

1999 HOUSE FINANCE AND TAXATION

HB 1488

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1488

House Finance and Taxation Committee

Conference Committee

Hearing Date February 2, 1999

Tape Number	Side A	Side B	Meter #
1		X	4
Committee Clerk Signature <i>Jamie Stein</i>			

Minutes:

REP. BELTER Opened the hearing.

REP. DEB. LUNDGREN, DIST. 28, Introduced the bill. See written testimony.

ROGER JOHNSON, STATE AGRICULTURAL COMMISSIONER, Testified in support of the bill. See written testimony. Referred to table relating to net farm income of North Dakota farmers. See attached copy.

REP. RENNER Looking at the table, asked if these were cash expenses or is there depreciation in there

ROGER JOHNSON It is net farm income.

REP. WINRICH Shifting from the comparison of net income to a comparison of gross income, it essentially allows consideration of the cost of production, do you have any quick estimates of how those costs have increased over the history of this exemption?

ROGER JOHNSON We could provide that information for you. It will show cost on almost every commodity, on the whole farm basis, costs are going up significantly faster if you average them across time. In 1997, we reached a critical point, where costs have exceeded gross farm income come in many parts. These net results show that.

REP. GROSZ Referred to page 3, how many total farms are we talking about?

ROGER JOHNSON The numbers include the Red River Valley, I think the mid-range is 1500 or 2000 higher. The most represented numbers we have any place, of the financial conditions of the farmers, in my opinion, they are reflective of a better picture than the actual picture is out there.

REP. CLARK Asked whether there was a definition as far as the size of land per farm?

ROGER JOHNSON No

MARK SITZ, NORTH DAKOTA FARMERS UNION, Testified in support of the bill.

We supported the farm residence exemption. I think there are some people falling through the cracks as earlier testimony pointed out. The criteria where we have to have that happen three years in a row, a fair argument can be made that it is happening. I see two and three dollar wheat doing it.

MARY CHRISTENSON, DAKOTA RESOURCE COUNCIL, Testified in support of the bill.

Gave national statistics relating back to 1996 and 1997.

BARRY HASTI, STATE SUPERVISOR OF ASSESSMENTS, STATE TAX DEPARTMENT,

Testified in a neutral position. In the last session it was defined that to meet the income test, a farmer would have to make more farm income than nonfarm income, in at least one , out of the preceeding three years. You could have two years with nonfarm income greater than farm

income, and one year with the greater amount, and you would still qualify. This bill removes that three year time frame. From an administrative standpoint, it puts the assessors at somewhat of a disadvantage of knowing what time period should be used in measuring whether or not you are qualified for the income requirements for the farm residence exemption.

In regard to the question regarding the definition of a beginning farmer, there is a definition of a farmer in statute, it must be at least ten acres.

CONNIE SPRYNCYNATYK, LEAGUE OF CITIES, Testified in a neutral position.

Commented that there are at least ten bills in the hopper asking for tax exemptions.

With no further testimony, the hearing was closed.

COMMITTEE ACTION 2-2-99, Tape #1, Side B, Meter #36.7

Committee members reviewed the amendments which were presented by Rep. Lundgren.

REP. WINRICH Made a motion to adopt the amendments as presented.

REP. KROEBER Second the motion. MOTION CARRIED BY VOICE VOTE.

REP. RENNER Made a motion for a DO NOT PASS AS AMENDED

REP. GRANDE Second the motion. MOTION CARRIED

9 Yes 5 No 1 Absent

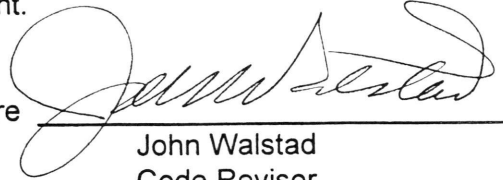
REP. RENNER Was given the floor assignment.

FISCAL NOTE STATEMENT

House Bill or Resolution No. 1488

This bill or resolution appears to affect revenues, expenditures, or fiscal liability of counties, cities, or school districts. However, no state agency has primary responsibility for compiling and maintaining the information necessary for the proper preparation of a fiscal note regarding this bill or resolution. Pursuant to Joint Rule 502, this statement meets the fiscal note requirement.

