FINANCE AND TAXATION COMMITTEE

The Finance and Taxation Committee was assigned two studies. Section 1 of Senate Bill No. 2404 (2005) directed a study of enhanced funding for elementary and secondary education and methods, including sales tax, income tax, and tax exemptions, by which the state's reliance on property taxes to fund elementary and secondary education could be reduced. Senate Concurrent Resolution No. 4010 (2005) directed the Legislative Council to study alternatives to the current method of expressing property tax levies in mills per dollar of taxable valuation.

Committee members were Senators Herb Urlacher (Chairman), John M. Andrist, Dwight Cook, Michael A. Every, Harvey Tallackson, Ben Tollefson, and Rich Wardner and Representatives Larry Bellew, Wesley R. Belter, Kari Conrad, David Drovdal, Pam Gulleson, C. B. Haas, Lyle Hanson, Craig Headland, Gil Herbel, Ronald A. Iverson, Philip Mueller, Kenton Onstad, Mark S. Owens, Arlo E. Schmidt, Dave Weiler, Clark Williams, and Dwight Wrangham.

The committee submitted this report to the Legislative Council at the biennial meeting of the Council in November 2006. The Council accepted the report for submission to the 60th Legislative Assembly.

EDUCATION FUNDING AND PROPERTY TAX STUDY

Background

It appears that the study directed by Senate Bill No. 2404 was enacted to continue deliberations initiated by House Bill No. 1512 (2005), which would have caused a substantial restructuring of education funding. House Bill No. 1512 was passed in the House of Representatives but failed to pass in the Senate. As approved by the House of Representatives, the bill would have substantially increased individual and corporate income taxes and sales, use, and motor vehicle excise taxes to generate approximately $570 million in new revenue for a biennium. The new revenue would have been allocated to school districts to replace most general fund property tax levies and would have reduced school boards' property tax levy authority to a maximum of 80 mills for general fund purposes. The bill would have eliminated the existing foundation aid formula and pooled all state funding sources for school districts into a single formula. Proponents of House Bill No. 1512 argued that property taxes have risen too fast in recent years and the adequacy and equity of education funding could be improved by restructuring the way education is financed. Many of those who did not support passage of the bill expressed concern that restructuring of this magnitude requires more careful study and that the bill proposed too large a state tax increase.

North Dakota Century Code (NDCC) Section 57-51.1-08 contains a statement of intent of the electors and the Legislative Assembly to fund public elementary and secondary education at the level of 70 percent of the educational cost per student. This language originated with enactment of initiated measure No. 6 at the November 1980 general election. Despite the existence of this statement of intent, state allocations have never reached a funding level of 70 percent of the cost of elementary and secondary education.

Concept Paper

Early in its deliberations, the committee approved a motion to develop a concept paper for committee consideration to identify and focus committee consideration on core issues for analysis. The committee adopted a concept paper with the following primary considerations:

1. Determine the result if the funding formula were to provide for 70 percent state and 30 percent local shares of elementary and secondary education funding, excluding consideration of federal funding.
2. Determine property tax savings that will result and how to equitably allocate savings among taxpayers.
3. Determine whether school spending growth can and should be limited.
4. Provide a two-year hold harmless funding floor for school districts.
5. Determine appropriate means of meeting the added funding responsibility of the state.
6. Determine a method to monitor future conformity of elementary and secondary education funding to the 70-30 funding model and obtain estimates of future costs.

70-30 Elementary and Secondary Education Funding

In 2005 the Legislative Assembly provided appropriations for per student payments, tuition apportionment, special education funding, and teacher compensation reimbursement totaling $696,865,879. The total appropriation exceeds the 1995-97 appropriation by $179,267,046, which is an increase of 34.6 percent in 10 years. For comparison purposes, during the 10 years from 1994 to 2004, total school district property taxes levied increased by 60.1 percent.

