17.0383.02000

FISCAL NOTE
Requested by Legislative Council
01/10/2017

Bill/Resolution No.: HB 1285

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.*

	2015-2017 Biennium		2017-2019 Biennium		2019-2021 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.*

	2015-2017 Biennium	2017-2019 Biennium	2019-2021 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).*

HB 1285 provides for an optional residential property tax freeze for qualifying residents age 65 and older, who are permanently disabled, or a qualified disabled veteran.

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 HB 1285 allows homeowners who qualify for the homestead or disabled veteran property tax credit programs to choose to freeze their true and full value at the current assessment level. If enacted, HB 1285 will shift some property tax burden onto other property owners in the jurisdiction by freezing the value of the property owners that qualify and choose the valuation freeze. The bill will also provide some restriction on the level of growth of the homestead credit and disabled veterans credit programs, which are state paid property tax credits. The amount of the shift of property tax burden, and the amount of savings from restricted growth in the homestead and disabled veteran property tax credit programs cannot be determined because the provisions of the bill are optional.

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

Name: Kathryn L. Strombeck

Agency: Office of Tax Commissioner

Telephone: 701.328.3402

Date Prepared: 01/17/2017

2017 HOUSE FINANCE AND TAXATION

HB 1285

2017 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1285
1/18/2017
27062

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature	Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to an optional residential property tax freeze for owners who are disabled or age sixty-five or older.

Minutes: Attachment #1

Chairman Headland: Opened hearing.

Representative Jim Kasper: Introduced bill. This bill is a property tax shift; it is not a property tax increase or decrease. It simply shifts who is responsible to pay property taxes. Persons age 65 or older, disabled veterans, and permanently and totally disabled citizens will have their true and full valuation frozen against the person's primary residence if they are living in a residence. The income qualifier is $42,000 or below of income from all sources. The bill requires that the citizen must be living in the primary residence. If they sell their home or move out of their home and not in a confined residence for health purposes, then they would lose their freeze. The number one concern of my constituents is property tax increases. This bill is to help our seniors and those that are disabled to be able to stay in their home. I hope you will have a good discussion on this. Do we want to focus on helping those individuals who are less fortunate to be able to stay in their homes and reduce their costs?

Chairman Headland: How does this fit in with our current homestead property tax exemption?

Representative Jim Kasper: It sort of mirrors our homestead property tax credit. It wouldn't impact the homestead tax credit at all, it would just freeze the taxable valuation so their property taxes won't go up.

Representative Steiner: Does the bill state an individual who doesn't make $42,000 and is permanently and totally disabled is eligible or they are age sixty-five?

Representative Jim Kasper: That is correct. If you are disabled at age 30 or a disabled veteran at age 30 then you would qualify. If you are of normal health, then once you reach age 65 you would qualify if your income is below $42,000.

Representative Steiner: There would be no asset test at age 65 so anybody who is age 65 in the state would qualify. We know how many would be age 65 according to our census data so why don't we have a fiscal note on this?

Representative Jim Kasper: We don't make fiscal notes. We don't collect the property tax so it is very difficult to make a fiscal note. The asset test is immaterial; it is the income test that qualifies a person or not unless you're disabled. I wanted to mirror it as close to the homestead tax credit that we currently have.

Representative Steiner: You're saying this "or" doesn't separate from the $42,000?

Representative Jim Kasper: When you reach age 65 if your income from all sources is above $42,000 then you would not receive the freeze.

Chairman Headland: I'm not sure that's the way it is written but that's your intention anyway.

Representative Jim Kasper: That's the intention.

Representative Hogan: Why didn't you put an asset test in this? There is an assets test in homestead tax credits. There are some people who have significant assets who live on very little income.

Representative Jim Kasper: In some cases assets do not equal income. I would have no objection if the committee chose to put an asset test in the bill. My focus is on the people of North Dakota and if their income is less than $42,000 and not able to afford these property tax increases.

Chairman Headland: We're getting the jest of what Representative Kasper is trying to do. We might want to find out if this is workable.

Representative Hogan: The other interesting piece of this is that you need to account for all income from other sources. Did you think of the logistics of how you would do that?

