

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1246

2001 HOUSE FINANCE AND TAXATION

HB 1246

2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1246

House Finance and Taxation Committee

☐ Conference Committee

Hearing Date February 5, 2001

Tape Number	Side A	Side B	Meter #
1		X	3,637
Committee Clerk Signature <i>Janice Stein</i>			

Minutes:

REP. AL CARLSON, CHAIRMAN, Opened the hearing and read the fiscal note.

REP. ARLO SCHMIDT, DIST. 12, Introduced the bill as the prime sponsor. See attached written testimony.

DUANE ERICKSON, CHAIRMAN OF THE COUNTY COMMISSIONERS, Testified in support of the bill. Submitted a handout prepared by Elder Dougherty who was unable to attend the hearing. See attached handout.

REP. CARLSON As a county commissioner, you could have lowered your mill levy, did you do that?

DUANE ERICKSON, No, we raised them because we have one hundred miles of pavement, we have one hundred twenty thousand to keep and repair that, we have twenty miles that are good and eighty miles that are bad, we have used up all of our money we get from DOT until 2004, because we have patched roads that were under water.

Page 2

House Finance and Taxation Committee

Bill/Resolution Number HB 1246

Hearing Date February 5, 2001

REP. CARLSON You used up your share of the gas tax which comes to the county?

DUANE ERICKSON No, the amount that comes under the ICET program under the federal government.

REP. CARLSON Would you agree that it is a function of the county government, no matter what the evaluation is, to deal with the mill levies and services for the people in the county?

DUANE ERICKSON Yes

REP. SCHMIDT Reminded the committee that in 1999, this committee did that very thing. We put the cost production in this formula, they are using that. He read a letter from Barry Hasti directed to the Division of Tax Equalization, regarding the capitalization rate.

CHUCK KRUEGER, STATE SUPERVISOR OF ASSESSMENTS IN THE OFFICE OF THE STATE TAX COMMISSIONER, Appeared to answer questions the committee might have.

REP. CARLSON What happens when you lock a rate in here, 9.5% and may not be more than 10.5%, what does that do to the entire picture, and have we in the past, locked a rate in there like that?

CHUCK KRUEGER Submitted a handout regarding the capitalization rate since 1987, this showed the ag valuation history of cap rates from 1987 through 2000. See attached copy.

ARVID WINKLER, FARMER AND TOWNSHIP ASSESSOR IN BARNES COUNTY, Testified in opposition of the bill. See attached written testimony. Also suggested that the effective date should be changed to 2001.

LEON SAMUEL, TAX DIRECTOR OF MORTON COUNTY, Testified to clarify some things. I heard that ag values went up and so our taxes went up. If you are totally agricultural in

Page 3

House Finance and Taxation Committee

Bill/Resolution Number HB 1246

Hearing Date February 5, 2001

a county, and last year your budget was one million dollars, and you had an agricultural value of X amount of dollars, and the state said you needed the increase by ten percent, so you increased your agricultural values by ten percent, the following year, if you had no residential, no growth, you would have to lower your mill reads in order to come up with one million dollars. You are not allowed to take any more dollars, because your agricultural value went up. Just because the valuation went up on agricultural land, doesn't mean taxes will go up.

REP. CARLSON Don't we address that growth rate in every session?

LEON SAMUEL, I think two sessions ago, it was zero growth.

REP. CARLSON Then why is everyone coming in here and saying their land is taxed at a higher value today than yesterday, if what you said is true?

LEON SAMUEL Basically, because the values have gone up and their taxes have gone up because they have allowed new mills from some other source, because of a school district or whatever. Some other taxing district would increase their mills. If the ag value would go down, there would be a shift to commercial and residential, they would pick up the mill and their taxes would go up a little bit.

REP. CARLSON You are saying that the cap only applies to the ag land?

LEON SAMUEL It only applies to the ag land.

REP. RENNER If the county commission is running on this million dollar last year, can they raise that?

