

2009 HOUSE CONSTITUTIONAL REVISION

HCR 3046

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HCR 3046

House Constitutional Revision Committee

☐ Check here for Conference Committee

Hearing Date: 02/26/09

Recorder Job Number: 9823

Committee Clerk Signature

Lou Engelson

Minutes:

Chairman Koppelman opened the hearing on HCR 3046.

Rep. Ruby: For the record my name is Representative Dan Ruby from District 38. I am the prime sponsor for HCR 3046. The resolution you have before you is very simple. This very simply asks the citizens to make a decision of whether they want to abolish property tax in the state of North Dakota. States around us, there's states that have no income tax. There's states that have no sales tax. We would be the only state without property tax. I know that in our state there is a three legged stool approach that's always been the common philosophy that we've been under for many years. This would be a shift in that. The way many of you have seen in past elections dealing with the discussions of property tax. The high cost of property tax has for many years been a big issue for many of the people in our state. This does not propose a shift whereby increasing another tax to offset this. This will allow us to prioritize to offset cuts to the political subdivisions where we can fund them with revenues coming into the state from our oil and gas taxes, our income tax, whether it's individual or corporate, our sales tax, our lottery, etc. In some of the new language on page 2 and at the beginning of page 3 the intent would be to offset those taxes of the political subdivisions are receiving now through their property taxes. So this isn't asking them to do anything less than

they are now. That's what the bill does. This is something I think our state can afford. We have a surplus at this time but we also have many funds that we refund or increase every session. I'm thinking about some of our development funds, some of our issues that we have with looking at giving money back to the people. We don't have to work so hard to do all that. Find a right pattern. What group are we going to help this time. You can basically help all families, all businesses, whether they be existing or ones that will be coming in, by passing this resolution. The important thing is I'm not asking you to pass it or you to make this decision. I'm just asking that you give the people the chance to hear the debate. Basically it will be a two-year study before the next election.

Rep. Conrad: How much do you collect in property taxes.

Rep. Ruby: I believe it is somewhere in the range of \$700 million. It might be slightly more than that. Some of that is also certainly the cost of counties, cities and schools are using to, that they have to use to actually bring that in. They wouldn't necessarily have to go through all the processes as well. As far as the mechanism to give this back to most of the political subdivisions, we have a tax distribution fund from the sales tax. The state collects 5% and then a portion is given back to the cities and the counties already at that point. There's one mechanism there. The beauty of this is it gives not only the people two years to hear this whole process to see if this is something we want to do, it gives us the ability to find and work around their input as well the best way to put this back to the people.

Rep. Conrad: Do you know how much each percentage of the sales tax raises? How much are we going to have to raise the sales tax to replace the property tax.

Rep. Ruby: My proposal doesn't propose to do that. It proposes to use the existing dollars that the state has. We can find deficiencies. We can look at all kinds of different priorities in our spending, in our revenue that's coming in. This helps businesses to increase wages based

on not having to pay property tax. Let's say we put that into their employees' income and raise them up to be competitive with the states around us. The state's going to give more money back in income tax. The offset isn't as drastic as it sounds on the onset.

Chairman Koppelman: If you'll notice the fiscal note says that it can't be projected because there aren't projections for property taxes for 2012. I did, however, ask legislative council in anticipation of this kind of question from the committee about what this has run in the past. (See Attachment #1) In 2008 a total of \$824,964,437 was levied for ad valorem and special property taxes. Of that \$708,732,419 was for real estate taxes. Depending on the wording of this and whether it would (inaudible), we're talking either about \$709 million up to about \$825 million based on last year.

Rep. Conrad: What percentage of the sales tax raises?

Chairman Koppelman: I didn't ask that question. We can ask council for that.

Rep. Ruby: Some of the legislators have looked at that as what percentage we require. That's something the state could always look at. I think it can be done at this time and in the future without having (inaudible).

Rep. Uglem: Do you have any idea what it costs the counties and other political subdivisions to collect property taxes.

Rep. Ruby: No, I don't. I'm sure that changes based on the counties amount of population they have. It's probably going to be different across the board.

Robert Hale testified in support of HCR 3046. See Attachment #2.

Chairman Koppelman: Regarding the question of all of the funding for all local government coming from the state, which would be the result of this if it were to be put on the ballot and approved by the voters, it's often said control follows the dollars. If the purse strings go, restrictions and other kinds of strings, you hear that. Are you concerned about schools being

run in essence by the state school board because they would control the funding or local governments being told what they can and can't do much the same way we suffer when Washington tells us something we don't want to hear.

Mr. Hale: I think it is a legitimate concern. I would urge all of you to read the change in constitution as proposed. In it I think it addresses that question very vigorously. However on this proposal we state that the monies that are going to be collected and identified where they come from, have to be distributed to the local jurisdictions with no strings attached. What we will be doing however will be creating the formula that is going to determine how much will go to each jurisdiction. That is the dilemma that has to be dealt with. I think during the debate we are going to see some good ideas coming forward. Rep. Uglem, you asked how much it costs to collect the money. The study I did going through the number of counties, it appears that there is approximately \$50 million dollars to used to collect the taxes across the state. Obviously some counties are less and others are more. The specials don't come out of this. Specials are voted on by people through local issues. That's not a part of this. It's the \$708 million. This session has a \$1.3 billion surplus. The money is there without raising taxes. This proposal would not require any increase in sales tax. Currently sales and income tax raise more than enough money to offset those property taxes.

Rep. Conrad: A lot of that is because of oil. We're all concerned the oil will not be here. If we don't have the oil development, what are we going to replace that with? Are we going to have an increase in taxes to replace that?

Mr. Hale: I believe right now there are things in this budget that if the citizens were aware of exactly what they were, they could be cut. I also believe that in terms of oil, I think relative to this, none of these surplus dollars are oil or gas trust funds. That's a separately identified fund.

The \$1.3 billion does not include the projected \$665 million in oil. That's in a separate account.

Rep. Conrad: The sales tax and the personal and corporate income tax are higher because of oil development. Where will it come from when there's no oil?

Mr. Hale: I can't tell you how much of the sales tax or personal income tax is coming from oil activity. I do know it's not a large portion. The majority of our income taxes in this state come from agricultural income.

Chairman Koppelman: One of the phrases we hear a lot when we complain to Washington about unfunded mandates and the counties and local governments complain to the state about the same kind of things from time to time, this appears to be all funding but no mandate. As indicated there's words in here that says the money is spent at the sole discretion of the local governing body, and those of us who value local control like that in one sense. On the other hand, we sometimes have mandates coming down from the federal government that trickle down to the local entities. If the state is unable to pass down that kind of a requirement along with dollars, do you envision the local entities being strictly subject to those federal mandates directly if they accept dollars even though it goes through the state?

Mr. Hale: The money would go to the local district. The local political subdivision would be making up what happens if property taxes go away. That comes down with requirements. The money the state has currently been using for example for transportation. That's in the state transportation fund. That's state dollars. Those dollars are actually different dollars. This does not touch any of those dollars. You would be doing exactly the same thing you currently do and have the ability to do it.

John Fjeldahl: My name is John Fjeldahl. I am from Berthold, North Dakota. I am currently a Ward County Commissioner. I guess I believe it's time we try and involve the general public in

these discussions of property tax. Being a school board member we hear a lot about the increase in property tax. Also, to become a vehicle for economic development that if manipulate this tax beyond being fair anymore. That concerns me because in the position I serve, I am responsible for those budgets. When taxation isn't fair across the board to the people we represent, it's being stripped of its validity I believe. Too much of this is going on. The property tax is being used as a development tool of which it has become a non-development tool to the ones left paying the bill. Those are the people we are hearing from a lot of the times that are frustrated with the continual rise of property taxes and yet bills are being passed all the time that allow entities which I serve to manipulate the tax. These discussions have been going on for so long I think it's time we have a general discussion that involves these taxpayers.

Rep. Kretschmar: How would you envision that the state would make up to provide money to local political subdivisions for the funds they need.

Mr. Fjeldahl: Right now, as far as the county level, we get revenues based on mileage counts within the town through gas taxes. Those vehicles that determine how much money goes to each county, or even on down to the township level, that formula is already in place. The difference would be you would have to change the formula somewhat so that each of those subdivisions were being whole on their budgets. And by doing that you're spreading tax out much more fairly by the users in this state of all those services they want. I'm looking at the education side of things and the legislative body has been working at trying to get away from property tax burden, and you are doing it as legislators on some types of formulas to lessen the property tax burden.

Testimony offered on behalf of **Eldred Knutson, Township Assessor for Barnes County.**
See Attachment #4.

Dennis Stillings offered testimony in support of HCR 3046. See Attachment #5.

Chairman Koppelman: Further support. Opposition to HCR 3046.

Jerry Hjelmstad: My name is Jerry Hjelmstad, and I'm here on behalf of the League of Cities. We do have some concerns of putting this issue before the voters without a study of impact it would to eliminate property taxes. Any proposal should specify how property taxes are to be replaced so that voters can be informed as to whether we can rely on the sources that will be replacing the property taxes because the property tax is a reliable source for the local government. I'm concerned on page 2, line 30 where it says they will fund the legally imposed obligations (inaudible). These are all local determinations made by the local governing boards. There's been some talk about the debate on the issue. I'm just wondering when this debate would take place. There are too many questions that are unanswered.

Chairman Koppelman: I'm wondering if you read the resolution, would you interpret it such that for cities for example and you talked about these kinds of local decisions that are made. Let's say the city of Minot decides it needs 22 police officers and the state of North Dakota says we think you need 20, and here's the money for 20. How would those kinds of communications be carried out according to what you see in the resolution?

