

# MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION  
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ROLL NUMBER

DESCRIPTION

1025

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Yolanda Rickford  
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10/2/03  
Date

2003 HOUSE POLITICAL SUBDIVISIONS

HB 1025

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*Valista Rickford*

Date

*10/2/03*

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1025

House Political Subdivisions Committee

☐ Conference Committee

Hearing Date: January 17, 2003

Tape Number	Side A	Side B	Meter #
1	X		0.0-34.6
Committee Clerk Signature <i>Micki Schmidt</i> 1-27-03			

Minutes:

**(0.1) REP. GLEN FROSETH:** Opened the Political Subdivision Committee on HB 1025.

The clerk will take the roll: We have a quorum.

**(1.1) JOHN BJORNSON: LEGISLATIVE COUNCIL:** Testimony in support of HB 1025.

Relayed information about revenue sharing process, counties divided into 7 groups and how revenue will be dispersed by population, the changes in population groupings and how to adjust formulas. On page 6, there's a change in the percentage.

**(5.3) REP. GLEN FROSETH:** My first reaction was, there's some big changes here! On page 4, line 25; 10 and 4 tenths percentage went to 64%. What's happening here? Then you start reading the full context of the Bill and you'll see that the divisions have changed and so forth.

**(5.6) REP. GIL HERBEL:** How were those percentages determined?

Page 2  
House Political Subdivisions Committee  
Bill/Resolution Number HB 1025  
Hearing Date January 17, 2003

**(5.7) JOHN BJORNSON:** They took the formulas and looked at the allocations to the cities and based upon the 1990 numbers and then they adjusted the formulas to the change in the populations. Some lost, some gained.

**(6.5) TERRY TRAYNOR: ASSISTANT DIRECTOR OF ND ASSOCIATION OF COUNTIES:** Testimony in support. (See attachment #1) (12.8) Explained Table 1 on attachment.

**(16.9) REP. GIL HERBEL:** On the chart with the sample, (Table 2) it says the real share, and then you have 53.7%. Is this what was being allocated under the present formula?

**(17.1) TERRY TRAYNOR:** Yes it was and it still is. That share of the total population, 53.7% has historically gone to rural and county townships and it will continue. We aren't changing the city/county split at all.

**(17.4) REP. GIL HERBEL:** Then when I look below that, it says the 36 other counties, that's where I am confused, with the 53.7 for rural share and then the others.

**(17.7) TERRY TRAYNOR:** No, the left side had 64% for the 17 largest counties in the state. 64% of the \$2.6 million. 64% of the rural share and 36% of the counties.

**(18.0) REP. GIL HERBEL:** Then what happens to this when we reduce the county based on the Bill that's coming in?

**(18.1) TERRY TRAYNOR:** I believe with the sliding scale, it probably wouldn't change it very much. A county that was levying a real large personal property in 1969 would get a lot more money than those that weren't.

**(19.8) REP. MARY EKSTROM:** Can you tell me what that base amount really is?

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House Political Subdivisions Committee

Bill/Resolution Number HB 1025

Hearing Date January 17, 2003

**(20.1) TERRY TRAYNOR:** The base amount is: it really depends upon what we're talking about for the appropriations. Assuming a \$5 million distribution, that's about \$11 thousand dollars gross apiece. Starting at about \$3,000 based on population and up to \$30,000.

**(20.7) REP. WILLIAM KRETSCHMAR:** When was the original organized?

**(20.9) TERRY TRAYNOR:** The Legislature originally created the personal property replacement and when that wasn't fully funded it was 1978 that the revenue sharing initiated measure was passed. And 1979 was the first appropriation for it.

**(21.1) REP. WILLIAM KRETSCHMAR:** Has the Legislature ever approved the 5%?

**(21.3) TERRY TRAYNOR:** The first seven years it was protected by that two-thirds vote that they did, and it was 5% sales and income tax at that time.

**(21.6) REP. GLEN FROSETH:** I think that it changed to 6 tenths of 1 cent when the counties and cities started not receiving their quota.

**(21.8) TERRY TRAYNOR:** That's correct! We came close that first year. There was some Human Service needs that needed money out of the fund.

**(22.0) REP. WILLIAM KRETSCHMAR:** Has anything been talked about in the counties that would give smaller counties a better break?

**(22.8) TERRY TRAYNOR:** Actually this formula on a per person basis does favor the small counties. They get more per person, but obviously don't have more people. Generally we look to the Highway distribution fund, the other major source of state tax dollars.

