

1999 HOUSE FINANCE AND TAXATION

HB 1456

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1456

House Finance and Taxation Committee

Conference Committee

Hearing Date February 1, 1999

Tape Number	Side A	Side B	Meter #
1		x	35.1
Committee Clerk Signature <i>Jamie Stein</i>			

Minutes:

REP. BELTER Opened the hearing.

REP. S. KELSH, DIST. 11, Introduced the bill at the request of the City of Fargo. This bill basically contains permissive language allowing the municipalities to grant tax exemptions for payments in lieu of taxes. This provision of the bill will also allow them to grant exemptions to older restored buildings.

JIM GILMOUR, PLANNING DIRECTOR FOR THE CITY OF FARGO, Testified in support of the bill. See written testimony.

STEVE STONER, REAL ESTATE BROKER & DEVELOPER, FARGO, Testified in support of the bill. See written testimony.

GENE SHANNON, FARGO Testified in support of the bill. He stated he owns and manages some apartments and commercial space. He stated he usually takes on older properties that need

help. This is a tool that could help if implemented, to assist that redevelopment activity.

Downtown areas of most cities have lost their vision from thirty years ago with the advent of the malls that have come in. This has caused the one time vibrant retail community, to really flounder. In some cases there is some direction and in some cases, there is not. In our case, we have Merit Care and some banks that are downtown, but they are a fleeting thing. The banks are locating branch banks out and around, so we are worried about the continued vitality of our downtown central business district. We are talking about limiting taxes on new development, we are not talking about losing revenues to school districts or other things, but, if you take a look at the trend of where tax evaluations are going in the downtown areas, it is bound to fall. After some rejuvenative efforts, new money coming in, surely those excesses will continue to fall and the revenues that are available to other subdivisions will show up.

With no further testimony, the hearing was closed.

COMMITTEE ACTION 2-1-99, Tape #2, Side A, Meter #32.2

REP. WINRICH Made a motion for a DO PASS.

REP. CLARK Second the motion. MOTION FAILED.

REP. MICKELSON Made a motion for a DO NOT PASS.

REP. GROSZ Second the motion. MOTION CARRIED

11 Yes 3 No 1 Absent

REP. MICKELSON Was given the floor assignment.

FISCAL NOTE

(Return original and 14 copies)

Resolution No.: HB 1456

Amendment to: _____

Requested by Legislative Council

Date of Request: 1/20/99

- Please estimate the fiscal impact (in dollar amounts) of the above measure for state general or special funds, counties, cities, and school districts. Please provide breakdowns, if appropriate, showing salaries and wages, operating expenses, equipment, or other details to assist in the budget process. In a word processing format, add lines or space as needed or attach a supplemental sheet to adequately address the fiscal impact of the measure.

Narrative: HB 1456, if enacted, removes the July 1, 1994 construction date restriction of granting payments in lieu of taxes for new industry projects and extends the exemption for improvements to residential and commercial buildings from three to five years effective for tax years after December 31, 1998.

The expansion of these exemptions may reduce the total taxable value of taxing districts in which the exempt properties are located, but HB 1456 alone does not reduce the property tax revenue to counties, cities, or school districts. The state medical center may experience a very small reduction in property tax revenue beginning January 1, 2000, generated by the constitutional one-mill levy.

- State fiscal effect in dollar amounts:

	1997-99 Biennium		1999-2001 Biennium		2001-03 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						

What, if any, is the effect of this measure on the budget for your agency or department:

- For rest of 1997-99 biennium: _____
(Indicate the portion of this amount included in the 1999-2001 executive budget:)
- For the 1999-2001 biennium: _____
(Indicate the portion of this amount included in the 1999-2001 executive budget:)
- For the 2001-03 biennium: _____

- County, city, and school district fiscal effect in dollar amounts:

1997-99 Biennium			1999-2001 Biennium			2001-03 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

If additional space is needed
attach a supplemental sheet.

