

Senate Local Government & Taxation Committee

Minutes
2006



MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: January 11, 2006

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Bunderson, Vice Chairman Hill, Senators Stegner, Sweet, McKenzie, Williams, Corder

MEMBERS ABSENT/ EXCUSED: Senators Malepeai, Langhorst

MINUTES: **Chairman Bunderson** convened the meeting at 3:05 p.m. A silent roll call was taken. Introduction of new Committee Secretary, Shelley Sheridan and Page Saige Harrington. **Senator Bunderson** notified the committee that the second item on agenda will be moved to the end. He then turned the time over to Senator Hill to talk about Rules Review and format.

Senator Hill handed out the Rules Review assignment wherein each committee member will review an assignment to evaluate specific rules. The rules will be reviewed from 1/17 to 1/19.

Chairman Bunderson explained that as in prior years the committee will preview all key tax issues so that the committee is prepared when actual bills come from the House. He said the preview will be done in an organized workshop fashion and include detail discussions and presentations will be made. He introduced Deputy Attorney General, **Ted Spangler** who is assigned to the State Tax Commission.

Ted Spangler reviewed in detail the Tax Rate by Type of Tax handout (attached).

ADJOURNMENT: **Chairman Bunderson** reviewed Public Policy Survey handout (attached). There being no further business, the meeting adjourned at 4:30 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: January 12, 2006

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Bunderson, Vice Chairman Hill, Senators Stegner, Sweet, McKenzie, Williams, Corder, Malepeai, Langhorst

MEMBERS ABSENT/ EXCUSED: Senators Sweet, Malepeai

MINUTES: **Senator Bunderson** convened the meeting at 3:10 p.m. A silent roll call was taken.

Senator Bunderson referenced the Economic Outlook and Revenue Assessment Committee's information packet regarding Statewide and Industry Economic Trends and Analysis (attached). Highlighted page 5 Key State Economic Indicators; page 13 History of Sales Tax Collections and Distributions which details how funds are allocated; page 15 Federal Funding to State Agencies; page 16 Property Taxes by Class of Taxpayer; page 17 Reconciliation-Major Tax Collections and Distributions; page 22 Idaho Acres in Agricultural Production and page 26 Historical Comparisons of Original Executive General Fund Revenue Projections vs. Actual Collections.

Senator Bunderson introduced Tax Commissioner **Tom Kastilometes** and Tax Commissioner **Alan Dornfest** who reviewed in detail handout regarding Idaho Property Taxes.

ADJOURNMENT: There being no further business, the meeting adjourned at 4:30 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: January 17, 2006
TIME: 3:00 p.m.
PLACE: Room 426
MEMBERS PRESENT: Chairman Bunderson, Vice Chairman Hill, Senators Stegner, McKenzie, Williams, Corder, Malepeai, Langhorst
MEMBERS ABSENT/ EXCUSED: Senator Sweet
MINUTES:

Chairman Bunderson convened the meeting at 3:00 p.m. A silent roll call was taken. He welcomed the entire Idaho State Tax Commission, Chairman **DuWayne Hammond**, commissioners **Coleen Grant**, **Tom Katsilometes** and **Sam Haws** who presented their annual report.

Tax Commission Chairman **DuWayne Hammond** outlined principles of the tax commission and then introduced tax commissioners **Coleen Grant**, **Tom Katsilometes** and **Sam Haws**.

Tax Commissioner **Coleen Grant** presented the tax commission's accomplishments in fiscal year 2005 and what is planned for 2006 referencing booklet "Things We Strive For" (handout).

Tax Commissioner **Tom Katsilometes** gave snapshot of the tax commission's oversight of the ratio study of property taxes, status of their technology support program and brief review of the property tax reduction and of the Circuit Breaker.

Tax Commissioner **Sam Haws** reviewed a handout stating the State Tax Commission Agency Highlights for 2005.

Tax Commission **DuWayne Hammond** reviewed page 7 of the "Things We Strive For" booklet, Idaho's Gross Revenues for Fiscal Year 2005, percentage of growth by fiscal year, Incremental Results from New Resources and Overall Activity Levels in 2005.

Vice Chairman Hill introduced **Janice Boyd**, Tax Policy Specialist with the State Tax Commission, to review Income Tax Administrative Rules.

Income Tax Administrative Rules

Docket No. 35-0101-0501

Docket No. 35-0101-0502

Docket No. 35-0101-0503

Vice Chairman Hill voiced concern about Docket No. 35-0101-0503,

Rule 920-03 b., Adjustments to Credits. He felt the wording of the rule sounded like the Tax Commission is adjusting statute of limitations for tax credit carry overs. **Janice Boyd** clarified the rule with the assistance of **Ted Spangler**, Deputy Attorney General assigned to the State Tax Commission.

Senator Hill suggested the committee adjourn to review rules and resume on January 18, 2006. He invited **Janice Boyd** to return and continue Rules Review.

Vice Chairman Hill moved to approve the minutes of January 11 as written. **Senator McKenzie** seconded the motion. **Vice Chairman Hill** moved to approve the minutes of January 12 as written. **Senator McKenzie** seconded the motion. The motion passed by unanimous voice vote.

ADJOURNMENT: There being no further business, the meeting adjourned at 4:45 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: January 18, 2006

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Bunderson, Vice Chairman Hill, Senators Stegner, Sweet, McKenzie, Williams, Corder, Malepeai, Langhorst

MEMBERS ABSENT/ EXCUSED: None

MINUTES: **Chairman Bunderson** convened the meeting at 3:00 p.m. A silent roll call was taken. He welcomed **Vern Driver**, Governor Kempthorne's appointee to the Board of Tax Appeals.

Vern Driver gave presentation of his personal and professional history.

Chairman Bunderson stated that the committee will vote on Mr. Driver's appointment at the committee meeting on January 24, 2006. He also requested that the Board of Tax Appeals return at a later date to give the committee a report on the past year.

Vice Chairman Hill introduced **Janice Boyd**, Tax Policy Specialist with the State Tax Commission, to continue discussion of the Income Tax Administrative Rules Review. **Vice Chairman Hill** requested that, with regard to Docket No. 35-0101-0503, Rule No. 799, the State Tax commission prepare practical examples of why the rule is needed and how it should be applied, and to provide statutory authority used in creating the rule and reference similar rules with carry overs.

Income Tax Administrative Rules
Docket No. 35-0101-0503, Docket No. 35-0201-0501

Vice Chairman Hill introduced **Alan Dornfest**, Tax Commission to review Property Tax Administrative Rules.

Property Tax Administrative Rules
Docket No. 35-0103-0501, Docket No. 35-0103-0502, Docket No. 35-0103-0503

ADJOURNMENT: There being no further business, the meeting adjourned at 4:30 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: January 19, 2006

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Bunderson, Vice Chairman Hill, Senators Stegner, Sweet, McKenzie, Williams, Corder, Malepeai, Langhorst

MEMBERS ABSENT/ EXCUSED: None

MINUTES: **Chairman Bunderson** convened the meeting at 3:04 p.m. A silent roll call was taken.

Vice Chairman Hill introduced **Jim Husted** with the Tax Commission to review Sales and Use Tax Administrative Rules.
Docket No. 35-0102-0501

Senator Corder, referencing Rule 109, 02.a., requested the Tax Commission research when the \$35 fee was originated and why it was adjusted.

Vice Chairman Hill introduced **Susan Renfro** with the Board of Tax Appeals to review Board of Tax Appeals Rules.
Docket No. 36-0101-0501

Senator Corder requested that the Board make a commitment to aggressively pursue the process where people can find pro-bono help. **Vice Chairman Hill** asked **Senator Corder** if he was prepared to support their commitment. **Senator Corder** responded he was.

Vice Chairman Hill re-introduced **Jim Husted** with the Tax Commission to continue review of Sales and Use Tax Administrative Rules.
Docket No. 35-0102-0502
Docket No. 35-0102-0503

Jim Husted continued with review of Cigarette & Tobacco Products Rules. Docket No. 35-0110-0501

Jim Husted concluded with review of Unclaimed Property Tax Rules.
Docket No. 35-0111-0501

MOTION: **Vice Chairman Hill** made a motion to approve the following dockets with the exception of Docket No. 35-0101-0503.

Income Tax Administrative Rules

Docket No. 35-0101-0501
Docket No. 35-0101-0502

Sales and Use Tax Administrative Rules

Docket No. 35-0102-0501
Docket No. 35-0102-0502
Docket No. 35-0102-0503

Property Tax Administrative Rules

Docket No. 35-0103-0501
Docket No. 35-0103-0502
Docket No. 35-0103-0503

Cigarette and Tobacco Products Tax Administrative Rules

Docket No. 35-0110-0501

Unclaimed Property Tax Administrative Rules

Docket No. 35-0111-0501

Tax Commission Administration and Enforcement Rules

Docket No. 35-0201-0501

Board of Tax Appeals Rules

Docket No. 36-0101-0501

VOTE:

Senator McKenzie seconded the motion.

The motion passed by unanimous voice vote.

Chairman Bunderson informed the committee that a series of workshops is planned, time permitting, on key tax issues. The component issues surrounding the property tax topic will be first. Chairman Bunderson informed the committee that the purpose of the workshop was to help the committee become fully informed about property tax issues that may come before the committee from the House (Under Idaho's Constitution, all revenue bills must originate in the House).

Chairman Bunderson then turned the time over to Senators Corder and Langhorst to lead the committee's workshop discussion regarding the Developer's Agricultural Exemption.

Scott Turlington representing Tamarack Resort, stated he feels Developers need protection, but not under the agricultural exemption and that Valley County is in need of more resources from property taxes.

Discussion of the Developer's Agriculture Exemption was not completed and will be carried over to a subsequent meeting. However, there was no objection to Senators Corder and Langhorst's proposal to repeal Section 63-602FF Idaho Code by drafting legislation that will separate the Agriculture Exemption and the Developers Exemption into separate bills.

ADJOURNMENT: There being no further business, the meeting adjourned at 4:30 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

- DATE:** January 24, 2006
- TIME:** 3:00 p.m.
- PLACE:** Room 426
- MEMBERS PRESENT:** Chairman Bunderson, Vice Chairman Hill, Corder, Malepeai, Langhorst
- MEMBERS ABSENT/ EXCUSED:** Senators Stegner, Sweet, McKenzie
- MINUTES:** **Chairman Bunderson** convened the meeting at 3:00 p.m. A silent roll call was taken.
- GUBERNATORIAL APPOINTMENT:** **Vern Driver** appointed to the Board of Tax Appeals to serve a term commencing September 30, 2005 and expiring June 30, 2008.
- MOTION:** **Senator Hill** made a motion to recommend to the full Senate the appointment of Vern Driver to the Board of Tax Appeals. **Senator Malepeai** seconded the motion.
- VOTE:** The motion passed by unanimous voice vote. The appointment will be carried by **Senator Malepeai** on the floor of the Senate.
- Chairman Bunderson** introduced **Lyle Cobbs** with the Board of Tax Appeals. Mr. Cobbs referenced and discussed the handout titled "What is The State Board of Tax Appeals?". **Susan Renfro** with the Board of Tax Appeals reviewed handouts titled "Program Performance Report" and "Ad Valorem Appeals filed with the Board of Tax Appeals". (Handouts will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.)
- Chairman Bunderson** introduced **Bob Meinen**, Director of Idaho Department of Parks and Recreation. Mr. Meinen referenced a handout and presented a video titled "Experience Idaho."
- Chairman Bunderson** introduced **Brent Reinke**, Director of the Idaho Department of Juvenile Corrections. Mr. Reinke referenced a handout and power point presentation about the topics and strategies of the Department of Juvenile Corrections.
- Vice Chairman Hill** moved to approve the minutes of January 17 as written. **Senator Langhorst** seconded the motion. The motion passed by unanimous voice vote. **Vice Chairman Hill** moved to approve the minutes of January 18 as written. **Senator Langhorst** seconded the

motion. The motion passed by unanimous voice vote.

ADJOURNMENT: There being no further business, the meeting adjourned at 4:45 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

- DATE:** January 25, 2006
- TIME:** 3:00 p.m.
- PLACE:** Room 426
- MEMBERS PRESENT:** Chairman Bunderson, Vice Chairman Hill, Senators Stegner, Sweet, McKenzie, Williams, Corder, Malepeai, Langhorst
- MEMBERS ABSENT/ EXCUSED:** None
- GUESTS:** The sign-in sheets, and/or booklets, charts, and graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.
- MINUTES:** **Chairman Bunderson** called the meeting to order at 3:02 p.m.. A silent roll call was taken.
- Chairman Bunderson** introduced **DuWayne Hammond**, Chairman of the Idaho Tax Commission, to present an overview of all taxes. **Mr. Hammond** referenced a binder that contained information pertaining to sales, corporate, individual, property, cigarette, wine, beer and gasoline taxes and how they compare to rates in other states.
- Senators Corder** and **Langhorst** then gave an update on developer's exemption legislation. **Senator Corder** presented new language for Section 63-604, *Idaho Code*, part (6). They both confirmed that the Interim Committee was in agreement that the agriculture and developers exemption should be handled separately and the existing law (Section 63-602FF, *Idaho Code*) repealed.
- S 1280** **Senator Langhorst** then reviewed the Homeowner's Exemption, S1280. S 1280 recommends increasing the homeowner's exemption to \$100,000 including land and indexing the amount to inflation. **Chairman Bunderson** also asked **Senators Corder** and **Langhorst**, as Property Tax Interim Committee members, to also review the committee's \$75,000 exemption recommendation.
- Senator Stegner** voiced concern about inequities in the taxation of equal value, side-by-side commercial and residential properties. He said commercial owners pay more tax due to the homeowner's exemption.
- After considerable discussion, **Chairman Bunderson** announced the committee will continue discussions of the Homeowner's Exemption at the next committee meeting.

ADJOURNMENT: There being no further business, the meeting adjourned at 4:40 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

- DATE:** January 26, 2006
- TIME:** 3:00 p.m.
- PLACE:** Room 426
- MEMBERS PRESENT:** Chairman Bunderson, Vice Chairman Hill, Senators Stegner, McKenzie, Williams, Corder, Malepeai, Langhorst
- MEMBERS ABSENT/ EXCUSED:** Senator Sweet
- GUESTS:** The sign-in sheets, and/or booklets, charts, and graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.
- MINUTES:** **Chairman Bunderson** convened the meeting at 3:02 p.m.. A silent roll call was taken. **Vice Chairman Hill** made motion to approve minutes of January 19 and January 24 as written. **Senator McKenzie** seconded the motion. The motion passed by unanimous voice vote.
- Chairman Bunderson** continued the workshop format of the meeting pertaining to property taxes and turned the meeting over to **Senators Corder** and **Langhorst** to continue review of the Homeowner's Exemption. **Senator Corder** will advise the committee in future meetings of the progress of the Developer's Exemption.
- Chairman Bunderson** referred to the draft of the Homeowner's Exemption handout which gives history of the exemption and the committee's evaluation of pro and con arguments. **Dan John**, Legal/Tax Policy Manager Administrator for the Tax Commission, clarified the costs associated with the Homeowner's Exemption and stated that by increasing the homeowner's exemption, the schools may suffer losses as soon as the second year after implementation.
- Vice Chairman Hill** presented an analysis of the Homeowner's Exemption handout that he had prepared. He stated the analysis showed that the effect of an increase in the Homeowner's Exemption would not only shift the property tax burden to other taxpayers but also from the higher-end homes who are getting the benefit to the low income homes.
- Senator Stegner** voiced concern about the inequities in the property tax law where comparably valued commercial properties and residential properties would pay a different amount of tax due to the Homeowner's Exemption.

Chairman Bunderson continued the meeting with a discussion of impact fees. **Senator Langhorst** stated the Interim Committee heard from the public that there should be impact fees but there is a need to identify what impact fees should be used for.

Chairman Bunderson reviewed the concept of impact fees and said a handout will be available next week. **Richard Horner**, City Finance Officer for the city of Rexburg stated impact fees are not currently allowed for in schools, they are only authorized for parks, streets, sewer and water. **Chairman Bunderson** requested a mark up on impact fees from Mr. Horner for the committee to review. **Chairman Bunderson** stated that once the committee receives that report from Mr. Horner, it will continue the discussion on impact fees. The committee will continue with discussions about the Circuit Breaker Tax at the next committee meeting.

ADJOURNMENT: There being no further business, meeting adjourned at 4:30 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

- DATE:** January 31, 2006
- TIME:** 3:00 p.m.
- PLACE:** Room 426
- MEMBERS PRESENT:** Chairman Bunderson, Vice Chairman Hill, Senators Sweet, McKenzie, Corder, Langhorst
- MEMBERS ABSENT/ EXCUSED:** Senators Stegner, Williams, Malepeai
- GUESTS:** The sign-in sheets, and/or booklets, charts, and graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.
- MINUTES:** **Chairman Bunderson** convened the meeting at 3:02 p.m.. A silent roll call was taken. **Vice Chairman Hill** made motion to approve minutes of January 25 as written. **Senator Corder** seconded the motion. The motion passed by unanimous voice vote.
- Janice Boyd**, Tax Policy Specialist with the State Tax Commission, was introduced to clarify Income Tax Administrative Rule 920-03 b. of Docket No. 35-0101-0503, Adjustments to Credits.
- MOTION:** **Senator Langhorst** made motion to approve Income Tax Administrative Rule 920-03 b. of Docket No. 35-0101-0503. **Senator McKenzie** seconded motion.
- VOTE:** The motion passed by unanimous voice vote.
- DISCUSSION:** **Chairman Bunderson** continued the meeting with a discussion of the Homeowner's Exemption. **Chairman Bunderson** referenced the handout outlining the Homeowner's Exemption. He stated that if land is included in the Homeowner's Exemption, there would be an impact on the Circuit Breaker. **Dan John**, Legal/Tax Policy Manager of the State Tax Commission, confirmed that if the state changed the Homeowner's Exemption upward, it would lessen the state's exposure to the Circuit Breaker. **Vice Chairman Hill** stated that there would be some savings to the state, but there would be a shift of taxes to other taxpayers. **Dan John** advised that if land was included, more people would be able to receive greater benefit from the Homeowner's Exemption.
- Chairman Bunderson** continued with the discussion of impact fees, referencing the handout outlining the history, pros and cons of impact fees. He stated under current law, that excludes public schools, impact fees must be spent in the area that generated the revenue. **Senator**

Langhorst, as member of the Interim Tax Committee, noted that the public voiced frustration that the new growth was driving up taxes. The public feels growth should pay for itself. **Senator Corder** commented that the current process of Impact Fees needs to be simplified and made available to schools.

Chairman Bunderson continued the meeting with a discussion of the Circuit Breaker, referencing the handout outlining the history and pros and cons of the Circuit Breaker. He stated that the Circuit Breaker is based on income, not assets. **Senator Corder** asked what calculation is used to determine income. **Dan John** stated that such things as disability retirement income and capital gains is excluded. He referenced *Idaho Code 63-701 Section 5 (a-g)* which defines income as it pertains to the Circuit Breaker. **Chairman Bunderson** said under existing law, wealthy people with large amounts of capital gains, land and investment assets, but low allowable income could qualify for Circuit Breaker benefits. This is a loophole that will need to be addressed.

Chairman Bunderson began discussion of tax deferrals and liens. He referenced the handout outlining the history and pros and cons of current tax deferral laws. **Chairman Bunderson** also referenced a handout that explained Oregon's tax deferral laws. **Dan John** stated that a lot states have tax deferral laws, but in Oregon it is widely used. In other states, it is not used as much.

ADJOURNMENT: There being no further business, the meeting adjourned at 4:30 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

- DATE:** February 1, 2006
- TIME:** 3:00 p.m.
- PLACE:** Room 426
- MEMBERS PRESENT:** Chairman Bunderson, Senators Stegner, McKenzie, Williams, Corder, Malepeai, Langhorst
- MEMBERS ABSENT/ EXCUSED:** Vice Chairman Hill, Sweet
- GUESTS:** The sign-in sheets, and/or booklets, charts, and graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.
- MINUTES:** **Chairman Bunderson** convened the meeting at 3:04 p.m.. A silent roll call was taken. **Chairman Bunderson** introduced **Russ Hendricks** with the Idaho Farm Bureau. **Russ Hendricks** referenced a handout regarding the costs of community services as it relates to property taxes. He stated that agriculture and commercial property owners are paying more taxes than residential.
- Chairman Bunderson** introduced **Michael Louis**, Assistant Associate Director of Boise State University's Energy Policy Institute (EPI). Michael Louis made presentation of the Energy Policy Institute's public survey regarding the placement of power plants in Idaho. **Michael Louis** stated that 534 Idahoans were surveyed and 62% believed the decision making authority should be expanded to include state and local entities. He also stated that the Energy Policy Institute will research why the public has a negative perception of nuclear energy.
- S 1276** **Chairman Bunderson** introduced **Senator Stennett** who presented Senate Bill 1276 which proposes that notice be given to residents of counties adjoining the proposed location of a thermal generation power plant. This notice will provide residents an opportunity to testify in favor of or opposition to the location of a thermal generation power plant. The committee expressed concern that the wording "property owner" and "resident" were not the same and could be problematic for some.
- Chairman Bunderson** welcomed visitors and began hearing their testimonies. Those who testified in support of the bill were: **Justin Hayes** of the Idaho Conservation League, **Jim DeKleinhans**, **Ed Smith**, **Phuong Smith**, **Roy Hubert**, **Perry Van Tassell**, **Lee Flinn** of the Conservation Voters for Idaho, **Kelci Karl** of Idaho Association of Cities, **Ester Leja** with the Snake River Alliance, **Mike Hyseil**, and **Representative Block**. They testified in support of the bill because it

would give those people who would be affected by the thermal generation, an opportunity to voice their concerns. Testimonies in opposition to the bill were given by: **Steve West** and **Matt Ellsworth**, representing the U.S. Geothermal, Inc. Both **Steve West** and **Matt Ellsworth** opposed Senate Bill 1276 because they felt it unfairly singled out thermal generation plants and would create a more cumbersome process for establishing plants.

Chairman Bunderson noted that the bill appeared to be a partisan bill on a bi-partisan issue. **Senator Stennett** stated it was not the intent of the bill, and he believes it is a non-partisan issue. He stated he was unable to get a bill printed and considered by the Interim Committee and it appeared to be a party line vote. **Senator Stennett** continued by stating that he committed to his constituents and used the rules of the senate in order to bring the bill to the legislature. It is not intended to be a partisan issue in any way, shape or form and urged the committee's support of the bill.

MOTION: **Senator Corder** moved to send Senate Bill 1276 to the floor with a Do Pass with Recommendation. **Senator Malepeai** seconded the motion.

VOTE: The motion passed by majority voice vote with Senator Williams voting nay. **Senator Corder** and **Senator Stennett** will carry the bill on the floor of the Senate.

ADJOURNMENT: There being no further business, the meeting was adjourned at 4:56 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

- DATE:** February 2, 2006
- TIME:** 3:00 p.m.
- PLACE:** Room 426
- MEMBERS PRESENT:** Chairman Bunderson, Vice Chairman Hill, Senators, Sweet, McKenzie, Corder, Langhorst
- MEMBERS ABSENT/ EXCUSED:** Senators Stegner, Williams, Malepeai
- GUESTS:** The sign-in sheets, handouts, booklets, charts, and/or graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.
- MOTION:** **Vice Chairman Hill** made motion to approve the minutes of January 26 as written. **Senator McKenzie** seconded the motion.
- VOTE:** The motion passed by unanimous voice vote.
- MINUTES:** **Chairman Bunderson** convened the meeting at 3:04 p.m. requested **Senators Corder** and **Langhorst** to review the handout of the outline for the Developer's Agriculture Exemption, verify the facts and update it as needed. **Senator Corder** presented the draft of the Developer's Agriculture Exemption. He stated that the draft, as it is written, would attempt to provide an opportunity and incentive for individuals to develop portions of property and not have to pay taxes on a speculative portion.
- Chairman Bunderson** continued with a discussion about maintenance and operations. He stated the proposal was to raise sales tax to 6% and the extra 1% would go to schools. **Senators Corder** and **Langhorst** were members of the Property Tax Interim Committee wherein maintenance and operations was discussed. **Chairman Bunderson** requested **Senators Corder** and **Langhorst** prepare an outline with the history of maintenance and operations for the next committee meeting.
- Chairman Bunderson** introduced **Alan Dornfest** with the Tax Commission to review the history of property tax caps. **Alan Dornfest** referenced a handout that presented the history of property tax caps from 1978 through 2005.
- Chairman Bunderson** lead discussions about property tax caps, truth in taxation, growth revenue and costs. He referenced a handout which outlined the history and facts of growth revenues and costs.
- Chairman Bunderson** stated that the committee will continue the

discussion about property tax caps, truth in taxation, growth revenue and costs in greater detail at the next committee meeting.

