

19.0469.03000

FISCAL NOTE STATEMENT

House Bill or Resolution No. HB 1481

This bill or resolution appears to affect revenues, expenditures, or fiscal liability of counties, cities, school districts, or townships. 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.

Sheila Sandness
Senior Fiscal Analyst

19.0469.02000

FISCAL NOTE STATEMENT

House Bill or Resolution No. HB 1481

This bill or resolution appears to affect revenues, expenditures, or fiscal liability of counties, cities, school districts, or townships. 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.

Sheila Sandness
Senior Fiscal Analyst

2019 HOUSE FINANCE AND TAXATION

HB 1481

2019 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1481
1/28/2019
31571

- Subcommittee
 Conference Committee

Committee Clerk: Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to determination of the true and full valuation of property.

Minutes:

Attachments 1-6

Chairman Headland: Opened hearing on HB 1481.

Representative Ertelt: Introduced bill. Distributed written testimony, see attachments 1-3
Ended testimony at 3:16.

Chairman Headland: Is there further testimony in support? Is there opposition?

Bill Wocken, North Dakota League of Cities: Distributed written testimony, see attachment #4. Ended testimony at 6:42.

Chairman Headland: In the past I've heard several discussions with property owners stating they would gladly sell their homes for what they've been assessed at. Do you believe that if we were to pass something like this we would generate real troubles with equalizing property across the state because our Constitution says we have to do that? If you have similar properties where one chooses the appraisal route and they're right with the appraisal coming in at less than the taxable value while the other property doesn't, does that create problems out there?

Bill Wocken: The best way to have things line up without any variances is to have a single source doing the appraisals. When you start to pull in people doing appraisals for different purposes you muddy the water unnecessarily. I believe having a single appraisal done by the tax assessor according to the state's standards and having that process the same throughout the state helps us to make sure we are equalizing. I'm concerned that some of the other appraisals for other purposes get mixed in then we start to make decisions based on an unequal basis.

Chairman Headland: We may have appraisers who may not be as ethical as others and may write a different appraisal. There's nothing in this bill from stopping that from happening. What would the backstop be then?

Bill Wocken: I wouldn't know that would happen but in case it would I don't think there is a backstop.

Representative B. Koppelman: Should we do away with being able to go back three years?

Bill Wocken: Adjustments are necessary. The problem with using a three-year-old appraisal versus a present appraisal is that the three-year old appraisal may be using comparable for three years before that so you'd have a much wider range. The opportunity for error is much larger.

Chairman Headland: Is there further opposition?

Kevin Ternes, Assessor for the City of Minot: Distributed written testimony, see attachment #5. Ended testimony at 18:24.

Chairman Headland: What are the educational requirements for an appraiser versus an assessor?

Kevin Ternes: The private appraisers used to have to have a college degree but now it may go down to a two-year degree due to the shortage of private and commercial appraisers. In addition to college a private appraiser needs about seven or eight weeks of school. An assessor is now up to six weeks. We take about two years to train our assessors. The assessment education is probably a class or two less than the private. The training is probably a little less reports you have to produce to get your private license. Some counties pay \$30,000-\$35,000 for a tax assessor a year and if you're a licensed real estate appraiser you should be able to make \$100-\$125,000 just doing houses. There's quite a difference in pay as well.

Representative B. Koppelman: If I'm questioning my assessment would you give me a printout showing all the assumptions just like an appraisal would?

Kevin Ternes: Absolutely. We can print out their property card and show them the adjustments. It will be based on the mass appraisal versus single property appraisal.

Chairman Headland: What is the average cost for a private appraisal?

Kevin Ternes: About \$600-800 per house. About \$5,000-8,000 for a commercial.

Representative B. Koppelman: Can those small assessors that have the sophistication of software provide a resident in a small town the same as the city of Minot or West Fargo?

Kevin Ternes: Most of the 53 counties have software, Vanguard. The data is only as good as the information being keyed in and we have an issue with getting good qualified experienced people in some of these counties. We're getting better at that. We encourage them to never discount a private appraisal because there's information in there you could probably use.

Representative Ertelt: With the proposed amendment it allows for spot check if it's outside that 10% band. With the understanding that there is a reviewable process in place what would that relieve some of the heartburn?

Kevin Ternes: It does but I'd have to see the amendment. I don't understand how you're going to spot check the appraisal unless you do it with another appraisal but somebody will have to pay for that too. I'm glad to hear that the sponsors are open to not letting one person have the final and non-reviewable number.

Chairman Headland: Further opposition?

Donnell Preskey, North Dakota Association of Counties: Distributed testimony from the Cass County Director of Equalization, see Attachment #6.

Chairman Headland: Is there further opposition? Seeing none we will close the hearing on HB 1481.

2019 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1481
1/28/2019
31597

- Subcommittee
 Conference Committee

Committee Clerk: Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to determination of the true and full valuation of property; and to provide an effective date.

Minutes:

Attachment 1-2

Chairman Headland: Representative Ertelt brought in an amendment earlier.

Representative B. Koppelman: **MADE A MOTION TO ADOPT AMENDMENT** 19.0469.02001 dated January 21, 2019. See amendment and Christmas tree version of the bill as attachments 1 and 2.

Representative Ertelt: SECONDED. There was concern about demanding we use the private appraisal. This amendment would allow the county assessor to challenge that and require a spot check if that amount was beyond the 10% as allowed by the State Board of Equalization. This amendment should cover their concern.

Chairman Headland: I think we heard all kinds of problems associated with moving this bill forward. I don't think I can support it amended or not amended.

Representative Toman: There is a problem with this. The two worst actors are insurance companies and certain city's or county's appraisers treating things as potentially personal property and we don't tax personal property. They have placed arbitrary value on items in my home. I believe by allowing someone to bring in a refinance appraiser, appraisal, or purchase price with the amendment and the recourse of them to spot check that would be fine.

