

MINUTES
Approved by the Committee
Property Taxes and Revenue Expenditures
Friday, October 16, 2020
9:00 A.M.
Room WW02
Boise, Idaho

Cochair Rice called the Property Taxes and Revenue Expenditures Study Committee to order at 9:02 a.m.; a silent roll call was taken.

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

NOTE: presentations and materials distributed to members are posted to the Legislature's website: <https://legislature.idaho.gov/sessioninfo/2020/interim>; and copies of those items are on file with the Legislative Services Offices located in the State Capitol.

Opening remarks by Cochairs Rice and Addis

Cochair Rice began by calling for public testimony.

- Rod Wickstrom from Star, Idaho, representing himself, testified in favor of solutions toward easing property taxes. Senator Guthrie asked if Mr. Wickstrom believed the problem lay in unfair taxing that benefits commercial property or if it is the fault of growing government. Mr. Wickstrom said the problem was not about unfairness, but a lack of control and input.
- Jason Boal, representing the Idaho chapter of the American Planning Association, testified in favor of potential legislation regarding the collection of impact fees for local school districts. Representative Moyle asked if collecting impact fees would put a freeze on rising property taxes. Mr. Boal stated that impact fees are limited only to capital and are meant to provide additional funding.
- Carol Menges from Boise, Idaho, representing herself, testified about the effects of rising property taxes on renters. Cochair Rice had Ms. Menges confirm that her testimony included the issues of forgone and tax shifts. Representative Moyle agreed with Ms. Menges's testimony and thanked her.

After concluding public testimony, Cochair Rice opened discussion on draft legislation regarding budget transparency.

- Cochair Addis summarized his draft, [DRKMF064](#), regarding uniformity and transparency in local taxing districts' budgets. He stated that he had been working with the State Controller's Office (SCO) regarding a new system of budget reporting for local entities. He explained the type of taxing districts that would be included, such as highway districts and mosquito abatement districts. The SCO would create a uniform accounting manual for local entities to follow and it would be mandatory for local entities to comply. A legislative oversight committee would be created to work with the SCO to ensure the process runs properly. If this proposal is passed by the Legislature in the 2021 session, Cochair Addis expects the system to be fully implemented by 2025.
- Cochair Rice noted that this is only a draft and the committee will not be taking motions or votes.

- Senator Anthon commented that there is value in expanding transparency in budgets. He added that work could be done on the uniform accounting manual so that it is more cognizant of the federal government's guidelines.
- Senator Grow inquired about the costs of this potential change and who would incur the expense. Cochair Addis explained that, although he believed it would be a minimal cost to the local taxing districts, the cost is still being determined.
- Representative Gannon asked Cochair Addis if he knew how property would be assessed and if there would be accountability for the assessment process. Cochair Rice clarified that Representative Gannon's question is a separate topic that can be addressed later if the committee is renewed.
- Senator Guthrie commented that having a uniform system for budgeting makes sense, but the proposal should be clear about the costs and who pays them. He added that there should be uniformity on the state level as well. He asked why school districts were not included in this proposal. Cochair Addis explained that school districts already have a consistent reporting system but their budgets can still be listed on the SCO's website.
- Representative Furniss expressed his excitement for the opportunity to identify ways to save money at the local level. His concern was that, even if a local entity could lower their expenses, they might not lower property tax as a response. Cochair Rice commented that the oversight committee could be given the power to make recommendations to the Legislature.
- Representative Necochea expressed concern about the cost for local governments and the state. Cochair Rice said that he would work with the SCO to identify the cost before the next meeting.
- Senator Burgoyne commented that the potential savings from the program should be reinvested but also strikes a balance with property tax cuts. Cochair Rice stated that the committee is about finding solutions to rising property taxes and not about finding new ways to spend property tax funds.

Break was taken per the agenda.

Cochair Rice called for the approval of the October 2, 2020, minutes. **Cochair Addis made a motion to approve the October 2, 2020, minutes. The motion was seconded and was passed by a voice vote.**

Cochair Rice opened the discussion on draft legislation [DRRCB023](#) regarding city and county ordinances on infractions.

- Cochair Rice summarized the draft as allowing cities and counties to pass ordinances that reduce misdemeanors to infractions. The goal of the draft is to save money for cities, counties, and their citizens by reducing public defender costs, court staffing, and legal fees.
- Senator Guthrie asked if a reduced charge could be punitive to another citizen seeking justice. Cochair Rice explained that civil remedies are still available. Senator Guthrie asked about the most egregious example of a charge that could be reduced. Cochair Rice gave an example of some cities that charge misdemeanors for a dog at large; cities have the option to ask the Legislature to make something a misdemeanor.
- Senator Burgoyne appreciated this idea but was concerned about how to decide which charges would be misdemeanors and which would be infractions. He mentioned negligent driving as an example of a charge that cities should keep as misdemeanors. Cochair Rice commented that traffic items are stated in Idaho Code.

