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2001 HOUSE FINANCE AND TAXATION

HB 1362

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1362

House Finance and Taxation Committee

Conference Committee

Hearing Date January 30, 2001

Tape Number	Side A	Side B	Meter #
1		B	2,667
Committee Clerk Signature <i>Janice Stein</i>			

Minutes:

REP. AL CARLSON, CHAIRMAN. Opened the hearing and read the fiscal note.

REP. GIL HERBEL, DIST. 16, GRAFTON, Introduced the bill at the request of the Walsh and Pembina County Commissioners. This bill will cap ag land valuations at the 1999 level for the next two years. This will give the Legislative Council an opportunity to study the valuation from assessments of ag land for property tax purposes. There appears to be a number of inequities in the formula that determine the property assessments. Property taxes have risen dramatically and have an adverse effect on the already struggling farm economy. The testimony you will hear, will indicate why we need the changes.

REP. DROVDAL I have a little concern about the small town business person. Sitting on main street in a small town, your chances of failure are even greater than that of farming. When the taxes go up, that small town business person, or retired person in a small town, their taxes are

going to go up because they will have to pay for the additional county services which they will be providing, how can we justify this to those people?

REP. HERBEL I thought about that. If you take a look at the way in which property assessments are done on residential property, that is totally different then on the ag sector. There is a little bit more control, in terms of what you can do there, in a residential area, then what you can do in the area of ag land.

REP. CARLSON There is some division at NDSU, I believe, that determines the value?

REP. HERBEL Yes, that will be addressed by one of the commissioners.

REP. WINRICH Your bill also calls for a legislative council study, why do we need to cap the 1999 taxes in order to do this study? And also, is it possible that some of the information you are looking for in the study, is in the study that the Tax Commissioner indicated is coming from the printers?

REP. HERBEL I brought this to the legislative council, and it was their opinion that there should be a study done so that they can correct the inequities.

REP. CARLSON Going back to the full and true value of that parcel to year 1999, the 2000 taxes are already assessed and payable in 2001, isn't this going to be a bookkeeping nightmare?

REP. HERBEL We have someone here that will address that issue.

REP. DAVE MONSON, DIST. 10, Testified in support of the bill also at the request of his county commissioners.

REP. DROVDAL If this bill passes, we will restrict it to no more than the true and full value of land in 1999, that is not restricting it so that the value will go down below the 1999 level?

REP. MONSON It looks to me like it is a freeze.

REP. HERBEL Answered, that he had asked that question of the legislative council, and that is why it states to cap it, rather than freeze it. If it was froze, it would have to stay there, if it is capped, it can go down, it just can't go higher.

SEN. HARVEY TALLACKSON, DIST. 16 Testified in support of the bill. Stated he thought it was reasonable to put a cap on it and study it during the interim.

MAC HALCROW, FARMER AND COUNTY COMMISSIONER, PEMBINA COUNTY,

Testified in support of the bill. Submitted a handout relating to taxable valuation increases since 1980, and flaws in the computation. Gave reasons as to why there are problems with the computation of the evaluation. See attached handout. He stated Pembina County has the highest taxation of land in North Dakota. It has gone up forty nine percent since 1980. The taxes levied on that land, has gone up one hundred fifty two percent. Walsh County also falls in this category. Some of the land in this area has gone under fifteen floods.

He stated he had conversations with the tax commissioner, who basically admitted, there are flaws.

REP. CARLSON What is the budget status in your county today, are you running a surplus, have you lowered your mill levies over the years because of the increased evaluation?

MAC HALCROW We ran a small surplus last year and have been decreasing mills.

One of the things you have to understand is, there are certain things in a county which you cannot monitarily control. For instance, state tax, you can't budget for it, you don't know what is coming. One year it will be twenty five thousand, the next year it will be two hundred thousand. In my county, we have about ninety five to one hundred mills. There are only twenty five of those mills, which the county commissioner has anything to do with.