Although legislative appropriations for elementary and secondary education funding have increased substantially over the years, the cost of education has increased faster, forcing school district property tax levies to increase faster than state funding levels. Superintendent of Public Instruction representatives estimate the current annual rate of growth in elementary and secondary education costs at approximately 3 percent. The state's share of funding for elementary and secondary education has declined from 58.5 percent in 1981-82 to 41.5 percent in 2003-04. Local source contributions to school district revenues have increased from 23.3 percent in 1981-82 to 42.6 percent in 2003-04, mostly because of substantial increases in school district property taxes. School district property tax levy increases affect all property taxpayers in the state because all property is in a school district and property taxes levied by school districts were 55.5 percent of all property taxes levied in the state in 2004.

The committee reviewed detailed data and testimony on all aspects of school funding. The committee received a review from five school districts, including large, medium, small, and recently consolidated districts, on how they establish and adjust their budgets. The committee reviewed data on each school district's expenditures broken down by expenditures for teachers, support staff, administration, and other expenditure categories.

For the 2004-05 school year, the statewide school district average expenditures were allocated 51.76 percent for salaries and benefits for teachers, 4.84 percent for salaries and benefits for support staff, 7.23 percent for other instructional costs, 4.69 percent for school administration, 6.42 percent for general administration, 8.72 percent for operation and plant maintenance, 4.14 percent for student transportation, 1.19 percent for capital projects, 2.40 percent for extracurricular activities, and 8.61 percent for all other expenditures. For the 2004-05 school year, the statewide average cost per student was $6,726.

The committee requested and received information to compare "rich" versus "poor" school districts. It appears the most appropriate means of comparing rich versus poor school districts is to compare the taxable valuation per student as a measure of the taxable property wealth available for support of each student in each school district. The statewide average taxable valuation per student for the 2005-06 school year is $18,735. However, most school districts in the state are either substantially above or substantially below this statewide average taxable valuation per student. This means there is a broad range of property tax capacity for educational support among school districts.

School districts levied 50.9 percent of statewide property taxes in 1985 and 55.52 percent in 2004. Counties levied 25.59 percent of property taxes statewide in 1985 and 23.79 percent in 2004. Cities levied 14.83 percent of property taxes statewide in 1985 and 12.46 percent in 2004. From 1985 to 2004, total taxes levied by school districts statewide increased 152.8 percent while county levies increased 115.44 percent and city levies increased by 94.68 percent.

In a nationwide comparison of state funding of the cost of elementary and secondary education, it is reported that state revenues in North Dakota account for approximately 37 percent of total elementary and secondary education funding. The data in the study differs slightly from data determined at the state level because the study includes consideration of state funding for school construction and other costs not included in North Dakota comparisons. The study concludes that the average state share of elementary and secondary education funding is 49 percent. In this region only South Dakota, at 34 percent, provides a lower proportion of funding from state sources for elementary and secondary education. The study reports the state's share of elementary and secondary education funding is 74 percent in Minnesota, 46 percent in Montana, and 51 percent in Wyoming.

The committee reviewed a 2003 report prepared for the Superintendent of Public Instruction by Augenblick, Palaich and Associates, Inc., commonly referred as the Augenblick study. Educational funding analysis generally focuses on equity and adequacy considerations. The equity approach to school funding is focused on allocation of equal dollars for each student. The adequacy approach to school funding relies on determining funding allocations to provide educational adequacy for each student. The Augenblick study was commissioned to determine the cost of providing educational adequacy funding in North Dakota. The report was based on data from the 2001-02 school year and use of six hypothetical school districts. The report concluded that 2001-02 funding was approximately $205.8 million below the amount the study estimated was necessary to meet adequacy of funding considerations.

The committee reviewed a June 2005 decision of the Supreme Court of Kansas ordering the Kansas Legislature to increase its appropriation for state support of elementary and secondary education. Before the court decision, the Kansas Legislature had provided an appropriation increasing state support for elementary and secondary education by $142 million above the amount appropriated the previous year. The court ordered an additional increase of $143 million and the legislature complied with the Kansas Supreme Court order by approving an increase in state school funding by an additional $148.4 million. The developments in Kansas are relevant to North Dakota because the Kansas Supreme Court based its decision in large measure upon a study of adequacy of educational funding in Kansas completed by Augenblick & Myers and, when the Finance and Taxation Committee began its study, a lawsuit against the state of North Dakota was pending which had been filed by plaintiff school districts challenging the equity and adequacy of school funding in North Dakota, citing the findings of the Augenblick study done for North Dakota.