Representative B. Koppelman: When discussing a value most of the people who come in want to reduce it nominally. The assessor would use purchase price to assess value. There was a bill a few sessions ago that said you adjust a valuation to what the sale price was if it wasn't a special deal but we voted that bill down. A purchase price is the best teller of what something is worth but they want to use a formula that could raise it above of what someone is willing to pay. I want to make sure we put this bill in a workable form.

Chairman Headland: What are the committee's wishes?

VOICE VOTE: MOTION CARRIED

Chairman Headland: We have an amended bill. Is it possible to fix this bill up? I'll be voting against the amended version. Since we're missing three members let's set this aside for now.

2019 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1481
2/5/2019
32217

- Subcommittee
 Conference Committee

Committee Clerk: Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill related to determination of the true and full valuation of property; and to provide an effective date.

Minutes:

No attachments

Chairman Headland: We amended this bill. Can you refresh my memory on this amendment?

Representative Ertelt: The amendment does two things; if you've made improvements in the past three years you can't use the private appraisal. It also provides for the spot check. The spot check is on a 10% off the state board window.

Chairman Headland: What are your wishes on this bill? Isn't there another bill dealing with spot checks?

Representative Dockter: Yes we have a subcommittee on that. The 10% is the same as the bill we have in Political Subs. We haven't taken action on that yet.

Chairman Headland: I think the bill has to be defeated. We heard plenty of opposition against it and how it's going to screw up when the assessors go out to assess. Looking for direction here.

Representative Blum: MADE A MOTION FOR A DO NOT PASS AS AMENDED

Representative Steiner: SECONDED

Chairman Headland: Discussion.

Representative Ertelt: I don't think the concerns weren't having a reviewable process but the amendment actually provides for that and allows the county to do the spot check themselves. I think it addresses that as well as the improvement portion that was a contention as well. If the property value has changed during the time of improvement that is also covered by the amendments.

House Finance and Taxation Committee
HB 1481
February 5, 2019
Page 2

Chairman Headland: Is there any further discussion?

**ROLL CALL VOTE: 10 YES 4 NO 0 ABSENT
MOTION CARRIED**

Vice Chairman Grueneich will carry this bill.

DA 2/5/19

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1481

Page 1, after line 7 insert:

"1."

Page 1, line 14, after the period insert:

"2."

Page 1, line 19, after the underscored period insert "An appraised valuation may not be substituted for the true and full valuation of the property, as determined by an assessor or board of equalization, if the property has undergone improvements since the date the appraisal was prepared or if the appraised valuation is more than ten percent outside of the tolerance level adopted by the state board of equalization. The board of county commissioners shall provide for a spot check pursuant to section 57-12-01.1 on any property for which an appraised valuation was submitted which was more than ten percent outside of the tolerance levels adopted by the state board of equalization. A spot check of property conducted pursuant to this section may not be conducted using a mass appraisal system of valuation.

3."

Renumber accordingly

Date: 1-28-19
Roll Call Vote #: 1

2019 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1481

House Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: Jan. 21, 2019 Rep. Ertelt 19.0469.02001

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
Other Actions: Reconsider _____

Motion Made By Rep. Koppelman Seconded By Rep. Ertelt

Representatives	Yes	No	Representatives	Yes	No
Chairman Headland			Representative Eidson		
Vice Chairman Grueneich			Representative Mitskog		
Representative Blum					
Representative Dockter					
Representative Ertelt					
Representative Fisher					
Representative Hatlestad					
Representative Kading					
Representative Koppelman					
Representative Steiner					
Representative Toman					
Representative Trottier					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

↓ Voice Vote = Motion carries.

Assessor can do a spot check if the amount was beyond the 10% as allowed by the State Board of Equalization.

**2019 HOUSE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. HB 1481**

House Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: 19.0469.02001

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
 Other Actions: Reconsider _____

Motion Made By Rep. Blum Seconded By Rep. Steiner

Representatives	Yes	No	Representatives	Yes	No
Chairman Headland	✓		Representative Eidson	✓	
Vice Chairman Grueneich	✓		Representative Mitskog	✓	
Representative Blum	✓				
Representative Dockter	✓				
Representative Ertelt		✓			
Representative Fisher	✓				
Representative Hatlestad	✓				
Representative Kading		✓			
Representative Koppelman	✓	✓			
Representative Steiner	✓	✓			
Representative Toman		✓			
Representative Trottier	✓				

Total (Yes) 10 No 4

Absent 0

Floor Assignment Rep. Grueneich

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

REPORT OF STANDING COMMITTEE

HB 1481: Finance and Taxation Committee (Rep. Headland, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO NOT PASS** (10 YEAS, 4 NAYS, 0 ABSENT AND NOT VOTING). HB 1481 was placed on the Sixth order on the calendar.

Page 1, after line 7 insert:

"1."

Page 1, line 14, after the period insert:

"2."

Page 1, line 19, after the underscored period insert "An appraised valuation may not be substituted for the true and full valuation of the property, as determined by an assessor or board of equalization, if the property has undergone improvements since the date the appraisal was prepared or if the appraised valuation is more than ten percent outside of the tolerance level adopted by the state board of equalization. The board of county commissioners shall provide for a spot check pursuant to section 57-12-01.1 on any property for which an appraised valuation was submitted which was more than ten percent outside of the tolerance levels adopted by the state board of equalization. A spot check of property conducted pursuant to this section may not be conducted using a mass appraisal system of valuation."

"3."

Renumber accordingly

2019 TESTIMONY

HB 1481

#1
HB 1481
1-28-19

Testimony in Support of House Bill 1481
Rep. Sebastian Ertelt
ND District 26

Chairman Headland and Fellow Members of the Finance and Taxation Committee,

For the record, I am Representative Sebastian Ertelt representing North Dakota District 26. I have introduced House Bill 1481 to address a frequent concern among property taxpayers that the true and full valuation of their property as determined by the local assessor is not actually true. During testimony at the Interim Session Finance and Taxation Committee we heard of different instances across the state. One of the aggrieved parties recently reiterated the discrepancies at a hearing on House Bill 1289 regarding spot checks. At that hearing I submitted testimony on behalf of the Gwinner Tax Team, which I now present to you as yet another example.

