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10/22/03
Date

2003 SENATE FINANCE AND TAXATION

SB 2313

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2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2313

Senate Finance and Taxation Committee

☐ Conference Committee

Hearing Date February 4, 2003

Tape Number	Side A	Side B	Meter #
1		X	2935-end
2	X		1-534
Committee Clerk Signature <i>Mary Kay Larkin</i>			

Minutes:

Senator Urlacher opened the hearing on SB2313. All committee members are present. This bill relates to individual income tax rates and to provide appropriations for foundation aid grants for school districts.

Senator Tallackson (mtr #3014) - Testified in support of SB2313. Written testimony is attached.

Gave an overview of the intent of the bill.

Senator Nichols (mtr #3621) - Asked a question regarding the property tax exemptions.

Senator Tallackson (mtr #3685) - Provided an answer to how funds raised and how the school districts would be affected.

Senator Wardner (mtr #3718) - Clarifying that tax brackets would be adjusted upward.

Senator Tallackson - Agreed.

Senator Wardner (mtr #3756) - Would the mill cap be changed?

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Senate Finance and Taxation Committee

Bill/Resolution Number SB2313

Hearing Date February 4, 2003

Senator Tallackson (mtr #3790) - That has not been considered. Consideration given to lowering property taxes.

Representative Phil Mueller (mtr #3840) - Testified in support of SB2313 included issues that he supports in this bill. Also cited an example of taxation situation.

Joe Westby, Executive Director, ND Education Association (mtr #4623) - Testified in support of SB2313. Talked about school funding issues and the heavy reliance on property taxes.

Sandy Clark, ND Farm Bureau (mtr #5095) - Testified in support of SB2313. Written testimony is attached.

Senator Wardner (mtr #5746) - Would Farm Bureau support an income tax increase.

Ms. Clark (mtr #69) - Farm Bureau policy is clear. As long as a tax increase comes with property tax decrease it is OK.

Andrew Varvel (mtr #5886) - Testified in support of SB2313. Written testimony is attached.

Tape 2, Side A

Joe Becker, State Tax Department (mtr #40) - Provided information of the fiscal note of this bill.

Senator Tallackson (mtr #129) - Language in the bill came from Legislative Council.

Senator Nichols (mtr #205) - Clarified, would address funds that come from tax increase would match to lower property tax amount?

Mr. Becker (mtr #255) - Clarified intent and source of fiscal note.

Delbert Moore (mtr #302) - Testified in support of this bill

Senator Urlacher (mtr #534) - Closed the hearing on SB2313

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10/22/03
Date

2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2313

Senate Finance and Taxation Committee

☐ Conference Committee

Hearing Date February 5, 2003

Tape Number	Side A	Side B	Meter #
2		X	4873-5582
Committee Clerk Signature <i>Mary Kay Wilkey</i>			

Minutes:

Senator Urlacher opened the discussion on SB2313. All committee members are present. This bill relates to individual income tax rates to provide appropriations for foundation aid grants for school districts and to require reduction in property tax levies of school districts.

Senator Urlacher reviewed the bill and the large fiscal note.

Senator Nichols (mtr #5045) - Concept is right. Should provide more education funding with income taxes and less with property taxes.

Senator Wardner (mtr #5116) - The bill has merit, except raising the income tax.

Senator Urlacher (mtr #5240) - No surplus in fund right now, makes it tough.

Senator Wardner moves Do Not Pass. 2nd by Senator Tollefson. Roll call vote 4 yea, 2 nay, 0 absent. Carrier is Senator Wardner.

FISCAL NOTE
Requested by Legislative Council
01/27/2003

Bill/Resolution No.: SB 2313

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			\$90,000,000			
Expenditures						
Appropriations			\$95,000,000			

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

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

SB 2313 increases all individual income tax rates by 21%. If enacted, this will result in an increase in state general fund revenues of approx. \$90 million for the 2003-2005 biennium. Section 3 of the bill appropriates \$95 million to DPI for additional foundation aid. Section 3 also requires the additional foundation aid be an offset in determining the school district mill levy, which will result in a corresponding decrease in property taxes.