Signed: Kathryn L. Strombeck

Typed Name: Kathryn L. Strombeck

Department: Tax

Date Prepared: January 21, 1999

Phone Number: 328-3402

Please type or use black pen to complete

Date 2-1-99

Roll call vote # 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. HB 1456

House HOUSE FINANCE & TAX Committee

Subcommittee on _____

Conference Committee

} Identify or check where appropriate

Legislative Council Amendment Number _____

Action Taken D P

Motion Made By Rep. Winrich Seconded By Rep. Clark

Representatives	Yes	No	Representatives	Yes	No
BELTER	✓		WINRICH	✓	
RENNERFELDT		✓			
CLARK	✓				
FROELICH		✓			
GRANDE	✓				
GROSZ		✓			
HERBEL		✓			
KROEBER		✓			
MICKELSON		✓			
NICHOLAS	A				
RENNER		✓			
SCHMIDT		✓			
WARNER		✓			
WIKENHEISER		✓			

Failed

Total 4 10
(Yes) (No)

Absent 1

Floor Assignment Rep.

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

DO NOT USE HIGHLIGHTER ON ANY FORMS

Please type or use black pen to complete

Date 2-1-99

Roll call vote # 2

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. HB 1456

House HOUSE FINANCE & TAX Committee

Subcommittee on _____

Conference Committee

} Identify or check where appropriate

Legislative Council Amendment Number _____

Action Taken Do Not Pass

Motion Made By Rep. Mickelson Seconded By Rep. Grosz

Representatives	Yes	No	Representatives	Yes	No
BELTER	✓		WINRICH		✓
RENNERFELDT	✓				
CLARK		✓			
FROELICH	✓				
GRANDE		✓			
GROSZ	✓				
HERBEL	✓				
KROEBER	✓				
MICKELSON	✓				
NICHOLAS	A				
RENNER	✓				
SCHMIDT	✓				
WARNER	✓				
WIKENHEISER	✓				

Total 11 3
(Yes) (No)

Absent 1

Floor Assignment Rep. Mickelson

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

DO NOT USE HIGHLIGHTER ON ANY FORMS

REPORT OF STANDING COMMITTEE (410)
February 1, 1999 3:28 p.m.

Module No: HR-20-1621
Carrier: Mickelson
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1456: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO NOT PASS (11 YEAS, 3 NAYS, 1 ABSENT AND NOT VOTING). HB 1456 was placed on the Eleventh order on the calendar.

1999 SENATE FINANCE AND TAXATION

HB 1456

1999 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1456

Senate Finance and Taxation Committee

Conference Committee

Hearing Date 3-1-99

Tape Number	Side A	Side B	Meter #
HB 1456		X	940- 4230
Committee Clerk Signature <i>Shila Wadd</i>			

Minutes:

Sen Urlacher opened the hearing on HB 1456, A BILL RELATING TO TAX EXEMPTIONS FOR NEW INDUSTRIES & IMPROVEMENTS TO COMMERCIAL & RESIDENTIAL BUILDINGS.

Rep. Kelsch - I introduced this bill to enable cities abilities to tax exemptions for new buildings.

The bill does basically 2 things, it removes language that relates to construction dates and extends exemptions from 3 to 5 years. Exemptions applies only to new building while the main building remains on the tax rolls. Without the exemptions the improvements may never take place. I would like your favorable support.

Sen. Christmann - Two Changes - 3 to 5 years and take out date, which allows construction on old buildings that wouldn't otherwise qualify?

Rep. Kelsch - Yes. The date allows city to offer exemptions to older buildings.

Page 2

Senate Finance and Taxation Committee

Bill/Resolution Number Hb 1456

Hearing Date 3-1-99

Jim Gilmour - City of Fargo - Testimony submitted and attached.

Sen Kinnoin- Do cities say what neighborhood would be granted?

Sen. Stenehem - Cities would give exemptions and no new ones can come on board after certain period of time.

Gene Shannon - Fargo Citizen - Testimony submitted and attached. Buildings downtown need help and something to keep them alive. When a business moves out to malls, etc. we need help for the old buildings that have been vacant and can be restarted up again. Re development needs break so they can expand.

Sen. Grindberg - Handed out an amendment for 1456. 90679.0101

Jim Gilmour - Gives City Board power. Individual homeowners could not use this section.

Other section with business buildings. Two sections are different. Older buildings downtown would be section 1. Section 2 is taxation up to 5 years of making improvements.

Sen Wardner - Does that mean overstrike on the language, city can go back to before 1994?

Jim Gilmour - A remodeling on a building before 1994, you could have tax exemption for that. a building built in 1960, we could only use 3 year remodeling exemptions.