HB 1481 would allow property owners to pay for an appraisal by a licensed appraiser at their own expense and use that appraisal in place of the valuation determined by the local assessor or board of equalization. The appraisal would be valid for a 3 year period. I have since requested an amendment to the bill which you have before you that would place qualifications on the appraisal. First, the appraisal could not be used if improvements had been made in the meantime. The appraisal could neither be used if it was more than 10% different than that allowed by the state board of equalization. If the appraisal is outside this 10% range then a spot check by the local assessor would be required, but could not be done by a mass appraisal system.

As we heard in opposition testimony to HB 1289, you may hear that these private market appraisals are often not accurate. If they are not, then why does the state even license appraisers for private use? Why not require appraisals to be performed by a public tax assessor at all times? Or, as the bill suggests, why not spot check those properties if the local assessor is unwaveringly confident in their own valuation?

You may also hear objection to the 3 year period for which a private appraisal would be accepted, yet the county can use up to 3 years of actual sales for the sales ratio study. What is being asked for here is nothing more than an equal footing and a second opinion.

Chairman Headland and Members of the Committee, I thank you for your time today and urge a unanimous DO PASS recommendation on House Bill 1481.



#2
HB 1481
1-28-19
p. 1

TESTIMONY ON HOUSE BILL 1481

Finance and Taxation Committee

January 28, 2019

Paul Houdek, City Assessor

City of Grand Forks, ND

Mr. Chairman and members of the committee, my name is Paul Houdek, and I am the City Assessor for the City of Grand Forks. I want to thank you for the opportunity to provide testimony and express my opposition to this legislation. I am contacting you today in opposition of House Bill 1481.

This bill requires that the true and full value as established by the local and county Boards of Equalization MUST be substituted by the value of an appraisal as prepared by a licensed appraiser which was completed no longer than three years ago. An appraisal is done for a specific reason, financing a new purchase or refinancing and existing mortgage would be a couple of the most popular reasons. These appraisals are done for the banks with specific purpose and specific requirements set out by each lender. An assessor for the local taxing jurisdiction is not in any way confined by these requirements of an individual lender. An example would be that the comparable sales used must come within a half mile of the subject property. The assessor is not confined to this self-imposed restriction of the lending institution. An assessor may move beyond that one half mile and find better more suitable comparable sales that lead to a different value conclusion.

There could be physical changes to the property that were not there at the time the appraisal was done. A three year old appraisal has a very limited amount of value, and in a changing market can be very misleading. Three years is ancient history in a rapidly changing market.

Simply saying that the independent appraisal is more accurate ignores the intended use and the intended user of the appraisal report. In any appraisal assignment, each appraiser will identify the intended user and the intended use of the appraisal report. Generally, these appraisals are done for financing purposes. All appraisals will have some language, such as the following paragraph identifying the intended use and intended user.

"The intended use and user of our report are specifically identified in our report as agreed upon in our contract for services and/or reliance language found in the report. No other use or user of the report is permitted by any other party for any other purpose. Dissemination of this report by any party to non-client, non-intended users

#2
HB 1481
1-28-19
p.2

does not extend reliance to any other party and the appraiser will not be responsible for unauthorized use of the report, its conclusions or contents used partially or in its entirety."

This language is required to be in the appraisal report for good reason. This appraisal was done for a specific reason at a specific time. Using it for any other reason may lead to incorrect conclusions. In other words, this is the appraiser telling the reader of the report that this appraisal was done for refinancing purposes should not be relied upon for any other reason. That is very clear. To write into North Dakota state law that we should ignore the Uniform Standards of Professional Appraisal Practice (USPAP) in these situations is a very bad idea and will lead to the misuse of these appraisal reports.

This bill gives no regard to equalization or the results of the annual sales ratio study, which local assessor's use to measure the assessments against the current market. Inequity in property value would certainly be the result of enacting this bill into law.

Perhaps the most troubling part of this bill is it does not differentiate between a "leased fee" interest and a "fee simple" interest. The ownership interest that an assessor or an appraiser values may have a significant impact on the value conclusion. This could result in significant differences in value on a commercial parcel. Assessors are required to value the properties "fee simple" interest. Due to the scope of work required by the lender the appraiser may appraise the "leased fee" interest in the property which more often than not leads to a different value conclusion.

I have been an Assessor for twenty years and this is one of the most troubling bills I can remember. I am the City Assessor for the City of Grand Forks. I also have a Certified General Appraisal License through the North Dakota Real Estate Qualifications and Ethics Board. I deal in the mass appraisal of property every year as I have for the past 20 years. Why would it make sense to defer to an "independent appraiser", based on a 3 year old appraisal, that was done for a different "intended use" and for a different "intended user" when his or her knowledge of the local market, qualifications and experience may be less than my own?

The Grand Forks City Assessor and the City of Grand Forks Legislative Committee oppose this bill. I would also ask you to oppose this bill as well.

Respectfully,

Paul Houdek,
Grand Forks City Assessor

#3
HB 1481
p. 1

2017 Sales Ratio Study

Sargent County Commercial Sales
June 2018

Agenda

- Review sales ratio administrative rules.
- Review 2017 Commercial Sales.
 - Compare to administrative rules
- Comparison: sales ratio set by sales vs. administratively allowed sales

Administrative Rules

(Sales Not To Be Included)

1. Property owned or used by public utilities.
2. Property classified as personal property.
3. A sale where the grantor and the grantee are of the same family or corporate affiliate.
4. A sale which resulted as a settlement of an estate.
5. A sale to or from a government or government agency.
6. Forced sale, mortgage, foreclosure, or tax sale.
7. Sales to or from a religious, charitable or nonprofit organization.
8. A transfer of ownership of property for which is given a quit claim deed.
9. Sales of property which is not assessable by law.
10. Agricultural lands of less than eighty (80) acres.
11. Sales where only a part interest in the property has been sold.
12. The date of the sale was not within the base period.

