

Testimony Prepared for the
House Finance & Taxation Committee
January 29, 2023
By: Linda Svihovec, NDACo

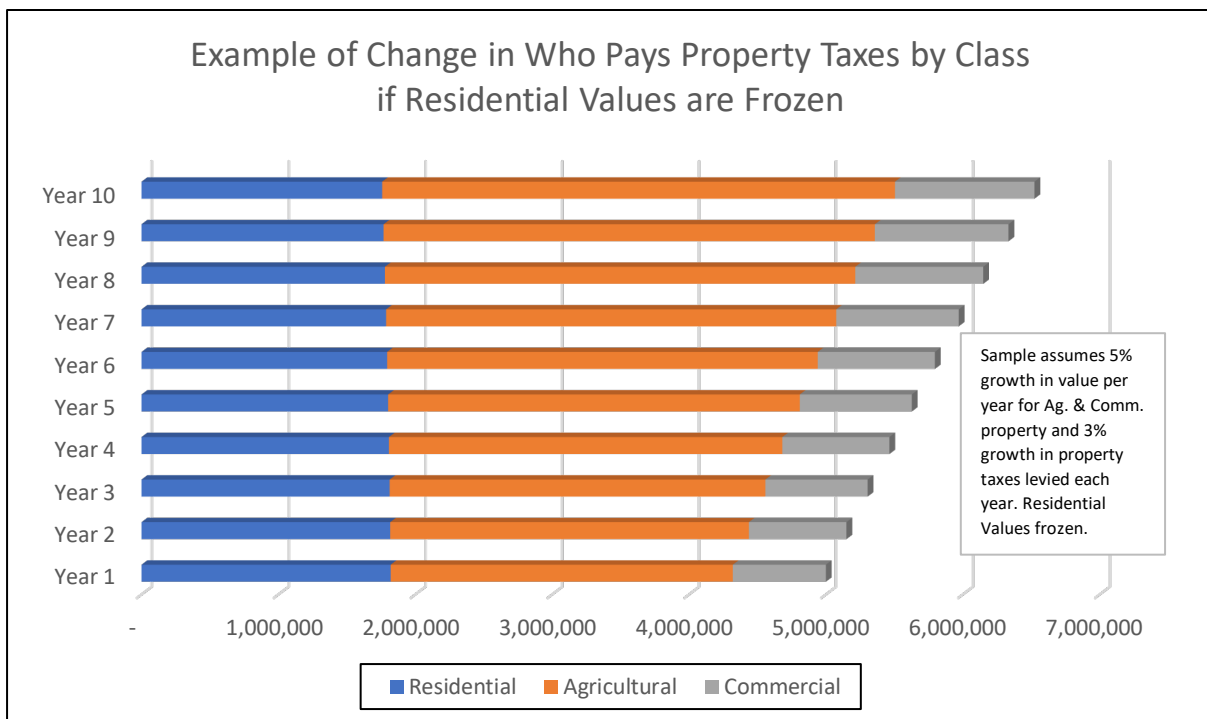
**RE: Opposition to Senate Bill 2361
Primary Residence Value Freeze**

Good morning Chairman Kannianen and committee members. Thank you for this opportunity to provide testimony in opposition to Senate Bill 2361 on behalf of our 53 counties and our county officials that are charged with the fair and equitable administration of our property tax system.

These county officials, from across the State, agree with the goal they understand the sponsors are seeking in this bill – that of a reduction in property tax growth that is equitable for all taxpayers. Unfortunately, this bill would not be fair to taxpayers and would likely conflict with statutory and constitutional requirements.

Article X, Section 5 of our state’s Constitution begins by stating: *“Taxes shall be uniform upon the same class of property including franchises within the territorial limits of the authority levying the tax.”* Clearly, this law will force property taxes to gradually become less and less uniform as the value used for taxation of residential property drifts further and further from its true market value. Newer homes will be closer to reality, while older homes will be less accurate. Taxes will shift toward the slower appreciating new homes and away from the rapidly appreciating older homes.

One can anticipate shifts between property classes as well over time, shifting a greater share of the tax burden away from residential properties to commercial and agricultural parcels. To demonstrate this, the chart below assumes a 5% growth in valuation for agricultural and commercial properties per year, a 3% growth in dollars levied each year, and residential property values frozen. While residential property owners’ taxes remain relatively unchanged, agricultural and commercial property owners pay a larger share of the overall tax liability.



As a number of states have gone down this road, there is an increasing body of research on this topic. Below I cite a statement from a January 26, 2023 article by the Tax Foundation – an organization that is characterized as conservative and business-oriented that is *“generally critical of tax increases and high taxation”*, regarding California’s assessment limitations under Proposition 13.

“Proposition 13 and other property tax assessment limits have done their job, keeping incumbent property owners’ taxes in check. But they’ve come with hidden costs. They discourage homeowners from renovating or adding onto their homes, for fear of incurring a dramatic tax increase. They make it less attractive for growing families to move past their starter homes or for empty nesters to downsize. They interfere with efforts to change a property’s use. And, over time, they shift costs to newer, younger homeowners—the rising generation that [state] lawmakers want to keep in-state.”

Limiting residential assessments increases the share of property tax revenue that is generated from newer properties, or those which have changed ownership recently. This potentially penalizes younger and lower-income homeowners who over the course of their lives frequently upgrade to larger and more expensive homes as they gain additional financial security, and in the process, sell their old, more affordable homes. Freezing residential property values keeps such individuals in their more modest homes longer and decreases the stock of starter homes and other more affordable housing on the market, to the detriment of those with fewer financial resources.

Mr. Chairman and members of the Committee, for preservation of North Dakota’s housing economy and to preserve the fairness of our property tax system, the North Dakota Association of Counties urges a Do Not Pass recommendation on SB 2361.

From Page 66 & 67 – [State and Local Taxes \(Red Book\)](#)

EFFECTIVE RATES BY CLASSIFICATION				AD VALOREM PROPERTY TAXES PERCENT OF TOTAL BY CLASSIFICATION			
PAYABLE IN 2020, 2021, AND 2022				PAYABLE IN 2020, 2021, AND 2022			
PROPERTY CLASSIFICATION	EFFECTIVE RATE				2020	2021	2022
	2020	2021	2022				
Residential	1.16%	1.1%	1.18%	Residential	41.1%	41.2%	42.0%
Agricultural	0.97%	0.98%	0.98%	Agricultural	21.3%	21.0%	20.4%
Commercial	1.23%	1.23%	1.26%	Commercial	29.8%	29.9%	29.9%
Centrally Assessed*	0.76%	0.75%	0.76%	Centrally Assessed	7.8%	7.9%	7.7%

*The effective rate on centrally assessed wind turbine electric generation units is understated because of their reduced taxable value percentage. That causes the effective rate on the centrally assessed property to be understated.

