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FISCAL NOTE STATEMENT

House Bill or Resolution No. HB 1326

This bill or resolution appears to affect revenues, expenditures, or fiscal liability of counties, cities, school districts, or townships. However, no state agency has primary responsibility for compiling and maintaining the information necessary for the proper preparation of a fiscal note regarding this bill or resolution. Pursuant to Joint Rule 502, this statement meets the fiscal note requirement.

Sheila Sandness
Senior Fiscal Analyst

2017 HOUSE FINANCE AND TAXATION

HB 1326

2017 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1326
1/25/2017
27367

- Subcommittee
 Conference Committee

Committee Clerk Signature

Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to approval from impacted municipalities for the grant of local property tax incentives.

Minutes:

Attachments 1-9

Chairman Headland: Opened hearing on HB 1326.

Representative Tom Kading: Introduced bill. Distributed written testimony. See attachment #1. Ended testimony at 5:00.

Chairman Headland: What is the green area?

Representative Tom Kading: The green area includes the Fargo Public Schools. Fargo Public Schools includes both the orange and the green sections. The public schools include more than just the city of Fargo.

Chairman Headland: Is it rural?

Representative Tom Kading: It's technically the ET zone so it's the rural area.

Representative B. Koppelman: If they were to convert that to where the school boards and county commissioners would have a seat at the table and be bound by the outcome, would that be legal under this bill? Would that prevent this from happening?

Representative Tom Kading: That's one of the things I looked at when drafting this. I think that is a good idea. This committee could amend this bill to create some sort of authority like that and instead of a letter of support you could have a committee of support. There are different incentive types in Fargo so they have a formal authority to reject or support an incentive.

Representative Hogan: With this opt in letter of support would you anticipate the local political jurisdiction would have to have a public hearing about it too? Did you think about the process for each subdivision?

Representative Tom Kading: I specify the exact process that would be more so in the requirements of the different subdivisions. I would imagine a letter of support would be as simple as the school board saying they are adopting this and support this incentive going forward.

Chairman Headland: I have ag property in different school districts. What impact does this bill have on my ability to weigh in on issues involved in Jamestown because I'm part of a school district?

Representative Tom Kading: This bill only addresses to areas where you can vote. If you have farm land in an area where you don't get to vote this bill wouldn't address that problem. That is a valid issue that should be addressed though.

Representative Hatlestad: If the city wants to give a developer a tax relief but the school opts out and I'm 50% of the tax, does that mean the developer gets 50% less?

Representative Tom Kading: I believe that would be correct.

Chairman Headland: Are there any further questions for Representative Kading? We will take support for HB 1326.

Dustin Gawrylow, Lobbyist, North Dakota Watchdog Network: Distributed testimony in support. See attachment #2. The intent of this bill is local empowerment. It has the intent of putting each political subdivision in control of their own money and in control of their own tax base. In cases where there is a lot of money at stake and where schools are the taxing body, those schools are losing a lot of money. The school board should be given the right to say yes or no to that and say if they want to be a part of that without it being forced on them. If you want to get the state out of property tax business you have to give each political subdivision the right to control their own tax base. If they don't have the right to control their own tax base you are preventing them from controlling their own property tax situation. This addresses specifically counties and schools. If the city wants to give away their tax revenue they are free to do it anytime. The point of this is to say that they can't give away somebody else's tax revenue. We need to make this work because if there is a situation where we are allowing certain political subdivisions to dictate to other political subdivisions that is essentially the same as the state dictating to those other political subdivisions and making them subordinate to one political subdivision. There shouldn't be unilateral power by one entity of local government.

Chairman Headland: Do you think there would ever be a time when a school board would go along with giving up their tax revenue?

Dustin Gawrylow, Lobbyist for North Dakota Watchdog Network: There can be a case when someone wants to build a daycare across the street from the school. That would be a valuable thing for a school. That issue comes to the state to see how they can come up with

affordable daycare so that would be part of it. That might be worth it to the school to give up some revenue for a few years.

Chairman Headland: I can understand the scenario but generally those schools push those kids to attend the schools through preschool and other mechanisms.

Dustin Gawrylow, Lobbyist for North Dakota Watchdog Network: I'm talking about after school. I think that is the point. If schools wouldn't support these things if given the power, then why are we forcing them to take these deals and accept the outcome? Let them have a say.

Representative Mitskog: I have had the opportunity to visit the city and the schools in my district, in Kindred, and in speaking with the superintendent we talked about their enrollment and their future. He said they have grown as a school district because of the efforts of the community in their housing initiative and projects with housing. A city or a community was doing something with economic development with regard to housing and that benefited the school district. Maybe up front they may not have benefited but long term they will benefit with growing enrollment. Without the housing opportunities they would have lost students to another community.

Dustin Gawrylow, Lobbyist for North Dakota Watchdog Network: This wouldn't change that. If they like those things they can do it. I'm not saying take the power away I'm saying don't let one entity rule over the rest. In Bismarck we have a situation where Burleigh County is having a disagreement with the city so because things are working well in Kindred doesn't mean they are working well everywhere and there is proof of that.

Representative Mitskog: A lot of this is being driven by one community and one issue in Burleigh County, in Bismarck.

Dustin Gawrylow, Lobbyist for North Dakota Watchdog Network: At this point, yes. There has only been one community that had this issue come up to the point where the elected officials want to take a stand. I'm sure that everyone in this committee has introduced a bill because one constituent brought it up for one situation. If we're not going to address things that are affecting the entire county of the capital city, then issues that affect one person would be up for grabs too. If we want to represent the people let's let elected officials have more say in their own scenarios and their situations. If the people elect those local officials and those local officials support these things, then let them stand on that.

Chairman Headland: Is there any reason for concern that school boards don't possibly have the expertise of the incentives? I understand your point on counties and cities. I'm wondering if giving the schools the same opportunities is the right direction to go.

Dustin Gawrylow, Lobbyist for North Dakota Watchdog Network: I don't believe every commissioner is an expert in central planning. If the reason to oppose this concept is because school board members are not experts in central planning, then that would translate to why are we letting cities be involved in central planning? We are giving the power to entities to manipulate the economy whether it's good or bad. We should be giving everybody impacted who is an elected official the ability to have a say in how that is done. I'm suggesting

the central planning committee be expanded from the city to every local entity. If there is an authority created, then the authority needs to act on behalf of each political subdivision. They need to have equal footing.

Representative Ertelt: Do you have statistics of how many dollars have been given up by entities who have decided to give the tax incentive and how that has impacted the others?

Dustin Gawrylow, Lobbyist for North Dakota Watchdog Network: The most recent numbers I have are from 2014. In Bismarck, 4.5% of all property is discretionarily exempted. This is not schools, hospitals, charities, or things the state exempts; these are properties the city has sole power over exempting. That means everybody's tax bill is 4.5% higher than it should be. If we want to control property taxes that is one of the pieces and is part of the reform plan.

Representative Ertelt: Would this bill prohibit the city council from talking to the other political subdivisions and arguing their case?

