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Dennis M. Hall
Operator's Signature

10/3/03
Date

2003 HOUSE FINANCE AND TAXATION

HB 1326

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10/3/03
Date

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB 1326**

House Finance and Taxation Committee

Conference Committee

Hearing Date January 20, 2003

Tape Number	Side A	Side B	Meter #
1		X	13.3

Committee Clerk Signature *Jamie Stein*

Minutes:

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

REP. BOB SKARPHOL, DIST. #2 TIOGA, ND Introduced the bill to revitalize North Dakota. He stated it was hard to get teachers to rural North Dakota because there was not enough adequate housing. In visiting with the banks, it became apparent, the banks had some level of difficulty financing new homes in rural North Dakota, because typically, after they are constructed, they are worth half of what it cost to build it. This bill gives a state income tax exemption to anyone building a new home, or buying a newly constructed home, and residing in that home, equal to half the value of that home, and it can be distributed over a ten year period. Potentially, it gives banks the ability to be a little bit more liberal in their lending policies for new homes. It does not apply to new homes built within ten miles of North Dakota's ten largest cities, and it does not apply to cities over a population of two thousand people. He stated that possibly, it should be a little farther from a larger city than ten miles.

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REP. WINRICH Asked whether there were any representatives from the banking industry to testify on the bill?

YES

REP. WINRICH Your comment about this tax credit would give banks greater freedom in lending money on these kinds of properties, but the tax credit is to individuals, the bank still has to have the loan secured, under the banking regulations, how does it give them more freedom?

REP. SKARPHOL It possibly gives them the ability to, more adequately, recommend the financing. The feasibility of the financing, is the issue. Typically, in a small town, if you build a home for \$70,000 and you try to sell it five years later, it is worth half of that. Hopefully, this income tax exemption will give them something which will make that work.

SEN. RON NICHOLS, DIST. 4 Testified in support of HB 1326 and HB 1327. Stating, as all of you know, things are changing pretty fast in rural North Dakota in our small towns. We are losing population, and certainly, the people who remain in the smaller towns, are getting older. We are an aging population. It is difficult keeping young families in our small towns. We need some advantages at this time to make those things happen.

GREG TSCHIDER, NORTH DAKOTA CREDIT UNION LEAGUE, Testified in support of the bill. He stated, the credit union league is concerned about the loss of population in the rural areas. They support any program that will enhance the quality of living, provide housing and provide jobs. He referred to Rep. Winrich's question regarding the banking industry. He stated they are not a bank, but do have the same concerns about underwriting mortgages. The big concern is, you can build a house for \$70,000 and the next day, if you want to resell it, it is worth only about \$30 to 35,000. How do you protect the financial institution. The tax credits are a nice

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idea, but they go to the individuals. He stated, if the committee supports this bill, we need to look for a way to provide a mechanism for the financial institutions so that that tax rebate does not go to the individual, but could be secured so that the money would go to the financial institution to be applied on the mortgage. If you give the money to the individual, and they don't make any payments on the mortgage, we are in the same position we are now, sitting with a large mortgage on a piece of property, which, if we have to foreclose, we would basically, lose a lot of money. By federal and state regulations, we can't grant loans, other than on a fair market value. You have to have the home appraised, and if the appraisal only comes in at thirty five or forty, the regulation says, the legislature, the FDIC prohibit us from making that loan. If you decide this is something that will benefit North Dakota, we will support that concept. The credit unions and the banks will shrink because there will be less and less people. We have a vested interest in the people of North Dakota.

REP. WINRICH What you are saying the bill, in its present form, would not give you any additional freedom in making mortgage loans, is that correct?

GREG TSCHIDER That is correct.

REP. WINRICH If it were changed somehow to direct the tax credits to the institutions, how would that be regarded under state and federal regulations?

GREG TSCHIDER At this time, there are no regulations that would be applicable, mainly because this is new ground.

JOEL GILBERTSON, ATTORNEY WITH VOGEL LAW FIRM AND REPRESENTING THE INDEPENDENT BANKS OF NORTH DAKOTA Testified in support of the bill.

