

ABOLISH PROPERTY TAXES?

SOME QUESTIONS & ANSWERS!

QUESTION #1: *Are there any states that don't have property taxes?*

ANSWER: No other state is completely without property taxes. South Carolina and Florida are working to abolish property taxes in their states. There are some political subdivisions in Alaska that do not have property taxes. It is interesting to note that Iceland and the United Kingdom (which had property taxes but dropped them because of their extreme unpopularity) have no property taxes.

QUESTION #2: *If property taxes were abolished how would we pay for the things currently paid for with property taxes?*

ANSWER: There are several parts to the answer to this question:

(A) We need to remember that ALL taxes come from YOU the taxpayer. The real question is - in what manner is the tax exacted? The money to pay for all government services comes from our earnings. We believe that a tax on property is the least equitable means of exacting taxes.

We believe a free people should be able to be secure in their home and not fear losing it to the government and/or have to rent their own home from the government, even after they have paid off their mortgage. We believe it is wrong to force citizens, who have worked hard and paid off a mortgage over 20 to 30 years to then require they rent their home from the government or lose it!

(B) Until the 2009-11 legislative session over half the costs of our K-12 schools were funded with local funds (property taxes). In the last legislative session the legislature voted to provide 70% of K-12 funding from state general fund revenues.

This should have resulted in a significant decrease in property taxes. Unfortunately, this has not happened. \$295 million dollars were allocated from general fund revenues to go to K-12 schools and it was intended to reduce property taxes. Further the cost of our K-12 schools should be going down, not up. Our student population is decreasing significantly in virtually all school districts statewide. [\(X-K12\)](#) [\(Z\)](#) [\(Y\)](#). Between 1996 and 2006 the amount of spending per student has increased more than 95% while the CPI increased at a significantly slower pace [\(XX\)](#).

(C) Since 1967/69 State General Fund revenues have increased 2,232% while personal income has increased 1,458% [\(G\)](#). We can and should "Pay For" a significant portion of property tax abolition by reducing and reversing the growth of state government spending over the last 8 years.

It isn't only the Federal government whose growth is out of control our state government growth is also out of control. Since 2005/07 the growth in state revenues has outstripped personal income almost 3 to 1. It's time we reign in government spending & growth. **It's time to reduce the size of government.** Between 2005/07 and 2009/11 State General Fund spending increased 63.33% [\(R\)](#). Between 2005/07 and 2007/09 general fund spending increased 23.75% and again increased 31.98% between 2007/09 and 2009/11 [\(R\)](#). Much, if not most of this increase in spending went to special interests, not to funding the basic services and responsibilities of government.

General fund revenues increased far faster than any legitimate or necessary spending. This is because both the state sales tax and the state income tax rates are far higher than they need be or should be. Instead of decreasing these tax rates the legislature has been spending the excess revenue. This excess spending can and should be stopped.

By checking and reversing state spending patterns over the last 6 years we can “pay for”, the majority of the expenses of government currently funded with property taxes. The proposed Initiated Measure provides the mechanism to make this happen [\(T\)](#) [See **SECTION 2. AMENDMENT, Section 4 Sub-Sections (1), (2) & (3)**].

(D) There are hundreds of millions of dollars in state spending that do not benefit the majority of North Dakota taxpayers/citizens. In short these expenditures go to serve the interests of a very limited number of people – that is to – ***special interests*** [\(V\)](#). If the legislature stops special interest spending this alone will provide most of the revenue that will be negated with the abolition of property taxes.

We realize that those who benefit from special interest spending are powerful political groups in North Dakota. It is expected that these groups will aggressively oppose any change to the status quo and actively defend the special tax funded treatment and benefits they currently receive.

(E) Since 1986 116 cities and 4 counties have imposed a local option sales tax. Prior to 1986 there was no local option sales tax. Our cities and counties managed well without this extra tax, but many adopted them nonetheless. If the local political subdivision wished to raise revenues locally this mechanism is already in place and the local citizens can, if they wish, impose the “local option” tax on themselves.

QUESTION #3: Property taxes are currently levied by and are used to partially fund city and county government services. If we abolish property taxes will local governments and their citizens lose “local control”?

ANSWER: Absolutely not. Property taxes provide little, if any, local control for citizens. For example, there is no meaningful local control over our schools. The Department of Public Instruction (DPI) has complete control over all meaningful aspects of all public schools in North Dakota. This control is exerted through the *State Accreditation Manual*.