ADJOURNMENT: There being no further business, the meeting was adjourned at 4:30 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

- DATE:** February 7, 2006
- TIME:** 3:00 p.m.
- PLACE:** Room 426
- MEMBERS PRESENT:** Chairman Bunderson, Vice Chairman Hill, McKenzie, Williams, Corder, Malepeai, Langhorst
- MEMBERS ABSENT/ EXCUSED:** Senators Stegner, Sweet
- GUESTS:** The sign-in sheets, handouts, booklets, charts, and/or graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.
- MINUTES: MOTION:** **Chairman Bunderson** convened the meeting at 3:12 p.m. **Senator Corder** made a motion to approve the minutes of February 2 as written. **Senator Hill** seconded the motion. **Senator Corder** made a motion to approve the minutes of February 1 with a correction and January 1 as written. **Senator McKenzie** seconded the motion.
- VOTE:** The motion passed by unanimous voice vote.
- Chairman Bunderson** introduced **Dr. Keith Allred** representing The Common Interest. **Dr. Allred** presented information regarding the growth in the residential proportion of property taxes. He suggested placing a cap on appreciation, however such a cap would benefit higher end homes and would create a shift of taxes to the lower end homes. **Dr. Allred** also voiced concern about taxes based on "future wealth" in that residents of homes of higher value are paying higher taxes, but they do not have the income to pay the higher taxes. Dr. Allred mentioned that by capping the assessed value, it would adjust as the appreciation adjusts.
- Chairman Bunderson** referenced a handout that analyzes property growth by county and suggests why property taxes are accelerating. He also noted that the history of tax caps reveals that from 1978 to 2005, there were many tax caps that have passed, proposed and repealed. He referenced that we currently have a 3% cap in effect and a 1% capping initiative being proposed. He commented that this history of multiple tax caps illustrates that tax caps do not and will not solve the property tax growth problem. The committee needs to evaluate other options.
- ADJOURNMENT:** There being no further business, the meeting was adjourned at 4:43 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

- DATE:** February 8, 2006
- TIME:** 3:00 p.m.
- PLACE:** Room 426
- MEMBERS PRESENT:** Chairman Bunderson, Vice Chairman Hill, Senators Sweet, McKenzie, Williams, Corder, Malepeai, Langhorst
- MEMBERS ABSENT/ EXCUSED:** Senator Stegner
- GUESTS:** The sign-in sheets, handouts, booklets, charts, and/or graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.
- MINUTES:** **Chairman Bunderson** convened the meeting at 3:03 p.m. He introduced **Alan Dornfest** with the Tax Commission to present his study on both property tax revenue and budget caps. **Alan Dornfest** referenced that caps can have unintended consequences. In many cases, owners of lower valued homes, may pay higher property taxes due to tax shifting.
- Chairman Bunderson** continued the meeting with a discussion of Truth In Taxation. Truth In Taxation was introduced in 1992 and replaced the 5% cap. **Alan Dornfest** gave a brief history of Truth In Taxation and stated that there was an increase in total tax during the three-year period of Truth In Taxation, 1992-1994. The second year was less, but the third year was a little higher. Under Truth in Taxation, the local taxing district publicizes any increases. These disclosure requirements is an effective spending control mechanism.
- Alan stated that many states use Truth In Taxation. Idaho may be the only state that enacted Truth In Taxation and later repealed it. The committee expressed an interest in further exploring the advantages and disadvantages of Truth In Taxation.
- Chairman Bunderson** introduced **Dan John** with the Tax Commission to review Excise Taxes. **Dan John** referenced handouts and explained taxes pertaining to cigarettes, tobacco products, beer and wine, kilowatt-hours and mine licenses.
- ADJOURNMENT:** There being no further business, the meeting was adjourned at 4:30 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

- DATE:** February 9, 2006
- TIME:** 3:00 p.m.
- PLACE:** Room 426
- MEMBERS PRESENT:** Chairman Bunderson, Vice Chairman Hill, Senators Stegner, Sweet, McKenzie, Williams, Corder, Malepeai, Langhorst
- MEMBERS ABSENT/ EXCUSED:** None
- GUESTS:** The sign-in sheets, handouts, booklets, charts, and/or graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.
- CONVENED:** **Chairman Bunderson** convened the meeting at 3:03 p.m.
- MOTION:** **Vice Chairman Hill** made a motion to approve the minutes of February 7 as written. **Senator Corder** seconded the motion.
- VOTE:** The motion passed by unanimous voice vote.
- RS 15961** **Chairman Bunderson** introduced RS 15961 at the request of Senator Skip Brandt, who had requested the bill be printed. RS 15961 amends Section 23-940, *Idaho Code* to create an Alcohol Beverage Control Fund and to provide the use of the fund monies. It adds Section 23-957, *Idaho Code* to provide for a license fee, to allow counties and cities to limit the number of such licenses, to provide that such licenses are non-transferable and to provide definitions. RS 15961 also adds Section 23-958, *Idaho Code* to provide for a hotel liquor license, to provide requirements for such license, to provide a license fee, to allow counties and cities to limit the number of such licenses and to provide licenses are non-transferable.
- MOTION:** **Vice Chairman Hill** moved that RS 15961 be sent to print. **Senator Stegner** seconded the motion.
- VOTE:** The motion was approved by unanimous voice vote.
- RS 15688** **Chairman Bunderson** introduced RS 15688, which eliminates the requirement that water and sewer districts must file with the district court documents of petition and publication notices of board determination to include land within the district.
- MOTION:** **Vice Chairman Hill** moved that RS 15688 be sent to print. **Senator Stegner** seconded the motion.
- VOTE:** The motion was approved by unanimous voice vote.

Chairman Bunderson introduced **Steve Cooke** with the Department of Agricultural Economics at the University of Idaho. **Steve Cooke** made a presentation, referencing a handout, about increasing the sales tax rate vs. expanding the sales tax base.

Chairman Bunderson introduced **Alex LaBeau**, Idaho Association of Realtors who made a presentation about Property Infrastructure District, legislation that was in the House. **Alex LaBeau** stated that the Property Infrastructure District is a voluntary program and is a financing mechanism that enables new growth to pay for itself. The program allows new growth to be isolated into a separate taxing district with only the new growth property within the district being taxed to pay for the new infrastructure. **Ken Harward**, with the Association of Idaho Cities, stated that he agrees with **Alex LaBeau** in that a Property Infrastructure District is a financing tool and is financed by raising property taxes, however, his concern was that now was not the time to create another governmental entity strictly for the purpose of increasing and raising property taxes when there is proposed legislation to lower property taxes. He also stated that the Property Infrastructure District uses property taxes to reimburse developers for improvements. **Ken Harward** agreed that it takes 100% of the landowner consent, but that consent could be one out-of-state corporation or a partnership, then the residents would get an unexpected addition to their property tax bill. **Jerry Mason** with the Association of Idaho Cities stated that the proposed Property Infrastructure District authorizes an additional levy to repay the debt incurred to fund maintenance and operation. The effect would be increased property taxes.

Chairman Bunderson requested the presenters provide their pro and con arguments in bullet form for inclusion in the committee's detail analysis report.

ADJOURNMENT: There being no further business, the meeting was adjourned at 4:38 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: February 14, 2006

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Bunderson, Vice Chairman Hill, Senators Stegner, McKenzie, Williams, Corder, Malepeai, Langhorst

MEMBERS ABSENT/ EXCUSED: Senator Sweet

GUESTS: The sign-in sheets, handouts, booklets, charts, and/or graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.

CONVENED: **Chairman Bunderson** convened the meeting at 3:03 p.m.

MOTION: **Vice Chairman Hill** made a motion to approve the minutes of February 8 as written. **Senator Malepeai** seconded the motion.

VOTE: The motion passed by unanimous voice vote.

MINUTES: **Chairman Bunderson** introduced **House Representatives Lake** and **Roberts** who apprised the committee of up and coming House bills.

Senator Corder continued with a review of maintenance and operations, stating that by removing maintenance and operations \$244 million would be saved in property taxes. He also noted that by removing maintenance and operations places responsibility for funding schools squarely on the state which could be an argument in support and opposition. **Senator Corder** stated that by removing maintenance and operations it would remove local control and responsibility for education. **Senator McKenzie** suggested that in support of removing maintenance and operations, property taxes are based on unrealized value, whereas other taxes are based on current economic conditions, however in opposition property taxes are a stable source of income.

Chairman Bunderson introduced **Dan John** with the Tax Commission to review property tax offsets. **Mr. John** referenced the committee outline which gave history and facts of property tax offsets and presented arguments in support and in opposition. He noted that Section 63-3638 *Idaho Code*, revenue sharing was a replacement of property taxes on inventories that was repealed when revenue sharing came into being. **Mr. John** stated the circuit breaker is where the state pays the property taxes for essentially the low income elderly. The funding of the circuit breaker is made by local taxpayers. He commented that there was also

property tax relief in the fiscal year 1996 where public school's maintenance and operations were replaced with state sales tax. **Mr. John** noted the agriculture equipment property tax exemption which removed property tax from farm equipment. **Mr. John** discussed cigarette tax. He stated that there are two components of the cigarette tax where money goes directly back to the locals. First is the public school income fund and the county juvenile probation fund. **Mr. John** continued with a discussion of excise taxes. He referenced handouts that delineated the distribution of revenues by program and by product. **Mr. John** discussed the highway distribution account, referencing a handout, wherein highway fees, gas and special fuel taxes and other licenses and penalties are collected. The local government receives 38% of the fees. Seventy percent of which goes to county roads and highway districts, the remaining 30% goes to city roads.

Chairman Bunderson requested **Mr. John** give a preview of personal property taxes. **Mr. John** stated that **Alan Dornfest**, also with the Tax Commission, will send additional information pertaining to personal property taxes. **Mr. John** noted two complaints of the personal property tax. First is the self-reporting aspect and a lack of knowledge about the taxpayers responsibilities. Secondly is the depreciation of personal property. He stated that equipment depreciates, but remains on record for a long period of time. Dan John suggested the committee be cognizant of the Railroad Revitalization and Regulatory Reform Act and personal property definitions if considering removing the personal property tax.

ADJOURNMENT: There being no further business, the meeting was adjourned at 4:30 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: February 15, 2006

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Bunderson, Vice Chairman Hill, Senators Stegner, Sweet, Williams, Corder

MEMBERS ABSENT/ EXCUSED: Senators McKenzie, Malepeai, Langhorst

GUESTS: The sign-in sheets, handouts, booklets, charts, and/or graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.

CONVENED: **Chairman Bunderson** convened the meeting at 3:00 p.m. A silent roll call was taken.

HB 436 **Chairman Bunderson** introduced **Representative Stevenson** to present House Bill 436. **Representative Stevenson** informed the committee that the current statutes of House Bill 436 requires that the cemetery districts have a bond equal to the anticipated revenues plus 25%. He stated the bill would require the cemetery district to set the bond at no less than \$10,000 and would eliminate the wording that requires them to have the 25% above their anticipated revenue.

MOTION: **Senator Sweet** made a motion to send House Bill 436 to the floor with a Do Pass Recommendation. **Senator Williams** seconded the motion.

VOTE: The motion passed by unanimous voice vote.

MINUTES: **Chairman Bunderson** introduced **Alan Dornfest** with the Tax Commission to review spending caps and truth in taxation. **Mr. Dornfest** had stated in a prior committee meeting that Idaho was the only state that repealed truth in taxation. He informed the committee that Wyoming also repealed truth in taxation. **Mr. Dornfest** stated that truth in taxation tries to make the budget process, particularly where it is related to property tax budgets, more transparent and involve more people. He stated truth in taxation could be done by requiring a special notice or ad in the newspaper or by direct mail. He also stated that truth in taxation operates at the local taxing district level and puts the burden on local government to notify the public. **Mr. Dornfest** informed the committee of some down-sides to truth in taxation. He stated the language in the notices confused the public, the notices were expensive to run and few people attended budget meetings. **Mr. Dornfest** referenced a handout regarding the property tax history from 1982-2005, and noted school maintenance and operations grew more rapidly during truth in taxation.

Mr. Dornfest referenced a handout which included property tax policies and administrative practices in Canada and the United States. He noted that 20 states as of 1999 still have truth in taxation. **Mr. Dornfest** referenced a handout from **Professor Gary Cornia** of Brigham Young University in Utah, which indicated that Utah experienced a constraining effect on taxes due to truth in taxation. **Chairman Bunderson** asked if it would be problematic to exclude the public education element from the taxing district. **Mr. Dornfest** stated that it would eliminate calendaring issues since some districts have a fiscal year beginning July 1. **Chairman Bunderson** asked **Alan Dornfest** and **Dan John** of the Tax Commission to prepare suggested wording for proposed truth in taxation legislation.

Chairman Bunderson continued the meeting with a discussion of exemptions, referencing a handout from the tax commission which listed all current tax exemptions. **Chairman Bunderson** suggested applying an asset test to the circuit breaker. **Dan John** stated the tax commission would not be able to verify asset information provided by taxpayers.

ADJOURNMENT: There being no further business the meeting was adjourned at 4:08 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: February 16, 2006

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Bunderson, McKenzie, Williams, Corder, Malepeai, Langhorst

MEMBERS ABSENT/ EXCUSED: Vice Chairman Hill, Senators Stegner, Sweet

GUESTS: The sign-in sheets, handouts, booklets, charts, and/or graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.

MINUTES: **Chairman Bunderson** convened the meeting at 3:00 p.m. A silent roll call was taken.

S 1383 **Chairman Bunderson** referred to **Senator McKenzie** as sponsor of Senate Bill 1383. **Senator McKenzie** introduced **Don Munkers**, Idaho Rural Water Association, to present Senate Bill 1383. **Mr. Munkers** stated that Senate Bill 1383 eliminates the requirement that water and sewer districts must file with the district court documents of petition and publication of notices of board determination to include land within the district as provided in *Idaho Code 42-3218*.

MOTION: **Senator Williams** moved to send Senate Bill 1383 to the floor with a Do Pass Recommendation. **Senator McKenzie** seconded the motion.

VOTE: The motion passed by unanimous voice vote. **Senator McKenzie** will carry the bill on the floor of the Senate.

Chairman Bunderson informed the committee of several tax related House bills that may be forthcoming and the committee would be previewing these bills before any formal hearings are held in committee.

ADJOURNMENT: There being no further business, the meeting was adjourned at 3:15 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

- DATE:** February 21, 2006
- TIME:** 3:00 p.m.
- PLACE:** Room 426
- MEMBERS PRESENT:** Chairman Bunderson, Vice Chairman Hill, Senators Stegner, Sweet, McKenzie, Williams, Corder, Malepeai, Langhorst
- MEMBERS ABSENT/ EXCUSED:** None
- GUESTS:** The sign-in sheets, handouts, booklets, charts, and/or graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.
- CONVENED:** **Chairman Bunderson** convened the meeting at 3:00 p.m.
- MINUTES:** **Chairman Bunderson** introduced the committee's new Page, Denise Evans from Blackfoot, Idaho. He continued by reading the committee's public statement regarding the committee's intent in dealing with the eight House bills received by the committee. **Chairman Bunderson** stated that the committee meetings will continue in the workshop type setting with focus on the eight House bills. He referenced a draft analysis of each bill and welcomed discussion from the committee and members of the public. **Chairman Bunderson** stated that hearings of the House bills should start the following week.
- Chairman Bunderson** continued with an explanation of what each bill does, inherent problems, solutions to the inherent problems, and arguments in support and opposition to each bill.
- Senator Williams** stated with regard to H 422, the committee should consider circumstances such as when a property owner rents to a relative. That relative does not pay rent nor does the relative make any money off of the property, therefore the owner does not have the income to qualify for the circuit breaker. **Senator Stegner** noted that the H 422 is limited in the circuit breaker's use by its tests but does not necessarily address all concerns.
- Chairman Bunderson** continued with a review of H 508 and H 676. **Senator Corder** stated that H 676 clearly states that if the land is actively used for agriculture, the property owner gets an exemption and if it is not used for agriculture the property owner does not. **Vice Chairman Hill** noted that H 676 has an emergency clause. If the land owner did not qualify the property in the previous year which precludes the owner from going back to agriculture, would the emergency clause kick the owner out because the owner did not have the time to go back to

agriculture to keep the exemption.

Chairman Bunderson continued the discussion of H 678 and H 679.

Senator Corder stated that relating to H 678, if it could be identified where the growth was occurring and then have a mechanism to compensate those counties without manipulating the schools' maintenance and operations.

Chairman Bunderson concluded with a review of H 480. He requested assistance from **Representatives Roberts** and **Lake** to give the committee some background on H 480.

Chairman Bunderson continued the meeting with an overall review of property tax bills. He stated the committee will be reviewing truth in taxation and value of existing caps. **Chairman Bunderson** noted that if revenues and expenses are matched, there should not be a property tax problem.

Chairman Bunderson suggested the committee continue evaluating the personal property tax and the definition of personal property tax. Former Representative **Ken Robison**, stated there are weaknesses in the personal property tax. He suggested that by increasing the homeowner's exemption to \$100,000 plus 20% of the land, that would reduce the impact in total residential taxable value. **Mr. Robison** also stated that by increasing the homeowner's exemption to \$75,000 and using the Housing Price Index instead of the Consumer Price Index would have more of an impact.

ADJOURNMENT: There being no further business, the meeting was adjourned at 4:30 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: February 22, 2006

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Bunderson, Vice Chairman Hill, Senators Stegner, Sweet, McKenzie, Williams, Corder, Malepeai, Langhorst

MEMBERS ABSENT/ EXCUSED: None

GUESTS: The sign-in sheets, handouts, booklets, charts, and/or graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.

CONVENED: **Chairman Bunderson** convened the meeting at 3:00 p.m.

MINUTES: **Chairman Bunderson** began the meeting with a review of H 680 which referred to deferral of property taxes. **Chairman Bunderson** stated that if deferral was a good idea for the poor, why wouldn't it be a good idea for any senior or disabled citizen using the Idaho Housing Finance Agency and get their property taxes paid with a lien against their house baring a market interest rate. He stated that the homeowner has a choice to either pay the property tax or pay the taxes with a lien against the house.

Senator McKenzie stated the deferral option may be another investment tool for people who may not need it. He also stated that he could not understand a limitation in the bill based on income. He felt it may be an inherent problem offering the deferral option to everyone.

Senator Corder stated that the deferral option would be a valid policy and that appreciation would pay the property taxes. **Senator Langhorst** also agreed it was a valid policy. He noted that the state would get a sufficient return, but would also achieve the goal of keeping people in their homes. **Senator Sweet** stated he agreed with **Senator McKenzie** and he would be hesitant for the state to get into the investment business. He also stated that the deferral option would encourage people to delay paying their property taxes instead of paying them as they're due.

Dr. Keith Allred, representing The Common Interest, asked **Representative Lake** if reverse mortgages were available through private institutions and what the benefit would be to offer this to the public. **Senator Stegner** stated he would be hesitant to offer deferral to everyone. He stated he would tend more to offer deferral to those in

financial straits. **Chairman Bunderson** stated H 680 offers deferral of property taxes to a narrow group of people for a specific amount of money. He advised the committee to consider what the underlying public policy is and consequences of H 680.

Senator Williams stated that when property with a lien is passed down to generations, it would not be good public policy to pass on debt.

Chairman Bunderson introduced **Stephen Cooke** with the University of Idaho. **Mr. Cooke** presented his conclusions regarding increasing sales tax and decreasing property tax. He stated that increasing sales tax and decreasing property tax would be regressive, and the low income households would pay more taxes.

MOTION: **Vice Chairman Hill** made a motion to approve the minutes of February 9, February 14 and February 15. **Senator Corder** seconded the motion.

VOTE: Motion was approved by unanimous voice vote.

MOTION: **Senator Williams** made a motion to approve the minutes of February 16. **Senator McKenzie** seconded the motion.

VOTE: Motion was approved by unanimous voice vote.

ADJOURNMENT: There being no further business, the meeting was adjourned at 4:33 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: February 23, 2006

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Bunderson, Vice Chairman Hill, Senators Stegner, McKenzie, Williams, Corder, Malepeai, Langhorst

MEMBERS ABSENT/ EXCUSED: Senator Sweet

GUESTS: The sign-in sheets, handouts, booklets, charts, and/or graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.

CONVENED: **Chairman Bunderson** convened the meeting at 3:04 p.m.

MINUTES: **Senator Langhorst** informed the committee that **Stephen Cooke** from the University of Idaho had prepared an analysis of H 678 and H 679. **Chairman Bunderson** stated that the information would be included in the committee's outline of those bills.

Chairman Bunderson introduced **Randy Nelson**, representing Associated Taxpayers of Idaho. **Mr. Nelson** presented a comparison of tax rates statewide before and after the homeowner's exemption. **Senator Hill** confirmed that, based on **Mr. Nelson's** information, the lower income residents will save more money if the sales tax is increased versus increasing the homeowner's exemption.

Chairman Bunderson introduced **Mike Ferguson** with the Division of Financial Management. **Mr. Ferguson** stated he would offer his opinion of tax revenues as an economist, but not representative of the Office of the Governor. **Mr. Ferguson** stated that having the broadest tax base and lowest tax rate makes the most sense from an efficiency and equity standpoint and that the government should have the least amount of interference in the private sector.

Chairman Bunderson introduced **Dr. Keith Allred**, representing The Common Interest. **Dr. Allred** referenced a handout which provided results of a poll regarding property tax priorities of informed, "common" citizens.

Chairman Bunderson introduced **Judy Brown**, Director of the Idaho Center on Budget and Tax Policy. **Ms. Brown** presented information pertaining to the impacts of expanding the homeowner's exemption. **Chairman Bunderson** noted that the graph reflecting the 2004, 62.1 residential percent share of Idaho property taxes was incorrect, it should

be 40.4% (2005) of those who claim the homeowner's exemption. He requested that **Ms. Brown** re-format the information and provide it to the committee at a future date. **Senator Hill** stated that homes in the \$400,000 range would have an increase in taxes whereas the graph on page 3 of **Ms. Brown's** handout reflects a decrease in taxes with an increase in the homeowner's exemption.

Chairman Bunderson introduced **Phil Homer**, representing the Idaho Association of School Administrators. **Mr. Homer** requested that the committee consider the facts of H 678, and illustrated Jerome School District's per-student funding and stated that H 678 singles out Blaine County for a major loss in revenue after five years.

ADJOURNMENT: There being no further business, the meeting was adjourned at 4:30 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: February 28, 2006

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Bunderson, Vice Chairman Hill, Senators Stegner, McKenzie, Williams, Corder, Malepeai, Langhorst

MEMBERS ABSENT/ EXCUSED: Senator Sweet

GUESTS: The sign-in sheets, handouts, booklets, charts, and/or graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.

CONVENED: **Chairman Bunderson** convened the meeting at 3:00 p.m.

MINUTES: **Chairman Bunderson** introduced the committee's new Page, Kent Johnson from Idaho City.

H 483 **Chairman Bunderson** introduced **Vaughn Killeen** with the American Red Cross to present House Bill 483. **Mr. Killeen** stated that House Bill 483 would allow a ten dollar checkoff on taxpayer's tax form to be used in Idaho only for disaster response and relief and armed forces emergency services communication.

MOTION **Senator Corder** made a motion to move House Bill 483 to the floor with a Do Pass Recommendation. **Senator Malepeai** seconded the motion.

VOTE The motion passed by majority voice vote.

H 484 **Chairman Bunderson** introduced **Jack Lyman**, representing the Idaho Mining Association to present House Bill 484. **Mr. Lyman** stated that the purchase of a pollution control liner would be exempt from sales tax and clarifies the definition of pollution control equipment. **Mr. Lyman** continued to state that in order to qualify for the exemption, the purchase must be of tangible personal property, the property must be for pollution control and the property must be required by a state or federal agency.

Roy Eiguren representing U.S. Ecology of Idaho, testified in support of House Bill 484. He stated that the Tax Commission ruled that the liner does meet terms of existing code but should be legislatively addressed.

Senator McKenzie asked if the Tax Commission confirmed that the liner comes under the definition of equipment. He stated he thought that equipment is something different than what would become a fixture in real property. **Mr. Eiguren** stated the Tax Commission found that the

liner does not become a fixture of real property and counts as personal property.

Mike Ferguson with the Division of Financial Management, cited some concerns about the fiscal impact of House Bill 484. He stated that the Statement of Purpose reflects a fiscal impact of \$300,000. He believes the impact would be significantly greater because House Bill 484 adds to the improvements to real property and adds term “regulations” as opposed to standards. **Mr. Ferguson** continued to state that there may be unintended consequences which could broaden the scope of fiscal impact significantly.

Senator Corder requested that **Mr. Ferguson** provide an example in another exemption in comparison to House Bill 484 wherein the liner is buried and becomes part of the real estate. He asked how it was different from other exemptions. **Mr. Ferguson**, cited the production exemption, the improvement portion of the production facilities that become part of the real property are not eligible for the production exemption, only the equipment installed within the structure that’s not part of the realty. He stated that if a structure is installed to hold cameras, the structure would not be eligible for the exemption but any moveable equipment being installed on it, would be eligible.

Senator Corder stated, with respect to that structure, the structure could be removed as soon as equipment was off of it. He stated that in the case of other exemptions that are attached, they could still be removed. He stated he still sees a significant difference between the exemptions. **Mr Ferguson** stated that the removal of the liner would be cost prohibitive, but he doesn’t see the distinction.

Senator Stegner asked **Mr. Ferguson** if he felt that the word “material” in House Bill 484, may be key in allowing a significant increase in qualified equipment. **Mr. Ferguson** stated that he was more concerned that the exemption be inclusive of improvements to real property.

Senator Stegner asked if **Mr. Ferguson** has considered possible modifications to the current language that would allow that exemption, but not expand it beyond the intended purpose. **Mr. Ferguson** stated that he has not personally, but it may be possible to draw the bill more narrowly.

Chairman Bunderson asked if reference to Division of Financial Management and the information provided in the Statement of Purpose came from the Division of Financial Management. **Mr. Ferguson** stated that to his knowledge, no one at the Division of Financial Management was consulted about the potential fiscal impact. He stated that It appears numbers were lifted from the prior year’s general fund revenue book.

Chairman Bunderson invited **Jack Lyman** to make his closing statement. **Chairman Bunderson** asked **Mr. Lyman** to clarify the source of the “legislative intent” stated in the Statement of Purpose. **Mr. Lyman** stated that he did not have a statement of legislative intent. He

stated the bill clarifies when the language was first put into the statute, that was the intent of the Legislature at that time. **Chairman Bunderson** asked how he knew that. **Mr. Lyman** stated that in 1991 the production exemption was clarified by the Legislature to specifically exclude any improvement to real property from the applicant of the production exemption. He continued to state that at that time, the legislature did not alter the pollution control exemption and that one could draw legislative intent from the failure of the Legislature to exclude real property in the production exemption, but to make no changes in the pollution control exemption.

Mr. Lyman confirmed there was no contact with the Division of Financial Management in the development of the fiscal note. He stated that he obtained the information from their website.

MOTION: **Senator Williams** made a motion to move House Bill 484 to the floor with a Do Pass Recommendation. **Senator Corder** seconded.

Senator Stegner stated he was concerned about expanding the exemption to real personal property, but the language could be fixed to narrow the exemption.

SUBSTITUTE MOTION: **Senator Stegner** made a substitute motion to move House Bill 484 to the 14th Order for amendment. **Senator Hill** seconded the motion.

VOTE: Roll Call Vote: FAILED - 4-4-1

Ayes: Hill, Stegner, Malepeai, Bunderson
Nays: McKenzie, Williams, Corder, Langhorst
Absent: Sweet

VOTE: Roll Call Vote on original motion: FAILED - 5-3-1

Ayes: Williams, Corder, Langhorst
Nays: Bunderson, Hill, Stegner, McKenzie, Malepeai
Absent: Sweet

Chairman Bunderson stated House Bill 484 will be held in committee.

H 457 **Chairman Bunderson** introduced **Ted Spangler** with the Tax Commission to present House Bill 457. **Mr. Spangler** stated that House Bill 457 would provide that a non-resident alien, under the internal revenue code, would not qualify as an Idaho resident, and by default they would qualify as a non-resident. He noted that the non-resident would pay tax on income earned in Idaho, and would not pay tax on income made outside of Idaho.

MOTION: **Senator McKenzie** made a motion to move House Bill 484 to the floor with a Do Pass Recommendation. **Senator Corder** seconded the motion.

VOTE: The motion passed by unanimous voice vote.

H 458 **Chairman Bunderson** invited **Ted Spangler** to continue with an introduction of House Bill 458. He stated that House Bill 458 would

require retailers to have a sellers permit and proposes to change the criminal misdemeanor of \$100 per day for not having a permit, to a civil penalty which would be administered by the tax commission.

MOTION: **Senator Malepeai** made a motion to move House Bill 458 to the floor with a Do Pass Recommendation. **Senator Langhorst** seconded the motion.

VOTE: The motion passed by unanimous voice vote.

H 473 **Chairman Bunderson** invited **Ted Spangler** to continue with his presentation of House Bill 459. **Mr. Spangler** stated that House Bill 459 deals with cigarette wholesaler permits, motor fuel distributor licenses and employer accounts. The current statutes all have provisions that allow the tax commission to suspend or revoke a permit however, the statutes differ from what is in the sales tax act. House Bill 459 proposes to conform the statutes with the process within the sales tax act.

MOTION: **Senator Langhorst** made a motion to move House Bill 459 to the floor with a Do Pass Recommendation

H 443 **Chairman Bunderson** introduced Dan John with the Tax Commission to introduce House Bill 443. He stated that House Bill 443 is a bill that is brought to the Legislature every year and makes changes to minor issues that do not have big consequences. He stated that tax rates are indexed to conform with the Consumer Price Index. **Mr. John** stated that changes in the Consumer Price Index may cause taxpayers to receive or pay small amounts in the future. He stated that Section 1 of House Bill 443 would allow the State Tax Commission to use the Consumer Price Index at the end of the year without regard to subsequent adjustments.

