MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: August 25, 2006

TIME: 4:30 p.m.

PLACE: Gold Room

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

MEMBERS ABSENT/ EXCUSED: None

MINUTES: **Chairman Bunderson** called the meeting to order at 4:30 p.m. He welcomed the audience of approximately 65 people and stated that the purpose of the meeting was to discuss the Property Tax Relief Act, H 1 and reviewed the agenda outline.

The Chairman introduced **former Senator John Sandy, the Governor's Chief of Staff**.

Mr. Sandy said it was an honor to make the presentation of this bill. He stated that Idaho's economy and needs have changed. In 1931, there was a "Property Tax Relief Act of 1931". Through the years, more changes have occurred. Today, the "Property Tax Relief Act of 2006" is being presented.

He stated that after the last Legislative Session, numerous legislators and others asked the Gentleman on the second floor to revisit the need for property tax relief.

Mr. Sandy said that property tax relief has been discussed in the Legislature, the summer of 2005 statewide hearings were held, 40 to 50 bills were presented last winter, and there is continuing discussion all over the state. There were agreements on several things, but add-ons caused problems. The Gentleman on the second floor agreed to revisit the property tax issue with four conditions: 1) Constitutional; 2) Immediate, substantial and permanent property tax relief; 3) Protect education; and 4) Obtain the votes to pass the bill - 36 in the House and 18 in the Senate. He also asked that if a bill was to be presented, the public would have 30 days for review and input.

There was much input from across the state from citizens, legislators from both parties, and interest groups. Many responses touched the heart of the Gentleman on the second floor. One such response was from Rosalee, 70, from Worley. She and her husband worked for many years to build a house to live and retire in. He is now deceased and she has been struggling to pay her bills. In order to pay her property tax, she sold her transportation and other items and now has nowhere to turn. She

wrote “my only hope is your plan to shift part of the burden of this tax to the sales tax fund, for which you have my hearty approval”.

Mr. Sandy said that “much misinformation has and is being distributed about H 1 and that this bill is a compromise. Does everyone get everything? No. This bill gets to the heart of the problem and it meets the criteria of the Gentleman on the second floor. It is constitutional, it is immediate, substantial, and permanent property tax relief. It protects schools with $100 million and now the vote is up to you.”

Mr. Sandy then yielded to Representative Lake.

Chairman Bunderson welcomed Representative Lake.

Representative Lake reviewed each section of the bill.

Following Representative Lake’s presentation, the committee was invited to ask questions

Senator Langhorst directed his question to Mr. Sandy. He said that property tax solutions for people like “Rosalee” are the purpose of this bill. He asked if it was true that most of the property tax relief does not go to people like “Rosalee”? **Mr. Sandy** replied that everyone will get property tax relief, substantial relief. He stated that there is overwhelming support for this bill in the office of the Gentleman on the second floor. **Senator Langhorst** asked if there was a conscious strategy to do this now before people go to the polls in November to vote on the initiative to raise the sales tax specifically for education funding. **Mr. Sandy** replied “absolutely not”. He said the whole debate has been about property tax. This issue has been on the table for two years and there is now money to do this.

Chairman Bunderson said a draft “white paper” analysis of the bill was mailed to all Senators last Saturday with pro-con arguments. It analyzes the impacts of H 1, as it affects the taxpayers, the state budget and education. The affect on taxpayers includes a financial analysis along with pro and con arguments.

He then addressed the people who wished to testify. He asked them to listen to the points made, and if their points had been made, to please forgo testifying. If their points have not been made, to please address the committee.

The Chairman then addressed the committee regarding the mailing. Under the Proclamation, he said they were invited to meet with your constituents and gather information from them to see what they thought. He then asked if the committee had any comments to the “white paper”.

Senator Langhorst said, with regard to the mailing, the page after the index, that ALL of the studies the committee has seen have concluded that there is little benefit to residential homeowners. He then asked if anyone really disagreed with this conclusion. **Senators Hill, Stegner and Sweet** said they disagreed.

Senator Hill said that the only indication that homeowners might be

losers on this is (and you will see that each study is different and about every week there is a different study) the state and federal income tax, which he said he had some real issues with. If the state and federal income tax ramifications were taken out, all taxpayers would benefit. He feels there have been some false assumptions made regarding that.

Chairman Bunderson called on **Dan John, Tax Policy Advisor, Idaho Tax Commission,** to comment. He deferred to **Commissioner DuWayne Hammond.**

Commissioner Hammond said he wasn't sure what documents and information the committee has, so he will address what he thinks they should have. He provided a handout titled Property Tax Relief Act of 2006, Annualized Impacts. He stated that he has spent his summer vacation working on this.

The Commissioner feels that this bill returns property taxes back to local budget-driven forces and removes that element that is beyond people's control from it. He believes it provides solid tax relief. The only solid numbers Commissioner Hammond said he had is on page 1 of his handout.

Page 2 is a break-down of the sales tax studies. Of all the studies made, he feels the Utah study is the most accurate. Commissioner Hammond said that people that have made studies relating to sales tax use the ratio of one-third (1/3) two-thirds (2/3). One-third paid by business and two-thirds paid by individuals. The Commissioner stated that if the Utah study is correct, column 4 on page 2, the net proceeds will be $67 million to Idaho property taxpayers after sales tax. Column 2 on page 2 is a more recent study by COST (Council On State Taxation). Their study also showed a $67 million savings to Idaho property taxpayers.

Page 3 contains information relating to itemizing. Commissioner Hammond stated that individuals who itemize their deductions when filing their tax returns realize a larger return than those who do not. One-third of Idaho's residents filed a form 40 in 2005, claiming a property tax deduction. Two-thirds filed a form 40 in 2005 taking the standard deduction with no property tax deduction.

Page 4 provides more information, based on the Utah study, assuming it is correct. The Commissioner said that he needed to provide some information and he used his best guess based on some assumptions. He stated that if the income tax assumptions are all true and if the sales tax assumptions are true, the final result is about one-half of the $67 million stays in the pocket - but it is dependent on a lot of assumptions.

Page 5 shares information regarding what the result would be by the COST study.

Page 6 reviews the estimated tax impacts of H 421a, passed in the last legislative session (Homeowners Exemption).

Senator Hill addressed a question to Commissioner Hammond. He said

that in calculating the income tax effects of losing the deduction for property taxes, did he take into account the growing number of taxpayers who are being hit with alternative minimum tax under which no deduction is allowed for any kind of taxes? The Commissioner replied no.

Senator Hill then asked if he had taken into account all the tax services that indicate the option to deduct either the sales tax or state income tax (whichever is higher) and has a very high likelihood of being renewed, retroactive for 2006. Was that taken into account for these calculations? The Commissioner asked Don John, Tax Commission Manager to respond. Mr. John said the assumptions were based on current law.

With no further questions for the Commissioner, **Chairman Bunderson** directed the committee's attention to a memorandum in their packet from **Jeff Youtz, Budget and Policy Director**, showing appropriation trends and projections to 2023. He then asked Mr. Youtz to comment.

Mr. Youtz provided a budget update to the committee and directed his remarks to it. Inserted into the minutes is the text of that update.

FY 2007 Budget Update

Potential Impact of Proposed Property Tax Relief Act of 2006

The Governor s Division of Financial Management has released a revised revenue projection for fiscal year 2007, following the record-setting revenue collections of 16.5 percent for FY 2006. The new revenue estimate for FY 2007 projects an increase of 3.4 percent over the FY 2006 actual collections (line 2 in the table below). The components of the revenue collection forecast include a 2.4 percent increase in individual income taxes, a 5.3 percent increase in sales taxes and a 6.6 percent increase in corporate income taxes. However, according to DFM, more than $133 million included in the FY 2007 forecast is considered one-time revenue tied to the construction boom and is not expected to continue on an ongoing basis.

The table (which is included in the attachments to these minutes) includes the estimated fiscal impact of RS16445, the Governor s proposed bill, which the Legislature will consider in special session on August 25. The key revenue components of the Governor s proposal, listed in lines 9 through 12 below, include a $100 million transfer to the Public Education Stabilization Fund (line 9), which will bring the balance to $112 million, and a one-cent increase in the sales tax, which will go into effect October 1 and generate about $142 million for the seven remaining months in FY 2007. A full year of collections at the increased rate will yield approximately $219 million in revenue. There are also some fiscal impacts on the circuit breaker pay-out and the personal property tax agriculture exemption, listed in lines 11 and 12, as a result of eliminating the maintenance and operation levy. And finally, the public schools appropriation will require an additional $250 million in general funds to replace the M & 0 property tax levy eliminated in RS16445 (line 16). Based on the new revenue estimate from the Governor s Office, the

short-term budget impact of RS16445 indicates a revenue balance of about $198 million.

Because the sales tax does not go into effect until October 1, $77.2 million of the increase will be subsidized by the one-time surplus. In FY 2008, that budget gap would be filled with a full 12 months of the increased sales tax collection. (End of text.)

Mr. Youtz said that the Governor's August revenue forecast will be used until a new forecast is made in January, 2007. The revenue collections for 2006 were record-setting collections, being 16.5% over the previous year. The Governor's projection for 2007 is a 3.4% increase over that number.

Mr. Youtz pointed out that he does have a concern, which he has expressed to JFAC and Leadership over the last 5-8 years, and that is in terms of Medicaid growth and its impact on the over-all state budget. The average Medicaid increase over the last dozen years is 12.1% and this figure is used to project the budget growth for Medicaid. He stated that spending is a lot easier to project than revenues. Mr. Youtz also pointed out that Medicaid and Corrections are the two fastest growing cost centers and present the biggest challenge in terms of putting pressure on the budget situation.

