

2013 HOUSE FINANCE AND TAXATION

HB 1166

2013 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1166
January 21, 2013
Job #17480

Conference Committee

Committee Clerk Signature

Mary Brucher

Explanation or reason for introduction of bill/resolution:

A Bill relating to the business or investment income tax exemption for the purpose, lease, or rehabilitation of property within a renaissance zone.

Minutes:

Attached testimony #1

Chairman Belter: Opened hearing on HB 1166. Will the clerk read the title please?

Title read.

Chairman Belter: I will begin taking testimony in support of 1166 while we wait for Representative Keiser.

Representative Keiser: Introduced bill. See attached testimony #1. I am here today in support of HB 1166. It is a bill dealing with the investment income tax exemption for the purchase, lease, or rehabilitation of a property within a renaissance zone. I was the prime sponsor on the creation of the renaissance zone. The renaissance has had a lot of success in various communities within our state. However, the renaissance zone periodically needs to be reconsidered and examined to determine whether or not there should be adjustments to the developments that occur within a renaissance zone. There are really two parts to the renaissance zone that are of concern from my perspective. One is that there is a property tax exemption associated with renaissance zone projects. In reality property taxes are a local factor. The local community if they should choose to give a property tax exemption the impact of that exemption primarily falls on the local political subdivision. That's not so much of a state issue. There's also the potential for local communities to make motions relative to state income tax. That now becomes a state of North Dakota issue because as we grant state income tax exemptions that affects our general fund and all taxpayers in the state, not just the local community. When we created the renaissance program it was designed in a manner to be very flexible because we really didn't know what it would require to be successful. We gave local political subdivisions a great deal of flexibility. We put in the supervision oversight at the state level to review the projects. We put in a requirement eventually that communities report the financial values given to these various programs. There has occurred in recent times two developments. Referred to attached testimony #1. The first project located on Broadway in Bismarck is called the Pine Project. I believe it is now five projects that have come through the

renaissance zone which have recognized the opportunity for a new business model. We have a law firm, Blarney Stone, Pine Project, etc. that uses the business model. The business model has developers and a project (Limited Liability Corporation). As a developer there are certain incentives associated with it. You then come back and lease under a different corporate structure, basically from yourself. In the case of the attorneys I believe there were three attorneys that were the partners and there were other partners in the firm but they did the development as an LLC then came back and leased from themselves. In this bill we placed on line 12 of the attachment, the actual amount that a taxpayer may exempt from tax under this subsection for any taxable year is \$500,000. The maximum you can access is \$500,000. That may be too high or not high enough and that's where I think you need to have input from the folks throughout the state. This is state income tax we are talking about. It doesn't seem to me that you should be able to rent a relatively small space and gain 100% access to income tax credit although that's what the structure allows. The second part of this bill is on subsection b starting on line 16 regarding property taxes. Although it's a local issue I think we have to give local subdivisions some direction from a policy standpoint. The property tax credit has to be proportional of the new construction. I believe the legislature has a responsibility to consider again where we started, where we move to, and where we should be on these issues.

Chairman Belter: The \$500,000 limit on state income tax, is that just a number you came up with?

Representative Keiser: We had several meetings with the tax department and that was really their number. They thought that was a number we could work with; note that is per year.

Representative Froseth: That's \$500,000 for five years?

Representative Keiser: That is correct. The renaissance zone has been a great program. It has had a lot of success. Everyone sitting here may at some point enjoy a lot of the restaurants downtown in Bismarck and other communities and developments. We want to be careful not to hinder the potential we have but on the other hand we can't allow things to get out of hand.

Representative Kelsh: I'm reading subsection B and I don't see any language in there regarding property tax exemption. It looks to me that it relates to income exempt from the tax under the subsection.

Representative Keiser: You're right. The tax department just said that if you want to limit that we'll have to make a change. That's a local issue but this committee should just have a discussion if it's appropriate to give 100% for 30.

Representative Kelsh: I remember when the original renaissance zone legislation was passed and I thought you had to have a project that covered 50% of the expansion or remodel in order to qualify for any property tax credit. Did that change?

Representative Keiser: No.

Chairman Belter: The \$500,000 limit would pertain to an individual that may be the developer but could it also be the renter?

Representative Keiser: That is correct. If you look at this document I handed out there are five entities qualifying for a tax credit. Corporately they are all different however they are all held by the same individual. The language brings it back to one person no matter how many entities they may own the maximum they can qualify in any given year is \$500,000.

Chairman Belter: That would pertain to just a renter of these properties?

Representative Keiser: A lessor.

Representative Marie Strinden: Are there projects that have applied for renaissance zone but can't get it because of funding and would the savings on income tax exemption be given to other projects?

Representative Keiser: In my experience in a renaissance zone there hasn't been a project that has been denied.

Chairman Belter: Any other testimony in support of 1166? Any opposition to 1166? Any neutral testimony? We have a question for the tax department.

Vice Chairman Headland: Could you provide us with the total amount of income tax credits that have been provided to renaissance zone projects throughout its history?

