

2021 HOUSE JUDICIARY

HCR 3041

2021 HOUSE STANDING COMMITTEE MINUTES

Judiciary

Room JW327B, State Capitol

HCR 3041

3/8/2021

Relating to property tax exemptions.

Chairman Klemin called the hearing to order at 10:00 AM.

Present: Representatives Klemin, Karls, Becker, Buffalo, Christensen, Cory, Jones, Magrum, Paulson, Paur, Roers Jones, Satrom, and Vetter. Absent: K. Hanson

Discussion Topics:

- Homestead tax credit
- Legal residence exemption

Rep. Erteit: Introduced bill. Testimony #7865

Terry Traynor: Association of Counties: Testimony #7727

Bill Wolken, League of Cities: Verbal testimony

Chairman Klemin closed the hearing at 10:19

Rep. Magrum: Do Pass Motion

Rep. Becker: Seconded

Roll Call Vote:

Representatives	Vote
Chairman Klemin	N
Vice Chairman Karls	N
Rep Becker	Y
Rep. Christensen	Y
Rep. Cory	Y
Rep T. Jones	Y
Rep Magrum	Y
Rep Paulson	Y
Rep Paur	N
Rep Roers Jones	N
Rep B. Satrom	N
Rep Vetter	Y
Rep Buffalo	N
Rep K. Hanson	A

7-6-1 Motion carried

Carrier: Rep. Vetter

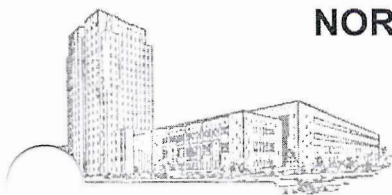
Additional written testimony: # 7742, #7787

Stopped 10:21

DeLores D. Shimek
Committee Clerk

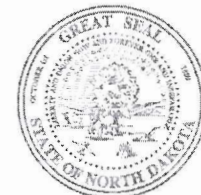
REPORT OF STANDING COMMITTEE

HCR 3041: Judiciary Committee (Rep. Klemin, Chairman) recommends **DO PASS** (7 YEAS, 6 NAYS, 1 ABSENT AND NOT VOTING). HCR 3041 was placed on the Eleventh order on the calendar.



NORTH DAKOTA HOUSE OF REPRESENTATIVES

STATE CAPITOL
600 EAST BOULEVARD
BISMARCK, ND 58505-0360



Representative Sebastian Ertelt

District 26
906 Ash Street
Lisbon, ND 58054-4316
sertelt@nd.gov

COMMITTEES:

Finance and Taxation
Political Subdivisions

March 8, 2021

Chairman Klemin and Members of the House Judiciary Committee,

I bring to you today, House Concurrent Resolution 3041, and urge a unanimous DO PASS recommendation.

HCR 3041 would submit to the qualified electors of the State of North Dakota a question of property ownership. It is a proposed amendment to the state constitution exempting property used as an individual's legal residence from property tax. It would remove the burden of taxation from one of the basic necessities of life, that of shelter, would grant this same privilege – dare I say, right – to all citizens.

The struck and new language found on page 1 and continuing through page 2 line 5 is simply rearrangement. The heart of the amendment is found in the new language of subsection d and the final sentence that is struck. The new language provides that any individual's legal residence, also known as primary residence, is exempt from property tax. The exemption is extended to any portion of any property class used for this purpose. It is necessary to strike the final sentence for the exemption to go into effect.

With a short visit to taxfoundation.org I found that some states provide a tax exemption for some of the necessities of life. Although not universally applied, the necessity of food is not taxed in North Dakota or 36 other states. Again, although not universally applied, our neighboring state of Minnesota and 11 other states recognize the necessity of clothing with a tax exemption. Unfortunately, no state seems to recognize the necessity of shelter with a tax exemption – well, at least not widely applied.

