TAXATION COMMITTEE

The Taxation Committee was assigned six studies. House Concurrent Resolution No. 3019 (2013) directed a study of the property tax system. Senate Concurrent Resolution No. 4030 (2013) directed a study of applying property tax rates against true and full value of property. Section 10 of Senate Bill No. 2036 (2013) directed a study of controlling the growth of property tax levies including an assessment of the effectiveness of state-funded property tax relief. The Chairman of the Legislative Management directed a study of state economic development tax exemptions including the desirability of utilizing a regular review process to assess the effectiveness of those exemptions. Section 2 of Senate Bill No. 2314 (2013) directed a study of the effectiveness of local property tax exemptions and other economic development incentives. Section 1 of Senate Bill No. 2279 (2013) directed a study of the forest stewardship tax.

The Legislative Management directed the committee to receive eight reports. These include reports on rules relating to supervision of assessment officials, county use of allocations of oil and gas gross production tax revenues, employment data used in determining oil and gas revenue allocations, activities of each angel fund in the state, cost-benefit analysis during the 2013-14 interim of certain coal severance tax exemptions, state grantor and business tax incentives, renaissance zone progress, and cities in which a renaissance zone is included in a tax increment financing district.

Committee members were Senators Dwight Cook (Chairman), Randall A. Burckhard, Jim Dotzenrod, Lonnie J. Laffen, Ronald Sorvaag, and Jessica K. Unruh and Representatives Wesley R. Belter, Jason Dockter, David Drovdal, Glen Froseth, Patrick Hatlestad, Craig Headland, Jim Kasper, Jerry Kelsh, Scot Kelsh, Mike Nathe, Mark S. Owens, Dan Ruby, Jim Schmidt, Robin Weisz, and Steven L. Zaiser.

PROPERTY TAX SYSTEM STUDY

House Concurrent Resolution No. 3019 (2013) directed the committee to study the property tax system and examine options for improvements that could reduce the property tax burden and enhance the fairness and uniformity of the property tax system.

Background

The impetus for a broad study of the property tax system arose due to various taxpayer concerns expressed to legislators regarding the fairness and uniform application of the current system. In recent years, the property tax system has been plagued with criticisms and subject to numerous legislative efforts aimed at reducing the overall property tax burden and enhancing levels of fairness and uniformity in the application of property tax assessment methods statewide. In considering potential avenues for improving the property tax system, the committee reviewed the history behind the system's evolution as well as detailed aspects of its current application.

Constitutional Provisions and Case Law

The committee reviewed the origins of property tax law in North Dakota by examining the original language enacted in Article XI, Section 176, of the 1889 Constitution of North Dakota, which provided that "laws shall be passed taxing by uniform rule all property according to its true value in money." The committee learned of the ensuing changes made to this provision through the 1914 enactment of Article X, Section 5, of the Constitution of North Dakota, which provides that "taxes shall be uniform upon the same class of property, including franchises within the territorial limits of the authority levying the tax." The objective of the 1914 amendment was to replace the requirement that all property be uniformly taxed with a grant of authority to the Legislative Assembly to recognize different classifications of property and apply uniform taxation within each classification created. Despite the constitutional authority provided in the 1914 amendment, the Legislative Assembly did not provide for statutory classification of property in subsequent legislative sessions which lead to the pivotal 1979 North Dakota Supreme Court decision in *Soo Line Railroad Co. v. State*, 286 N.W.2d 459.

In the case, three railroads, including the Soo Line Railroad, challenged the assessments on its property in North Dakota claiming the valuations were grossly excessive. The court concluded that the use of a higher percentage of assessed value for centrally assessed property than that which is used for locally assessed property was impermissible, absent legislation permitting such classification under Section 176 of the Constitution of North Dakota. The court stated "[w]e will no longer countenance de facto classification of property in North Dakota for purposes of taxation." The court held "[a]ll tax assessments, beginning with the 1980 computations, must be uniform in North Dakota until such time as the legislature provides for classification of different levels of property for purposes of taxation." This decision was the catalyst for the substantial restructuring and classification of the property tax system by the 1981 Legislative Assembly.

1981 Property Tax Reform

Following the decision in *Soo Line Railroad*, the 1979-80 Legislative Council's interim Finance and Taxation Committee requested and received authority from the Legislative Council to study property taxation restructuring. The committee obtained information based on the sales ratio study showing assessments as a percentage of market value for residential, commercial, and agricultural property as well as property assessed by the State Board of Equalization. Based on the information received, the committee recognized it would be necessary to establish classifications for these property types and recommended three alternative bill drafts, none of which were ultimately enacted.

Property tax reform was implemented by the 1981 the Legislative Assembly through the passage of Senate Bill No. 2323 to remedy the unconstitutionality of the state's prior method of taxation. Senate Bill No. 2323 aimed to restructure the property tax system based on the following objectives:

1. Establish four classifications of property for assessment purposes.
2. Improve and equalize assessments across the state.
3. Provide for more complete information for the sales ratio study to provide a measure for the State Board of Equalization to judge the uniformity of assessments against market values in all areas of the state.
4. Transition agricultural property assessment from market value to a productivity value basis, to eliminate reliance on the rapid and erratic changes in market value and establish a more stable and generally lower valuation for agricultural property.
5. Provide a method to preserve levy authority based on the taxing authority level of political subdivisions which existed prior to the potentially dramatic changes that could be caused by the bill.
6. Gradually bring the taxable value of centrally assessed property into a state of relative equality with other commercial property and do so immediately for railroad property to comply with a mandate of federal law.

The bill provided that starting in 1981, all property must be valued at its true and full value except as otherwise provided by law. The bill provided for valuation and assessment of agricultural lands based on a productivity formula determining a capitalized average annual gross return for agricultural land. The bill provided for protection of taxpayers and taxing districts for 1981 and 1982 based on an option for a taxing district experiencing a substantial decline in valuation to levy the same amount in dollars as the district levied the prior year plus 7 percent. This provision was viewed as a transitional provision that would be effective only for the first two years of property tax restructuring. The provision was included because assessments among taxing districts in the state were extremely variable. In many districts, the new law would have substantially reduced or increased the property tax base.

The erratic pattern of increase or decrease in assessments was caused by several factors. One factor was the mix of the types of property within the assessment district because assessments of some property types increased and some decreased. Generally, higher-quality agricultural land was undervalued in the market and tended to increase in value more rapidly under the productivity valuation approach than lower-quality agricultural land. The state average assessment ratio for agricultural land was 5.9 percent in 1979, but there were significant differences among counties in applied assessment ratios. Another factor in assessment disparity was local considerations influencing assessment of certain property types at a higher or lower rate than other property types. A combination of these factors resulted in large variations in total assessed value among political subdivisions and made it impossible to assure that political subdivisions would retain the same, or even nearly the same, tax base as before the passage of the 1981 legislation. Very significant tax increases or decreases could have occurred in some political subdivisions by application of existing mill levy limitations to the new assessed or taxable values of property within the taxing district.

The bill also required statements of full consideration to be filed with the State Board of Equalization or the Register of Deeds upon the transfer by deed of any property in the state. The bill created definitions for agricultural, residential, commercial, and centrally assessed property. The bill also established the percentage of true and full value for each type of property, which would be its value for tax purposes. The percentages applicable to railroad property were set at an amount equal to those applicable to commercial property due to federal law that prohibited states from assessing railroad property at a higher percentage of value than other commercial property. The amount determined for each property classification was to be known as the assessed value, which proved to be an error requiring correction during the 1981 special session.

1981 Special Legislative Session

Establishing assessed value as 9 or 10 percent of true and full value substantially reduced the debt limit of 5 percent of assessed value imposed on political subdivisions by Article X, Section 15, of the Constitution of North Dakota. This was corrected by legislation approved in the November 1981 special legislative session providing that assessed value is 50 percent of true and full value, which restored the debt limits for political subdivisions to approximately previous levels. The 1981 special session legislation introduced taxable valuation as the amount against which mill levies are applied to determine property tax liability and provided that residential property taxable value is 9 percent of assessed value; agricultural property taxable value is 10 percent of assessed value as determined under the productivity formula; commercial and railroad property taxable value is 10 percent of assessed value; and centrally assessed property, excluding railroad property, taxable value is 14 percent of assessed value for 1981, 13 percent for 1982, 12 percent for 1983, 11 percent for 1984, and 10 percent after 1984.

1981-82 Interim Finance and Taxation Committee

The 1981-82 interim Finance and Taxation Committee studied the issue of eliminating the "temporary" optional method of determining levy limitations but found no solution and that the disparities would still exist. The "temporary" optional method of determining levy limitations was reenacted by each legislative session from 1983 until 1995 with allowable percentage increases of 4 percent per year for 1983 and 1984, 3 percent per year for 1985 and 1986, 5 percent per year for 1987 and 1988, 5 percent per year for 1989 and 1990, 4 percent per year for 1991 and 1992, 3 percent in 1993, 2 percent in 1994, 2 percent in 1995, and 2 percent in 1996. The 1995 legislation provided for no increase in 1997 and 1998. If a taxing district took the maximum allowable percentage increase each year from 1981 through 1996, it would have increased its levy authority limit in dollars by more than 88 percent plus the amount of allowable increase for new property in the taxing district. The longer the "temporary" optional method of determining levy limits remained in effect, the more dramatic the potential effect of its elimination became. In 1997 a temporary provision was added because of flood disasters to allow a county, city, township, or school district eligible for federal funds on a matching basis as a result of a disaster to levy an amount necessary to match the federal funds. The additional levy was limited to a 2 percent increase over the base year, and the amount levied for this special purpose was to be excluded from future calculations of base year levies. Since 1997, the provision has remained in law in Section 57-15-01.1 and allows a taxing district the option of levying the same amount in dollars as in the highest of the three previous years. This is viewed as protection of levy authority for a political subdivision with declining valuation, but it also allows political subdivision that used the allowable increases from 1981 to 1996 to retain authority for levies that exceed statutory mill levy limits.

Current Property Tax System

After reviewing the history of the property tax system, the committee received an overview of the significant dates applicable to a single property tax cycle to aid in a general understanding of the timelines applicable to taxpayers, tax administrators, and assessment officials. Under the current property tax system, the property tax liability of a property owner is determined by multiplying combined mill rates for all taxing districts in which the property is located times the taxable value of the property. The committee learned that although this formula is relatively simple, complexities are involved in determining the mill rate, taxable value, and tax status for the property.

Determination of Mill Rate

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 proposed budget and adjustments are made as determined by the governing body. The level of spending determines how much money must be raised through property taxes.

The amount budgeted by a taxing district may not result in a tax levy exceeding allowable levy limitations. A taxing district may levy taxes based on statutorily established mill levy limitations or may levy taxes up to the greatest amount levied in dollars in any of the prior three years. The main difference is that under mill levy limits, a taxing district gains additional dollars of levy authority from new taxable property and increased assessed values of existing property, under limits based on dollars levied in prior years, additional dollars are only gained from new taxable property. The committee reviewed a schedule of levy limitations for political subdivisions prepared by the Tax Department. The schedule lists 245 grants of authority for specific purpose levies by the state and political subdivisions.

The county auditor determines the mill rate for a taxing district by dividing the total property taxes to be collected for the taxing district by the taxing district's total taxable valuation. This generates a percentage that is the mill rate for the district. This percentage, or mill rate, is applied to the taxable valuation of property to determine the owner's property tax due to the taxing district. All property in the state is subject to a county levy and a school district levy and, depending on its location, is subject to a city or township levy and perhaps additional levies of various political subdivisions.

Assessment of Locally Assessed Property

The committee reviewed the methods for assessing locally assessed property. 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," which is defined as the value determined by considering any earning or productive capacity, the market value, and all other matters that affect the actual value of the property to be assessed. For purposes of agricultural property, true and full value is determined by a productivity formula. The assessed value of property is equal to 50 percent of the true and full value of the property. Taxable valuation of property is determined as a percentage of assessed valuation, which is

9 percent for residential and 10 percent for agricultural, commercial, and centrally assessed property. The mill rate for each taxing district is applied to taxable value to determine the tax liability for individual parcels in the taxing district.

Residential and commercial property true and full value is established by local assessors. True and full value of railroad, public utility, airline, and all oil or gas pipeline property is centrally determined by the State Board of Equalization.