Mr. Hjelmstad: (inaudible) provide payment from some formula of what a community would need. How the formula would be determined would be a separate issue.

Bev Nielson, School Board Association: It's an interesting concept. It would certainly solve a lot of problems if we didn't have to yield to property taxes. There a couple things that concern me in replacing the income, the amount of money for one thing. And then how the state would feel about replacing 52% of Fargo's \$90 million budget and 32% of some smaller district. We need to know what exactly you are replacing. Are you going to replace at a certain level and then leave school's funding at a higher level to make up. In areas where the

state has picked up the majority of the cost and left very little to the locals, a lot of times the people in the community who would be willing to pay more and have better things for their schools but can't by virtue of law, have started private schools, church schools. Those are just a couple of our concerns. I do think having some local ownership and participation in funding the school is not a bad thing.

Chairman Koppelman: Further testimony in opposition to HCR 3046. Neutral testimony on HCR 3046.

Justin Gawrylow offered testimony in support of HCR 3046. See Attachment #6.

Chairman Koppelman: Do you think this kind of a study would be useful, or do you think it's just a wheel spinning exercise.

Mr. Gawrylow: It wouldn't be useless. It would be useful. I think a lot of the debate has been what is the state's role in funding education. I've never heard anybody say the state needs to bail out cities, counties and park districts yet. That may change. I don't have a problem with starting debates. That's not the issue, and I don't oppose the concept at all. It's simply that should the state be doing anything is really the question. We need to look at what has created the situation. Where we've been to get to where we are now.

Chairman Koppelman: I'm sure it's been a frustration of all of us as legislators just as you point out that the legislature is continually asked about this question even though we don't levy property taxes. The local entities do. Do you see an alternative that the state could mandate or enact or encourage short of abolishing property taxes to get them under control without centralization of power and resources.

Mr. Gawrylow: The real question is should the state, you have a formula already, and we can approach reforming and changing that. There are many ways this can be approached and alleviated. The real issue is the state going to be spending dollars in a property tax relief plan,

then what regulations should be attached to that. The problem on the local level is the local voters are placing the blame and asking for the state (inaudible) when it's really the local authority that needs to get more involved.

Rep. Griffin: Will you not admit the state does have some impact on local property taxes? Would you not say the state does bear some responsibility?

Mr. Gawrylow: Absolutely.

Written testimony in support of HCR 3046 was provided by **Charlene Nelson**. See Attachment #7.

Chairman Koppelman closed the hearing on HCR 3046

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HCR 3046

House Constitutional Revision Committee

☐ Check here for Conference Committee

Hearing Date: 03/04/09

Recorder Job Number: 10211

Committee Clerk Signature *Lou Engelson*

Minutes:

Chairman Koppelman opened the hearing on HCR 3046.

Rep. Hatlestad: I have an amendment to 3046.

Chairman Koppelman: This is the bold idea of eliminating the property tax.

Rep. Hatlestad: I need to know what's going to happen, how it's going to happen, financially what do we do if this passes? I would want to know revenue streams and consequences, and I don't think by just putting it on the ballot, we're going to get that. What my amendment does is to create a study, a two-year study, and then effectively put this amendment or this resolution on the 2012 general election ballot which then makes it effective in 2014 if passed. I move the amendment.

Rep. Schatz: Second.

Chairman Koppelman: Moved and seconded. Discussion?

Rep. Conrad: This doesn't automatically put it on the ballot, does it?

Rep. Hatlestad: Yeah, it does. But not for two years.

Chairman Koppelman: I think what Rep. Hatlestad is aiming at here is that by studying this and delaying the implementation date, it gives the old legal term, the legislature another bite of the apple. It allows us to meet again, which we will obviously in 2011, and at that point, having

concluded the study, make a determination as to whether the legislature wishes to leave this as is, and have it go on the 2012 ballot whether the legislature concludes that this is a crazy idea that won't work and forget it, do nothing, just repeal this, or whether the legislature determines the study has shown us some factors that we see that we believe we could use to really reform property tax. They could put something like that on the ballot. It gives the legislature options to the issue with a study in the meantime.

Rep. Conrad: I appreciate Rep. Hatlestad putting it in a form that would make it more palatable or workable.

Rep. Hatlestad: If we look at section 7, if we conclude that this is not feasible, then the second step is that we look at property tax reform. At least we are going to do something. I wasn't involved in that other one.

Rep. Conrad: I think that's what we've been involved in. I think we have some wonderful proposals on the table.

Chairman Koppelman: As I read Rep. Hatlestad's amendment, one of the things I like about it is that it's much more bold and sweeping than anybody at the legislature has ever done before. I don't think any study has ever been charged with seriously looking at can property taxes be eliminated. Then it has a fallback position that if the determination of the study is that they can't be eliminated as Rep. Hatlestad says, it says let's look at reform. I respectfully differ with your conclusion Rep. Conrad in saying that we've achieved reform. I think we've achieved relief. That's one of the only reason some of us would support it because it does give a dollar for dollar reduction with every dollar of state money. We've had a number of proposals to do property tax reform. They've all been defeated. From what I'm hearing from constituents, I don't think people are satisfied that property tax has been reformed. I think they see some relief coming. I think those of us in the legislature and those of us that have really

analyzed this issue, understand that the system has got some real flaws too. I think there is something new here so I'm going to support the amendment because I think it urges the legislature to retake a look at this in more depth.

Rep. Griffin: I like the study portion. What was the reason for leaving the bill in place and just changing the effective dates.

Rep. Hatlestad: Maybe in a sense that was designed to pacify the people that we want it right now. I'm saying we'll go through the study and we're looking at putting it back on the ballot based upon the results of our study. It potentially could go back on the ballot.

Rep. Griffin: Since we're not really amending the statute here with this bill, what kind of bill would we put in to repeal it.

Rep. Kretschmar: We've never had one that we were going to put on the ballot two years later as a proposed amendment. I'm going to support the amendments, but I'm not voting for this resolution. I don't think it is a good resolution. I don't think we can get rid of property taxes. I certainly think it could be studied. I certainly cannot support eliminating property taxes.

Rep. Griffin: Do you know what we would use to repeal this?

Rep. Kretschmar: It would take another resolution by the legislature if this is passed by the house and the senate, it would go on the ballot on the election that's designated. We can't bind the 2011 session. They could look at it and say get that thing out of here.

Chairman Koppelman: Further discussion. We'll take a vote on the voice vote. All those in favor signify by saying aye. Those opposed? Motion carries, the amendment is adopted.
Further discussion on HCR 3046.

Rep. Conrad: Someone asked me after the hearing what would be put in place of property tax to support fire and police departments. Do we have the income? What leg are we going put out there. (inaudible)

Chairman Koppelman: The comments I'm hearing are some are saying maybe cities should be able to have a different kind of tax. Maybe it should all come from state income tax and sales tax and/or oil money. We've amended the resolution so it doesn't matter, but even the way the resolution came in, and from the testimony, I don't think it included special assessments and that sort of thing. Even if this were law today and we had no property tax, I think cities would be able to do special assessments.

Rep. Conrad: But are there special assessments for fire departments.

Chairman Koppelman: Perhaps. Good question. Further discussion. Is there a motion.

Rep Conrad: I motion for do not pass.

Rep. Kretschmar: Second.

The roll was called by the clerk.

4 yes, 5 no, 0 absent and not voting.

Chairman Koppelman: Motion fails 4 to 5.

Rep. Hatlestad: I move a do pass as amended.

Rep. Schatz: Second.

The roll was called by the clerk.

5 yes, 4 no, 0 absent and not voting. Rep. Hatlstad was assigned to carry the resolution.

FISCAL NOTE
Requested by Legislative Council
03/09/2009

Amendment to: HCR3046

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.*

	2007-2009 Biennium		2009-2011 Biennium		2011-2013 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

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

2007-2009 Biennium			2009-2011 Biennium			2011-2013 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. Bill and fiscal impact summary: *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

Engrossed HCR 3046 eliminates all property taxes in the state, if determined to be feasible based on a Legislative Council study to be conducted during the 2009-2010 interim.

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.*

Engrossed HCR 3046 authorizes a Legislative Council study to determine the feasibility of elimination of the property taxes in the state. If the results of the study indicate it is feasible and desirable to eliminate property taxes, and if it is subsequently approved by the voters, Engrossed HCR 3046 would eliminate property taxation and replace the revenue with state sources of revenue, such as income and oil taxes, etc.

If enacted and approved by voters, property taxes would be eliminated beginning in 2014. There is no forecast of state general fund taxes, or property taxes, for calendar year 2014. The revenue shift from local to state sources of revenue cannot be computed.

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 is also included in the executive budget or relates to a continuing appropriation.*

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
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Phone Number: 328-3402

Date Prepared: 03/10/2009

FISCAL NOTE
Requested by Legislative Council
02/17/2009

Bill/Resolution No.: HCR3046

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.*

	2007-2009 Biennium		2009-2011 Biennium		2011-2013 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

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

2007-2009 Biennium			2009-2011 Biennium			2011-2013 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. Bill and fiscal impact summary: *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HCR 3046 eliminates all property taxes in the state.

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.*

If enacted and approved by the voters, HCR 3046 would eliminate property taxation and replace the revenue with state sources of revenue, such as income and oil taxes, etc.

If enacted and approved by voters, property taxes would be eliminated beginning in 2012. There is no forecast of state general fund taxes, or property taxes, for calendar year 2012. The revenue shift from local to state sources of revenue cannot be computed.

