

AGENDA
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE
3:00 P.M.
Room WW53
Thursday, January 12, 2017

SUBJECT	DESCRIPTION	PRESENTER
Introductions	Committee Page, Madison Smith Committee Intern, Morgan Howard	Chairman Johnson
Rules Assignments	Distribution of Rules	Vice Chairman Bayer

COMMITTEE MEMBERS

Chairman Johnson
Vice Chairman Bayer
Sen Hill
Sen Siddoway
Sen Rice

Sen Vick
Sen Patrick
Sen Burgoyne
Sen Nye

COMMITTEE SECRETARY

Jennifer Carr
Room: WW50
Phone: 332-1315
email: sloc@senate.idaho.gov

MINUTES
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Thursday, January 12, 2017
TIME: 3:00 P.M.
PLACE: Room WW53
MEMBERS PRESENT: Chairman Johnson, Vice Chairman Bayer, Senators Hill, Siddoway, Vick, Burgoyne, and Nye
ABSENT/ EXCUSED: Senators Rice and Patrick
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 Johnson** called the meeting of the Local Government and Taxation Committee (Committee) to order at 3:01 p.m. He welcomed new Committee members and noted that other Senate committee meeting times were in conflict and that the Committee would be brief in order to accommodate its membership.
PAGE & INTERN INTRODUCTIONS: **Chairman Johnson** welcomed the Committee page, Madison Smith, and Committee Intern, Morgan Howard, and asked each to provide a personal introduction.
PASSED THE GAVEL: Chairman Johnson passed the gavel to Vice Chairman Bayer.
RULES ASSIGNMENTS: **Vice Chairman Bayer** assigned the rules to Committee members. He indicated that action will be taken on each docket after the respective presentation unless questions arise that necessitate further review. He asked the Secretary to distribute the rules assignments to all Committee members.
ADJOURNED: There being no further business, **Vice Chairman Bayer** adjourned the meeting at 3:08 p.m.

Senator Johnson
Chair

Jennifer Carr
Secretary

AGENDA
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE
3:00 P.M.
Room WW53
Tuesday, January 17, 2017

SUBJECT	DESCRIPTION	PRESENTER
RULES REVIEW	IDAPA 35 - Idaho State Tax Commission	
Docket No. 35-0103-1606	Property Tax Administrative Rules	Alan Dornfest , Idaho State Tax Commission
Docket No. 35-0103-1601	Property Tax Administrative Rules	
Docket No. 35-0103-1602	Property Tax Administrative Rules	
Docket No. 35-0103-1603	Property Tax Administrative Rules	
Docket No. 35-0103-1605	Property Tax Administrative Rules	

If you have written testimony, please provide a copy of it along with the name of the person or organization responsible to the committee secretary to ensure accuracy of records.

COMMITTEE MEMBERS

Chairman Johnson
Vice Chairman Bayer
Sen Hill
Sen Siddoway
Sen Rice

Sen Vick
Sen Patrick
Sen Burgoyne
Sen Nye

COMMITTEE SECRETARY

Jennifer Carr
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MINUTES
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Tuesday, January 17, 2017

TIME: 3:00 P.M.

PLACE: Room WW53

MEMBERS PRESENT: Chairman Johnson, Vice Chairman Bayer, Senators Hill, Siddoway, Rice, Vick, Patrick, Burgoyne, and Nye

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 Johnson** called the meeting of the Local Government and Taxation Committee (Committee) to order at 3:00 p.m.

PASSED THE GAVEL: Chairman Johnson passed the gavel to Vice Chairman Bayer.

DOCKET NO. 35-0103-1606 **Alan Dornfest**, Property Tax Policy Bureau Chief with the Idaho State Tax Commission (Commission), presented **Docket No. 35-0103-1606**.

Rule 995 pertains to the certification of sales tax distributions. **Mr. Dornfest** explained that for the past two years, taxing districts have been required to provide certain information to the Legislative Services Office (LSO) for review and subsequent distribution to the Commission. Taxing districts that do not comply with reporting requirements are penalized by having sales tax distributions withheld; however, previously withheld distributions are restored once taxing districts became compliant. **Mr. Dornfest** indicated that the rule change provides a consistent time frame for the distribution of previously withheld funds by the Commission on a quarterly basis after taxing districts fall into compliance with reporting requirements.

Senator Patrick asked for an example of non-compliance by a taxing district. **Mr. Dornfest** explained that although the Commission does not administer compliance requirements, taxing districts are required to annually submit certain financial information to LSO; in turn, LSO reports non-compliance to the Commission.

MOTION: **Senator Burgoyne** moved to approve **Docket No. 35-0103-1606**. **Senator Hill** seconded the motion. The motion carried by **voice vote**.

DOCKET NO. 35-0103-1601 **Mr. Dornfest** presented **Docket No. 35-0103-1601**.

Rule 625 pertains to the homeowner's exemption as it applies to the occupancy tax, eliminating a requirement for homeowners to file more than one application to receive the exemption. **Mr. Dornfest** reported that historically, homeowners were required to file more than one application if ownership and occupancy of a primary residence occurred at different times during the year. He further indicated that many counties support the rule change because they do not require homeowners to file more than one application under these circumstances.

Senator Hill spoke in support of the rule and acknowledged the Commission's work with county assessors to facilitate the change in applicancy requirements.

Mr. Dornfest presented Rule 631 which provides guidance to counties regarding

the tax exemption for investment in new land and facilities. He reported that there have been inconsistencies in the application of this exemption in the past, and that the Commission worked with county commissioners and the Idaho Department of Commerce (DOC) to clarify this provision. **Mr. Dornfest** explained that clarifying examples were provided to demonstrate that the exemption applies only to new land and facilities, and the examples are identical to those listed in the Users Guide for Idaho Code § 63-602NN, developed by the DOC.

Senator Hill spoke in support of the rule and recognized the Commission's work to provide clarifying language.

MOTION:

Senator Hill moved to approve **Docket No. 35-0103-1601**. **Senator Burgoyne** seconded the motion. The motion carried by **voice vote**.

**DOCKET NO.
35-0103-1602**

Mr. Dornfest presented **Docket No. 35-0103-1602**.

Rule 114, pertaining to the homeowner's exemption, changes the upper limits of residential property values from \$250,000 to \$450,000. **Mr. Dornfest** explained that the Commission uses data provided by county assessors to provide analysis to the Legislature. As home values have increased, there has been a subsequent need to increase the cap to avoid precluding certain data regarding the homeowner's exemption. **Mr. Dornfest** noted that counties were in support of the rule change.

Rule 317, amended consistent with 2016 HB 431, pertains to the occupancy tax. **Mr. Dornfest** reported that language was updated to ensure that examples regarding the occupancy tax conform with the provisions of 2016 HB 431, which capped the maximum homeowner's exemption at \$100,000.

Rule 609, amended consistent with 2016 HB 431, removes reference to the House Price Index and changes the language to reflect the maximum homeowner's exemption of \$100,000.

Rule 802, amended consistent with 2016 HB 606aa, instructs taxing districts how to compute new construction amounts to generate additional budget capacity within urban renewal revenue allocation areas. **Mr. Dornfest** explained that when new construction occurs within a revenue allocation area, taxing districts do not receive additional budget capacity until dissolution or de-annexation of the property. He pointed out that 2016 HB 606aa provides provisions on the recapture of increment value within the revenue allocation area in instances of de-annexation or when urban renewal plans are changed, and that the rule recognizes this statutory change. **Mr. Dornfest** indicated that operating property within the revenue allocation area, such as public utilities and railroads, is not valued by parcel; thus, a proportional procedure was necessary to calculate what portion of the increment value that is represented by operating property may be recaptured.

Chairman Johnson expressed appreciation for the work of the Commission on these rules.

Senator Siddoway noted his involvement with the passage of 2016 HB 606aa and felt the rules were consistent with that legislation.

Mr. Dornfest presented Rule 803, which provides guidance and reporting procedures for how taxing districts certify their budgets from property tax. He pointed out that there were several pieces of legislation in 2016 that influenced the budget setting capacity for taxing districts and provided examples.

Senator Hill asked for clarification regarding Idaho Code §31-808. **Mr. Dornfest**

explained that code section referred to how counties process excess proceeds from tax deed sales as outlined in 2016 S 1347.

Mr. Dornfest presented Rule 804, amended consistent with 2016 HB 606aa, which provides a process for urban renewal agencies to report to the Commission if plan modifications have occurred. He pointed out that language is included to clarify reporting dates and penalties resulting from plan modifications, with exceptions for indebtedness and bond payments. **Mr. Dornfest** explained that statute requires every new urban renewal agency and revenue allocation area formed after July 1, 2016, attest to either having or not having a modification plan from the prior year. He pointed out that statute only provides two options, to report either having or not having a modification plan, and does not allow for consideration of failure to report at all. **Mr. Dornfest** stated that the Commission has interpreted failure to report as a plan modification.

Senator Burgoyne asked if consideration was given by the Commission to failure of an urban renewal agency to attest to plan modification, specifically if notice is given to such agency when they fail to report. **Mr. Dornfest** replied that the Commission is subject to notification requirements and provides a series of notifications to urban renewal agencies that fail to file a report.

Senator Siddoway asked what notifications are provided if an increase is required to pay off an existing bond, to which **Mr. Dornfest** responded that if there is indebtedness, the increment value would be left intact until the conclusion of the payment of the bond. **Senator Siddoway** then asked what is required of a taxing district if there is indebtedness and the urban renewal agency is unable to generate funds to pay off an existing bond. **Mr. Dornfest** responded that the Commission is not involved in this process.

Mr. Dornfest presented Rule 805, amended consistent with 2016 HB 606aa, which describes the methods of compliance with requirements to submit an urban renewal plan modification and explains subsequent action by the Commission if such plans are not received. **Mr. Dornfest** stated that every urban renewal agency is required to submit a plan annually to the Commission, and the penalty for non-compliance is the withholding of funds in any amount greater than the urban renewal agency received the previous year, as required by Idaho Code § 50-2913. If funds remain after the base reset, those funds are given to the taxing districts. **Mr. Dornfest** noted that urban renewal agencies do have the option to report no plan changes from the previous year.

MOTION:

Senator Siddoway moved to approve **Docket No. 35-0103-1602**. **Senator Hill** seconded the motion.

Chairman Johnson expressed appreciation for the work of the Commission on these rules.

The motion carried by **voice vote**.

**DOCKET NO.
35-0103-1603**

Mr. Dornfest presented **Docket No. 35-0103-1603**. Rule 020 deletes the Van/Truck Conversion and Limousine Appraisal Guide of the National Automobile Dealers Association (NADA), which is no longer published. **Mr. Dornfest** explained that assessors rely on professionally accepted procedures and guidelines in their practice.

Senator Hill inquired if there are other resources available to assessors, to which **Mr. Dornfest** replied there do exist resources that assessors can use to supplement the best practices and professional judgment in their line of work.

Senator Burgoyne asked for clarification regarding the utilization of sales price or market value in assessor valuations, and **Mr. Dornfest** explained that it is dependent upon whether the assessor believes the sales price is an accurate indicator of market value, and that assessors have leeway in their practice in this regard.

MOTION:

Senator Burgoyne moved to approve **Docket No. 35-0103-1603**. **Senator Siddoway** seconded the motion. The motion carried by **voice vote**.

**DOCKET NO.
35-0103-1605**

Mr. Dornfest presented **Docket No. 35-0103-1605**.

Rule 006 pertains to incorporation by reference and is updated annually to ensure current references to publications and reference materials. **Mr. Dornfest** indicated that the Commission was asked by the Idaho Department of Administration to delete the effective dates subsection which is duplicitous.

Rule 809, amended consistent with 2015 HB 25, pertains to corrections of erroneous levies. **Mr. Dornfest** noted that administrative errors do occur, and correction of those errors may only be made if discovered prior to February 15.

MOTION:

Chairman Johnson moved to approve **Docket No. 35-0103-1605**. **Senator Rice** seconded the motion. The motion carried by **voice vote**.

**PASSED THE
GAVEL:**

Vice Chairman Bayer passed the gavel to Chairman Johnson.

ADJOURNED:

There being no further business at this time, **Chairman Johnson** adjourned the meeting at 3:54 p.m.

Senator Johnson
Chair

Jennifer Carr
Secretary

AGENDA
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE
3:00 P.M.
Room WW53
Wednesday, January 18, 2017

SUBJECT	DESCRIPTION	PRESENTER
RULES REVIEW	IDAPA 35 - Idaho State Tax Commission	
Docket No. 35-0101-1602	Income Tax Administrative Rules	Cynthia Adrian, Idaho State Tax Commission
Docket No. 35-0201-1601	Tax Commission Administration and Enforcement Rules	Cynthia Adrian
Docket No. 35-0102-1601	Idaho Sales and Use Tax Administrative Rules	Marni Odermann, Idaho State Tax Commission
Docket No. 35-0102-1602	Idaho Sales and Use Tax Administrative Rules	Marni Odermann
Docket No. 35-0102-1603	Idaho Sales and Use Tax Administrative Rules	Marni Odermann
Docket No. 35-0110-1601	Idaho Cigarette and Tobacco Products Tax Administrative Rules	Tom Shaner, Idaho State Tax Commission

If you have written testimony, please provide a copy of it along with the name of the person or organization responsible to the committee secretary to ensure accuracy of records.

COMMITTEE MEMBERS

Chairman Johnson
 Vice Chairman Bayer
 Sen Hill
 Sen Siddoway
 Sen Rice

Sen Vick
 Sen Patrick
 Sen Burgoyne
 Sen Nye

COMMITTEE SECRETARY

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MINUTES
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Wednesday, January 18, 2017

TIME: 3:00 P.M.

PLACE: Room WW53

MEMBERS PRESENT: Chairman Johnson, Vice Chairman Bayer, Senators Hill, Rice, Vick, Patrick, Burgoyne, and Nye

ABSENT/ EXCUSED: Senator Siddoway

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 Johnson** called the meeting of the Local Government and Taxation Committee (Committee) to order at 3:00 p.m.

PASSED THE GAVEL: Chairman Johnson passed the gavel to Vice Chairman Bayer.

DOCKET NO. 35-0101-1602 **Cynthia Adrian**, Tax Policy Specialist with the Idaho State Tax Commission (Commission), presented **Docket No. 35-0101-1602**.

Rule 006, relating to the incorporation of reference materials, includes the Multistate Tax Commission (MTC) Recommended Formula for the Apportionment and Allocation of Net Income of Financial Institutions as adopted in 1994. **Ms. Adrian** explained that the Commission adopted the MTC rules and is currently utilizing 1994 valuations. Because the MTC is in the process of updating its rules, the Commission felt it was necessary to clarify that it was still using 1994 MTC valuations.

Senator Hill asked if legislation will be required if the Commission adopts new MTC rules. **Ms. Adrian** replied that the process may be completed through negotiated rulemaking.

Rule 075, relating to tax on individuals, estates, and trusts, updates tax brackets for calendar year 2017.

Rule 263 adjusts the amount of guaranteed payments that are sourced as compensation for services for calendar year 2016.

Rule 771 adds calendar year 2016 and applicable grocery tax credits capped at \$100. **Senator Hill** asked if annual rulemaking was necessary to update the calendar year. **Ms. Adrian** clarified that it is possible to establish inclusive language to avoid such rules in the future.

Rule 872, amended to be consistent with 2016 HB 353, allows employers who pay their employees only once a month to file and remit withholding on a monthly basis instead of twice a month.

Rule 874, amended to be consistent with 2016 HB 352, changes the due date for employers to file employee and withholding information with the Commission from the last day of the second month to the last day of the first month. **Senator Patrick** sought clarification of filing date requirements, and **Ms. Adrian** explained that tax

documents often have different date requirements for submission, and most are federally mandated.

MOTION: **Senator Burgoyne** moved to approve **Docket No. 35-0101-1602**. **Senator Vick** seconded the motion. The motion carried by **voice vote**.

DOCKET NO. 35-0201-1601 **Ms. Adrian** presented Docket No. 35-0201-1601. Rule 310 adds the interest rate for calendar year 2017 to the Revenue Rulings calendar, and **Ms. Adrian** explained how the interest rate is determined, as referenced in the Revenue Rulings table.