True and full value of agricultural property is based on a productivity formula based on the capitalized average annual gross return of the land. Annual gross return is determined from crop share rent, cash rent, annual gross income, or annual gross income potential. Average annual gross return for each county is determined by taking annual gross returns for the county for the most recent 10 years, discarding the highest and lowest annual gross return years, and averaging the remaining 8 years. The most recent 10 years of farmers' production costs are applied to adjust annual gross return. Annual gross return is then capitalized using a 10-year average of the most recent 12-year period for the gross agribank mortgage rate of interest. However, the minimum capitalization rate under the formula was set at 9.5 percent for tax year 2004, 8.9 percent for tax year 2005, and 8.3 percent for tax years 2006 through 2008. Under a 2009 amendment, the minimum capitalization rate was 8 percent for 2009, 7.7 percent for 2010, and 7.4 percent for 2011. After 2011, there is no minimum capitalization rate. Replacement of the statutory capitalization rate with a market-based capitalization rate caused a greater than average increase in agricultural property values in 2012.

An average agricultural value per acre is determined for cropland and noncropland on a statewide and countywide basis. This information is provided by the Tax Commissioner to each county director of tax equalization. The county director of tax equalization provides each assessor within the county an estimate of the average agricultural value of agricultural lands within the assessor's assessment district. The local assessor must determine the relative value of each assessment parcel within that assessor's jurisdiction. In determining relative values, local assessment officials must consider soil type and soil classification data, a schedule of modifiers approved by the State Supervisor of Assessments, and the actual use of the property.

Assessment of Centrally Assessed Property

The committee reviewed the methods for assessing centrally assessed property. The owner of centrally assessed property must file an annual report with the Tax Commissioner by May 1. The Tax Commissioner prepares a tentative assessment for the property by July 15. Notice of the tentative assessment is sent to the property owner at least 10 days before the State Board of Equalization meeting. On the first Tuesday in August, the board meets to receive testimony on the value of centrally assessed property and to finalize assessments. The Tax Commissioner certifies the finalized assessments to the counties to reflect the portion of centrally assessed property for each property owner which is taxable in that county.

Airlines serving North Dakota cities pay a property tax computed by averaging mill levies in all the cities served by an airline and applying the average levy against the taxable valuation of property of the airline in North Dakota. Taxes imposed on an airline are collected by the State Treasurer and distributed to the cities in which the airline operates to be used exclusively for airport purposes.

Authority to Classify and Exempt Property

The committee reviewed information regarding legislative authority to classify and exempt property under constitutional provisions. Specifically, the committee reviewed Article X, Section 5, of the Constitution of North Dakota which, among other things, provides that "taxes shall be uniform upon the same class of property" and "property used exclusively for schools, religious, cemetery, charitable or other public purposes shall be exempt from taxation." The committee also reviewed relevant case law regarding the classification and exempt status of property for property tax purposes.

Payments In Lieu of Taxes

The committee reviewed instances in which enterprises make payments in lieu of taxes rather than paying property taxes. Mutual or cooperative telephone companies and investor-owned telephone companies pay a tax of 2.5 percent of adjusted gross receipts, which is allocated among counties and taxing districts within counties. Rural electric cooperatives pay a transmission line mile tax of $50 to $600 per mile and a tax of $1 per megawatt-hour for retail electricity sales to consumers in this state. Revenues are allocated to political subdivisions based on location of transmission lines and, for distribution lines, based on location of distribution lines and sales from those lines. Rural electric cooperatives with generating facilities pay a transmission line tax of $225 to $300 per mile in lieu of property taxes on transmission lines of 230 kilovolts or more.

Coal conversion facility taxes and oil and gas gross production taxes are paid in lieu of property taxes. Revenues from these taxes are allocated by state law to affected taxing districts. Property owned by certain state agencies, nonprofit entities, and agencies and instrumentalities of the federal government are subject to payments in lieu of property taxes as are mobile homes, certain pipelines, certain transmission lines, and certain forest lands. New and expanding business may be granted the right to make payments in lieu of property taxes under Section 40-57.1-03.

Testimony and Committee Deliberations

Assessor Rules and Certification

Following a broad review of the property tax system, the committee addressed a topic that has received considerable discussion among taxpayers--that of a perceived unfairness in property tax assessments. The committee acknowledged that one of the foundational elements needed to achieve fairness in assessments is the requirement that assessments be conducted in an accurate manner.

The committee reviewed the powers afforded to the State Supervisor of Assessments, including the power to suspend or revoke a certificate of an assessment official. The committee received a status report from a representative of the Tax Department, pursuant to Section 7 of Senate Bill No. 2036 (2013), on the development of rules for detailed and efficient administration of Section 57-01-05 regarding supervision of assessment officials. The report indicated a working group had been formed within the Tax Department to identify the core responsibilities of assessment officials and identify instances in which suspension or revocation of assessment credentials would be appropriate. The report also indicated that initial efforts were being focused on providing additional education and training for assessment officials and tax directors.

The committee reviewed information on assessor training requirements in surrounding states and considered a bill draft to replace existing assessor classifications with a single status of certified assessor. The bill draft would require assessment officials to complete 180 hours of instruction to obtain certification. This would increase the current amount of training required for township assessors and assessors of cities under a 5,000 person population who are presently required to compete only 24 hours of training. Transitional provisions in the bill draft provided that certificate holders whose certification expires on or after August 31, 2015, would be subject to the new requirements.

The committee suggested that enhanced training for assessors would result in better assessments and more fairness, but considered whether additional training requirements would cause some assessors to leave the profession and the potential costs associated with increased training. The committee received testimony from a representative of the North Dakota Association of Assessing Officers who expressed support of the association for increased training for assessors. The committee also received testimony from a representative of the North Dakota Association of Counties who summarized responses gleaned from an informal polling of county officials. The summary indicated general support for the bill draft but with some concern for the potential fiscal impact increased training requirements may create. County representatives expressed the opinion that state funding assistance for increased training would bolster county support for the bill draft. The committee received testimony in support of increased training requirements from a representative of the Tax Department.

Based on testimony from interested parties, the committee modified the date by which all assessors shall meet the requirements in the bill draft from July 31, 2015, to July 31, 2017, to allow additional time for assessors to obtain the necessary certification. The committee received testimony from a representative of the North Dakota Association of Assessing Officers indicating an additional two years to obtain the required training would be workable. The committee concluded the bill draft may require additional input and revision during the 2015 legislative session but was an adequate starting point to offering taxpayers additional assurance that their properties are being assessed in a fair and accurate manner relative to other property.

Use of Modifiers in Agricultural Property Assessments

Following the discussion on assessor training requirements, the committee received information regarding inconsistencies in how assessment officials are applying modifiers to agricultural property assessments. In reviewing the role of modifiers in agricultural property assessments, the committee received testimony from a representative of the Tax Department on the process by which assessment officials determine agricultural land values and the resources available to assessment officials in making those determinations.

The Department of Agribusiness and Applied Economics at North Dakota State University (NDSU) computes the average agricultural value per acre of cropland, noncropland, and inundated agricultural land for each county. The Tax Commissioner then provides those values to each county before January 1 of each year. The average value per acre for each township or assessment district is determined by the county director of tax equalization and provided to local assessors. In estimating the average values for each assessment district relative to the county average value, the county director uses soil type and soil classification. In determining the valuation of a parcel, the assessor first uses the soil values determined by the county director of tax equalization. Next, the assessor considers the use of modifiers to adjust for conditions not documented in the soil survey. The modifiers that may be applied are those each county submits for approval to the State Supervisor of Assessments. Lastly, the assessor considers the actual use of the land for cropland or noncropland purposes.

The committee received testimony from a former employee of the National Resources Conservation Service regarding information on the use of detailed soil survey data. It was explained that the soil survey is an inventory of the soil resources in each county. A productivity index is assigned to soil types to eliminate management decisions in comparing soils. Limitations on the land due to terrain are generally handled with modifiers. However, difficulties can arise due to lack of education about the land on the part of the assessor. Testimony indicated some counties were running into equalization issues as assessors were not taking into account limitations to the soils, such as restricted accessibility. It was pointed out that many of the modifiers being used by counties are factored into the soil classification and use of the modifier and soil classification duplicates the reduction for that soil classification.

The committee considered a bill draft to change how modifiers for agricultural property are applied. Based on information received from the Tax Department, many of the modifiers allowed under existing law for use by counties are already accounted for as factors in the soil survey determination for certain soil types. The bill draft provides for only two allowable modifiers that may be used to make a 30 percent reduction to the soil type valuation of an area. The two allowable modifiers would be for inaccessibility, meaning restricted access by farm implements, or nonconformity, meaning relatively small areas of good soil which is uneconomical to cultivate because of surrounding poor-quality soil.

The committee reviewed the differences between land classified as cropland versus noncropland. The committee learned noncropland acres never change for purposes of the NDSU formula as those acres were distinguished when the original formula was created. The committee learned that if noncropland is cultivated, it is subject to assessment as cropland at the county level. The committee also reviewed the statutory requirements for the treatment of inundated lands.

The committee received testimony from various assessment officials. It appears some counties have transitioned smoothly to use of soils survey data but some have experienced great difficulty. The committee learned that some counties differentiate between cropland and noncropland for valuation purposes and some do not. Some counties take into account the actual use of the land while others determine valuation based on what the highest and best use of the land should be, regardless of how it is actually used. Testimony from a representative in a county that determined valuation based on actual use expressed the opinion that this method of valuation was preferred as it gave landowners input in how their properties are valued. Assessment officials in this county found valuation based on actual use preferable to applying modifiers to a property to reduce the valuation of land not being utilized for its highest and best use. Other county assessment officials provided testimony that modifiers had been used in the past but are no longer used as they were being improperly applied. An assessment official in a county choosing not to apply modifiers expressed the opinion that often the modification an assessor is seeking to apply has already been accounted for in the soil survey. Applying modifiers in these instances would essentially result in a double modification. Some county officials were opposed to the idea of having modifiers set out in statute. County assessment officials did acknowledged the need for property owners to be reassured that assessments were being conducted in a fair manner statewide but felt that certain systems simply worked better in some counties than in others.

The committee expressed concern that counties did not appear to be taking a uniform approach in how valuations for agricultural property are determined. Members of the committee pointed out that one of the main reasons the state shifted to a valuation system utilizing soil types was to avoid this outcome. A valuation system based on soil types was put in place to avoid the unfairness that arises when two property owners, having the same quality of soil on their properties, end up with two different valuations based on how the property owner choses to use the property. It was pointed out that the use of soil survey data was implemented so that property containing high-quality soil should receive a higher valuation, and the management decision of the owner should not affect valuation. Committee members expressed the opinion that for property taxes to be equalized and fair, a property owner's use of the land should not determine the assessment applied to the property.

The committee considered a revised version of the bill draft to allow for a single schedule of modifiers to be adopted by the State Supervisor of Assessments and used statewide. Counties would be restricted to the modifiers provided in that schedule. County directors of tax equalization would provide the schedule of modifiers to assessors within the county along with a copy of the guidelines regarding how modifiers must be applied and instruction on how to use available soil survey resources. The revised bill draft also provides that approved modifiers may be applied to reduce the soil type valuation of an area if a site inspection is conducted by the assessor to confirm the existence of conditions warranting the modification.

Some committee members expressed concern regarding the provision requiring site inspections as testimony indicated that most inspections are currently done through use of aerial imagery services. Concern was expressed that physical site inspections may place an unnecessary burden on assessment officials. The committee acknowledged the difficulties in developing a bill draft that would accommodate all of the assessment practices used throughout the state or resolve every concern regarding the application of modifiers. Despite these concerns, the committee determined the revised bill draft would be worth advancing for further consideration during the 2015 legislative session to help assure taxpayers that agricultural property assessments were being arrived at in a fair manner.

Electric Transmission, Distribution, and Generation Company Reports

The committee was informed that a representative of the Tax Department had discovered a deficiency in the statutory rules regarding reporting requirements for electric transmission, distribution, and generation companies. It was discovered that no statutory reporting requirement existed for electric generation company reports for location and rated capacity of wind generators and grid-connected generators within counties. It was suggested the committee consider a bill draft to require these reports at the time transmission and distribution company reports are required to be filed. Upon review of the bill draft, the committee determined the effective date would need to be delayed to 2016 as the legislation would not take effect early enough to require reports in 2015.

Recommendations

The committee recommends a bill [15.0039.03000] to replace existing assessor classifications with a single status of certified assessor. The bill requires all assessors to be certified and imposes the same 180 hours of training requirements for all certified assessors. The training requirements in the bill represent an increase in the amount of training required for township assessors and assessors of cities under a 5,000 person population. The deadline for assessors to receive certification under the new training requirements is 2017 to allow time for assessors to complete additional training. This bill was also reviewed and recommended by the Advisory Commission on Intergovernmental Relations.