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 is also included in the executive budget or relates to a continuing appropriation.*

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	02/25/2009

VR
3/5/09

PROPOSED AMENDMENTS TO HOUSE CONCURRENT RESOLUTION NO. 3046

Page 1, line 4, after the semicolon insert "to provide for a legislative council study before placement of this measure on the ballot;"

Page 1, line 7, replace "2012" with "2014"

Page 1, line 13, replace "2010" with "2012"

Page 2, line 10, replace "2012" with "2014"

Page 2, line 20, replace "2012" with "2014"

Page 5, after line 29, insert:

"SECTION 7. LEGISLATIVE COUNCIL STUDY. During the 2009-10 interim, the legislative council shall study all aspects of the consequences of enactment of this measure, including fiscal and administrative analysis and statutory changes that would be required by enactment of this measure. If the legislative council determines that elimination of property taxes is not feasible or desirable, the study directed by this section must focus on property tax reform issues, including all aspects of the fiscal and administrative components of the property tax system. The legislative council shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-second legislative assembly."

Page 5, line 30, after the comma insert "sections 1 through 6 of" and replace "becomes" with "become"

Page 5, line 31, replace "2012" with "2014"

Renumber accordingly

Date: 0310410-1
Roll Call Vote #:

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 3046

**HOUSE CONSTITUTIONAL
REVISIONS COMMITTEE**

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken ☐ DP ☒ DNP ☐ DP AS AMEND ☐ DNP AS AMEND

Motion Made By Conrad Seconded By Kretschmar

[illegible]

Total Yes 4 No 5

Absent _____

Floor Carrier: _____

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

Date: 03/04/09
Roll Call Vote #: 1

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 3046

**HOUSE CONSTITUTIONAL
REVISIONS COMMITTEE**

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken ☒ DP ☐ DNP ☐ DP AS AMEND ☐ DNP AS AMEND

Motion Made By Hatlestad Seconded By Schatz

Representatives	Yes	No	Representatives	Yes	No
Chairman Koppelman			Rep. Conrad		
Vice Chairman Kretschmar			Rep. Griffin		
Rep. Hatlestad			Rep. Schneider		
Rep. Meier					
Rep. Schatz					
Rep. Uglem					

Total Yes _____ No _____

Absent _____

Floor Carrier: _____

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

Amendment pass on voice vote

Date: _____
Roll Call Vote #: 2

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 3046

**HOUSE CONSTITUTIONAL
REVISIONS COMMITTEE**

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken ☒ DP ☐ DNP ☒ DP AS AMEND ☐ DNP AS AMEND

Motion Made By Hatlestad Seconded By Schatz

Representatives	Yes	No	Representatives	Yes	No
Chairman Koppelman	✓		Rep. Conrad		✓
Vice Chairman Kretschmar		✓	Rep. Griffin		✓
Rep. Hatlestad	✓		Rep. Schneider		✓
Rep. Meier	✓				
Rep. Schatz	✓				
Rep. Uglem	✓				

Total Yes 5 No 4

Absent _____

Floor Carrier: Hatlestad

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

library

REPORT OF STANDING COMMITTEE

HCR 3046: Constitutional Revision Committee (Rep. Koppelman, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (5 YEAS, 4 NAYS, 0 ABSENT AND NOT VOTING). HCR 3046 was placed on the Sixth order on the calendar.

Page 1, line 4, after the semicolon insert "to provide for a legislative council study before placement of this measure on the ballot;"

Page 1, line 7, replace "2012" with "2014"

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Page 5, line 30, after the comma insert "sections 1 through 6 of" and replace "becomes" with "become"

Page 5, line 31, replace "2012" with "2014"

Renumber accordingly

2009 TESTIMONY

HCR 3046

Koppelman, Kim A.

From: Smith, Jim W.
ent: Thursday, February 26, 2009 11:55 AM
o: Koppelman, Kim A.
Subject: North Dakota Property Taxes 2008

According to the Tax Department's 2008 red book on state and local taxes, a total of \$824,964,437 was levied for 2008 for ad valorem and special property taxes, consisting of \$708,732,419 for Real Estate, \$31,808,319 for Utilities, \$11,433,098 for special taxes(mobile home, banks, electric cooperatives...) and \$72,990,601 for special assessments.

Jim W. Smith
Director
North Dakota Legislative Council
Bismarck ND 58505
701.328.2916

TESTIMONY HCR 3046

Chairman Kim Koppelman – House Constitutional Revisions Committee

Presented by Robert Hale – North Dakota citizen and taxpayer
1919 2nd Street SE
Minot, ND 58701
701-721-9782

HCR No. 3046 – DO PASS

Mr. Chairman and members of the Committee, my name is Robert Hale. I am a citizen, a taxpayer, an employer, an attorney, a husband and a father of four. I've paid several millions of dollars in property taxes in North Dakota and in other jurisdictions. I've paid hundreds of thousands of dollars in sales and excise taxes and several millions of dollars in income taxes.

I believe the single most important thing we as citizens have is the opportunity to fully discuss, debate and decide how we will be taxed and the rules under which we must act. In our form of Government nothing is more important than being able to fully and meaningfully participate in the rules and regulations we must live under and how we are taxed.

I urge you to support and give a unanimous **DO PASS** to HCR No. 3046.

**The question today isn't whether or not ABOLISHING
PROPERTY TAXES in North Dakota is a good idea or a bad idea.**

The question is whether or not each and every voter in North Dakota will have the opportunity over the next 21 months to hear and participate in the discussion and debate on the pros and cons of doing that and then deciding for ourselves if we wish to do so.

There are some here that are opposed to engaging in this debate. I understand their fear of the unknown; their fear of having to possibly do things differently; their lack of trust and confidence in the voters to do as they wish they would do.

It is my belief that there is nothing healthier than serious debate on serious questions and issues impacting North Dakota families.

You have all seen the numerous bills presented this session addressing the problems with property taxes. The issues and problems are real. Many citizens are forced to sell their homes because they cannot afford to pay their taxes. Others do without adequate utilities, food and medical care because unless they do they cannot pay their property taxes and would lose their homes.

Those who are afraid of debate on this measure and testify here today urging you to recommend a NO NOT PASS demonstrate a complete lack of faith in our system of democracy and those who elect you to office.

There is no question there are pros **and** cons regarding ABOLISHING PROPERTY TAXES. If we did abolish them we'd be the only state in the nation to do so. If we abolished property taxes we'd directly put more than \$700,000,000 every year in the hands of North Dakota families to spend as they see fit.

The truth of the matter is that over the past 4 years sales and income taxes have raised more than enough money to fully fund state government and fund what is raised through property taxes.

This does not include oil and gas tax revenues. If HCR 3046 had been in place 4 years ago North Dakota taxpayers would have had almost \$3 billion dollars more to spend on their families. Yes, special interest spending would have been reduced by a like amount. However, all families in our state would have benefited directly not just limited special interests that did benefit.

AGAIN – ABOLISHING PROPERTY TAXES isn't what you are being asked to vote on today. You are asked to recommend to your colleagues that this measure is presented to the voters of North Dakota to decide for themselves in November of 2011. You are being asked to vote to initiate 21 months of debate on the pros and cons of this measure. You are being asked to provide a forum

so the issues surrounding ABOLITION OF PROPERTY TAXES can be fully, discussed, debated and understood.

I know City and County officials are fearful. I realize that change frightens people. I also know that progress is not possible without change and meaningful change is never possible without full, serious and open debate.

We all know that this proposal, if supported by the voters of North Dakota, would make our state unique. However, the most important thing you can do is to give the voters of North Dakota – the opportunity to explore the pros and cons and then decide for ourselves.

Change is difficult we all struggle with it. I believe that everyone here has personally experienced the struggling with change – I also believe that each of us has, after having to make changes – have realized change is more often good than not.

Having to learn to do things differently frightens many. Yet, having to think outside the box - to adjust - to change is a necessary step if we are to move forward, thrive and improve out circumstances.

I urge you to vote a **DUE PASS on HCR 3046**. I urge you to trust those who sent you her to debate whether or not to ABOLISH PROPERTY TAXES.

I believe that the best decision on whether to ABOLISH PROPERTYT TAXES will come from vigorous, discussion and debate and then putting it in the hands of the voters.

I urge you to put aside fear of the unknown. You have the power to do this – I urge you to honor those who sent you here and give us the opportunity to debate and decide this issue in November of 2011.

THANK YOU.

Attachment #3

Hello Representatives,

I would appreciate your support of both HCR 3049 and 3046. The reasons I would like both of these given a do pass and follow on to adoption is that they do not conflict with each other as stated by the public employee representative. I believe a representative for the public employees said these were in conflict because one HCR says they want caps to the rates of inflation and HCR one allows abolition of property taxes. The common denominator in both of these is that the **public** will choose between eliminating property taxes and the **public** will be able to vote for increased property taxes when budgets increase beyond the rate of inflation. It is true democratic government. Being afraid of unintended circumstances should not be the major problem for these measures. Do any of you know what amount of taxable valuation is currently being exempted in this state?

That is why these resolutions need and will have a public discussion on whether either one would be adopted. Nobody likes taxes except those that don't pay them and receive many benefits from them. That hopefully never becomes the majority of people. The discussion on these resolutions can be so useful for our state and local subdivisions, it should happen. As I stated in my comments to you in the hearing, property taxes have gotten so out of whack by manipulations and uses that they should be abolished or reigned in. I would think you should agree. The one concern expressed by the school boards representative was the local control issue. Both these measures address local control. It will be the local control (PEOPLE) that will either approve or disapprove these measures if put on the ballot. I urge you to give these resolutions a do pass.

Thanks for your time. John Fjeldahl.

