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ROLL NUMBER

DESCRIPTION

1242

2007 HOUSE FINANCE AND TAXATION

HB 1242

2007 HOUSE STANDING COMMITTEE MINUTES

Bill No. HB 1242

House Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: January 17, 2007

Recorder Job Number: 1265

Committee Clerk Signature



Minutes:

Chairman Belter: Opened the hearing on HB 1242.

Rep. Kim Koppelman: This bill does affect property taxes. I am a proponent of local control. I don't believe the states should be mettle to dictate local entities. However, we do have things in state law that govern what local entities do and sometimes when those things are broken, I think it is up to us to try to fix them. The bill is pretty self explanatory. It deals with true and full value. The language just says true and full value does not include any portion of the value or cost of improvements by special assessment unless the assessor has supporting evidence of an equivalent market value increase as shown by sales of property subjected to those special assessments. It means that not all cities do this so this won't affect all cities. If a house is assessed at a particular value and there are special assessments involved, some cities, I am told will take that amount of the special assessment and increase the assessed value of the home .by that amount. (Gave an example of this.) This bill would say you can not do this. In affect you can not add the special assessment value onto the value of the home. This would insure they are not paying more taxes on their house than the value of their house.

Chairman Belter: In order for this to function properly, I am just thinking where they come in and do a new street or whatever it may be so now the assessor has come in and said OK the

assessments are \$25,000. There may be a time lag before they really know what it has done to the value of the homes; unless it just happens to be a bunch of new homes. How do you deal with that?

Rep. Kim Koppelman: In that scenario you have given where you have an existing piece of property and there is an improvement in that neighborhood or community that that property benefits from. That is where special assessments often come from. We spread the cost of them among all these houses. If it also bumps up the value of your home it is double taxation.

Chairman Belter: You're saying if there is really no sales that take place in a particular subdivision or something, then the assessor would really have no basis for raising your taxes because of the special assessments.

Rep. Kim Koppelman: I am not sure about that. I think the assessors have other tools in their arsenal to determine the value of property vs just comparable sales.

Rep. Dwight Wrangham: Can you give me an example where there has been an improvement. Wouldn't it increase the value of the home.

Rep. Kim Koppelman: Lets say you have a new piece of property and to determine the value of that piece of property you have gone into a new neighborhood and half of the lots are sold and built upon. So you do comparable assessments on this and you have the value of it. Then you come along later and say oh, there are \$25,000 specials so that number we gave you now is that plus \$25,000. I would argue that would not increase the price of that home. It should have have been included in the original value of the original assessment because of the comparable home you were looking at also had sidewalks and also had sewer and water, etc. The scenario that Rep. Belter talked about where you have an older neighborhood where there is an existing group of house and maybe the street is starting to get a little older so they replace the street and give you new pavement. I think it is fair that all the people in that area

should pay for them. But if we do that and also say it increases the value of your home so they tax you once to pay for the cost of the pavement. So they are going to tax you again saying your house is now worth more. That is unfair and double taxation.

Rep. Louis Pinkerton: What would it do for a developer when they come in and develops lots. Would that impede the city to assess?

Rep. Kim Koppelman: Not at all in regard to improvements. This bill would do nothing to affect the community or any other political subdivisions right to create a special assessment to a township or whatever to improve property and have that assessment. This bill requires that they demonstrate that the property is worth more, but not because of special assessments. Yes, you could be taxes to pay for the improvement, but you could not be taxed again for the alleged value.

Rep. Louis Pinkerton: My question is related to the developing land. You have special assessments and the lots are worth \$5,000 and with the special assessments are worth \$30,000. Do tax entities have the ability to tax \$30,000 or do they wait until later.

Rep. Kim Koppelman: Yes, if they can demonstrate that it actually included the value of that property to that point.

Opposition:

Bob Frantsburg, League of Cities: We brought in some professional from the various political subdivisions around the state that hopefully can provide you testimony and answer your questions.

Ben Huska: City of Fargo Assessor: We are all concerned about the issue of high property taxes. Consider if you would favor a bill that would exempt a portion of value on newer commercial and residential property and shift the tax burden to over existing properties.

Although, I believe it would be an unintended consequence, never the less, I think this bill

could possibly do that. All property is taxable unless expressly exempted by law according to ND statute. This bill does not create an exemption per say, but it does, by altering the standard of value possible exclude value of certain improvements or certain property components. Those components would be in ground land improvements. It does exclude if only one type of tax is used to pay for them and that is special assessments. I believe this bill being the affective date would be January 2007 it would affect any property from this point on. Now any time that you reduce the valuation without subsequent dollars levied the total tax collected does not change. However a reduction in value to some properties and not other properties does create a tax shift. The shift here would be from these newly developed properties to the older existing properties. I think you could possible have an issue with inequity with statewide assessments as a result of this as well. According to the bill, assessors who can provide evidence of the value of those improvements before including them in their assessment, some assessors may not have sufficient sales to justify that. They may not have enough properties to justify the values so they would have to wait.