LEON SAMUEL My understanding is, if there are new mills that have been allowed you, or you are not at your mill levy limitation, you would have to stay within your budget.

With no further testimony, the hearing was closed.

Page 4
House Finance and Taxation Committee
Bill/Resolution Number HB 1246
Hearing Date February 5, 2001

COMMITTEE ACTION 2-06-01, TAPE #1, SIDE B, METER #5800

REP. SCHMIDT Made a motion to amend the bill by changing the effective date to December 31, 2001, on page 4, line 24. He also wanted to amend the bill by using a 9.25 % interest rate on page 2, line 31.

REP. WINRICH Second the motion. **MOTION CARRIED BY VOICE VOTE.**

REP. GROSZ Made a motion for a **DO NOT PASS AS AMENDED.**

REP. BRANDENBURG Second the motion. **MOTION CARRIED.**

11 YES 3 NO 1 ABSENT

REP. RENNER Was given the floor assignment.

FISCAL NOTE

Requested by Legislative Council
01/15/2001

Bill/Resolution No.: HB 1246

Amendment to:

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

	1999-2001 Biennium		2001-2003 Biennium		2003-2005 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

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

1999-2001 Biennium			2001-2003 Biennium			2003-2005 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. Narrative: *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

HB 1246, if enacted, will establish a limited capitalization rate used for valuation of agricultural property. While HB 1246 could decrease the value of agricultural taxable property of cities, counties, and school districts, it does not require a decrease in property taxes. Any change in property tax revenue will be the result of county, city, or school district decisions as to the level at which government services will be funded, and not as a result of the passage of HB 1246. This bill alone causes no fiscal effect to the counties, cities, or school districts. There will be an indeterminable decrease in the property tax revenue for the one-mill state medical center levy.

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

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

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

C. Appropriations: *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

Name:	Kathryn L. Strombeck	Agency:	Tax Department
Phone Number:	328-3402	Date Prepared:	01/24/2001

Date: 2-6-01
Roll Call Vote #: 1

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1246

House FINANCE & TAXATION Committee

☐ Subcommittee on _____
or
☐ Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Not Pass as Amended

Motion Made By Rep. Grosz Seconded By Rep. Brandenburg

Representatives	Yes	No	Representatives	Yes	No
CARLSON, AL, CHAIRMAN	✓		NICHOLAS, EUGENE	✓	
DROVDAL, DAVID, V-CHAIR	✓		RENNER, DENNIS	✓	
BRANDENBURG, MICHAEL	✓		RENNERFELDT, EARL	✓	
CLARK, BYRON	✓		SCHMIDT, ARLO		✓
GROSZ, MICHAEL	✓		WIKENHEISER, RAY	✓	
HERBEL, GIL	✓		WINRICH, LONNY		✓
KELSH, SCOT		✓			
KROEBER, JOE	✓				
LLOYD, EDWARD	✓				

Total (Yes) 11 No 3

Absent 1

Floor Assignment Rep. Renner

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

REPORT OF STANDING COMMITTEE (410)
February 9, 2001 12:22 p.m.

Module No: HR-24-2862
Carrier: Renner
Insert LC: 10324.0101 Title: .0200

REPORT OF STANDING COMMITTEE

HB 1246: Finance and Taxation Committee (Rep. Carlson, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO NOT PASS** (11 YEAS, 3 NAYS, 1 ABSENT AND NOT VOTING). HB 1246 was placed on the Sixth order on the calendar.

Page 2, line 31, replace "five-tenths" with "twenty-five hundredths"

Page 4, line 24, replace "2000" with "2001"

Renumber accordingly

2001 TESTIMONY

HB 1246

FINANCE AND TAX COMMITTEE
TESTIMONY PREPARED BY REPRESENTATIVE ARLO SCHMIDT
HOUSE BILL 1246

Chairman Carlson, Members of The Finance and Tax Committee, for the record, my name is Arlo Schmidt, State Representative from District 12.