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 Dept.
Phone Number:	328-3402	Date Prepared:	02/03/2003

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Date:
Roll Call Vote #:

2003 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2313

Senate	Finance and Taxation	Committee
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☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken See above

Motion Made By W. J. Miller Seconded By Sam Patterson

[illegible]

Total (Yes) 1 No 2

Absent

Floor Assignment San Lorenzo

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

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1022103

Date _____

REPORT OF STANDING COMMITTEE (410)
February 6, 2003 9:00 a.m.

Module No: SF-23-1803
Carrier: Wardner
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE
SB 2313: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends **DO NOT PASS** (4 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). SB 2313 was placed on the Eleventh order on the calendar.

(2) DESK, (3) COMM

Page No. 1

SF-23-1803

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2003 TESTIMONY

SB 2313

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10/22/03

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**TESTIMONY
SB 2313
Senator Harvey Tallackson
District 16
Grafton**

SB 2313 is an attempt to adjust our state income tax, send the revenue raised by this bill to the school district on a per pupil basis, and then require the school district to use sixty percent of the revenue to reduce their property tax part of their budget.

The impetus behind this bill is not just to adjust income tax upwards but to lower property taxes. One township in my district had its agriculture property taxes raised over twenty percent last year. Local support for school districts has increased from 34% in 1985 to 43% of school budgets in 2002. There is getting to be too much reliance on property taxes to support school districts, an average of sixty percent of our local real estate taxes goes to our school districts.

Our local school districts don't have many choices to raise or receive revenue except local real estate taxes. We have fallen short on our responsibility as a state to properly fund K through 12 education. Several years ago, a group of school districts brought this problem to the Supreme Court who decided to give the state legislature more time to correct the problem of financing school districts by a three to two vote. Unfortunately we, as legislators, have done very little to increase funding on a state level. Consequently, there is an effort being made to bring this problem back to the courts for relief.

Page 1 of 3

Deanne Tallackson
Operator's Signature

10/22/03
Date

TESTIMONY
SB 2313
Senator Harvey Tallackson
District 16
Grafton

There are so many ways our laws adjust real estate taxes going to school districts. There doesn't seem to be any way that is fair because of different sizes of school districts, their assessed valuation, and mill levy deducts.

Again, to me, the only fair way to support education financially is on a per pupil basis using state sales and income taxes to do this. The average cost of education per pupil could be the benchmark for the per pupil foundation aid.

Income tax seems to be a fair tax as it is based on what you earn. If you don't earn a certain amount of money, you don't pay the tax. Real estate taxes are due and payable regardless of whether the business or farm made a profit. Many businesses and farmers have lost money but still need to pay a substantial property tax.

I know we have a big hill to climb to overcome the conservative attitude that income tax is bad and real estate taxes are okay because they are local. But, sooner or later, this will have to be done. We shouldn't adjust income taxes only to get more tax money but to take some of the burden off of real estate taxes.

What more can I say. The people in my area are clamoring for property tax relief. There seems to be no help in sight. There is no other way to provide more funds for education and reduce property taxes than to find a revenue source. The only leg of our three-leg tax revenue that isn't paying their share is income tax.

Page 2 of 3

Deanna Tallackson
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TESTIMONY
SB 2313
Senator Harvey Tallackson

I invite you to read the tax departments "State and Local Taxes, an Overview and Comparative Guide, 2002", page 19, per capita comparison of individual income tax collections. North Dakota is 41 of 50 states at \$336. Minnesota is sixth at \$1,188 and Wisconsin is eighth at \$953. Only New Hampshire and Tennessee are lower than North Dakota.

I sincerely ask for this committee's support in passing SB 2313.

