NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

TAXATION COMMITTEE

Thursday, July 12, 2018
Roughrider Room, State Capitol
Bismarck, North Dakota

Representative Jason Dockter, Vice Chairman, called the meeting to order at 9:00 a.m.

Members present: Senators Brad Bekkedahl, Dwight Cook, Jim Dotzenrod, Scott Meyer; Representatives Thomas Beadle, Jason Dockter, Sebastian Ertelt, Jim Grueneich, Ron Guggisberg, Craig Headland, Jim Kasper, Alisa Mitskog, Emily O'Brien, Randy A. Schobinger, Vicky Steiner

Members absent: Senators Jessica Unruh, Lonnie J. Laffen; Representatives Patrick Hatlestad, Ben Koppelman, 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 Representative Steiner, seconded by Representative Beadle, and carried on a voice vote that the minutes of the May 31, 2018, meeting be approved as distributed.

CITY FUNDS FOLLOWUP INFORMATION

Vice Chairman Dockter called on Mr. Tom Barry, City Manager, City of Minot, for a presentation (Appendix B) regarding the amount of funds held in reserve and the receipt of state aid distribution funds over the past 15 years. Mr. Barry said the city holds $142 million in cash and cash equivalents in the form of committed, restricted, and unrestricted funds. He said $110 million of the funds are restricted, $25 million are committed, and $7.3 million are unrestricted. He said the reserves have accumulated due to increased sales tax revenue during the oil boom and due to earmarked funds accumulating due to stalled projects such as the Northwest Area Water Supply project. He said the city also shows reserves due to a recent $74 million community development block grant disaster recovery award. He said the city also must meet certain debt service reserve requirements and liquidity reserve requirements. He reviewed the amount of state aid distributions the city has received over the past 15 years and said the city received $40 million in state aid since 2002. He said state aid payments began to decline in 2014. He reviewed the special assessment fees charged by the city and said the city charges a 1.5 percent annual interest rate and an 8 percent engineering fee on new projects but does not charge any other administrative fees. He said the city uses both inhouse and consulting engineers to oversee projects.

In response to a question from Senator Bekkedahl, Mr. Barry said the 8 percent engineering fee has been in place for at least 5 years.

In response to a question from Senator Dotzenrod, Mr. Barry said 53 percent of the city's local sales tax collections, which equates to 49 mills, are used for property tax relief.

In response to a question from Senator Cook, Mr. Barry said developers building new developments in Minot are required to pay for the infrastructure to and through the development. Mr. Barry said the city offers developers economic incentives, such as renaissance zone incentives, and occasionally uses special assessments when developers require additional funding for a project to progress. He said the city rarely uses special assessments and less than 2 percent of the city's $145 million budget for fiscal year 2018 is derived from special assessments.

In response to a question from Representative Beadle, Mr. Barry said funds for infrastructure rehabilitation projects are derived from sales tax, property tax, or other revenue sources such as grants.

In response to a question from Representative Ertelt, Mr. Barry said the city has been collecting sales tax for the Northwest Area Water Supply project for many years but began to reallocate sales tax collections toward other projects when that project was stalled.

ECONOMIC DEVELOPMENT TAX INCENTIVES STUDY

Vice Chairman Dockter called on the Legislative Council staff for presentation of a memorandum entitled *Economic Development Tax Incentive Study - Evaluation Chart*. The Legislative Council staff said the updated evaluation chart is used to track the committee's progress in receiving information pertinent to its study of economic development tax incentives. She reviewed a bill draft [19.0239.01000] to sunset the renaissance zone program effective January 1, 2020. She said the bill draft allows a taxpayer to claim the remaining portion of any incentive earned before the sunset date.

Vice Chairman Dockter called on Ms. Carla Valentine, Accountability Manager, Office of Innovation and Entrepreneurship, Department of Commerce, for a presentation (Appendix C) of the *2017 Business Incentive Accountability Report*. She said the business incentive accountability law became effective January 1, 2006, and applies to businesses that receive incentives totaling $25,000 or more per year from state or local grantors. She said only state grantors are subject to reporting requirements. She said the law requires the recipient business enter a business incentive agreement with the grantor, which includes a description of the incentive to be granted and the job goals the business seeks to achieve within the first 2 years. She said a recipient business must report its progress toward achieving the stated goals. She said renaissance zone incentives and new or expanding business incentives are subject to the business incentive accountability law. She said from 2013 through 2017, 841 business incentive agreements were entered totaling an incentive value of $113,375,323. 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 by year and identifies whether the goal was to create jobs, retain jobs, or neither. She said 2,534 jobs were created and retained over the last 5 years compared to a goal of 2,000 jobs. She said the full report is available on the department's website.

In response to a question from Representative Ertelt, Ms. Valentine said bonus jobs are created if a business generates jobs even though the agreement did not require the business to create or retain jobs. She said the business will report any wages and benefits related to jobs classified as bonus jobs.

In response to a question from Representative Steiner, Ms. Valentine said not all agreements require the creation or retention of jobs. Ms. Valentine said one example would be an incentive agreement aimed at assisting community development.

Senator Cook said this is likely one of the most important reports the committee will receive when evaluating economic development incentives. He said the report details how many jobs are created by incentives, yet one of the biggest challenges the state faces is filling unfilled jobs. He said the committee has engaged in very little discussion regarding how the state can attract workers to fill jobs. He said the committee might benefit from a discussion that centers around eliminating incentives aimed at creating jobs and creating incentives aimed at bringing workers to the state.

Representative Steiner said if you take the 2,534 jobs listed in the report and divide that number by the incentive value of $113 million it equals $44,742 per job.

Representative Ertelt said the jobs number cannot be directly divided because it represents jobs over a 5-year period.

Ms. Valentine provided additional information (Appendix D) following the meeting which relates to the dollar value per number of jobs.

Vice Chairman Dockter called on Mr. Kelvin Hullet, Market Manager, Bank of North Dakota, for a presentation (Appendix E) of the background and analysis of the new jobs training program credit and the research expense tax credit. Mr. Hullet said the Bank was not able to analyze the tax increment financing incentives because the Bank's software is able only to analyze state economic factors, not local economic factors.

