SB 2361

Good morning. Senators of Finance and Tax. I totally respect the daunting amount of information and bills in front of you during this legislative session. Senate Bill 2361, is more vital than many may assume, because it goes beyond just financial and tax implications by serving as a mean to get out in front of a trend that will eventually threaten our Constitutional based Republic and the Capitalism that maintains one of its foundational pillars.

Throughout history all one must do is look at how countries ran their markets and the shifts over time. This is a small line of progression, but is makes the point because all of them function in the absence of private property ownership, except capitalism. The progression is as follows: Serfism>>>Feudalism>>> “Capitalism” >>> Marxism>>>Socialism>>>Communism.

What that means today is that private property ownership is seeing the beginning of being threatened by the practice of paying for government through property taxes with a natural increase in them through our February 1st state law requiring a True Market Value (TMV) be placed on property between 90% and 100% of TMV, which is driven by local assessing personnel. If local government does not do the assessing, then the state applies as 93% TMV give or take.

Now part of how TMV is calculated is driven by sales of neighboring and similar properties. This is where National and International companies like Blackstone, Haven-Park, Greystar, etc are starting to create some concerning ripples that threaten private property ownership. How they are doing it is they are buying properties all over the country and in North Dakota for 15% to 20% above market value which starts to drive up the TMV of all property's around. In turn creates a valuation bubble that prices the common man out of affordability of their own ownership. If and when these bubbles become so significant that private ownership sells out to the companies then we no longer have this foundational pillar of capitalism. Government has no choice but to subsidize these investments because people need places to live. It is through this public private partnership that our state and country start trending toward Socialism and Communism because there is no longer a private ownership element that the government does not hold control over. This bill will get in front of the impacts of valuation bubbles in North Dakota. (A side note that this bill cannot address, but we should be mindful of is that federal government has committed $900 billion annually to purchase land through programs like 30x30 with the goal of owning 30% of all property in the United States by 2030. If you couple both corporate purchases and federal buyouts the impacts of both on private ownership is under attack and it is better to get in front of it versus having to react to it).

Buy changing the current practice of applying an unrealized gain against a person's property to a realized gain, our state government essentially takes a stand that says we will not allow companies to drive values up by purchasing alone, thus eliminating valuation bubble potential.

Another benefit is this, we will be one of the only states in the country to address the expensive maintenance of urban sprawl on communities as they grow. Right now, most communities have policy and ordinances in place where growth pays for itself during implementation. It is around year 7, that the costs of extending maintenance services start out pacing the ability of new growth to pay for itself and cites find that they end up raising that taxes on the entire community to keep up. It is not right that the established community is forced to pay for new infrastructure and changing this application to a realized gain application adds fairness into how cities grow. Taxes can still go up at the vote of commissions and boards but those increase in mills will only apply to the last realized value. (Now one thing I would encourage you to change is the date it would start. The change is not intended to be an undue burden at the point of implementation. When last discussed with legislative counsel it was asked that the date of December 31, 2022 be changed to February 1st of 2024, that way it would apply to realized values as of the 2024 date and there would not have to be dedicated staff time to look back at taxes already applied which would be both costly and take up a lot of finance department resources. After the February 1st, 2024 the only increases applied would come from a raise in mill taxes by a vote of commission or board, or through the realized gain in values when property owners refinance or sell their property.) If we as a state can get ahead of addressing the cost of growth past the 7-year mark, we become unique in the county. Newer neighborhoods should cost more to pay for the additional services it takes to maintain them. Those costs would not be necessary if the new was not added to the grid of maintenance.

We should all be for growth, if it is right growth and our laws, ordinances need to do some adjustments to make sure we encourage just that, versus having to react to higher cost after growth happens beyond the citizens means to pay for it.

This change will also allow people to make smart financial decisions to manage their cost of living when they go from their working years to their retirement years and their income sources become fixed. If I am 30 years old and buy a house valued $200,000 as of February 1, 2024, never refinance then when I reach 65 I still pay whatever the voted mill is as it applies to the $200,000 still. It will allow me to plan better for those fixed income years. Now if I am 45 and I decide to refinance to pay for a remodel or other reason because the value has grown to $300,000 plus my equity then any new taxes would be applied to the new realized gain. Whether I refinance or not when I do finally retire, I will only pay for taxes applied to the realized gains I participated in as an owner. The value is still accruing which essentially incentivizes equity. Ask any accountant and they should agree, the more equity a person has the better off they will be.

