

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

TAXATION COMMITTEE

Thursday, May 31, 2018
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, Dwight Cook, Jim Dotzenrod, Scott Meyer; Representatives Thomas Beadle, Jason Dockter, Sebastian Ertelt, Jim Grueneich, Ron Guggisberg, Patrick Hatlestad, Craig Headland, Jim Kasper, Ben Koppelman, Alisa Mitskog, Emily O'Brien, Vicky Steiner, Nathan Toman

Members absent: Senators Brad Bekkedahl, Lonnie J. Laffen; Representative Randy A. Schobinger

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

It was moved by Representative Dockter, seconded by Representative Beadle, and carried on a voice vote that the minutes of the April 19, 2018, meeting be approved as distributed.

PROPERTY TAX SYSTEM STUDY

Chairman Unruh called on Ms. Linda Leadbetter, State Supervisor of Assessments, Tax Department, for presentation of information ([Appendix B](#)) pertaining to property tax increases, excluding consideration of new growth. Ms. Leadbetter said the handout summarizes the percentage change in levies in the 50 highest taxable value cities, school districts, and park districts and is based on a zero-growth calculation. She said information pertaining to levies in all 53 counties, the 2016 human service levy, and the state's assumption of human service costs also is included in the handout.

In response to a question from Representative Steiner, Ms. Leadbetter said information from the Department of Human Services would be needed to compare the actual costs of the state-paid social service pilot program to the estimated costs of the program presented during the 2017 legislative session.

Chairman Unruh said cost comparison information could be requested from the Department of Human Services for a future meeting.

In response to questions from Senator Cook, Ms. Leadbetter said the percentage levy reduction attributable to the state takeover of social service costs will vary from county to county based on the percentage of a county's total mill levy previously dedicated to social service costs. She said the data presented today was drawn from a larger report generated using the department's online tax levy reporting lookup tool. She said it is possible school districts levying less than 70 mills will try to increase their levy by 12 percent each year until they reach the 70-mill cap. She said increases in the Central Cass School District's levy might be related to increases to the district's sinking and interest levy as a result of new construction.

In response to a question from Representative Headland, Ms. Leadbetter said the department prepared increased levy election information for the Maple Valley School District on three separate occasions.

Chairman Unruh called on Mr. Blake Crosby, Executive Director, North Dakota League of Cities, for a presentation regarding property tax and the use of social media by the North Dakota League of Cities and its members. Mr. Crosby said he considers social media to mean Facebook. He said the North Dakota League of Cities has a Facebook page that is used for webinars, workshops, and conferences. He said Facebook is not free and staff resources are required to maintain a Facebook page. He said he would guess 50 or fewer cities use Facebook and very few cities have the time to constantly monitor Facebook. He said citizens have plenty of opportunities to access property tax information and Facebook is not the proper venue for posting property tax information. He said democracy is not meant to be a convenience, it is meant to be participatory. He said context is important in regard to the information presented by Ms. Leadbetter. He provided an example of decreased coal revenues in Beulah. He said the bill draft the committee will review later in the day looks like a bill presented during

the 2015 legislative session. He said a bill that was not good in 2015 does not suddenly get better in 2019. He said the bill draft only addresses cities.

Representative Steiner said her request from the previous meeting pertained to how many cities currently use social media. She said the City of Ashley has a Facebook page and provided examples of items posted on that page. She said her intention was not to require cities to create a Facebook page, but rather require cities with an existing Facebook page to post tax notices on that page in addition to posting the required notices in the newspaper. She said the cost of placing information on a city's social media page would be low for cities that have full-time staff but might not be as low for cities that do not have full-time staff. She said she knows younger individuals are frequent users of Facebook and was exploring options to reach additional taxpayers in a manner that would be relatively inexpensive.

Chairman Unruh said the committee's inquiry centered on cities that have a Facebook page. She said it seems like cities that have a Facebook page are using it to provide information to the public.

Senator Cook said he would be interested in receiving information regarding the number of cities that fall below the statutory thresholds that require the State Auditor's office to conduct an audit every 2 years.

Senator Cook said the reason city representatives have been placed on today's agenda is to allow committee members to receive additional details pertaining to the context behind each city's tax levy increases or decreases.