Senator Hill asked Mr. Youtz to explain to the committee how we are going to save $260 million in property tax that was previously going to go to public education, and yet, we are going to appropriate only $251 million to public education to replace that.

Mr. Youtz said that there is $10 million in discretionary funds in the public schools budget that was not originally anticipated when the budget was set.

With no further questions from the committee, **Chairman Bunderson** thanked Mr. Youtz, Mr. Hammond, and Mr. John for their attendance and participation in the meeting and also for their dedicated service. He stated that it is not an easy task to make forecasts and there will be more forthcoming. The Chairman also stated that with a lot of diversity in forecasts, his personal concern is that the legislature is proceeding too fast.

The Chairman announced that public testimony would be taken and he asked that it be held to two minutes and if asked a question, to limit their answer to 60 seconds.

CON

Testifying in opposition to the bill was **Ernest Jensen, representing the Idaho School Boards Association**. He stated that they voiced their position all during the last legislative session and their position has not changed. They prefer to not see the 3 mils go. He also said that H 1 has some items in it that they are thankful that are there: 1) The $100 million in the stabilization fund, which they feel is very important; 2) Thanks to everyone who has put time and effort into the bill. There are challenges with this bill and his Association would like to help solve those challenges. Mr. Jensen said that he, too, is an elected official, serving on the School Board of School District #91 in Idaho Falls and oftentimes they have had

to make decisions that are not popular.

PRO

Paul Kimmell, Latah County Commissioner, (finishing his 3rd term), spoke in favor of H 1. He said he was testifying for the Association of Counties to show support for the need of this bill and the need for this special session. They continue to support further property tax relief and each June, they sit as a board of equalization. Mr. Kimmell stated that the property tax problem is far from being solved, but is moving forward to a balance. He also said that small businesses, not just large businesses, will benefit greatly from this bill.

Chairman Bunderson said that he has heard some educators say that when they heard that the Association of Counties supported this tax shift from education, they were curious as to the reaction of the counties if the role was reversed. Since the counties get about the same amount of property taxes as the schools, what if the state said they would take over county budgets and pay those out of the state revenues. **Mr. Kimmell** said they do a lot of the state's business at the local level - but that's not what is in the bill before the committee today. The Association is not attempting to attack any part of the local property tax plan.

Senator Stegner asked Mr. Kimmell if the state legislature gave Latah County the option to collect taxes in another form, other than just property, would he be in favor of that? **Mr. Kimmell** replied that there may be some opportunity and benefit in that.

Senator Langhorst said he has heard that small businesses will be hurt. He asked Mr. Kimmell to explain his earlier comments. **Mr. Kimmell** said that his statement was his opinion based on his observations in Moscow.

CON

Inserted into the minutes is a copy of the testimony of **Phil Homer, representing the Idaho Association of School Administrators**.

Chairman Bunderson and Members of the Senate Local Government and Taxation Committee:

My name is Phil Homer and I represent the Idaho Association of School Administrators

One should know the danger of standing in front of a freight train that is coming down the track at a high rate of speed. You have also given me time in the past to explain our views on this matter. However as school administrators, we still have reservations about HB 1 and cannot support this bill.

I would, however, call your attention to two positive changes in HB 1. First, the high market value area school districts, who are struggling to hire staff because of the high cost of living associated with these areas, will now have at least a maintenance of current funding, which will give them time to figure out their future funding process. Second, placing $100 million in the budget stabilization account, rather than a lesser amount that was discussed during the past legislative session, is certainly a step in the right direction to hedge against a downturn in the economy. Both of these changes are very much appreciated, and we thank you for them.

Lastly, we want you to know that we stand ready at a moment s notice to sit at the table to help chart the future course of financing public schools. Our organization has a great deal of expertise in public school finance, which we feel can be helpful to you. We await your invitation.

PRO **Steve Ahrens, President of IACI (Idaho Association of Commerce and Industry)** was called on to testify. He indicated that he had given the Chairman a green sheet and would not be testifying.

Chairman Bunderson said no one else had signed up to testify in favor of the bill and asked if anyone else in the room cared to testify in support. There were none.

CON **Ms. Barb Bode, President of the Idaho PTA,** said "they understand the need for property tax relief, but they do not support the Governor's bill. If it is the intent of this bill to replace the three mils with sales tax and surplus, then the bill needs to say that. Right now, it does not say, other than for this next year, the monies from the sales tax or surplus will be dedicated to educational funding. That's the only way to truly protect educational funding. No matter which way the vote goes, the Idaho PTA will continue to be here."

CON Testifying next was **Don Reading, Economist, representing the Idaho Center on Budget and Tax Policy**. He said he is speaking in opposition to the bill. He provided a handout, which is on file with the Legislative Services Library. It contained graphs showing the impact of reducing the property tax M&O levy three mils; the impact of raising the sales tax rate one cent; and the net impact of both changes. Mr. Reading said this will saddle most Idaho families with a net tax increase. He stated that it is not a tax relief bill, but a tax shift bill for residential home owners.

Senator Sweet inquired of Mr. Reading exactly who is the Idaho Center on Budget and Tax Policy and where they got their information. Mr. Reading said it is an institute that analyzes tax policy and they get their information from census data and is based in Washington, D.C.

CON **Jim Shakelford, Executive Director, IEA**, testified next. He said he represents about 12,000 employees of Idaho's public schools across the state. He said there are two concerns that he would like to address. First, the property tax has historically provided a safety net for schools. If a shift occurs, as proposed in H 1, then the general fund will take on the obligation of providing 100 percent of the funding for Idaho's public schools. There is no assurance that the amount that schools would have received from the three mils that would have been replaced, will also be considered by the legislature for replacement as well. The other concern is that the $100 million to be placed in a rainy day account be given now to Idaho's public schools, so that some of the schools' problems can be addressed now.

Senator Corder said his understanding is that JFAC meets every year and determines the funding per support unit and it has nothing to do with how much has been collected from the counties. **Mr. Shackelford** said the point he was trying to make was that with the legislature taking over 100 percent of the funding and all of the funding being fixed at this point in

time, the value of the three mils that would increase over a period of time is not provided that the increase would also be recognized and continued in the appropriations in the future. **Senator Corder** said it appears to him that the change is not recognized now and that JFAC sets that amount and it has no relationship to the three mils. **Mr. Shackelford** believes they are intertwined, there is a mix and contains a recognition of the amount of money that the three mils would provide to the schools at the local level, and that is exhibited by the simple fact that when you look at the budget documents, the bottom line, the amount of money going to schools does include that calculation.

Senator Sweet asked Mr. Shackelford how much money of the current surplus should go to public schools? **Mr. Shackelford** said the level of funding in the state of Idaho for public schools is inadequate and they would rather see the $100 million that is currently being set aside, be provided to public schools sooner, than later.

Senator Sweet said that if he understood Mr. Shackelford correctly, the public schools need $100 million immediately. If that's the case, how did you arrive at that? **Mr. Shackelford** replied that the proposal they are supporting in November would provide the same amount of increased revenue in public schools that the sales tax would generate and that would provide sufficient revenues for Idaho's public schools to address issues with regard to class size reduction, improve technology and updating outdated textbooks. He said they think of that as a fair and appropriate number for the state of Idaho to use to help the schools address those inadequate funding levels.

Senator Sweet said that when Mr. Shackelford referred to the initiative, he wanted to know what number Mr. Shackelford was referring to.

Mr. Shackelford said that Proposition One proposes to either increase the sales tax to six percent (6%), unless the Legislature decides to use that penny for something else, and to devote the amount of money raised by the sales tax to Idaho's K-12 public schools. That number, at the latest calculations, should be between $210 and $220 million.

Chairman Bunderson asked if there was anyone else who wanted to testify. There were none. He stated that this concludes public testimony.

He said that relative to the arguments and "white paper", if there is no objection, he would like to propose that they be made part of the minutes, with the proviso that any member of the committee that has other additional information to present, to supply that to our Secretary of the Senate and then it will be included with the "white paper". The Chairman asked if there was any objection.

Senator Stegner asked if it was the Chairman's intent, or was it policy, that all of the handouts that were received today to be made part of the minutes of this meeting. The **Chairman** replied that it was the normal procedure and he would like to incorporate them as part of the minutes, similar to what the committee did with the "white paper" of the last session. He feels there needs to be full disclosure of this issue and each committee member needs to weigh in and have their views referenced.

Senator Stegner said, specifically to the Chairman's suggestion, he didn't have a problem with the document being part of all of the handouts for today's meeting, but he stated that he is uncomfortable about approving any further endorsement of the document subject to modifications. He said that he didn't want to involve himself in tracking the modifications and he has numerous problems with a number of the assumptions and statements. He doesn't want it interpreted that he is endorsing the logic in this particular paper without the advantage of another session to review its progress and adaptions..... **The Chairman** asked Senator Stegner if he would "put it on paper" and the Senator replied that he didn't feel that strongly about it and didn't want to do the work. The Chairman said, regarding the Senator's criticism, he would suggest that the Senator should be willing to do enough work to be accounted. The Chairman said the issue is important enough that people need to weigh in and his intent is to make the documents available on the Internet.

