

2009 SENATE FINANCE AND TAXATION

SB 2247

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2247

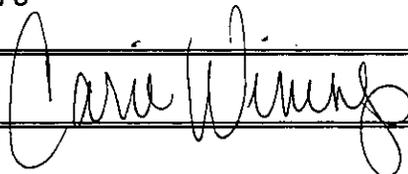
Senate Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: 02/11/2009

Recorder Job Number: ~~9179~~ 9181

Committee Clerk Signature



Minutes:

Chairman Cook: Opened hearing on the bill.

Senator Larry Robinson, District 24: Testified as sponsor of the bill. See Attachment #1 for testimony handed out in support of the bill.

3.25 **Bobby Koeplin, Valley City /Barnes County Development Corporation:** Testified in support of the bill. See Attachment #2.

Chairman Cook: You always mention the discrimination between the property in the renaissance zone and outside the renaissance zone. I thought that is what sold the renaissance zone in the first place. That was always the benefit.

Bobby Koeplin: And yet the communities say 100% of nothing is nothing; that is why we decided to go to \$250,000 level; a lot of questions on that. We are trying to equal it all and get some development going in our area.

7.30 **Doreen Reidman, Executive Officer, North Dakota Association of Builders:** See Attachment #3 for testimony in support of the bill.

11.57 **Senator Hogue** SB 2239 does not define condos and townhomes, and this bill does, is there a reason for that?

Doreen Reidman: Probably an oversight for 2239, and if that is your wish it can be clarified. I the beginning we did not want to push the envelope too far. We would certainly be open to that.

Senator Anderson: Cities probably have different language for single family, but I noticed that in this bill on lines 15-18, that the city or county may limit or impose conditions. There really aren't any restrictions after that. I would guess that by having this language of condos or townhouses, they could impose conditions that only a free standing single family dwelling would qualify.

Doreen Reidman: I believe you are right; the city still has a lot of leeway to put limitations on.

14.25 Jerry Hjelmstad, North Dakota League of Cities: Testified in support of the bill. We see this as adding flexibility to a tool that already exists. There is language that the specials must be up to date in order to qualify for the existing exemption, that is a local option for the city or county and they can adjust it to meet local needs.

14.58 Bob lochmann(Sp?), Fargo Home Builder: Testified in support of the bill. This is just an update to keep things in line with the average cost of housing. The benefits of it outweigh what the cost is. The biggest part of enacting this bill is the first two years. Over the years the average savings to a home is a \$1200/yr. for the two years it is enacted. The North Dakota Association of Builders did a study that showed that for every \$1000 increase in price of the home, you are eliminating 167 buyers. That is significant. We deal with competing cities, example of West Fargo/Moorehead. This bill is a useful tool to stay competitive. The economic impact of one year is that for Fargo it is a result in \$13 million in local income, and \$3.1 million in taxes and other revenue for local governments, and 295 jobs. The benefits outweigh the negatives.

18.25 **Lynn Bergman, Resident:** Testified in support of the bill. I think that setting this up for single families was a good idea in the beginning, and now I think it would be a good idea to add townhomes and condos as well. I would plead on behalf of young couples to change \$150,000 to \$175,000.

19.26 **Charles Lembke, North Dakota Association of Realtors:** The change here proposed in line with today's prices. The amendments here are defined better benefits for home owner. This is a tool that in various ways can be used in the local community.

21.35 **Chairman Cook:** Further testimony?

21.47 **Leon Samuel:** Clarification on some points having to do with what the local governments place is in this, and that it does not apply to the builder.

Chairman Cook: Closed hearing on SB 2247.

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2247

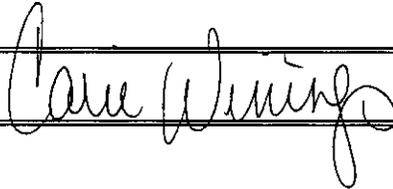
Senate Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: 02/16/2009

Recorder Job Number: 9568

Committee Clerk Signature



Minutes:

Chairman Cook: Reopened discussion on SB 2247.

Senator Anderson: This is pretty much a continuation of a law that has been on the books for some time. It is kind of hard to cut it off. I see that the amount that would be available for exemption has been raised from \$75,000 to \$150,000 and I did talk with the city assessor back in my home town and that could just as easily be \$50,000 because under (a.) it shows that a city or county may limit or impose conditions and I know if I were still working for a city over in the east, I would suggest it be kept at \$75,000. I am not saying that this bill should be reduced to \$75,000.

Chairman Cook: If the bill was defeated, it stays at \$75,000.

Senator Hogue: The big change is that the exemption continues until the completion of the home and occupation by the resident. I support the bill but you should be aware that that is a significant change too.

Senator Anderson: Yes it is.

Vice Chairman Miller: Part of the problem here is the developing areas and that (inaudible) creates an increase in home prices. And that drives up property taxes for everyone in that area. Not that I want to discourage development, but when you are exempting certain people

from having to pay taxes for a while and everyone else's taxes are going up as a result of the development that is something to be cognizant of.

Chairman Cook: If I was King David we wouldn't even have such an exemption. Frankly I think that all it did for those that take advantage of it is that it got them to buy a little more house than they afford and two years later when that \$75,000 exemption was gone they couldn't afford it any more. It is a great tool but the buyer has to be smart and realize that after the two years that is going to come off and they have to be able to pay.

Senator Triplett: Was there a fiscal note with this one?

Chairman Cook: No, because it does not affect state government and the decision are made at the local level.

Senator Anderson: It says to amend and reenact, so if this were defeated would the \$75,000 stay?

Chairman Cook: Yes.

Chairman Cook: Committee your wishes?

Senator Triplett: Was there testimony that suggested that we have a lot of new construction that remains unoccupied for any length of time?

Chairman Cook: We had two bills the same day and the other bill we passed out this morning, and that one touched on that. (Clarified some testimony and specifics on the bill for Senator Triplett).

Senator Anderson: Another thought is that maybe everything after completed that is underlined can be eliminated. Page 1, Lines 10 and 11.

Discussion: Committee members all clarified what part of the bill.

Chairman Cook: We have two bills here that we passed, we just passed a bill – a new law that would allow the builder to have his unsold house exempt from property tax for two years.

He would pay taxes on the land, but he wouldn't pay taxes on the home for up to two years. That also allows the city to impose any of that they want. This, the way it is completed and the residence is occupied, that is the best part of the bill because the resident has occupied, and otherwise they could get a double tax exemption. Well they wouldn't be able to get anything because they are going to get the other one. You pass the other one and then this one no builder will take it until he sells it. There will always two years available for the new owner. Right now it is a chance that if you are the new buyer the builder may have already taken six months of the exemption, and then you get 1 ½ yrs.

Senator Oehlke: Certainly there are some areas of the state that utilize this more than others. I hate to make a decision for someone else.

Vice Chairman Miller: Nothing changes if we kill the bill except for the addition of condos and townhouses.

Vice Chairman Miller: Moved a Do Pass.

Senator Hogue: Seconded.

Chairman Cook: Discussion?

Vice Chairman Miller: I believe that it gives the communities some kind of tool if they would choose to use it and we have to trust that they are responsible with it.

Senator Dotzenrod: If you are going to build a new house today it is a pretty big commitment in today's world. I think that by giving the right to the local authorities is a good thing.

Chairman Cook: The only local government you are giving the authority to make this decision to is the counties, cities, and townships. You have another local government that takes the most and the one that is the most affected by this and that is the school districts. I was surprised that we didn't have a representative of the school boards here. They probably did not know it was in here.

Senator Triplett: We did in the last session that provided that they have to give each other notice when they are making those decisions. At least they can be at the table.

Chairman Cook: We have a motion. Discussion?

A Roll Call vote was taken: Yea 6, Nay 1, Absent 0.