Representative Guggisberg said he was surprised by Mr. Crosby's comments regarding social media because the information he has been reading indicates cities need to focus more on the use of social media. He said he is one of the managers for his local fire department's Facebook page. He said the Fargo police department also uses Facebook extensively and uses the platform to spread the word about missing children and other pressing matters. He said not all cities can afford to have someone manage a social media account, but it is very important for the North Dakota League of Cities to understand the importance of social media. He said people will discuss property tax matters on social media and he would prefer the information received by the public be accurate information posted by the North Dakota League of Cities. He said the North Dakota League of Cities should take a second look at social media and how it can be used to better inform citizens.

Representative Koppelman said the readership of newspapers is changing and posting notices in the newspaper is becoming less effective. He said Facebook might not be the best or only tool, but it is a tool that could be used to reach a wider demographic of taxpayers.

Mr. Crosby said the committee should be careful regarding mandates placed on political subdivisions in regard to the use of social media. He said a separate interim committee is reviewing the use of newspapers as a method of communication.

Representative Ertelt said he would be interested in receiving revenue and expenditure information for all cities for the years 2015 through 2017. He said he also would like information regarding the population of each city and the percentage change in each city's budget from year to year.

Mr. Crosby said it would take several months and be very difficult to collect budget information for all 357 cities in the state. He said some city auditors work only 5 to 10 hours a week.

Chairman Unruh called on Mr. Tom Barry, City Manager, City of Minot, for presentation (Appendices [C](#) and [D](#)) of information regarding property tax and special assessments. Mr. Barry said the increase in Minot's mill levy between the years of 2016 and 2017 was due to a variety of factors. He said the city's state aid distributions have decreased by 20 percent over the past 5 years. He said the recent slowdown in the economy also has led to reduced property valuations and decreased sales tax revenues. He said half of the city's sales tax collections are used to subsidize property tax revenues. He said decreased sales tax revenue has increased the city's reliance on property tax revenue. He said the city's expenses have not decreased since the economic downturn and the city still has to fund public safety and infrastructure maintenance costs. Despite the city's growth, he said, the city's consolidated property taxes have increased by only 10.5 percent between the years of 2006 and 2016, which averages to about a 1 percent increase per year. He compared the use of special assessments in the city of Minot to the use of special assessments in other cities and said the city does not frequently impose special assessments.

In response to a question from Representative Koppelman, Mr. Barry said the city's budget increase in dollars over the prior year's budget totals was not as significant as it would have been had the city's mill rate remained unchanged since 2010.

In response to a question from Representative Headland, Mr. Barry said the city attempted to reduce expenses by eliminating 20 staff positions and reducing staff salary increases by 50 percent. He said the city also reduced its budget by \$5 million and used \$15 million in reserve funds to balance the budget. He said the dollar amount of the city's budget for the current year is less than the dollar amount of the city's budget for the previous year when grant funds are excluded from both budget totals. He said the city has a \$74 million national disaster grant, but that grant is tied to specific projects.

In response to a question from Senator Cook, Mr. Barry said the city offers renaissance zone property tax exemptions to incentivize growth within the city. He said renaissance zone properties generate other types of revenue, such as sales tax revenue, during the 5-year exemption period. He said the city no longer offers exemptions for new homes or builder-owned properties.

Senator Cook said he would be interested in receiving information regarding the amount of state aid distribution the city of Minot has received in each of the past 15 years.

Representative Ertelt said it is curious the amount of land annexed by the city has increased by 85 percent over the last 10 years though the city's population has only increased by 13 percent over the same time period.

Mr. Barry said the city allowed growth to expand far from the city's epicenter. He said some of the city's new council members are taking a hard look at policies that focuses on infill, rather than further sprawl, to keep future development costs to a minimum. He said investments on the fringes of a city become very expensive if growth does not continue.

In response to a question from Representative Ertelt, Mr. Barry said a large amount of the city's reserves are earmarked for specific purposes and may not be used to meet other expenses in the city's budget.

In response to questions from Representative Mock, Mr. Barry said most grants are tied to specific requirements. He said the city's sales tax rate has remained unchanged over the past several years.

Representative Mock said he would be interested in learning how much the city's revenues and expenditures grew between 2010 and 2017, after subtracting any grant funds, and the portion of the city's current budget which is dedicated to debt service.

Representative Guggisberg said he would be interested in the amount each city has generated in sales tax over the last 15 years.