Rep. Drovdal: When I listen to the bill sponsor testimony he said he wanted to keep this at true and full value instead of inflated. You said that this would be below the true value? Can you straighten this out.

Ben Hushka: In a sense that I think the value of those improvements to those lots is what we are talking about here. If the assessor can not include any of the value of those improvements until they can prove them, whether they know it adds value or not, you would have to not include any of the improvements so you are basically devaluing simply rare land until you have sufficient data to value it as developed land. Specials is just a mechanism to tax the improvements to the land, which is by ND statute defines real property for taxation as the land improvements to the land and all rights and privileges and structures and buildings.

Rep. Drovdal: So if I understand this clearly, you want the ability to leave it as is. You want the ability to raise the true and full value without proving it and he is saying he wants the true and full value unless you prove it is higher.

Ben Hushka: In a sense I agree with that. From a practical standpoint from the nature of an appraisal it says, in order to include anything in an appraised value you have to support the inclusion. I think it is up to the appraiser or assessor to prove that anyway so I would question probably even a need for the bill because the appraisal says you have to support your values.

Rep. Froseth: You mentioned this would be a shift of taxable property from new residential to an older more established. How could that possibly be that it would be a burden on older and existing property?

Ben Hushka: The logic behind that is that if a new subdivision is put in and the special assess some of those improvements, the assessor could not include the value of those improvements? However, older neighborhoods would not have any special assessments so all the land and improvements to the land and structures and buildings would be taxed; however, in the new subdivisions they would possibly not be taxed if the assessor doesn't have proof. So there would be part of physical improvements in the land so if they are not shown on the values would shift to those with improvements.

Rep. Froseth: It would seem that you are assessing from the top end down. You are establishing dollars amount for tax money you need or want and then making the assessment to accomplish that. Rather than assessing the value and then tax it.

Ben Hushka: If assessors are doing their job correctly they are to base it on market value and appraisal of the value and not backing into the tax dollars so to speak.

Rep. Louis Pinkerton: Your saying this only applied to specials so if I purchased a lot and I pay for the development on it with cash, then I would be taxed immediately on that. But if it

was put under a special assessment you would be able to tax once there were improvements.
Is that correct?

Ben Hushka: I think that is an accurate statement. I think there will be testimony after mine from the community that has subdivisions that the developer has done that very thing as well as some that have special assessments so they might be able to answer that question.

Mel Carson, City Assessor for the City of Grand Forks: (see attached testimony)

Kevin Ternes: City Assessor of Minot: When I looked at this and heard Rep. Kim Koppelman concern and I agreed. If we have a house that everyone agreed was worth \$200,000, but there is \$25,000 in specials laying out there and I bought that house for \$200,000 did I not in affect pay \$225,000 because when I paid \$200,000 for it I still owe another \$25,000 to the city. We believe that if you look for comparable homes for that sale that we are going to look for comparable homes and if that home was only worth \$200,000 and comparable homes are selling around town for \$200,000 with the specials paid off, then we would have a hard time as an assessor putting \$225,000 on that home even though that home owner still owes that \$25,000. I think there is some confusion out there. Clearly comparable homes sold are the basis of the market value for the assessment. It is our job as assessors to abstract those extra fees that are lying out there that haven't been paid yet to determine whether they are actually a cost of the sale. The first thing that came to my mind in this whole bill that I think is going to be a problem is we had a situation in Minot where about half of our developers put in their own specials. The other half; generally the smaller developers, have to special assess. Now if you have the survey come out and plot all your lots we are probably going to come along and say there is 30 lots in your subdivision are going to be valued for assessment purposes at about 3-5 thousand in market value. Then the following month you come along and put \$25,000-\$30,000 worth of improvements in we all know that you are going

to sell those lots for about \$30,000-\$35,000 a lot. The assessor would be unable to assess that improvement until a whole year has passed. So we believe we are going to have a developer who putting his own improvements, paying at full market value right away. Where a developer who special assesses his improvements is going to really get a full year pass exemption on his improvements until an assessor can come along a say well I know it is February, I have to put a value on these properties, I know the street, curb and gutter and everything is in there, but not one of those lots have sold yet. At that point according to the bill I don't have the evidence even though I know it is going to sell for that because across the street similar subdivisions are selling for that price. Until a full year has past; until lots in that subdivision have sold. Now I can come and get the assessed value where it needs to be. Street lights might not add value to the home.