Joseph Becker, Auditor with State Tax Commissioner: Yes we can provide you with this. The programs have exemptions from income which will translate into a reduction in tax. There are also tax credits which are a dollar for dollar offset against the tax. The program has a couple things going on in it. Looking back over the entire history of the program since 1999 through the returns we have through 2011 the estimated state general fund revenue reduction has been about \$26 million in total. In 2011 it was about \$3.6 million. The program is not only income tax program; it also offsets the general fund portion of the financial institution tax.

Chairman Belter: The \$26 million is actually the tax savings?

Joseph Becker: That is correct.

Chairman Belter: Any other questions of the tax department?

Joseph Becker: I just wanted to address some of the other questions. In listening to Representative Keiser we didn't understand that he wanted to limit that to property taxes so that provision would have to be moved to another section of the renaissance zone language. Also you had asked about the application of the \$500,000 limitation whether that applies to lessors and it doesn't. It would have to apply to any taxpayer that's deriving benefits from the business and income exemption.

Chairman Belter: Any renaissance project that is approved has a maximum five year life?

Joseph Becker: Leaving the property tax out for a moment and just talking about the income and financial institution tax breaks, yes there is a five year exemption so you get it in each of the five years of the program.

Chairman Belter: But the property tax is local discretion?

Joseph Becker: That is true but I believe there is an agreement between the states and the cities relative to that so they bring the property tax into play over the five year period. They can limit it to 10%, 50%, or 100% it's entirely up to them how they want to do that.

Vice Chairman Headland: Are these tax credits transferrable?

Joseph Becker: Let's take an example of me building a building downtown qualify for the business income exemption because I'm going to use that building to put a restaurant in then I would qualify for the exemption on my tax return. If two years from now during the five year exemption period I decide to sell that building the remaining exemption would move to the new owner.

Representative Kelsh: A municipality does have the option of limiting the amount of property tax credit that is granted on any project?

Joseph Becker: Yes that is entirely within their power.

Representative Kelsh: Does the state board of equalization have to give an okay to that as well?

Joseph Becker: No they are not involved in that process.

Representative Kelsh: I'm reading under 40.63.05 property tax exemptions it says the state board of equalization may grant a partial or complete exemption from taxation.

Joseph Becker: That is correct. We are talking about public utilities because they have to go through the board of equalization to get an exemption. That was added a session or two ago to make sure it was clear.

Chairman Belter: Any other questions of the tax department? Any other testimony on 1166? If not we will close the hearing on 1166.

2013 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1166
January 30, 2013
Job 18021

Conference Committee

Kristi Hetzler

Explanation or reason for introduction of bill/resolution:

A bill relating to the business or investment income tax exemption for the purpose, lease, or rehabilitation of property within a renaissance zone.

Minutes:

Chairman Belter. Opens HB 1166, is there an amendment to it?

Rep Hatlestad: Motion to move the amendments.

Rep Drovdal: Second.

Rep Dockter: Do Pass as Amended.

Rep Owens: Second.

Yes: 14

No: 0

Absent: 0

Carried by: Rep. Strinden

FISCAL NOTE
Requested by Legislative Council
01/31/2013

Amendment to: HB 1166

- 1 A. **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.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

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

	2011-2013 Biennium	2013-2015 Biennium	2015-2017 Biennium
Counties			
Cities			
School Districts			
Townships			

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

Engrossed HB 1166 will place new limitations on the amount of business or investment income that may be exempted for income and financial institution tax purposes under the Renaissance Zone Program.

- 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.*

Section 1 of House Bill 1166 provides for two new limitations on the amount of the business and investment income exemption allowed for income and financial institution tax purposes under the Renaissance Zone Program. In general, the income exemption is allowed for purchasing, leasing, or making improvements to residential or commercial real estate in a renaissance zone that is used for business or investment purposes. Current law allows up to 100 percent of the business or investment income attributable to the zone project location to be exempted from tax. One limitation will apply to a project consisting of an expansion of an existing building used for business or investment purposes and will limit the exempt income to the portion attributable to the expansion based on the added square footage. The other limitation will place a ceiling of \$250,000 on the amount of income from all zone project interests that a taxpayer may exempt in any year. The new limitations will apply to new projects approved on or after August 1, 2013. If enacted, Engrossed House Bill 1166 may reduce the amount of income that would otherwise be exempted from tax under existing law, resulting in decreased revenue loss to the general fund for the 2013-2015 biennium. The amount of that decrease cannot be determined because it is dependent on the nature and number of future projects and the amount of income associated with those projects, all of which are unknown.

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- 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

Telephone: 328-3402

Date Prepared: 02/01/2013

FISCAL NOTE
Requested by Legislative Council
01/11/2013

Bill/Resolution No.: HB 1166

- 1 A. **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.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
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- 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

Telephone: 328-3402

Date Prepared: 01/19/2013

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Title.02000

Prepared by the Legislative Council staff for
House Finance and Taxation Committee
January 30, 2013

1/31/13
TD

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1166

Page 1, line 13, replace "fine hundred" with "two hundred fifty"

Renumber accordingly

Date: 1 30-13
Roll Call Vote #: 1

2013 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1166

House Finance and Taxation Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By Rep. Hatlestad Seconded By Rep. Drovdal

Representatives	Yes	No	Representatives	Yes	No
Chairman Wesley Belter			Rep. Scot Kelsh		
Vice Chairman Craig Headland			Rep. Steve Zaiser		
Rep. Matthew Klein			Rep. Jessica Haak		
Rep. David Drovdal			Rep. Marie Strinden		
Rep. Glen Froseth					
Rep. Mark Owens					
Rep. Patrick Hatlestad					
Rep. Wayne Trottier					
Rep. Jason Dockter					
Rep. Jim Schmidt					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

Voice Vote

Motion carried.