Senator Langhorst said that many times in the past, this committee and JFAC and others, rely on information from the State Tax Commission and DFM. He said that he is in support of the Chairman's idea so that people can see what is being said about this bill. **Senator Corder** also supported the idea that the documents be part of the minutes. **Senator Sweet** wanted a clarification of "documents". He asked if it was a separate "white paper" being endorsed as such by the entire committee or simply talking about attaching the documents that have been put forth with testimony as part of the committee hearing within the minutes. **The Chairman** said the committee would not be meeting again as a committee and there needs to be a record of the process that the committee has gone through. If additional points or pro-con arguments need to be made, they would be included as well, or you can challenge a point with another argument. Chairman Bunderson went on to say that this issue is significant enough that the arguments should be available for anyone in the state to look at and to see how the committee arrived at their decision. He said that was the motivation for full disclosure and accountability. **Senator Stegner** said he needed a clarification regarding the documents. He stated that he does not have a problem with the documents received today as being made official and part of the minutes and proceedings of this meeting and placed on the Internet. The concern he has are the statements the Chairman alluded to in modifying the document for the eventual release of "white paper" from this committee. The Chairman said he would rescind his interpretation. **Senator Sweet** said he shared Senator Stegner's statement. **Senator Langhorst** said he agreed and that the committee would let the white paper speak for itself, but it would not mean that everyone on the committee endorses all of the white paper conclusions.

The Chairman asked that all in favor of attaching to the minutes all current documents and posting them on the Internet to say "aye". The vote was unanimous.

Chairman Bunderson said the bill is now before the committee and asked for discussion, comments, or motions.

MOTION: **Senator Hill** said that in interest of time and because all of the issues

have been discussed for three months, plus today, he made the motion to send H 1 to the floor with no recommendation. **Senator Stegner** seconded the motion.

SUBSTITUTE MOTION: **Senator Langhorst** made a substitute motion to send H 1 to the 14th order. **Senator Malepeai** seconded the motion.

Senator Sweet said he opposes the second motion. He said he has heard comments that this bill is lacking and does not support public education. He said that he very strongly takes exception to that and with $100 million going into the public education stabilization fund, that is a tremendous commitment to the children of Idaho and the citizens of the state.

Senator Langhorst asked to explain his substitute motion. He said his intention for sending it to the 14th order is to have the opportunity to debate better ideas, but did not have the opportunity to be debated here today. He said the narrowness by which the proclamation created this special session precluded from consideration other bills. Senator Langhorst said the bill that is on the table, a similar proposal was defeated three times in committee during the last session.

Senator Hill called for a ruling on the substitute motion. He said that in a letter sent out by the Chairman to committee members, it stated that a letter received from the Attorney General's Office said that minor amendments may be possible, but realistically, amendments would likely require a new or modified proclamation. Senator Hill said these things that are being discussed are new amendments and should not be before this committee and he asked for a ruling on the substitute motion. **The Chairman** explained that if the Legislature chose to amend the bill, before proceeding further, it would be wise for Leadership to approach the Gentleman on the second floor and have him issue a new proclamation to accommodate a bill that he would support. **Senator Langhorst** said that he doesn't understand the concern and fear about amendments and different ideas. He praised the Chairman for the manner in which he has conducted this meeting. The Senator said his remarks about the narrowness of the proclamation were not directed at the Chairman, but the narrowness of the proclamation and the idea that they can't discuss other ideas makes the process a sham and is not a good legislative decision. Senator Langhorst said if his substitute motion was not approved, he wanted to serve notice that he would be submitting a dissenting opinion and anyone is welcome to sign it.

VOTE ON SUBSTITUTE MOTION: **Chairman Bunderson** said the substitute motion was before the committee, which is to send the bill to the 14th order, and asked the secretary to call the roll. Voting aye were Senators Langhorst and Malepeai. Voting nay were Senators Corder, Williams, McKenzie, Sweet, Stegner, Hill and Bunderson. (2-7)

VOTE ON MOTION: **Chairman Bunderson** said the original motion was now before the committee and it is to send the bill to the floor without recommendation. He said that it was open for discussion. There were no comments from the committee members. The Chairman said that he wished to make a

point of discussion. He said that he is deeply concerned that this bill has more to do with education than with tax policy and that it has a profound impact on education policy. He stated that the legislature is changing in a day the way it funds public education in a very profound way. It is his opinion that they are diminishing the role of trustees as they seek to manage the financial affairs of their districts and replacing that with state control. He also believes, philosophically, that it runs counter to his philosophy of limiting centralization of government and giving greater flexibility to local elected officials. Thus, minimizing the legislature's role in telling local elected officials how to operate. He said there are other concerns that he will talk about on the floor of the Senate and he will oppose sending it to the floor. With no further discussion, the Chairman asked the secretary to call the roll. Voting aye were Senators Corder, Williams, McKenzie, Sweet, Stegner, and Hill. Voting nay were Senators Langhorst, Malepeai and Bunderson. (6-3)

ADJOURN **Chairman Bunderson** announced that the bill passed the committee and will go to the floor without recommendation. He said the Senate will convene there very soon. The meeting adjourned at 6:15 p.m.

Senator Hal Bunderson Chairman	Juanita Budell Secretary

IDAHO STATE SENATE

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August 19, 2006

To: Idaho State Senators

Dear Colleagues in the Senate:

The following is a "DRAFT" White Paper analysis and Pro - Con arguments of the probable consequences of RS-16445. It will remain "Draft" until acted upon by the SLGT Committee.

The Governor's Proclamation narrowly restricts the purpose of the August 25 Special Session to the effects and merits of RS-16445. The White Paper does not include an evaluation of any other legislation, either planned, proposed or already in law.

I understand the Pro Tem will assign the bill to the LGTC. Some legislators may seek to commingle H-421aas that is now law with RS-16445 and debate based on such combination. Others may seek debate on forecasts, future repeals and new legislation.

In keeping with the specific direction of the Proclamation and to be fair to all sides, the Chairman will rule these and any other topics not specific to the House Bill presently known as RS-16445 to be extraneous and not allow Committee debate on them. We need full disclosure of the bill's strengths and weaknesses. Let it pass or fail on its own merits.

Unfortunately, the amount of time given to the Committee to hear the bill may be limited. The nature and extent of the debate, including questions of experts may also be restricted.

Some have asked about amendments. According to a letter I received from The AG, minor amendments may be possible but realistically, amendments would likely require a new or modified proclamation. As a practical matter, there is question the House will be in session after they send their bill to the Senate.

With kindest regards,

Sincerely,

Hal Bunderson

DRAFT
August 19, 2006

WHITE PAPER

RS-16445 - Analysis of Consequences and

PRO-Con Arguments:

Effect on: *Taxpayers, State Budget* and *Education*

INDEX

Effect on Taxpayers:
- Financial Analysis
- Arguments in Support
- Arguments in Opposition

Effect on the State budget:
- Arguments in Support
- Arguments in Opposition

Effect on Education:
- Arguments in Support
- Arguments in Opposition

Exhibits:
- Analyses of net tax effect of RS16445: COST Study and UTAH Study – source STC.
- Net tax effect of RS16445 on a family of four living in Boise – different household income and home value: DC Study – Source STC.
- State budget trend analysis projected through 2023 by appropriated entity (with and without RS16445) – projection through 2023: Source LSO – BPA.

Effect on Taxpayers

Financial analysis - Source - Idaho Tax Commission (see Exhibits and footnotes):

A. Decrease in property taxes - COST STUDY:

Gross decrease in property taxes	($260 million)
Less: effect of federal and state income taxes –	
Primary Residents (Owner-occupied)	18 "
Other Residential	15 "
Business	30 "
Total increase in income taxes (approx. 77% federal)	63 "
Net property tax reduction	($197 million)

Increases sales taxes - COST STUDY:

Gross increase in sales taxes (annualized)	$210 million
Less – paid by tourists	15 "
Net paid by Idaho sales taxpayers, excluding home renters	185 "
Decreases in federal and state income taxes - Applies to	
Business only – no tax deduction for individuals	(25 ")
Net sales tax increase on Idaho taxpayers	$170 million
Combined tax Relief (Net of rounding)	($ 27 million) *

B. Combined Tax Relief by taxpayer class - COST STUDY: Winner (Loser):

Primary residential -Owner-occupied	($12) million
Home renters,	(10)
Other residential (net of home renters) *	22 "
Commercial and industrial (net of home renters) *	18 "
Agriculture	4 "
Timber	0.5 "
Mining	0.4 "
Operating (utilities)	4. "
Total combined tax relief, Property less sales and income taxes	$ 27 * "

* STC analysis shows $37.09 million which excludes home renters paying sales tax of (9.9 million).

C. Taxpayer effect on a Boise family of four under five circumstances:

Income	Home Value	Net Property Tax Relief
$ 25,000	$ 60,914	$ 7
50,000	116,026	33
75,000	174,040	59
100,000	220,450	104
$150,000	$313,271	$ 131

Footnotes:

1. Home renters constitute 22% of Idaho households. They will pay $9.9 million more sales taxes with no offsetting income or property tax relief. This ($9.9 million) loser amount is included in "Other residential" and "Commercial and industrial."

2. Income under $28,000 will qualify for the 2006 expanded circuit breaker for seniors. After 2006 the homeowners' $75,000/50% exemption will change based of the Idaho Housing Price Index.

3. Average Idaho household income in 2005 was $47,528.

4. If a taxpayer makes a major purchase in any year, application of the 1 cent increase in sales tax will be a direct offset against their net property tax relief from RS-16445.

5. Boise residents have a higher property tax burden than statewide average. A similar analysis made of a family of four in other Idaho cities would produce a different result.

6. Residents in certain counties pay more of the state's income taxes than property taxes. For example, in 2004, Ada County residents paid 35% of all state individual income taxes and 31% of all property taxes collected statewide. Sales tax is a function of income. RS-16445 tax shift would give Ada County residents 31 cents of property tax relief and take 35 cents on the dollar to pay for the statewide tax relief.

7. In 2004, Ada County entities share of total State and Federal Revenue Sharing is $821 per capita. The state average is $1,073 and the range is $ $758 to $4,751. This tax shift will further exacerbate the revenue-sharing disparity between counties.

