

## STATE AID DISTRIBUTION FUND HISTORY

The state aid distribution fund provides for allocation of a portion of sales, use, and motor vehicle excise tax collections among political subdivisions (North Dakota Century Code Section 57-39.2-26.1). The state aid distribution fund was created by 1987 legislation (1987 S.L., ch. 35) to become effective in 1989 to combine preexisting state revenue sharing and personal property tax replacement programs. The 1987 legislation introduced a provision dedicating 60 percent of one percentage point of sales, use, and motor vehicle excise tax revenues for state aid distribution fund allocation in equal amounts to revenue sharing and personal property tax replacement.

### PERSONAL PROPERTY TAX REPLACEMENT

Personal property tax replacement allocations to political subdivisions began with 1969 legislation intended to eliminate the personal property tax. Because personal property made up a large portion of the tax base of political subdivisions, eliminating the tax required the Legislative Assembly to overcome several obstacles, the biggest of which was replacing lost personal property tax revenues for political subdivisions. The 1969 legislation added a separate one percentage point to sales, use, and motor vehicle excise taxes and broadened the sales tax base. These additional tax revenues were intended to provide for allocations to political subdivisions to offset the loss of the personal property tax base. Personal property tax replacement allocations were funded through general fund appropriations from 1969 until 1989 and incorporated in allocations from the state aid distribution fund beginning in 1989. The allocation formula was based on personal property taxes assessed in 1969 with a growth formula, and personal property tax replacement continued to be allocated under this legislation until the formula was repealed in 1997.

### STATE REVENUE SHARING

An initiated measure approved by the voters of the state on November 7, 1978, created the state revenue sharing program. The initiated measure

created a state revenue sharing fund to which 5 percent of net proceeds from state income taxes and state sales and use taxes were to be deposited and allocated to city and county governments. One-half of the money in the state revenue sharing fund was to be allocated among counties and cities on the basis of population and the remaining one-half was to be allocated among counties and cities on the basis of property tax levies.

State revenue sharing was funded through general fund appropriations from 1979 until 1989 and from the state aid distribution fund beginning in 1989.

### STATE AID DISTRIBUTION FUND

The 1987 legislation establishing the state aid distribution fund (effective beginning with the 1989-91 biennium) retained the separate statutory allocation formulas for state revenue sharing and personal property tax replacement. The legislation provided that 60 percent of revenue from one percentage point of state sales, use, and motor vehicle excise taxes would be allocated among political subdivisions, with equal amounts allocated under the state revenue sharing formula and the personal property tax replacement formula. The 1987 legislation also provided that state aid distribution fund allocations were subject to legislative appropriation. In 1997 (1997 S.L., ch. 19) significant changes were made to the state aid distribution fund. The amount allocated for distribution through the fund was reduced from 60 percent to 40 percent of revenue from one percentage point of state sales, use, and motor vehicle excise taxes. The current allocation is 8 percent of collections. The bill provided that state aid distribution fund allocations would be provided as a standing and continuing appropriation rather than being subject to legislative appropriation. The bill also eliminated the preexisting state revenue sharing and personal property tax replacement formulas and created a single formula for allocation of state aid distribution fund revenues among political subdivisions. The following table shows biennial amounts allocated from the state aid distribution fund and the predecessor personal property tax replacement and revenue sharing programs:

Biennium/Funding Source	Personal Property Tax Replacement	Revenue Sharing	Counties	Cities	Total
1969-71/general fund	\$18,900,000				\$18,900,000
1971-73/general fund	\$42,600,000				\$42,600,000
1973-75/general fund	\$18,170,000				\$18,170,000
1975-77/general fund	\$21,900,000				\$21,900,000
1977-79/general fund	\$24,300,000				\$24,300,000
1979-81/general fund	\$26,044,401	\$17,403,838			\$43,448,239
1981-83/general fund	\$32,577,000	\$21,840,000			\$54,417,000
1983-85/general fund	\$29,377,000	\$22,000,000			\$51,377,000