MOTION: **Senator Patrick** moved to approve **Docket No. 35-0201-1601**. **Senator Hill** seconded the motion. The motion carried by **voice vote**.

DOCKET NO. 35-0102-1601 **Marni Odermann**, Tax Policy Specialist with the Commission, presented **Docket No. 35-0102-1601**.

Rule 079 pertains to the production exemption and **Ms. Odermann** noted that two changes were made to provide clarity to the taxpayer and were negotiated rulemaking. The first change clarifies that equipment and supplies used for quality control purposes during the production process are exempt from sales tax. **Ms. Odermann** stated that identical changes were made to rules relating to production which include farming and ranching, above ground and underground mining, and lumber manufacturing. The second change, amended to be consistent with 2016 HB 386, adds reference to the beginning and end of the production process for farming operations.

A discussion ensued regarding what constitutes equipment and supplies used in the quality control process as defined in Rule 079 and in statute. **Senator Hill** asked if there were clear criterion or guidelines regarding this language. **Ms. Odermann** stated that quality control must occur during the production process, and a bright-line exists as to when this process begins and ends as defined in statute; however there is no specific criterion as to what constitutes quality control equipment. **Ms. Odermann** suggested that the Commission's intent was to clarify to the taxpayer that the quality control process, and equipment use therein, do qualify for the production exemption.

Senator Rice asked how a quality control function is determined integral to the production process, and if an auditor has discretion in determining how many quality tests are necessary and thus exempt. **Ms. Odermann** explained that the determination is made by an auditor within the context of use, and she suggested that an auditor would not necessarily make determinations on the necessity of a specific part of the production process.

Senator Hill asserted that regardless of how many times quality control tests are conducted, if the equipment used in the process and is deemed integral and necessary, then it is exempt from sales tax. **Ms. Odermann** responded that deference is given to businesses to determine what is necessary for their production process.

Senator Rice followed up by asking if the Commission, rather than examining the amount of equipment or supplies used in the quality control process, examines if the equipment itself is used for this purpose. **Ms. Odermann** responded that the intent of the rule change is to clarify that equipment is exempt from sales tax when used in the performance of quality control.

Senator Burgoyne sought clarification regarding origination of this rule change, asking what prompted the Commission to translate what was historically interpreted into formal rulemaking. **Ms. Odermann** explained that the Commission discovered in 2015 that the only published information regarding this exemption was related to mining. As a result, the Commission decided to clarify this exemption for all producers. In response to follow-up questions from **Senator Burgoyne**, **Ms. Odermann** asserted that it is the general practice of the Commission to narrowly construe sales tax against the taxpayer, and that principle applies to this exemption, as well. **Senator Burgoyne** commented that he sees value in codifying these rules for the taxpayer rather than relying on interpretation and asked Ms. Odermann to report back to the Committee if the taxpayer has the burden of proving they are entitled to the exemption in this regard.

Senator Rice asked for clarification regarding the words "and necessary" in context of this rule. **Ms. Odermann** replied that the words "and necessary" help establish the burden of proof for the taxpayer that equipment in this context must be integral to the quality control process.

Ms. Odermann continued presenting **Docket No. 35-0102-1601**. Rules 080, relating to lumber manufacturing, 081, relating to underground mining, and 082, relating to above ground, open pit mining, were all negotiated rulemaking and have identical rule changes that add equipment and supplies used for quality control to the production exemption.

Rule 083, amended to be consistent with 2016 HB 386, recognizes that the movement of crops and produce can include several steps from point of harvest and exempts equipment and supplies used for the removal from storage of agricultural commodities. Additionally, the exemption of equipment and supplies used in the quality control process is added to the rule. In response to a question from Senator Patrick about licensed vehicles used in the movement of crops, **Ms. Odermann** stated that such vehicles are not included in the exemption.

Rule 096 and 102 were amended to be consistent with 2015 HB 39, which removed the hand-tools-under-\$100 exclusion from the production exemption. **Ms. Odermann** pointed out the substantive changes in Rules 096 and 102, which include the removal of conflicting language regarding hands tools in irrigation equipment and logging, respectively. In response to a question from **Senator Nye**, **Ms. Odermann** clarified that hands tools used in production in any amount of one cent or more now qualify for the sales tax exemption.

Rule 100, amended to be consistent with 2015 HB 75, exempts from sales tax prescription eyeglass, their component parts, and prescription contact lenses. **Ms. Odermann** explained the substantive changes which include clarifying examples of products that are and are not included in the exemption, and the effective date of these exemptions.

A discussion ensued regarding how to apply tax to related products that are not tax exempt. **Ms. Odermann** remarked that giveaways, such as cleaning solution and carrying cases, are subject to use tax that is applied to the value of the purchase price. **Senator Hill** commented that the Commission may want to consider providing clarification to practitioners on how use tax is applied in this regard. **Ms. Odermann** agreed, noting this was negotiated rulemaking with input from industry.

Senator Burgoyne sought clarification regarding the application of sales and use tax at the wholesale and retail level, suggesting an issue of double taxation. **Ms. Odermann** referenced Section 100.03, which delineates only medical items

listed in statute as tax exempt for resale, which now includes prescription glasses, component parts, and contact lenses. **Ms. Odermann** asked Doug Harrie, Sales Tax Audit Manager with the Commission, to address the possible issue of double taxation. **Mr. Harrie** explained that the application of tax is situational. For instance, if a practitioner purchases items tax-exempt for resale, sales tax is applied to the consumer during purchase; conversely, if a practitioner purchases items they intend to giveaway and pay tax on those items, no further use tax is applied. **Mr. Harrie** reported the Commission follows the entire transaction to ensure tax is applied appropriately.

Ms. Odermann presented Rule 107, amended to be consistent with 2016 HB 348, which adds paddleboards and similar vessels to the list of watercraft that are taxable to nonresident purchasers.

MOTION: **Senator Burgoyne** moved to approve **Docket No. 35-0102-1601**. **Senator Patrick** seconded the motion. The motion carried by **voice vote**.

DOCKET NO. 35-0102-1602 **Ms. Odermann** presented **Docket No. 35-0102-1602**. Rule 037, amended to be consistent with 2016 HB 540, exempts from sales and use tax fixed-wing aircraft primarily used for wildfire air tactical support under contract with the federal government.

Pursuant to Senate Rule 39(H), **Senator Nye** disclosed a possible conflict of interest under applicable law.

MOTION: **Senator Patrick** moved to approve **Docket No. 35-0102-1602**. **Senator Rice** seconded the motion. The motion carried by **voice vote**.

DOCKET NO. 35-0102-1603 **Ms. Odermann** presented **Docket No. 35-0102-1603**. Rule 041, amended to be consistent with 2015 HB 11, incorporates statutory changes to Idaho Code § 63-3622J referencing the Older Americans Act. **Ms. Odermann** noted that she would report back to the Committee what age constitutes a senior citizen in this regard.

MOTION: **Senator Burgoyne** moved to approve **Docket No. 35-0102-1603**. **Chairman Johnson** seconded the motion. The motion carried by **voice vote**.

DOCKET NO. 35-0110-1601 **Tom Shaner**, Tax Policy Specialist with the Commission, presented **Docket No. 35-0110-1601**, relating to cigarette and tobacco products tax. Rule 017, amended to be consistent with 2016 HB 376, repeals the minimum bond requirement of \$1,000 and now requires the bond amount to be the greater of twice the estimated average tax liability for the reporting period or the value of stamps in the wholesaler's inventory, including the value of stamps ordered but not received.

MOTION: **Senator Vick** moved to approve **Docket No. 35-0110-1601**. **Senator Burgoyne** seconded the motion. The motion carried by **voice vote**.

PASSED THE GAVEL: Vice Chairman Bayer passed the gavel to Chairman Johnson.

ADJOURNED: There being no further business at this time, **Chairman Johnson** adjourned the meeting at 4:05 p.m.

Senator Johnson
Chair

Jennifer Carr
Secretary

AGENDA
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE
3:00 P.M.
Room WW53
Thursday, January 19, 2017

SUBJECT	DESCRIPTION	PRESENTER
Minutes	Approval of Minutes from January 12, 2017	Senator Vick Senator Burgoyne
<u>RS24812</u>	Relating to the Idaho Board of Tax Appeals	Steve Wallace, Director of the Idaho Board of Tax Appeals
<u>RS24974</u>	Relating to Fire Protection District Elections	Morgan Howard, Intern, presenting on behalf of Senator Johnson

If you have written testimony, please provide a copy of it along with the name of the person or organization responsible to the committee secretary to ensure accuracy of records.

COMMITTEE MEMBERS

Chairman Johnson
Vice Chairman Bayer
Sen Hill
Sen Siddoway
Sen Rice

Sen Vick
Sen Patrick
Sen Burgoyne
Sen Nye

COMMITTEE SECRETARY

Jennifer Carr
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MINUTES
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Thursday, January 19, 2017

TIME: 3:00 P.M.

PLACE: Room WW53

MEMBERS PRESENT: Chairman Johnson, Vice Chairman Bayer, Vick, Patrick, and Nye

ABSENT/ EXCUSED: Senators Hill, Siddoway, Rice, and Burgoyne

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

MINUTES APPROVAL: **Senator Vick** moved to approve the Minutes of January 12, 2017. **Senator Bayer** seconded the motion. The motion carried by **voice vote**.

RS 24812 **Steve Wallace**, Director of the Board of Tax Appeals (BTA), presented **RS 24812**, relating to the Board of Tax Appeals. **RS 24812** amends Idaho Code § 63-3804 to increase the daily compensation for BTA Board members from \$200 to \$300. **Mr. Wallace** explained that the current pay rate has been in place and unchanged since 1999 and that increased compensation is a key factor to future recruitment and retention of well-qualified Board members.

Senator Patrick asked what would happen to BTA funding if the Committee approved the request but the Joint Finance-Appropriations Committee did not. **Mr. Wallace** responded that the BTA would not be able to operate without an appropriation from the Legislature.

Chairman Johnson asked if this funding request was included in the Governor's annual budget, to which **Mr. Wallace** affirmed.

MOTION: **Senator Patrick** moved to print **RS 24812**. **Senator Nye** seconded the motion. The motion carried by **voice vote**.

RS 24974 **Morgan Howard**, Senate Intern presenting on behalf of Chairman Johnson, introduced **RS 24974**, relating to Fire Protection District Elections. **Ms. Howard** explained that this legislation removes language regarding the election notification process of fire protection districts, bringing this process into compliance with Idaho Code § 34-602.

Senator Vick asked how the notice in Idaho Code § 34-602 differs from existing language. **Ms. Howard** replied that this code section requires notification 12 days prior to an election; the current notification requirement for fire protection district elections is 30 days.

MOTION: **Senator Bayer** moved to print **RS 24974**. **Senator Vick** seconded the motion. The motion carried by **voice vote**.

ADJOURNED: There being no further business at this time, the **Chairman** adjourned the meeting at 3:14 p.m.

Senator Johnson
Chair

Jennifer Carr
Secretary

AGENDA
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE
3:00 P.M.
Room WW53
Thursday, January 26, 2017

SUBJECT	DESCRIPTION	PRESENTER
Minutes	Approval of Minutes from January 17, 2017	Senator Rice Senator Patrick
Gubernatorial Appointment	David E. Kinghorn of Lewisville, Idaho was reappointed to the Board of Tax Appeals to serve a term commencing June 30, 2016 and expiring June 30, 2019.	David E. Kinghorn
<u>RS25028</u>	Relating to Anticipation of Revenues in the Permanent Building Fund	Morgan Howard, Intern, presenting on behalf of Senator Johnson
<u>S 1017</u>	Relating to Fire Protection District Elections	Morgan Howard
<u>S 1016</u>	Relating to the Board of Tax Appeals	Steve Wallace, Board of Tax Appeals
Presentation	Update from the Association of Idaho Cities	Seth Grigg, Association of Idaho Cities Mayor John Evans, Garden City Mayor Brian Blad, Pocatello

If you have written testimony, please provide a copy of it along with the name of the person or organization responsible to the committee secretary to ensure accuracy of records.

COMMITTEE MEMBERS

Chairman Johnson	Sen Vick
Vice Chairman Bayer	Sen Patrick
Sen Hill	Sen Burgoyne
Sen Siddoway	Sen Nye

COMMITTEE SECRETARY

Jennifer Carr
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Sen Rice

MINUTES
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Thursday, January 26, 2017

TIME: 3:00 P.M.

PLACE: Room WW53

MEMBERS PRESENT: Chairman Johnson, Vice Chairman Bayer, Senators Hill, Rice, Vick, Patrick, Burgoyne, and Nye

ABSENT/ EXCUSED: Senator Siddoway

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 Johnson** called the meeting of the Local Government and Taxation Committee (Committee) to order at 3:00 p.m.

MINUTES APPROVAL: **Senator Patrick** moved to approve the minutes of January 17, 2017. **Senator Hill** seconded the motion. The motion carried by **voice vote**.

GUBERNATORIAL APPOINTMENT: **Chairman Johnson** welcomed Steve Wallace, Director of the Board of Tax Appeals (Board), to the podium to introduce the appointee. **Mr. Wallace** summarized the responsibilities of Board members and highlighted the appointee's tenure with the Board.

Chairman Johnson welcomed David E. Kinghorn, Chairman of the Board, to the podium. **Mr. Kinghorn** provided a brief history of his professional experience, stating that he was appointed to the Board in 2001, has served as Chairman since 2012, and represents Eastern Idaho.

Senator Hill asked what motivates Mr. Kinghorn to serve and what challenges he faces in this capacity. **Mr. Kinghorn** explained that he enjoys the intricacies of the job and considers it a great honor to serve on the Board. He noted that his greatest challenge is overcoming bias and continuing to educate the public regarding the role of government and rules thereof in this profession.

Senator Burgoyne commented on the nature of bias in this line of work and praised Mr. Kinghorn's recognition of these challenges.

MOTION: **Senator Hill** moved to send the Gubernatorial reappointment of David E. Kinghorn to the Board of Tax Appeals to the floor with a recommendation that he be confirmed by the Senate. **Senator Burgoyne** seconded the motion. The motion carried by **voice vote**.

RS 25028 **Relating to Anticipation of Revenues in the Permanent Building Fund.** **Morgan Howard**, Senate Intern presenting on behalf of Chairman Johnson, introduced **RS 25028**. **Ms. Howard** stated that this legislation amends Idaho Code § 57-1112 by removing reference to code sections that were repealed in 1983.

MOTION: **Senator Rice** moved to print **RS 25028**. **Senator Bayer** seconded the motion.

Senator Patrick sought clarification of the fiscal impact. **Ms. Howard** explained that no fiscal impact will result from the removal of outdated code references; there are no changes to the management of the permanent building fund.

Senator Hill asked why these code references were not addressed subsequent to repeal in 1983. **Ms. Howard** stated that these references were overlooked during that process.

The motion carried by **voice vote**.

S 1017 **Relating to Fire Protection Districts**. **Ms. Howard** presented **S 1017**. She stated that this legislation removes language regarding the election notification process of fire protection districts, bringing this process into compliance with Idaho Code § 34-602. Statute now requires notification for fire protection district elections 12 and 5 days prior to election; existing language requires notification for 30 days prior to an election.

Chairman Johnson explained that the fiscal note on the Statement of Purpose will be revised to detail why there is no fiscal impact to the General Fund. **Senator Rice** asked for more detail regarding this revision, and **Chairman Johnson** pointed out that although there is no impact to the General Fund, rural fire districts may be impacted financially by changes in the notification process.

MOTION: **Senator Hill** moved to send **S 1017** to the floor with a **do pass** recommendation. **Senator Nye** seconded the motion.

Senator Rice noted that these new notification requirements may have a positive financial impact on fire protection districts.

The motion carried by **voice vote**. Senator Vick was recorded as present and voting.

S 1016 **Relating to the Board of Tax Appeals**. **Mr. Wallace** presented **S 1016**. This legislation amends Idaho Code § 63-3804 to increase the daily compensation for Board members from \$200 to \$300. **Mr. Wallace** clarified that this legislation is originating in the Senate because it is not a revenue measure. He then described the types of appeals processed by the Board and provided examples of typical workload and expenses. **Mr. Wallace** highlighted the importance of future recruitment and retention of Board members as a driving factor in seeking increased compensation, pointing out that it is often difficult to find qualified candidates.