North Dakota has offered a property tax exemption on farm buildings including residences for a hundred years. The state has also offered a homestead property tax credit to those age 65 or older since 1969. This credit was ended to renters in 1973 and to the permanently and totally disabled in 1975. Far from shifting or redistributing

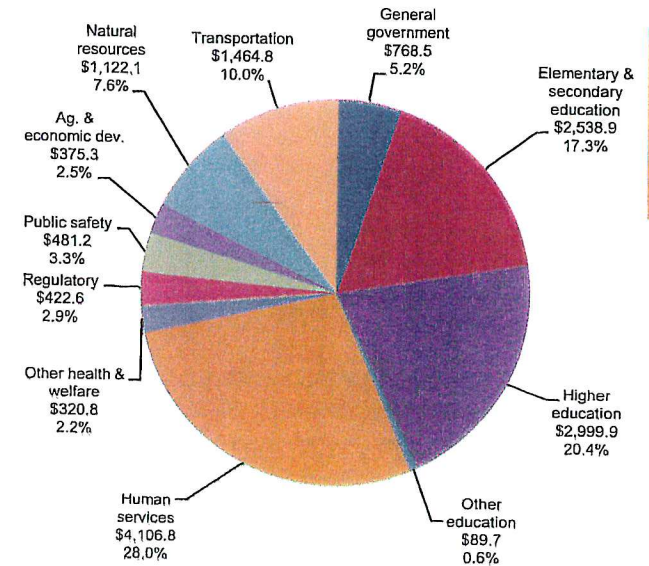
the tax burden to others, this amendment shifts or redistributes the tax exemption to all with a recognition that the necessity of shelter exists for all.

I acknowledge that political subdivisions will desire to find tax revenue to replace that currently levied on legal (primary) residences. To that end, I would urge them to look to the state where total appropriations increased over \$1 billion from the 2017-19 to 2019-21 biennium while political subdivisions are estimated to receive only \$20 million of that increase. Distributions from the Common Schools Trust Fund continue to grow with an increase of \$82 million from 2015-17 to 2017-19 and earnings from the Legacy Fund are expected to top \$510 million in 2021 and \$630 million in 2023. In short, the state has the means to offer this property tax relief to all North Dakota citizens.

It is said that your home is your castle, meaning that you exercise all rights over it. Let's make this closer to a reality for the individuals and families of North Dakota by granting them a measure of sovereignty over the place where they lay their heads with a DO PASS recommendation of HCR 3041.

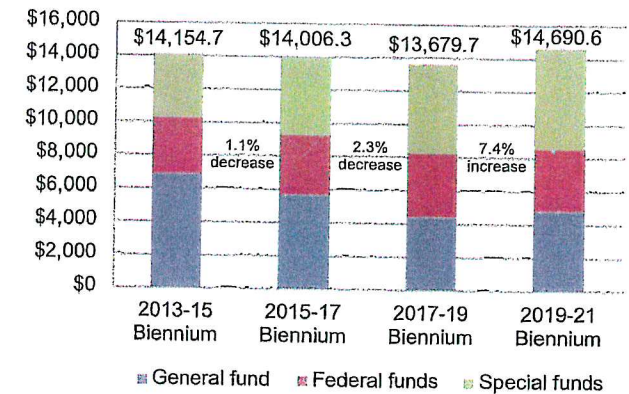
2019-21 BIENNIUM ALL FUNDS APPROPRIATIONS (Amounts Shown in Millions)