In addition the Initiated Measure specifically provided that, “the state cannot condition the expenditure” of any general fund money going to cities, towns, townships, school districts or other political subdivisions and they have, “sole discretion in how to allocate the expenditure of this portion” of any funding coming from state revenue sources [\(T\)](#) [Section 2. Amendment – Section 4 Subsections 1 – 3].

QUESTION #4: Aren’t property taxes fair taxes?

ANSWER: NO! Property taxes are inequitable, unfair and grossly abused. First, the property owner has NO control over the tax rate or the assessed valuation of his/her home. Property taxes are raised by the city or county that that imposes the tax based on their budget. Once the budget is adopted the mill levy is set at a rate that will raise the amount of the budget.

Property taxes are used to give special interests “breaks” at the expense of all other property tax payers. It is important to remember that no one is exempt from the

impact of property taxes. Those who rent must pay the landlord an amount to cover his property tax payments. As property taxes increase – these increases are passed through to the renter.

Every time an property is either exempted from or their tax rate is reduced the amount of the reduction is put on the rest of the taxpayers. Exemptions and special treatment is given some property owners through a variety of mechanisms. They include:

- (A) **Economic Enterprise Zones.** These “zones” allow the property owners whose property is located in these zones either full or partial property tax exemptions or abatements. The argued purpose of this is to encourage the property owners a “financial break” so they can afford to improve their property. Unfortunately, everyone else is required to pick up the amount the favored property doesn’t have to pay.
- (B) **New Home Abatements.** In many jurisdictions builders and developers have lobbied and received special property tax treatment. What happens is that when a new home is built the builder is exempt from paying tax on the property for up to 2 years. While the amount of the exemption may vary from jurisdiction to jurisdiction the state permits property tax authorities to exempt up to \$150,000 of appraised value for up to two years. These properties get a “free ride” at the expense of the other property owners who must pick up what these property owners don’t pay.
- (C) **TIF or Tax Increment Financing.** This is another way special interests are able to escape paying for the services that property taxes were created to fund.

Tax increment financing (TIF) allows cities to create special districts and to make public improvements within those districts that will generate private-sector development. During the development period, the tax base is frozen at the predevelopment level. Property taxes continue to be paid, but taxes derived from increases in assessed values (the tax increment) resulting from new development either go into a special fund created to retire bonds issued to originate the development, or leverage future growth in the district.

In short the property that is in the TIF district pays its “property taxes” for local infrastructure improvements while all the neighboring properties must pay for the public services these entities are exempted from paying.

- (D) **Distinctions Among Types of Property.** The most common means of discrimination is through creating “classes” of taxable property. In many jurisdictions commercial, retail, industrial, agricultural and residential properties are classified differently and tax rates applied differently. This is the case even if all properties receive equal public services. What happens is this pits neighbor against neighbor in an effort to minimize “my” property tax burden and place the reduction on his/her neighbor.

Property taxes discourage some owners from improving their property. Many owners chose to not make improvements because they don’t want their property taxes to go up.

Property taxes tax the value of a home, regardless of what was paid for the home or how long ago it was purchased. The “current market value” is used to base the mill levy rate to apply to the property. There is no consideration of the income of the person who owns the property. This is one of the reasons that the elderly are so often either forced to sell their home or lose their home to a tax sale.

Two people can live in an identical home – one making half what the other makes but paying the same property tax. In fact, a person earning three times anyone else in the neighborhood can live in a modest or the lowest valued home and pay a small property tax. The property tax is not an equitable tax. Property taxes punish those who maintain their homes and improve them by forcing them to pay more to the government for doing what should be encouraged not discouraged.