Senator Burgoyne asked Mr. Wallace to outline how Board members are compensated. **Mr. Wallace** explained that Board members are compensated for all aspects of their work related to the proceedings, including preparation and travel time; they receive a full per-diem rate for Board meetings and hearings.

Senator Vick asked if hourly rates are derived from the daily rate of compensation. **Mr. Wallace** affirmed and indicated that Board members also receive FICA benefits, including Social Security, Medicare, and PERSI.

Senator Burgoyne commented that the rate of pay for Board members is significantly lower than industry standards for the same type of work.

MOTION: **Senator Burgoyne** moved to send **S 1016** to the floor with a **do pass** recommendation. **Senator Hill** seconded the motion.

Senator Hill praised the work and skill of the Board and recognized the amount of work they do for a relatively low rate of pay.

Senator Bayer asked for clarification regarding the typical workload of Board members and how daily expenses are managed. **Mr. Wallace** replied that the number of appeals submitted varies year-to-year; subsequently, the number of days worked each year varies, sometimes exceeding 80 work days per year. **Mr. Wallace** delineated Board expenses, pointing out that approximately \$2,000 is budgeted for travel purposes for each Board member.

The motion passed by **voice vote**.

PRESENTATION: **Seth Grigg**, Executive Director of the Association of Idaho Cities (AIC), provided background information on the mission and responsibilities of the AIC, as well as emerging issues affecting Idaho cities, which include economic development and vitality.

Chairman Johnson welcomed Brian Blad, Mayor of Pocatello and President of the AIC, to the podium. **Mayor Blad** highlighted local companies that have experienced recent growth and the subsequent impact of such growth on the economy. He also emphasized the need for career technical educational opportunities through continued funding and expansion.

Senator Vick asked what companies were assisted by Tax Reimbursement Incentives (TRI) awards. **Mayor Blad** listed those companies (see Attachment 1) and provided clarity regarding the employment statistics of Western States Caterpillar.

Senator Hill asked where funding originated for the recreational complex located in Pocatello. **Mayor Blad** explained that the complex was built in conjunction with Bannock County and funding from an endowment fund created to benefit the health of the community.

Chairman Johnson noted that TRI awards require matching funds from the community and asked what those amounts were for the aforementioned local projects. **Mayor Blad** responded that assistance was provided by Bannock County and the City of Pocatello Development Authority.

Chairman Johnson welcomed John Evans, Mayor of Garden City, to the podium. **Mayor Evans** highlighted challenges facing Garden City, which include critical incidents involving law enforcement and the judicial system, noting that legislation is being drafted to address these issues. He reported that storm water management, which is federally mandated, presents budgetary challenges for Garden City. **Mayor Evans** summarized Garden City's urban renewal efforts, stating that Garden City relies on redevelopment to expand and modernize.

ADJOURNED: There being no further business at this time, **Chairman Johnson** adjourned the meeting at 4:14 p.m.

Senator Johnson
Chair

Jennifer Carr
Secretary



BANNOCK

DEVELOPMENT CORPORATION

Pocatello, Chubbuck & Bannock County Growing

- According to a 2015 study from the U.S. Bureau of Labor Statistics **Pocatello, Idaho is in the top 10 of 327 analyzed cities rebounding from the Great Recession.** According to the study, unemployment in Pocatello has dropped by 3%, while employment has increased by 13%, and the average hourly wage is up by 12%.
- Another 2015 U.S. Bureau of Labor Statistics study found that the average Pocatello area wage/salary grew from \$18.02/hr to \$19.44/hr (\$1.42 increase, almost \$3,000 annually), which translates to \$40,435 annually.

BDC Highlights of 2016

Amy's Kitchen

- \$76,000,000 investment under construction
- 1,000 new jobs

Great Western Malting Co. Expansion

- \$78,000,000 Investment under construction
- \$307,000,000 expected economic impact
- 50,000 additional acres of barley produced
- 10 additional jobs

Allstate Insurance Center

- 450 currently employed with projections for 550

2016 California Prospecting Trip

SME Steel

- 150 new jobs projected

Western States Caterpillar

- \$20,000,000 investment – construction completed
- 110 jobs retained
- 10 additional jobs

Buchanan & Edwards

- 20 IT Positions

FBI Expansion

- 300 Professional & Technical Positions

Bully Dog – Old Town Pocatello Location

- 50 Professional and Technical Positions

Regional Marketing with REDI & EIEDP

Your Future In Technology Career Awareness Program

Want A High Tech, High Pay, High Demand Job When You Get Out of School?

Come to a Career & Technology Expo and discover 8 careers that pay \$32,064 to \$97,250 per year:

Welding

Instrumentation/controls

Nuclear Operating Tech

Outdoor Electrical

Machining (CNC)

Maintenance engineers/mechanics

Information Technology GIS/CIS/Cybersecurity

Unmanned Aerial Systems (Drones)

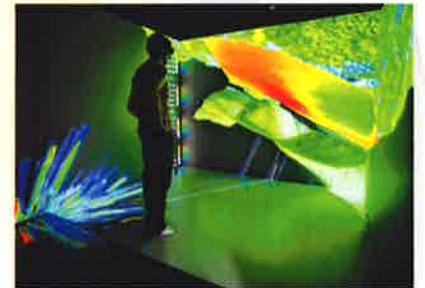


There will be companies from these fields with demos to show you what these jobs are like. Experience the **Mobile Computer-Assisted Virtual Environment** from the Idaho National Laboratories. Bring your parents to check it out.

Discover the training at ISU's College of Technology that will help you get those jobs. They will have booths set up to show you how to get ready for that job of your dreams, including drone demos.

There will be pizza, pop and prizes, including drones, tablets and iPads!

Bring your parents to your choice of any of the Career and Technology Expos in Southeast Idaho. Each Career and Technology Expo starts at 5:30 pm.



Check out these social pages for more info. Don't forget to use #YourFIT to search or post in all of our social media platforms.

YourFIT/Facebook ■ Snapchat ■ Instagram ■ Twitter

YourFIT
Your Future in Technology

High Tech, High Wage, High Demand Careers

AGENDA
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE
3:00 P.M.
Room WW53
Wednesday, February 01, 2017

SUBJECT	DESCRIPTION	PRESENTER
Minutes	Approval of Minutes from January 18, 2017	Vice Chairman Bayer, Senator Nye
	Approval of Minutes from January 19, 2017	Senators Vick and Patrick
<u>H 22</u>	Relating to Spousal Tax Relief	Tom Shaner, Idaho State Tax Commission
<u>H 23</u>	Relating to Taxes, Perfected Protest	Tom Shaner
<u>H 24</u>	Relating to Taxes, Administrative Redetermination, Staff	Tom Shaner
<u>H 25</u>	Relating to Tobacco Permits, Terminology	Tom Shaner
<u>H 26</u>	Relating to the Internal Revenue Code, Conformity	Tom Shaner

COMMITTEE MEMBERS

Chairman Johnson
Vice Chairman Bayer
Sen Hill
Sen Siddoway
Sen Rice

Sen Vick
Sen Patrick
Sen Burgoyne
Sen Nye

COMMITTEE SECRETARY

Jennifer Carr
Room: WW50
Phone: 332-1315
email: sloc@senate.idaho.gov

MINUTES
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Wednesday, February 01, 2017

TIME: 3:00 P.M.

PLACE: Room WW53

MEMBERS PRESENT: Chairman Johnson, Vice Chairman Bayer, Senators Hill, Siddoway, Vick, Patrick, Bock(Burgoyne), and Nye

ABSENT/ EXCUSED: Senator Rice

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 Johnson** called the meeting of the Local Government and Taxation Committee (Committee) to order at 3:05 p.m.

MINUTES APPROVAL: **Vice Chairman Bayer** moved to approve the Minutes of January 18, 2017. **Senator Hill** seconded the motion. The motion carried by **voice vote**.

Senator Patrick moved to approve the Minutes of January 19, 2017. **Senator Vick** seconded the motion. The motion carried by **voice vote**.

H 22 **Relating to Spousal Tax Relief. Tom Shaner**, Income Tax Policy Specialist with the Idaho State Tax Commission (Commission), presented **H 22**. This legislation moves the statute for spousal relief from the income subtraction section to the collections area of the Idaho income tax act. Idaho Code § 63-3022T is being stricken and replaced with § 63-3050A, which contains identical language. **Mr. Shaner** explained that if the Internal Revenue Service (IRS) grants spousal relief from a tax liability, the Commission will follow suit. Because the tax liability does not change in this regard, the code section is being moved to the appropriate area. **Mr. Shaner** commented that this bill provides transparency and clarity for taxpayers, tax professionals, and software developers.

Senator Patrick asked Mr. Shaner to explain the fiscal note. **Mr. Shaner** stated there is no fiscal impact because the function of the statute remains unchanged; the bill simply renumbers and corrects code references in statute.

Senator Hill explained that due to changes in Senate rules, fiscal notes must now contain an explanation as to why no fiscal impact is projected. He indicated that a do pass recommendation would be contingent upon revision of the fiscal note. **Chairman Johnson** reiterated the need for revisions of the fiscal notes prior to legislation being sent to the floor.

Senator Siddoway sought clarity regarding the tax liability, asking if the tax burden shifts in situations of divorce or death. **Mr. Shaner** responded that the tax liability does not change but shifts to the responsible party.

Senator Nye asked if spousal tax relief applies to same-sex marriage in this regard. **Mr. Shaner** replied that the Commission will honor spousal tax relief granted by the IRS.

MOTION: **Senator Siddoway** moved to send **H 22** to the floor with a **do pass** recommendation. **Senator Hill** seconded the motion. The motion carried by **voice vote**.

H 23

Relating to Taxes, Perfected Protest. **Mr. Shaner** presented **H 23**, which amends Idaho Code § 63-3045B, to clarify that if a taxpayer files a protest but does not perfect the protest within 28 days after notification, the notice of deficiency becomes final. **Mr. Shaner** explained that this bill provides clarity for taxpayers appealing a notice of deficiency determination issued by the Commission. He detailed changes in code references and clarifying language. **Mr. Shaner** stated there is no fiscal impact because the function of the statute remains unchanged; the proposed changes are technical in nature and simply provide clarification.

Senator Siddoway asked for a definition of the term "perfected protest." **Mr. Shaner** replied that "perfected" means complete and valid, and that basic information, such as identifying information and dates of deficiency, is required to make a protest valid. **Senator Siddoway** questioned how the proposed changes will impact taxpayers, expressing concern of undue burden. **Mr. Shaner** indicated that the proposed changes are intended to clarify the appeals process for taxpayers. Additionally, auditors will often clear up confusion regarding perfected protests with taxpayers during the course of their work.

Vice Chairman Bayer asked how many protests submitted to the Commission do not meet the requirements to be considered perfected. **Mr. Shaner** reported a low percentage and pointed out that auditors routinely engage with taxpayers to retrieve missing information; to the extent possible, missing information is not used to prevent a protest being processed.

Senator Hill asked if a definition of "perfected protest" is provided in statute or rules, and asked for assurance that the Commission is not placing undue burden on the taxpayer. **Mr. Shaner** referenced Administrative and Enforcement Rule 320 (see Attachment 1) regarding timeline requirements but was unable not provide a definitive source of the term "perfected." He did emphasize that the standards for perfected protests remain unchanged.

Senator Bock commented that the term "perfected" is commonly used in the context of real estate and that he is comfortable with the terminology.

MOTION:

Senator Bock moved to send **H 23** to the floor with a **do pass** recommendation. **Vice Chairman Bayer** seconded the motion. The motion carried by **voice vote**.

H 24

Relating to Taxes, Administrative Redetermination. **Mr. Shaner** presented **H 24**, which amends Idaho Code § 63-3045, to clarify that when a taxpayer requests a redetermination of a notice of deficiency, the redetermination will be performed by staff independent from the division that issued the notice. **Mr. Shaner** stated that following a protest, a taxpayer may request a hearing to address the deficiency; however, statute does not delineate who from the Commission should perform this redetermination. In an effort to provide transparency for the taxpayer during this process, this legislation clarifies that the auditor be independent of the originating division. **Mr. Shaner** noted the effective date of July 1, 2017, was established to avoid interfering with appeals currently in progress. He stated there is no fiscal impact because the function of the statute remains unchanged.

MOTION: **Senator Nye** moved to send **H 24** to the floor with a **do pass** recommendation. **Senator Siddoway** seconded the motion.

Senator Vick asked for clarification regarding the aforementioned independent audit group. **Mr. Shaner** explained that there is now a subgroup of tax policy specialists within the Tax Policy and Appeals division that will only process these types of appeals; no additional positions were added nor were job titles changed to avoid classification issues.

The motion carried by **voice vote**.

H 25 **Relating to Tobacco Permits, Terminology.** **Mr. Shaner** presented **H 25**, which amends Idaho Code § 63-2555, replacing the term "registration certificate" with the current term "permit". He stated there is no fiscal impact because the function of the statute remains unchanged.

MOTION: **Senator Vick** moved to send **H 25** to the floor with a **do pass** recommendation. **Vice Chairman Bayer** seconded the motion. The motion carried by **voice vote**.

H 26 **Relating to the Internal Revenue Code, Conformity.** **Mr. Shaner** presented **H 26**, the annual conformity bill. He stated that **H 26** conforms Idaho income tax statute to the Internal Revenue Code (IRC) and relieves the Legislature from creating and maintaining stand-alone tax code, simplifies tax preparation, and facilitates tax administration. The passage of this bill is essential for taxpayers and tax professionals to begin processing and filing tax returns. **Mr. Shaner** noted the fiscal impact is insignificant because unlike previous years, Congress is not expected to retroactively reinstate tax expense laws.

MOTION: **Vice Chairman Bayer** moved to send **H 26** to the floor with a **do pass** recommendation. **Senator Siddoway** seconded the motion.

Senator Bock sought clarification regarding the definition of marriage as it applies to this legislation. **Mr. Shaner** replied that the language in **H 26** is identical to language passed in the conformity bill during the 2016 Legislative Session.

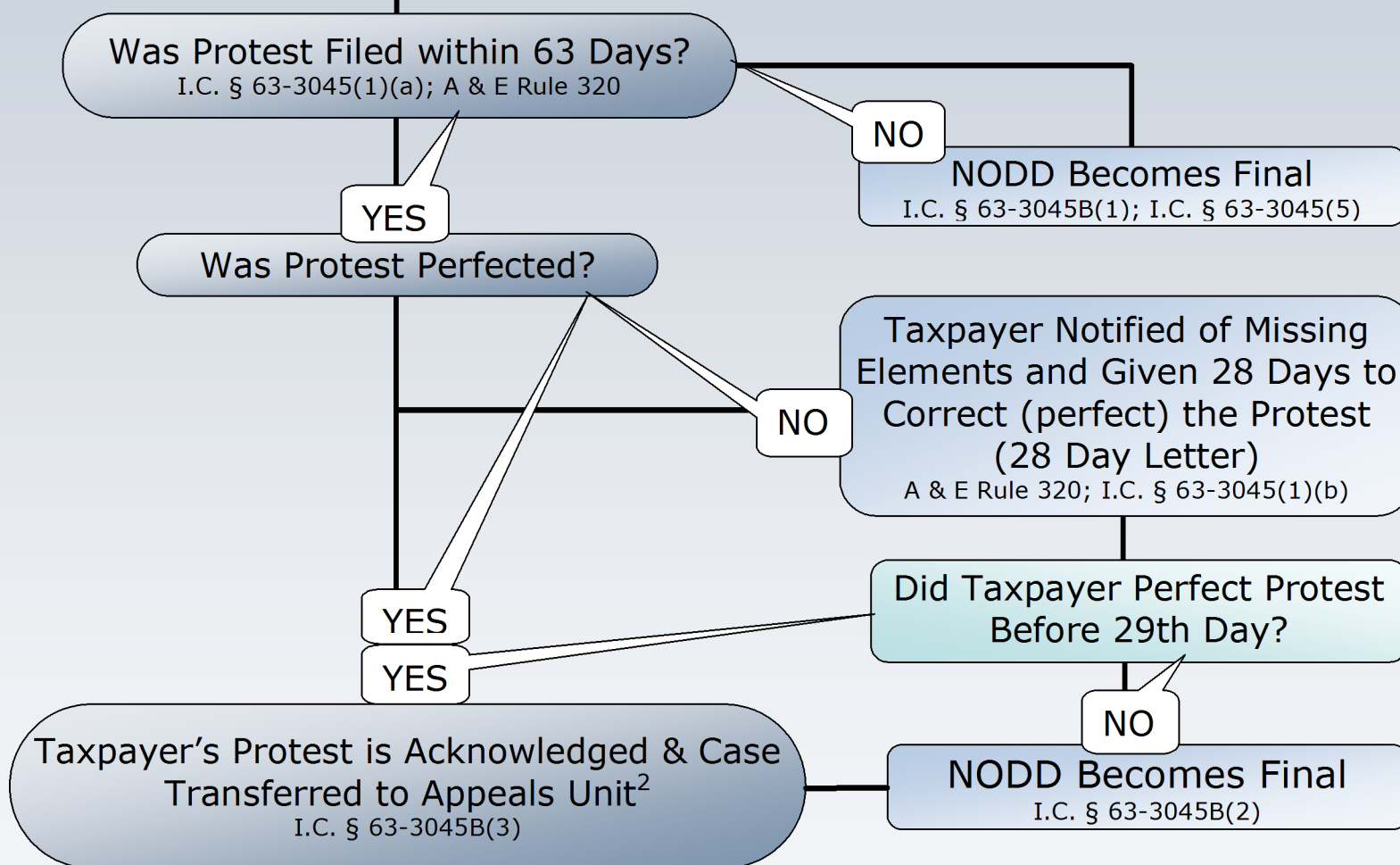
The motion carried by **voice vote**.