Any neutral testimony: None

Rep. Kim Koppelman: An important valid point was raised and that is if this bill could be read to say that only property where improvements are made by special assessment could be affected. If properties where improvements are made are paid for by some other means are officially being inflated and those by special assessment would not be allowed to be on this bill. That would create an inequity. I would suggest maybe an amendment to fix that might be simply where it says if improvements by special assessment add the words or other means and that would include all property and basically put every body on the same standard to say any improvement would have to be supported by evidence. I would point out that one of the co sponsors on the bill is Rep. Leland who spent much of his professional life as an appraiser and he and I talked on many occasions about special assessments and it is his experience that special assessments do not inflate dollar for dollar in the value.

Rep. Weiler: Fargo and West Fargo; do the specials on newer developments do they get up to \$20,000-\$25,000?

Rep. Kim Koppelman It was not in Fargo or West Fargo but in another community recently.

So yes they do.

Hearing closed.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1242 B

House Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: January 22, 2007

Recorder Job Number: 1594

Committee Clerk Signature

Mickie Schmidt

Minutes:

Chairman Belter opened the hearing on HB 1242. This is Rep. Koppelman's Bill. I'm not going to act on this today but I have some amendments that Rep. Koppelman wanted me to pass out. **(See attachment #1)** This has to do with the assessing of the specials. Are there any questions?

Representative Grande: I think he's referring to TIF districts. TIF means tax increment financing district. Fargo uses it when they want to give a tax break to a business or a group. We vote down that we don't want a zoo. A group of people decided to open a zoo anyway. Well the zoo had a hard time getting going and they couldn't pay their property taxes. So they went to the City and said, well what do we do? We can't pay these taxes. So the City said, that's ok, we'll pay them. So then they make this little circle around the zoo and all the land around it gets to pay all their taxes for them. And then they wonder why did all the land next to them ever get developed? That's the TIF off of that. So there are extra special assessments that end up on these pieces of land. And then after certain periods of time the project is supposed to tip back, but I think they're going to write off the zoo.

Chairman Belter: We'll have to ask Rep. Koppelman and see what his intent is there. We'll close the hearing on HB 1242.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1242 C

House Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: January 30, 2007

Recorder Job Number: 2276

Committee Clerk Signature *Nickie Schmidt*

Minutes:

Chairman Belter opened the hearing on HB 1242.

Representative Weiler: I move a Do Not Pass

Chairman Belter: They had some amendments here. I think we should put the amendments on.

Representative Weiler: I'll withdraw.

Representative Owens: I'll move the amendments.

Representative Weiler: Second it.

Chairman Belter: Any discussion? **All those in favor of the proposed amendments 0101 signify by saying aye. The motion carries.**

Representative Weiler: I move a Do Not Pass as Amended.

Representative Headland: Second it.

Chairman Belter: Any discussion? Will the clerk read the roll; 12-y, 1-n, 1-absent; Rep. Pinkerton will carry HB 1242. We'll close the hearing on HB 1242.

FISCAL NOTE
Requested by Legislative Council
02/02/2007

Amendment to: HB 1242

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

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

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

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

Eng. HB 1242 defines the circumstances in which the value of improvements by special assessment or by other means may be included in the true and full value of property for property tax purposes.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

While individual property taxpayers may be affected by the provisions of Eng. HB 1242, the overall fiscal impact is zero. The tax burden may shift among taxpayers, but the overall dollar amount of property taxes that can be levied is not changed.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	02/04/2007

FISCAL NOTE
 Requested by Legislative Council
 01/10/2007

Bill/Resolution No.: HB 1242

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

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

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

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

HB 1242 defines the circumstances in which the value of improvements by special assessment may be included in the true and full value of property for property tax purposes.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

While individual property taxpayers may be affected by the provisions of HB 1242, the overall fiscal impact is zero. The tax burden may shift among taxpayers, but the overall dollar amount of property taxes that can be levied is not changed.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	01/16/2007

House Amendments to HB 1242 (70092.0101) - Finance and Taxation Committee
01/30/2007

Page 1, line 2, after "assessment" insert "or by other means"

Page 1, line 14, after "assessment" insert "or by other means"

Page 1, line 16, after "assessments" insert "or with similar improvements"

Renumber accordingly

Date: 1-30-07 pm
Roll Call Vote #: 1242

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO.