Dustin Gawrylow, Lobbyist for North Dakota Watchdog Network: No, that is not the intent. We want that to happen. We want a discussion and we want accountability by elected officials. If the city wants to make the case on a private developer that's their prerogative. It should be up to each political subdivision to decide to give that money away.

Representative Hogan: Is the 4.5% a total taxable valuation or is it of property?

Dustin Gawrylow, Lobbyist for North Dakota Watchdog Network: The 4.5% was rough and that was based on all taxable value. This number varies, Fargo is seven percent.

Representative Hogan: Do you think that if we had this option each of the local political subdivisions would need to establish and train someone on their staff on how to evaluate? Would we have a duplication of service? Could it be enough of an administrative cost for school boards and counties that they would have to set up an infrastructure? If we move instead to a joint powers agreement, it might be more cost effective.

Dustin Gawrylow, Lobbyist for North Dakota Watchdog Network: I think a joint approach to evaluation would be appropriate. The committees and the boards as a whole need to make the final decision as to whether or not they agree with those recommendations.

Representative Trottier: Can you see this as a separate issue for each application for an abatement or would it be a general policy for a city or county?

Dustin Gawrylow, Lobbyist for North Dakota Watchdog Network: We already have a process for abatements. I would not intend this to relate to abatements of individual property when it comes to evaluation. This talks about exempting property in a way that is separate from the abatement process.

Representative Hatlestad: In your scenario the school districts could effectively kill every project brought before the city?

Dustin Gawrylow, Lobbyist for North Dakota Watchdog Network: If a project is going to die because they are not getting a tax exemption then it probably doesn't make economic sense in the first place.

Representative B. Koppelman: As you read the bill do you read it as being intended that if a city deems a project appropriate but the county and the school does not, the city would still have the authority to exempt their portion?

Dustin Gawrylow, Lobbyist for North Dakota Watchdog Network: Yes. I want to give every entity the ability to control their own revenue and their own tax base.

Chairman Headland: Is there further testimony in support? We will take opposition.

Blake Crosby, Executive Director of the North Dakota League of Cities: Distributed testimony. See attachment #3. Ended testimony at 35:00. Also distributed written testimony from John Dorso, Majority Leader for North Dakota House of Representative 1984-2000. See attachment #4. Referred our attention to paragraph two of this testimony and on page two paragraph nine and last paragraph. Ended testimony at 38:15. Based on some of the comments you heard this morning, the other political subdivisions do have a say. If they didn't have a say we wouldn't be here talking about it. The conflict between the city of Bismarck and Burleigh County wouldn't have come up. Putting it in statutory language as Representative Kading does, I don't believe that is a good idea. There are a lot of pieces attached to this bill; it's not a short bill. My read says somewhat different than what he may have intended to put in the bill. There are a lot of sections of code that this is going to affect. We need to be very careful. When the previous testifier stated that Bismarck is 4.5% and Fargo is 7%, that was not the question to ask instead you should ask what would they be paying had they not had the ability to access renaissance zones who over a period of time can show a 200-300% increase in property valuation which holds everybody else's taxes down. Let's try not to mix apples and oranges here. It is a return on investment pure and simple. I would urge a do not pass on HB 1326.

Chairman Headland: Does anyone have any questions?

Representative B. Koppelman: You said, "One political subdivision should not have control over the other; it's a recipe for disaster." You were referring to the veto power you believe this bill does, correct?

Blake Crosby, Executive Director of the North Dakota League of Cities: That is correct.

Representative B. Koppelman: Do you believe that if the bill was corrected to meet the intent of the author that it is a workable solution and fits in to the context of your comment?

Blake Crosby, Executive Director of the North Dakota League of Cities: Everybody is on an equal playing field. One political sub should not be able to kill the project for everybody else. I firmly believe that school districts, park districts, and counties have the expertise to be able to run the numbers. They can take what tax valuation they have now for that period of time for the renaissance zone or they can say no that they will participate and look at return

on investment at the end. They do not get to have their cake and eat it too. They don't get the increase in valuation as the renaissance zone valuation increases.

Representative B. Koppelman: With renaissance zone many times cities have the most to gain and the most to lose. Even if a school district bowed out I don't know that I would agree with you in that the whole thing collapses. I think the city could still use their abilities to encourage development in a way that would help their infrastructure from deteriorating.

Blake Crosby, Executive Director of the North Dakota League of Cities: I don't disagree with what you said but that is not the way the process works. The process works by saying it's a one and done. The Department of Commerce says you need letters of support for all the other affected entities which are typically counties and school districts. If one of those entities says no, then that was it.

Representative Olson: Why do you think it is not advisable to give real authority to a county or a school? I think it would open up the debate and allow for the certainty that everyone's interests have been represented.

Blake Crosby, Executive Director of the North Dakota League of Cities: There's a difference between input and veto. I believe you are misconstruing my comments. I believe it is a good political process for the affected parties to all be at the table but that isn't the process that is currently in place nor is it how I read the process in this bill. I'm not advocating that the cities say take it or leave it. I'm also not advocating that any of the other affected political subs get a change to say that if they don't like something then it's out.

Representative Olson: I understand that may not have been the intent in the beginning. That shouldn't stop us from having the conversation.

Blake Crosby, Executive Director of the North Dakota League of Cities: I didn't intend for you to stop the conversation. Things change. If we're going to tweak something, then let's do it prudently and effectively.

Representative Toman: Can you point me to the section of the bill where one municipality has veto authority over another municipality?

Blake Crosby, Executive Director of the North Dakota League of Cities: Please go to page seven section four and page eight it says "must receive a letter of support." I agree with the general concept but this bill affects a lot of different sections of code and concepts.

Representative Trottier: If you were given the option of taking out the veto power and let the entities opt in or out would you still be against it?

Blake Crosby, Executive Director of the North Dakota League of Cities: For the sections in dealing with renaissance zones then no but for TIFs I'm not sure you can throw them into that same pool. Initially my answer would be no but there is other tax incentive language in this that we have to give careful consideration to before I would uniformly agree to say yes to everything.

Chairman Headland: Is there further opposition?

Jim Neubauer, City Administrator for City of Mandan: Distributed testimony in opposition. See attachment #5. Ended testimony at 1:03:43.

Representative Toman: Are there TIF districts in Mandan?

Jim Neubauer, City Administrator for City of Mandan: We have a couple TIF districts that we have used. There are two different methods; one is to continue to tax that entity and in turn take that money you collect and pay off and there's an alternative method where you grant a property tax exemption.

Representative Toman: If a school board or county disagrees with the TIF district what would happen to that TIF district? Would it be abandoned or would you exempt the city's portion of property tax?

Jim Neubauer, City Administrator for City of Mandan: We haven't had the situation occur where one of the entities wanted to collect their share of that value. We would entertain and have those negotiations with that entity.

Chairman Headland: Is there further opposition? Does the committee have any questions for tax?