ADJOURNED: There being no further business at this time, **Chairman Johnson** adjourned the meeting at 3:42 p.m.

Senator Johnson
Chair

Jennifer Carr
Secretary

Taxpayer Protests Notice of Deficiency Determination(NODD)¹



1 - NODD states the protest must be in writing and contain a legal and factual reason for the protest.

2 - In some cases, originating division may continue to work with taxpayer to resolve case.

AMENDED AGENDA #1
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE
3:00 P.M.
Room WW53
Thursday, February 02, 2017

SUBJECT	DESCRIPTION	PRESENTER
<u>H 29</u>	Relating to the Grocery Tax Credit	Cynthia Adrian, Idaho State Tax Commission
<u>H 30</u>	Relating to Electric Utilities, Discount Rate	Alan Dornfest, Idaho State Tax Commission
<u>H 31</u>	Relating to Property Tax Relief, Roth IRA Distributions	Alan Dornfest
<u>S 1032</u>	Relating to Anticipation of Revenues in the Permanent Building Fund, Obsolete References	Morgan Howard, Intern, presenting on behalf of Senator Johnson

If you have written testimony, please provide a copy of it along with the name of the person or organization responsible to the committee secretary to ensure accuracy of records.

COMMITTEE MEMBERS

Chairman Johnson
Vice Chairman Bayer
Sen Hill
Sen Siddoway
Sen Rice

Sen Vick
Sen Patrick
Sen Bock(Burgoyne)
Sen Nye

COMMITTEE SECRETARY

Jennifer Carr
Room: WW50
Phone: 332-1315
email: sloc@senate.idaho.gov

MINUTES
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Thursday, February 02, 2017

TIME: 3:00 P.M.

PLACE: Room WW53

MEMBERS PRESENT: Chairman Johnson, Vice Chairman Bayer, Senators Hill, Siddoway, Vick, Patrick, Bock(Burgoyne), and Nye

ABSENT/ EXCUSED: Senator Rice

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 Johnson** called the meeting of the Local Government and Taxation Committee (Committee) to order at 3:00 p.m.

H 29 **Relating to the Grocery Tax Credit. Cynthia Adrian**, Tax Policy Specialist with the Idaho State Tax Commission (Commission), presented **H 29**. **Ms. Adrian** explained that when the grocery tax credit was adopted in 2008, language was included to suspend the scheduled increase of \$10 per year if certain conditions were met. Because the grocery tax credit has reached the maximum amount of \$100, the original language is now obsolete. **H 29** amends Idaho Code § 63-3024A to remove this language.

MOTION: **Senator Patrick** moved to send **H 29** to the floor with a **do pass** recommendation. **Vice Chairman Bayer** seconded the motion. The motion carried by **voice vote**.

H 30 **Relating to Electric Utilities, Discount Rate. Alan Dornfest**, Property Tax Policy Bureau Chief with the Commission, presented **H 30**, which amends Idaho Code § 63-205B. **Mr. Dornfest** reported that this section of statute provides a valuation system for property tax purposes for electric utility companies. Idaho Code § 63-205B is being amended to specify that 0.2 percent be included in the capitalization rate to account for flotation costs, which are incurred when electric utilities issue stocks or bonds. Current law provides that the flotation costs component be supported by unspecified, nationally-recognized sources, which has been problematic during the valuation process.

Senator Siddoway asked how an income approach is utilized in this process. **Mr. Dornfest** explained how the Commission uses both an income and cost approach when assessing operating property and determining capitalization rates. There are various components in the capitalization rate, and **Mr. Dornfest** indicated that the flotation component has become problematic. **Senator Siddoway** sought clarity regarding the flotation cost component. **Mr. Dornfest** explained that a 0.2 percent rate was included in the capitalization rate to account for costs associated with the issuance of stocks and bonds, in lieu of the approach currently mandated.

Senator Nye sought clarity regarding the fiscal impact. **Mr. Dornfest** reported there is no general fund component; the Commission determines the value of electric utilities, following statutory guidelines, and allocates a portion of that value back to the State. He explained that taxing districts are apportioned shares of an electric utility based on the percentage of the company that resides within the district; those apportioned shares are affected by the value of the capitalization rate. **Mr. Dornfest** pointed out that specifying a 0.2 percent rate be included in the capitalization rate

will preclude possible tax shifts resulting from changes in the value of those shares.

Senator Vick asked if this legislation will impact rates of service. **Mr. Dornfest** stated he has is unable to comment on how rates are determined by public utility companies.

Chairman Johnson commented on the use of price deflators in general and how they are identified in statute. **Mr. Dornfest** stated the price deflator referenced in **H 30** is the only one referenced in statute regarding the valuation of operating property.

MOTION: **Senator Siddoway** moved to send **H 30** to the floor with a **do pass** recommendation. **Senator Bock** seconded the motion. The motion carried by **voice vote**.

H 31 **Relating to Property Tax Relief, Roth IRA Distributions.** **Mr. Dornfest** presented **H 31**, which amends Idaho Code § 63-701(5) to exclude non-taxable Roth IRA distributions from the income calculation for the circuit breaker property tax relief. The circuit breaker program helps low-income homeowners pay property tax, and **Mr. Dornfest** stated that the Commission reimburses counties rather than individual beneficiaries. **Mr. Dornfest** explained how income affects the circuit breaker program; as a claimant's income increases, the amount of reduction they receive as a credit to property tax decreases. There are approximately 100 claimants Statewide in this program receiving Roth IRA distributions, but **Mr. Dornfest** indicated this number is likely to grow in the future.

Senator Patrick asked about the relatively low projected fiscal note. **Mr. Dornfest** explained that only ten claimants currently enrolled in the program who receive Roth IRA distributions will be affected. The typical claimant receives approximately \$600 in benefits, resulting in a projected \$5,000 fiscal impact. He explained that for the remaining 90 claimants who receive Roth IRA distributions, their circuit breaker benefit would be unaffected if the distribution amount were deducted from their income. However, **Mr. Dornfest** pointed out that the Commission anticipates the number of claimants taking Roth IRA distributions to grow in the future.

MOTION: **Senator Vick** moved to send **H 31** to the floor with a **do pass** recommendation. **Vice Chairman Bayer** seconded the motion.

Senator Hill asked if income level is the only indicator used by the Commission to determine eligibility to the circuit breaker program. **Mr. Dornfest** replied there is no asset test nor does the Commission have a way to analyze assets of program participants. **Senator Hill** sought assurance that participants in the circuit breaker program who have Roth IRAs will not be taxed twice. **Mr. Dornfest** replied that the distributions received by most participants are not great enough to meet that threshold or affect the amount of property tax relief they receive.

The motion carried by **voice vote**.

S 1032 **Relating to Anticipation of Revenues in the Permanent Building Fund, Obsolete References.** **Morgan Howard**, Senate Intern, presented **S 1032**, on behalf of Senator Johnson. This legislation amends Idaho Code § 57-1112 by removing reference to code sections that were repealed in 1983.

MOTION: **Senator Nye** moved to send **S 1032** to the floor with a **do pass** recommendation. **Senator Siddoway** seconded the motion.

Vice Chairman Bayer asked for the content of the code section being stricken. **Ms. Howard** stated Idaho Code § 63-3205 is titled "Expenses of Negotiating Loans and Issuing Notes" but she was unable to find the content of this statute. **Ms. Howard** will provide that information to the Committee.

The motion carried by **voice vote**.

ADJOURNED: There being no further business at this time, **Chairman Johnson** adjourned the meeting at 3:30 p.m.

Senator Johnson
Chair

Jennifer Carr
Secretary

AGENDA
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE
3:00 P.M.
Room WW53
Wednesday, February 08, 2017

SUBJECT	DESCRIPTION	PRESENTER
Minutes	Approval of Minutes from January 26, 2017	Senator Hill Senator Nye
<u>RS25174</u>	Relating to Building Codes, Definition	Marc Eberlein, Commissioner, Kootenai County
<u>RS25159</u>	Relating to Identity Theft	Morgan Howard, Senate Intern
<u>H 15</u>	Relating to Urban Renewal, Statute Correction	Morgan Howard

If you have written testimony, please provide a copy of it along with the name of the person or organization responsible to the committee secretary to ensure accuracy of records.

COMMITTEE MEMBERS

Chairman Johnson
Vice Chairman Bayer
Sen Hill
Sen Siddoway
Sen Rice

Sen Vick
Sen Patrick
Sen Burgoyne
Sen Nye

COMMITTEE SECRETARY

Jennifer Carr
Room: WW50
Phone: 332-1315
email: sloc@senate.idaho.gov

MINUTES
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Wednesday, February 08, 2017

TIME: 3:00 P.M.

PLACE: Room WW53

MEMBERS PRESENT: Chairman Johnson, Vice Chairman Bayer, Senators Hill, Siddoway, Vick, Patrick, and Nye

ABSENT/ EXCUSED: Senators Rice and Burgoyne

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 Johnson** called the meeting of the Local Government and Taxation Committee (Committee) to order at 3:03 p.m.

MINUTES APPROVAL: **Senator Hill** moved to approve the Minutes of January 26, 2017. **Vice Chairman Bayer** seconded the motion. The motion carried by **voice vote**.

RS 25174 **Relating to Building Codes.** **Marc Eberlein**, Commissioner, Kootenai County, presented **RS 25174**. This legislation amends Idaho Code § 39-4105 by providing a definition of "owner-builder". Additionally, § 39-4116 is amended to provide an owner-builder exemption to the building permit process. Owner-builders will still be required to comply with statutory planning and zoning requirements, as well as new disclosure requirements, as provided in § 55-2506.

Senator Hill asked if this legislation will impact county revenues. **Mr. Eberlein** suggested a positive fiscal impact for counties resulting from fewer building permits being issued, which is costly and time-consuming. **Senator Hill** asked that the fiscal note be revised to provide further explanation of projected fiscal impact at the local level, and **Mr. Eberlein** stated he would do so.

MOTION: **Senator Hill** moved to print **RS 25174**. **Senator Vick** seconded the motion. The motion carried by **voice vote**.

RS 25159 **Relating to Identity Theft.** **Morgan Howard**, Senate Intern, presented **RS 25159**. This legislation amends Idaho Code § 28-51-105 to require tax preparers to provide notification to the Idaho State Tax Commission within five days of discovery of a breach of computerized information.

Senator Vick asked if commercial tax preparation companies, such as H&R Block, and Certified Public Accountants constitute individual or commercial entities as outlined in statute, to which **Ms. Howard** affirmed.

MOTION: **Senator Vick** moved to print **RS 25159**. **Vice Chairman Bayer** seconded the motion. The motion carried by **voice vote**.

H 15 **Relating to Urban Renewal, Statute Correction.** **Ms. Howard** presented **H 15**, which amends Idaho Code § 50-2905A to revise the definition of "project costs" to correctly refer to the definition, which is provided in § 50-2903(14).

MOTION: **Senator Siddoway** moved to send **H 15** to the floor with a **do pass** recommendation. **Vice Chairman Bayer** seconded the motion. The motion carried by **voice vote**.

ADJOURNED: There being no further business at this time, **Chairman Johnson** adjourned the meeting at 3:15 p.m.

Senator Johnson
Chair

Jennifer Carr
Secretary

AMENDED AGENDA #1
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE
3:00 P.M.
Room WW53
Thursday, February 09, 2017

SUBJECT	DESCRIPTION	PRESENTER
<u>RS25177</u>	Relating to Property Tax, Missed Property Roll	Kelli Brassfield, Idaho Association of Counties
Presentation	Update from the Idaho Association of Counties	Dan Chadwick, Executive Director, Idaho Association of Counties

If you have written testimony, please provide a copy of it along with the name of the person or organization responsible to the committee secretary to ensure accuracy of records.

COMMITTEE MEMBERS

Chairman Johnson
Vice Chairman Bayer
Sen Hill
Sen Siddoway
Sen Rice

Sen Vick
Sen Patrick
Sen Burgoyne
Sen Nye

COMMITTEE SECRETARY

Jennifer Carr
Room: WW50
Phone: 332-1315
email: sloc@senate.idaho.gov

MINUTES
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Thursday, February 09, 2017

TIME: 3:00 P.M.

PLACE: Room WW53

MEMBERS PRESENT: Chairman Johnson, Vice Chairman Bayer, Senators Hill, Siddoway, Vick, Patrick, Burgoyne, and Nye

ABSENT/ EXCUSED: Senator Rice

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 Johnson** called the meeting of the Local Government and Taxation Committee (Committee) to order at 3:02 p.m.

RS 25177 **Relating to Property Tax, Missed Property Roll. Kelli Brassfield**, Idaho Association of Counties (IAC), presented **RS 25177**. This legislation amends Idaho Code § 63-811 to remove language pertaining to delivery of a missed property roll to the taxpayer. Current statute restricts delivery until after the first Monday of March in the following year, which **Ms. Brassfield** stated is unnecessary. She explained that removing this restriction will align this code section with other related statutes.

MOTION: **Senator Siddoway** moved to print **RS 25177**. **Senator Vick** seconded the motion. The motion carried by **voice vote**.

PRESENTATION: **Update from the Idaho Association of Counties. Daniel Chadwick**, IAC Executive Director, presented an update from the IAC. **Mr. Chadwick** provided information on county responsibilities and the roles and responsibilities of county officials. He also discussed county budgets; he emphasized that counties are reliant on property taxes and highlighted county revenue sources. **Mr. Chadwick** commented on emerging issues facing Idaho counties, which include: 1.) behavioral and mental health; 2.) opioid abuse and overdose deaths; and 3.) the public defense system. **Mr. Chadwick** indicated that counties are deeply impacted by these issues and play a significant role in their management at the local level.

Senator Vick asked for the status of Federal Payment in Lieu of Taxes (PILT) funding. **Mr. Chadwick** explained that in recent years, PILT monies had been offset by the Secure Rural Schools program, which is no longer being funded by the federal government. **Mr. Chadwick** stated that PILT funding formulas are less stable today and payments are much lower than previous years.

ADJOURNED: There being no further business at this time, **Chairman Johnson** adjourned the meeting at 3:30 p.m.