**JERRY HJELMSTAD; ND LEAGUE OF CITIES:** Testified in favor of HB 1025. (See attachment #2)

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House Political Subdivisions Committee

Bill/Resolution Number HB 1025

Hearing Date January 17, 2003

**(28.8) REP. GIL HERBEL:** On page 4, they've established 17 of these counties. How is that number 17 picked? Population?

**(29.2) TERRY TRAYNOR:** We tried a lot of different ways to get the best pick, and to do no harm. There's such a big break between the 17 largest and the next one. There's almost 5,000 people between that.

**(29.6) REP. WILLIAM KRETSCHMAR:** How much has been proposed in the budget?

**(29.8) JERRY HJELMSTAD:** 4 tenths of 1 cent.

**(30.1) REP. DALE SEVERSON:** Do you know if there's a per person dollar amount of that?

**(30.7) TERRY TRAYNOR:** On the county side of the formula, Cass Co. gets about \$2.50 per person. Macintosh Co. gets \$4.40 per person.

**(31.3) REP. GLEN FROSETH:** Testimony? Hearing none, what are the committee's wishes?

**(32.3) REP. DALE SEVERSON:** I MOVE A DO PASS.

**(32.4) REP. MARY EKSTROM:** I SECOND IT.

**(32.5) REP. GLEN FROSETH:** Any further committee discussion? Seeing none, I will ask the clerk to call the Roll Call Vote: 14- yes; 0- no; 0- absent; Carrier: Rep. Weiland

We will close the hearing for HB1025.

**FISCAL NOTE**  
Requested by Legislative Council  
12/13/2002

Bill/Resolution No.: HB 1025

**1A. State fiscal effect:** Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.

	2001-2003 Biennium		2003-2005 Biennium		2005-2007 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			\$0	\$0		
Expenditures						
Appropriations						

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

2001-2003 Biennium			2003-2005 Biennium			2005-2007 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
			\$0	\$0				

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

HB 1025 changes the allocation of State Aid Distribution Fund (SADF) revenues, effective August 1, 2003. The total amount of sales & use taxes and motor vehicle excise taxes going to the SADF remains unchanged. The allocation of SADF revenues between counties and cities also remains unchanged. While unchanged in total, HB 1025 provides for changes among individual counties and cities based on population.

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

Name:	Kathryn L. Strombeck	Agency:	Tax Department
Phone Number:	328-3402	Date Prepared:	12/23/2002

*Kathryn L. Strombeck*  
Operator's Signature

10/2/03  
Date

Date: 1-17-03

Roll Call Vote #: |

2003 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 1025

House "POLITICAL SUBDIVISION" Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Do Pass

Motion Made By Rep. Severson Seconded By Rep. Ekstrom

Representatives	Yes	No	Representatives	Yes	No
Chairman Glen Froseth	✓				
Vice-Chairman Nancy Johnson	✓				
Mike Grosz	✓				
Gil Herbel	✓				
Ron Iverson	✓				
William E. Kretschmar	✓				
Andrew Maragos	✓				
Dale Severson	✓				
Alon Wieland	✓				
Bruce Eckre	✓				
Mary Ekstrom	✓				
Carol A. Niemeier	✓				
Sally M. Sandvig	✓				
Vonnie Pietsch	✓				

Total (Yes) 14 No 0

Absent 0

Floor Assignment Rep. Wieland

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

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Date

**REPORT OF STANDING COMMITTEE (410)**  
January 17, 2003 1:14 p.m.

Module No: HR-09-0733  
Carrier: Wieland  
Insert LC: . Title: .

**REPORT OF STANDING COMMITTEE**  
**HB 1025: Political Subdivisions Committee (Rep. Froese, Chairman) recommends DO**  
**PASS (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1025 was placed on**  
**the Eleventh order on the calendar.**

(2) DESK, (3) COMM

Page No. 1

HR-09-0733

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*Yolanda Rickford*  
Operator's Signature

*10/2/03*  
Date

2003 SENATE POLITICAL SUBDIVISIONS

HB 1025

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*Valista Rickford*

Date

*10/2/03*

2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1025

Senate Political Subdivisions Committee

☐ Conference Committee

Hearing Date February 28, 2003

Tape Number	Side A	Side B	Meter #
1	X		0 - 2452
Committee Clerk Signature <i>Shirley Borg</i>			

Minutes:

**CHAIRMAN COOK** called the committee to order. All senators (6) were present.

**CHAIRMAN COOK** opened the hearing on HB 1025 relating to the allocation of sales, use and motor vehicle excise tax collections.

