MICROFILM DIVIDER

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

ROLL NUMBER

DESCRIPTION

1031

2005 HOUSE FINANCE AND TAXATION

HB 1031

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB 1031**

House Finance and Taxation Committee

☐ Conference Committee

Hearing Date **January 5, 2005**

Tape Number	Side A	Side B	Meter #
1		X	2

Committee Clerk Signature Janice Stein

Minutes:

REP. DAVID DROVDAL, VICE-CHAIR, Called the committee hearing to order.

JOHN WALSTAD, LEGISLATIVE COUNCIL, Drafted the bill at the request of the Economic Development Committee. He stated he was neither for nor against the bill.

He gave a background of the bill.

The first section of the bill extends the five year property tax exemption period out to ten years. That is for any kind of revenue producing enterprise.

The next change is on page 3, it is also possible for a revenue producing enterprise that has applied to the State Board of Equilization, could get an income tax exemption. Current law says that exemption can be granted up to five years. The bill would change that to allow that income tax exemption up to ten years.

The third section of the bill relates to existing structures. If that enterprise is located in an existing structure, rather than a new structure, the exemption could be granted up to ten years.

The fourth section of the bill relates to tax increment financing law. There is a current provision that a renewal project developer who gets tax increment financing property tax exemption, cannot also receive the exemptions that are available under that new industry chapter. The effective date of the bill is significant.

REP. DROVDAL Asked Mr. Walstad to comment on the fiscal note.

JOHN WALSTAD Referred the question to Joseph Becker, State Tax Dept.

MARCY DICKERSON, STATE SUPERVISOR OF ASSESSMENTS, STATE TAX COMMISSIONER'S OFFICE See attached written testimony.

JOSEPH BECKER, STATE TAX DEPARTMENT, Added comments relating to John Walstad's statements. If the State Board of Equilization does not extend any of the existing income tax exemptions, the fiscal note would be zero. They focused only on the years six through ten, and which of those would fall into the next biennium, or the next two bienniums.

JOHN RISCH, LEGISLATIVE DIRECTOR FOR THE UNITED TRANSPORTATION UNION AND RAILROAD WORKERS ACROSS NORTH DAKOTA Testified in opposition of the bill. He felt it creates a dramatic change in tax policy. If five years was a good idea, and ten years is better, perhaps twenty years would be better still. Where do we end these special tax breaks. It would undermine and weaken our tax base in the state of North Dakota and the local community.

He related a personal story regarding a commercial building he had built. He related his experience of asking for an exemption of the city commission. He received the exemption within a few minutes. He stated he saved a great deal of money, what he did was, buy a nicer car, went on a nice vacation, kids go to private college. He stated for those reasons, he doesn't think it is appropriate, to give just certain people tax breaks.

CURLEY HAUGLAND, LOCAL BUSINESSMAN, BISMARCK Testied in opposition of the bill. See handouts "Article X, Section 1 - 7, "Finance & Public Debt", and, "You can't buy me economic development." He related to some businesses where he felt the exemptions were not working, as the businesses move out after the exemptions expire, and don't ever pay taxes. With no further testimony, the hearing was closed.

COMMITTEE ACTION 1-10-05 Tape #1, Side B Meter 9.0

REP. GRANDE Submitted a handout from the minutes of the Legislative Council Economic Development Committee, interium committee, She voiced her concern as to how this might affect the schools.

Some of the committee members felt a ten year exemption was too long.

REP. IVERSON Made a motion for a Do Pass.

REP. OWENS Second the motion. Motion failed.

REP. WEILER Made a motion for a **Do Not Pass.**

REP. GRANDE Second the motion. **Motion Carried.**

8 Yes 4 No 2 Absent.

The floor assignment was given to **REP. CONRAD.**

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB 1031**

House Finance and Taxation Committee

☐ Conference Committee

Hearing Date **February 7, 2005**

Tape Number	Side A	Side B	Meter #
1	**X**		**0.4**

Committee Clerk Signature Janice Stein

Minutes:

COMMITTEE ACTION

REP. BRANDENBURG Made a motion to reconsider the action by which the bill was passed out of the committee.

REP. HEADLAND Second the motion. Motion carried by voice vote.