Vice Chairman Dockter called on Mr. Scott Nystrom, Director, FTI Consulting, appearing via WebEx, for presentation (Appendix F) of a detailed report pertaining to the estimated economic and fiscal impacts of the new jobs credit from income tax withholding and the research expense tax credit. Mr. Nystrom said the new jobs tax credit program allows a primary sector business in this state to receive an income tax credit to help reimburse the business for loans, grants, or self-financed funds used to hire new full-time employees. He said the data input into the model included data collected by Job Service North Dakota since the program's inception in 1996. He said the top three industries that used the program were the machinery manufacturing, insurance, and repair and maintenance industries. He said the program created almost 16,000 full-time jobs from 1999 through 2013 and 630 new jobs from 2014 to 2015. He said wages for new employees grew an average of 87 percent over 10 years. He said the program also increased the state's population by 26,000. He said the cost of the credit is relatively minimal when compared to the amount the program nets in revenues. He said state expenditures related to the program primarily relate to the costs needed to maintain an increased population. He said the program only performs slightly above the break-even point due to the state's increased population carrying costs. He said the program has generated $8.6 billion in revenues but cost $7.6 billion in additional expenditures that were needed to maintain the state's increased population.

In response to a question from Representative Beadle, Mr. Nystrom said the model assumed jobs generated by the program would continue for 10 years because that is the duration for which the credit can be claimed. He said the model can be adjusted to reflect different assumptions.

In response to a question from Senator Cook, Mr. Nystrom said the model cannot predict how many credits will be claimed in the future, but it can make assumptions regarding whether the impact of a credit would be positive, negative, or neutral based on assumptions related to the continuation of past trends. He said the model also takes into account changes in the state's labor market.

In response to a question from Representative Beadle, Mr. Nystrom said the model's ability to project the economic impact of future tax credits depends on how closely the credit is tied to certain macroeconomic or demographic factors. He said the model will not be able to provide a literal projection of the amount a certain credit will be claimed in the future.

In response to a question from Senator Dotzenrod, Mr. Nystrom said the results of this analysis correlated somewhat with changes to macroeconomic cycles. He said the program tended to do well when the state economy also was doing well.

In response to a question from Representative Headland, Mr. Nystrom said the model could be used to analyze the economic impact of eliminating the state income tax.

Representative Headland said states that have eliminated income tax seem to be gaining population and creating jobs. He said an analysis of the impact income tax elimination would have on the state's economy would be useful in assisting the committee in determining the direction it wishes to take on incentives. He said it also may be useful to determine what the economic impacts might be if legacy fund profits are used to supplement some of the state's general fund budget needs.

In response to a question from Vice Chairman Dockter, Mr. Hullet said the Bank of North Dakota could run that analysis using its software. He said he would need specifics regarding the taxes that would be eliminated and the sources that would be used to replace the lost revenue. He said using the software to model large policy changes is potentially a higher and better calling for the software than using it to evaluate individual incentives. He said the analysis of incentives this interim showed each incentive coming out slightly ahead or slightly behind. He said using the software to evaluate incentives has been a good learning experience, but using the software to address larger policy questions is really where the power in the model lies.

Representative Steiner said she would be interested in looking at whether the sales tax rate could be increased to offset lost income tax revenues. She said the state also faces liability in terms of unfunded pension funds. She said one approach would be to use legacy fund principal, coupled with increased sales tax revenue, to bridge the revenue gap that would result from eliminating the income tax and to address unfunded pension liability. She said employers would be reassured the state would not ask them to help catch up on unfunded liability and individuals would be able to moderate the impact of increased sales tax rates based on the items they choose to purchase. She said she also would like to incorporate a sales tax exemption for gross receipts from sales of nonprofit thrift store clothing when the funds are used for a charitable purpose.

In response to a question from Representative Steiner, Mr. Nystrom said the model could be used to address the pension aspect of her inquiry. He said he recently completed a project pertaining to underfunded private pensions in the Midwest, which included an assessment of what the underfunding could mean for the Midwest economy.

Mr. Nystrom said replacing lost income tax revenue with increased sales tax revenue could be addressed in two ways. He said the committee could increase the rate of the sales tax or broaden the sale tax base. He said many states have started broadening the sales tax base to include more services. He said broadening the sales tax base also serves to make sales tax more neutral between commodities and other types of consumption.

In response to a question from Representative Beadle, Mr. Nystrom said the model's projections for the state's economy going forward are based on a set of underlying assumptions. He said these assumptions could be modified to reflect situations such as rising or falling oil prices.

Vice Chairman Dockter said the appropriate individuals will contact the Bank with more specific details regarding the modeling in which the committee wishes to proceed.

In response to a question from Representative Guggisberg, Mr. Nystrom said income tax elimination has been modeled for other states but he is not aware of whether those results are publically available.

Representative Guggisberg said he would be interested in modeling the opposite scenario of reducing sales tax rates and replacing lost revenue with increased income tax rates.

Mr. Nystrom reviewed the results of the research expense tax credit analysis and said the incentive provides a credit against state income tax liability for qualifying expenditures related to research and development activity in this state. He said the data used to analyze the credit was provided by the Tax Department. He said the analysis assumes the credit was reasonably associated with $109 million in additional research and development spending per year. He said approximately 1,800 taxpayers claimed the credit from 2007 to 2016. He said it is assumed the number of claimants for this credit will hold steady going forward. He said, at its peak, the credit added 1,100 jobs and 1,000 individuals to the state's population, which results in a medium-term positive economic and demographic impact for the state. He said jobs are mainly concentrated in the professional services industry and do not result in local displacement because research and development activities generally do not take business or money away from existing employers. He said the credit's impact on the state's gross domestic product is about $80 million per year. He said the state will receive about $213 million in revenue as a result of the credit over a 20-year period. He said the state will expend $66 million for the direct cost of the credit and $182 million in indirect costs as a result of maintaining an increased state population over the same 20-year period. He said this result is the state having $30 million less than it would have had if the credit had not been provided. He said the credit is a net liability in terms of the state's budget but has a positive impact on the state's economy.

In response to a question from Senator Cook, Mr. Nystrom said Iowa expanded its sales tax base by taxing services. He said Iowa has a low sales tax rate as a result of having a broad sales tax base. He said California also has a unique sales tax base as the state applies its general sales tax to gasoline.

Senator Cook said the Tax Foundation recommended North Dakota expand its sales tax base. He said the committee has discussed increasing or decreasing the sales tax rate and expanding the base. He said time and again experts speaking at National Conference of State Legislature summits have advocated for states to expand their sales tax bases. He said experts have noted expanding the sales tax base is the best way to fairly and competitively increase state revenues while placing little burden on taxpayers. However, he said, expanding the sales tax base is politically difficult. He said South Dakota recently put forth an initiated measure to remove the existing sales tax on groceries and voters soundly rejected the measure.

