NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

TAXATION COMMITTEE

Thursday, December 14, 2017
Roughrider Room, State Capitol
Bismarck, North Dakota

Senator Jessica Unruh, Chairman, called the meeting to order at 9:30 a.m.

Members present: Senators Jessica Unruh, Brad Bekkedahl, Dwight Cook, Jim Dotzenrod; Representatives Jason Dockter, Sebastian Ertelt, Jim Grueneich, Ron Guggisberg, Patrick Hatlestad, Craig Headland, Jim Kasper, Emily O'Brien, Randy A. Schobinger, Vicky Steiner

Members absent: Senators Lonnie J. Laffen, Scott Meyer; Representatives Thomas Beadle, Ben Koppelman, Alisa Mitskog, Nathan Toman

Others present: Representative Corey Mock, Grand Forks, member of the Legislative Management
See Appendix A for additional persons present.

It was moved by Senator Cook, seconded by Representative Dockter, and carried on a voice vote that the minutes of the August 8, 2017, meeting be approved as distributed.

OIL AND GAS REVENUE ALLOCATION REPORT

Chairman Unruh called on Mr. Joe Morrissette, Deputy Tax Commissioner, for presentation of a report (Appendix B) summarizing information contained in the *Report of County Statements of Revenues and Expenditures and Oil and Gas Gross Production Tax Allocations* and the *School Districts Report of Gross Production Expenditure Information*. Mr. Morrissette said, pursuant to North Dakota Century Code Section 57-51-15, the Tax Department is required to collect and compile reports from counties and school districts that received gross production tax allocations. He said the department sends forms to the applicable counties and school districts, which must be completed and returned to the department. He said counties remit copies of their most recent financial statements and provide information regarding the amount allocated to townships, the county's total general fund balance, and the county's major general fund expenditure categories. He said counties provide additional details if the allocation is placed in a fund other than the county general fund. He said all responding counties placed the allocation in their general fund.

Mr. Morrissette said the reporting requirements for school districts were added during the 2015 legislative session. He said, unlike counties, school districts budget on a fiscal year basis, rather than a calendar year basis. He said school districts provide information regarding their total budget and how gross production tax allocations were used. Because school districts provide financial statements to the Department of Public Instruction, he said, school districts have the option of remitting those statements to the Tax Department or instructing the Tax Department to retrieve the statements from the Department of Public Instruction.

In response to a question from Representative Kasper, Mr. Morrissette said the Tax Department is not able to track the amount of gross production tax revenue expended from a county's general fund because funding from a number of sources generally is commingled in a county's general fund.

In response to a question from Chairman Unruh, Mr. Morrissette said the reports received and compiled by the Tax Department are not used by the department for any purpose other than providing the information to the Legislative Management, and the department has not received any other requests for the reports.

Chairman Unruh asked the committee to consider whether it is a valuable use of state and local staff time and resources to continue to require these reports.

HYBRID LONG-TERM CARE INSURANCE INCOME TAX CREDIT STUDY

Chairman Unruh called on Mr. Joseph Becker, Auditor III, Research and Education Section, Tax Department, for presentation of claimant and expenditure information (Appendix C) for tax years 2009 through 2016 which pertains to the income tax credit for premiums paid for long-term care partnership plan insurance. Mr. Becker said the credit allows a taxpayer who purchases partnership plan long-term care insurance coverage to claim a credit of up to $250 in premiums paid during the tax year per insured individual. He said a total of $548,884 in credits was claimed on 1,346 returns in tax year 2016. He said based on the number of claimants and amount claimed, taxpayers are claiming the maximum amount of credits available per taxpayer.

Chairman Unruh called on Ms. Shelly Peterson, President, North Dakota Long Term Care Association, for a presentation (Appendix D) regarding long-term care partnership plan insurance, payer sources, and the need for planning. Ms. Peterson said the association represents 210 basic care, assisted living, and nursing facility members in the state. She said 14.2 percent of the state's population consists of individuals 65 years of age or older. She said the number of individuals over the age of 65 is expected to grow by 52 percent between 2010 and 2025. She said an individual has a 50 percent chance of needing long-term care services at some point in the individual's lifetime. She said the state's safety net is stretched thin with the growing elderly population.