**John Bjornson**, Legislative Council, Staff person on Advisory Commission on

Intergovernmental Relations for the Interim. ACIR is a statutory committee that the legislative council provides staff for and consists of four legislatures and eight other members; two representatives from the league of cities, two from the association of counties, one from township officers association, one from the school board, one from the parks and recreation, and the governor. The purpose of the ACIR is to serve as a forum for local governments in the relationship with the state and address any issues that relate to local government. In the discussion during the interim the committee was made aware that the formula for the state aid distribution money needed to be changed because of the 2000 census as it is based on the

Page 2

Senate Political Subdivisions Committee

Bill/Resolution Number HB 1025

Hearing Date February 28, 2003

population. The main emphasis of the bill draft was to keep everybody where they are at but to adjust the formula to account for the population changes.

**Testimony in support of HB 1025:**

**Terry Traynor**, Assistant Director of ND Association of Counties, appeared in support of HB 1025. (See attached testimony)

Discussion: Tape 1, Side A, Meter # 1068 - 1528

**Jerry Hjelmstad**, ND League of Cities, appeared in support of HB 1025 (See attached testimony)

Discussion: Tape 1, Side A, Meter # 1796 - 1985.

**No opposition to HB 1025.**

**CHAIRMAN COOK** closed the hearing on HB 1025

**SENATOR JUDY LEE** moved a **DO PASS** on SB 1025

**SENATOR POLOVITZ** seconded the motion.

Roll call vote: Yes 6 No 0 Absent 0

Carrier: **SENATOR JUDY LEE**

Date: 2-28-03  
Roll Call Vote #: 1

2003 SENATE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. HB 1025

Senate Political Subdivisions Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Do Pass

Motion Made By Senator Judy Lee Seconded By Senator Polovitz

Senators	Yes	No	Senators	Yes	No
Senator Dwight Cook, Chairman	X				
Senator John O. Syverson, V C	X				
Senator Gary A. Lee	X				
Senator Judy Lee	X				
Senator Linda Christenson	X				
Senator Michael Polovitz	X				

Total (Yes) 6 No 0

Absent 0

Floor Assignment Senator Judy Lee

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

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Salista Rickford  
Operator's Signature

10/2/03  
Date

**REPORT OF STANDING COMMITTEE (410)**  
February 28, 2003 12:07 p.m.

Module No: SR-36-3654  
Carrier: J. Lee  
Insert LC: . Title: .

**REPORT OF STANDING COMMITTEE**

**HB 1025: Political Subdivisions Committee (Sen. Cook, Chairman) recommends DO  
PASS (6 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1025 was placed on the  
Fourteenth order on the calendar.**

(2) DESK, (3) COMM

Page No. 1

SR-36-3654

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*10/2/03*  
Date

2003 TESTIMONY

HB 1025

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*Talister Rickford*

Date

*10/2/03*

#1

1-17-03

**TESTIMONY TO THE  
HOUSE POLITICAL SUBDIVISIONS COMMITTEE**

Prepared January 17, 2003 by  
Terry Traynor, NDACo Assistant Director  
North Dakota Association of Counties

*Same testimony given to Senate*

**REGARDING HOUSE BILL NO. 1025**

Mr. Chairman and members of the committee, thank you for the opportunity to present a very brief history of the State Aid Distribution Fund, and our thoughts on the changes to the "rural" allocation formula needed to reflect the 2000 census data, that are contained in House Bill 1025.

The members of this committee know better than most of the origins of the State Aid Distribution Fund. The unpopularity of personal property tax in the mid-1960's prompted the Legislature to repeal it and provide all local governments (including schools until 1972) with a general fund appropriation (PPRP) *replacement program* to replace the loss of revenue. The annual appropriation was therefore tied to the actual amounts collected as personal property tax prior to 1969, indexed with the growth in each taxing jurisdiction's real property tax collections. The origin of this revenue source was therefore directly tied to local taxing efforts.

The Legislature did not fully fund the formula even in its first year (1969), and over time the appropriation fell further and further behind the target. This situation prompted an initiated measure in 1978 creating the State Revenue Sharing Fund that redirected five percent of sales and income tax revenue to cities, counties, townships, and park districts on a population-based formula. The PPRP continued to fall further and further behind, while Revenue Sharing grew slowly with the state revenues for the seven years it was protected by its "initiated measure status".