Mr. John stated that Section 2 of House Bill 443 deals with a provision where taxpayers who have investment tax credits, weren't able to utilize against their income tax returns but were able to claim an exemption from their property tax for a period of time. He stated that the provision of the property tax exemption had a recapture similar to what was in the income tax statute but it did not state when the recapture had to be reported. He stated that Section 2 states the recapture is done when income tax returns are filed.

Mr. John continued with an explanation of Section 3 of House Bill 443, which deals with withholding tax and the filing of W2's with the State by employers. He stated that House Bill 443 would conform the due date for electronically filed returns to be the same date as used by the Internal Revenue Service.

Mr. John stated and Sections 4 and 5 deal with the deficiency in tax and assessment of tax. He stated that the language in both sections intermingle with each other and House Bill 443 makes it clear what deficiency in tax and assessment of tax means. **Mr. John** stated that the last two sections of House Bill 443 cross reference the Small Employer Act and the Corporate Headquarters Act on the maximum amount of credits.

Senator Hill noted an error in wording on page 4 of House Bill 443, should read "...any amount of recapture not paid on due date". **Senator Hill** asked if **Mr. John** would object to send House Bill 443 to the amending order with the intention to fix that wording.

Mr. John did not object to sending House Bill 443 to the 14th Order.

MOTION: **Senator Hill** made a motion to send House Bill 443 to the 14th Order for amendment. **Senator Malepeai** seconded the motion.

VOTE: The motion passed by unanimous voice vote.

H 444 **Mr. John** continued with his presentation of House Bill 444. He stated that House Bill 444 deals with residents of Idaho who are stationed with military orders outside of the state for 120 consecutive days. **Mr. John** stated that those residents can deduct that income from their tax return. However, because they deduct that income, they have to pro-rate their exemptions and deductions, meaning they do not get to claim their full standard deduction or full itemized deduction. House Bill 444 will strike that phrasing.

MOTION: **Senator Williams** made a motion to move House Bill 444 to the floor with a Do Pass Recommendation. **Senator McKenzie** seconded the motion.

VOTE: The motion passed by unanimous voice vote.

H 461 **Mr. John** presented House Bill 461. He stated House Bill 461 amends two sections of the Property Tax Act. He stated that under current law property tax can only raise in a district by 3% plus annexation and new construction. House Bill 461 deals with new construction. **Mr. John** stated that the legislature passed two new exemptions last year. He stated that one exemption was for a company that had over 800 million dollars in property in one county, any amount over that is exempt under the Corporate Headquarters Act, which had a property tax exemption. **Mr. John** stated that both sections would add those properties into the new construction roll, then back them out, effectively making all other taxpayers in the effected districts pay more property tax. House Bill 461 will provide that exemptions not subject to the requirements of the new construction roll.

MOTION: **Senator Langhorst** made a motion to move House Bill 461 to the floor with a Do Pass Recommendation. **Senator Corder** seconded the motion.

VOTE: The motion passed by unanimous voice vote.

H 471 **Mr. John** concluded with his presentation of House Bill 471. He stated that if taxpayers filed their tax return before the extended period for filing, the taxpayer would not have to pay until the end of the extended period. However, those taxpayers would forget to pay and would become a collection case. House Bill 471 puts in a provision that states that payment of any balance of tax due is due on the earlier of the extended due date or the date the return is filed.

MOTION: **Senator Corder** made a motion to send House Bill 471 to the floor with a

Do Pass recommendation. **Senator Williams** seconded the motion.

VOTE: The motion passed by unanimous voice vote.

ADJOURNMENT: There being no further business, the meeting was adjourned at 4:47 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: March 1, 2006

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Bunderson, Vice Chairman Hill, Senators Sweet, McKenzie, Williams, Corder, Malepeai, Langhorst

MEMBERS ABSENT/ EXCUSED: Senator Stegner

GUESTS: The sign-in sheets, handouts, booklets, charts, and/or graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.

CONVENED: **Chairman Bunderson** convened the meeting at 3:00 p.m.

MINUTES: **Chairman Bunderson** gave preview of the following week's agenda. He stated that the committee will begin hearing the House property tax bills on Tuesday, March 7. He invited public testimony and advised that handouts will be available that will outline the pro and con arguments of each bill and possible solutions.

1% Property Tax Initiative and California Prop 13 **Chairman Bunderson** stated that there is a 1% initiative gaining signatures in Northern Idaho. He noted that it has been mentioned throughout the press that property tax problems would be solved if Idaho had California's Proposition 13.

Chairman Bunderson introduced **Ted Spangler**, Deputy Attorney General with the Tax Commission to give a preview of California's Prop 13 and to inform the committee of the consequences on Prop 13, both in California and if it were adopted in Idaho. **Chairman Bunderson** stated that Prop 13 is very complex, has broad and extending ramifications and that there has been a myriad of court cases dealing with aspects of the implementation of Prop 13.

Mr. Spangler stated that entire books have been written explaining Prop 13, what it has grown into and its effects. He stated that some of the effects in California have been disputed whether those effects are desirable or detrimental. Some would say that some of California's financial problems are due to Prop 13, while others would say that's why Prop 13 is a good deal.

Mr. Spangler referred to a handout and stated that Prop 13 in California was a constitutional amendment. He stated that unlike Idaho, it is possible to amend the state constitution and promulgate statutes by

initiative, but in Idaho it is not possible to amend the constitution by initiative – it has to originate in the Statehouse and a legislative body. He stated that California's Prop 13 enacted Article 13A of the California constitution. He stated that some things done by Prop 13, could not be done in Idaho without a constitutional amendment . **Mr. Spangler** stated that there was a whole series of Idaho Attorney General's opinions dating back to the late 1970's, the first time there was a 1% initiative, that make that point over and over again. He said this point frequently gets overlooked when people come to legislators and ask why doesn't Idaho enact something like Prop 13.

Mr. Spangler noted that in 1976, when Prop 13 was enacted in California, Article A stated that the maximum property tax applicable to the property is 1% of the full cash value of the property, except to pay for previously approved bonds, and etc. He stated that "full cash value" means the value the property had on the California property tax rolls as of March 1, 1975 or if the property was subsequently constructed or the subject of a sales transaction, then it is that subsequent acquisition cost that becomes the value of the property. **Mr. Spangler** stated that is why the system is frequently referred to as the acquisition cost system. He stated that Article 13A, does allow those values to be increased annually to reflect inflation, but the increase is limited to 2% per year.

Mr. Spangler continued to state that Prop 13 prohibited state and local governments from imposing sales or transaction tax on the transfer of real property. He stated that Prop 13 requires a 2/3 vote of each house of the legislature to increase or impose new state taxes, or to increase or add new local special purpose taxes. He stated that Article 13A was originally less than a one (1) page statute, has been amended at least eight (8) times and is now six (6) pages of constitutional material, due to various amendments mostly dealing with the issue of acquisition value.

Mr. Spangler noted a couple of changes that have been added constitutionally or statutorily. He stated that the changes were repeated as to indicate important modifications to Prop 13. First, taxpayers over 55 are allowed to purchase a new residence of lesser value than their old residence in California and could take their old value with them to their new house. Second, is a provision that allows property to pass within family members without it counting as a sale of property which would trigger a re-valuation to the market value as of the year of the acquisition.

Three Effects of Prop 13

Mr. Spangler stated that the fiscal effects of Prop 13 were divided into three broad categories. One (1), in 1978, the property tax revenue was reduced by about 57% in California. Prior to passage of Prop 13, the average property tax rate was 2.5%. Prop 13 brought it down to 1%. He stated that the reduction in the overall total rate to 1% and the roll back to 1975 values was what contributed to that drop in property tax revenues, which meant that to fund local government facilities and services, the California legislature ended up appropriating state general fund money to replace much of the lost revenue to schools and local governments. He stated that the state bail out of state money evolved into a growth of other sorts of funding sources, such as user fees and

local option sales taxes. The revenue sources for the local governments, which used to come from property taxes, are now coming from a more diversified source.

Chairman Bunderson asked about impact fees. **Mr. Spangler** stated that he read about a variety of fees, particularly the enterprise special districts for imposing fees for specific programs. He stated that some of the difficulty was that the local governmental services were more attainable than others.

Senator Hill noted that it had to be massive to have schools and local government revenues drop 57% and have the state make most of that up. He asked if that was made up within a year or two? **Mr. Spangler** stated that it was, and the literature refers to it as "the bail out". He stated that the shortfall was too big, and the state government could not continue to do it and eventually the system evolved to a more diversified set of revenue sources for local governments.

Chairman Bunderson asked if the state of California sold bonds. **Mr. Spangler** did not know. **Chairman Bunderson** stated that California sold bonds to accommodate the budget shortfall experienced in the last few years. **Mr. Spangler** noted that California has had some serious budget crunches and that some of his counterparts that worked for California received I.O.U.'s for their salary instead of paychecks. He stated he's not implying that it relates to Prop 13, but California does have a history of using debt in ways that Idaho does not.

Chairman Bunderson stated that a constitutional amendment was passed in the mid 90's that reinforced the law that said that Idaho would not incur any bonded obligation indebtedness beyond two million dollars. He stated that Idaho had liabilities such as accrued payroll, but had zero general obligation bonded indebtedness, which could not have been done without the vote of the people.

Senator Langhorst asked if the book **Mr. Spangler** used to prepare his handout, referenced budgets. He noted **Mr. Spangler's** discussion about the state replacing most of the revenues, and that the local budgets took a hit temporarily, but asked if there was a graph that showed the overall revenue government spending on all levels and what happened to them over the long term. **Mr. Spangler** stated he would have to reference the book. He stated that his handout was prepared in general concepts. **Senator Langhorst** asked if **Mr. Spangler** could research if the fees, new revenue mechanisms and the state replacement continue to speak to the desire to service and whether that overall chart of government expenditures went as it had in the past or if it fundamentally changed the kinds of services that government was delivering. **Mr. Spangler** stated he would look into that as well.

Senator McKenzie noted that it was interesting that the reduction in the rate of growth of local government was not one of the three major effects. He stated that they reduced revenue one way, and paid for it through fees, increased taxes to the state, which came back to the local

government or through new taxing districts. He noted that the one objective was not achieved.

**Second (2nd)
Effect -
Distribution of
State "Bail-Out"
Funds**

Mr. Spangler stated that California had to design an entire revenue distribution system to determine what amount went to each district from the pool of money, because there was no longer a direct connection between the budget in the district and the property tax revenues received. He stated that previously in California, as in Idaho today, the taxing district set a budget and the tax levy attributable to the property within that district, would raise money and that was how much that district would get. He stated that there was then a disconnect, so California had to develop a very complex system. He stated that the sections of the California Revenue and Taxation Code that set out how that was to be done, printed out to be 94 pages. He continued to state that the authors concluded that there was a disconnected ability of the local taxing district to set some of its own fiscal policies and to budget how much of a property tax burden was going to fall on its patrons for funding the services within that district, because now there was a county wide pool of money.

**Distribution of
Property Taxes to
Districts**

Mr. Spangler continued to discuss the proposed initiatives in Idaho from 1978 to the present. He stated that all the initiatives stated they would raise 1% but provided no mechanism as to how the money would be distributed to schools, cities, counties, highway districts and various other funds. He stated that the mechanism was left out of Prop 13 as well.

Exemptions

Senator Corder asked if **Mr. Spangler** was aware of what was done with exemptions after Prop 13. **Mr. Spangler** stated that Prop 13 did nothing with exemptions, only spoke of taxable property. He stated that the question of exemptions would remain in the hands of the California legislature to repeal or add exemptions. **Mr. Spangler** noted emphasis on point 2 of the handout, in that it is an important issue and is not addressed in the initiatives and have been very complex and controversial in California.

**Cost of
Implementing
and Maintaining
Prop 13**

Chairman Bunderson questioned the cost of implementation and maintenance of Prop 13. He suggested that it would take another bureaucracy just to oversee that. **Mr. Spangler** did not find anything about costs, considering the volume of information to go through and the time frame to do so. He noted the question of how to distribute the money requires some sort of administrative office.

**Shift of Property
Tax Burden**

Mr. Spangler noted the third (3rd) major effect, was the change in the distribution of the property tax burden, which was what the sponsors of Prop 13 said they intended it to do. He stated that they intended to protect people who held their property for a long period of time. (Would increase at 2%). He stated that property would be re-appraised when it was acquired, reconstructed or sold and stay at that value plus the 2% index from there. Property where the ownership was stable, over time, ended up paying a smaller portion of the property tax burden than next door property that was either sold or newly constructed.

Chairman Bunderson asked how business combinations were handled under the 1%, where a company may buy another company and have an option to buy stock or assets. **Mr. Spangler** stated that if you read Prop 13 with a lawyer's eye, that is the huge loophole that jumps out. He stated that you could transfer the effective ability to use and enjoy the ownership of property without transferring the ownership. One way to do that is to put the property in the name of a corporation, and instead of selling the property, simply sell the stock. **Mr. Spangler** stated that one of the implementing complexities was to define what the triggering event was for re-appraisal, much of it was to close that sort of loophole. He stated that Prop 13, has the effect of decreasing household mobility. Prop 13 made it harder to sell your house because one of the costs the buyer would have, would be the additional property tax that comes from triggering that new value. It favors infrequent movers at the cost of frequent movers and increases the likelihood of homeownership among people who are infrequent movers because their property tax bill stays more stable. However it does make it more difficult for new homeowners to build or purchase a new home because they get a brand new acquisition cost and pay property tax at a higher rate than someone who has owned their house for years.

Mr. Spangler stated that similarly, businesses delay moving and are more likely to rent because the landlord they are renting from has an old acquisition cost and renting does not trigger a re-assessment.

Senator Williams asked if a remodel of an existing building or home triggers a re-assessment. **Mr. Spangler** stated it depended upon the extent of the remodel. He stated that if the remodel was extensive enough to be viewed as a newer and expanded living space and space that's productive for business, then that would count as new construction. That would be an incentive to do things incrementally to avoid triggering a new assessment. He stated that part of the complexity in California law was trying to fill the loopholes such as that. He said it was analogous to how the Internal Revenue Code got to be so complex.

Mr. Spangler stated that the term "disparity ratio" was used time and time again. He stated that it keeps property that is in year one worth \$100,000 and over the course of ten years, doesn't sell and there's no new construction. At the end of the ten years, because of the 2% inflation, gets on the roll at \$121,000. But during the same period, if you assume 10% each year for ten years, the market value of that property is \$250,000 which is what it should be on the roll if you had a market valuation system instead of an acquisition value system, which gives you that disparity ratio of 2.12. Assuming that there are two properties that fit that description, but in year ten, one of those properties sells. The new owner would pay a tax on \$250,000 instead of a tax on \$121,000 that the owner of the identical property that did not sell. That difference is what is described as the disparity ratio.

Mr. Spangler noted that Section 54 of the California Taxation and Revenue Code is 154 pages of text legislation to implement Prop 13. He stated that there are 11 pages of one paragraph annotations of reported

**Idaho's
Constitution vs.
California**

court cases under Article 13, not mentioning the cases that never got published. He stated that there are massive amounts of litigation regarding Prop 13 as well as legal and policy complexities associated with Prop 13.

Mr. Spangler continued by comparing what the Idaho constitution requires and how it matches with Prop 13. Briefly, it would not fit under the Idaho constitution. He stated that Article 7, Sections 2 and 5 state that property taxes have to be by value, paid in proportion to the value of the property and that the tax has to be uniform on the same class of subjects within the taxing districts limits. He also stated that property taxes have to be based upon just valuation of property, meaning the value by which property taxes are measured, must be the fair market value.

Mr. Spangler stated the initiatives that have been proposed in the past, as did Prop 13, do not address the question of how the 1% tax paid on the value get distributed to different taxing districts. He stated that since Prop 13 was a constitutional amendment, it no longer has to be uniform. The California legislature can and has come up with formulas to try to get the money to those districts, but in Idaho the constitution says it has to be uniform and if enacted as a statutory provision.

**Under Prop 13
Sales Price Must
Be Disclosed**

Mr. Spangler stated that the Idaho constitution has nothing that prohibits transaction taxes or a 2/3 requirement for increasing taxes. He stated prior to 1976, California had in place and stayed in place after Prop 13, a requirement for mandatory disclosure of real property sales. He stated that an acquisition value system could not be implemented because it would be unknown when people sold property or what they sold it for. He stated that the assessed value is increased when the property is sold and the increase is the amount of the purchase price of the property. That system could not be implemented without a mandatory full disclosure real estate sale. He stated the initiative that is circulating today, includes a mandatory disclosure of sales price.

Senator McKenzie asked if the disparity ratio would have a greater effect in Idaho because of the budget based tax system. He noted that California did not have a budget based system because their property taxes dropped 57% after the change was made. In Idaho, over time, the ones who had a bumped up cash value would be paying a greater share of the property tax to the county local government because it's based upon their budget rather than a percentage of the market value.

Mr. Spangler stated that considering that point in isolation, the concept of acquisition value would be that your value would be frozen at a certain date and increased only upon sale or new construction.

Senator Langhorst noted he understood that appreciation was high in California in the years in which Prop 13 passed. He also felt in Idaho there is double digit home appreciation. He stated in those cases that you would see the disparity ratio increase rapidly. **Mr. Spangler** noted that in Idaho, values have increased at very high rates in some locations and others have not.

Chairman Bunderson requested a volunteer to craft bullet points of pro and con arguments of the 1% initiative. The analysis would become one of those that would ultimately become part of the committee minutes. **Senator McKenzie** volunteered to work with **Ted Spangler** to prepare that summary analysis to accompany **Mr. Spangler's** detail handout.

ADJOURNMENT: There being no further business, the meeting was adjourned at 4:30 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

- DATE:** March 2, 2006
- TIME:** 3:00 p.m.
- PLACE:** Room 426
- MEMBERS PRESENT:** Chairman Bunderson, Vice Chairman Hill, Senators Stegner, Sweet, McKenzie, Corder, Langhorst
- MEMBERS ABSENT/ EXCUSED:** Senator Williams, Malepeai
- GUESTS:** The sign-in sheets, handouts, booklets, charts, and/or graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.
- CONVENED:** **Chairman Bunderson** convened the meeting at 3:00 p.m.
- H 559** **Chairman Bunderson** introduced **Representative Kemp** to present House Bill 559. Representative Kemp stated that House Bill 559 amends Section 50-609 *Idaho Code* by striking "male inhabitant" and replacing with "resident".
- MOTION:** **Senator Langhorst** made a motion to move House Bill 559 to the floor with a do pass recommendation. **Senator Corder** seconded the motion.
- VOTE:** The motion passed by unanimous **voice vote**.
- H 497** **Roger Madsen** with the Idaho Commerce and Labor presented House Bill 497, which would provide a rebate of sales taxes paid on qualifying expenses with a minimum of \$200,000 spent on film and media production in Idaho for a period of 36 months and would sunset in 2013. He stated that House Bill 497 would help Idaho compete for good paying, high tech, year round jobs.
- Senator Stegner** questioned the definition "media production" and asked if there was a limit to what the \$200,000 is spent on. **Representative Kemp** stated that commercials have other sections of code that provide benefits and the qualifying definition states \$200,000 per project, not per annual income year. She stated that the definition of "media production" in the bill, is on page 1, line 17. **Senator Stegner** states he believes there is a loophole in the definition of "media production", wherein the bill states it is "a production of programs (plural) through a variety of techniques, but not limited to..." He asked if there was a further definition. **Representative Kemp** noted that the bill lists items that are limited and excluded from the media production program sequence. **Senator Stegner** asked why commercials are not considered a "media production", therefore allowing the exemption. **Representative Kemp**

stated that commercials do not meet the \$200,000 qualifying threshold. **Senator Stegner** stated he does not believe the qualifying threshold is limited to \$200,000. He stated that by allowing qualifying costs to go toward the \$200,000, and not limiting the costs by project, it would leave an open field for existing companies to qualify for the sales tax exemption. **Representative Kemp** stated that on page 1, 63-3622TT *Idaho Code*, gives the requirement to apply and qualify for the media tax rebate. She stated that in the definition, there is the qualifying media expenditure and productions lists.

Senator Hill stated that the bill states the \$200,000 applies only to the 36 months, not to a media production and that the wording is not in the same sentence together in the bill, which may not be a fatal flaw. Senator Hill asked **Dan John** with the Tax Commission to clarify the meaning of tangible personal property. **Mr. John** gave an example of a board built for a set or tools to build a set. He stated that tangible personal property is anything that is not real property. **Senator Hill** asked if meals or toiletries were considered tangible personal property. **Mr. John** stated that toiletries are tangible personal property, however meals are a service that is taxed in Idaho, however food to make meals is considered tangible personal property.

Chairman Bunderson noted **Senator Stegner's** question about the definitions being in line with the intent. **Representative Kemp** stated she would be willing to insert the phrase "on a media production" to line 25 on page 1, to make it clearer.

Senator Langhorst asked if **Senator Stegner** would be supportive of the bill if "media production" was made singular and an exclusion for commercials and political adds was added. **Senator Stegner** stated that his intention was to convince the committee that this bill was not the best public policy to pursue. He stated that he was concerned with trend of giving out exemptions in general too freely.

Senator Sweet asked if the Tax Commission would be ascertaining the qualifications and/or rebates. **Representative Kemp** stated the Department of Commerce and Labor has a film bureau and that the application process and tracking of qualifications would go through the Department of Commerce and Labor and the rebating process would go through the Tax Commission. **Senator Sweet** asked **Mr. John** with the Tax Commission how much time this process would take. **Mr. John** stated that the Tax Commission is set up to issue the rebates and does not anticipate much time at all.

Ben Shedd, Co-Chair of the Film Task Force, stated that the Film Task Force worked closely with the Tax Commission to make sure the bill proposes a rebate, not an exemption. He stated that the bill would return a net positive to the general fund because of the amount of jobs it would bring.

MOTION:

Senator Langhorst made a motion to move House Bill 497 to the 14th order for amendment. **Senator Corder** seconded the motion.

Senator Stegner voted against the motion to send House Bill 497 to the

14th order for amendment. He stated there are huge segments of Idaho's economy that are not taxed and the legislature could not continue to put the burden on the industries that are taxed.

Senator Hill stated that he can not see exempting an entire industry and that he feels the bill is too broad.

Chairman Bunderson stated that this bill will provide for anyone to receive the rebate, they will have to produce something in the state and jobs have to be developed. He stated that if the committee does not do anything with the bill and people do not come to Idaho, there will not be any revenue, but if the bill is passed and people come to Idaho, then there will be new revenue and economic activity. **Chairman Bunderson** stated that he is supportive of the motion to send House Bill 497 to the 14th order for amendment, however any amendment should consider shortening the time line for the sunset with annual reports to the legislature.

Senator Langhorst asked the committee to consider how this bill is different from the production exemption given to other businesses.

VOTE: The motion to send House Bill 497 to the 14th order for amendment passed by majority **voice vote**.

H 685 **Allyn Dingel**, representing The Learning Lab, presented House Bill 685 which would provide an income tax credit for charitable contributions made to the Learning Lab.

Gemma VanHole, Executive Director of The Learning Lab, stated that The Learning Lab is an adult and family literacy center that serves 225 - 250 students each year. **Ms. VanHole** urged support of House Bill 685.

MOTION: **Senator McKenzie** made a motion to move House Bill 685 to the floor with a **do pass** recommendation. **Senator Sweet** seconded the motion.

VOTE: The motion passed by majority voice vote.

H 590 **Representative Stevenson** presented House Bill 590. He stated that the bond council was not considered when the intermodal commerce authority was passed two years ago, therefore some wording needed to be changed. **Representative Stevenson** referred to **Greg Skinner**, Attorney representing Idaho Housing Finance Association, who gave a presentation further explaining the proposed changes to House Bill 590.

Max Vaughn, Minidoka County Assessor, also made presentation of House Bill 590.

MOTION: **Senator Hill** made a motion to move House Bill 590 to the floor with a **do pass** recommendation. **Senator McKenzie** seconded the motion.

VOTE: The motion passed by unanimous voice vote.

H 475 **Representative McGeachin** made presentation of House Bill 475, which would provide an exemption from sales tax for two limited categories of transactions by museums; purchases and admissions. **David Pennock**, Museum Director of the Idaho Association of Museums,

referenced a handout indicating the economical impact of House Bill 475. **Mr. Pennock** stated that House Bill 475 proposes to charge a \$6 fee for admission which would increase the museum's income by 5%.

MOTION: **Senator Corder** made a motion to move House Bill 475 to the floor with a **do pass** recommendation. **Senator McKenzie** seconded the motion.

VOTE: The motion passed by majority **voice vote**.

MINUTES: **Senator Corder** made a motion to approve the minutes of February 21 and February 22. **Senator Hill** seconded the motion.

VOTE: The motion pass by unanimous **voice vote**.

ADJOURNMENT: There being no further business, the meeting was adjourned at 4:30 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: March 7, 2006

TIME: 3:00 p.m.

PLACE: Borah Court Room

MEMBERS PRESENT: Chairman Bunderson, Vice Chairman Hill, Senators Stegner, Sweet, McKenzie, Williams, Corder, Malepeai, Langhorst

MEMBERS ABSENT/ EXCUSED: None

GUESTS: The sign-in sheets, handouts, booklets, charts, and/or graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.

CONVENED: **Chairman Bunderson** convened the meeting at 3:00 p.m.

MOTION: **Senator Corder** made a motion to approve the minutes of February 23. **Senator Hill** seconded the motion.

VOTE: The motion passed by unanimous voice vote.

MINUTES: H 676 **Chairman Bunderson** introduced **Representative Lake** to present House Bill 676. **Representative Lake** stated that House Bill 676 repeals *Idaho Code* 63-602FF, commonly known as the "developer's discount." He stated that House Bill 676 provides that if a parcel of ground is owned and transferred to the owner's spouse or children, the parcel would still qualify for the agriculture exemption if it is used for agriculture. He noted that House Bill 676 states that even if a parcel of ground is platted and used for agriculture, that parcel would qualify for the agriculture exemption.

Senator Corder asked if the exemption would apply only to the original owner who platted the land. **Representative Lake** agreed and stated that the exemption would not apply when the parcel was sold, however it would apply if the new owner transferred the parcel to his or her spouse or children.

Representative Lake advised of a problem with House Bill 676 that was just discovered. He referred to **Tony Poinelli**, Deputy Director of the Idaho Association of Counties, to state the problem. **Mr. Poinelli** stated that the January 1 effective date would not allow a person to apply for the agriculture exemption for 2006. He suggested adding some language to allow the individual to complete an application in 2006.

Senator Hill noted the word “or” was used inconsistently between the ii and iii sections of House Bill 676.

Chairman Bunderson asked if **Representative Lake** agreed with **Mr. Poinelli’s** comments. **Representative Lake** said he did.

The committee heard testimonies from four visitors who were in favor of House Bill 676.

MOTION: **Senator Corder** made a motion to move House Bill 676 to the 14th Order for amendment. **Senator Stegner** seconded the motion.

VOTE: The motion passed by unanimous voice vote.

H 421 **Representative Lake** continued with his presentation of House Bill 421, stating the bill is commonly referred to as the Homeowner’s Exemption and accomplishes three objectives: It includes the value of the lot when figuring the homeowner’s exemption, it expands the exemption to the lesser of 50% of the value of the improvement or \$50,000 to 50% of the value of homestead including land or \$75,000, whichever is lower and indexes the exemption to the Consumer Price Index.

Chairman Bunderson asked if **Representative Lake** considered phasing in the increase. **Representative Lake** responded that he did not. **Senator Stegner** questioned the change of the term “residential” to “homestead”. **Representative Lake** stated the definition of “homestead” refers to the land of the home-site and improvements. **Chairman Bunderson** asked why the Consumer Price Index was used instead of the Housing Price Index. **Representative Lake** stated that the Consumer Price Index was used because it was not as severe as the other index.