Page 3 of 3

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Fax: 701-224-9485

North Dakota Farm Bureau

www.ndfb.org

Senate Finance and Tax Committee

February 4, 2003

Testimony by North Dakota Farm Bureau

presented by Sandy Clark, public policy team

Good morning, Mr. Chairman and members of the committee. For the record, my name is Sandy Clark and I represent the 26,000 members of North Dakota Farm Bureau. We appreciate the opportunity to appear before you this morning on SB 2313.

North Dakota Farm Bureau policy supports the concept of increasing income taxes with a corresponding reduction in property taxes. This bill will go a long way to providing equitable funding of K-12 education through a combination of property taxes and income taxes.

At one time, property represented wealth in this country and property was used as the basis for school funding. However, today property no longer represents wealth. Until the last couple years, wealth has been in the stock market.

As you well know, school districts receive the largest share of property taxes. And ag landowners pay the largest share of those property taxes. Consequently, farmers and ranchers carry more of the school tax burden on a per taxpayer basis than any other segment.

Equity funding of our education system has been a run and gun issue for a long time.

The dialogue has focused on where the students aren't. We should talk about where the students are. We talk about where the property is. We should talk about where the personal income is.

Now I realize there are some variations. But by and large, those school districts with high valuations and high property taxes have fewer students and less net income. The majority of students are located in the urban areas where there is less property and personal income levels are higher.

One future. One voice.

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A realistic combination of property taxes and income tax would go a long way to providing equitable funding for education in this state.

I do need to point out that while we support the concept of this bill, I admit I'm not sure I fully understand that this bill guarantees that property taxes won't be raised again over time. We'll start out with property tax relief, but what's to keep the property tax bar from being raised.

North Dakota Farm Bureau believes the time has come to begin serious dialogue to secure additional sources for education funding. As long as education funding continues to rely so heavily on property taxes, property owners will bear the weight of education funding. SB 2313 changes that trend.

Again, we urge a "do pass" recommendation on SB 2313. Thank you for your consideration and I would be happy to respond to any questions.

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**Testimony of Andrew Varvel to the
North Dakota Senate Finance & Taxation Committee
Concerning Senate Bill 2313
February 4, 2003**

Mr. Chairman and members of the committee:

I like this piece of legislation. There's only one problem with it -- it doesn't go far enough.

We should eliminate the property tax altogether.

The property tax adds to the cost of doing business. When a tax adds to the cost of production, it favors large multi-national corporations by weeding out their smaller competition. This property tax adds to the cost of living. It hits the small farmer. It hits the struggling rancher. It hits the small entrepreneur. It hits the elderly. Every renter pays the property tax indirectly. Every consumer pays the property tax indirectly. A low cost of living is important for both business and labor in North Dakota.

Some cities give property tax abatements for new businesses. Let's make property tax abatement permanent for everybody.

The power to tax is the power to destroy. The most effective way to preserve real property rights is to not tax real property. Capping property tax rates merely encourages higher appraisals by county and municipal assessors. Property tax assessment is arbitrary. Property tax assessment is capricious. The property tax intrudes on the privacy of one's home.

The property tax punishes those who improve their homes and those who make the neighborhood look beautiful. Let's make North Dakota beautiful! Let's not punish those who make this state a better place to live.

Let's send a message to the poor that if a rich person comes into the neighborhood, the poor won't be forced out of their homes and businesses because of higher property taxes. Let's send a message to the rich that if they want to build beautiful buildings in our cities, we won't punish them for it. Let's not punish those who invest in tall buildings. Let's not punish those who believe in North Dakota.

There are those who wish to sap our spirit, tyrants who order us to stop building for a better future. The property tax is a relic of a feudal system designed to stifle the creative energies of free people. The property tax must go.

North Dakota once had a personal property tax, but it no longer exists. This proves we can abolish a tax once we decide to do it. Let's abolish the property tax altogether and enhance the North Dakota way of life.

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School districts consider lawsuit

Education finance system again comes under fire

By DALE WETZEL
Associated Press Writer

Almost a decade after North Dakota's Supreme Court concluded the state's education finance system was barely legal, a group of school districts is considering another trip to court.