REP. BELTER Submitted a letter from Gene Veeder, Economic Development Association of North Dakota to committee members. He also presented amendments to the committee prepared by the Legislative Council.

Rep. Belter related to the century code 40-57-.1.03 is the section dealing with the municipality's authority to grant tax exemptions. 1.04 is an exemption from income tax

Committee members requested that John Walstad come to the committee and explain the amendments as they are prepared.

JOHN WALSTAD, LEGISLATIVE COUNCIL Explained what the amendments did. He stated the amendments didn't leave very much in the bill. The only part it left was Section 4 of the bill, which relates to tax increment financing, it takes out a reference in current law, that someone who gets a property tax break for a new business, cannot also qualify for tax increment financing on the same project. I don't know that that is a problem, but apparently it is. Actually, I thought the stuff that came out of this bill, was what was important in this bill.

REP. DROVDAL What is increment financing?

JOHN WALSTAD It is a tough concept. It is used for urban renewal and those kinds of things. If there is an area that has become rundown and the property values have dropped off substantially, in order to inject some life into that area, tax increment financing is one option that is available. What it means is, the governing body of the city will freeze the value of that property for tax purposes and entice a developer to come in and upgrade that property. Once the property upgrades have been made, that value remains frozen at that low level for a period of years, probably twenty years, however, the taxes will be paid on the property, at the new higher level, but the difference in value from that low value to the increased value, is what is called a tax increment. The tax revenue from that tax increment, instead of going into the operating funds for the city, goes into a debt retirement fund to pay the initial cost of developing that property. It is a system that kind of finances itself.

REP. CONRAD Is it being used mostly in Fargo, or other areas?

JOHN WALSTAD I know it is being used in Fargo and some other cities.

REP. CONRAD Is it being used in Bismarck?

JOHN WALSTAD I am not sure.

REP. CONRAD It wasn't discussed in the interium at all?

JOHN WALSTAD I didn't work in the interium committee.

REP. DROVDAL Is that type of increment financing also available for the rennaisance zones?

JOHN WALSTAD I don't believe there is a problem. I am guessing there is no similar limitation for qualifying for both of those programs.

REP. GRANDE Stated she thought you could use both in the rennaisance zone.

JOHN WALSTAD Stated taking this language out, would put these new business exemptions on the same footing as rennaisance zone exemptions, in that, they could qualify for both programs, tax increment and tax exemption.

REP. KELSH Who pays the difference in the increments?

JOHN WALSTAD Obviously, whoever ends up owning the property, will pay the difference, I don't know, I have never worked through one of these, cities do them, I think the first person who acquires the property after the deal pays them.

REP. HEADLAND If they are taxed at the higher level and that tax goes into a fund that actually helps pay the cost of the development?

JOHN WALSTAD Yes

REP. HEADLAND The other taxpayers in the city are picking up the cost of the development?

JOHN WALSTAD To me, it is an accounting gimmick to fund property development.

REP. GRANDE In the grand scheme of things, when this is in a rennaisance zone, where there was no property taxes or any development going on, it is very beneficial because eventually you do have it, but, what I am understanding in this amendment, it will put it every where in town, I thought we were trying to help develop areas.

REP. BELTER Incrememt financing is not available now for new businesses?

JOHN WALSTAD Only if that new business is located in and identifies as a blighted area, that qualifies for this tax increment financing kind of assistance.

REP. BELTER the way these amendments are now, it would be a five year tax exemption plus the increment financing?

JOHN WALSTAD That is correct, it would also apply for ten year exemption for ag processing businesses, and, these sections that are referenced here, also will allow payments in lieu of taxes for up to twenty years.

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HB 1031**

House Finance and Taxation Committee

☐ Conference Committee

Hearing Date **February 8, 2005**

Tape Number	Side A	Side B	Meter #
1	**X**		**0.5**

Committee Clerk Signature

Minutes:

COMMITTEE ACTION

REP. BELTER Presented amendments to the committee members.

REP. GRANDE Made a motion to adopt the amendments as presented.

REP. IVERSON Second the motion. Motion carried by voice vote.

Committee members had several concerns in discussion, they felt we already have a rennaisance zone, this would give more tax breaks.