Date: 1-30-13
 Roll Call Vote #: 2

2013 HOUSE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. 1166

House Finance and Taxation Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By Rep. Dockter Seconded By Rep. Owens

Representatives	Yes	No	Representatives	Yes	No
Chairman Wesley Belter	✓		Rep. Scot Kelsh	✓	
Vice Chairman Craig Headland	✓		Rep. Steve Zaiser	✓	
Rep. Matthew Klein	✓		Rep. Jessica Haak	✓	
Rep. David Drovdal	✓		Rep. Marie Strinden	✓	
Rep. Glen Froseth	✓				
Rep. Mark Owens	✓				
Rep. Patrick Hatlestad	✓				
Rep. Wayne Trottier	✓				
Rep. Jason Dockter	✓				
Rep. Jim Schmidt	✓				

Total (Yes) 14 No 0

Absent 0

Floor Assignment Rep. Strinden

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

REPORT OF STANDING COMMITTEE

HB 1166: Finance and Taxation Committee (Rep. Belter, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1166 was placed on the Sixth order on the calendar.

Page 1, line 13, replace "fine hundred" with "two hundred fifty"

Renumber accordingly

2013 SENATE FINANCE AND TAXATION

HB 1166

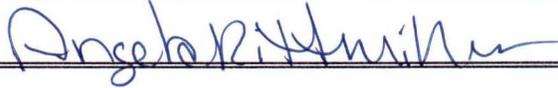
2013 SENATE STANDING COMMITTEE MINUTES

Senate Finance and Taxation Committee Lewis and Clark Room, State Capitol

HB 1166
3/19/2013
Job Number 20169

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A BILL for an Act to amend and reenact subsection 2 of section 40-63-04 of the North Dakota Century Code, relating to the business or investment income tax exemption for the purchase, lease, or rehabilitation of property within a renaissance zone; and to provide an effective date.

Minutes:

Testimony Attached

Chairman Cook opened the hearing on HB 1166.

Representative Keiser introduced HB 1166.

Senator Triplett - You indicated that your original bill in section 1 sub 2a had a limitation of \$500,000 and the House amended it to \$250,000 and you suggested that you wouldn't mind if we amended it further. Do you have a different idea now of what the appropriate amount would be?

Representative Keiser - I'm trying to think of it as a business person. If you gave me \$100,000 a year tax credit that would be pretty nice.

Chairman Cook - How many years do you have to carry that credit out?

Representative Keiser - I think 5.

Chairman Cook - So you could take a full half million dollar credit over 5 years?

Representative Keiser - Correct

Chairman Cook - If you invest \$5 million you will only get \$500,000 worth of credit.

Ellen Huber, Business Development and Communications Director for the City of Mandan - See attached testimony 1.

Senator Triplett - I'm a little bit confused. Representative Keiser seemed to be implying, unless I misunderstood him, that this particular project that he described, the high end condominium project in Bismarck was worth in tax relief to the developer \$500,000 a year

and you're suggesting that the \$500,000 is really just an amount of income that translates to \$20,000 in tax credits. Are you saying different things, are you interpreting it differently or did something else change on the House side that we haven't looked at?

Ellen Huber - I'm not sure when Representative Keiser was speaking if the \$500,000 was the actual amount of exemption that that particular project would have received or if that was the income subject to exemption and perhaps representatives from the Department of Commerce or the Tax Department may be able to speak specifically to that project. (19:18)

Cal Klewin, Economic Development Association of North Dakota - The renaissance zones have been a very important component for development within the communities of all sizes in North Dakota. We ask that you maybe consider restoring it back to the \$500,000. (20:49)

Chairman Cook - I'm reading the fiscal note and the first thing I want to ask is, down at the end of this fiscal note, engrossed HB 1166 may reduce the amount of income that would otherwise be exempted from tax under existing law resulting in decreased revenue loss. That would be like tax collections, that's a good thing right?

Joe Becker, Tax Department - It's putting a ceiling on the revenue loss potential, yes.

Chairman Cook - So the state has less revenue loss.

Joe Becker - That's correct.

Chairman Cook - So you are saying that if we pass this bill that some people, because it's clear that it's effective on August 1, 2013, is that existing renaissance zone projects could be affected by this bill?

Joe Becker - No, it's for new projects on or after August 1, 2013.

Chairman Cook - When I read decreased revenue loss, it's a decrease loss in revenue if we pass this bill?

Joe Becker - It's a potential.

Chairman Cook - Explain to us exactly how this program would work.

