2009 HOUSE POLITICAL SUBDIVISIONS

HB 1444

### 2009 HOUSE STANDING COMMITTEE MINUTES

### **Bill No. HB 1444**

#### **House Political Subdivisions Committee**

Check here for Conference Committee

Hearing Date: February 12, 2009

Recorder Job Number: 9346, 9421

Committee Clerk Signature

Minutes:

Chairman Wrangham: opened the hearing on HB 1444.

Rep. Froseth: (see testimony #1)

Handed out testimony #2; was not here due to roads.

Want to draw your attention to the third paragraph sums it all up. Currently, all of the forgiveness is applied for before construction of a project begins. Only actions of the county or the city can forgive these taxes and one cannot overrule the other. The ruling entity isn't funding the tax forgiven to the other political subdivisions it forgave so the balance of the taxpayers is picking up the bill. I am on the Finance and Tax Committee and at least one other member in this committee is on that. We heard several bills this session that asked for clearer tax exemptions and tax credits so I asked the tax department to give me a list of all the tax credits and exemptions that were presently grant and there are 187 of them. We will probably come out of this session having another 15 or so to that list. I we got rid of all the tax credits and exemptions maybe we could lower our property taxes to a level where everybody wasn't complaining about them. It would cost everyone a little more to pay your property or income tax credit that are granted but if we do away with them it would probably be a lot better.

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**Rep. Conrad:** Can you see that this will hinder your ability to do something if you have to go to the park board or school board to get legal approval for projects?

Rep Forseth: I sat on the IBL for seventh session and we built most of that legislation that has been put in place with the renaissance and I have supported every one of those and I still think they are good programs. I see that they might slow down with some major affects to the building projects in the cities. When you look at the overall slope of the tax exemptions, our schools probably need that money. Any project, if you grant tax exemption in it, I realize it might be losing taxes on \$100,000 worth of taxes over five years. With one new facility a year and you gain that back so it is a short term loose of revenue and probably stretches school districts and much concern to support them so it is kind of a catch 22 in a way.

**Rep. Headland:** The way this is written it applies to all exemptions even exemptions that are already there.

**Rep. Forseth**: I think if you look at line 9 & 10; 40-57.1 or 57-02.2 or 57-02.08 is covering them all. I think they are right.

Terry Traynor, Association of Counties: I am here to support this. We had some discussion this weekend with the county commissioners about this. They are still convinced that something needs to be done. The concern that was raised by the committee today Rep. Conrad's comment about making this process more cumbersome was a concern. The discussion that we held was about half the school district tax; quarter or a little more to cities; quarter or a little more to counties. When you talk about the big picture on property taxes. The city or the county could basically forgive the taxes for three quarters of the tax that they have no control over. They wanted to come up with a better way. How can the majority of the tax entities approve this or something to make this a little simpler? This is probably the best bet

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that we have before us so that is why we are supporting it as a way to get this issue before the legislature.

**Rep. Conrad:** What entities are we talking about? We are talking about the park board; county commissioners, school board and the city council.

Terry Traynor: If it was a rural project and affected their taxing entity that is what it would be.

**Rep. Kretschmar**: Under current law does the school board have the authority to limit its own establishment.

Terry Traynor: No, I don't believe so.

Bey Nielson: ND School Board Association: I am in favor of the bill. This bill has been before the legislation since we got exemptions. We find it curious that one political subdivision could take control over the mills of another political subdivision. We did not understand it then and we still don't. For the city to have the authority to say you don't have to pay school district mills has always been curious. If this goes to thought, where basically, it would be a veto from the cities, if the school did say no we are not going to change our venue. We have always asked that we have equal among the other people who are making the decision. Right now they are obligated to tell us when they are meeting; and we are suppose to be able to comment with input but we don't have one out of four or five votes. If nothing else we have that we believe. There are many states that have been very creative and given benefits for school districts in lieu of taxes. I don't think we have ever gone there. Discussed other states and how they work. Schools can automatically say no; for the most part, these exemptions are on new facilities. Perhaps taking money away from us. They are delaying our abilities to get money from them. We understand that. Most districts want economic development in their community. Now as we make changes to our property tax laws; and somehow cap or freeze district from ever being able to experience the benefits of this economic development; then we

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would so then we would not be like it at all. If you think this goes too far; you can think about the possibility of letting us negotiate with these people and maybe being able to come up with something.