The committee recommends a bill [15.0199.02000] to restrict use of modifiers in agricultural property assessments to those contained in a single schedule of modifiers adopted by the State Supervisor of Assessments. The bill provides that the single schedule of modifiers would be provided to all assessors as well as a copy of guidelines regarding how modifiers must be applied and instructions on how to use available soil survey resources. The bill requires a site inspection be conducted to confirm the existence of any conditions warranting a modification prior to an approved modifier being applied to reduce the soil type valuation of an area.

The committee recommends a bill [15.0094.02000] to provide reporting requirements for electric transmission, distribution, and generation companies. The bill includes requirements for electric generation company reports for location and rated capacity of wind generators and grid-connected generators within counties. The bill requires the reports be filed at the same time transmission and distribution company reports are required to be filed. The reporting requirements take effect starting in 2016. This bill was also reviewed and recommended by the Advisory Commission on Intergovernmental Relations.

TRUE AND FULL VALUE IN DETERMINING PROPERTY TAX RATES STUDY

Senate Concurrent Resolution No. 4030 (2013) directed the committee to study applying property tax rates against true and full value of property.

Background

In recent years, legislators have reported growing frustration among constituents with understanding how property tax bills and rates are determined because of the complexity of the current method of reducing true and full value to a taxable value amount and then applying local property tax mill rates. Due in large measure to these frustrations, Senate Concurrent Resolution No. 4030 (2013) was introduced as a constitutional amendment to revise relevant constitutional provisions to allow the Legislative Assembly to substitute use of the term assessed value for the current method of using the term true and full value to refer to the actual value of property. The measure as introduced would have reduced the constitutional debt limit rates by 50 percent to retain the same amount as a debt limit because the assessed value would have doubled under that change. During committee discussion of the resolution, it was suggested it may be very difficult to explain to voters why this change is needed and the necessity for a constitutional amendment could be avoided. This could be accomplished if the statutory definition of assessed value remains at 50 percent of the market or formula value of property and taxable value is redefined as 90 percent of true and full value for residential property and 100 percent of true and full value for commercial, agricultural, and centrally assessed property. It was suggested this change would allow the current mill rate method to be modified into a method of applying property taxes as a percentage of the full value for most property types. Following the discussion, the resolution was amended into a study resolution to examine the feasibility of making the proposed changes.

Property Tax Rates Applied Against True and Full Value of Property

Under North Dakota law, property is required to be assessed at its true and full value for property tax purposes. True and full value of agricultural property is determined through an agricultural productivity valuation formula, and other properties are valued through assessment policies designed essentially to determine the current, correct market value of property. The current approach to applying property tax rates against property value was restructured by legislation enacted in 1981. The 1981 restructuring was intended to continue use of mill rates against property values to determine property tax liability.

Article X, Section 15, of the Constitution of North Dakota, provides the debt of any political subdivision may not exceed 5 percent of the assessed value of taxable property in that political subdivision. The constitutional provision also allows voters to approve an increased debt limit for cities and school districts. Because of the constitutional provision, the 1981 restructuring set a statutory definition of assessed value as 50 percent of true and full value to retain approximately the same debt limit for political subdivisions. The 1981 restructuring set the current rate of taxable valuation of commercial, agricultural, and centrally assessed property at 10 percent of assessed value and the taxable valuation of residential property at 9 percent of assessed value. These changes allowed a property tax mill rate of one mill to generate approximately the equivalent amount of property tax revenue as prior to the restructuring.

Testimony and Committee Deliberations

Beginning with the premise that assessed value is 50 percent of true and full value, the committee reviewed an example of property with a $100,000 true and full value for purpose of illustrating how current law functions. In the case of a residential property with a $100,000 true and full value, the taxable value would be equal to 9 percent of the property's $50,000 assessed value, amounting to $4,500. In the case of a property with a $100,000 true and full value classified as something other than residential property, the taxable value would be equal to 10 percent of the property's $50,000 assessed value, amounting to $5,000. A one-mill tax on the taxable value of residential property would be a tax of $4.50 and a one-mill tax on the taxable value of other classes of property would be a tax of $5. Thus, a 300-mill tax on those properties under current law would result in a tax of $1,350 for residential property and a tax of $1,500 for other classes of property.

In attempting to eliminate the use of mills in calculating property taxes, the committee considered the desirability of converting a tax rate of one mill against the true and full value of property to a tax rate of .00005 per dollar of taxable valuation. The committee was of the opinion that a conversion undertaken in this manner would not make property tax calculations adequately understandable for taxpayers.

The committee also considered the option of converting a one mill tax rate to its equivalent rate of 5 cents per $1,000 of taxable valuation if taxable valuation is equal to true and full value for agricultural, commercial, and centrally assessed property and 90 percent of true and full value for residential property. The committee received information indicating a tax rate based on cents per $1,000 of value has been used in other states. The committee reviewed the following table comparing the current method and the optional method of converting a tax rate of one mill to a tax rate of 5 cents per $1,000 in taxable value.

	Residential	Agricultural, Commercial, Centrally Assessed
Current Method		
True and full	$100,000	$100,000
Assessed	$50,000	$50,000
Taxable	$4,500	$5,000
One mill tax (.001)	$4.50	$5.00
300 mills tax (.3)	$1,350	$1,500
Effective tax rate	1.35%	1.5%
Optional Method		
True and full	$100,000	$100,000
Taxable	$90,000	$100,000
Assessed	$50,000	$50,000
One mill equivalent (5 cents per $1,000) tax	$4.50	$5.00
300 mills equivalent ($15 per $1,000) tax	$1,350	$1,500
Effective tax rate	1.35%	1.5%

In reviewing a bill draft to convert the use of a number of mills for property tax determination into use of a number of cents per $1,000 of true and full value, the committee learned that effectuating the change would require revisions to a substantial number of statutory sections. To ensure a detailed review of the changes to these sections, the committee received testimony from various interested parties. The committee received testimony from a representative of the North Dakota Auditor's Association who testified in opposition to the bill draft based on the opinion that little benefit would be realized from making the change and it would likely take counties two to three years to fully change over their current systems. The committee also received testimony from a representative of the North Dakota Association of Counties who found the effective date concerning. Testimony indicated a 2016 effective date would be more acceptable to county officials. A revised bill draft was prepared to take into account effective date concerns.

The committee questioned whether a one mill equivalent of 5 cents per $1,000 of taxable value was ultimately more user-friendly than a tax rate of one mill. However, the committee found it may be easier for taxpayers to understand a tax rate applied against "actual" value of property than a rate in mills applied against 4.5 or 5 percent of actual value.

Recommendation

The committee recommends [15.0066.03000] a bill to eliminate the use of mills in calculating property taxes. The bill converts the numerous references within Century Code regarding use of a number of mills for property tax determinations into use of a number of cents per $1,000 of true and full value. The conversion would be effective starting January 2016.

CONTROLLING GROWTH OF PROPERTY TAX LEVIES STUDY

Section 10 of Senate Bill No. 2036 (2013) directed the committee to study controlling the growth of property tax levies, with emphasis on consideration of whether the level of property tax relief received by taxpayers has been commensurate with the amount of state funds distributed to benefit political subdivisions and provide property tax relief to taxpayers, the additional cost to the state of state assumption of funding for some social service functions previously funded by counties compared to the actual reduction in property taxes passed through to taxpayers in each county, whether voter approval through referral or levy and budget restrictions should play a greater role in local taxing decisions, and the feasibility of establishing more restrictive statutory property tax limits to manage the growth of property taxes.

Background

It is generally recognized that a large portion of the costs of owning and using property arise from property taxes levied by political subdivisions. Historically, property taxes have constituted the primary source of funding for local government services. Property tax relief and reform have been recurring topics of legislation in recent legislative sessions as taxpayers continue to express dissatisfaction with property tax burdens. In the 2013 legislative session, there were four constitutional amendments considered and more than 40 bills relating to property tax issues. In addition, an initiated measure to eliminate imposition of property taxes appeared on the June 2012 statewide primary ballot, which was soundly defeated but which heightened the public debate of local control of property tax levels and policy. In undertaking a study on controlling the growth of property tax levies, the committee reviewed the traditional controls placed on growth of property tax levies, recent legislation impacting property tax levies, data summarizing the total amount of property tax collections, and information compiling the cumulative amount of state assistance provided to political subdivisions.

Traditional Controls on Growth of Property Tax Levies

In studying the growth of property tax levies, the committee reviewed the traditional controls that serve to limit the growth of levies. These controls include state law, governing body self-restraint, and taxpayer and citizen participation. Various restricting factors are found in state law, including constitutional and statutory provisions imposing mill levy limits, voter-approval requirements, and debt limits. In addition, statutory provisions have provided for property tax relief and state assumption of program costs for some local government functions. Governing body self-restraint also serves as a traditional limiter on the growth of property tax levies. Local elected officials are presumed to act in the best interests of the political subdivision and taxpayers. Political considerations relating to being elected or reelected serve to restrain local spending to a level deemed acceptable by the majority of voters. Local elected officials are also taxpayers of the taxing district they serve and do not want an excessive property tax levy any more than other taxpayers. Another limiting factor related to governing body restraint involves taxpayer and citizen participation. Taxpayers subject to property tax tend to voice their preferences to elected officials both through direct communication and by casting votes on ballot measures relating to taxing and spending.

2007 Property Tax Legislation

Following a review of these traditional controls, the committee undertook a broad review of the recent history of property tax reform and relief legislation.

The committee reviewed Senate Bill No. 2032 which was the first legislative venture into direct property tax relief. The bill increased the maximum income for those 65 years of age or older to qualify for the homestead property tax credit from $14,500 to $17,500 and increased the maximum amount of property covered by the exemption from $67,511 to $75,000 of true and full valuation. The amount of an assessment increase for property which triggers the requirement for written notice to a property owner was reduced from a 15 percent increase to a 10 percent increase. The time the notice of assessment increases must be delivered to property owners was increased from 10 days to 15 days before the meeting date of the local board of equalization. After June 30, 2007, in any school district election for approval by electors of unlimited or increased general fund levy authority, the ballot must specify the number of mills, percentage increase in dollars levied, or that unlimited levy authority is proposed for approval and the number of taxable years for which the approval is requested. The length of time electors could authorize unlimited or increased school district general fund levy authority was limited to not more than 10 taxable years. The number of petition signatures required to place the question of discontinuing increased or unlimited school district general fund levy authority on the ballot was reduced from 20 percent of the persons in the school census to 10 percent of the number of electors who cast votes in the most recent school district election. Real estate and mobile home tax statements were required to include three columns showing the amount of property tax levied in dollars against the property by the county, school district, and any city or township that levied taxes against the property for the year of the tax statement and the two preceding tax years.

Senate Bill No. 2032 also provided property tax relief through the state income tax. A homestead income tax credit was provided for individuals for taxable years 2007 and 2008 in the amount of 10 percent of property taxes or mobile home taxes that became due during the tax year and had been paid on the individual's homestead. For purposes of the credit, "homestead" meant the dwelling occupied as a primary residence in this state and any residential or agricultural property owned by the individual in this state. The amount of the homestead income tax credit for a year could not exceed $1,000 for married persons filing a joint return or $500 for a single individual or married individuals filing separate returns. The amount of the homestead income tax credit exceeding the taxpayer's income tax liability could be carried forward for up to five years or the taxpayer could request that the Tax Commissioner issue the taxpayer a certificate in the amount of the excess. A certificate issued to a taxpayer could be used by the taxpayer against property or mobile home tax liability during the ensuing taxable year. The bill also provided for a commercial property income tax credit for an individual or corporation for taxable years 2007 and 2008 in the amount of 10 percent of commercial property taxes or commercial mobile home taxes that became due during the income tax year and had been paid. The amount of the credit for commercial property for a year could not exceed $1,000 for any taxpayer and was limited for individuals to $1,000 for married persons filing a joint return or $500 for a single individual or married individuals filing separate returns.

The Legislative Assembly was informed before the 2009 session that attempting to provide property tax relief through the income tax was fraught with complications because of the differing nature of the two tax types. Substantial administrative difficulties resulted.

2009 Property Tax Legislation

Senate Bill No. 2199 provided property tax relief by appropriating $295 million for the 2009-11 biennium for allocation to school districts to reduce school district property taxes. The bill provided for a reduction of up to 75 mills in school district property tax levies and replacement of the revenue to school districts through mill levy reduction grants. This reduced the maximum levy for most school districts to 110 mills. The bill eliminated authority for unlimited levy approval for school districts. The bill established a deadline of 2015 for school districts with existing voter-approved excess levies or unlimited levies to obtain voter approval for continuation of a levy of up to a specific number of mills. If voter approval is not obtained by 2015, the school district levy limitation will be subject to statutory provisions allowing the option of a levy based on the number of dollars levied by the school district in the highest of the most recent three years or a levy within the 185-mill general fund levy limitation. The bill also provided for transfer of $295 million in 2010 from the permanent oil tax trust fund to the property tax relief sustainability fund to be used for property tax relief allocations after the 2009-11 biennium.