Joe Becker - The provision that you are looking at here on lines 7-21 is just part of the renaissance zone program provisions. This particular subsection is the business income or investment income exemption. In other words, it's going to take a business for example that would qualify, it's going to look at their net income and give them a deduction against that.

Joe Becker went on to give an explanation of the bill. (24:01)

Chairman Cook closed the hearing on HB 1166.

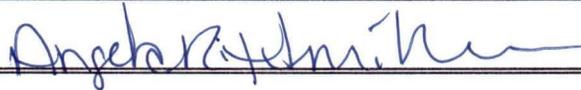
2013 SENATE STANDING COMMITTEE MINUTES

Senate Finance and Taxation Committee Lewis and Clark Room, State Capitol

HB 1166
3/26/2013
Job Number 20452

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

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Minutes:

Chairman Cook opened discussion on HB 1166.

Chairman Cook - I think most of the testimony indicated they would like to see it go back to \$500,000 considering that is where it was at when I put my name of the bill. I wouldn't mind seeing that happen either. I certainly don't want to move it the other direction.

Senator Dotzenrod - I visited with Representative Keiser after the hearing and I asked him it's kind of unusual to have a bill amended from a higher level down to a lower level and then have the sponsor of the bill come in and say, usually they are arguing they want to go back to where the bill was introduced and he was arguing the other way. He basically told me that at the time he had the bill drafted there was something that was a misunderstanding. He felt that the \$500,000 was kind of in a different world from what he was thinking of so he was okay with \$100,000. Did you have that discussion with him?

Chairman Cook - No. I like the \$500,000 and I'm sure if that's what we do it will end up in a conference committee and then we can have our discussion.

Senator Triplett - I have the same notes. Per Keiser, original bill was \$500,000 he now says \$100,000 per year should be the max. I have the sense that he was kind of mistaken about the drafting of his own bill.

Chairman Cook - My name is on the bill also.

Vice Chairman Campbell - I'll move we amend it back up to \$500,000.

Seconded by **Senator Burckhard**.

Verbal Vote on Amendment 5-2-0

Senator Burckhard - I'll move a **Do Pass**.

Seconded by **Senator Oehlke**.

Senator Dotzenrod - Based on the comments from the bill sponsor that he thought we would be fine with \$100,000 I think I'm going to vote for the bill. I do think that this idea that it fits in with what the renaissance zone is doing and I think that with \$500,000 that is a number that is probably high but I think I will vote for the bill.

Chairman Cook - Renaissance zone has got a long history since 1999. I was here when the first renaissance bill passed for Fargo and I think it's been a very effective tool. I think what generated this discussion was that maybe it got a little bit creative in a couple examples. I would look at it as a bill just to protect the integrity of the renaissance zone and keep it as a tool in the toolbox for local governments.

Senator Triplett - Since this is your bill do you agree with the analysis from Joe Becker that this bill relates only to new projects and doesn't look backwards in time?

Chairman Cook - Yes I do. Dee, I want to ask you a question. I just want to make sure, Senator Triplett asked the question, I certainly agree that was the intent but I am remembering now some conversation about whether or not this bill as written would affect existing renaissance zones.

Donnita Wald, Tax Department - You are correct it does not affect existing zones, only for those projects approved after July 31, 2013.

Roll Call Vote 7-0-0

Carried by **Chairman Cook**.

FISCAL NOTE
Requested by Legislative Council
01/31/2013

Amendment to: HB 1166

- 1 A. **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.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
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Revenues						
Expenditures						
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	2011-2013 Biennium	2013-2015 Biennium	2015-2017 Biennium
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Cities			
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- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

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Name: Kathryn L. Strombeck

Agency: Office of Tax Commissioner

Telephone: 328-3402

Date Prepared: 02/01/2013

FISCAL NOTE
Requested by Legislative Council
01/11/2013

Bill/Resolution No.: HB 1166

- 1 A. **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.*

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Section 1 of House Bill 1166 provides for two new limitations on the amount of the business and investment income exemption allowed for income and financial institution tax purposes under the Renaissance Zone Program. In general, the income exemption is allowed for purchasing, leasing, or making improvements to residential or commercial real estate in a renaissance zone that is used for business or investment purposes. Current law allows up to 100 percent of the business or investment income attributable to the zone project location to be exempted from tax. One limitation will apply to a project consisting of an expansion of an existing building used for business or investment purposes and will limit the exempt income to the portion attributable to the expansion based on the added square footage. The other limitation will place a ceiling of \$500,000 on the amount of income from all zone project interests that a taxpayer may exempt in any year. The new limitations will apply to new projects approved on or after August 1, 2013. If enacted, House Bill 1166 may reduce the amount of income that would otherwise be exempted from tax under existing law, resulting in decreased revenue loss to the general fund for the 2013-2015 biennium. The amount of that decrease cannot be determined because it is dependent on the nature and number of future projects and the amount of income associated with those projects, all of which are unknown.