In early 2006 an agreement to stay litigation was entered by the Governor with the plaintiff school districts in the school funding lawsuit filed against the state of North Dakota. In the agreement, the Governor made a commitment to issue an executive order creating a North Dakota Commission on Education Improvement and a commitment that the executive budget for the 2007 legislative session would include at least $60 million of additional state funds for elementary and secondary education above the amount appropriated in 2005. The Governor issued the promised executive order on January 10, 2006, establishing the Commission on Education Improvement to examine the system of delivering and financing public elementary and secondary education, propose a resolution for the Legislative Assembly to adopt the commission as a vehicle for proposing improvements to the system, and submit to the Governor and the Legislative Assembly recommendations to improve the system, including addressing adequacy of education, equitable distribution of state education funds, and allocation of funding sources between the state and school districts.

After the early deliberations of the Commission on Education Improvement, the committee received a report from the Lieutenant Governor, who served as chairman of the Commission on Education Improvement, regarding the direction the commission would proceed with its study and recommendations. At the time of the report by the Lieutenant Governor, the Commission on Education Improvement had not made any final decisions. The Lieutenant Governor said the commission was established to carry through on the commitment of the state in the agreement to stay litigation to provide $60 million of new state funds for education and to improve the equity of funding allocation among school districts. The Lieutenant Governor said it is important to understand that the efforts of the Commission on Education Improvement and the state will be part of a multibiennium process and that it is clear to all participants and stakeholders that the necessary changes cannot be accomplished in a single biennium. The Lieutenant Governor said the commission hopes to bring all school funding from the state into a comprehensive funding formula, with the exception of transportation costs. The Lieutenant Governor said the discussions of the commission have focused on equity of funding among school districts and it will probably be during the 2007-09 biennium that the commission will seek to define and address adequacy of educational funding.

The committee reviewed the projected state and local share of elementary and secondary education funding for the 2007-09 biennium. Total educational expenditures for the biennium are estimated at $1.3 billion. If the current state share of 47 percent of those costs is increased to 70 percent of those costs, the state would have to provide an additional $296 million funding for the biennium. The committee recognized it would not be feasible to recommend this amount of additional state funding in a single biennium and began to focus its discussions on consideration of providing graduated increases in the state's share of education costs over a period of three or four bienniums.

Property Tax Savings and Allocation

At its meeting in May 2005, the State Board of Equalization received a substantial amount of testimony and requests to stop or reverse rapidly increasing assessments and property taxes for residential property. Members of the State Board of Equalization expressed their hopes that the Finance and Taxation Committee study could address those issues.

Combined school district levies in 2005 for the general fund, high school tuition, and high school transportation ranged from zero to 307.97 mills. The average school district general fund mill rate is 199.24 mills, but only 20 of the 204 school districts levied more than that average. Approximately 83 percent of school districts levied within the range from 130 to 200 mills. The following table shows the number of school districts levying within designated ranges of mills in 2005:

Over 240 mills	10
220-240	4
200-220	6
185-200	59
165-185	51
150-165	36
130-150	23
100-130	4
50-100	5
20-50	2
0	4
Total	204

The committee reviewed information on property taxes, including property tax levies and limitations, the formula for valuation of agricultural property for property tax purposes, the farm residence property tax exemption, and the relative growth of property taxes paid by residential, commercial, agricultural, and centrally assessed properties.