2011 Property Tax Legislation

The 2009-10 interim Taxation Committee recommended extension of the 2009 property tax relief legislation. The recommendation was enacted as House Bill No. 1047. The bill provided property tax relief by appropriating $341,790,000 for the 2011-13 biennium for allocation to school districts to reduce school district property taxes. The bill provided for a reduction of up to 75 mills in school district property tax levies and provided for replacement of the revenue to school districts through mill levy reduction grants. The bill provisions were essentially the same as the 2009 provisions except the 2011 bill limited the grant to a school district so the current year grant to a school district may not exceed the grant in the preceding school year by more than the percentage increase in statewide taxable valuation, provided for recognition and adjustment for certain property types that are not subject to traditional property taxes but which provide revenue to school districts, and made clear that a school district that does not receive voter approval for extension of authority to levy in excess of statutory mill levy limitations may retain the authority to levy based on the highest dollar amount levied in the most recent three years.

2013 Property Tax Legislation

In 2013 a variety of legislation was introduced having an impact on property tax levies. This included legislation to provide direct state funding to reduce school district property tax levies, legislation to provide a 12 percent state-paid credit against property taxes paid, and legislation providing for increased eligibility for the homestead property tax credit and the disabled veterans tax credit. The 2013 Legislative Assembly also made substantial increases to state appropriations and revenue allocations for direct assistance to political subdivisions.

House Bill No. 1013 provided a substantial expansion of state funding for elementary and secondary education. The funding enhancement included a property tax relief component to provide for state payment of up to an additional 50 mills of school district property tax levies and incorporated the previous mill levy reduction grant property tax relief program, which provided a reduction of up to 75 mills in school district property tax levies. The result of combining the relief programs was estimated to provide more than $650 million in property tax relief for the 2013-15 biennium. The bill also reduced school district general fund levy authority to 60 mills and allowed 12 mills for miscellaneous expenses and a 12 percent increase in dollars per year within that limit, to a maximum combined levy of 82 mills.

Senate Bill No. 2036 provided a new approach to property tax relief funding by providing a state-paid credit against property taxes and mobile home taxes in the amount of 12 percent of the taxes levied by all taxing districts against the property. It is estimated the bill will provide $200 million in property tax relief for the 2013-15 biennium. The bill also required the Tax Commissioner to prescribe the form of notice of increased assessments for property owners and the form of the property tax statement. The bill required individuals who previously received notice of increased assessments to also receive mailed notice to inform them of a public property tax levy hearing if the taxing district is considering a property tax increase.

Senate Bill No. 2171 expanded eligibility and qualifying income limits for the homestead property tax credit for individuals 65 years of age or older or permanently or totally disabled. The bill increased the maximum income to qualify for the credit from $26,000 to $38,000. The bill increased the amount of assets of an applicant for eligibility for the credit from $75,000 plus $100,000 of the unencumbered value of the homestead to a combined total asset amount of $500,000. House Bill No. 1015 added an additional income category to qualify for the homestead property tax credit. The bill allowed individuals with an income between $38,000 and $42,000 to receive a reduction of 10 percent of taxable valuation, up to a maximum reduction of $450 of taxable valuation. House Bill No. 1306 increased the amount of the credit for the homestead of a disabled veteran from $5,400 to $6,750 of taxable valuation. The combined property tax relief provided for the homestead credit and disabled veterans tax credit by these three bills is estimated to be more than $27 million for the 2013-15 biennium.

Senate Bill No. 2162 increased the state matching grant for county senior citizen services and programs from a state match of 75 percent to a state match of 85 percent of the amount generated by levy of up to one mill in property taxes in the county for senior citizen services and programs. The bill made an equivalent increase in the portion of state sales, use, and motor vehicle excise tax collections to be deposited in the senior citizen services and programs fund by the State Treasurer.

Property Tax Statistics and Political Subdivision Revenues

Following a review of property tax legislation enacted over the last several legislative sessions, the committee reviewed information relating to property tax statistics and political subdivision revenues. The committee reviewed statewide property and special taxes for taxable year 2012, which totaled nearly $829.2 million. This amount was an increase of 7.6 percent from the 2011 total. The constitutional one-mill levy for the State Medical Center was imposed in the amount of $2.8 million which is included in this total. The State Medical Center amount was an increase of 14.3 percent from the 2011 total, which can be assumed to be the statewide taxable valuation increase from 2011 to 2012. The committee reviewed the following table showing the percentage of the 2012 amount levied by each type of political subdivision and the percentage increase in property taxes and special taxes levied by each type of political subdivision from 2003 through 2012.

	Percentage of Statewide Property Taxes and Special Taxes[1] Levied in 2012	Percentage Increase in Property Taxes and Special Taxes[1] Levied 2003 Through 2012
School districts	46.18%	15.8%
Counties	29.30%	71.1%
Cities	13.61%	52.5%
City park districts	5.29%	73.3%
Townships	2.53%	81.9%
Rural fire protection	0.91%	109.6%
Garrison Diversion	0.26%	84.9%
Soil conservation districts	0.37%	201.0%
State Medical Center	0.34%	89.0%
Other[2]	0.24%	253.0%
Tax increment districts	N/A[3]	89.1%
Statewide	N/A	39.2%

[1]"Special taxes" include mobile home taxes, rural electric cooperative taxes, woodland taxes, and payments in lieu of taxes.
[2]"Other" includes West River/Southwest Water Authority, hospital districts, rural ambulance districts, and recreation service districts.
[3]Tax increment district collections are included in city levies in this table. They are listed here only to show the relative rate of increase.

Because the State Medical Center levy is always imposed at a rate of one mill, the 89 percent increase shown in the table for the State Medical Center can be assumed to be approximately equal to the 2003 through 2012 increase in taxable valuation in property statewide.

The committee reviewed information on actual property tax collections levied by political subdivisions for the calendar years 2005 through 2012 and estimated property tax collections levied for calendar years 2013 and 2014. The data reflected an increase in property tax collections in every year from 2005 through 2012 with the exception of property taxes collected in 2010-11, which showed a decrease of 7.6 percent from collections obtained in 2008-09. For 2013, school district property taxes were reduced statewide by 18 percent. However, property taxes levied by counties increased 8.82 percent, city property taxes levied increased 6.84 percent, township levies increased 9.18 percent, and city park district levies increased 7.86 percent. The net reduction in property taxes statewide was only 3.86 percent. The 12 percent state-paid credit resulted in a reduction in property taxes paid by taxpayers of almost 16 percent.

The committee examined 2013 property tax levies for each county and found total taxes levied actually increased from 2012 to 2013 in some counties. It appears property tax relief is not reaching all taxpayers in equal amounts and some committee members expressed concern that some political subdivisions were using tax relief to increase levies more than normally occurs.

The committee also reviewed revenue derived from home rule sales taxes and special assessments. The committee reviewed the history behind the home rule sales tax and the historical growth in local sales and use taxes between the years of 1996 and 2013. The data reflected a growth in local sales and use taxes from collections of $36,534,413 in 1996, to collection of $206,247,609 in 2013. The committee learned that from 2003 to 2012, special assessments imposed statewide increased by 59 percent, and on a statewide basis, about $1 in special assessments is collected for every $9 collected through property taxes.

State Funding to Political Subdivisions

The committee reviewed a comparison of appropriations and revenue allocations for the 2003-05 and 2013-15 bienniums. The comparison showed an increase of $2.74 billion, or 271 percent, in state appropriations and revenue allocations to political subdivisions over that time period. This is compared to an increase of about 39 percent in political subdivisions' property taxes and special taxes levied from 2003 to 2012. The Legislative Assembly has acted to control growth of the property tax burden. Appropriations by the state in 2009 marked the first time in many years state appropriations and revenues to political subdivisions increased at a faster rate than political subdivisions' property taxes and special taxes levied. For example, from 1994 to 2007, property taxes and special taxes levied by political subdivisions increased 95.9 percent while state appropriations and revenue allocations to political subdivisions increased by 83.6 percent.

The committee reviewed information on the total state assistance provided from oil tax revenue allocations, state aid distribution fund payments, highway tax distribution fund payments, and grants from the oil and gas impact grant fund to selected political subdivisions. The committee reviewed data regarding the total appropriations from state funds for major infrastructure and estimated state funding allocations to political subdivisions, including allocations for property tax relief. The data shows over $4 billion was provided in infrastructure and funding allocations during the 2013-15 biennium.

The committee reviewed 10 years of data regarding the amount of property tax collections statewide, state assistance to political subdivisions, and the total amount available to political subdivisions through a combination of property taxes and state assistance. Data provided for the 2013-15 biennium indicated a total of $5.415 billion available to political subdivisions through property tax collections and state assistance--up 33.3 percent from the total amounts available in the prior biennium. It is apparent that though the Legislative Assembly has continued to act to control the growth of property tax burdens, costs of local government continue to rise.

Testimony and Committee Deliberations

Political Subdivision Budgeting Process and Levies

The committee began its assessment on controlling the growth of property tax levies with a general review of how political subdivisions calculate budgetary needs and determine property tax levies. The committee received testimony from representatives of several political subdivisions regarding the budgeting process. The committee received testimony from a city representative detailing the municipal budget process and applicable timelines. Factors involved in developing a budget plan include evaluating current conditions, projecting available resources, and anticipating funding needs for ongoing programs. Information regarding a city's annual fiscal cycle, preliminary budget development, and hearings preceding the adoption of a city's budget were also reviewed. Concern was expressed by some city representatives regarding the timing in which cities receive valuation information from counties. It was indicated that valuation information is received the first week of August and budget hearings are held in mid-August to late August. A city representative expressed preference for receiving valuation information in June, rather than August, to coincide with a city's preliminary budget work.

The committee received testimony from county representatives regarding the county budgeting process. Information was presented on emergency services budget calculations, the county general fund revenue budget, and a comparison of the prior year's approved budget to the current year's requested budget. The committee was informed that the county commission has no authority over the amounts required for salaries for county social services employees as those salaries are set by the county social services board. The committee inquired on whether information showing estimated funds available included funds held in reserve or in investments. It was indicated by a county representative that information showing estimated county funds do include these amounts, but entities other than counties might not account for this information anywhere other than in individual audit reports. The committee expressed interest in requiring those entities reporting to the county to disclose amounts held in the bank or in reserve.

A committee member expressed the opinion that the starting point for a political subdivision's budget should be based on no increase in expenditures. Representatives from several political subdivisions provided testimony on reasons for fluctuations in budgets. A city representative provided testimony regarding the difficulties a city encounters when trying to maintain the same level of social services, without a corresponding increase in property taxes, when a city has experienced a decline in population. The committee expressed interest in receiving a description of inflationary factors such as increases in population, construction costs, and personnel costs that may have an effect on city budgets.

The committee received testimony from representatives of several cities regarding reasons for increased city budgets. The committee received testimony from a representative of the city of Williston regarding the inflationary effects caused by increased oil activity. Information was provided on the increased need for police, fire protection, and public works, as well as inflated costs for salaries and housing required to attract and retain city employees. A representative from the city of West Fargo expressed similar concerns regarding the additional budgetary demands that come with increases in population. Testimony was provided illustrating the effects rapid growth had in terms of the need for additional police protection, roads, and sewers. Testimony also indicated that debt service had become one of the largest budget categories due to the infrastructure demands created over the past decade.

The committee explored how much of the growth in taxable valuation was attributable to new property and how much was attributable to assessment increases on existing properties. The committee received testimony from a representative of the North Dakota League of Cities regarding the amount of growth occurring in cities over a 5,000 population statewide. Data indicated the combined increase in taxable valuations for these cities was approximately $90 million in 2012. Of that amount, roughly $50 million was attributable to increased valuation of preexisting property and the remaining $40 million was attributable to valuation of new property. Testimony indicated the addition of a large amount of new property to the tax rolls tends to reduce the mill rate but increase overall property tax collections. The committee received data showing the 2012 taxable valuation and mill levies for each city in the state. The committee also received information on taxable valuation, state and county mill rates, school district mill rates, park district mill rates, and mill rates for various other taxing entities for each year from 2008 through 2012. A representative of Ward County expressed concerns regarding set mill rates. Testimony indicated that levies at a set mill rate impose a rapid increase in tax dollars when increases in valuation occur. A preference was expressed for determining levies according to dollars needed rather than through a set mill rate.