REP. GRANDE Made a motion for a **do not pass as amended.**

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

11 YES 0 NO 0 ABSENT

REP. CONRAD Was given the floor assignment.

FISCAL NOTE

Requested by Legislative Council
02/10/2005

Amendment to: HB 1031

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.*

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 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.*

2003-2005 Biennium			2005-2007 Biennium			2007-2009 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.*

Engrossed HB 1031 enables a developer who receives a property tax exemption under tax increment financing to also qualify for an income tax exemption.

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.*

Most developers who utilize the tax increment financing program would not be affected by the provisions of Engrossed HB 1031. Those few developers, if any, who receive a property tax exemption under tax increment financing would also potentially qualify for the new and expanding business property or income tax exemption provided by NDCC Ch. 40-57.1, under the provisions of this bill. Engrossed HB 1031 may result in a small indeterminate reduction of income tax revenue should any developers use this provision.

   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:**	Office of Tax Commissioner
Phone Number:	328-3402	**Date Prepared:**	02/11/2005

FISCAL NOTE

Requested by Legislative Council
01/05/2005

REVISION

Bill/Resolution No.: HB 1031

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.*

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			($350,000)		($750,000)	
Expenditures						
Appropriations						

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

2003-2005 Biennium			2005-2007 Biennium			2007-2009 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.*

Sections 1 and 3 of HB 1031 increase the property tax exemptions for new and expanding businesses from five to ten years. Section 2 increases the income tax exemption for new and expanding businesses from five to ten years, with retroactive provisions for those businesses currently within their five year exemption. Section 4 enables a developer who receives a property tax exemption under tax increment financing to also qualify for an income tax exemption. (NOTE: This fiscal note was revised 1/5/05 because of the availability of additional information.)

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.*

It is estimated that Section 2 of HB 1031 may result in a reduction of state general fund revenues of $350,000 in the 2005-07 biennium, and $750,000 in the 2007-09 biennium. This is based on existing projects within their current five year income tax exemption period. The fiscal impact of new projects granted 10 year income tax exemptions is unknown, and dependent upon the actions of the State Board of Equalization and the projects that come before the board. Any fiscal impact would be beyond the 2005-07 biennium. The property tax exemption provisions in Sections 1 and 3 are likely to have little fiscal impact, because current law allows up to 20 years of payment in lieu of property taxes for new or expanding businesses, which could be nearly a complete exemption. The provisions of Section 4 may result in a small indeterminate reduction of income tax revenue.

   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:**	Office of Tax Commissioner
Phone Number:	328-3402	**Date Prepared:**	01/04/2005

FISCAL NOTE
Requested by Legislative Council
12/20/2004

Bill/Resolution No.: HB 1031

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.*

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			($50,000)			
Expenditures						
Appropriations						

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

2003-2005 Biennium			2005-2007 Biennium			2007-2009 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.*

Sections 1 and 3 of HB 1031 increase the property tax exemptions for new and expanding businesses from five to ten years. Section 2 increases the income tax exemption for new and expanding businesses from five to ten years, with retroactive provisions for those businesses currently within their five year exemption. Section 4 enables a developer who receives a property tax exemption under tax increment financing to also qualify for an income tax exemption.

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.*

It is estimated that Section 2 of HB 1031 may result in a reduction of state general fund revenues of $50,000 in the 2005-07 biennium. This is based on existing projects within the current five year income tax exemption period. The fiscal impact of new projects granted 10 year income tax exemptions is unknown, and dependent upon the actions of the State Board of Equalization and the projects that come before the board. The property tax exemption provisions in Sections 1 and 3 are likely to have little fiscal impact, because current law allows up to 20 years of payment in lieu of property taxes for new or expanding businesses, which could be nearly a complete exemption. The provisions of Section 4 may result in a small indeterminate reduction of income tax revenue.

