

NORTH DAKOTA HOUSE OF REPRESENTATIVES

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COMMITTEES:

Finance and Taxation
Political Subdivisions

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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 added to renters in 1973 and to the permanently and totally disabled in 1975. Far from shifting or redistributing

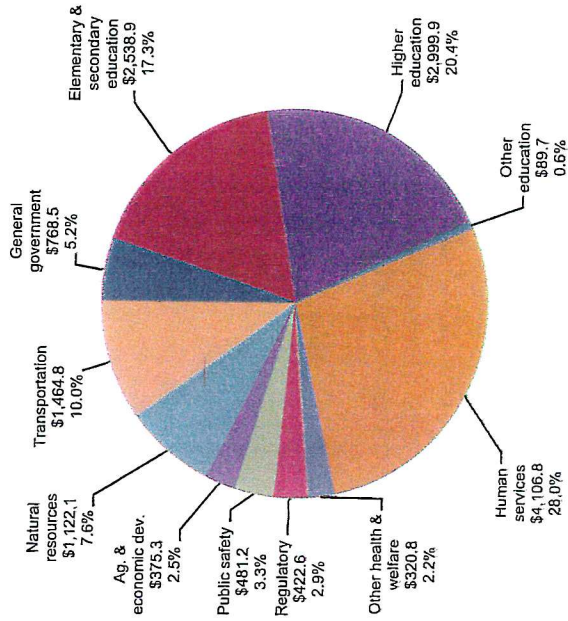
the tax burden to others, this amendment shifts or redistributes the tax exemption to all with a recognition that the necessity of shelter exists for all.

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.

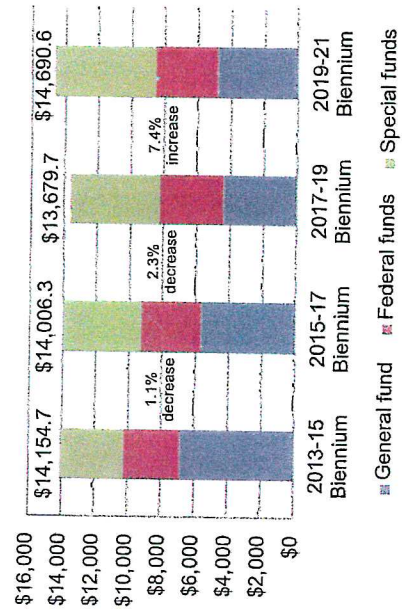
It is said that your home is your castle, meaning that you exercise all rights over it. Let's make this closer to a reality for the individuals and families of North Dakota by granting them a measure of sovereignty over the place where they lay their heads with a DO PASS recommendation of HCR 3041.

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

Total - \$14,690.6

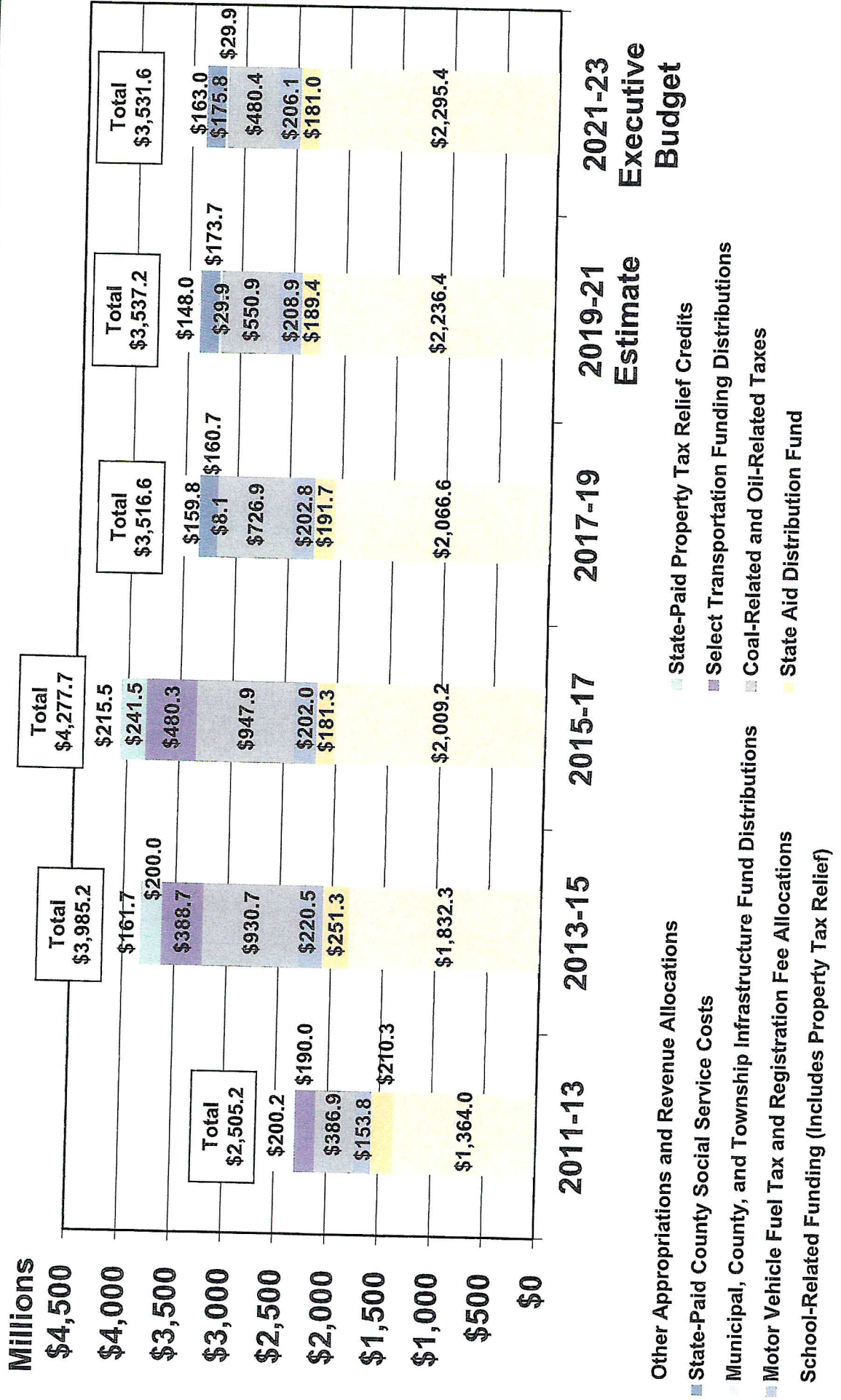


HISTORY OF TOTAL APPROPRIATIONS (Amounts Shown in Millions)



Biennium	(Amounts Shown in Millions)			Total
	General Fund	Federal Funds	Special Funds	
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	\$13,999.9
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](#).