House Bill 1246 is a bill that will keep agriculture land values from going up. This bill is dealing with the number one industry in North Dakota. We all know what has happened to this industry. While the income has declined for this struggling sector of our economy, the value of this land has increased. This bill is not asking for a decrease in these land values, this bill would simply ask that these land values *not* increase. Without this bill, land values **will** increase again next year. We are responsible for the formula used to calculate land values in North Dakota. This formula is good, and was working until the farm crisis hit in 1995. This bill does not change the formula, except the capitalization rate. Testimony will show that without this change, land values will rise.

This committee has done an excellent job over the years, to adjust and give some tax exemptions will help to stimulate the economy. This bill is not asking for any exemptions, or even a decrease, is it only asking *not* to increase. We should ask for no less than this for our number one industry in this state. An industry that contributes more to our general fund revenue than any other, an industry that is suffering and is asking for your help. The agriculture land owners are asking for consideration and passage of House Bill 1246.

I will be open to questions, if you like. We do have people to testify further as to the formula, and I would like to have you hear from them. Thank you for this opportunity to allow me to present this bill to this outstanding committee.

CAPITALIZATION RATE

HB 1246

Duane Erickson

1999	9.18
1998	9.45
1997	9.78
1996	10.14
1995	10.47
1994	10.76
1993	11.11

<u>1996</u>		
1985 -	12.44	Out high
1986 -	12.01	
1987 -	10.85	
1988 -	10.95	
1989 -	11.58	
1990 -	11.25	
1991 -	10.69	
1992 -	8.19	
1993 -	7.38	Out low
1994 -	8.98	
1995 -	8.55	
1996 -	8.36	

Cap Rate 10.14

<u>1997</u>		
1986 -	12.01	Out high
1987 -	10.85	
1988 -	10.95	
1989 -	11.58	
1990 -	11.25	
1991 -	10.69	
1992 -	8.19	
1993 -	7.38	Out low
1994 -	8.98	
1995 -	8.55	
1996 -	8.36	
1997 -	8.40	

Cap Rate 9.78

<u>1998</u>		
1987 -	10.85	
1988 -	10.95	
1989 -	11.58	Out
1990 -	11.25	
1991 -	10.69	
1992 -	8.19	
1993 -	7.38	Out
1994 -	8.98	
1995 -	8.55	
1996 -	8.36	
1997 -	8.40	
1998 -	8.36	

Cap Rate 9.45

<u>1999</u>		
1989 -	10.95	
1990 -	11.58	Out high
1991 -	11.25	
1992 -	10.69	
1993 -	8.19	
1994 -	7.38	Out low
1995 -	8.98	
1996 -	8.55	
1997 -	8.36	
1998 -	8.40	
1999 -	8.10	

Cap Rate 9.18

<u>2000</u>		
1989 -	11.58	Out high
1990 -	11.25	
1991 -	10.69	
1992 -	8.19	
1993 -	7.38	Out low
1994 -	8.98	
1995 -	8.55	
1996 -	8.36	
1997 -	8.40	
1998 -	8.36	
1999 -	8.10	
2000 -	8.20	Estimate

Cap Rate 8.90

<u>2001</u>		
1990 -	11.25	Out
1991 -	10.69	
1992 -	8.19	
1993 -	7.38	Out
1994 -	8.98	
1995 -	8.55	
1996 -	8.36	
1997 -	8.40	
1998 -	8.36	
1999 -	8.10	
2000 -	8.20	Es
2001 -	8.20	"

Cap Rate: 8.60

Foster County Ag land value has been raised 27% since 1992.
2000-2001-2002 Ag land value will be raised another 8 or 9%,
if the Legislature doesn't stop this capitalization rate from
going lower.