8. The Idaho Tax Commission evaluated two studies -Utah and COST. The COST STUDY (Council on State Governments Inputs, January 2005) is used above. The two studies produce similar results. The analyses assume individual taxpayers file itemized returns. The percent of homeowners who itemize is not known. 31% of all tax returns are itemized.

9. Information in C. is taken from the DC Study, a national tax burden study comparing the largest city in each state.

Arguments in support - Effect on Taxpayers

1. It provides $260 million in property tax relief.

2. Opponents of the Idaho Education Association's November ballot initiative to increase K-12 funding by adding one percent to state sales taxes, believe passage of this bill will dissuade many taxpayers from voting for the initiative.

3. The portion of the $4.12 million net reduction of taxes applicable to regulated utilities may see the utility's net property tax reduction (net of sales and income taxes) pass through to its customers.

4. RS16445 should not be evaluated separately. It should be evaluated in combination with HB – 421aas, the $25,000 increase in the homeowners' exemption that was passed last session. That bill shifted $47 million of property taxes from primary homeowners to business and second homes. RS16445 will reduce the $47 million but homeowners will still get from $25 to $36 million of property tax relief.

Arguments in opposition – Effect on Taxpayers

1. It increases sales taxes one percent. We should not be raising taxes. It is particularly disgraceful when the state has experiencing revenue surplus.

2. It is much ado about very little. The net fiscal impact of RS-16445 by everyone's estimation is less than $50 million. If all we are doing is providing a maximum of $50 million of net tax relief we should just write refund check to everyone out of the known $203 million surplus. Much simpler than upsetting local control of schools and the state budget.

3. It does not solve the excessive property tax growth problem on taxpayers. It only shifts funding of less than 20% of non-voter approved levy costs to the state general fund. The high-growth parts of the state will continue to produce increased property taxes and in a few years, taxpayers will again demand property tax relief. Reason: The bill does not address core problems.

4. It's discriminatory. Some will pay more, some will pay less. Those who pay more are often least able to bear it. Tax shifts obfuscate the facts. It will likely take more than a year before most taxpayers (except for home renters) can realize whether they are net winners or losers under this bill.

5. The bill discriminates against renters who represent 22% of Idaho households. They will pay increased sales tax totaling $9.9 million with no offsetting benefit.

6. The bill favors out-of-state property owners. Owners of expensive vacation homes pay very little sales tax but will receive full benefit of the property tax cut. Idaho taxpayers will have to make-up for the taxes these people escaped paying (In effect another tax increase on our citizens).

7. Idaho is bracketed between two non-sales taxing states (Oregon and Montana). A permanent increase in sales taxes presents another set of problems to Idaho's economy and economic development. The effect of this has not been evaluated.

8. In concept, we have already tried this statewide tax shift and it didn't work. In FY96 we shifted $40 million of school M&O to the general fund. The amount grew each year until we capped it at $75 million. It was sapping the state general fund of its flexibility.

   To suggest under RS16445, that this time a 100% shift of school M&O to the state general fund will work doesn't square with history.

9. Part of the public emotion to provide immediate property tax relief is based on increased in property tax valuation and estimated tax notices received in June 2006. It is reported that in some parts of the state the valuation notices were over 40 percent.

   Public reaction assumed their actual tax would increase by the same percentage. In reality this will generally not be true. STC analysis show that generally, tax rates will decline to compensate for the valuation increase. For example in Boundary County, property tax valuations would generally have to increase 40% for there to be a property tax increase.

10. There are competing ideas and analysis of the effect of tax shifts on different classifications of taxpayers is dynamic. We should not rush to judgment on important public policy decisions. We need to clearly understand the potential consequences first.

Effect on the State Budget

Arguments in support – Effect on the State Budget:

1. The state has plenty of money to implement RS-16445. It has the FY06 $203 million budget surplus. $100 million carryover from the prior year. The sales tax increase will produce another $210 million.

2. The $100 million the bill puts into the public school stabilization fund will be adequate to protect schools in the event of a downturn in the economy.

3. Projections show future state revenues will remain strong.

Arguments in opposition – Effect on the State Budget:

1. It puts the state budget structurally out of balance. In FY07 - $260 million of new costs (12% of new spending) vs. $210 million of new sales tax revenue (9.5% new tax revenue) creates over $50 million annual structural imbalance.

   If the economy remains normal or declines, the $100 million reserve fund under this bill will not be adequate to backfill future structural imbalances. We should not disregard the fact that our economy could decline.

2. The additional $260 million state obligation causes K-12 and Higher Education to compete head-to-head with Health and Welfare and Corrections for state budget money. Historically, appropriation increases in these two agencies have substantially outdistanced Education. If fact, based on historical trends and forecasts (see exhibits), within two decades, Health and Welfare will exceed public schools and Corrections will exceed Higher Ed.

3. The effect of implementing the bill on the state's FY07 budget is $433 million It will sap all of the state's existing available surpluses and reserves, as follows:
   Cash needs:
   $260 million for 100% of school M&O
   $ 73 million shortfall in FY07 sales tax collections and
   $100 million appropriated to the public school stabilization fund
   $433 million

   Absent additional new surplus realized in FY07, the $433 million appropriation will consume the following:
   $203 million FY06 surplus
   $137 million in new FY07sales tax revenue ($210 - $73 million).
   $ 93 million of the FY05 $100 million carryover ($7 million left).
   $433 million

   Essentially all available reserves will be spent and major demands for new prisons (Two will be needed within 5 years if current inmate trends continue - cost $200 million - borrowed) and Medicaid and numerous other state needs cannot be met without pressure for further tax increases or major budget cuts, including likely limits on education funding.

4. The fiscal impact statement in RS16445 is wrong on two counts.
   - The net tax effect is closer to $27 million, not $50 million (The fiscal impact does not consider the federal and state income tax effect on the property tax cut and sales tax increase.)
   - The sales tax increase of $210 will be short $73 million in FY07 because cash flow from sales taxes will not start until December 2006.

Effect on Education

Arguments in Favor – Effect on Education:

1. State funding will spread the cash flow stream more smoothly. State funding of public schools come in five payments; property taxes come in two payments.

Arguments in opposition – Effect on Education:

1. RS-16445 is a massive change in state policy for public schools. Idaho has historically waited to learn from the mistakes of other states before implementing major changes as opposed to be on the cutting edge. This bill is a departure from Idaho's traditional approach.

2. Hawaii is currently the only state in the nation to provide almost all of the funding from state rather than local sources. It has one state-wide school district.

3. This bill will change will move schools in the direction of a de facto statewide school district. Whoever controls the funding controls the schools? JFAC will largely control school funding. This bill will make local school boards less relevant, thus eroding local control.

4. Stability of funding for schools would be at risk. School districts have numerous fixed costs, and have little flexibility during the school year to reduce their spending, because most of their funds are contractually committed at the beginning of the year before the state budget is fixed. Economic downturns will expose the problems similar to Oregon shortfalls and forced closures.

5. RS-16445 pits schools against other local governmental entities. Eliminating the school property tax levy funding, other than for voter approved levies and offsets from federal appropriations is problematic. Idaho school districts currently collect much less property tax than the national average. Local government agencies, e.g., Idaho counties, collect more than the national average.

6. Many schools will be forced to seek voter approval for supplemental levies to sustain necessary programs. This will result in property tax increases in those districts that can pass such levies. A practice that runs counter to the property tax decrease concept under RS16445. It will divide the state into rich and poor school districts.

7. In 2004-2005, Idaho school districts received average state funds of $4,146 per pupil. The range between districts was $3,063 to $40,319. Most school districts also have voter approved levies that provide supplemental funds. The 2004-2005 average is $1,615 and the range is zero to $25,077. BY paying 100% of school M&O, the state is open to discrimination lawsuits.

8. The bill initially provides a 19- 20% tax reduction measured on a statewide basis (the percentage between school districts, however, ranges for urbane schools from 7.86% to 37.61%. There is no assurance taxpayers will receive the same amount of tax relief.

9. No known guiding principles for developing RS-16445 were prepared – other than "property tax relief." For example if a disciplined evaluation were made it would include guiding principles that may include the following:
   - It must be targeted to the problem(s) e.g., where and why excessive growth in property tax occurs and target solutions to the problem – as opposed to temporarily masking the problem.)
   - It must be financed within existing revenue streams (There is no need to raise taxes; just change priorities to spend more wisely.).
   - It should not result in replacing local control with state control.
   - It should operate within proven systems; not untested innovations.

Revised 8/18/06 to place renters into a separate category and not spread among principal categories of property owners.

