

2023 SENATE FINANCE AND TAXATION

SB 2387

2023 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Fort Totten Room, State Capitol

SB 2387
1/31/2023

Relating to limitations on true and full valuation of primary residences and agricultural property and limitations on the effective tax rate on a primary residence and relating to limitations on the effective tax rate on a primary residence and removal of the farm residence property tax exemption

2:29 PM Chairman Kannianen opens hearing.

Senator present: **Kannianen, Weber, Patten, Rummel, Piepkorn, Magrum.**

Discussion Topics:

- Productivity formula
- Valuation cap

2:29 PM Senator Luick introduced bill. #18235 #18236

2:43 PM Phil Murphy, ND Soybeans Association, verbally in favor.

2:44 PM Julia Ellingson, ND Stockmen's Association, verbally in opposition.

2:47 PM Linda Svihovec, ND Associations of Counties, verbally in opposition

2:50 PM Cale Neshem, ND Grain Growers Association and Farmer, neutral. #17993

2:53 PM Chairman Kannianen adjourns meeting.

Additional written testimony:

Damon Druse #18168

Brenda Elmer #18187

Nathan Liesen, Committee Clerk

2023 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Fort Totten Room, State Capitol

SB 2387
2/7/2023

Relating to limitations on true and full valuation of primary residences and agricultural property and limitations on the effective tax rate on a primary residence and relating to limitations on the effective tax rate on a primary residence and removal of the farm residence property tax exemption

9:22 AM Chairman Kannianen opens hearing.

Senator present: **Kannianen, Weber, Patten, Rummel, Piepkorn, Magrum.**

Discussion Topics:

- Study benefit
- Bill affects

9:28 AM Senator Rummel motioned a Do Not Pass.

9:28 AM Senator Piepkorn seconded.

Senators	Vote
Senator Jordan Kannianen	Y
Senator Mark F. Weber	N
Senator Jeffery J. Magrum	AB
Senator Dale Patten	Y
Senator Merrill Piepkorn	Y
Senator Dean Rummel	Y

Motioned passed 4-1-1

9:29 AM Senator Kannianen will carry.

9:29 AM Chairman Kannianen adjourns meeting.

Nathan Liesen, Committee Clerk

REPORT OF STANDING COMMITTEE

SB 2387: Finance and Taxation Committee (Sen. Kannianen, Chairman) recommends **DO NOT PASS** (4 YEAS, 1 NAY, 1 ABSENT AND NOT VOTING). SB 2387 was placed on the Eleventh order on the calendar. This bill does not affect workforce development.

TESTIMONY

SB 2387



**North Dakota Grain Growers Association
Testimony in Opposition to
SB 2387
Senate Finance and Taxation Committee
January 31, 2023**

Chairman Kannianen, members of the Senate Finance and Taxation Committee, for the record my name is Cale Neshem. I own and operate a family farming partnership in Berthold, North Dakota where we raise wheat, corn, soybeans and sunflowers among other crops. I am also a Director of the North Dakota Grain Growers Association (NDGGA). I appear before you today in both capacities to oppose SB 2387.

SB 2387 seeks to remove the farm home property tax exemption for farmers and ranchers. Farmers and ranchers already do more than their share to support North Dakota with their current property taxes especially in the rural areas where our property taxes support our schools, our counties and our townships. We do this despite the fact we do not enjoy the urban infrastructure amenities offered to our city cousins through their property taxes such as city water and sewer, paved streets, well maintained roads and timely snow removal.

How can a farm/ranch home receive a fair property tax evaluation? Obtaining fair home values and home value comparisons on the farm or ranch would be difficult if not impossible to obtain. How would/could assessors possibly do a reasonable job if the information necessary to carry out this bill is not readily available?

Another question I and the North Dakota Grain Growers Association would have is this a way to open the door to tax all farm and ranch buildings in the future? This bill would have us believe this is the direction that some in the policy arena are looking at.

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Chairman Kannianen, members of the Senate Finance and Taxation Committee, SB 2387 is a tax increase, and it is the only tax increase being considered by the 68th Legislative Assembly. The farm home property tax exemption historically has recognized the disparity between agricultural property taxes and the services they provide verses the services received by urban property taxpayers. Additionally, the farm home property tax exemption recognizes the amount of property taxes already paid for by local farmers and ranchers.

Therefore, I and the North Dakota Grain Growers Association strongly oppose SB 2387 and would hope the Senate Finance and Taxation Committee would give the bill a Do Not Pass recommendation and would hope the full Senate concur.

Senate Finance and Taxation**Senator Larry Luick****January 30, 2023****By: Damon Druse****Assistant City Assessor, City of Minot****701-857-4160****SB 2387**

Senator Luick and Members of the House Finance and Taxation Committee, my name is Damon Druse and I am the Assistant City Assessor for the City of Minot. I would like to thank you for your time to address this bill this morning.

My concern with SB 2387 is that it creates inequities across property owners. I would like to take a few moments to discuss how this bill will create inequities between not only residential owners but the possibility that commercial property owners could take on a burden of additional property tax.

Let's discuss the limitations on the valuation of a primary residence. An example could be a long term owner versus a new owner, both could be living in a similar home based on market value, location, function, etc. but the new owner will be assuming a higher property tax burden due to the only difference being a market adjustment at the date of purchase. Creating inequities such as this could have a significant impact on the housing market. Examples could be a reduction in inventory of available entry level properties as current owners are

incentivized to remain in their current properties longer rather than moving up to larger or more expensive homes. New construction of residential properties could be impacted as SB 2387 encourages homeowners to stay in their current homes longer which would now be locked into a lower “base value” resulting in a lower tax burden.