REP. CARLSON You have local control over your mill levy, so do all of those taxing districts.

Those controls are not coming from here. As the valuation is going up, you have lowered the mills?

MAC HALCROW We cannot control the mill that goes to UND medical school and not the thirty two mill deduct. We also can't control the mills the citizens have voted in, which is a significant amount.

REP. CARLSON My point is, those mills are voted in locally, the mill deduct is voted on here. I have mixed feelings about this, the system might be flawed on how they value your land, but on the other hand, a bill could freeze this at a given level, but you have the authority to determine what the mills will be charged at home.

MAC HALCROW We don't have all of that authority, we only deal with twenty five percent of the mills.

REP. SCHMIDT Two sessions ago, I was on a study committee and the agricultural valuation is based by NDSU, and the culprit, we found out, is capitalization. The lower the capitalization rate goes, the higher the farm land is.

MAC HALCROW The other culprit is, this planted acre business, and those not planted at all.

REP. NICHOLAS Are they not including that land even when you get payments for it?

MAC HALCROW Stated no, they did not.

REP. NICHOLAS Gave examples of valuation of land.

BILL GORDER, FARMER AND WALSH COUNTY COMMISSIONER, Testified in support of the bill. See attached written testimony and handouts relating to property taxes, evaluations and levies.

REP. DROVDAL A part of county taxes go to services which have nothing to do with the city. If you are from a small community like I am, you are freezing the evaluation in the rural areas, but you are not doing anything with the city taxes. The city people's taxes continue to go up, with the flawed formula we have in North Dakota, they not only pay for the city services, they also pay for the rural services which they don't get. What you are doing, in effect, is shifting those rural taxes from the rural person who is suffering, to a city person who is suffering. How can we say this is fair?

BILL GORDER I cannot disagree with that. Very possibly, in time to come, we will have to have a cap on residential too.

REP. DROVDAL If we are going to put a cap on the rural we need to put a cap on the city, but then we haven't done anything because then the mill levy will go just as if we have the appraisal go up.

BILL GORDER In my area, the vast amount of taxes are coming from agriculture. On my farm land, seventy percent of my tax money goes to schools. On my residence in Grafton, fifty eight percent goes to the schools. We will have to look at the overall tax structure in North Dakota.

REP. CARLSON What is the price of farm land in your area, is it selling for more or less per acre?

BILL GORDER My son just bought a quarter of land, and I told him he was foolish. I said put your money in C D's. My oldest son is forty five and he is farming family land. He paid seven hundred and eighty dollars per acre for good land along Highway 81, excellent sugar beet land. I would say land values are down in my area.

SEN. TOM TRENBEATH, PEMBINA COUNTY, Testified in support of the bill. He stated from personal experience, he sold a quarter section of my own ground in the spring of 1997, roughly comparable to what Mr. Gorder was talking about. It used to be twelve hundred dollars per acre land, and now we are talking seven hundred dollars per acre.

RICH FLANDERS, CAVALIER COUNTY COMMISSIONER, Testified in support of the bill. He questions the accuracy of the current formula to assess ag land values for taxation purposes. Ag land taxation values in Cavalier County in 1992 were one hundred ninety four dollars and fifty one cents per acre. In 2001, the recommended value is three hundred thirty five dollars and thirty two cents per acre. In nine years, the valuation has increased by seventy two percent. I can positively assure you that my farm's profits have not increased by seventy two percent. In fact, my farm income in 1992, was undoubtedly higher than the year 2000. There should be a strong correlation between ag land profits, producing potential and ag land value for taxation purposes. The current formula does not assess farm land's profits or loss potential. In Cavalier County, our tax base is seventy five to eighty percent ag property. When primary and secondary education budgets need additional funding, ag land property owners really get hit hard. This bill is a reasonable request. Personally, I feel an increase in North Dakota's state income tax, would be the most equitable way to do that. Property tax has no correlation to income whatsoever. I don't necessarily feel we should scrap the present system, but we need to overhaul it.