The committee heard testimony from nine visitors; four in favor, two opposed and the remaining 3 had both pro and con arguments against House Bill 421.

Chairman Bunderson introduced former **Representative Ken Robison** who testified that the total residential property taxes have increased nine times as much as in the last two years as the increase for commercial, utility and other kinds of property and that he prefers the use of the Housing Price Index. **Mr. Robison** noted that the homeowners exemption shifts increased property tax to rental properties, if there were no increases in levies as a result of expanding the homeowner’s exemption, there would not be a shift to rental homes. He stated that the primary problem is that rental homes are treated as residential property and if they were assessed on income, as are residential rentals and complexes of five units or more, it would be more fair and they would be paying a lot less property taxes.

Senator Sweet commented that under current law, if someone’s property was sold, foreclosed upon and the money, less outstanding debt, taxes and expenses, should belong to the seller, not the general fund.

Chairman Bunderson invited visitor **David Hegg**, a local renter, to

provide testimony in favor of House Bill 421. He stated that the cost of paying real estate tax for a homeowner would drop to eight days worth of wages under House Bill 421. However, there is a disparity when exemptions are created exclusively for homeowners. He stated that the sheltered costs for real estate taxes would be fourteen days worth of wages.

Chairman Bunderson invited visitor **Elizabeth Schwertdle**, a parent from Hailey, Idaho, to give testimony on House Bill 421. **Ms. Schwertdle** stated that she supports raising the homeowner's exemption to \$75,000 in that it is a simple solution to the problem of property taxes being too high for residential homeowners. She stated that other solutions could hurt public school funding by shifting the source of funding to the general fund and the sources of funds that would come from the general fund like sales and income tax would not be able to fund schools in the long run.

MOTION: **Senator Stegner** made a motion to move House Bill 421 to the 14th Order for amendment. **Senator McKenzie** seconded the motion.

VOTE: The motion passed by unanimous voice vote.

Senator Langhorst stated he supports the motion and would suggest amending House Bill 421 to reflect a \$100,000 exemption.

H 422 **Representative Lake** concluded with a presentation of House Bill 422. He stated that the bill expands the circuit breaker law and is indexed to the Consumer Price Index. He stated that House Bill 422 would step up the income qualifications from \$22,630 to \$28,000 one time, step up the maximum participation by the state from \$1,200 to \$1,320. **Representative Lake** stated if House Bill 422 is passed on it's own, the fiscal impact would be \$6,600,000. If the bill is passed in conjunction with the homeowner's exemption, the fiscal impact is estimated at \$4,200,000.

Senator Hill asked **Representative Lake** if the homeowner had to apply for the homeowner's exemption. **Representative Lake** confirmed that homeowners have to apply through the counties. **Senator Hill** noted that House Bill 422 does not reflect that a homeowner has to apply for the circuit breaker and asked what incentive there is to do so.

Chairman Bunderson noted that there were inherent problems in the law that relates to House Bill 422, such as no rationale as to what group of people the bill is trying to help. **Representative Lake** responded that his committee did discuss that, but did not feel it was a needed part of the issues covered in the bill. He stated that the committee did not look at asset values since the law has served well for over 30 years. **Senator Sweet** asked how someone could qualify even with a million dollars worth of assets. **Representative Lake** stated that he was not aware of the system being abused.

The committee heard testimonies from two visitors in favor of House Bill 422.

MOTION: **Senator Hill** made a motion to move House Bill 422 to the 14th Order for

amendment. **Senator Corder** seconded the motion.

VOTE: The motion passed by unanimous voice vote.

ADJOURNMENT: There being no further business the meeting was adjourned at 4:33 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: March 8, 2006

TIME: 3:00 p.m.

PLACE: Borah Courtroom

MEMBERS PRESENT: Chairman Bunderson, Vice Chairman Hill, Senators Stegner, Sweet, McKenzie, Williams, Corder, Malepeai, Langhorst

MEMBERS ABSENT/ EXCUSED: None

GUESTS: The sign-in sheets, handouts, booklets, charts, and/or graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.

CONVENED: **Chairman Bunderson** convened the meeting at 3:00 p.m.

MINUTES: **Chairman Bunderson** introduced **Brian Whitlock**, from the Office of the Governor to present House Bill 680. **Mr. Whitlock** stated that House Bill 680 is a safety net for those who can not pay their taxes, and is an option to defer payment of their taxes. He stated it requires the individual to be eligible for the circuit breaker and meet the homeowner's exemption requirements. He stated the individual must apply with the Tax Commission and re-apply annually. **Mr. Whitlock** stated House Bill 680 would assist approximately 300-500 households in Idaho. He stated that upon the sale of the property or the death of the owner, the money is repaid to the state and that money goes into a revolving loan account. He stated the revolving loan account should be self-sustaining in about nine years and at that time would no longer need assistance from the general fund.

Senator Hill asked if it would cost the general fund \$500,000 for each year up to the ninth year until it is self-sustained. **Mr. Whitlock** stated that the actual usage would be from the \$300,000-\$500,000 and could possibly be less than the nine years to self sustain. **Senator Hill** asked if the cost exceeded \$500,000, would that additional amount be allocated proportionately among those who applied. **Mr. Whitlock** confirmed that to be correct.

Senator McKenzie asked how **Mr. Whitlock** arrived at the 6% and if there was consideration to tie it to a market rate. **Mr. Whitlock** stated it was recommended by the Tax Commission as a fair market value rate over time. **Senator McKenzie** stated that those rates fluctuate over time and asked why it was not tied to a market rate. **Dan John** with the Tax Commission stated that they looked at tying it to the income tax rate, which fluctuates slightly, and that it had been at 6% the last few years.

He stated it was decided to follow Oregon's model.

Chairman Bunderson asked if there was an evaluation done on what the administrative cost would be and if there had been an actuarial evaluation of what the demands would be. **Mr. Whitlock** stated that the Tax Commission would not need additional administrative costs because they have sufficient software and personnel. He stated that as far as utilization, all they could do was look at the performance of other states.

Chairman Bunderson noted that House Bill 680 would be a straight lien against the property, and would not act as a reverse mortgage. **Mr. Whitlock** agreed.

Senator Hill asked if there would be any merit to combining House Bill 680 with House Bill 422, dealing with the circuit breaker. **Mr. Whitlock** stated it would make sense and would not object.

MOTION:

Senator Langhorst made a motion to move House Bill 680 to the floor with a **do pass recommendation**. **Senator Malepeai** seconded the motion.

SUBSTITUTE MOTION:

Senator Stegner made a substitute motion to move House Bill 680 to the 14th Order for amendment. **Senator Hill** seconded the motion.

Senator Langhorst stated he was not opposed to sending House Bill 680 to the 14th Order, he just did not want the bill to die in committee. **Senator Hill** stated that he supports the bill's concept, but would like the option to amend.

Senator Langhorst urged the committee to vote in favor of the original motion. **Senator Sweet** stated he supported the substitute motion and would leave it open for amendment.

VOTE:

Voice vote on substitute motion:

7 Aye: Bunderson, Hill, Stegner, Williams, McKenzie, Sweet, Corder
2 Nay: Langhorst, Malepeai

Substitute motion to send House Bill 680 to the 14th Order passed by majority **voice vote**.

H 678

Chairman Bunderson introduced **Representative Roberts** to present House Bill 678. **Representative Roberts** stated that the bill takes the three-tenths of the 1% for maintenance and operations levies for schools and reduces it in half to .15%. He stated it repeals the one-tenth of the 1% because it is an appropriation, and is already in the budget. He stated that House Bill 678 caps the remaining .15% at 3% growth.

Representative Roberts noted that if state revenues exceeded 8%, that money would be transferred into the account which would further reduce the remaining .15% of the maintenance and operations left on property taxes.

H 679

Representative Roberts continued by presenting House Bill 679 as it is

a companion bill to House Bill 678. He stated that House Bill 679 increases the sales tax by .5% starting June 1st and; referencing a handout, stated the bill would provide an approximate 19% reduction in taxes. **Representative Roberts** noted that the fiscal impact would drop to \$102 million because the assessed market values were expected to be at \$95 billion, but were actually closer to \$100 billion. He stated that the inherent problem is that the state looks at the ability of local districts to pay for schools, but because those values are increasing, the state would lean heavier on the local property taxpayer, therefore reducing the need for the state to appropriate so many dollars. The intent is to shift funding to a sales tax basis.

Senator Langhorst asked if the amount of state support envisioned has decreased because of the increase in property values or has the cost of the maintenance and operations gone down. **Jason Hancock** with Legislative Services, stated that the difference is that House Bill 678 and House Bill 679 are not property tax replacements and not tied to property value. The fiscal note reflects the amount of additional state money that would need to go into the public schools' budget in order for public schools to continue to receive the 3% per support unit increase in discretionary funds. The state cost to get to that level is lessened when the property values go up.

Senator Hill noted the fiscal impact states that property taxes would be reduced and asked by how much. **Mr. Hancock** stated that that would be hard to answer because it would depend on what happened in the wealthier school districts. He stated that there is a provision in this legislation that would allow them to continue to raise extra dollars that they get from their maintenance and operations levy. **Mr. Hancock** stated that if the school districts were funded by the state, they would not get those dollars because of the size of the school district, and other factors that would not entitle them to that level of funding.

Senator Hill asked **Mr. Hancock** to confirm that the \$102 million is the additional amount needed to make the bill whole, but not necessarily the amount to see property taxes go down. **Mr. Hancock** stated that **Senator Hill** was correct.

Chairman Bunderson asked how much sales tax revenue would .5% raise and asked about the timing of the revenue stream. **Mr. Hancock** stated that for every .5% increase, there would be a \$105 million dollars that would go into the general fund. He stated that the implementation date of the sales tax would be June 1st, which starts the revenue hour in the current fiscal year, because of the one month lag in the collection of sales tax. **Mr. Hancock** continued to state that House Bill 678 would reduce the maintenance and operations levy rate from .003 to .0015, effective on the property tax bills paid in December.

Chairman Bunderson noted the two fiscal notes reflect a \$20 million shortfall of revenue produced and the cost of the impact on property taxes which flows to the schools. He asked how it was assessed that the ½ cent increase would be enough. **Mr. Hancock** stated the ½ cent sales

tax would pay for the additional state costs needed to keep schools whole on the model of the 3% model increase. **Chairman Bunderson** asked **Mr. Hancock**, from a financial standpoint, what would the reaction to this bill be from a high growth school district. **Mr. Hancock** responded that as far as the maintenance and operation levy, the issue of whether the area is a high growth area or not, large population growth or whether values are high or flat, does not make a difference unless it is a wealthier school district. He stated the issue would be because the state equalizes everyone's funding. He stated that if values are skyrocketing, the state will send less money because the district will be able to pay more of the operational costs themselves. He stated that it does not change the dollar amount received, it just changes the mix of state versus local.

Senator Stegner, referenced a handout from **Representative Roberts** that indicated statewide market values, and asked if the 2005 \$11 billion annual change number was the most recent figure. **Representative Roberts** stated that the \$11 billion figure is a September 2005 number and that as of December 31, that assessed value had risen to almost \$100 billion. **Senator Stegner** asked if it was standard to have December assessed market values at the first week of March. **Mr. Hancock** noted that the numbers may vary since they would not be confirmed until April.

Senator Stegner asked to confirm that the property tax reduction in the cost to the state is due in part to higher valuations and that taxpayers would pay more on the other side. **Mr. Hancock** agreed. **Senator Stegner** continued to ask what the result would be if House Bill 678 did not remove the 1.5 mills, but all 3 mills. He asked if there would be a cost of \$204 million dollars. **Mr. Hancock** stated, using Blaine County as an example, that the 1.5 mills in Blaine County, still raises more money than the formula says they are entitled to get. He stated it would be a property tax reduction, and would be at no cost to the state. If the rate was reduced to zero in Blaine County, the funding formula would show they would be entitled to some money, and that the money would provide equalization, whereas they would continue to receive no state equalization money with 1.5 mills. **Mr. Hancock** stated that it would be more expensive going with the whole 3 mills. He stated it would be about \$245.7 million state cost to keep all districts at the 3% per unit growth and would not be a straight line comparison, because the wealthier districts would be picked up but not at 1.5 mills.

Senator Stegner asked what areas would be affected. **Mr. Hancock** stated they are Blaine, McCall/Donnelly, Avery and Swan Valley. He stated that at 1.5 mills, the only district that would continue to raise more money than the formula entitles them to get, would be Blaine County. The other three districts would start to get state money at the 1.5 mills level.

Chairman Bunderson asked who the winners and losers are of the property tax shift. He stated it appears that the growth in property tax affects the higher-end homes and not the lower-end homes, which means the property tax is more of a progressive tax and sales tax is

typically considered a regressive tax. He stated that by offering property tax relief in this manner, the cost would be borne disproportionately by the lower income citizens and the higher income citizens would benefit. **Representative Roberts** stated that all citizens pay property tax whether they own or rent. He stated that individual spending habits would need to be considered to determine who is benefitting from the property tax relief. **Chairman Bunderson** stated that tenants do not pay property taxes, landlords do. He stated that rents are based on market forces and cost factors, of which property tax is only one element. He stated he understood a few states offer a renter's credit.

Representative Roberts stated that his intent as a legislator is to vote for an increase in the public school appropriation to offset that amount of property tax dollars lost by the schools. The new appropriation would then become part of the base for public schools in Idaho. **Senator Langhorst** stated that House Bill 678 is not actual replacement (dollar for dollar), but the amount of education funding for maintenance and operation would be determined through the appropriations process annually, no longer based on 1.5 mills applied to property.

Mr. Hancock stated that the Joint Finance Appropriation Committee would put additional money into the public schools budget. He stated the question would be how much money to put in and what funding level would be established for the public schools.

Chairman Bunderson suggested that with the bill being presented, and in consideration of time, the committee would hear testimonies from visitors from out of town and who would not be able to attend the following day's committee meeting. He stated the committee would also continue the discussion of House Bill 678 and House Bill 679 at the next meeting.

Terry Donicht, Superintendent of Meadow's Valley School District and McCall/Donnelly School District, testified that teachers in that area could not afford to buy homes because of the increase in home costs, and the teacher's pay, despite a pay increase. He stated that House Bill 678 would freeze their revenue stream and would cause a cut back of school programs and staff.

Jim Lewis, Superintendent of Blaine County School District, stated that House Bill 678 would significantly weaken the stability and funding for Idaho schools. **Mr. Lewis** stated that the bill would eliminate 30% of the money received from the federal government to support schools, approximately \$30 million. Property taxes can be deducted from income taxes but you can not deduct sales tax. He suggested the Legislature pass Truth in Taxation law.

Alex Sundali, Trustee of Blaine County School District, stated that House Bill 678 would not provide property tax relief for Blaine County. She stated the rest of the state would get a 50% decrease in property taxes and Blaine County would see an increase of 25% in property taxes just to maintain current school budget. The school board would have to levy homeowners 167% more than the state levies. Homeowners could not afford this tax increase.

Chairman Bunderson commented that under the two bills, Blaine County would bare the burden of paying increased sales tax without the benefit of any reduction in property taxes.

Mike Chatterton, businessman from Blaine County School District, referenced a handout that reflected the effects of House Bill 678 on Blaine County School District. He stated that if House Bill 678 was in effect in 2005, there would have been a 30% increase in property taxes.

Chairman Bunderson stated that the committee would continue to hear House Bill 678 and House Bill 679 the same time the following day at the Gold Room in the Capitol.

ADJOURNMENT: There being no further business, the meeting was adjourned at 4:38 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

- DATE:** March 9, 2006
- TIME:** 3:00 p.m.
- PLACE:** Gold Room
- MEMBERS PRESENT:** Chairman Bunderson, Vice Chairman Hill, Senators Stegner, Sweet, McKenzie, Williams, Corder, Malepeai, Langhorst
- MEMBERS ABSENT/ EXCUSED:** None
- GUESTS:** The sign-in sheets, handouts, booklets, charts, and/or graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.
- CONVENED:** **Chairman Bunderson** convened the meeting at 3:00 p.m.
- MOTION:** **Senator McKenzie** made a motion to hold House Bill 508 and House Bill 480 in Committee, subject to the call of the chair. **Senator Corder** seconded the motion.
- VOTE:** The motion passed by unanimous **voice vote**.
- H 678** **Chairman Bunderson** invited visitors to testify regarding House Bill 678 and House Bill 679 which was presented in committee on March 8. The committee heard testimonies in opposition to House Bill 678 and House Bill 679 from: **Judy Brown**, representing the Idaho Center on Budget and Tax Policy, **Dr. Linda Clark**, Superintendent of Meridian School District, **Evee Kiler**, Finance Director of Meridian School District, **Janet Orndorff**, Trustee of Boise School District; and **Roger Sherman**, representing United Vision for Idaho.
- The testimonies included concerns regarding:
1. The replacement of revenues taken by the reduction of the schools' maintenance and operations levy.
 2. The effects of the increase in sales tax on Idaho families.
 3. The cost to the state for replacing the 1.5 mills of the schools' maintenance and operations levy.
 4. The effect of the 3% cap on the remaining 1.5 mills of the school's maintenance and operations.
- Dan Chadwick**, Executive Director of the Idaho Association of Counties, testified the bills would reduce the number of hours spent fielding questions and complaints from taxpayers about their tax bills and would provide property tax relief to taxpayers.
- Chairman Bunderson** stated that **Mr. Chadwick's** testimony was only

part of the equation, and there still remains the funding aspect. He asked what the official position was of the Idaho Association of Counties. **Mr. Chadwick** stated the increase in sales tax would compensate for the loss of the property tax and suggested removing the maintenance and operations from the property tax to provide property tax relief.

Senator Malepeai asked **Mr. Chadwick** to confirm that the position of the Idaho Association of Counties would be to remove the school maintenance and operations funding completely and increase the sales tax. **Mr. Chadwick** confirmed that statement to be true.

Alan Dornfest with the Tax Commission referenced a handout, which was the annual study by school district of property assessments which are then used to produce adjusted values. He stated that the schools use the adjusted values in multiplying by, under current law, the .003 property tax levy to produce their maximum property tax maintenance operation.

Chairman Bunderson noted that the handout reflects the effect of House Bill 678 on each school district. **Mr. Dornfest** stated the Tax Commission's analysis compares what the .003 multiplier would produce to the .0015 multiplier.

Senator Hill noted that the committee has not heard any testimony in favor of House Bill 678 and feels the bill may be a compromise.

Chairman Bunderson stated that the property tax is a progressive tax, whereas sales tax is a regressive tax. He stated that the committee needs to consider who is benefitting from House Bill 678 and House Bill 679. **Chairman Bunderson** stated that lower income citizens will likely bear a higher burden (% of their income), whereas higher income citizens will benefit.

Representative Lake stated that House Bill 678 is a compromise result of the property tax Interim Committee. He stated that by using the equalization formula, it makes no difference where the discretionary monies come from, be it from property tax or state contributions.

Representative Lake also noted that if the committee does nothing with House Bill 678, \$40 million will be collected from citizens and given to the schools without any accountability, therefore the Joint Finance Appropriations Committee (JFAC) will conclude that there is enough money coming from property taxes there would not be a need to contribute as much from the general fund.

Chairman Bunderson stated that on average, what happens in one school district, may not happen in the other; therefore, if the Joint Finance Appropriations Committee does an across the board cut, the ripple effect may drown somebody. For example, Blaine County would be forced to increase property tax and sales tax. **Representative Lake** stated that Blaine County is an anomaly because they still provide enough money to property tax for the school funding up to the support level unit and they have money above that. He stated that Blaine County will lose money under House Bill 678.

Senator Stegner asked **Jason Hancock**, Legislative Services, to further explain the fiscal note of House Bill 678. He asked if Mr. Hancock had seen **Mr. Dornfest's** analysis. Mr. Hancock stated yes and that he had taken those numbers and worked them through the school funding formulas and determined the impact along with what revisions need to be made on the information he presented on March 8. He stated that, based on the numbers provided by Mr. Dornfest, the amount of state general fund money that would have to be added to the public school's budget for each school district, to get them to the per support unit funding level established by JFAC, would be \$104,080,700.00. This amount increased a little, but not substantially different.

Mr. Stegner asked that if the committee did not want to deal with per support unit, what could the numbers be for money raised this year in comparison to what could be raised with the increase in just values. He stated that, in the fiscal note, property taxes would be reduced by \$104,000,000. He asked if that amount was in comparison to what was collected for maintenance and operations last year or what could be collected for 2006. **Mr. Hancock** stated that the handout provided by Mr. Dornfest did frame one way of looking at the fiscal note, other than from the budget prism he is providing. Where Mr. Dornfest shows what school districts will be raises on maintenance and operations levies next year at a .003 versus .0015. **Mr. Hancock** agreed with **Senator Langhorst** in that in comparing the two numbers, it appeared to be a \$146 million difference. **Mr. Hancock** noted that House Bill 678 would provide for the wealthy districts to continue to raise extra dollars that the state would not be replacing because the state does not fund the school districts above the equalization level. He continued to state that the difference between the \$104 million and the \$146 million, in what could be raised next year versus what would be raised with House Bill 678, would be made up by the wealthy districts in levying the extra dollars through the budget stabilization levy. He stated that another portion of the difference is the additional property tax growth that would not be captured by the school districts.

Senator Langhorst stated that House Bill 678 would not be property tax replacement. He stated that House Bill 678 envisions funding the JFAC's budget for 2007. **Senator Langhorst** stated that for those who view House Bill 678 as property tax replacement, could characterize this as property tax replacement that has been capped. **Mr. Hancock** said that he understood **Senator Langhorst's** comment, however did not see it as a cap.

Representative Roberts stated that he is presenting House Bill 678, however feels the legislation should be .3 mills with the one cent sales tax increase. He stated that by implementing that, equalization would not be needed and the schools would be funded based on the support unit basis that they are currently using. **Representative Roberts** stated that the law currently drives up property taxes when market values increase. He stated that the schools would not lose .025%, they would still get the same amount of money. He stated that the legislature has funded schools historically over 3.65% in the last 14 years and stated that if supporters of the 1% initiative understood the initiative, there

would not be replacement for the maintenance and operation that would be lost. **Representative Roberts** stated that legislators have voted to continue to increase funding for education.

Senator Langhorst asked **Representative Roberts** to clarify his statement that the legislature has stepped up to the plate and funded education, however in the committee meeting on March 8, he stated that one of the reasons for the property tax problem, was due to the legislature delegating expenses to the local districts. **Representative Roberts** stated that the legislature set the level of \$77,000 and property taxpayers have been leaned upon to get to that level. He stated that it was not an issue of not funding education, but an issue of where the money comes from. He also stated that the legislature has been consistent in funding of education, but have relied upon local property taxpayers.

Senator Langhorst asked that, in order to maintain support unit dollar amounts, and to switch to sales tax as a funding source, or in a down turn in the economy, or as budgets increase, would the state be prepared to raise the sales tax to keep up with the need for school funding? **Representative Roberts** stated that education funding would continue to be a paramount issue in the legislature and if there was an outcry from the education community and parents of Idaho to increase funding for education, a way to fund would be found. He stated that the state needs to control spending.

Chairman Bunderson asked **Representative Roberts** to respond to the progressivity and regressivity of the two taxes and if there would be more burden on those who are least able to bare it.

Representative Roberts stated that the stance of the state was to encourage people to own their own homes and when they do that, it should be made affordable. He stated sales tax revenues will increase and there will be people who will pay a higher percentage of sales tax than others.

Chairman Bunderson stated that if the state encourages people to buy homes, there will be more of a burden on those who have less money. He asked what should be done from a public policy standpoint with local control versus state control, would it be that the state would run the schools except for brick and mortar. He stated that at some point the inefficiencies of the 114 school districts structure, a future legislature would likely contest different spending of the operation of one small school district receiving \$10-12,000 per student while another gets \$3,500 per student. He asked when does the state take over because they believe the money is spent inefficiently by the trustees?

Representative Roberts stated that school board members have a lot of power and that the dollars that go out are for salary base apportionment. He stated that there is nothing in code that states the pay grid that exists today must be followed.

Chairman Bunderson asked the committee to consider what public education would look like under state funding and control over maintenance and operations. He said that debate goes back to how

efficiently the money is being spent.

MOTION: **Senator Hill** made a motion to move House Bill 678 and House Bill 679 to the 14th order for amendment. **Senator Stegner** seconded the motion.

SUBSTITUTE MOTION: **Senator Langhorst** made a substitute motion to hold House Bill 678 and House Bill 679 in committee. **Senator Malepeai** seconded the motion.

Senator Langhorst stated what the effects would be, not just on the schools, but on the average taxpayer. He stated that House Bill 678 and House Bill 679 collectively would undo any of the benefits that other legislation discussed would provide, primarily the homeowners exemption. **Senator Langhorst** continued to state that by passing the series of bills, in effect, raising taxes for people that make under \$100,000. He stated that not only would it be bad for schools, but would hurt the people that the state is trying to help, the middle class.

VOTE: Roll call vote was taken on substitute motion to hold House Bill 678 and House Bill 679 in committee. 3 Aye, 5 Nay, 1 Absent.

The substitute motion failed.

VOTE: Roll call vote was taken on original motion to move House Bill 678 and House Bill 679 to the 14th order for amendment. 6 Aye, 2 Nay, 1 Absent

The original motion passed by majority vote.

ADJOURNMENT: There being no further business, the meeting was adjourned at 4:52 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: March 14, 2006

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Bunderson, Vice Chairman Hill, Senators Stegner, Sweet, McKenzie, Williams, Corder, Malepeai, Langhorst

MEMBERS ABSENT/ EXCUSED: None

GUESTS: The sign-in sheets, handouts, booklets, charts, and/or graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.

CONVENED: **Chairman Bunderson** convened the meeting at 3:00 p.m. and introduced **Representative Clark** to present House Bill 724.

H 724 **Representative Clark** stated that House Bill 724 would amend the Local Use Planning Act to insure that planning and zoning commissioners would not be allowed to testify on matters before the Board.

MOTION: **Senator Corder** made a motion to move House Bill 724 to the floor with a **do pass** recommendation. **Senator Langhorst** seconded the motion.

VOTE: The motion passed by unanimous **voice vote**.

H 688 **Representative Saylor** presented House Bill 688. He stated that House Bill 688 will provide an Idaho income tax credit for donations made to Project Safe Place. He stated that Project Safe Place provides immediate help and resources for young people in crisis.

MOTION: **Senator Malepeai** made a motion to move House Bill 688 to the floor with a **do pass** recommendation. **Senator Williams** seconded the motion.

VOTE: The motion passed by majority **voice vote**, **Senator Stegner** voting nay.

H 693 **Russell Westerberg**, representing the Cigar Association, presented House Bill 693. He stated that House Bill 693 proposes to cap excise taxes on cigars at 50 cents per cigar. **Mr. Westerberg** provided a copy of his testimony.

Senator Hill stated that cigars are currently taxed at \$1, and House Bill 693 proposes to cap the tax on cigars at 50 cents per cigar. He asked if Mr. Westerberg considered taking the difference of 50 cents and adding an index for inflation so in five years the legislature would not have to increase the tax. **Mr. Westerberg** stated that the intent of the bill is to get small Idaho retailers competitive with the states of Oregon and Washington. He stated that his prognosis, in a couple of years, is that

revenues of sales of premium cigars have not increased.