QUESTION #5: *If property taxes are so unpopular why are they so common?*

ANSWER: Governmental entities like property taxes for a number of reasons including:

- (A) The property tax is easy to assess and provided a very large base from which to exact taxes.
- (B) Property is tangible and it is easy for a taxing entity to identify the property and the owner.
- (C) Since a person makes a significant investment in acquiring real property and maintaining it – the threat of losing it if taxes are not paid makes exacting taxes relatively easy.
- (D) Property taxes have been a part of governments’ taxing tools for such a long time that most people assume there is no option. There is an option and the Initiative Measure is the means to exercise this option.
- (E) We have been lead to believe that paying property taxes (which is a local tax) gives us control over how and what these taxes are used to fund. For example, we are told that property taxes give us control over our public schools. This is absolutely false. In North Dakota all decisions that impact the academic outcome of students is determined by the Department of Public Instruction in Bismarck. Local schools are required to follow the State Accreditation Manual. This manual dictates hiring policies, firing policies, what books the school can and cannot acquire; what positions must be filled and the “credentials” of each position as well as the curriculum that must be followed. Paying property taxes provides no meaningful “local control”.
- (F) We are asked by those opposed to abolishing property taxes – “how are we going to pay for it?” The answer is simple. We pay for it the way we have always paid for everything government does – we pay for it from our earnings. The question isn’t whether we “pay for it” but rather how we pay for it. We believe that allowing government to force us to rent our home from the government, or be forced to sell it in order to pay property taxes is a terrible system.

The fact is, because of the high sales and income taxes in North Dakota, if we demand our elected officials stop special interest spending and prioritize spending so as to only fund those services government should fund, it appears we can eliminate property taxes in our state without increasing current taxes.

QUESTION #6: Specifically, what state expenditures are unnecessary and/or could be used to “pay for” those things that property taxes now fund?

ANSWER: Before we identify specific expenditures that could or should be curtailed we would like to suggest the real question is how much of what we earn should be taken by government and when taken how it should be prioritized. Every family is required to prioritize how it spends the income it has. Individuals and families live on a budget. When they have limited funds they prioritize where the funds are spent, in short they live within their budget.

The problem with government is that unlike the family/income earner government gets its revenue by taking it from those of us who earn it, government does not earn anything – it takes. When the “taking” is used for basic services the taxpayer gets his/her money’s worth. However when the money that government takes is used for things that do not provide a general benefit expenditures for those things are suspect. When government uses the money it takes to provide benefits to those that the average taxpayer does not have, cannot get or cannot afford there is a genuine question as to the legitimacy of the level of taxation.

It is our belief that – *We do not elect our representatives to decide how much of what we earn we get to keep; rather we elect them to prioritize spending the precious dollars we choose to entrust to them.*

The following expenditures are questionable and should be carefully reviewed to see if they are a proper use of our precious tax dollars. We need to remember that every dollar that government spends is a dollar that the taxpayer who earned it is unable to spend as he/she sees fit.

- North Dakota taxpayers are providing approximately \$190,000,000 each year to subsidize the college educations of more than 18,000 non-resident students in our state colleges and universities. The parents of these students have not lived in North Dakota and do not pay North Dakota taxes. While it may be nice to pay for someone else’s education is it appropriate to require North Dakota families to do with less so the families of non-resident students have more? In fall of 1996 the non-resident students made up 31.9% of our college and university population. In the fall of 2008 that percent had climbed to 40.4% and increase of 26.6% [\(AE\)](#) [Note: these are headcount figures – not FTE’s].
- North Dakota state employees have their health care benefits funded 100% by North Dakota families. This costs North Dakota families approximately \$110,000,000 every year. Few of North Dakota’s taxpayers have their health care benefits funded 100%. Most are fortunate if their health care benefits are funded 50%. More than 11,000 state employees receive an annual health care benefit of \$9,911.64. This is an increase of 25 ½% increase over their 2007-09 health care benefit. It is interesting to note that this benefit amount is given to individuals, couples and families! [\(AD\)](#) State employees are not under paid; in fact several studies have shown that state employees are, in fact, paid at a rate higher than their private sector counterparts [\(AF\)](#). The question isn’t whether or not it is good or bad to fund state employee’s health care costs

100%. The question is whether or not it is fair that private sector taxpayers' and their families should be required to provide to state employees a salary and benefit package they are unable to have. We believe state employees are entitled to be paid market rates for what they do and that they should receive appropriate benefits similar to what those in the private sector. The appropriateness of this inequity needs to be carefully examined.

QUESTION #7: If enacted will this prohibit “special assessments” on real property?

ANSWER: No. Special assessments are not prohibited. What is prohibited is the use of property taxes to fund general revenues/spending. Special assessments are impositions on specific properties for a specific purpose. The imposition of the special assessment is voted on by those who will be benefiting from the assessment.

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