

MINUTES  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Tuesday, March 05, 2024

**TIME:** 3:00 P.M.

**PLACE:** Room WW53

**MEMBERS PRESENT:** Chairman Ricks, Vice Chairman Schroeder, Senators Grow, Cook, Adams, Bernt, Trakel, Rabe, and Just

**ABSENT/ EXCUSED:** None

**NOTE:** The sign-in sheet, testimonies and other related materials will be retained with the minutes in the committee's office until the end of the session and will then be located on file with the minutes in the Legislative Services Library.

**CONVENED:** **Chairman Ricks** called the meeting of the Senate Local Government and Taxation Committee (Committee) to order at 3:01 p.m.

**PASSED THE GAVEL:** Chairman Ricks passed the gavel to Vice Chairman Schroeder.

**H 521** **Chairman Ricks** presented **H 521**. This legislation dealt with taxation, but it was a property tax cut first and foremost. The property taxes were reduced as a result of additional State funding. This was a very historical bill which fulfilled the Legislature's constitutional responsibility to provide funding for school facilities across the State. Currently, most school facilities were funded from voter approved local bonds and levies. Although this bill did not eliminate the need for local bonds and levies, it reduced the need through three funding sources.

First, this bill dedicated an ongoing, annual amount for the next ten years of \$125 million of sales tax revenue to the new School Modernization Facilities Fund. This was funded by a \$1 billion bond. Attachment 1 illustrated the approximate amount each school district would receive from this fund.

Second, **H 521** increased the funding of the School District Facilities Fund that was created last year in H 292. The amount of sales tax dedicated to this fund was increased from 2.5 percent to 3.5 percent and was projected to provide an additional amount of revenue for the School District Facilities Fund for fiscal year 25 of \$25 million. In addition, the \$50 million in lottery monies were transferred to the School District Facilities Fund. This resulted in an ongoing amount of \$75 million to the School District Facilities Fund. Attachment 2 illustrated the approximate amount each school would receive from this fund.

Third, there was a reduction of individual and corporate income tax rates. That resulted in a decrease in revenue for the State of roughly \$60 million. Currently, Idaho's tax rates were a bit higher than our neighboring states.

Page 2, lines 34 through 40 provided for the reduction in individual income tax rates from 5.8 percent to 5.65 percent. Page 3, lines 33 through 36 reduced the corporate tax rates from 5.8 percent to 5.695 percent.

Page four outlined the distribution of the School District Facilities Fund. Under H 292, the distribution formula was based on average daily attendance. Lines 24 through 31 added an additional requirement that the student attend a traditional brick and mortar school, except under certain circumstances such as illness or an emergency. Pages four and five set forth the purposes for which monies from the School District Facilities Fund may be used. These included construction of new facilities, renovation, maintenance needs, and payment of bonds.

Page 5, lines 28 through 38 dealt with bond levy equalization. The bond levy equalization program was phased out over a two-year period and replaced by the funding mechanisms in this bill. For two years school districts received the amount that they were currently receiving.

Page 5, line 41 through page 6, line 8 created the Office of the State Board of Education (Board) Executive Officer who would be appointed by the Governor.

Page 6, lines 4 through 7 required the Executive Officer and President of the Board to submit, no later than January 15, an annual report to the Legislature providing details of the use and impact of the School Modernization Facilities Fund. Page 6, line 17 provided that the President of the Board be selected by the Governor.

With the reduced need for bonds and levies, page 7, lines 13 through 15 removed the August election date for bonds and levies. School districts would still be able to have bond or levy elections in May or November.

Page 8, lines 6 through 8 set a limit on the amount paid on a levy in a property tax year of 120 percent of the amount of payment required. The amount going into the fund would be applied to pay bonds and levies first. This lowered property taxes.

Page 8, lines 9 through 18, repealed provisions regarding the lottery funds, which were being transferred to the School District Facilities Fund, and the bond and levy equalization program which was being phased out.

Page 9, lines 1 through 17 created a School Modernization Facilities Fund in the State treasury. Page 9, lines 21 through 42 granted authority to the Department to issue bonds. A \$1 billion bond funded the School Modernization Facilities Fund. Page 9, line 46 through page 10, line 16 gave the school districts the option to choose a lump sum distribution from the School Modernization Facilities Fund or annual payments over ten years.

Page 10, lines 17 through 43 established the formula for distribution of the School Modernization Facilities Fund. Distribution was calculated based on average daily attendance. Several school districts had the ability to issue bonds and levies without voter approval. Page 10, line 47 through page 11, line 12 limited the amount of distribution to those school districts to \$40 million.