Cole Carley Fargo CVB - The amendment and to enable City Govt. to work with the auto rental agencies in their cities to develop a plan to access users and aid in promotion in our communities tourism marketing efforts at the local level. It is similar to the lodging language for local option. Represent supplement to budgets at the local level.

Chuck Krueger - Tax Dept. - Neutral - Current law, allows added value to buildings 25 years old or older. Alteration of buildings. Additions to new buildings would not qualify for this. Section 1, new and expanding businesses, does not deal with residential buildings at all. The change in

section 1 is that under current law, new and expanding business can qualify for a property tax exemption. Only buildings constructed after June 30, 1994 , are eligible for the payment in lieu of taxes. It is a little different than an exemption, some tax is paid and is negotiated, between the project operator and municipality that is granting the payment with tax.

Sen. Urlacher - Does overstrike remove the 1994 language, and allows older buildings of 25 yrs.

Chuck Krueger - Yes.

Sen. Kinnoin - Section 2, residential, add addition to a residence, so only on physical structure?

If addition is built on?

Chuck Krueger - In statue definition is very clear, addition to enlarge existing building may not be regarded as improvement for the purposes of this chapter.

Sen. Wardner - If you take older building and commission grants improvement, is the property taxes paid on regular building before the remodeling and after they would pay an ad valorem tax and negotiate that?

The exemption would apply to the entire structure. Chuck Krueger.

Sen Urlacher closed the hearing on HB 1456.

DISCUSSION 3-3-99 - TAPE #2, VOICE VOTE TO ACCEPT AMENDMENT 7-0-0, A
MOTION MADE BY SEN WARDNER TO DO PASS AND SECONDED BY SEN.
STENEHJEM. VOTE 6-1-0, CARRIED BY SEN. WARDNER.

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1456

Page 1, line 1, after "Act" insert "to create and enact a new section to chapter 40-57.3 of the North Dakota Century Code, relating to authority of cities to impose motor vehicle rental taxes;"

Page 3, after line 5, insert:

"**SECTION 2.** A new section to chapter 40-57.3 of the North Dakota Century Code is created and enacted as follows:

City motor vehicle rental tax - Imposition - Amount - Disposition. The governing body of any city, by ordinance, may impose a city tax at a rate not to exceed two percent upon the gross receipts from the business of leasing or renting of motor vehicles for periods of less than one month. The tax imposed by this section is in addition to sales taxes imposed under chapter 57-39.2 and any city that imposes the tax under this section shall deposit all proceeds in the city visitors' promotion fund. Moneys deposited in the city visitors' promotion fund may be spent only as provided in this chapter. This chapter applies to all cities and does not limit the authority of a home rule city to levy any taxes authorized by other provisions of law."

Renumber accordingly

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1456

Page 1, line 1, replace "section" with "sections" and after "40-57.1-03" insert ", 57-02.2-02,"

Page 3, after line 5, insert:

"SECTION 2. AMENDMENT. Section 57-02.2-02 of the North Dakota Century Code is amended and reenacted as follows:

57-02.2-02. Improvement defined. In this chapter, unless the context or subject matter otherwise requires, the term "improvement" means the renovation, remodeling, or alteration, but not the replacement, of an existing building or structure for use for commercial or residential purposes. An improvement for residential purposes is limited to a building or structure at least twenty-five years old. An addition constructed to an existing building or structure to enlarge it ~~may not be regarded as~~ is an improvement for the purposes of this chapter."

Re-number accordingly

Date: 3/3/99
Roll Call Vote #: _____

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1456

Senate Senate Finance and Taxation Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken No Pass as Amended

Motion Made By Sen Wardner Seconded By Sen Schobinger

Senators	Yes	No	Senators	Yes	No
SENATOR URLACHER	✓				
SENATOR CHRISTMANN		✓			
SENATOR SCHOBINGER	✓				
SENATOR STENEHJEM	✓				
SENATOR WARDNER	✓				
SENATOR KINNOIN	✓				
SENATOR KROEPLIN	✓				

Total (Yes) 6 No 1

Absent 0

Floor Assignment Sen Wardner

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

REPORT OF STANDING COMMITTEE

HB 1456: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (6 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING). HB 1456 was placed on the Sixth order on the calendar.