Senator Johnson
Chair

Jennifer Carr
Secretary

AGENDA
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE
3:00 P.M.
Room WW53
Wednesday, February 15, 2017

SUBJECT	DESCRIPTION	PRESENTER
Page Graduation	Farewell to Committee Page Madison Smith	Chairman Johnson
Gubernatorial Appointment	Tom Katsilometes of Meridian, Idaho, was reappointed to the State Tax Commission to serve a term commencing March 8, 2017 and expiring March 8, 2023.	Tom Katsilometes
<u>H 32</u>	Relating to Sales Tax, Nonresident Vehicle Exemption	Marni Odermann, Idaho State Tax Commission
<u>H 83</u>	Relating to Taxation, New Construction Roll	Representative Trujillo
<u>S 1080</u>	Relating to Property Tax, Missed Property Roll	Kelli Brassfield, Idaho Association of Counties
Minutes	Approval of Minutes from February 1, 2017	Senator Siddoway
	Approval of Minutes from February 2, 2017	Senator Vick

If you have written testimony, please provide a copy of it along with the name of the person or organization responsible to the committee secretary to ensure accuracy of records.

COMMITTEE MEMBERS

Chairman Johnson
 Vice Chairman Bayer
 Sen Hill
 Sen Siddoway
 Sen Smith(Rice)

Sen Vick
 Sen Patrick
 Sen Burgoyne
 Sen Nye

COMMITTEE SECRETARY

Jennifer Carr
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MINUTES
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Wednesday, February 15, 2017
TIME: 3:00 P.M.
PLACE: Room WW53
MEMBERS PRESENT: Chairman Johnson, Vice Chairman Bayer, Senators Hill, Siddoway, Smith(Rice), Vick, Burgoyne, and Nye
ABSENT/ EXCUSED: Senator Patrick

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 Johnson** convened the meeting of the Local Government and Taxation Committee (Committee) to order at 3:00 p.m.

H 83 **Relating to Taxation, New Construction Roll. Representative Trujillo** presented **H 83**, which provides provisions to ensure that if property becomes exempt from property tax rolls within a certain period time, the exempted value is subtracted from the dollar amount of property tax certified for annual budgets. **Representative Trujillo** noted that as a county appraiser, she has recognized this issue to be problematic in her line of work. She provided a scenario in which a building was appraised, placed on the new construction roll, and subsequently exempted from property tax; it was accounted for on the new construction roll but not in terms of budgeting capacity. If revenue is not being generated through collection of property tax, **Representative Trujillo** stated the county should not be budgeting against that value.

Senator Burgoyne asked if this bill applies solely to new construction, and **Representative Trujillo** affirmed.

Senator Siddoway asked for a definition and examples of the term "alteration." **Representative Trujillo** stated that "alteration" is being stricken from the statute because there is no clear definition; as such, determining whether an alteration adds substantial value to a property and is thus included on a new construction roll for budgeting capacity has become problematic for county appraisers. **Senator Siddoway** provided a scenario in which a change of use occurs with a commercial property and asked if provisions apply in that regard. **Representative Trujillo** replied that new construction rolls apply to real property rather than personal property. **Senator Siddoway** asked if a change of use of a commercial property constitutes an alteration, as provided in statute. **Representative Trujillo** responded that because there is no clear definition of what constitutes an alteration, the change in value in that regard is difficult to determine. The intent of the statute is to include new buildings or additions on new construction rolls, rather than alterations or remodels. **Senator Siddoway** asked if an addition to a property constitutes an alteration or new construction, and **Representative Trujillo** replied that additions would be placed on new construction rolls.

Senator Nye asked what the projected fiscal impact is at the local level and if the Idaho State Tax Commission (Commission) and the Idaho Association of Counties (IAC) were consulted. **Representative Trujillo** explained that the fiscal impact is dependent upon new exemptions granted in the future; because new construction will not be factored into budget capacity, the fiscal impact will be minimal. She indicated that the Commission and county and city representatives were involved in this process; their main concern was a retroactive fiscal impact which would not be applicable under these provisions.

Senator Burgoyne commented on a possible structural error within the bill, pointing out that Idaho Code § 63-301A(3)(g) may not be properly formatted. **Representative Trujillo** asked Alan Dornfest, Property Tax Policy Bureau Chief with the Commission, to address these concerns. A discussion ensued regarding possible structural errors within the legislation and potential difficulties regarding interpretation and implementation. **Mr. Dornfest** stated he interprets the language in § 63-301A(3)(g) to be an additional deduction and does not foresee it being problematic from an administrative standpoint. **Senator Burgoyne** followed up by seeking further clarification of the fiscal impact at the local level. **Mr. Dornfest** responded that the Commission does not have enough information to conduct a fiscal analysis; however, based on financial information provided by the counties, he feels the fiscal impact will be minimal. **Senator Burgoyne** asked for clarification regarding new language in Idaho Code § 63-802(j). **Mr. Dornfest** explained that when a dollar value is placed on a new construction roll, budget capacity increases in relation to the prior year's levy rate. For a deduction, the budget capacity is not just based on the prior year but on the highest budget from property tax for the previous three years. Idaho Code § 63-802(j) provides provisions for taxing districts in this regard.

Senator Nye asked if these provisions will result in a tax increase, and **Mr. Dornfest** stated that no tax increase is projected.

TESTIMONY:

Geoff Schroeder, Mountain Home City Councilman, spoke in opposition of **H 83**. **Mr. Schroeder** observed that new construction and development often result in new financial obligations for a city and these obligations remain even when a property becomes tax exempt. For instance, when a property is annexed, the city begins to provide services, such as fire protection and sewer and water services; after an exemption is granted to that property, the city is still obligated to provide these services. **Mr. Schroeder** argued that because budgeting capacity does not reflect this, these exemptions result in a tax shift to others in that taxing jurisdiction. Additionally, **Mr. Schroeder** commented on the removal of the term "alteration" from statute, arguing that such action is at odds with the definition of "development" as provided in statute. If an alteration of interior property creates an increase in the need for services and the alteration is not placed on a new construction roll, the city is unable to levy for that impact. **Mr. Schroeder** suggested there is a misperception regarding new construction and annexation in this regard, and the net benefit of these provisions does not always outweigh potential fiscal impact at the local level.

Vice Chairman Bayer sought clarification regarding the timing of annexation of property with regards to budgeting capacity. **Mr. Schroeder** explained that if it is known during the annexation process that a property will be tax exempt, the tax burden shifts to others in the taxing district.

Senator Burgoyne asked for further explanation regarding possible tax shifts. **Mr. Schroeder** replied that if the value of the exempted property is deducted from budgeting capacity, the ability of a local jurisdiction to provide services is constrained, resulting in a possible tax shift to other taxpayers. **Senator**

Burgoyne noted two areas of concern regarding this legislation which include possible tax shifts resulting from exemptions, and budgeting capacity that allows property owners to protect the value of property within the municipality.

Representative Trujillo returned to the podium to provide closing remarks. She stated that in general, budget capacity will be minimally affected unless the exemption is large; at that point, it is up to county commissioners to negotiate with local business regarding necessary expansions or improvements to infrastructure. **Representative Trujillo** emphasized that these decisions should be made at the local level.

Senator Burgoyne asked how the provisions of **H 83** apply if property ownership changes. **Representative Trujillo** responded that it is dependent upon when the change of ownership occurs.

MOTION: **Senator Vick** moved to send **H 83** to the floor with a **do pass** recommendation. There being no second, the motion failed.

Vice Chairman Bayer reemphasized structural observations regarding Idaho Code § 63-301A(3)(g) and commented that given other parameters relating to budgeting capacity, taxing district budgets will not be substantially affected by the provisions in this bill.

GUBERNATORIAL APPOINTMENT: **Chairman Johnson** welcomed Tom Katsilometes, Commissioner, Idaho State Tax Commission (Commission). **Mr. Katsilometes** provided a brief history of his professional experience, stating that he has served as a Commissioner for the past 12 years, and previously as a County Commissioner for Bannock County for 18 years.

Pursuant to Senate Rule 39(H), **Senator Burgoyne** disclosed a possible conflict of interest.

Senator Siddoway asked Mr. Katsilometes to comment on challenges he faces in his line of work, as well as recent efforts of the Commission to become more transparent and accessible. **Mr. Katsilometes** replied that the Commission is currently implementing public relations programs to improve its relationship with the citizens of the State. Additionally, the Commission is in the process of acquiring new office space; their current lease expires in June.

MOTION: **Senator Burgoyne** moved to send the Gubernatorial reappointment of Tom Katsilometes to the State Tax Commission to the floor with a recommendation that he be confirmed by the Senate. **Senator Vick** seconded the motion. The motion carried by **voice vote**.

H 32 **Relating to Sales Tax, Nonresident Vehicle Exemption.** **Marni Odermann**, Sales Tax Policy Specialist with the Commission, presented **H 32**. This legislation amends Idaho Code § 63-3622R to change the number of days a nonresident can use certain vehicles, vessels, or trailers before owing sales tax, from 60 to 90 days. Current statute allows for 60 days of use in a twelve-month period before tax is due. **Ms. Odermann** indicated there are three other sales and use tax statutes regarding personal property, aircraft, and equipment that allow for 90 days of use; **H 32** creates consistent statutory standards. **Ms. Odermann** projected a decrease to the General Fund of no more than \$25,000.

MOTION: **Senator Siddoway** moved to send **H 32** to the floor with a **do pass** recommendation. **Senator Burgoyne** seconded the motion. The motion carried by **voice vote**.

S 1080 **Relating to Property Tax, Missed Property Roll.** **Kelli Brassfield**, Idaho Association of Counties (IAC), presented **S 1080**. Current statute restricts delivery of a missed property roll to the tax collector until after the first Monday of March in the following year, which **Ms. Brassfield** stated is unnecessary. **S 1080** amends Idaho Code § 63-811 to remove language restricting delivery of a missed property roll, aligning this code section with other related statutes.

MOTION: **Vice Chairman Bayer** moved to send **S 1080** to the floor with a **do pass** recommendation. **Senator Siddoway** seconded the motion. The motion carried by **voice vote**.

MINUTES APPROVAL: **Senator Siddoway** moved to approve the Minutes of February 1, 2017. **Vice Chairman Bayer** seconded the motion. The motion carried by **voice vote**.

Senator Vick moved to approve the Minutes of February 2, 2017. **Vice Chairman Bayer** seconded the motion. The motion carried by **voice vote**.

PAGE GRADUATION: **Chairman Johnson** thanked Senate Page Madison Smith for her service, recognizing her hard work and dedication to the Committee.

ADJOURNED: There being no further business at this time, **Chairman Johnson** adjourned the meeting at 4:05 p.m.

Senator Johnson
Chair

Jennifer Carr
Secretary

AGENDA
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE
3:00 P.M.
Room WW53
Tuesday, February 21, 2017

SUBJECT	DESCRIPTION	PRESENTER
Introduction	Welcome Committee Page, Brigham Cardon	Chairman Johnson
<u>S 1084</u>	Relating to Irrigation Districts, Filing Fee Increase	Kelli Brassfield, Idaho Association of Counties
<u>S 1085</u>	Relating to Board of County Commissioners, Meeting Notice	Kelli Brassfield
Minutes	Approval of Minutes from February 8, 2017	Senator Hill
	Approval of Minutes from February 9, 2017	Senator Burgoyne

If you have written testimony, please provide a copy of it along with the name of the person or organization responsible to the committee secretary to ensure accuracy of records.

COMMITTEE MEMBERS

Chairman Johnson
Vice Chairman Bayer
Sen Hill
Sen Siddoway
Sen Smith(Rice)

Sen Vick
Sen Patrick
Sen Burgoyne
Sen Nye

COMMITTEE SECRETARY

Jennifer Carr
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MINUTES
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Tuesday, February 21, 2017

TIME: 3:00 P.M.

PLACE: Room WW53

MEMBERS PRESENT: Chairman Johnson, Vice Chairman Bayer, Senators Hill, Siddoway, Smith(Rice), Vick, Patrick, and Nye

ABSENT/ EXCUSED: Senator Burgoyne

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 Johnson** convened the meeting of the Local Government and Taxation Committee (Committee) to order at 3:10 p.m.

INTRODUCTION: **Chairman Johnson** welcomed Committee Page Brigham Cardon and asked him to provide a personal introduction.

S 1084 **Relating to Irrigation Districts, Filing Fee Increase.** **Kelli Brassfield**, Idaho Association of Counties (IAC), presented **S 1084**. Ms. Brassfield stated that Idaho Code § 43-711 outlines procedures for irrigation districts to file delinquent lists with the County Recorder. She noted that this statute has not been updated since 1925 and currently requires a \$2 filing fee for delinquent lists. **Ms. Brassfield** explained that a fee increase to \$25 is needed to establish consistency among current fee structures.

Senator Patrick sought clarification regarding the current fee structure. **Ms. Brassfield** reported that the Idaho Water Users Association (IWUA) used an inflation formula to determine the fee increase, which was agreed upon by the IAC.

Senator Hill asked how the determination was made to increase the filing fee to \$25. **Ms. Brassfield** stated the IAC relied on the judgment of the IWUA in that regard.

MOTION: **Senator Hill** moved to send **S 1084** to the floor with a **do pass** recommendation. **Senator Patrick** seconded the motion. The motion carried by **voice vote**.

S 1085 **Relating to Board of County Commissioners, Meeting Notice.** **Ms. Brassfield** presented **S 1085**. Statute currently requires the Board of County Commissioners to provide five days advance notice for special meetings. However, Idaho Code § 74-204, pertaining to Open Meeting Laws, requires 24 hours notice for special meetings. **Ms. Brassfield** explained that most counties have weekly business meetings as provided by ordinance; consequently, a five-day notification requirement undermines the usefulness and timeliness of special meetings. **S 1085** brings Idaho Code § 31-710 into compliance with Open Meeting Laws by removing the five-day notification requirement.

Senator Vick asked what precipitated this legislation. **Ms. Brassfield** stated that Title 74 Open Meeting Law was implemented in 2015, and the IAC is working to bring counties into compliance with these statutory requirements.

MOTION: **Senator Siddoway** moved to send **S 1085** to the floor with a **do pass** recommendation. **Senator Nye** seconded the motion. The motion carried by **voice vote**.

MINUTES APPROVAL: **Senator Hill** moved to approve the Minutes from February 8, 2017. **Vice Chairman Bayer** seconded the motion. The motion carried by **voice vote**.

Vice Chairman Bayer moved to approve the Minutes from February 9, 2017. **Senator Vick** seconded the motion. The motion carried by **voice vote**.

ADJOURNED: There being no further business at this time, **Chairman Johnson** adjourned the meeting at 3:20 p.m.

Senator Johnson
Chair

Jennifer Carr
Secretary

AGENDA
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE
3:00 P.M.
Room WW53
Thursday, February 23, 2017

SUBJECT	DESCRIPTION	PRESENTER
<u>H 153</u>	Relating to Forest Lands Tax, Timber Valuation	Steve Fiscus, Idaho State Tax Commission
<u>S 1067</u>	Relating to Building Codes, "Owner-Builder" Definition and Exemption	Marc Eberlein, Commissioner, Kootenai County

If you have written testimony, please provide a copy of it along with the name of the person or organization responsible to the committee secretary to ensure accuracy of records.

COMMITTEE MEMBERS

Chairman Johnson	Sen Vick
Vice Chairman Bayer	Sen Patrick
Sen Hill	Sen Burgoyne
Sen Siddoway	Sen Nye
Sen Smith(Rice)	

COMMITTEE SECRETARY

Jennifer Carr
Room: WW50
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MINUTES
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Thursday, February 23, 2017

TIME: 3:00 P.M.

PLACE: Room WW53

MEMBERS PRESENT: Chairman Johnson, Vice Chairman Bayer, Senators Hill, Siddoway, Smith(Rice), Vick, Patrick, Burgoyne, and Nye

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 Johnson** convened the meeting of the Local Government and Taxation Committee (Committee) to order at 3:03 p.m.

H 153 **Relating to Forest Lands Tax, Timber Valuation.** **Steve Fiscus**, Property Tax Division Administrator, Idaho State Tax Commission (Commission), presented **H 153**. This legislation extends the sunset date on the use of certain criteria regarding timber productivity valuation and forest management cost allowances, from December 31, 2016 to December 31, 2021 . **Mr. Fiscus** stated that the sunset extension is necessary to provide predictability and stability through the continuation of current methodology used to establish timber land valuations. **H 153** includes a sunset in several sections of Idaho Code § 63-1705 to occur simultaneously in 2022. Prior to that time, the Committee on Forest Land Taxation Methodologies (CFTM) will be required to meet to either extend the current approach or establish different methodologies.