Total - \$14,690.6



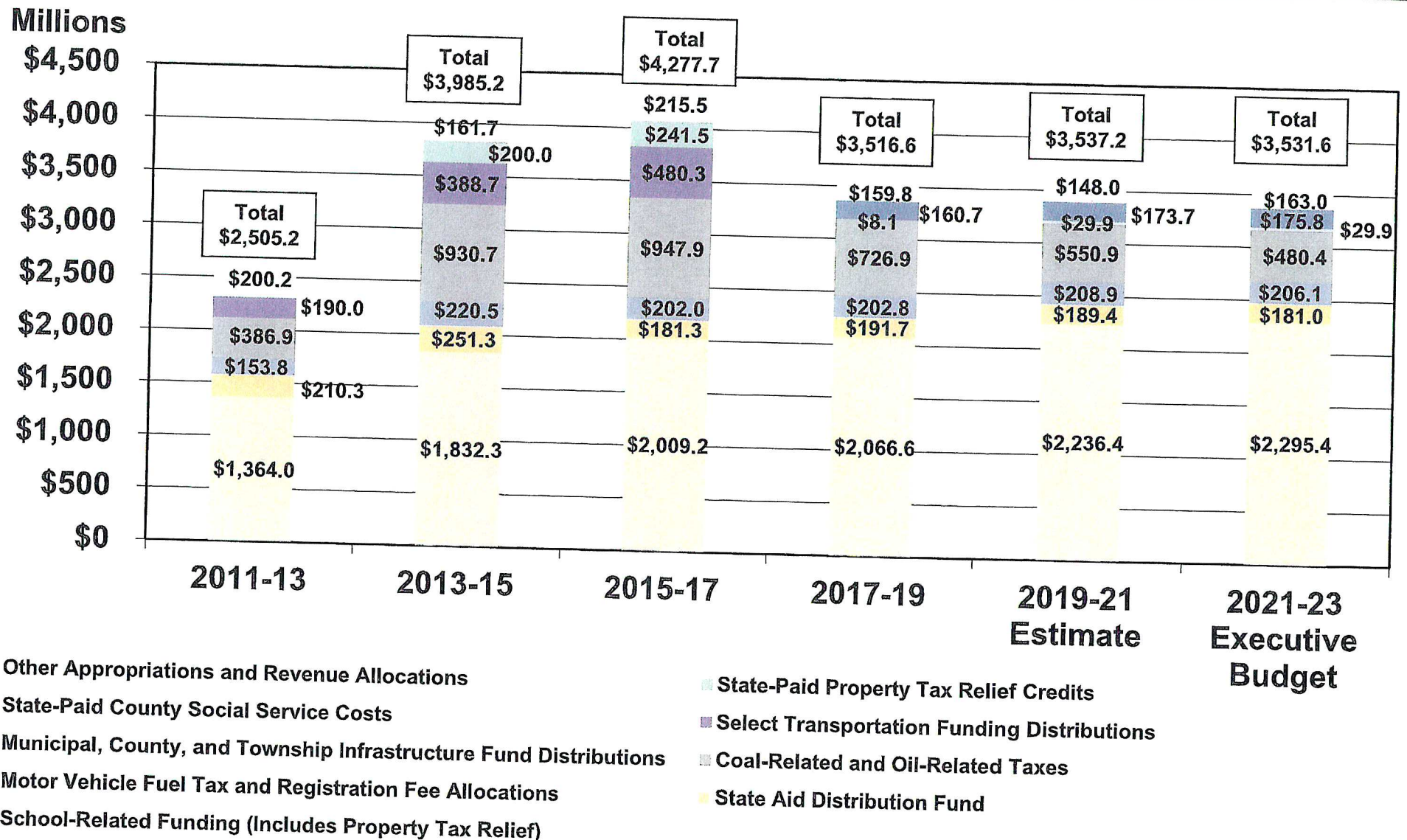
State Budget

HISTORY OF TOTAL APPROPRIATIONS (Amounts Shown in Millions)



Biennium	(Amounts Shown in Millions)			
	General Fund	Federal Funds	Special Funds	Total
2013-15	\$6,879.7	\$3,392.8	\$3,882.2	\$14,154.7
2015-17	\$5,687.3	\$3,591.2	\$4,727.8	\$14,006.3
2017-19	\$4,425.8	\$3,821.6	\$5,432.3	\$13,679.7
2019-21	\$4,843.6	\$3,905.9	\$5,941.1	\$14,690.6

Major Direct Assistance to Political Subdivisions (Including School-Related Funding)





North Dakota Legislative Council

Prepared for the Legacy Fund Earnings Committee

LC# 21.9385.01000

September 2020

COMMON SCHOOLS TRUST FUND - INVESTMENTS AND DISTRIBUTIONS

INVESTMENT EARNINGS AND DISTRIBUTIONS

The schedule below provides information on the common schools trust fund balance, returns, investment earnings, and annual distributions for the 2009-11 biennium through the 2017-19 biennium. After voter approval in November 2006, the constitutional change to implement the percent of market value distribution method became effective for the 2009-11 biennium. The amounts shown reflect information from reports published by the Department of Trust Lands. The investment earnings include investment income, loan income, changes in fair value of investments, and securities lending income. In addition to the investment earnings, revenues of the common schools trust fund include royalties, leasing bonuses, rental income, unclaimed property deposits, and oil extraction tax allocations, which increase the balance of the fund.