Chairman Unruh called on Mr. Jared Walczak, Senior Policy Analyst, Tax Foundation, for a presentation ([Appendix E](#)) regarding various states' reliance on property, sales, and income tax. Mr. Walczak said North Dakota is a resource-heavy state, which results in a volatile revenue environment. He said the state's revenue volatility also expresses itself in other tax types, such as income tax. He said the state's population has increased by 20 percent over the past 8 years. He said the state has reduced individual income tax rates over the past few years, but the reductions have had less of an impact in North Dakota than they would have had in other states due to North Dakota's unusual tax revenue mix. He said state tax collections would have been only \$322 million higher had no individual or corporate income tax cuts been made after 2001. He reviewed the percentage of revenues derived from each tax type in North Dakota as compared to the percentage of revenues derived from each tax type nationwide. He said corporate taxes and certain excise taxes are the most volatile tax types and sales tax is the least volatile, aside from property tax which is typically assessed at the local level. He said the state's real spending has doubled over the past 12 years. He said real spending generally takes 30 to 40 years to double in most other states. He said state revenues are down due to volatility within the state's revenue industries, not as a result of tax cuts. He said state revenue is down \$2.9 billion from its peak in 2014. He said the state could operate for 5.4 days using its rainy day funds. He said both Alaska and Wyoming could operate for over a year using their reserves. He said the state could increase deposits into its rainy day fund and increase its reliance on low-volatility taxes. He said sales tax offers some of the greatest revenue stability and the least adverse economic impacts. He said the state could consider broadening the base for all tax types and instituting volatility caps. He said there is no way for a resource-heavy state like North Dakota to achieve a truly stable tax code, but efforts can be made to smooth the tax code.

Senator Cook said it can be misleading to display total oil and gas revenues when only a portion of oil and gas revenues are placed in the state's general fund.

In response to a question from Representative Headland, Mr. Walczak said, in the aggregate, North Dakota taxpayers will see a decrease in taxes due to the recent federal tax changes.

Representative Koppelman said it appears from Mr. Walczak's presentation that the state is spending too much, rather than taxing too little, and the state should have more money in the bank and focus on broadening low-volatility revenue sources.

In response to a question from Senator Dotzenrod, Mr. Walczak said sales tax is one of the least volatile tax types and tends to be regressive in most states. He said sales tax is more progressive in North Dakota due to the state's tax treatment of services. He said North Dakota also offers sales tax exemptions for things like groceries and home utilities, which lessens the regressive nature of the tax. He said a broad-based sales tax tends to be more proportional.

In response to a question from Representative Ertelt, Mr. Walczak said different taxes address different types of economic activity. He said the marginal dollar is much more volatile in North Dakota than it is in other states.

Chairman Unruh called on the Legislative Council staff for presentation of a memorandum entitled [Use of Special Assessment in Other States](#) and a bill draft [19.0167.01000] requiring money remaining in a special assessment fund be credited against tax liability. The Legislative Council staff reviewed the features of special assessments in Minnesota, South Dakota, and Montana. She said the bill draft [19.0167.01000] requires a city to deposit any excess special assessment funds in the city's general fund. She said the city auditor is required to calculate the amount of excess funds that must be credited to each property owner in the special assessment district from which the funds were generated. She said the excess funds must be credited to property owners in proportion to each property's total liability for the cost of the special assessment district. She said excess funds will be provided to property owners in the form of a credit against unpaid special assessments or as a credit against future city tax liability in the case of property owners that have prepaid their special assessments.

In response to a question from Representative Kasper, the Legislative Council staff said the owners of publicly owned property can vote to oppose the formation of a proposed special assessment district. She said this has been raised as an issue by past interim committees as more than 50 percent of the property in a proposed district might be owned by a public entity that will benefit from the proposed district, thus potentially barring private-property owners in the proposed district from successfully contesting the formation of the district.

The Legislative Council staff also noted a correction to the figure provided in regard to the amount of 2017 taxes levied by Bismarck in the memorandum entitled [Special Assessments](#), which was reviewed at the committee's previous meeting.

Chairman Unruh called on Ms. Darcie Huwe, Finance Director/City Auditor, City of Wahpeton, for a presentation ([Appendix F](#)) regarding property tax and special assessments. Ms. Huwe said Wahpeton contains a large amount of public property which impacts the city's ability to raise revenue. She said 1,411 of the 3,353 acres in the city are exempt from property tax. She said the city's low property values, combined with high fixed operating costs, results in high mill levies. She said the effective tax rate in Wahpeton is 1.8 percent for commercial properties and 1.6 percent for residential properties. She said the city uses special assessments to fund the installation, reconstruction, and maintenance of the city's infrastructure. She said the city will be using special assessments to fund an infrastructure project to replace the storm sewers in the city. She said 40 percent of all parcels in the city are paying special assessments. She said the city charges interest at a rate of 1.5 percent above the interest rate on the bond. She said the city also charges administrative fees of up to 3 percent of the cost of construction on a case-by-case basis. She said only the actual costs incurred by an engineering firm for a project are added to the cost of the special assessment district. She said the city frequently buys down the cost of projects with city sales tax revenue.

