Examples of Inflation in North Dakota Cities

		2019	2020	2021	2022	2023	2024	2025
Equipment								
	Motor Grader	$ 250,000.00			$ 298,825.00		$ 393,925.00	
	Loader		$ 181,821.00				$ 240,721.00	
	Plow for a Loader	$ 13,500.00					$ 31,000.00	
Public Safety								
	Fire Truck		$ 458,708.66	$ 518,862.50	$ 851,200.00		$ 901,510.00	
	Squad Car		$ 32,147.19	$ 34,965.38	$ 38,526.05	$ 39,406.09	$ 46,715.48	
Street Maintenance								
	Crack Sealing (per linear foot)		$ 0.54	$ 0.65	$ 0.67	$ 0.72	$ 0.80	
	Pothole repair (SQ FT)		$ 4.72	$ 5.25	$ 6.90	$ 7.25	$ 8.30	
	Omega Mix				$ 12.61	$ 13.10	$ 14.50	
	PG58-28 Oil	$ 409.00	$ 495.00	$ 565.67	$ 993.00	$ 945.00	$ 725.00	
	Hot Mix	$ 60.00	$ 63.95	$ 65.20	$ 74.80	$ 75.30	$ 91.70	
	Tack Oil	$ 2.50	$ 2.60	$ 4.50	$ 4.50	$ 4.50	$ 4.50	-
Employee Costs								
	Wage Increases		3.11%	2.61%	3.35%	3.96%	5.44%	
	Health Insurance (NDPHIT)				3.80%	8.49%	9.83%	7.88%

Comparison Costs of Similar City Projects

Mandan

20834 - 04/13/2020

	Unit	Quantity	Unit Price	Total Price
Superpave FAA 43	TON	408	$ 78.90	$ 32,191.20
Remove and Relay Blended Material	SY	1500	$ 5.00	$ 7,500.00
Water Main - 8"	LF	400	$ 82.95	$ 33,180.00
Gate Valve - 8"	EA	3	$ 1,942.50	$ 5,827.50
1" - Service	LF	300	$ 42.00	$ 12,600.00
1" Curb Stop	EA	10	$ 262.50	$ 2,625.00
1" Service Connection	EA	10	$ 1,837.50	$ 18,375.00
Sidewalk Concrete	SY	100	$ 51.20	$ 5,120.00
Curb & Gutter - Type I	LF	100	$ 25.80	$ 2,580.00
				$ 119,998.70

23590 - 04/04/2024

	Unit	Quantity	Unit Price	Total Price
Superpave FAA 43	TON	408	$ 120.00	$ 48,960.00
Remove and Relay Blended Material	SY	1500	$ 7.00	$ 10,500.00
Water Main - 8"	LF	400	$ 100.00	$ 40,000.00
Gate Valve - 8"	EA	3	$ 5,700.00	$ 17,100.00
1" - Service	LF	300	$ 38.75	$ 11,625.00
1" Curb Stop	EA	10	$ 660.00	$ 6,600.00
1" Service Connection	EA	10	$ 1,450.00	$ 14,500.00
Sidewalk Concrete	SY	100	$ 85.00	$ 8,500.00
Curb & Gutter - Type I	LF	100	$ 28.50	$ 2,850.00
				$ 160,635.00

Napoleon

21613 - 04/13/2020

	Unit	Quantity	Unit Price	Total Price
Water Main - 6"	LF	400	$ 56.00	$ 22,400.00
Gate Valve - 6"	EA	3	$ 2,675.00	$ 8,025.00
1" - Service	LF	300	$ 50.00	$ 15,000.00
1" Curb Stop	EA	10	$ 1,200.00	$ 12,000.00
1" Service Connection	EA	10	$ 1,500.00	$ 15,000.00
				$ 72,425.00

23142 - 04/04/2024

	Unit	Quantity	Unit Price	Total Price
Water Main - 6"	LF	400	$ 125.00	$ 50,000.00
Gate Valve - 6"	EA	3	$ 3,600.00	$ 10,800.00
1" - Service	LF	300	$ 75.00	$ 22,500.00
1" Curb Stop	EA	10	$ 1,750.00	$ 17,500.00
1" Service Connection	EA	10	$ 1,000.00	$ 10,000.00
				$ 110,800.00