Date	Ending Balance	Annual Net Return	Investment Earnings ¹	Annual Distributions ²	Variance
June 30, 2010	\$1,221,501,801	14.48%	\$124,285,446	\$38,589,000	\$85,696,446
June 30, 2011	\$1,622,412,984	17.99%	\$228,535,266	\$38,589,000	\$189,946,266
2009-11 biennium total			\$352,820,712	\$77,178,000	\$275,642,712
June 30, 2012	\$1,917,135,220	2.42%	\$48,115,266	\$46,257,000	\$1,858,266
June 30, 2013	\$2,417,363,782	10.65%	\$213,314,618	\$46,257,000	\$167,057,618
2011-13 biennium total			\$261,429,884	\$92,514,000	\$168,915,884
June 30, 2014	\$3,128,315,233	13.85%	\$356,700,569	\$65,163,000	\$291,537,569
June 30, 2015	\$3,437,988,002	.50%	\$20,267,207	\$65,163,000	(\$44,895,793)
2013-15 biennium total			\$376,967,776	\$130,326,000	\$246,641,776
June 30, 2016	\$3,512,355,582	(0.63%)	(\$10,783,207)	\$103,067,000	(\$113,850,207)
June 30, 2017	\$3,940,114,988	9.50%	\$345,248,373	\$103,067,000	\$242,181,373
2015-17 biennium total			\$334,465,166	\$206,134,000	\$128,331,166
June 30, 2018	\$4,318,989,728	6.50%	\$265,743,785	\$144,132,000	\$121,611,785
June 30, 2019	\$4,651,515,837	3.87%	\$188,387,546	\$144,132,000	\$44,255,546
2017-19 biennium total			\$454,131,331	\$288,264,000	\$165,867,331

¹The amounts shown for the investment earnings include realized and unrealized gains and losses.

²Pursuant to the constitutional provisions, 10 percent of the 5-year average value of the trust assets is distributed per biennium with equal amounts distributed each fiscal year.

FEES AND INVESTMENT RETURNS

The Department of Trust Lands manages the permanent trusts for the benefit of various educational institutions. The permanent trusts include the common schools trust fund. In fiscal year 2019, the pooled investments of the permanent trusts paid \$22.7 million of investment fees reflecting a fee rate of 0.49 percent. The average market value of the assets invested was \$4.63 billion, and the net investment returns were 3.87 percent.

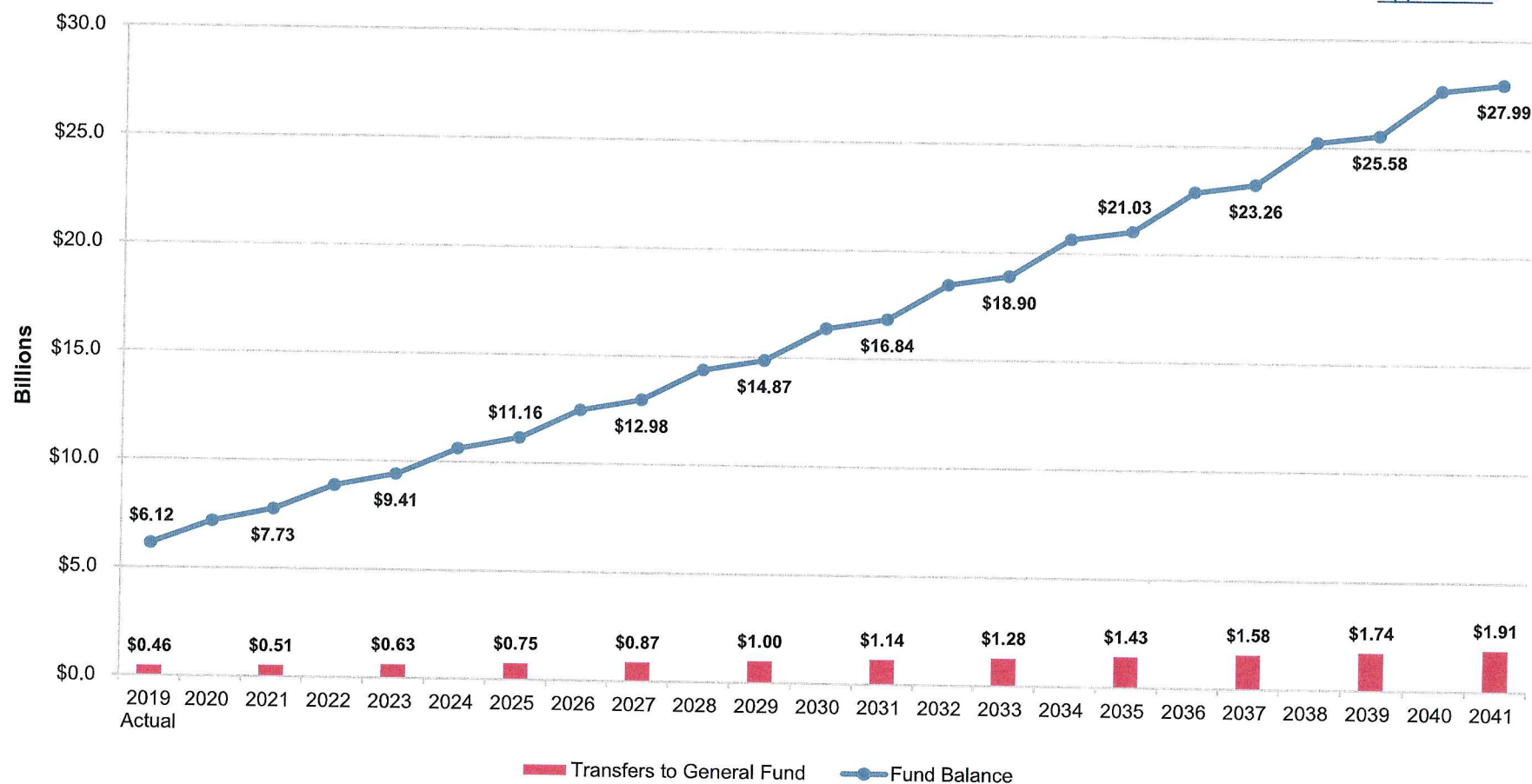
As a comparison, the legacy fund, which is managed by the Retirement and Investment Office, paid \$23.7 million of investment fees in fiscal year 2019 reflecting a fee rate of 0.39 percent. The average market value of the assets invested was \$6.08 billion, and the net investment returns were 4.98 percent.