Administrative Rules (Cont)

13. Sale for a completed structure, whereas the assessment records show only a partial assessment on the structure.
14. The subject property constitutes, or is part of, an exchange of properties.
15. The deed resulted from the completion of a contract made prior to the current year.
16. The grantor is transferring property to avoid a lien or judgment.
17. Sales where there is an indicated change of use by the owner.
18. Agricultural lands where a large portion of the sale price is attributed to farm buildings which are exempt from taxation.
19. Sale where the total sale price includes the price paid for a significant amount of personal property which is difficult to evaluate.
20. Sales of vacant lots which show a building having been erected and assessed at this location since the date of this sale.
21. Sales where the property described in the deed does not coincide with the assessment records in the county auditor's office.
22. Sales of commercial or residential property where the building has been removed or destroyed and the assessment records show only a valuation for the land.
23. Other reasons not listed above (explain).

#3
HB 1481
p. 2

Sale 1

- City – Rutland
- Date of sale – 4/17/2017
- Document: 154630 Parcel Number: 29-9040000
- Sale Price: \$275,000 True & Full Value: \$270,900
- Legal Description: 103 1st St
- Grantor: Christianson Grantee: Pyle/Becker
- Ruling: Sale considered in ratio calculation
- Sales Ratio: 98.5%

Sale 2

- City: Gwinner
- Date of Sale: 5/1/2017
- Document: 154693 Parcel Number: 31-9789006
- Sale Price: \$8,000 True & Full Value: \$20,900
- Address: 180th Ave. SE
- Grantor: GCDC Grantee: Bohnenkamp
- Ruling: Sale disallowed for sales ratio study per rule #15
- Sales ratio: 261.25%

Sale 3

- City: Milnor
- Date of Sale: 6/28/2017
- Document: 154816 Parcel Number: 25-7575000
- Sale Price: \$30,000 True & Full Value: \$89,200
- Address: 323 Main St.
- Grantor: Milnor Fire District Grantee: Buskohl Land
- Ruling: Sale disallowed for sales ratio study per rule #5
- Sales ratio: 297.33%

Sale 4

- City: Forman
- Date of Sale: 9/8/2017
- Document: 154940 Parcel Number: 26-8333002
- Sales Price: \$313,500 True & Full Value: \$357,800
- Address: 111 5th Ave. SW
- Grantor: FCDC Grantee: Planteen
- Ruling: Sale disallowed for sales ratio study per rule #7
- Sales Ratio: 114.1%

#3
HB 1481
P. 3

Sale 5

- City: Cogswell
- Date of Sale: 9/19/2017
- Document: 154962 Parcel Number: 27-8375000
- Sale Price: \$924 True & Full Value: \$600
- Address: Lot 7 & 8, Block 8
- Grantor: LOP Land Trust Grantee: Z Gas LLC
- Ruling: Sale disallowed for sales ratio per rule #10
- Sales ratio: 64.9%

Sale 6

- City: Milnor
- Date of Sale: 9/28/2017
- Document: 154981 Parcel Number: 25-7596000
- Sale Price: \$40,000 True & Full Value: \$54,500
- Address: Lots 21-24, Block 34
- Grantor: Toyne Grantee: Rohan
- Ruling: Sale disallowed for sales ratio study per rule #23
- Sales ratio: 136.25%

Sale 7

- City: Forman
- Date of Sale: 10/27/2017
- Document: 155062 Parcel Number: 26-8306000
- Sale Price: \$25 True and Full Value: \$1,900
- Address: Lot 4, Block 14
- Grantor: Pemo Grantee: Ekstrom
- Ruling: Sale disallowed for sales ratio per rule #10
- Sales ratio: 7600.0%

Sale 8

- City: Gwinner
- Date of Sale: 11/1/2017
- Document: 155043 Parcel Number: 31-9538000
- Sale Price: \$25,000 True & Full Value: \$54,500
- Address: Lot 3, Block 1, Crossroads Addition
- Grantor: Kalmbach Grantee: French
- Ruling: Sale allowed for sales ratio study
- Sales ratio: 186.8%

Sales Ratio Comparison Administrative Rules vs. All Sales

- Sales ratio using administrative rules
 - 2 sales from 2017
 - 16 sales from 2016 and 2015
 - 12 appraisals from 2016
 - Sales ratio = 1.00
- Sales ratio using all sales
 - 6 sales from 2017
 - 13 sales from 2016 and 2015
 - 11 sales from 2014, 2013 & 2012
 - Sales ratio = 1.12

Conclusion

- Administrative rules do not allow the “voice of the market”
- Permits a large voice of the appraiser
 - Note that a high percentage of the current sales ratio is set by the appraiser
 - 40% of the current sales ratio is set by appraisals

Appendix

Sargent County Commercial Sales Ratio 2017 2017 Sales

CITY/TOWNSHIP	DATE OF SALE	DOCUMENT NUMBER	PARCEL NUMBER	SALE PRICE	TRUE & FULL VALUE	SALES RATIO
Rutland City	4/17/2017	154630	29-9040000 29-9042001	275,000	270,900	
Gwinner City	11/1/2017	155043	31-9538000	25,000	46,700	
Forman City	9/8/2017	154940	26-8333002	313,500	357,800	
Copswell City	9/19/2017	154962	27-8375000	924	600	
Minor City	9/28/2017	154983	25-7566000	40,000	54,500	
Gwinner City	5/1/2017	154693	31-9789006	8,000	20,900	
Minor City	6/28/2017	154816	25-7575000	30,000	89,200	
Forman City	10/27/2017	155062	26-8306000	25	1,900	
6				691,500	840,000	1.215