Foster County
Annual number of acres:

Calculations for 2001 assessments

Year	Sugarcane & Potatoes	NASS Cropland	Govt Payments	CRP	Reported Cropland	Reported Non-cropland	Reported Total
1990	309,300			24,291	333,591	50,050	383,641
1991	341,400			24,203	365,603	50,050	415,653
1992	322,300			24,288	346,588	50,050	396,638
1993	299,400			24,288	323,688	50,050	373,738
1994	287,300			24,289	311,588	50,050	361,638
1995	264,500			24,288	288,788	50,050	338,838
1996	282,600			24,288	306,888	50,050	356,938
1997	271,000			29,876	300,876	50,050	350,926
1998	270,500			29,876	300,376	50,050	350,426
1999	254,100			29,876	280,976	50,050	334,026
Annual gross returns:							
50% of return on irrigated cropland is included in NASS cropland gross returns:	0	32,023,009	5,395,617	483,645	37,902,271	2,095,715	39,997,986
CRP returns are 50% of payments reported by FSA	0	30,972,703	4,968,471	481,889	38,423,063	2,072,418	38,495,481
	742,219	32,777,374	3,325,064	483,516	37,328,173	1,940,805	39,268,978
	0	27,828,875	6,410,733	483,516	34,723,124	2,368,125	36,791,249
	856,733	31,198,701	3,246,436	483,516	35,785,386	1,837,317	37,622,703
	645,975	29,136,191	1,547,977	483,516	31,813,659	1,497,644	33,311,303
	920,025	37,241,502	4,187,974	483,516	42,833,017	1,192,041	44,025,058
	1,032,255	27,214,510	3,229,711	556,142	32,032,618	1,597,094	33,629,712
	1,054,375	29,575,397	8,240,465	556,144	39,426,381	1,643,673	41,070,054
	774,648	20,293,544	8,667,522	543,761	30,279,475	1,817,383	32,096,858
Landowner share of returns							
	22.00%	30.00%	30.00%		29.83%	25.00%	29.60%
Annual landowner share of gross returns							
1990					11,709,233	523,929	12,233,162
1991					11,264,241	518,105	11,782,346
1992					11,462,691	485,201	11,947,892
1993					10,755,398	517,031	11,272,430
1994					10,988,404	459,329	11,447,733
1995					9,817,951	374,411	10,192,372
1996					13,096,364	298,010	13,394,374
1997					9,895,859	399,274	10,295,132
1998					12,111,777	410,918	12,522,695
1999					9,387,010	454,346	9,841,356

Treasurer's office had to collect in 2000

\$4,100,096

Treasurer's office had to collect in 1992

2,773,280

\$1,326,816 Difference

Treasurer's office had to collect for 2000
for Carrington School

\$1,425,043

Treasurer's office had to collect for 1992
for Carrington School

903,943

\$ 521,100 Difference



STATE OF NORTH DAKOTA

OFFICE OF STATE TAX COMMISSIONER

STATE CAPITOL, 600 E. BOULEVARD AVE., DEPT. 127, BISMARCK, NORTH DAKOTA 58505-0599

701-320-2770

FAX 701-320-3700

Hearing/Speech Impaired 800-366-6868 (TTY Relay North Dakota)

<http://www.state.nd.us/taxdpt>

MEMORANDUM

TO: Directors of Tax Equalization

FROM: Barry Hasti, State Supervisor of Assessments

DATE: December 18, 2000

SUBJECT: 2001 Agricultural Land Valuations

Pursuant to North Dakota Century Code § 57-02-27.2, the Tax Commissioner is forwarding the enclosed worksheet provided by the Agricultural Economics Department of North Dakota State University for the 2001 agricultural land valuation for your county. Also enclosed is a copy of the preliminary data for the 1999 crop year and the revised 1998 crop year data.

N.D.S.U. calculated the statewide average values per acre with the following results:

Cropland	\$332.59 per acre
Noncropland	84.31
All agricultural land.....	255.12

The taxable acres of cropland and noncropland were used in the worksheet to calculate the county average agricultural value per acre for those counties that provided the acres. If the county provided no acres, the acres used in the model were used to calculate the countywide average value per acre.

