MACEDC Effects of Measure 4 - Property Tax Measure Meeting
Monday, September 23, 2024, at 12:00 PM
Sleep Inn & Suites, 2400 10th St SW
Any person needing special accommodation for the meeting is requested to notify the City Clerk's office at 857-4752.

1. Effects of Measure 4 - Property Tax Measure Featuring Senate Majority Leader David Hogue

   1.1. EFFECTS OF MEASURE 4 - PROPERTY TAX MEASURE

   **North Dakota voters will decide this fall whether to eliminate property taxes in what would be a first for a state and a major change that officials initially estimate would require more than $1 billion every year in replacement revenue.**

   **According to the Associated Press, Secretary of State Michael Howe's office said that backers submitted more than enough signatures to qualify the constitutional initiative for the November general election. Voters rejected a similar measure in 2012.**

   **The ballot measure would present a monumental task for the Legislature's budget writers, who would have to rethink funding of myriad items, said Republican state Rep. Don Vigesaa, who leads the House Appropriations Committee. The Legislature's research agency already has put together a tentative list of areas and programs where funding could be taken, such as the state's "Operation Prairie Dog" infrastructure fund, he said.**

   **Senator David Hogue will be the keynote speaker with a presentation that outlines the impact of the property tax measure on North Dakota.**

   **A quorum of the City Council was in attendance at the informational meeting on the Effectos of Meaure 4 - Property Tax Measure.**

# Minot Chamber EDC Meeting
# September 23, 2024

# Measure 4: The Constitutional Proposal

- Prohibits political subdivisions from levying taxes based on the assessed value of real property

- Requires state to “replace” property tax revenue equal to amount of tax levied by political subdivisions in 2024.  That amount is $ 3.15 billion per biennium.

- Eliminates issuance of general obligation bonds backed by property tax revenues after effective date of proposal

# What are trends in property tax increases?

Tax liability annual increases for property owners has been approximately 4.5% for years 2018-2022.

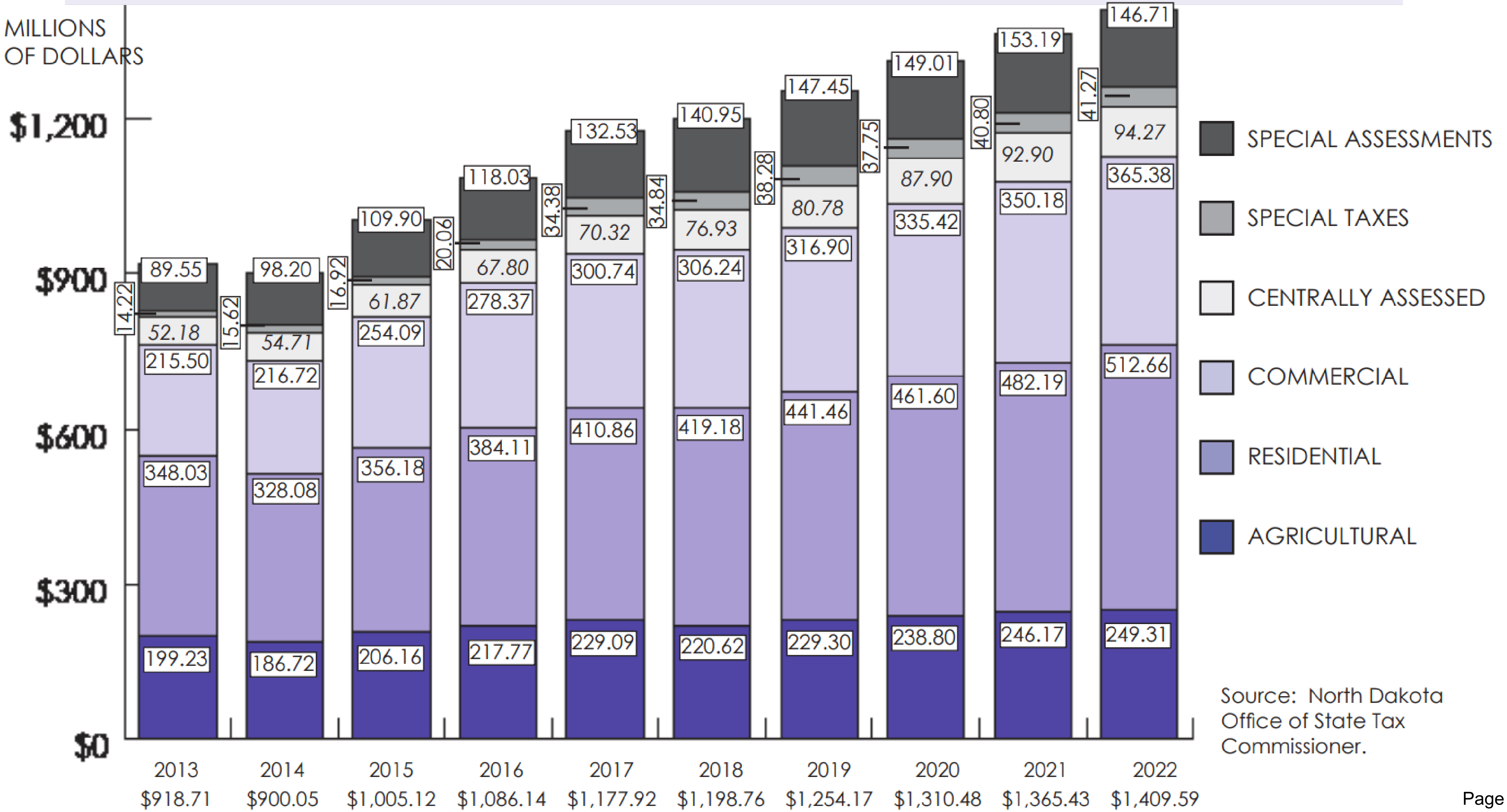
Our  aggregate CPI over past 10 years is 39.3%, or 3.9% per year