Glen Ullin

19255 - 03/22/2018

	Unit	Quantity	Unit Price	Total Price
Water Main - 6"	LF	400	$ 63.00	$ 25,200.00
Gate Valve - 6"	EA	3	$ 1,800.00	$ 5,400.00
1" - Service	LF	300	$ 29.00	$ 8,700.00
1" Curb Stop	EA	10	$ 740.00	$ 7,400.00
				$ 46,700.00

20692 - 01/31/2023

	Unit	Quantity	Unit Price	Total Price
Water Main - 6"	LF	400	$ 112.00	$ 44,800.00
Gate Valve - 6"	EA	3	$ 3,640.00	$ 10,920.00
1" - Service	LF	300	$ 62.00	$ 18,600.00
1" Curb Stop	EA	10	$ 1,665.00	$ 16,650.00
				$ 90,970.00

Consumer Price Index for All Urban Consumers (CPI-U) - Midwest Urban

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual	HALF1	HALF2
2015	-0.3	-0.5	-0.9	-1.1	-0.8	-0.7	-0.5	-0.3	-0.8	-0.3	-0.2	0	-0.5	-0.7	-0.4
2016	0.8	0.4	0.5	0.8	0.8	0.8	0.4	0.6	1.1	1	1.2	1.8	0.8	0.7	1
2017	2.2	2.4	1.9	1.8	1.4	0.9	1.3	1.5	1.5	1.5	1.9	1.7	1.7	1.8	1.6
2018	1.6	1.7	1.8	1.8	2.3	2.5	2.4	2.1	1.9	2.2	1.4	1.3	1.9	2	1.9
2019	0.8	1.3	1.7	1.5	1.3	1.2	1.5	1.5	1.4	1.5	1.9	2.3	1.5	1.3	1.7
2020	2.5	2.1	1	-0.4	-0.4	0.4	0.7	1.1	1.3	1	1	1.1	1	0.9	1
2021	1.2	1.7	3	4.9	5.6	5.8	5.9	5.7	5.7	6.6	7.3	7.5	5.1	3.7	6.5
2022	7.9	8	8.6	8.2	8.8	9.5	8.6	8.1	8.1	7.4	6.8	6	8	8.5	7.5
2023	6	5.6	4.9	4.9	3.7	2.4	2.9	3.4	3.2	2.9	2.9	3.2	3.8	4.5	3.1
2024	2.7	2.8	2.8	2.8	2.7	2.5	2.7	2.6	2.5	2.6	2.6	3	2.7	2.7	2.7
2025	3.4														

North Dakota: Metro vs. Rural Comparison – Median Purchase Price (Nominal)

- In 2012, rural and metro median home purchase prices were about the same ($164,000 and $168,000 respectively).
- Since then, rural home prices have increased much more slowly than metro home purchase prices.
  - Over the period 2012 to 2023, rural home prices increased by 12%, while metro prices increased by 76% .

