Senate Finance and Taxation
Senator Larry Luick
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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.