Senator Miller will carry the bill.

REPORT OF STANDING COMMITTEE (410)
February 16, 2009 4:44 p.m.

Module No: SR-30-2963
Carrier: Miller
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2247: Finance and Taxation Committee (Sen. Cook, Chairman) recommends DO PASS (6 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING). SB 2247 was placed on the Eleventh order on the calendar.

2009 HOUSE FINANCE AND TAXATION

SB 2247

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. **SB 2247**

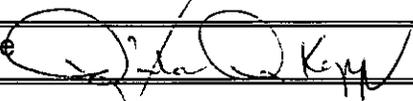
House Finance and Taxation Committee

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Hearing Date: March 10, 2009

Recorder Job Number: 10574

Committee Clerk Signature



Minutes:

Chairman Belter: We will open the hearing on SB 2247. Senator Robinson, you look like you are on deck.

Senator Larry Robinson: On the bill before you, the prime sponsor is Senator Lee, who is moving back and forth between here and another hearing next door. She is going to be back here in a couple minutes. There are a number of folks who would like to testify on this particular bill. I have distributed some written testimony (**Testimony 1**) from the Mayor of Valley City, Mary Lee Nielson, who had requested that we introduce this bill. I agreed to sign on with Senator Lee. As you know, the weather in the eastern part of the state is not conducive to travel today or the mayor would have been here. The testimony that she provided really speaks to the content and purpose of SB 2247. We have had in place a tax exemption on new construction for a number of years at the \$75,000 level. We know what has happened to real estate prices over the last number of years. The proposal in 2247 would ask that we move that exemption to the \$150,000 level to provide cities that extra tool to entice those individuals interested in building homes to build within the limits of a city. Now it is probably a given that most of the use of this particular proposal, if it is approved, and we would certainly hope that you do approve it, would benefit to a large extent the smaller communities

across the state of ND. We have heard from some folks in larger communities that this is not an issue for them and it might or might not be, but I know in our community it is an issue. We are in a very competitive marketplace trying to entice folks to build within our city and that is the intent of SB 2247. Mr. Chairman, if there are any questions, I would take them. I know we have Senator Lee who will speak and Doreen Riedman from the ND Association of Builders is here and I think Mr. Lembke is going to make some comments as well so if you have any difficult questions, I would save them for Claus. (02:31)

Senator Judy Lee: I am here to testify in favor of SB 2247. The property tax exemption is important for a variety of reasons. I have been in the real estate business for 33 years and certainly see the impact that that property tax exemption has had over the years on home construction. Just for a little history, and Claus Lembke would be a wonderful one to address this because he has been involved with this too, but there was a time when interest rates were very high about 30 years ago. Many of the cities had been developed with water and sewer lines and streets, but the special assessments were not being paid because the owners of those subdivisions couldn't sell the lots and so they ended up going back to the city.

The city didn't want to be in the land owning business either and so if my recollection is correct, at the time this is one of the things that was done in order to encourage development of those lots. There would be a property tax exemption for the first \$75,000 of a structure, but the taxes and special assessments had to be brought up to date for the city at that time to make sure that they weren't going to have delinquent taxes. As you know, from everything that is around in national news as well, home construction is really the engine that drives the economic train in many ways. It provides a tremendous leadership for the development of jobs and all of the things that spin out as a result of home construction. That is certainly true for us in ND as well. At the time this bill was drafted, it might not have seemed like such a big deal

but even in the month since we came here, we certainly have seen that there is an impact on ND as well. We are fortunate we have not had the same challenges most of the other states have had, but I am sure that Doreen will be able to share with you information about the flattening off in some cases, the lessening of demand for home construction in some of our communities. I know that that has been true in mine, in the Fargo-West Fargo area. So this updates that property tax exemption that was certainly effective in its initial use; it has continued to provide an additional tax base that benefits all the political subdivisions that are levying taxes. Yes, when families come in with children, they are attending the schools; but do keep in mind that after that first two year period, those homes, that might not otherwise be there, are now paying property taxes for a very long time into those political subdivisions that levy property taxes. I encourage you to look seriously at this property tax exemption update not only for the \$150,000, but just to clarify that condominiums, twin homes, town homes and single-family homes would all be treated in the same fashion. There has been a slightly different way of addressing those in the past. It would just be nice to tidy that up. I encourage you to take a look at this. If you have some questions, I will be happy to try to answer them.

Chairman Belter: Senator Lee, yesterday we had a bill dealing with a similar topic and you have condominiums and townhouses listed in your bill. Obviously there are situations where there are condominiums that may be four units and they may be huge units. Was there any discussion as to whether there should be a limit on the number of condos that this would apply to?

Senator Lee: Like an association or something?

Chairman Belter: Yes, I am thinking you could have 25, 50 or 100 or more condo units in a development and I was just wondering if there was any discussion over that issue.

Senator Lee: I can't speak for the committee which heard this bill in the Senate, but really what is more important is what the cost of that condominium might be. It doesn't really matter so much whether or not it is attached to another housing unit or if it is half of a twin home or some such thing, but really the value that is going to be exempted. There are some very fancy townhomes and condominiums, as we all know, and there are some quite modest ones. So perhaps the ones buying a more modest property need that tax exemption at least as much. I will make sure I note that special assessments are, of course, still the responsibility of the property purchaser. Perhaps it would be helpful as a refresher to members of the committee to know that condominium is a word that really describes a form of ownership; it does not describe a kind of structure. You can have condominium ownership of apartment style buildings, of row houses (which is what you would see if you had six attached units that own the land below them to the sky above, but they have a party wall in between) as compared to an apartment style one (where there is a common entrance and hallways and you own floor to ceiling and wall to wall but the building as a whole is owned by an association collectively). Do keep in mind that condominium is really a legal description of shared ownership but we talk about apartment-style condominiums, townhouse-style condominiums; there could be commercial; there could be a single-family detached association in which there is still that kind of shared responsibility for the grounds around and all that. So there are people on your committee with expertise in that area and I know they can answer that; but as far as back to your original question about numbers of units, no because it hadn't occurred to me that it was an issue. I hadn't thought of it.

Chairman Belter: One other question. Does a twin home fall under one of the three--single-family, condominium or townhouse?

Senator Lee: Most twin homes would be in that single-family category because they would own their own lot; they would take care of their own snow removal and lawn care and that kind of stuff. If they choose to be part of a homeowner's association that takes care of some of those things, that is kind of a separate thing. Again we are back to the kind of ownership, but our focus was originally and what it has continued to be in this is this isn't for rental property; it has to be an owner-occupied unit; it is for the first two years that the home is occupied. So if I decide I don't want to hire the nice person who is taking care of my lawn and snow now so I can stay in my single-family detached house, I might choose to make a lateral move into a town home because I would like to have my own door and I would like to have a double garage at least that attaches to my house so I can come in. But I might choose to be part of a condominium association so all the outside maintenance outside the structure, as well as lawn and snow care is taken care of by that condominium association. So again, yes, twin homes sometimes are in one category and sometimes in the other, depending upon how the ownership is laid out at the beginning.

Representative Weiler: The decision to offer the first \$75,000 limit is still up to the city or county commission, correct? That has not changed.

Senator Lee: This is an enabling law. The local political subdivision, in many cases, every two years will vote whether or not to continue, sometimes they might choose to make it a permanent thing; but yes, absolutely, the city or the county can decide what they want to do.

Representative Weiler: Why would we limit it to \$150,000? Why are we limiting it? My concern is that we put this law into place several years ago and \$75,000 was the amount. Now because home values have increased greatly, now we are back for \$150,000 and in ten years, when they increase greatly again, we will be back again to increase it. Nothing personal; I just don't want to see this issue back here so why would we limit it if it is going to

be left up to the city commission or the county commission, why would we limit it? Just give them the option. If they want to go to \$400,000, they can go to \$400,000.