The committee reviewed data published by the Tax Department illustrating the relative property tax imposition by political subdivisions over a 10-year period. The committee received information showing the levies available for each type of political subdivision ranked by the average number of mills in each category to illustrate the relative use of each type of available levy. Committee members considered whether benefits would be derived from consolidating levies. The committee received testimony on previous legislative efforts regarding county levy consolidation authority. Committee members expressed concern that counties may use the increased mills available through consolidation to increase taxes on county residents. Committee members discussed the possibility of eliminating those levies that are not currently being used by any political subdivisions.

Property Tax Task Force

The committee received testimony from the Governor regarding progress of the Governor's Property Tax Task Force on Property Tax Reform on the efforts of the task force to consolidate and simplify levy provisions. The committee learned the task force is composed of individuals with a broad range of property tax experience and is tasked with providing assistance to the legislature as it works to reform property taxes. The goal of the task force in reviewing levy provisions is to provide for a more transparent system to help taxpayers understand how much they are being assessed and the purposes for which revenues are being expended.

The task force undertook a review of 186 levy limitations and found many were adopted as one-at-a-time measures that could benefit from consolidation or repeal. In its review, the task force found 13 county mill levies that could be consolidated into one general operating levy, a consolidation which would force county commissioners to set priorities and not rely on each levy limitation. A review of county road taxes found four levies that could be consolidated into one allowing for a base level authority for county roads. Needs exceeding the base level would require a vote of the electors for any additional mills.

The task force identified 17 different city levies that could be consolidated into one general levy. Cities found to be outside the range of most city levies are medium-sized cities that had voted in higher levies based on home rule charters, and these cities would be grandfathered in. Any supplemental mills would require voter approval. The task force also identified nine township levies that could be combined into one general operating levy of 18 mills with the ability to increase another 18 mills.

The task force identified county capital construction levies as another group of levies that could potentially be consolidated. The task force also considered whether special taxing authority is still needed. The task force studied rural fire districts, which can currently levy up to 13 mills with a petition of only 20 percent of electors. The task force also touched on the possibility of shifting social services costs to the state, but this has proved to be a very complex and challenging proposition which the task force would not recommend being undertaken in one biennium.

The task force was working on a bill draft to translate its ideas into legislation. The approach taken in the bill draft would allow current spending levels to be maintained, with any required reduction in excess mill levies being phased out over a period of time. All previous voter-enacted mill levies would remain in place for 10 years or for the voter-approved period of time, whichever is less, and future voter-approved levies would be limited to a maximum duration of 10 years. The bill is being drafted with the goal of providing more discipline in how political subdivisions approach their budgeting and spending process while also providing more flexibility in mill levies through the process of consolidation.

Levies by Unelected Boards and Commissions

The committee reviewed information on unelected governing bodies having authority to levy property taxes. The committee found numerous sections of law providing for levy of tax by the board of county commissioners or the city governing body upon the request of unelected boards or commissions. Many of these sections of law were written at different times by different drafters and were not consistently worded. The committee set a guiding principle that the actual imposition of a levy should be determined by an elected governing body.

The committee requested a bill draft to provide for the use of uniform terminology in provisions regarding levies requested by unelected governing bodies. The bill draft requires each unelected governing body to provide the necessary budget and finance information when submitting a levy request to the board of county commissioners or city governing body. The bill draft also clarifies that levy requests are subject to adjustment by the elected board of county commissioners or city governing body having the final authority to make the levy. The bill draft requires the county or city to hold a public hearing on any levy requested by an unelected governing body. The bill draft also contains provisions to encourage joint public hearings and deliberations for property tax levies proposed by taxing districts that are in one or more counties. The committee amended the effective date in the bill draft from 2015 to 2016 as it appeared it would not be feasible to apply the bill draft provisions for the 2015 tax year.

The committee received testimony from interested parties regarding the bill draft. A representative from the North Dakota Association of Counties informed the committee that rural ambulance districts, fire protection districts, and hospital districts are all created through a vote and then the electors vote to elect members of a governing board at the annual meeting of each district. The representative expressed the opinion that these governing bodies should not be subject to the same reporting requirements as unelected governing bodies as they are in fact elected. The committee also received testimony from various representatives of airport authorities expressing concerns regarding county or city control of an airport authority's budget. Testimony indicated that if cities or counties control airport levies, airport authorities would be in violation of federal grant assurances. Information was also provided on how an airport authority's ability to bond for projects could be negatively affected.

Concerns were also expressed by a representative of the city of Carrington regarding the date auditor's reports would be due. Submitting reports by the first day of February would likely prove difficult as most boards typically do not have their audits completed until the end of March.

After taking into consideration comments by interested parties, the committee revised the bill draft to eliminate its application to levying entities having elected boards or boards appointed by a county or city. The revised version of the bill draft also removed language regarding information that must be submitted by the entities requesting a levy from the county or city. Authority was added in sections pertaining to a county or cities general powers to allow the county or city auditor to request financial information from any entity submitting a levy request for consideration to the county or city. A representative from the North Dakota Auditors Association expressed support for the revised version of the bill draft. Representatives from the North Dakota Association of Counties and the North Dakota Township Officers Association also expressed a preference for the revised version of the bill draft.

Based on the committee's discussion regarding rural fire protection districts, the committee also reviewed a bill draft to address the manner in which rural fire protection districts increase their levy authority. Under current law, a rural fire protection district may increase its levy limit from 5 mills to 13 mills upon a petition signed by 20 percent of the electors in the district. The bill draft would allow for the same increase, but would require a majority vote by mail election ballot before the increase could be made. The committee modeled the mail ballot election requirements in the bill draft after those already in place for water districts.

Property Tax Statements

The committee reviewed the provisions of Senate Bill No. 2036 (2013) requiring the Tax Commissioner to prescribe the format of property tax statements. The committee received several updates from a representative of the Tax Department on developments in prescribing these forms. The Tax Department obtained and reviewed a sample of the tax statements used in each of the 53 counties. Considerable differences were seen from county to county regarding formatting. The committee expressed concerns that the variation in formatting has been a source of confusion for taxpayers, especially those having property located in more than one county.

Testimony provided by a representative of the Tax Department indicated that the department's review only pertained to ensuring the information required pursuant to Senate Bill No. 2036 (2013) was present on each statement. The required information included the true and full value of the property, the total mill levy applicable, three columns showing the property taxes levied in dollars for the taxable year to which the statement applied and the two preceding taxable years, and a line item entitled "legislative tax relief" identifying the dollar amount of property tax savings realized by the taxpayer.

The committee reviewed samples of existing property tax statements and examples of potential formats for property tax statements. The Tax Department formed a working group composed of interested parties to discuss administrative concerns, formatting ideas, and potential costs associated with creating uniform statements. Testimony from a Tax Department representative indicated that it may not be feasible to require identical statements for every county because different software is used among counties, but the group would work toward creating a "standard" statement. A representative of the Tax Department expressed the opinion that any additional requirements for uniformity among property tax statements would be better addressed administratively than through legislation. The committee reviewed the format that will be used for 2014 tax statements and thanked the Tax Department for its work on the project.

Notice of Increased Assessments

The committee reviewed the portions of Senate Bill No. 2036 (2013) relating to notice requirements. The bill required the Tax Commissioner to prescribe the form of notices assessors are required to send to property owners if the assessed value of a property has increased by $3,000 or more and 10 percent or more over the prior year's assessment. The bill also required that individuals receiving notices of increased assessments also receive a mailed notice informing them of the taxing districts' budget hearing if the district is considering a property tax increase in a greater number of mills than a zero increase number of mills. The committee received testimony regarding compliance with the two notice requirements and concerns surrounding the costs associated with providing notices. The committee also reviewed options for sending notices, including the ability to send notices via email.

A representative of the Tax Department indicated that the department had received a number of questions and concerns regarding the requirements surrounding notice of increased assessments as well as the volume of notices required to be sent out. It was discovered that some notices of increase were not being sent in counties relying on a 1983 Attorney General opinion, which provided that notice of an assessment increase was not required to be sent if a county board of equalization raises the assessment for an entire class of property 15 percent or more over the prior assessment. The committee considered a bill draft to address situations in which a board of equalization is the source of an order for an increase in the valuation of property that would place the total valuation increase for the property above the 10 percent increase threshold currently requiring notice. The bill draft also included a separate provision requiring notice be sent if a township, city, or county board of equalization or order of the State Board of Equalization results in a property valuation increase of the same threshold that applies to notice from the assessor.

The committee received written testimony from a representative of the Dickey County Office of Tax Equalization expressing concerns regarding the timing surrounding notifications. It was suggested that the if the intent of the bill draft was to notify property owners prior to an increase of at least 10 percent and $3,000, the notice be sent at least 5 days before the meeting of the governing body approving the increase. If the intent was to notify property owners after the fact, it was suggested that various revisions be made to conflicting language contained in sections relating to increases made by township, city, and county boards of equalization. Lastly, it was suggested that the section regarding notices be moved to a different location in the Century Code where other local and county board of equalization publication requirements are currently placed. Apart from the suggested revisions, the Dickey County representative expressed agreement with the overall intent behind the bill draft.

The committee considered a revised version of the bill draft taking into account the suggestions provided. The revised bill draft contained uniform provisions for city, township, and county boards of equalization and clarified that at any point when a property's assessment is increased by 10 percent and $3,000 over the prior year's assessment, the entity making the increase must notify the owner. If the local board of equalization is considering an increase that would make the assessment 15 percent or more above the previous year's assessment, the board must provide the owner reasonable advance notice and opportunity to appear. The committee received testimony from a representative of the North Dakota Association of Counties indicating that while the provisions in the revised draft may result in increased costs, the extra cost may be worthwhile if the result is better information being provided to property owners.

Notice of Budget Hearings

The committee also reviewed the notices of budget hearings governing bodies are required to send to those individuals having received a notice of increased assessment if the governing body is considering imposing a property tax levy exceeding a zero increase in the number of mills over that levied in the prior year. The committee found a survey of counties' experiences in sending notices significant in determining whether the provision of notices resulted in increased taxpayer attendance and participating in the budgeting process. The committee received testimony summarizing the responses to questions posed to various county officials. The questions posed related to the costs of complying with notice requirements, any resulting increase in public awareness or attendance at budget hearings, and any increase in dialog regarding levy and budget issues between county commissioners and taxpayers.

Testimony indicated that of the 35 counties comprising the majority of the state's population, 13 counties had preliminary budget estimates in an amount triggering the requirement that individual notices be sent to those taxpayers who had received a notice of increased assessment. A total of 20,607 notices were mailed out from these 13 counties at a cost of $14,671. An average of $411 was also spent per county to notice the budget meeting in the newspaper. Of the counties sending individual notices, some reported a measurable amount of interest being generated and a greater number of citizens in attendance at budget hearings due to the notices.

Of the remaining counties whose preliminary budget estimates did not trigger the requirement for individual notices, an average of $191 was spent per county to notice the budget meeting in the newspaper. Public attendance at the budget meetings in these counties was reported to be extremely low. The overall response of those surveyed indicated that while mailing of notices may have increased attendance at budget meetings, little meaningful dialog was produced, and in some cases, public attendance actually resulted in additional requests for services which would have the effect of increasing property taxes.

The committee also received testimony summarizing comments provided by representatives of the 20 largest cities on their experiences with sending notices of budget hearings. Of the 20 cities surveyed, 6 sent out notices to those taxpayers having received a notice of increased assessment. The main concerns expressed by cities in sending the notices were the number of letters that came back as undeliverable due to changes in ownership; the amount of time it took staff to send notices; confusion on the part of taxpayers as to what the notices meant; and the fact that some taxpayers, such as developers, were receiving individual notices for each of their many properties. Some city representatives indicated the notices had little effect on increased taxpayer participation or dialog in the levy and budgeting process while others felt the process resulted in useful information being provided to taxpayers. A representative of the Bismarck Parks and Recreation District expressed the opinion that the process had been educational and a much greater level of attendance and dialog occurred at the budget meeting as a result of sending notices. A county representative indicated that county officials are interested in helping citizens understand how property taxes are determined and where tax dollars are being expended so citizens can provide better input on the services they wish to keep and those services they feel could be eliminated.

The committee considered a bill draft to provide for elimination of newspaper publication of notice of budget hearings by those taxing districts considering a levy in a greater number of mills than a zero increase number of mills. In place of a published notice, the bill draft requires written notice be provided to every property owner in a taxing district contemplating a levy of greater than zero increase in the number of mills. Notice may be provided by personal delivery, mail, or electronic mail if the owner consents to receive notice in that format. The bill draft also allows for consolidated notices to be provided to individuals or entities owning more than one parcel of property in the taxing district. Testimony provided by a representative of the North Dakota Association of Counties indicated that the change in notice requirements would likely result in substantial costs.