House _____ Finance & Tax _____ Committee

Check here for Conference Committee

Legislative Council Amendment
Number _____

Action Taken Do Not Pass As Amended

Motion Made By Rep. Weiler Seconded By Rep. Headland

Representatives	Yes	No	Representatives	Yes	No
Chairman Belter	✓		Rep. Froelich	✓	
Vice Chairman Drovdal	✓		Rep. Kelsh	✓	
Rep. Brandenburg	✓		Rep. Pinkerton	✓	
Rep. Froseth	✓		Rep. Schmidt	✓	
Rep. Grande			Rep. Vig	✓	
Rep. Headland	✓				
Rep. Owens		✓			
Rep. Weiler	✓				
Rep. Wrangham	✓				

Total (Yes) 12 No 1

Absent 0

Floor Assignment Rep. Pinkerton

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

REPORT OF STANDING COMMITTEE

HB 1242: Finance and Taxation Committee (Rep. Belter, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO NOT PASS** (12 YEAS, 1 NAY, 1 ABSENT AND NOT VOTING). HB 1242 was placed on the Sixth order on the calendar.

Page 1, line 2, after "assessment" insert "or by other means"

Page 1, line 14, after "assessment" insert "or by other means"

Page 1, line 16, after "assessments" insert "or with similar improvements"

Renumber accordingly

2007 TESTIMONY

HB 1242

TESTIMONY ON HOUSE BILL 1242

House Finance and Taxation Committee

**Melvin Carsen, City Assessor
City of Grand Forks, ND**

January 17, 2007

Mr. Chairman and members of the committee, my name is Melvin Carsen and I am the City Assessor for the city of Grand Forks. I want to thank you for the opportunity to testify in opposition to House Bill 1242.

This bill would remove the value of or cost of improvements which are special assessed, from the true and full value for general property tax.

Special assessments are in plain language a method of financing public improvements, such as water and sewer lines, streets, sidewalks etc. Some developers choose to install these improvements themselves and include those costs in the price of the land. Other developers choose to have some or all of these improvements special assessed (financed by the municipality). Whenever, the special assessment financing is utilized, the owner has the choice of either paying the annual installments, or paying some of the entire assessment. Some also choose to finance the amount in their first mortgage at the bank. Special assessment financings are simply a first mortgage.

This bill would remove the value of public infrastructure only to the extent of the special assessment amount. Therefore it would create a property tax exemption for only property owners who choose to utilize the municipal financing mechanism.

Secondly, special assessments are utilized more in new developing areas than in older areas, therefore there would be a shift of tax burden to older more established neighborhoods.

It is for these two reasons, this bill would create an unfair valuation system, I would ask for a DO NOT PASS recommendation of House Bill 1242.

I would be happy to answer any questions you may have.

Thank you for your consideration.
Melvin Carsen
mcarsen@grandforksgov.com

#2 1-11
HB 1242

1/17/2007 Committee Hearing on House Bill No. 1242

SUBJECT: Consideration of Special Assessments for Property Assessment

TO: House Finance and Taxation Committee, Chairman Wesley R. Belter

FROM: Kevin Ternes, City of Minot Assessor, ternes@web.ci.minot.nd.us 701-857-4160

Mr. Chairman and members of the House Finance and Taxation Committee:

My name is Kevin Ternes. I am the Minot City Assessor.

I do have some administrative concerns and concerns about equity and fairness to all developers as it pertains to this bill.

Assessors appraise property to arrive at an estimate of market value. In new developments, the assessment is based on selling prices of comparable lots. For instance, we just had a new subdivision in Minot that was recently surveyed and platted prior to the assessment date of February 1st. The lots were assessed at around \$3,000 to \$5,000 per lot that tax year which amounted for the raw value of the land. Later that year, after the assessment date, the developer put in streets, curb and gutter, water and sewer with his own financing, not using the special assessment process. The lots then started selling that year for around \$32,000 to \$36,000. The following year, the assessment was raised to reflect the market value, of the lots as completed. This development was not financed by special assessments as the developer financed his own project.

However, we have another development taking place in another part of town where the site improvements, streets etc. are being financed by special assessments. It would seem to me that under this bill, this development would have to be treated differently. That already gives rise to the issue of fairness.

If the same order of events as listed above would occur for this development, but very few lots had sold prior to the assessment date of the following year to provide "supporting evidence" I don't think the assessor could assess these lots at their market value on the assessment date even though it's clear they are going to sell for over \$30,000. In my opinion, the net effect of this bill is that one developer would be assessed at market value, and the other developer would not be assessed at market value until one year later. The difference could amount to a 90% discount for one developer but not for the other.

Thank you for allowing me to address this issue.