In response to a question from Chairman Unruh, Ms. Huwe said the city has six enterprise funds. She said the city supplements its large number of exempt properties by transferring a portion of enterprise fund revenues into its general fund.

In response to a question from Senator Cook, Ms. Huwe said the city offers tax exemptions for new homes. She said an average of four to six new homes are constructed in the city each year. She said the city competes for residents with Breckenridge, Minnesota, so the city tries to match any incentives available in Breckenridge.

In response to a question from Representative Headland, Ms. Huwe said the city has not reduced its budget allocations for basic services from year to year. She said the demand for city services has increased even though the population has remained constant.

Chairman Unruh called on Mr. Kent Costin, Director of Finance, City of Fargo, for a presentation ([Appendix G](#)) regarding property tax and special assessments. Mr. Costin said Fargo has been growing by 1.5 to 2 percent per

year. He said the city is levying 51 mills and a 2 percent sales tax. He said revenue from the 2 percent sales tax is dedicated to infrastructure. He said the city has a long history of using special assessments and intends to continue using special assessments. He said property tax revenue has surpassed state aid distributions as the city's primary source of revenue. He reviewed the percentage of general fund spending derived from property tax revenue and said the amount of property tax levied by the city has increased by 6.3 percent over the past 10 years. He said 22 percent of properties in the city are exempt from property tax and of those properties, 3.6 percent receive partial or discretionary property tax exemptions. He said the city offers 2-year builder and new home exemptions, as does West Fargo. He said the largest component of the city's budget is for expenditures related to public safety. He said property tax revenue satisfies 70 percent of the city's public safety costs. He said the city has used special assessments for a long time and they work well. He said new growth costs are assessed locally to property owners. He said reconstruction projects cost 1.5 percent more than new construction projects. He said the city previously split the cost of city projects 70 percent to the city and 30 percent to the property owner. He said in 2015, this policy was changed to a 50/50 split, but was recently reverted to the previous 70/30 split. He said the city uses OpenGov software and is pleased with the analytical features of the software.

Representative Beadle said he would be interested in receiving a more specific breakdown of the amounts and types of exemptions that make up the city's 6.3 percent of partial or discretionary property tax exemptions.

In response to a question from Representative Headland, Mr. Costin said growth impacts the number of calls a city receives for services. He said calls for fire and police continue to escalate and the city has added police staff nearly every year. He said the city has not conducted a formal study regarding whether growth pays for itself. He said the city has been sustaining its growth without having to increase taxes.

Representative Guggisberg said the fire and police budget in Sioux Falls, South Dakota, is double the fire and police budget in Fargo. He said Fargo is very frugal in its expenditures for fire and police services.

In response to a question from Representative Beadle, Mr. Costin said a recent construction project resulted in large special assessments being imposed on rural lots. He said the city worked with the owners of those lots to reduce special assessments. He said the city is cognizant of the burden special assessments can create for homeowners and makes adjustments to special assessments when appropriate. He said developers in Fargo have the option of paying for infrastructure costs on their own. He said developers rarely choose to fund the infrastructure costs for a new development.

In response to a question from Senator Cook, Mr. Costin said the city adds a 6 percent administrative fee to special assessment projects and 1 percent interest over the stated interest rate on the bond. He said the city also adds an 11 percent engineering fee on new construction projects and a 6 percent engineering fee on reconstruction projects. He said the city employs an engineering staff. He said 77 percent of the parcels in the city are subject to special assessments and the average balance is \$2,400 per parcel. He said refunding excess special assessment funds to property owners would be very cumbersome due to the large number of bond issues spread over multiple special assessment districts. He said the policy of placing excess funds in the city's general fund is easy to administer.

In response to a question from Representative Beadle, Mr. Costin said the only permanent solution he sees for reducing special assessment costs is increasing sales tax revenue. He said the problem with replacing the revenue source for special assessments is how to unwind the city's \$396 million in outstanding special assessment debt. He said there is a homestead tax credit statute that targets those with an inability to pay special assessments. He said the statute allows the state to pay the special assessments on a property in exchange for securing a lien on the property. He said the provision has a \$6,000 cap and the lien amount is subject to interest at a rate of 9 percent. He said this statute could be modified to increase the \$6,000 cap and lower the interest rate. He said full use of this program in Fargo would cost the state \$100,000.