Funding for Social Services

The committee received information from a representative of the North Dakota Association of Counties regarding county revenues and expenditures for social services and information on the number of counties either favoring or opposing state assumption of the funding and operation of social services at the county level. The committee learned that based on state fiscal year 2013, counties incurred an overall increase in expenditures for social services of 7.1 percent and an overall decrease in reimbursements coming from the state of 3.1 percent. This resulted in over a

12 percent increase in net county costs to be funded from property taxes between fiscal year 2012 and 2013 amounting to an increased costs to counties of $5,127,516. The committee learned that of the $50 million counties expended for social services in 2013, $47.5 million was derived from property tax levies and $2.5 million from other county revenue sources.

The committee learned counties have four social service levies that may be used to generate revenue. In 2014 the counties anticipate spending nearly $58 million on social services. Shifting the funding responsibility for county social services to the state level would result in the elimination of all four levies and over a $50 million reduction in property taxes. The committee was informed county officials were supportive of shifting funding for social services to a source other than property taxes, but have concerns about counties' continued ability to swiftly access time-dependent services, such as emergency foster care placements and elderly assistance, if operational functions were also shifted to the state. County officials suggested having any transfer of funding or operational responsibilities occur in phases to allow for proper planning.

The committee received testimony from a representative of the Department of Human Services regarding House Bill No. 1233 (2013), which would have provided for a transfer of certain social services programs and costs from the counties to the state. The $102 million listed in the fiscal note for the bill addressed the program, administrative, and one-time restructuring costs that would be incurred if such a shift would have been made. The majority of that cost--roughly $81 million--would be for salaries and operating costs as county employees would have become state employees. The committee learned that over time, efficiencies may be realized by shifting the administration and funding of social services to the state level. No significant reduction in services was anticipated to result from such a shift as the majority of social service programs consist of state and federal programs. Only a small portion of social service costs are related to social services that are not attached to any state or federal programs, such as costs for indigent burials or in-home care. The committee felt consideration should be given to tax policy changes that would be necessary if the state took over county social services.

The committee expressed concerns regarding the cost shifting that occurs in exempting nonprofit entities from property tax. The committee showed interest in developing a bill draft that would address the value of the benefit nonprofit entities receive through the provision of services like fire and police protection. The committee reviewed House Bill No. 1380, which failed to pass during the 2013 legislative session, which would have provided for the establishment of special assessment districts containing certain properties not subject to tax. The bill draft would have allowed for special assessments to be levied against exempt properties for an equitable share of the cost of safety and emergency services provided by the city. The committee considered a bill draft to provide for the imposition of special assessments by cities for tax-exempt property of fee-based nonprofit organizations. The committee was informed of Attorney General opinions and Supreme Court decisions that implied the property tax exemption provided by the Constitution of North Dakota prohibits imposition of an alternative form of tax or fee on exempt properties. Though the opinions did not specifically state that a special assessment approach would fail to be upheld, constitutional objections could arise.

Education Funding

The committee received testimony from a representative of the Department of Public Instruction regarding the 2013 legislative changes to the education funding formula. The formula utilizes average daily membership of students for the prior school year to determine what it should cost to educate students to a state standard on a per student basis. The formula is funded by both state and local sources with property tax relief being taken into consideration. Roughly 20 percent of the necessary funding is derived from local sources with the remainder being funded by state sources. The committee received information on the anticipated costs for funding K-12 education for the 2015-17 biennium. Taking into account an anticipated gain of 10,000 additional students, funding for the 2015-17 biennium will require a 12 percent increase on the $1.7 billion to $1.8 billion appropriated for the 2013-15 biennium. A 12 percent increase would amount to roughly $275 million dollars. Of the $275 million figure, roughly $75 million would be derived from local sources, due to increases in valuations, and the remaining $200 million would be derived from state sources.

The committee received information on school district levy authority and school district general fund and ending balance information for the years 1996 through 2013. The committee reviewed the three levies under the control of the board of a school district, including a tax not exceeding the amount in dollars the school district levied for the prior year, plus 12 percent, up to a levy of 70 mills on the taxable valuation of the district; a levy of up to 12 mills for miscellaneous purposes; and a levy of 3 mills for deposit into a special reserve fund. Any number of mills over the 85 mills authorized to be levied through school board authority must be approved through a vote of the people.

Members of the committee expressed concern as to whether school districts had an incentive to grab the maximum property tax levy available. The committee received testimony that some districts will try to maintain a levy at or near 60 mills and other districts will be increasing their levies. Should a school district elect to levy less than 60 mills, less revenue would be received as the funding formula operates under the assumption that a school district will levy the full

60 mills on the taxable valuation of the district. A suggestion was received by a school district representative that consideration be given to allowing an increase of more than 12 percent from the previous year for districts levying fewer than 60 mills.

Members of the committee also expressed concern regarding how mill levies would function in some of the western areas of the state where taxable valuation has increased dramatically. The committee received testimony indicating that, due to the restriction on a school district's ability to levy more than 12 percent over what they levied in dollars for the prior year, a district experiencing a large growth in taxable valuation would need to make the appropriate decrease to its mill levy to remain below the maximum thresholds.

Oil and Gas Gross Production Tax Allocations

The committee reviewed information provided by a representative of the Office of Management and Budget illustrating the distribution of oil tax revenues among state funds for the 2013-15 biennium. The report indicated that revenues for the first three months of the biennium were $89 million more than originally forecasted for that period.

The committee received testimony from a representative of the Tax Department regarding the effect of 2013 House Bill No. 1358 on the allocation formula for oil and gas gross production tax revenues. The report provided data on estimated distributions to counties, cities, schools, and townships based on the official forecast of $75 per barrel average price for oil and 850,000 barrels per day of production. The committee also received an updated version of this report based on more current price and production amounts. The report indicated that oil and gas tax allocations were significantly more than estimated at the end of the 2013 legislative session.

The committee received a report from a representative of the Tax Department summarizing information contained in reports from those counties receiving allocations of oil and gas gross production revenue regarding the amount of tax revenue received, expended, and on hand. The report is required to be presented within 120 days after the end of each fiscal year pursuant to Section 57-51-15. The report indicated that of the counties receiving oil and gas gross production tax revenue, a total of $35,910,293 had been received, $35,324,804 had been expended, and $585,489 remained unallocated.

The committee received a report from a representative of Job Service North Dakota, pursuant to the directive contained in House Bill No. 1358, requiring Job Service North Dakota to upgrade collection and use of employment date to correctly identify all employees who should be included for statistical purposes in oil and gas-related employment, including employees of refineries, gas plants, and oil and gas transportation services. The report indicated that of the 359,415 jobs in North Dakota in 2013, 55,137, or 15.3 percent, are attributable to oil and gas-related employment. Jobs not critical for production of a well, such as relating lodging or restaurant jobs, were not included in the data.

The committee received information from a representative of the State Treasurer illustrating the effect on oil production tax allocations if current employment data were replaced with the data provided in Job Service's revised oil industry employment report. The information indicated that if employment data taking into account all oil and gas-related employment were used, rather than data from just mining employment, six additional hub cities would be created. Under the current data, there are only three cities with a population of over 12,500 and covered mining employment of greater than 1 percent. The report indicated that allocations to the top three hub cities would increase significantly and additional allocations to the resulting nine hub cities, and their corresponding school districts, would result in a decrease in allocations to the general fund.

State-Paid Property Tax Relief

The committee reviewed Senate Bill No. 2036 (2013), which created a new form of property tax relief through a state-paid credit against property taxes and mobile home taxes in the amount of 12 percent of the taxes levied by all taxing districts against the property. Estimates indicate that $200 million in property tax relief will be provided during the 2013-15 biennium as a result of the credit. The committee received information from a representative of the Tax Department regarding the estimated cost of extending the 12 percent state-paid property tax credit for the 2015-17 biennium. The information indicated the cost to extend the credit for this period would be approximately $215 million to $230 million. The cost to extend the credit for the same period, if the rate were to increase from 12 percent to 25 percent, would be approximately $450 million to $500 million.

The committee also received information on the total amount raised from local property taxes statewide and the total dollar value of state-paid property tax relief for the current biennium. The total of the two figures amounted to $2.5 billion. Of that total, $860 million, or 35 percent, represented the total dollar value of state-paid property tax relief. The committee also reviewed information on the cumulative effect of property tax relief efforts arising out of the 2009 through 2013 legislative sessions. Relief provided through these efforts resulted in an approximate reduction in property tax liabilities of 35 to 40 percent. Some taxpayers may have received relief to a lesser degree than the averages displayed depending on changes in the value of a taxpayer's property and changes to the local mill rate where the property was located. A combination of a less significant drop in mills with a greater increase in valuation could result in a lower overall percentage decrease in a taxpayer's property tax liability.

The committee received testimony from a representative of the North Dakota Association of Rural Electric Cooperatives regarding the lack of application of the 12 percent credit to these groups. The information provided indicated that rural electric cooperatives did not benefit from the 12 percent state-paid property tax credit as the credit only applies to real property. Rural electric cooperatives pay a large amount of property-related taxes, mainly in the form of in lieu property taxes on distribution, transmission, and generation facilities that are not eligible for the 12 percent state-paid credit. In the alternative, competing investor-owned utilities pay assessed property taxes, which are eligible for the 12 percent state-paid property tax credit. It was argued that rural electric cooperatives were not placed on an equal playing field with investor owned utilities in terms of taxation. Members of the committee acknowledged that rural electric cooperatives had missed out on property tax relief in the form of the 12 percent state-paid property tax credit. Committee members noted that the topic of fairness in tax treatment between rural electric cooperatives and investor-owned utilities would likely be raised during the course of the 2015 legislative session and interested parties would benefit from having data available to present to legislators illustrating any potential tax disparities.

The committee discussed the sunset provision that applies to the 12 percent state-paid property tax credit. The committee indicated there was a strong probability that an extension of the credit would be considered over the course of the 2015 legislation session. In order to spur that discussion, the committee considered a bill draft to extend the 12 percent state-paid property tax credit for the 2015-17 biennium. The bill contained an appropriation for the estimated $230 million cost associated with extending the credit for this period. A sunset clause was not included in the bill draft.

The committee also reviewed property tax relief that had been provided through 2013 legislative expansions to the homestead credit and disabled veterans tax credit. The committee received information from a representative of the Tax Department on outreach efforts that had been conducted to inform citizens of the credits. Data provided to the committee indicated that the number of qualifying applicants for the homestead tax credit increased from 4,265 in 2012 to 6,740 in 2013, representing a 58 percent increase in individuals qualifying for the credit. For the years of 2011 and 2012 property taxes for qualifying individuals were reduced by a combined total of $3.2 million due to the benefits received under the homestead credit. A representative from the city of Grand Forks expressed appreciation to the legislature for expanding the homestead and disabled veterans tax credits and commented that providing notice of the credit has gone very well and it was anticipated that more individuals would be claiming the credit in Grand Forks.

Recommendations

The committee recommends a bill [15.0067.02000] to provide for uniform language in provisions pertaining to levies requested by unelected governing bodies. The bill clarifies that levies requested by unelected governing bodies are subject to adjustment by the approving entity. The bill also provides authority for boards of county commissioners and city governing bodies to request financial information from unelected governing bodies requesting approval of property tax levies.

The committee recommends a bill [15.0147.01000] to require rural fire districts to receive a majority vote by mail ballot election before increasing its levy authority.

The committee recommends a bill [15.0020.04000] to provide for notice to property owners if the assessment on the owner's property increased by 10 percent and $3,000 from the assessment in the prior year. The notice requirements in the bill apply to city, township, and county boards of equalization and provide that the entity making the increase is the entity that must notify the owner. The bill also requires local boards of equalization provide reasonable advance notice to a property owner and opportunity for that property owner to appear if the board is considering increasing the assessment on the property by 15 percent or more over the prior year's assessment.

The committee recommends a bill [15.0095.02000] to provide for notice of the time and place for public budget hearings to each owner of property in a political subdivision if the political subdivision is considering a property tax levy increase in a greater number of mills than a zero increase number of mills. The bill also allows for consolidated notices to be sent to property owners owning more than one parcel of property in the taxing district. The bill eliminates the previous requirement for newspaper publication of budget hearings.

The committee recommends a bill [15.0149.01000] to extend the 12 percent state-paid property tax credit. The bill appropriates $230 million for allocation of state-paid property credit funds for the 2015-17 biennium. This bill was also reviewed and recommended by the Advisory Commission on Intergovernmental Relations.

STATE ECONOMIC DEVELOPMENT TAX INCENTIVES AND EXEMPTIONS REVIEW STUDY

The Chairman of the Legislative Management directed the committee to study state economic development tax exemptions, including consideration of whether a regular review process should be established for state economic development tax incentives to ensure regular consideration of whether incentives are still serving the intended purpose for which they were created.