Additional testimony submitted without being present at the hearing. See attachments #6-9.

2017 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1326
2/7/2017
28012

- Subcommittee
 Conference Committee

Committee Clerk Signature

Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to approval from impacted municipalities for the grant of local property tax incentives.

Minutes:

No attachments

Vice Chairman Dockter: We were looking for a possible do not pass. We were waiting for Representative Kading to see if he had any amendments but we haven't received anything.

Representative B. Koppelman: I also reached out to Representative Kading. This creates a veto power for a school district if they don't want their mills or levy to be included in a renaissance zone, a TIF, or something like that. It says they can veto the project but that's not what Representative Kading intended. I believe there would have to be an amendment in each section of the bill. **MADE A MOTION FOR A DO NOT PASS.**

Representative Mitskog: SECONDED

Vice Chairman Dockter: Further discussion?

Representative Ertelt: Could you point out where that veto power is mentioned?

Vice Chairman Dockter: On page 7 line 17 and on page 8 starting with line 13.

Representative Steiner: Could we turn the hog house into a possible study? There was some concern over the stacking. Do you want to turn it into a study on property tax incentives and how they interact with each other? There are some good concepts on that.

Vice Chairman Dockter: There is a bill in the senate that is addressing the stacking. Senator Cook has sponsored a bill to make sure that doesn't happen in the future. We have two more sessions to look at the incentives.

Representative Ertelt: I would think that lines 17-18 on page 7, that in order to give the bill the intent of the author who sponsored it, you would have to add at the end of the sentence, "in order to exempt those counties or school districts from their property tax." As a general

statement and not just this committee, it seems as though there is more work that could be done at the committee level to make bills palatable but that isn't taking place. I think that's our job here instead of just canning the bill because there's a couple provisions that were not agreeing with.

Vice Chairman Dockter: There's a fine line. We've had this bill in committee for some time now. We reached out to the bill sponsor. We have to move things along since we only have 80 days. Chairman Headland has always asked for amendments and we've been waiting on renaissance zones in other bills but no one has come forward to make this more palatable. We are close to crossover and these are the decisions we have to make.

Representative Olson: We've been very forgiving as a committee compared to other committees. It's not the job of the committee to fix bills especially very complex ones which take a lot of work. It really comes on the bill sponsor; it's their responsibility to bring us whatever they can. I'm also on this bill and it's too bad this bill isn't working out though.

Vice Chairman Dockter: I'm on the bill also. A lot of legislators bring ideas to get us thinking. A lot of them really don't have any ideas on how to change it so they might let the idea go and make the tweaks for next session. When I was a lobbyist, I always told our clients it takes three sessions to get the legislation you originally want. That's just the process we go through.

Representative Ben Koppelman: Often times you want to pick a co-sponsor who is on that committee who is committed to taking that task on. When you look at angel funds you see how many drafts that took. There is a lot of work to do on these bills. I don't know that this bill's primary sponsor has asked someone and cemented the amount of help it would take to make this work.

Vice Chairman Dockter: Is there anything further?

ROLL CALL VOTE: 10 YES 3 NO 1 ABSENT

MOTION CARRIED

Representative Schobinger will carry this bill.

Date: 2-7-17
 Roll Call Vote #: 1

**2017 HOUSE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. 1326**

House Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
 Other Actions: Reconsider _____

Motion Made By Rep. Koppelman Seconded By Rep. Mitskog

| Representatives | Yes | No | Representatives | Yes | No |
|---------------------------|-----|----|------------------------|-----|----|
| Chairman Headland | AB | | Representative Hogan | ✓ | |
| Vice Chairman Dockter | ✓ | | Representative Mitskog | ✓ | |
| Representative Ertelt | | J | | | |
| Representative Grueneich | ✓ | | | | |
| Representative Hatlestad | ✓ | | | | |
| Representative Howe | ✓ | | | | |
| Representative Koppelman | ✓ | | | | |
| Representative Olson | ✓ | | | | |
| Representative Schobinger | ✓ | | | | |
| Representative Steiner | ✓ | | | | |
| Representative Toman | | ✓ | | | |
| Representative Trottier | | ✓ | | | |
| | | | | | |
| | | | | | |

Total (Yes) 10 No 3

Absent 1

Floor Assignment Rep. Schobinger

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

REPORT OF STANDING COMMITTEE

HB 1326: Finance and Taxation Committee (Rep. Headland, Chairman) recommends **DO NOT PASS** (10 YEAS, 3 NAYS, 1 ABSENT AND NOT VOTING). HB 1326 was placed on the Eleventh order on the calendar.

2017 TESTIMONY

HB 1326

Representative Tom Kading
District 45
1/25/17

#1 p. 1
1-25-17
HB 1326

House Standing Committee on Finance and Taxation - Fort Totten Room

Chairman Headland and members of the committee. For the record I am Representative Tom Kading from district 45 in north Fargo. I bring to you today house bill 1326 which is in regards to property tax incentives offered at the local level. The intent of this bill is to ensure the residents in North Dakota are not taxed without proper representation by officials or measures for which they had the chance to vote.

The way I like to refer to it is there should not be "taxation without representation" in North Dakota.

Even though this bill has 14 pages, it is actually a pretty simple bill. I am sure this committee has had the opportunity to hear a variety of bills relating to property tax incentives so I am assuming you are familiar. There are a variety of methods used to give out property tax incentives and I won't go into the details of how they work in my testimony.