Page 11, lines 23 through 31, established eligibility requirements for School Modernization Facilities Fund. State Superintendent of Public Instruction Debbie Critchfield later discussed those requirements.

Page 11, line 41 through page 12, line 3 set forth the purposes for which the School Modernization Facilities Fund could be used. The funds could not be used for a facility with athletics as its primary purpose.

Page 12, lines 19 through 40 established a model school facility council. There were nine members on this council, three appointed by each of the Speaker of the House, Senate Pro Tem, and Governor. Page 12, line 44 through page 13, line 7 required the Department to prepare a best practices plan for school facilities. These requirements were an attempt to reduce the cost of school facilities.

Page 13 repealed outdated sections related to school building maintenance funds. Page 13, lines 16 through 46 addressed cash transfers for property tax relief and how that was funded.

Page 14, lines 14 through 17 increased the allocation to the Public Defense Fund from \$36 million to \$39 million to provide additional resources for Child Protection Services cases.

Page 15 made changes to the property tax relief formula using the previous year's levy rates rather than the current year's rates. There were also changes to timeframes and calendar dates for actions by the county assessors and Idaho State Tax Commission (Commission) to ease the burden of calculating the property tax relief and preparing and mailing property tax notices.

Page 17, lines 23 through 34 repealed a provision related to distribution of monies by the Commission to the bond levy equalization program which was being phased out.

Page 23, line 47 increased the amount of sales tax revenues transferred to the School District Facilities Fund from 2.25 percent to 3.25 percent. That resulted in an additional \$25 million in funds for school facilities. Sales tax revenue distribution was paid to cities first to keep them whole.

Page 24, line 3 allocated a \$125 million distribution from sales tax revenues to the School Modernization Facilities Fund. This was a continuous amount paid annually for ten years that would be appropriated to help pay back the \$1 billion bond measure that money was going to. After ten years, it would sunset.

Page 26, lines 24 through 27 authorized the Department to issue the \$1 billion bond to fund the School Modernization Facilities Fund. Page 26, lines 30 through 37 transferred the lottery funds to the School District Facilities Fund.

**TESTIMONY:**

**Debbie Critchfield**, State Superintendent of Public Instruction, addressed the requirement on page 11, lines 30 through 31, for the Board to establish minimum requirements for teacher contract days and student instructional days no later than August 1, 2024. She stated that the Board hoped to establish those requirements by mid May. She also discussed the requirements for eligibility for distribution of the School Modernization Facilities Fund. If, while the district received monies from this fund, the district moved to a four-day school week, the district must attest that they met the minimum requirements for teacher contract and student attendance hours set by the Board. **Superintendent Critchfield** stated that the Department was gathering data related to four-day and five-day school weeks.

**DISCUSSION:**

**Senator Grow** asked Chairman Ricks to explain the distribution of \$236 million from the Tax Relief Fund to the General Fund on page 14, line 18. **Chairman Ricks** explained that distribution was in H 292. There was \$3 million added to the Public Defense Fund.

**TESTIMONY:**

**Alex Adams**, Administrator, Division of Financial Management, explained that the source of funds for the Tax Relief Fund was online sales tax. One of the areas that received a distribution from that fund was the Public Defense Fund. There was a \$3 million increase in the distribution to the Public Defense Fund to provide additional resources to the new office of the Public Defender for Child Protective Services cases.

**DISCUSSION:**

**Senator Rabe** asked Chairman Ricks why the distribution of monies in the school facilities was based on average daily attendance rather than, for example, square footage building needs. **Chairman Ricks** stated that was the current distribution formula used to fund public schools..

**TESTIMONY:** **Dr. Jean Henscheid**, Co-Director, League of Women Voters, spoke in opposition to **H 521**. While it provided additional monies to school districts, it did not eliminate the need for local bonds and levies. Rural districts were shortchanged in this bill. Revenue projections were overly optimistic. This was first and foremost a tax cut bill, not an education bill.

**Mary Ruckh** expressed concern regarding the proposed income tax reduction. She was not optimistic that taxpayers would use those savings to fund school facilities. She further noted that the Idaho Constitution required legislation to be narrowly focused.

**DISCUSSION:** **Senator Bernt** stated that he had requested an opinion from the Attorney General on whether **H 521** violated the single subject rule, but had not received an opinion.

**TESTIMONY:** **Quinn Perry**, Deputy Director of the Idaho School Boards Association, testified on their behalf and on behalf of the Idaho Association of School Administrators, in support of **H 521**. While this bill provided a large investment in school facilities, it did not totally alleviate the need for local bonds and levies. She relayed concerns expressed regarding the four-day school week which she felt Superintendent Critchfield helped to alleviate. **Ms. Quinn** explained that many small districts used the four-day school week as a recruitment and retention tool. Finally, she was concerned that teacher contract hours would be increased without an increase in pay.