In response to a question from Representative Beadle, Mr. Nystrom said the model cannot track generally how technological and other research and development related advances will impact a state's economy.

Vice Chairman Dockter called on Mr. Mark Vaux, Secretary Treasurer, Economic Development Association of North Dakota, and Executive Vice President, Greater Fargo Moorhead Economic Development Corporation, for presentation (Appendix G) of the association's recommendations pertaining to the committee's study of economic development tax incentives. Mr. Vaux said the tax credits being discussed are important tools in supporting economic diversification and workforce recruitment. He said the renaissance zone credit encourages investment in businesses and housing in downtowns and other blighted areas. He said the Bank's analysis showed no great cost to the state, with the largest expense resulting from educating an increased population. He said the additional population will allow the state to fuel its workforce in future years. He said stronger downtowns create a stronger state. He said the program should continue. He said the Economic Development Association of North Dakota (EDND) would consider supporting the elimination of the renaissance zone program only if another, more well-suited, program was created to take its place. He said properties in downtown Fargo have increased in value from $200 million to over $500 million since the inception of the program. He said that value is expected to exceed $600 million as renaissance zone exemptions begin to expire. He said other property taxpayers pay $4.87 million less in property taxes, equal to an 11.5 percent lower mill rate, as a result of this additional growth. He said EDND also supports continuation of the new and expanding business property tax exemption because the credit is used successfully across the state to attract and retain businesses. He said the program has been used extensively over the past 5 years by a value-added agricultural project in Fargo, which has invested over $100 million in a local facility. He said the incentive also has fostered expansions of the National Information Solutions Cooperative in

Mandan. He said a recent 2017 expansion of the cooperative involved a $7.5 million investment in the construction of a 33,000 square foot building. He said the expansion frees up space to allow 75 more people to be hired over the next 5 years.

Mr. Vaux said additional individuals will speak to the use of the new jobs credit from income tax withholding and the use of tax increment financing districts. He said tax increment financing (TIF) is available in 49 states and is needed to compete with other states for development and redevelopment projects. He said EDND supports the availability of TIF as an economic development tool and believes decisions regarding the use of TIF should remain within the purview of local communities that understand the community needs. He said EDND supports the elimination of the internship program credit and the workforce recruitment credit due to the lack of use and the limited scope of these programs.

Mr. Vaux said he received comments from a representative of Bobcat Company who stated the company has consistently used the research expense tax credit and it weighed heavily on the company's decision to place a $28 million acceleration investment and expansion center in Bismarck. He said the representative also noted any action by the Legislative Assembly to discontinue the credit would weigh heavily on the company's future decisions for expansion.

Mr. Vaux said he encourages the committee to consider restoring the automation tax credit. He said the Bank has been creative in finding ways to allow companies additional access to capital. He said the state needs to continue being creative and offering opportunities not available in other states. He recommended setting up a task force of legislators, Bank officials, and business owners to brainstorm ways to find more access to capital programs. He said the state needs to do more to attract businesses to fill available building spaces.

Representative Kasper said it seems EDND could work with its various contacts to develop a white paper of recommendations for the committee without the committee needing to form a task force. He requested EDND provide recommendations regarding changes that should be made to the state's incentives.

Mr. Vaux said EDND could provide its incentive recommendations to the committee.

Ms. Connie Ova, CEO, Jamestown/Stutsman Development Corporation, and Past President, Economic Development Association of North Dakota, said the association gladly would provide the committee with its recommendations. She said she also would support bringing back the automation tax credit due to employee shortages. She said Jamestown has a 1.9 percent unemployment rate and 380 job openings. She said Williston has 2,000 job openings. She said Jamestown has implemented new jobs training funds with great success. She said numerous local manufacturers use the credit including Agri-Cover, Inc., which has grown from 30 to 125 employees; Duratech Industries International, Inc.; United Technologies; Champ Industries USA, Inc.; Mid-Mac Marketing, Inc.; and RTS Shearing, LLC. She said these manufacturers have been able to use the credit to upskill current employees and provide advance training. She said these companies are providing good jobs with great benefits to employees in Jamestown and Stutsman County. She said representatives of value added companies in Jamestown including Dakota Spirit AgEnergy, LLC; Dakota Brands International, Inc.; Browning's Honey Company, Inc.; and North Dakota Soybean Processors, LLC, speak highly of this credit. She said the availability of the credit may not be the only reason companies have decided to locate to or expand in Jamestown, but it is an important tool in the state's economic tool box.

In response to a question from Representative Headland, Ms. Ova said it is proper to use the Bank's software to review the implications of eliminating income tax. She said if income tax were eliminated, many of the incentives the committee is reviewing would no longer be relevant.

In response to a question from Representative Grueneich, Ms. Ova said one of the new businesses locating in Jamestown will not be using the incentives mentioned today, but it will benefit from purchasing property at cost due to incentives provided to the Jamestown Stutsman Development Corporation when it originally purchased the property in 1991.

Mr. Matt Marshall, Economic Development and Community Services Director, West Fargo Economic Development, and Director, Economic Development Association of North Dakota, provided testimony on TIF districts and the importance of the districts in local decisionmaking. He said a commercial tax base is important to both the state and to local municipalities in regard to revenue. He said commercial businesses are taxed at a higher rate, generate sales tax, and typically consume a large amount of services. He said the commercial tax base subsidizes the residential tax base. He said the use of TIF to help subsidize infrastructure costs helped spur the creation of the city's Butler Industrial Park. He said the commercial property value of the park exceeds $100 million and the park employs over a 1,000 individuals. He said the park is home to national companies, including Trail King

Industries and Crary Industries. He said he applauded legislators for the changes made during the 2017 legislative session regarding cooperation between cities, counties, and schools in relation to TIF districts. He said West Fargo created a downtown TIF district in 2018 with the agreement of the board of county commissioners and the school board. He said two of the lots in the TIF district have a taxable value of $800,000. He said that value is expected to increase to $8 million when the development is complete. He said the payback period for the development is 13 years. He said TIF is a back-loaded incentive that provides a good return on investment. He said TIF is an important tool that helps spur a community's commercial tax base and the incentive is needed to remain competitive with other states.

In response to a question from Vice Chairman Dockter, Mr. Marshall said opportunities occasionally are lost to South Dakota due to the state's lack of an income tax but opportunities may be lost for other reasons as well. He said tax structure is not the only factor that drives business decisions. He said states compete on many different levels.