Senator Corder stated that the wording “premium” is not mentioned in the legislation and how could one distinguish between premium and all cigars. **Mr. Westerberg** stated that in terms of the legislation, “premium” is a cigar that has a manufacturer price of \$1.25 or greater. He stated that at \$1.25, the excise rate of 40% is 50 cents.

Senator Corder asked **Mr. Westerberg** to clarify his reference to smaller cigars, which seemed to indicate a different cigar than what he referenced at a \$1.25 each, therefore the opportunity existed for the bill’s definition of cigar to be expanded beyond the \$1.25 cigar. **Mr. Westerberg** stated that a premium cigar is defined as being hand-made and expensive. He stated that the bill proposes that the cap would kick in any time the manufacturer’s price would be \$1.25 or greater.

Senator Corder asked **Mr. Westerberg** to identify in the bill where the cap kicks in and starts picking up those specific cigars. **Mr. Westerberg** stated that the only change to the bill, other than the changes on lines 21-31 that deletes obsolete language, is language on line 14 that states “effective July 1, the tax on cigars shall not exceed 50 cents per cigar,” which would apply to all cigars. He stated that out of 14.2 million cigars shipped to Idaho in 2004, only 180,000 were cigars for which the manufacturers price was in excess of \$1.25.

Senator Sweet stated that the local retailers competing in this market are currently at a disadvantage, and House Bill 693 would help level the playing field. **Mr. Westerberg** agreed.

Mark Sturman, owner of Sturman Smoke Shop, testified in support of House Bill 693, stating that cigars are taxed three to twelve times higher than other tobacco and his business has dropped 12% since 2000 since cigars can be purchased online and/or out of state. **Mr. Sturman** referenced three examples of different tobaccos and cited their different tax rates.

Chairman Bunderson noted that there is a labor element involved in the hand-rolled products, therefore the examples could not be compared as comparable tobacco products because they are manufactured differently. **Mr. Sturman** stated that the demonstration was not to compare the types of tobacco but what the taxation does to each based on the cost.

Brad Hoaglun, representing the American Cancer Society, provided testimony in opposition to House Bill 693.

Mr. Westerberg stated that House Bill 693 is not about if cigars are good or bad, but about retailers being competitive with other states and the internet and is about good tax policy.

Senator Sweet note that House Bill 693 is not about the morality of smoking and that cigars are a lawful product.

MOTION:

Senator Sweet made a motion to move House Bill 693 to the floor with a **do** pass recommendation. **Senator Langhorst** seconded the motion.

Senator Hill stated that House Bill 693 is no different with capping sales tax on high end items and felt it is poor tax policy, therefore he opposes

the motion.

Senator McKenzie stated that this is not a sales tax, but a sin tax and he does not see the price of cigars driving kids to smoke, nor that the rate charged is prohibitive, compared to cigarettes which is charged at 20%.

Senator McKenzie stated his concern is with the policy of capping the sales tax. He stated that the issues that need to be addressed are whether to tax internet sales and the rate to which non-cigarette products are taxed and does not see the bill as good tax policy.

Senator Langhorst stated that he does not believe it is a greater sin to smoke a good quality cigar compared to a low quality cigar, therefore the bill is appropriate.

VOTE:

Roll call vote was taken, 4 Aye, 5 Nay. The motion to send House Bill 693 to the floor with a **do pass** recommendation **failed**.

Representative Henbest presented House Bill 706, which would make sales to, or purchases by, non-profit organizations providing free dental services to children exempt from sales tax.

Senator Langhorst asked **Representative Henbest** to explain the fiscal impact. **Representative Henbest** stated that the fees are entirely free and there would be no billing to Medicaid, therefore there would be a savings in medical health services.

Senator Stegner noted he would vote against the bill and asked why the services were limited to children. **Representative Henbest** stated that the legislation was brought to her by a particular clinic that provides services to children. She stated she would not be opposed to broadening the bill and not limiting the services to just children.

Jerry Davis, Executive Director of the Idaho State Dental Association, stated that the Surgeon General reported that the most severe health problem in the United States is the children's dental care. He stated that the hope is to educate children on good dental care.

MOTION:

Senator Langhorst made a motion to move House Bill 706 to the floor with a **do pass** recommendation. **Senator Corder** seconded the motion.

VOTE:

The motion passed by majority voice vote, Senator Stegner voting Nay.

Chairman Bunderson reviewed handouts regarding the House property tax bills. He recommended that the committee submit their proposed amendments to the House property tax bills by the next day's committee meeting.

ADJOURNMENT:

There being no further business, the meeting was adjourned at 4:30 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: March 15, 2006

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Bunderson, Vice Chairman Hill, Senators Stegner, Sweet, McKenzie, Williams, Corder, Malepeai, Langhorst

MEMBERS ABSENT/ EXCUSED: None

GUESTS: The sign-in sheets, handouts, booklets, charts, and/or graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.

CONVENED: HCR 54 **Chairman Bunderson** convened the meeting at 3:00 p.m. and introduced **Representative Rydalch** to present HCR 54. **Representative Rydalch** stated that the intention of HCR 54 is to encourage creation of a task force to investigate the feasibility of incentives for development in the biosciences in Idaho.

MOTION: **Senator Williams** made a motion to move HCR 54 to the floor with a **do pass** recommendation. **Senator Sweet** seconded the motion.

VOTE: The motion passed by unanimous **voice vote**.

H 686 **Senator Sweet** presented House Bill 686, which would provide a narrow sales tax exemption for fees charged at shooting ranges and shooting competitions, membership dues by nonprofit organizations.

Chairman Bunderson asked if all organizations have the same definition of what services or benefits are included in the cost of fees. **Senator Sweet** responded by referencing the language in lines 12-14 of the bill. He stated that a local club charged a range fee which was later ruled to be taxable.

Chairman Bunderson asked **Dan John** with the Tax Commission, how many non-profit organizations pay fees. **Mr. John** stated that he was aware of three hunting and shooting clubs, but was not aware of any others. He stated that the YMCA charges fees which are taxable.

Senator Sweet requested a roll call vote.

MOTION: **Senator Langhorst** made a motion to move House Bill 686 to the floor with a **do pass** recommendation. **Senator McKenzie** seconded the motion.

Chairman Bunderson stated that generally speaking, our economy has

inverted. Now 60% of our economy is services, and 40% are goods, and only about 2/3 of the goods are subject to sales tax. He stated that there will continue to be encroachments on exemptions unless there is a clear policy to identify which organizations are exempt. **Chairman Bunderson** stated in his opinion, if proposed legislation creates jobs and reduces costs in Idaho, then perhaps an exemption should be considered. However, if the exemption only is self serving and causes people to not pay their fair, he would not vote for it. Therefore will be voting against House Bill 686.

VOTE: Roll call vote: 5 Aye, 3 Nay, 1 Absent/Excused. The motion to send House Bill 686 to the floor with a **do pass** recommendation passed by majority vote.

H 687 **Skip Smyser**, representing the Idaho Trucking Association presented House Bill 687. He stated that *Idaho Code* states that a glider kit vehicle is every large truck manufactured from a kit, by a manufacturer of large trucks which consists of a frame, cab, wiring, instruments fenders, hood, front axles and wheels, and is made into a complete assembly by the addition of the engine, transmission, rear axles, wheels and tires. It is treated as a new vehicle when registered by receiving a new Vehicle Identification Number, and is not a reconstructed vehicle. He stated that this bill requests clarification of what Idaho's public policy is regarding vehicles purchased for Interstate Commerce which are exempt from sales tax.

Chairman Bunderson asked if the legislation is currently in litigation and if the exemption would only apply to interstate trucks. **Mr. Smyser** stated that it was in the appeals process with the Tax Commission and the exemption would apply only to interstate trucks. **Chairman Bunderson** asked **Dan John** with the Tax Commission, that since the legislation was in the appeals process, it was clear that the Tax Commission was of the opinion that the glider kits would not be exempt. **Mr. John** stated that the Tax Commission has a rule that states glider kits are not vehicles, but are repair parts. He stated that the Tax Commission would like a clarification as to whether they should be taxable as a repair part or not taxable and treated the same as a complete new vehicle.

Doug Andrus with Doug Andrus Distributors testified in support of House Bill 687, stating that the glider kits are considered a "new vehicle with some assembly required."

MOTION: **Senator McKenzie** made a motion to send House Bill 687 to the floor with a **do pass** recommendation. **Senator Hill** seconded the motion.

VOTE: The motion passed by unanimous **voice vote**.

H 729 **Dan John**, with the Tax Commission presented House Bill 729 which is an annual bill to update Idaho tax law to the Internal Revenue Code (IRC) for changes made to the Internal Revenue Code after January 1, 2005.

MOTION: **Senator Hill** made a motion to move House Bill 729 to the floor with a **do**

pass recommendation. **Senator Stegner** seconded the motion.

VOTE: The motion passed by unanimous voice vote.

MINUTES: **Senator Malepeai** made a motion to approve the minutes of February 28
MOTION: as written. **Senator Langhorst** seconded the motion.

VOTE: The motion passed by unanimous **voice vote**.

MOTION: **Vice Chairman Hill** made a motion to approve the minutes of March 1
as written. **Senator Malepeai** seconded the motion.

VOTE: The motion passed by unanimous **voice vote**.

MOTION: **Senator Corder** made a motion to approve the minutes of March 2 as
written. **Senator Stegner** seconded the motion.

VOTE: The motion passed by unanimous **voice vote**.

MOTION: **Senator Corder** made a motion to approve the minutes of March 7 with
correction. **Senator McKenzie** seconded the motion.

VOTE: The motion passed by unanimous **voice vote**.

MOTION: **Senator Langhorst** made a motion to approve the minutes of March 8
with correction. **Senator Malepeai** seconded the motion.

VOTE: The motion passed by unanimous **voice vote**.

Chairman Bunderson concluded the meeting with a review of proposed
amendments to House property tax bills.

ADJOURNMENT: There being no further business, the meeting was adjourned at
4:30 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: March 16, 2006

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Bunderson, Vice Chairman Hill, Senators Sweet, McKenzie, Williams, Corder, Malepeai, Langhorst

MEMBERS ABSENT/ EXCUSED: Stegner

GUESTS: The sign-in sheets, handouts, booklets, charts, and/or graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.

CONVENED: **Chairman Bunderson** convened the meeting at 3:00 p.m.

MINUTES: H 720 **Chairman Bunderson** reviewed with the committee the proposed property tax amendments. He introduced **Representative Roberts** to present House Bill 720. **Representative Roberts** stated that House Bill 720 would require taxing districts when holding an election to increase property taxes and to mail notices of such elections to property taxpayers.

Senator Langhorst asked with regard to the fiscal note, what the cost to the districts would be. **Representative Roberts** stated it would depend on the number of parcels in a district. **Senator Langhorst** asked what the dollar figure would be for bulk rate mailing of notices. **Representative Roberts** stated he believed it would be 23 cents per parcel.

Chairman Bunderson asked what the intent of the bill is. **Representative Roberts** stated the intent is to inform taxpayers of an election.

Chairman Bunderson introduced **Mary DeWalt**, Idaho Library Association, to testify in opposition of House Bill 720. **Ms. DeWalt** referenced a handout which presented inherent problems in the bill and arguments in opposition to the bill. **Ms. DeWalt** noted that the cost of mailing the notices were not cost effective and cited two examples. **Senator Sweet** asked where the numbers in her examples derived from as they were 50 cents higher than current postage rates. **Ms. DeWalt** stated the numbers were provided by the Library Association.

Senator Langhorst noted that postage rates could at times exceed the normal rate for postcards. **Senator Sweet** stated that he agreed, however 50 cents was too high.

MOTION: **Senator Corder** made a motion to hold House Bill 720 in committee until March 21, 2006, considering the proposed legislation for truth in taxation. **Senator Langhorst** seconded the motion.

SUBSTITUTE MOTION: **Senator Sweet** made a substitute motion to move House Bill 720 to the floor with a **do pass** recommendation. **Senator Williams** seconded the motion.

Senator Langhorst stated that the carrier route method would not satisfy the requirements of the law. The motion was made in consideration of the proposed truth in taxation legislation, not to kill the bill.

Chairman Bunderson stated that House Bill 720 would cover all districts and treats them all the same. He stated that the small districts that have small levy requests, could be problematic for them.

Senator Sweet stated that the committee should consider the burden placed on taxpayers.

VOTE: The original motion to hold House Bill 720 in committee passed by a majority voice vote. 7 Aye, 1 Nay (Senator Sweet), 1 Absent.

ADJOURNMENT: There being no further business, the meeting was adjourned at 3:30 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: March 21, 2006

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Bunderson, Vice Chairman Hill, Senators Stegner, Sweet, McKenzie, Williams, Corder, Langhorst

MEMBERS ABSENT/ EXCUSED: Senator Malepeai

GUESTS: The sign-in sheets, handouts, booklets, charts, and/or graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.

CONVENED: **Chairman Bunderson** convened the meeting at 3:00 p.m.

H 754 **Roger Madsen**, Director of Commerce and Labor, presented House Bill 754, which revises the Idaho Small Employer Incentive Act of 2005, to help companies make financial incentives to encourage expansion of small businesses. He stated that House Bill 754 extends the incentive to any business expansion valued at \$500,000 or more and extends the partnership for creating high paying jobs to existing Idaho businesses.

Dewey Hammond with the Tax Commission referenced a handout which stated the requirements and tax benefits of House Bill 754.

Senator Hill asked if House Bill 754 is an incentive to bring future business to Idaho, why is there an emergency clause to make it retroactive. **Director Madsen** stated that it was a consensus among those who developed the bill and that there may be a need to make that available to companies. **Senator Hill** asked if there were specific companies that the bill was aimed at helping. **Director Madsen** was unable to answer that.

Chairman Bunderson stated that in reliance on the bill that was passed last year, one company decided to stay or locate in Idaho. He asked if that company would benefit from the retroactive provision of House Bill 754. **Director Madsen** stated that there were many reasons why they stayed in Idaho, but last year's bill was key. **Chairman Bunderson** stated that his point was that this particular company acted in reliance to a bill that did not do what it was supposed to do so the retroactive provision would help them.

Senator Sweet asked if neighboring states would continue to compete with Idaho for business and jobs, and that the state would need stay on top of this in the future to stay competitive. **Director Madsen** stated that all states are interested in economic development opportunities, Idaho being one of the leading states.

Chairman Bunderson asked if the Small Employer Incentive Act has been a useful tool. **Director Madsen** stated there has been an impact on marketing, however it is not known if it has been used yet.

Mike Ferguson with the Division of Financial Management provided a handout which provided clarification of the potential fiscal impact of House Bill 754. **Senator McKenzie** asked if the analysis of the companies referenced in his handout included an analysis as to whether the jobs would qualify on the pay scale. **Mr. Ferguson** stated that it was impossible because the requirements were so specific, and that the analysis was not meant to represent companies that would qualify for all the criteria.

Elizabeth Criner, presented testimony in support of House Bill 754 on behalf of Boise Airport.

MOTION: **Senator Hill** made a motion to move House Bill 754 to the floor with a **do pass** recommendation. **Senator Sweet** seconded the motion.

VOTE: The motion passed by unanimous **voice vote**.

H 756 **Senator Keough** presented House Bill 756 which would allow four (4) wood pellet manufacturing companies to participate in the state's sales and use tax exemption. **Representative Eskridge** stated that the four (4) companies only receive ½ of the exemption benefit. **Senator Stegner** asked why the companies do not get the exemption and how the bill changes that. **Representative Eskridge** stated that a company was exempted because sales tax is not charged at the retail level on wood heating products and referenced lines 22-24 of House Bill 756. He stated that by removing *Idaho Code* 63-3622C, that company would be exempt from the exemption. **Dan John** with the Tax Commission stated that there is an exception for certain things inside the exemption for production equipment and House Bill 756 removes that exception. **Senator Hill** asked if the theory behind the production exemption, is that wood heating products are exempt because there will be a sales tax eventually. He stated that they have a competitive advantage in the market place because there is no sales tax at the consumer level. **Mr. John** stated that there are exceptions to the production exemption, and the only ones specific to products are items found in the "heat by burning" exemption. He stated that there are a lot of products not subject to sales tax, the equipment producing them enjoys the exemption.

MOTION: **Senator Corder** made a motion to move House Bill 756 to the floor with a **do pass** recommendation. **Senator Williams** seconded the motion.

VOTE: The motion passed by unanimous **voice vote**.

H 757 **Representative Jaquet** presented House Bill 757. She referenced a handout about the non-profit organization "Advocates for Survivors of Domestic Violence and Sexual Assault" and stated that House Bill 757 would provide an exemption of sales tax on purchases. **Renee Chalfant**, Director of the Advocates, provided testimony in support of House Bill 757. **Senator Corder** asked why under *Idaho Code* 63-

362000, some sections begin with “donations” where others are “sales”. **Mr. John** stated that the intention was to allow retailers to donate from their shelves and not be subject to use tax.

MOTION: **Senator Langhorst** made a motion to move House Bill 757 to the floor with a **do pass** recommendation. **Senator Corder** seconded the motion.

VOTE: The motion passed by majority **voice vote**.

H 726 **Representative Smylie** presented House Bill 726. He stated that House Bill 726 would provide an income tax credit for Project P.A.T.C.H. which stands for Planned Assistance for Troubled Children. Chuck Hagele, administrator for Project P.A.T.C.H. provided testimony in support of House Bill 726 and details about Project P.A.T.C.H.

MOTION: **Senator Corder** made a motion to move House Bill 726 to the floor with a **do pass** recommendation. **Senator Hill** seconded the motion.

VOTE: The motion passed by unanimous **voice vote**.

H 744 **Representative Smylie** presented House Bill 744, which would extend a sales tax exemption to Project P.A.T.C.H. **Mr. Hagele** provided testimony in support of House Bill 726 and stated that the majority of purchases made by Project P.A.T.C.H. are for clothing.

MOTION: **Senator Corder** made a motion to move House Bill 744 to the floor with a **do pass** recommendation. **Senator Williams** seconded the motion.

VOTE: The motion passed by unanimous **voice vote**.

H 765 **Representative Roberts** presented House Bill 765 which would provide an income tax credit for donors who donate to Shepherd’s Home, Inc. **George Prentice**, Executive Director of Shepherd’s Home, provided testimony in support of House Bill 765 and presented a history of Shepherd’s Home.

MOTION: **Senator Williams** made a motion to move House Bill 765 to the floor with a **do pass** recommendation. **Senator Sweet** seconded the motion.

VOTE: The motion passed by unanimous voice vote.

Chairman Bunderson reviewed a handout provided by Dewey Hammond with the Tax Commission which stated the effects of legislative actions on categories of property. **Chairman Bunderson** also presented a draft copy of the committee’s white paper report and asked that the committee members review it and provide their input.

ADJOURNMENT: There being no further business, the meeting was adjourned at 4:30 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: March 22, 2006

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Bunderson, Vice Chairman Hill, Senators Stegner, Sweet, McKenzie, Williams, Corder, Langhorst

MEMBERS ABSENT/ EXCUSED: Senator Malepeai

GUESTS: The sign-in sheets, handouts, booklets, charts, and/or graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.

CONVENED: **Chairman Bunderson** convened the meeting at 3:00 p.m.

MOTION: **Senator Hill** made a motion to approve the minutes of March 14 as revised. **Senator Corder** seconded the motion.

VOTE: The motion passed by unanimous **voice vote**.

MOTION: **Senator Langhorst** made a motion to approve the minutes of March 9 as written. **Senator McKenzie** seconded the motion.

VOTE: The motion passed by unanimous **voice vote**.

MOTION: **Senator Corder** made a motion to approve the minutes of March 16 as revised. **Senator Hill** seconded the motion.

VOTE: The motion passed by unanimous **voice vote**.

Dewey Hammond, Chairman Commissioner of the Tax Commission, presented a handout, Summary of Various Estimated 2005-2006 Property Tax Comparisons.

Chairman Bunderson asked what percentage of the increase is due to school maintenance and operations. **Alan Dornfest** with the Tax Commission responded that 37% is due to school maintenance and operations, if including all maintenance and operations and Boise Schools. **Chairman Bunderson** stated that even though maintenance and operation was addressed by substituting maintenance and operations property tax with sales tax, the property tax problem has not been resolved because 63% will still do what it's going to do and as the handout reflects, will increase significantly. He stated that the local governments and schools would not reduce their rate because their appreciation has increased. **Mr. Dornfest** stated that the handout includes his projection of reduced rates and reflects calculations from the

budget side and the value side and his estimation for 2006 is that the values of property will increase more rapidly than budgets of taxing districts, therefore rates will drop.

Chairman Bunderson concluded that the handout appeared to represent an 8% growth rate for 2005. **Mr. Dornfest** agreed stating that most of the 8% was concentrated in the school maintenance and operations, and about 6.6% on the other levies.

Senator Hill asked if the handout represents all property taxes and how much of the \$100,000,000 referenced in the handout was the result of new construction versus appreciation. **Mr. Dornfest** stated that it does include all property taxes and about 30% is due to new construction. **Chairman Bunderson** noted that this is not uniform throughout the state and the high growth areas will bear the increase in property taxes and thanked Tax Commissioner Hammond and Mr. Dornfest for their excellent work.

H 705 **Representative Bolz** presented House Bill 705 which deals with Cooperative Service Agencies which provides professional and technical services to school districts. He stated that House Bill 705 is specific to Canyon Owyhee School Service Agency (COSSA) which provides services for handicapped students in addition to professional and technical services and would provide a mechanism for Cooperative Service Agencies to levy money for buildings and maintenance.

The committee heard testimonies in support of House Bill 705 from **Mike Rush**, Administrator of Professional Technical Education; **Senator Lodge, Teresa Molitor**, representing the Idaho Association of Commerce and Industry; and **Phil Homer**, representing the Idaho Association of School Administrators.

MOTION: **Senator McKenzie** made a motion to move House Bill 705 to the floor with a **do pass** recommendation. **Senator Williams** seconded the motion. Senator Lodge will co-sponsor the bill.

VOTE: The motion passed by unanimous **voice vote**.

H 735 **Representative Andrus** presented House Bill 735 which would prevent the taking of private property, particularly agricultural property, by eminent domain. The amendment provides that the property could be taken if the owner wants it to be taken.

The committee heard testimonies in support of House Bill 735 from **Dustin Miller**, representing the Idaho Farm Bureau; and **Greg Caratea**, rancher representing the Idaho Cattle Association.

MOTION: **Senator Williams** made a motion to move House Bill 735 to the floor with a **do pass** recommendation. **Senator Corder** seconded the motion.

VOTE: The motion passed by unanimous **voice vote**.

H 758 **Representative Jaquet** presented House Bill 758 which would align the

City of Bellevue's election laws with those of other cities in Idaho. She stated that the City of Bellevue is Idaho's only charter city dating back to 1883 and within the last 10-15 years, Bellevue has been aligning itself with state laws.

Chairman Bunderson asked what the attributes are of a charter city that make it desirable to keep. **Dustin Miller**, representing the Farm Bureau, stated that he believed it had to do with the restrictions in their ability to annex.

MOTION: **Senator Langhorst** made a motion to move House Bill 758 to the floor with a **do pass** recommendation. **Senator McKenzie** seconded the motion. **Senator Stennett** to carry the bill.

VOTE: The motion passed by unanimous **voice vote**.

H 763 **Senator Broadsword** presented House Bill 763 which would amend sections of the fire code to make it easier to access needed information. She stated that the corrections are necessary because of multiple amendments being made to the code prior to the 2006 legislative session.

Senator Langhorst asked Senator Broadsword to confirm that there are no policy changes in the bill and the items in the bill have been enacted into law prior to 2006. **Representative Shepherd**, on behalf of Senator Broadsword, responded that the two changes in the bill are on pages 15 and 19. **Senator Langhorst** asked if the new sections are policy changes that have not been debated in the legislature this year. **Representative Shepherd** stated that both sections are new language in the bill. **Senator Langhorst** asked if the language on page 15, line 10 of the bill referencing compensation of \$75 per day, was a newly established policy. **Representative Shepherd** stated that the language was already enacted.

Senator Hill asked how many fire districts there are in Idaho, if they were notified of the changes in the bill and if the districts opposed the changes. **Gary Gould**, representing the Idaho Fire District Association, stated that there are approximately 106 fire districts, 70 of which belong to the Fire District Association. He stated that the majority of the Fire District Association worked on House Bill 763 and were supportive, the others were notified and kept apprised.

Chairman Bunderson noted that the committee has testimony from John Lerma, with the Eagle Fire Protection District, which expresses his concern with Section 31-1429, page 19, line 28 of the bill. **Senator Broadsword** stated that Mr. Lerma's concern was brought forward and was determined to be a local issue and should be dealt with at the local level. **Chairman Bunderson** stated that the bill does not allow discretion. **Senator Broadsword** stated that she believed the local department still had the authority. **Mark Larsen**, the State Fire Marshall, stated he does not have control over fire districts, but has worked with the Fire Protection Districts and the Fire Chiefs Association on the language as it pertains to fire code issues and enforcement, and is not familiar with annexation laws. **Senator Broadsword** cited language on

page 19, lines 15 and 16 of the bill, which states that the city must have consent of the governing boards to annex.

John Lerma with the Eagle Fire Department stated that the Fire Protection District Code was amended once before and the SOP was to specifically provide a means whereby cities could deal with annexation and fire protection within their boundaries. He stated that in January 2006, a court decision was made that interpreted the section of the bill prior to this amendment, as stating that the cities were given authority to designate a fire protection district, and if annexed they had the authority to designate who would provide fire protection for their citizens. **Mr. Lerma** stated that House Bill 763 as written, attempts to reverse that decision and that any fire protection district has an absolute veto right. He stated that there is nothing in this legislation that deals with a district objecting to having a portion of it's district annexed.

Senator Stegner stated that he interprets lines 14-23 on page 19 of the bill in saying that if a city wants to include or withdraw an area, they can if the governing board of the city and the district agrees. He stated he does not see the conflict and asked Mr. Lerma to clarify. **Mr. Lerma** stated that the conflict is that this legislation does not provide a mechanism to deal with a district that refuses to relinquish an area for annexation. **Senator Stegner** asked if there is a mechanism currently in the statute to deal with that. **Mr. Lerma** stated that the provision as written was interpreted, and was the subject of the litigation that the Eagle Fire District was involved in.

Chairman Bunderson asked if Mr. Lerma would be in supportive if the deleted portions in section 8 of the bill were reversed. **Mr. Lerma** stated yes. **Senator Broadsword** stated that the bill would say the same thing even if that portion was deleted, and that section is adding is the description of who the governing boards are.

Senator Stegner asked if Mr. Lerma's concerns would be satisfied if the language in line 21 of page 19 of the bill, "...and fire protection district" was deleted. **Mr. Lerma** agreed.

Bruce Alcott, representing the Idaho Fire Chiefs Association, stated that it is key to respond to an emergency in a timely manner and the challenge is that if a city decides to annex a piece of property that is a distance from the fire station, and that property may be closer to another station's district that they are currently in; it would be appropriate for the districts to discuss how to provide the best level of service.

Chairman Bunderson noted that Mr. Lerma indicated that someone independent from the two disputing districts, make the final decision. **Mr. Alcott** stated that on the other hand, there would only be one person making that decision.

Ron Anderson, Meridian Fire Chief, testified in support of House Bill 763.

Chairman Bunderson recommended that House Bill 763 be held until the next committee meeting to give members of the fire districts an opportunity to discuss the bill and attempt to reach an agreement.