Facing reductions in both programs, local government leaders opted for the creation of a State Aid Distribution Fund in 1987 with a new mechanism to generate the funds. Six-tenths of the first cent of sales tax was to be placed in the fund, and then half was distributed by the "old" PPRP formula and the other half by the Revenue Sharing formula. Therefore the individual amounts were partially based on historical personal property taxes indexed to real property tax growth and partially based on relative population.

Because the six-tenths of the first penny of sales tax was still appropriated, that appropriation quickly drifted from the target and ultimately the Legislature essentially froze the appropriation. Arguments were made by some legislators that the property tax tie in the allocation formula rewarded those political subdivisions that increased property taxes and penalized the more "fiscally responsible", therefore this program should not see

increasing state support. True or not, freezing the appropriation just penalized those that didn't raise property taxes, by shifting their share to those increasing property taxes.

By the time the 1997 Legislative Session started, it was almost universally agreed that something needed to change. The counties, cities, townships, and park districts developed a proposal to work for a permanent, continuing appropriation. This was found to be acceptable, only if the property tax tie was eliminated. A complete rewrite of the revenue generating and revenue allocation formulas was therefore crafted.

This rewrite began with <sup>reduced to</sup> four-tenths of the first cent of sales tax, to better reflect the revenue that had actually been appropriated. This amount was then divided, based on existing shares, between the "urban" political subdivisions and the "rural" political subdivisions.

Each of the two groups then developed seven population categories with designated shares that would minimize the adverse impact to individual jurisdictions as much as possible while still moving towards a population-based formula. It was recognized at the outset that this formula (because of its census data linkage) would need work in the future, and was more of a partial step towards a final solution.

The categories developed to "hold harmless" every jurisdiction, actually preserved the historical inequities of the personal property taxes levied prior to 1969, and the disproportionate growth in real property taxes between 1969 and 1997. This fact, coupled with a decennial census process that would move jurisdictions from category to category, prompts the need to take the last step towards finalizing the new formula.

What our Association proposed to the Advisory Commission on Intergovernmental Relations, and what is incorporated into HB1025, is the collapsing of the "rural" categories to two, eliminating the fixed population "break-points", and using a formula that incorporates a base plus a population multiplier in each of the two categories. This formula has been tested with various population shifts and changes, and should not need further amendment ten years from now.

Attached are several charts that provide a visual depiction of the "rural" formula that I would like to explain, and then I would welcome any questions you may have.

Table 1

## Census Changes to State Aid Fund Population Categories - Rural

COUNTY	1990 Census	2000 Census	Percent Change Census	
SLOPE	907	767	-15.4%	
BILLINGS	1,108	888	-19.9%	
SHERIDAN	2,148	1,710	-20.4%	
GOLDEN VALLEY	2,108	1,924	-8.7%	
OLIVER	2,381	2,065	-13.3%	
BURKE	3,002	2,242 *	-25.3%	
STEELE	2,420	2,258	-6.7%	
DIVIDE	2,899	2,283 *	-21.2%	
LOGAN	2,847	2,308 *	-18.9%	2,800
ADAMS	3,174	2,593	-18.3%	
RENVILLE	3,160	2,610	-17.4%	
HETTINGER	3,445	2,715	-21.2%	
KIDDER	3,332	2,753	-17.4%	
GRIGGS	3,303	2,754	-16.6%	
EDDY	2,951	2,757	-6.8%	
GRANT	3,549	2,841	-19.9%	
TOWNER	3,627	2,876	-20.7%	
BOWMAN	3,596	3,242	-9.8%	
McINTOSH	4,021	3,390	-15.7%	
DUNN	4,005	3,600	-10.1%	
NELSON	4,410	3,715	-15.8%	
FOSTER	3,983	3,759	-5.6%	
SIOUX	3,761	4,044	7.5%	
EMMONS	4,830	4,331	-10.3%	
SARGENT	4,549	4,366	-4.0%	
PIERCE	5,052	4,675 *	-7.5%	
LaMOURE	5,383	4,701 *	-12.7%	
CAVALIER	6,064	4,831 *	-20.3%	6,000
WELLS	5,864	5,102	-13.0%	
McKENZIE	6,383	5,737	-10.1%	
DICKEY	6,107	5,757	-5.7%	
RANSOM	5,921	5,890	-0.5%	
McHENRY	6,528	6,987	8.3%	
MOUNTRAIL	7,021	6,631	-5.6%	
BENSON	7,198	6,964	-3.3%	
BOTTINEAU	8,011	7,149	-10.8%	
TRAILL	8,752	8,477	-3.1%	
PEMBINA	9,238	8,585	-7.1%	
MERCER	9,808	8,644	-11.9%	
McLEAN	10,457	9,311 *	-11.0%	10,000
BARNES	12,545	11,775	-6.1%	
RAMSEY	12,681	12,066	-4.8%	
WALSH	13,840	12,389	-10.5%	
ROLETTE	12,772	13,674	7.1%	
RICHLAND	18,148	17,998	-0.8%	
WILLIAMS	21,129	19,761 *	-6.5%	20,000
STUTSMAN	22,241	21,908	-1.5%	
STARK	22,832	22,636	-0.9%	
MORTON	23,700	25,303	6.8%	20,000
WARD	57,921	58,795	1.5%	
GRAND FORKS	70,683	66,109	-6.5%	
BURLEIGH	60,131	69,416	15.4%	100,000
CASS	102,874	123,138	19.7%	
	638,800	642,200		