Representative Jim Kasper: The bill calls for a certification by the applicant so the department would develop the form for the certification.

Representative Hogan: It could be complicated for the people who need to provide that information.

Representative Jim Kasper: It could be but if they want the freeze they will find it.

Chairman Headland: Is there testimony in support of HB 1285? Is there any opposition?

Kevin Ternes, Assessor for City of Minot: Distributed neutral testimony. See attachment #1. Ended testimony at 14:12.

Representative B. Koppelman: The bill talks about the home having to be owned and occupied. I presume they wouldn't allow you to occupy a half completed house because it wouldn't have a certificate of occupancy yet. Would that be enough clarity to indicate they are living in the home? Or does more need to be done in this bill to clarify that?

Kevin Ternes: That won't do us any good. I looked at a house half done in February at which time the individual was assessed at $150,000, in August he moved in but his bill in December is still based on the $150,000 because that was the value as of February. The following year I went out and the house was completed. It is a $300,000 home but the prior year certified value was $150,000. We would need some direction there.

Representative B. Koppelman: If the person had made an application at that point in time but the home is not occupied I don't think you should be qualifying them.

Kevin Ternes: Keep in mind I'm not expecting that he would have filed for the application at $150,000 value because he didn't live there. But now he files the following year so doesn't that say that I can't change that value from the prior year when the prior year was a partial value? He files for the following year so at which point is he froze? I would keep that scenario in mind.

Chairman Headland: Can you speak to freezing valuation? In the past when we had bills that would cap valuations we've always been told by counsel that it was not a road we wanted to go down. Is freezing valuation for a select group to be viewed by us differently or will it cause problems for tax collections in the future?

Kevin Ternes: This will cost someone more money because unless the city is going to lay off two policemen then somebody else is going to pay that. If this homestead credit valuation should be $150,000 and froze at $125,000 if they pay x dollars, I think the mill levy would change. If the mill levy went up I think their taxes could still go up, it's just that their valuation can't change. They might still pay a little more every year but the valuation is what's froze and that could stable off some property taxes that others would be paying. The intent is to shift to somebody else.

Chairman Headland: Is there any further testimony? Committee, for those of you who haven't been on tax, with the traditional homestead tax credits available the state reimburses the political subdivisions. This is different in that it will shift burden from one taxpayer to another. Since there is no further testimony we will close the hearing on HB 1285.

2017 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1285
January 25, 2017
27401

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature	Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to an optional residential property tax freeze for owners who are disabled or age sixty-five or older.

Minutes: No attachments

Chairman Headland: Opened up for discussion. I don't like really care for shifting property tax burden from one group of citizens to another which is all this bill does. I will be voting no.

Vice Chairman Dockter: I agree with the shift. **MADE A MOTION FOR A DO NOT PASS.**

Representative Hogan: SECONDED. I've had five emails on this bill in the last two days. I don't think a lot of people really understand what it does. It's mostly from recipients of homestead tax credits. Because it's so hard to know the fiscal impact of this it's hard to know what we're really doing. I'm uncomfortable with that.

Representative B. Koppelman: In committee discussion there were questions for the bill sponsor regarding the language and why there wasn't a means test on it. When we continue to do cherry picked items not on behalf of somebody who is not having a hard time in life I have a tough time doing that. This bill either needed a whole lot of fixing or I wasn't going to support it. I'm going to support the do not pass.

Chairman Headland: There were areas in California where they froze valuations and it created major troubles for them with their property tax structure. I definitely think there are troubles with the bill. I understand the

motivation behind the bill in finding ways to help elderly people stay in their homes but I don't think this bill is really that workable.

Representative Ertelt: I would like to see property tax relief across the board instead of to particular groups especially when we don't have a means or asset test. I am also opposed to this bill as in front of us.

ROLL CALL VOTE: 13 YES 0 NO 1 ABSENT

MOTION CARRIED

Representative Grueneich will carry this bill.