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<http://www.pctools.com/spyware-doctor-antivirus/>

PROPERTY TAX CONCERNS

LOCAL ASSESSORS ARE LIMITED.

The Cost Schedule Sheets, (various tables used to determine structure costs) are not kept current in the Assessor Manuals. As a result, local assessors can no longer determine current value of property. Information and data must be taken into the local County Tax Director's office where it is entered into a computer program that produces the final value. The Tax Director is willing to come out and assist in gathering the information but it still has to go back for entry into the computer.

Removing the assessors from the calculation portion prevents them from being able to explain in detail how some of the final amounts were arrived at. Nor do they have a way of knowing when errors occur which we know does happen.

IRREGULARITIES.

There are examples of appraisals done by the local Tax Director's Office which are extremely high one year, (\$409,000) but then dropped to (\$265,000) when a professional appraiser is hired to value the property. Their results were \$290,000. Guess which amount they went with – Yes, the \$290,000. Just seems a little fishy.

LAND PRICES.

There is considerable variation in land prices within townships and communities. This is to be based on actual sales but in researching recent sales the prices are not justified. Just in one subdivision the lots vary from \$51 to \$71 per frontal foot. Others at the same location are based on acreage. One lot has a front and back to the road and therefore has 504 ft of frontage at \$71 per ft comes out to \$35,784. They only paid \$9000 for it 2 years ago. A lot across the road which is more desirable sold for approximately \$16,000 around the same time is only appraised at \$24,200.

Land that is hayed is being taxed as residential development lots because the possibility is there that someone someday could build on it. This won't happen unless they survey and subdivide the land. Land is to be taxed as it is used not zoned.

*Alfred Knutson
Township Assessor, Barnes County
2/25/09*

Abolishing Property Taxes in North Dakota

It's an honor to be here, and I wish to thank Representative Ruby for sponsoring the amendment to abolish property taxes.

I was born and raised in North Dakota and—after detours to Minnesota (Minneapolis), South Dakota, Montana, and Hawaii (the last 15 years)—I have returned here to spend my retirement years. My friends in Hawaii questioned my decision, but North Dakotans thought me to be quite mad.

I love this state. It's a great place to live. And I believe that the time has come for North Dakota to showcase its assets, both material and non-material. In addition to our well-known natural resources, we have a sense of personal responsibility that is rare these days. We believe in traditional values, we possess a real and famous work ethic, and we share a simple and sincere desire to be of service to our communities, our state, and our country.

The abolishing of property taxes would have far-reaching positive consequences, both at the level of the individual and at the level of the state.

At the individual level—and I speak as a older representative of that level—those who are about to retire, or have already retired, now find that, due to the current financial crisis, their assets have been drastically reduced. Many elderly have been forced to cut back on their retirement plans, perhaps even to sell their homes. The never-ending payment of property taxes does not add to their quality of life. In today's housing market, where the value and sales of existing houses continue to drop relentlessly, and where potential buyers find credit difficult to obtain, the situation for retirement-age people may become even worse.

At the state level, abolishing the property tax will send shock waves of excitement through the country. We will be the only state without a property tax. Property tax is a very sore point in many parts of the United States. For years, property taxes rose as the housing bubble expanded, and local governments saw the opportunities for large additional revenues, but assessed values failed to contract as housing prices plummeted, houses could not be sold, and heavy losses were suffered.

It will not be lost on people across the country that—in a state without property tax—they can actually pay off their homes and still own them free and clear, without having to pay annual fees to maintain an illusion of ownership. Business and industry will respond accordingly.

As someone high in the Obama administration recently said, "You never want a serious crisis to go to waste."

Now, a serious crisis can certainly be exploited by power-hungry social engineers, but where there is danger, there is also opportunity for good people to do good. We have been given an opportunity to propose real changes with real content.

Thank you.

Dennis Stillings
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Valley City, ND 58072

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North Dakota Taxpayers' Association

HCR 3046 Testimony and Copies of the 1997 Interim Study Findings

- February 26th, 2009 -

Mr. Chairman and Members of the Committee,

HCR 3046 is a tax revolt that started with state officials taking responsibility for tax problem that it did not create and does not directly control.

Property taxes are, and should remain, in the hands of local government.

This proposed constitutional amendment is a direct result of state legislators and state officials taking the blame and taking ownership of a problem that is not theirs.

But the cat is out of the bag now, voters and homeowners are demanding decisive action by the state to do something about this problem that the state has wrongly taken ownership.

HCR 3046 represents the logical conclusion of the property tax debate.

It also represents an overturning of local government, and a massive centralization of power at the state level.

As an example of how rapidly this situation has developed, I've handed out a copy of the 1997 Interim Tax Committee study into the property tax issue.

As the highlighted excerpts of the meeting minutes show, at that time, the property tax issue was minimized and basically brushed off as no big deal.

Since then, we have seen that change, and this bill represents the public sentiment that has resulted.

The Taxpayers' Association does not want to see the concept of local government disappear, but at the same time the public, at the prodding of elected officials, is crying out for more than relief but actual reform – and this bill certainly does fit in that category.

Fifty-fifth
Legislative Assembly
of North Dakota

HOUSE CONCURRENT RESOLUTION NO. 3037

Introduced by

Representatives Schmidt, Boucher, Gulleson, D. Johnson

Senators Kringstad, Urlacher

1 A concurrent resolution directing the Legislative Council to study the feasibility and desirability
2 of providing property tax relief through alternative state and local revenue sources.

3 **WHEREAS**, it is a commonly heard observation of citizens of the state that property tax
4 burdens have increased substantially in recent years; and

5 **WHEREAS**, it is essential that the Legislative Assembly gather accurate information
6 about the increase in property taxes in recent years relative to other taxes imposed in the state,
7 funds allocated to political subdivisions by the state, and whether the property tax burden is
8 equitably allocated; and

9 **WHEREAS**, analysis is required of the appropriate level of reliance to be placed on
10 property tax revenues and whether it would benefit the citizens of the state to provide property
11 tax relief through alternative state or local revenue sources, such as income taxes;

12 **NOW, THEREFORE, BE IT RESOLVED BY THE HOUSE OF REPRESENTATIVES**
13 **OF NORTH DAKOTA, THE SENATE CONCURRING THEREIN:**

14 That the Legislative Council study the feasibility and desirability of providing property tax
15 relief through alternative state and local revenue sources; and

16 **BE IT FURTHER RESOLVED**, that the Legislative Council report its findings and
17 recommendations, together with any legislation required to implement the recommendations, to
18 the Fifty-sixth Legislative Assembly.

1997 Property Tax Study Minutes from Legislative Website

PROPERTY TAX RELIEF STUDY

Chairman Belter called on committee counsel to present a memorandum entitled Property Tax Relief Through Alternative Sources - Background Memorandum. Committee counsel said property tax liability is determined using the mill rates of taxing districts in which the property is located applied to the taxable value of the property. He described how mill rates are determined, and he described levy limitations that apply to political subdivisions. He also discussed how taxable valuation of property is determined.

Committee counsel described a study conducted during the 1993-94 interim by a consultant under contract with the Legislative Council. He said the study focused on comparison of tax burdens among the property, sales, and income taxes within the state and with five other states in the region. He said the study focused on the period from 1960 to 1992 and that 1992 data was the most recent available at that time. He said the consultant converted all dollar amounts in the study period to 1994 dollars using consumer price index computations. He reviewed the conclusions of the study and copies of the study report were distributed to committee members. He said if the committee wishes to update the information in the study that relates to this study resolution it would be necessary to obtain the services of the consultant who did the study because of the conversion of dollar amounts by the consultant and the need to make the same conversion on more recent data to make comparisons on the same basis.

Committee counsel said other avenues for gathering of information for the study would include review of allocations of funds from the state to school districts and other political subdivisions in recent years and testimony could be sought from representatives of taxpayer groups and political subdivisions to suggest potential alternative revenue sources that might be used to reduce property tax burdens.

Representative Schmidt said he introduced the study resolution because of concerns expressed to him about property tax valuation and liability increases. He said many farmers in his area are concerned about valuation and liability increases and have investigated to determine the cause. He said it was discovered that much of the valuation increase is attributable to the capitalization rate used in the agricultural property valuation formula. He said he hopes the study will reveal a solution to the problems of recent sharp increases in agricultural property valuation.

Senator Thompson said he is sympathetic with the goals of the sponsor of the study resolution and many farmers in his area have lost property, due in part to property tax burdens. He said it is also important to remember that the Legislative Assembly must be sensitive to the effects of property tax relief on political subdivisions. He said political subdivision revenue sources are limited and political subdivisions must be given the ability to provide needed services for citizens.

Representative Brown said information should be obtained concerning the willingness to update that study and anticipated cost from the consultants at the North Dakota State University Department of Agricultural Economics who completed the 1993-94 study. He said this would be important information to develop and the information should be obtained if the committee decides to request funding approval from the chairman of the Legislative Council.

Senator Urlacher said it would be useful for committee members to obtain information on who bears the burden of property taxes. He said information on the impact of various taxes at different income levels would give the committee good background information on who is most seriously impacted in the existing tax structure.

Representative Brown said it would also be important to examine available information on which taxes are most regressive.

Senator Urlacher said it would be useful to have a presentation to the committee by representatives from the Department of Agricultural Economics at North Dakota State University on how the agricultural property valuation formula calculations are made.

Representative Schmidt said another difficulty that has arisen in his area is that assessors and local officials are reluctant to abate taxes on flooded lands because a large portion of the tax base is being lost to rising water. He asked for a review on assessment procedures in the case of flooded property.

