CONTROLLING GROWTH OF PROPERTY TAX LEVIES - BACKGROUND MEMORANDUM

Section 10 of 2013 Senate Bill No. 2036 directs a study of controlling the growth of property tax levies with emphasis on consideration of:

1. Whether the level of property tax relief received by taxpayers has been commensurate with the amount of state funds distributed to benefit political subdivisions and provide property tax relief to taxpayers;

2. The additional cost to the state of state assumption of funding for some social service functions previously funded by counties compared to the actual reduction in property taxes passed through to taxpayers in each county;

3. Whether voter approval through a referral or levy and budget restrictions should play a greater role in local taxing decisions; and

4. The feasibility of establishing more restrictive statutory property tax limits to manage the growth of property taxes.

RECENT PROPERTY TAX RELIEF AND REFORM EFFORTS

Property tax relief and reform have been recurring topics of legislation in recent legislative sessions. In the 2013 legislative session, there were four constitutional amendments considered and more than 40 bills relating to property tax issues. In addition, an initiated measure to eliminate imposition of property taxes appeared on the June 2012 statewide primary ballot which was soundly defeated but which heightened the public debate of local control of property tax levels and policy.

In 2009 the Legislative Assembly initiated a mill levy reduction grant program to provide direct state allocations to school districts to reduce school district property tax levies. The program was continued through 2011 legislation. Despite legislative appropriations of $295 million for the 2009-11 biennium and $341 million for the 2011-13 biennium to “buy down” 75 mills of school district levies and unprecedented increases in other forms of direct state assistance to political subdivisions, by 2012 property taxes levied in the state exceeded the 2008 statewide amount levied by $38 million (see attached appendix). A growth factor of approximately 7 percent per year was built into the mill levy reduction grant program. However, it appears something was occurring in the second year of the biennium to increase property tax levies statewide at a greater rate than in the first year.

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage Change From Prior Year</th>
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<tbody>
<tr>
<td>2009</td>
<td>(12.6%)</td>
</tr>
<tr>
<td>2010</td>
<td>6.4%</td>
</tr>
<tr>
<td>2011</td>
<td>4.9%</td>
</tr>
<tr>
<td>2012</td>
<td>7.5%</td>
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In 2013 direct state funding to reduce school district property tax levies was greatly expanded through a restructured education funding method and reduction of school district mill levy limits. In addition, a new approach to property tax relief funding was initiated in 2013 Senate Bill No. 2036 to provide a state-paid credit paid against property taxes and mobile home taxes in the amount of 12 percent of the taxes levied by all taxing districts against the property. This reduction is applied after, and in addition to, the reduction provided in the school district mill levy reduction legislation. Increased eligibility for the homestead property tax credit and the disabled veteran homestead tax credit will provide additional property tax relief for eligible taxpayers. In addition, the Legislative Assembly has made substantial increases in major state appropriations and revenue allocations for direct assistance to political subdivisions.

TRADITIONAL CONTROLS ON GROWTH OF PROPERTY TAX LEVIES

North Dakota has traditionally relied on three kinds of restricting factors to limit property tax burdens:

1. State law - Constitutional and statutory provisions impose mill levy limits, voter approval requirements, and debt limits. Statutory provisions have provided for property tax relief and state assumption of program costs for some local government functions.

2. Governing body self-restraint - Local elected officials are presumed to act in the best interests of the political subdivision and its taxpayers. Political considerations relating to being elected or reelected exist to restrain local spending to a level deemed acceptable by the majority of voters. Local elected officials are taxpayers of the taxing district they serve and do not want an excessive property tax levy any more than other taxpayers.
3. Taxpayer and citizen participation - This factor is closely related to governing body restraint. It is a premise of the property tax that the taxpayers subject to the tax will inform their elected officials by direct communication or by voting, either for officeholders or on ballot measures regarding taxing and spending issues, of the desired level of services and the amount of tax burden they find acceptable to provide the desired services.

ATTACH:1