H 731

Representative Hart presented House Bill 731 which would create an income tax credit for contributions made to the Idaho Drug Free Youth organization.

MOTION:

Senator Sweet made a motion to move House Bill 731 to the floor with a **do pass** recommendation. **Senator Williams** seconded the motion.

VOTE:

The motion passed by majority **voice vote**. Senator Stegner voting nay.

Chairman Bunderson noted that in consideration of time, House Bill 796 would be heard in the next day's committee meeting and concluded the meeting with a review of the committee's white paper report and Senators McKenzie and Corder's discussion of the Truth in Taxation legislation.

ADJOURNMENT:

There being no further business, the meeting was adjourned at 4:30 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: March 23, 2006

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Bunderson, Vice Chairman Hill, Senators Sweet, McKenzie, Williams, Corder, Langhorst

MEMBERS ABSENT/ EXCUSED: Senators Stegner, Malepeai

GUESTS: The sign-in sheets, handouts, booklets, charts, and/or graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.

CONVENED: **Chairman Bunderson** convened the meeting at 3:00 p.m.

MINUTES: MOTION: **Senator Williams** made a motion to approve the minutes of March 15 as written. **Senator Hill** seconded the motion.

VOTE: The motion passed by unanimous **voice vote**.

H 763 **Senator Broadsword** continued with a discussion of House Bill 763 and stated that the fire districts advised that they came to the conclusion to leave the bill as written. She stated that Mr. Lerma and the Eagle Fire Protection District have withdrawn their objections as previously expressed. **Mr. Lerma** confirmed Senator Broadsword's statement.

MOTION: **Senator McKenzie** made a motion to move House Bill 763 to the floor with a **do pass** recommendation. **Senator Sweet** seconded the motion.

VOTE: The motion passed by unanimous voice vote.

H 796 **Jack Lyman**, representing the Idaho Mining Association, presented House Bill 796, which replaces House Bill 484. He reminded the committee that House Bill 484 clarifies that the pollution control sales tax exemption applies to items that later became real property and was subsequently held in committee. **Mr. Lyman** stated that House Bill 796 limits the sales tax exemption to liners and re-agents. He noted the revised fiscal note and the addition of the \$275,000 for the current fiscal year because of the retroactivity.

Chairman Bunderson asked who is covered by making the bill retroactive. **Mr. Lyman** stated it would cover the company that installed three (3) million dollars worth of liners and some work in the dairy industry. **Chairman Bunderson** asked if the fiscal note was considered

in the revenue budget that was recently passed. **Mr. Lyman** stated that the bill was discussed with both chairs of the Joint Finance Appropriations Committee (JFAC).

Senator Hill asked Dan John of the Tax Commission if the question was to determine whether a liner is personal or real property. **Mr. John** stated that the Tax Commission has never had a position where improvements to realty would qualify for the pollution control exemption, which is why this bill has been presented. **Chairman Bunderson** asked if there is an appeal process available to claimants who have applied for the exemption and it was not approved by the Tax Commission. **Mr. John** stated he was not aware of any appeals, however the Tax Commission has asserted use tax on the improvements to realty for items such as liners.

Chairman Bunderson asked to have the scope of House Bill 796 explained. **Mike Ferguson** with the Division of Financial Management stated that House Bill 796 narrows the scope significantly. He stated that the Division of Financial Management does not know the extent of industries that could use liners that would become exempt under House Bill 796. Mr. Ferguson stated that there is the issue of re-agents which could have an impact.

Senator Langhorst asked Mr. Lyman to provide examples of pollution control equipment. **Mr. Lyman** stated that items that are typically exempted are the items that remain tangible personal property. **Mr. Lyman** commented on Mr. Ferguson's mention of re-agents, stating that re-agents do not apply to House Bill 796 unless the Department of Environmental Quality requires the application of a re-agent to protect water. He stated that House Bill 796 states that for the exemption to apply, the equipment used must be required for the protection of water quality.

Senator Langhorst asked how re-agents are considered to be improvements to real property. **Roy Eiguren**, representing U.S. Ecology, stated that re-agents are materials used to prevent leaching from metals. **Mr. John** stated that re-agents are chemicals and the statute currently written talks about equipment.

Ken McClure, representing the milk producers of Idaho, provided testimony in support to House Bill 796.

Senator Hill asked Mr. McClure to define "tangible personal property." **Mr. McClure** stated that tangible personal property is any property that is not real property.

Senator Corder disclosed a conflict of interest with House Bill 796 per Rule 39H.

MOTION:

Senator Williams made a motion to move House Bill 796 and the revised Statement of Purpose to the floor with a **do pass** recommendation. **Senator Sweet** seconded the motion.

VOTE:

The passed by unanimous **voice vote**.

H 764 **Steven A. Millard**, representing the Idaho Hospital Association, presented House Bill 764 which would clarify existing law to ensure that county hospitals and hospital districts would continue to have the same property tax exemptions for leased equipment afforded to other tax exempt hospitals. **Senator Corder** asked what would be the assessed value of the property that would be exempt under House Bill 764. **Mr. Millard** stated he did not know, however taxes had never been collected in Idaho for medical equipment in county hospital.

MOTION: **Senator Hill** made a motion to move House Bill 764 to the floor with a **do pass** recommendation. **Senator McKenzie** seconded the motion.

VOTE: The motion passed by unanimous **voice vote**.

H 728 **Joe Nagel** with the Department of Environmental Quality (DEQ) presented House Bill 728 which would establish a financial incentive, state rebate, to ten people who would voluntarily clean up contaminated and blighted properties. The bill limits the rebate to ten properties and each property could receive no more than \$150,000 rebate on clean up costs and a property owner could only receive 70% of money spent cleaning up the property.

Senator Langhorst asked if the Environmental Protection Agency (EPA) has a similar program. **Mr. Nagel** stated the Environmental Protection Agency has a program with the same concept called the Brownfield Program. **Senator Langhorst** asked if the Brownfield Program alone would eventually clean up the properties that have not been cleaned up to date. **Mr. Nagel** stated he thought so.

Senator Corder asked if large corporations who created contaminated properties would qualify. **Mr. Nagel** stated that House Bill 728 would not apply to any property owner who had any relationship to causing the contamination.

Senator Langhorst asked if the Environmental Protection Agency (EPA) has a program in place, why should state money be spent on this bill. **Mr. Nagel** stated that clean up money from the Environmental Protection Agency (EPA) has to be applied toward an individual project to project basis and can only be applied for government use or private non-profit property and does not apply to privately owned property.

Senator Hill noted that House Bill 728 would be subject to whether the Joint Finance Appropriations Committee appropriates the money for the program. **Mr. Nagel** confirmed that to be true and stated that the fiscal note reflects no fiscal impact because the Department of Environmental Quality is not asking for any money this year to implement the program.

MOTION: **Senator Langhorst** made a motion to move House Bill 728 to the floor with a **do pass** recommendation. **Senator Corder** seconded the motion.

VOTE: The motion passed by unanimous **voice vote**.

H 780 **Representative Henderson** presented House Bill 780 which would revise and simplify the procedures for imposition of development impact fees and extends the number of years a governmental entity could hold

the fees. **Senator Corder** asked how much would it cost and when would it be done. **Representative Henderson** stated that consultants would not need to be hired and the process of impact fees would be developed within several months.

MOTION: **Senator Langhorst** made a motion to move House Bill 780 to the floor with a **do pass** recommendation. **Senator McKenzie** seconded the motion.

VOTE: The motion passed by unanimous **voice vote**.

H 781 **Representative Roberts** presented House Bill 781 which would provide that school district taxes be shown separately on tax notices as maintenance and operation, bond supplemental and other and provides that the tax collector establish a payment schedule to allow payments of current or future real or personal property taxes.

MOTION: **Senator McKenzie** made a motion to move House Bill 781 to the floor with a **do pass** recommendation. **Senator Williams** seconded the motion.

VOTE: The motion passed by unanimous **voice vote**.

H 474 **Dan John** with the Tax Commission presented House Bill 474 which provides that occupancy tax applies to industrial property, not to operating property and defines "operating property" to include an electrical generation plant under construction regardless of it's ownership.

MOTION: **Senator Corder** made a motion to move House Bill 474 to the floor with a **do pass** recommendation. **Senator Malepeai** seconded the motion.

VOTE: The motion passed by unanimous **voice vote**.

H 745 **Dr. Mike Mallea** presented House Bill 745 which would establish a one-time income tax credit for Idahoans who donate bone marrow or any part of an organ including the intestine, kidney, liver, lung or pancreas.

Senator Williams asked who paid for the procedures. **Dr. Mallea** stated that the recipients health insurance would pay 50-80%.

Senator Hill stated that House Bill 745 would be a big step and that there was nothing like it in Idaho. **Senator Sweet** asked what the impact was in other states where this is active. **Dr. Mallea** stated he did not know.

MOTION: **Senator Hill** made a motion to move House Bill 745 to the floor with a **do pass** recommendation. **Senator Malepeai** seconded the motion.

VOTE: The motion passed by unanimous **voice vote**.

Chairman Bunderson reviewed proposed legislation to be used in discussions between the Tax Commission and Assessors over the summer.

The committee reviewed the draft legislation for truth in taxation, which

would replace House Bill 508 which was held in committee during a prior committee and concluded to amend House Bill 508 in lieu of replacing it.

MOTION: **Senator Corder** made a motion to move House Bill 508 to the 14th order for amendment. **Senator McKenzie** seconded the motion.

VOTE: The motion passed by unanimous voice vote.

ADJOURNMENT: There being no further business the meeting was adjourned at 5:00 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: March 28, 2006

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Bunderson, Vice Chairman Hill, Senators Stegner, McKenzie, Williams, Corder, Malepeai, Langhorst

MEMBERS ABSENT/ EXCUSED: Senator Sweet

GUESTS: The sign-in sheets, handouts, booklets, charts, and/or graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.

CONVENED: **Chairman Bunderson** convened the meeting at 3:00 p.m.

MINUTES: MOTION: **Senator Hill** made a motion to approve minutes of March 21. **Senator Williams** seconded the motion.

VOTE: The motion passed by unanimous voice vote.

H 816 **Dar Olberding**, representing Ridgeline Energy, presented House Bill 816 which would change the method of taxation on producers of wind energy from an ad-valorem tax to a tax on production. The bill would also provide for the filing of operators' statements and provides for the computation, allotment and apportionment of tax due and for the distribution of taxes paid by producers of wind energy and to provide tax liens on property of producers of wind energy and provide for the assessment of non-operating property of producers of wind energy.

Senator McKenzie asked if the exemption was included in the base when calculating the budget for counties and local taxing districts. **Dan John** with the Tax Commission confirmed that it would come out of the base.

Senator Hill asked Mr. Olberding to review the 50/50 split as noted in Section 5 of the bill. **Mr. Olberding** stated that the first 50% goes into the Property Tax Relief Fund which would buy down property taxes and the remaining 50% would go back to the taxing districts. **Senator Hill** asked if the fund continues to grow and how it would reduce property taxes. He stated that anytime the tax base is broadened, it reduces property taxes. **Mr. Olberding** stated that the Property Tax Relief Fund is paid out every year to reduce property tax in the city where the wind tower is located.

Senator Stegner asked how the Tax Commission would know how much the production has been on a wind tower. **Rich Rayhill**,

representing Ridgeline Energy, stated that a reading is taken from the meter on the wind tower and a kilowatt hour report is filed with the State Tax Commission.

Senator McKenzie asked what the position was of the Idaho Association of Counties. **Kerry Ellen Elliott** with the Idaho Association of Counties stated they were neutral and were not involved in the drafting of the bill. **Senator Hill** asked why the Idaho Association of Counties was neutral when the bill provides going from an ad-valorem that is based on value that goes up every year with inflation to a flat production tax on the amount of production not based on price. He stated the bill would take the maximum capacity and freeze the property tax values forever, which is an unusual stance of the Idaho Association of Counties. **Ms. Elliott** stated that the Idaho Association of Counties understood the properties were centrally assessed and there would be other property tax rates the entities would take if the property was not centrally assessed. She stated that the payment in lieu of taxes would be more predictable and would be better for the counties.

Mr. John stated that the type of properties noted in the bill does not go on the new construction roll, so in the beginning would not raise property taxes. He stated that the bill gives 50% property tax relief and the other half goes to the taxing districts.

Senator Stegner asked if in 25 years the properties are still producing electricity, and the rate is locked in, there could be a difference in revenue. **Mr. John** stated that there could be a difference. **Senator Stegner** asked if the calculation used to qualify the towers for a tax exemption is reviewed on an annual basis. **Mr. John** stated that there is a two year provision.

Senator Stegner asked **Mr. John** to confirm that the current Kilowatt Hour tax is not in lieu of property taxes for utilities. **Mr. John** confirmed that it is a separate tax.

Chairman Bunderson asked what the price is today of a kilowatt hour and the history of the price. **Mr. Rayhill** stated that it is at \$50 a megawatt hour. **Chairman Bunderson** asked what the percent of tax would be on the \$50. **Mr. Rayhill** stated that the model was based on an escalating power price and reflects the rise of a power price over a 20 year contract.

Senator Langhorst stated that based on the flat rate of \$1.825, growing at 60% over 20 years, which increases the rate to \$2.00, that would be an increase of 8%. **Mr. Rayhill** believed that to be true.

Senator Corder stated that the legislature should consider putting sunset clauses on proposed legislation for exemptions.

Senator McKenzie stated that the bill relates to work done in the Energy Committee and to what types of energy should be promoted in the state. He stated the bill would be a benefit to the state and is a good bill.

MOTION:

Senator McKenzie made a motion to move House Bill 816 to the floor with a **do pass** recommendation. **Senator Corder** seconded the motion.

Senator Stegner noted he would vote no against the motion.

Senator Langhorst asked Mr. Olberding if a 10 year sunset would be a good time period. **Mr. Olberding** stated that the life span of the towers are 30-40 years and that a 20 year sunset would be appropriate. He stated that if the bill is passed as is, he would personally bring back the bill next year to include the sunset clause. **Mr. Rayhill** stated that was agreeable with him.

Senator Hill stated he would oppose the motion and was concerned with the Idaho Association of Counties' neutral position, the lack of precedence using this method of payment in lieu of property taxes, and the fact that this issue had not been addressed by the Interim Energy Committee.

**ROLL CALL
VOTE:**

A roll call vote was taken on the motion to move House Bill 816 to the floor with a **do pass** recommendation with a provision to see a statute next year to include a sunset clause.

5 Aye, 3 Nay, 1 Absent

The motion passed by **majority vote**.

H 778

Representative Trail presented House Bill 778 which would allow a partial exemption from property tax if property is used for a non-profit school, educational purposes or Charter school and would provide an exemption for all property from which no profit is derived and which is held or used for endowment, building or maintenance purposes of schools, Charter Schools or Educational institutions.

The committee heard testimonies in support of House Bill 778 from **Paul Kimmell**, Latah County Commissioner and **Bob Hieronymous**, Vice President of New St. Andrews College.

MOTION:

Senator Corder made a motion to move House Bill 816 to the floor with a **do pass** recommendation. **Senator Hill** seconded the motion.

VOTE:

The motion passed by unanimous **voice vote**.

ADJOURNMENT:

There being no further business, the meeting was adjourned at 4:00 p.m.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: April 5, 2006

TIME: 3:00 p.m.

PLACE: Gold Room

MEMBERS PRESENT: Chairman Bunderson, Vice Chairman Hill, Senators Stegner, Sweet, McKenzie, Williams, Corder, Malepeai, Langhorst

MEMBERS ABSENT/ EXCUSED: None

GUESTS: The sign-in sheets, handouts, booklets, charts, and/or graphs will be retained with the minutes in the committee's office until the end of the session, and then will be on file with the minutes in the Legislative Services Library.

CONVENED: **Chairman Bunderson** convened the meeting at 3:25 p.m.

S 1501 **Senator Little** introduced S 1501, which would place an advisory vote on the November 7, 2006 ballot. He stated the advisory vote would ask if the public school maintenance and operation (M&O) should be paid with local property taxes or be shifted to the state general fund and increase the sales tax rate.

MOTION: **Senator Stegner** made a motion to move S 1501 to the floor **without recommendation**. **Senator Langhorst** seconded the motion.

VOTE: The motion passed by unanimous **voice vote**.

H 876 **Representative Roberts** presented H 876, titled the "Property Tax Relief Act of 2006". He stated that the bill offers \$250.7 million of property tax relief effective 2006, has three-tenths of 1% removal of the maintenance and operations and a 1.25 cent tax increase for sales tax effective June 1st, which would generate an additional \$262 million. **Representative Roberts** stated H 876 would account for a public education stabilization fund of 1.16% of the sales tax revenues, or \$12 million which would be put into the budget stabilization fund for schools. He stated the bill also includes the 50% of market value or \$75,000 homeowners exemption, indexed to the House Price Index.

Representative Roberts reviewed a handout reflecting the percent change in property taxes by class.

Senator Hill asked to explain the burden of the sales tax increase. **Representative Lake** stated that studies have shown that lower income households have a larger burden. **Senator Hill** asked if the bill represents a tax increase or decrease. **Representative Lake** stated that there will be a net tax increase of a few million. **Senator Hill** asked what

the motivation was for including the homeowner's exemption as unchanged from the Senate. **Representative Lake** stated the motivation was to put together legislation with a comfort level.

Chairman Bunderson asked for the status of tax bills in the House. **Representative Roberts** stated that the amendments to H 421 and H 422 have been concurred and are being held at the call of the chair. He stated that H 859 encompasses a 1 cent sales tax increase and 3 mills for school maintenance and operation.

Chairman Bunderson stated that the analysis provided by the Tax Commission indicates that higher value homes appreciate more rapidly than lower value homes and when property tax relief is applied across the board, the higher value homes benefit, wherein with the replacement of sales tax, the lower value homes will pay more. **Representative Roberts** stated that there are winners and losers, however it depends on individual spending habits. He stated that the same home in different counties could be valued differently depending on location.

Chairman Bunderson asked if there were requirements in H 876 that rents would be reduced by the amount of the property tax benefit the owner would receive or would the renter have to finance it with increased sales tax. **Representative Roberts** stated that there were no provisions in the bill for that.

John Eaton, with the Association of Realtors, testified in opposition to H 876 stating that it would adversely affect the 2nd home and rental market. **Senator Corder** asked Mr. Eaton what his solution would be. **Mr. Eaton** stated that he would support the 3 mill reduction with the 1 cent sales tax increase, which would provide tax relief to everyone, not just one sector. **Senator Langhorst** asked why single out the school maintenance and operation budget when according to the Tax Commission, the city and county budgets have increased more rapidly over the last four years. **Mr. Eaton** stated that there are other proposals they support and that new construction drives the increase in city budgets.

The committee heard testimonies in opposition to H 876 from **Phil Homer**, representing the Association of School Administrators; **Jim Shakelford**, Director of Idaho Education Association; **Marilyn Howard**, Superintendent of the Department of Education and **Don Reading**, Economist with the Idaho Center on Budget and Tax Policy.

Chairman Bunderson reviewed a handout provided by Tim Hill, with the Department of Education, which details the expenditures per student by school district. He stated there are significant inconsistencies and inefficiencies in the amount of money spent per student and is an issue that needs to be evaluated whether H 876 passes or not. He stated that passing the bill will certainly shift the state closer to reducing local control influences.

MOTION

Senator Stegner stated he believes H 876 would provide property tax relief and made the motion to move H 876 to the floor without recommendation and requested a roll call vote. **Senator McKenzie**

seconded the motion.

Senator McKenzie stated that he supports the concept of the bill, also supports the idea of allowing the public to vote. He said that how he votes in committee may not be how he votes on the floor.

Senator Hill stated that he is disappointed with the 1.25 cent increase and the inclusion of the homeowner's exemption, however believes the bill is not bad and will support the motion to move H 876 to the floor without recommendation.

Senator Langhorst stated that he believes H 876 will not provide the overall tax relief and will oppose the motion.

Senator Sweet stated that his constituents want property tax relief and that H 876 is just a shift in taxes. He stated he will oppose the motion.

Chairman Bunderson stated that he has long-term concerns about what the bill would do to public policy. He stated that currently 20% of the schools' budget comes from property taxes. **Chairman Bunderson** questioned what would happen to local control over the long-term when the state is totally responsible for the operation and maintenance of all public schools and stated H 876 is a significant public policy change.

ROLL CALL

VOTE:

5 Aye, 4 Nay, 0 Absent/Excused. The motion passed by **majority vote**.

ADJOURNMENT:

There being no further business, the meeting was adjourned at 5:07 p.m.

ATTACHMENT: The White Paper Report - Solving the Property Tax Conundrum is the accumulation of committee analysis and discussion of property tax matters during the 2006 Legislative Session. The committee approved including the White Paper Report as an integral part of the April 5, 2006 minutes of the committee.

Senator Hal Bunderson
Chairman

Shelley Sheridan
Secretary

The Idaho Senate
Local Government and Taxation Committee

Solving The Property Tax Conundrum

White Paper Report

Results of committee hearings and discussions during the 2006 legislative session
including analysis of the legislation sent from the House and
preliminarily analysis of core problems slated for future study.

Included and made an integral part of the Committee minutes of
April 5, 2006.

Solving The Property Tax Conundrum

White Paper Report

Introduction

This report summarizes the results of Senate committee hearings, discussions and property tax legislation heard during the 2006 legislative session through April 5, 2006. Under Idaho's constitution all revenue bills must originate in the House. Included in this report are analyses of the eight House bills received, an evaluation of the consequences of California's Prop 13 compared to the 1% Initiative, Senate bills and possible solutions to core problems slated for study.

The following bills were approved in the Senate or amended in the Senate (aas) and returned to the House for their concurrence in the amendments:

Chairman
Senator Hal Bunderson

Vice Chairman
Senator Brent Hill

Senator Joe Stegner

Senator Curt McKenzie

Senator Stan Williams

Senator Gerry Sweet

Senator Tim Corder

Senator Edgar Malepeai

Senator David Langhorst

Shelley Sheridan,
Committee Secretary

1. HB 421aas, Homeowner's exemption: Increased the exemption to \$75,000, include land and allow the exemption to grow annually by indexing it to the Idaho Housing Price Index (original bill indexed to CPI). **Passed the Senate 28-7, returned to the House for final action.**

2. HB 422aas - Circuit breaker for senior and disabled citizens. The amount increased to the greater of 185% of poverty for a family of two or \$28,000 and clarified qualifying standards. **Passed the Senate 35-0, returned to the House for final action.**

3. HB 680 - Allows circuit breaker eligible to defer remaining property taxes. **Passed the Senate 35-0, sent to the Governor.**

4. HB 676aas - Repealed the developers agriculture exemption – use of the land, not platting, determines if land qualifies for the agriculture exemption. **Passed the Senate 34-1, returned to the House for final action.**

5. HB 508aas – Replaced language of original bill with “Truth in Taxation”- sets forth public disclosure standards for any local taxing district, city or county that intends to increase property taxes. **Passed the Senate 25-7-3, returned to the House for final action.**

6. SCR 133 - Asks Legislative Council to form an Interim Committee to evaluate the core reasons property taxes increase and make recommendations. **Passed the Senate 35-0, sent to Legislative Council for final action.**

7. S 1501 (SJR 108- Constitutional Amendment - failed) - public to vote if 100% of school M&O should be shifted to state sales taxes and make public school M&O totally subject to appropriation from the state general fund. **Passed the Senate 32-2-1.**

This report is intended to provide insight into how local property tax problems can be solved without putting at risk local control and the public systems, formulas and structures that are working well.

Analysis of findings and pro-con arguments for each property tax bill received from the House and concepts heard in committee.

INDEX		PAGE
1.	Overview - Property tax issues and perspectives	1
2.	H 421 Homeowners Exemption: Exhibits 1a, 1b	2-4 5-6
3.	H 422 Circuit Breaker	7-9
4.	H 680 Deferral of property tax by circuit breaker eligible	10-11
5.	H 676 Repeal of “developers agriculture exemption”	12-13
6.	H 678 Shift ½ remaining cost of public school M&O from property taxes to state general fund appropriations (Revised by H 876, failed in Senate): Exhibits 2a, 2b, 2c, 2d	14–16 17-22
7.	H 679 Increase state sales tax .5% to help pay for H 678	23
8.	H 508 Annexation - restrict taxing districts budget by 50% of annexed market value	24-25
9.	H 480 Allow taxpayers to hold election to repeal or limit spending	26
10.	1% Initiative compared to California Prop 13 - Pro and Con Arguments Exhibit 3	27 28-32
11.	Growth Revenue Sharing: Matching growth revenues with growth costs Exhibits 4a, 4b, 4c, 4d	33-34 35-38
12.	Continued rejection of combining inefficient and costly local systems Exhibit 5	39 40-43
13.	Local option taxation	44
14.	Impact fees	45
15.	Truth in Taxation (Failed in the House - See 8. H 508) Exhibits 6a, 6b	46 47-50
16.	Repeal the 3% budget cap	51-52
17.	Property tax offsets: Exhibit 7	53-54 55-56
18.	Personal property taxes - continue the phase-out: Exhibit 8	57 58
19.	S 1489 Exemptions - re-evaluate: Bill printed for discussion purposes: Exhibits 9a, 9b	59 60-63
20.	S 1488 Improved property tax information: Bill printed for discussion purposes: Exhibit 10	64 65-69
21.	SCR 133 Interim Committee: Core problems/solutions - property tax growth: Exhibit 11	70 71-74
22.	S 1501 Advisory Vote: (SJR 108 Constitutional Amendment- Failed) Should citizens be allowed to vote on the major policy change of shifting 100% of all public school M&O from property tax to state general fund appropriation and sales taxes? Exhibits 12a, 12b	75 76-79

1. Overview

Property Tax Issues and Perspectives

- Property taxes - One leg of Idaho's highly-regarded three-legged tax stool.
- Property tax growth is not a statewide issue – primarily affects growth areas.
- Idaho has approximately 1,100 local taxing districts - 20 different types.
- The type of service, needs and per capita cost in each local district is often significantly different. Example - cities. The per capita property taxes levied in 2004 for the City of Boise were \$403, Bonners Ferry \$152 and Blackfoot \$112.
- The legislature is responsible for setting public policy, not implementing policy. *However, when the legislature imposes property tax caps and controls, it crosses the line of setting public policy into implementation. It usurps authority and accountability from local elected officials and sets itself up as being responsible and accountable for a tax it neither levies nor spends.*
- Is property tax the most hated tax or most misunderstood? Too many citizens choose not to attend tax district budget hearings -they want the legislature to fix it. However, the legislature can generally only apply “one-shoe-fits-all” solutions. Solutions that often miss the mark.
- If citizens were required to pay federal and state income, sales and property taxes in lump sum, the most hated tax would likely depend on which tax costs more.
- Generally, compared to sales taxes and fees, property tax is a cheap tax to pay. Because of its income tax deduction eligibility, it can be paid with 60 to 80 cents on the dollar, depending on the tax bracket.
- **The Common Interest Commentary:** The much more rapid rise in the value of homes not only means that taxes on existing homes have increased substantially, but also that the other categories of property are paying much less in property taxes than they would be if homes hadn't appreciated so rapidly. Rapid appreciation of homes combines with income valuation of other properties to put homeowners uniquely in the position of having to pay much higher property taxes even when their income has not gone up at all and they haven't yet realized the wealth from their home's increased value. H 421 is the only bill before the Senate that directly addresses these fundamental issues. With the Idaho Housing Price Index (HPI) Senate amendment, the exemption will retain its ability to address these issues into the future. The exemption will increase as rapidly or as slowly as home values increase (Exhibit 1).
- Property tax relief that is no more than a tax shift requires significant analysis to identify winners and losers. For example, measured by county, Ada County pays 37% (2004) of all individual income taxes paid in the state (Exhibit 4a) and 31% of all property taxes (Exhibit 4b). Thus, property tax relief payed by the state general fund would return Ada County taxpayers 31 cents on the dollar, but cost them 37 cents on the dollar. There would also be winners and losers between each class or category of taxpayer.