An issue raised during consideration of House Bill No. 1512 was the amount of property tax relief that would be provided to nonresident owners of property in North Dakota. Because information on the topic was unavailable, it was impossible to resolve arguments about the level of nonresident property tax relief that might be provided. The committee requested and received from the North Dakota Association of Counties a survey of each county showing the out-of-state property ownership and property taxes paid for agricultural, residential, and commercial property. The survey was based on the mailing address for the property tax statement for each parcel of taxable property, so the survey results are subject to a margin of error because the mailing address is not conclusive of residency status. The survey found that on a statewide basis 16 percent of agricultural property taxes are paid by nonresidents, 3 percent of residential property taxes are paid by nonresidents, and 25 percent of commercial property taxes are paid by nonresidents. For comparison purposes, the committee obtained an estimate from the Tax Commissisoner that 7.8 percent of state sales and use taxes are paid by nonresidents and 6.5 percent of individual income taxes are paid by nonresidents.

School Spending Growth Limits

School districts may levy property taxes for special or general fund purposes. School district general fund levies are subject to alternative kinds of levy limitations. School district general fund levies may be subject to a limitation expressed in mills applied to taxable valuation of property in a school district or a limitation based on the number of dollars levied in property taxes by a school district in a preceding year. In addition, expanded or unlimited mill levy authority may be approved by the voters for a school district. Under NDCC Section 57-15-14, a school district may impose a general fund levy of up to 185 mills against the taxable valuation of the school district. A school district may increase its property tax levy in dollars from the previous school year by up to 18 percent until the 185-mill limit is reached. This section also provides school district authority for increased or unlimited mill levies upon approval by qualified electors of a school district. Under Section 57-15-01.1, a school district may levy up to the highest amount levied in dollars in the three preceding taxable years, subject to adjustments to reflect changes in the amount of property exempt by local discretion or charitable status, to reflect expired temporary mill levy increases, or to reflect new or increased levy authority authorized by the Legislative Assembly or the voters of the school district. Section 57-15-01.1 originated in 1981 legislation that restructured property tax assessment. After assessment changes in 1981, several school districts were above the general fund mill levy limitation cap and this section also allowed percentage increases in dollars levied for several years. As a result of these factors, this section allows many school districts to maintain a general fund levy in excess of 185 mills.

Hold Harmless Funding for School Districts

Because school districts have authority to levy based on the number of dollars levied in a previous year, it is possible to reduce the maximum number of mills a school district may levy without reducing the number of dollars a school district may levy. If property tax relief allocations are subtracted from the number of dollars the district may levy, the school district would still have access to the same net dollars for education. In addition, a school district levying fewer than 185 mills has statutory authority for an increase in property taxes.

Methods of Generating Revenue to Provide Property Tax Relief

The committee reviewed historic data on sales, use, and motor vehicle excise tax revenues, individual and corporate income tax revenues, and estimated rates of growth of those revenues. The committee reviewed potential revenues from elimination of sales and use tax exemptions and the potential revenue effect of subjecting services to sales taxes in the same manner services are taxable in South Dakota. The committee examined information on how all states tax or exempt services under sales tax laws. The committee obtained estimates of potential revenue available from rate increases for sales, use, and motor vehicle excise taxes and individual and corporate income taxes.

During the interim, it became apparent the state would end the biennium with a substantial revenue surplus. The most recent budget projections are for an ending general fund balance exceeding $500 million. With this revenue surplus, the apparent consensus of the committee is that this is not an appropriate time to recommend an increase in state taxes to fund property tax relief. The committee chose to focus its attention on providing an appropriation of budget surplus funds from the state general fund to return property tax relief to taxpayers through allocations to school districts.

Future Monitoring of the State's Share of Education Funding

Because the committee focused on phasing in enhanced state funding for education over three or four bienniums, the committee concluded it would be appropriate to require the Legislative Council to assign a study in each legislative interim through 2012 by the interim committee for taxation issues to consider compliance with, and future funding for, the shift in education funding and taxation policy necessary to reach a 70 percent level of state funding support for elementary and secondary education.

City Sales Tax Transfer to School Districts

Cities under home rule authority may levy sales taxes on retail sales within those cities. School districts do not have this authority. An Attorney General's opinion in October 2005 concluded that a home rule city may enter a joint powers agreement with a school district to utilize city sales tax revenue for school funding as long as the city home rule charter and implementing ordinances authorize the use of sales tax revenue for that purpose. The issue was raised when a group of Fargo citizens concerned with the trend of sharp increases in property taxes explored options to reduce property taxes in Fargo. The group initiated a measure to provide a property tax reduction by transferring Fargo city sales tax revenues to the Fargo School District. The measure was not approved by Fargo voters in the June 2006 primary election.