North Dakota: Median Purchase Price by Location

76% increase in Metro purchase price, 2023 vs. 2012

12% increase in Rural purchase price, 2023 vs. 2012

Metro — Rural
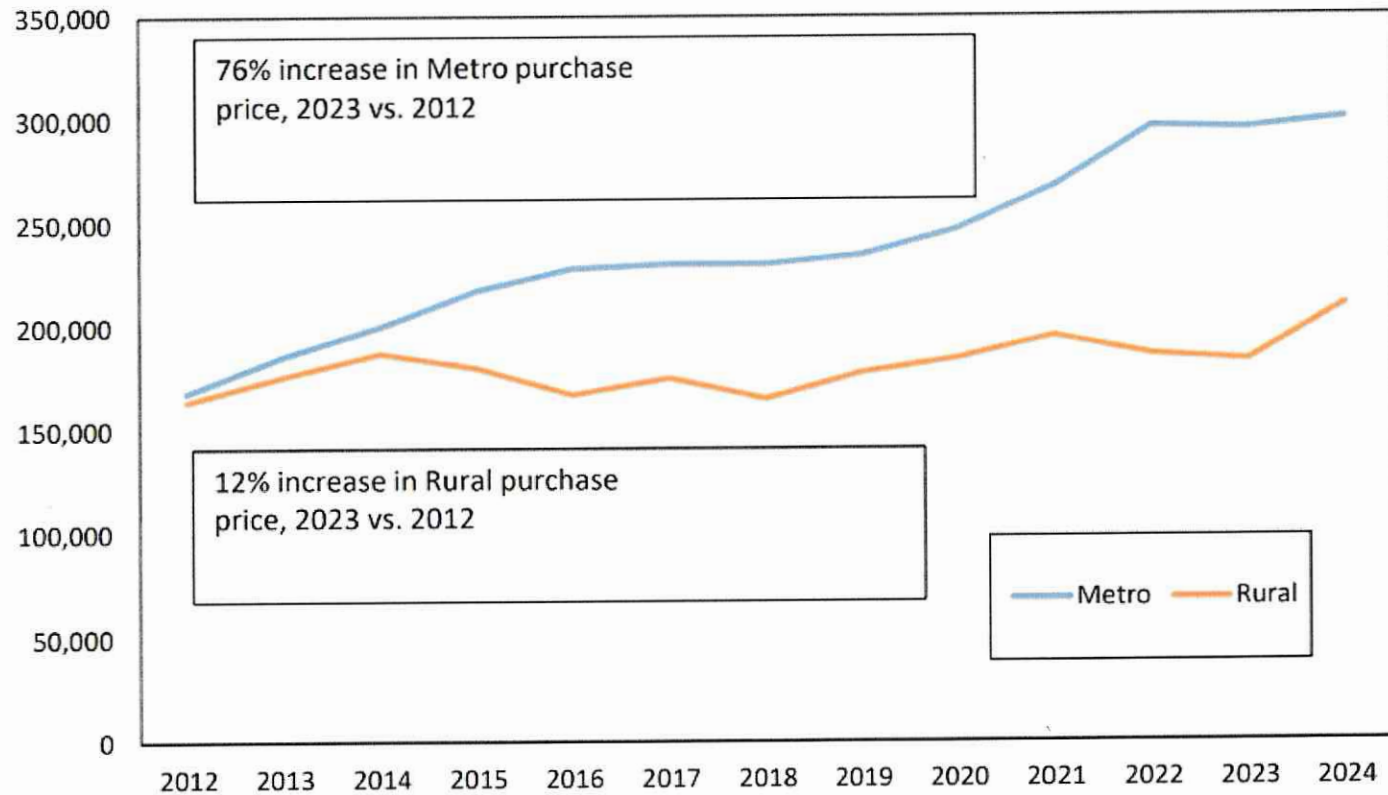
Source: AEI Housing Center, www.AEI.org/housing.

Confronting the New Property Tax Revolt

Jared Walczak   Vice President of State Projects

November 2024

Key Findings

- Property values have skyrocketed in recent years, rising almost 27 percent faster than inflation since 2020, which yields dramatically higher property taxes in jurisdictions that fail to adjust millages (rates) downward.
- Legitimate discontent over high property taxes is fueling a movement to significantly curtail or even eliminate the property tax, but many of the policy solutions offered, like assessment limits and tax swaps, create more problems than they solve, distorting property markets and undermining long-term housing affordability.
- Despite its unpopularity, the property tax is relatively economically efficient, and shifting to any alternative tax would harm economic growth.
- Well-designed levy limits can provide homeowners with much-needed relief from soaring property tax bills without the harms associated with other policy responses, and narrowly tailored circuit breakers can help ensure that low-income families are not priced out of their homes.
- The property tax is a tax worth saving—and therefore worth reforming. Policymakers should work to constrain the runaway growth of property tax liability witnessed in some parts of the country but should not overcompensate by eliminating or dramatically curtailing an economically efficient tax.

Finally, many states have tax deferral programs, allowing certain homeowners to defer property tax payments until a home is sold. Take-up of these programs tends to be limited, sometimes leading to the conclusion that they are not a policy success. But that may be the wrong way of looking at it. Low take-up suggests that, given existing relief mechanisms, relatively few taxpayers *are* at risk of having taxes price them out of their existing home—which would argue against sweeping policies affecting the entire housing market supposedly predicated on solving this problem. Meanwhile, to the extent that some households do face hardships, the deferral option is available to them.[33]

Implementing Levy Limits

Levy limits can be a good option for states seeking to constrain the growth of property taxes, but the details matter. For levy limits to work properly, they must be imposed at the correct level of government and the annual adjustment mechanisms must be well designed.