Senator Lee: I certainly don't have any objection to that as I mentioned in a committee yesterday, I think we need to get some of this real specific stuff out of statute and let the governing boards and bodies (inaudible) make those determinations. But there are certainly people who share our responsibilities here who aren't always comfortable letting people do that. I certainly would not oppose having it open ended and leaving it for our local subdivisions to determine what the number is. It started out originally with that \$75,000 so that the program that was brand new and had not been tried before had a limit and people knew what it was going to be and you could deal with it. That was the original and, as is often true, we will maybe put something into place for two years to see how it works and then reevaluate in our next session. That is kind of what we did with the \$75,000 number, if my memory serves me well, please ask some of the folks here who may have a good historical perspective as well to make sure that my memory serves me well. If the committee decided to move to something like that, I can't imagine that anybody in the industry would oppose it. I certainly don't plan on selling new houses ten or twenty years from now. I would rather spend my spare time on the beach somewhere so we will let Representative Weiler and others who are in real estate who are young and vigorous move that issue forward.

Representative Weiler: Thank you very much; my daughter would love you for saying that. But the bill says up to \$150,000 so they could go to \$100,000; they don't have to put a \$150,000 so my concern is why don't we choose to shorten the length of the future legislative session and not have this bill back and just let it be unlimited?

Senator Lee: I look forward to hearing what the outcome is of this meeting.

Representative Pinkerton: As I read through the bill, I don't see where; you have to help me find where there is ownership involved. I see in line 11 "occupied" but I don't see where "owner" is.

Senator Lee: I would have to go back to the century code and see what section we are in when we are talking about property taxes, if property taxes pretty much relate to the person who is going to be the owner; but if you felt that there was something that was incomplete in that area, I would welcome that assurance that it is only for the owner.

Chairman Belter: Further testimony in support of 2247?

Doreen Riedman, ND Association of Builders: (Testimony 2) (14:49-19:21)

Representative Froseth: Pulling from Representative Pinkerton's question about ownership, it looks to me like all reference to ownership has been overstricken on page 1 and page 2 and I don't see anything else in the rest of the bill that refers to ownership; it just says occupancy. Is there some other section or does this language move into a different section or the first one?

Doreen Riedman: On the bottom of page one, that is where it states that the first owner; that is where condos and houses were treated differently. What we are saying now; that is taking off the ownership after the builder resides on the property or the builder still owns the property. For the purpose of this subsection, builder includes the person who builds that person's own residence so what we are doing is removing that reference and just stating that this goes to the home buyer and not the first owners, which would likely be the builder. We are trying to clean that up because before subsection 36 did not have that; it had a different reference in there and maybe the Tax Department can clear that up too. But the intent of writing this the way we did was to simply clarify and make sure that this went to the home buyer for the first two full years that they live in the home. Still it is merging those two sections and putting it all together in one.

Representative Froseth: It doesn't really state the owner anywhere.

Chairman Belter: We can clarify that later.

Representative Schmidt: Home rule cities have to abide right now with \$75,000. Can't they go where they want?

Doreen Riedman: As far as I know, they are still abiding by the \$75,000 limit as well. Again maybe the Tax Department has some other information on that, but as far as I know, cities such as Fargo and those who do adopt this are still abiding by that \$75,000.

Representative Pinkerton: I am just not quite clear on page that there are two lines, subsection 35 and subsection 36, is that correct? So like in Burleigh, there would have been 40 houses built under 35?

Doreen Riedman: And 11 were condos and townhouses so subsection 35 deals with single – family dwellings and subsection 35 deals with condos and townhomes.

Representative Pinkerton: So we are kind of looking at, between the two of them there, between 1800 and 82 add those numbers up units and that was in tax year 2008.

Doreen Riedman: Yes, like I said, it was done in the fall of 2008 so it may not be a final figure for 2008. It could possibly be a little higher; I mean not a great amount higher, but a little bit.

Representative Pinkerton: So you would probably be looking at around 1700 units that are out there at any given time if this is the average build year.

Doreen Riedman: 1800 possibly, something like that. In 2008 we were down a little bit in permits; again this is another reason why this is going to be important to us as I mentioned yesterday on the other bill. We have seen a softening of the market, especially in the eastern part of the state. We need to do some things to encourage people to get into some new construction. Grand Forks and Fargo are really experiencing a slow down and we are feeling it here in Bismarck as well. So yes, I would say 1800 might be an average; 2005 was probably

our high year. I don't have the figures, but I can sure get those for you as to what that was in 2005.

Representative Pinkerton: \$75,000 was the cap on it and at \$20 per thousand, you are probably looking at about \$1,500 per unit times the 1800 would be...

Doreen Riedman: One thing we have to remember too is each year this fluctuates as to the number of cities and counties and townships that actually have this in place. They may not all have it in place at any given time. Years ago the City of Bismarck had it in place and they have taken the exemption off. It is not in place right now in the City of Bismarck. It is not in the County of Morton at this point either. However, it is in the City of Mandan and Burleigh County, for example, the other nice thing about this legislation is it has limitations in place for the jurisdiction so in Burleigh County, for example, it applies only to first-time home buyers.

They have put that limit on which is kind of an interesting idea as well. This really fluctuates and I don't know if we can actually pin down a number and say this is this dollar figure because they do change. For example, the City of Fargo, I believe, looks at it annually. I know Senator Lee mentioned some of them do it every two years, but I think the City of Fargo looks at it annually.

Representative Pinkerton: We did add the numbers up. It is \$4.5 million in tax breaks. Is there any sense of fairness for the taxpayers who don't have new homes who are having to pick up that \$4.5 million?

Doreen Riedman: Yes, in fact, attached to my testimony yesterday on SB 2239, we had some economic impact information on what kind of economic impact housing has on a community and what 100 homes will do. It shows that in very short order, housing pays for itself. Even though you grant these tax exemptions for a couple of years in the beginning, they pay for themselves in, we've got the Fargo information on here within, I don't have the number

of years here but they definitely do pay for themselves. The evidence is there. The jobs that they bring in—100 homes bring in 295 local jobs. Additionally after that, the recurring impact that housing has, the money that is spent on it when you talk about things like furniture and all the other services that go along with housing, it definitely pays for itself.

Chairman Belter: Any other questions? Any other testimony in favor of 2247?

Claus Lembke, ND Association of Realtors: I am extremely proud of having been on the ground floor of this development when it first started that was related to you earlier. Senator Goodman from Grand Forks and myself sat down on this program and I am extremely proud of that. Today \$150,000 is very much in line with the prices of average homes and this bill actually defines the benefits strictly and exclusively for the homeowner and remember it is enabling legislation. Representative Weiler's question I would like to answer this way is that the people who pay for more expensive homes \$300-400,000 would build them any way. But these incentives, there was a study done three or four years into the program by the homebuilders that showed that approximately nearly one third of the properties would not have been built without this exemption. It truly is an incentive. In other words, if you talk about the tax laws, if one third of the homes would not have been built and they are there forever, it really does pay for itself. It is a great incentive program. Again, this discussion really belongs in the local community in the first place. Do it or don't do it. As you have heard, Burleigh County does it only for first time home buyers. I have had a conversation with the City of Bismarck, I am a proponent of this and I had a conversation with the City of Bismarck. When you talk about extra territorial, they want more development right next to the city limits. Why? This is an excellent tool and just allow any kind of tax exemption for new construction right next to the city and don't allow it anywhere else. They would be an excellent example. If the ownership that is omitted here by the strikeover, by taking it away from the bill because they

have their own two-year exemption or at least they hope to have their own two-year exemption. I think that Representative Pinkerton is absolutely correct; I think, Mr. Chairman, what we need to do is on page 1 of the bill on line 8, after the words, condominium and townhouses, you should just insert the words "owner occupied". I think that is something that everybody has missed and I think that is correct; if you just insert those words, you would be back to the original intent of this bill. Thank you.