PROPERTY TAX RELIEF THROUGH ALTERNATIVE SOURCES - BACKGROUND MEMORANDUM

House Concurrent Resolution No. 3037 (attached as Appendix "A") directs the Legislative Council to study the feasibility and desirability of providing property tax relief through alternative state and local revenue sources. This study involves consideration of complex issues, including appropriate levels of reliance on various tax types and issues of state versus local control of decisions on state and local government taxing and spending. For appropriate background information, it is necessary to review how property tax liability is determined and historical data on the balance among major tax types in contributing to revenue of state and local governments.

PROPERTY TAX LIABILITY DETERMINATION

Property tax liability is determined by multiplying applicable taxing district mill rates times the taxable value of the property. All locally assessed property taxes are collected by the county and distributed among taxing districts according to their interests in the revenues.

The mill rate for a taxing district is established through the budget process. Each taxing district prepares a proposed budget based on anticipated expenditures for the upcoming fiscal year. Hearings are held on the budget and adjustments may be made. The deadline for amendments to budgets and for sending copies of the levy and budget to the county auditor is October 10. From October 10 to December 10 the auditor prepares tax lists, which must be delivered to the county treasurer by December 10 and mailed to property owners by December 26.

The amount budgeted by a taxing district may not result in a tax levy exceeding the levy limitations established by law. Since 1981, the Legislative Assembly has provided optional authority to levy a percentage increase in dollars over a base year levy dollar amount. This method is an alternative to the use of statutory mill levy limitations. Most taxing districts in the state use this optional method of determining the maximum levy. From 1981 through 1996, taxing districts were allowed a percentage increase in dollars over the base year levy amount in dollars. Under North Dakota Century Code (NDCC) Section 57-15-01.1, as amended in 1997, during taxable years 1997 and 1998 a county, city, township, or school district eligible for federal funds on a

matching basis as a result of a disaster declared by the President of the United States may levy an amount in dollars equal to the amount required to match federal funds up to an increase of two percent more than the amount levied by the district in the base year. Except for this authority to levy to match federal disaster funding, taxing districts using the optional method of determining levy limits are authorized to maintain the amount levied in dollars in the base year but have no authority to increase levies without voter approval.

The county auditor determines whether the amount levied by a taxing district is within the statutory limitations that apply to the district levy and divides the total property taxes to be collected for the taxing district by the taxing district's total taxable valuation. The result is a percentage that is the mill rate for the district.

Real property must be assessed with reference to its value on February 1 of each year. All property must be valued at its true and full value. True and full value is defined as the value determined by considering any earning or productive capacity, the market value, and all other factors that affect the actual value of the property. For agricultural property, valuation is determined by a productivity formula. The assessed valuation of property is 50 percent of true and full value. Taxable valuation of property is nine percent of assessed valuation for residential property and 10 percent of assessed valuation for agricultural, commercial, and centrally assessed property. Taxable valuation is the amount against which the mill rate for the taxing district is applied to determine tax liability for individual parcels of property.

True and full value of residential and commercial property is established by local assessors. True and full value of railroad, public utility, and airline property is centrally determined by the State Board of Equalization.

True and full value of agricultural property is based on productivity as established through computations made by the North Dakota State University Department of Agricultural Economics based on the capitalized average annual gross return of the land. Annual gross return for rented land is determined from crop share or cash rent information and for other land is 30 percent of annual gross income for cropland used for growing crops other than sugar beets or potatoes, 20 percent of annual gross income for cropland used for growing sugar beets or potatoes, and 25 percent of gross income potential based on animal unit carrying capacity of the land for land used for grazing animals. Average annual gross return for each county is determined by using annual gross returns for the county for the most recent six years, discarding the highest and lowest annual gross returns from those years, and averaging the returns for the remaining years. Passage of House Bill No. 1069 (1997) extended the number of years of production data used in the agricultural property valuation formula from six years to 10 years. The bill makes this change in increments by use of seven years' data in 1997, eight years' data in 1998, nine years' data in 1999, and 10 years' data

after 1999. Average annual gross return is then capitalized using a 10-year average of the most recent 12-year period for the gross Farm Credit Services mortgage rate of interest. Personnel from North Dakota State University determine an average agricultural value per acre for cropland and noncropland on a statewide and countywide basis. This information is provided to the Tax Commissioner by December 1 of each year and then provided by the Tax Commissioner to each county director of tax equalization. The county director of tax equalization provides each assessor with an estimate of the average agricultural value of agricultural lands within the assessor's district. The assessor must determine the relative value of each assessment parcel within that district. In determining relative values, local assessment officials are to use soil type and soil classification data whenever possible.

DATA ON PROPERTY TAX RELIANCE

During the 1993-94 interim, the Legislative Council's Taxation Committee contracted with a consultant for preparation of a study of tax burden comparisons within the state and with neighboring states during the period from 1960 to 1992. The study converted tax collections to "real" dollars for comparison. Comparison of tax trends over time can be misleading unless adjustments for inflation are made. For example, a \$300 tax per capita in 1960 would have reduced a person's disposable income more than a \$1,400 tax per capita did in 1992. All tax collections reported in nominal dollars were converted into real 1994 dollars using the consumer price index. Updating the statistics in the study would require analysis by the consultants who prepared the 1994 study because figures were converted to 1994 dollars by the consultants.

In 1960 local tax collections accounted for 55 percent of all state and local taxes in North Dakota, but in 1992 state taxes accounted for 66 percent of all state and local taxes in North Dakota. During the period from 1960 to 1984, the local share of the overall tax burden decreased steadily. The state and local tax burdens were about equal in 1970. By 1984 the state share of tax collections was at 73 percent, a maximum for the period from 1960 through 1992. Since 1984 the trend has reversed and the local portion of tax collections is increasing.

The relative share of collections among tax types also shifted over the period from 1960 to 1992. The most notable change is that the proportion of property taxes in total tax collections fell during the years 1960 through 1984. The steepest decline in property tax collections occurred after 1969 when personal property was exempted and eliminated from the local property tax base. Increases in the sales tax rate and a business privilege tax were used to offset the loss of tax revenue resulting from

exemption of personal property. Energy tax collections had a sharp peak in 1982 due to high energy prices. The loss in energy tax revenues after 1982 was replaced by increasing sales tax and individual income tax revenues. Local sales taxes became a factor in the overall tax structure during the 1980s. In 1992 state sales and use taxes accounted for about 37 percent of all state and local tax collections in North Dakota and property taxes accounted for approximately 34 percent.

State shares of all state and local taxes for the study states range from 56 percent in South Dakota to 68 percent in Minnesota. North Dakota, with 66 percent of state and local tax revenues collected at the state level, is slightly above the six-state average of 63 percent.

Differences in tax balance were identified among the six study states. North Dakota and South Dakota rely most heavily of these states on sales tax revenues, and South Dakota also has relatively heavy reliance on property taxes. Minnesota relies approximately even on sales and income taxes. Montana relies most heavily on income taxes, and Wyoming and Nebraska rely on property taxes more than the other states in the region.

In North Dakota the share of the overall property tax burden on different classes of property has changed over the past three decades. Shares of the total property tax burden for agricultural and centrally assessed property have remained steady or declined slightly, while shares for residential and commercial properties have increased. In 1960 residential and commercial property represented 10 percent and 11 percent, respectively, of all taxable value in the state. By 1992 their shares of statewide taxable value had increased to 28 percent and 20 percent, respectively.

Comparisons were made of county, township, school district, and city property tax revenues. Taxes levied by school districts increased 37 percent between 1960 and 1969, but by 1981 school tax levies fell 39 percent from the 1969 level and were approximately the same in real dollars as they had been in 1960. Township taxes declined by 60 percent between 1960 and 1991. County and city levies increased by 16 percent and 14 percent, respectively. Special assessments levied by local governments have become an increasingly important part of local government revenues, rising to about \$50 million per year.

North Dakota has relied heavily on stable tax sources such as sales and property taxes. This policy maintains tax collections in times of a stable or declining economy but does not capture benefits of a growing economy as would occur with heavier reliance on an income tax, which grows with the economy. For a time, North Dakota placed a heavy reliance on energy taxes, which are subject to the state of the world economy and the vagaries of the international oil market. This reliance diminished the degree of reliability of the tax system to generate a reliable flow of revenue.

The study pointed out that the effect of state and local taxes on federal income tax liability affects the total impact of taxes on taxpayers. For example, a Minnesota taxpayer would pay less in federal income taxes than a North Dakota taxpayer with the same income and deductions, credits, and exemptions and equal property valuation. This is because a greater share of Minnesota's state and local tax burden consists of property taxes and income taxes, which are deductible for federal income tax purposes. In Minnesota a taxpayer is able to deduct approximately 68 percent of state and local taxes while a North Dakota taxpayer is able to deduct only 46 percent. Reliance on taxes that are deductible for federal income tax purposes allows a taxpayer to "export" a part of his state and local tax burden to other federal taxpayers through federal income tax deductions.

The study points out that taxes as a percentage of personal income do not differ substantially among the six study states, especially when factors such as federal tax liability and energy tax shifting are considered. The difference among the tax systems is mainly in the perception of the burden, based on the type of tax. For example, income taxes are highly visible and most taxpayers realize exactly how much they pay in income taxes each year. Sales taxes may be perceived as less onerous, because few taxpayers know precisely how much sales taxes they pay each year and the taxes are collected from taxpayers in relatively small increments. Even less visible to taxpayers are energy, commercial property, and corporate income taxes, which may be part of the prices of products or passed on to shareholders.