RS16445 Effects

Idaho Property Owners

Scenario # 1 Category	Remove M&O Property Tax	Net After Tax Benefit(a)	If COST is Correct Increase Sales Tax Rate 1 cent	Net After Tax Cost (a)	Net Benefit Pre Inc Tx	Net Benefit Post Inc Tx
Primary residential	$105.22 mil	$ 87.19 mil	$ 99.5 mil	$ 99.50 mil	$ 5.72 mil	$(12.31) mil
Other residential	$ 61.76 mil	$ 47.04 mil	$ 33.2 mil	$ 25.28 mil	$28.56 mil	$ 21.76 mil
Total residential	$166.98 mil	$134.23 mil	$132.7 mil	$124.78 mil	$34.28 mil	$ 9.45 mil
Commercial/Industrial	$ 74.42 mil	$ 50.16 mil	$ 46.9 mil	$ 31.61 mil	$27.52 mil	$ 18.55 mil
Agriculture	$ 7.02 mil	$ 4.73 mil	$ 1.0 mil	$ 0.67 mil	$ 6.02 mil	$ 4.06 mil
Timber	$ 1.28 mil	$ 0.86 mil	$ 0.5 mil	$ 0.34 mil	$ 0.78 mil	$ 0.52 mil
Mining	$ 1.08 mil	$ 0.73 mil	$ 0.5 mil	$ 0.34 mil	$ 0.58 mil	$ 0.39 mil
Operating	$ 9.11 mil	$ 6.14 mil	$ 3.0 mil	$ 2.02 mil	$ 6.11 mil	$ 4.12 mil
Subtotal	$259.89 mil*	$196.85 mil	$184.6 mil**	$159.76 mil	$75.29 mil	$ 37.09 mil
Tourists			$ 15.5 mil	$ 15.50 mil		
Renters			$ 9.9 mil	$ 9.90 mil	9.9	(9.9)
Total All			$210.0 mil	$185.16 mil		27.19

Predicted change in combined Income tax: up $63.04 mil | down $24.84 mil | net up $38.20 mil

*Reduces school M&O by 0.3%, subtracts the appropriate amount of agricultural equipment replacement money, allows four school districts to levy budget stabilization funds and discontinues the distribution of equivalent property taxes related to levies for Urban Renewal districts and REAs.

** Council on State Taxation of Business Inputs, January 25, 2005. Business @ **28.1%.**

(a) Used combined effective individual rate of 29.8%. For business used 32.6%.

Revised 8/18/06 to place renters into a separate category and not spread among principal categories of property owners.

RS16445 Effects

Idaho Property Owners

Scenario # 2 Category	Remove M&O Property Tax	Net After Tax Benefit(a)	If Utah Study is Correct: Increase Sales Tax Rate 1 cent	Net After Tax Cost(a)	Net Benefit: Pre Inc Tx	Net Benefit: Post Inc Tx
Primary residential	$105.22 mil	$ 87.19 mil	$ 88.6 mil	$ 88.60 mil	$16.62 mil	$(1.41) mil
Other residential	$ 61.76 mil	$ 47.04 mil	$ 29.5 mil	$ 22.47 mil	$32.26 mil	$24.57 mil
Total residential	$166.98 mil	$134.23 mil	$118.1 mil	$111.07 mil	$48.88 mil	$23.16 mil
Commercial/Industrial	$ 74.42 mil	$ 50.16 mil	$ 60.7 mil	$ 40.91 mil	$13.72 mil	$ 9.25 mil
Agriculture	$ 7.02 mil	$ 4.73 mil	$ 1.0 mil	$ 0.67 mil	$ 6.02 mil	$ 4.06 mil
Timber	$ 1.28 mil	$ 0.86 mil	$ 0.5 mil	$ 0.34 mil	$ 0.78 mil	$ 0.52 mil
Mining	$ 1.08 mil	$ 0.73 mil	$ 0.5 mil	$ 0.34 mil	$ 0.58 mil	$ 0.39 mil
Operating	$ 9.11 mil	$ 6.14 mil	$ 3.8 mil	$ 2.56 mil	$ 5.31 mil	$ 3.58 mil
Subtotal	$259.89 mil*	$196.85 mil	$184.6 mil**	$155.89 mil**	$75.29 mil	$ 40.96 mil
Tourists			$ 15.5 mil	$ 15.50 mil		
Renters			$ 9.9 mil	$ 9.90 mil		9.90
Total All			$210.0 mil	$181.29 mil		31.06
Predicted change in combined Income tax	up $63.04 mil		down $28.71 mil		net up $34.33 mil	

*Reduces school M&O by 0.3%, subtracts the appropriate amount of agricultural equipment replacement money, allows four school districts to levy budget stabilization funds and discontinues the distribution of equivalent property taxes related to levies for Urban Renewal districts and REAs.

Western States' Tax Burden Study, Revised, Utah State Tax Commission, Economic and Statistical Unit, February 3, 2004. 64%/36%** + judgment of STC.

(a) Used combined effective individual rate of 29.8%. For business used 32.6%. These are conservative rates.

Legislative Services Office
Idaho State Legislature

Serving Idaho's Citizen Legislature

Jeff Youtz
Director

2023 - State Budget Trend Analysis - attached

MEMORANDUM

August 3, 2006

TO: Senator Hal Bunderson

FROM: Jeff Youtz

SUBJECT: Responses to your questions concerning state spending and RS 16445

1. It appears the cash flow from the 1 cent increase in sales taxes will not start until October. Yet the M & O replacement will apply for the entire fiscal year. Thus, there will be only 8 months of cash flow from sales tax in the first year, $70 million less than the $210 stated in the fiscal note. If that is true, how will that shortfall be made-up; out of the $100 million reserve?

   Actually, the increased sales tax which would go into effect October 1, would generate only seven months of revenue, with an estimated $136.3 million in revenues to the General Fund. In this first year of implementation (FY 2007), the one-time state surplus (not the $100 million PESF transfer) would make up the $73 million difference of the full annualized $210 million fiscal impact of a one cent increase in the sales tax.

2. I understand you have prepared a historical and projected trend analysis of appropriations by classification, e.g., public schools, health and welfare, corrections, etc. Please email a copy of that analysis to me.

   See attachment #2 and #3, the latter of which includes RS 16445.

3. It appears that if RS-16445 becomes law, the state will be adding 11.9% to the state's obligations ($260/$2,181 million) and funding it with an ongoing revenue stream from increased sales tax of only 9.6% ($210/$2,181 million), a structural imbalance. In my opinion, this structural imbalance will have a serious adverse effect on future budgets, particularly when we have cyclical economic downturns. Additionally, can you project the balances in the public school reserve account?

   Specifically, the legislation would reduce property tax revenues for public schools by a net $260 million. In order to replace these funds, the state would have to appropriate an

Revised
7/27/06

Family of Four*

RS16445

Gross Family Income	MV of Home	TV of Home	Property Tax Payment Current	Property Tax Payment Proposed	Pre Income Tax Benefit	IF ITEMIZE** Post Income Tax Benefit	Sales Tax Payment @6%	Sales Tax Payment 1 Cent
$ 25,000	$ 60,914	$35,000	$ 527	$ 422	$105	$ 83	$ 454	$ 76
$ 50,000	$116,026	$66,024	$1,142	$ 914	$228	$177	$ 865	$144
$ 75,000	$174,040	$124,040	$2,145	$1,716	$429	$275	$1,298	$216
$100,000	$220,450	$170,450	$2,947	$2,358	$589	$378	$1,644	$274
$150,000	$313,271	$263,271	$4,552	$3,642	$910	$521	$2,337	$390

COMBINED IMPACT

Property Tax Decrease and Sales Tax Increase

Net Disposable Income Retained

Combined Tax Rate	Gross Family Income	Pre Income Tax Benefit	Post Income Tax Benefit
15%+6.1%=21.1%	$ 25,000 (with residential home value of $60,914)	$ 29	$ 7
15%+7.4%=22.4%	$ 50,000 (with residential home value of $116,026)	$ 84	$ 33
28%+7.8%=35.8%	$ 75,000 (with residential home value of $174,040)	$213	$ 59
28%+7.8%=35.8%	$100,000 (with residential home value of $220,450)	$315	$104
35%+7.8%=42.8%	$150,000 (with residential home value of $313,271)	$520	$131

* Source: Tax Rates and Tax Burdens – A Nationwide Comparison, issued August 2005. (DC study). Boise Only.

** 152,006 Idaho residents filed a form 40 in 2005 that itemized their deductions for tax year 2004. 312,589 Idaho residents filed a form 40 in 2005 that took the Standard Deduction. Therefore, "Pre Income Tax Benefit" is more descriptive of the majority of Idaho individual taxpayers.

additional $250 million for public schools, from the General Fund (there is already an extra $10 million appropriated in the current FY07 budget for public schools). Since the proposed increase in the sales tax would bring in an additional $210 million, on an annualized basis, this leaves an ongoing funding gap of $40 million, which would have to be filled by ongoing General Fund dollars. Currently, because of a record setting performance in revenue collections for FY 2006 (16.5%), we technically have a structural budget surplus estimated at $100 million. However the likely size of any ongoing, or "structural" General Fund surplus will become much clearer on August 15, when the Division of Financial Management (DFM) releases its revised FY 2007 General Fund revenue forecast

Concerning the Public Education Stabilization Fund balance, the current balance is $12.0 million and the balance, of course, would grow by $100 million with RS 16445. Under current estimates there is no short-term scenario in which that fund would need to be tapped. As you know PESF is designed to protect the public schools appropriation from funding shortfalls, and has proven to be a valuable safety net since its inception. Your question about cyclical economic downturns and the possible impact not only on the overall state budget, but specifically on PESF, is certainly a valid and important concern, but there is absolutely no one equipped to look into the future and answer that question. In terms of evaluating the adequacy of PESF to absorb future economic downturns, we can only look at history and recite the worst case scenario we have experienced with public schools holdbacks, which occurred in FY 2002 and FY 2003 with a two-year cumulative hit of about $36.3 million. If you inflate that number to reflect the present day, and adjust it also to reflect the M & O replacement, that worst case scenario in today's dollars would be about $50.0 million, less than half the PESF balance anticipated with RS 16445.

4. It looks like 63-3638 of the RS reduces revenue sharing to the cities and counties by 16.4% of the total sales tax collected. I assume that is the amount that will allow them to not participate in the 1 cent tax increase but allow them to continue to receive approximately what they have historically received?

   That is correct. Once the revenue from the 6% sales tax begins being collected the percentage of sales tax receipts allocated for local government revenue sharing would be reduced accordingly, but the dollar amount would essentially be the same.