LEGACY FUND PROJECTIONS

This memorandum provides information on projections for the legacy fund, including the fund balance and transfers to the general fund. The projections are based on the current definition of legacy fund earnings pursuant to North Dakota Century Code Section 21-10-12, which defines earnings as dividends, interest, and realized gains and losses, but excludes unrealized gains and losses. The projections reflect oil and gas tax revenue deposits of \$660 million per year, the same as the 2019 legislative revenue forecast for the 2019-21 biennium. The projected earnings reflect annual returns of 5.5 percent, including 2 percent of unrealized gains and 3.5 percent of dividends, interest, and realized gains. The legacy fund had actual net annual returns of 7.57 percent for fiscal year 2018 and 4.98 percent for fiscal year 2019 based on the performance reports published by the Retirement and Investment Office.

TRANSFER 100 PERCENT OF LEGACY FUND EARNINGS TO GENERAL FUND

The chart below provides information on the projected legacy fund balance and transfers to the general fund under the assumption 100 percent of the legacy fund earnings are transferred to the general fund at the end of each biennium. A schedule with more detailed amounts is attached as [Appendix A](#).



Testimony Prepared for the
House Judiciary Committee

March 8, 2020

By: Terry Traynor, NDACo Executive Director



RE: House Concurrent Resolution 3041 - Opposition

Mr. Chairman and committee members, the 53 counties I represent stand opposed to HCR3041. As written, it appears to be a very dramatic tax shift to agricultural and commercial property. As counties and all other local governments fund their state-mandated and citizen-demanded services largely through property taxes, the only options that this measure provides are an increase in taxes on those other classes of property without such an exemption, or a quickly growing reliance on state appropriations.

Attached to this testimony is a table from the Tax Department's Property Tax Statistical Report. You will see that rural and urban residential property taxes together contribute over \$450 million in tax revenue to schools, counties, cities, fire districts, parks, townships and all the rest.

The final three columns of the table were added by my staff to illustrate the impact of this measure. While it is understood that not all residential property would fit the definition of an "individual's legal residence," this provides a quick approximation.

Statewide residential property represents 41% of all taxable property, or an increase of 69% to commercial and agricultural property if all residential property became exempt. Not surprisingly, in our larger counties the percentage of residential property exceeds 50% of the total value and would more than double the tax for the other classes.