   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:**	Office of Tax Commissioner
Phone Number:	328-3402	**Date Prepared:**	01/04/2005

Date: 1-10-05
Roll Call Vote #: 1

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1031

House **FINANCE & TAXATION** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken Failed

Motion Made By Rep. Iverson Seconded By Rep. Owens

Representatives	Yes	No	Representatives	Yes	No
BELTER, WES, CHAIRMAN	✓				
DROVDAL, DAVID, V-CHAIR		✓			
BRANDENBURG, MICHAEL	0				
CONRAD, KARI		✓			
FROELICH, ROD		✓			
GRANDE, BETTE		✓			
HEADLAND, CRAIG		✓			
IVERSON, RONALD	✓				
KELSH, SCOT	✓				
NICHOLAS, EUGENE	0				
OWENS, MARK	✓				
SCHMIDT, ARLO		✓			
WEILER, DAVE		✓			
WRANGHAM, DWIGHT	0				

Total (Yes) 4 No 7

Absent

Floor Assignment

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

Date: 1-10-05
Roll Call Vote #: 2

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB1031

House **FINANCE & TAXATION** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken Do Not Pass

Motion Made By Rep. Weiler Seconded By Rep Grande

Representatives	Yes	No
BELTER, WES, CHAIRMAN		✓
DROVDAL, DAVID, V-CHAIR	✓	
BRANDENBURG, MICHAEL	✓	
CONRAD, KARI	✓	
FROELICH, ROD	✓	
GRANDE, BETTE	✓	
HEADLAND, CRAIG	✓	
IVERSON, RONALD		✓
KELSH, SCOT		✓
NICHOLAS, EUGENE	AB	
OWENS, MARK		✓
SCHMIDT, ARLO	✓	
WEILER, DAVE	✓	
WRANGHAM, DWIGHT	AB	

Reconsidered

Total (Yes) 8 No 4

Absent 2

Floor Assignment Rep. Conrad

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

REPORT OF STANDING COMMITTEE

HB 1031: Finance and Taxation Committee (Rep. Belter, Chairman) recommends **DO NOT PASS** (8 YEAS, 4 NAYS, 2 ABSENT AND NOT VOTING). HB 1031 was placed on the Eleventh order on the calendar.

Date: 2-7-05
Roll Call Vote #: 2

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1031

House FINANCE & TAXATION Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken Do Not Pass as amended

Motion Made By Rep. Grande Seconded By Rep. Iverson

Representatives	Yes	No	Representatives	Yes	No
BELTER, WES, CHAIRMAN	✓				
DROVDAL, DAVID, V-CHAIR	A				
BRANDENBURG, MICHAEL	A				
CONRAD, KARI	✓				
FROELICH, ROD	✓				
GRANDE, BETTE	✓				
HEADLAND, CRAIG	A				
IVERSON, RONALD	✓				
KELSH, SCOT	✓				
NICHOLAS, EUGENE	✓				
OWENS, MARK	✓				
SCHMIDT, ARLO	✓				
WEILER, DAVE	✓				
WRANGHAM, DWIGHT	✓				

Total (Yes) 11 No 0

Absent 3

Floor Assignment Rep. Conrad

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

REPORT OF STANDING COMMITTEE

HB 1031: Finance and Taxation Committee (Rep. Belter, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO NOT PASS** (11 YEAS, 0 NAYS, 3 ABSENT AND NOT VOTING). HB 1031 was placed on the Sixth order on the calendar.

Page 1, line 1, remove "sections 40-57.1-03, 40-57.1-04, and 40-57.1-04.1 and"

Page 1, line 2, replace "duration" with "availability"

Page 1, line 3, after "businesses" insert "in urban renewal areas"

Page 1, remove lines 6 through 24

Page 2, remove lines 1 through 31

Page 3, remove lines 1 through 31

Page 4, remove lines 1 through 7

Page 4, line 30, remove "The extended period of an exemption under this Act is available to a"

Page 4, remove line 31

Page 5, remove lines 1 through 4

Renumber accordingly

2005 TESTIMONY

HB 1031

from Rep. Grande 1-10-05

The following excerpt from the LC committee minutes is for the purpose of further consideration of HB No. 1031 by the House Finance and Taxation Committee 1/10/05

NORTH DAKOTA LEGISLATIVE COUNCIL
Minutes of the

ECONOMIC DEVELOPMENT COMMITTEE

Tuesday, October 12, 2004
Roughrider Room, State Capitol
Bismarck, North Dakota

Representative Rick Berg, Chairman, called the meeting to order at 1:11 p.m.