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

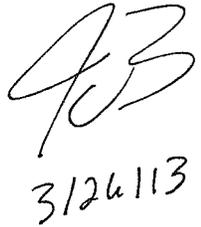
Telephone: 328-3402

Date Prepared: 01/19/2013

13.8183.02001
Title.03000

Adopted by the Finance and Taxation
Committee

March 26, 2013



Handwritten signature and date: 3/26/13

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1166

Page 1, line 13, replace "two" with "five"

Page 1, line 13, remove "fifty"

Renumber accordingly

Date: 3-26-13
Roll Call Vote #: 1

2013 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1166

Senate Finance & Taxation Committee

Check here for Conference Committee

Legislative Council Amendment Number 13.8183.02001 Title 03000

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By Senator Campbell Seconded By Senator Burckhard

Senators	Yes	No	Senator	Yes	No
Chairman Dwight Cook			Senator Jim Dotzenrod		
Vice Chairman Tom Campbell			Senator Connie Triplett		
Senator Joe Miller					
Senator Dave Oehlke					
Senator Randy Burckhard					

Total (Yes) 5 No 2

Absent 0

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:
Verbal vote to increase back to \$500,000

Date: 3-26-13
 Roll Call Vote #: 2

**2013 SENATE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. 1166**

Senate Finance & Taxation Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By Senator Burckhard Seconded By Senator Oehlke

Senators	Yes	No	Senator	Yes	No
Chariman Dwight Cook	X		Senator Jim Dotzenrod	X	
Vice Chairman Tom Campbell	X		Senator Connie Triplett	X	
Senator Joe Miller	X				
Senator Dave Oehlke	X				
Senator Randy Burckhard	X				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Senator Cook

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

REPORT OF STANDING COMMITTEE

HB 1166, as engrossed: Finance and Taxation Committee (Sen. Cook, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1166 was placed on the Sixth order on the calendar.

Page 1, line 13, replace "two" with "five"

Page 1, line 13, remove "fifty"

Renumber accordingly

2013 CONFERENCE COMMITTEE

HB 1166

2013 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1166
April 16, 2013
Job #21163

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A Bill relating to the business or investment income tax exemption for the purchase, lease, or rehabilitation of property within a renaissance zone.

Minutes:

No attachments

Chairman Owens: The house sent this over at \$250,000. I think the only thing difference in the bill is the \$250,000 versus the \$500,000 for the limitation per tax payers for maximum exempt taxes. Was there a reason the senate felt \$500,000 was more appropriate?

Senator Cook: You can start by looking at the two sponsors. There is a lot of history here and there was a lot of time and effort put in during the interim committee to look at the existing renaissance law that's been in place for some time now. There were some concerns that there was some creative financing done that was probably allowing people who were using renaissance to achieve a much greater benefit from it than what most of us who have been involved in renaissance had hoped for so we spent a lot of time trying to find a way to rein it in a little bit. We agreed that this bill was a tool to enable the renaissance policies to continue to be a viable policy for cities but to rein it in a little bit. When Representative Kaiser introduced this bill he recommended lowering it to \$250,000 but when he testified on it in the senate he suggested we lower it even more to \$125,000. I've never seen a sponsor come and introduce the bill and then ask to move it in that direction a little further. We put it back to \$500,000. Renaissance has been a very effective tool although it may have been abused a bit so it needs to be reined in a little bit. I think this is a good step and I think we should put it back to \$500,000 and keep our eyes on it. I think moving it to \$250,000 or lower probably takes us too far and could ultimately take away any real benefits of a renaissance project.

Chairman Owens: The House committee was struggling with the same things you just mentioned. We realized there was no limit right now in law. They have managed to stack the benefits one on top of the other to multiply the effect which seems unnecessary.

Senator Cook: I don't think we are allowing them to stack the \$500,000. I think the \$500,000 is a cap for taxpayers. The limitation in this subdivision applies to the sum of the exact income derived from the taxpayers businesses and investments. We've eliminated the stacking opportunity here.

Chairman Owens: That was a concern.

Senator Cook: If that wasn't there then I could see where the \$250,000 would be a proper level.

Senator Triplett: I was in favor of Representative Kaiser's reduction to \$100,000.

Senator Campbell: I am in favor of putting the new limit of \$500,000. The renaissance projects work. In this day and age with the cost I think \$100,000 with different projects doesn't go as far as it used to. I don't have a big problem with the \$500,000 to \$250,000 but I don't think \$100,000 is appropriate.

Chairman Owens: That's \$500,000 per year. That's a lot of money.

Representative Schmidt: \$500,000 times 5 is \$2.5M and at this point in time I would be more in favor of \$250,000.

Senator Triplett: We didn't have much testimony on the senate side. Was there a serious study done on this topic?

Chairman Owens: I had asked John Walstad to look into something for me. I may suggest getting all the testimony before we make a decision. Senator Cook, that would eliminate stacking or doubling up.

Representative Zaiser: I want to make sure that if we get the minutes we also get the rationale from Representative Kaiser as to why they wanted to bring it down to \$125,000.

Senator Campbell: Somebody in Bismarck took advantage of it which is why he wanted to lower it.

Chairman Owens: I want to verify this on my end because I was reading this wrong. I will close the hearing now and we will reschedule.