Source: ND Redbook, page 72; ND Legislative Council

# Property tax increases for last 10 years in 8 major cites in ND

| Average of Selected Cities | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | True and Full Value of Property | | | | | | | Property Tax Levy | | | | | | |
| Year | Property | Annual Percentage Increase | | | Cumulative Percentage Increase | | | Tax | Annual Percentage Increase | | | Cumulative Percentage Increase | | Effective |
| Levied | Value | Property | CPI | Variance | Property | CPI | Variance | Levy | Tax | CPI | Variance | Tax | CPI | Variance | Tax Rate |
| 2014 | $200,000 | | | | | | | $2,512 | | | | | | | 1.26% |
| 2015 | $212,348 | 6.17% | 2.98% | 3.19% | 6.17% | 2.98% | 3.19% | $2,493 | (0.79%) | 2.98% | (3.77%) | (0.79%) | 2.98% | (3.77%) | 1.17% |
| 2016 | $221,407 | 4.27% | 3.28% | 0.99% | 10.70% | 6.36% | 4.34% | $2,594 | 4.07% | 3.28% | 0.79% | 3.25% | 6.36% | (3.11%) | 1.17% |
| 2017 | $218,516 | (1.31%) | 3.52% | (4.83%) | 9.26% | 10.11% | (0.85%) | $2,703 | 4.20% | 3.52% | 0.68% | 7.59% | 10.11% | (2.52%) | 1.24% |
| 2018 | $218,158 | (0.16%) | 3.13% | (3.29%) | 9.08% | 13.55% | (4.47%) | $2,783 | 2.98% | 3.13% | (0.15%) | 10.79% | 13.55% | (2.76%) | 1.28% |
| 2019 | $223,492 | 2.45% | 3.37% | (0.92%) | 11.75% | 17.37% | (5.62%) | $2,865 | 2.92% | 3.37% | (0.45%) | 14.03% | 17.37% | (3.34%) | 1.28% |
| 2020 | $230,949 | 3.34% | 3.31% | 0.03% | 15.47% | 21.25% | (5.78%) | $2,954 | 3.11% | 3.31% | (0.20%) | 17.57% | 21.25% | (3.68%) | 1.28% |
| 2021 | $232,873 | 0.83% | 1.47% | (0.64%) | 16.44% | 23.03% | (6.59%) | $3,033 | 2.68% | 1.47% | 1.21% | 20.72% | 23.03% | (2.31%) | 1.30% |
| 2022 | $248,953 | 6.91% | 4.74% | 2.17% | 24.48% | 28.86% | (4.38%) | $3,296 | 8.69% | 4.74% | 3.95% | 31.22% | 28.86% | 2.36% | 1.32% |
| 2023 | $266,674 | 7.12% | 8.10% | (0.98%) | 33.34% | 39.30% | (5.96%) | $3,570 | 8.31% | 8.10% | 0.21% | 42.12% | 39.30% | 2.82% | 1.34% |

