

2009 HOUSE FINANCE AND TAXATION

HB 1423

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1423

House Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: **January 28, 2009**

Recorder Job Number: 7967

Committee Clerk Signature



Minutes:

Chairman Belter opened the hearing of HB 1423.

Representative Jim Kasper, District 46, introduced the bill. This bill is a Homestead Tax Credit increase bill. It will increase property tax relief for our senior and disabled citizens. It is a relatively simple bill, but it has a large fiscal note. It increases the income limits for senior and disabled citizens. We are taking that income level from \$10,000 to \$15,000 for citizens to qualify for up to \$100,000 of homestead tax credit of true and full value which would \$4500 of taxable value. In item 2, we're increasing the income level from \$15,000 to \$20,000 for seniors to get a tax credit of \$75,000 of market value or \$3375 of taxable value. On page 2, item 3, the income levels to qualify go from \$20,000 to \$25,000 and in those areas the equivalent tax exemption would be \$60,000 of true and full value. In item 4 we go from \$25,000 to \$30,000 for a \$40,000 tax equivalent credit for our seniors. On line 13, we are striking the current language which was a limit of \$17,000 of income to be able to have \$17,500 to have a credit. This bill is increasing the available income for our senior and disabled citizens up to \$30,000 from the present \$17,500. At the bottom of page 2, we are also increasing the amount of assets that an individual or couple can to own. We are allowing them to go from \$50,000 to \$100,000 excluding the value of their home to be able to qualify for the credit. On page 3, in

addition to that, we are now excluding any value held by senior citizens in their retirement account to count against their assets. I think the more they have in their retirement accounts to help take care of their own needs the better. We don't want to dissuade them from saving. In line 10, we are going to freeze property taxes for five years after they qualify for the Homestead Tax Credit. After that we have a limit on the amount of increase and I would suggest an amendment to change that to 2% to make it consistent to the previous bill you heard. We have that CPI qualifier and I think we should strike that out. We also have a renter's tax credit available in ND and we do not change any of that language but we do increase the tax credit to \$400. We also state that a home rule charter by any political subdivision cannot supersede or override this bill. On item 7, we are directing the Tax Commissioner to mail out information to those that might qualify for this and it is to residents only. We have got to stop the onerous increase in property taxes for seniors and I think this will help. I will have those amendments to you very soon.

Representative Pinkerton: Section J is . . . They qualify for one year then after that there would be no qualification necessary?

Representative Kasper: We are saying that a freeze goes in to effect as long as they qualify for the Homestead Tax Credit. If there income or asset level would not be met, it would not continue.

Representative Wrangham: How would this affect renters?

Representative Kasper: I don't change any of the current statutes for renters, but it gives them an increase in tax credit from \$240 to \$400. Otherwise all the language stays the same.

Representative Wrangham: When we are talking about income here, are we talking about income including rents, royalties, dividends, etc., or are we talking about earned income?

Representative Kasper: That would be a question of clarification from John Walstead.

Senator Tracy Potter, District 35, testified in favor of the bill. I was pleased to sign on to this bill. I think property tax is on everybody's minds; but most importantly is the one tax that can drive someone from their home. It can affect the elderly or any one of low income. If someone bought their home forty years ago for \$40,000 and today that home is \$200,000 in value and the taxes on it may exceed what their house payments were when they bought it. Their income has dropped. It becomes the most significant burden on an elderly homeowner next to probably health care costs. Property tax can drive a family from their home.

Dustin Gawrylow, executive director, ND Taxpayers' Association, testified in favor of the bill. **(Attachment 1)**

Kevin Ternes, city assessor, City of Minot and representing the Association of Counties, testified in favor of the bill. **(Attachment 2)** He recommended removing Section J.

Jerry Hjelmstad, representing the ND League of Cities, testified in support of the bill. The Homestead Credit program has always been fully funded by the state. Section J changes that concept and could lead to loss of homestead reimbursement to the subdivisions. Subsection 6, on page 5—I see no reason for that being a part of this bill. Lines 10 – 18, page 3, and lines 14 & 15 on page 5, should not be included in the bill.

Kevin Ternes: We have about 150 senior citizens in Minot that qualify for the current Homestead Credit. We think it a great idea that the state help fund it. I believe the change in the levels of income would simplify. I would like to oppose Section J regarding the future valuation of properties. I worked out an example of two senior citizens who moved into a condo living side by side. One who is a few years older gets on Homestead Credit sooner than the other. So there property is frozen for 5 years. It takes the other resident 3-4 years to get 65 to qualify and in those years their property continues to go up under the current system. The younger person comes into the credit with a higher valuation. That will never be

caught up. They will never understand why they should pay more taxes based on valuation. The valuation will be different by the nature of the way this is written. This causes unfairness and inequity.