2013 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1166
April 17, 2013
Job #21218

Conference Committee

Committee Clerk Signature

Mary Brucker

Minutes:

No attachments.

Representative Owens: Some of the information I received since we last met was from the tax department. In the case of c-corps you could still get a little stacking but the language in here would take care of all the LLC issues.

Representative Zaiser: Made a motion Senate Accede to House Amendments which is \$250,000 maximum.

Representative Schmidt: Seconded.

ROLL CALL VOTE: YES 4 NO 1 ABSENT 1
MOTION FAILED

Representative Owens: We could have another vote.

Representative Schmidt: Made a motion for House Accede to Senate amendments.

Senator Cook: Seconded.

ROLL CALL VOTE: YES 6 NO 0 ABSENT 0
MOTION CARRIES.

Meeting adjourned.

FISCAL NOTE
Requested by Legislative Council
03/26/2013

Amendment to: HB 1166

- 1 A. **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.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

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

	2011-2013 Biennium	2013-2015 Biennium	2015-2017 Biennium
Counties			
Cities			
School Districts			
Townships			

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

Engrossed HB 1166 with Senate Amendments will place new limitations on the amount of business or investment income that may be exempted for income and financial institution tax purposes under the Renaissance Zone Program.

- 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.*

Section 1 of Engrossed House Bill 1166 with Senate Amendments provides for two new limitations on the amount of the business and investment income exemption allowed for income and financial institution tax purposes under the Renaissance Zone Program. In general, the income exemption is allowed for purchasing, leasing, or making improvements to residential or commercial real estate in a renaissance zone that is used for business or investment purposes. Current law allows up to 100 percent of the business or investment income attributable to the zone project location to be exempted from tax. One limitation will apply to a project consisting of an expansion of an existing building used for business or investment purposes and will limit the exempt income to the portion attributable to the expansion based on the added square footage. The other limitation will place a ceiling of \$500,000 on the amount of income from all zone project interests that a taxpayer may exempt in any year. The new limitations will apply to new projects approved on or after August 1, 2013. If enacted, Engrossed House Bill 1166 with Senate Amendments may reduce the amount of income that would otherwise be exempted from tax under existing law, resulting in decreased revenue loss to the general fund for the 2013-2015 biennium. The amount of that decrease cannot be determined because it is dependent on the nature and number of future projects and the amount of income associated with those projects, all of which are unknown.

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Name: Kathryn L. Strombeck

Agency: Office of Tax Commissioner

Telephone: 328-3402

Date Prepared: 03/26/2013

FISCAL NOTE
Requested by Legislative Council
01/31/2013

Amendment to: HB 1166

- 1 A. **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.*

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Revenues						
Expenditures						
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Counties			
Cities			
School Districts			
Townships			

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Name: Kathryn L. Strombeck

Agency: Office of Tax Commissioner

Telephone: 328-3402

Date Prepared: 02/01/2013

FISCAL NOTE
Requested by Legislative Council
01/11/2013

Bill/Resolution No.: HB 1166

- 1 A. **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.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

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

	2011-2013 Biennium	2013-2015 Biennium	2015-2017 Biennium
Counties			
Cities			
School Districts			
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Name: Kathryn L. Strombeck

Agency: Office of Tax Commissioner

Telephone: 328-3402

Date Prepared: 01/19/2013

2013 HOUSE CONFERENCE COMMITTEE ROLL CALL VOTES

Committee: Finance + Tax

Bill/Resolution No. 1166 as (re) engrossed

Date: 4-17-13

Roll Call Vote #: 2

- Action Taken**
- HOUSE accede to Senate amendments
 - HOUSE accede to Senate amendments and further amend
 - SENATE recede from Senate amendments
 - SENATE recede from Senate amendments and amend as follows

House/Senate Amendments on HJ/SJ page(s) 1130 ..

Unable to agree, recommends that the committee be discharged and a new committee be appointed

((Re) Engrossed) _____ was placed on the Seventh order of business on the calendar

Motion Made by: Rep. Schmidt Seconded by: Senator Cook

Representatives	4/17	Yes	No		Senators	4/17	Yes	No
Chairman Owens		✓			Senator Campbell		✓	
Rep. Schmidt		✓			Senator Cook		✓	
Rep. Zaiser		✓			Senator Triplett		✓	

Vote Count Yes: 6 No: 0 Absent: 0

House Carrier _____ Senate Carrier _____

LC Number _____ of amendment

LC Number _____ of engrossment

Emergency clause added or deleted

Statement of purpose of amendment

REPORT OF CONFERENCE COMMITTEE

HB 1166, as engrossed: Your conference committee (Sens. Campbell, Cook, Triplett and Reps. Owens, Schmidt, Zaiser) recommends that the **HOUSE ACCEDE** to the Senate amendments as printed on HJ page 1130 and place HB 1166 on the Seventh order.