2. H 421 - Homeowner's Exemption

What the bill does:

1. Increases the homeowner's exemption to the lesser of \$75,000 or 50% of assessed market value.
2. Indexes the \$75,000 to the CPI. **(Exhibit 1a, 1b)**
3. Includes land (existing law only allows exemption for "residential improvements")

Inherent problems/questions on bill:

1. It is not a property tax cut. It is a property tax shift. It provides \$47 million (2005 estimate) of property tax relief to only one class of taxpayer; owner occupied resident claiming the homeowner's exemption. However, the market value of residential property has been outstripping the growth in valuation of other property for several years. This has resulted in a cost shift to residential properties. The statement of purpose provides no information discussing or justifying the shifts.
2. The bill indexes to the CPI. CPI bears no direct relationship to housing costs.
3. It will result in an automatic \$4 million reduction in school M&O funding in the first year of implementation because the exemption is currently calculated as a reduction of market value subject to the .3% of market value limitation.

Tax Commission Commentary: The exemption would have taken about \$4880 million in value off the property tax rolls (based on 2005 analysis). This amount times 0.0035 = \$17 million in school M&O budget capacity loss. I used 0.0035 to account for the weighting effect of the Boise School District's higher multiplier. However, since schools determine M&O budgets on the basis of prior year's value, and this value would be based on the current homeowner's exemption parameters, there would be no loss to schools for their 2006 – 2007 year. The loss would be reflected in the amount they can certify in Sept. 2007, which will be based on 2006 taxable values. That would be the first year of the higher homeowner's exemption, but this affect will be modified by expected continued very strong appreciation of residential property in 2006. The likelihood of this prospect is being borne out by early ratio study indications that I have begun analyzing. For comparison, appreciation of existing residential property from 2004 to 2005 accounted for \$7000 million in taxable value increase.

Solutions to the inherent problems in the bill:

1. Justify the bill by providing evidence that the growth in residential market values is outstripping the growth in all other properties and how this bill will correct or adjust for the imbalance. For example: Assessed market values of owner-occupied residential property has increased 12% annually over the past 2 years (only 25% of the increase is due to new construction, the balance is largely the appreciation of existing homes). The other classifications of property tax payers increased much slower: Non owner-occupied 7%, Commercial-Industrial 3%, utilities, timber and mining flat to negative growth. These facts illustrate that residential property tax assessments are outstripping the property tax growth in other sectors and thus an increase in the homeowner's exemption is warranted.
2. Amend the bill to use Idaho's House Price Index (HPI). This index is specific to housing and would better hold the value of the homeowner's exemption. (See Exhibit 1 for annual

comparative rates of 1984 through 2005).

3. Actually, to adjust the current 50/50 law for inflation since the law was enacted; the increase would exceed \$100,000.
4. Indexing the exemption to HPI or CPI will help keep the exemption from getting out of balance in the future.

Arguments in support:

1. It's the politically wise thing to do. It will help diffuse citizen discontent.
2. The assessed market value of residential properties is increasing much faster (residential values are easier to assess – and uses different valuation methods than business properties). This bill is but a reversal of some of the shift to homeowners that has been and is ongoing.
3. Homeowners pay on unrealized wealth – no offsetting cash flow – it's not fair.
4. Actually, to adjust the current exemption for inflation, it should be over \$100,000.
5. New construction accounted for only about 25% of the increase in 2004 and 2005 in residential sector taxes. The balance was primarily appreciation. Growth from annexation was relatively small statewide. Increasing the homeowner's exemption is the best option to help restore market valuation equity between residential and business properties.

Tax Commission Commentary: Existing residential property taxes increased much more rapidly in 2005 than did spending. This was due to the appreciation of existing residential property, which far outstripped appreciation in any other property sector.

Arguments in opposition:

1. It's a tax shift from homeowners who claim the exemption to all other taxpayers.
2. It helps only one class of residential taxpayer; those who claim the homeowner's exemption. Single family residential property owners not eligible for the homeowner's exemption (unoccupied homes for sale, single family rental homes and second home in-state and out-of-state homeowners) are experiencing the same rapidly increasing market values as the homes eligible for the homeowner's exemption, but get no relief from the bill.
3. The growth in property taxes is reflective of increases in home equity, albeit not yet realized; it is appropriate that the value be taxed.
4. Local spending is a major problem causing increased taxes. The homeowner's exemption does nothing to control spending (see Index number 15, Truth in Taxation).
5. It inadvertently reduces school M&O funding due to the calculation for M&O using market value, net of the homeowner's exemption - See structural problem with the bill, above.
6. Rental homes are treated as residential property. If they were assessed on income, as are

residential rentals and complexes of five units or more, they would be paying a lot less property taxes. To make the homeowner's exemption fair, these properties should be taxed as business not residential.

7. Does not help those who rent homes.

8. The property tax relief for homeowners will be modest. Most homeowners will pay a few hundred dollars less in property taxes. Alone, this may not be enough to satisfy those who have been asking for more property tax relief.

Committee Action:

1. Sent to the Senate floor for amendment.

Senate Action:

1. Numerous amendments proposed. All amendments failed except the amendment changing the CPI index to HPI. The bill passed the Senate as amended with 28 in favor, 7 opposed.

To view pages 5 and 6 (**Exhibits 1a, 1b**)
Please contact the Legislative Reference Library at (208) 334-4822.

3. H 422 - Circuit Breaker

What the bill does:

1. Increases the qualifying income amount from \$22,630 to \$28,000.
2. Increases the maximum property tax reduction benefit from \$1,200 to \$1,320.
3. Establishes base tax year for calculating the benefit amount from 1999 to 2006. 1999 was the last year the maximum benefit changed.
4. It's a tax shift – from property tax to sales tax (current law).

Inherent problems - questions on bill:

1. There is inadequate public policy rationale, criteria, objective, and legislative intent describing the class of citizen the legislation is intended to help and the appropriateness of the increase from \$22,630 to \$28,000. The sponsors said the amount was arbitrarily derived and there was no public policy rationale behind the number.
2. Many working families have adjusted gross income of less than \$28,000 and do not qualify for the circuit breaker. Is the increase excessive?
3. There is no asset test (existing law), e.g., a claimant could have \$1 million of assets, such as land and retirement accounts, and still qualify.
4. The income test (existing law) excludes from income such things as capital gains. It could allow wealthy people to qualify.
5. If H 680, deferral of property taxes passes, what effect, if any, will it have on this bill.
6. If H 421 \$75,000 homeowner's exemption passes, what effect will inclusion of land have on the homeowner.
7. There is no requirement for the claimant to have first filed for the homeowner's exemption.

Solution to the inherent problems – questions on the bill:

1. Amend the bill to provide a statement of public policy, legislative intent and rationale describing the class of citizens this legislation seeks to exempt from property taxes.
2. Amend the bill to provide a recognized standard of poverty of the citizens for which the bill is intended to provide property tax relief. For example, use the Department of Health and Welfare standards of an established percent of poverty.
3. Amend the bill to set an asset limit, and include asset disclosure in the application similar to food stamp disclosure (Most recent statements of bank, credit, savings, etc., value of vehicles: car, truck, RV, boat, ATV, motorcycles, etc., proof of current value of stocks, bonds, retirement

accounts, real estate, certificates of deposit, life insurance, trusts, etc.)

Tax Commission Commentary: Although a few states have asset tests, all but one of them have almost no income cap and very high asset tests. North Dakota has a similar income cap to us and has a \$50,000 asset test. Their program has been in decline for several years (5500 claims in 1999 and 3800 in 2004). We have a program with over 26,000 beneficiary households. After making allowances for differences in income caps and population, I estimate that our program could decrease in use by about 9000 claims if a \$100,000 asset test were to be implemented. This would of course reduce state paid benefits by \$5.2 million. An asset test may be impossible to administer or verify.

4. Amend the bill to delete “It does not include capital gains, gifts from non-governmental sources or inheritances.” Add, a provision that the income test must be met for three past consecutive years – with a provision for appeal if unusual hardship circumstances are factors.

Tax Commission Commentary: In 2005, 3436 of the claims were by “new” applicants. Some of these might have met the income test previously, but many probably would not have met this test. Administratively and for the claimants, this will add a significant dimension of workload, as income determination are not easy for just one year – including or excluding many things that make income quite different from income tax return income. The added filing burden and the added criteria could diminish the program by several thousand claims.

5. The bill has no provision that prohibits diversion of income to related parties wherein the intent of the diversion is to fraudulently qualify a person for circuit breaker benefits.

6. Require all claimants to file for the homeowner’s exemption.

Arguments in support:

1. As a matter of public policy, those over 65, children, widow and widowers, disabled people, disabled veterans, former prisoners of war and blind people should not be forced out of their homes because they cannot pay their property taxes.

Tax Commission Commentary: The percentage of total tax paid by the current program has been declining, currently paying on average 73% of a claimant’s property tax (much lower for claimant’s above the program median income of \$12,000). Inflation adjusted program benefits per claim are just slightly higher than they were in 1978. Property taxes have risen about 3% per year since 1982 (at least in Boise), while per claim benefits have risen less than 2% per year on average. In the mid-1980s, program benefits averaged 90% of the typical claimant’s property taxes.

Arguments in opposition:

1. It’s essentially a state funded welfare program mandated on the counties to administer out of their property tax revenues - an unfunded mandate. Albeit, it can be fairly argued the program also benefits county purposes.

2. It is not a tax cut; it’s a tax shift from property taxes to sales taxes.

Committee Action:

1. Sent to the Senate floor for amendment.

Senate Action:

1. Amended bill to require: a) Claimants required to file for the homeowner's exemption. b) Include capital gains in income test. c) Exclude return of principal from annuities as income and d) Change the index from CPI to the greater of \$28,000 or 185% of the national poverty rate for a family of two. The bill passed the Senate as amended 35-0..

4. H 680 - Deferral

What the bill does:

1. Allows circuit breaker eligible homeowners to apply to their county to defer their property taxes not paid with the homeowner's and circuit breaker benefit. The counties to be reimbursed from State Deferral Reimbursement Fund.
2. Homeowner must have sufficient unencumbered equity to collateralize the deferral.
3. The deferred amount becomes senior to any encumbrance made subsequent to the date the property tax lien is filed.
4. Deferral to include interest cost at 6%.
5. Principal and interest is due upon the death of the claimant or last surviving claimant, sale of the property or failure to qualify for homeowner's exemption.
6. The state has capped the maximum annual cost of this program at \$500,000. If aggregate claims exceed \$500,000, claimant benefits will be pro-rated so everyone would receive less. If the aggregate amount is not used, it will be carried forward until the fund balance is adequate to meet the demand. Application approval will be performed by the counties. Administration of the program will be performed by the State Tax Commission.
7. Payments will be deposited into a revolving type reimbursement fund to reduce future state funding requirements for subsequent deferrals. The long-range plan is for the fund to be financially self-sustaining.
8. The deferral application only applies for one year. If an applicant wants to defer their property for a subsequent year, they must reapply.
9. The bill does not specify the cost of administering the loan program (The Tax Commission will administer the program out of current appropriations.)

Inherent problems in bill:

1. Circuit breaker definitions, e.g., income eligibility requirements and other rules are too broad or non-existent. Under current law, wealthy people could qualify.

Solution to the inherent problems in the bill:

1. If the circuit breaker definitions are tightened-up sufficiently, it would correct this problem.

Arguments in support:

1. Idaho should not have a de facto public policy that forces elderly and disabled citizens to make life event housing decisions because they do not have the cash-flow to pay their property taxes. Our law should provide options for qualified citizens.
2. It allows property owners to have the ability to pay their property taxes and avoid loss of equity in the event of foreclosure, due to non-payment of property taxes. (Under Idaho law, in the event of foreclosure, the county keeps any amounts received in the sale of the property in excess of tax liability and debt.)

Arguments in opposition:

1. The bill does not go far enough. Idaho should not have a de facto public policy that forces any elderly and disabled citizen to make life event housing decisions because they do not have the cash-flow to pay property taxes. This law only covers those eligible for the circuit breaker.

Committee Action:

1. Sent to the Senate floor for possible amendment.

Senate Action:

1. The bill passed the Senate without amendment, 35-0.

5. H 676 - Developer's Agriculture Exemption/Platting

What the bill does:

1. Repeals I.C. 63-602FF, the so-called developer's Ag. exemption.
2. Specifies that to qualify for the agriculture exemption, the land must be used for agriculture as defined in existing law.
3. Platting of the land does not, in and of itself, change the use of the land and cause the loss of the agriculture exemption.
4. It adds a new definition to 63-604(b), "Land Actively Devoted to Agriculture" to define less than 5 acre parcels as agriculture if it is transferred to a child or spouse of the owner filing the original plat.

Inherent problems in bill:

1. None, except 63-604(b), the provision of defining agriculture to include land transfers to spouse and children, is inconsistent with current law and public policy for land qualifying for the agriculture exemption. The transfer provision includes the requirement that the transferred lots must still be used for agricultural purposes.
2. The repeal creates a technical problem in the year of transition - re-qualifying for the agriculture exemption.

Solution to the inherent problems in the bill:

1. Amend out 63-604(b)(iii) and correct technical problem.

Arguments in support:

1. It eliminates the property tax loophole exemption, commonly known as the "Developer's agriculture exemption," that has caused significant tax shifts in certain counties with a population of under 100,000.
2. Most developers that will be impacted by repeal of 63-602FF, have sold many of their lots and benefitted from paying low property taxes. Further benefits are not warranted.

Arguments in opposition:

1. No significant opposition to the basic concept of the bill.
2. By allowing original owners of land to plat their land into residential lots and gifting platted lots to spouse and children is just an extension of the "developer's agriculture exemption" concept the bill is seeking to repeal. Idaho law should not be written to give special exemption to a few individuals.

3. The bill does not provide any relief for owners who have developed their property in reliance upon 63-602FF, but still have unsold lots in inventory. This is particularly onerous for those who improved their property in such a way to preclude continuation of using the agriculture exemption.

Committee Action:

1. Sent the bill to the Senate floor for amendment.

Senate Action:

1. Amended the bill to: a) Remove the provision allowing small lot transfers to a child and spouse and b) make technical correction. The bill passed the Senate as amended 34-1.

6. H 678 - Public School M&O

What the bill does:

1. Repeals I.C. 33-1002D, which replaced a portion of property tax financed public school M&O with state tax revenues. The amount of replacement started in 1995 at \$40 million and grew until it was capped in 2005 at \$75 million.
2. Specifies that the state general fund will be the source of funding 1.5% of public school M&O (previously it was 3 mills).
3. It caps at the remaining 1.5 mills of public school M&O paid by property tax levy at 3% per year.
4. If state general fund revenues in any one year exceed 8%, such excess shall be transferred to the public school income fund and a corresponding reduction shall be made to the public school M&O property tax levy.
5. The bill must be evaluated with H 469, sales tax increase.

Inherent problems in bill:

1. Estimated fiscal impact on property taxes reduction is \$140.3 million (**Exhibit 2b and 2c**) with replacement coming from the state general fund. H 679, increase in the sales tax rate, is to provide \$105 million of the replacement cost (**Exhibit 2b**), leaving \$35.3 million unfunded. Other estimates exceed that amount.
2. Does not address the broader public policy question of the desirability and effect of less local control vs. more state control of public schools.
3. Does not consider long-term consequences of the permanent sales tax increase, e.g. will it promote a cyclic increase in sales tax exemptions on an already declining tax base which in-turn adds pressure to further increase the sales tax rate in subsequent years?

Solution to the inherent problems in the bill:

1. Increase the sales tax sufficiently to fully pay the cost of the bill.

Arguments in support:

1. It would reduce property taxes significantly. Most property tax payers would pay about 25% less than they otherwise would. This is particularly true for homeowners since the historic appreciation in home values in 2005 have yet to be reflected in homeowners' property taxes.

Arguments in opposition:

1. It is not a tax cut, it's a tax shift. Sales taxes will increase and property taxes will decrease. Some will actually pay more net tax while others will pay less. For example, sales taxes are regressive, whereas property taxes are progressive. Thus, this policy change will likely cause most lower income citizens to pay more net tax.

2. The property tax contribution for education will be reduced by about half in the initial year of implementation.
3. The bill does not target the new sales tax money to the high M&O growth areas that have the need . It all goes into the distribution formula and is spread statewide. The distribution formula does provide an equalization allowance for growth, however, the formula is a negotiated law that protects declining population districts and does not adequately consider the unique problems of high growth parts of the state. Thus the high growth parts of the state that produce most of the growth income and sales tax revenues will not receive a proportionate increase in their appropriation. The bill has serious unintended consequences.
4. The state will not likely sustain an ongoing, increasing revenue stream to continue to replace the full obligation in the future without the need to further increase sales taxes. Additionally, the bill will likely promote the cyclic process of more sales tax exemptions on an already declining sales tax base, which in-turn adds pressure to increase the sales tax rate again. The bill sets in motion the increased risk of future sales tax hikes.
5. There is no mechanism to replace the lost local education revenue due to the 3% budget increase cap. This again will hit the high growth districts who need more revenue the hardest.
6. With no new revenue source, the 3% cap in 2007-2008, on increased M&O budgets (plus the new construction) and subsequent years will likely result in significant and increasing cuts in public school budgets.
7. For certain high property tax districts, such as Blaine County they receive no property tax reduction benefit. Their patrons will in fact pay higher property taxes as well as higher sales taxes.
8. It replaces a stable source of revenue (property taxes) with an unstable source of revenue (state general fund appropriations and revenue streams). What will happen to public schools if another economic downturn occurs? Will Idaho have to do what certain other states have done and put schools on short hours of four-day weeks?
9. It moves the state one step closer to losing local control over public schools and making Idaho a single statewide school district (unintended consequences are not analyzed adequately).
10. On the other hand, many object to the bill because it doesn't go far enough. Other than for voter approved property tax override levies, they believe 100% of public school M&O should be appropriated from the state general fund and paid with increased sales tax (unintended consequences are not adequately analyzed).
11. Although school property tax budgets are not capped and all other taxing districts' budgets are capped, school spending has not gone up more rapidly than spending by other local government entities, calling into question why the school property tax should be singled out.

Committee Action:

1. Sent the bill to the Senate floor for amendment.

Senate Action:

1. Numerous amendments proposed including 100% removal of M&O from property taxes and increasing the sales tax rates by 1 cent (See **Exhibits 2a and 2b**). All amendments failed. When the inherent problems and arguments in opposition to the bill were understood, there was little, if any support for the bill, in the Senate. The Senate unanimously voted to return the bill to the Senate Local Government and Taxation Committee subject to the call of the chair.

To view pages 17 through 22 (**Exhibits 2a - 2d**)
Please contact the Legislative Reference Library at (208) 334-4822.

7. H 679 - Sales Tax Increase

What the bill does:

1. Increases the state sales tax rate from 5% to 5½%.

Inherent problems in bill:

1. None. The bill does what it says it will do. Albeit, at the outset, it will miss funding the cost of H 678 by \$35.3 million.

Arguments in support:

1. The best way to cut property taxes is to shift the cost of public school M&O to the State General Fund. This sales tax increase is necessary to raise money needed to pay for H 678, if passed, which implements the 1.5 mill shift in funding public school M&O to the State General Fund. This bill must pass to help pay the cost.

Arguments in opposition:

1. It doesn't raise enough money to offset the 1.5 mill shift from property taxes provided in H 678. The SOP and fiscal note in either bill do not disclose this shortfall. However, the estimated cost described in H 678 of \$125 million and expected revenue from this bill of \$100-105 million suggest there will be a \$20-25 million shortfall. The Tax Commission estimates the shortfall at \$35.3 million.
2. Imposing, repealing and re-imposing increases to our state sales tax rate in a three-year period is confusing to businesses and the public and runs counter to the sound public policy of maintaining stability in state taxation policy.
3. It breaks the promise made by the Governor and legislators three years ago to not raise the sales tax rate again.
4. Many people are opposed to a tax increase of any kind, even if it has the effect of reducing certain other taxes.
5. For citizens who file for income tax deductions, they may actually be paying more net taxes because of this bill. Generally speaking, they get no federal or state tax deduction for sales taxes, whereas, their property taxes only cost 60-80% face value because of the income tax deduction they receive (Actual tax savings depend on the highest state and federal tax rate). If a taxpayer pays sales taxes that exceed their income taxes, they may claim their state sales tax as a deduction rather than their paid state income taxes.

Committee Action:

1. Sent the bill to the Senate floor for amendment.

Senate Action:

1. All proposed amendments failed. Passage of the bill is linked to passage of H 678. Therefore when H 678 was returned to committee subject to call of the chair (see page 15), this bill also received the same treatment.

8. H 508 - Annexation

What the bill does:

1. Under current law when annexation occurs, cities are allowed to add the fair market value of annexed property to the tax rolls. This legislation would not change the tax rolls, but would place a 50% cap on the budget capacity of a taxing district. Albeit the action of the bill could be overcome by super majority approval in an election (existing law).

Inherent problems in bill:

1. Over 95 percent of all annexations in Idaho are requested annexations. This legislation would affect both requested and non-requested annexations.
2. The bill and SOP do not state why the bill is necessary, nor the fiscal impact on local taxing districts.
3. The long term consequences of the bill are not analyzed. This is a major change in Idaho law and could have significant unintended consequences.

Solution to the inherent problems in the bill:

1. If the purpose of the bill is to discourage or stop future annexation, then the bill has no inherent problem. The bill will do what it is intended to do. If the purpose is to reduce property taxes, it may just shift the growth in property taxes to a different taxing district, thus not fully achieving that objective.

Arguments in support:

1. For those who oppose city growth, this bill would help their point of view because it's effect would likely be the secession of future geographic growth of existing cities and a proliferation of new adjacent cities and/or planned infrastructure districts.

Arguments in opposition:

1. The inherent problems of the bill, reviewed above, make it unacceptable. Why should budgets be cut for requested annexations?
2. It will cause a major change to Idaho's land use planning laws for orderly urbane growth. Any change to Idaho's land use planning laws should not be done before a thorough, disciplined study of the effects and consequences of each change.
3. The problem the bill seeks to resolve is not identified, nor it's fiscal consequences on taxing districts disclosed.
4. Cutting the revenue from the annexation roll in half, drastically impacts the ability of cities to provide services; e.g., sizing of storage tanks, piping systems, wastewater treatment plants, streets and highways, that require long-term planning.
5. Would likely result in project plans and private investment expectations becoming frustrated because of cities and other taxing districts denying requested annexations because of the inability to financially support the new growth.

6. The bill is in conflict with existing law that requires local governments to plan for growth and expansion, including the development of comprehensive plans; plan for streets, utilities and other public facilities; to develop an area of city impact with the county in which it is located; to coordinate planning and implementation activities; and to afford everyone an opportunity to participate in community planning.
7. Smaller districts, such as library districts, typically have only a handful of voters turn out at elections. This bill could allow a very small minority of voters in the district to control events.
8. Has the potential to cause the formation of several smaller districts on the outskirts of bigger districts, requiring new infrastructure rather than maximizing services already established in existing districts.

Committee Action:

1. Held in committee subject to the call of the chairman. The committee later sent the bill to the floor for amendment.

Senate Action:

1. The Senate amended the bill to replace the text of the bill with new provisions authorizing “Truth in Taxation”. The bill passed the Senate as amended (See **Exhibit 7b**) 25-7-3 and sent to the House for concurrence in the amendment; failed in the House.

9. H 480 - Repeal or limit district property tax increases

What the bill does:

1. Allows taxpayers in a district to initiate an election to repeal or limit the property tax portion of a district's budget.
2. An election can be forced possibly every year, even when voters express support for the district budget in a previous years election.
3. Automatically terminates election if the districts consolidate.
4. A potentially small number of petitioners challenging budget expenditures could force the cost of an unplanned, non-budgeted election on a district.

Inherent problems in bill:

1. None, it does what it says.

Arguments in support:

1. Citizens need this ability to overturn spending decisions of local elected officials and hold them accountable.
2. The bill encourages consolidation of taxing districts that will increase efficiency and reduce costs.

Arguments in opposition:

1. The bill is unnecessary, unless it is trying to be a mechanism to control spending decisions of local elected officials while at the same time leaving them in office.
2. The bill is simply unnecessary because citizens already have a very effective option to control costs. If you don't like how your local elected officials are taxing and spending money, Idaho law allows recall elections or just vote them out of office at the next election.
3. The bill is too complex.
4. Districts could face an "annual challenge" election every year to lower their budgets, using resources to defend a budget rather than moving forward and providing services that are needed and desired.
5. Requiring 10% of the vote of the taxing district at the last election could be a challenge in districts that do not hold annual elections, and a very small number of people could force elections year after year.
6. Elections are paid for by the budget that is potentially being cut, requiring the district to pay additional, non-budgeted expenses.
7. Taxpayer elected District Board of Trustees has no pre-election mediation ability through negotiation with groups concerned with "excessive property taxes." Who defines what is "excessive"?
8. Many districts would not be able to adjust to major property tax cuts with other funds, resulting in severe cuts in service.

Committee Action:

1. There was no support for the bill in the committee. The committee unanimously voted to hold the bill in committee subject to the call of the chairman.

10. One Percent Initiative - Compared to California Prop 13

What the Initiative does:

1. Establishes a one-percent cap on real property taxes.
2. Allows a maximum .8% increase in property value per year.
3. Establishes a certified market “value” as of January 2005.
4. Requires truth in transaction and the actual transaction price for tax purposes.

Arguments in support:

1. Provides stability in property tax increases for those who do not move or make significant construction changes to their property.
2. Provides property tax relief for certain property owners.
3. Creates an incentive for long-term ownership of real property .
4. Eliminates the need for periodic assessments, because “value” is based on the publicly disclosed sales price.

Arguments in opposition:

1. The One-Percent Initiative violates Article 7 the Idaho State Constitution, and, therefore, could not be implemented.
2. Based on California’s experience with Proposition 13, the One-Percent Initiative would not lower the overall tax burden; it would merely shift it to other sources, such as the general fund or user fees.
3. Based on California’s experience with Proposition 13, the One-Percent Initiative would greatly increase the complexity of the tax system.
4. Based on California’s experience with Proposition 13, the One-Percent Initiative would add significant additions and complexity to the constitution and code, and greatly increase litigation costs. For example, such extensive litigation has resulted in the Prop 13 enabling language in the California Constitution to grow from less than one page to six pages (amended at least eight times) and 154 pages of code, not including charts, graphs and 11 pages of published court case listings (the number of non-published court cases is not known but is believed to be massive.)
5. Based on California’s experience with Proposition 13, the One-Percent Initiative would decrease home ownership among frequent movers and newcomers (e.g., young families or new California residents).
6. Based on California’s experience with Proposition 13, the One-Percent Initiative would create an incentive for families and business to retain ownership of real property, even though it would otherwise be in their best interest to move to a larger home or more fitting facilities. Many homeowners have had to remodel or expand their homes incrementally to avoid being deemed new construction.

Detail Analysis:

1. See **Exhibit 3**, “A Simplified Outline of California’s Proposition 13 & A Comparison to Idaho’s Property Tax” prepared by the Idaho Tax Commission.