- Representative Monks stated his concern about uniformity between city ordinances. He would want to avoid a certain action being an infraction in one area and a misdemeanor in another.
- Representative Gannon mentioned dance clubs and pawn shops that are regulated by city ordinances. He stated that the city should be able to enforce misdemeanors in regards to those regulations. He encouraged the committee to reach out to city officials for their opinion on this topic. Cochair Rice observed that more discussion will happen after legislation has been drafted. He added that there is no expungement statute in Idaho.
- Representative Necochea inquired about a potential provision for repeat offenses. Cochair Rice suggested that it could be added to Idaho Code.

Cochair Rice opened discussion on draft legislation [DRKMF049](#) regarding taxing district budget requests.

- Cochair Rice explained that the purpose of the draft is to change the way local taxing districts request budget increases. The draft would cap the budget increase at 5% each year. If a local taxing district wanted to increase its budget more than the 5%, it would have to be put to a vote of the taxpayers.
- Cochair Addis expressed his appreciation for the draft.
- Senator Guthrie suggested that the committee should start cooperating with local entities to find ways to cap budget increases.
- Representative Gestrin agreed with the idea but expressed concern for the counties that are not seeing growth. Representative Moyle responded by saying the budget cap can help rural counties that are not seeing growth.
- Representative Necochea theorized that local governments would not like this draft because it could hinder them from providing services.
- Senator Burgoyne suggested that uniformity across the state would not work in regard to property tax and it would be better if the issue was left to individual counties.
- Representative Gannon asked why a vote to increase the budget needs 66% to pass and not a majority vote. He also asked for clarification on how it affects school districts. Cochair Rice explained that a two-thirds vote is what is needed to exceed the current cap of 3%. He clarified that school districts' budgets use a different methodology.
- Cochair Addis stated that the existing formula was established but can be changed. He reminded the committee that the taxing districts still have the option to further increase their budget by a vote of the people.
- Cochair Rice opined that the current property tax system does not work well in his district. He stated that when a system is negatively impacting people, it is time for a change.
- Representative Moyle expressed that the draft does not go far enough. He cautioned the committee to find better solutions because citizens might use the initiative process to propose solutions that may not be beneficial.
- Senator Guthrie urged the committee to remember that the Legislature makes policy for the entire state, not just their own districts.
- Representative Gannon explained that the shift between commercial and residential properties is already happening. He added that the committee must examine the homeowner's exemption. Cochair Rice commented to Representative Gannon that he was getting ahead on the agenda.
- Senator Burgoyne urged the committee to maintain local control to allow for differences between districts. He added that the voters need to play a role in this issue.

- Cochair Rice pointed out that the taxpayers often don't know where the impact on their property taxes is coming from. He stated that it is the Legislature's duty to handle complicated issues and make the decisions.
- Senator Grow asked how this draft would reduce property taxes. Cochair Rice explained that if growth is above 3% of the budget, any amount above that will go toward property tax reduction. It prevents the budgets of local entities from growing faster than the budgets of the taxpayers. It does not impact parts of the state that are not growing at a rapid rate.
- Cochair Addis restated that the citizens are involved in the process by voting on budget increases.
- Cochair Rice explained that this draft does not affect local taxing districts' entire budget, just the property tax budget.

Break was taken per the agenda.

Cochair Rice opened discussion on draft legislation regarding the taxation of government property.

- Representative Gannon summarized draft [DRKMF077](#) regarding a constitutional amendment to the Idaho Constitution. He said that a constitutional amendment was needed in order to tax certain items of government property. The proposed amendment permits the taxation of government property being used for non-public purposes.
- Cochair Rice explained the concept of Senator Burgoyne's draft, [DRKMF061](#), which would provide for a tax on lessees of government-owned property.
- Senator Guthrie stated his resistance toward the idea of the government acting as a landlord. He also pointed out the issue of lessees not paying taxes and the government having no way of taking back that property.
- Cochair Rice explained that those who camp at state parks would be subject to this tax, which could be an issue. He also expressed concern about the definition of public purpose.

Recessed due to technical difficulties.

Cochair Rice allowed for the discussion on the drafts regarding taxation of government property to continue.

- Senator Burgoyne reiterated the intent of his draft, [DRKMF061](#), regarding taxation of the lessee of government-owned property. He responded to Cochair Rice's concerns about camping in state parks by saying that the draft has room for improvement.

Recessed due to technical difficulties.

Cochair Rice allowed for the discussion on the drafts regarding taxation of government property to continue.