# AD VALOREM AND SPECIAL TAXES BY PROPERTY CLASS
## FOR TAXES PAYABLE IN 2013-2022




Source: North Dakota Office of State Tax Commissioner.

# What are effective rates by valuation?

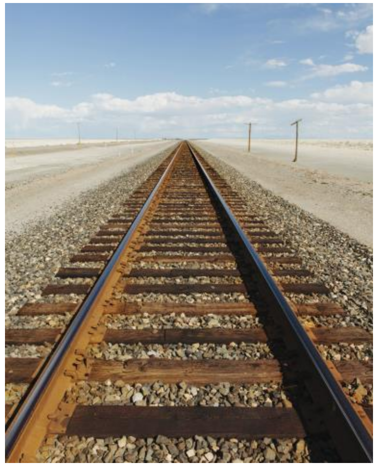
## EFFECTIVE RATES BY CLASSIFICATION

### PAYABLE IN 2020, 2021, AND 2022

| PROPERTY CLASSIFICATION | EFFECTIVE RATE 2020 | 2021 | 2022 |
|---|---|---|---|
| Residential | 1.16% | 1.1% | 1.18% |
| Agricultural | 0.97% | 0.98% | 0.98% |
| Commercial | 1.23% | 1.23% | 1.26% |
| Centrally Assessed* | 0.76% | 0.75% | 0.76% |

# What is amount of property tax revenue the state must replace?

- Lost revenue state needs to replace is $ 1.57 billion per year or $ 3.15 billion for the biennium.
- This amount includes: commercial property, residential property, agricultural land, wind turbines, and most centrally assessed property, e.g., railroads, pipelines, air carriers, publicly traded utilities.



# What are options of replacing $ 3.15 Billion of property tax revenue

- Budget cuts?
- New taxes?
- Reductions in other payments to political subdivisions?
- Spend from “rainy day” funds?  E.g., Budget Stabilization, Legacy Fund, Strategic Investment and Infrastructure Fund, Common Schools Trust Fund?

# What are options for replacing **$ 3.15 Billion** of lost property tax revenue– other taxes

- Sales Tax: based on current figures, 1% increase will raise **$ 484 million** per biennium.
- Corporate Tax: 10% increase yields **$ 38 million** per biennium.

- Motor Fuels Tax: 10 cent per gallon increase yields **$ 134 million** per biennium.
- Individual Income Tax: 10% increase yields **$ 87 million** per biennium
- How about elimination of previous sales tax exemptions? **$65 million**

# Total revenues from modest tax increases above

- Modest increases yields $ 808 million.

- Measure leaves open possibility of local taxes based on metrics.

- But it's clear we must replace the full 2024 levy.

# Budget Cuts?

- A general fund 5% reduction across state agencies yields $ 305 million per biennium.

- Unlikely we would not use judgment to pick and choose where to cut.

# Reducing what state otherwise provides to political subdivisions

- State Aid distribution for counties and cities: $ 243 million per biennium; a 10% cut thus yields $ 24.3 million
- Hub city funding for cities with large oil and gas workforce is $ 98 million; a 10% cut yields $9.8 million.
- Prairie Dog Funding: $ 230 million per biennium; a 10% cut yields $ 23 million
- Gross Production in lieu of property taxes is $ 512 million; a 10% cut thus yields $ 51.2 million
- Total savings from a 10% cut to these funds is: $ 108 million per biennium
- Note: DOT funding not included

# Modest Tax increases, 5% budget cut, and reductions in other payments

| | |
|---|---|
| • 5% General Fund Cut: | $ 305 million |
| • Modest Tax Increase: | $ 808 million |
| • Reduction in other payments | $ $108 million |
| | |
| Total | $ 1,221 million |

We’re not half way to the $ 3.15 billion.