Total state and local tax collections in North Dakota rose from about \$1,100 per capita in 1960 to about \$1,800 per capita in 1992. The 1992 per capita tax burden in North Dakota is approximately four percent lower than the national average. Comparison of North Dakota with neighboring states shows that North Dakota falls in the middle of the range of tax per capita. Minnesota, Wyoming, and Nebraska collect more state and local taxes per capita while Montana and South Dakota collect less. On a regional basis, current state and local tax collections as a percentage of personal income ranged from eight percent in South Dakota to 13 percent in Wyoming. As a percentage of personal income, North Dakota state and local taxes fell from 11.7 percent in 1960 to 11.2 percent in 1991. The only other state in the study that had a similar reduction of taxes as a percentage of personal income during the study period was South Dakota.

The study concluded that North Dakota relies on sales taxes more than the other states considered in the study except South Dakota. North Dakota's sales and use taxes paid by a typical family of four are the highest of any state in the study. However, local sales taxes were not included in these computations and many South Dakota cities impose a two percent local sales tax.

The study concluded that North Dakota's reliance on property tax is the lowest of the six states in the study, even though North Dakota has shown a recent increased reliance on property tax revenues. Some of the burden of North Dakota property taxes ha

shifted from agricultural and centrally assessed property to residential and commercial property. Notwithstanding the study conclusion, the committee received testimony indicating that recent increased reliance on property tax revenues has been too extensive. Whether this is a result of what was described to the committee as "taxation by referral" is debatable, but several groups and individuals suggested that tax policy should reverse the trend to increased reliance on property tax revenues.

The study concluded that assessment of the size of the tax bite, its burden on taxpayers, and its adherence to principles of public finance depend in large part on perspective. North Dakota's tax burden has shifted from local to state sources while increasing in real terms and, at the same time, decreasing relative to income. Personal income has grown faster than the cost of government in North Dakota, causing taxes as a percentage of personal income to decline. Compared to neighboring states, North Dakota's tax structure is about average in the amount collected and distribution of the tax burden.

Copies of the 1994 study have been distributed to committee members. Attached as Appendix "B" are copies of several pages from the State Tax Department publication *State and Local Taxes in North Dakota, An Overview and Comparative Guide*, published in April 1996, to illustrate more recent comparisons and trends. The Tax Department will be updating this information during the interim and will share information with the committee as requested.

SUGGESTED STUDY APPROACH

It should be decided whether to seek updated information from the consultants who prepared the 1994 study. If this approach is followed, it must be decided what portions of the information need to be updated because it does not appear that all of the information in the study done in 1994 relates to the study under this study resolution.

The committee could obtain and review information on allocations of funds from the state to school districts and other political subdivisions in recent years.

Testimony could be sought from representatives of taxpayer groups and political subdivisions for suggestions on what avenues should be investigated as potential alternative revenue sources to reduce property tax burdens.

PROPERTY TAX RELIEF STUDY

Chairman Belter called on Mr. Barry Hasti, State Supervisor of Assessments, for information on assessment of flooded property. A copy of Mr. Hasti's prepared testimony is attached as Appendix C.

Senator Thompson asked whether Mr. Hasti has a suggestion on how to fix the agricultural property valuation model to address the problem with flooded agricultural land assessment. Mr. Hasti said he cannot think of an easy fix for the problem. He said some agricultural property that is inundated in wet cycles is some of the most productive agricultural property during dry cycles. He said some people believe temporary inundation should not be a basis for eliminating assessment of the property because the property has long-term value due to its high productivity in dry cycles. He said others believe flooded agricultural property should carry no assessed value. He said the situation with inundation by rising waters of Devils Lake is different from cyclical inundation because water from Devils Lake is likely to remain for an extended time. He said different inundation situations make it difficult to determine how to approach assessment problems. He said use of soil surveys might be a solution to the dilemma, but it would be quite expensive to complete soil surveys for the state. He said the fact that land in a county is inundated and is not producing crops will be reflected in the valuation formula because it will decrease countywide production figures. He said there is some question of how inundated lands affect county average valuations per acre as determined under the valuation formula. Senator Christmann asked what effect flooded agricultural property had in the counties around Devils Lake last year. Mr. Hasti said he is not certain what effect inundated lands have had in those counties. He said the valuations of agricultural land for Ramsey County have had somewhat smaller increases than the statewide average but it is difficult to determine the cause of the decrease, which is not large. Senator Thompson said Ramsey and Nelson Counties are going to consider individual abatements for inundated agricultural lands. He said this will be a difficult process and he thinks the counties need further assistance in determining what to do. Representative Schmidt said there is a serious problem in the counties in which agricultural land is being lost to the rising waters of Devils Lake. He said political subdivisions are faced with increased costs and diminished tax bases and property owners are faced with the loss of farms they have operated for years. He said the state needs to carefully examine this situation. Chairman Belter called on Mr. Hasti for information on current equalized valuations and comparison of valuation changes in recent years among various classes of property. A copy of Mr. Hasti's prepared testimony is attached as Appendix D. He said as a result of passage of 1997 House Bill No. 1069, the net effect for agricultural valuations statewide is a decrease of almost 3.5 percent in 1997 average agricultural values per acre statewide. He said the 1997 bill added one additional year of production data to the computations for 1997 valuations. Chairman Belter called on Mr. Dwight Aakre, North Dakota State University Department of Agricultural Economics, for review of agricultural property valuation under the valuation formula for the 1997 tax year. A copy of statistical data distributed by Mr. Aakre is attached as Appendix

E. Mr. Aakre said the biggest change for the most recent agricultural property valuations was the addition of another year of data to the computation. He said under this change, five of the most recent seven years of data are now used for computation and in the next round of computations, to be done in December, six of eight years of data will be used. He said the reason for excluding two years of data is that the highest and lowest production years are discarded and the remaining years are averaged. He said the data in Table 1 of the material he distributed shows computations of valuations of agricultural land by county based on using six, seven, eight, nine, or 10 years of data. He said the column headed by "5 for 7 years" is the valuation determined for 1997. He said the column headed "4 for 6 years" illustrates valuations that would have been in place without the 1997 legislation. He said the column headed "6 for 8 years" indicates what would happen with addition of 1989 data. He said the substantial change is because of the drought year that was dropped out of the formula and the Legislative Assembly wisely chose not to bring that year of data back into computations by making the phasing-in of data prospective from the year 1989. Mr. Aakre said the data in Table 2 illustrates that the fluctuations of valuations for noncropland are not as substantial as the variations for cropland. He said as additional years of data are added to the base, cropland valuations will become more stable. He said one problem with adding additional years of data is that for noncropland, the additional years added are poor years, which will tend to hold down noncropland valuations. Mr. Aakre said the third and fourth sheets of data are computation for illustration purposes for Cass County and Morton County. He said these tables illustrate the good production year in 1996 statewide and the substantial increase in cropland production in Cass County for 1996. He said the 1996 data is not yet complete and in some cases he used 1995 data for 1996 assumptions. He said when the data is received, the calculations on these sheets will change somewhat. He said the substantial drop in production for noncropland is directly attributable to a drop in cattle prices for 1996. Mr. Aakre said a falling capitalization rate yields a higher average valuation per acre for agricultural land. He said the fifth sheet of the materials he distributed shows the capitalization rates determined for the years 1989 through 1997. Representative Schmidt said he has heard suggestions in his area that the capitalization rate fluctuations are causing too much variation in assessed valuations for agricultural land from year to year. Representative Gorder said costs of farming are increasing more rapidly than income from farming. He asked whether the valuation formula reflects net or gross income. Mr. Aakre said net farm income has been decreasing because the variable costs of farming have been increasing faster than gross income. He said the model does not measure variable costs of farming and is based only on gross income. Representative Gorder said consideration should be given to using net farming income in the valuation formula. Representative Belter asked whether Mr. Aakre sees needs for change in the formula. Mr. Aakre said he visited several counties last year and the concern he heard most often is what to do with values of nonproducing acres, especially areas inundated. He said the question is whether the calculation should divide dollars of production for the county by all agricultural property acres in the county or by only the acres that are actually in production. In response to another question from Representative Belter, Mr. Aakre said the formula currently uses only producing acres in determining county valuations. Chairman Belter called on Mr. Rick Clayburgh, State Tax

Commissioner, for presentation of a memorandum prepared by Ms. Kathryn Strombeck of the Tax Department. A copy of the memorandum is attached as Appendix F. Mr. Clayburgh said Ms. Strombeck is unable to be present and was requested to prepare information on tax burden impacts across various income categories. He said the information presented is the most recent available and it is expected that more current data will become available in the near future and can be shared with the committee. Mr. Clayburgh said recent newspaper reports indicated that state tax revenues are down. He said these reports were based on Tax Department cash flow reports, which may not reflect receipts of major retailers who send in sales tax reports at the end of each month. He said he thinks data for the second quarter of 1997 will show positive growth in the economy and tax revenues in spite of the worst disaster in state history. He said it is still too early to tell where revenue receipts will be for the third quarter and it is too early to tell how this season's harvest will affect revenues. He said he expects a less than good harvest from reports he has heard. He said the Tax Department is closely monitoring sales tax receipts in the Red River Valley in an attempt to determine the impact on retail sales of rebuilding efforts in Grand Forks and other flood-damaged areas.

PROPERTY TAX BURDEN STUDY

Committee counsel distributed copies of a letter from Dr. Jay A. Leitch, North Dakota State University Department of Agricultural Economics, regarding estimated costs of updating portions of a 1994 study of the state tax system to allow assessment of changes in property tax burden relative to other tax types. A copy of Dr. Leitch's letter is attached as Appendix I.