Signature



John Walstad
Code Revisor

Please type or use black pen to complete

Date 2-2-99

Roll call vote # 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. HB 1488

House HOUSE FINANCE & TAX Committee

Subcommittee on _____

Conference Committee

} Identify or check where appropriate

Legislative Council Amendment Number _____

Action Taken Do Not Pass as amended

Motion Made By Rep. Renner Seconded By Rep. Grande

Representatives	Yes	No	Representatives	Yes	No
BELTER	✓		WINRICH		✓
RENNERFELDT	✓				
CLARK	✓				
FROELICH		✓			
GRANDE	✓				
GROSZ	✓				
HERBEL	✓				
KROEBER		✓			
MICKELSON	✓				
NICHOLAS	A				
RENNER	✓				
SCHMIDT		✓			
WARNER		✓			
WIKENHEISER	✓				

Total 9 5
(Yes) (No)

Absent 1

Floor Assignment Rep. Renner

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

DO NOT USE HIGHLIGHTER ON ANY FORMS

REPORT OF STANDING COMMITTEE

HB 1488: Finance and Taxation Committee (Rep. Belter, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO NOT PASS** (9 YEAS, 5 NAYS, 1 ABSENT AND NOT VOTING). HB 1488 was placed on the Sixth order on the calendar.

Page 1, line 20, after "income" insert "in any one of the three preceding years"

Page 2, line 24, after "income" insert "in any one of the three preceding years"

Renumber accordingly

**1999 TESTIMONY
HB 1488**

**Testimony of Rep. Deb Lundgren
Finance & Tax Committee
02 February 1999**

Mr. Chairman, members of the committee, my name is Deb Lundgren. I am a representative of District 28 and a farm wife. I am here to introduce HB 1488.

This bill addresses a problem facing a growing number of producers in North Dakota - many of whom have lost, or will soon lose the tax exemption on their farm home because their off-farm income exceeds on-farm income. Because of the current farm economy, many farmers and spouses have taken off-farm jobs to supplement their farm income. Their initiative has cost many producers their farm home tax exemption - and they may not even know it.

Current statute dictates that a single year of earning a greater net income from off the farm disqualifies a farmer from the exemption. According to the North Dakota Farm Business Management Education Program for 1997, the average farmer invested \$160,053 to make an average net farm income of \$15,190. While providing the foundation for 40% of our state's economy, the farmer must take on an additional occupation to provide a foundation for his or her family.

It is inconceivable that North Dakota would penalize the largest sector of the state's economy for working 'off-the-farm' but that is what we are currently doing. Poor prices, bad policy, trade disputes and monopolistic markets are devastating to farmers. It is not by choice that producers are seeking off-farm income - it is for survival.

HB1488 simply changes the requirement of at least 50% of annual net income from on the farm for each of three years to qualify for the exemption, to "gross farm income exceeding off-farm income." The language still requires that the homeowner be an active producer. The bill recognizes the necessity of off-farm income as a supplement to farm income. It allows producers to continue to claim an exemption on their farm home, while working double-time to provide for their families and drive the state's economy.

I ask your favorable consideration of HB1488.

Report attests '97 a bad year for ag

MARK HANSON
Bismarck Tribune

A Census of Agriculture report that comes out every five years certainly confirmed one thing: 1997 was a crummy year for agriculture in North Dakota.

There was a decline of about \$750 million in farm income in 1997, which is reflected in the report released Monday by the North Dakota Agricultural Statistics Service.

"Ninety-seven is one of the worst years farm-income wise that the state's ever seen," said state statistician Larry Beard. "A great majority of counties showed a decline in average returns."

The census is a snapshot of the country's ag industry. It provides comparable statistics for every county in the nation.

The report backed up the downfall of 1997, noting

(More on CENSUS, Page 6A)

Census highlights

Highlights of the 1997 agriculture census, released Monday. The census is conducted every five years.

■ Total farms: 30,504, down 2 percent from 31,123 in 1992.

■ Total land in farms: 39.36 million acres, down less than 1 percent from 39.44 acres in 1992.

■ Off-farm income: Only 75 percent of producers said farming is their principal occupation, down from 81 percent in 1992.

■ Total market value of farm products sold: \$2.869 billion, up 4 percent from \$2.746 billion in 1992. Cass County led the state with \$169 million in total sales.

■ Production expenses: \$2.453 billion, up 17 percent compared with \$2.09 billion in 1992.

■ Average net cash return from ag sales: \$13,113, down 37 percent from 1992. National average is \$22,260.

■ Farms with net losses: 13,841, up 51 percent from 9,191 in 1992.

— Associated Press

Census: Livestock farms down

FROM PAGE 1A

that nearly 14,000 farms had net losses that year, which is up 51 percent from 1992, the last time the report was done.

And the average per farm net cash returns from agricultural sales totaled \$13,112, which is down 37 percent from 1992. The national average is \$22,260.

"Another telling fact is that there was a 26 percent increase in the number of farms where the producer worked off the farm 200 days or more," said Andy Swenson, a farm and family management specialist at North Dakota State University. "That basically means you're working full time off the farm."