This of course is complicated for some jurisdictions by the mill levy limitations under which local governments must operate. As an example: Walsh County, to meet their obligations, must levy their statutory maximum of 60 mills. Under current law, there would be no way to legally increase the taxes on the remaining property if the residential property became exempt – removing 36% of the budget that supports law enforcement, the jail, veterans' services and much more.

A complicated message to deliver to voters when legislators and local boards are restricted in their options for advocating for or against such a change.

Please give HCR3041 a Do Not Pass recommendation.

North Dakota Office of State Tax Commissioner																
Taxes Levied on Classes of Property - Table 5																
County	Rural Agricultural	Rural Residential	Rural Commercial	City Agricultural	City Residential	City Commercial	Tax Increments	Fire Protection for Exempt	Railroads	Electric and Gas	Pipelines	Total Ad Valorem Taxes	Total Less Residential	Percent Residential	Percent Increase to Remaining	
ADAMS	2,367,449	196,215	153,116	3,716	611,327	251,497	-	-	89,238	72,854	-	3,745,412	2,937,871	22%	27%	
BARNES	8,571,118	1,927,311	640,593	39,074	3,752,885	2,488,498	237,067	-	777,618	696,882	1,049,900	20,180,945	14,500,748	28%	39%	
BENSON	4,687,946	392,644	260,016	8,316	435,681	298,309	-	-	116,682	44,144	174,726	6,418,464	5,590,139	13%	15%	
BILLINGS	507,566	293,661	582,930	-	54,482	233,658	-	-	125,069	3,269	623,223	2,423,858	2,075,715	14%	17%	
BOTTINEAU	6,172,046	3,398,524	748,078	5,338	1,438,014	900,487	-	-	24,679	80,033	258,507	13,025,705	8,189,168	37%	59%	
BOWMAN	1,687,983	273,391	474,756	8,481	974,251	532,228	-	-	61,868	90,957	626,119	4,730,033	3,482,391	26%	36%	
BURKE	2,598,064	161,597	262,389	6,507	482,512	274,395	-	-	207,848	72,799	1,017,866	5,083,977	4,439,867	13%	15%	
BURLINGHAM	3,026,857	14,507,475	1,464,562	14,197	57,450,869	37,598,140	-	26,011	293,689	1,684,592	121,488	116,187,880	44,229,535	62%	163%	
CASS	10,987,268	5,449,574	1,551,577	252,333	128,280,126	104,813,883	5,711,825	35,494	1,112,971	2,688,496	548,557	261,432,101	127,702,401	51%	105%	
CAVALIER	8,007,698	309,870	255,974	323,855	1,446,610	762,410	-	-	33,750	693,548	80,171	11,913,885	10,157,405	15%	17%	
DICKER	5,754,986	439,932	228,130	9,920	1,333,343	939,927	291,599	-	61,607	331,161	15,901	9,406,505	7,633,230	19%	23%	
DIVIDE	3,613,051	276,084	646,106	4,440	663,714	453,393	-	-	68,318	24,180	2,066,742	7,816,027	6,876,230	12%	14%	
DUNN	1,670,761	760,723	1,022,492	428	440,767	492,874	-	-	-	23,283	3,399,250	7,810,578	6,609,088	15%	18%	
EDDY	2,132,555	93,432	139,630	1,568	582,874	290,778	-	-	190,983	48,968	50,090	3,530,878	2,854,572	19%	24%	
EMMONS	4,251,485	448,375	117,798	1,530	643,240	299,010	-	-	11,322	47,617	973,250	6,793,627	5,702,012	16%	19%	
FOSTER	3,371,893	368,550	98,988	1,071	1,323,932	1,004,286	-	-	352,914	58,395	244,275	6,824,304	5,131,822	25%	33%	
GOLDEN VALLEY	1,114,657	207,055	27,040	-	481,221	195,309	-	-	139,417	18,570	140,456	2,323,724	1,635,448	30%	42%	
GRAND FORK	8,348,408	4,734,286	1,357,034	36,061	42,782,148	32,718,257	-	23,265	264,188	1,467,596	274,060	92,005,304	44,488,870	52%	107%	
GRANT	3,601,686	182,999	49,086	24,042	391,515	176,528	-	-	-	35,280	45,614	4,506,752	3,932,238	13%	15%	
GREGG	2,812,998	163,626	317,241	426	399,029	249,214	-	-	162,163	90,136	17,506	4,212,339	3,649,684	13%	15%	
HETTINGER	3,969,720	205,029	48,640	149	706,243	317,276	-	-	-	45,497	421,984	5,714,537	4,803,265	16%	19%	
KIDDER	2,520,362	326,188	47,479	1,106	453,916	206,734	-	-	263,602	37,226	38,511	3,895,123	3,115,020	20%	25%	
LAMOUR	6,830,841	143,903	174,843	6,030	876,867	421,190	116,033	-	103,540	117,223	16,159	8,806,630	7,785,860	12%	13%	