#3
HB 1481
p. 5

Sargent County Commercial Sales 2017
2015 & 2016 Sales

SUPPLEMENTALS					
Winner City	5/11/2015	151874	31-9185000	70,000	148,100
Winner City	6/29/2015	151819	31-9185000	68,000	10,500
Forman City	7/29/2015	151907	26-8020000	315,000	358,500
Forman City	4/2/2016	154011	26-8020000	430,000	259,500
Minor Twp	5/2/2016	154056	12-2050000	350,000	270,100
Forman City	10/14/2016	154124	26-8020000	25,000	61,000
Winner City	12/1/2016	151169	31-9185000	110,000	111,100
Winner City	10/1/2016	154178	31-9185000	18,000	50,217
Rutland City	10/17/2016	154168	29-9054000	10,000	8,300
Winner City	1/29/2017	152669	31-9185000	1,000	20,800
Forman City	4/18/2015	151715	26-8020000	31,000	61,200
Forman City	7/10/2015	151780	26-8020000	11,000	34,500
Minor Twp	12/4/2015	151851	06-2443000	800	800
Forman City	7/20/15	151779	26-8020000	55,000	52,300
Forman City	10/1/15	151886	26-8020000	75,000	78,600
Minor City	10/12/15	151852	25-7483000	85,000	77,100
13				1,155,900	1,154,400

Sargent County Commercial Sales 2017
2012 - 2014 Sales

More Supplementals					
Minor City	12/30/2014	151334	25-7507000	80,000	39,000
Minor City	1/2/2014	151393	25-7596000	115,000	64,200
Forman City	2/11/2014	151497	26-8020000	80,000	43,800
		151497	26-8044000		147,000
Minor Twp	3/31/2014	152098	12-4072000	100,000	75,100
Minor Twp	3/31/2014	152218	12-4072000	170,000	191,300
Minor City	1/22/2013	150268	25-7595000	150,000	253,200
Forman City	7/1/2013	150880	26-8020000	122,500	132,400
Winner City	2/1/2013	150385	31-9185000	27,829	119,200
Winner City	5/1/2013	151036	31-9537000	53,000	70,100
Winner City	2/13/2012	149255	31-9514000	150,000	100,000
Rutland City	2/15/2012	1493000	29-9054000	25,000	13,600
11				973,329	1,249,400
12					
				1,155,900	1,154,400

Data not included in calculation
Corrected numbers

#3
HB 1481
p. 6

Tax Team
City of Gwinner
Commercial Property Information
Meeting with State and Local Representatives
December 2018

- Team Members
- Grover Riebe
 - Dan McKeever
 - Jerry Waswick
 - Scott Maro
 - Linda Johnson
 - Dan Olson

- Agenda
- Brief History review
 - Sales Ratio review
 - North Dakota Century Code
 - Review of Administrative Rules used for Sales Ratios
 - 2017 Commercial increases
 - Suggestions for Improvement
 - Discussion

- Brief History
- 2/6/2017 New appraisals presented to Gwinner City Council
 - Action tabled by Gwinner City Council to get more information
 - 2/23/2017 Special City Council meeting with Vanguard Appraisals
 - Requested more information from Vanguard on commercial property
 - 3/6/2017 Equalization meeting with Tax Director
 - Commercial appraisals rejected by Gwinner City Council
 - 6/6/2017 Tax Team presentation to Sargent County Commission
 - County Commission overrules City of Gwinner rejection
 - 6/30/2017 County presentation to State Board of Equalization
 - Shows True and Full Value increase of 74.8% over 2016

#3
HB 1481
p.7

Brief History (Cont.)

- 6/30/2017 City of Gwinner appeals County decision to SBOE
 - Appealed on basis of land value variations, lack of data establishing front foot valuations, and lack of supporting sales data
- 7/26/2017 Sargent County Return Summary printed by SBOE
 - Shows -43.7% change required to Commercial properties
- 8/8/2017 City of Gwinner presentation to SBOE by Mayor McKeever
- 9/27/2017 SBOE Staff Report
 - Sargent County needs a 43.7% decrease in Commercial values to be at 100%
- 9/27/2017 Sargent County Tax Director appeals to SBOE to remain out of tolerance. Cites completion of reappraisal process.

Brief History (Cont.)

- 9/27/2017 SBOE approves out of tolerance issue (43.7%) in Sargent County
 - Requires overall increase of 12.5% in Residential values based on Sales Ratio
 - Requires 35% increase to Rutland residential values
 - All other towns in Sargent County to increase 3%
- 11/9/2017 Appeal letter sent to SBOE by City of Gwinner
- 12/14/2017 Appeal denied by State Tax Director
- 3/26/2018 City of Gwinner requests AG opinion
 - Decision by SBOE at odds with NDCC 57-13-04.1
- 6/19/2018 County Tax Equalization Meeting
 - Reported the impact of Administrative Rules on Sales Ratio calculation
- 6/27/2018 City of Gwinner receives AG opinion
 - AG opinion does not answer the question posed in original letter

Sales Ratio

- Counties are required to conduct a Sales Ratio study annually
 - Compares property sale prices to True and Full Value information
 - Used to determine accuracy of True and Full Value data
 - Submitted to State Board of Equalization
- Requires 30 sales each year
 - If there are not 30 sales during the year, County can use supplemental sales information from previous 2 years (3 years actual sales information)
 - If 3 years of sales do not total 30, then appraisals are used to make up the shortfall
- Counties are required to submit three separate Sales Ratio files
 - Schedule BX
 - Sales Ratio Abstract
 - Sales Ratio Supplemental

Sales Ratio (cont.)