SB 2387 encourages homeowners to hold on to their current property and to take advantage of rising true and full market value increases without ever having to assume the additional tax burden associated with the increases in fair market value. At the time the owner sells the property to a new owner is the first time that tax burden associated with market increases is realized (never by the first owner, but by the second). An example would be a 10-year ownership of a property in which market analysis indicates a fair market value increase of 40% where SB 2387 would cap the increase to 20% over that same 10-year period.

In addition SB 2387 does not provide a clear definition of what is ordinary maintenance versus what an improvement would be. Currently, improvements and their contributing value are determined by buyers and sellers in the market. A component of a structure may exhibit deferred maintenance however the cost to cure that deferred maintenance may actually result in a significant increase to market value of the property; whereas some property owners may consider that general maintenance.

In North Dakota Century Code, both residential and commercial properties are valued at market value. With SB 2387 Commercial properties would continue to see market value

adjustments where residential will be drastically limited on potential adjustments, shifting an undue burden to commercial property owners. This could have an impact and unintended consequences on commercial investment in our market.

Starting with a base year 2019 is also challenging. From 2019 to 2023 there have been significant changes to many properties in each jurisdiction throughout North Dakota. Many properties have had extensive updates from the years 2019 to 2023. SB 2387 ignores any improvements made to properties over this time period. This creates inequities among properties starting in the first year of implementation of SB 2387.

In addition to the value and tax burden inequities, our mass appraisal software is currently calibrated annually to market valuations and trends based on what buyers and sellers are exhibiting in the market. SB 2387 changes the approach of mass appraisal, getting away from market data to restricting adjustments based on the language in the proposed bill for some classes of property. This new bill may require additional staffing to implement the assessment changes of real estate proposed by SB 2387.

Thank you for your time today. I urge you to give SB 2387 a “do not pass” recommendation.



Testimony of Brenda Elmer, Executive Director

North Dakota Corn Growers Association

In OPPOSITION of SB 2387

January 31, 2023

Chairman Kannianen, members of the Senate Finance and Taxation Committee, for the record my name is Brenda Elmer, Executive Director of the North Dakota Corn Growers Association. We are opposed to SB 2387 as introduced because it removes the farm home property tax exemption for farmers and ranchers who economically support the state in tremendous and robust ways.

Last month, Governor Burgum joined NDSU at the Capitol to unveil a first of its kind comprehensive study of the economic contribution of agriculture in the state. For the year 2020, agriculture contributed nearly \$31 billion to the economy and more than 110,000 jobs. Agriculture has an incredible impact on the economy and the lives of North Dakotans. We believe the future of agriculture in North Dakota is promising.

Farmers pay significant property taxes as it is, despite not receiving services that their town counterparts often do.

We urge your DO NOT PASS vote on SB 2387. Thank you for your time and consideration of North Dakota corn growers today.

Partial Cheat Sheet for 2387.

Larry Quick

Section 1 - Reforms the property tax process by limiting the valuation increase in property that qualifies by 2% annually, or C.P.I., whichever is less.

- This is related to all primary residences, including farmsteads.
- True and full value is the base value of the property as of 2019.
- Each qualifying property has a 50K exemption

Section 2 - Limitation on agricultural assessment increases.

- Farmland is subject to the 2%/CPI limits and subject to base rates of 2019
- Change of ownership means a stepped up valuation

Section 3 - Farm residences used for hired help (Employees) are not subject to the 2%/CPI limits

- Farm out buildings remain exempt from property taxes
- Commercial, investment property does not ^{qualify for} 2% or CPI _{limits}

Section 4 - Homestead Credits

These credits remain intact, if applicable.

Section 5 - Valuation of real property exempt from taxation

Section 6 - Limitation on effective tax rate

Definition of "effective tax rate" & "primary residence"

- Effective tax rate is 1% unless a greater tax rate is approved by 65% of electors

Section 9 - mobile homes

- Taped as before, but includes farm residences.

* Funding for county and township infrastructure needs to be addressed better through state dollars - not property taxes. (other than political sub or county improvement projects)
Local control of tax rates is essential.

* We need to expend a little more from the Common Schools Trust Fund to cover educational costs on base education costs paid for by property taxes.

Counties need to be kept financially whole.

23.1062.02001
Title.

Prepared by the Legislative Council staff for
Senator Luick
January 31, 2023

PROPOSED AMENDMENTS TO SENATE BILL NO. 2387

Page 1, line 4, remove "subsection 15 of section 57-02-08,"

Page 1, line 5, remove "57-02-08.1, 57-02-14,"

Page 1, line 5, remove the third comma.

Page 1, line 5, remove ", and subsection 2 of section 57-55-10"

Page 1, line 7, remove "and removal of the farm residence property tax exemption"

Page 5, remove lines 6 through 31

Page 6, remove lines 1 through 30

Page 7, remove lines 1 through 31

Page 8, remove lines 1 through 31

Page 9, remove lines 1 through 31

Page 10, remove lines 1 through 31

Page 11, remove lines 1 through 31

Page 12, remove lines 1 through 14

Page 14, line 16, replace "6" with "3"

Page 14, line 28, replace "6" with "3"

Page 15, remove lines 1 through 29

Re-number accordingly