1/15/2003

HB1025 SADF formula.xls

Census

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Table 2

Sample Distribution based on HB1025 Formula - Rural

State Aid Quarterly Allocation - \$5,000,000

"Rural" Share (53.7%)  
\$2,685,000

"Urban" Share (46.3%)  
\$2,315,000

Rural Share \$2,685,000	
17 Largest Counties (64%) \$1,718,400	36 Other Counties (36%) \$ 966,600
Large County Share \$1,718,400 32% (of 64%) in 17 equal shares \$549,888 / \$32,346 each Balance of 64% based on relative population \$116,851 / \$68,736 average	"Other" County Share \$ 966,000 40% (of 36%) in 36 equal shares \$386,400 / \$10,733 each Balance of 36% based on relative pop. \$579,600 / \$16,100 average

Each county allocates to townships the same percentage as was allocated to each in 1996

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*Yolanda Rickford*  
Operator's Signature

10/2/03  
Date

#2

1-17-03

To: House Political Subdivisions Committee  
From: Jerry Hjelmstad, North Dakota League of Cities  
Date: January 17, 2003  
Re: House Bill 1025

*Same testimony given to Senate*

Mr. Chairman and members of the House Political Subdivisions Committee, my name is Jerry Hjelmstad and I am here on behalf of the North Dakota League of Cities to testify in favor of House Bill No. 1025.

As you know, the 1997 state legislature set up a formula allocating 53.7% of the State Aid Distribution Fund to counties and rural taxing districts and 46.3% to cities and taxing districts within cities. The share of the city allocation to be distributed to park districts must be equal to the percentage of the city's share that park districts received during calendar year 1996 up to a maximum of 30%. However, the governing boards of the city and park district may agree to a different distribution.

When allocating the city portion of the State Aid Distribution Fund (46.3%) during the 1997 legislative session, the legislature set up 7 population categories for distribution of the funds. The old distribution formula was based on distribution of state revenue sharing and personal property tax replacement. The population categories were used to attempt to prevent any city from taking a loss under the new distribution formula. The categories were also used to insure that cities of all sizes would share a percentage of the funds.

Now that the results of the 2000 census are available, we are recommending several changes in the population categories established during the 1997 legislative session. These recommended changes are shown on the chart on the next page.

A new category would be set up for cities of 80,000 or more. <sup>→ see chart on back</sup> The 19.4% allocated to this category reflects the fact that about 19.4% of the state's incorporated city population resides within the city of Fargo. The percentage adjustments to the other categories are based on cities shifting from one population category to another. For example, in 1997 there were 51 cities in the 500-999 population category. There are now 47 cities in that population category. As a result, the percentage of the fund going to that category would be reduced.

The changes that we are supporting in this bill have been reviewed and approved by the Legislative Committee of the North Dakota League of Cities and by our member cities at our annual conference. The goal of these changes is to maintain the level of funding for each category of cities as much as possible.

We ask that you give a "do pass" recommendation to House Bill No. 1025.