Attachment #2

Long Term General Fund Budget Projection

Fiscal Year	Medicaid		College & Universities		Adult Correction		Public Schools		All Other		$ Millions State Budget	
1995 Act	$ 92.8		$ 162.9		$ 55.1		$ 620.5		$ 336.8		$ 1,268.1	
1996 Act	110.4	18.9%	169.3	4.0%	58.8	6.6%	659.9	6.4%	$ 339.2	0.7%	1,337.5	5.5%
1997 Act	124.0	12.4%	173.5	2.4%	63.1	7.4%	678.8	2.9%	$ 352.4	3.9%	1,391.8	4.1%
1998 Act	123.8	-0.2%	178.4	2.9%	74.1	17.4%	705.0	3.9%	$ 365.1	3.6%	1,446.4	3.9%
1999 Act	139.2	12.4%	193.1	8.3%	78.2	5.6%	796.4	13.0%	$ 402.8	10.3%	1,609.7	11.3%
2000 Act	162.8	16.9%	202.7	5.0%	82.4	5.3%	821.1	3.1%	$ 410.8	2.0%	1,679.8	4.4%
2001 Act	205.3	26.1%	212.3	4.7%	94.6	14.7%	873.5	6.4%	$ 442.8	7.8%	1,828.5	8.9%
2002 Act	223.1	8.7%	229.7	8.2%	108.6	14.9%	909.6	4.1%	$ 508.3	14.8%	1,979.5	8.3%
2003 Act	236.8	6.1%	213.6	-7.0%	104.7	-3.6%	920.0	1.1%	$ 450.4	-11.4%	1,925.5	-2.7%
2004 Act	256.3	8.2%	218.0	2.1%	107.7	2.8%	943.0	2.5%	$ 462.2	2.6%	1,987.2	3.2%
2005 Act	300.1	17.1%	225.6	3.5%	114.8	6.6%	964.7	2.3%	$ 496.9	7.5%	2,102.1	5.8%
2006 Tot	331.3	10.4%	234.1	3.8%	129.2	12.5%	995.3	3.2%	$ 540.8	8.8%	2,230.8	6.1%
2007 App	357.3	7.8%	243.4	4.0%	143.6	11.2%	1,040.9	4.6%	$ 557.8	3.1%	2,343.1	5.0%
2008 Proj	400.4	12.1%	251.9	3.5%	155.8	8.5%	1,087.2	4.4%	$ 582.8	4.5%	2,478.2	5.8%
2009 Proj	448.8		260.6		169.0		1,135.6		$ 608.9		2,622.9	5.8%
2010 Proj	503.1		269.7		183.3		1,186.1		$ 636.2		2,778.3	5.9%
2011 Proj	563.9		279.1		198.8		1,238.8		$ 664.8		2,945.2	6.0%
2012 Proj	632.0		288.8		215.6		1,293.9		$ 694.6		3,124.8	6.1%
2013 Proj	708.4		298.8		233.8		1,351.4		$ 725.7		3,318.1	6.2%
2014 Proj	793.9		309.2		253.6		1,411.5		$ 758.3		3,526.5	6.3%
2015 Proj	889.9		319.9		275.0		1,474.2		$ 792.3		3,751.3	6.4%
2016 Proj	997.4		331.0		298.3		1,539.8		$ 827.8		3,994.3	6.5%
2017 Proj	1,117.9		342.5		323.5		1,608.2		$ 864.9		4,257.2	6.6%
2018 Proj	1,253.0		354.4		350.9		1,679.8		$ 903.7		4,541.8	6.7%
2019 Proj	1,404.4		366.7		380.6		1,754.4		$ 944.2		4,850.4	6.8%
2020 Proj	1,574.2		379.5		412.8		1,832.4		$ 986.5		5,185.4	6.9%
2021 Proj	1,764.4		392.7		447.7		1,913.9		$ 1,030.8		5,549.4	7.0%
2022 Proj	1,977.6		406.3		485.6		1,999.0		$ 1,077.0		5,945.5	7.1%
2023 Proj	2,216.5		420.4		526.7		2,087.9		$ 1,125.3		6,376.8	7.3%

For the purposes of projecting General Fund spending, the table above locks in the average percent increase over the past twelve years, and applies that to the next 15 years. Spending on the Medicaid budget has increased an average of 12.1% over the last 12 years, although hopefully the reform measures taken this year will slow that growth, and with the current strong economy caseloads are down. The Corrections budget has increased an average of 8.5% over the last 12 years. In order to accommodate these relatively large increases, over which there is limited control, there has been pressure to limit discretionary spending in other areas of the budget, including higher education, which has averaged 3.5% over this same period, public schools which has averaged 4.4%, and all other agencies at 4.5%.

If the trends in growth for both Medicaid and Corrections continue, the long-term outlook for controlling the growth of state spending within the existing revenue structure becomes problematic. The role of Idaho State government would change in an scenario which, in ten to fifteen years we could be spending more on Corrections than Higher Education, and in fifteen to twenty years, spending more on Medicaid than Public Schools.

attachment #3

Long Term General Fund Budget Projection

(Adjusted for RS16445)

Fiscal Year	Medicaid		College & Universities		Adult Correction		Public Schools		All Other		$ Millions State Budget	
1995 Act	$ 92.8		$ 162.9		$ 55.1		$ 620.5		$ 336.8		$ 1,268.1	
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2002 Act	223.1	8.7%	229.7	8.2%	108.6	14.9%	909.6	4.1%	$ 508.3	14.8%	1,979.5	8.3%
2003 Act	236.8	6.1%	213.6	-7.0%	104.7	-3.6%	920.0	1.1%	$ 450.4	-11.4%	1,925.5	-2.7%
2004 Act	256.3	8.2%	218.0	2.1%	107.7	2.8%	943.0	2.5%	$ 462.2	2.6%	1,987.2	3.2%
2005 Act	300.1	17.1%	225.6	3.5%	114.8	6.6%	964.7	2.3%	$ 496.9	7.5%	2,102.1	5.8%
2006 Tot	331.3	10.4%	234.1	3.8%	129.2	12.5%	995.3	3.2%	$ 540.8	8.8%	2,230.8	6.1%
2007 App	357.3	7.8%	243.4	4.0%	143.6	11.2%	1,040.9	4.6%	$ 557.8	3.1%	2,343.1	5.0%
RS16445							250.6	29.8%			2,593.7	16.3%
2008 Proj	400.4	12.1%	251.9	3.5%	155.8	8.5%	1,337.9	4.4%	$ 582.8	4.5%	2,728.8	5.2%
2009 Proj	448.8		260.6		169.0		1,397.4		$ 608.9		2,884.7	5.7%
2010 Proj	503.1		269.7		183.3		1,459.5		$ 636.2		3,051.7	5.8%
2011 Proj	563.9		279.1		198.8		1,524.4		$ 664.8		3,230.8	5.9%
2012 Proj	632.0		288.8		215.6		1,592.2		$ 694.6		3,423.1	5.9%
2013 Proj	708.4		298.8		233.8		1,662.9		$ 725.7		3,629.6	6.0%
2014 Proj	793.9		309.2		253.6		1,736.9		$ 758.3		3,851.9	6.1%
2015 Proj	889.9		319.9		275.0		1,814.1		$ 792.3		4,091.2	6.2%
2016 Proj	997.4		331.0		298.3		1,894.8		$ 827.8		4,349.3	6.3%
2017 Proj	1,117.9		342.5		323.5		1,979.0		$ 864.9		4,627.9	6.4%
2018 Proj	1,253.0		354.4		350.9		2,067.0		$ 903.7		4,929.1	6.5%
2019 Proj	1,404.4		366.7		380.6		2,158.9		$ 944.2		5,254.9	6.6%
2020 Proj	1,574.2		379.5		412.8		2,254.9		$ 986.5		5,607.9	6.7%
2021 Proj	1,764.4		392.7		447.7		2,355.1		$ 1,030.8		5,990.7	6.8%
2022 Proj	1,977.6		406.3		485.6		2,459.9		$ 1,077.0		6,406.3	6.9%
2023 Proj	2,216.5		420.4		526.7		2,569.2		$ 1,125.3		6,858.1	7.1%

Prepared by Legislative Services Budget & Policy

August 1, 2006

A.J. Balukoff

I am writing to urge you to oppose Governor Risch's proposed property tax relief bill. The bill will not provide lasting property tax relief because it attempts to fix the part of the property tax formula that is not broken.

Taxable property value X Levy rate = Property tax

During the past five years in Ada County, levy rates have remained pretty stable, and in some areas, rates have decreased slightly. Assessed values have increased. The increase in property values, not levy rates has caused property taxes to soar.

Governor Risch's bill does not address soaring property values; it attempts to lower levy rates. You will not be able to lower levy rates enough to make a lasting difference if assessed values continue to rise at historical rates.

The following table illustrates the dynamics of Governor Risch's bill:

Year	Taxable Value	Levy Rate	Property Tax	Change in Property Tax	
				For the Year	Cumulative
1 Old Law	150,000	.017646354	2,646.95		
1 New Law	150,000	.014646354*	2,196.95	(450.00)	(450.00)
2	165,000	.014587769	2,406.98	210.03	(239.97)
3	181,500	.014529418	2,637.09	230.11	(9.86)
4	199,650	.014471300	2,889.20	252.11	242.25
5	219,615	.014413415	3,165.40	276.20	518.45
6	241,577	.014355761	3,468.02	302.62	821.07

* Removed the .003 School M&O Levy

3 yrs. PT Growing again

This example assumes a 10% annual increase in taxable property value and a .4% rate of decrease in the levy rate. This is the average levy rate decrease in my tax code area from 2002 to 2005. The levy rate used in this example is from my code area in Boise.