# IV. What about rainy day funds?

- Emptying **some** bank accounts is possible but not sustainable.

- Some funds are protected by constitutional restrictions which the legislature is not able to access; other funds used for dedicated purpose such as water projects.

- Budget Stabilization fund:
  - Hoping for ending balance of **$ 914 million**.

# Legacy Fund

- Current estimate of value is $ 10.6 billion
  - Constitution forbids spending of principal w/o 2/3rds vote of legislature and then only fraction. See November 2024 results: 15% or 5%?
  - How about spending all of the projected $ 584.5 million earnings of Legacy Fund?
    - $ 102.6 million to bond repayments
    - $ 100 million to highway tax distribution fund
    - $ 225 million for tax relief fund
    - Realistically: $ 150 million to 200 million available for meeting $ 3.15 billion obligation

# Common Schools Trust Fund

- Common Schools Trust Fund projected 2024 balance is $ 6.22 Billion

- Fund is constitutionally protected and dedicated to k-12 education.

- Established with statehood.

# V. What about Common School Trust Fund?

- Common Schools Trust Fund is not available for purposes unrelated to k-12 education but its continued growth will help.

| | | | |
|---|---|---|---|
| | [illegible] | [illegible] | [illegible] |
| 2009-11 | 2010 | $846,314,086 | $38,589,000 |
| | 2011 | $1,221,501,801 | $38,589,000 |
| 2011-13 | 2012 | $1,622,412,984 | $46,257,000 |
| | 2013 | $1,917,135,220 | $46,257,000 |
| 2013-15 | 2014 | $2,417,363,782 | $65,163,000 |
| | 2015 | $3,128,315,233 | $65,163,000 |
| 2015-17 | 2016 | $3,437,988,002 | $103,067,000 |
| | 2017 | $3,512,355,582 | $103,067,000 |
| 2017-19 | 2018 | $3,940,114,988 | $144,132,000 |
| | 2019 | $4,318,989,728 | $144,132,000 |
| 2019-21[1] | 2020 | $4,651,515,837 | $183,378,000 |
| | 2021 | $4,628,066,674 | $183,378,000 |
| 2021-23 | 2022 | $5,736,576,906 | $210,510,000 |
| | 2023 | $5,655,342,224 | $210,510,000 |
| 2023-25 | 2024 | $6,216,075,290 | $249,930,000 |

# Is Common Schools Trust Fund paying k-12?

- Generating $ 249 million of distributions for 2024
- School district expenditures 2021-22 school year were $ 2.35 billion

# How about Resources Trust Fund?

- Resources Trust fund is constitutionally dedicated to water projects; however
  - Amount that goes into fund is set by legislature, currently 20.5% of oil extraction tax
  - This fund generates $ 439 million per biennium for water projects
  - Legislature could "siphon" off some revenue to meet property tax replacement obligation
  - Realistically: zero to $ 100 million

# What about Budget Stabilization Fund

- Budget Stabilization Fund sits and is capped at $ 914 million
- State's rainy fund for downturn in oil and gas prices.
- State would not put itself in jeopardy of insolvency so full amount is not available.
- However, $ 300 million is realistic amount, given foundational stabilization fund is back up for portion of general fund obligations.

# What about Strategic Investment, Infrastructure Fund (SIIF)

- Projected to have a $ 1.5 Billion unobligated balance
- Fund entirely dependent on oil and gas industry revenue
- Fund used to make game changing investments for state economy
- Realistic contribution of one time funding of $ 400 million

# Realistic one time draws on established fund

| | |
|---|---|
| • Legacy Fund Earnings: | $ 175 million |
| • Resources Trust Fund: | $ 100 million |
| • Budget Stabilization Fund: | $ 300 million |
| • SIIF Fund: | $ 400 million |
| • Total | $ 975 million |

# Summary of replacing $ 3.15 billion of Property Taxes

| | |
|---|---|
| • 5% General Fund reduction: | $ 305 million |
| • Modest Tax Increase: | $ 808 million |
| • Reduction in other payments | $ $108 million |
| subtotal | $ 1,221 million |
| Add use of established funds: | $ 975 million |
| Total: | $ 2,196 million |

# Questions