In response to a question from Senator Cook, Mr. Marshall said political subdivisions continue to apply tax against the frozen value of properties in a TIF district. He said tax collected on the increment value of those properties is used to offset the acquisition and demolition of buildings in the district. He said developers in the district are required to pay a commercial rate per square for property and a percentage of the property's acquisition or demolition costs. He said TIF brings the cost of the property down for the developer so it is more on par with the cost of other properties in the community. He said developers are reimbursed for the amount expended in a private transaction to acquire the property, up to a capped amount.

In response to a question from Representative Beadle, Mr. Marshall said he agrees renaissance zone and tax increment financing incentives should focus on redevelopment rather than sprawl, but noted each community has different needs and opportunities and must weigh whether sprawl or redevelopment is the best option. He said there is value in focusing on how to bring businesses to the state and create jobs. He said other states, including Wyoming, have offered very strong incentives to businesses.

Senator Bekkedahl said as a city commissioner, he participated in the formation of a TIF district in Williston, which consisted of a debilitated trailer court valued at $4,000. He said the city, county, and school board representatives agreed to a 15-year district. He said the value of the district increased from $4,000 to $120,000 and the project was paid off in 6 years rather than 15 years. He said there always is going to be the argument that a developer would develop the property without the use of a TIF district, but he has seen the incentive work well.

Vice Chairman Dockter invited comments from interested persons in attendance regarding the committee's study of economic development tax incentives and the bill draft to sunset the renaissance zone program.

Mr. Blake Crosby, Executive Director, North Dakota League of Cities, said the League of Cities is opposed to eliminating the renaissance zone program. He said the state needs to offer tax incentives if it wants to compete with other states for businesses. He said the renaissance zone program is well used and provides a good return on investment. He said the committee should be cautious about trying to reinvent the wheel. He said the renaissance zone program works well and is accepted following the changes made over the past few legislative sessions. He said the state and the Legislative Assembly should focus energy on other incentives that address the state's workforce needs.

Mr. James Gilmour, Director of Strategic Planning and Research, City of Fargo, distributed information (Appendix H) in support of retaining the renaissance zone program. He said 146 properties in Fargo have received credits through the renaissance zone program. He said the properties had a pre-renaissance-zone value of $50 million and were valued at $163 million last year. He said Fargo's renaissance zone program is in its 18th year and there still are properties in the downtown area which would benefit from redevelopment. He said Mid America Steel Inc., will be moving its operations out of the renaissance zone next year which will leave a large site with potential for redevelopment. He said another site that could benefit from renaissance zone incentives is an area recently acquired by Xcel Energy for the cleanup of an old coal gasification plant. He said the site could be redeveloped following the cleanup and 2-year monitoring period. He said having a good downtown helps attract people to a community to live and work. He said the return on investment Fargo has seen with its renaissance zone program has been significant.

In response to a question from Representative Steiner, Mr. Gilmour said state investments in college buildings downtown also played a part in the success of the downtown. He said the decision to move the North Dakota State University College of Business downtown changed the rental market and likely helped spur investment.

In response to a question from Representative Mitskog, Mr. Gilmour said the city's downtown area was declining in the years before the renaissance zone program. He said the taxable value of downtown property has increased from $200 million to over $600 million since the inception of the program. He said phasing out the renaissance program would discourage developers from investing. He said he may have more renaissance zone data for the committee in October.

In response to a question from Representative Kasper, Mr. Gilmour said if the value of the downtown had not increased from $200 million to $600 million, the city would be receiving $4 million dollars less in property taxes per year, which would result in a 3.5 to 4 percent tax increase for taxpayers. He said when properties in the downtown area pay more in property tax, properties on the fringe pay less.

Representative Mitskog said introducing a bill draft to sunset the renaissance zone program may place a dark cloud over developers considering investing in downtown areas.

In response to a question from Representative Schobinger, Mr. Gilmour said it sometimes is cheaper for developers to buy land on the fringe of town in areas where there is less potential for environmental problems or other unknowns. He said there is more development occurring in downtown areas than would otherwise be occurring without the renaissance zone program.

In response to a question from Representative Headland, Mr. Gilmour said over the long term, taxpayers in the city likely derive more benefit from the renaissance zone program than the developer who received the upfront incentive. He said taxpayers give up some property tax revenue on the front end but benefit from increased valuations once the renaissance zone is complete. He said the developer, property taxpayers, and residents of the downtown area benefit from the renaissance zone program. He said a larger tax base keeps everyone's taxes lower.

Mr. Ken Vein, Vice President, Grand Forks City Council, distributed information (Appendix I) in support of retaining existing economic development tax incentives. He said Grand Forks has long recognized the importance of infill development and smart infrastructure. He said infill development is a critical component of growing the tax base within a community and reducing the overall tax burden on residents. He said 53 projects have qualified for incentives in the city's renaissance zone. He said the renaissance zone program has contributed to a 400 percent increase in the taxable value of properties within the zone. He said the city, county, school district, and park district representatives jointly review all renaissance zone and tax increment financing applications. He said projects are fully vetted with the economic development corporation, the city's growth fund job development authority, and other groups. He said the city incorporates third-party financial reviews to aid the city in awarding incentives that provide a return to local taxpayers. He said the developer pays for the third-party review. He said the city also incorporates a detailed review by an urban planning group. He said the city increased the threshold amount per bond to $750,000 to provide a more cost-effective program with lower administrative costs. He said the city's local government advisory committee will be meeting for the first time at the end of the month. He said TIF and renaissance zone incentives are critical tools the city uses to meet its infill and infrastructure needs. He said the city is projecting $100 million in investments in the downtown area in the next 5 years. He said the city is poised to grow after facing past setbacks due to flooding.

In response to a question from Senator Meyer, Mr. Vein said the fee for a third-party review is $2,500 per project.

In response to a question from Representative Schobinger, Mr. Vein said he sees an end date for the renaissance zone program but that date is still far in the future.

In response to a question from Senator Cook, Mr. Vein said projects are closely scrutinized to determine whether the projects meet the requirements for TIF, whether the projects would create an unfair advantage for one entity over another, and whether the projects are in the best interest of the community.

Senator Cook said tax increment financing and the renaissance zone programs were meant for use in blighted and downtown areas.

In response to a question from Representative Ertelt, Mr. Todd Feland, City Administrator, City of Grand Forks, provided a vacant lot example from a renaissance zone in Grand Forks. Mr. Feland said the lot was not generating any tax revenue before its inclusion in the zone, but had a $100,000 taxable value at the end of the 5-year incentive period. He said generating new taxes in this manner benefits all the taxpayer's in the city, even those outside of the renaissance zone. He said the city is making significant infrastructure investments on the fringe of the downtown area, which makes downtown investment greenfield competitive. He said the city is focusing on mixed use development, which makes for a more vibrant community.