Representative Gorder asked whether the Tax Department could complete the update of the previous study. Committee counsel said a difficulty with updating the study is that the amounts used in the previous study were converted to 1994 dollars for comparison. Committee counsel asked Mr. Hasti whether the Tax Department research analysts would be able to update the study. Mr. Hasti said he is not certain whether the Tax Department could update the study but the question could be presented to the Research Division of the Tax Department. Chairman Belter said the committee would await word from the Tax Department on whether the department can update the study before taking any action on the question of hiring a consultant.

PROPERTY TAX RELIEF STUDY

Chairman Belter called on Mr. Tony Clark, Tax Department, for a review of information prepared by the Tax Department for its upcoming *Red Book* publication regarding property tax and other tax burdens. A copy of the information distributed by Mr. Clark is attached as Appendix B.

Mr. Clark said state tax collections have been very stable since 1984 with the exception of the years 1986 to 1988, when significant declines in oil tax collections negatively impacted state revenues.

Mr. Clark said the share of state and local tax collections of total revenues has been remarkably constant since 1978. He said state tax collections have accounted for approximately 60 percent of total taxes and local tax collections have accounted for approximately 40 percent of total tax collections since 1978 with the exception of a brief period during the oil boom when the state's share of collections was higher.

Mr. Clark said comparison of major state and local tax types over the most recent 20 years of data does not indicate any recent substantial shifting of reliance from one tax type to another. He said reliance on property taxes as a percentage of total tax collections has declined slightly from 1992 through 1997. He said the most significant variation from the norm in this comparison is the heavy reliance on oil tax revenues in the early to mid-1980s. He said the most significant recent development among tax types is the growing significance of local sales taxes.

Mr. Clark reviewed a comparison of statewide average mill rates, property tax valuations, and general property taxes levied for years 1984 through 1997. He said property taxes levied have shown a steady rate of growth since 1984. He said property valuations declined slightly from 1985 through 1994 but have increased in the most recent three years for which data is available. He said statewide average mill rates were on the increase until the most recent year when a decline occurred which is attributable to the increase in valuations. He said since 1993, North Dakotans have paid more property taxes because their property is worth more.

Mr. Clark reviewed data on the share of total property taxes levied against each class of property--residential, commercial, agricultural, and centrally assessed property. He said the share representing commercial and centrally assessed property has been relatively constant from 1984 to 1997. He said the most significant shift in the tax burden among classifications has been from agricultural to residential property. He said in 1984 agricultural property bore 37 percent of the tax burden and residential

property bore 32 percent. He said the share of total tax burden that was removed from the agricultural sector has been picked up by residential property, where the share of the tax burden has increased from 32 percent of the total in 1984 to 37 percent of the total in 1997.

Mr. Clark reviewed data on comparisons of total property taxes levied by schools, counties, cities, and other taxing districts. He said school district taxes are responsible for most of the increase in property taxes from 1983 through 1997. In 1983, schools levied 43 percent of all property taxes and in 1997 they levied 51 percent of all property taxes. He said the second greatest increase in property taxes levied during the years 1983 through 1997 has occurred for county levies.

Mr. Clark reviewed data comparing tax statistics for North Dakota and other states. He said North Dakotans pay less in total state and local taxes than regional and national averages. He said caution must be used in reviewing statistics on taxes per capita because the base for comparison uses all taxes collected by a state and its local governments and this can be misleading because "exported" taxes like energy taxes are attributed to taxpayers in the state. He said it is not true that Wyoming taxpayers are paying a heavy per capita tax burden, but statistics may lead observers to that conclusion because energy taxes are included in the figures used.

Mr. Clark said another method of comparison of tax burdens is comparing the percentage of personal income devoted to state and local taxes. He said this can be useful to determine the effect of taxes in states with different average income levels or with sparse populations. He said in states with sparse populations and lower average incomes, a greater percentage of income must be devoted to supporting governmental services than in larger population or wealthier states. He said using this type of measurement, North Dakotans pay about the regional average in total state and local taxes.

Mr. Clark reviewed information comparing state and local revenue composition by tax type for regional states. He said states in the region have different degrees of reliance on various tax types. He said South Dakota has a very heavy reliance on sales and property taxes. He said Montana has a very heavy reliance on income and property taxes and has no general sales tax. He said Minnesota has a heavier reliance than North Dakota on property, sales, and income tax revenues.

Mr. Clark said all states in this region have shown an increased reliance on state revenue collections and a decreasing reliance on local collections.

Mr. Clark reviewed data intended to measure the regressivity of local and state taxes in regional states. He said North Dakota taxes are less regressive than the regional and national averages. He said measures of regressivity can be useful, but it is also important to consider the total effect of taxes. He said Minnesota's tax system is considered to be relatively progressive compared to other states. He said it should be observed that taxpayers in every income group in Minnesota still pay a greater percentage of income in state and local taxes than comparable taxpayers in North Dakota.

Committee counsel asked Mr. Clark whether his review of statistical information leads him to believe that property tax increases have been more dramatic than other components of the tax structure of the state. Mr. Clark said property taxes have risen, but the increase is not necessarily out of proportion with increases in other tax types. He said more analysis would be required to determine whether increases on agricultural property in certain areas of the state have been more severe than for other areas.

Senator Thompson said neighboring states have recently provided property tax relief to taxpayers. He asked whether the statistics used in the comparisons incorporate the effect of these tax relief efforts. Mr. Clark said property tax relief in Minnesota, South Dakota, and Montana is not reflected in these statistics. He said one of the problems with comparisons is that data is somewhat dated before it becomes generally available for comparison purposes.

In response to a question from Representative Tollefson, Mr. Clark said an interesting study might be to look within a school district at taxes on agricultural property versus residential and commercial property to see if shifting has occurred in tax burdens.

Representative Schmidt said the reason for the property tax relief study is that agricultural property has continued to have higher tax bills while production has been very poor due to excess moisture and disease. He said many farmers are frustrated with increasing property tax bills and dramatic declines in income.

Chairman Belter called on Mr. Barry Hasti, State Supervisor of Assessments, for presentation of comparisons of effective tax rates for various property classifications. A copy of Mr. Hasti's prepared testimony is attached as Appendix C.

In response to a question from Representative Belter, Mr. Hasti said these statistics indicate that rates of property taxes and market value are quite stable for recent years, but property taxes have increased slightly as a percentage of market value. He said this indicates that property taxes are rising slightly faster than property valuation or inflation.

Representative Belter asked Tax Commissioner Clayburgh for information on the number of cities imposing city sales taxes. Mr. Clayburgh said approximately 60 cities are currently imposing city sales taxes and additional cities will soon be imposing taxes that have been approved by their voters and five more cities will vote in June on whether to impose city sales taxes. Representative Belter asked whether information could be provided showing populations of cities imposing city sales taxes. Mr. Clayburgh said he would provide the information later in the meeting.

Senator Thompson said the committee has received a substantial amount of information that indicates that property taxes have increased slightly in recent years. He said this does not appear to be a great problem, but it is difficult to evaluate the information and there may be areas in which the effect is more severe. He said it appears the committee should consider the rate of property increase as compared to the rate of increase in state aid to political subdivisions through foundation aid and the state aid distribution fund.

Senator Christmann said increases in agricultural property valuations are a source of concern and if all things in the valuation formula are considered, it appears that low interest rates are largely responsible for recent increases in valuations. He asked Mr. Hasti whether he is correct in assuming that the capitalization rate has a major impact on agricultural property valuations. Mr. Hasti said it is correct to assume that the interest rate is very influential in determining agricultural property valuations. He said if the interest rate was cut in half, agricultural property valuations would double.

Senator Christmann asked whether Mr. Hasti believes that the agricultural property valuation formula overemphasizes the importance of current interest rates. Mr. Hasti said when the formula was initially instituted it provided a fixed interest rate for capitalization. He said a floating rate was established in 1983 because the fixed rate was much lower than market rates. He said the floating rate was established at a time of high interest rates and has been declining for several years. He said the declining rate has caused a gradually increasing value for agricultural property. He said the Legislative Assembly could certainly change the amount being used as a capitalization rate.

Representative Schmidt asked what would happen if a fixed capitalization rate were included in the valuation formula. Mr. Hasti said the effect would vary because political subdivisions are limited in levy amounts either by the amount levied in dollars or by the amount levied in mills applied to valuation. He said creating a fixed rate that is higher than the current floating rate would cause some shifting of tax burdens away from agricultural property and onto other types of property. He said a fixed rate would not reflect market conditions and in the future would probably be artificially low, producing higher valuations than conditions would produce.

Chairman Belter asked whether committee members have any requests for legislation regarding the property tax relief study. He said since no requests have been received, he would assume that this study is nearing conclusion. He said it appears the reason for property tax increases is an increased amount of spending by political subdivisions. He said it appears two things that can relieve property tax burdens are restraint in local government expenditures and increased aid to political subdivisions from the state. He said he will try to develop a concluding recommendation for this study topic for consideration by the committee at its next meeting.

Senator Thompson said the committee will be considering bill drafts relating to agricultural property valuation that might be of assistance in some instances in relieving property tax burdens that have substantially increased.

After the luncheon recess, Tax Commissioner Clayburgh distributed copies of tables showing North Dakota city populations in alphabetical order and ranked according to population and a table showing North Dakota cities imposing city sales taxes with the date of origin of the city sales tax, the rate of the tax, exemptions allowed by the city, and other information.

PROPERTY TAX RELIEF STUDY

Chairman Belter called on committee counsel for presentation of a memorandum entitled Comparison of Property Taxes Levied, Per Student Payments, Per Capita Personal Income, and State Aid to Political Subdivisions 1985-97. Committee counsel said the information presented in the memorandum was gathered from various sources in an attempt to allow comparison of available data in selected categories.