Committee members expressed a number of concerns with transferring city sales tax revenue to reduce school district general fund property taxes. A major retail area, such as Fargo, could shift millions of dollars of school district property taxes to nonresidents who shop in the city. Smaller cities that do not have a comparable level of retail trade would not have the same option. Residents of rural areas expressed opposition to paying city sales taxes to be used for the sole purpose of reducing property taxes of city residents. Committee members expressed concern that city sales tax transfers to school districts would create a new level of education funding inequity based on location of retail sales. Committee members said the Legislative Assembly already faces an extremely complicated task in providing education funding adequacy and equity and city sales tax transfers to school districts would greatly increase the problems of equitable allocation of education funding.

Committee Consideration

The committee received testimony supporting property tax relief and moving the state's share of the cost of education toward the 70 percent level. Concerns were expressed in testimony and by committee members that undertaking an effort to increase the state's share of education funding over several bienniums could amount to a commitment of the state for a future state-level tax increase. Other committee members said an appropriation for property tax relief does not amount to a promise of a future state-level tax increase and the Legislative Assembly will have to assess the state's ability to provide education funding in every legislative session, as it has always done.

After development of a bill draft approach and consideration of calculations showing the effect of the bill draft for each school district in the state, committee members expressed concern about the fairness of the allocation because approximately 38 percent of all of the property tax relief allocation would have gone to the Fargo and Bismarck School Districts. Those two school districts have only about 22 percent of the students in the state. It was argued that the high cost of education per student in Bismarck and Fargo is the product of voters allowing unlimited levy authority in those school districts and that is a local decision that should not require all taxpayers in the state to contribute to providing property tax relief. It was suggested that it would be fairer to limit allocations to school districts receiving 5 percent or more of the total statewide allocation, so that the percentage of the total amount available for allocation for such a school district could not exceed that school district's percentage of statewide student enrollment. The committee reviewed a computation showing the effect of this suggested change for all the school districts in the state.

Recommendations

The committee recommends Senate Bill No. 2032 to provide a general fund appropriation for property tax relief and provide for allocation of the appropriated amount among school districts. The bill provides an appropriation of $74,054,859 to the Tax Commissioner. This amount is to be allocated $35,897,132 in the first year and $38,157,727 in the second year of the 2007-09 biennium. The bill provides adjustments to reduce school district property tax levy authority by the amount of property tax relief received by each school district, for most school districts.

Senate Bill No. 2032 does not provide enhanced funding to school districts. The bill reduces the authority of school districts to increase property tax levies. However, to the extent a school district has authority to increase its levy because it currently levies fewer than 185 mills or has unlimited levy authority, a school district could derive enhanced funding by receiving property tax relief and raising its property tax levy. The bill addresses equity funding issues by providing a greater measure of property tax relief to school districts levying at higher mill rates and to school districts having below average taxable valuation per student.

Senate Bill No. 2032 would require the Tax Commissioner to allocate appropriated funds among school districts following a seven-step allocation process. The seven steps of the process are:

1. Determine the adjusted combined education mill rate for each school district. The "combined education mill rate" for a school district is the total number of mills levied for the general fund and high school tuition and transportation. The school district's combined education mill rate from the previous year must be reduced by 60 percent of the maximum number of mills that may be levied by a school district under NDCC Section 57-15-14. The maximum number of mills under Section 57-15-14 is 185 mills for 2006. That amount would be reduced to 165 mills for 2007 under Section 5 of the bill. The object of this adjustment is to eliminate property tax relief allocations for school districts making substantially below average property tax levies.