As you can see, by year three this taxpayer's property tax is within ten dollars of his property tax before the proposed law change.

When you consider the increased sales tax and the increased income taxes because of the lost property tax deduction, this taxpayer will have endured a net tax increase, probably from year one, but certainly from year two forward.

This proposed legislation will not accomplish the property tax relief it promises because its math does not work. I urge you to vote no.

Final 8/24/06

Handout from Commissioner Hammond

(1)

Property Tax Relief Act of 2006

Annualized Impacts

RS16445

Section 3: Remove school M&O from taxpayer-supplied funds	-$260 million
Section 19: Add 1 cent to sales tax rate (effective date 10/1/06)	+$219 million
Reduction in taxpayer-supplied funds	-$ 41 million
Surplus funds as of June 30, 2006	+$203 million
Adjusted surplus balance	+$162 million
Section 24: Deposit into Education Stabilization (rainy day) fund # 2 to protect education	-$100 million
Net Balance of surplus funds as of June 30, 2006	+$ 62 million

Property Tax Reduction

Category	Remove M&O Property Tax
Primary residential	$105.22 mil
Other residential	$ 61.76 mil
Total residential	$166.98 mil
Commercial/Industrial	$ 74.42 mil
Agriculture	$ 7.02 mil
Timber	$ 1.28 mil
Mining	$ 1.08 mil
Operating	$ 9.11 mil
Subtotal	$259.89 mil*
Tourists	$ 15.50 mil
Total All	$259.89 mil

*Reduces school M&O by 0.3%, subtracts the appropriate amount of agricultural equipment replacement money, allows four school districts to levy budget stabilization funds and discontinues the distribution of equivalent property taxes related to levies for Urban Renewal districts and REAs.

Sales Tax Studies

Idaho Property Owners

Category	(1) Remove M&O Property Tax	(2) If COST is Correct** Increase Sales Tax Rate 1 cent	(3) If COST is Correct** Net Gain By Category	(4) If Utah Study is Correct*** Increase Sales Tax Rate 1 Cent	(5) If Utah Study is Correct*** Net Gain By Category
Primary residential	$105.22 mil	$103.9 mil	$ 1.32 mil	$ 92.5 mil	$12.72 mil
Other residential	$ 61.76 mil	$ 34.7 mil	$27.06 mil	$ 30.9 mil	$30.86 mil
Total residential	$166.98 mil	$138.6 mil	$28.38 mil	$123.4 mil	$43.58 mil
Commercial/Industrial	$ 74.42 mil	$ 49.1 mil	$25.32 mil	$ 63.4 mil	$11.02 mil
Agriculture	$ 7.02 mil	$ 1.0 mil	$ 6.02 mil	$ 1.0 mil	$ 6.02 mil
Timber	$ 1.28 mil	$ 0.5 mil	$ 0.78 mil	$ 0.5 mil	$ 0.78 mil
Mining	$ 1.08 mil	$ 0.5 mil	$ 0.58 mil	$ 0.5 mil	$ 0.58 mil
Operating	$ 9.11 mil	$ 3.1 mil	$ 6.01 mil	$ 4.0 mil	$ 5.11 mil
Subtotal-property owners	$259.89 mil*	$192.8 mil	$67.09 mil	$192.8 mil	$67.09 mil
Tourists(a)		$ 16.4 mil		$ 16.4 mil	
Renters		$ 9.9 mil		$ 9.9 mil	
Total All		$219.1 mil		$219.1 mil	

- Reduces school M&O by 0.3%, subtracts the appropriate amount of agricultural equipment replacement money, allows four school districts to levy budget stabilization funds and discontinues the distribution of equivalent property taxes related to levies for Urban Renewal districts and REAs.

** Council on State Taxation of Business Inputs, January 25, 2005. Business @ **28.1%.**

***Western States' Tax Burden Study, Revised, Utah State Tax Commission, Economic and Statistical Unit, February 3, 2004. Split of 64% individuals and 36% paid by businesses in Idaho.

(a) Estimated at 7.5% of gross receipts, per Dept of Commerce (Jan 2006).

Itemization of Property Tax On Tax Returns Filed In Idaho

One-third (152,006) of Idaho's residents filed a form 40 in 2005 that itemized their deductions for tax year 2004 claiming a property tax deduction. They accounted for about 70% of the property tax dollars paid in 2004 from the residential category. Two-thirds (312,589) of Idaho's residents filed a form 40 in 2005 taking the Standard Deduction with no property tax deduction.

Sales Tax Studies

Idaho Property Owners

Scenario # 2 Category	(1) Remove M&O Property Tax	(2) Net After Tax Benefit(a)	(3) If Utah Study is Correct: Increase Sales Tax Rate 1 cent	(4) Net After Tax Cost(a)	(5) Net Combined Benefit: Pre Inc Tx	(6) Net Combined Benefit: Post Inc Tx
Primary residential	$105.22 mil	$ 87.19 mil	$ 92.5 mil	$ 92.50 mil	$12.72 mil	$(5.31) mil
Other residential	$ 61.76 mil	$ 47.04 mil	$ 30.9 mil	$ 23.53 mil	$30.86 mil	$23.51 mil
Total residential	$166.98 mil	$134.23 mil	$123.4 mil	$116.03 mil	$43.58 mil	$18.20 mil
Commercial/Industrial	$ 74.42 mil	$ 50.16 mil	$ 63.4 mil	$ 42.73 mil	$11.02 mil	$ 7.43 mil
Agriculture	$ 7.02 mil	$ 4.73 mil	$ 1.0 mil	$ 0.67 mil	$ 6.02 mil	$ 4.06 mil
Timber	$ 1.28 mil	$ 0.86 mil	$ 0.5 mil	$ 0.34 mil	$ 0.78 mil	$ 0.52 mil
Mining	$ 1.08 mil	$ 0.73 mil	$ 0.5 mil	$ 0.34 mil	$ 0.58 mil	$ 0.39 mil
Operating	$ 9.11 mil	$ 6.14 mil	$ 4.0 mil	$ 2.70 mil	$ 5.11 mil	$ 3.44 mil
Subtotal-property owners	$259.89 mil*	$196.85 mil	$192.8 mil**	$162.81 mil**	$67.09 mil	$ 34.04 mil
Tourists(b)			$ 16.4 mil	$ 16.40 mil		
Renters			$ 9.9 mil	$ 9.90 mil		
Total All			$219.1 mil	$189.11 mil		
Predicted change in combined Income tax	up $63.04 mil		down $29.99 mil		net up $33.05 mil	

*Reduces school M&O by 0.3%, subtracts the appropriate amount of agricultural equipment replacement money, allows four school districts to levy budget stabilization funds and discontinues the distribution of equivalent property taxes related to levies for Urban Renewal districts and REAs.

Western States' Tax Burden Study, Revised, Utah State Tax Commission, Economic and Statistical Unit, February 3, 2004. 64%/36%** + judgment of STC.

(a) Used combined effective individual rate of 29.8%. For business used 32.6%.

(b) Estimated at 7.5% of gross receipts, per Dept of Commerce (Jan 2006).

Sales Tax Studies

Idaho Property Owners

Scenario # 1 Category	(1) Remove M&O Property Tax	(2) Net After Tax Benefit(a)	(3) If COST is Correct Increase Sales Tax Rate 1 cent	(4) Net After Tax Cost (a)	(5) Net Combined Benefit Pre Inc Tx	(6) Post Inc Tx
Primary residential	$105.22 mil	$ 87.19 mil	$103.9 mil	$ 103.90 mil	$ 1.32 mil	$(16.71) mil
Other residential	$ 61.76 mil	$ 47.04 mil	$ 34.7 mil	$ 26.43 mil	$27.06 mil	$ 20.61 mil
Total residential	$166.98 mil	$134.23 mil	$138.6 mil	$130.33 mil	$28.38 mil	$ 3.90 mil
Commercial/Industrial	$ 74.42 mil	$ 50.16 mil	$ 49.1 mil	$ 33.09 mil	$25.32 mil	$ 17.07 mil
Agriculture	$ 7.02 mil	$ 4.73 mil	$ 1.0 mil	$ 0.67 mil	$ 6.02 mil	$ 4.06 mil
Timber	$ 1.28 mil	$ 0.86 mil	$ 0.5 mil	$ 0.34 mil	$ 0.78 mil	$ 0.52 mil
Mining	$ 1.08 mil	$ 0.73 mil	$ 0.5 mil	$ 0.34 mil	$ 0.58 mil	$ 0.39 mil
Operating	$ 9.11 mil	$ 6.14 mil	$ 3.1 mil	$ 2.09 mil	$ 6.01 mil	$ 4.05 mil
Subtotal–property owners	$259.89 mil*	$196.85 mil	$192.8 mil**	$166.86 mil	$67.09 mil	$ 29.99 mil
Tourists(b)			$ 16.4 mil	$ 16.40 mil		
Renters			$ 9.9 mil	$ 9.90 mil		
Total All			$219.1 mil	$193.16 mil		
Predicted change in combined Income tax	up $63.04 mil		down $25.94 mil		net up $37.10 mil	

*Reduces school M&O by 0.3%, subtracts the appropriate amount of agricultural equipment replacement money, allows four school districts to levy budget stabilization funds and discontinues the distribution of equivalent property taxes related to levies for Urban Renewal districts and REAs.

** Council on State Taxation of Business Inputs, January 25, 2005. Business @ **28.1%.**

(a) Used combined effective individual rate of 29.8%. For business used 32.6%.

(b) Estimated at 7.5% of gross receipts, per Dept of Commerce (Jan 2006).