- Rural Counties do not see 30 sales per year
 - Many see only 5 or 6
- How many Counties in North Dakota get 30 sales/year?
- What percentage of North Dakota Counties get 30 sales/year?

North Dakota Century Code 57-13-04.1

- Chapter 57-13 covers actions by the State Board of Equalization
- Residential and commercial property true and full value is covered by section 04.1
 - States that the SBOE may not approve true and full values, as assessed and equalized, exceeding 100% of values determined by the sales ratio study

Administrative Rules

- Enacted to explain why transactions are not included in the sales ratio study
- List contains 23 rules
 - Most troubling rules in Sargent County:
 - Sales to or from a government or government agency. (Local governments sell property from time to time and all of them endeavor to get the best possible price.)
 - Sales to or from a religious, charitable or nonprofit organization. (This rules out sales by local development organizations.)
 - Deed resulted from the completion of a contract made prior to the current year. (Contracts that are 3 – 5 years in length should be allowed.)
 - Sale where there is an indicated change of use by the owner. (Changing from residential to commercial would exclude this sale.)
 - Full list of Administrative Rules is attached.

Current State

- 2018 Sales Ratio study not reflecting 2017 sales
 - Administrative rules used to eliminate certain sales
 - Requirement for 30 sales to complete a sales ratio study not realistic for rural counties
 - Use of Administrative Rules disqualifies some very good sales and causes too much reliance on Appraisals rather than the voice of the marketplace (Sales)

2017 Commercial Property Increases

	Increase (%)
Sargent County	174.8
Gwinner	145.2
Millnor	254.4
Forman	208.6
Rutland	185.9
Cogswell	71.9
Cayuga	310.7
Havana	121.1

Improvement Suggestions

- Modify the list of administrative rules
- Reduce the number of sales required for a sales ratio study in rural counties
- SBOE needs to follow NDCC 57-13-04.1

Discussion

- Questions?
- Suggestions?
- Possible next steps?

Appendix

Administrative Rules List

- STATE BOARD OF EQUALIZATION**
 Items from this list are to be included in the administrative rules study. Items not on this list are to be excluded from the study.
1. Property assessed as land by public utilities.
 2. Property classed as personal property.
 3. A sale where the grantor and the grantee are of the same family or a regular affiliate.
 4. A sale where the buyer is a volunteer of an estate.
 5. A sale to or from a governmental or governmental agency.
 6. A sale to or from a religious, charitable, or nonprofit organization.
 7. A sale to or from a religious, charitable, or nonprofit organization.
 8. A sale to or from a religious, charitable, or nonprofit organization.
 9. Sales of property which is not assessable by law.
 10. Agricultural lands of less than 100 acres.
 11. Sales where only a part interest in the property has been sold.
 12. The date of the sale was on or before the first of January.
 13. Sales for a complete interest in the property where only a part of the interest was sold.
 14. The subject property constitutes, or is part of, an exchange of properties.
 15. The deed resulted from the execution of a contract made prior to the current year.
 16. The property is unimproved property to be sold by an individual.
 17. Sales where there is an inherited change of ownership by the owner.
 18. Agricultural lands where a large portion of the acreage is utilized for farm buildings which are exempt from taxation.
 19. Sales where the total sale price includes the proceeds for a significant amount of personal property which is difficult to evaluate.
 20. Sales of vacant lots which show a building being constructed and which are not included in the list of this rule.
 21. Sales where the property described in the deed does not conform with the jurisdiction records in the county public office.
 22. Sales of common or residential property where the building has been removed or destroyed and the assessed amount shows a value for the land.
 23. Other counties and local government entities.

#4
HB 1481
1-28-19

Testimony in Opposition to House Bill 1481
January 28, 2019
House Finance and Tax Committee
Bill Wocken on behalf of the North Dakota League of Cities

Good Morning Mr. Chairman and members of the House Finance and Tax Committee. For the record, my name is Bill Wocken and I am appearing on behalf of the North Dakota League of Cities in opposition to House Bill 1481.

House Bill 1481 requires an assessor or Board of Equalization to accept an appraisal done by a licensed appraiser and substitute the appraiser's opinion of value for the true and full value of the property developed by the assessor provided the appraisal is no more than three years old.

This proposition sounds reasonable on its surface but there are inherent problems with it that make it inequitable. First is the age of the appraisal. If an appraisal submitted by a property owner can be up to three years old, it places that dated appraisal up against the current determination of value reached by the assessor for other parcels in the community. Much can happen in three years. This is inequitable on its face.

A second problem is the purpose for which the appraisal was done by the private owner. There are many types of appraisals that will yield different values for the same parcel at the same time. This is often related to the purpose for the appraisal. Appraisals can be done for resale purposes. They can be done to support an attempt to re-finance a property. They can be done to assess home equity, the value of a lien property or refinancing. Many of these appraisals will arrive at different opinions of value since the valuation decision will be used in different ways.

One needs only look at the used car valuation guides to see a similar situation. A used automobile is valued differently as a trade-in, a car being purchased from a private party, an automobile on a dealer's lot or an automobile being financed.

Mr. Chairman and committee members, House Bill 1481 will result in inequities and the North Dakota League of Cities therefore must ask for a Do Not Pass recommendation.

#5
HB 1481
1-28-19
p. 1

North Dakota House of Representatives

Finance and Taxation Committee

House Bill #1481

January 28th, 2019

Testimony from Kevin Ternes, Minot City Assessor

kevin.ternes@minotnd.org

701-857-4160

Chairman Headland:

Thank you for allowing me to provide testimony regarding HB #1481. Because this bill will cause inequity and allow similar properties to be assessed at different values, as somebody who as worked with property assessments for 28 years, I am opposed to the proposal.

Many times we can debate what is fair and what is not fair based on a belief or philosophy, but there is no doubt that if two homeowners have basically the same or similar property and one is assessed based on a three year old private appraisal, and a neighbor is assessed at current market, I think we can all agree that is not fair.

