

**MINUTES**  
**Approved by the Committee**  
**Property Taxes and Revenue Expenditures**  
**Friday, August 21, 2020**  
**9:00 A.M.**  
**Room WW02**  
**Boise, Idaho**

Co-chair Rice called the Property Taxes and Revenue Expenditures Committee meeting to order at 9:01 a.m.; a silent rollcall was taken.

Committee members in attendance: Co-chair Jim Rice and Co-chair Jim Addis; Senators Jim Guthrie, C. Scott Grow, and Jim Woodward; and Representatives Mike Moyle, Jason Monks, Rod Furniss, Lauren Necochea, John Vander Woude, Terry Gestrin, and John Gannon. Senators Kelly Anthon and Grant Burgoyne participated via videoconference. Legislative Services Office (LSO) staff present were: Kristin Ford, Keith Bybee (via videoconference), and Ana Lara.

**Opening Remarks - Senator Rice and Representative Addis, Co-chairs**

Co-chair Rice welcomed the committee and the public to the meeting. He noted that Senators Kelly Anthon and Grant Burgoyne were attending via videoconference. He called for the approval of the July 17, 2020 Minutes. **Senator Burgoyne made a motion to approve the July 17, 2020 Minutes. Senator Guthrie seconded the motion. The motion passed by voice vote.** Co-chair Rice explained that the meeting would provide the necessary information to the public to hold elected officials accountable for tax policy decisions. He stated the importance of transparency and accountability in government spending and emphasized the need to provide tax relief to taxpayers.

**Utah's Truth In Taxation Statute (via videoconference) - Howard Stephenson, President, Utah Taxpayers Association and Rusty Cannon, Vice President, Utah Taxpayers Association**

Co-chair Rice called upon Mr. Stephenson to present. Mr. Stephenson began his [presentation](#) by reporting that the last American Legislative Exchange Council (ALEC) report card showed that Idaho is performing better than Utah. He briefly summarized the origin of Utah's Truth-in-Taxation Law on slide 1. He listed the elements of Utah's Truth-in-Taxation Law:

- Revenue based limitation, setting a declining "certified rate;"
- The certified rate guarantees each taxing entity the same property tax revenues as the previous year plus taxes from the valuation of new growth;
- Did not limit property taxes but required total transparency through detailed public notice and public hearing requirements;
- Defeated multiple attempts over the years to allow automatic inflation adjuster; and
- Voter-approved General Obligation (GO) Bonds are exempt.

Mr. Stephenson directed the committee to examples of property tax notices on slide 4. He commented that the notice provides the location, dates, and times of Truth-in-Taxation public hearings for the entities that are seeking to increase the rate. He informed the committee that the Utah Taxpayers Association does on occasion advocate for tax increases at some public hearings when they believe that a reasonable increase is needed to provide essential services.

Mr. Stephenson referenced the chart on slide 7 to show the trends for income tax growth, sales tax growth, and property tax growth since the implementation of the Truth-in-Taxation in Utah. He noted the Utah Taxpayers Association's desire to restore the grocery sales tax in Utah and provide families with a reasonable tax credit. He commented that property tax growth was stable during the last recession. He explained that when a county assessor reduces the value of existing properties the certified rate automatically increases, but on the whole, there was no increase in

property taxes because the values had decreased. He noted that property taxes have grown faster than inflation and population growth.

Mr. Stephenson suggested that Truth-in-Taxation works best when assessed value uniformly reflect fair market value from property to property and county to county. He commented that a statewide assessing and collecting levy was imposed to ensure county assessors have the funding to keep values current.

### Discussion

Representative Furniss asked how county assessors are determining values. Mr. Stephenson responded that every county assessor is required to keep values current. He explained that the State Tax Commission performs an annual sales ratio study. He explained that if a certain segment of a county's property value falls outside of a certain percentage (e.g., 5%) from what the sales ratio study says it should be, the State Tax Commission orders the county to impose an increase or decrease in property value for that specific segment of the county so that it falls within the acceptable range.

Representative Furniss inquired about Utah's homeowners exemption. Mr. Stephenson provided some historical context and explained that Utah currently offers a 45% homeowners exemption. He opined that all property should be taxed at the same rate based on its fair market value. He advised the Idaho State Legislature to not expand its homestead exemption.

Representative Gannon referenced the tax shifts between commercial properties and residential properties and inquired about tax shifts in Utah over the same time periods. Mr. Stephenson opined that the mix should not matter; what should matter is whether the properties are taxed at fair market value. He stated that, for example, residential property values increasing at a higher pace than commercial properties is simply a factor of the economy and should not be controlled.

