

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

TAXATION COMMITTEE

Tuesday, August 8, 2017
Roughrider Room, State Capitol
Bismarck, North Dakota

Senator Jessica Unruh, Chairman, called the meeting to order at 9:00 a.m.

Members present: Senators Jessica Unruh, Brad Bekkedahl, Jim Dotzenrod, Lonnie J. Laffen, Scott Meyer; Representatives Thomas Beadle, Jason Dockter, Sebastian Ertelt, Jim Grueneich, Patrick Hatlestad, Jim Kasper, Ben Koppelman, Emily O'Brien, Randy A. Schobinger, Nathan Toman

Members absent: Senator Dwight Cook; Representatives Ron Guggisberg, Craig Headland, Alisa Mitskog, Vicky Steiner

Others present: See [Appendix A](#)

SUPPLEMENTARY RULES OF OPERATION AND PROCEDURE OF THE NORTH DAKOTA LEGISLATIVE MANAGEMENT

At the request of Chairman Unruh, the Legislative Council staff reviewed the [Supplementary Rules of Operation and Procedure of the North Dakota Legislative Management](#).

PROPERTY TAX SYSTEM

At the request of Chairman Unruh, the Legislative Council staff presented a background memorandum entitled [Property Tax System - Background Memorandum](#). The Legislative Council staff said two additional memorandums are appended to the background memorandum.

In response to a question from Senator Bekkedahl, Mr. Don Flaherty, Director, Dickey County Office of Tax Equalization, said school district budget hearings are not scheduled until the end of August or September. He said some school boards may have had preliminary budget meetings in July, but budget hearings related to notices of increase, that were sent out under the old system and still in effect for this year, are yet to occur. Under the 2017 legislative changes, he said, hearing dates for school districts may be on the mass mailing from the county, as opposed to a separate mailing.

PROPERTY TAX INCENTIVES AND CITY GROWTH AND DEVELOPMENT

At the request of Chairman Unruh, the Legislative Council staff presented a background memorandum entitled [Property Tax Incentives and City Growth and Development - Background Memorandum](#).

In response to a question from Senator Bekkedahl, the Legislative Council staff said a proposed renaissance zone must be contiguous with the exception of one area of noncontiguous blocks not to exceed three connected square blocks.

In response to questions from Senator Dotzenrod, Mr. Flaherty said payments in lieu of taxes for partial or complete property tax exemptions for a limited period of time for a new or expanding business are limited to no more than 20 years. He said the time limits are not tied to the same exemptions for nonagriculture or agriculture products. He said he is unaware of any reporting of the payments in lieu of taxes or property tax exemptions to any entity of the state. He said cities and counties are reasonably free to negotiate amounts for payments in lieu of taxes. He said exemptions must be applied for before ground is broken on a new project, and a city may not negotiate any amount that affects a county or school board without the board of county commissioners or the affected school board being a party to the negotiation.

ECONOMIC DEVELOPMENT TAX INCENTIVE REVIEW

At the request of Chairman Unruh, the Legislative Council staff presented a background memorandum entitled [Economic Development Tax Incentives Review - Background Memorandum](#).

In response to a question from Representative Ertelt, the Legislative Council staff said the tax incentives most recently enacted are the sales and use tax exemption for materials used to construct a fertilizer or chemical

processing facility, the sales and use tax exemption for materials used to construct or expand a system for compressing, gathering, collecting, storing, transporting, or injecting carbon dioxide for use in enhanced recovery of oil and natural gas, and the sales and use tax exemption for enterprise information technology equipment and computer software purchased for use by a qualifying business in a qualified data center.

Bank of North Dakota

Chairman Unruh called on Mr. Kelvin Hullet, Economic Development and Government Program Manager, Bank of North Dakota, for a presentation ([Appendix B](#)) pertaining to economic development tax incentive dynamic revenue analysis. Mr. Hullet said the Bank of North Dakota has acquired Regional Economic Models Incorporated (REMI) software and incorporated the product into the Bank's software suite for economic and fiscal impact analysis modeling. He said the Bank chose REMI because of its dynamic model, and REMI software is not a static model. He said the Bank is installing the software and interviewing for a subcontractor to assist with data input and modeling.

In response to a question from Senator Dotzenrod, Mr. Hullet said the state purchased the software. He said REMI updates the software annually and the state pays an annual fee for the updates.

In response to a question from Chairman Unruh, Mr. Hullet said the software could analyze the income tax aspect of renaissance zone incentives, the research expense credit, and the new and expanding business exemption.

In response to a question from Representative Beadle, Mr. Hullet said in addition to tax policy adjustments the software should be able to analyze the economic impacts of other regulatory adjustments.

In response to questions from Representative Koppelman, Mr. Hullet said the analysis of data produced by the software likely will be done by a combination of Bank of North Dakota staff, subcontractor consultants, and representatives of the Department of Commerce, the Tax Department, and the Information Technology Department. Although the Bank will run the software, he said, it will be a collaborative effort. He said as proficiency with the software rises, use of the software will move more in house and become less dependent on outside consultants.

Selection of Tax Incentives for Review

Chairman Unruh suggested the committee select for the interim review of the renaissance zone credits and exemptions, the research expense credit, the internship program credit, the workforce recruitment credit, the new or expanding business exemption, the new jobs credit from income tax withholding, and the development or renewal area incentives. She said the remaining incentives can be reviewed next interim.

It was moved by Representative Beadle, seconded by Senator Bekkedahl, and carried on a roll call vote that the committee select for review during the interim the tax incentives suggested by Chairman Unruh. Senators Unruh, Bekkedahl, Dotzenrod, Laffen, and Meyer and Representatives Beadle, Doctor, Ertelt, Gruenich, Hatlestad, Kasper, Koppelman, O'Brien, Schobinger, and Toman voted "aye." No negative votes were cast.

HYBRID LONG-TERM CARE INSURANCE INCOME TAX CREDITS

At the request of Chairman Unruh, the Legislative Council staff presented a background memorandum entitled [Hybrid Long-Term Care Insurance Income Tax Credits - Background Memorandum](#).

In response to a question from Senator Dotzenrod, the Legislative Council staff said the state long-term care premium income tax credit is \$250 per year for each insured individual.

COMMITTEE DISCUSSION AND DIRECTIVES

Chairman Unruh said the next committee meeting likely will be at the end of September or in early October. She said the meeting likely will be scheduled for a day and a half.

No further business appearing, Chairman Unruh adjourned the meeting at 11:30 a.m.

Dustin Assel
Counsel

John Bjornson
Legal Division Director

ATTACH:2