Again for the 2001 agricultural values, N.D.S.U. used average regional prices for commodities rather than a statewide price adjusted for transportation differences as was done prior to 1997.

The 1999 interest rate on mortgage loans was 8.10 percent yielding a capitalization rate for 2001 of 9.18 percent. This lower capitalization rate accounts for 2.94 percentage points of any increase in the agricultural land values.

State of North Dakota
Office of State Tax Commissioner

HB 1246
Chuck Krueger

**Agricultural Land Valuation
History of Capitalization Rates 1987 - 2000**

Mortgage Interest Rate	
year	annual wld rate
1974	7.79%
1975	8.50%
1976	8.50%
1977	8.25%
1978	8.25%
1979	9.02%
1980	10.17%
1981	11.08%
1982	12.50%
1983	11.50%
1984	11.63%
1985	12.44%
1986	12.01%
1987	10.85%
1988	10.95%
1989	11.58%
1990	11.25%
1991	10.69%
1992	8.19%
1993	7.38%
1994	8.98%
1995	8.55%
1996	8.36%
1997	8.27%
1998	8.43%
1999	8.10%

Assessment Year	Capitalization Rate
	10/12 yr avg
1987	9.93%
1988	10.31%
1989	10.54%
1990	10.79%
1991	11.12%
1992	11.35%
1993	11.40%
1994	11.40%
1995	11.11%
1996	10.76%
1997	10.47%
1998	10.14%
1999	9.77%
2000	9.45%
2001	9.18%

My name is Arvid Winkler. I am a farmer and township assessor in Barnes County. I have been the Cuba Township assessor since 1977. I have a bachelor's degree in civil engineering from NDSU.

My first impression of this bill was not good. It strikes me as political meddling in a mathematical concept.

While I do not have particularly strong feelings on HB 1246, I do wish it would not become law in its' current form.

I would support a reduction to the annual gross return by making an allowance for taxes paid as part of the capitalization formula. That would result in lower valuations.

I will be happy to answer any questions the committee may have on this issue.

Arvid Winkler
12217 40 St SE
Valley City, ND 58072-9575
845-0608

Subject: HB 1246 Capitalization Rate

Date: Sun, 04 Feb 2001 17:38:25 -0600

From: Arvid Winkler <awinkler@valleycity.net>

To: "Arlo E. Schmidt" <arschmid@state.nd.us>

CC: Eugene Nicholas <enichola@state.nd.us>, Kenneth Kroeplin <kkroepli@state.nd.us>

Representative Schmidt,
Representative Nicholas,
Senator Kroeplin

In lieu of capping the mortgage rate of interest in HB 1246, have you considered a change at NDCC 57-02-27 Property to be valued at a percentage of assessed value - Classification of Property?

Such a change could also solve the problem that HB 1362 is trying to address.

NDCC 57-02-27

1. All residential property to be valued at nine percent of assessed value.
2. All agricultural property to be valued at ten percent of assessed value ---.
3. All commercial ---- property to be valued at ten percent of assessed value.

Where is it written in stone that agricultural property should be a ten while residential is a nine?

It appears to me that changing agricultural property in subsection 2 of 57-02-27 to nine percent would reduce the tax bill by ten percent. Even 9.5 percent, as a compromise between nine and ten for agricultural should lower the tax bill by five percent.

Such a change could be more easily implemented for the 2001 assessment year as it leaves NDSU out of the change. Your requested change in HB 1246 must go back to NDSU for a recalculation of the values as I see it.

Please note that the requested changes of SB 2068 Inundated Acres go on page 3, lines 22 thru 24, of subsection 6 of HB 1246.

Also, please note the February first date on page 4, line 3, of subsection 7 of HB 1246.

Arvid Winkler
12217 40 St SE
Valley City, ND 58072-9575
845-0608