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10/2/03  
Date

2003 HOUSE FINANCE AND TAXATION

HB 1055

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Date

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1055

House Finance and Taxation Committee

Conference Committee

Hearing Date January 14, 2003

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Committee Clerk Signature *Janice Stein*

Minutes:

**REP. WESLEY BELTER, CHAIRMAN** Called the hearing to order.

**SEN. RICH WARDNER, DIST. 37, DICKINSON** Stated he was the chairman of the tax committee during the interium. This bill was studied throughout the interium. The change in the bill before you, was something that came to us right toward the end. Since October, other information has developed, so that maybe this bill is not needed. Capitalization simply deals with interest rates, and as interest rates go down, the formula kicks out higher dollars. He stated someone reminded them that they were forgetting about putting in a percentage for property taxes paid into the capitalization rate. The committee felt, this was a fairness issue, and that it should be there, because it is going to be a shift now, to the urban district. We changed the averaging from seven years to ten, we put production into the formula, over the last few years, so I thought this was the final thing. Now they tell me, it is already in the formula, somewhere else. If it is in the formula somewhere, this bill doesn't do anything, and it would be double dipping.

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House Finance and Taxation Committee  
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**LARRY OSBORN, SUPERVISOR OF TAX & PROPERTY FOR RICHLAND COUNTY**

Testified in support of the bill. See written testimony plus a table of calculations for 2003 assessments.

**REP. BELTER** Asked Mr. Osborn to review the numbers.

**LARRY OSBORN** If we are at 8.53% now, that would be about 26% increase, we would get there in about five years. That average is up to about five percent per year. This would offset that by about 3.6% for the first four years. Then do nothing the fifth year.

**REP. SCHMIDT** Reiterated, if we don't do anything, the land values could increase five percent for the next three years.

**LARRY OSBORN** For the next five years.

**REP. SCHMIDT** Stated they found out in the last study, that for the last ten years, the average agricultural land in North Dakota, went up 37% in value. This would add up to 52% increase in fourteen years?

**LARRY OSBORN** Stated, it is more like 57%.

**REP. BELTER** Asked what the average selling price for land was in Richland County.

**LARRY OSBORN** It has gone up slowly, about 2% per year, for some reason, the price is up 8% this year.

**REP. BELTER** Asked whether land taxes were going up faster with the formula then based on actual property evaluations.

**LARRY OSBORN** One of the things I noticed about the formula, we are supposed to be following productivity. I think we are, to some degree. One of the things that really played in here, is government payments. He referred to the table of calculations relating to government

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payments. In 1995, we received 4.3 million dollars, by the year 2000, it grew to 52 million. That is something that happened in all of the counties in the red river valley. Even though the cropland value has dropped, the government payment value has picked that up, my average of 48.62, down below, is just about an even keel. I had \$47.00 in 1990 in government income. What changed is the capitalization rate, back in 1990, it was about 11.4%.

**REP. KLEIN** Asked whether he checked with the farm payments, he heard they were paying less.

**LARRY OSBORN** Related to a soils committee meeting in Richland County, to which nine farmers attended, representing townships, it was one of the things they brought up, that government payments were really dropping. What kind of effect that will have, is hard to tell. What will happen to the price of soybeans and corn.

**REP. GIL HERBEL, GRAFTON** Testified in support of the bill. He stated, that when you look at evaluations, especially in his area, they have the problem of a study escalation in evaluations and the capitalization rate, plays a big role in how the evaluations change. During the interium, they had Dr. Eckre change the capitalization rate, and saw a greater significant change taking place in evaluations, versus any other part of the formula. If those government payments tend to drop, you are not going to see that change take place in evaluations. Now we are going to be caught with high evaluations, high taxes, and you take the government payments out of there, it will leave the farmer holding the bag. Capitalization rate, is the greatest factor in determining evaluation, we need to make some change to that, and I think, this is a very good change. In visiting with the County Commissioner this morning, in Walsh County, the evaluations have gone up 42% in the last ten years. The land is not selling for a 42% increase.

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**DON SIEBERT, DIRECTOR OF TAX, WARD COUNTY** Testified in support of the bill.

The county commissioners support this bill and feel the evaluations have increased significantly in Ward County, with another 8% to 10% this year. We are in the same position as Richland County, where taxes are not reflecting what is in the formula, like they should be.

**MAC HALCROW, COUNTY COMMISSIONER, PEMBINA COUNTY**, Testified in support of the bill. Submitted four handouts relating to charts on taxable value, tax increases, FEMA and hazard mitigation money. In reviewing the charts, he stated the formula has to be changed. The capitalization rate is the big enemy. He stated, the hardest part is telling these farmers that their taxes are going to go up another 10% each year. He felt that it was not fair that the state is dictating an increase, when the county feels it doesn't need the increase. He felt that it is not fair, that this system has been allowed to increase taxes since 1980. He related to the disaster funds showing on one of the charts. He stated, everytime there is a disaster, there is a local cost share. It is not fair. These people are being overburdened, there are record amounts of foreclosures. We have had three floods. The damage to the infrastructure in the county, is immense.

**REP. BELTER** Because the land values escalated in Pembina County, how do you lowered your mills?

**MAC HALCROW** I get asked that question a lot. Since I have been county commissioner, we have lowered mills every year. That is four years in a row. There are a bunch of mills the citizens vote on. The only real control we would ever have, is stop escalating the evaluations.

**MARK SITZ, FARMER, REPRESENTING THE NORTH DAKOTA FARMERS UNION**

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Testified in support of the bill. He stated it has been a war in process with the property tax situation. When we talk about evaluations, the conversation usually comes to high evaluations and the escalations in those evaluations. There is a lot of concern about that. They feel that is the reason for the high property taxes. When we talk about a capitalization rate and how it affects evaluations, we recognize that the capitalization rate is the only thing that represents the inputs of ag producers. We feel that approving HB 1055, would be going in the right direction because it more accurately reflects what the situation really is.

**REP. DROYDAL** Talking about the evaluation, property taxes increase because the local entities need more money, no matter what the evaluation is. It is in that end dollar. Doesn't this, in reality, shift the burden from rural land to urban land?

**MARK SITZ** I would imagine, there are some that would come to that conclusion. What we are concerned about is the accuracy of what goes into the formula.

**REP. DROYDAL** Does the capitalization rate reflect values of city property?

**MARK SITZ** I think we are only talking about ag.

**JOHN WALSTAD, STAFF OF LEGISLATIVE COUNCIL, ATTORNEY FOR THE INTERIUM TAX COMMITTEE.** Gave a handout of interium committee, see attached copy. Also answered questions the committee had regarding the interium.

**REP. WINRICH** There is some question, according to Sen. Wardner, that this tax rate problem is addressed elsewhere in the formula.

**JOHN WALSTAD** That is sort of news to me. This came up at the final committee meeting. Mr. Osborn came to that meeting, stating that adding the effective tax rate to the cap rate, the committee thought it sounded like a good idea, and approved an amendment to a bill the