Members present: Representatives Rick Berg, Donald L. Clark, Mark A. Dosch, Glen Froseth, Nancy Johnson, Jim Kasper, George Keiser, Eugene Nicholas, Ken Svedjan, Don Vigesaa; Senators Dick Dever, Duaine C. Espegard, Tony S. Grindberg, John O. Syverson, Ryan M. Taylor

Members absent: Representatives Tracy Boe, Mary Ekstrom, Kenton Onstad

****

Tax Exemptions for New and Expanding Businesses

Chairman Berg requested Mr. John Walstad, Code Revisor, Legislative Council, to present and review a bill draft [50196.0100] relating to property and income tax exemptions for new and expanding businesses. The Legislative Council staff said the bill draft would extend from 5 to 10 years the tax exemption a municipality may grant to a new or expanding business. Mr. Walstad said that for purposes of this bill draft, a municipality would be a city or a county. Additionally, he said, the bill draft would provide for these tax exemptions to be available within an urban renewal development or renewal area. He said the effective date provision of the bill draft provides the changes would be effective for taxable years beginning after December 31, 2004, but that the extended period of an exemption would be available for projects that received the exemption before January 1, 2005, if the project operator applies for the extended exemption and if the municipality chooses to extend the exemption for the longer period of time.

Representative Berg said the changes in this bill draft are driven by the needs of the Fargo-Cass County economic development community.

Chairman Berg called on Ms. Marcy Dickerson, Tax Department, for comments regarding the bill draft. She said because existing law allows for a 20-year period of payment in lieu of taxes, technically speaking, existing law allows for the same outcome; however, the payment in lieu of taxes does not include a requirement for application before construction. Additionally, she said, under Section 3 of the bill draft, she would suggest the committee consider overstriking the last sentence of North Dakota Century Code Section 40-57.1-04.1: "The project operator shall apply to the governing body of the municipality annually for the exemption and the governing body of the municipality may grant the exemption for only one year at a time." She said the language in the last sentence applies to the preceding overstruck language.

Chairman Berg called on Ms. Bev Nielson, North Dakota School Boards Association, for comments regarding the bill draft. Ms. Nielson said that although the board has not had an opportunity to review the bill draft, it does have a standing resolution opposing tax abatements.

The committee discussed whether to approve and recommend the bill draft relating to the tax exemptions for new and expanding businesses.

It was moved by Representative Keiser and seconded by Representative Kasper that the bill draft relating to tax exemptions for new and expanding businesses be approved and recommended to the Legislative Council.

Senator Grindberg said he will be voting no on this motion because he is not convinced this bill draft will increase economic development. He said he would like to see additional information before he supported this concept.

Senator Taylor said the issue of taxes was low on the list of issues raised at the focus discussions. Additionally, he said, because there is going to be a price tag on the business initiative bill draft, he questions the wisdom of decreasing state revenue through decreasing taxes.

Representative Berg said he believes this issue of tax exemptions for new and expanding businesses will be an issue in 2005 and this bill draft could be a vehicle in which to address these issues.

After this discussion, **the motion carried on a roll call vote**. Representatives Berg, Clark, Froseth, Johnson, Kasper, Keiser, Svedjan, and Vigesaa and Senators Espegard and Syverson voted "aye." Representatives Dosch and Nicholas and Senators Dever, Grindberg, and Taylor voted "nay."

FINANCE AND TAXATION COMMITTEE
January 5, 2005

Testimony of Marcy Dickerson, State Supervisor of Assessments

House Bill 1031

Mr. Chairman, Members of the Committee, for the record my name is Marcy Dickerson and I am employed by the State Tax Commissioner as State Supervisor of Assessments. My testimony concerns House Bill 1031.

I want to bring something to your attention in Section 3, the amendment to N.D.C.C. § 40-57.1-04.1. The language beginning at the end of line 5 on page 4, which remains in effect, applies to the language on lines 1 through 5 that is overstruck. The law currently allows a maximum property tax exemption of five years, but allows an additional five years' exemption for a project located in a government-owned structure. A single application is sufficient for the first five years' exemption, but annual application is required for the sixth through tenth years of a property tax exemption for a project located in a government-owned structure. If House Bill 1031 is enacted as drafted, any existing structure will be eligible for up to ten years' exemption, but the project operator will have to make annual application for each of the ten years. That provision will not apply to a project that locates in a new structure.