Ms. Peterson reviewed the cost of various types of long-term care and said in-home nonmedical care is $25 to $35 per hour, in-home nursing care with a registered nurse is $65 to $85 per hour, home health aid visits are $35 per hour, residential basic care is $120 per day, residential assisted living is $150 per day, and nursing facilities are $265 per day. She said Medicare and Medicaid alone cannot meet the state's long-term care needs. She said assisted living services in North Dakota are almost exclusively paid by private payor sources and 39 percent of those in nursing facilities pay for services using private payor sources. She said the state's percentage of private payors for nursing facilities is one of the highest in the nation. She said individuals are hesitant to plan for long-term care needs. She said hybrid long-term care policies might entice more individuals to seek coverage because hybrid plans include additional features, such as life insurance or an annuity. She said offering a tax credit for premiums paid for hybrid long-term care plans might help curb Medicaid costs and help more individuals plan for long-term care needs.

In response to a question from Senator Dotzenrod, Ms. Peterson said the average length of stay for individuals receiving nursing facility care in this state is fairly short. She said 49.5 percent of individuals who go into nursing facilities are either discharged to their homes or elsewhere for a lower level of care. She said stays for short-term Medicare rehabilitation are generally 25 days.

In response to a question from Representative Guggisberg, Ms. Peterson said North Dakota has a large private payor population. She said she does not have data regarding the amount of time it takes individuals to spend down their resources, or the amount individuals have going into care, but at a cost of $11,000 per month, an individual can exhaust resources very quickly.

Chairman Unruh called on Ms. Maggie D. Anderson, Director, Medical Services Division, Department of Human Services, for a presentation (Appendix E) regarding the costs incurred by the state in providing long-term care services. Ms. Anderson said the Legislative Assembly approved $2.6 billion for medical assistance grants in the Department of Human Services (DHS) budget for the 2017-19 biennium. She said nearly $694 million of that amount is for long-term care services. She said the $694 million is further divided into subcategories of expenditures, including $550 million for nursing facilities, $91 million for home- and community-based services, $41 million for basic care, and $11 million for other services. She said home- and community-based services include supplemental payments for the elderly and disabled (SPED), which is an entirely state-funded program. She reviewed the number of individuals that receive long-term care services on a monthly basis and said state expenditures for long-term care have increased each biennium since the 2009-11 biennium. She reviewed information from fiscal years 1980 through 2019 regarding total nursing facility expenditures and the average daily rate paid by Medicaid. She said the average daily rate for nursing home care on January 1, 2018, will be $271.

In response to a question from Senator Bekkedahl, Ms. Anderson said the programs funded entirely by the state are SPED and expanded SPED, for which the state spent $12.6 million and $1.5 million, respectively, during the 2015-17 biennium. She said the state also provides funding for the room and board portion of basic care, at a cost of $35 million during the 2015-17 biennium. She said the remaining expenditures receive a 50/50 Medicaid federal reimbursement match.

In response to a question from Senator Cook, Ms. Anderson said in 2005, the Legislative Assembly authorized DHS to apply for the long-term care partnership program once it became available. She said after the federal Deficit Reduction Act of 2005 passed in February 2006, DHS submitted a state plan amendment to the federal government for approval, which became effective January 1, 2007. She said, as of January 1, 2007, individuals who purchase long-term care insurance policies can apply for Medicaid under special rules for determining financial eligibility and Medicaid estate recovery. She said qualifying partnership plans must include certain features, such as inflation protection. She said a fact sheet on long-term care partnership plans (Appendix F) is available on DHS's website.

Senator Cook said he finds increasing nursing facility costs alarming. He said the committee needs to determine how much private payors are having to spend.

In response to a question from Senator Cook, Ms. Anderson said the costs incurred by nursing facilities likely are similar from state to state, but the amount reimbursed by Medicaid varies greatly. She said North Dakota is one of the higher cost states in terms of daily rates because the state has equalized reimbursement rates for Medicaid and private pay individuals. She said in states that do not have equalized rates, rising costs are generally shifted to private payors. She said legislative action has contributed to increased nursing facility costs. She said when the Legislative Assembly provides a 3 percent inflationary increase, or a dollar wage passthrough, or directs DHS to increase a component of nursing home rate setting, those changes impact both Medicaid and private payor costs.