Some states have implemented levy limits at the state level, meaning that millages in every jurisdiction roll back based on the overall projected statewide increase in property tax collections due to rising property values. This makes little sense, as it provides insufficient relief in areas that are growing (and seeing values rise faster than statewide averages), and it creates perverse incentives for localities. The limitation should be imposed at the level of the responsible taxing jurisdiction—typically a county, city, or school district. State policy can create such limitations, but the limitation should apply to each taxing jurisdiction individually, not in statewide aggregate.

As previously noted, the appropriate measure for levy limitations is the anticipated tax liability for preexisting property. When property values are rising, the exact same set of properties will have higher tax liability year over year. The goal of a levy limit is to cap the amount of revenue that can be generated *from the status quo* by reducing millages accordingly. New construction should be excluded, because it *appropriately* brings in additional revenue, as the additional housing or commercial property creates new costs for the locality.

Policymakers also need to decide on an appropriate annual growth factor for that existing property. Typically, it will be inflation at a minimum, or perhaps inflation plus some additional amount of allowable growth—like 1 or 2 percent growth above inflation. Lawmakers must also decide what spending obligations, if any, can allow increases beyond the growth factor. But before we dive into that, let's take a step back and see how such a system works.

Imagine a small jurisdiction with 2,000 homes. (For the sake of simplicity in this example, we'll only consider homes, though commercial and industrial property matter as well.) In the first year, they collectively bring in $5 million in property taxes at that year's property tax rates. By the next year, 100 new homes have been built, bringing in an additional $300,000 in property taxes under existing rates. The preexisting 2,000 homes, meanwhile, have seen their assessed values rise, and they are now projected to bring in $5.6 million if rates do not change.

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33   Youngman, 10.

If inflation were at 2 percent and this locality imposed a growth factor of inflation plus 2 percent, then rates would have to be adjusted to ensure that the *existing* 2,000 homes paid no more than $5.2 million. This would obligate a 7 percent reduction in tax rates. (If, for instance, the rate had been 10 mills previously, it would be about 9.3 mills in year two.) The additional revenue expected from the 100 new homes would *not* be part of this calculation, though they too would benefit from the lower rate and thus bring in a little under $280,000 rather than $300,000. Overall collections would rise from $5 million to about $5.48 million, whereas they would have risen to $5.9 million absent the limitation.

Many limitation laws stipulate that tax in the amount necessary to service certain debt, or to meet certain obligations, is not subject to the levy limit. This can make sense, but policymakers need to tread carefully if they wish to avoid gutting their own limitations. It may be reasonable to exclude debt service on revenue-producing improvement bonds, for instance, but if all bonds are excluded, this may render the limit ineffective. It may be necessary to allow taxes to rise above the otherwise limited amount if a locality incurs liability in litigation. It likely does not make sense, however, to allow a wide range of obligations—including pension contributions—to provide end-runs around the limits.

If a jurisdiction were up against a rate limit, local officials would not be permitted to raise the rate above that amount due to rising costs. They would be obligated to find other ways to balance the budget. It is reasonable for levy limits to impose roughly commensurate constraints.

Sometimes, however, a jurisdiction may have good reason to increase revenues above the allowable growth factor. Well-designed levy limits do not prohibit this. They make the increase transparent, and frequently put the decision in the hands of voters, who can decide whether to authorize an override. The beneficial effect of levy limits is to crack down on unlegislated tax increases that result from appreciation in property values, without anyone—local officials or the general public—ever casting a vote to raise taxes.

Finally, in crafting levy limits, lawmakers should avoid allowing a downward ratchet effect during economic downturns and should consider allowing local officials to "bank" some or all of the allowable increase they decline to use.

During a recession, property values often decline, typically rebounding in a few years. If a levy limit restricted revenue growth as the property market recovered, it could result in far less tax being collected on the same set of properties post-recovery compared to pre-recession. Levy limits are intended to constrain expansionary tax policies; they are not supposed to have a sharply contractionary effect. In designing levy limits, lawmakers should avoid this downward ratchet effect by applying the allowable growth factor against the last highest collections, not the previous year's collections, when there has been a decline in value.

Sometimes, moreover, local officials may elect not to take advantage of additional revenues. They may choose to reduce rates more than what is obligated by the levy limits, declining to capture the revenue growth allowed by the statewide formula. If the levy limitations are use-it-or-lose-it, this strongly incentivizes jurisdictions to take all allowable growth each year so that they do not reduce their capacity to increase revenues later. To avoid encouraging localities to always max out, lawmakers might consider allowing jurisdictions to "bank" at least some of the unused cap.