In response to a question from Representative Koppelman, Mr. Costin said the city is discussing the treatment of special assessment for arterial roads. He said the city has meetings scheduled for July and August to further discuss special assessments and potentially modify the city's special assessment policy. He said it is hard to determine whether a higher citywide property tax would be better than a lower citywide property tax combined with the use of special assessments. He said the city likely will hold public forums on special assessments over the next few months.

In response to a question from Representative Kasper, Mr. Costin said property owners within a proposed special assessment district can protest the formation of the district unless the district is being formed for the purpose of constructing a water or sewer project. He said all property owners, with the exception of the owners of cemetery property, are subject to paying special assessments.

Senator Cook said fees applied at a rate of 15 percent to the \$58 million of new special assessments levied in Fargo in 2017 would generate over \$8 million.

In response to a question from Senator Cook, Mr. Costin said special assessments are not being used as a profit center for the city. He said the special assessment fees charged in Fargo are reasonable.

In response to a question from Representative Koppelman, Mr. Costin said the law pertaining to how to handle excess funds from matured bonds was amended in 1975 to allow excess funds to be placed in a city's general fund. He said no testimony or opposition to the amendment was received in 1975. He said public outcry would arise if the only property owner that received a refund of excess special assessments was the individual who owned the property last in time. He said because cities are running on a lean staff, making the special assessment process more complex would be burdensome for cities.

Chairman Unruh called on Ms. Tina Fisk, City Administrator, City of West Fargo, for a presentation ([Appendix H](#)) regarding property tax and special assessments. Ms. Fisk said the population of West Fargo has tripled since 1990. She said inflation has increased by 17 percent and the city's mill levy has decreased by 36 percent over the past 10 years. She said the city has avoided larger tax increases by generating revenue from alternative sources such as permit fees. She compared the property taxes that would be levied on a \$250,000 home in West Fargo to the property taxes that would be levied on the same home in other cities in the state. She said West Fargo has a low mill levy and is conservative in its budgeting. She said budget increases in 2018 resulted from adding fire department staff to reduce response times. She said the city frequently uses special assessments, and had \$282 million in special assessment debt as of December 31, 2017. She said larger construction projects are partially funded with sales tax revenue to keep special assessments low.

In response to a question from Representative Kasper, Ms. Fisk said even though the city's mill levy has decreased, the number of dollars collected from the city's levy has increased due to increased property values.

In response to a question from Representative Headland, Ms. Fisk said special assessments were being used by the city even before the city experienced increased growth.

In response to a question from Senator Cook, Ms. Fisk said the fees charged on special assessments in West Fargo include a 3 percent administrative fee and any fees charged by the engineering firm hired by the city. She said the engineering firm hired by the city has charged up to 11 percent. She said 1 to 1.5 percent interest also is added on to the interest rate of the bond to cover any shortfalls. She said the city auditor ceases certifying future installments of special assessments once a bond is paid. She said from 2005 to 2014 the city had \$590,000 in excess special assessment funds. She said each improvement district could have between 2,000 to 10,000 parcels. She said spreading excess funds over multiple improvement districts would be very difficult.

Representative Koppelman said he read a newspaper article that stated the city had enough money in excess special assessment funds to pay for an entire police department. He said special assessments have predominantly been imposed on properties in the southern part of the city and the new police department building was built in the northern part of the city. He said he is concerned cities could use special assessments as a shell game to keep the appearance of low citywide property taxes while supplementing revenues in a roundabout manner through the use of special assessments.

Ms. Fisk said the majority of the costs for the \$9 million police department facility was funded from excess administrative and other fees collected as a result of construction in the southern part of the city. She said the fees were not excess funds left over from sinking funds. She said \$6 million to \$8 million of the \$9 million to \$10 million collected each year in city sales tax is used to fund infrastructure projects. She said the city is reviewing the best way to move forward with reconstruction projects in the city. She said the city is aware of the burden special assessments have created on larger lots in the southern part of the city.

In response to a question from Senator Cook, the Legislative Council staff said although city auditors are required by statute to cease certifying special installments once costs are satisfied, she included the bill draft provision allowing excess funds to be applied against outstanding special assessment debt in part because of the situation Representative Koppelman referenced. She said the bill draft provision also would operate to apply excess funds to offset any special assessment installments that have previously been billed but are not yet paid or any unpaid installments that have converted to a lien of the property.