In response to a question from Representative Ertelt, Senator Cook said if a city is not raising taxes and property values are increasing, the mill rate imposed by the city should be decreasing.

Representative Kasper said taxpayers receive the benefit of renaissance zone development after the incentives associated with the zone have expired. He said property owners will pay less in property taxes once the zone is complete as a result of the additional taxes being collected on the increased value of renaissance zone properties. He said other property owners will indirectly benefit from lower property taxes down the road. He said property taxes would be higher without renaissance zones and cannot see how criticism of renaissance zones is even plausible.

Mr. Barry said renaissance zone development benefits everyone. He said the City of Minot recently celebrated its 130th anniversary and many buildings in the city are showing age. He said the city has a high number of vacancies draining the downtown. He said the renaissance zone program is a valuable tool for Minot. He said it helps developers invest in and reinvigorate downtown areas. He said the city has invested $30 million in the last 5 years in a 26-block revitalization project. He said part of the project was funded by state funds and the city also received an $18 million economic development administration grant. He said the city was designated by the Governor, and approved by the United States Treasury, as an opportunity zone. He said the city recently approved a $3 million renaissance zone application for distribution over multiple properties on a downtown block that has been blighted for several years. He said the city also is facing the removal of a large employer from the downtown area. He said Trinity Health is moving to the fringe of town and will vacate eight buildings in the downtown area. He said the city will need the renaissance zone program to redevelop those buildings. He encouraged the committee to support retaining the renaissance zone program.

In response to a question from Representative Mitskog, Mr. Barry said having vibrant downtowns is a critical component in attracting people to the state. He said Minot received a $6 million grant from the federal government to develop a gathering space downtown. He said downtowns are low-hanging fruit when it comes to investment because infrastructure already is in place. He said it is more economical to revitalize existing areas than to develop new areas on the outskirts of town.

Senator Cook said committee discussion of the bill draft to sunset the renaissance zone program serves to flesh out testimony from interested parties.

In response to a question from Senator Cook, Mr. Barry said the Minot City Council is evaluating whether to tie the amount of a tax incentive to the amount of the taxable valuation increased realized by the property receiving the incentive. He said there are positive and negative aspects tied to taking this type of approach. He said linking incentives to valuation increases is a topic that could benefit from additional study and cities can certainly develop guidelines to evaluate and approve renaissance zone projects.

Senator Cook said the committee should give this concept more thought. He said some developers in Fargo have seen increases of up to 30 times the original value of the property.

In response to a question from Senator Cook, Mr. Barry said it would be more typical to see an increase of 2 to 10 times the property's original value in Minot.

In response to a question from Senator Bekkedahl, Mr. Barry said the grant information he provided earlier was not inclusive of the additional $18 million economic development administration grant the city received. He said he could provide additional information regarding grants used for community redevelopment or revitalization.

Mr. Gilmour said Fargo ties the allowable amount of renaissance zone incentives to property valuation increases. He said he agrees that when renaissance zone legislation was initially enacted, the program was not meant to run indefinitely on the same blocks. He said the structure of the renaissance zone program allows a city to move completed blocks out of the renaissance zone and substitute in new blocks in need of improvement.

Mr. Jim Neubauer, City Administrator, City of Mandan, spoke in support of retaining the renaissance zone program and said renaissance zone legislation passed in 1999 allowed for 15-year renaissance zone designations, with the ability to extend the duration of a zone in 5-year increments. He said Mandan did not approve a renaissance zone until 2005 because the city was dealing with an underground diesel fuel spill. He said eliminating the renaissance zone program at the end of 2019 would reduce Mandan's renaissance zone from a potential 15- to 20-year duration to a 14-year duration. He said many other communities in the state might be facing the same type of reduction.

Ms. Rikki Roehrich, Community Services Block Grant Program Administrator, Community Services, Community Development Programs, Department of Commerce, distributed written testimony (Appendices J and K) in support of retaining the renaissance zone program. The testimony was submitted on behalf of Ms. KayCee Lindsey, Executive Director, Divide County Job Development Authority, and Ms. Carol Peterson, Economic Development Coordinator, City of Milnor.

Senator Cook requested any cities in attendance that have a written renaissance zone policy that ties the incentive to increased property valuations to forward a copy of the policy to the Legislative Council staff.

Representative Kasper said various individuals benefit from the renaissance zone program. He said individuals living in a city with a renaissance zone benefit from improved quality of life. He said business owners also benefit from increased activity and employees benefit from resulting increases in job opportunities. He said the renaissance zone's impact on the development of downtown Fargo has attracted people of all ages to the downtown area. He said the program has not reached its useful end and hopes the committee will not move forward with the bill draft to sunset the program.

Vice Chairman Dockter said the committee could choose to take action on the bill draft or take no action on the bill draft. He said sometimes the exercise of preparing a bill draft is a helpful way to solicit testimony from interested parties to aid the committee in its assessment of the incentive.

STATE-PAID SOCIAL SERVICE PILOT PROGRAM REPORT

Vice Chairman Dockter called on Mr. Christopher D. Jones, Executive Director, Department of Human Services, for presentation of a report (Appendix L) pertaining to the status of the state-paid economic assistance and social service pilot program and the development of a plan for permanent implementation. Mr. Jones said 2017 Senate Bill No. 2206 requires the department to submit its implementation plan as a part of the department's budget request and identify the estimated biennial cost of the plan. He said the department has been working in collaboration with the North Dakota Association of Counties and has retained the consulting services of JM Strategies, LLC. He said the department has focused on the three main components of the pilot program, which include the organizational structure for social services, recommendations regarding performance and processes, and considerations regarding implementation and the delivery of social services. He reviewed the social determinants of health and said 70 to 80 percent of the funds spent on healthcare are driven by the social determinants of health. He said if the state seeks to reduce Medicaid costs it needs to do a better job of delivering social services more efficiently and effectively. He said this involves assessing how an individual enters the social service system and removing artificial boundaries surrounding the delivery of social services. He said the vast majority of the department's general fund spending relates to Medicaid. He said in studying the pilot program, the department has created four committees composed of county, regional, and state leaders. He said the first committee focuses on children and family services, the second focuses on adults, the third focuses on eligibility and economic assistance, and the fourth focuses on administrative functions. He said the committees identify goals, review barriers to success, and provide implementation suggestions. He reviewed an example of the findings made by the children and family services committee.