Chairman Unruh called on Ms. Chrystal Bartuska, Product Filing Division Director, Insurance Department, for a presentation regarding the types of hybrid long-term care insurance policies and the need to train individuals who sell hybrid long-term care insurance. Ms. Bartuska said the department approves the products on the market. She summarized the process for reviewing traditional long-term care policies and said the department sends a letter to DHS following its review, which verifies the long-term care policy meets the necessary requirements. She said hybrid long-term care policies generally consist of a life insurance policy or an annuity product that has a long-term care rider attached. She said there is no definition for "hybrid long-term care." She said it is an industry phrase to describe those types of products.

In response to a question from Senator Cook, Ms. Bartuska said the Insurance Department has been seeing hybrid policies for the last 4 to 5 years. She said hybrid policies have increased in popularity because traditional long-term care policies can become very expensive. She said, as a result, many companies have decided to add long-term care policies as riders to life or annuity products. She said concern with these riders is they do not contain certain features required under the partnership program, such as inflation protection. She said insurers could modify the riders to include the required features, but she has yet to see this in practice.

Representative Kasper said he wondered if language could be added to North Dakota law stating a long-term care policy rider could qualify for state income tax credits without needing any type of federal blessing. He said if an individual could purchase a policy with a fixed rate and a fixed payout benefit, he is not sure inflation protection would be as vital.

In response to a question from Representative Kasper, Ms. Bartuska said many of these riders will take the form of an accelerated death benefit option, which does not meet the partnership plan requirements for inflation protection. She said another consideration is the training required for individuals selling long-term care policies. She said individuals selling long-term care policies are required to complete 8 hours of training and maintain continuing education credits.

In response to a question from Representative Kasper whether the Insurance Department could research whether North Dakota could develop its own guidelines for long-term care insurance policies without any federal oversight, Ms. Bartuska said she would need to work with DHS in regard to interpreting any federal requirements.

Chairman Unruh said the Insurance Department and DHS could work with the Legislative Council staff to provide the committee with additional information.

In response to a question from Representative Kasper, Ms. Anderson said if the committee would like a policy that provides a Medicaid individual the ability to be protected against estate recovery and provides asset protection, the policy would have to meet the requirements stated in the federal Deficit Reduction Act of 2005. She said if the policy is not a partnership-protected policy, DHS would accept the policy as a third-party liability source for Medicaid.

Chairman Unruh requested the Legislative Council staff to review the 2009 legislative history relating to the creation of the credit for premiums paid for long-term care partnership plan insurance and provide a summary of any favorable testimony.

Chairman Unruh distributed a letter (Appendix G) from Mr. J. Bruce Ferguson, Senior Vice President, State Relations, American Council of Life Insurers, and invited comments from interested persons in attendance regarding the committee's study of providing an income tax credit for premiums paid for hybrid long-term care insurance. No additional comments were received.

ECONOMIC DEVELOPMENT TAX INCENTIVES STUDY

Chairman Unruh called on the Legislative Council staff for presentation of background memorandums pertaining to economic development tax incentives selected for study during the 2017-18 interim. The Legislative Council staff presented background memorandums entitled *Economic Development Tax Incentive Study - Research Expense Tax Credit*, *Economic Development Tax Incentive Study - Internship Program Credit*, *Economic Development Tax Incentive Study - Workforce Recruitment Credit*, *Economic Development Tax Incentive Study - New or Expanding Business Exemptions*, *Economic Development Tax Incentive Study - New Jobs Credit From Income Tax Withholding*, *Economic Development Tax Incentive Study - Renaissance Zone Tax Credits and Exemptions*, and *Economic Development Tax Incentive Study - Tax Increment Financing Districts*. She said a few of the memorandums relate to incentives selected for study during the 2015-16 interim, but were carried forward for further study due to time constraints. She said any previously prepared memorandums have been updated with the most recent fiscal data. She said the memorandums pertaining to renaissance zones, tax increment financing (TIF) districts, and the new and expanding business exemption also have been expanded to include the property tax components of each incentive as changes made to Section 54-35-26 during the 2017 legislative session now allow the study to encompass both the state and local aspects of each incentive.