   For example, using a 60 percent reduction rate would result in subtraction of 111 mills in the first year (185 mills x 60 percent) and 99 mills in the second year (165 mills x 60 percent). A school district levying 111 mills or less in the first year would have an adjusted combined education mill rate of zero mills and would not receive a property tax relief allocation. Subtracting 111 mills from the mill rate for each school district means that only the amount levied by a school district in excess of 111 mills will be included in computing a property tax relief allocation.
2. Determine an adjusted combined education levy in dollars for each school district. The adjusted combined education mill rate for each school district is multiplied times the taxable valuation of property in the school district to determine the number of dollars in property taxes levied by the school district that will be eligible for consideration in allocation of property tax relief.
3. Determine the percentage of appropriated funds for each school district. The adjusted combined education levies in dollars for all school districts are totaled and divided into the adjusted combined education levy for each school district. The resulting percentage is the school district's tentative share of the total amount to be allocated for the year.
4. Determine property tax relief in dollars for each school district. The percentage determined in Step 3 for each school district is multiplied times the amount of statewide property tax relief available for the year to determine the tentative annual amount of property tax relief for each school district in dollars.
5. Adjust property tax relief amounts to reflect taxable valuation per student. The property tax relief allocation for each school district is adjusted by multiplying the allocation amount times a factor determined by dividing statewide average taxable valuation per student by the taxable valuation per student for the school district. This adjustment will increase property tax relief payments to districts with below average taxable valuation per student and reduce payments to school districts with above average taxable valuation per student. The adjustment factor is limited to no more than 1.25 and no less than .75. Because the adjustment factors will make total payments either more or less than 100 percent of the amount available, the Tax Commissioner must prorate payments to allocate the full amount among eligible districts.
6. Adjust property tax relief amounts for school districts entitled to more than 5 percent of the amount available for statewide allocation. The

property tax relief allocation for each school district otherwise entitled to an allocation greater than 5 percent of the total amount available for statewide allocation must be adjusted so that the allocation is not a greater percentage of the total amount available for statewide allocation than the school district's percentage of the total statewide enrollment in public elementary and secondary schools. Any amount exceeding this limitation is again prorated among other school districts.

7. Certify to school districts the property tax relief they will receive for the next budget cycle. By August 1 the Tax Commissioner must certify to each school district the amount of property tax relief for the next budget year. Under the bill, the first certification would be due not later than August 1, 2007. The information is also required to be provided for each county auditor. The Tax Commissioner is required to transfer property tax relief allocations to school districts no later than April 15 of the budget year, which would mean that the first allocation to school districts under the bill would be received on or before April 15, 2008.

North Dakota Century Code Section 57-15-01.1 allows taxing districts the option of basing property tax levy limitations on property taxes levied in dollars in the base year for the taxing district. For most school districts levying more than 185 mills, this section provides the authority for the levy in an amount over 185 mills. School districts are removed from this section.

North Dakota Century Code Section 57-15-01.2 is created by Senate Bill No. 2032 to create a provision identical to Section 57-15-01.1, except that it applies only to school districts and it requires a reduction of levy authority in dollars in the amount of property tax relief allocated to a school district for the budget year to the extent that amount exceeds the property tax relief allocation of the school district in the base year.

North Dakota Century Code Section 57-15-14 currently allows a school district to levy up to 185 mills and to increase its levy in dollars by 18 percent per year until the 185-mill limit is reached. Beginning in taxable year 2007, the bill would reduce the maximum levy to 165 mills and would reduce the maximum annual increase for school districts levying less than 165 mills to two percentage points more than the consumer price index increase for the Midwest region.

North Dakota Century Code Section 57-15-14 also currently allows voter approval of unlimited levy authority for school districts. The bill would eliminate the option of unlimited levy authority and allow voter approval of an increase of up to 5 percent more than the maximum levy otherwise allowed by law. The bill would not terminate unlimited levy authority for a school district in which voters have previously approved an unlimited levy. During the 2004-05 school year, Bismarck, Grand Forks, and Williston School Districts had unlimited levy authority.

North Dakota Century Code Section 57-15-31 is amended by the bill to require subtraction of the property tax relief allocation for a school district from the school district budget in determining the property tax levy for the district. This is intended to assure that property tax relief is actually received by property taxpayers.