To view pages 28 through 32 (**Exhibit 3**)
Please contact the Legislative Reference Library at (208) 334-4822.

11. Growth Revenue Sharing: Matching Growth Revenues with Growth Costs

History and analysis:

1. Population - For the period December 31, 2000 to 2004, 91.6% of Idaho's population growth occurred in 10 counties (Idaho's total population grew from 1,293,956 to 1,393,262, a 99,306 increase.)
 - 71,881 or 72.4% occurred in Ada, Canyon and Kootenai counties.
 - 19,168 or 19.3% occurred in the next 7 fastest-growing counties: Madison, Bonneville, Teton, Blaine, Bonner, Boise and Jefferson counties.
 - 8,257 or 8.3% net, occurred in the other 34 counties.
2. Property taxes: Statewide property tax collections totaled \$1.239 billion in tax year 2005, an 8.6% increase over the \$1.141 billion in 2004, a 5.5% increase.
 - \$0.631 Billion in 2005 or 51% of the total and a 9.0% increase over 2004 was paid in Ada, Canyon and Kootenai counties. (Top 3 counties)
 - \$0.334 Billion in 2005 or 27% of the total and a 6.8% increase paid in 7 counties: Bannock, Blaine, Bonner, Bonneville, Latah, Nez Perce, Twin Falls.
 - \$0.274 Billion in 2005 or 24% of the total was paid by the other 34 counties.
3. Property taxes – Homeowners: Property tax collections from all those claiming the homeowner's exemption was \$0.518 billion in calendar (tax) year 2005, 41.8% of all property taxes collected and 12 % increase over 2004-with urban homeowners increasing 13% and rural homeowners increasing 7%.
4. State income taxes – Statewide individual income tax collections totaled \$0.914 billion in calendar 2004, a 14.1% increase over calendar year 2003 (for FY05, the amount was \$1.175 billion, a 17.8% increase over FY04 Exhibit 4b).
 - \$0.499 billion or 54.6% was paid in Ada, Canyon and Kootenai counties.
 - \$0.258 Billion or 28.2% was paid in Bannock, Blaine, Bonner, Bonneville, Latah, Nez Perce, and Twin Falls counties.
 - \$0.157 Billion or 8.2% was paid in the other 34 counties.

Analysis:

1. The failure by the legislature to identify the fundamental problems and target public policy solutions that seek to fairly match state and local growth revenues with state and local growth expenses, is the core reason the growth parts of the state experience double digit property tax growth.
2. The legislature has provided public policy that provides some recognition of growth problems - population is one factor in calculating distribution of certain statewide generated revenues to local governments and school districts. Examples where population is a factor in allocating statewide generated revenues:
 - Sales tax revenue sharing to cities and counties

- ISDL profits - Liquor fund distribution account to cities and counties
 - Public school M&O distribution formula, albeit a statewide politically negotiated formula that protects and grandfathers certain funding. It was also negotiated before the state was experiencing the rapid population growth experienced in some parts of the state. Accordingly, the formula would not be supported today without significant modification.
3. When growth occurs it immediately causes increased employment which produces increased sales and income tax revenues. These new revenues flow immediately into the state's coffers; we call it "surplus" and spend it primarily for statewide purposes.
 4. Meanwhile, the cities and counties are caught in a "Catch 22." They incur a disproportionately high amount of growth costs and have to call on their citizens who, in fact produced the "state surplus," to pay the bulk of the increased local growth costs out of increased property taxes.
 5. The problem is exacerbated because much of the cost of growth begins almost immediately; however, the cash flow from new property taxes is often delayed for months to over a year.
 6. To solve the property tax growth problem, sufficient income and sales tax revenues attributed to growth must be shared with the cities and counties whose citizens in fact produced the state growth revenues, to backfill the delayed cash flow from property taxes and offset their growth costs that they can otherwise only pay out of increased property taxes or fees.

How to implement Growth Revenue Sharing:

1. Analyze individual income tax collections by year by county and calculate a growth factor (relative percentage of growth each county bears in relation to the entire growth of individual income taxes for the year (**Exhibit 4a, 4b, 4c, 4d**))
2. Calculate the state growth in general fund revenues for the same years and calculate the amount of increased revenues received for the same years.
3. By analysis, determine the percentage of state growth that is to fund Growth Revenue Sharing. For example, if that percentage is 20%, then 20% of the state growth revenues would be distributed to the taxing districts within each county based on that county's factor calculated above.
4. The calculation would, by necessity, always be based on the prior years final numbers. However, once in place the revenue sharing should match revenues and expenses and significantly prevent rapidly escalating property taxes caused by growth.

To view pages 35 through 38 (**Exhibits 4a-4d**)
Please contact the Legislative Reference Library at (208) 334-4822.

12. Continued Rejection of Combining Inefficient and Costly Local Systems

1. Another core reason property taxes escalate rapidly is the desire to continue to support the status quo in the face of changing needs, inflation and technology, even if it is inefficient and more costly in the long run.

2. For example, we too frequently fail to allow consideration of broadening our interpretation of local control to include regionalization and cooperation to produce more efficient regional systems. Some leaders tend to prefer continuing to manage within the artificial boundaries of one's city, county or district. Examples:

- Municipal wastewater systems that require pumping vs. gravity.
- Drainage districts that fail to deal with all drainage problems and treatment before discharge into our rivers and streams.
- Highway jurisdictions that are under-funded and technically ill-equipped to handle the problems brought about by growth.

3. There is inadequate interest to change some traditional local systems so long as they are primarily funded with statewide dollars. As a result, citizens accept, and indeed protect, the status quo rather than look collaboratively for more efficient and cost-effective organizational structures and systems. Examples:

- Excessive number of school districts (114 public schools, 24 charter schools), school leaders and patrons of small school districts located near larger school districts with better facilities and systems, often do not want to consider consolidation options.
- Multiple highway jurisdictions within a county (over 280 local highway jurisdictions in Idaho, all receive some or all of their funds from the ITD distribution account. Funds are generally spread too thin to pay redundant administrative, equipment and maintenance costs).
- Per pupil general fund spending varies widely between school districts. State general funding per student, per year (General Fund Expenditures per full-term ADA - average daily attendance, see following exhibit) ranges from \$3,741 at White Pine Charter School to \$43,939 at Avery public school. The average for the state is \$5,766 per student. Caps or education alternatives, such as bussing or paying private schools or virtual schools should be used for meeting needs in high cost districts. (See attached exhibits)

To view pages 40 through 43 (**Exhibit 5**)
Please contact the Legislative Reference Library at (208) 334-4822.

13. Local Option Taxes

What needs to be done to best utilize this law?

History and Facts:

1. *Idaho Code 63-2601 - 2605* allows county government, with a 2/3 majority vote, to assess a county sales tax of not more than .5% with 50% used for property tax relief. The bill sunsets December 31, 2009. In some counties, it is estimated that 30% of the sales tax collected are from non-residents, albeit statewide, about 7% is collected from non-residents. Current local option sales tax in Kootenai County has created a \$5M shift from property to sales taxes.
2. With a 2/3 majority requirement, the tax option will not be enacted frivolously or without strong community support.
3. The use of 50% of the funds is limited to capitol projects. It can not be used for maintenance or operations expenditures. While this restoration is not the best for every instance, it works very well in many areas.
4. It can be utilized by any Idaho county (verses resort city tax).
5. It includes a sunset provision - maximum duration is ten years or length of bond used to build the capitol project.

Inherent problems in the current law:

1. It appears that the 40% minimum voter requirement to validate an election is unconstitutional and should be removed, should something move forward.

Arguments in support:

1. It creates a means for counties to solve their own property tax problems without having to seek state funding.

Arguments in opposition:

1. It creates a patchwork taxing scheme across the State of Idaho.
2. Greatest tax relief goes to non-resident property owners.
3. It presents another complexity (not insurmountable) in the future when the Streamlined Sales Tax Agreement is adopted in Idaho.

14. Impact Fees - Public Schools

History and facts:

1. 1992 Development Impact Fee Act passed (I.C. 67-8201 thru 8216). Purpose: Those that benefit from new growth and development pay a proportionate share of the cost of new public facilities needed to serve the new growth and development (excludes public schools).
2. Fees can only be spent for improvements for which the fees were collected and only in the benefitted service area.
3. Available only to local governments who pass appropriate ordinance – requires an advisory council and a capital improvement plan.
4. Imposition of impact fees is not available to fund public school facilities. If impact fees were allowed the Legislature would need to determine if it would require a vote of the people or school district trustee decision.

Arguments in support:

1. Causes those who create growth to make a contribution for the cost of growth.
2. School costs are a major element of overall property tax growth. If the school patrons want to impose impact fees on new construction to help pay the costs, then they should be allowed to do so.
3. Allowing limited impact fees to pay specified costs associated with new construction and school start-up costs could take significant pressure off the growth of property taxes.

Arguments in opposition:

1. It couldn't raise enough money to solve all of the growth needs of the public school district. Example: Assume 2,000 new homes in a year and \$1,000 average impact fee. That would only raise \$2 million. A \$10,000 impact fee would only raise \$20 million. Meridian School District's last bond election was for \$140 million.
2. There is significant risk that many voters may believe impact fees will pay the needed costs and thus vote no on a bond election to pay the difference between what is raised by impact fees and new construction needs.
3. It would not be balanced. Those upgrading and moving to a new home within the district would still be required to pay an impact fee. However, they do not add any growth pressure on the district.
4. It would not be balanced. Retirees moving into the district would be assessed an impact fee, yet they have no children in the system (may have grandchildren).
5. It would not be balanced. Much of the growth in public school costs come over time from births in existing families in the district, not families moving into the district. The cost of growth from these families would have no impact fee.
6. Imposition of an impact fee would likely increase market values of both new and existing property; potentially causing an increase in property taxes of existing as well as new construction.

15. Truth in Taxation

What does Truth in Taxation do?

1. Truth in Taxation law reduces state mandates and controls over local property taxing decisions. (See **Exhibit 6a**, for the amendment of H 508aas for proposed Truth in Taxation language.
2. Local elected officials levy and spend property taxes, not the Legislature. When the Legislature imposes property tax caps and controls, it crosses the line of setting public policy into implementing public policy. The Legislature usurps authority and accountability from local elected officials and sets itself up as being responsible and accountable for a tax it neither levies nor spends.
3. Other than setting statewide public policy, the Legislature should stay out of decisions that are the domain of local elected officials and their constituents.

What is the history in Idaho?

1. The Truth in Taxation law became effective in 1993 and repealed three years later. It is generally conceded that it was repealed before it had a chance to work

Arguments in support:

1. Property tax is a local tax and is best managed by local elected officials and their constituents.
2. With one exception, Idaho is the only state out of 20, that has implemented Truth in Taxation and repealed it. (Wyoming repealed theirs but the reasons relate more to their large fund surplus arising from extraction taxes on oil and coal.)
3. Other than for a 2-3 year transition period, states that have Truth in Taxation have experienced a continual decrease in property taxes (see **Exhibit 6b** for Utah's experience).
4. If Idaho implemented Truth in Taxation, consideration should be given to delaying repeal of the 3% budget cap for a year or two – perhaps until January 1, 2008. The purpose of the delay will be to minimize the 2-3 year increase in property taxes that often occurs when states have adopted Truth in Taxation.
5. Citizens with property tax concerns should be encouraged to go to their local elected officials who levy and spend property taxes. If the Legislature makes this sound public policy clear and provides other balanced public policies, discussed herein, the citizens and their use of the ballot box will control property tax growth.

Arguments in opposition:

1. Citizens look to the Legislature to fix their local property tax levies and spending, not their elected officials that have that responsibility.
2. The state's history is citizens believe statewide property tax caps are the best way to control property taxes. They won't accept any other solution.
3. Truth in Taxation requires citizens to participate in local budget hearings and interaction with their local elected officials. Citizens just won't turn-out for budget hearings or do any of that.

Committee Action:

1. Amended H 508 by replacing existing language with Truth in Taxation (see **Exhibit 6a**).

To view pages 47 through 50 (**Exhibits 6a, 6b**)
Please contact the Legislative Reference Library at (208) 334-4822.

16. Repeal the 3% Budget Cap

History – Revolving Door of Property Tax Caps

- 1978 – 1% Initiative capped property taxes to 1% of market value and 2% growth in assessed value – never implemented – superseded with other caps.
- 1980 – Operating budgets frozen, allowed 4% if cumulative levy below 1%.
- 1981 – School M&O exempted from freeze, 4% cap replaced by 5% cap.
- 1983 – Growth factor increased from 50% to 80%
- 1986 – Growth factor increased to 105%.
- 1888 – Highway districts – allowed to increase levy rate.
- 1989 – Allowed recapture of 2/3 of forgone amount.
- 1991 – “Truth in Taxation” became law effective 1992 - 5% cap repealed.
- 1992 – 1% Cap Initiative on ballot – failed.
- 1994 – 1% Cap Initiative – did not get required signatures to qualify.
- 1995 – Truth in Taxation repealed, 3% cap excluding school M&O imposed.
- 1996 – Defined new construction to mean actual taxable value.
- 1998 – Cities with levies below 0.004 cap allowed to increase with 60% approval.
- 1999 – COSA levies exempt from 3% cap; library/fire districts OK with 2/3 vote.
- 2005 – All districts eligible for override with 2/3 approval.
- 2005-6 – Property tax Interim Committee – 8 bills approved in House.
- 2005-6 – Two 1% Cap Initiatives started, one withdrawn, one seeking signatures. (See 10. One Percent Initiative Compared to California Prop 13)

Arguments in support:

1. History shows that statewide caps and controls do not work. Over the past three decades, there has been a cyclic array of property tax capping initiatives, laws and repeals, followed by different legislative enactments that, evidenced the continued public concern, have not identified and resolved the core problems of excessive property tax growth in the affected locations.
2. Local government officials are closest to understanding the needs of their individual communities and citizens. They are elected by those citizens to do a job and should be allowed to do it without legislative interference.
3. Property tax growth is not a statewide phenomenon. The high-growth parts of the state are where the phenomena typically occur. Additionally, the type of service, needs and per capita cost in each taxing district is often significantly different. For example, one of the twenty different types of property taxing districts in Idaho is cities. The per capita property taxes levied in 2004 for the City of Boise were \$403, Bonners Ferry \$152 and Blackfoot \$112.

Property values within a high-growth district can also vary significantly depending on the location. For example, in Ada County the residents in fewer parts of the county received property tax valuation notices this year that showed their real estate market values had increased over thirty percent, while most county locations had substantially lower increases.

A statewide property tax cap can't be useful when there is such diversity between and within districts. Statewide caps will always be discriminatory in their application and effect.

4. Caps are a costly-to-implement, unfunded mandate on the local taxing districts, and how do the districts pay for the mandate - out of property taxes? A totally counterproductive cost.
5. It causes the Legislature to cross the line of setting public policy, to implementing public policy. It sets the Legislature up for being responsible for a tax it neither levies nor spends.
6. It superimposes the judgment of 18 or more senators and 36 or more representatives over nearly 2,000 locally elected government officials. Legislatively imposed caps and controls on property taxes usurp accountability from local officials and superimpose its judgment over those elected officials who are closest to specific district issues and their affected constituents.
7. In matters of property taxes, the Legislature should confine its actions to setting broad statewide public policy, not implementation of public policies such as caps and controls. The Legislature preaches local control. It should practice what it preaches, repeal the failed 3% property tax cap law and bring back "Truth in Taxation."

Arguments in opposition:

1. Local governments aren't doing the job; a statewide cap is the only alternative.

17. Property Tax Offsets

History and Facts:

The public policy of the state providing property tax offsets (reduce property taxes) are generally motivated for one or more of the following:

- There is often not a bright line dividing service responsibilities between state and local governments and their disparate revenue streams.
- State revenue streams from state imposed income and sales taxes are more immediate and combined are substantially greater than the cash flow from local property taxes whose cash flow is often delayed.
- In an effort to balance revenues with shared costs, the Legislature has appropriated or approved a variety of state revenue streams to local governments. These revenue streams are in effect property tax offsets. Some of the more significant of these property tax offsets, their underlying rationale and distribution follows:

1. Revenue Sharing:

- a. I.C. 63-3638 specifies that 13.75% of sales tax collections are to be paid to Idaho cities and counties.
- b. Revenue Sharing was instituted to replace the loss of property tax revenue when the Legislature repealed property taxes on business inventories.
- c. Generally, the formula provides that population and assessed values are the basis for allocating 56% - other allocations are grandfathered.
- d. Distributions of sales tax for Revenue Sharing in 2005 was \$128 million.
- e. In 2003, H 96 – to freeze Revenue Sharing amount – failed in House.

2. Catastrophic health care:

- a. I.C. 31-3501 and 3503 provides the counties will provide the cost of health care for the indigent. The counties pay first \$10,000 per case, state pays the balance.
- b. State paid \$20 million in FY06. The counties also paid over \$15 million in benefits.

3. I.C. 23-404 - Liquor fund – Distribution of Idaho State Liquor Dispensary’s net income - Created in 1935.

- a. First \$8.3 million to specified state funds. Balance - 60% to cities, \$40% to counties (Ostensively, to partially offset substance abuse related costs that are disproportionately borne by cities and counties, e.g., police, sheriffs, prosecution, courts and jails.). 90% of the distribution correlates somewhat to need as it is based on spirits sales in each county, except it cannot be less than the 1981 distribution floor - 10% is available for allocation to counties having no liquor store.
- b. This formula has generally stood since 1981. However in 2000, \$1 million was diverted off the top for the Permanent Building Fund. In 2005, \$7.2 million was diverted off the top for IDWR water projects and to lease water (2005 H 392). In 2004, a 2% surcharge (price increase – new money) was levied for funding Drug Courts (2003 H 369).
- c. ISLD revenue growth in recent years has been influenced by State of Washington substantially increasing its liquor prices - much higher than Idaho – increased ISLD sales in northern Idaho has resulted.

- d. In 2006, S 1388 passed. It sets in motion a formula that will reduce the allocation to the cities and counties and increase the allocation to the state until the split is 50/50.
4. Highway Distribution Account (37.5% of all Idaho fuel taxes and registration fees (about \$80 million) to help fund 5,000+ miles of local roads).
 - a. There are approximately 280 highway jurisdictions in Idaho. Sixty-four are highway districts that have elected boards; the other jurisdictions are generally divisions of city or county governments. Each must file separate financial statements with ITD to be eligible for a (formula) share of Highway Distribution Account funds.
 - b. Attempts to encourage efficient utilization of these funds by consolidating these jurisdictions into 44, (one district per county as is done in Ada County) have failed. However, many local districts are cooperating more on shared road projects.
 5. Public schools operations and management (Capped at \$75 million)
 - a. Law passed effective FY96 for property tax relief by replacing public school M&O with state sales taxes. The replacement was pegged to a percent of M&O. As M&O increased, the general fund/property tax offset grew from \$40.8 million in 1996 to \$75 million in 2005 when it was capped.
 6. Health Districts – 7 districts funded by both state and local funds.
 - a. Health Districts often carry out DHW duties under contracts or MOUs.
 7. Circuit Breaker - Reimburse counties for lost property taxes (\$17 million).
 8. Personal Property Taxes - exemption for agriculture equipment (\$14 million).
 9. Lottery: 50% goes to public schools -approximately \$10 million annually.
 10. Cigarettes and tobacco tax -approximately \$5 million annually.

Arguments in support:

Property tax offsets are state payments for shared costs of programs administered by local government.

1. Property tax offsets were developed as matters of public policy established by the Legislature at the time. Changes to any property tax offset should not be made until there has been careful evaluation of the underlying public policy involved and only if the public policy is changed accordingly.
2. If the state did not provide property tax offsets, in many cases it would be an unfunded state mandate.
3. To date, the Legislature has produced no public policy mechanism that fairly matches growth revenues (state and local taxes) with state and local growth expenses. This results in a shift of state financial responsibility from state income and sales taxes to property taxes. This is a core reason Idaho growth communities are experiencing double digit property tax growth. To the extent property tax offsets are based on growth driven formulas, they mitigate the effect of the Legislature not having an overall revenue-expense matching formula.

Arguments in opposition:

1. Property tax offsets are essentially gifts from state government to local governments. The state should take these gifts back.
2. Property tax offsets are not local government entitlements. Local governments should pay their own way with the property taxing and fee authority the Legislature allows them.

To view pages 55 and 56 (**Exhibit 7**)
Please contact the Legislative Reference Library at (208) 334-4822.

18. Personal Property Taxes – Continue the Phase-Out

The next step is phase out furniture and fixtures

History:

1. In 2001, personal property taxes were eliminated for equipment used exclusively for agriculture.
2. At that time, it was generally understood that at a future date, other personal property used in general business would be defined and also be phased-out.
3. See **(Exhibit 8)**, Taxation of Personal Property Across America

How would the phase-out work?

1. As was done with agriculture equipment, the loss of property taxes to the counties would be offset with sales taxes.
2. Assuming a seven year phase-out, the fiscal effect would be in the \$6 million per year compounded range. The loss of general fund dollars would be made up with increased economic development. There are about ten states that do not have a personal property tax.

Arguments in support:

1. It is a tax that is problematic from both a compliance and enforcement standpoint.
2. Most citizens do not understand their computers and furniture used for business in their home are subject to personal property tax return filing and payment. If they understood the law there would be a public outcry to eliminate office furniture and equipment from personal property taxation. Office furniture should be the next classification of personal property tax that should be phased out.
3. The Tax Commission does not have the resources to enforce compliance uniformly, so why have the tax anyway? The tax should be limited to what can be effectively complied with and enforced.
4. It would promote economic development.
5. By exempting agriculture equipment and not other business equipment, the state is open to lawsuit for having discriminatory tax law.

Arguments in opposition:

1. It's too expensive to continue the phase-out of personal property taxes; replaced by sales taxes in the hope it will induce economic development.

To view page 58 (**Exhibit 8**)
Please contact the Legislative Reference Library at (208) 334-4822.

19. S 1489 - Evaluate Exemptions

What the bill does:

1. Sets forth a systematic method of evaluating property and sales tax exemptions and income tax credits.
2. The bill was printed this session but will not be acted upon. The bill is expected to be a matter of information and discussion by interested parties during 2006. (**Exhibit 9a**)
3. Senator Corder will introduce legislation in the 2007 session that will conform to the concepts expressed in this bill.
4. Example - all property tax exemptions are listed on **Exhibit 9b**.

Arguments in support:

1. Exemptions are tax shifts from those who receive the exemption to those who do not. These effects need to be evaluated.
2. The philosophy behind tax exemptions and credits is to promote a generally accepted public purpose such as promoting economic development or private not-for-profit organizations that promote the social well-being of the state such as organizations that care for the needs of children or the disabled.
3. Over time the public policy basis underlying a particular exemption or other factors change. It is reasonable to periodically reevaluate exemptions to insure they are still functioning effectively and continue to meet current public policy objections.
4. Many exemptions are granted without any monitoring method provided in law. Therefore, there is no record of the magnitude or effect of an exemption. This policy needs to be examined on a case-by-case basis.

Arguments in opposition:

1. The underlying public policy or legislative intent of many exemptions are not stated in the law. The criteria to evaluate each exemption is therefore, not known. How can you evaluate something for which there is no public policy?
2. Those receiving the exemptions are afraid to have their exemptions subject to review for fear their exemptions will no longer be justified and may be changed or repealed.

To view pages 60 through 63 (**Exhibits 9a, 9b**)
Please contact the Legislative Reference Library at (208) 334-4822.

20. S 1488 - Improved Information Concerning Property Taxes

What this bill does:

1. Authorizes the Tax Commission to write rules setting forth uniform property tax reporting standards for the counties so that better information is available for policy makers.
2. The bill was printed this session but will not be acted upon. The bill is expected to be a basis for discussion with the County Assessors and the Tax Commission to identify appropriate property tax reporting standards.

Arguments in support:

1. Information needed by policy makers for making sound statewide public policy decisions are inadequate (see bills statement of purpose, **Exhibit 10** for examples).
2. Taxation of different types of residential rental properties are inconsistent. For example 4-unit apartments and under, are taxed differently from 5-unit apartments and over. Common classification of rental properties would facilitate uniform taxation.
3. Better detail information would facilitate county assessors providing better current information about economic changes in their county.
4. The counties should be producing this information anyway.

Arguments in opposition:

1. Not all counties have adequate computer systems to produce the information - there is no money to pay for improved systems.
2. It's an unfunded mandate on the counties.

To view pages 65 through 69 (**Exhibit 10**)
Please contact the Legislative Reference Library at (208) 334-4822.

21. SCR 133

What the bill does:

1. It authorizes formation of a 2006 legislative property tax study committee to build upon the work of the 2005 legislative committee and public hearings.
2. This legislation directs the new committee to analyze the fundamental problems of why and where property tax grows and develop public policy discussions that will solve core problems. (**Exhibit 11a, 11b**)

Arguments in support:

1. Until the core reasons why property taxes grow rapidly in certain parts of the state are identified and solved, the cyclic debate over property taxes will continue.
2. For the past three decades, the primary solution to the property tax problem is a succession of different types of caps. Clearly these one-shoe-fits-all statewide caps have not been adequately effective. They have failed to solve core problems.
3. If you don't understand the problem, you can't craft a solution; you will merely treat symptoms. This study will hopefully identify or propose solutions to core problems.

Arguments in opposition:

1. People who want property tax relief don't care about further study, they want their taxes cut now, regardless of sound public policy or consequences.

Status of the Interim Committee:

Pending - Legislative Council must approve for action to begin.

To view pages 71 through 74 (**Exhibit 11**)
Please contact the Legislative Reference Library at (208) 334-4822.

22. SJR 108 - (Constitutional Amendment)

What does the bill do:

1. The funding source for public school M&O took center stage this year. In one effort to provide property tax relief, the 2005 Legislative Interim Committee produced H 678 and H 679. Those bills would shift half (1.5 mills) of the remaining M&O funding from property taxes to state general fund and increase the state sales tax rate from 5% to 5.5% (the increased sales tax is inadequate to totally replace the 1.5 mill property tax levy).
2. Attempts were made in the Senate to amend H 678 and H 679 to make 100% of M&O costs to be paid from state general fund appropriations and increase the state sales tax rate to 6%. Those proposed amendments failed.
3. Several House members still wanted to remove all public schools M&O from property taxes and increase the sales tax from 5% to 6% or 6.25%. The House may still pass such a bill.

Arguments in support:

1. Many legislators felt that the public schools M&O funding shift from local property taxes to state general fund appropriations has significant long-term consequences. These potential consequences were of such magnitude that the question should be placed before the voters in November 2006. There are two methods this could be accomplished; by constitutional amendment or advisory vote.
2. SJR 108 is the constitutional amendment approach, S 1501 is the advisory vote approach (**Exhibit 12a**).

Arguments in opposition:

1. The constitutional amendment is permanent and eliminates legislative flexibility to adjust to changing circumstances.
2. It deals with a complex issue. It will be difficult to impossible to adequately educate the voters before they enter the voting booth.

Senate Action:

1. The Senate State Affairs Committee approved SJR 108 and sent to the Senate floor for debate and vote. The bill failed to receive the necessary 2/3 vote for constitutional amendments.
2. S 1501 Advisory Vote was approved by the Senate Local Government and Taxation Committee (See **Exhibit 12b**). The Senate passed the bill 32-2-1, and sent to the House.

To view pages 76 through 79 (**Exhibits12a, 12b**)
Please contact the Legislative Reference Library at (208) 334-4822.