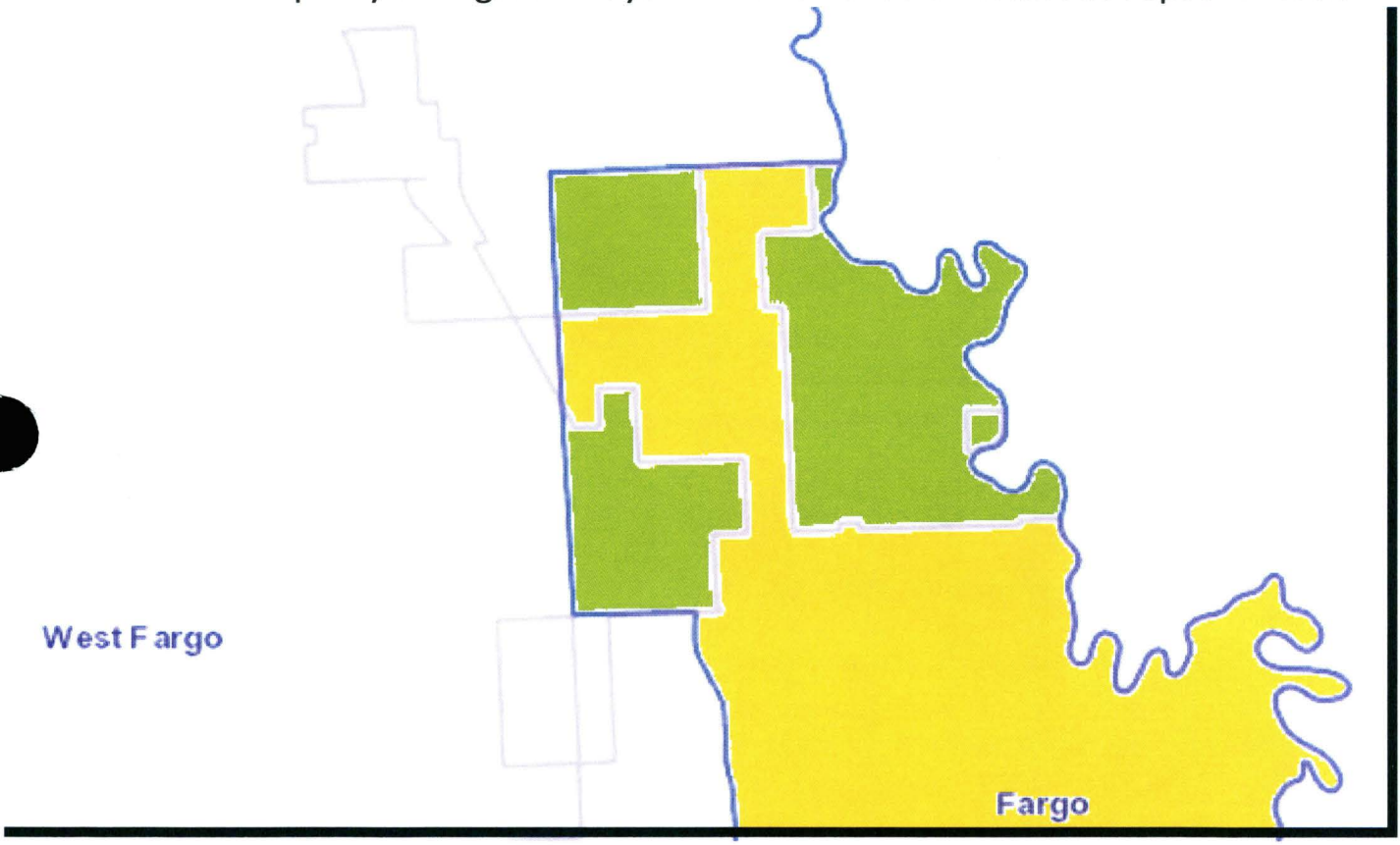
This bill requires local authorities to follow these simple rules when offering any type of incentive:

- Opt in via a letter of support for
 - Schools
 - Cities
 - Counties
 - I picked these three as they are generally the largest three taxing districts.
- Opt out possible for any other taxing authority in the event such authority disagrees with the incentive. Such opt out action would require a letter requesting to not participate in the incentive at the time of incentive creation.

Next, I want to explain a common situation regarding people affected by this bill.

#1 p.2
1-25-17
HB 1326

- Not all property taxing authorities have the same geographic lines
- When a city offers an incentive that "gives" away taxes from the School District, it doesn't just affect the voters of the city, it affects all the residents of the school district area as well.
- The attached map shows:
 - Orange: Area in the City of Fargo boundaries and in the Fargo Public Schools
 - Green: Not in Fargo but in the Fargo Public Schools
- I live in Green area, along with many other residents. We do not have the opportunity to vote for Fargo Commissioners but we are effected by School District Property tax "give aways." This is Taxation without representation.



For this committees help the following items are described in the bill:

- Page 1 defines the authorities required for the Opt in
- Page 6 defines the right to Opt out by other authorities
- Payment in Lieu of Taxes is addressed on Page 5

#1 p. 3
1-25-17
HB 1326

- Tax Increment Financing is noted on Page 7 along with Opt in and Opt out clauses.

In summary this bill is not in any way a bill which attempts to discourage or encourage property tax incentives. It rather attempts to ensure all residents are treated fairly and given the proper representation in regards to the taxes they are required to pay.

Thank you and I will try to answer any questions.

#2
1-25-17
HB 1326

HB 1326 – Testimony by Dustin Gawrylow (Lobbyist #215) North Dakota Watchdog Network

Local Government Empowerment Act

Basic Premise:

Every political subdivision shall have an affirmative control over its own tax-base and its own tax revenue. No political subdivisions shall dictate to other political subdivision(s) without the expressed consent of each governing body.

Bill's Function:

1. Removes the unilateral power cities hold to exempt property from taxation without the approval of other political subdivisions.
2. Requires school districts and counties to vote in favor of exempting property for tax purposes whenever incentives or exemptions lead to a loss of tax revenue.
3. Applies to ad hoc exemptions, Tax Increment Financing, Renaissance Zone, or any other non-mandated power granted by the state to exempt property. Current or future.

Reasoning:

If a tax exemption is good for all taxpayers and for all levels of government, the advocates of such exemptions should have no problem convincing individual governing bodies to approve it.

January 24, 2017
House Finance and Taxation
HB 1326
Rep. Headland, Chair

#3
1-25-17
HB 1326

For the record, I am Blake Crosby, Executive Director of the North Dakota League of Cities, representing the 357 incorporated cities across the state. Approximately 77% of the population of North Dakota lives in those cities.

I am here in opposition to HB 1326. Renaissance Zones are an economic development tool that clearly demonstrates an impressive ROI. If they did not work why do we have 58 cities participating in Renaissance Zones with 1,533 projects approved and 1,175 projects completed? We all are about making sure the tax payer receives their monies worth by creating a safe and vibrant city core and enriched quality of life. Renaissance Zones assist in achieving that goal by relieving local property tax pressure through increased property valuation.

This bill puts into statutory language the absolute veto authority of one political subdivision over all the other subdivisions. That is a recipe for unending disaster. I have spoken to some of your legislative colleagues who were co-sponsors of the bill and they tell me that veto power was not the intent. I also went back and pulled the Hearing File on HB 1492 from 1999. Nowhere was there a discussion of counties, school districts or park districts given the authority of an absolute veto. Unfortunately, language gets inserted by one entity and the intent gets re-interpreted by the agency responsible for implementing the program and the two do not always match and things start to fall apart.

I also have handed out the op-ed that former Senator Grindberg sent to the Committee Chair after the hearing on HB 1182 and would like to highlight just a couple of sentences from former House Majority Leader John Dorso.

I urge a DO NOT PASS on HB 1326.

THANK YOU FOR YOUR TIME AND CONSIDERATION. I will try to answer any questions but there are experts in the audience you may wish to refer to.

#4 p. 1
1-25-17
HB 1326

May 30, 2016

Letter to Editor

John Dorso, Venice, FL

Majority Leader, ND House of Representatives, 1984-2000

I was recently directed to a link where Fargo city commissioner Tony Gehrig discussed renaissance zones where he described his position regarding the Block 9 project and the incentives the city approved on May 23, 2016. Since I was the prime author of the 1999 Renaissance legislation, I thought I would offer my perspectives, now that sixteen years of progress has occurred under the law.