If you prefer to allow a project operator to make a single application for the total exemption for an existing structure, I recommend you strike the language on lines 5 through 7 of page 4.

This concludes my prepared testimony. I will be happy to try to answer any questions.

HB1031
Curley Haugland

ARTICLE X

FINANCE AND PUBLIC DEBT

Section 1. The legislative assembly shall be prohibited from raising revenue to defray the expenses of the state through the levying of a tax on the assessed value of real or personal property.

Section 2. The power of taxation shall never be surrendered or suspended by any grant or contract to which the state or any county or other municipal corporation shall be a party.

Section 3. No tax shall be levied except in pursuance of law, and every law imposing a tax shall state distinctly the object of the same, to which only it shall be applied. Notwithstanding the foregoing or any other provisions of this constitution, the legislative assembly, in any law imposing a tax or taxes on, in respect to or measured by income, may define the income on, in respect to or by which such tax or taxes are imposed or measured or may define the tax itself by reference to any provision of the laws of the United States as the same may be or become effective at any time or from time to time, and may prescribe exceptions or modifications to any such provision.

Section 4. All taxable property except as hereinafter in this section provided, shall be assessed in the county, city, township, village or district in which it is situated, in the manner prescribed by law. The property, including franchises of all railroads operated in this state, and of all express companies, freight line companies, dining car companies, sleeping car companies, car equipment companies, or private car line companies, telegraph or telephone companies, the property of any person, firm or corporation used for the purpose of furnishing electric light, heat or power, or in distributing the same for public use, and the property of any other corporation, firm or individual now or hereafter operating in this state, and used directly or indirectly in the carrying of persons, property or messages, shall be assessed by the state board of equalization in a manner prescribed by such state board or commission as may be provided by law. But should any railroad allow any portion of its railway to be used for any purpose other than the operation of a railroad thereon, such portion of its railway, while so used shall be assessed in a manner provided for the assessment of other real property.

Section 5. Taxes shall be uniform upon the same class of property including franchises within the territorial limits of the authority levying the tax. The legislative assembly may by law exempt any or all classes of personal property from taxation and within the meaning of this section, fixtures, buildings and improvements of every character, whatsoever, upon land shall be deemed personal property. The property of the United States, to the extent immunity from taxation has not been waived by an act of Congress, property of the state, county, and municipal corporations, to the extent immunity from taxation has not been waived by an act of the legislative assembly, and property used exclusively for schools, religious, cemetery, charitable or other public purposes shall be exempt from taxation. Real property used for conservation or wildlife purposes is not exempt from taxation unless an exemption is provided by the legislative assembly. Except as restricted by this article, the legislative assembly may provide for raising revenue and fixing the situs of all property for the purpose of taxation. Provided that all taxes and exemptions in force when this amendment is adopted shall remain in force until otherwise provided by statute.

Section 6. The legislative assembly may provide for the levy, collection and disposition of an annual poll tax of not more than one dollar and fifty cents on every male inhabitant of this state over twenty-one and under fifty years of age, except paupers, idiots, insane persons and Indians not taxed.

Section 7. The legislature may by law provide for the levy and collection of an acreage tax on lands within the state in addition to the limitations specified in article X, section 1, of the constitution. The proceeds of such tax shall be used to indemnify the owners of growing crops against damages by hail, provided that lands used exclusively for public roads, rights of way of common carriers, mining, manufacturing or pasturage may be exempt from such tax.

HD 1001
Curley Haugland

You can't buy me economic development

By ARTHUR E. FOULKES

Texas recently unseated North Carolina as the most business-friendly state in the country, according to Site Selection magazine, and its "not-so-secret weapon," the editors say, is a $295 million fund established in 2003 "to help lure projects to the state."

New York finished second in the annual rankings — thanks, no doubt, to the $500 million Washington provided New York after the Sept. 11 terrorist attacks, so the city and state could give "incentives" to companies to stay in lower Manhattan. But one person's incentive is another's boondoggle.

The federal government alone spends tens of billions of dollars every year on economic-development projects. In 2001, for example, the figure was $57 billion. State and local governments spend billions more.