The Legislative Council staff also provided a summary of the third annual evaluators roundtable, hosted by the National Conference of State Legislatures and The Pew Charitable Trusts. The Legislative Council staff said staff from various states attended the roundtable meeting and shared their state's experience in studying incentives. She said she was invited to present on North Dakota's progress in studying incentives at the last two roundtable meetings. She said she presented on the 2017 legislative changes that resulted from the committee's 2015-16 interim incentive study. She said the roundtable attendees were particularly interested in changes made to the state's angel fund credit. She said a demonstration of the National Conference of State Legislatures searchable incentive database also was provided at the meeting. She said the website, *http://www.ncsl.org/research/fiscal-policy/state-tax-incentive-evaluations-database.aspx*, contains materials from several state's evaluations and is a helpful tool for evaluators. She said she received positive feedback on North Dakota's evaluation materials and legislator's willingness to apply evaluation findings to effect policy changes.

Chairman Unruh called on Mr. Becker for presentation of fiscal data (Appendices H and I) pertaining to the committee's study of economic development tax incentives. Mr. Becker said Appendix H provides data on the incentives selected for review this interim, and Appendix I provides data on all available income tax incentives. He said the charts provide data through tax year 2016 and have been updated to reflect any credits that have expired or have been repealed. He said both charts contain notations indicating if data is not disclosable by the Tax Department. He said 2017 House Bill No. 1354, which allows the department to disclose the amount claimed, regardless of the number of claimants, upon a request by a standing committee or the Chairman of the Legislative Management, only applies to data related to tax years 2017 and forward.

Chairman Unruh called on Ms. Carla Hahn, Accountability Manager, Office of Innovation and Entrepreneurship, Department of Commerce, for presentation of an annual grantor report summary (Appendix J) of the *2016 Business Incentive Accountability Report* relating to the business incentive accountability law under Chapter 54-60.1. Ms. Hahn said the business incentive accountability law became effective January 1, 2006. She said two of the incentives the committee is reviewing, the renaissance zone and new or expanding business incentives, are subject to the business incentive accountability law. She said the law applies to businesses that receive incentives totaling $25,000 or more in a given year from state or local grantors. She said the law requires the recipient business enter a business incentive agreement with the grantor, which must provide a description of the incentive to be granted as well as the job goals the business seeks to achieve within the first 2 years. She said a recipient business must report progress toward achieving stated goals. She said from 2012 through 2016, 799 business incentive agreements were entered totaling an incentive value of $110,352,937. She said the report details the distribution of business incentives by type, public purpose, and type of business. She said the report also provides the number of agreements entered in the database by year and identifies whether the goal was to create jobs, retain jobs, or neither. She said 2,704 jobs were created and retained over the last 5 years compared to a goal of 2,661 jobs. She said 7 percent of agreements closed between 2012 and 2016 did not meet job creation goals and did not repay funds.

In response to a question from Representative Steiner, Ms. Hahn said a business becomes out of compliance if it fails to meet stated job goals or fails to report within the minimum timeframe. She said a business out of compliance will not be eligible for additional state or local funding until it returns to compliance. She said a grantor generally works with noncompliant businesses to bring it into compliance. She said the grantor also may extend the timeframe allowed for the business to meet its stated job goals.

In response to a question from Senator Cook, Ms. Hahn said the business incentive accountability law applies to both state and local grantors, but only state grantors are subject to reporting requirements.

Chairman Unruh called on Ms. Rikki Roehrich, Program Administrator, Community Services, Community Development Programs, Department of Commerce, for presentation of an annual report (Appendix K) pertaining to renaissance zone progress and a summary of reports (Appendix L) provided by cities that have a renaissance zone included in a TIF district, pursuant to Section 40-63-03. Ms. Roehrich said 1,584 projects have been approved and 1,225 projects have been completed since the inception of the renaissance zone program. She said there were 58 renaissance zones in the state in 2016. She said five established renaissance zones reached their expiration date in 2016 and requested an extension. She said all five zones were approved for a partial or full extension. She said a survey of renaissance zone communities conducted in 2016 indicated renaissance zones created 28 new businesses, 16 business expansions, and 196 new jobs. She said the total benefits realized by the 50 projects that reached completion in 2016 amounted to roughly $1.8 million in income tax exemptions and $2.7 million in property tax exemptions. She said the cities of Bismarck, Hazen, and Mandan have properties located in both a renaissance zone and a TIF district. She said Mandan is the only city with properties receiving benefits from both the renaissance zone program and TIF program. She said renaissance zones are a vital economic tool for smaller communities.

In response to a question from Senator Bekkedahl, Ms. Roehrich said a portion of the increased value of a property might be attributable to natural growth, but the majority of the increase is attributable to the inclusion in the renaissance zone.