Ben Hushka, city assessor, City of Fargo, testified in favor of the bill. **(Attachment 3)** He was concerned if the jurisdictions could get it done and recommended changing the effective date.

Leon Samuel, director of Tax Equalization, Morton County, testified in favor of the bill. As happened in prior sessions when something was done with Homestead Credits, they excluded the mobile home credit and delayed it one year. We are done will all of 2009 credits for mobile homes. They pay their tax in advance. We request that be done again.

Bobbie Wesley, a private citizen, said she was in favor of the bill. She said she was over 65 and lived on her investments.

There was no testimony in opposition to the bill.

Chairman Belter closed the hearing of HB 1453.

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1423

House Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: 02/04/09

Recorder Job Number: 8628

Committee Clerk Signature *Lou Engelson*

Minutes:

Chairman Belter opened the hearing on HB 1423.

Rep. Weiler: I move a **do not pass**.

Chairman Belter: A do not pass has been moved by Rep. Weiler. Is there a second?

Rep. Brandenburg: Second

Chairman Belter: Seconded by Rep. Brandenburg. There is a motion and a second for a do not pass on 1423. Do we have committee discussion?

Rep. Kelsh: Do you know of any other bill that is working it's way through the session that would increase the homestead credit?

Vice Chairman Drovdol: I have been told that there is a bill in the senate that deals with homestead tax credit.

Rep. Grande: That is correct.

Chairman Belter: Any other discussion or questions on HB 1423? Seeing none, I'll ask the clerk to take a roll call on a do not pass on HB 1423.

13 yes, 0 no, 0 absent. Rep. Froseth was assigned to carry the bill.

FISCAL NOTE
 Requested by Legislative Council
 01/16/2009

Bill/Resolution No.: HB 1423

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

	2007-2009 Biennium		2009-2011 Biennium		2011-2013 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures			\$4,036,000			
Appropriations						

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

2007-2009 Biennium			2009-2011 Biennium			2011-2013 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1423 expands the homestead credit and renter's refund property tax programs.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

If enacted, HB 1423 is expected to increase expenditures relative to the homestead credit and renters refund programs to a biennial total of an estimated \$10 million. Currently, the tax department has a biennial appropriation expected to equal \$5.964 million (contained in the executive budget). If enacted, HB 1423 will require an additional appropriation of \$4.036 million

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

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

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

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	01/27/2009

Date: 2/4/09

Roll Call Vote #: 1

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1423

House FINANCE AND TAXATION Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass Do Not Pass Amended

Motion Made By Weiler Seconded By Brandenburg

Representatives	Yes	No	Representatives	Yes	No
Chairman Wesley R. Belter	/		Representative Froelich	/	
Vice Chairman David Drovda	/		Representative Kelsh	/	
Representative Brandenburg	/		Representative Pinkerton	/	
Representative Froseth	/		Representative Schmidt	/	
Representative Grande	/		Representative Winrich	/	
Representative Headland	/				
Representative Weiler	/				
Representative Wrangham	/				

Total (Yes) 13 No 0

Absent 0

Floor Assignment Froseth

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

REPORT OF STANDING COMMITTEE (410)
February 4, 2009 3:52 p.m.

Module No: HR-22-1669
Carrier: Froseth
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1423: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO NOT PASS (13 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1423 was placed on the Eleventh order on the calendar.

2009 TESTIMONY

HB 1423

North Dakota Taxpayers' Association - PAC

Wednesday, January 28th 2009

HB 1423

Testimony 1

Mr. Chairman, and Members of the Committee,

The provisions in HB 1423 to increase the homestead tax credits and freeze, for 5 years, the increases in property taxes due for those over 65 years old address, at least temporarily the problem of rising property taxes on fixed income homeowners.

This will give the legislature two more sessions to work out how to minimize the impact of property taxes on fixed and low income individuals.

Long term studies should be undertaken to determine if a system to re-value homes and property only when ownership changes should be undertaken.

It is fundamentally unfair to tax someone based on the appreciation of an asset when that appreciation has not been, and is not intended to be realized by the owner.

A system that treats long-term homeownership and short term property-investment separately should be investigated and considered as a potential approach to the property tax situation.

Thank you.

-Dustin Gawrylow, Executive Director (Lobbyist # 198)

**Testimony to the House Finance & Taxation Committee,
Chairman Wesley R. Belter
1/28/2009 by
Kevin Ternes, City Assessor
City of Minot
kevin.ternes@minotnd.org**

House Bill 1423

Mr. Chairman, for the record my name is Kevin Ternes and I am the City Assessor in Minot.

I would like to thank you for your consideration of raising the homestead credit income limits and discounts for senior citizens. We have had a number of seniors not qualifying for Homestead Credit discounts on their property tax because they have been just over the current income restrictions. In Minot we currently have about 150 seniors on homestead credit.