Representative Kasper said a 1 percent fee added onto the interest rate of the bond on \$320 million of special assessment debt would generate \$3.2 million. He said he wondered where all these additional funds were going after construction projects were finished and staff is no longer needed to complete administrative duties in relation to the project.

Ms. Fisk said the 1 percent additional fee is placed in the sinking fund and helps cover the cost of property owners that prepay special assessments or default on special assessment payments.

Chairman Unruh called on Mr. Keith Hunke, City Administrator, City of Bismarck, for a presentation ([Appendix I](#)) regarding property tax and special assessments. Mr. Hunke said Bismarck levies special assessments for city infrastructure, which includes both new construction and the rehabilitation of existing infrastructure. He said the city has levied roughly \$20.4 million in special assessments over the past 3 years. He said a majority of those assessments were for the construction and rehabilitation of streets, sidewalks, curbs and gutters, and street lights.

In response to a question from Senator Cook, Mr. Hunke said, for new construction, developers are required to pay for all underground infrastructure and the city levies special assessments for aboveground infrastructure costs. He said a handful of developers in Bismarck assume both the aboveground and underground infrastructure costs. He said developers that assume all infrastructure costs are subject to the city's standard permitting process.

Chairman Unruh called on Mr. Jim Neubauer, City Administrator, City of Mandan, for a presentation ([Appendix J](#)) regarding property tax and special assessments. Mr. Neubauer said the amount of property tax levied by the city increased from \$4.8 million to \$5.6 million from the years 2016 to 2017. He said the property tax increase was required due to a reduction in the city's state aid distributions and a need to refill the cash reserves the city uses to pay for emergency snow removal. He said the city's current budget is \$30.1 million. He said the city offers property tax exemptions related to renaissance zones, new businesses, residential and commercial remodels, and new residential properties. He said the city will reduce the property tax exemption for new residential property to a 1-year, \$75,000 exemption effective January 1, 2019. He said the discretionary property tax exemptions offered by the city account for less than 2 percent of the total true and full value of the city. He said developers assume the cost for underground infrastructure in new developments. He said the city imposes special assessment for aboveground infrastructure costs in new and existing residential areas. He said the costs of underground infrastructure in existing residential areas are paid using utility funds. He said the portion of the cost for collector or arterial streets not funded with state or federal dollars is paid using a combination of sales tax, property tax, and special assessments. He said the city no longer imposes citywide special assessments because newly annexed areas were not being included in existing citywide special assessments districts.

In response to a question from Senator Cook, Mr. Neubauer said the special assessment fees charged by the city include a 5 percent administration fee. He said the amount charged for construction, engineering fees, legal fees, and bonding is limited to the actual amount incurred for those purposes. He said the 5 percent administration fee is used to help fund the city's engineering department.

Chairman Unruh called on Mr. Adam J. Tescher, Director, School Finance and Organization, Department of Public Instruction, for a presentation ([Appendix K](#)) regarding school district mill levy increases. Mr. Tescher reviewed the K-12 funding formula and said the formula requires a deduction of the lesser of 60 mills or a 12 percent increase in dollars over the previous year's deduction. He said school districts can levy up to 70 mills for general fund purposes without going to a vote of the people.

In response to a question from Representative Ertelt, Mr. Tescher said there are 178 school districts in the state.

In response to a question from Senator Cook, Mr. Tescher said a formula is in place to determine the amount of tuition that must be paid for students in school districts that do not have a high school.

In response to a question from Senator Dotzenrod, Mr. Tescher said there are approximately 20 to 25 elementary school districts in the state.

Chairman Unruh called on Mr. Daniel Nairn, Planner/Land Use Planning, Planning Division, City of Bismarck, for a presentation ([Appendices L](#) and [M](#)) regarding property tax exemptions in Bismarck. Mr. Nairn said 4 percent of the 25,255 parcels in the city receive either a full or partial property tax exemption. He said the market value of the property tax exemption granted to Sanford Health for 2018 is \$115,335,500. He said using the 2018 exempted market value and the 2017 mill levy, the estimated amount of property tax not being collected from renaissance zone properties in the city in 2018 is \$307,596.

