CASS COUNTY
GOVERNMENT

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TESTIMONY ON HOUSE BILL NO. 1176

Senate Finance and Taxation

March 16, 2025

Chairman Weber and members of the Senate Finance and Taxation Committee:

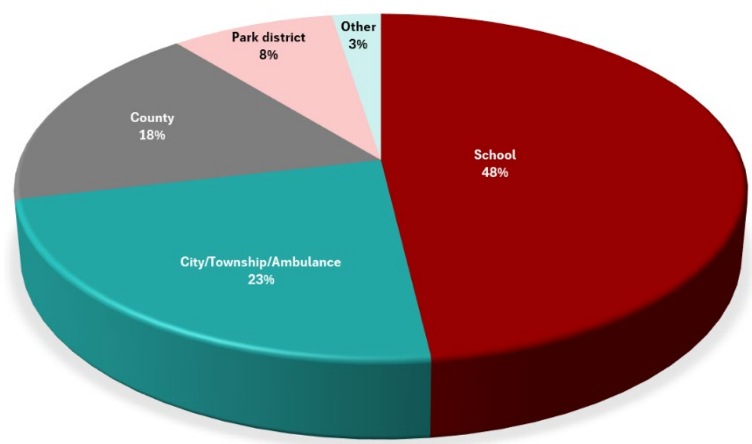
My name is Brandy Madrigga, and I serve as the Finance Director for Cass County, as well as a member of the Auditor/Treasurer's Legislative Committee. I am grateful for the opportunity to provide a testimony on House Bill 1176 and to share insights on the potential impact of a tax cap on our rapidly growing county.

First, I would like to express my sincere appreciation to the legislature for its ongoing efforts toward property tax reform and relief. I recognize the complexity of this issue and the challenge of finding a balanced solution that meets the needs of property owners, the state, and local governments. As auditors across North Dakota can attest, we witness firsthand how rising property tax bills can strain residents and, in some cases, affect their ability to remain in their homes.

<u>Property Tax Distribution in Cass County</u>

The county is responsible for preparing and distributing property tax bills on behalf of all taxing districts that have authority over the property.

On average, school districts represent nearly half of each property tax bill in Cass County, followed by cities, townships, and ambulance districts, which account for approximately 23%. The county itself typically represents 18% of the total property tax bill, while park districts can make up as much as 8%. The remaining 3% is attributed to various other taxing districts.



While not directly addressed by any of the tax reform bills this session, another significant challenge for property owners are the special assessments—particularly those affecting long-established homes. As new developments rapidly expand around existing properties, the special assessments for these developments often impact homeowners who have lived in the area for years. Additionally, when local governments replace infrastructure, the costs of these improvements can be passed onto existing property owners via special assessments. As the county auditor responsible for the foreclosure process, I do encounter cases where new special assessments have been a contributing factor to the foreclosure. Given that a property tax cap would limit a local government's ability to invest in new infrastructure, I am concerned that property owners may face higher special assessments as a result.

While I am supportive of whichever tax relief measures the legislature deems appropriate and achievable, my experience as County Auditor has led me to conclude that the most beneficial outcome for property owners would be relief or reform that results in eliminating school taxes and special assessments from the property tax bill.

Tax Caps

While a budget cap may seem like an effective tool for controlling local government spending, it could have significant consequences by limiting local control and hindering the ability to provide essential state-mandated services, respond to growth, and manage emergencies effectively.

Local governments have received a clear message from the legislature that budget caps will be implemented, with the primary debate now focused on the specific cap level. In response, some proposals have suggested using factors such as the Consumer Price Index (CPI) and population growth to determine budget increases over the "adjusted year levy." A cap allowing for a maximum increase of 6% is more feasible than a fixed 3% cap; however, a tax cap in any form will significantly impact the county's ability to provide mandated services and hinder our capacity to expand services to meet the needs of a growing population.

Using CPI provides a standardized measure of inflation, but it doesn't fully reflect the specific costs incurred by local governments. While CPI tracks the cost of consumer goods and services, it overlooks key government expenses such as personnel wages & benefits, infrastructure maintenance, and public safety, which often rise at higher rates. As a result, CPI may not accurately capture the unique financial pressures local governments face.

It is essential to consider population growth on top of the adjustment for new taxable properties when evaluating a local government's budget. While new properties often signal economic growth, and increased revenue, population growth can drive higher demand for services, infrastructure, and development. This increased demand places additional strain on resources such as public safety, county services, and roads & bridges. Therefore, it is critical that local governments be authorized to balance the expansion of taxable properties with the pressures of a growing population to ensure that development remains sustainable, and infrastructure remains adequate for our residents.

