

Senate Finance and Taxation Committee ----- Chair Jessica Bell

The original proposed legislation resulted after a request from the Valley City Director of Development with the Valley City-Barned County Development Corporation. The ask was reasonable or so I thought.

In existing code (see below), subsection 35 of 57-02-08 allowed an **OPTIONAL** residential property tax exemption for new construction **UP TO** \$150,000 of the true and full value. The original proposed legislation was to increase the current \$150,000 to **UP TO** \$250,000 and increase the number of years to 5 (at the time of introduction in the House an amendment was offered by the sponsor to revert to 2 years).

57-02-08 35. Up to one hundred fifty thousand dollars of the true and full value of all new single-family and condominium and townhouse residential property, exclusive of the land on which it is situated, is exempt from taxation for the first two taxable years after the taxable year in which construction is completed and the residence is owned and occupied for the first time if all of the following conditions are met: a. The governing body of the city, for property within city limits, or the governing body of the county, for property outside city limits, has approved the exemption of the property by resolution. A resolution adopted under this subsection may be rescinded or amended at any time. The governing body of the city or county may limit or impose conditions upon exemptions under this subsection, including limitations on the time during which an exemption is allowed. b. Special assessments and taxes on the property upon which the residence is situated are not delinquent

The original intent of the bill is not the current version (21.0737.03000) before you. This version has an unsolicited amendment from the House Finance and Taxation Committee that states the property tax exemption would now require a vote of the majority of the qualified electors voting upon the question at a regular or special election. Additionally, a resolution approved under this subsection and each subsequent resolution remain in effect for 10 taxable years, or the time period approved by the voter, whichever expires first and may be rescinded or amended at any time.

Requiring a vote of the people is problematic based on the following three points:

1. Requiring a vote of the people would affect those individuals who are currently receiving the residential property tax exemption.
2. No other tax exemptions offered by a city are required to be approved by the vote of the people. A vote of the people commonly applies to granting a political subdivision increased or excess levy authority, rather than granting a political subdivision the authority to provide an exemption from property tax. Property tax exemptions, other than those contained in North Dakota Century Code Section 57-02-08, and the requirements for granting those exemption include:

- Renaissance zone property tax exemption (Chapter 40-63) – the partial or total 5 year property tax exemption under the renaissance zone program is not subject to a vote of the people. However, when a city submits a development plan for a zone to the department of commerce for approval, the development plan must include letters of support from the governing bodies of any county or school district having property located within the zone because the property tax revenue of those political subdivisions will be impacted by the decreased revenue resulting from the property tax exemption.
- Tax increment financing (Chapter 40-58) – under this program, as an alternative to the sale of bonds to be amortized with tax increments, the governing body of a city may grant a partial or total property tax exemption for a project developer, up to the amount of the increment, for a period not to exceed 15 years. This exemption is not subject to a vote of the people. However, a city is required to have a public hearing regarding the development project and is required to send letters to each county and school district anticipated to be impacted by a property tax incentive that will extend for more than 5 years. Pursuant to Section 40-05-24, an effected county or school district has 30 days to notify the city in writing of the county's or school district's election not to participate in granting the property tax exemption on the portion of the tax levied by the county or the school district.
- New and expanding business property tax exemption (Chapter 40-57.1) – under this program, a county or city may grant a partial or complete exemption from property tax on a project for up to 5 years. A county or city with a population of fewer than 40,000 may grant a full or partial exemption to a retail sector business if the power to grant this type of exemption has been approved by a majority of the qualified electors voting on the question. A city or county offering the exemption also is required to comply with the provisions of Section 40-05-24.

3. The existing language in 57-02-08 aligns with, or mirrors, subsection 42 of 57-02-08 – Property exempt from taxation (see below). This is a property tax exemption allowed to the builder of new residential property if the governing body of the city approves by resolution. (note: no limit on valuation)

57-02-08. Property exempt from taxation.

All property described in this section to the extent herein limited shall be exempt from taxation:

42. a. New single-family residential property, exclusive of the land on which it is situated, is exempt from assessment for the taxable year in which construction began and the next two taxable years, if the property remains owned by the builder, remains unoccupied, and all of the following conditions are met:

(1) The governing body of the city, for property within city limits, or the governing body of the county, for property outside city limits, has approved the exemption of property under this subsection by resolution. A resolution adopted under this subsection may be rescinded or amended at any time. The governing body of the city or county may limit or impose conditions upon exemptions under this subsection, including limitations on the time during which an exemption is allowed.

(2) Special assessments and taxes on the property upon which the residence is situated are not delinquent. b. A builder is eligible for exemption of no more than ten properties under this subsection in a taxable year within each jurisdiction that has approved the exemption under this subsection. For purposes of this subsection, "builder" includes an individual who builds that individual's own residence

The \$150,000 limit was enacted in 2009. Since that time, the cost of building materials has increased. Within the last year, due to the pandemic, contractors have stated that building materials have increased 35% to 40%.

Again, to offer the property tax exemption for new residential construction is optional - *it is local control*. Valley City requested the valuation increase to \$250,000 to encourage housing development. Additional communities, Hankinson to name one, would appreciate the increase since it could attract people exiting major metropolitan areas due to the pandemic and unrest. This would benefit the North Dakota communities -- it was described as another tool in the toolbox to incentivize residential housing development. The communities that do not need any increased incentives are not required to utilize this exemption, nor are communities required to use the entire \$250,000 limit.

*My request to the Senate Finance and Taxation Committee is to amend the bill as per Amendment 21.0737.03003. This amendment changes the \$150,000 to \$250,000: **Up to two hundred fifty thousand dollars** of the true and full value of all new single-family and condominium and townhouse residential property, exclusive of the land on which it is situated, is exempt from taxation for the first two taxable years... retaining the same language that is currently in code for the remainder of the section.*

Thank you for your time and I respectfully ask for your consideration of the amendment offered *and with the amendment*, a recommendation from the committee for a do pass.

Respectfully submitted by Cindy Schreiber-Beck, District 25 Representative

As a note, the actual tax exemption that could be offered in Valley City follows.

- \$150,000 exemption amounts to \$489 per year
- \$250,000 exemption amounts to \$814 per year – an increase of \$325