Chairman Unruh called on Ms. Donnell Preskey, Government/Public Relations Specialist, North Dakota Association of Counties, for a presentation ([Appendices N](#) and [O](#)) regarding property tax and the use of social media by the association and its members. Ms. Preskey said the association's review of property tax increases indicated that when most counties raised property taxes, it was in response to an urgent need. She said counties have a unique mix of revenues that vary from year to year and a county's ability to manage its reserves can be greatly impacted by a variety of circumstances. She said volatility in energy revenues in western counties and

changes to state aid distributions in smaller counties were the most commonly cited reasons for property tax increases or decreases. She said in regard to the committee's discussion of requiring counties with a Facebook page to post property tax notices, the association would resist this proposal. She said while 47 of the 53 counties have a Facebook page, these pages often are managed by various county departments. She said notice requirements are being studied by the interim Judiciary Committee.

ECONOMIC DEVELOPMENT TAX INCENTIVES STUDY

Chairman Unruh called on the Legislative Council staff for presentation of updated background memorandums entitled [Economic Development Tax Incentive Study - Research Expense Tax Credit](#), [Economic Development Tax Incentive Study - New or Expanding Business Exemptions](#), [Economic Development Tax Incentive Study - Workforce Recruitment Credit](#), and [Economic Development Tax Incentive Study - New Jobs Credit from Income Tax Withholding](#). The Legislative Council staff said the memorandums have been updated with additional data and testimony the committee received at the previous meeting. She presented a memorandum entitled [Economic Development Tax Incentive Study - Evaluation Chart](#), and said the chart has been updated to assist the committee in tracking its progress in studying economic development tax incentives. She said the committee decided against receiving an analysis of the internship program credit and the workforce recruitment credit using REMI software due to the low volume of claimants.

Chairman Unruh called on the Legislative Council staff for presentation of a bill draft [[19.0163.01000](#)] to repeal the internship program credit, a bill draft [[19.0164.01000](#)] to repeal the workforce recruitment credit, and distribution of a presentation ([Appendix P](#)) from the National Conference of State Legislatures pertaining to apprenticeships. The Legislative Council staff said the bill drafts to repeal the internship program credit and the workforce recruitment credit were requested for the purpose of soliciting testimony from those seeking to retain or eliminate the credits.

Chairman Unruh called on Mr. Ryan Rauschenberger, Tax Commissioner, for a presentation ([Appendix Q](#)) regarding the Tax Department's efforts to publicize the internship program credit and the workforce recruitment credit. Mr. Rauschenberger said the pamphlet published by the department describes the various tax incentives available to businesses, which include the internship program credit and the workforce recruitment credit. He said the pamphlet is mailed to economic developers at the local level and is used frequently by the department in meetings with other state agencies. He said an electronic copy of the pamphlet also is available online.

Chairman Unruh called on Ms. Jennifer Dahl, Operation Intern/Youth Office Coordinator, Department of Commerce, for a presentation ([Appendix R](#)) regarding the Operation Intern program and the availability of internships and apprenticeships in the state. Ms. Dahl said the Operation Intern program was created in 2007 and expanded to include high school juniors and seniors and registered apprenticeships in 2009. She said the program reached over 400 students and 200 companies during the 2011-13 biennium. She said the Legislative Assembly awarded \$1.5 million in funding to the program for the 2013-15 biennium and \$950,000 in funding for the 2017-19 biennium. She said since its inception, the program has matched over 2,200 interns with over 600 businesses. She said 156 interns matched through the program have been hired by the companies at which they interned on a full-time basis.

Chairman Unruh called on Ms. Ilene Odegard, Director, Career Services, University of North Dakota, for a presentation ([Appendix S](#)) regarding internship and apprenticeship requirements and opportunities at the university level. Ms. Odegard said internships generally are taken for credit at the university level. She said not all departments at the University of North Dakota require internships, but the university's new president has placed a strong focus on providing students with high-impact experiences upon graduation. She reviewed the various programs offered in conjunction with the community of Grand Forks, economic development corporations, and the Energy and Environmental Research Center and provided information pertaining to the return on investment that might be realized for each student who becomes a full-time employee in this state.

Chairman Unruh called on Ms. Michelle Kommer, Commissioner, Department of Labor and Human Rights, for a presentation ([Appendix T](#)) regarding the supply of, and demand for, internships and apprenticeships and the Workforce Development Council's efforts to address North Dakota's workforce needs. Ms. Kommer said developing a skilled workforce is crucial to ensuring future growth and economic development in the state. She reviewed the history and membership of the Workforce Development Council and said the council has been working to collect data, evidence, and stakeholder input to help the council understand the state's current and future workforce needs. She reviewed the five themes that are developing from the council's research and said the council will complete its research in July and finalize its recommendations for addressing the state's workforce needs in September.