Background

Individual Income Tax Credits and Exemptions

The committee reviewed the number of claimants and amounts claimed for various individual income tax credits and exemptions during the 2012 tax year. The credits and exemptions reviewed by the committee were those having a primary goal of promoting economic development and included the research expense credit; seed capital investment credit; renaissance zone credits, including the single-family residence credit, historic property renovation credit, business purchase or expansion credit, renaissance fund organization investment credit, and nonparticipating property owner credit; agricultural commodity processing facility investment credit; biodiesel fuel blending credit for both wholesalers and retailers; internship program credit; microbusiness credit; angel fund investment credit and angel fund investment credit purchased from another taxpayer; workforce recruitment credit; manufacturing automation equipment credit; new or expanding business exemption; and the renaissance zone business exemption. Based on statistical information provided by the Tax Department, the committee found the amount claimed or deducted for these credits during the 2012 tax year amounted to $11,392,146.

Corporate Income Tax Credits and Exemptions

The committee also reviewed the number of claimants and amounts claimed for corporate income tax credits and exemptions during the 2012 tax year. The credits and exemptions reviewed by the committee included the wage and salary credit; research expense credit; seed capital investment credit; certified nonprofit development corporation credit; renaissance zone credits, including the historic property renovation credit, renaissance fund organization investment credit, and nonparticipating property owner credit; agricultural commodity processing facility investment credit; facility construction or retrofit credit for biodiesel fuel production; biodiesel fuel blending credit for both wholesalers and retailers; internship program credit; microbusiness credit; angel fund investment credit; workforce recruitment credit; facility construction or retrofit credit for soybean and canola crushing; manufacturing automation equipment credit; new or expanding business exemption; and renaissance zone business exemption. Based on statistical information provided by the Tax Department, the committee found the amount claimed or deducted for these credits during the 2012 tax year amounted to $4,964,289.

Property Tax Exemptions

The committee reviewed the policy on property tax exemptions. The committee reviewed court decisions and Attorney General opinions that establish the taxability of the value of a possessory interest in government-owned real property held by a nonexempt person if no exemption for the lessee is provided by law. The committee reviewed Section 57-02-26, providing that leased property belonging to the United States or to the state or a political subdivision is taxable to the lessee, and Section 57-24-31, providing that the tax imposed on a leasehold interest is collectable as a personal charge against the nonexempt lessee of the possessory interest.

The committee also reviewed the two exceptions to the general rule contained in Section 57-02-08 relating to the exemptions from property tax of a lessee's or owner's otherwise taxable interest in building space at a state institution of higher education. Section 57-02-08(16) provides that property owned or acquired by a corporation not organized for profit for the purpose of promoting athletic and educational uses and needs at any state educational institution is exempt from taxation. Section 57-02-08(34) provides that a building located on state-owned land and used at least in part for academic or research purposes by students and faculty of a state institution of higher education is exempt from taxation. The committee learned that neither exemption is subject to approval of the local governing body and neither exemption contains a limit on the duration for which the lessee may use the exemption.

Miscellaneous Credits and Exemptions

The committee reviewed additional miscellaneous credits and incentives, including the coal severance tax exemption for coal used in agricultural processing facilities or for beneficiation for that purpose, coal conversion tax exemption of the state's 85 percent share of the tax for a new coal conversion facility, fuel tax refunds to agricultural users reduced and the amount transferred to the ethanol production fund, oil extraction tax exemption and rate reduction incentives currently triggered off that will become effective if oil prices drop to trigger levels, oil extraction tax rate reductions for new wells drilled outside the Bakken and Three Forks Formations, sales tax exemption for manufacturing and recycling equipment, and income tax new jobs credit from withholding. The committee did not review the fiscal effect for any given year for these specified credits or exemptions.

Testimony and Committee Deliberations

Evaluating State Tax Incentives

The committee received testimony from a representative of The Pew Charitable Trusts regarding methods the organization had employed in other states when evaluating tax incentive provisions. The committee reviewed the four main principles the organization relied on in evaluating incentives.

1. All tax incentives should be reviewed regularly according to a strategic schedule to determine if they are still meeting their intended purposes;
2. Evaluation of incentives should be based on measureable goals;
3. The costs and benefits of incentives should be measured through rigorous evaluation; and
4. Evidence should be used to inform policy choices.

Information was also received regarding the organization's experiences with working with other states in evaluating tax incentives.

The committee arranged a panel discussion comprised of representatives from the City of Bismarck, The Pew Charitable Trusts, the Economic Development Association of North Dakota, and the Department of Commerce. A member of the panel suggested three items be considered when evaluating incentives. The first item concerns transparency. Information should be available to the public regarding who is receiving incentives. The second item involves accountability. Recipients of incentives should account for any results that were promised when the incentive was originally sought. The third item involves measuring and evaluating the effectiveness of the incentives which can sometimes be difficult due to the confidential nature of many tax documents. It was suggested that consideration be given to making incentives contingent upon the applicant waiving confidentiality to the extent necessary for evaluating the incentive for which the applicant is applying. Committee members agreed that existing confidentiality provisions could be a barrier to properly evaluating the effectiveness of some incentives.

The committee considered a bill draft to provide for the sharing of confidential information by Job Service North Dakota and the Tax Department for purposes of providing information to the Department of Commerce for evaluating tax incentives. After taking into consideration concerns expressed by representatives of the Tax Department and Job Service North Dakota, the bill draft was revised to provide for restrictions on any further disclosure of confidential information by the Department of Commerce.

The committee also took into consideration the benefit of business incentives in light of North Dakota's changing economy. A committee member expressed the opinion that many incentives were created at a time when the state was seeking to create jobs. This need may not be as prevalent in light of North Dakota's current economic climate. The committee received information on the various tax incentives available for businesses. The committee thought it would be beneficial to evaluate how successful these incentives were at attracting new businesses to the state.

The committee reviewed the angel fund investment tax credit program that was developed for the purpose of attracting investments and encouraging small business development. The committee received a report from a representative of the Tax Department, pursuant to Section 2 of Session Law Chapter 461 (2011), regarding the number of in-state and out-of-state investors, amount of investment, and amount of tax credits accrued, claimed, and transferred by each individual angel fund. The report indicated that from 2007-10, angel fund investments were just shy of $4 million. After 2010, investments had risen to $27 million and tax credits earned had exceeded $10 million. The committee was informed the law does not mandate that angel funds invest in North Dakota businesses.

The committee also received a report from a representative of the Tax Department, pursuant to Section 5 of Session Law Chapter 562 (2009), regarding the findings and recommendations of the commissioner's cost-benefit analysis during the 2009-11 and 2011-13 bienniums of the coal severance tax exemption for coal used in certain plants. The report detailed the total number of exempt tons, taxable tons, and severed tons. The report indicated that only a very small percentage, about one-half of 1 percent, of coal mined in the state qualified for the beneficiated coal exemption.

The committee received testimony from a member of the Grand Forks City Council raising concerns about property tax exemptions granted to private businesses operating in incubator status in facilities on state land. The main concerns expressed were the lack of local control over the state-granted exemptions and the duration for which these businesses could continue to be exempt from property tax. The committee considered a bill draft that would have limited a tax exemption for leasehold interests in certain buildings on university campuses to three taxable years unless the governing body of the city or county chose to extend the exemption for an additional three taxable years.

A representative of NDSU Research and Technology Park testified in opposition of the bill draft and was of the opinion that the law effective as it is. Testimony indicated that the average length of time a business remained in an incubator facility was only three to four years. A representative of a Bismarck Business Incubator also expressed a preference to leave the law as it currently stands. Testimony also indicated that the Grand Forks legislative committee was also opposed to the bill draft and preferred the incentive simply be recommended for further study.

The committee considered an alternate version of the bill draft that would have linked the duration of a tenant's occupation in an incubator facility to the success of the tenant's business. The bill draft linked the expiration of the tenant's property tax exemption to the volume of sales achieved by the tenant, rather than on the duration the tenant occupied the facility. After receiving additional information regarding the relatively small size of many businesses located in incubator facilities, committee members determined linking duration of occupancy to volume of sales may not produce the limiting effect that was intended. The committee determined the topic may be better addressed within the context of a broader economic incentives review than in a stand-alone bill draft.

A representative of the Economic Development Association of North Dakota testified in support of periodic reviews of incentives. However, review of incentives through the use of sunsetting provisions was not favored. A member of the committee recommended reviewing those incentives that are no longer in use or not accomplishing their intended purpose for possible elimination. The committee agreed that improved methods should be developed for evaluation of incentives. The committee was also in agreement that some programs may need to be tailored to fit different areas of the state. Committee members suggested evaluating the benefit received by the entire community and whether incentives were actually encouraging individuals to do something they would not otherwise do.

The committee considered a bill draft to provide for regular review and evaluation of state economic development tax incentives. The bill draft requires the Legislative Management to designate an interim committee each interim to conduct reviews of those incentives specifically listed in the bill. The interim committee would designate the incentives to be reviewed during the current interim and establish a schedule to review the remaining incentives, assuring each incentive was reviewed within a six-year cycle. The bill draft provides a list of considerations the interim committee must apply when reviewing each incentive. The interim committee could recommend legislation regarding incentives, including legislation to add additional incentives to the list to be reviewed and to allow for access to better information for the purposes of evaluating incentives.

Recommendations

The committee recommends a bill [15.0054.03000] to provide for the sharing of confidential information with the Department of Commerce by Job Service North Dakota and the Tax Department for purposes of providing information to the Department of Commerce for evaluating tax incentives. The bill provides for safeguards in restricting the use and disclosure of that information by the Department of Commerce.

The committee recommends a bill [15.0377.01000] to provide for regular review and evaluation of state economic development tax incentives. The bill provides for review of each of the selected incentives every six years by an interim committee designated by the Legislative Management. The bill also provides for specific factors to be taken into consideration when reviewing incentives and for committee authority to recommend legislation regarding incentives.

LOCAL ECONOMIC DEVELOPMENT TAX INCENTIVES AND EXEMPTIONS STUDY

Section 2 of Senate Bill No. 2314 (2013) directed the committee to study methods to assure that an accurate and reliable means is developed to measure effectiveness and accountability of property tax exemptions and other economic development incentives granted by cities and counties and to determine whether other taxpayers in the city or county ultimately derive a measurable benefit from granting of the incentives.

Background

In conducting its study, the committee reviewed various tax exemptions cities and counties have discretionary authority to provide, including property tax exemptions for new or expanding businesses, early childhood services property, improvements to property, pollution abatement improvements, new single-family residential or townhouse or condominium property, builder-owned property, renaissance zone property, and tax increment financing (TIF) district property.

Business Exemptions

In 1969 the Legislative Assembly created Chapter 40-57.1 to provide cities, for property inside city limits, and counties, for property outside city limits, an economic development tool. The primary economic development tool in Chapter 40-57.1 is authority of cities or counties to grant partial or complete property tax exemptions or the option to make payments in lieu of taxes for a limited period of time after negotiation with a potential project operator. The chapter also allows a project to receive an exemption from state income taxes for up to five years if approved by the State Board of Equalization.

After negotiation with a potential project operator, a city or county may grant a partial or complete property tax exemption for buildings, structures, fixtures, and improvements for up to five years from the date of commencement of project operations. The maximum length of a property tax exemption may be extended to 10 years if the project produces or manufactures a product from agricultural commodities. The option to make payments in lieu of taxes may be extended through the 20th year from the date of commencement of the project.

The property tax exemption or option to make payments in lieu of taxes is available for any revenue-producing enterprise. The income tax exemption available under Chapter 40-57.1 is limited to a primary sector business or a tourism business.

Business exemptions are also provided under Section 57-02-08(36), which allows the governing body of the city, for property within city limits, or of the county, for property outside city limits, to grant a property tax exemption for the portion of a building used primarily to provide early childhood services by a licensed provider or used primarily as an adult day care center. The exemption is not available for property used as a residence.

Improvement Exemptions

In 1973 the Legislative Assembly created Chapter 57-02.2 to provide cities and counties discretionary authority to allow property tax exemptions for improvements to commercial and residential buildings and structures. The exemption is allowed if the city, for property within city limits, or the county, for property outside city limits, has adopted a resolution allowing the exemption. The duration of exemptions for improvements is limited to five years and only applies to residential property that is at least 25 years old.

Improvement exemptions are also provided in Section 57-02-08(37), which allows the governing body of the city, for property within city limits, or the governing board of the county, for property outside city limits, to grant a pollution abatement improvement property tax exemption to abate emissions of pollution for part of an agricultural or industrial facility required to comply with local, state, or federal environmental quality laws, rules, regulations, or standards.