**Rep. Klemin:** School districts can't grant these exemptions to start with but under this bill they would be able to approve or deny them.

Bev Nielson: Only in relationship with their mills.

Rep. Klemin: In most cases the majority of property tax budget.

**Bev Nielson**: that is correct. We never really understood why the city could have this ability to get those mills.

**Rep. Klemin:** A project I am thinking like some type economic development project; if they were getting all of the tax exemption and you only got 47% because the school district would not go along with it; then that essentially would be a hardship.

Bev Neilson: I agree, if the school district would say no to everything, but I don't believe that to be the case. Economic Development in their community is just as important to them. But it does open the possibility of some negotiations.

Sandy Clark: ND Farm Bureau: I just want to go on record in support of this bill. We are not opposed to property tax exemptions. We understand economic development and support economic development. We think it must be a pretty good bill if the three of us are on the same side of the bill when we generally don't.

Josh Ackins: I am in favor of the bill.

Opposition:

Bill Shalhoob: Economic Development Assoc. of ND, ND Chamber of Commerce: (see testimony #3). (handed out #4).

Chairman Wrangham: we heard earlier that renaissance zones already have to do this?

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Bill Shalhoob: I am not aware that is a requirement. I am a business man. I don't understand the theory that if you get an exemption for something. If I am not receiving taxes on something; that is not money that is lost because it was never there in this project. A perfect example of how the city works. If you look at Bismarck and the epic center here. That was built; at the time it was built, it had the full ten year exemption. They put on an expansion. Today that business pays over \$800,000 in property taxes. That is for the benefit of the school board and the county and the park board.

Rep. Conrad: (can't hear)

**Bill Shalhoob:** I don't. When they tell me they are going to negotiate on 55% and have the right to do this that is not the negotiating.

Chairman Wrangham: You have to admit is someone has 55% they should have a say.

**Rep. Klemin:** You talked earlier in this committee about the number of different entities that might want to get the approval from them in order to do this and I don't know how many that would be. What kind of affect would that have on the cost of putting together the project if you had to go to six or twelve different entities to get approval before you could go ahead? Are we talking about an increase in cost to get this approval?

**Bill Shalhoob**: I don't think so. I think we are talking about having a lot of involvement and timeline to get it done. I think there are only four people you have to contact. I think it will make the process longer and more cumbersome and probably will slow it down.

Rep. Conrad: If we were to limit it to the city, county, school board and park board would that be easier?

Bill Shalhoob: No. It is important on the development side to have one stop shopping.

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**Rep. Klemin:** all of these exemptions we are talking about are ones that have been previously been specifically authorized in the statue. Haven't we already made a policy decision by doing that; when we say who it is and to whom that particular tax exemption?

**Bill Shalhoob:** This would be a huge shift in policy in terms of what we are going to do and how we are going to do it. I think the bill sponsor talked about 1950 that these statues came in.

Rep. Klemin: Maybe that is why he started talking of not containing any other previous of law. In one board scope, wipe out many years of policy decisions that were made by this assembly.

Bill Shalhoob: Many of those policy changes have to do with other than reaction to policy.

They are not necessarily just granting a property tax exemption. That is their desired goal; how are we going to do this.

Connie Sprynczynatky: There are questions with Marcy about this argument we have had repeatedly. These exemptions don't mean that you don't get to count that in the tax evaluation. What these exemptions mean is if you are in the paying pool; you don't have an exemption, you are going to temporally show shoulder the burden of the other players in the pool. We need to start from the base. What this does, especially in a smaller community, in order to get those economic development projects to make sense to the people who are investing. Remember the private investments that we are talking about are much greater than what the public entity is providing and there are many instances where it takes every single thing. To get the private investments for a building that needs an incredible amount of work. What they have invested privately in that building is very large. She went into great detail about the investments in the Bismarck area.