In response to a question from Representative Brown, committee counsel said the information on North Dakota per capita personal income was drawn from United States Department of Commerce data, which is on a statewide basis and is not available for regions of the state. Representative Brown said the per capita income data indicates increases he believes would not be representative of all parts of the state. He said he believes regions of the state have personal income figures substantially below the statewide average.

Committee counsel said a copy of a research paper from the Connecticut Office of Legislative Research was distributed to committee members. He said the paper is a summary of recent property tax initiatives in other states distributed for background information of committee members.

Representative Tollefson said he believes special assessments could be applied to certain properties that are exempt from property taxes to allow for contribution to the cost of police and fire protection and certain infrastructure costs for properties that currently pay nothing toward these services that benefit their property. He said he would like the committee to consider a bill draft that would allow a city or county to establish a special assessment charge for exempt property. He said this would represent property tax relief to other taxpayers. He said he has been discussing this issue with the Legislative Council staff since the previous meeting. Chairman Belter said Representative Tollefson should continue working with the Legislative Council staff to develop a bill draft on this concept.

Senator Christmann said he would like to see a comparison of property taxes paid among the classifications of property to see whether shifting has occurred from agricultural, residential, commercial, and centrally assessed properties.

Senator Urlacher said the ability to pay taxes is difficult to assess, and he believes it would be important to have regional income information. Mr. Tony Clark, Tax Department, said some analysis has been done of income on a zip code basis. He said he is unsure whether this could be refined to provide regional income information. Chairman Belter asked Mr. Clark to work on developing regional income information for the committee's information. Senator Thompson said Job Service North Dakota might be able to help with statistical information on a regional basis.

PROPERTY TAX RELIEF STUDY

Chairman Belter called on Mr. Hasti for presentation of information requested by the committee comparing property taxes among various property classifications in recent years. Mr. Hasti said he prepared information to address the issue on the basis of county population because property tax burdens differ within counties based principally on the amount and mix of residential and commercial property in the county. He said the charts he prepared illustrating the changes show the percentage of total property taxes paid by the four classifications of property for the years 1984 to 1998. A copy of the data presented by Mr. Hasti is attached as Appendix C.

Mr. Hasti said the proportionate share of property tax paid on a statewide basis by owners of agricultural property has declined from 38.2 percent of the total in 1984 to 31.7 percent of the total in 1998. He said the percentage of total property taxes from agricultural property declines as population increases and that as population grows there is a narrower range of the proportionate share of property tax among the four property classifications. He said in counties of fewer than 2,500 people, property taxes from agricultural property have remained between 72 and 77 percent of total property taxes for the county. He said the percentages decline as population grows, and that in counties with 20,000 or more population agricultural property accounts for 11.8 percent of property taxes paid in 1998, which represents a reduction from 16 percent in 1984.

Mr. Hasti said that in counties of fewer than 20,000 population, agricultural property pays the largest share of property taxes. He said that in the eight counties with more than 20,000 population, residential property is subject to the greatest property tax share and currently exceeds 50 percent of total property taxes paid in those counties. He said the effect of the eight large population counties is so pervasive that the statewide totals show that residential property pays the largest share of property taxes and has done so since 1990.

Senator Christmann said it would be interesting to compare data on what an average farmer and an average urban resident have paid in property taxes over a period of several years. Mr. Hasti said there is not sufficient data to complete that kind of comparison.

Chairman Belter called on Mr. Tony Clark, Tax Department, for presentation of information requested by the committee regarding comparison of income among regions of the state. A copy of the data prepared by Mr. Clark is attached as Appendix D. Mr. Clark said interesting comparisons exist among regional per capita income considerations. He said in 1986 per capita income among the regions was in a relatively narrow range from \$11,157 to \$13,461. He said by 1996 the regional incomes had stratified and ranged from \$15,905 to \$23,117. He said the average increase in per capita income per year has been variable among the regions in the comparison.

Mr. Clark said comparison of average annual wages by industry within the planning regions for 1996 is presented in a table in the materials distributed. He said comparison of North Dakota average annual wages by industry for 1986, 1991, and 1996 appears on the final page of the materials.

Mr. Clark said to the extent there is a property tax problem for agricultural property owners, it appears the problem is magnified more by low commodity prices rather than by property tax increases. He said the information available indicates that agricultural

property is not really getting a larger burden of property taxes relative to other taxpayers, and if agricultural prices were better, much of the property tax concern would be alleviated.

Chairman Belter called on committee counsel to review a bill draft relating to the homestead property tax credit for persons 65 years of age or older with limited income. Committee counsel said Chairman Belter requested preparation of the bill draft for consideration by the committee under the property tax relief authority of the committee. He said the bill draft provides for an increase of \$500 across the board in the income limits for eligibility for the homestead credit. He said the current high-income amount to qualify for the exemption is \$13,500, which would be raised to \$14,000 under the bill draft.

Representative Belter inquired about the fiscal effect of the bill draft. Committee counsel said the Tax Department has not had time to fully analyze the effect of the suggested change but believes the fiscal effect would be an increased cost to the state for reimbursing the homestead credit of less than \$200,000 per biennium. Committee counsel said the bill draft should be amended to correct an oversight appearing on page 1, line 12, and that the amount of "\$13,500" should be amended to read "\$14,000" to be consistent with other changes in the bill draft.

It was moved by Representative Grosz, seconded by Representative Rennerfeldt, and carried on a roll call vote that the bill draft be amended by substituting "\$14,000" for "\$13,500" on page 1, line 12, and that the bill draft, as amended, relating to qualification for the homestead credit be approved and recommended to the Legislative Council. Voting in favor of the motion were Representatives Belter, Brown, Christopherson, Gorder, Grosz, Kilzer, Kroeplin, Lloyd, Nichols, Rennerfeldt, Schmidt, and Tollefson and Senators Christmann, Kringstad, Thompson, and Urlacher. There were no negative votes.

Chairman Belter said it appears the committee has concluded its interim business. He thanked the committee members for their work during the interim.

Mr. Chairman and members of the committee, my name is Charlene Nelson. I am a homemaker and homeschooling mother to three. I have been carefully watching the process of this legislative session. There has been a lot of discussion in this session about what to do with property taxes. Legislators have introduced over a dozen different bills addressing property taxes. There have been bills to equalize property taxes or grant more exemptions. Meanwhile, many legislators say this is a local issue and they can do nothing about it. Just a couple weeks ago I watched a PBS interview with my District 22 Representative, Wes Belter. He told the interviewer that there really is nothing that the legislature can do because property tax is a local issue.

Rep. Belter and these other legislators are right. It is the state constitution grants local jurisdictions the power to levy property tax. That is why whatever the solution is for property tax, the process must include amending the state constitution.

HCR 3046 addresses the problem that is at the core of this issue: The system is so broken that granting more exemptions or non-exemptions will only make a bad problem worse. There are so many exemptions and abatements that in many of our cities half of the property owners do not pay taxes. Farmers do not pay the same rate as other homeowners. My farmer neighbor's house is half again bigger than mine and yet he pays 1/10 the property tax that I do. I understand taxing farmland at a different rate, but homes?

And why are we taxing people more for having a nicer home? They get the same police and fire protection as those living in the smaller home. Property taxes are regressive, penalizing success and discouraging people from building better homes.

Property taxes take \$716 million out of our family budgets each year. There is no better way to empower the family and put money where it will do the most good—back in family budgets and in the hands of those who have earned it.

Property taxes mean you never own your home—you merely rent it from the government. No one knows this better than our elderly and those on fixed incomes, who, after living in the same house for 30 years and paid it off, are forced to move because they cannot afford their property taxes.

Property taxes are a disincentive to business and every government leader knows this. That is why they use property tax abatement to attract new businesses, adding to the tax burden of homeowners and established businesses.

Every way you look at it the solution is clear: we need to abolish property taxes.

Think of what this will do for our state: As our nation enters an economic downturn, North Dakota will be the only state in the country that has no property tax. We will be a magnet to every business and industry in the nation and we won't have to spend a dime for Economic Development to do so.

This will mean our small communities will have the same level playing field as larger cities when trying to attract businesses. Right now a small community can't afford to offer the economic development incentives that the larger cities can. But with no property tax, a city like Wahpeton should be able to easily find a new tenant for the empty Imation factory without stressing their city budget.

Our state will be a magnet to young families who are not able to afford to buy a home in other states. No property taxes will spur the home building industry, adding jobs to the state. It will spark a surge in home-ownership, something I'm sure every realtor will be happy to see. Home ownership means stable neighborhoods and strong schools.

There will be no more need for all the extraterritorial battles we see in our larger cities. Cities like Fargo give so many tax abatements to business that they must expand their boundaries in order generate new property tax revenues. With no need for property taxes, there's no need for arguing over the ET boundaries.

Abolishing property tax will change the economic landscape of our state and put us light years ahead of the rest of the nation.

You may not like this idea. You may think it's a lousy idea. That's OK. But there can be no doubt that this is such an important issue that it MUST be given a full public debate. This is so important an issue that you need to include all citizens in the debate. We are not asking you to abolish property taxes. We are only asking you to pass this measure so that over the next 21 months the citizens of this state can debate the pros and cons of this proposal. If it really is a bad idea, it will be made clear to the voters during the debate process. At the end of the debate every citizen can rest assured that we have thoroughly discussed every aspect of the issue and the merits of the issue will be decided in the voting booth.

I believe that in a true democracy important issues such as this require a full, fair and meaningful debate and a trust in the wisdom of the people to arrive at the right solution through the voting process. I hope that you feel the same and will vote Do Pass on HCR 3046.