Representative Weiler: I don't mean to disagree with you, you lobby for the organization that I belong to and was just now appointed to the State Board of Higher Education, but going from \$75,000 to \$150,000 is a good idea, in the Bismarck area, as I think about certainly in town and even a few miles out of town, you can't find a house for \$150,000 brand new; there isn't one; they don't exist so that would be one of the reasons why I would say it is a good idea to take the limits off; there are no houses for \$150,000. Any new house available has a minimum of \$170,000 and they go on up. I think to take the limit off would be a good idea. I don't think there is a need to have a limit on.

Claus Lembke: I don't know if you know, but we have about 1500 members in my organization; I have 1500 bosses so I will agree with Representative Weiler.

Representative Winrich: Claus, if the building is a condominium for four or six units or something like it, at what point is it considered owner occupied—when a majority of the units are sold and occupied or what?

Claus Lembke: I guess the application to the individual owner. There could be six condos that don't have any tax exemption, but one of the six could have a tax exemption. Remember this tax exemption does apply to the individual person or persons that buy this individual property. You could have an eight-plex condo or a twenty four-plex condo, for the first two years, they are not sold, the builder gets a tax exemption if you pass 2239 or the individual

could have this tax exemption. It is really not an attempt to get the whole building exempted, but it can be because it is each individual owner that gets this exemption.

Representative Winrich: There is a point that I was wondering about too. In the event this bill passes and 2239 does not, the builders are in trouble, aren't they?

Claus Lembke: Yes, I think you are right; I think that they are being shortchanged if 2239 does not pass. They are losing at least the first two years of (inaudible).

Representative Winrich: So these two bills are really interconnected.

Representative Wrangham: You mentioned a study; studies fascinate me. Where was that study where one third of the homes wouldn't have been built and did that lead them to study where those people would have lived if those houses hadn't been built?

Claus Lembke: My recollection was it was done by the homebuilders so it has probably already tainted this thing, but I think they are good people and I think they are honest people and I think they did a nice job. 28% of the people would not have purchased a home at that time if they purchased it earlier and without that package, they would not have purchased at that time. When you take all the money that the government makes on sales tax, on employment taxes on income taxes, just on that new construction, that two year tax exemption is just a small part of the whole picture. I really hang my hat on that because if one third of the homes are not being built and this program allows the local community to decide that they want more homes built, I think that is a great program.

Representative Pinkerton: I don't quite understand the dynamics of what is happening when you build a new home. In a town that is not growing very much or is not growing at all, the population is not changing and you are building new homes, are we condemning homes that are unoccupied? Tell me the dynamics; I don't quite understand.

Claus Lembke: Most of the information that I have are in the big cities, but I understand that if there is a community that doesn't have this growth and doesn't have new homes being built, they don't need to adopt this exemption and it wouldn't even apply. It shouldn't. I would think that Wishek, if nobody built a home there in the last ten years, the county should just consider not granting that exemption. I think enabling is a great part of this, a good part of this bill.

Representative Pinkerton: It seems like if you were trying to grow communities and it wasn't having new homes built, this is what you should be doing; but if the community is growing on its own, then why should you do it?

Claus Lembke: That is true too. If a community is growing so fast you can't help it, then it is up to the city to take away that exemption, which is exactly what happened in Burleigh County and the City of Bismarck. They were wise; they said we don't need it; we are growing on our own and they no longer offer that program.

Chairman Belter: Further testimony in support of 2247?

Connie Sprynczynatyk, ND League of Cities: We do have cities that very much want this increase in the exemption as Representative Weiler pointed out. The \$75,000 is a modest amount. We do have some cities that are concerned that it is a little bit too much of a tool, but it is a local option and Claus is absolutely right. If it is a program that is not needed in a community, then the governing board ought not to apply that tool. Just a question on your conversation about taking the lid off, if I am a builder specializing in new home construction, I would imagine that I would very much like to have that lid off because that is business for me. If I were a realtor and I don't specialize in new homes, I have a general practice and I deal with older homes, currently occupied homes—I don't know what the term of (?) is. If we create a disadvantage for existing housing styles so you lose the market for existing homes, I am guessing one of the reasons there was a limit put on back when this bill originated is because

there is a need to have a balance in the community but I am not an expert in that area. I would just think that would be part of the discussion at the local level whether whatever the exemption is, if it goes on, is it creating an advantage of a group that is a little bit too much of an advantage? Okay then we are not going to apply the \$150,000, or if you take the lid off, we are not going to apply \$400,000 as the exemption, that should be part of the discussion at the local level.

Chairman Belter: Any discussion or questions? Any further testimony in support of 2247? If not, is there any opposition to 2247? Any questions of the Tax Department on 2247? Neutral?

Leon Samuel, Tax Director, Morton County: Again, just for implementation, we have to do this stuff when it gets passed. Basically on line 10 it says "completed and the residence is occupied for the first time" and it says "the first two taxable years after the taxable year when construction is completed and the residence occupied for the first time". I guess what I am trying to understand is first of all a house is being built; it starts March 1 (not this year but some other year); basically it is not taxable for that year because March 1 is after the February 1 deadline so it is exempt. I don't have any problems with this anyway; I just want to know for implementation. The second year it doesn't get sold until let's say March of the following year, okay but basically it started here so it does become taxable the following year, but it doesn't get sold until March or April. Okay. So it is basically saying for the first two taxable years after the taxable years so the second year is when it got taxed when construction began and was occupied, well it doesn't get occupied until March of that second year. So basically the first year, because it started being built after February 1, is not taxable; the second year is the first taxable year and then basically they get the two years following. That is how I am reading the bill so basically they would end up, it would be not taxable the first year being built, the second year it would be taxable, and then they would get the exemption on the third and fourth year. It

seems like we have to put it on and then we have to take it off; if there would be a possibility of some way of saying, okay let's keep the exemption from the time it started until it is over with without any prorations or whatever, it would be a great help to the local assessors and the taxpayers when they are implementing this. That is how I read this bill and I don't know if that is how the committee is reading it or whatever so I guess just for implementation, I would like to know that.

Representative Weiler: If we pass 2239, would that not take care of the issue because if we pass 2239, it is not being taxed up until it is sold. The day it is sold, depending upon whether the county or city gives them \$75,000-\$150,000 or whatever, two years from that day, it is not being taxed and that kind of takes care of it.

Claus Lembke: What happens is the other bill 2239 says if the property remains unoccupied so basically what happens when it becomes occupied is it becomes taxable. Basically if the builder has the property, that is how we are reading it now without a proration, if the builder has it and he sells it in July, it is not taxable up until July but then it becomes occupied. This bill says unoccupied so then basically the individual who is buying it is going to have to pay from the time he buys it to the end of the year. Then the next year, if the county or the city has implemented both of these, then the next year is when the two years apply is how I am reading this.

Representative Weiler: Dan is nodding his head like he has the solution so thank you for that.

Chairman Belter: Any questions? Dan, can you clarify this?

Dan Rouse, Legal Counsel to ND State Tax Commissioner: Also for your record, the Tax Department is neutral on this bill. However, if there is a way we can assist the committee to come to the resolution it desires as a policy matter, we would certainly be willing to do so.