School boards in Grafton, Devils Lake and Surrey, a community about

six miles east of Minot, have agreed to jointly solicit proposals from lawyers who would be willing to take on what would likely be an expensive and protracted fight.

Grafton has hired Roger Worner, a former Fargo assistant school super-

intendent and an education consultant in Sartell, Minn., to gather data about education money disparities that could be used to start a lawsuit.

Worner's report is due at month's end, said Paul Stremick, the Grafton school superintendent. Lawyers who are interested in taking the case have been asked to respond by Feb. 3.

The Williston school board is expected to consider on Tuesday whether to join the group. Steve Swiontek, Devils Lake's school superintendent, said he hoped other schools that are being shortchanged would come aboard.

"In the last several years, as far as the school finance system is concerned, we've seen almost no progress at all," Swiontek said.

Stremick said the discussions were motivated by frustration over the wide disparities in how North Dakota's property tax resources are distributed among schools.

For example, Grafton's property tax levy was the third-highest among North Dakota school districts during 2000-01. At the same time, Grafton's average spending per student was \$3,962, which ranked 163rd among North Dakota's 170 high school districts, a Department of Public Instruction report says.

Grafton taxpayers are digging deep, but its school system remains poor, Stremick said. The disparity can be blamed on North Dakota's school

session

Nationally
III Activists marking
Ree v. Wade
anniversary predict
legislative
limitations on
abortion rights this
year, GA.

Lawsuit: Chief justice said he may consider a future case differently

FROM 1A
finance system, because it does not go far enough in making local property tax resources more equal among schools, he said.

"So much of the system is based on property value," he said. "What we would like to see is a situation where you can raise a similar amount of money by levying a similar amount of (property taxes). We just want to be normal."

Education Week, a national education publication, gave North Dakota the lowest grade among the 50 states for education finance equity in a report this month. Among the states, only North Dakota and Illinois received "F" grades in the area.

Devils Lake, Grafton and Surrey were among a group of nine school districts that filed a lawsuit against the state in June 1999, seeking to have North Dakota's education finance system declared unconstitutional. Schools in Bismarck, Dickinson, Grand Forks, Mandan, Valley City and West Fargo also took part.

In January 1994, three of the North Dakota Supreme Court's five justices concluded the system's method of distributing education aid was unconstitutional. However, the votes of at least four justices were necessary for the districts to win their

"It's never too late for us to talk directly about remedies to those issues."

LI Gov. Jack Dalrymple

case.

The swing vote was Chief Justice Gerald Vandewalle, who concluded the system was constitutional even though it was "fraught with funding inequities." In a separate opinion, the chief justice hinted that he may consider a future case differently if changes were not made.

Vandewalle and Justice Dale Sandstrom, who also voted to uphold the constitutionality of the system, are still on the court, as is Justice William Neumann, who wrote the majority opinion to throw out the finance system. The two justices who sided with Neumann, Beryl Levine and Herbert Meschke, have retired.

LI Gov. Jack Dalrymple, who pushed some education finance changes as a state legislator during the 1990s, said he hoped the schools would decide against going to court. They should take their con-

cerns to legislators or Gov. John Heinen, Dalrymple said.

"It's never too late for us to talk directly about remedies to those issues," Dalrymple said.

Since the Supreme Court's 1994 ruling, some steps have been taken to remedy the problem of unequal property resources, Dalrymple said. One move was to set up a special payment for schools that have unusually low amounts of taxable property to support each student.

"I think, really, the state has made a lot of progress in the direction of equity," Dalrymple said. "That's not to say that the system is perfect, or that the job is necessarily done, but we have made a lot of progress in the right direction."

Swiontek disagreed. "For some schools, things have improved," he said. "But for others, like Devils Lake and Grafton, it has not gotten better at all."

Lawmakers who are familiar with North Dakota's system of providing aid for schools said they were worried about the potential for another lawsuit.

"There is a very major problem in finance," said Sen. Layton Freberg, R-Underwood, the chairman of the Senate Education Committee. "I do think we're close to getting pressured again."

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