In response to a question from Representative Kasper, Ms. Roehrich said the Department of Commerce has retained data on renaissance zones since the start of the program, but the information a participant is required to report has varied over the years. She said she would see what data she could compile.

In response to a question from Representative Headland, Ms. Ellen Huber, Business Development and Communications Director, City of Mandan, and President, Economic Development Association of North Dakota, said only two projects are receiving both a renaissance zone and TIF district benefit. She said the first project in Mandan is located in an area in which there was a prior diesel spill and the second project is located in a building that had previously sat vacant for more than a decade. She said both projects are receiving a renaissance zone property tax exemption in years 1 through 5, and a partial TIF district property tax exemption in years 6 through 15. She said the value of the building previously vacant now exceeds $1 million and 40 new jobs have been created in the community.

Chairman Unruh called on Mr. Kelvin Hullet, Market Manager for Economic Development and Government Programs, Bank of North Dakota, to provide an update (Appendix M) on the economic impact modeling software used to evaluate economic development tax incentives and information pertaining to the evaluation of renaissance zone incentives. Mr. Hullet said the Bank of North Dakota purchased REMI software following the 2017 legislative session and hired FTI Consulting, Inc., to calibrate the software. He said the Bank formed a working group comprised of individuals from the Office of Management and Budget, Tax Department, Department of Commerce, and Legislative Council to assist in providing the necessary input for the model. He said all state-specific data has been loaded into the model, as well as the majority of the data necessary to analyze the renaissance zone program. He said the final report pertaining to the renaissance zone program should be available for the committee's next meeting. He provided an example of the types of results the committee will see in regard to the renaissance zone report, including the number of jobs created and the carrying costs incurred by the state in providing the incentive.

In response to a question from Senator Cook, Mr. Hullet said the Bank of North Dakota would be able to use REMI software to conduct an economic analysis of the final version of the federal tax reform bill. He said, in regard to using REMI software for interim and legislative purposes, the Bank has accounted for analyzing five incentives for the committee and preparing five dynamic fiscal notes during the 2019 legislative session.

In response to a question from Representative Guggisberg, Mr. Hullet said all of the data input into the software is publicly available. He said, in regard to other open source software, the Bank of North Dakota will continue to evaluate other software and also is mindful of how artificial intelligence might impact the financial market.

Chairman Unruh invited comments from interested persons in attendance regarding economic development tax incentives related to property tax.

Ms. Huber provided testimony (Appendix N) relating to renaissance zone and TIF district incentives. She said the renaissance zone program has been successful in improving downtown and blighted areas in many communities and TIF has played an important role in growing the state's economy. She said tax credits and incentives are valuable to investors and the state. She said data suggests that lack of funding or incentives is the number one cause for losing a project that would have otherwise moved to another area.

In response to a question from Senator Dotzenrod, Ms. Huber said the positive impact renaissance zones have on other taxpayers varies from city to city. She said Mandan just approved its 73rd renaissance zone project, and as a result of the program, more than $17 million has been invested in the city. She said these investments have quadrupled previous property values. She said increased sales tax revenue and the availability of affordable housing for workers are additional benefits of renaissance zones, which can often be overlooked.

Mr. Terry Fleck, Bismarck, said there were over 300 registered lobbyists last session. He said he is here to represent taxpayers and questions whether taxpayers are receiving a return on their investment in regard to property tax incentives. He said taxpayer dollars are used to provide incentives that narrow the property tax base. He said he is not opposed to renaissance zones or TIF districts, but wants to ensure taxpayers are receiving an appropriate return on their investment. He said failures or low-occupancy rates associated with incentive programs are not widely publicized.

PROPERTY TAX SYSTEM STUDY

Chairman Unruh called on Mr. Blake Crosby, Executive Director, North Dakota League of Cities, for a presentation (Appendix O) regarding property tax statements and hearing notices. Mr. Crosby said he participated in the working group that helped craft the consolidated property tax notice provisions contained in 2017 Senate Bill No. 2288. He said he believes the new notice provisions resulted in a good end product and hopes legislators will allow the notices to be used for a few years before attempting to make any additional changes. He said it is important to notify citizens of budget hearings, but there generally is low attendance at city budget hearings even after notice is provided. He reviewed the attendance figures for the 2017 city budget hearings and said of those individuals attending, the majority asked questions relating to the valuation process, rather than the budget process.

