



TAXATION COMMITTEE

Thursday, August 24, 2023
Room 327C, State Capitol
Bismarck, North Dakota

Representative Jared Hagert, Chairman, called the meeting to order at 12:30 p.m.

Members present: Representatives Jared Hagert, Jason Dockter, Jim Grueneich, Patrick Hatlestad, Donna Henderson, Jim Kasper, Ben Koppelman, Mike Motschenbacher, Randy A. Schobinger*, Vicky Steiner; Senators Jordan L. Kannianen, Doug Larsen, Randy D. Lemm, Merrill Piepkorn, Mark F. Weber

Member absent: Representative Craig Headland

Others present: Senators Brad Bekkedahl, Williston, and Janne Myrdal, Edinburg, and Representative Glenn Bosch, Bismarck, members of the Legislative Management

See [Appendix A](#) for additional persons present.

**Attended remotely*

Ms. Megan J. Gordon, Counsel, Legislative Council, presented a memorandum entitled [Supplementary Rules of Operation and Procedure of the North Dakota Legislative Management](#).

REPORT

Ms. Emma Cook, Community Development Liaison, Division of Community Services, Department of Commerce, provided information ([Appendix B](#)) regarding the annual report pertaining to renaissance zone progress as required by North Dakota Century Code Section 40-63-03(2), and the summary of reports provided by cities that have renaissance zone property included in a tax increment financing district as required by Section 40-63-03(10). She noted:

- The benefits realized by the 45 projects completed in 2022 amounted to \$3,322,326 in income tax exemptions and \$2,226,657 in property tax exemptions.
- Since the inception of the renaissance zone program, 2,038 projects have been approved and 1,580 projects have been completed.
- A survey of renaissance zone communities conducted in 2022 indicated renaissance zones created 11 new businesses, 7 business expansions, and 39 new jobs.
- The renaissance zone program is functioning as intended and is serving as a tool for economic development and revitalizing communities.

In response to a question from a committee member, Ms. Rikki Roehrich, Deputy Director, Division of Community Services, Department of Commerce, noted the Department of Commerce was involved in a study of the return on investment of the renaissance zone program in 2017.

AGRICULTURAL COMMODITY STORAGE STRUCTURE PROPERTY TAX EXEMPTION STUDY

Ms. Gordon presented a memorandum entitled [Property Tax Exemption for Agricultural Commodity Storage Structures Study - Background Memorandum](#).

Mr. Brian Kroshus, Tax Commissioner, provided information ([Appendix C](#)) regarding guidance provided by the Tax Department to local taxing districts related to administration of the farm structure property tax exemption under Section 57-02-08(15), particularly related to agricultural commodity storage structures. He noted:

- To be exempt from property tax under Section 57-02-08(15), farm structures and improvements must be located on agricultural lands as defined in Section 57-02-01(11).
- The Tax Department publishes a guideline to provide guidance to taxing districts regarding the applicability of the exemption for farm buildings and other improvements under Section 57-02-08(15).

In response to questions from committee members, Mr. Kroshus noted:

- Local assessors determine whether a structure meets the qualification criteria for the farm structure property tax exemption.
- A property owner dissatisfied with the valuation or classification of property has the right to contest the assessment to the local, county, and state boards of equalization.
- Local assessors take courses to become certified which are supported by the Tax Department.

A committee member shared information ([Appendix D](#)) from a constituent regarding concerns related to taxation of potato storage structures.

Ms. Terin Riley, representing interested persons and farmers from Pembina County, provided comments regarding the taxation of agricultural commodity storage structures. She noted:

- Concerns exist regarding the inconsistent application of the definition of "agricultural property" across taxing districts.
- Amending the definition of "agricultural property" to include a specific definition of the term "raising crops" would provide clarity to assessors and local taxing districts.
- The term "raising crops" within the definition of "agricultural property" should be defined specifically to include storage of agricultural commodities.

In response to a question from a committee member, Ms. Riley noted the farmers she represents do not have potato wash plants, but rather use water and airflow to condition potatoes to conform with good agricultural practices. She noted the process used by potato wash plants is more industrial in nature as compared to the process used to condition potatoes for storage.

Mr. Loren Estad, Crystal, North Dakota, provided testimony related to the study. He noted:

- He purchased land and built a potato warehouse in 2009, and the property later was surrounded by commercial facilities.
- A number of years later and without a change in use of the land, his land was reclassified from agricultural property to commercial property, and his taxes increased from approximately \$137 in one year to \$32,000 in the next year due to the reclassification.
- There is concern regarding the inconsistent application of the farm structure property tax exemption across taxing districts.

Mr. Donald Heichert, Hensel, North Dakota, provided testimony related to the study. He noted his potato warehouse storage structures were reclassified from agricultural property to commercial property for purposes of property tax assessment near the same time Mr. Estad's structure was reclassified. He also noted concern regarding the inconsistent application of the farm structure property tax exemption across taxing districts.