Representative Gannon made reference to the number of property tax exemptions provided in statute, noting that the consequence is less taxable land. He asked whether this is a problem for Utah. Mr. Stephenson noted that Utah contains a large amount of federal land and universities and churches own property; these tax exemptions are provided for in the Utah Constitution. He noted, however, that Utah does not provide property tax exemptions specifically for businesses. He emphasized that the Utah Taxpayers Association believes that business properties and homeowners should not be provided tax exemptions.

Co-chair Addis inquired about the relationship between the Utah State Tax Commission and Utah's county assessors. Mr. Stephenson responded that the Utah State Tax Commission has a property division that works closely with county assessors to provide support and provide factoring orders when the annual sales ratio study reveal that a county assessor is assessing either too high or too low.

Representative Necochea inquired about the predictability and stability of Utah's tax code. Mr. Stephenson responded that Utah's property taxes are very predictable and referenced the chart in his presentation. He suggested that, in comparison, Idaho's property taxes are less predictable and are increasing faster than inflation.

Senator Burgoyne suggested that the Truth-in Taxation law does not appear to address several issues regarding the fairness of exempt properties or the manner used to determine how certain properties are taxed. Mr. Stephenson responded that, while these issues are not addressed by the Truth-in-Taxation law, the Utah Taxpayers Association has been very involved on these same issues.

Senator Guthrie inquired about the tax shift after a 45% homeowners exemption was introduced in Utah. Mr. Stephenson explained that, in the first year, they saw an average increase of 25% in business property taxes. He opined that businesses should be just as protected as homeowners when it comes to property taxes.

The committee recessed for a break at 9:54 a.m.

The committee reconvened at 10:12 a.m.

### **Valuation Challenges In the Assessment Process - Rick Smith, Partner, Hawley Troxell**

Co-chair Rice called upon Mr. Rick Smith to present. Mr. Smith began his [presentation](#) by stating some of the issues that county assessors encounter. He noted that taxpayers also run into issues when appealing property tax assessments; the process is both difficult and expensive. He suggested that clarifying some valuation issues by legislation could resolve uncertainty, reduce litigation, and promote fairness in assessments. He provided some past examples (slide 3) of when the Legislature has enacted statutes to provide clarification with regard to property assessments.

Mr. Smith emphasized that there are no rules that give guidance to assessors or taxpayers in determining market value. He stated that the current issue is the income approach for businesses. He said that the current property tax rules require the assessor to consider three approaches: cost, sales comparison, and income. He explained that under current practices, some assessors use only the income approach to value in ways that include intangible business value that is exempt under Idaho law. He added that these practices are inconsistent; many businesses are assessed using traditional cost methods. Other issues concerning the income approach for businesses were listed on slides 4 and 5. He noted that in the 2020 Legislative Session, H590 was introduced to address the issues of the income approach, but was held in the House Revenue and Tax Committee.

Mr. Smith suggested that a recent sales price for property should be presumptive evidence of market value. He reminded the committee that H561a (2020) was vetoed by the Governor. He explained that the bill applied only to residential property and included appraisals as well as sales within the past 12 months as conclusive evidence of value. He suggested that the legislation could be improved to include all property and to make the recent sales presumptive rather than conclusive evidence of value.

Mr. Smith directed the committee to Sections 63-208 and 63-1313(2), Idaho Code. He suggested that this directive has not stopped some assessors from valuing existing property based on an alternative use that the owner has no intent to implement. He commented that Section 63-208, Idaho Code, could be amended to be consistent with 63-1313, Idaho Code. He opined that the Idaho State Tax Commission could be more active in providing valuation standards. He noted that Section 63-208, Idaho Code, authorizes rulemaking to establish appraisal standards, but the Idaho State Tax Commission's rules refer only to national recognized guidelines without specifying what those are.

### Discussion

Senator Burgoyne asked whether commercial property taxes would increase, decrease, or stay relatively the same if they were to do away with the income approach and ask assessors to assess the value based on fair market value. Mr. Smith responded that he would not recommend with doing away with the income approach. He clarified his suggestion to use the cost approach as a cap on value. He advocated for a method for determining the rate of market value that would remove the risk of including intangible property as part of the market value. He explained that some businesses that are unfairly being assessed using an income approach will experience a decrease in market value. He further explained that this may cause levy rates to increase, but it would be a modest increase that would probably go unnoticed.

Co-chair Rice stated his preference for substantive processes to be clearly defined in statute rather than in rulemaking.

The committee recessed for a break at 10:51 a.m.

The committee reconvened at 10:59 a.m.

### **Variations and Transparency In Assessment Practices - Greg Ruddell, Owner, Advanced Valuations & Consulting**

Co-chair Rice called upon Mr. Ruddell to present. Mr. Ruddell began his [presentation](#) by thanking the committee for the opportunity to present on equitable valuations and transparency in assessments. Mr. Ruddell stated that it can be difficult to obtain assessment data from some counties. He said that counties hold all real property information including assessment and tax billing information. He noted that it can take weeks to obtain basic information needed for an estate valuation appraisal. He also noted that a county requested a \$400 fee to research the 2020 index trends applied to the 2020 value changes, which he needed for an appeal to obtain a tax reduction. He summarized some examples of assessment issues including a lack of uniformity and inconsistent depreciation based on age.