Page 1, line 1, replace "section" with "sections" and after "40-57.1-03" insert ", 57-02.2-02,"

Page 3, after line 5, insert:

"SECTION 2. AMENDMENT. Section 57-02.2-02 of the North Dakota Century Code is amended and reenacted as follows:

57-02.2-02. Improvement defined. In this chapter, unless the context or subject matter otherwise requires, the term "improvement" means the renovation, remodeling, or alteration, but not the replacement, of an existing building or structure for use for commercial or residential purposes. An improvement for residential purposes is limited to a building or structure at least twenty-five years old. An addition constructed to an existing building or structure to enlarge it ~~may not be regarded as~~ is an improvement for the purposes of this chapter."

Renumber accordingly

1999 TESTIMONY

HB 1456

Testimony Presented to the
House Finance and Taxation Committee
Representative Wes Belter, Chair

by

Jim Gilmour, Planning Director
City of Fargo

February 1, 1999

Mr. Chairman and Members of the Committee:

I am Jim Gilmour, Planning Director for the City of Fargo. On behalf of the Fargo City Commission, I ask for your support of HB1456 that would allow cities greater flexibility in using tax exemptions to encourage investment in older buildings and neighborhoods.

The City of Fargo sees the need to provide greater incentives to encourage investment in the redevelopment of older neighborhoods and the downtown. Without continued investment in these areas of the city, buildings would deteriorate and property values would decline.

The current law allows cities to grant partial or complete tax exemptions to projects if the building was constructed after June 30, 1994. This provides a greater incentive to build a new building than to redevelop and renovate an older building. The proposed change would allow cities to negotiate with project developers and provide tax incentives based on the level of investment, needs of the project, jobs created and compatibility of a redevelopment project with the surrounding area.

State law now allows cities to provide up to a three year tax exemption on improvements to commercial and residential buildings. This bill would allow cities to provide the exemption for up to five years.

Fargo is concerned about the future of older residential neighborhoods. While most are in good condition, some deterioration exists and school officials are concerned about declining enrollments at elementary schools serving these neighborhoods. The City wants to provide greater incentives for homeowners to purchase and renovate homes in older neighborhoods. This bill would provide a larger incentive to homeowners to make major improvements to existing homes.

I anticipate this legislation will be used by the City of Fargo to encourage investment in housing and commercial buildings downtown, and to encourage investment in single-family homes in older neighborhoods where there is concern about declining school enrollment and declining property conditions.

House Bill No. 1456

A Statement of Support

Good Morning Chairman Belter and members of the taxation and finance committee. I want to thank you for the opportunity to speak with you and seek support of House Bill 1456.

My name is Steve Stoner and I am from Fargo. I am a real estate broker and developer. I have primarily been involved in the development of new properties and the sprawling expansion of our city. I am speaking today in favor of legislation that is very important to our state's growth and preservation of its major cities. This legislation is as important to Bismarck, Minot, Dickinson and Williston as it is to Fargo.

As each of you travel the state you cannot help but notice how each of our city's old business districts are losing out to the new businesses that spring up near a freeway interchange or a Highway bypass. Life has changed and many older downtown areas do not meet modern requirements for parking and accessibility and the public's perception that "newer is better". It is very expensive and difficult to work with the physical limitations of old designs and layouts but it is important that we do so for a number of reasons. First and foremost they are our heritage and our connection to the past .and while not everything old is great we must preserve the best of what was done to help us keep prospective of where we are going. Second, these areas are the hubs of our existing city's government, finance, public service, or retail sectors. We have reasons to be there, but convenience often pushes us to the new areas. Thirdly, in most cases we already have already paid for the existing infrastructure necessary for redevelopment of these old business districts.

I am speaking to you today not because I have any particular business venture in mind, but because I would like to see the old business district of my community brought back to life. As I began to look at what it would take to stimulate interest in a rebirth of our community, I began to look around the country for cities that have been successful in similar efforts. I found it was legislation such as House Bill 1456 that was of paramount importance. The other incentive used by several communities was that of enterprise zone legislation, used to stimulate new business creations. That is another stimulus I hope you would consider.