Senator Hill asked what provisions would expire if the extension is not granted. **Mr. Fiscus** explained that two components of methodology used to value timber lands are being extended. He further noted that the CFTM decided to set the floor and ceiling of certain components at 2011 values to avoid continued fluctuations. **Mr. Fiscus** noted the date changes are being proposed to align all sunset dates. **Senator Hill** sought further clarification regarding the methodologies being extended. **Mr. Fiscus** specified that without the extension of certain methodologies, the valuation system defaults to the pre-existing framework and may result in significant fluctuations in values.

Senator Burgoyne asked why a sunset is necessary. **Mr. Fiscus** replied that stakeholders need stability; counties that have significant timber holdings are greatly impacted financially by fluctuations in valuations. **Mr. Fiscus** noted that there is potential for industry change in the future and as a result, the CFTM is required to meet prior to the next sunset date to determine if current methodology is still appropriate.

MOTION: **Senator Hill** moved to send **H 153** to the floor with a **do pass** recommendation. **Senator Burgoyne** seconded the motion. The motion carried by **voice vote**.

S 1067

Relating to Building Codes, "Owner-Builder" Definition and Exemption. **Marc Eberlein**, Commissioner, Kootenai County, presented **S 1067**. This legislation amends sections of Idaho Code to provide a definition of "owner-builder" and provide an owner-builder exemption to the building permit process. **Mr. Eberlein** stated that current statutes regarding building codes are narrow, allowing for adoption of all or none of the statutory requirements; some Idaho counties have chosen not to adopt building codes. **Mr. Eberlein** suggested this bill provides an option for cities and counties by allowing an owner-builder to construct a home without a building permit or plan review; owner-builders will still be required to comply with statutory requirements regarding planning, zoning, and disclosure.

Senator Burgoyne asked what is accomplished by allowing local jurisdictions to grant owner-builder exemptions. **Mr. Eberlein** replied that hiring and retaining qualified building inspectors and plan reviewers is an ongoing problem, resulting in waiting periods for the issuance of building permits. **Senator Burgoyne** asked if this legislation precludes the need for building inspections and/or code requirements in jurisdictions that elect these provisions. **Mr. Eberlein** replied that the legislation does not require building inspections or adherence to building codes. **Senator Burgoyne** asked how this exemption helps owner-builders that wish to exceed code requirements, such as a heavier snow load capacity. **Mr. Eberlein** responded that the convenience for homeowners is timeliness; site permits, in lieu of building permits, may be issued within days rather than weeks.

TESTIMONY:

Patrick Sullivan, Director of Building and Safety Facilities, City of Nampa, spoke in opposition to **S 1067**. **Mr. Sullivan** stated that extra oversight is necessary to ensure that homes built by non-builders are built soundly and do not become problematic for future homeowners.

Senator Vick noted that Idaho counties are able to exempt the entire building permit process. **Mr. Sullivan** responded that it does not make sense for larger communities to build without meeting minimum code standards; he further noted that is it challenging to ensure that homes built by builders are built to minimum code standards. **Senator Vick** inquired if counties that do not require building permits have experienced subsequent problems, and **Mr. Sullivan** responded that he is not aware of any problems.

Senator Burgoyne asked Mr. Sullivan if builders in his jurisdiction are permitted to exceed minimum snow load requirements. **Mr. Sullivan** indicated that a builder can meet or exceed minimum code requirements but not fall short of them.

Donald Gary, testifying as a private citizen, spoke in support of **S 1067**. **Mr. Gary** emphasized that this legislation is optional and provides an alternative for local jurisdictions. He continued to make the following points: 1.) local jurisdictions adopt their own reporting methods, most of which are done electronically; 2.) it would be relatively simple to add a disclosure statement to current forms, which are regularly updated; and 3.) current building codes provide no remedy for property owners if subsequent damage results outside the period of liability, even if the property is built to code and approved by the county.

Brent Regan, Kootenai County Republican Central Committee, spoke in support of **S 1067**. **Mr. Regan** commented that this legislation gives local jurisdictions the choice of whether to adopt the owner-builder exemption and suggested that these decisions should be made at the local level.

Jan Welch, representing the Structural Engineers Association of Idaho, spoke in opposition to **S 1067**. **Ms. Welch** commented that a significant portion of the structures that were damaged due to weather conditions this past year are considered owner-builder structures and did not meet minimum snow load requirements. **Ms. Welch** expressed concerns regarding the owner-builder exemption with respect to federal emergency assistance, suggesting that federal funding would be contingent upon current building code requirements.

John Evans, representing the Association of Idaho Cities (AIC) as Legislative Chairman, spoke in opposition to **S 1067**. **Mayor Evans** stated this legislation presents a risk for home buyers, communities, and emergency response personnel. He remarked that two different classes of construction providers are created by this bill, each held to different standards. **Mayor Evans** questioned how basic safety requirements would be verified during the building process and suggested the aforementioned timeliness issue should be addressed by management at the local level.

Senator Vick asked how difficult it is for a city to hire and retain competent building inspectors. **Mayor Evans** responded that Garden City has contracted with the State to provide these services.

Senator Hill commented that this legislation appears to provide local jurisdictions with more control and asked Mayor Evans for his opinion. **Mayor Evans** replied that while he does advocate for local control, this legislation creates a double standard by holding owner-builders and contractors to different standards. Additionally, he commented that the engineering component in Idaho Code § 39-4116(4)(c) is vague and may be costly for local jurisdictions. **Senator Hill** asked if this legislation provides an incentive for a local jurisdiction currently exempted to opt-in to the building code process. **Mayor Evans** replied that there still exists a double standard for owner-builders and other construction providers.

John Eaton, representing the Idaho Association of Realtors (Realtors), spoke in opposition to **S 1067**. **Mr. Eaton** commented on the new disclosure components in Idaho Code § 55-2506, pointing out that the Realtors design forms for most of the residential transactions in Idaho. As such, there is a liability concern that the Realtors will be required to create a corresponding section requiring disclosure of the owner-builder exemption. Additionally, **Mr. Eaton** referred to new language in Idaho Code § 39-4116(4)(c) that requires local jurisdictions that opt-out to track owner-builder exemptions. He explained that because local jurisdictions do not have a tracking mechanism, it creates a new standard for the Realtors beyond their current capacity.

Senator Burgoyne asked if insurance rates will increase as a result of this legislation. **Mr. Eaton** could not provide a definitive answer.

Senator Vick commented that in his experience as a builder in Montana, a state which does not require building permits, he did not encounter issues regarding the loan process or insurance rates. **Mr. Eaton** responded that the real estate industry has brought up concerns regarding variance of property types impacting insurance rates within a local jurisdiction.

Andrew Mitzel, representing the Idaho Building Contractors Association, spoke in opposition to **S 1067**. **Mr. Mitzel** stated that exempting owner-builders from State building code requirements is problematic for the following reasons: 1.) construction using inadequate materials incapable of withstanding fire or weather incidents; 2.) builders with limited experience not being held to professional standards; 3.) higher insurance rates for all properties within a taxing district; and 4.) increased risk for emergency responders and future home buyers.

Senator Vick asked how building code requirements insured the safety of structures recently damaged by severe weather. **Mr. Mitzel** responded that although there are instances where structures built to code suffer structural damage, State building codes are designed to insure the safety of property owners.

Vice Chairman Bayer asked how this legislation will affect building professionals in general. **Mr. Mitzel** replied that he cannot speak to business practices specifically; however, holding owners-builders and contractors to the same standards is beneficial to property owners.

Brody Aston, representing the Idaho Association of Building Officials, spoke in opposition to **S 1067**. **Mr. Aston** commented that the safety of property owners, as well as emergency responders, is put at risk by this exemption. Additionally, the Idaho Survey and Rating Bureau rates local jurisdictions on the presence and enforcement of building codes, among other factors, which affects insurance rates for all property owners in that district. **Mr. Aston** outlined additional benefits of code requirements to property owners, financial institutions, and insurance companies.

Trent Wright, representing the Idaho Bankers Association (IBA), spoke in opposition to **S 1067**. **Mr. Wright** indicated that the IBA reached out to industry stakeholders and heard concerns regarding the lending process. **Mr. Wright** explained that even though local jurisdictions are able to exempt the building permit process, lenders require proof of competency from the owner-builder, an inspection of the property, and adherence to the permit process. Additionally, upon secondary sale of an owner-builder property, a lender will require an inspection and resolution of any deficiencies. **Mr. Wright** addressed the aforementioned disclosure issues, indicating that irregardless of disclosure of the owner-builder exemption, individuals seeking a traditional loan on such property will still be required to submit to the permit process by the lending institution.

Senator Patrick inquired if loans of this type can be sold to institutions such as Fannie Mae and Freddie Mac. **Mr. Wright** indicated that the IBA did reach out to such institutions but could not answer definitively as of yet.

Senator Hill asked Mr. Wright to describe the depth of these inspections. **Mr. Wright** explained that the level of inspection is dependent upon whether a property was exempted in any way; even if a local jurisdiction exempts from the permit process, an inspection is still required to report deficiencies that fall below the standard code requirements. **Senator Hill** asked what assurances a financial institution provides to a secondary buyer of an owner-builder property. **Mr. Wright** answered that unless it is a cash transaction, an inspection initiated by a lender is completed and if deficiencies are discovered, they are presented to a potential buyer prior to sale.

Senator Burgoyne asked if, during a subsequent inspection by a financial institution for lending purposes, an owner-builder property is subject to building codes that were in place during initial construction or the most current building codes. **Mr. Wright** explained that the property would be subject to the most current building code requirements. **Senator Burgoyne** then asked if the same would apply to a property built to code, and **Mr. Wright** responded that irregardless of a property being built exempt from building code requirements or not, a financial institution will still require an inspection for lending purposes to identify possible code deficiencies.

Andrew Bick, representing the Idaho State Building Code Board (Board), spoke in opposition to **S 1067**. **Mr. Bick** reported the Board opposes this legislation for the following reasons: 1.) concerns surrounding the resale of owner-builder properties; 2.) potential risk for homeowners and emergency responders; 3.) concerns regarding engineering standards and construction methods; and 4.) potential withdrawal of federal emergency funding for local jurisdictions.

Senator Nye asked if the Board contacted the Idaho Fire Chief's Association regarding this legislation, and **Mr. Bick** responded that the Board had not done so. **Senator Nye** submitted to the Committee correspondence from the Fire Chief's Association in opposition to **S 1067**.

Senator Hill inquired how many members sit on the Board and the breakdown of the vote to oppose **S 1067**. **Mr. Bick** reported that nine Board members voted unanimously to oppose this bill.

Mr. Eberlein provided closing remarks, addressing the concerns raised during testimony. **Mr. Eberlein** emphasized recent growth in Kootenai County, noting that an increase in building permits has necessitated an out-of-state contract for providers to conduct plan reviews.

MOTION:

Senator Vick moved that **S 1067** be held in Committee subject to the call of the Chair. **Vice Chairman Bayer** seconded the motion. The motion carried by **voice vote**.

ADJOURNED:

There being no further business at this time, **Chairman Johnson** adjourned the meeting at 4:45 p.m.

Senator Johnson
Chair

Jennifer Carr
Secretary

AGENDA
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE
3:00 P.M.
Room WW53
Thursday, March 02, 2017

SUBJECT	DESCRIPTION	PRESENTER
<u>H 185</u>	Relating to Taxation, College Savings Program	Representative Troy Christine Stoll, Executive Director, IDeal
<u>H 207</u>	Relating to Taxing Districts, Forgone Balance	Representative Moyle Representative Harris
Minutes	Approval of Minutes from February 15, 2017	Vice Chairman Bayer and Senator Nye
	Approval of Minutes from February 21, 2017	Senators Siddoway and Patrick

If you have written testimony, please provide a copy of it along with the name of the person or organization responsible to the committee secretary to ensure accuracy of records.

COMMITTEE MEMBERS

Chairman Johnson
Vice Chairman Bayer
Sen Hill
Sen Siddoway
Sen Rice

Sen Vick
Sen Patrick
Sen Burgoyne
Sen Nye

COMMITTEE SECRETARY

Jennifer Carr
Room: WW50
Phone: 332-1315
email: sloc@senate.idaho.gov

MINUTES
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Thursday, March 02, 2017

TIME: 3:00 P.M.

PLACE: Room WW53

MEMBERS PRESENT: Chairman Johnson, Vice Chairman Bayer, Senators Hill, Siddoway, Rice, Vick, Patrick, Burgoyne, and Nye

**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 Johnson** convened the meeting of the Local Government and Taxation Committee (Committee) to order at 3:05 p.m.

H 185 **Relating to Taxation, College Savings Program. Representative Troy** presented **H 185**, which increases the amount of the individual State income tax deduction for the IDeal College Savings Program from \$4,000 to \$6,000, and doubles the deduction to \$12,000 for married individuals filing jointly. **Representative Troy** provided that this adjustment is necessary to match the 189 percent increase of college tuition since the program was implemented in 2000. The annual fiscal impact is projected to be \$1.1 million if the full deduction is utilized. **Representative Troy** noted that this program provides incentives for families to begin saving for college and stability for students who need continuing funding to complete their education.

Christine Stoll, Executive Director of IDeal, provided background on Idaho's College Savings Program. She reported that IDeal is a self-sustaining program and does not receive General Fund monies. **Ms. Stoll** indicated that withdrawals are not subject to Federal or State income tax if used for tuition and related educational services and materials. Barriers of postsecondary attainment include affordability, access, and academic readiness, and **Ms. Stoll** explained that the 189 percent increase in tuition and fees since 2000 has made it more difficult for families to pay for college.

Senator Patrick asked what prevents individuals from using these funds for services unrelated to education. **Ms. Stoll** replied that initial contributions are made post-tax and withdrawals for non-educational use will be subject to Federal and State income tax and a 10 percent federal tax penalty.

TESTIMONY: **Todd Bunderson**, testifying as a private citizen, spoke in support of **H 185**. He provided anecdotal information on how the IDeal College Savings Program has helped him pay college tuition for his children.

DISCUSSION: **Senator Vick** asked Ms. Stoll to clarify tax policy regarding these investments and how IDeal is funded. **Ms. Stoll** explained that unlike a PERSI contribution, contributions to IDeal are made after taxes are procured and are deductible from State income tax. Additionally, she specified that a 0.51 percent management fee paid by investors is utilized to pay for program costs, allowing for self-sustainability.

Vice Chairman Bayer asked Representative Troy to comment on the rising costs of higher education in general in relation to these types of programs. **Representative Troy** commented that a resulting tax shift is burdening families trying to pay for college, and while there is no definitive answer on how to change existing trends, this legislation is a step toward making college more affordable and attainable for Idaho families.

Senator Hill commented on the creation of incentives for families to begin investing in education and the incorporation of such values into family life; this program enhances these goals.

MOTION:

Senator Hill moved to send **H 185** to the floor with a **do pass** recommendation. **Senator Burgoyne** seconded the motion.

Senator Siddoway spoke in opposition to the motion, stating that he supports and encourages investment in higher education; however, deductions such as these take money away from General Fund appropriations for K-12 and higher education. **Senator Siddoway** provided that if we keep chipping away at State funds with tax exemptions and credits, tax rates may go up as a result.

Senator Burgoyne spoke in support of the motion, commenting on the tax shift to families trying to pay for higher education resulting from a 189 percent increase in tuition costs. College in Idaho should be affordable, and **Senator Burgoyne** remarked that the projected fiscal note of \$1.1 million is money well spent in that regard.

Senator Rice observed that the perception that college is unaffordable is inaccurate; federal policies and lending practices have contributed to this mindset. He noted that college costs can be affordable through conservative financial planning.

Chairman Johnson asked Ms. Stoll for information regarding trends in financial aid since 2000. **Ms. Stoll** replied that on average, Pell Grants are typically awarded to low-income students and range between \$5,000 and \$6,000. **Ms. Stoll** pointed out that because Pell Grants cover only 15 to 24 percent of costs, there exists a significant gap for families trying to pay the balance.

The motion carried by **voice vote**.