LOGAN	2,706,682	42,976	15,416	3,726	485,534	204,036	-	-	38,960	35,087	-	3,532,417	3,003,907	15%	18%	
MCHEMERY	4,507,476	605,650	419,705	15,626	1,285,429	325,299	-	-	555,477	191,001	630,212	8,535,874	6,644,795	22%	28%	
MCINTOSH	3,542,121	117,307	49,213	4,986	695,171	263,654	-	-	13,247	80,436	271,012	5,037,147	4,224,670	16%	19%	
MCKENZIE	1,513,984	1,789,845	7,275,330	4,896	1,950,810	3,670,628	-	-	5,397	107,534	16,007,791	32,326,214	28,585,560	12%	13%	
MCLAN	8,139,554	3,219,851	690,421	5,233	3,466,549	996,988	-	-	111,947	138,181	264,776	17,033,499	10,347,100	39%	65%	
MERCER	2,210,084	1,793,931	549,728	-	4,177,652	809,129	-	-	37,282	94,380	722,192	10,394,377	4,422,794	57%	135%	
MORTON	3,569,708	4,350,545	2,959,440	9,794	17,759,750	9,015,242	-	-	571,714	783,896	2,012,443	41,032,533	18,922,238	54%	117%	
MOUNTRAIL	3,331,114	731,836	2,651,091	14,753	1,947,955	2,668,743	-	-	335,391	88,182	7,744,038	19,513,103	16,833,313	14%	16%	
NELSON	3,719,222	114,253	27,450	14,772	649,337	344,625	-	-	118,782	40,436	650,928	5,679,804	4,916,214	13%	16%	
OLIVER	1,269,481	455,091	148,894	-	264,471	33,357	-	-	27,758	174,894	16,912	2,390,859	1,671,297	30%	43%	
PEMBINA	8,212,425	576,301	398,686	12,442	1,650,834	1,020,244	-	-	37,145	115,657	1,528,129	13,551,865	11,324,729	16%	20%	
PIERCE	3,522,516	340,185	120,790	5,181	1,481,295	812,171	-	-	162,414	289,075	210,127	6,943,753	5,122,273	26%	36%	
RAMSEY	4,818,313	2,796,959	592,870	12,000	3,065,451	2,733,860	-	-	154,199	214,904	245,132	14,633,685	8,771,275	40%	67%	
RANSOM	3,666,717	737,147	190,304	9,028	1,672,179	1,173,898	193,756	-	205,065	100,383	618,386	8,566,863	6,157,537	28%	39%	
RENVILLE	3,367,563	198,196	56,732	2,129	749,489	298,055	-	-	37,970	32,087	177,236	4,919,457	3,971,772	19%	24%	
RICHLAND	11,528,847	3,335,831	1,382,568	37,332	5,795,500	3,196,061	308,452	-	464,659	541,316	418,096	27,008,662	17,877,331	34%	51%	
ROLETTE	3,258,016	400,838	94,606	6,375	826,561	423,807	5,242	-	-	65,996	-	5,081,441	3,854,042	24%	32%	
SARGENT	5,457,983	353,774	132,389	23,007	1,037,164	1,211,496	-	-	161,893	122,531	521,766	9,022,004	7,631,066	15%	18%	
SHERIDAN	2,301,675	68,958	19,240	161,609	125,589	118,217	-	-	30,586	43,593	-	2,869,467	2,674,920	7%	7%	
SIOUX	872,500	4,935	5,194	267	26,358	18,421	-	-	556	1,649	-	929,880	898,586	3%	3%	
SLOPE	1,345,718	12,647	19,759	2,804	17,881	16,249	-	-	13,097	6,295	181,252	1,615,702	1,585,174	2%	2%	
STARK	3,578,344	3,934,928	4,214,613	-	16,646,394	13,988,061	-	-	587,746	415,993	1,032,446	44,398,525	23,817,203	46%	86%	
STEELE	4,460,051	475,434	96,016	46,193	258,282	188,172	-	-	53,276	300,320	484,637	6,362,380	5,628,664	12%	13%	
STUTSMAN	9,450,726	2,491,982	1,126,034	6,228	9,873,803	5,442,579	198,710	-	668,558	565,084	249,008	30,072,712	17,706,927	41%	70%	
TOWNER	4,745,960	87,515	84,622	578	627,022	238,060	-	-	17,680	12,541	-	5,813,978	5,099,442	12%	14%	
TRAILL	7,635,559	862,530	1,072,741	20,353	2,404,604	1,388,574	357,647	-	174,593	142,868	5,988	14,065,456	10,798,322	23%	30%	
WALSH	9,451,970	733,300	305,025	37,089	3,680,615	1,597,680	-	-	88,876	106,471	549,980	16,551,005	12,137,091	27%	36%	
WARD	6,940,907	8,620,049	2,754,083	49,406	40,474,053	33,548,556	220,170	6,071	1,095,511	1,074,301	2,223,856	97,006,963	47,912,861	51%	102%	
WELLS	5,682,095	284,363	244,958	5,111	1,078,955	479,359	-	-	409,963	68,134	224,791	8,477,728	7,114,411	16%	19%	
WILLIAMS	4,108,438	4,209,949	7,986,759	17,488	12,408,906	16,922,140	2,522,353	-	451,151	461,829	12,729,265	61,818,278	45,199,424	27%	37%	
Totals	237,523,146	79,007,549	46,353,171	1,276,993	382,589,158	289,065,641	10,162,853	90,841	11,092,360	14,887,759	61,924,751	1,133,974,223	672,377,516	41%	69%	