Mr. Dave Moquist, Crystal, North Dakota, provided testimony related to the study. He noted:

- Most of his farm buildings are for storage, but small portions of certain buildings are used for washing, sorting, and bagging the potatoes.
- He was granted the farm structure property tax exemption for the storage buildings on his property in the early 2000s for a number of years until the land was reclassified from agricultural property to commercial property without notice.
- There is concern regarding the inconsistent application of the farm structure property tax exemption across taxing districts.

Committee members noted the importance of considering the potential shift in tax burden that may result from changes to property tax calculations for agricultural storage facilities located on commercial land and recognizing

the value of local services received by owners of agricultural storage structures located on commercial land. Committee members also expressed concern regarding the inconsistent application of the farm structure exemption and application of the definition of agricultural property across taxing districts.

SPECIAL ASSESSMENTS AGAINST POLITICAL SUBDIVISIONS STUDY

Ms. Gordon presented a memorandum entitled [*Special Assessments Levied Against Political Subdivisions - Background Memorandum*](#).

Ms. Shelli Myers, State Supervisor of Assessments, Tax Department, provided information ([Appendix E](#)) regarding property tax and special assessment data reported by the counties to the Tax Department. She noted:

- Each county auditor is statutorily required to prepare and transmit to the Tax Commissioner a complete abstract of the county tax list, which includes the taxable valuation of property subject to general property tax, general and special property taxes levied by the state and its political subdivisions, taxes levied on classes of property, county mill rates, and ad valorem and special property taxes per capita.
- The information in the abstract is compiled into a statistical report, which is published annually by the Tax Department and is available on the Tax Department's website.
- The tax levy reporting lookup tool on the Tax Department's website enables users to view property tax information reported to the Tax Department by the political subdivisions, including data related to property taxes levied to pay special assessments assessed against property owned by a political subdivision.

In response to questions from committee members, Ms. Myers noted the Tax Department does not have an auditing mechanism for political subdivision data reported to the Tax Department related to property tax levies.

The committee received written testimony ([Appendix F](#)) from Mr. Levi Bachmeier, Business Manager, West Fargo Public Schools, related to the special assessments against political subdivisions study.

REPORT

Ms. Myers provided information ([Appendix G](#)) regarding the statewide property tax increase report ([Appendix H](#)) as required by Section 57-20-04. She noted the report contains mill levy increases or decreases each year for school district levies, city park levies, citywide levies, and countywide levies.

ECONOMIC DEVELOPMENT TAX INCENTIVES STUDY

Ms. Gordon presented a memorandum entitled [*Economic Development Tax Incentives Review - Background Memorandum*](#).

Mr. Matt Marshall, Economic Development Administrator, Minnkota Power Cooperative, and Secretary/Treasurer, Economic Development Association of North Dakota, provided information ([Appendix I](#)) related to the economic development tax incentives study. He noted:

- The Economic Development Association of North Dakota represents more than 80 state economic development organizations in North Dakota.
- Incentives offered by state and local governments are an important and effective means to meet strategic goals.
- The Economic Development Association of North Dakota recommends the committee study during the 2023-34 interim the renaissance zone credits and exemptions, biodiesel fuel credits, internship program credit, angel fund investment credit, workforce recruitment credit, and sales and use tax exemption for materials used to construct a fertilizer or chemical processing facility.

In response to a question from a committee member, Mr. Marshall noted the importance of reviewing the goals and objectives of the economic development tax incentives during the evaluation process.

Committee Discussion and Selection of Economic Development Tax Incentives for Review During the 2023-24 Interim

The committee reviewed and discussed the list of economic development tax incentives provided in Section 54-35-26 which have yet to be studied during the current 6-year review cycle.

It was moved by Representative Hatlestad, seconded by Representative Steiner, and carried on a roll call vote that the committee select the following seven economic development tax incentives provided under Section 54-35-26 for analysis during the 2023-24 interim:

- **Renaissance zone credits and exemptions;**
- **Biodiesel fuel production facility construction or retrofit credit, biodiesel fuel blending credit, and biodiesel fuel equipment credit;**
- **Internship program credit;**
- **Angel fund investment credit;**
- **Workforce recruitment credit;**
- **Sales and use tax exemption for materials used to construct a fertilizer or chemical processing facility; and**
- **Development or renewal area incentives.**

Representatives Hagert, Grueneich, Hatlestad, Henderson, Kasper, Motschenbacher, Schobinger, Steiner and Senators Kannianen, Larsen, Lemm, Piepkorn, and Weber voted "aye." No negative votes were cast.

No further business appearing, Chairman Hagert adjourned the meeting at 3:45 p.m.

Megan J. Gordon
Counsel

ATTACH:9