The report showed that the num-

ber of farms in the state decreased by just 2 percent, but the characteristics of those farms changed quite a bit. The number of farms with less than \$2,500 in sales grew by 95 percent and farms with more than \$500,000 in sales jumped by 36 percent. The number of farms that fell between those categories dropped by 10 percent.

"The total number of farms didn't go down a lot because there are a lot more hobby farms in the numbers," Swenson said.

The number of livestock farms also fell considerably. Beef cattle numbers dropped just 6 percent, but the number of hog farms fell 59 percent to about 800, dairy farms fell 39 percent to about 1,100 and

sheep farms fell 32 percent to about 1,100.

"We're becoming less diversified as far as livestock," Swenson said.

Some other stats of note:

■ The total market value of North Dakota ag products sold was \$2.87 billion, up from the 1992 total of \$2.75 billion.

■ The average age of farmers in the state increased from 50 to 51.4 years.

■ The number of harvested canola acreage jumped from 16,530 acres in 1992 to 376,428 in 1997, making the state the largest canola producer in the United States.

To view all the state and national information from the census report, check out the ag statistics service. Web site: www.nass.usda.gov.

COMMISSIONER OF AGRICULTURE
ROGER JOHNSON



PHONE (701) 328-2231
(800) 242-7535
FAX (701) 328-4567

DEPARTMENT OF AGRICULTURE
State of North Dakota
600 E. Boulevard Ave. Dept. 602
Bismarck, ND 58505-0020

Testimony of Roger Johnson
Commissioner of Agriculture

House Bill No. 1488
February 2, 1999
11:00 AM CST
House Finance and Taxation Committee
Fort Totten Room

Chairman Belter and members of the House Finance and Taxation Committee, my name is Roger Johnson and I am the Commissioner of Agriculture. I am here today in support of House Bill No. 1488.

Goal Five, Objective One, from "Building the Future of North Dakota Agriculture," the *Final Report and Action Plan of the Commission on the Future of Agriculture*, recommends the Fifty-sixth Legislative Assembly of North Dakota to "provide immediate tax relief for producers, focused on a more favorable property and income tax structure for agricultural producers."

Commission members held public forums all across the state before developing the Report in front of you. Commission members consistently heard that changes in the tax structure focusing on property and income tax would be beneficial for agricultural producers suffering through harsh economic times. We heard many accounts of farmers (and spouses) who lost their farm home exemption, as a result of taking off-farm jobs at very low wages, because their off-farm wages exceeded their net farm income.

The Commission recommends the Legislature adopt changes in the definition of "farmer" for determining residential exemptions for property tax from a definition based on family income derived from farming to "whose gross farm income exceeds off-farm income."

Testimony of Roger Johnson
House Bill No. 1488
February 2, 1999
Page Two

According to the North Dakota Farm and Ranch Business Management Education program (see Table 1), the 1997 average net farm income was \$15,190. The 1997 average was down 59 percent from 1996 and 72 percent down from 1993. In 1997, 50 percent of the farms, in terms of low and middle farm profitability, ranged from a negative \$34,394 to a mere \$13,662 of net farm income.

Off-farm income has been the only option available to many agricultural producers to stay on the land and continue to farm. Unfortunately, the average net farm income has been so low for the last years that off-farm income has placed farmers in the position of losing important property tax exemptions. House Bill No. 1488 changes the definition of "farm" and "farmer" by including language referencing "gross farm income exceeding off-farm income." I believe this change will no longer penalize agricultural producers from staying in the business of farming with the help of off-farm income.

Chairman Belter and committee members, I urge you to support keeping agricultural producers in the business of farming by supporting House Bill No. 1488.

Thank you for the opportunity to testify on House Bill No. 1488. I will answer any questions you may have.

Table 1. Average North Dakota Net Farm Income, Excluding Red River Valley

Year	20% low ^a	60% middle ^b	20% high ^c	All farms
	\$			
1989	(11,931)	17,079	65,500	20,979
1990	(580)	30,639	90,267	36,334
1991	(6,970)	29,416	84,945	33,262
1992	3,467	41,277	119,766	49,413
1993	2,973	46,399	131,774	54,789
1994	(10,956)	32,281	113,661	39,891
1995	(25,144)	24,394	104,162	30,440
1996	(18,619)	28,609	119,059	37,272
1997	(34,394)	13,662	69,391	15,190
'89-96 Avg	(8,470)	31,262	103,642	37,779

a. The low 20% of farms in terms of farm profitability

b. The middle 60% of farms in terms of farm profitability

c. The top 20% of farms in terms of farm profitability

Source: North Dakota Farm and Ranch Business Management Education program, 1989-1997