This bill proposes that a private appraisal submitted to the assessor or board of equalization must be accepted as the assessment with no review or appeal provided. That alone is bad policy. One person's opinion should not be exempt from review or appeal. In most any government activity there is always some level of appeal or review. Even a district judge's decision can be appealed. This bill doesn't allow for that.

The bill also states that a private appraisal is to be accepted as the current assessment for property tax even if the appraisal is up to three years old. Why do we want to put into law that an appraisal from three years ago is the assessment for one house, yet assess current market value for other similar homes on the street? What if the owner purchased a house three years ago and remodeled or even added an addition to the home since they purchased it? How is a one, two or even three year old appraisal even relevant to that home's current value? Yet this bill makes that out-of-date appraisal the new current assessment.

This will create a problem with fairness and equity among all the similar properties because someone who had an appraisal done up to three years ago is probably going to have a lower valuation than somebody else who is at current market value.

It should be noted there is a difference in the techniques used by the local assessor and the private appraiser. The private appraiser looks at three to five comparable sales and then estimates a market value for the property. This is called single property appraisal. The assessor is trained to not only be familiar with single property appraisal but is also trained in mass appraisal. The occurs with the help of sophisticated software that looks at sales data which has

#5
HB 1481
1-28-19
p. 2

recently occurred and interpret that sales data to aid the assessor in estimating the market value on a large group of properties on a specific date. Generally, this allows for the same assessment model to provide fairness and equity for all based on the same data used for all homeowners.

This bill allows the use of an appraisal that was probably done for reasons other than providing an assessment, and was done at a different time in the market than the rest of the similar properties in the city or county.

People have private appraisals done mostly to support their request for a mortgage or sometimes to refinance their loan to a lower rate. To assume the result of an appraisal that was completed up to three years ago for one property, with the assessor using the current market for everybody else is going to result in quite a few phone calls.

It should be noted that in Minot and Ward County, all the tax statements are online. You can look up anybody's tax statement. And many people do. I do not look forward to telling somebody, *"Well your house was assessed at current value, but your neighbor brought in an appraisal from a few years back and we had to accept that so that is why he is lower than you. Yes sir I know he has remodeled his home since he purchased it and since it was privately appraised."*

There seems to be a misconception among some people that a private appraiser's work is always superior to an assessor's work. It should be noted that the local assessor has all the sales data. It includes realtor sales data AND those sales that happened between private parties. The private appraiser generally has the realtor sales but usually goes to the assessor data base for the remaining sales.

The point is: the private appraiser generally starts his or her project by getting the assessor's data first. The local assessor often is as familiar or even more familiar with the immediate area of the property being appraised, including the specific house or commercial property being appraised as that assessor knows the house or people who have lived there. This is especially true if the private appraisers do not live in the area they are appraising, as often happens with appraisals of commercial property.

We all know that in every field there are those who are better at their job than others. There are some really fine private appraisers out there and some who are not so good. The same can be said of assessors. Therefore, to have a new law that says the private appraiser is always right, without any review or appeal, even on a three-year-old appraisal is very bad policy. I'm not aware of any state that allows a private appraisal done for the owner to be the final word on a property assessment with no appeal or review. The same goes for assessors. Their word should never be final either and that is why there are three levels of informal appeal and another level called the abatement process.

#5
HB 1481
1-28-19
p.3

Abatements take a lot of time and resources committed by the assessor. Assessors will not try to defend values they don't feel are accurate or fair. The only time an assessor makes a recommendation to deny an informal appeal or abatement request is when the assessor feels he has solid evidence the assessment is at market, fair, or based on statistical data. And then it is up to the equalization boards or city and county commissions to review the owner's data and the assessor's data and make a decision. Our current system allows for an appeal to a district judge if the owner still feels aggrieved.

I brought along just a couple of samples of private appraisals that were submitted to the city by people who had asked us to reconsider their valuation and some private appraisals that were actually ordered by the city for flood buyouts. I brought these with to show you private appraisers can make mistakes too. There are math errors, errors in sales data, inconsistencies from one page of the report to another, and even one appraiser calling a larger single garage a double car garage. That error alone is worth several thousand dollars in this one appraisal alone.

I had one commercial appraisal submitted by the owner of the property who said, "Hey my appraisal is lower than your assessment." I said, "Let me look at it and we will see what the problem is". I did and the private appraiser had not included all the mini warehouses on his report that were actually on the site. The appraisal was so bad I had to turn it in to the licensing board. I don't believe you would want us to consider an appraisal like that as the final number on an assessment and we certainly didn't at the time.

The vast majority of home sales and appraisals arrive at a value that is generally more than the assessment. It does happen on occasion that somebody is told there house is worth less than the current assessment. For those we respond quite a bit differently. If there is some bad information on our part, or the appraiser's part, it is quite simple to get everything verified so everybody is comfortable with the results. Our values are set as of February 1st of each year. In a declining market, if you have an appraisal done eight months later, it could be less than the assessment. The assessor uses all data that happens after February 1st for the following year's assessment. Sometimes the reason a private appraisal is higher or lower than the assessment is as a result of the private appraiser being allowed access to walk through the property whereas the assessor may not have been allowed access. However, you should know there is currently a system in place where if the assessor's value is wrong, it can be easily fixed at no extra cost to the property owner. The vast majority of the time the owner does not need to hire an appraiser. They simply have to contact the local assessor. Also please know that the property owner in most cases doesn't even have to attend a meeting to get an assessment corrected. The law currently gives the responsibility to elected officials who have the authority and responsibility to override the assessor's suggestion and verify who is right, the property owner's information or the assessor's.

Generally, if somebody brings a reasonably current private appraisal to us that is lower than the assessment, we ask to look at the house or building, and then we can compare our updated

#5
HB 1481
1-28-19
P.4

information to their recent appraisal. It should be noted that assessors in North Dakota already take very seriously somebody's submitted appraisal if the information in the appraisal is current, accurate, reasonable and credible.

