

Good morning, Chairman Weber and members of the Senate Finance and Tax committee, for the record, my name is Mike Lefor, and I serve District 37 – Dickinson in the House of Representatives. I am here today to testify in support of HB 1176.

This bill puts forth a bold, sustainable approach to property tax reform while also allocating legacy fund earnings dollars to benefit present and future generations of North Dakotan's. First, the reform aspect includes a 3% cap on future spending on behalf of political sub-divisions while also giving these entities the ability to “bank” percentages not utilized in the cap.

For example, any political sub-division not using the full 3% increase in any given year have the amount not levied to be potentially be utilized in future years for a period of up to five years. If it is not used within the five-year time frame, that ability goes away.

Additionally, if the political sub-division believes that a 3% increase is not enough to fund their operations, they can go to a vote of their community to seek more funding.

Further, the bill provides for an increase of \$950 per primary residence tax credit from the current level of \$500.00 to \$1450.00. The citizens of the state have responded well to this as an estimated 92% of those eligible have requested tax credit through the state tax department who did an outstanding job in making the people of the state know about the tax credit and be able to better recognize the primary residences of our citizens.

The dollars for this credit would be allocated from the general fund in the amount of \$75 million and roughly \$398 million from the legacy earnings fund. With the rapid growth of the principal of the legacy fund and a portion of the overall earnings being returned to the legacy fund principle allows for a faster acceleration of the principal and therefore, future earnings as well.

In a spreadsheet prepared by OMB, with the assumption of \$60 oil, 1.1 million barrels of oil production per day and a 6.5% return on investment, the legacy fund could grow to over \$30 billion in twelve years. In that scenario, the dollars available for distribution for future property tax credits would grow from \$398 million to over \$1.5 billion.

I believe it is important to make sure the property tax credits allocated come from a stable source. The citizens of this state have done things in a smart fashion since statehood, for example the common schools trust fund, which is a constitutional fund has now grown to \$7.2 billion, and is now projected to provide approximately \$500 million toward the cost of K-12 education. This amount has grown steadily over the years.

In 2010, the voters approved the Legacy Fund, which has shown tremendous growth in the time it has been in existence. The legacy earnings fund can be used in a similar fashion to provide long-term sustainable property tax credits to our citizens in perpetuity.

This bill allocates an additional \$70 million toward the Homestead Tax Credit increasing the income threshold for those who can apply for this credit as well as increasing the threshold for the value of the home which can be considered for the tax credit. It is my understanding the average credit achieved through this credit is \$1,300.00.

There is also a credit for renters which would increase from \$400 to \$600 if certain income thresholds are met. Chairman Weber, and members of the Senate Finance and Tax committee HB 1176 provides for true property tax reform in limiting spending on behalf of local political sub-divisions, providing for flexibility in those caps and the ability for the citizens of the community to vote for additional funding if they believe it is necessary.

I would ask the committee to consider a "do pass" recommendation to the Senate floor.
Thank you.

Legacy Property Tax Credit - Estimated Credit Amounts

Projected Legacy Fund Balances

Fiscal Year	Legacy Fund Ending Balance
2020	6,995,309,070
2021	8,115,202,181
2022	7,946,079,492
2023	8,999,738,920
2024	10,873,738,190
2025 est	12,378,910,454
2026 est	13,243,477,584
2027 est	14,803,763,967
2028 est	15,726,347,568
2029 est	17,504,712,211
2030 est	18,432,257,641
2031 est	20,417,740,022
2032 est	21,377,821,642
2033 est	23,586,471,829
2034 est	24,554,508,710
2035 est	26,975,907,513
2036 est	27,949,422,551
2037 est	30,598,185,021

Projected Legacy Earnings Fund Allocations

	2025-27	2027-29	2029-31	2031-33	2033-35	2035-37	2037-39
5-year average balance	8,586,013,571	10,688,388,928	13,405,247,553	15,942,111,794	18,691,775,817	21,673,759,969	24,888,826,449
Allocation @ 7% POMV	601,020,950	748,187,225	938,367,329	1,115,947,826	1,308,424,307	1,517,163,198	1,742,217,851
Allocations:							
Sinking and interest fund	102,624,000	102,624,000	102,624,000	102,624,000	102,624,000	102,624,000	102,624,000
Highway tax distribution fund	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000
<i>Proposed Legacy Property Tax Relief Fund</i>	398,396,950	545,563,225	735,743,329	913,323,826	1,105,800,307	1,314,539,198	1,539,593,851
Assumed number of primary residences	163,100	166,600	169,600	172,600	175,600	178,600	181,600
Legacy property tax relief payment	\$1,450	\$1,637	\$2,169	\$2,646	\$3,149	\$3,680	\$4,239

Calculation of Legacy credit funding sources

General fund credit	\$229	\$0	\$0	\$0	\$0	\$0	\$0
Gross Legacy payment before offset	\$1,221	\$1,637	\$2,169	\$2,646	\$3,149	\$3,680	\$4,239
Legacy earnings fund available	\$398,396,950	\$545,563,225	\$735,743,329	\$913,323,826	\$1,105,800,307	\$1,314,539,198	\$1,539,593,851
Cost of PRC	\$473,096,750	\$545,563,225	\$735,743,329	\$913,323,826	\$1,105,800,307	\$1,314,539,198	\$1,539,593,851
General Fund cost	74,699,800	0	0	0	0	0	0