First, let us set the stage for the reason the RZ legislation was created. Fargo was expanding rapidly outside of its borders as developers purchased undeveloped farm land and sub-divided the property into residential lots. Developer's then would ask to be annexed to add city infrastructure and services with the city bearing the front end burden of bonding the costs. The buyer of a new house would be surprised to learn after a few years their taxes would increase greatly because the cost of specials. If that wasn't a subsidy that only benefited the wealthy developers and home builders I don't know what was.

In the meantime, the inner city was becoming a ghost town. Vacant lots and decrepit buildings lined the city streets with but a few exceptions. As the population moved to suburbia, the merchants were following so as to secure a customer base. Does the creation of West Acres and the surrounding development bring back any memories?

Here we had an inner city with streets, sewers etc. that were being underutilized while the city financed the growth that was killing the inner core.

I was asked to think of a way to reverse that trend which is why the RZ's came to be.

I never took into consideration any other tax incentives the city might have already had on the books. Why would I when it was obvious that those incentives weren't enough to make people want to invest downtown? My main concern was to get investors to believe that investing in the cities core would bring them a financial reward. If they would invest their property would increase in value and the city would get a bump in the increased valuations of the other property in the RZ. That has proven correct as the graph shown during the interview with Mr. Gehrig showed two-thirds of the property in the zones have not received an exemption but the valuations of all the properties has gone from \$170 million to over \$700 million within the renaissance zone. Understand that not every property in the zone gets a property tax exemption. Simple math would make it clear the RZ's have contributed a great deal of tax revenue to the City of Fargo without the need to incur debt to finance the growth in the suburbs.

I have some reservation about amendments to the original 1999 legislation. I believed a city should never expand a zone. As city blocks were completed, the zone should be changed while deleting some of the original blocks. It is only by keeping the availability of the tax incentives to a smaller geography that you get competition for the available property driving up the valuations. Why is lake shore property expensive? There isn't enough to satisfy the demand. By limiting the scope of the zone I hoped the underutilized land within the zone would fill in.

Another issue the city faced in downtown Fargo was a lack of parking. To some extent that was alleviated as old buildings were torn down. The vacant lots yielded parking but very little in the way of taxable

4 p. 2
1-25-17
HB 132L

valuation. Fargo has struggled with the issue for decades. As the RZ's began to fill in the parking spaces were disappearing. The loss of space coupled to the increased demand caused by more economic activity was sure to become an issue. Multiple story parking is very expensive and would have required the city to take on a great deal of debt to finance it on its own. A public-private solution to the problem was called for. If the package contained in Block 9 isn't the answer it at least is movement in the right direction.

I have read where some wonder why wealthy people are getting incentives to develop downtown. The same question was asked by opponents to the legislation years ago. My simple answer was "if we don't find investors with huge financial resources who will take on the challenge?"

From everything I hear the RZ's have been successful all across North Dakota. Some cities have chosen to add incentives to further their objectives. Are those additions critical? Only the elected officials and subsequently the taxpayers can judge.

In the meantime, I wish that the debate about the RZ's was based on facts. Taking a snapshot in time of the tax incentives rather than seeing the total effect over time is short sighted and deceiving. The legislation was meant to continue in place for decades so that a city didn't decay from the core.

#5 p. 1
1-25-17
HB 1326



CITY OF MANDAN

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| BUSINESS DEVELOPMENT | 667-3485 |
| CEMETERY | 667-6044 |
| ENGINEER/PLANNING & ZONING | 667-3225 |
| FINANCE | 667-3213 |
| FIRE | 667-3288 |
| HUMAN RESOURCES | 667-3217 |
| LANDFILL | 667-0184 |
| MUNICIPAL COURT | 667-3270 |
| POLICE | 667-3455 |
| PUBLIC WORKS | 667-3240 |
| WASTEWATER TREATMENT | 667-3278 |
| SPECIAL ASSESSMENTS | 667-3271 |
| UTILITY BILLING | 667-3219 |
| WATER TREATMENT | 667-3275 |

**Testimony for the House Finance and Taxation Committee
 HB1326— A Bill Related to Various Local Property Tax Incentives
 For the City of Mandan
 By Jim Neubauer, City Administrator
 January 25, 2017**

Chairman Headland and members of the committee, please accept this testimony in opposition to House Bill 1326 on behalf of the City of Mandan.

The proposed legislation would have the overall effect of making it much more difficult for a community, county or region to offer a property tax exemption for purposes of economic development or community revitalization. It would also present significantly more hurdles to a new or expanding business or to an existing or prospective home owner seeking to invest in a new development, construction, expansion or remodel project that might otherwise be eligible for some level of local property tax exemption.

The types of property tax exemption tools that this bill would impact include, but may not be limited to the new and expanding business exemption for primary sector businesses, payments in lieu of taxes, tax increment financing, the Renaissance Zone program, and remodeling exemptions for commercial and residential properties.

The bill is far reaching and attempts to fix that which is not broken with an arduous and time-consuming process for verifying support for property tax exemption decisions from the city, county, school district and sometimes park district and perhaps even water resource districts as well. This process of requiring letters of support or opposition to development areas, buildings or projects also appears inconsistent between and among the types of tools.

Current law already requires that a representative appointed by the board of each affected school district and of each affected township is included as a non-voting member during the negotiation and deliberation of granting tax incentives for new and expanding businesses. It also requires evidence of community support for the establishment of a Renaissance Zone as well as the change in boundaries for such or a timeline extension.

(more)

HB1326 — Testimony for House Finance and Taxation Committee
City of Mandan
January 25, 2017

#5 p. 2
1-25-17
HB 1326

HB1326 is impractical and will make any continued use of property tax exemption tools much more difficult, adding at least one month to the process and hours, if not days, to the coordination process.

We ask you to oppose HB1326 to leave the various local property tax exemption tools intact to help further leverage economic development and diversification as well as community revitalization in our state. Thank you for your consideration. I would be happy to answer any questions you might have or to supply additional information. I can be reached at 701-667-3215 or by e-mail at jneubauer@cityofmandan.com.