In response to a question from Representative Kasper, Ms. Kommer said the feedback the council is receiving through employer surveys indicates new employees are entering the workforce with a deficiency in the types of skills they need to perform effectively.

In response to a question from Representative Mitskog, Ms. Kommer said the council is working in conjunction with representatives from higher education and will evaluate whether the state offers sufficient training opportunities for high-demand jobs. She said the council's recommendations will cross multiple agencies and be collaborative in spirit.

In response to a question from Representative Steiner, Ms. Kommer said the council is working directly with the oil and gas industry and she hopes to see several industry partnerships.

Senator Cook said the committee is tasked with evaluating incentives and determining whether incentives are operating effectively. He said Ms. Kommer would be a good resource for the committee in regard to suggestions for modifying or supplementing the state's approach to addressing workforce needs.

Ms. Kommer said she would appreciate the opportunity to provide additional information to the committee and said the council aims to develop specific recommendations to address the state's workforce challenges. She said the council's recommendations might take various forms including a tax incentive married with a private sector partnership or an educational investment. She said the council would not seek any new tax credits unless the council first had determined how to track and measure the success of the credit.

Chairman Unruh called on Mr. Mark Vaux, Executive Vice President, Business Development, Greater Fargo Moorhead Economic Development Corporation, and Secretary/Treasurer, Economic Development Association of North Dakota, for testimony regarding the association's recommendations pertaining to the committee's study of economic development tax incentives. Mr. Vaux said it is important to look at other state's tax climates and incentives when trying to attract and retain businesses. He said it is beneficial for a state to offer a low-tax environment and a good mix of incentives when seeking to attract businesses. He encouraged the committee to consider reinstating the automation tax credit, and said a manufacturer in Fargo is competing with a Canadian company for a \$2 million contract and the automation credit would make that manufacturer's bid much more competitive. He said the association will refrain from offering specific recommendations until the association's full membership has a chance to meet in June.

Chairman Unruh invited comments from interested persons in attendance regarding the committee's study of economic development tax incentives. No comments were received.

Chairman Unruh called on Mr. Rauschenberger for presentation of information (Appendices [U](#) and [V](#)) pertaining to the federal Tax Cuts and Jobs Act of 2017. Mr. Rauschenberger provided an overview of the Tax Cuts and Jobs Act and said the federal legislation increased the standard deduction and eliminated personal exemptions. He said North Dakota is one of six states that uses federal taxable income as the starting point for calculating state income tax. He said doubling the standard deduction lowered federal taxable income and eliminating personal and dependent exemptions raised federal taxable income. He said because North Dakota has a large number of married taxpayers with children and a large amount of income flowing through families, many filers will see a slight tax increase as a result of the federal legislation. He reviewed the anticipated increases and reductions for individuals, businesses, and international businesses and said the combined estimated fiscal impact on state income tax is a \$4.9 million reduction for the 2017-19 biennium and a \$28.9 million reduction for the 2019-21 biennium.

In response to a question from Senator Cook, Mr. Rauschenberger said there are pros and cons associated with using federal taxable income as the starting point for calculating state income tax. He said one of the downsides for states that start with adjusted gross income is a more complicated tax system. He said it is unlikely the benefits of switching the state's starting point from federal taxable income to adjusted gross income would outweigh the administrative burdens created as a result of modifying the state's tax code.

Representative Headland said anytime taxpayers are able to keep more of their income, the state also benefits.

Chairman Unruh invited comments from the committee regarding future meeting topics and directives.

Senator Cook said he would be interested in reviewing a bill draft that incorporates Mr. Costin's recommended changes to the homestead tax credit for special assessments. He said he also would be interested in reviewing information pertaining to the various special assessment fees charged by the 20 largest cities in the state.

Chairman Unruh said she also would be interested in which of the 20 largest cities employed city engineers and which cities contracted with private firms for engineering services.

In response to a question from Senator Cook, the Legislative Council staff said the only special assessment fee restricted by statute pertains to the maximum rate of 1.5 percent that may be added to the interest rate on bonds.

Representative Kasper said he would like to review the 2001 bill that limited the impact owners of publicly owned property could have on a vote to contest the formation of a proposed special assessment district.

Chairman Unruh requested the Legislative Council staff to prepare a summary of other interim committee bill drafts pertaining to special assessments that were considered by past interim committees. She said the committee's next meeting likely would be held at the end of July or in early August.

No further business appearing, Chairman Unruh adjourned the meeting at 4:25 p.m.

Emily L. Thompson
Counsel

ATTACH: 22