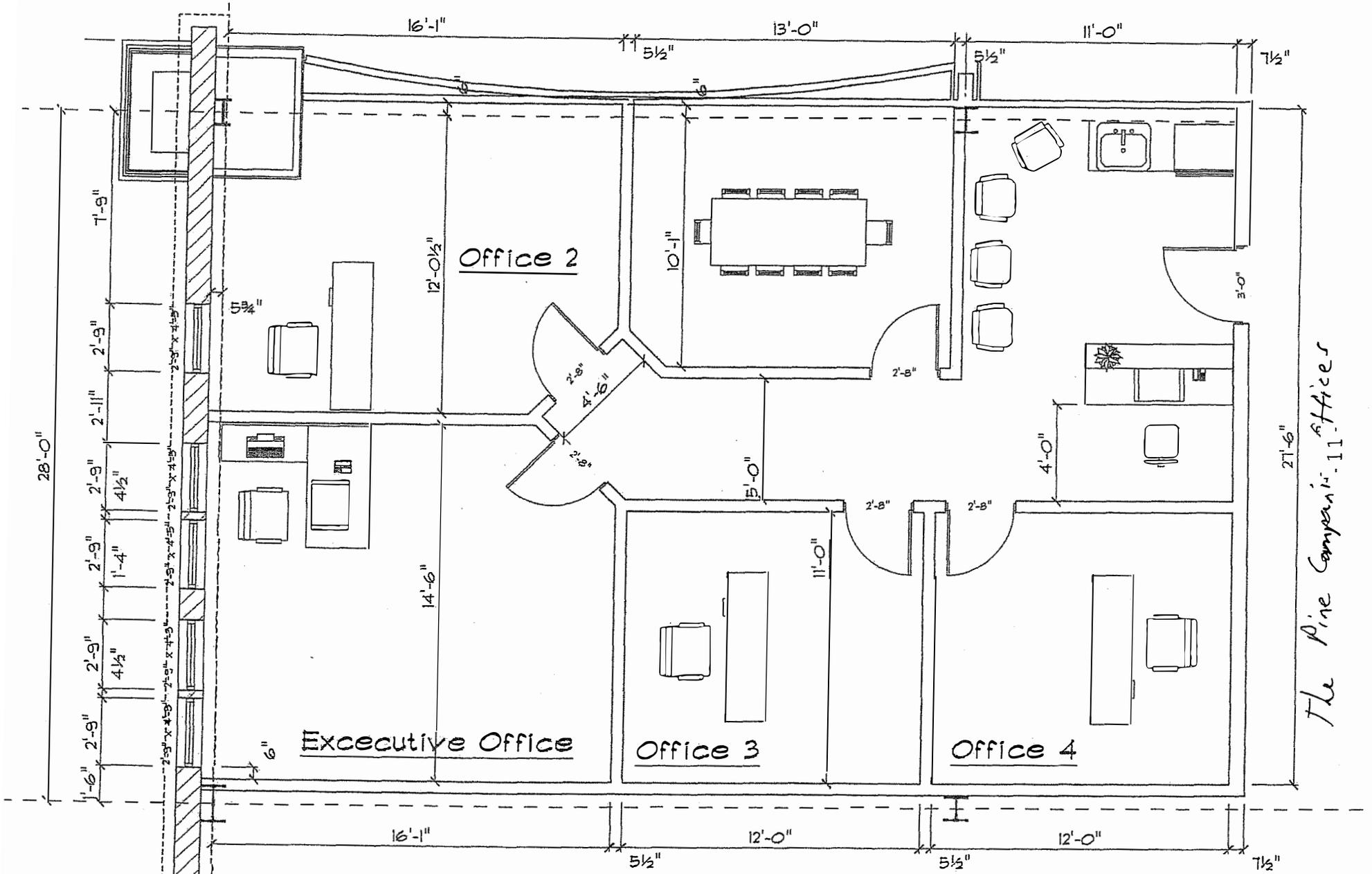
Engrossed HB 1166 was placed on the Seventh order of business on the calendar.

2013 TESTIMONY

HB 1166

**BISMARCK RENAISSANCE ZONE AUTHORITY
STAFF REPORT**

BACKGROUND:		
Title: Various Pine companies; (Pine Properties, LLC; Pine Investment Company, LLC; Pine Enterprises, LLC; Pine Petroleum, Inc.; and Pine Oil Company) - Lease		
Status: Renaissance Zone Authority	Date: March 20, 2012	
Street Address: 100 West Broadway Avenue	Legal Description: Lots 1-24, Block 58, Original Plat	
Project Type: Lease	Renaissance Zone Block Number: Block 2B	
Applicant: Pine companies including: Pine Properties, LLC; Pine Investment Company, LLC; Pine Enterprises, LLC; Pine Petroleum, Inc.; and Pine Oil Company	Owner: Pine Properties, LLC	
Project Description: The applicant is proposing to lease office space in the Renaissance Zone. The owner of the building, Pine Properties, LLC, is currently constructing the building as a Renaissance Zone project that was approved in July 2011. Completion of the building is scheduled for April 2013.		
PROJECT INFORMATION:		
Parcel Size: 90,000 square feet	Building Floor Area: 150,000 square feet +/-	Certificate of Good Standing: Received
Lease Area: 1,250 square feet	Estimated Property Tax Benefit: N/A	Estimated Income Tax Benefit: Pine Petroleum, Inc.-\$509,880 Pine Investment Co., LLC-\$351,020 Pine Oil Company-\$16,485 Pine Enterprises, LLC-\$0 Pine Properties, LLC-\$0 \$877,385 over 5 years (combined)
PROJECT REVIEW GUIDELINES:		
High Priority Land Use: Yes – office	Targeted Area: Yes – vacant space	Public Space/Design: No
Capital Investment: N/A	New/Expanding Business: Yes – expanding businesses	Historic Property: No-not in historic district
FINDINGS:		
<ol style="list-style-type: none"> 1. The proposed use is consistent with the City’s Renaissance Zone Development Plan. 2. The lease will be for expanding businesses locating in the Renaissance Zone. 3. The applicant is not required to make a financial investment in the property because the building has previously been approved as a Renaissance Zone project (new construction). 4. The building is currently under construction as a separate Renaissance Zone project. 5. The project completion date is projected for April 2013. 		
<i>continued...</i>		