**Doreen Riedman, ND Assoc of Builders:** We are opposed to HB 1444 because it does affect Subsections 35 and 36 of section 57-02-08; which is the two year property tax

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exemption for new construction. We have similar legislation out there available to cities, counties, and townships that they can put in place. For a two year tax exemption is needed to encourage development. This would drastically complicate those sections of law as we see it. We have a bill on the Senate side that they are working on to enhance and modernize this legislation because we think it is so good and working so well. We have 62 cities across the state that are using the two year tax exemption right now. We find it very valuable to attract people; especially today. There are 32 counties and 15 townships that also use this. It is needed and used and we don't want anything to happen to the exemption for the two year exemption that helps bring in those new houses.

Rep. Koppelman: It seems to me that entities like counties, townships, cities and so on would be more attuned to economic development and the kinds of things that they tax breaks are used for versus a school district or park district where they are focused on educating kids or other things and they don't necessarily care if the economic development boom in the community happens. It is not as much of a driving force in their area of responsibilities.

Doreen Riedman: I think you are exactly right. This is a tool that can direct development and

Doreen Riedman: I think you are exactly right. This is a tool that can direct development and encourage. I think the city of Bismarck is looking at using it for certain projects that they have. Burleigh County has used it and has limitations. They had it just for first time home buyers. That is great if that is what works for them.

**Rep. Zaiser:** Have you done an in dept study of this program in terms of how many new houses were started?

**Doreen Riedman**: they did a study in Fargo. They had it in place for 25 years and they did it successfully. We did a study since 1983 and over the years that showed that a high percentage of people would not have built. It gave them extra money to buy furniture etc.

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**Rep. Zaiser:** I have heard a number of people basically that had been unable to pay after the two year taxes came off and they had to file bankruptcy. Have you done any studies on those kinds of things?

Doreen Riedman: I don't have any information on that.

Neutral testimony:

**Chairman Wrangham:** Asked Marcy Dickerson a question. Does current law when dealing with renaissance zones, require that they get approval of the other entities?

**Marcy Dickerson**: It requires that a member of the school district or effected township must be an ongoing member on the committee that makes the decision.

**Rep. Koppelman:** In renaissance zones the city has to orchestra them. The only taxes involved are income taxes and income tax credit.

**Marcy Dickerson**: It is also property taxes. Renaissance zones are not listed in the statues that are listed in this bill.

Hearing closed.

Job #9421

Chairman Wrangham reopened the hearing on HB 1444.

**Rep. Conrad:** I want to amend that on line 10 say "any other political subdivision" with "a city, county, school district, or park district".

Motion Made By Rep. Conrad on the amendment. Seconded by Rep. Kilichowski:

Discussion:

Chairman Wrangham: Why do you want to make this amendment?

Rep. Conrad: Because there are the fire district, the ambulances, and the airport authority.

Rep. Klemin: Change the form to such.

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**Rep. Pietsch:** If we amend are we in fact going to wipe out all the legislative actions that we have passed in the past?

Rep. Klemin: I agree with the amendment, but I don't agree with this bill.

**Rep. Nancy Johnson:** Maybe it should be governing board?

Rep. Zaiser: Will this mess with the different mills? Will there be an inequity there?

Voice vote carried.

Do Not Pass Motion Made By Rep. Klemin: Seconded By Rep. Jerry Kelsh:

**Rep. Klemin:** I think this is counterproductive to #1. That exemption we were talking about an exemption is something that is not there yet so what is the other entity giving up? Then once we do have something there when the exemption goes off you have got a higher tax property and I am concerned about that. I think in the past we have had all these exemptions that have passed the legislature; we made a public policy decision at that time and I don't think we should go back and reverse that.

**Rep. Nancy Johnson:** the day it happens there is no impact, but if you grant them tax relief or tax abatement for tenor fifteen years and when people in a school district; you are going to have an impact on the property tax down the road.

Rep. Corey Mock: I think earlier in the testimony today there was an excellent point made when they said school boards usually have about 55% of the property tax interest and without the approval or disapproval of that exemption, I think is kind of an unfair for school districts. I will oppose the do not pass. In subsection 35 and 36 of section 57 and 0208 removed from this because that relates to the new single family residential property tax and I think the Homes Builders Association had a very valid point that is very critical in providing homes to families who need them.