After the hearing yesterday on SB 2239, the first engrossed version, I had a conversation with Representative Weiler and he asked the department to look into the possibility of coming up with some workable definitions that might help with the concepts of single family, residential property, condominiums, twin homes, town homes. If my recollection serves me correctly, the only term that I just mentioned that is already defined in statute defined by ND Century Code is condominium so there might be some value to that. But from a neutral point of view, you all being policy makers, it encouraged me this morning in chatting with Marcy Dickerson, that if you so desire, there may be some advantages to blending 2239 and 2247. It seems to me that they are accomplishing a lot of the same objectives and there may be some value to that. It is certainly your call; I am not advocating that position and I hate to be struggling with sounding like a neutral but we want to be sure that we are here as a technical resource. But if that is your desire, we will certainly be willing to work with the primary sponsors, as well as the industry sponsors. We certainly don't want to hijack this or take over the intent of the legislation, but we would be more than happy to work with everyone to come to that. Particularly and the last comment, with all due respect, we end up having to be the ones that help advise the counties and the local townships. If we can understand it and wrap our brains around it, hopefully we will accomplish your objectives here.

Representative Winrich: Senator Lee made the point that condominium is really a way of owning a building; it doesn't really describe the building. Does that create any problem in the law by listing types of buildings along with condominium for example on line 8, new single family and condominium and townhouse because you are mixing up different things there?

Dan Rouse: Yes and no. Yes because again it is one of these areas where there is no convention, there is no definition of what a condominium is for purposes of imposition of property taxes. I say no because there are commonly accepted terms that don't necessarily

need definitions in the century code. We know what a condominium is; you know it when you see it but much like some other things in this world, Senator Lee was correct, sir; it is a legal fiction; it is a form of ownership that can apply to a condominium building with four, six, eight units; it can apply to a development that is more along the lines of twin homes; it has a common association type of ownership so it is a loosely used term. For that reason, there may be some advantage to narrowing down what the definition is as long as it doesn't exclude anyone that would otherwise benefit if that is your decision so yes, yes and no. Sorry for the lawyer's answer.

Chairman Belter: Any other testimony of SB 2247? If not, we will close the hearing on SB 2247.

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. **SB 2247**

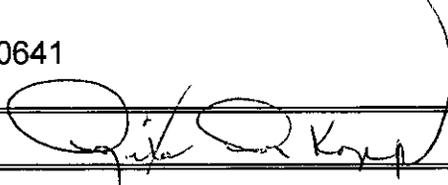
House Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: March 10, 2009

Recorder Job Number: 10641

Committee Clerk Signature



Minutes:

Chairman Belter: Committee members...

Representative Weiler: Is the other one 2247? Are you wishing to act on that one?

Chairman Belter: Well let's for amendment purposes..

Representative Weiler: If they don't have a fiscal note, you don't want to act on them; that would be fine but I do have a question. There has been some discussion about combining those two bills into one. One deals with a tax exemption for the builder to where he wouldn't be taxed on the property until it sells and the other one is moving the \$75,000 threshold to \$150,000 or maybe eliminating it. I will work with the Tax Department and members of the Homebuilders if the committee wishes to combine the two. If they don't want to combine the two, then we will just work on amendments but if the committee thinks that is a good idea, then we need to go to work on combining the two and doing the amendments.

Chairman Belter: What are the committee member's wishes?

Representative Winrich: I would certainly support Representative Weiler in that suggestion. I think the bills are obviously related and there is some question of what happens if the house gets sold at a certain point and is unoccupied and so on with respect to both bills. I think it would be a good idea to combine them and Dan kind of suggested that this morning too.

Chairman Belter: Doreen, is that acceptable for you or would you rather keep them as separate bills?

Doreen Riedman: To be honest, when we looked at these bills initially when you were going to introduce them, we looked at them as one package. But just to make sure that they both passed, because they are two different concepts, we did separate them because we didn't want to have one bill brought down by the other concept. That is the fear; if you are all comfortable with the two bills and we can move forward; that is fine with us.

Chairman Belter: Here is my only concern. If you want to combine them, you need to go and talk to the prime sponsor of those two bills and get their okay to do that. Personally myself, I guess I would rather just keep them separate. You could still do the same thing with both bills; but if you keep them separate, then you don't combine the issue and muddy the waters. There are two distinct issues here and maybe if we don't complicate the situation, we might be better off leaving them as separate bills.

Representative Grande: One of the things I would like to make sure though if we were going to do anything like that, that even one deals with a single-family dwelling and the other is multiple dwelling. I don't want to see the multiple dwelling on the 2239.

Representative Weiler: I think they are possibly separate parts of both we were just discussing about combining them into one bill; but Mr. Chairman, if you think it stands a better chance and it muddies the waters, then we will keep them separate. I do have some amendments that I would like a day or so to work on. If they are not fiscal notes, maybe we can take care of them.

Chairman Belter: Yes, we don't need to; as long as we are not dealing with fiscal notes, we have got lots of time to get them done. What bill is it—2239 we have got scheduled for tomorrow. We still haven't gotten that bill back from the Senate so we will have to have a

hearing on it, but it won't be an official hearing because I think there are some people who have already come to town for that. The Senate hasn't gotten the bill back to us so we will have to reschedule again for Monday.

Representative Winrich: What bill is that? The Governor's oil and gas production.

Chairman Belter: That's the one they took back to the Senate to correct some mistakes and I don't know what has happened to it. They don't seem to be able to find it right now.

Representative Froseth: Before we move on, on the 2239, I think we do need an amendment. On page 1, line 10, it says unsold or unoccupied so it clarifies it that it can't be taken until it is sold.

Representative Weiler: In talking with Dan, one of his points to make is that we do need some clarification.

Chairman Belter: So on that issue as far as the bill we heard the other day, isn't it at the point of sale that you would start taxing it? I mean I think it should be at the point of sale and where is that; is that called at the point of closing or what?

Representative Weiler: Yes, at the point of closing.

Chairman Belter: Is that what they do now; is that what they consider?

Representative Weiler: Yes, I think once you close on it. Are you talking about the bill where the builder is not going to be paying taxes on it until it sells?

Chairman Belter: Well, actually, it could be in both cases. If I buy a new home, when does the clock start ticking for my two years of tax exemption?

Representative Weiler: The day it sells.

Chairman Belter: Is that what they call the day it closes or?

Representative Weiler: The closing date.

Chairman Belter: That would probably be the same thing for the spec builder. If he is getting a tax exemption, would his tax exemption end on the day of closing?

Representative Weiler: Are you talking about the two-year tax exemption for the builder? He is not going to pay taxes on it for a period of two years; he is not going to pay taxes on it until it sells. Once it sells, the date of closing, when it sells, the new home owner will begin to pay taxes on it. Now if it is a period of two years, I apologize because I am getting these two bills intertwined; but if it is a period of two years that the builder has not sold the house yet, he doesn't get; he is allowed to not pay taxes on that for a maximum of two years, correct? Or is just until it sells?

Doreen Riedman: The year construction began and up to two taxable years thereafter if that is what the city adopts and (inaudible) and one year if they want to.

Chairman Belter: Then will the new purchaser also be allowed to get, if the city so chooses, to also get a tax exemption?

Doreen Riedman: And that would be for the year after; let's say it was purchased later on in 2009. That exemption then would be in 2010 and 2011. (Inaudible). (09:16)

Representative Weiler: The difference, Mr. Chairman, is that one bill is for the builder. An example would be I have 50 cars on a lot and I am not paying taxes on it and the tax is not collected on it until it sells.

Chairman Belter: But that home could probably be tax free up to four years.

Representative Weiler: If the city so chooses.

Chairman Belter: If the city so chooses.

Representative Headland: What happens in the case of for whatever reason, the builder gets his two-year exemption and then it is still not sold. It goes on the tax rolls and a year later somebody buys it; it is already on the tax rolls; it will get exempted if the city or political sub

chooses to from that point but it is already on the tax rolls so that is going to shift the property tax burden to other property taxpayers.