Date: 1-25-17
Roll Call Vote #: 1

2017 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1285

House Finance and Taxation Committee

☐ Subcommittee

Amendment LC# or Description:

Recommendation:
☐ Adopt Amendment
☐ Do Pass ☒ Do Not Pass ☐ Without Committee Recommendation
☐ As Amended ☐ Rerefer to Appropriations
☐ Place on Consent Calendar

Other Actions: ☐ Reconsider ☐

Motion Made By Rep. Dockter Seconded By Rep. Hogan

Representatives	Yes	No	Representatives	Yes	No
Chairman Headland	✓		Representative Hogan	✓	
Vice Chairman Dockter	✓		Representative Mitskog	AB	
Representative Ertelt	✓				
Representative Grueneich	✓				
Representative Hatlestad	✓				
Representative Howe	✓				
Representative Koppelman	✓				
Representative Olson	✓				
Representative Schobinger	✓				
Representative Steiner	✓				
Representative Toman	✓				
Representative Trottier	✓				

Total (Yes) 13 No 0

Absent 1

Floor Assignment Rep. Grueneich

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

REPORT OF STANDING COMMITTEE

HB 1285: Finance and Taxation Committee (Rep. Headland, Chairman) recommends **DO NOT PASS** (13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). HB 1285 was placed on the Eleventh order on the calendar.

2017 TESTIMONY

HB 1285

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1-18-17
HB 1285

NORTH DAKOTA HOUSE FINANCE AND TAXATION COMMITTEE

1/18/2017

House Bill No. 1285

TO: Chairman Headland, House Finance and Taxation Committee

FROM: Kevin Ternes, Minot City Assessor

Thank you for accepting my testimony on behalf of House Bill No. 1285.

This bill as I understand it is intended to prevent property taxes from going up for Homestead Credit recipients and Disabled Veterans as a result of their assessment going up because of market value increases. It would seem these homes could still see an increase in property taxes based on a mill levy increase from a school, county, park or city in spite of their prior year's True and Full Value (assessment) being "froze". In Minot we have about 350 homestead credits and about 350 disabled veterans receiving property tax discounts of varying amounts which amounts to about 6% of Minot's total single family house inventory.

The biggest difference in administering the two credits according to current state statute is Homestead Credit is based on assets and income and Disabled Veterans Credit is not. Disabled Veteran's Credit is based on a 50% or greater disability. Therefore it is not uncommon for many newly constructed homes and larger homes to be assessed that have a Veteran's Credit applied. How would this bill require the local assessor to administer the proposed "freeze" on a newly constructed property that was only assessed at partial completion the year before? And then completed the following year? We have had new homes that are only assessed at maybe 30% or 40% completion for instance and the following year their assessment reflects a completed structure. Would this proposal "freeze" the partial or uncompleted assessment?

Also, we have instances of course where homeowners add a garage, or build an addition to their homes, or remodel, or maybe finish lower levels. Would this proposal "freeze" the prior year's assessment even though the house is not the same the following year? Last week I just spoke with a woman on Homestead Credit who was wondering why her "taxes" had gone up. The answer was she added on several additions to her home recently that increased her square footage from 1,600 to 2,700 above ground square feet. (see photos)

In addition, current state statute requires the local assessor to keep an annual appraised value on all exempt property even though the property might be receiving an exemption, or partial discount etc. (excluding government building and farm buildings and farm residences).

#1 p. 2012
1-18-17
HB 1285

To apply this statute to all homes that would fall under this proposal would require the assessor to continue to estimate the market value of these homes in one column of their software, and yet create a separate column in their software that would freeze the values going forward. Would that be the Legislature's intent? If so, then because most cities and counties use appraisal software that handles all property equally using the same tables, valuation models and comparable sales, it would seem additional programming will be required which will take some additional time and budget. Because the 2017 assessments are currently now being finalized, and no additional resources were asked for 2017 assessor budgets to complete this proposed project, and 2017 assessments will have been finalized by the city boards in April we would ask that consideration be given to making this effective as of tax year 2018 to accomplish the Legislature's goals.

As the assessor for Minot we are asked many questions by homeowners and as is generally the case it is easier to explain or administer a statute that is clearly defined with the Legislature's intent.

Thank you again for accepting this testimony. As always I would be available by email or phone to provide additional information or answer any questions.

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