In response to a question from Vice Chairman Dockter, Mr. Jones said although federal regulations play a part in the constraints faced by the state, the regulations are mandatory and the department tries to avoid making excuses related to federal regulations.

In response to a question from Senator Bekkedahl, Mr. Jones said the level of disruption caused by the recent passage of the federal Family First Prevention Services Act is a matter of perspective. He said one could view the timing of the legislation as ideal because the state can take the family first legislation into account when redesigning the social service system. He emphasized the need to support children in this state because the children will be the state's future workforce.

Mr. Jones said the department also has hired a consultant from Utah because Utah has implemented a number of things over the past 10 years that North Dakota could emulate. He said North Dakota has four options in terms of social service models. He said the state could go back to the way things were before the passage of Senate Bill No. 2206, continue the pilot program as it operates today, develop some form of a district/county model, or move toward the state administration of social services. He said social services are administered at the state level in 41 states and at the county level in 9 states. He said there are benefits and detriments to both methods of administration. He said the department reviewed implementation suggestions regarding a statewide or unitized system. He said any potential statewide system would not locate all administrative functions at the capitol as the department would want to leverage expertise from across the state. He said the department also wants to ensure social services are being delivered where the clients reside. He said there has been discussion of additional consolidations at the county level by counties that have smaller staffs. He said the process of restructuring social services will be ongoing and will not be completed in one biennium. He said the department will seek to reduce spending during the restructuring process. He said spending can be reduced by making the right investments in social services, reducing the unemployment rate, and reducing Medicaid spending. He said a strong economy results in fewer individuals using social services. He reviewed information (Appendix M) regarding the 2017-19 biennium estimated social services payments and the 2017-19 biennium actual social service payments made to date. He said because funds were not built into the formula for inflation costs related to employee benefits, some of the county budgets have been impacted as a result.

In response to a question from Representative Headland, Mr. Jones said states with high populations, including California, New York, Ohio, Colorado, and North Carolina tend to have county-administered systems. He said Utah uses a state-administered system.

In response to a question from Senator Cook, Mr. Jones said the department has focused more on creating efficiencies in the process than changing the funding formula. He said changes to the delivery structure for social services will drive the changes to the formula.

Senator Bekkedahl said based on the $78 million total reflected for calendar year 2018 program payments, the Legislative Assembly was only $60,000 off in its original estimates.

In response to a question from Representative Schobinger, Mr. Jones said the department's plan for permanent implementation of the pilot program will be included in the department's budget bill. He said it is very unlikely the department would suggest reverting to a county-paid system of social services; however, the department likely will not use the same funding formula going forward.

In response to a question from Representative Headland, Mr. Jones said most counties seem receptive to cautiously moving forward with more state administration as long as rural counties retain access to services. He said there is a fair amount of anxiety among county social service employees regarding what their jobs will look like if the system becomes state administered.

In response to a question from Representative Mitskog, Mr. Jones said three or four county consolidations have occurred and another block of counties has started to discuss forming a district. He said counties also are entering memorandums of understanding for other shared functions, notably in cases where county social service directors have retired or resigned. He said there are approximately 1,100 individuals delivering social services in counties in this state. He said many are nearing retirement.

Vice Chairman Dockter said one of the goals of the pilot was to identify and implement efficiencies and it appears the department is heading in that direction. He commended the department for conducting a thorough review during the pilot period.

Mr. Terry Traynor, Executive Director, North Dakota Association of Counties, discussed the financing aspect of the pilot program and said 2015 county expenditures were used to build the formula in Senate Bill No. 2206. He said 16 counties had to rely on the escape valve provisions built into the bill, which allowed counties to use a specified amount of social service reserve funds or county general funds to supplement social service budgets. He said property tax revenue equal to 2.5 percent of the total state-paid grant amount was used by counties to supplement shortfalls in county social service budgets. He said 22 counties anticipate needing additional funds to supplement next year's budget, partially due to rising insurance costs for employees. He said the projected shortfall is expected to be $4.4 million, $2.3 million of which will come from county social service reserve funds, and $2.1 million of which will come from county general funds. He said even with these shortfalls, the pilot is working well and consolidations are taking place. He said consolidations are becoming particularly important in light of retirements and in counties with small staffs. He said counties are gaining needed backup and resources through consolidations.

In response to a question from Vice Chairman Dockter, Mr. Traynor said the department has discussed a regionally-administered system and a state-administered system but the decision ultimately lies with the Legislative Assembly. He said many counties have recognized some of the more specialized aspects of the program may be better administered at the state level.

In response to a question from Representative Headland, Mr. Traynor said both large and small counties are experiencing shortfalls in social service budgets, which require the use of supplemental taxpayer funds.

In response to a question from Senator Cook, Mr. Traynor said in counties that can afford to do so, services not state or federally mandated are being delivered. He said the cost of those services was taken into account when 2015 expenditures were used to build the funding formula for the pilot program.

Senator Cook said the road to perfection is always under construction and he is happy with what he has heard today. He said he is pleased the department is working actively to make improvements.

The department's final report *SB 2206 Report to Legislative Management* on the status of the pilot program and the development of a plan for permanent implementation was submitted subsequent to the meeting.

PROPERTY TAX SYSTEM STUDY

Vice Chairman Dockter called on the Legislative Council staff for presentation of a memorandum entitled *Cities That May File Annual Reports in Lieu of Biennial Audits*. The Legislative Council staff said North Dakota Century Code Section 54-10-14 requires the State Auditor to audit cities once every 2 years, subject to certain exceptions. She said cities with a population of fewer than 500 may file an annual report with the State Auditor's office in lieu of receiving a biennial audit. She said the memorandum provides the name of each city in this state with a population of fewer than 500.

In response to a question from Senator Bekkedahl, Mr. Crosby said 263 of the 357 incorporated cities in the state fall below the audit threshold.

Vice Chairman Dockter called on the Legislative Council staff for presentation of a memorandum entitled *Special Assessment Fees in Various Cities*. The Legislative Council staff said the memorandum provides information regarding the types and amounts of special assessment fees charged in the 20 highest population cities in the state and includes information regarding whether each city uses its engineers or contracts for external engineering services. She said three of the highest population cities had yet to provide information regarding special assessment fees as of the meeting date. She said New Town does not use special assessments.

In response to a question from Senator Bekkedahl, the Legislative Council staff said she could supplement the memorandum with updated information if additional responses are received.

In response to a question from Senator Bekkedahl and Senator Cook, Representative Ertelt said the administrative fee for Williston might be as high as it is because the city's engineering fee is included in its administrative fee.