ARVID WINKLER, CUBA TOWNSHIP ASSESSOR, Submitted written testimony. See attached copy.

DOROTHY ROBINSON, PEMBINA COUNTY AUDITOR, Testified in support of the bill.

She submitted a handout relating to the comparison of sales ratio. This is on ag land from 1995 to 1999. This is an indicator to you of how we feel the current formula has flaws in it. She showed how the different counties in the area with the same kind of ag land, had different evaluations. She submitted a handout which was a worksheet for tax years beginning with 1999. See attached copy.

REP. CARLSON Asked what a mill would have raised in her county in 1999.

DOROTHY ROBINSON \$26,670, today it would be \$27,223.28. When you have set mills, such as one mill for the state medical center, and residents of Pembina County have set X amount of mills for ambulance or a library, those feed that increase. That increase is passed on to taxpayers. That is what happens when we are at our max. We get the same amount of dollars, but our mill levy comes down. It is a false statement to say, if you increase your value you will get more dollars. If you are over the max, that happens. In that infamous red book from the tax department, I believe there are only four or five counties which are not over the maximum.

REP. WINRICH Would you explain what the sales ratio is?

DOROTHY ROBINSON The sales ratio is, the ratio of what it sold for compared to what it is assessed at.

REP. JOYCE KINGSBURY, DIST. 16, Testified in support of the bill. Agreed with what everyone else said.

BRIAN KRAMER, NORTH DAKOTA FARM BUREAU, Testified in opposition of the bill.

This bill comes from a frustration of property taxes. We are certainly supportive of lowering property taxes but we can't support a whole modification of property evaluation forms. There

are two aspects to the amount of money that is raised by property taxes. One is the evaluation formula and the other is the mills applied to those. Budgets of the various political subdivisions raise those taxes. It isn't the property evaluation. The property evaluation merely determines the number of mills required to meet those expenses. When evaluations increase, the corresponding lowering of the mills should occur. When local property taxes are increasing, then local budgets must be scrutinized. If there is a need for increased mills, take it to the vote of the people. The formula works to determine the productive value of the property, it doesn't set the taxes. Capping the evaluation, will not necessarily cap the property taxes, that is where we have our concern.

REP. HERBEL You are saying then, that the formula, the way it is now, is working well?

BRIAN KRAMER I feel it works as well as it possibly can. There are a lot of problems with property taxes and property evaluations in the whole gammit. I think we have a system that works as well as any in the country. We talked to many other states regarding property taxes, and we talked about our evaluation formula and they are envious.

REP. DROYDAL TO REP. HERBEL Is the language in here "true and full value" correct?

REP. HERBEL When I talked to John Walstad, and told him what we are looking at, this is the language he came up with.

With no further testimony, the hearing was closed.

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House Finance and Taxation Committee
Bill/Resolution Number HB 1362
Hearing Date January 30, 2001

COMMITTEE ACTION 2-06-01, TAPE #2, side A, Meter #1350

REP. RENNER Made a motion to amend the bill by eliminating Section 1 and Section 3, and have a legislative council study this issue.

REP. DROVDAL Second the motion.

REP. HERBEL Did not agree with the amendments because of what it will do to the evaluation of the property in his area. He felt a cap should be put on.

REP. BRANDENBURG suggested that possibly the inundated lands should be included.

After a lengthy discussion, committee members felt they would like to discuss this with John Walstad of the Legislative Council in regard to drafting a study regarding this issue.

Motion to adopt the amendments was withdrawn.

COMMITTEE ACTION 2-7-01, Tape #1, Side B, Meter # 4505

REP. CLARK Made a motion for a **DO NOT PASS**

REP. GROSZ Second the motion. **MOTION CARRIED**

10 YES 5 NO 0 ABSENT

REP. CLARK Was given the floor assignment.

