone tax incentives and tax increment financing.

As I read the bill as it refers to NDCC 40-58-20 and NDCC 40-63-05, it would not allow any new Renaissance Zones or Tax Increment Financing (TIF) Districts after January 1, 2017. This is not the first Renaissance Zone/TIF bill that I have addressed before you so I will not "plow all the same ground" again.

Bills related to TIF were discussed in length in 2011 and concerns were addressed through legislation currently in statute.

Renaissance Zones are one of those economic development concepts that seems to be difficult for people to grasp. Since property taxes are based on valuation, when private investors/home owners are provided with an exemption that can offset some cost of capital, they are willing to fix up their businesses/homes which in turn increases the property valuation which increases property taxes paid and which has the effect of relieving property tax pressure for all tax payers. Why would we want to take that away?

58 cities, twenty with a population of 1000 or less and 25 cities with a population of between 1000 and 2500, have approved 1,533 approved projects and completed 1,175. Renaissance zones can't be the disaster they are being portrayed as. Renaissance zones are a good economic development tool for cities and their taxpayers.

On behalf of the North Dakota League of Cities I request a DO NOT Pass on HB 1388.

THANK YOU FOR YOUR TIME AND CONSIDERATION. I will try to answer any questions.

#4
1-30-17
HB 1388

Testimony Presented on House Bill 1388 to the
House Finance and Taxation Committee
Representative Craig Headland, Chair
for the City of Fargo
by Jim Gilmour, Fargo Planning Director
January 30, 2017

Mr. Chairman and Members of the Committee:

The City of Fargo supports the Renaissance Zone Program, the use of Tax Increment Financing, and the property tax incentive for new housing construction. HB 1388 would put an end to all of these programs.

Renaissance Zone Program

The City of Fargo has used the Renaissance Zone program to encourage the redevelopment of downtown Fargo. There has been an increased property tax value of \$113 million dollars from 146 properties that were approved by the Renaissance Zone Program, and the five-year exemptions are completed. At present property tax rates, local governments now collect over \$1.4 million dollars a year in property taxes from these properties.

Tax Increment Financing

Property values have also increased in Fargo though public-private partnerships with the Tax Increment Financing (TIF) program. Public infrastructure improvements open up land for private sector investment.

One very successful partnership was the Summit Group TIF district for an underdeveloped area. TIF funds paid for lowering a pipeline that obstructed development, a new street, and utilities to provide infrastructure to the site. Private sector development of 234,000 square feet of office and apartments were constructed which added over \$21 million to the property tax base of Fargo. This private sector investment was double the amount required from the developer, and the TIF district only lasted 7 years.

New Housing Property Tax Exemption

The City of Fargo is supportive of the construction of new owner occupied housing. Approval of a 2-year property tax exemption is one of the ways that Fargo encourages new housing construction. The program encourages people to build new single family housing, which is needed to meet the housing needs of our growing community.