*Yalosta Rickford*  
Operator's Signature

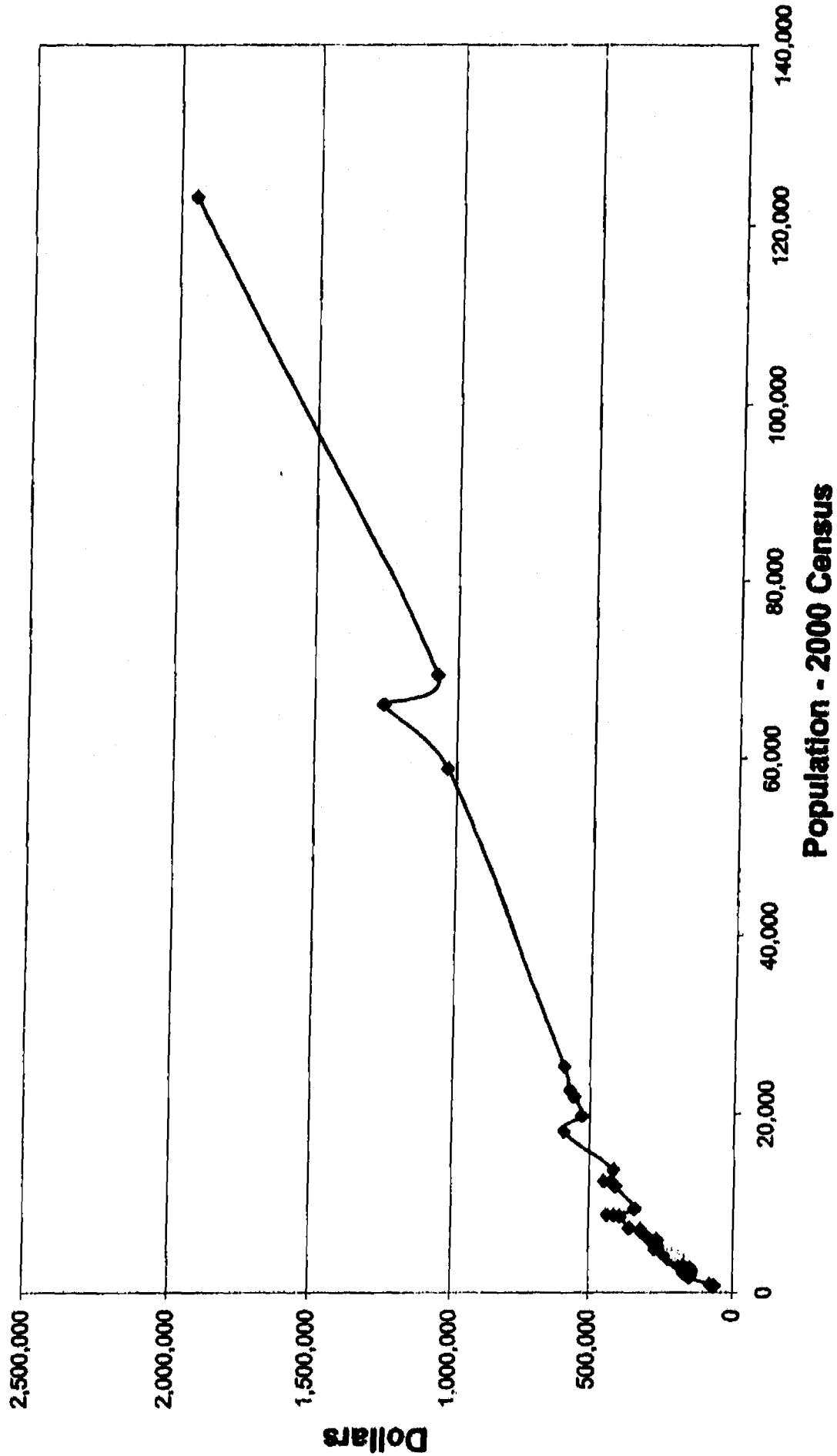
*10/2/03*  
Date

**State Aid Distribution Fund  
Recommended Adjustments**

Category	Population	1997	2002	current %	adjusted %
A-1	80,000+		1		19.4%
A	20,000-80,000	4	3	53.9%	34.5%
B	10,000-19,000	5	5	16.0%	16.0%
C	5,000-9,999	3	3	4.9%	4.9%
D	1,000-4,999	40	40	13.1%	13.1%
E	500-999	51	47	6.4%	6.1%
F	200-499	80	72	3.5%	3.4%
G	less than 200	178	187	2.2%	2.6%
<b>Total</b>		<b>361</b>	<b>358</b>	<b>100%</b>	<b>100%</b>
	<b>SADF formula:</b>				
	<b>NDCC</b>				
	<b>57-39.2-26.1</b>				