Mr. Ruddell stated that some counties provide assessment valuation data in different manners and some are more accessible than others. He noted that with regard to filing a formal public records request, most taxpayers are not aware of what specific record to request and what the full record contains. He commented that some counties can take 10 days or more to provide some records and this can be an issue when someone is filing a tax appeal given the specific time frame allotted for the appeal process. He expressed concern regarding how expensive the cost of the appeal process is and can be prohibitively expensive for many taxpayers.

Mr. Ruddell provided the following conclusions:

- There is a need for enforcement that ensures that county assessors comply with statutes and administrative rules;
- There should be compliance with some form for basic assessment standards;
- Parties should comply with consistent and uniform valuation principles; and
- The process should be more transparent and easier for taxpayers to understand.

#### Discussion

Representative Gannon asked who determines which approach is used to assess property value. Mr. Ruddell responded that the administrative rules state that the assessor should consider cost, income, and market approaches. He noted that Ada County does not perform a cost or market approach on commercial properties.

#### **Tax Facts and the Impacts of Transparency and Uniformity - Miguel Legarreta, President, Associated Taxpayers of Idaho**

Co-chair Rice called upon Mr. Legarreta to present. Mr. Legarreta began his [presentation](#) by stating that property taxes provide a stable revenue source and funding for local government. He commented that the Associated Taxpayers of Idaho (ATI) had compiled a levy book and would provide a copy to each committee member. He emphasized the importance of transparency especially with regard to the question of whether local government is being properly funded. He believes that the steps that the committee is taking would help determine the answer to this question.

Mr. Legarreta directed the committee to slide 3 and briefly summarized how individual tax bills change. He noted that about 75% of taxing districts take the full 3% cap on property tax portions of the budget. He briefly summarized the property tax expenditures on slide 5 and noted that only the districts that levy some form of property taxes were included in the pie chart. He appreciated that most counties are acting in a conscious manner with regard to taxpayers' plight. He emphasized that during the 2008 recession, property taxes did not decrease even though property values had decreased significantly because property taxes are not directly tied to values.

Mr. Legarreta referenced H560 (2014), which established provisions relating to a central registry and reporting portal, and required certain reporting from local entities regarding funding and expenditures. He suggested building on this legislation to provide greater transparency and make more information available to taxpayers. He informed the committee that, with regard to Utah's Truth-in-Taxation, the certified tax rate is calculated by the Utah State Tax Commission and local

governments have the option of exceeding the certified tax rate. However, if they choose to do so, they must go through the notification and hearing process.

Mr. Legarreta referred to H561a (2020), which was vetoed by the governor. He believed that the legislation could be modified to allow sales prices for additional evidence of market value and include commercial property. He suggested that the timeline in which to appeal could be potentially extended and believes that the current timeline is very compressed. He also suggested that the appeal process should be simplified and streamlined across the state to provide educational materials explaining to taxpayers the steps necessary to appeal their property values.

### Discussion

Senator Guthrie commented that it would be interesting to see an overlay of what the levy rates were during the same time frame for the graphs found on slides 8 and 9. Representative Necochea referenced the "History of Property Taxes in Idaho" graph found on slide 9 and expressed interest in knowing what percentage of the property tax consisted of supplemental levies and education bonds. Mr. Legarreta responded that he would update the slides to include the information requested in these comments.

Senator Burgoyne emphasized the need to focus on property taxes. He acknowledged that inequities exist in the system, but believed that several factors may make it difficult to change the system. He suggested the committee focus on reducing property taxes.

Representative Gannon noted that some public property had been purchased at a much lower price than it was originally assessed at by the county assessor. He asked whether the income approach of assessing value could be contributing to the tax shift problem. Mr. Legarreta responded in the affirmative and added that a variety of issues may also be aggravating the situation.

Senator Rice commented that uniformity and transparency in gathering and reporting budgetary information among taxing districts is necessary to analyze budgets accurately and determine where budget cuts can potentially be made.

Representative Gestrin noted that some counties in the state are experiencing a significant reduction in value. He reminded the committee to be mindful of all the counties across the state. Mr. Legarreta agreed that some counties find themselves in an interesting situation where they have to increase taxes in order to continue to provide services at the same time that property values have decreased in their counties. He hoped that the committee's effort to increase the transparency and accessibility of data would help taxpayers better understand the local taxing districts budgets and their own property tax assessments.

Co-chair Addis commented that the committee has a unique opportunity to make structural changes in all the components of property taxes that can lead to property tax reduction over time.

The committee adjourned at 12:52 p.m.