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**Rep. Klemin**: Getting back to chapter 40-57.1; I think that is the MIDA bond chapter and as we heard when we had that bill in amending the MIDA bond chapter that MIDA bonds are now limited to nonprofit organizations. It is not no retail organization or any financial or other type of business can now take advantage of 40-57.1 of the federal law so the concerns that Rep. Johnson talked about in that respect we are not talking about that.

Rep. Jerry Kelsh: We need to be careful. I think it can be a real mess. I think they testified this morning that the property has a value and if you put so many mills against that value it is made up by the other property tax payer in that entity. We are really not losing the money; it is just spread over so at one time I would have supported this bill, but I can see they are getting the money anyway and if it is for economic development; it comes in at the value that we were originally at; not at the depreciated value.

Rep. Conrad: It seems to me this is a process issue more anything else. The counties need to be involved in their taxing. I have not seen a project no done by the county or city once it gets there. I think this could cause a lot of heart ache for people. I am not supporting it.

Rep. Hatlestad: Now if the school district has veto power and this bill would allow that; but

they have no immediate loss of revenue so why should we give them the veto power? They have no loss of revenue.

Vote: 10 Yes 2 No 1 Absent Carrier: Rep. Kretschmar Hearing closed.

90815.0101 Title.0200

### Adopted by the Political Subdivisions Committee

2/12/09

February 12, 2009

### PROPOSED AMENDMENTS TO HOUSE BILL NO. 1444

Page 1, line 10, replace "any other political subdivision" with "a city, county, school district, or park district"

Page 1, line 11, replace "the subdivision's" with "that entity's"

Renumber accordingly

Date: シルス Roll Call Vote #: /

# 2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES BILL/RESOLUTION NO. 1444

House Political Subdivisions						Committee		
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Chairman Rep. Craig Headland, Vice				Rep. Jerry Kelsh				
Chairman Rep. Patrick Hat	lestad			Rep. Robert Kilichowski				
Rep. Nancy Johnson				Rep. Corey Mock	<del>                                     </del>			
Rep. Lawrence Klemin				Rep. Steve Zaiser	1			
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# 2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES BILL/RESOLUTION NO. 月 B バッググ

House Political Subdivisions						Committee	
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REPORT OF STANDING COMMITTEE (410) February 13, 2009 12:45 p.m.

Module No: HR-29-2649 Carrier: Kretschmar Insert LC: 90815.0101 Title: .0200

#### REPORT OF STANDING COMMITTEE

HB 1444: Political Subdivisions Committee (Rep. Wrangham, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO NOT PASS (10 YEAS, 2 NAYS, 1 ABSENT AND NOT VOTING). HB 1444 was placed on the Sixth order on the calendar.

Page 1, line 10, replace "any other political subdivision" with "a city, county, school district, or park district"

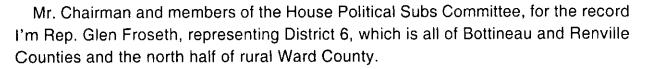
Page 1, line 11, replace "the subdivision's" with "that entity's"

Renumber accordingly

2009 TESTIMONY

HB 1444

### Testimony HB 1444



HB1444 will allow taxing districts to op out of granting a property tax exemption that has been imposed by another taxing entity. This will be accomplished by a majority vote of the Board of a taxing district.

Presently, if one taxing entity grants a property tax exemption, all taxing entities in that county, city, park board, or school district also forfeit or lose their share of those property taxes that would normally come to them.

For instance, if a city should grant a property tax exemption for all the houses built in a new housing development, all the other taxing entities also must honor this exemption from their tax collections.

I agree that this incentive has been successful in efforts for economic development, housing projects, renovation of business districts, etc. However, is it fair that one taxing district has to take part in an exemption granted by another, which they have had no input into that decision.

These exemptions place the burden to those who do pay taxes on their property, and probably the most severely affected are local school districts.

Mr. chairman and Committee I urge a Do Pass on HB1444, and stand for any questions.