6 p.1
1-25-17
HB 1326



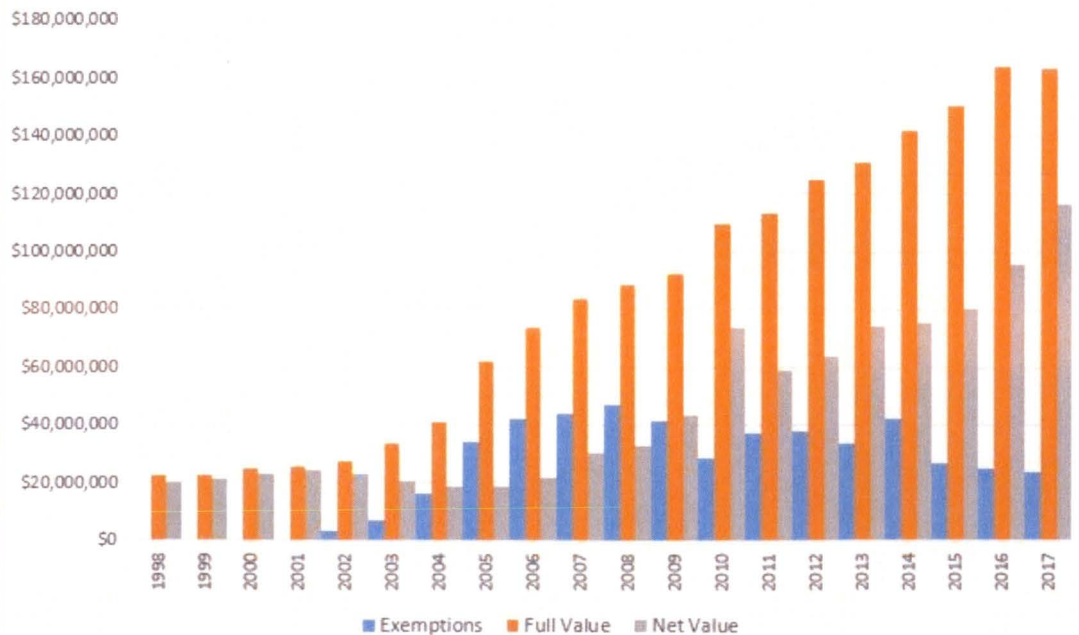
Summary Highlights

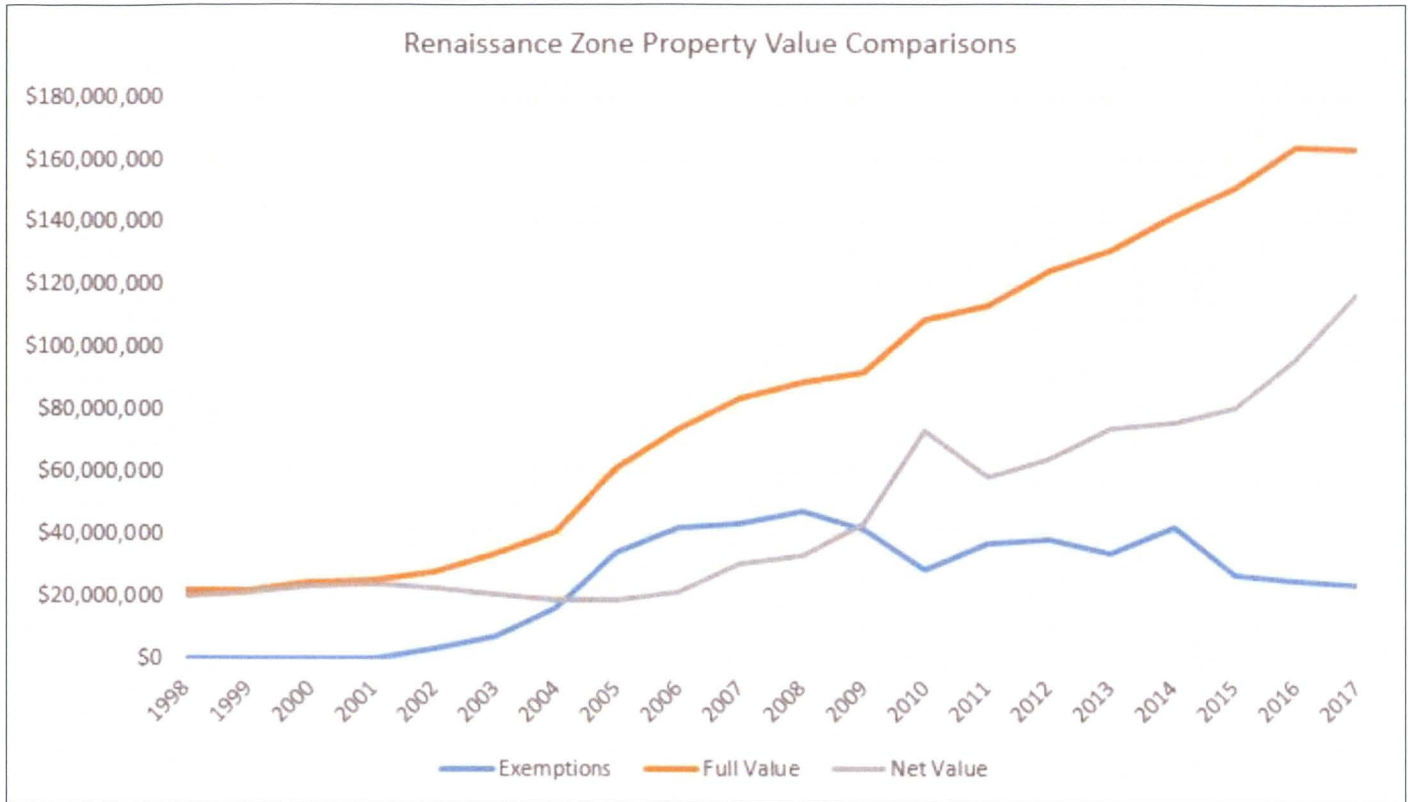
| Total RZ Properties | Total RZ Properties with Completed Exemptions | Ongoing RZ Exemption Properties |
|---------------------|---|---------------------------------|
| 176 | 146 | 30 |

| Full Value | | | |
|------------------|--------------------------------------|-----------------|----------|
| Total Properties | Full Value-1 Year Prior to Exemption | Full Value-2017 | % Change |
| 146 | \$50,159,900 | \$163,222,100 | 225% |

| Net Value | | | |
|------------------|-------------------------------------|----------------|----------|
| Total Properties | Net Value-1 Year Prior to Exemption | Net Value-2017 | % Change |
| 146 | \$44,094,500 | \$116,694,100 | 165% |