There is a crisis in the rural areas. They support economic development in small towns. He gave

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an example of a banker saying, he could be the best community banker in the world, but if he doesn't have a community, it won't make a difference. It is a difficult problem. Related to questions asked by committee members. The problem with gap financing, Fannie Mae is trying to address this problem, we are gathering information of what possibilities are out there, whether this would address that problem, I don't know. Banks are very heavily regulated. They would be very happy to be a part of the solution to this problem.

DOREEN MEHLHOFF, EXECUTIVE OFFICER, NORTH DAKOTA ASSOCIATION OF BUILDERS, Testified in support of the bill. Would like to see more homes constructed around North Dakota. See attached testimony.

JOE BECKER, STATE TAX DEPARTMENT Testified in a neutral position. He did have some comments to offer on the bill. He questioned whether the credits were based on cost as they are incurred, or as they are paid. Is the credit allowed in the year in which the cost of construction is incurred, if the house is not completed yet, or do we take the credit in the year the construction is completed. The bill is not clear on that. We are not sure, if this would be for someone other than the builder, that individual may not know what the break out of the costs are. In respect for the definition of construction, in the bill, it says construction does not include sales tax. I understand from the sales tax section, that is a cost when itemized, should be built into the total price, they may not know that. There would be a lot of tracking in the administration of it.

CONNIE SPRYNCHYNATYK, REPRESENTING THE NORTH DAKOTA LEAGUE OF CITIES Testified in a neutral position. She stated there were some questions on it. She submitted handouts showing cities with over 2,000 population and the Renaissance zone law. They do support the concept of the bill.

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Hearing Date January 20, 2003

With no further testimony, the hearing was closed.

COMMITTEE ACTION Later in the day, Tape #2, Side A, Meter #21.4

Committee members felt that people would not build a seventy thousand dollar house in a small town just to get a tax break.

During discussion, committee members felt this bill would not solve the problems in the small towns.

REP. BELTER Stated they would wait with action on the bill, until they receive information regarding other programs from Connie Sprynczynatyk.

COMMITTEE ACTION 1-21-03, Tape #1, Side B, Meter # 49.8

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

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

12 yes 2 no 0 absent

REP. KELSH Was given the floor assignment.

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FISCAL NOTE
 Requested by Legislative Council
 01/14/2003

Bill/Resolution No.: HB 1326

1A. **State fiscal effect:** Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.

	2001-2003 Biennium		2003-2005 Biennium		2005-2007 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

1B. **County, city, and school district fiscal effect:** Identify the fiscal effect on the appropriate political subdivision.

2001-2003 Biennium			2003-2005 Biennium			2005-2007 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. **Narrative:** Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.

If enacted, HB 1326 would create an income tax credit equal to 50% of the qualifying construction costs associated with the building of new primary residences in qualifying small cities. How many taxpayers would take advantage of this credit is unknown, so the negative fiscal impact cannot be determined.

3. **State fiscal effect detail:** For information shown under state fiscal effect in 1A, please:

A. **Revenues:** Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.

B. **Expenditures:** Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.

C. **Appropriations:** Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.

Name:	Kathryn L. Strombeck	Agency:	Tax Dept.
Phone Number:	328-3402	Date Prepared:	01/17/2003

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10/3/03
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Date: 1-21-03
 Roll Call Vote #: 1

2003 HOUSE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO. HB 1326

House FINANCE & TAXATION Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Not Pass

Motion Made By Rep. Winrich Seconded By Rep. Clark

Representatives	Yes	No	Representatives	Yes	No
BELTER, CHAIRMAN	✓				
DROVDAL, VICE-CHAIR	✓				
CLARK	✓				
FROELICH	✓				
GROSZ	✓				
HEADLAND	✓				
IVERSON	✓				
KELSH	✓				
KLEIN	✓				
NICHOLAS		✓			
SCHMIDT		✓			
WEILER	✓				
WIKENHEISER	✓				
WINRICH	✓				

Total (Yes) 12 No 2

Absent 0

Floor Assignment Rep. S. Kelsh

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

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Dorinda Holmquist
 Operator's Signature Date 10/3/03