Yet, it is not clear these huge annual expenditures, which have been taking place for four decades, have produced long-term measurable benefits.

Dozens of federal agencies are involved, including the Departments of Agriculture, Commerce, Defense, Housing and Urban Development, and Transportation; the Appalachian Regional Commission, U.S. Army Corps of Engineers, Environmental Protection Agency, U.S. Maritime Administration, and Tennessee Valley Authority.

Even the Federal Communications Commission gets involved, with a special "Indian initiatives program" designed, according to the Commerce Department's Economic Development Administration, to bring telecommunications services "to Indian Country."

Altogether, at least 73 different government programs parcel out economic-development funds, while dozens of city, state and regional economic-development offices scramble for the money.

The stated purpose of these economic-development offices is to attract new businesses and industries to communities, or keep existing businesses from migrating. In pursuit of these goals, they offer a variety of inducements, including direct subsidies, tax breaks, grants, loans and infrastructure improvements.

Economic-development programs enjoy wide popularity. As Professor Peter Eisinger, of Detroit's Wayne State University, has observed, there is "extremely broad agreement as to the desirability of substantial government involvement in the creation of private-sector employment."

Yet, the sad truth is that government economic-development programs rarely have lasting benefits — for the simple reason that they run counter to good business practices.

The most glaring flaw in these programs is that they increase a behavior known to economists as "rent-seeking," a euphemism for business efforts to secure government favors. Businesses pay lobbyists, lawyers and consultants large sums of money to help them obtain economic-development funds. Unfortunately, this makes less money available for higher priorities, such as capital investment.

Besides, when a business succeeds in gaining government favor — the $40 million the Texas Enterprise Fund provided Sematech for an "advanced materials research center," for example — the recipient firm gains an unfair advantage over other businesses, both direct competitors and those competing indirectly for capital and workers.

While grants and subsidies provide the recipient companies and the communities in which they are located with an economic windfall, the benefits don't always last. When the grants and subsidies expire, the new jobs may disappear, as well.

Consider the example of Sykes Enterprises, Tampa, Fla., which opened call centers in several states with both fanfare and funding from local and state governments.

Putnam County, Fla., for example, awarded Sykes $4.5 million in cash and tax breaks to locate a new call center there. The company, meanwhile, made a business decision to start moving its call centers overseas and, after less than five years, closed the Putnam facility. Similar incidents have occurred elsewhere across the country.

Government economic-development programs, no matter how well intended, operate counter to fundamental economic principles.

The Government Accountability Office, in Washington, D.C., has attempted to measure the impact of these programs using sophisticated econometric modeling. The agency — then called the General Accounting Office — reported nearly a decade ago, in 1996, that it was "unable to find any study" by any reputable organization that "established a strong causal linkage between a positive economic effect and an agency's economic development assistance." Yet, the spending continues.

Unsatisfying as it may be to the many proponents of economic-development programs, government can best promote economic growth and prosperity by sticking to the basics: protecting private property rights, enforcing the law, providing basic services and keeping taxes and regulations to a minimum.

It should then do one final thing — get out of the way and let the economy work.

(Arthur E. Foulkes is a research associate at the American Institute for Economic Research, Great Barrington, Mass.)

January 11, 2005

To: Members of the House Finance and Taxation Committee

RE: **HB 1031**

Honorable Members of the Committee:

Within the purview of the Economic Development Association of North Dakota's Legislative agenda is the following statement:

- Property Tax Exemptions – Recommend extending property tax exemptions from 5 years to a maximum of 10 years.

We understand testimony has already been heard so please accept this memo as EDND's support of the new language being proposed. Payments in lieu of taxes [PILOTs] already allow exemptions in excess of 5 years, but what we are finding as economic developers is that business prospects need quick access and an even quicker understanding of a municipality's incentive programs. This is often done without personal assistance. We feel better wording allows us flexibility as developers in business attraction activities.

Also, the Minnesota JOBZ program allows 12 year property tax exemptions. EDND felt that by making this law even more flexible it would also put North Dakota communities on a level playing field with other states' incentives.

We feel that this information will assist us in our recruitment of industry and business to North Dakota and urge your consideration of a favorable recommendation of **HB 1031**.

Sincerely,

Gene Veeder

Gene Veeder,
President