Finally, I would ask what exact date is being asked for in Line 18? It indicates "*three years before the taxable year for which the valuation of the property is being determined for purposes of taxation*". Does this mean three years prior to February 1st, (assessment date) 2019 for example? Or three years prior to the city boards of equalization in April, or county boards of equalization in June? Three years prior to what date?

The City of Minot would ask for a Do Not Pass on HB 1481

#6
HB 1481
1-28-19



Equalization Department

Box 2806
211 Ninth Street South
Fargo, ND 58103

Telephone: 701-241-5616
Fax: 701-241-5729
assessor@casscountynd.gov

Testimony prepared for:
House Finance and Taxation Committee
Prepared Friday, January 25, 2019
Paul Fracassi, Director of Equalization
Cass County Government

RE: House Bill No. 1481

Chairman Headland and committee members;

Thank you for the opportunity to submit written testimony regarding House Bill No. 1481. I feel the intent of the bill is to give property owners relief when they paid for an appraisal, from a licensed appraiser, and that appraisal is less than the true and full valuation of the property. This is a concern we hear on occasion from property owners, and I hope, through this testimony, I can convey why this bill is an unjust way to handle that concern.

The bill allows property owners to use an appraisal, up to three years before the taxable year for which the taxable value is determined. That would mean, for the 2019 taxable year, a 2016 appraisal could determine the current value. I think we can all agree the current market position is uniquely different from 2016, and this trend will always continue. Therefore, it must be understood that this bill would allow for greater inequities and an unfair distribution of the tax base both locally and state-wide.

Another blight of the bill is that it does not define an appropriate reason for the appraisal. Can a refinance transaction or an appraisal that was done from the street, without an interior inspection, substitute for a true portrayal of the market? If the appraisal is performed for an improvement to the property, such as a sunroom addition, the owner would be able to submit an appraisal that represents value prior to the completion of the improvement, as many home improvement projects require an appraisal to determine if the property owner can obtain a loan.

In closing, I feel licensed appraisers are extremely knowledgeable of the market and I feel many of those appraisers would feel the same toward City Assessors and Tax Directors of Equalization. The problem with this bill is that the scope of work is not clearly defined, which will result in great inequities. Furthermore, the market changes on a yearly basis and a three-year-old appraisal could be both beneficial and detrimental to the property owner depending on the current market. It is important to remember that mass appraisal studies market conditions over the course of a year and maintain tolerance levels defined within our state. The features of this bill would place numerous properties outside of that tolerance level. Imagine a twin-home, with identical features, taxed at two different amounts, because one side reflects the 2019 market and one side reflects an individual opinion of the 2016 market.

Sincerely,



Paul D. Fracassi
Cass County Government, Director of Equalization

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1481

Page 1, after line 7 insert:

"1."

Page 1, line 14, after the period insert:

"2."

Page 1, line 19, after the underscored period insert "An appraised valuation may not be substituted for the true and full valuation of the property, as determined by an assessor or board of equalization, if the property has undergone improvements since the date the appraisal was prepared or if the appraised valuation is more than ten percent outside of the tolerance level adopted by the state board of equalization. The board of county commissioners shall provide for a spot check pursuant to section 57-12-01.1 on any property for which an appraised valuation was submitted which was more than ten percent outside of the tolerance levels adopted by the state board of equalization. A spot check of property conducted pursuant to this section may not be conducted using a mass appraisal system of valuation.

3."

Renumber accordingly

#2
HB 1481
1-28-19
p. 1

Introduced by

Representatives Ertelt, Bellew, Blum, Dockter, Schobinger, Skroch

Senators Dotzenrod, Vedaa

1 A BILL for an Act to amend and reenact section 57-02-27.1 of the North Dakota Century Code,
2 relating to determination of the true and full valuation of property; and to provide an effective
3 date.

4 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

5 **SECTION 1. AMENDMENT.** Section 57-02-27.1 of the North Dakota Century Code is
6 amended and reenacted as follows:

7 **57-02-27.1. Property to be valued at true and full value.**

8 1. All assessors and boards of equalization shall place the values of all items of taxable
9 property at the true and full value of the property except as otherwise specifically
10 provided by law, and the amount of taxes that may be levied on such property must be
11 limited as provided in this chapter. For the purposes of sections 57-02-27, 57-02-27.1,
12 57-02-27.2, and 57-55-04, the term "true and full value" has the same meaning as
13 provided in subsection 15 of section 57-02-01, except that "true and full value" of
14 agricultural lands must be as determined pursuant to section 57-02-27.2.

15 2. The appraised valuation of taxable property must be substituted for the true and full
16 valuation of the property, as determined by an assessor or board of equalization, if the
17 owner of the property provides the assessor or a board of equalization an appraisal
18 prepared by a licensed appraiser, as defined in section 43-23.3-01, which was
19 completed no longer than three years before the taxable year for which the valuation of
20 the property is being determined for purposes of taxation. An appraised valuation may
21 not be substituted for the true and full valuation of the property, as determined by an
22 assessor or board of equalization, if the property has undergone improvements since
23 the date the appraisal was prepared or if the appraised valuation is more than ten
24 percent outside of the tolerance level adopted by the state board of equalization. The

1 board of county commissioners shall provide for a spot check pursuant to section
2 57-12-01.1 on any property for which an appraised valuation was submitted which was
3 more than ten percent outside of the tolerance levels adopted by the state board of
4 equalization. A spot check of property conducted pursuant to this section may not be
5 conducted using a mass appraisal system of valuation.

6 3. The governing body of the city or township may establish valuations that recognize the
7 supply of vacant lots available for sale.

8 **SECTION 2. EFFECTIVE DATE.** This Act is effective for taxable years beginning after
9 December 31, 2018.

p.2