Biennium/Funding Source	Personal Property Tax Replacement	Revenue Sharing	Counties	Cities	Total
1985-87/general fund	\$31,289,226	\$28,654,079			\$59,943,305
1987-89/general fund	\$20,877,700	\$20,877,700			\$41,755,400
1989-91/state aid distribution fund	\$27,104,150	\$27,104,150			\$54,208,300
1991-93/state aid distribution fund	\$28,375,000	\$28,375,000			\$56,750,000
1993-95/state aid distribution fund	\$25,750,000	\$25,750,000			\$51,500,000
1995-97/state aid distribution fund	\$25,750,000	\$25,750,000			\$51,500,000
1997-99/state aid distribution fund			\$28,968,508	\$24,992,092	\$53,978,600
1999-2001/state aid distribution fund			\$33,940,222	\$29,263,170	\$63,203,392
2001-03/state aid distribution fund			\$35,502,898	\$30,610,328	\$66,113,226
2003-05/state aid distribution fund			\$39,489,898	\$34,048,087	\$73,537,985
2005-07/state aid distribution fund			\$44,966,766	\$38,770,228	\$83,736,994
2007-09/state aid distribution fund			\$49,266,528	\$42,477,472	\$90,968,250

The state aid distribution fund allocation divides revenues for allocation 53.7 percent to counties and 46.3 percent to cities. The distribution to the counties and cities is based on population categories. Each population category receives a percentage of the county or city share of the total and is then allocated

to the counties or cities within the categories based on population. The following chart shows the allocation of the fund among county and city population categories prior to the revision for the 2000 federal census:

POPULATION CATEGORY			
Counties	Percentage	Cities	Percentage
100,000 or more	10.4%	20,000 or more	53.9%
40,000 or more but less than 100,000	18.0%	10,000 or more but less than 20,000	16.0%
20,000 or more but less than 40,000	12.0%	5,000 or more but less than 10,000	4.9%
10,000 or more but less than 20,000	14.0%	1,000 or more but less than 5,000	13.1%
5,000 or more but less than 10,000	23.2%	500 or more but less than 1,000	6.4%
2,500 or more but less than 5,000	18.3%	200 or more but less than 500	3.5%
Less than 2,500	4.1%	Less than 200	2.2%
Total	100.0%	Total	100.0%

House Bill No. 1025 (2003) revised the state aid distribution formula for cities and counties to account for population changes resulting from the 2000 federal census and became effective August 1, 2003. The bill provided for total distribution percentages to cities and

counties to remain at current levels--53.7 percent to counties and 46.3 percent to cities. However, the allocation formula among counties and cities was changed to the following:

POPULATION CATEGORY			
Counties	Percentage	Cities (Based on Population)	Percentage
17 counties with the largest population (allocated equally)	20.48%	80,000 or more	19.4%
17 counties with the largest population (allocated based on population)	43.52%	20,000 or more but less than 80,000	34.5%
Remaining counties (allocated equally)	14.40%	10,000 or more but less than 20,000	16.0%
Remaining counties (allocated based on population)	21.60%	5,000 or more but less than 10,000	4.9%
		1,000 or more but less than 5,000	13.1%
		500 or more but less than 1,000	6.1%
		200 or more but less than 500	3.4%
		Less than 200	2.6%
Total	100.0%	Total	100.0%

## RECENT LEGISLATION

During the 2007 legislative session, House Bill No. 1447, which failed to pass the House, was introduced to increase the amount allocated through the state aid distribution fund from 40 percent to 50 percent of the revenue from one percentage point of state sales, use, and motor vehicle excise taxes. The fiscal note indicated that the bill would reduce general fund revenues by \$21 million and increase the state aid distribution fund by that amount.

During the 2009 legislative session, House Bill No. 1366, which failed to pass the House, would have increased the amount allocated through the state aid distribution fund from 40 percent to 50 percent of the revenue from one percentage point of state sales, use, and motor vehicle excise taxes for the 2009-11 biennium and from 40 percent to 60 percent after that time. The fiscal note indicated that the bill would reduce general fund revenues by \$28 million for the 2009-11 biennium and \$56 million for the following biennium.