**DISCUSSION:** **Senator Rabe** asked Ms. Perry to discuss how the distribution formula based on average daily attendance disadvantaged small districts. **Ms. Perry** stated that any time a funding formula was based on attendance or enrollment, the small schools were disadvantaged.

**TESTIMONY:** **Miguel Legarreta**, Associated Taxpayers of Idaho, spoke in favor of **H 521**. For an average family of four, it provided additional savings of 7 percent on their property tax bill in addition to the 18 percent savings from H 292 for a cumulative property tax savings of 25 percent. It further reduced their individual income taxes by 1.3 percent in addition to the 11.7 percent savings from H 292 for a cumulative income tax savings of 13 percent.

**Seth Grigg**, Executive Director, Idaho Association of Counties, testified in support of **H 521**. First, it made changes to some of the calendar dates for gathering information and preparing tax notices under H 292. It transferred the money that could have gone toward all tax relief to homeowner tax relief. It allowed the Commission and county tax assessors to use last year's levy rates for more efficient processing of tax notices. Finally, it increased funding to the Public Defense Fund providing an additional \$3 million for Child Protective Services cases.

**Chairman Ricks** gave closing remarks. He acknowledged that **H 521** did not eliminate the need for local bonds and levies, but it provided a large amount of State funding for school facilities. There could be future adjustments to make the funding distribution more equitable for smaller school districts. This bill provided tax relief.

**DISCUSSION:** **Senator Rabe** again stated her concern regarding the single subject rule under the Idaho Constitution and Legislation Drafting Manual. **Senator Just** shared her concern.

**Vice Chairman Schroeder** opined that, after some research of case law, he was not concerned that this bill violated the single subject rule. This bill primarily created a fund and created mechanisms for allocating those funds.

**Senator Bernt** asked Alex Adams to explain their decision to distribute the funds based on average daily attendance. **Mr. Adams** explained that they considered other formulas, but ultimately kept the average daily attendance formula under current law. He further noted that the distribution would sunset in ten years.

**Senator Just** asked Chairman Ricks whether he would be willing to come back with a trailer bill containing a severability clause. **Chairman Ricks** said he would be willing to consider it.

**MOTION:** **Senator Grow** moved to send **H 521** to the floor with a **do pass** recommendation. **Senator Bernt** seconded the motion.

**DISCUSSION:** **Senator Grow** stated that he had concerns about the amount of borrowing in this bill and the burden on taxpayers. However, he had become comfortable with that given that Idaho had a lower amount of borrowing than neighboring states. Furthermore, this bill met the State's responsibility to build school facilities.

**Senator Cook** asked Senator Grow at what point would he feel we had borrowed too much. **Senator Grow** responded that the State had responsibilities. Revenues and expenses needed to be examined to ensure we met those responsibilities and prepared for the future in case of a recession. Idaho was ranked at the top of Moody's and other bond ratings and in good financial condition. Idaho had a responsibility to build school facilities.

**Senator Rabe** asked Senator Grow whether he had considered the \$300 million cut in revenue projected by the Economic Outlook and Revenue Assessment Committee and the further reduction of \$60 million each year for the next ten years under this bill. **Senator Grow** responded that projections were not always accurate, but he felt comfortable with the projection by the Economic Outlook and Revenue Assessment Committee.

**Vice Chairman Schroeder** reminded the Committee that it was the duty of the legislature to establish and maintain a general, uniform, and thorough system of free common public schools. The court had noted Idaho's lack of uniformity. This bill was a step toward providing uniform facilities across the State.

**Senator Rabe** reiterated her concerns about the single subject rule, the income tax cuts, and the distribution formula and hoped they could continue the conversation.

**VOICE VOTE:** The motion passed by **voice vote**. Senator Trakel was recorded as voting nay.

**PASSED THE GAVEL:** Vice Chairman Schroeder passed the gavel to Chairman Ricks.

**RS 31560** Stating Findings of the Legislature and Approving Pending Rules of the Idaho State Board of Tax Appeals Reviewed by the Senate Local Government and Taxation Committee - Unanimous Consent Request for Referral to a Privileged Committee.

**Chairman Ricks** requested unanimous consent to send **RS 31560** to a privileged committee to print. There were no objections.

**ADJOURNED:** There being no further business at this time, **Chairman Ricks** adjourned the meeting at 4:25 p.m.

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Senator Ricks  
Chair

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Meg Lawless  
Secretary