Thank you.



(#2)

HB 1444 is a bill that should be put into law. It will help elected officials for each taxing entity understand more closely the impacts of property tax forgiveness and whether they should be given or not to the entity applying for such tax forgiveness. The common practice of property tax forgiveness allows cities to forgive school district, park, fire district, and county taxes and so on.

In 2008 the Ward County Commission went on record in opposition to these types of tax forgiveness. The resolution was introduced at the NDACO and Association of County Commissioners annual conventions and was overwhelmingly adopted.

Currently, all of the forgiveness are applied for before construction of a project begins. Only actions of the county or the city can forgive these taxes and one cannot overrule the other. The ruling entity isn't funding the tax forgiven to the other political subdivisions it forgave so the balance of the taxpayers is picking up the bill.

We believe this process is fundamentally wrong. First, the county for example could forgive taxes in a school district that we do not represent or reside in. For example, we live in Ward County but do not live in the Kenmare Public School district. If a potential homebuilder outside the city of Kenmare was to apply for a building permit and seek an exemption it would come to the county commission for approval. The school district could voice opposition to the exemption but would have no vote on the matter.

A situation just recently happened with city of Minot approving an exemption for an expansion of a grain handling facility in Minot. The school district was in opposition to the portion of school taxes being forgiven. The representative of the district testified against their portion of taxes being forgiven. The property had been annexed into the city limits not long before this exemption was applied for. The property was still in the school district it was prior to the cities annexation of the property. Had it not been annexed by the city it could not have applied to the city for the exemption. It would have had to apply to the county. In either case the school district would be unable to able nullify the exemption of its portion of the school district tax.

John Fjeldahl was a school board member at one time; many of you probably have been also. When going through the budget process we would always ask what our valuation in the district had done during the past year. If there was growth in the district and we held our budgets in line there could be a reduction in property taxes when new real growth took place. I don't mean increased valuation of existing property but new properties. If there were no new properties then there wouldn't be any reduction in taxes even if the budget was the same as the previous years.

When a \$75,000 tax emption is approved on a new \$125,000 home only \$50,000 is added to the taxable valuation in that district. The local taxing entity would not even know of the total new value in that district. So when any new property development takes place whether it be homes or business the local political entities elected by their constituents should decide whether a property tax incentive or forgiveness is in the best interests of its constituents. The school board is the entity that works with that schools budget. Another example is townships. They have very limited funding and with snow events taking place in the state they would need every bit of tax levy for road maintenance and upkeep. They should decide if tax forgiveness makes sense. All these taxing entities provide services which these new structures expect. Only they should decide if their portion of levy can be forgiven.

Our county auditor in Ward County told us that the portion of forgiven taxes is not included in the value of property of the county. It will not go on the books of the county till the

forgiveness has expired. So in reality the growth in counties, cities or even school districts are inaccurate until the forgiven portions are added to the tax roles.

The county commissions or city councils are not elected by these political subdivisions and in most if not all cases have no idea how these forgiveness affects the schools or any other subdivisions budgets and whether the full tax revenue is needed to provide the services expected by the new development. Also I challenge anybody to be able to prove that these tax incentives are truly a tool that encourages growth that wouldn't have happened. Is it creating growth beyond what other taxpayers are being asked to pick up? Currently in Ward County there are no statistics kept as to how many dollars of exemption are on the books. I don't know if any counties are keeping accurate records of the total amount of exemptions acted on in their jurisdictions. How can it be stated that this encourages growth of tax base when it is not being tracked as to how the amounts being exempted? I have asked for the number and a process in our county to track this and expect we will be advised soon how this can be done.

Another issue we question is the legality of such actions by cities or counties. Can or should any political subdivision step on the authority given to another when these forgiveness are granted? We don't believe ethically or legally they should. When the North Dakota legislature allowed homestead exemptions they were wise in authorizing payments to the counties which funded the property tax forgiveness given. We understand it is also being considered to fund the lost revenue for veteran's exemptions as well. It would make sense for the state to do that as well, seeing as it was the state that authorized the exemptions. Ward County has seen many of these exemptions applied for over the past years.

