



# North Dakota Legislative Council

Prepared for Representative Heilman  
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## **PRELIMINARY ESTIMATE OF POTENTIAL FUNDING NEEDED TO REPLACE PROPERTY TAX REVENUES**

On June 29, 2023, the Secretary of State approved for circulation a petition for an initiated constitutional amendment to prohibit political subdivisions from levying tax on real or personal property, except for tax levied for the payment of existing bonded indebtedness until paid. This memorandum provides preliminary information on the potential fiscal effect of this initiated petition, if approved. Please note that if a sufficient number of signatures are gathered and the Secretary of State approves the measure for the ballot, under North Dakota Century Code Section 16.1-17, the Legislative Council will coordinate the "official" estimated fiscal impact of the measure.

Property taxes levied in 2022 payable in 2023 totaled \$1.501 billion, consisting of:

- \$619 million for schools,
- \$459 million for cities,
- \$340 million for counties, and
- \$83 million for other districts.

Of the \$1.501 billion total, \$156 million was for special assessments and \$28 million was for select special taxes. Based on information from cities, counties, and the Department of Public Instruction, an estimated \$156 million of property taxes levied in 2023 relate to payments on bonded indebtedness of schools (\$117 million), cities (\$34 million), and counties (\$5 million). The \$340 million total of special assessments, select special taxes, and bond payment obligations would not be eliminated as part of the measure, leaving \$1.161 billion of property tax revenue to be eliminated each year based on property taxes levied in 2022 (the most current information available).

If approved, the measure would become effective January 1, 2025; therefore, political subdivisions would no longer be allowed to levy property taxes beginning in 2025 payable in 2026. Assuming a 4.6 percent annual increase in property tax collections for the 3 years between 2022 and 2025 (4.6 percent is the average annual increase for property taxes levied during the 3-year period 2019 to 2022), the amount of property tax revenue that would need to be replaced in 2025 would be \$1.329 billion per year or \$2.658 billion per biennium. Please note the \$2.658 billion is based on estimated property taxes that would be levied in 2025 doubled for the biennial estimate and does not include any projected inflationary or other increases beyond 2025.

The state already provides state funding to reduce property taxes of certain eligible residents under the homestead tax credit program, the disabled veterans credit program, and the primary residence credit program. For the 2023-25 biennium, the Legislative Assembly appropriated a total of \$194 million for these property tax credit programs. Deducting these amounts from the \$2.658 billion needed to replace property taxes would result in the need for an additional \$2.464 billion of state spending. The 2023-25 biennium state budget totals \$19.6 billion, including general fund, special funds, and federal funds; therefore, the estimated \$2.464 billion of additional state spending needed to replace property tax revenues would be equivalent to 12.6 percent of the total 2023-25 biennium state budget.