I believe the reduction from 5 levels of discount 100%, 80%, 60%, 40%, 20% to four 100%, 80%, 60%, and 40% will help simplify the process also and that is always positive.

I note this bill does propose raising the asset test for seniors from \$50,000 to \$100,000. That would mean someone could have \$100,000 in cash and still be eligible for property tax assistance from the state.

I would like to oppose Section 1, subsection 1(j) regarding the future valuation of homestead credit properties. The bill requires no change in taxable valuation for the first 5 taxable years after the first year the property receives the credit.

Caps on valuations applied at different times in different locations of the city will create inequity of assessments on similar property. This bill as written would even create different assessments in a condominium phase even when all the units are the same. Seniors who qualify for homestead credit will understand paying more or less than a neighbor based on income, but they will never understand why the same type of condo or similar home has a different assessment and that is what this bill proposes.

For instance, a senior could qualify for Homestead Credit at \$100,000 True and Full Value for 2009. This bill requires no change to that assessment for the first 5 taxable years after the year it receives Homestead Credit regardless of market value. So no change is made to the assessment for tax years 2010 -2014 regardless if the market goes up a little or a lot or a combination of the two. In 2015 the assessment is subject to the 3% cap under this proposal so this property might only change from \$100,000 to \$103,000 for 2015 over a 5 year period.

If the home/condo next door won't receive the Homestead Credit maybe for 3 years and their property will continue to be assessed at market value during those 3 years and the growth is more than 3% per year for those 3 years, this home will always be assessed higher than the home that went on the Homestead Credit prior to them. For instance, if the home valuation changed 14% over 3 years, this home will come on Homestead Credit at about \$115,000 and then after the 5 years where no changes are allowed will come out of the 5 year period at \$115,000 instead of

\$100,000 like the neighboring house. Add this to the possibility of little market growth during the 5 year freeze period of the second home so the first home doesn't change when its no longer frozen and you have 2 of the same homes that will always have a different assessment because of the different calendar years when they were frozen. In this example the difference would be 15%. Assessment equity calls for similar properties to have similar assessments, and the **same** condos having the **same** assessment. This bill would not allow for that.

Finally, the act would be effective as of 2009. We would anticipate that after we advertised the changes back home we might have 2 to 3 times what we currently have now in Homestead Credits. Because we would have already completed the homestead credit applications for the 2009 tax year and made all the calculations on each form and entered all the data in the billing systems we would ask that if you choose to pursue some or all of these changes to homestead credit that you allow us time to reprogram the software for 2010 as this year's city equalization meeting will have occurred prior to the end of this session. Reprogramming means going to computer vendors and having them schedule the changes. This would also allow for future budgets to reflect the large increases in postage, stationary forms, envelopes, and clerical time to process the added homestead credits. We would anticipate office budgets relating to homestead credit to change at least 2 to 3 times as what is currently budgeted for now if the qualifications are expanded as listed in this bill.

Thank you for your consideration.

NORTH DAKOTA HOUSE OF REPRESENTATIVES
FINANCE AND TAXATION COMMITTEE

House Bill 1423
Testimony of Ben Hushka
Fargo City Assessor
January 28, 2009

Mr. Chairman and members of the House Finance and Taxation Committee, my name is Ben Hushka. I am the City Assessor for Fargo.

The official position taken by the Fargo City Commission is to oppose this bill in its current form but, the Commission could support it with amendments.

We wholeheartedly agree that the Homestead Credit, which provides property tax relief to the elderly and disabled on limited income, needs to be expanded. Even with the expansion of this program enacted in the last legislative session, there are still only about 170 qualifying individuals in the entire City of Fargo.

We fully support the increase of the amount of value to be granted a credit under this bill as well as the maximum income for individuals to qualify. We feel this along with the provision to increase the amount and type of assets an applicant can possess would make many more who are in need eligible for this relief.

However, we cannot support any kind of limit, cap, or alteration in the valuation process for assessment. History has proven over and over again in states where caps have been implemented, that they inject serious inequities in valuations and taxation of properties in the same class. It has also been proven in many of these states that, once the inequities are introduced into the process, they are very difficult to correct.

Also, the provision in this bill to require the State Tax Commissioner and County Tax Director to mail the forms for this credit each year seems unnecessary. As a city, we have an obligation to serve our citizens. In doing so for this program, we already mail a form annually to those who filed the previous year. Most local assessors I've spoken to do the same. It is simply good business practice and shouldn't be limited to strictly defined means in state statute. There would also be unneeded time and expense for three agencies to send basically the same information.

To reiterate, the City of Fargo supports the portion of this bill which expands the maximum value, income limits, and asset test to qualify for this credit.

An amendment to strike Sections 1.(j.), 6., and 7. from this proposed legislation would gain our full support.

This concludes my testimony. Thank you for your consideration.