The committee recommends House Bill No. 1029 to limit authority to transfer county or city home rule sales tax revenues to school districts. The bill will allow city or county home rule sales tax revenue transfers to school districts only for payment of bonded indebtedness incurred before the effective date of the Act or capital construction and associated costs approved by the electors before the effective date of the Act.

PROPERTY TAX LEVIES IN MILLS STUDY

The text of the resolution directing this study states that converting mills per dollar of taxable valuation into actual property taxes is difficult and confusing for taxpayers and converting property tax levies into an understandable measure would allow citizens to understand property tax levies and judge how property taxes will impact them.

Property tax liability is determined by multiplying the mill rate for the taxable year of each taxing district in which property is located times the taxable valuation of the property. The mill rate for a taxing district is established through the budget process. The amount budgeted by a taxing district is divided by the taxable valuation of all property in the taxing district to determine the mill rate that applies to property for property tax purposes. However, taxing authority of political subdivisions is limited by mill levy limitations established by statute. Statutory limits of a specific number of mills per dollar of taxable valuation exists for most property tax levies by political subdivisions. Property tax levies and limitations have been expressed in mills since Dakota became a territory in 1861.

References to taxes expressed in mills appear in hundreds of statutory provisions and in the Constitution of North Dakota. In addition, references to true and full value, assessed value, and taxable value occur in more than 100 statutory sections. To adjust all of these statutory references relating to use of mills to determine property taxes would require an extremely long bill draft. In addition, amendments to the Constitution of North Dakota would probably be required.

Taxpayers' primary exposure to levies in mills and taxable valuation of property comes from trying to understand the property tax statements received from county treasurers. The committee concluded that a better alternative to statutory revision of references to mills would be to require more taxpayer-friendly information on property tax statements or in accompanying documents.

Under NDCC Section 57-20-07.1, county treasurers are required to send real estate tax statements to property owners which must include dollar valuations of the true and full value of the property and the total mill levies applicable. In practice, most property tax statements provided by counties provide more information than required by the statutory provision.

However, information provided on property tax statements is not uniform among counties and generally does not indicate the amount of taxes levied by each taxing district levying against the property and does not provide explanatory material to indicate to the taxpayers how the number of mills levied is applied against the taxable value of the property to determine the property tax liability for the year.

The North Dakota Association of Counties surveyed the methods of property tax statement preparation among counties. Each of the 53 counties has computerized the property tax statement preparation process. There are five commercial software applications currently in use among counties plus four counties that have developed their own software applications for property tax statement preparation.

Committee Consideration

The committee considered a bill draft to expand the information that must be included in annual property tax statements or provided in additional printed material accompanying property tax statements. The bill draft would have required a statement of the true and full value of the property for the immediately preceding taxable year and the taxable year to which the tax statement applies. The bill draft would have also required the tax statement or accompanying materials to show, for each taxing district levying taxes against the property and the consolidated levy for all tax districts levying against the property, the taxes levied in dollars for the preceding year, the taxes levied in dollars for the taxable year for which the tax statement applies, the taxes expressed in dollars of taxes per $1,000 true and full value of the property for the preceding taxable year, and the taxes expressed in dollars of taxes per $1,000 of true and full valuation of the property for the taxable year for which the tax statement applies. County officials raised questions relating to the entity responsible for paying the cost of computer software programming changes, whether all 15 taxing entities must be shown on tax statements, how to handle statements for property that has been subdivided since the previous taxable year, and how to maintain the savings counties have achieved by consolidating parcels for the same taxpayer on tax statements. After reviewing the bill draft with county officials and county software vendors, the North Dakota Association of Counties reported that it appears the bill draft would not create major programming problems or costs if adequate lead time is allowed for developing updated software. It appears software vendors believe the new information required by the bill draft could be incorporated during annual software updates without additional programming costs.

Recommendation

The committee recommends Senate Bill No. 2033 to require property tax statements to include, or be accompanied by, information showing for the taxable year for which each tax statement applies for each taxing district levying taxes against the property taxes levied in dollars and taxes expressed in dollars per $1,000 of true and full valuation of the property.