H 207

Relating to Taxing Districts, Forgone Balance. **Representative Moyle** presented **H 207**, which allows a taxing district, at its own discretion, to disclaim any or all of its forgone balances. **Representative Moyle** explained that taxing districts set their annual budget not to exceed an increase of 3 percent of the prior year's budget. A taxing district may choose to set a budget less than this allowed 3 percent, and the difference goes into forgone balance which can be used at a later date. In order for a taxing district to reclaim forgone balances, it must first meet specific criteria. **Representative Moyle** stated that **H 207** allows a taxing district to disclaim any or all of its forgone balance for the current year if they provide notice of intent, hold a public hearing, and pass a resolution.

TESTIMONY:

Jim Tibbs, Ada County Commissioner representing the Idaho Association of Counties (IAC), spoke in opposition to **H 207**. **Mr. Tibbs** remarked that during the recession, the Ada County Commission did not budget for an increase of 3 percent in an effort to provide relief to citizens and keep tax rates low. He noted two recent occasions in which Ada County used foregone balances to fund special projects, which included construction of the Ada County Sheriffs Department Dispatch Center and improvements in jail security and management. **Mr. Tibbs** asserted that the provisions in **H 207** will result in counties budgeting for the 3 percent increase each year to ensure access to the funds.

Senator Rice asked Mr. Tibbs to comment on the position of the IAC regarding local control of forgone balances. **Mr. Tibbs** replied that local control is ideal and that decisions regarding forgone balances are best made by county officials.

Senator Vick asked if this legislation diminishes local control. **Mr. Tibbs** responded that if a county decided to forgo 3 percent in a given year, the ability to fund essential projects in the future is diminished. **Senator Vick** commented that these provisions do seem to provide an element of local control for taxpayers, and **Mr. Tibbs** agreed.

Senator Nye sought clarification of what constitutes a forgone balance and related budgeting mechanisms. **Mr. Tibbs** explained that forgone balances are not cash but increase the budgeting capacity of a local jurisdiction. Cities and counties currently have the ability to go back and collect forgone balances; this bill adds a component to allow a city or county to disclaim forgone balances altogether in a given year but precludes future access to these funds. **Mr. Tibbs** argued this will adversely impact local budgets.

Wayne Hoffman, President, Idaho Freedom Foundation (IFF), spoke in support of **H 207**. **Mr. Hoffman** commented that this legislation aligns with policies of counties that establish fiscal financial management for their jurisdictions. He also spoke to the positive implications for taxpayers by allowing these decisions to be made annually at the local level.

Representative Harris spoke in support of **H 207**. **Representative Harris** stated that this legislation provides a mechanism for taxing districts maintaining a conservative approach to disclaim forgone balances.

Representative Moyle provided closing comments, stating that this legislation does not impede current practice regarding forgone balances; it provides an additional option for local jurisdictions in terms of annual budgeting and only applies to current year balances.

Senator Siddoway expressed concerns regarding a county budgeting for an increase of 3 percent each year irregardless of need as a result of these provisions. **Representative Moyle** indicated that there are counties that regularly take a 3 percent increase every year, and this legislation does not prevent a county from doing so. Provisions in **H 207** require a local jurisdiction to adhere to statutory guidelines prior to disclaiming a forgone balance. **Representative Moyle** felt that counties will act with prudence when budgeting in this regard.

MOTION: **Senator Rice** moved to send **H 207** to the floor with a **do pass** recommendation. **Senator Patrick** seconded the motion.

DISCUSSION: **Senator Rice** remarked that this legislation provides an opportunity for taxing districts to determine their own fiscal policies regarding forgone balances on an annual basis, in a way that allows the frugality of a conservative district to be permanent.

Senator Hill stated he will support the motion but commented that language in the statement of purpose may need to be revised to clarify that only current year forgone balances may be disclaimed. **Representative Moyle** did not object to such revision.

Senator Nye stated he will not support the motion, questioning the necessity of these provisions if local jurisdictions are already engaging in these practices regarding forgone balances.

Senator Burgoyne commented that this legislation allows one elected official to possibly impede future access to these funds; he would prefer discussion about

voter approval prior to the use of or increase in forgone balances.

Senator Patrick remarked that this legislation provides more control to local jurisdictions, and the provision requiring a public hearing prior to forfeiture of forgone balances provides transparency for taxpayers.

Alan Dornfest, Property Tax Policy Bureau Chief, Idaho State Tax Commission (Commission), responded to a question from Senator Nye regarding forgone balances in general. **Mr. Dornfest** explained that taxing districts are permitted to increase budgets up to 3 percent each year; if a budget is set at less than the 3 percent, the remaining funds become forgone and may be used in a later year. **Senator Nye** inquired if forgone balances are similar to reserve funds available to taxing districts for future use. **Mr. Dornfest** responded that these forgone balances are more characteristic of a reserve accounting mechanism.

Senator Hill inquired if a district disclaims its right to a forgone balance in a given year, does that preclude the district from reversing its decision and seeking those funds in the future. **Mr. Dornfest** affirmed, stating that once a district disclaims an increase in any amount in a given year, the Commission deducts that amount from the district's forgone balance.

Chairman Johnson commented that because a public hearing requirement was added to the current version of this bill, as well as a restriction to current year forgone balance, he will support the motion.

**VOTE ON
MOTION:**

The motion carried by **voice vote**. **Senator Burgoyne** requested that he be recorded as voting nay.

**MINUTES
APPROVAL:**

Vice Chairman Bayer moved to approve the Minutes from February 15, 2017. **Senator Nye** seconded the motion. The motion carried by **voice vote**.

Senator Siddoway moved to approve the Minutes from February 21, 2017. **Senator Patrick** seconded the motion. The motion carried by **voice vote**.

ADJOURNED:

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

Senator Johnson
Chair

Jennifer Carr
Secretary

AGENDA
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE
3:00 P.M.
Room WW53
Wednesday, March 08, 2017

SUBJECT	DESCRIPTION	PRESENTER
<u>H 154aa</u>	Relating to Property Tax Notice	Representative Nate
<u>H 130</u>	Relating to Local Government Finances, City Treasurers	Jerry Mason, Association of Idaho Cities
<u>H 215</u>	Relating to Reimbursement Incentive	Morgan Howard, Intern, presenting on behalf of Senator Johnson
Minutes	Approval of Minutes from February 23, 2017.	Senators Hill and Burgoyne

If you have written testimony, please provide a copy of it along with the name of the person or organization responsible to the committee secretary to ensure accuracy of records.

COMMITTEE MEMBERS

Chairman Johnson
Vice Chairman Bayer
Sen Hill
Sen Siddoway
Sen Rice

Sen Vick
Sen Patrick
Sen Burgoyne
Sen Nye

COMMITTEE SECRETARY

Jennifer Carr
Room: WW50
Phone: 332-1315
email: sloc@senate.idaho.gov

MINUTES
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Wednesday, March 08, 2017

TIME: 3:00 P.M.

PLACE: Room WW53

MEMBERS PRESENT: Chairman Johnson, Vice Chairman Bayer, Senators Hill, Siddoway, Rice, Vick, Patrick, Burgoyne, and Nye

**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 Johnson** convened the meeting of the Local Government and Taxation Committee (Committee) to order at 3:03 p.m.

MINUTES APPROVAL: **Senator Hill** moved to approve the Minutes from February 23, 2017. **Senator Burgoyne** seconded the motion. The motion carried by **voice vote**.

H 215 **Relating to Reimbursement Incentive.** **Morgan Howard**, Senate Intern, presented **H 215**, pertaining to the Tax Reimbursement Incentive Act. This bill amends Idaho Code § 67-4738 to add "franchise tax" to the definition of "new state revenue", as well as to exclude from that definition taxes that have been or will be reimbursed by the federal government. **H 215** also adds language to Idaho Code § 67-4740 to specify that no credit will be allowed for taxes that have been or will be reimbursed by the federal government.

MOTION: **Senator Burgoyne** moved to send **H 215** to the floor with a **do pass** recommendation. **Vice Chairman Bayer** seconded the motion. The motion carried by **voice vote**.

H 130 **Relating to Local Government Finances, City Treasurers.** **Jerry Mason**, representing the Association of Idaho Cities (AIC), presented **H 130**. This bill amends Idaho Code §§ 50-208, 50-7085, and 57-135 to address compliance requirements and reporting procedures for city treasurers and other fiscal officers. **Mr. Mason** explained that these code sections are outdated and require modernization. City treasurers will still be required to provide monthly and quarterly reports, but publication of quarterly reports may be done online. Monthly financial reports will be required to be included on city council agendas; quarterly reports be completed within 30 days of the end of the month; and financial reports for political subdivisions be presented to the governing board. Additionally, **Mr. Mason** stated that because computers have streamlined financial record-keeping processes, treasurers will no longer be required to provide receipts for every transaction or file copies of receipts with monthly reports.

Senator Patrick asked if customers should be able to receive receipts for online transactions via email. **Mr. Mason** stated that most electronic systems provide customers the option to print receipts for online transactions; the requirement to provide a copy of the receipt for every transaction is impractical for city officials.

Senator Burgoyne commented that the existence of a receipt is an important control mechanism and asked if receipts will be automatically generated for online transactions. **Mr. Mason** reported that cities use a modular accounting system that allows a customer to request electronic copies of receipts for online transactions; even when a receipt is not requested, the transaction is still recorded in the customer's account. **Senator Burgoyne** inquired if the process is the same for cash payments and how integrity is maintained given the new provisions in this bill. **Mr. Mason** replied that cash payments are handled in a similar manner, and safeguards exist to ensure integrity in this regard. He noted that the intent is to address the impracticality of attaching copies of receipts to financial reports.

Senator Vick asked why a 60 day reporting period is necessary. **Mr. Mason** explained that a city treasurer has 30 days to complete the monthly report; it is then put on the city council agenda for an additional 30 day period. **Mr. Mason** explained that this was designed to accommodate smaller cities that often meet only once a month. **Senator Vick** then asked Mr. Mason to comment on how this legislation may impact efforts to prevent embezzlement at the local level. **Mr. Mason** responded that periodically, a city council will compare a treasurer's report to financial statements to ensure accuracy and integrity of reporting.

MOTION: **Senator Hill** moved to send **H 130** to the floor with a **do pass** recommendation. **Senator Nye** seconded the motion. The motion carried by **voice vote**.

H 154aa **Relating to Property Tax Notice.** **Representative Ron Nate** presented **H 154aa**, which amends Idaho Code § 63-902 to require that information for each taxpayer-approved bond to be printed on county tax statements. **H 154aa** will require that a property tax notice contain the following information specific to the taxpayer: 1.) name of the bond; 2.) payoff date; 3.) levy rate; and 4.) dollar amount due for the calendar year. **Representative Nate** stated that bond information currently provided on tax statements is difficult for taxpayers to interpret; as such, these provisions will allow taxpayers to delineate their tax liability for each bond. He emphasized that the benefits of transparency for taxpayers outweigh the additional reporting requirements.

Senator Rice asked Representative Nate how many taxing districts there are in the county in which he resides, and how many bonds affect him as a taxpayer in that county. **Representative Nate** was unsure of taxing districts but responded approximately three to five bonds. **Senator Rice** inquired whether it would be suitable to provide this information electronically through the county. **Representative Nate** replied that the intent of this legislation is to allow taxpayers to access bond information specific to their property value and tax liability.

Senator Burgoyne commented on a possible alternative that allows taxpayers to access information online if they so choose. He remarked that in terms of logistics, there is no free space left on property tax statements to include additional bond information. **Representative Nate** replied that providing and accessing taxpayer specific bond information online is difficult; security of personal information would be problematic in this regard.

TESTIMONY: **Donna Peterson**, Payette County Treasurer representing the Idaho Association of County Treasurers (IACT), spoke in opposition to **H 154aa**. **Ms. Peterson** stated that adding additional bond information to current tax forms will result in additional costs and workload for county officials. Additionally, current tax forms do not have enough space to add delineated bond information. **Ms. Peterson** reported that when county treasurers receive questions from taxpayers about levy rates and payment amounts, they direct taxpayers to the appropriate taxing district.

Vice Chairman Bayer asked if space on current property tax statements was not a limiting factor, would it be possible for counties to implement the provisions being set forth in this legislation. **Ms. Peterson** replied that if given time to reformat the property tax statement, it would be possible to add lines to delineate bond information.

Senator Rice sought clarification as to what information regarding school bonds county treasurers have access to. **Ms. Peterson** explained that school districts only provide basic information not including the date the bond was passed, the maturity date, or if the bond was refinanced.

Senator Vick inquired if counties require taxing districts to submit bond reports by a certain date. **Ms. Peterson** stated that there is a deadline and information is first submitted to the county clerk, who calculates the levy rate and transmits that information to the treasurer.

Brian Stutzman, testifying as a private citizen, spoke in favor of **H 154aa**. **Mr. Stutzman** stated that when he attempted to discern his tax liability for each bond on his tax statement, he ran into sufficient difficulties and ultimately determined that he was paying more than expected. Taxpayers have a right to transparency and to access information regarding their taxes with ease. He disagreed with the assertion that reformatting tax forms will be time-consuming and costly.

Tracie Lloyd, Treasurer, Canyon County, spoke in opposition to **H 154aa**. **Ms. Lloyd** spoke to complexities involving bonding within an urban renewal revenue allocation area which make it more difficult to provide information in a condensed, readable format. Additional complexities arise when properties are annexed and de-annexed into an urban revenue allocation area once a bond has been passed. **Ms. Lloyd** noted that Canyon County has 62 taxing districts, each having its own variance of bonds. The additional information required in this bill will result in tax statements being many pages long; as a result, software will need to be enhanced. **Ms. Lloyd** felt that other possibilities should be explored to provide this information to taxpayers in a more efficient, readable fashion.

Senator Rice asked if software enhancements will be required to implement these provisions. **Ms. Lloyd** responded that because current tax forms only allow for 20 rows of data, software enhancements will be necessary.

Senator Vick sought clarification of how urban renewal districts affect property tax in this regard. **Ms. Lloyd** described how levy rates are determined and distributed onto tax statements. She also explained that for urban renewal districts, county clerks do not calculate levies by individual bond but rather levies are determined by bonds approved pre- and post-2008. She noted there is not enough space on the tax statement for this level of detail.

David Hay, testifying as a private citizen, spoke in favor of **H 154aa**. **Mr. Hay** commented that transparency is important to taxpayers and provided examples of other transactions that break down costs for consumers. **Mr. Hay** felt that the State should extend the same courtesy to taxpayers regarding their tax obligations.

Drew Maffei, Chief Deputy Clerk, Canyon County, spoke in opposition to **H 154aa**. He introduced his colleagues from Canyon County and indicated that the County was in opposition to the legislation.

Steve Onofrei, Senior Systems Analyst, Canyon County, spoke in opposition to **H 154aa**. **Mr. Onofrei** spoke to complexities of disseminating and distributing complex property tax information to taxpayers. He indicated that counties do not currently have the statutory authority to require taxing districts to provide the detailed information required in these provisions. If this bill were to pass, **Mr. Onofrei** stated that system enhancements will be necessary. While he agreed with the need for transparency, he felt that other reporting options would be more appropriate.

Senator Rice asked how long it would take to make software enhancements to include this information on tax statements. **Mr. Onofrei** stated that if legislation is passed that mandates that taxing districts provide this information to the counties, it would be possible to implement within one year. **Senator Rice** then asked how long it would take to create an online depository for taxpayers to access this information. **Mr. Onofrei** replied within one year.

John Taylor, testifying as a private citizen, spoke in favor of the bill. **Mr. Taylor** commented that this bill helps build trust with school districts by creating transparency for taxpayers.

Zach Wagner, Controller, Canyon County, spoke in opposition to **H 154aa**. **Mr. Wagner** expressed concern regarding the level of detail being required and indicated this information is not readily available to county clerks.

Senator Rice asked what code sections would need amendment to require that taxing districts provide this information to the counties. **Mr. Wagner** was unsure of specific code sections but felt it may be possible to accomplish through the rulemaking process. If these conditions were met, **Mr. Wagner** indicated implementation would be possible within one year; however, he felt that providing this information electronically is a better option.

Dr. Don Schanz, testifying as a private citizen, spoke in support of the bill. **Dr. Schanz** commented that the benefits of transparency for taxpayers outweigh additional efforts of implementation. He remarked that providing online access to this information is not suitable for everyone.