There is so much discussion about the burden of property taxes, here at the legislature and on the local level, comments about the burden of them and a lot of finger pointing on who is to blame for the burden. There are only a couple of ways to keep taxes in check. Increasing the amount special exemptions for selected new property hasn't been proven to lower property taxes. Spreading the property tax across current taxable property without blanket type special exemptions for new property, keeping a tight rein on local budgets should help to keep property taxes in check. Having each taxing entity approve these types of exemptions will also address the accountability of each political subdivision. If property taxes are harmful to the growth and sustainability in this state then local political subdivisions should decide what is fair or needed for their of their portion of the tax bill. If that is not what economic development groups care for maybe be property taxes should be eliminated entirely so all can benefit. Decisions of property tax forgiveness should be approved by the entities that are affected. We encourage and hope you give a do pass and work for complete passage of HB 1444.

John Fjeldahl Ward County Commissioner Berthold, N. Dak. 58718 Jerome Gruenburg Ward County County Commissioner Burlington, N. Dak.

Jim Lee Former Ward County Commissioner Max N. Dak.

Sorry we may not able to attend the hearing today because of weather and road conditions. Feel free to contact us with any questions. Thank you for your time.

#3



# Testimony of Bill Shalhoob Economic Development Association of North Dakota ND Chamber of Commerce HB 1444 February 12, 2009

Mr. Chairman and members of the committee, my name is Bill Shalhoob. I am representing two groups, the Economic Development Association of North Dakota (EDND), and the ND Chamber of Commerce.

EDND is the voice of the state's economic development community and provides networking for its 80 members, which include development organizations, communities, businesses and state agencies. Our mission is to increase economic opportunities for residents of the state by supporting primary sector growth, professionalism among economic development practitioners and cooperation among development organizations.

The North Dakota Chamber of Commerce is the principle business advocacy group in North Dakota. Our organization is an economic and geographical cross section of North Dakota's private sector and also includes state organizations, local chambers of commerce development organizations, convention and visitors bureaus and public sector organizations. For purposes of this hearing we are also representing eight local chambers with a total membership of 4,650 members. A list of those groups is attached.

Both organizations stand in opposition to HB 1444 and urge a do not pass from the committee on this bill.

We understand the desire to protect one political subdivision from another but believe a statute like this will be counter productive to development and could actually decrease revenues in the long term. Success in our economic development effort hinges on many things, which very much include the ability to give property and other tax credits to business expanding or relocating. One of our most successful internal programs, Renaissance Zones, uses a combination of property and income tax credits to encourage a desired policy result, the redevelopment of down towns in forty-four municipalities of all sizes throughout North Dakota. These projects may have a marginal return and could or would not be done without incentives. The same applies to attracting new businesses to our state. Like it or not, we compete with other states that offer property tax incentives and if enacted this bill would significantly affect our ability to attract new companies. The path to get a total property tax exemption becomes more complicated and thus more difficult. What are the repercussions when one entity's reluctance to give an exemption creates a deal breaker for the project?

HB 1444, Shalhoob, Page 1

Development and growth are good things. Abatements have a short life and taxing entities receive the full benefit of growth and expansion after a short period. Without a project there wouldn't be either a short or long term benefit.

EDND and the ND Chamber believe HB 1444 will hurt development in North Dakota by unnecessarily complicating and encumbering the process. We urge a do not pass. I would be happy to answer any questions.

#4



## The following chambers are members of a coalition that support our 2009 Legislative Policy Statements:

Beulah Chamber of Commerce

Bismarck-Mandan Chamber of Commerce

Chamber of Commerce of Fargo Moorhead

Devils Lake Area Chamber of Commerce

Grafton Area Chamber of Commerce

Greater Bottineau Area Chamber of Commerce

Harvey Area Chamber of Commerce

Hettinger Area Chamber of Commerce

Jamestown Area Chamber of Commerce

Kenmare Association of Commerce

Minot Chamber of Commerce

North Dakota Chamber of Commerce

Oakes Area Chamber of Commerce

Wahpeton Breckenridge Chamber of Commerce

Williston Chamber of Commerce

Total Businesses Represented = 6,500 members