Representative Drovdal: I think the Morton County gentleman's problem was that if a new owner buys a house in the middle of the year, you pay tax for the next six months; then you would be exempt for two years. He was questioning if that was correct? Do you put them on the tax roll and then given them a tax break or do you want to seam these two together? I don't know how you could seam them together. If you are not going to seam them together, then I think the two can stand as they are alone.

Chairman Belter: Representative Weiler, you fix it. If you need help, you can talk to Dan. Did Dan come down here for?

Representative Weiler: I will do my best, Mr. Chairman.

Representative Pinkerton: Those exemptions on new homes are not real popular in the neighborhoods. It was a pretty contentious situation in Minot; it was actually out in the county, Ward County. They are expensive; the taxes on a new house might be \$4,000, \$5,000 or \$6,000. \$3,000 would be the (inaudible) (11:39) builders and other home owners and new home owner, all kind of in it, the county commissioner's office and it got pretty ugly as the news reported; at least the newspaper described it as such. I am not saying I am against or for this bill. At least it deserves a try if you are trying to keep property taxes down.

Chairman Belter: Well, our main goal here is to develop a workable deal on both bills; then it is up to the cities and we can wash our hands of it as long as we give them something that is reasonable and workable.

Representative Pinkerton: In essence you kind of turn over a problem to a political

subdivision that is kind of.....

Chairman Belter: Sometimes it is good to keep the political subdivision busy.

Representative Drovda: They like local control; we are giving them local control.

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. **SB 2247**

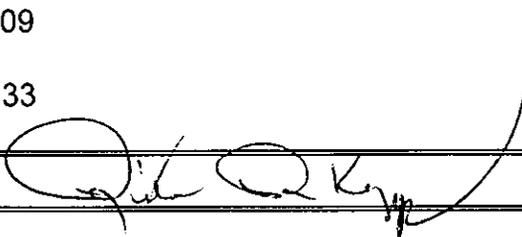
House Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: March 17, 2009

Recorder Job Number: 11133

Committee Clerk Signature



Minutes:

Chairman Belter: Let's look at SB 2247.

Representative Weiler: Again, Mr. Chairman, some amendments on 2247 to clarify some parts of the bill. Again Dan Rouse is here to explain and help us simplify what needs to be fixed.

Dan Rouse, Legal Counsel, ND Office of the State Tax Commissioner: What we have here in front of us is one amendment to SB 2247. On page 1, line 11, again as in testimony on the previous bill, what was missing here and you can actually see it if you look down at lines 21-23, originally before this bill was introduced, the law contained that concept of ownership and occupancy, which is key to vesting of the right to have a tax credit or tax deduction or a deduction in this case. So working again at the request of the committee and specifically with Representative Weiler and industry and tax officials, we came up with the concept of ownership and I did double check it, Mr. Chairman, and I think the wording is correct. On page 1, line 11, it is going to read "completed and the residence is owned and occupied for the first time". We believe that that, and again testing this with the tax assessors in the area, they understand it; they get it. If this is the law that you enact, they will know how to apply this, Mr. Chairman.

Vice Chairman Drovdal: Any questions for Dan on the amendments?

Representative Weiler: Thank you, Dan. I apologize for missing this. In the bill previous, we felt that new single family was sufficient. In this bill it says new single family, condo and townhome. Is it because the first one is for a builder and this one is for specifically for whoever purchases it?

Dan Rouse: That is correct. Two distinct separate concepts. Two distinct and separate laws. That is one of the other reasons after more thought, we felt it was better to keep the two bills separate.

Representative Winrich: In my notes here, I have on line 8 that after townhouse, we had previously inserted "owner occupied". Is that still in there with your amendment or does your amendment cover that same situation?

Dan Rouse: That is not in these amendments, but the amendment that we have covers that.

Vice Chairman Drovdal: Committee, we have SB 2247 before us.

Representative Weiler: I move amendment .0300.

Vice Chairman Drovdal: We have a motion by Representative Weiler to move amendment .0300 and a second by Representative Headland. Discussion on the amendments? **(The move to approve amendment .0300 carried by a voice vote.)**

Representative Weiler: I did this on purpose. I didn't add this other amendment in with the first one. The first one clarifies and makes it workable; this amendment that I am passing out is something that I discussed in the committee and it is something that I think is a very good thing for us to do. That would be; we had a \$75,000 or the first \$75,000 of the value of a home was tax exempt for whatever period the local entity decided. Now they are coming back and asking in this bill to move to \$150,000. Again it is up to the local entity to decide what they want to do, but I feel that we don't need a limit on this because the local entity can put a limit of

\$100,000 or \$125,000 or \$150,000 or \$200,000 or \$250,000. The amendment that is in front of you just simply lets it be a truly local decision. The reason for that is because in Bismarck, where I sell real estate, you can't buy a house outside of the city limits or inside the city limits (a brand new construction) for anywhere near \$150,000. So if it is up to the local entity to decide, I would move the amendment that we remove the cap on this and just let them decide what they want to do.

Vice Chairman Drovdal: We have a motion by Representative Weiler on his amendments mentioned removing the cap on SB 2247 and a second by Representative Froseth.

Discussion on the amendments?

Chairman Belter: Representative Weiler, what you are doing is completely removing the cap altogether?

Representative Weiler: Correct. Right now there is \$75,000; this bill, the way it sits in front of us, raises it so the first \$150,000 would be tax exempt or up to the first \$150,000. My amendment just simply removes the cap; they could still do only the first \$75,000 if they choose or they could do \$200,000 if they choose. It is just truly up to the local entity what they want to do.

Chairman Belter: I think I am going to resist your motion and the reason I am going to do it is because I think we could find ourselves in a situation, as you remove the cap, and a local entity adopts much higher levels, that makes it much harder to sell existing properties. I am wondering if you have a situation, for example, well let's use Burleigh County. The City of Bismarck does not have a property tax exemption, but the county does as I understand it. I am making the assumption that in the county, new housing growth is the predominant market where in Bismarck you have a lot of older homes as well as new. If you have an adjoining area that is giving a huge tax break, that could create a problem for the established city. Then

the established city can say in order to compete with Burleigh County, we are going to have to raise our caps so that we get new housing growth and that, in a sense, puts older housing at a disadvantage for sale because the tax break in new versus old is just too much. That is the way I see it. I think having some reasonable cap is defensible.

Representative Wrrich: I believe this is already possible for home rule cities, is it not? I think there has been discussion in Grand Forks about going...

Representative Weiler: I am not sure.

Representative Winrich: I think that is the case. This would simply extend it to other cities as well, I guess, or other municipalities. I guess I would support this amendment. I think it is appropriate for these kinds of decisions to be made at the local level. I can't help but wish that I could convince my colleagues to treat school districts in the same way.

Representative Wrangham: I am going to resist the amendment. I think that it is necessary for the state to set some levels on some things to try to ensure that things stay a little bit equal between cities and counties plus things sometimes tend to get out of hand. Once the cap is removed, we don't seem to have much incentive (?) to put a cap back on. I think this is meant to be an incentive; I think the total exemption from the tax for an unlimited amount is more than something to stimulate business.

Representative Schmidt: This wouldn't have any effect on the cities that already give tax exemptions for new construction, would it?

Representative Weiler: Well, yes, it would because if they already give a tax exemption, they are limited to the first \$75,000 of the home's value. This bill, as it sits in front of us, would raise that up to the first \$150,000. The amendment that is in front of us would make it unlimited.

Representative Schmidt: If we took the amendment off, it wouldn't have any effect on the cities that already provide tax exemptions for new construction, would it?

Representative Weiler: The amendment is not on here so could you repeat that again?
If we do not adopt the amendment?

Representative Schmid: Yes. It won't have any effect on Fargo, will it?