In response to a question from Senator Bekkedahl, Mr. Crosby said the data collected relating to city budget hearings was collected in the form of mills, not dollars. He said the League of Cities publishes information regarding the taxable value of each city at the end of the year. He said this data could be used to determine the dollar value of certain mill levies. He said of the 357 incorporated cities in the state, roughly 74 percent assess less than $100,000 in property tax each year.

Senator Unruh said, as the committee continues its discussion of the property tax system, she would prefer information be provided in terms of dollars rather than mills.

Chairman Unruh called on Ms. April Haring, City Auditor, Cities of Oakes and Fullerton, for a presentation (Appendix P) regarding the committee's study of the property tax system. Ms. Haring said she is responsible for preparing annual budgets for five different taxing entities. She reviewed the process and timeline used to prepare budgets and said no individuals attended the public budget hearing for the City of Fullerton, and only three individuals attended the public budget hearing for the City of Oakes. She said she receives very little feedback from the public. She said the new timelines and notice requirements enacted by Senate Bill No. 2288 will require her office to spend additional time educating newly elected officials. She said additional educational materials also will need to be prepared for the governing board. She said proper preparation and education makes it easier to address concerns regarding budgets and property taxes. She said the most difficult thing she has had to explain to the governing board and the public is the 0 percent increase notice.

In response to a question from Senator Dotzenrod, Ms. Haring said she thinks the earlier August 10 deadline for remitting preliminary budget and hearing information can be met. She said her only concern lies with having enough time to educate newly elected officials on the budgeting process. She said it is important for those individuals to feel comfortable enough with the budgeting process to vote properly for the citizens they represent.

Representative Headland wondered if elected officials understand the extent to which property taxes are becoming burdensome to taxpayers. He said citizens generally are not engaged until they receive their property tax statements. He said elected officials play a key role in the property tax process and could be of assistance in addressing taxpayer concerns.

Chairman Unruh called on Ms. Maureen Storstad, Director of Finance, City of Grand Forks, for a presentation (Appendix Q) regarding the committee's study of the property tax system. Ms. Storstad provided information on property tax statements, hearing notices, and the city's budget process. She said the mayor of Grand Forks leads the budget process by bringing the city council and the public together through public work sessions. She said public work sessions often are televised for those who cannot attend. She said the 2017 budget for Grand Forks totaled $210 million, with $80 million of that amount dedicated to capital projects. She said the city has 104 active funds with 1,800 unique account numbers and many different departments that manage those funds. She reviewed the city's budget calendar (Appendix R) and said budgeting is a year-long process consisting of a planning, preparation, and review phase. She said public notice letters are sent regarding budget hearings after the preliminary budget is approved. She reviewed a copy of a consolidated notice (Appendix S) that was sent in 2014 and said consolidated notices have helped alleviate the confusion created when taxpayers receive separate notices from multiple taxing entities. She said despite providing information regarding the city's budget and public hearing through multiple mediums, hearings often are poorly attended.

In response to a question from Chairman Unruh, Ms. Storstad said the primary way citizens reach out to council members with budget or valuation concerns is through phone or email. She said some people find public hearings intimidating and are more comfortable communicating privately through phone or email. She said extra effort was put in this year to break down the budget into an easy to understand format so people can understand the services provided using tax dollars.

In response to a question from Representative Headland, Ms. Storstad said televised meetings are just one tool used to keep the public informed.

In response to a question from Senator Bekkedahl, Ms. Storstad said the actual levy often is lower than the preliminary estimated levy.

In response to a question from Representative Ertelt, Ms. Storstad said she thinks the new consolidated notices are a good change. She said the city is interested in keeping the public informed and engaged in the budgeting process.

Chairman Unruh called on Ms. Donnell Preskey Hushka, Government/Public Relations Specialist, North Dakota Association of Counties, and Executive Director, County Auditors and Treasurers Associations, for a presentation (Appendix T) regarding the committee's study of the property tax system. Ms. Hushka described the budget hearing process in Cass and McLean Counties, and said counties are doing more to educate citizens on the budget process. She said Burleigh, Morton, McKenzie, Stutsman, and Cass Counties are using a web-based transparency tool that shows taxpayers how property tax dollars are being spent. She said staff from the North Dakota Association of Counties visited several counties this summer to explain the recent legislative changes pertaining to the loss of the 12 percent state-paid property tax credit and the implementation of a 2-year social service pilot program. She said the Association of Counties developed a 3-phased plan to assist counties in communicating with taxpayers, which included submitting a letter to the editor, providing talking points to county officials, and developing a 1-page handout explaining property taxes. She said the new notice requirements hopefully will reduce taxpayer confusion regarding property taxes.