Renaissance Zone Property Value Comparisons





Ongoing Renaissance Zone Projects

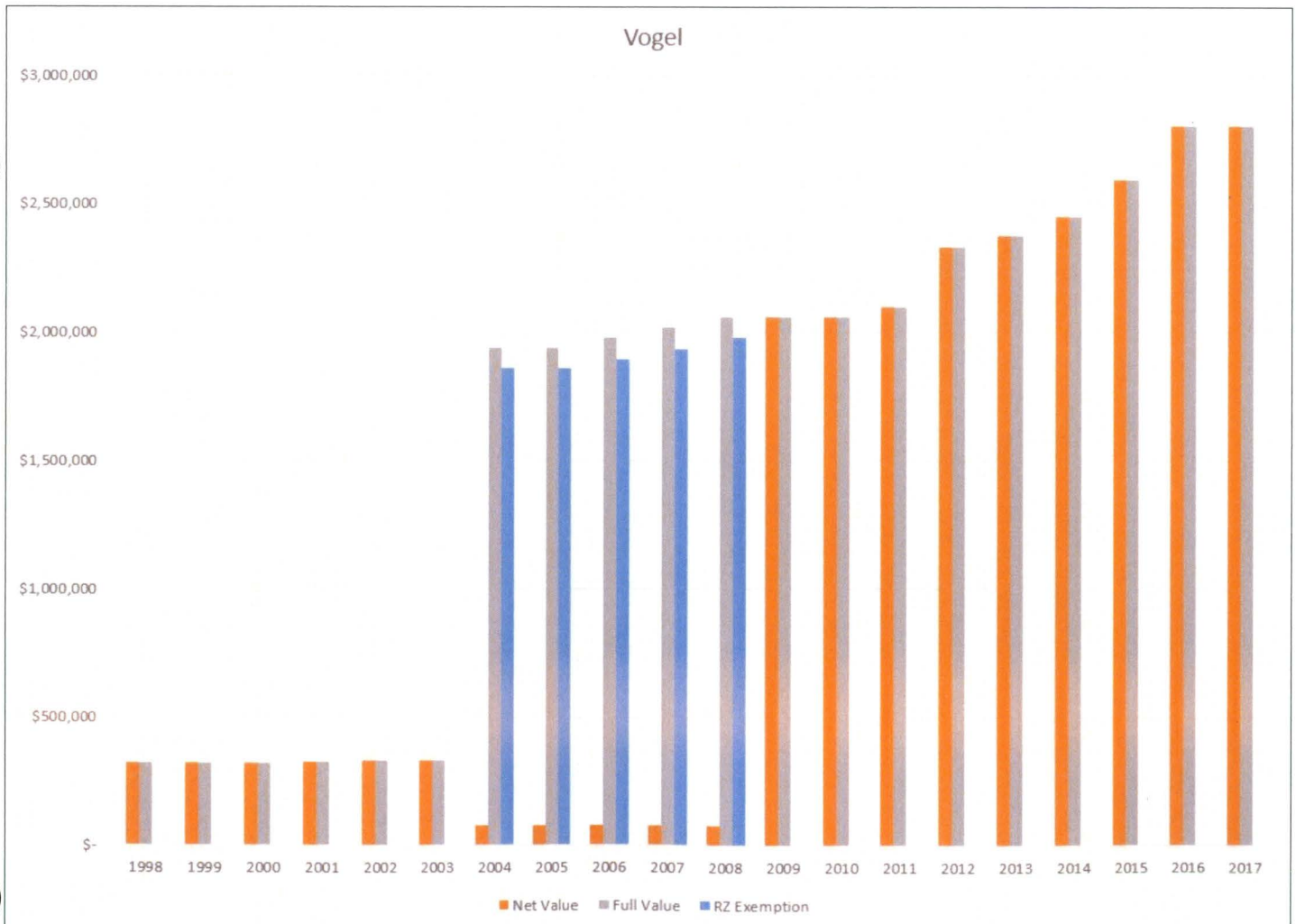
| Ongoing Renaissance Zone Property Values | | | | |
|--|-----------------|--|---------------------|---------------------|
| Exemption Start Year | # of Properties | Full Value of Property 1 Year Before Exemption | 2017 Full Value | Difference |
| 2011 | 18 | \$3,685,500 | \$8,297,400 | \$4,611,900 |
| 2013 | 3 | \$1,099,800 | \$2,079,200 | \$979,400 |
| 2014 | 4 | \$4,639,500 | \$9,667,400 | \$5,027,900 |
| 2015 | 2 | \$4,222,300 | \$6,675,500 | \$2,453,200 |
| 2016 | 3 | \$929,200 | \$2,859,700 | \$1,930,500 |
| Total | 30 | \$14,576,300 | \$29,579,200 | \$15,002,900 |