- Representative Gannon explained that the constitutional amendment in [DRKMF077](#) uses the term "public purpose" because it has already been defined in courts.

Cochair Rice opened discussion on draft legislation regarding the homeowner's exemption.

- Representative Necochea explained that her draft, [DRKMF070](#), would adjust the homeowner's exemption to reflect the local housing market. She cited statistics regarding the median homeowner property, agricultural property, and commercial property taxes. Cochair Rice added that agricultural property is valued differently than other property.

- Senator Burgoyne explained that his draft, [DRKMF062](#), would allow county commissioners to amend the homeowner's exemption. County commissioners would have the option to increase the dollar amount, create a market value index, or do both. They would not be allowed to move the amount below the minimum state level. The purpose is to give a county the option to find solutions that would be tailored to that particular county.
- Representative Gannon suggested that the homeowner's exemption be raised to \$125,000 as outlined in [DRKMF075](#). He added that it would only be a temporary solution.
- Representative Moyle proposed that the cost of increasing the homeowner's exemption should be taken out of the new construction roll. He also suggested that, to avoid shifting, the problem of spending should be fixed by adding budget caps.
- Representative Necochea stressed that, even if budgets were frozen, shifts would continue. She stated that everyone she has talked with agrees that changes need to be made to the homeowner's exemption.
- Representative Moyle stated that homeowners do not understand the homeowner's exemption. He reiterated that the focus should be on the spending problem.
- Cochair Rice urged the committee to keep in mind that, while making policy for the entire state, sometimes it can benefit some parts of the state more than others. He committed to finding a formula to help find a balance between different areas around the state.
- Senator Burgoyne provided an analogy that compared tax shifts to a game of musical chairs and the homeowners have lost their chair. He also expressed concern about the state having a budget surplus while people are being overtaxed. Cochair Rice responded that the committee does not have the authority to decide how to spend a surplus.
- Representative Gannon stressed that the drafts are meant to put a pause on the shifts.
- Senator Guthrie asked for clarification from Representative Moyle, who stated earlier that 97% of the assessed value in Star, Idaho, are homes. Representative Moyle nodded affirmatively. Senator Guthrie suggested it should be examined to see if the levy rates dropped while the values skyrocketed. Representative Moyle responded that the problem lies in the new construction roll.
- Representative Necochea stressed that the committee should find a balance so that if a local taxing district budget increases by 3%, a taxpayer should see an increase about 3%.
- Cochair Rice noted that where increases are going above 3% is where the new construction is calculated.

Cochair Rice opened discussion on draft legislation regarding impact fees.

- Representative Necochea gave an example how schools account for one-third of the property tax in her district. She stated that people want to see growth pay for itself. Drafts [DRKMF334](#) and [DRKMF376](#) would permit schools to levy impact fees.
- Cochair Rice cited Article 4, Section 7 [Article 7, Section 5] of the Idaho Constitution, which deals with uniformity in taxation. If impact fees are designated as fees, they would fall under a different set of rules. Fees cannot be more than the actual cost of services. He added that some are concerned about the constitutionality of impact fees. He expressed his intent to find a constitutional way to create a new class for schools.
- Senator Burgoyne stated that his draft, [DRKMF073](#), would apply impact fees to public transportation, community colleges, colleges, and public universities.
- Senator Grow recognized the importance of providing adequate funding for schools but urged that funds collected by impact fees should only be used for capital expenditures.

Cochair Rice opened discussion on draft legislation regarding the circuit breaker program.

- Representative Gannon stated that those who have a home with an assessed value over \$300,000 would automatically be eligible for the Tax Deferral Program in his draft legislation [DRKMF074](#). The draft would expand the maximum benefit available under the circuit breaker program. Cochair Rice asked about the average cost of recovery. Representative Gannon did not have that information.
- Senator Burgoyne stated that his draft, [DRKMF066](#), is similar to S1417 from the 2020 legislative session with a few numbers changed. This draft would increase the income threshold to \$35,500 to reflect inflation.
- Senator Anthon thanked those who are working on the circuit breaker program because it can help some of the most immediate issues regarding property tax. However, he warned that it is not the ultimate fix to the issue at hand. He suggested asset testing in regards to the circuit breaker because there are people who are benefiting from the circuit breaker who have a low income but are flush with assets.
- Senator Grow summarized the property tax deferral program as an interest-free loan to a homeowner to pay the taxes on the home, which would then be recouped by the state when the home is sold. Representative Gannon added that there is currently a 6% interest charge included in the program, which would be reduced in this draft.

Cochair Rice made final comments.

The next meeting is scheduled for November 19, 2020.

The committee adjourned at 3:23 p.m