Residential Property Exemptions

A residential exemption is provided in Section 57-02-08(35), which allows the governing body of the city, for property within city limits, or the governing body of the county, for property outside city limits, to approve by resolution an exemption for up to $150,000 of the true and full value of new single-family and condominium and townhouse residential property for up to two taxable years after the taxable year in which construction is completed and the residence is owned and occupied for the first time.

Another exemption is provided in Section 57-02-08(42), which allows the governing body of the city, for property within city limits, or the governing body of the county, for property outside city limits, to provide an exemption by resolution for new single-family residential property for the taxable year in which construction began and the next two taxable years, if the property remains owned by the builder, remains unoccupied, and special assessments and taxes on the property are not delinquent. A builder is limited to exemption for no more than 10 properties under this subsection in a taxable year within each jurisdiction that has approved the exemption.

Renaissance Zones

A city may apply under Section 40-63-02 for Department of Commerce Division of Community Services approval designating a portion of the city as a renaissance zone. Under Section 40-63-03, the zone approval application must show all of the following criteria:

1. The property must all be within the boundaries of the city.
2. The city must propose a development plan.
3. The renaissance zone may not be more than 23 square blocks, but may be expanded up to 38 blocks at a rate of one additional block for each 5,000 population beginning at a population level of 10,000.
4. All blocks in the zone must be contiguous, except a single noncontiguous area not exceeding three square blocks may be included.
5. Proposed land usage for zoned property must include both commercial and residential property.
6. The application must include the proposed duration of renaissance zone status, not exceeding 15 years. The Division of Community Services may extend the duration of renaissance zone status in increments of up to five years.

The primary incentives for property owners or purchasers of renaissance zone property are income and property tax exemptions. A city may grant a partial or complete property tax exemption for single-family residential property, exclusive of the land, if the property was purchased or rehabilitated by an individual as a primary place of residence as a zone project. A city may also grant a partial or complete property tax exemption on buildings, structures, fixtures, and improvements purchased or rehabilitated as a zone project for any business or investment purpose for up to five years following the date of purchase or completion of rehabilitation.

Tax Increment Financing Districts

North Dakota law on TIF was first enacted in 1973 and is contained in Chapter 40-58, which is the chapter on urban renewal. Section 40-58-20 requires approval of a development or renewal plan for a development or renewal area. Under Section 40-58-01.1, "development or renewal area" is defined as "industrial or commercial property, a slum or blighted area, or a combination of these properties or areas that the local governing body designates as appropriate for a development or renewal project." Section 40-58-01.1 also defines "blighted area" as an area that "substantially impairs or arrests the sound growth of a municipality" due to various factors and "is a menace to the public health, safety, morals, or welfare in its present condition and use." Whether these conditions exist in an area appears to be a question of fact that must be answered by the city governing body.

Creation of a TIF district "freezes" property valuations in that district for purposes of taxation by any political subdivision except the city. City general property tax levies apply only against "frozen" valuations of TIF district properties, and only the city's TIF district special fund levy applies against the incremental valuation of TIF district properties. A pool of money from existing funds or issuance of bonds is created to finance improvements within the TIF district. As property valuation from development within the TIF district increases, the amount of valuation exceeding the "frozen" valuation is subject to taxation only by the city for TIF district purposes, and the tax revenues from this valuation are segregated in a special fund to repay the bonds or other financing for the TIF project. Other taxing districts, such as a school district, continue to collect property taxes on property in the TIF district, but only up to the amount of the "frozen" valuation of the property.

As an alternative to sale of bonds for a TIF district, the city may grant a total or partial property tax exemption for the project to provide assistance to a project developer. The property tax exemption is limited to the tax increment value of the property and may not extend for more than 15 years.

Testimony and Committee Deliberations

Effectiveness of Property Tax Exemptions

Committee members acknowledged that there seems to be mixed public opinion on whether property tax exemptions are appropriate. Some individuals believe targeted exemptions are unfair and that all property taxes should be reduced or eliminated. Other individuals, especially those from smaller communities, may find incentives that attract business and increase employment opportunities very appealing. Committee members agreed that in recent years there has been increased interest in property tax exemptions and the cost to other taxpayers. Yet, little or no information seems to be available on the effect property tax exemptions have on other taxpayers. The committee expressed interest in the current resources available to evaluate local economic development incentives and determine the types of benefits that may be realized by the communities that offer incentives.

The committee received an annual report from a representative of the Department of Commerce, pursuant to Section 54-60.1-07, relating to the business incentive accountability law. The report provided a compilation and summary of the reports of state agencies that awarded business incentives for the previous calendar year. The report indicated that for the period 2009 through 2013 there were 581 business incentive agreements entered into totaling just under $95 million in incentives. Data provided in the report indicated that about 46 percent of projects were successful in meeting job creation goals in the first two years, another 46 percent were successful in meeting job creation goals in the third year, and the remaining 7 percent met job creations goals after year three.

The committee also received an annual report from the Division of Community Services, pursuant to Section 40-63-03, on renaissance zone progress and an annual report, pursuant to Section 40-63-03(10), compiling reports from cities that have a renaissance zone included in a tax increment financing district. The report indicated that 1,319 projects had been approved since the inception of the renaissance zone program. Of those projects approved, 1,073 had been completed. The committee received testimony indicating that use of renaissance zones had been successful in reviving and developing downtown areas in cities, such as Fargo and Minot. The committee received testimony regarding the status of the Bismarck renaissance zone. Data was provided indicating that property having a beginning value of approximately $14.7 million had now increased to a market value of approximately $32.1 million in Bismarck's renaissance zone. This data supported the opinion of individuals testifying in favor of renaissance zones that renaissance zones improved the community and provided an enhanced tax base going forward.

It appeared that economic development incentives work best when tailored to meet local conditions and needs. Much of the responsibility falls to the granting entity to determine if an incentive will benefit the entire community. Allowing local governments to set their own goals for incentives is one of the most practical approaches because it can be difficult to track the exact benefits or burdens that arise from providing incentives. However, the committee could find no evidence either way to determine whether other taxpayers in the city or county ultimately derive a measurable benefit from the granting of incentives.

The committee received no comments suggesting changes to locally granted property tax exemptions or economic development incentives.

Conclusions

The committee makes no recommendations regarding its study of property tax exemptions and economic development incentives granted by cities and counties.

FOREST STEWARDSHIP TAX STUDY

Section 1 of Senate Bill No. 2279 (2013) directed the committee to study the benefits and implications on tax policy of the forest stewardship tax.

Background

History of Forest Stewardship Tax

The committee reviewed the forest stewardship tax provisions enacted in 1967 in Chapter 57-57. At the time of enactment, the provisions were referred to as the native woodland tax because application was limited to areas of land normally supporting a growth of natural forest cover. The law allowed the owner of a tract of native woodland 10 acres or larger in size to apply to the State Forester to place the tract under the woodland tax. The law required the State Forester to examine the land and approve the application if the native woodland was found to produce a forest cover. If approved, the property was to be subjected to a property tax "computed at a rate determined to be equitable by the county commissioners and the State Forester . . ."

In 1973 the law was revised and the chapter reference was changed from the native woodland tax to the woodland tax because the tax benefit was extended to include planted forest cover. Under the 1973 changes, eligible forest cover included natural forest cover of 10 acres or more, planted forest cover of five acres or more but not less than 60 feet wide, or a combination of natural and planted forest cover of at least 10 acres.

In 1991 legislation changed the name of the woodland tax to the forest stewardship tax. An amendment provided that the forest stewardship tax would apply in any county in which the board of county commissioners had approved by resolution the application of the forest stewardship tax to all qualifying property in the county. Applications for forest tax treatment in those counties approving it would be forwarded to the board of county commissioners and then sent to the State Forester for final review of whether the applicant's property qualified. The 1991 legislation changed the tax rate for qualifying property from a rate determined to be equitable by the board of county commissioners and the State Forester to a flat rate of 50 cents per acre.

Evolution of Agricultural Property Assessments

Since 1991, detailed soil surveys have been completed for all counties in North Dakota. Statutory provisions have been added to require that in determining relative value of agricultural property parcels, the local assessor shall apply soil type and soil classification data from detailed or general soil surveys, which may be adjusted based on a schedule of modifiers within the county as approved by the State Supervisor of Assessments. It is likely that under prior law, local assessors assigned a relatively low value to forest-covered lands in recognition of diminished productive capacity.

In recent tax years, owners of forest acreage have been surprised by substantial increases in property tax applied to those lands. Owners discovered the reason behind these increases was the application of assessment based on soil survey information. Assessments for these properties had increased substantially because the soil underlying much of this forested acreage is very high-quality soil. Counties could have applied modifiers to tempering these valuation increases, but some counties did not foresee the potential for such substantial increases and thus did not have the appropriate modifiers in place.

2013 Legislation

Senate Bill No. 2279 was introduced to revive the original purpose of the forest stewardship tax to encourage retention of forested acreage in the state. In counties in which the board of county commissioners had approved application of the forest stewardship tax, the tax rate of 50 cents per acre continues to apply. However, in counties that had not approved application of the forest stewardship tax, property taxes on forested acreage were increasing dramatically and causing concern that forested acreage would be lost if owners could not afford to maintain the forest cover and pay higher taxes.

As introduced, Senate Bill No. 2279 would have eliminated the requirement for the board of county commissioners to approve the application of the chapter to all qualifying property in the county by resolution. The bill would have allowed the county to approve applications on a case-by-case basis for qualifying forest property, with the same size requirements for natural and planted forest cover as in current law. The bill would have grandfathered in the tax treatment for any property that was already receiving forest stewardship tax treatment on December 31, 2012. The bill would have provided that property approved for forest stewardship tax treatment would be classified as agricultural property for all purposes, but must be excluded from calculation of agricultural value for the county under the agricultural property productivity valuation formula. The bill would have removed the set tax rate of 50 cents per acre and substituted agricultural property valuation for forest stewardship properties based on a true and full value of 50 percent of county average agricultural value per acre for noncropland.

During hearings on the bill, concerns were expressed regarding how real estate taxes for the 658 landowners already enrolled in the forest stewardship program would be impacted. New landowners applying for the program would receive a positive benefit, but landowners already enrolled in the program would likely see a significant tax increase. Further discussion during the Senate Finance and Taxation Committee meetings revealed the committee lacked the information needed to make appropriate adjustments to the forest stewardship tax without creating potentially serious unintended consequences. The bill was ultimately amended into a study resolution to be considered by the interim Taxation Committee.

Testimony and Committee Deliberations

The committee received information that the State Forester sought funding assistance for the forest stewardship tax program through the North Dakota Outdoor Heritage Advisory Board, but the request for assistance was not approved. The committee received testimony from the State Forester regarding three recommendations to address forest resources and property tax issues that were developed in cooperation with the North Dakota Association of Counties and the Game and Fish Department. The first was to increase enrollment of private forestlands in the forest stewardship tax program to 62,862 acres by 2017. The second was to amend Section 57-57-06 to change the tax from 50 cents per acre to a tax of 30 percent of the county average agricultural value per acre of noncropland. The third recommendation was to establish a long-term source of state funding to reimburse counties for the difference in tax revenue received versus the amount that would have been realized had the forested land been taxed using estimated noncropland average agricultural values. It was anticipated that for the eight counties currently participating in the forest stewardship program, a $123,000 appropriation would be required to cover reimbursement for the 2015-16 fiscal year. A representative of the North Dakota Association of Counties expressed the opinion that state support would likely increase county participation in the program. Testimony provided by a representative of the Tax Department also indicated support for these three recommendations.

The committee learned that the forest stewardship tax program as it currently operates does not have a significant effect on county budgets, but can have an effect on the taxes paid by other landowners. The committee received information on similar programs used in other states, such as long-term easements and fee acquisition programs. The State Forester expressed opposition to these approaches. The Tax Department removes wooded lands from the agricultural property classification if they are eligible for the forest stewardship tax. Modifiers can be applied to reduce the valuation of these lands that are not eligible for the forest stewardship tax, but the most significant reduction that has been seen is only a 35 percent reduction. The committee learned that legislative efforts to create additional classifications for agricultural land that cannot be fully utilized as pasture or cropland have been attempted in the past but no additional classifications have been agreed upon. A committee member expressed concern that opening up reduced assessments for one type of land would spur additional requests for special tax treatment for other types of land.

After taking into consideration the issues surrounding the forest stewardship tax, the committee determined the issue was only of real concern in select counties rather than statewide. The committee encouraged legislators who may have a particular interest in the issue to bring forth legislation during the 2015 legislative session.

Conclusions

The committee makes no recommendation regarding its study of the forest stewardship tax.