Pine Properties Office's 1127.5 sqft Inside sq Footage

The Pine Company's Offices

CITY DEPARTMENTS

ADMINISTRATION	667-3215
ASSESSING/BUILDING INSPECTION	667-3230
BUSINESS DEVELOPMENT	667-3485
CEMETERY	667-6044
ENGINEER/PLANNING & ZONING	667-3225
FINANCE	667-3213
FIRE	667-3288
HUMAN RESOURCES	667-3217
LANDFILL	667-0184
MUNICIPAL COURT	667-3270
POLICE	667-3455
PUBLIC WORKS	667-3240
WASTEWATER TREATMENT	667-3278
SPECIAL ASSESSMENTS	667-3271
UTILITY BILLING	667-3219
WATER TREATMENT	667-3275



CITY OF MANDAN

MANDAN CITY HALL - 205 2nd Avenue NW
MANDAN, NORTH DAKOTA 58554
701-667-3215 • FAX: 701-667-3223 • www.cityofmandan.com

Testimony for Senate Finance & Taxation Committee HB1166 — A Bill to Reduce the Renaissance Zone State Income Tax Benefit March 19, 2013

Chairman Cook and members of the committee, I am Ellen Huber, Business Development and Communications Director for the City of Mandan. My duties include management of Mandan's Renaissance Zone. I am here to testify in support of HB1166 as originally introduced, but in opposition to the amended version as it crossed over from the House.

The City of Mandan recognizes the merits of placing a limit on the amount of business income that can be exempted by a taxpayer for a Renaissance Zone project involving the purchase with improvement, rehabilitation or new construction of a building or lease of a building renovated or constructed as a Renaissance Zone project. The cap was originally proposed at \$500,000 of income per year and was amended by the House to \$250,000 per year.

The \$500,000 limit was reasonable. The proposed \$250,000 limit may unintentionally squelch in investment in extraordinary projects needed in our communities and downtowns. Examples of projects in Mandan that may not have materialized to the extent that they did with this limit in place are:

- Starion Financial's 2006 investment of \$1 million into a 3,000 sf expansion that added about 22 employees to downtown Mandan.
- N.D. Guaranty & Title's 2007 investment of \$600,000 into the renovation of the former American Legion building, again adding several employees to downtown Mandan.
- Grube Retina Clinic's investment of \$145,000 into leasehold improvements in 5,500 square feet of lease space in a 10,000 square-foot building worth only \$79,000 in its entirety, again bringing professional jobs and clients from 200 miles away to downtown Mandan.

Mandan has more buildings and properties along Main and First Street that are going to take significant investment. Revitalizing our community in the wake of a underground diesel fuel spill from the railroad has been challenging enough. We would surely like to see the Renaissance Zone tool remain as effective as possible at helping to extract further investment in downtown properties through the 15-year window that the program can be in place in Mandan. We are in our eighth year. Cities like Fargo and Bismarck established Renaissance Zones ahead of us and have been able to take more full advantage of the program without the proposed limitation. It is cities like Mandan and other smaller communities that may experience a more dulled impact on downtown revitalization if a cap at too restrictive a level is put in place now.

I asked the Renaissance Zone manager at the N.D. Department of Commerce, Andrea Holl Pfennig, for insight as to how many RZ projects across North Dakota in the past would have reached or exceeded this limit based on estimates provided in applications. She indicated in an e-mail response that the new limit likely would have been exceeded by 8 out of 13 bank projects and 77 out of 1,171 projects.

HB1166 — Testimony for Senate Finance & Taxation Committee
City of Mandan Business Development
March 19, 2013

Please continue to encourage investment in our communities to extend the useful life of downtown properties and in maintaining the Renaissance Zone program as an effective business recruitment tool. We urge you to amend the bill to restore the limit on taxable income subject to exemption to the \$500,000 mark as originally proposed. This would allow for an exemption of approximately \$20,000 per taxpayer. This would still be well below the state angel fund investment credit of \$45,000 per year.

Investment in the Renaissance Zone is an investment in our Main Streets, the commercial buildings within our communities, jobs and new and expanding businesses. It's a local investment worth enticing.

Thank you for your consideration. I will be happy to answer any questions you might have.