Chart 1

# State Aid - Population vs. Allocation Actual Distribution with New Census



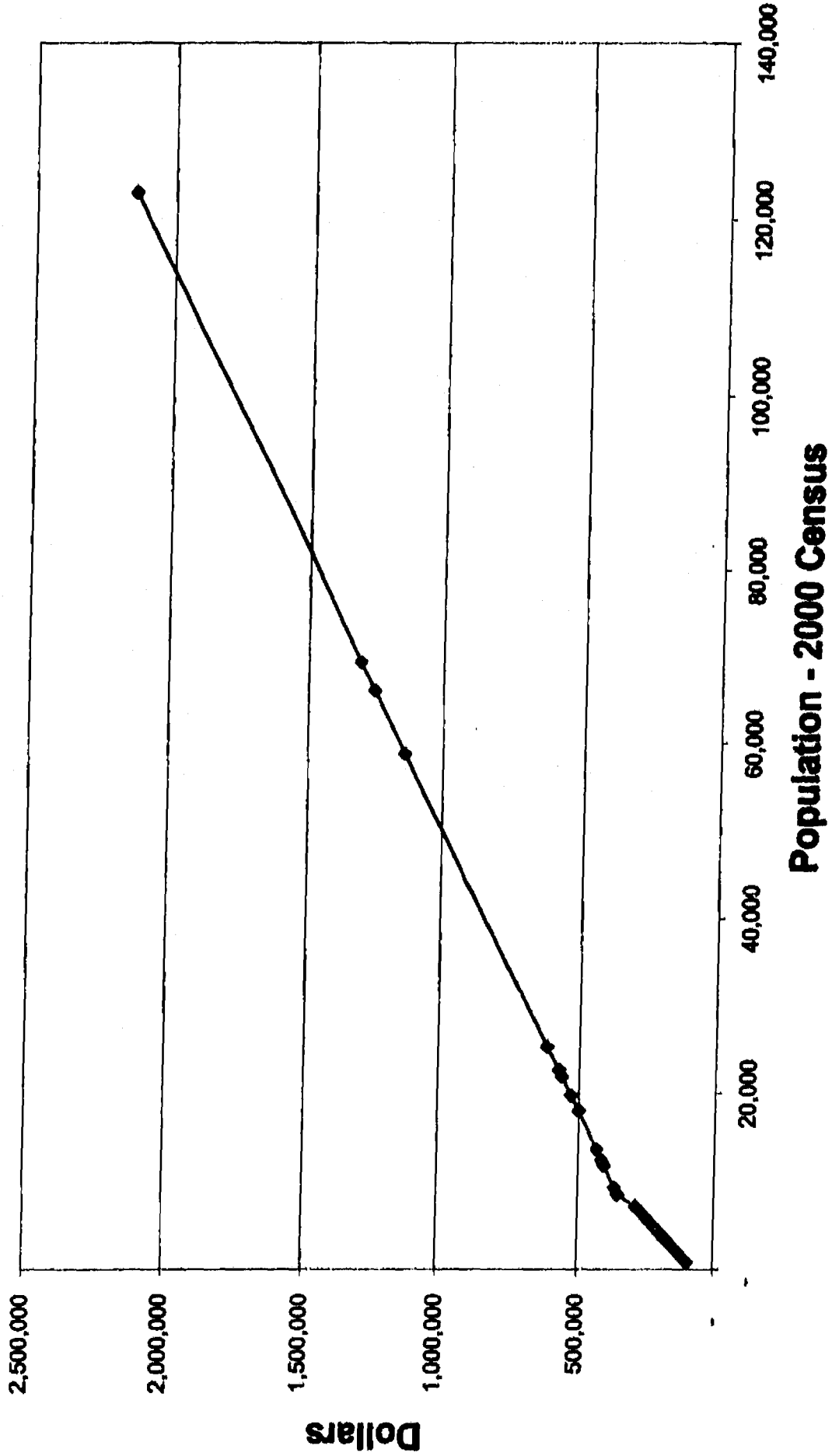
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*Yalosta Rickford*  
Operator's Signature

10/2/03  
Date

Chart 2

# State Aid - Population vs. Allocation Proposed Two-Part Formula



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*Yolanda Rickford*  
Operator's Signature

*10/2/03*  
Date