Now workforce is a primary need for everyone throughout our country. What this would do to help is we become the only state in the nation that can say we do this without huge gas or business taxes as part of a citizen's expectation. In a time where inflation is killing families and corporations can buy property that drive up a person's expenses through valuation increases adding more to their plate, North Dakota can say, we are going to do this differently for our citizens. Many of the companies buying property here send their profits out of state, while the same companies drive the cost up for the ones living here. Why side with those businesses over citizens that live right here that spend their dollars here.

Being in a Constitutional Republic our system is built on checks and balances. When property taxes can go up without the check of elected leaders, we create an opening for unchecked spending. This happened in Bismarck as the valuation increase last year provided a $7 million dollar bump in revenue to one particular government subdivision. Government has a long history of following an unwritten rule to spend to its limits when money is appropriated. This is because of the expectation of, proving they needed the money, or under grant requirements us it or lose it. Then that carries over into requests for more appropriation allotments when money is seen as available. In the last year and a half this unchecked money was exercised by the local

Bismarck Government subdivision as the valuation money was on hand to put the CFO of that division in a position to work with another subdivision to spend more then $1.5 million on a parking lot in conjunction with a street maintenance project. The staff and CFO worked and made the decision on there own and never presented it to the board/commission (another check and balance). Not, but 4 months later the same government subdivision had to ask the board for permission to spend around $1 million on a different project because there was not longer any money just sitting around and it would have to be addressed through a budget decision making process. If you were to look at another division of government with a much larger budget known as the Metropolitan Planning Organization (MPO), has to go to their board if they spend more then $30,000, then extra money through valuation bumps present some compromise that could leave an opening from the improper use of money obtained from taxpayers is a reality at our local level. Based on building permits and home sales in Bismarck if a realized value application was applied last year, the revenue bump would have been around $2.4 million versus $7 million for the mentioned government subdivision. If the taxpayer is supposed to trust how their money is spent this seems like a good option to add as a check and balance as valuation money cannot be added to a budget until it is realized thus making it, a situation where programs are limited or cut, or layoffs are necessary. Those decisions will shift to where it should have been all the time and that is to the vote of the elected officials that ran on leadership to make the tough decisions to meet the needs of the expectations of their subdivision. The citizens should no longer have to listen to a government subdivision elected official or staff member say that they did not have to raise taxes because the valuation increases were so good, yet everyone’s property taxes went up (See my county statements attached: where my home valuation is up $25,000 in just 3 years and last year there was no mill increase yet every subdivision had an increase of my tax expectation due to the increase in valuation). The only way they should go up is a vote, not a February 1st State law that defines a window of TMV increase by forces out of a citizens control and vote.

This change can also offer an opportunity to add check and balances into other programs sponsored by the government. When the government offers an incentive that businesses or residents can apply for, our state can add a stipulation that when an incentive is extended, then at the end of the incentive a new realized value would have to be recognized in order for the taxpayer to be repaid for their investment through said incentive. An example of this would be the use of TIF districts. Now this would take either additional legislation or a vote of commissions, but it does open a window for such accountability in protecting state and local incentive investment.

As a final note, Joe Biden introduced the idea that an unrealized gain should be applied to 401k, Roth and other retirement benefits every year even though they do not become realized until a person retires at the earliest age of 59 ½ years of age. This was highly resisted by even members of his own party with an election looming. Thank heavens we took control of one branch as well as hold filibuster ability in the other or who knows what would have happened. As a Republican that believes in low taxes, I struggle to think why the status quo of applying unrealized gain taxes on property continues in North Dakota, since we have taken control of the state. Do we have Republican's that think about valuation the same way Biden thinks about retirement? If so, I would really like to know why? Making this change is not "Tax Reform" as it does not change the ability to tax. It does however address many of issues of inequity and check and balances that our system seems to require for the proper use of taxpayer resources and trust.

It you have any questions feel free to contact me at 701-400-1839 or by email at Blink.2019@outlook.com .

Sincerely,

Michael (Mike) Connelly

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