Before

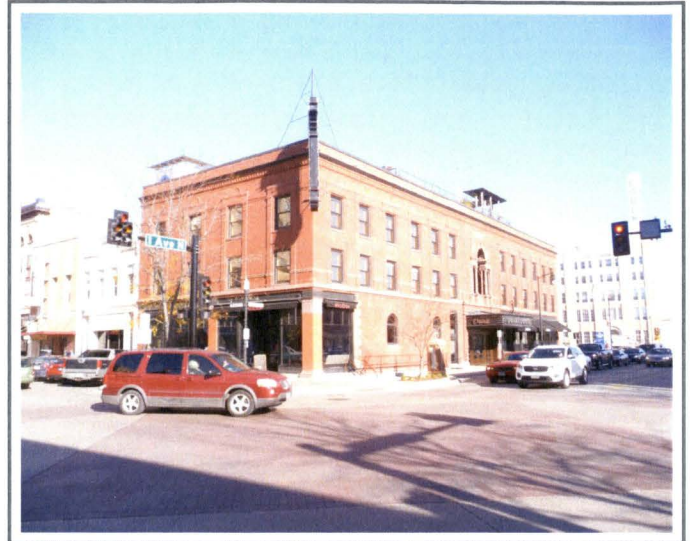


After

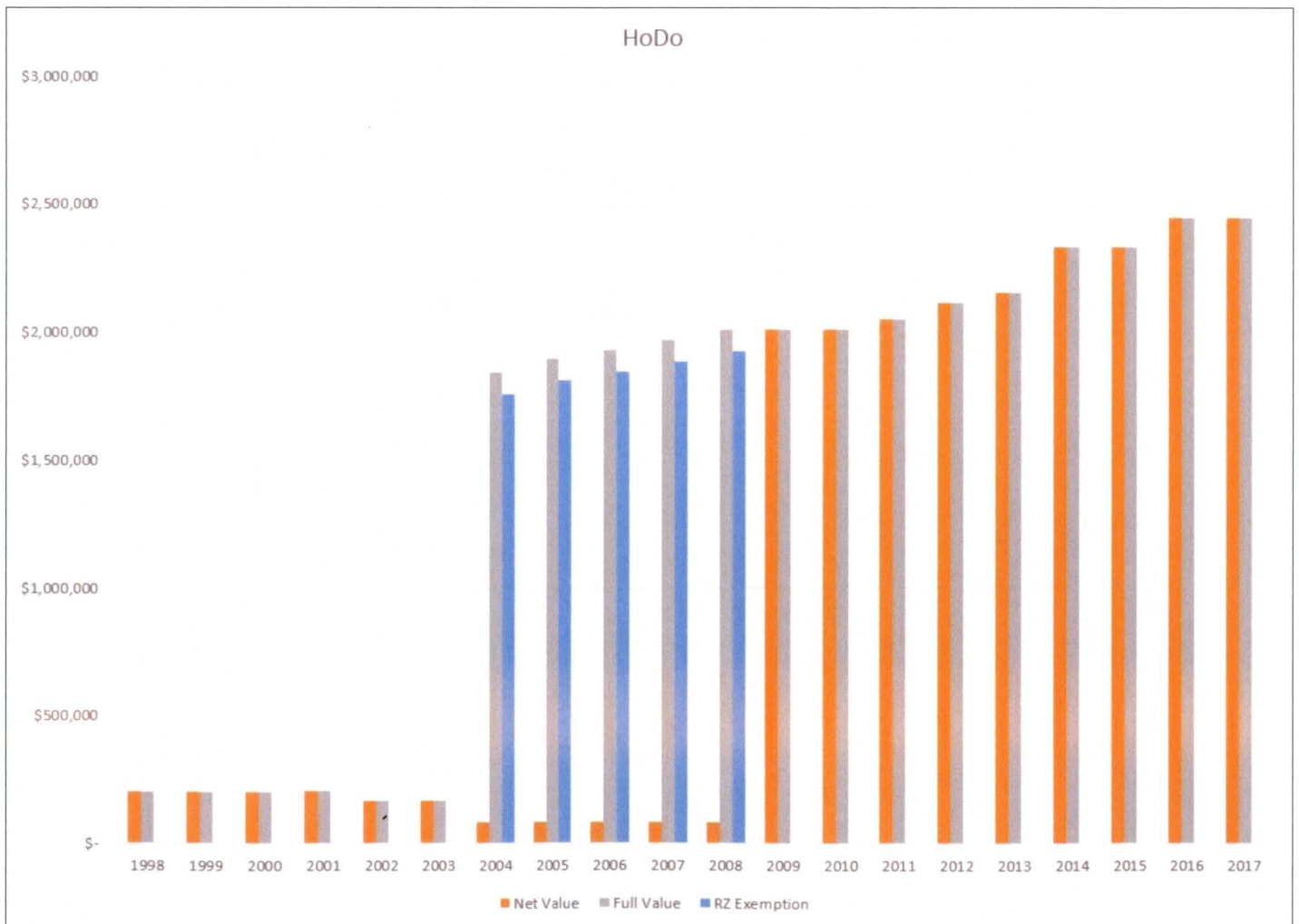




Before



After



#7
1-25-17
HB 1326

Testimony Presented on House Bill 1326 to the

House Finance and Taxation Committee

Representative Craig Headland, Chair

for the City of Fargo

by Jim Gilmour, Planning Director

January 25, 2017

Mr. Chairman and Members of the Committee:

The City of Fargo has been supportive of the incentive programs that would be changed by HB 1326. These programs include the property tax exemptions for new and expanding businesses, tax increment financing that encourages redevelopment, the Renaissance Zone program that encourages downtown development, and the property tax exemption that encourages the construction of new single family homes.

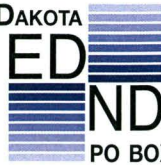
HB 1326 would requires cities considering property tax exemptions to obtain support from the County, School District, and in some cases other taxing districts prior to considering incentives.

The City of Fargo has established policies for all of these redevelopment programs. The programs are then used the programs to create new primary sector jobs, redevelop blighted areas, improve and increase the property tax base of the downtown, and encourage the construction of new housing. These programs expand the local tax base by providing an incentives to development that would not occur without these programs.

HB 1326 would make these redevelopment programs much less effective.

- Applicants for programs would have seek approval of the City, the County, the School District, and in some cases other taxing districts. This increases the time for review. Primary sector business considering locations in several states would find the Fargo approval process very lengthy, and be less likely to consider ND locations.
- The approval process would be much more unpredictable. Fargo has established policies on what is required for incentives. Investors are more comfortable purchasing property when predictable policies for incentives are in place. Requiring approval from multiple local governments, each with different priorities, will discourage the developers from working on public-private partnerships with the City of Fargo.
- Incentives for new housing will be more attractive in Moorhead and other Minnesota communities than ND. A homeowner considering construction of a new home in ND would have to individually apply with three governments. In Moorhead, a more valuable incentive could be approved by just the City.

State Law already requires the City of Fargo to consult with other Cass County and the school districts on Tax Increment Financing and new business exemptions. In addition, these programs require public hearings that allow residents to comment on both program policies and incentive applications.



**Testimony of Connie Ova, Vice President
Jamestown/Stutsman County Development Corporation
In Opposition of HB 1326
January 25, 2017**

Chairman Headland and members of the House Finance and Taxation Committee. I'm Connie Ova, vice president of the Jamestown/Stutsman County Development Corporation and president of the Economic Development Association of North Dakota. On behalf of EDND, I stand before you in opposition to HB 1326, which creates an option for political subdivisions to "opt out" of renaissance zones and tax increment finance districts and shortens renaissance zone approval for cities to five years.

EDND represents more than 80 state economic development organizations on the front line of economic development efforts throughout North Dakota with a primary purpose to support the creation of new wealth and diversification of North Dakota's economy.

The language in this bill allows political subdivisions to not support projects that benefit the whole community. Developers strive to work with all community partners to demonstrate why adding new or expanding businesses will benefit the future of the community and long-term tax revenues. Our concern is exclusion from the project will dilute the tax benefits, which may have a negative impact on potential investment in a community and long-term revenue to the taxing entities.

EDND also objects to the decrease of renaissance zone timeframe to five years. Viable businesses often take multiple years for project development, financing and construction. The limited timeframe will create uncertainty for businesses considering a future project. With success, momentum in redevelopment grows. Considerable time and effort goes into the creation and establishment of renewal plans, renaissance zone development plans and related approvals. A five-year window may cause projects with long development timelines to forgo consideration of investment because there is no certainty there will be renewal of the program.

In the renaissance zone program, the business itself is only eligible for benefits for five years while the community is currently permitted a 15-year timeframe with an option for a five-year extension. Allowing counties and school districts to decide every five years whether to opt out makes the program less stable and affects business recruitment.

#8 p. 2
1-25-17
HB 1326

These programs work for both small rural communities and larger urban areas. Development and rejuvenation is happening not only in major cities, but in communities like Velva, Carrington, Wishek, and Westhope. These incentives encourage business owners to make significant investments that last beyond the owner's tax benefits. In addition, the revenue to the taxing entities created by these investments far outlives any short-term benefits provided by the program.

Thank you for your time and I am happy to answer any questions regarding this bill.

#9
F25-17
HB 1326

January 23, 2017

Honorable Craig Headlund
State Representative
600 East Boulevard Ave
Bismarck, ND 58505

RE: HB 1326

Dear Representative Headlund:

This letter is in regards to HB 1326, a bill enacting approval from impacted municipalities for the granting of local property tax incentives. In a small community, the cost of constructing a new building/house or renovating of existing commercial building far exceeds the potential sale value or assessed value of the new or renovated building. For a small community to approve a tax incentive whether it is renaissance zone or a 2 year exemption for a new house is vital in closing the gap between construction costs and market values. To date the City of Grafton has used the Renaissance Zone Program 15 times. The Market Value of those projects before the improvements was \$1,645,100, the total amount invested into the 15 properties was \$1,100,000. The total market value after the improvements were made was \$2,251,400, an increase of 37% from original value.

The Renaissance Zone program has been very successful in Grafton, and we believe that the system that is in place gives the governing agency enough flexibility to continue to grow and do what is best for their community.

If you have any further questions please feel free to contact me at 701-352-1561. I can also be reached by e-mail at mayor@graftongov.com.

Sincerely,

Chris West
Mayor