Real estate taxes lost should be made up with sales tax in each jurisdiction, not heavier taxes on other properties. Those who live and own businesses in many locations already hold the majority of the tax burden, simply using this law to 'redistribute' is unseemly.

House Judiciary Committee
Chairman – Representative Lawrence Klemin
March 8, 2021
Testimony By: Shaun Sipma
Minot City Mayor
shaun.sipma@minotnd.org
701-857-4750

HCR No. 3041

Thank you for the opportunity to testify regarding HCR 3041. We would like the record to show that the City of Minot is opposed to the House Concurrent Resolution 3041.

Under Section 5, subsection 3-Exclusions item (D) reads:

“Property classified as residential property and used as an individual’s legal residence.”

The proposed legislation would exempt all property identified as a primary residence in North Dakota leaving then only non-primary residences, rentals, undeveloped property and commercial property being taxed. The proposed change to the North Dakota Constitution would have a devastating impact to local community’s ability to provide necessary and essential services to its residents.

Local governments exist to provide core protections and services to their constituencies such as public safety, utilities, quality roads, a rich quality of life, and protection of rights. HCR 3041 undermines the sustainability of cities, counties, and taxing authorities to continue to meet these needs for the foreseeable future.

As with other proposed legislation we would propose all property tax issues be looked at within a study being considered this legislative session. We would propose the property tax issue be fully considered in a comprehensive study being considered in other bills. A deep dive into local taxation must be more than looking at property values and mill levies. The full scope should be considered

including budget priorities of each community, long term budget planning, infrastructure needs and/or deficiencies, safety demands and requirements, evolving demographics, sustainability and unmet needs to name just a few. The study should also consider impact to proposed legislation on each taxing authority and the residents they serve.

Like many communities, a core of Minot's budget from property tax is comprised of the cost of personnel and infrastructure. By department a vast majority of Minot's personnel are within the police, fire and public works departments. Losing a substantial portion of the local tax base with this exclusion would inevitable force cuts that would deeply affect life, health and safety.

Because of the late introduction this session of this proposed Continuing Resolution we were unable to get the breakdown of property identified as a resident's primary dwelling. While that issue could be resolved, the greater issue would be the burden placed on the remaining properties left to carry the fiscal load.

We respectfully urge a do not pass recommendation on House Continuing Resolution 3041 as the harmful impacts would far greater than the intent of basic property tax relief.

Thank you.