In response to a question from Senator Cook, Mr. Gilmour said an estimate for the percentage fee charged by an outside engineering firm is 10 percent, but the fee can vary based on the size and complexity of a project.

Mr. Feland said he would estimate the fee at 10 to 11 percent, depending on the project, and it is less costly to use city engineers than outside engineers.

Vice Chairman Dockter called on the Legislative Council staff for presentation of a memorandum entitled *Previous Interim Committee Studies of Special Assessments*. The Legislative Council staff said special assessments were most recently studied by the 2001-02 and the 2011-12 interim Taxation Committees. She said the 2001-02 interim Taxation Committee was directed to study all aspects of improvements by special assessment and the 2011-12 interim Taxation Committee was directed to study the use of special assessments for public improvements, the imposition and relative rate of special assessments against agricultural property, the use and administration of special assessments across the state, and alternative funding mechanisms available and possible processes and procedures that would facilitate a transition to any recommended alternative funding mechanisms. She reviewed the bills considered by the 2001-02 interim Taxation Committee and the committee's recommendations. She said the 2011-12 interim Taxation Committee did not make any recommendations as a result of its study.

Vice Chairman Dockter called on the Legislative Council staff for presentation of a bill draft [19.0238.01000] relating to protesting the formation of a special assessment district. The Legislative Council staff said the bill draft removes property owned by a political subdivision from the total area within an improvement district for purposes of calculating whether protests were received from the owners of a majority of the area of the property included in the proposed district. She said receipt of protests from the owners of a majority of the property area within the proposed districts is required to effectively bar the formation of a district. She said the bill draft was modeled after 2001 Senate Bill No. 2346, which was introduced after it was determined a district could be drawn so that more than 50 percent of the property area within the district is owned by the political subdivision that would benefit from the creation of the district, thus effectively barring private property owners from protesting the formation of the district.

Vice Chairman Dockter called on the Legislative Council staff for presentation of a bill draft [19.0237.01000] relating to the homestead tax credit for special assessments. The Legislative Council staff said the bill draft was prepared based on recommendations provided by Mr. Kent Costin, Director of Finance, City of Fargo, to increase the amount of the homestead tax credit for special assessments and reduce the interest rate on the credit. She said current law allows a credit of up to $6,000 towards the special assessments on a property, which creates a lien in favor of the state which is satisfied at the time the property is sold. She said interest is applied on the credit at a rate of 9 percent per year. She said the bill draft increases the credit amount to $15,000 and reduces the interest rate to 4 percent per year.

Representative Steiner said applying an index to the amounts associated with the credit would automatically adjust the amount and the Legislative Assembly could avoid making additional housekeeping changes in the future.

Vice Chairman Dockter said tying the amounts listed in the credit to an index is something the committee could consider changing. He said the committee would not be taking action on the bill today.

Vice Chairman Dockter called on Mr. Gilmore for presentation (Appendices N and O) of a detailed breakdown of the partial and discretionary property tax exemptions offered by the City of Fargo. Mr. Gilmore said the city has an estimated property tax value of $15.3 billion and $553 million of that value was exempt from property tax in the most recent tax year. He said of that amount, $147 million consists of nondiscretionary property tax exemptions and $405 million consists of exemptions granted at the discretion of the city commission. He said nondiscretionary exemptions consist of exemptions relating to the homestead and disabled veteran credit, exemptions for the provision of day care and fire protection, and exemptions for individuals who are wheelchair bound or blind. He said discretionary exemptions consist of payments in lieu of taxes and tax increment financing exemptions and exemptions for new industry, new residential construction, renaissance zone projects, and remodeling projects. He reviewed the types of projects for which the city approves payments in lieu of taxes. He said the highest value exemptions relate to new industry exemptions and payments in lieu of taxes and the most commonly granted exemptions are for new residential construction and remodeling. He said there are 27 exempt properties in the city's renaissance zone. He said the value of exempt property in city is equal to 2.57 percent of the total taxable value of property in the city. He said new industry, renaissance zone, and pilot incentives provide a positive return on investment and spur investments that would not happen without the incentives.

In response to a question from Senator Bekkedahl, Mr. Gilmour said the city's commercial property classification includes industrial properties, commercial properties, and commercial apartments.

Senator Cook said cities receive state funding for some of the nondiscretionary property tax exemptions.

In response to a question from Representative Steiner, Mr. Gilmour said all payment in lieu of tax projects require a public hearing. He said public hearings also are required for renaissance zones and TIF districts. He said applications for new housing exemptions are granted by the city commission and do not require a hearing.

In response to a question from Senator Bekkedahl, Mr. Gilmour said the low-income housing tax credit program requires rents be restricted for 30 years. He said when the housing authority is working with a nonprofit, the ownership of the property is transferred to the housing authority after 30 years. He said when the property is owned by the private sector, the developer would own the property after 30 years. He said the city only offers payments in lieu of taxes for a maximum of 20 years. He said most new industry exemptions are granted for 5 years. He said payments being made in lieu of property taxes are spread among all the taxing districts in which the property is located.

Vice Chairman Dockter called on Mr. Jason Carian, Strategic Account Executive, OpenGov, for a presentation regarding the features of OpenGov software. Mr. Carian said OpenGov has been in business for 7 years and has formed several partnerships with counties and cities in this state. He said the company provides a cloud-based application that allows local governments to pull financial data into an online platform. He said the product provides local governments with a budgeting tool and leads to transparency for the public. He said OpenGov has agreements with Cass, McKenzie, and Morton Counties and the cities of Fargo and Grand Forks. He said the ability of local governments to post information online can lead to a 30 percent reduction in public records requests. He said data can be viewed in a summary format or broken into much smaller detail on a per transaction basis. He said OpenGov has partnered with Ohio and over 1,000 local governments use the product in that state. He said OpenGov also is used in Pennsylvania and a pilot project is underway in Utah. He said the product could be a valuable tool in North Dakota.

In response to a question from Representative Ertelt, Mr. Carian said placing a curser over the data displayed on a chart online allows the user to see when the information was last uploaded. He said the product can integrate with any accounting system and many users elect to run real-time integration on a nightly basis.

In response to a question from Representative Headland, Mr. Carian said Ohio funds the cost of the product for any political subdivision in the state which wishes to use it. He said West Virginia takes a similar approach, but only funds a portion of the cost for local users. He said a final contract has yet to be executed in Utah.

In response to a question from Representative Steiner, Mr. Carian said the cost of the product ranges from $1,500 to $3,000 per user per year. He said the product is offered on a subscription basis and can be canceled anytime.