Representative Weiler: Well technically, yes, it could have an effect because it limits them to the first \$150,000 of the value of a home being exempted for up to two years. It could limit them. In my opinion it would have an effect on them; I don't think it is a big effect but it could have an effect on them.

Chairman Belter: It would have an effect from the standpoint if the local, if the city council decides to change their \$75,000, currently they are at \$75,000 and if they decide to, I mean it is a local decision, is that not correct? So it is up to the local board whether they want to leave it at \$75,000 or take it to \$150,000 or have no limit?

Representative Weiler: Or not have it at all.

Chairman Belter: Or not have it all.

Representative Headland: I guess I am thinking that if we took the cap off at least as far as construction at the county level, maybe it would encourage somebody to build outside of the city limits if the county chose to provide a higher exemption. I think some housing outside in the rural areas—anything to encourage that certainly would not be bad so I guess I am going to support the amendment.

Representative Brandenburg: Having property in the city limits and knowing how they do things in the city, one gets it; one doesn't; I can see even more problems.

Representative Weiler: The bill that sits in front of us I think is a good bill; raising it to \$150,000 is a good bill. If there is going to be an issue on the floor with this and the individuals that spoke up here opposed to this amendment, if they are going to raise issues to this and this thing is going to die on the floor, I don't want that problem so I will **withdraw my motion**.

Vice Chairman Drovdal: And the second is withdrawn as well. Okay, we have SB 2247 in front of us. What is the committee's wish? Moved by Representative Headland, we have a **"do pass" and a second by Representative Pinkerton.** Any comments or discussion on SB 2247? Any discussion? **(A roll call vote on a "do pass" on SB 2247 resulted in 11 ayes, 1 nay and 1 absent/not voting. Representative Froseth will carry the bill.)** Mr. Chairman, it is all yours.

March 17, 2009

VR
3/17/09

PROPOSED AMENDMENTS TO SENATE BILL NO. 2247

Page 1, line 11, after "is" insert "owned and"

Renumber accordingly

Date: March 17, 2009

Roll Call Vote #: 1

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2247

House FINANCE AND TAXATION Committee

Check here for Conference Committee

Legislative Council Amendment Number .0300

Action Taken Do Pass Do Not Pass Amended

Motion Made By Weiler Seconded By Headland

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

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

Date: March 17, 2009

Roll Call Vote #: 2

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2247

House FINANCE AND TAXATION Committee

Check here for Conference Committee

Legislative Council Amendment Number .0300

Action Taken Do Pass Do Not Pass Amended

Motion Made By Weiler Seconded By Froseth

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

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent: Motion & Second
Withdrawn

remove cap on 2247

Date: March 17, 2009

Roll Call Vote #: 3

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2247

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 Headland Seconded By Pinkerton

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) 11 No 1

Absent 1 (Grande)

Floor Assignment Representative Froseth

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

REPORT OF STANDING COMMITTEE

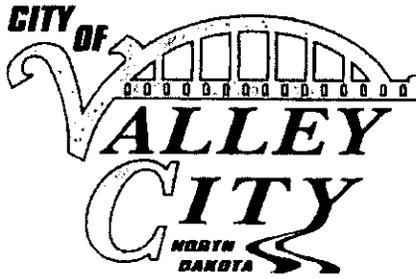
SB 2247: Finance and Taxation Committee (Rep. Belter, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (11 YEAS, 1 NAY, 1 ABSENT AND NOT VOTING). SB 2247 was placed on the Sixth order on the calendar.

Page 1, line 11, after "is" insert "owned and"

Renumber accordingly

2009 TESTIMONY

SB 2247



Same given to House.

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February 9, 2009

Chairman Cook and Committee Members,

Please consider giving SB 2247 a Do Pass from your committee. The City of Valley City asked Senator Robinson to sponsor this bill. Increasing the property tax exemption to \$150,000 gives the City another tool to entice potential homebuilders to build within city limits. Since this bill originally passed the cost of building a house has increased substantially. To make this a viable tool the exemption needs to be more in line with the expenditures.

This will be beneficial to the smaller cities in North Dakota. Not every city needs this stimulus and it would be their choice whether to adopt it. A two year property tax exemption for \$150,000 is a stimulus that supports growth in rural North Dakota. This exemption of two years is a very short time in the life of a city.

We have found in Valley City that a stimulus works well. We give a small grant (up to \$4000) for businesses to improve the appearance of their buildings. This has resulted in almost two million dollars worth of improvements to city businesses. We hope that this homebuilding stimulus will do the same thing. The increased property tax exemption is part of our homebuilding package- the biggest part.

Each city/county would have an option to increase the amount of the property tax exemption. It is up to the local council/commission. Please give us the opportunity to attract homebuilders- vote Do Pass on SB 2247.

Sincerely,

Mayor, City of Valley City

#2
Testimony in Support of Senate Bill 2247
Senate Finance & Taxation Committee
February 11, 2009

Bobby Koeplin, Valley City resident presenting on behalf of the Valley City/Barnes County Development Corporation and Valley City Renaissance Zone Authority (active member of both)

Chairman Cook and members of the Senate Finance & Taxation Committee, the Valley City/Barnes County Development Corporation and Valley City Renaissance Zone Authority asks for your support of Senate Bill 2247 which **modernizes the existing two-year property tax exemption on new construction, updating the maximum from \$75,000 to \$150,000.**

The Valley City/Barnes County Development Corporation represents over 11,000 residents in Barnes County and is responsible for Primary Sector Development. Housing directly affects our success in creating quality jobs by locating and/or growing businesses to the Barnes County Area.

The increase in the exemption maximum from \$75,000 to \$150,000 is necessary for three reasons:

- 1) Increase is needed due to the increased cost of typical home construction since 1983 when the law was created.
- 2) Will assist in providing an adequate supply of modern and affordable housing in order for businesses to attract and retain the work force they need. In our community housing has not kept up with the population growth from our economic development efforts. We have heard time and time from key companies in our community that in order for them to attract and retain employees a larger supply of attractive and affordable housing is needed.
- 3) Allows new homes not located in our Renaissance Zone to be on a more even playing field as Valley City's Renaissance

Zone currently allows an exemption on a new home value up to \$250,000 for five years.

This bill simply raises the ceiling amount, political subdivisions will have the flexibility to maintain their current exemption level or adjust as they see necessary to grow their community.

Senate Bill 2247 puts the tax exemption in place for two full years after construction is completed – **the homeowner gets two full years of the tax exemption.** (Under the current law if a home is partially done at the time of valuation by the political subdivision, a home owner may only get a partial exemption in year one and an exemption on the first \$75,000 valuation in year two).

This is only enabling legislation that still must be approved by cities and or counties.

The goal of the original legislation was to **enhance tax bases, stimulate the economy, and promote employment,** approval of Senate Bill 2247 will assist in making this goal a reality in today's economy.

We ask for your support of Senate Bill 2247 which will update the two-year property tax exemption amount, allowing more flexibility for cities and counties in their economic development efforts as well as grow their property tax base long term at no cost to the State of North Dakota.



Testimony in Support of Senate Bill 2247
Senate Finance & Taxation Committee
February 11, 2009

Doreen Riedman, Executive Officer
North Dakota Association of Builders

Chairman Cook and members of the Senate Finance & Taxation Committee, the North Dakota Association of Builders (NDAB) asks for your support of Senate Bill 2247 which **modernizes the existing two-year property tax exemption on new construction, updating the maximum from \$75,000 to \$150,000.**

The NDAB represents over 2,000 members statewide with employees numbering approximately 43,000. We are affiliated with five local builders associations in Bismarck-Mandan, Dickinson, Fargo-Moorhead, Grand Forks, and Minot; and are all part of a larger federation, the National Association of Home Builders (NAHB), which has over 200,000 members.

PURPOSE/RATIONALE:

- ❖ Increases exemption maximum from \$75,000 to \$150,000. This has not been adjusted since 1983 when the law originated.