Chairman Unruh called on Ms. Linda Leadbetter, State Supervisor of Assessments, Tax Department, for presentation of a timeline (Appendix U) of significant property tax dates beginning in January 2018, and a sample combined notice (Appendix V) of estimated property tax and budget hearing dates required pursuant to Senate Bill No. 2288. Ms. Leadbetter said for the 2017 tax year, notices were required if any county, city, school district, or park district was anticipating anything greater than a zero mill increase. She said the taxing entity was required to publish the budget hearing notice and individually mail a copy of the notice to anyone who received a notice of increased assessment. She said for the 2018 tax year, a consolidated notice containing levy and budget hearing information will be sent to each parcel that has an estimated tax of $100 or more. She said the changes made by Senate Bill No. 2288 will keep taxpayers from being bombarded with four to five separate notices from each taxing entity. She said the bill also moved the dates for central assessments up by 1 month beginning in 2018.

In response to a question from Senator Cook, Ms. Leadbetter said the Tax Department has been in touch with centrally assessed property owners regarding the date changes and has provided notice that the penalties associated with late filings will be increasing. She said the information was sent to the owners of centrally assessed property with this year's tentative assessment information. She said the department also sends centrally assessed property owners automatic notifications that help remind them a deadline is approaching.

In response to a question from Representative Headland, Ms. Leadbetter said the new notices require the word "increase" to be printed in bold capitalized font if the proposed tax levy on the parcel is larger in dollars than the levy in the previous year.

In response to a question from Senator Bekkedahl, Ms. Leadbetter said the new notice only requires a comparison between the current year estimated tax and the prior year tax. She said property tax statements will continue to display information pertaining to the current year and the prior 2 years.

Chairman Unruh called on Mr. Michael Montplaisir, County Auditor, Cass County, for a presentation (Appendix W) regarding the county and local government budgeting process. Mr. Montplaisir said Cass County starts its budgeting process early due to its size. He said the county adjusted its budget calendar in 2017 to conduct a test run of the new 2018 deadlines and notice requirements. He said the auditor's office prepares a budget book for the board of county commissioners, a condensed version of which is available in pamphlet form (Appendix X). He said the auditor's office uses a zero increase number of mills when determining revenue. He said the board reviews each department's budget recommendations and accepts, lowers, or rejects any proposed increases. He said after the preliminary budget is approved, the auditor's office sends the notices of estimated property tax and hearing dates in accordance with the requirements in Senate Bill No. 2288. He said about 30 calls and emails were received as a result of the 60,000 notices sent out. He said the low number of calls can be attributed to the fact the notices were easy to understand. He said about 25 people attended the budget hearing. He said the combined notices seemed to work well. He said the county publishes the *Cass County Popular Report A Financial Summary for Its Citizens December 2016* (Appendix Y) at the end of each year, which provides citizens an accessible overview of the county's financial position and policies.

In response to a question from Representative Kasper, Mr. Montplaisir said the new notices do not contain a statement as to whether certain budgets are increasing over prior year budgets.

Representative Kasper said it might be helpful if budget increase information was included on the new notices.

In response to a question from Senator Cook, Mr. Montplaisir said county auditors will not be able to modify the format of the new notices.

Mr. Montplaisir introduced Ms. Sarah Heinle, Accountant, Cass County Auditor's Office, to provide an overview of the functions of Cass County's online financial reporting platform, https://casscountynd.opengov.com, which is used by various parties, including commissioners, department heads, and citizens. Ms. Heinle said the website allows a user to explore the county's budget and historical finances. She said the website provides the actual budget over several years and includes various other reports that can be broken down by month. She said the software can generate budget milestone reports, which allow a department to compare its figures against another department's figures. She said the software has broad functionality and is easy to use, and she would recommend it.

In response to a question from Senator Cook, Ms. Heinle said the software likely could compare the costs per capita between various cities for similar departments.