You see what we are facing is not a lot different from what our nation's major urban areas have faced over the past few decades. They have used these economic stimulus packages to create those beautiful urban renovations in the heart of a city that many of you have gone to visit, such as Baltimore, Kansas City, Denver or Seattle. I have used this state's existing PILOT legislation to enable me to provide housing in two difficult to develop rural areas and I can assure you that without such enabling stimulus packages those community leaders would never have captured those projects for their communities. Please allow communities to use the same economic tools for rebirth and renovation that are presently used for new construction growth. It is important that you empower communities and their taxation authorities with long term economic incentives such as House bill 1456. I thank you for your support.

I'm here to support the use of PILOT (payment in lieu of taxes) for the possible use of local government to encourage the redevelopment of older buildings in in our state's downtown neighborhoods.

The valuations of property in these old city centers is flat, and in many cases, falling.

Downtowns containing most of our cities oldest buildings. These properties typically have inconvenient or poor access to parking.

Governmental regulation over redevelopment of older buildings can and often makes such efforts difficult and not profitable. Compliance with Americans with Disabilities Act and other components of the Uniform Building Code, complications and conflicts with historical interests are just some of the challenges to be met.... and all that comes before address the root development of marketplace requirements and fixing old heating and cooling systems, leaking roofs, broken windows and poor storefront presentations.

These are among the challenges that push real estate development into the open, easy to develop fringe areas at our cities edges..... which in turn puts more pressure to expand roads and other infrastructure and related sprawl development.

Property taxes are typically the single biggest in the operation of buildings.

The cost and the risk in the redevelopment of older buildings continues the push out of our states downtown neighborhoods.

If this legislation is not passed, the best hope for downtown property is that taxable valuations will not fall too much more. If the legislation is passed, it might help to overcome the redevelopment burdens in our states and in time, stabilize and improve taxable valuations.

✓ Gene Shannon, Fargo

280-9007

Testimony Presented to the
Senate Finance and Taxation Committee
Senator Herb Urlacher, Chairman

by

Jim Gilmour, Planning Director
City of Fargo

March 1, 1999

Mr. Chairman and Members of the Committee:

I am Jim Gilmour, Planning Director for the City of Fargo. On behalf of the Fargo City Commission, I ask for your support of HB1456 that would allow cities greater flexibility in using tax exemptions to encourage investment in older buildings and neighborhoods.

The City of Fargo sees the need to provide greater incentives to encourage investment in the redevelopment of older neighborhoods and the downtown. Without continued investment in these areas of the city, buildings would deteriorate and property values would decline.

The current law allows cities to grant partial or complete tax exemptions to projects if the building was constructed after June 30, 1994. This provides a greater incentive to build a new building than to redevelop and renovate an older building. The proposed change would allow cities to negotiate with project developers and provide tax incentives based on the level of investment, needs of the project, jobs created and compatibility of a redevelopment project with the surrounding area.

Here is an example of how this change would provide an additional tool for the City. If a developer is considering making major improvements to an older building, the City could offer as an incentive to reduce property taxes for five years, tax the property at a reduced rate for years six through 10, with the building paying full property taxes on the newly increased value after 10 years. The developer gets an incentive to invest in an older building. After 10 years, the city gets a building which is valued higher and pays higher property taxes.

State law now allows cities to provide up to a three year tax exemption on improvements to commercial and residential buildings. This bill would allow cities to provide the exemption for up to five years.

Here is another example of how this change would encourage investment in older buildings. A homeowner buys a house for \$60,000 that needs major improvements. The City offers a remodeling exemption to encourage major improvements. The owner invests \$30,000 to renovate the house, and it's then valued at \$80,000. The owner keeps paying the present amount of property taxes for five years, saving about \$500 a year. At the end of five years, the city increases the home's valuation, generating additional property taxes. If no improvements had been made, the property may have deteriorated further and paid even less property taxes.

Fargo is concerned about the future of older residential neighborhoods. While most are in good condition, some deterioration exists and school officials are concerned about declining enrollments at elementary schools serving these neighborhoods. The City wants to provide greater incentives for homeowners to purchase and renovate homes in older neighborhoods. This bill would provide a greater incentive to homeowners to make major improvements to existing homes.

I anticipate this legislation will be used by the City of Fargo to encourage investment in housing and commercial buildings downtown, and to encourage investment in single-family homes in older neighborhoods where there is concern about declining school enrollment and declining property conditions.