Bismarck Avg. Home Price	1983	\$ 69,751
	2008	\$172,848

- ❖ This bill simply raises the ceiling amount. Political subdivisions may stay at their current levels, or adjust as they believe is necessary.
- ❖ Puts the tax exemption in place for the two full years after construction is completed and the residence is occupied – **the homeowner gets two full years of the tax exemption.** This lessens confusion at closing time, makes the savings clear to the homebuyer, and is a good selling tool for realtors and builders.
- ❖ Merges the subsections dealing with new single-family residences (subsection 35) and the one dealing with condominiums and townhouses

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STAFF

Doreen Riedman,
 Executive Officer
 Neiss,
 Administrative Assistant



(subsection 36), since they are now treated the same. (Currently, a builder qualifies for the exemption in a single-family residence, but not in condos or townhomes. We are asking that the full two-year exemption go to the homeowner upon occupancy, and not to the builder.)

LIMITATIONS OF THE LEGISLATION:

- ❖ **This is only enabling legislation** that still must be approved by the city, county or township.
- ❖ The amount is only a maximum – the political subdivision can adjust as they see fit.
- ❖ The governing body may limit or impose conditions, including the length of time during which the exemption is allowed.
- ❖ Amount applies only to the building structure, exclusive of the land. No taxes are exempted without improvements to the property, which eventually will increase the overall tax base.
- ❖ Special assessments must not be delinquent.

HISTORY/BACKGROUND:

Legislation allowing political subdivisions the choice to grant two-year property tax exemptions on the first \$75,000 of a new single-family residential property (excluding the land) came about in the early 1980s to **enhance tax bases, stimulate the economy, and promote employment**. The concept is that providing an incentive for construction will promote improvements to property which will eventually be reflected on the tax rolls with increased valuations. These are short-term, limited exemptions – **only two years** – which encourage improvements to land, create jobs, and ultimately increase the tax bases.

TOOL FOR DEVELOPMENT:

The exemption is used by cities and counties to enhance their ongoing economic development efforts. *(Information on 2008 uses of the tax exemption by cities,*

counties and townships is attached.) Without an adequate supply of attractive and affordable housing, businesses will be unable to attract and retain the work force they need. In some communities, housing has not been able to keep up with the population growths from economic development ventures. Such exemptions attract potential buyers which encourage new homes to be built. The exemptions expand the tax base, and get new homes on the tax rolls that might not otherwise be built.

Political subdivisions have authority over the tax exemption and the opportunity to use it as needed. It is a tool which provides flexibility, allowing local governments to plan future growth and development.

LOCAL ECONOMIC IMPACT IS GREAT:

When a new house is built, the local economy is stimulated in a variety of ways.

- ❖ Local governments will realize an increase in other sources of revenues from the construction of new housing. As incomes are spent in local businesses, general and sales taxes grow.
- ❖ Other revenues that grow with the expansion of the community include public utility excise taxes, gasoline and other special excise taxes.
- ❖ Home building also generates significant amounts of state government revenues in the form of individual and corporate income taxes, sales taxes, and other taxes, charges, and fees.

MAKES HOUSING MORE AFFORDABLE:

Families hoping to build new homes want the tax-exemption available to them, and this type of exemption helps them reach their goal of homeownership.

We ask for your support of this legislation that updates the two-year property tax exemption amount, allowing more flexibility for cities, counties and townships interested in attracting development to their areas.

63 CITIES OFFERING TWO-YEAR TAX EXEMPTIONS

Same handouts given to Home.

2008 EXEMPTIONS -

COUNTY	57-02-08(35)	57-02-08(36)		
ADAMS:				
Hettinger City	2			
BARNES:				
Valley City	10			
BOWMAN:				
Scranton	2			
Bowman	4			
BURLEIGH:				
Lincoln	40	11		
CASS:				
Mapleton	35			
Reiles Acres	20			
Oxbow	2			
Horace	40			
Casselton	21			
Arthur	1			
Kindred		2		
West Fargo	257	51		
Fargo	549			
DICKEY:				
Oakes	1			
Ellendale	3			
FOSTER:				
Carrington	2			
GOLDEN VALLEY:				
Sentinel Butte	1			
GRAND FORKS:				
Northwood	8	4		
Thompson	4			
Larimore	1			
Grand Forks	57			
HETTINGER:				
New England		1		
Mott		1		
KIDDER:				
Tappen	1			
LAMOURE:				
LaMoure	1			
Kulm	1			
LOGAN:				
Fredonia	1			
MCKENZIE:				
Watford City	2			
MCLEAN:				
Wilton	3			
Washburn	8			
MERCER:				
Pick City	1			
Beulah	9			
MORTON:				
New Salem		1		
Mandan		245	13	
Flasher		2		
NELSON:				
Lakota			2	
OLIVER:				
Center		1		
PEMBINA:				
Cavalier		2		
RAMSEY:				
Devils Lake		3		
RANSOM:				
Lisbon		3		
Enderlin		5		
RICHLAND:				
Abercrombie		1		
Christine		5		
Hankinson		1		
Wyndmere		1		
Walcott		1		
Wahpeton		19		
SARGENT:				
Milnor		2		
STARK:				
Dickinson		78	28	
Gladstone		2		
South Heart		2		
STUTSMAN:				
Jamestown		34		
TRAILL:				
Mayville		1		
Hatton		1		
Hillsboro		4		
WALSH:				
Grafton		5	9	
Minto		2		
Park River		2		
WARD:				
Minot		129	55	
Surrey		3		
Kenmare		2		
WILLIAMS:				
Williston		55	6	
TOTAL		1699	183	

32 COUNTIES AND 13 TOWNSHIPS OFFERING TWO-YEAR TAX EXEMPTIONS

EXEMPTIONS:

County	<u>57-02-08(35)</u>		<u>57-02-08(36)</u>	
	<u>Twp</u>	<u>City</u>	<u>Twp</u>	<u>City</u>
Adams	2	2		
Barnes	20	10		
Billings 0				
Benson 0				
Bottineau 0				
Bowman	8	6		
Burke 0				
Burleigh	3	40		11
Cass	7	925		53
Dickey		4		
Divide 0				
Dunn	8			
Eddy 0				
Emmons 0				
Foster		2		
Golden Valley		1		
Grand Forks		70		4
Grant 0				
Griggs			1	
Hettinger				2
Kidder		1		
LaMoure		2		
Logan		1		
McHenry 0				
McIntosh 0				
McKenzie		2		
McLean		11		
Mercer		10		
Morton		248		13
Mountrail 0				
Nelson				2
Oliver	2	1		
Pembina	3	2		
Pierce 0				
Ramsey		3		
Ransom	7	8		
Renville 0				
Richland	38	29		
Rolette 0				
Sargent		2		
Sheridan 0				
Sioux 0				
Slope 0				
Stark	51	82		28
Steele 0				
Stutsman		34		
Towner 0				
Traill	1	6		
Walsh		9		9
Ward		134		55
Wells 0				
Williams		55		6
Total	150	1,699	1	183



Testimony →

**Testimony in Support of Senate Bill 2247
House Finance & Taxation Committee
March 10, 2009**

**Doreen Riedman, Executive Officer
North Dakota Association of Builders**

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We ask for your support of this legislation that updates the two-year property tax exemption amount, allowing more flexibility for cities, counties and townships interested in attracting development to their areas.

PROPOSED AMENDMENT TO SENATE BILL 2247 (90354.0300)

*Prepared and proposed by the Office of State Tax Commissioner for Rep. Weiler
March 17, 2009*

Page 1, line 7, overstrike "Up to", remove "one hundred fifty", overstrike "thousand dollars of", and replace "the" with "The"

Renumber accordingly