In response to a question from Representative Grueneich, Mr. Carian said the product is flexible regarding the level of detail that can be pulled in and some local governments even use the product to prepare comprehensive annual financial reports.

In response to a question from Senator Bekkedahl, Mr. Carian said the product can integrate into any accounting system being used by the local governing body. He said the product does not replace existing platforms.

In response to a question from Representative Headland, Mr. Carian said data can be pulled into the product using a drag and drop approach or can be integrated from the governing body's accounting system using an automated feed.

Vice Chairman Dockter invited comments from interested persons in attendance regarding the committee's study of the property tax system and committee bill drafts.

Mr. David Bauer, owner of Bauer Property Management, Dickinson, provided testimony (Appendix P) regarding the committee's study of the property tax system. He said property in the western part of the state increased dramatically between 2010 and 2015 as a result of the oil boom. He said property values have not been reduced to reflect falling market values in Stark County since the oil bust in 2015. He said true and full and market value is the value used by assessors for residential and commercial property. He reviewed the definitions for true and full and market value and said he has been working with Representative Simons and Mr. Carlos Royal, Dickinson, to arrive at a legislative solution to ensure property is valued at its true and full value on a consistent basis. He said the law provides for spot checks of property but these spot checks are not always performed. He said the bill draft [19.0240.01000] sponsored by Representative Simons makes spot checks mandatory and calls for an independent appraisal of properties to provide a more reliable snapshot of market values. He said the process of valuing properties using sales data from 3 previous years can create huge errors in assessments. He said the bill draft directs the board of county commissioners to select a licensed appraiser to carry out spot checks.

Senator Bekkedahl said he is familiar with the system used by assessors and initially viewed the 3-year sales lookback as a pitfall to the system, but after watching it in practice it seems to work. He said property owners may be subject to a property tax increase, as compared to current market values, when property values begin to decline, but they also benefit from a property tax decrease using the 3-year lookback when property values begin to increase.

In response to a question from Senator Bekkedahl, Mr. Bauer said the bill draft pertains to both commercial and residential properties; however, the main concerns in Dickinson relate to commercial properties. He said a property in Dickinson valued at $4 million for tax purposes is listed for sale for $2 million. He said assessors in Dickinson are valuing properties using a mass appraisal system, rather than valuing properties using an income approach.

Senator Bekkedahl said the valuation approach used by assessors is a local decision. He said Williston recently switched to valuing properties using an income approach, at the request of property owners, but the city notified owners that assessors would not continually be flipping back and forth between different valuation approaches during boom and bust years.

Mr. Royal provided testimony (Appendix Q) regarding spot checks and the valuation of property. He said in 2004 he purchased Century Apartments in Dickinson for $3.25 million. He said an assessment completed by an independent appraiser showed the property was over assessed by 15 percent in 2015, 82 percent in 2016, 150 percent in 2017, and 143 percent in 2018. He said he has tried to obtain relief and have the assessments corrected but has received feedback indicating that if his property is adjusted, other property owners also will seek adjustments.

In response to a question from Representative Kasper, Mr. Royal said the bill draft only requires a percentage of the properties with contested values be spot checked. He said if spot checks reveal some of the contested valuations are in error, it may indicate a larger number of properties also are valued incorrectly. He said the bill draft does not limit the number of properties the board of county commissioners may select for spot checks.

Senator Bekkedahl said apartment owners in Williston previously have appealed property values to the State Board of Equalization and have been granted significant relief. He said using 3 years of prior sales when property values are increasing and using spot checks when property values are decreasing might result in the taxpayer winning and the political subdivision losing in both instances.

In response to a question from Senator Bekkedahl, Mr. Royal said the appraisal completed for his property was prepared using a comprehensive sales and income approach to valuation.

Mr. Wayne Papke, Mandan, provided testimony (Appendix R) outlining the five areas he finds most concerning regarding the property tax system. He reviewed each of the five areas and provided suggested solutions. He said property tax reform has not been comprehensive enough for the public. He said the framework for the property tax system leads to inequitable practices that frustrate the public. He said the public wants fair, equitable, and proportional taxes. He said the public has lost trust in the property tax system and finger pointing between state and local officials regarding claims of increased local spending and decreased state funding further compounds the problem. He said he would like to see more time placed on the agenda for public comment. He said the agenda has been dominated by presentations from entities less critical of the property tax system.

Vice Chairman Dockter called on the Legislative Council staff for an update on the recent Supreme Court decision impacting the taxation of remote sellers. The Legislative Council staff said the Supreme Court's ruling in *South Dakota v. Wayfair, Inc.,* triggered the contingent effective date for 2017 Senate Bill No. 2298. She said Senate Bill No. 2298 requires remote sellers that do not have a physical presence in North Dakota to collect sales tax on items delivered into this state if the seller makes at least 200 transactions or had more than $100,000 in sales in North Dakota in the previous or current calendar year.

Vice Chairman Dockter called on Mr. Ryan Rauschenberger, Tax Commissioner, for an update regarding the actions the Tax Department has taken to implement Senate Bill No. 2298. Mr. Rauschenberger said the department has set up a dedicated phone line and email account for inquiries from remote sellers and has added a frequently asked questions section to the department's website. He said the department has set an October 1, 2018, enforcement deadline for retailers that fall within the statutory sales thresholds to register in the state and begin collecting sales and use tax. He said retailers have been voluntarily registering with the department since the Supreme Court decision was issued and 100 retailers have registered. He said the department has a list of the largest 1,000 online retailers in the United States and will begin contacting retailers that have not registered after October 1, 2018.

In response to a question from Vice Chairman Dockter, Mr. Rauschenberger said the state anticipates collecting between $25 million and $50 million in eventual potential annual revenue. He said the department has expressed caution in building those collections into the executive forecast because it could take time to get retailers registered and begin collecting the additional tax.

Senator Cook said the Streamlined Sales Tax Governing Board polled certified service providers and one service provider noted over 3,000 of the largest online retailers had been contacted.

In response to a question from Representative Mock, Mr. Rauschenberger said once the statutory threshold is triggered for a remote seller, the retailer must collect both state and local sales tax.

Vice Chairman Dockter said the committee will have two more meetings this interim, and requested the committee members contact the Legislative Council staff if they would like any bill drafts prepared. He said the committee's final meeting will be held no later than October 15.

No further business appearing, Vice Chairman Dockter adjourned the meeting at 4:10 p.m.

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Emily L. Thompson
Counsel

ATTACH:18