In response to a question from Chairman Unruh, Ms. Heinle said it was time consuming to set up the software's initial upload, but the software was simple to operate thereafter.

In response to a question from Representative Headland, Ms. Heinle said the software costs about $7,000 per year. She said the software also can provide additional information, such as the county's total taxable value and the total amount of exempt property in the county. She said the software's representatives are very helpful and would be willing to provide a demonstration of the software's capabilities for the committee.

Chairman Unruh called on Ms. Joni M. Morlock, Auditor/Treasurer, Towner County, for a presentation (Appendix Z) regarding the committee's study of the property tax system. Ms. Morlock said she serves a variety of roles, including the role of Executive Director of the local Job Development Authority and as the County Risk Manager and Zoning Administrator. She said individuals often serve multiple roles in small counties with limited resources. She described the budgeting process and said she gathers budget and financial information from 6 cities, 3 park districts, 1 school district, 4 fire districts, 2 ambulance districts, 28 townships, and various additional taxing entities. She said the information is compiled and entered into mill levy worksheets prior to generating property tax statements. She provided an example of a similar size and age home in Grand Forks and Cando to illustrate how lower values generate less revenue. She said lower-valuation areas can be problematic when dealing with levy limitations and caps. She said when the levy limit phasein period provided by 2015 Senate Bill No. 2144 expires, Cass County will be able to generate roughly 10 times the amount of revenue to spend per mile of road as Towner County based on current valuations. She said levy limitations will result in Towner County having to go to a vote of the people to generate enough property tax revenue to maintain the county's roads. She asked the committee to keep the differences between small and large counties in mind when discussing any changes to the property tax system.

Chairman Unruh distributed a letter (Appendix AA) from Ms. Patti Eisenzimmer and invited comments from interested persons in attendance regarding the committee's study of the property tax system.

Mr. Fleck said an independent group began researching TIF districts and renaissance zones about 3 years ago. He said it is important for the committee to understand how much property in the state is exempt from tax. He said the first property tax exemptions were created before North Dakota was a state. He said exemptions that made sense when enacted may no longer be relevant. He said many property tax exemptions serve as an income opportunity and the list of exemptions has grown too long. He thanked the committee for including city and county representatives in the committee's discussion of the property tax system.

Mr. Tom Valentine, Assessor, Fremont Township, Cavalier County said there are disagreements in Fremont Township regarding how taxes are being assessed. He said agricultural land is supposed to be assessed using values based on soil survey data and whether the land is cropland or noncropland. He said Cavalier County has issued a "break point" system that classifies any land below a certain break point as noncropland. He said the land is supposed to be assessed as cropland or noncropland based on how it is actually being used. He said the break point method the county is using should be discontinued. He said abatements also are being mishandled. He said the township supervisor has been denying or ignoring abatement requests on the rationale it will cost a property owner more to hire a lawyer to contest the issue than the property owner would receive in the form of an abatement. He said there needs to be rules in place regarding abatements and those rules need to be followed.

In response to a question from Representative Kasper, Mr. Valentine said he has not received much feedback from the board of county commissioners after relaying his concerns.

In response to a question from Representative Headland, Mr. Valentine said he does not think the educational requirements for township assessors are overly burdensome. He said he was able to take one course in Bismarck and the remainder online to satisfy the requirements.

Senator Cook said legislators often are criticized for not doing enough for tax reform. He said he would argue the new notice requirements are the most significant piece of tax reform passed to date.

Chairman Unruh said she would work with Ms. Leadbetter and the Legislative Council staff to provide the committee with refresher materials regarding agricultural property valuation and the use of modifiers.

Chairman Unruh called for committee discussion regarding the additional incentives the committee would like analyzed by the Bank of North Dakota. She suggested TIF districts and the new and expanding business incentives as the next two incentives to review. No additional comments were received.

Chairman Unruh requested the Legislative Council staff to compile a list of property tax exemptions, the date each exemption was enacted, and the estimated value of exempt properties.

Chairman Unruh said the committee will meet on Wednesday, February 14, 2018, to receive a presentation from Mr. Charles Marohn, and possibly will hold an additional meeting in January. She said she would like to hold one meeting in Fargo this interim so the committee can hear about local renaissance zone and TIF district issues firsthand.

No further business appearing, Chairman Unruh adjourned the meeting at 3:20 p.m.

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Emily L. Thompson
Counsel

ATTACH: 27