Examples of Substantial Inflation:

- Construction Costs have been averaging 7% a year since 2005
- Equipment has been increasing between 5% to 10%
- Microsoft Renewal has increased by 17%
- Computer Equipment increases by 12% a year
- Subscriptions & Licenses increasing by 5% to 11%
- Fleet Vehicle costs have increased by over 20%-31% since 2021.
- Insurance costs have increased by over 20%
- Salaries increase by 5.4%

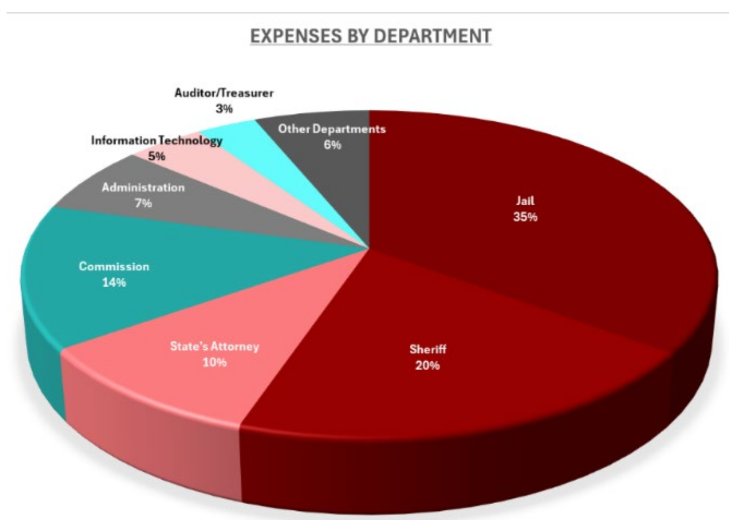
Fiscally Responsible Government & Adjusted Base Year

Cass County is a Home Rule Charter County with a maximum mill levy of 75 mills. Currently, Cass County prides itself on maintaining a mill levy of just 45 mills, well below the maximum. As property valuations in the county have risen from $670 million in 2016 to $1.3 million in 2024, the county has successfully reduced its mill levy from 57.42 mills to 45 mills. This achievement is made possible by the county's ability to adapt and respond to operational needs each year. This is only possible through the uncapped flexibility provided by the current Century Code.

Unfortunately, Cass County's previous fiscal restraint will turn into a detriment under the proposed base year calculation prescribed in HB1176. Cass County's "Adjusted Year Levy" will commence with a deficit of $6.9 million. This is due to the county's efforts to maintain a General Fund balance of 17-25% of the following year's operating budget, as well as the absence of election-related expenses ($1.1 million) in the 2025 budget. The majority of this deficit stems from costs associated with the first year of the jail expansion, which included 29 new full-time employees and increased operating expenses.

Additionally, unfunded mandates introduced in this session will place further strain on the county's budget and limit our ability to maintain fiscal stability. For example, HB 1572 imposes the financial burden of printing property tax statements in color, expanding the statements from a single letter-sized page to a legal-sized page or even two pages, along with the costs of programming to add pie charts. For a county that prints and mails approximately 70,000 tax statements, the costs associated with this mandate will pose a significant challenge to manage within the limits of a property tax cap.

Areas of Priority



Cass County's top priority is public safety, and as a result, 66% of the county's budget is allocated to essential law enforcement and legal services. Specifically, 35% is dedicated to the Jail, 20% to the Sheriff's Office, and 10% to the State's Attorney's Office. The Cass County Sheriff's Office is one of the largest law enforcement agencies in the state, with staffing levels reaching approximately 277 employees following the jail expansion.

Salaries and benefits account for approximately 64% of the general fund budget. County staff receive annual step and cost-of-living adjustments (COLA), which collectively result in an average increase of about 5.4% per year. These increases are necessary to ensure that the county can retain skilled personnel and maintain the quality of essential services.

Impact on County Services

Underfunding county services will have long-term consequences on our ability to invest in and maintain critical infrastructure, as well as in building repairs and maintenance. These effects often become more pronounced over time, with an increasing infrastructure deficit that grows harder to address as it expands. Limited investment in equipment and response vehicles could negatively impact county response times and the quality of services provided. Staffing levels will also be affected, potentially hindering our ability to keep pace with the growing population. As the county modernizes its operations, the demand for skilled personnel in areas like cloud management, cybersecurity, and data analysis will increase. Reduced funding could lead to overburdened staff, slower response times, and a lack of expertise needed to effectively implement and support emerging technologies.

Other Revenues

To address the common narrative that local governments have numerous revenue sources, it's important to note that Cass County's revenue is almost entirely derived from property taxes. The county focuses solely on providing services that are mandated by law, rather than offering additional services beyond those requirements.

Other revenue sources are limited and include fees for services, interest income, marriage licenses, wedding, subdivision permits, certified copies, and recording fees. However, many of these fees are nominal and subject to state-imposed limits. For example, the county cannot charge more than $30 for a marriage license.

In some cases, the county charges for services; however, these fees are intended to reimburse the county for the costs incurred while providing those services. For instance, the county is reimbursed for expenses related to administering a special election, or the sheriff's office enters into cost-sharing agreements when assigning deputies to schools. These agreements generally result in a net-zero financial impact, and in some instances, the county does not recover the full expense.

Mr. Chairman and esteemed members of the Senate Finance and Taxation Committee, thank you for your time and the opportunity to share insights on the substantial impact that tax caps will have on local governments. I appreciate your attention to this important issue.