Representative Nate reviewed current statutory requirements pertaining to property tax notice and emphasized that additional provisions provided in **H 154aa** increase transparency for taxpayers. He acknowledged costs associated with reformatting tax forms but felt the costs would be minimal. **Representative Nate** concluded that information for all taxpayer approved bonds, the ending year, and the amount due by the taxpayer should be provided on property tax statements; this will ensure statewide uniformity and transparency for taxpayers in the State.

Senator Rice asked Representative Nate if he would object to **H 154aa** being sent to the 14th Order to add an effective date of July 1, 2018, and to consider further statutory amendments. **Representative Nate** did not object.

Senator Burgoyne commented that transparency is not simple; citizens are entitled to information about their government that is often complex. He suggested that in order to create an informed citizenry, information must be made accessible to everyone through electronic delivery. **Senator Burgoyne** recognized costs and time-constraints associated with **H 154aa** and thus will not be supporting the bill.

MOTION:

Senator Rice moved to send **H 154aa** to the 14th Order for amendment. **Senator Vick** seconded the motion.

Senator Rice stated that his concerns pertain to software capabilities and how this information is distributed to taxpayers. He commented that stakeholders believe in transparency but disagree on the mechanism for providing this information.

Vice Chairman Bayer agreed that there is a common thread of transparency throughout this debate; his interest is in taxpayer specific information. He commented that conduits of information between taxing districts and county officials is worthwhile in this regard.

SUBSTITUTE MOTION:

Senator Patrick moved that **H 154aa** be held in Committee. **Senator Nye** seconded the motion.

Senator Nye stated that while transparency is important, he would like feedback from the Association of Idaho Taxpayers, Idaho State Tax Commission, Association of Cities, Idaho counties and other stakeholders regarding the efficacy of this legislation.

Chairman Johnson noted that he did not receive support from counties in his district; however, he agreed with the importance of transparency for taxpayers and thanked Representative Nate's efforts in that regard.

The substitute motion carried by **voice vote**.

ADJOURNED:

There being no further business at time, **Chairman Johnson** adjourned the meeting at 4:42 p.m.

Senator Johnson
Chair

Jennifer Carr
Secretary

AMENDED AGENDA #1
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE
Upon Adjournment of the Transportation Committee
Room WW53
Tuesday, March 14, 2017

SUBJECT	DESCRIPTION	PRESENTER
	Please note change of meeting time to approximately 2:30 p.m.	
Minutes	Approval of Minutes from March 2, 2017	Senators Vick and Rice
<u>H 235</u>	Relating to Property Tax, Existing Plants	Representative Moyle
<u>H 205</u>	Relating to Recorder's Fees for Certain Instruments	Representative Blanksma
<u>H 216</u>	Relating to Short-Term / Vacation Rental Marketplaces	Pam Eaton, Idaho Lodging and Restaurant Association
<u>RS25509</u>	Relating to Property Tax Exemptions Unanimous Consent for Referral to a Privileged Committee for Printing	Senator Vick

If you have written testimony, please provide a copy of it along with the name of the person or organization responsible to the committee secretary to ensure accuracy of records.

COMMITTEE MEMBERS

Chairman Johnson
 Vice Chairman Bayer
 Sen Hill
 Sen Siddoway
 Sen Rice

Sen Vick
 Sen Patrick
 Sen Burgoyne
 Sen Nye

COMMITTEE SECRETARY

Jennifer Carr
 Room: WW50
 Phone: 332-1315
 email: sloc@senate.idaho.gov

MINUTES
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Tuesday, March 14, 2017

TIME: Upon Adjournment of the Transportation Committee

PLACE: Room WW53

MEMBERS PRESENT: Chairman Johnson, Vice Chairman Bayer, Senators Hill, Siddoway, Rice, Vick, Patrick, Burgoyne, and Nye

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 Johnson** convened the meeting of the Local Government and Taxation Committee (Committee) to order at 2:28 p.m.

MINUTES APPROVAL: **Senator Vick** moved to approve the Minutes from March 2, 2017. **Senator Rice** seconded the motion. The motion carried by **voice vote**.

RS 25509 **Senator Vick** presented **RS 25509**, which would reduce the value of the site improvement exemption from 75 percent to 35 percent and limit it to two years.

MOTION: **Senator Vick** asked for unanimous consent to send **RS 25509** to the State Affairs Committee to print. There were no objections.

H 205 **Relating to Recorder's Fees for Certain Instruments.** **Representative Blanksma** presented **H 205**, which amends Idaho Code § 31-3205 to change recording fees for certain types of documents. **Representative Blanksma** stated that this bill changes the fee for certain documents not exceeding 30 pages to a flat fee rather than a per page fee. **Representative Blanksma** indicated that this bill is revenue-neutral to the counties and will not impact the General Fund.

MOTION: **Senator Patrick** moved to send **H 205** to the floor with a **do pass** recommendation. **Senator Vick** seconded the motion. The motion carried by **voice vote**.

H 216 **Relating to Short-Term/Vacation Rental Marketplaces.** **Pam Eaton**, representing the Idaho Lodging and Restaurant Association, presented **H 216**, which adds new sections to Idaho Code pertaining to the regulation of short-term and vacation rental marketplaces. **Ms. Eaton** reported that this bill protects the property rights of both rental owners and their neighbors and creates a platform for these marketplaces to collect and remit applicable taxes. **Ms. Eaton** also described the tax collection process: 1.) local governments may not levy tax on the business of operating a short-term rental marketplace; 2.) short-term rental marketplaces are required to register with the Idaho State Tax Commission (Commission) to collect and remit all applicable taxes to the Commission, as well as to local governments that may collect related taxes; 3.) local governments may choose to contract with the Commission to administer and collect tax pursuant to current statute; and 4.) new short-term marketplaces have 45 days from their first transaction to begin remitting taxes. **Ms. Eaton** explained the limitations of local governments to regulate short-term rentals, providing that neither cities nor counties may enact ordinances that may effectively prohibit short-term rentals, but may implement reasonable regulations to safeguard the safety and general welfare of neighborhoods where short-term rentals operate. Additionally, neither a city nor county may regulate the operation of a short-term rental marketplace. The intent of these provisions is to balance the private property rights of rental owners and those that live nearby.

TESTIMONY: **Derek Pollard**, testifying as a private citizen, spoke in support of **H 216**. As the owner of a rental property, he stated that **H 216** protects his property rights, creates a level playing field for the remittance of taxes by rental owners, and prevents unfair regulation of rental properties.

Darrell Burchfield, testifying as a private citizen, spoke in support of **H 216**. As the owner of several short-term rental units, he spoke to the benefits of short-term rentals to the State. **Senator Hill** asked how this bill will affect current practices of rental owners. **Mr. Burchfield** stated that this bill will provide consistency for rental owners who are already remitting applicable taxes. He also commented that people have misperceptions regarding short-term rentals and provided examples.

Senator Siddoway commented on the governance of cities and counties by the State in this regard and asked Ms. Eaton if feedback was given by local entities. **Ms. Eaton** indicated that this was well-negotiated with input from various stakeholders. The intent was to allow cities and counties to reasonably regulate short-term rentals while protecting the private property rights of rental owners and the community-at-large.

MOTION: **Senator Rice** moved to send **H 216** to the floor with a **do pass** recommendation. **Vice Chairman Bayer** seconded the motion.

Senator Burgoyne spoke in support of the motion, highlighting the protections provided for property owners and the importance of these protections for neighborhood communities.

Senator Rice commented on levels of governance and principles of creating and regulating private property rights. He felt this bill creates a balance between private property rights and the functionality of government.

The motion carried by **voice vote**.

H 235 **Relating to Property Tax, Existing Plants.** **Representative Moyle** presented **H 235**. In 2008, legislation was passed that allowed county commissioners to give a tax exemption for a property if it met certain criteria; it required \$3 million in capital investment and that it be used to support manufacturing projects. Since 2008, concerns have arisen that the \$3 million threshold is too high for rural communities. This bill give county commissioners discretion set a threshold as low as \$500,000 while maintaining the ability to annually establish a higher threshold; it also expands project eligibility. **Representative Moyle** emphasized that this bill requires county commissions to hold a public meeting when considering granting such an exemption; it also protects existing taxpayers by keeping projects off new construction rolls, precluding a subsequent tax shift.

Senator Rice commented that cities and school districts are not subordinate to county commissions and questioned why existing statute allows county commissioners to waive taxes of local entities that are not subordinate to them. **Representative Moyle** stated that this concern was addressed in the bill by requiring county commissions to hold a public hearing for local entities to communicate their concerns.

Senator Siddoway expressed concerns regarding the exclusion of operating property from this bill. **Representative Moyle** acknowledged those concerns and stated the issue was debated during the drafting process; however, he felt this bill was not the vehicle to address these issues.

TESTIMONY: **Megan Ronk**, Director, Idaho Department of Commerce, spoke in support of **H 235**. **Director Ronk** commented that this tool has successfully promoted economic development and expansion around the State. This bill will help rural counties attract investment opportunities by lowering the threshold to \$500,000; local stakeholders have provided feedback that the \$3 million threshold was unattainable.

Gordon Cruickshank, Valley County Commissioner representing the Idaho Association of Counties (IAC), spoke in support of **H 235**. **Mr. Cruickshank** remarked that the \$3 million threshold puts smaller counties at a disadvantage; this bill creates a more level playing field to attract investment opportunities.

Arlen Wittrock, representing ON Semiconductor and the Idaho Economic Advisory Council, spoke in support of **H 235**. **Mr. Wittrock** described how the property tax exemption for qualified projects has been critical to the success of his business. Additionally, the threshold reduction to \$500,000 and the expansion of project eligibility will help smaller counties incentivize future economic development.

Miguel Legarreta, representing the Associated Taxpayers of Idaho, spoke in support of **H 235**. **Mr. Legarreta** provided several examples of county increases in budget authority from new construction. He remarked that lowering the threshold to \$500,000 will likely incentivize economic development and diverse business opportunities around the State, especially in smaller communities.

DISCUSSION: **Representative Moyle** pointed out that this bill gives county commissions discretion on whether to extend this exemption to an eligible project and requires them to notify local taxing districts when considering a property tax exemption in this regard. In its current form, this tax incentive has been a successful development tool to support and encourage business expansion opportunities around the State.

Vice Chairman Bayer sought clarification regarding how county commissions may withdraw the tax exemption for projects that no longer meet statutory criteria. **Representative Moyle** explained that statute does not currently provide a mechanism for terminating tax incentives for projects that no longer qualify; this bill allows county commissions to unilaterally withdraw the tax exemption when appropriate. He further noted that this language was added to address concerns at the county level.

Senator Burgoyne stated that he supports the threshold reduction to \$500,000, as well as the requirement of county commissions to hold a public hearing prior to granting such an exemption. However, he felt that additional approval should be required when qualified property is located within a school district or city limits.

Chairman Johnson commented that he also has concerns regarding the exclusion of operating property from this bill. However, the bill in its current form does improve upon the original version and does provide an important tool for economic development for the State.

MOTION: **Senator Hill** moved to send **H 235** to the floor with a **do pass** recommendation. **Senator Vick** seconded the motion.

Senator Rice commented that he will support the motion; however, he felt the issue of subordination of cities and school districts to county commissions needed to be addressed.

The motion carried by **voice vote**.

ADJOURNED: There being no further business at this time, **Chairman Johnson** adjourned the meeting at 3:25 p.m.

Senator Johnson
Chair

Jennifer Carr
Secretary

AGENDA
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE
2:00 P.M.
Room WW53
Wednesday, March 15, 2017

SUBJECT	DESCRIPTION	PRESENTER
	Please note change of meeting time to 2:00 p.m.	
Page Graduation	Farewell to Committee Page Brigham Cardon	Chairman Johnson
<u>H 67</u>	Relating to Income Tax Rates	Representative Moyle

If you have written testimony, please provide a copy of it along with the name of the person or organization responsible to the committee secretary to ensure accuracy of records.

COMMITTEE MEMBERS

Chairman Johnson
Vice Chairman Bayer
Sen Hill
Sen Siddoway
Sen Rice

Sen Vick
Sen Patrick
Sen Burgoyne
Sen Nye

COMMITTEE SECRETARY

Jennifer Carr
Room: WW50
Phone: 332-1315
email: sloc@senate.idaho.gov

MINUTES
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Wednesday, March 15, 2017

TIME: 2:00 P.M.

PLACE: Room WW53

MEMBERS PRESENT: Chairman Johnson, Vice Chairman Bayer, Senators Hill, Siddoway, Rice, Vick, Patrick, Burgoyne, and Nye

**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 Johnson** convened the meeting of the Local Government and Taxation Committee (Committee) to order at 2:03 p.m.

PAGE GRADUATION: **Chairman Johnson** thanked Senate Page Brigham Cardon for his service, recognizing his hard work and dedication to the Committee.

H 67 **Relating to Income Tax Rates.** **Representative Moyle** presented **H 67**, which eliminates the tax on the first \$750 of individual income and reduces the rate on the highest individual bracket to 7.2% and the corporate income tax rate to 7.2%. **Representative Moyle** explained that high income tax rates, relative to surrounding states, is a limiting factor to attracting new industry to the Idaho. There are no definitive solutions to this issue, but this bill offers a compromise by exempting the first \$750 of income from all taxpayers and reducing the top individual and corporate tax rates.

Senator Patrick asked if most small businesses fall in the upper tax bracket. **Representative Moyle** replied that most small businesses in Idaho are subject to individual tax rates; if they make more than \$10,905 they fall in the upper tax bracket.

Senator Nye asked why a tax cut is necessary when Idaho has recently experienced a period of high growth and employment. **Representative Moyle** responded that Idaho must be able to attract industry and well-paying jobs; reducing income tax rates will make the State more attractive to new businesses. **Senator Nye** then asked why a tax cut is necessary when the employment rate is high. **Representative Moyle** responded that tax rates need to be competitive in order for growth to continue.

TESTIMONY: **Fred Birnbaum**, representing the Idaho Freedom Foundation, spoke in support of **H 67**. He provided comparative tax rates from surrounding states, noting the effective tax paid by Idaho taxpayers as a percentage of income is regionally higher. **Mr. Birnbaum** also commented that Idaho lags behind surrounding states in terms of tax competitiveness.

John Watts, representing the Idaho Chamber Alliance, spoke in support of **H 67**. **Mr. Watts** commented that business recruitment is an important issue for Idaho Chambers of Commerce; in that regard, income tax rates impact the potential to attract skilled workers to the State.

Representative Moyle commented that Idaho needs to be competitive in order to experience continued growth and that all taxpayers will benefit from this legislation.

Senator Hill commented that tax relief should be addressed during this Legislative Session and thanked Representative Moyle for his continued efforts in that regard.

MOTION:

Senator Hill moved to send **H 67** to the 14th Order for possible amendment.

Senator Siddoway seconded the motion.

Senator Hill stated that he intends to introduce an amendment to decrease all income tax brackets by 0.1 percentage points, which precludes the need to eliminate tax on the first \$750 of individual income. The total fiscal impact to the General Fund is \$27.9 million per year, of which \$25 million is for individual and \$2.9 million for corporate rate reductions. **Senator Hill** also indicated a potential reduction in unemployment tax rates.

Senator Rice commented that there are a number of tax policy options to consider. He stated that he will support the motion but noted that eliminating tax on groceries is a significant policy change that needs to be addressed in the future.

Senator Patrick commented on tax policy in general, referencing the multiplier effect in regard to possible tax relief.

Senator Vick provided that a flat tax system or a system with fewer tax brackets similar to language in **H 67**, is a better approach; however, he will support the motion.

Vice Chairman Bayer noted that optimal sequencing is important when making changes to tax policy and hoped that tax relief will be considered during this Legislative Session.

Senator Siddoway stated that he will support the motion. He spoke to the importance of adequately funding education as a priority before implementing tax relief.

Chairman Johnson commented that while he does not support the bill in its current form, he will support the motion and continued discussions regarding tax policy and tax relief.

The motion carried by **voice vote**. **Senator Nye** requested that he be recorded as voting nay.

ADJOURNED:

There being no further business at this time, **Chairman Johnson** adjourned the meeting at 2:40 p.m.

Senator Johnson
Chair

Jennifer Carr
Secretary