Impact On Taxpayer Categories
New Homeowners Exemption
HB421a and RS16445

Note: Values in ( ) indicate taxpayer benefit or savings.

Estimated Tax Impacts

	(1)	(2)	(3)	(4)	(5)	(6)
	New HOE+RS16445	**Gain**	**RS16445 Increase Sales**		**Net Combined Effect**	
Category of Property	**Property Tax Change**	**Net of Income Tax****	**Tax Rate 1 Cent***	**Cost Net of Income Tax****	**Pre Income Tax**	**After Income Tax****
Primary residential	$(152,304,014)	$(125,014,714)	$ 92,500,000	$ 92,500,000	$ (59,804,014)	$(32,514,714)
Other residential	$(45,548,924)	$(34,690,061)	$ 30,900,000	$ 23,530,000	$ (14,648,924)	$(11,160,061)
Total residential	$(197,852,938)	$(159,704,775)	$123,400,000	$116,030,000	$ (74,452,938)	$(43,674,775)
Commercial/Indust	$(50,098,493)	$(33,766,384)	$ 63,400,000	$ 42,730,000	$ 13,301,507	$ 8,963,616
Agricultural	$ (3,931,765)	$(2,650,010)	$ 1,000,000	$ 670,000	$ (2,931,765)	$(1,980,010)
Timber	$ (859,119)	$(579,046)	$ 500,000	$ 340,000	$ (359,119)	$(239,046)
Mining	$ (899,319)	$(606,141)	$ 500,000	$ 340,000	$ (399,319)	$(266,141)
Operating	$ (6,253,599)	$(4,214,926)	$ 4,000,000	$ 2,700,000	$ (2,253,599)	$(1,514,926)
Total-property owners	$(259,895,235)	$(201,521,282)	$192,800,000*	$162,810,000	$(67,095,235)	$(38,711,282)
Tourists(a)			$ 16,400,000	$ 16,400,000		
Renters			$ 9,900,000	$ 9,900,000		
Total all			$219,100,000	$189,110,000		
Predicted change in combined Income tax	up $58,373,953		down $29,990,000		net up $28,383,953	

* Western States' Tax Burden Study, Revised, Utah State Tax Commission, Economic and Statistical Unit, February 3, 2004. 64%/36% + judgment of STC.

** Used combined federal and state individual tax rate of 29.8% and 32.6% for business.

(a) Estimated at 7.5% of gross receipts, per Dept of Commerce (Jan 2006).

Impact On Taxpayer Categories
New Homeowners Exemption
HB421a And RS16445

Note: Values in ( ) indicate taxpayer benefit or savings.

Estimated Tax Impacts

Category of Property	(1) New HOE+RS16445 Property Tax Change	(2) Gain Net of Income Tax**	(3) RS16445 Increase Sales Tax Rate 1 Cent*	(4) Cost Net of Income Tax**	(5) Net Combined Effect Pre Income Tax	(6) After Income Tax**
Primary residential	$(152,304,014)	$(125,014,714)	$103,900,000	$103,900,000	$ (48,404,014)	$(21,114,714)
Other residential	$(45,548,924)	$(34,690,061)	$ 34,700,000	$ 26,430,000	$ (10,848,924)	$(8,260,061)
Total residential	$(197,852,938)	$(159,704,775)	$138,600,000	$130,330,000	$ (59,252,938)	$(29,374,775)
Commercial/Indust	$(50,098,493)	$(33,766,384)	$ 49,100,000	$ 33,090,000	$ (998,493)	$(676,384)
Agricultural	$ (3,931,765)	$(2,650,010)	$ 1,000,000	$ 670,000	$ (2,931,765)	$(1,980,010)
Timber	$ (859,119)	$(579,046)	$ 500,000	$ 340,000	$ (359,119)	$(239,046)
Mining	$ (899,319)	$(606,141)	$ 500,000	$ 340,000	$ (399,319)	$(266,141)
Operating	$ (6,253,599)	$(4,214,926)	$ 3,100,000	$ 2,090,000	$ (3,153,599)	$(2,124,926)
Total-property owners	$(259,895,235)	$(201,521,282)	$192,800,000*	$166,860,000	$(67,095,235)	$(34,661,282)
Tourists(a)			$ 16,400,000	$ 16,400,000		
Renters			$ 9,900,000	$ 9,900,000		
Total all			$219,100,000	$193,160,000		
Predicted change in combined Income tax	up $58,373,953		down $25,940,000		net up $32,433,953	

* Council on State Taxation of Business Inputs, January 25, 2005. Business @ 28.1%.

** Used combined federal and state individual tax rate of 29.8% and 32.6% for business.

(a) Estimated at 7.5% of gross receipts, per Dept of Commerce (Jan 2006).

FY 2007 Budget Update

Potential Impact of Proposed Property Tax Relief Act of 2006

The Governor's Division of Financial Management has released a revised revenue projection for fiscal year 2007, following the record-setting revenue collections of 16.5 percent for FY 2006. The new revenue estimate for FY 2007 projects an increase of 3.4 percent over the FY 2006 actual collections (line 2 in the table below). The components of the revenue collection forecast include a 2.4 percent increase in individual income taxes, a 5.3 percent increase in sales taxes and a 6.6 percent increase in corporate income taxes. However, according to DFM, more than $133 million included in the FY 2007 forecast is considered one-time revenue tied to the construction boom and is not expected to continue on an ongoing basis.

The table below also includes the estimated fiscal impact of RS16445, the Governor's proposed bill, which the Legislature will consider in special session on August 25. The key revenue components of the Governor's proposal, listed in lines 9 through 12 below, include a $100 million transfer to the Public Education Stabilization Fund (line 9), which will bring the balance to $112 million, and a one-cent increase in the sales tax, which will go into effect October 1 and generate about $142 million for the seven remaining months in FY 2007. A full year of collections at the increased rate will yield approximately $219 million in revenue. There are also some fiscal impacts on the circuit breaker pay-out and the personal property tax agriculture exemption, listed in lines 11 and 12, as a result of eliminating the maintenance and operation levy. And finally, the public schools appropriation will require an additional $250 million in general funds to replace the M & O property tax levy eliminated in RS16445 (line 16). Based on the new revenue estimate from the Governor's Office, the short-term budget impact of RS16445 indicates a revenue balance of about $198 million.

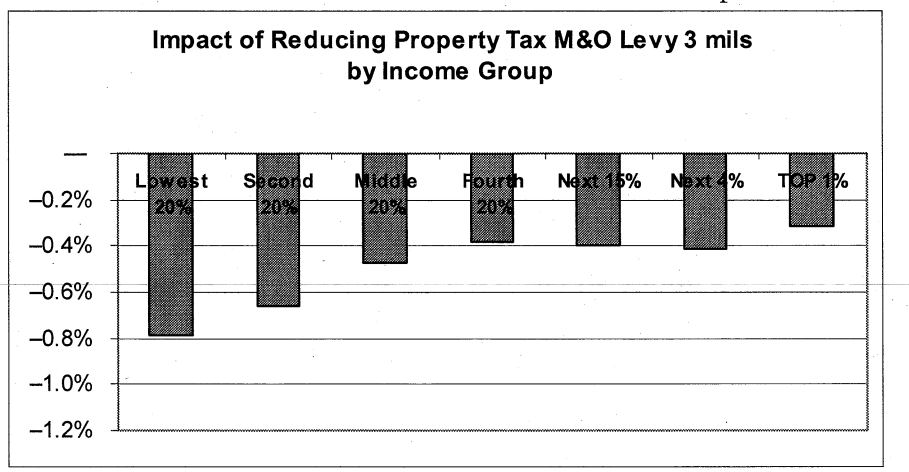
FISCAL YEAR 2007		**Total General Funds with RS16445**	**One-time**	**Ongoing**
	REVENUES			
1.	Beginning Balance	$ 302,252,000	$ 302,252,000	$ 0
2.	***FY 2007 revised DFM est (3.4% increase)***	***2,515,190,000***	***133,100,000***	***2,382,090,000***
3.	Water Investment Repayments	22,072,100	22,072,100	0
4.	Transfer to Perm. Bldg. Fund	(21,000,000)	(21,000,000)	0
5.	Transfer to Public Educ Stabil Fund	(10,000,000)	(10,000,000)	0
6.	H 743 Public Schools Facilities Fund	(24,000,000)	(25,000,000)	1,000,000
7.	Transfer to Economic Recovery Fund	(23,864,200)	(23,864,200)	0
8.	Transfer to Budget Stabil Fund	(12,917,700)	(12,917,700)	0
	RS16445: Property Tax Relief Act			
9.	***Transfer to Public Educ Stabil Fund***	***(100,000,000)***	***(100,000,000)***	***0***
10.	***One-cent Sales Tax Incr (Oct.1)***	***141,953,700***	***(77,178,300) ****	***219,132,000***
11.	***Reduced circuit breaker payouts***	***2,800,000***	***0***	***2,800,000***
12.	***Reduced Ag Pers Prop Tax repl***	***3,162,700***	***0***	***3,162,700***
13.	**Total Revenues**	$ 2,795,648,600	$ 187,463,900	$ 2,,608,184,700
	EXPENDITURES			
14.	JFAC Action to date	$ 2,343,077,800	$ 5,806,900	$ 2,337,270,900
15.	Reappropriations	3,594,200	3,594,200	0
	RS16445; Property Tax Relief Act			
16.	***Additional Approp for Public Schools***	***250,645,700***	***0***	***250,645,700***
17.	**Total Expenditures**	$ 2,597,317,700	$ 9,401,100	$ 2,587,916,600
18.	**Estimated Ending Balance**	$ 198,330,900	$ 178,062,800	$ 20,268,100

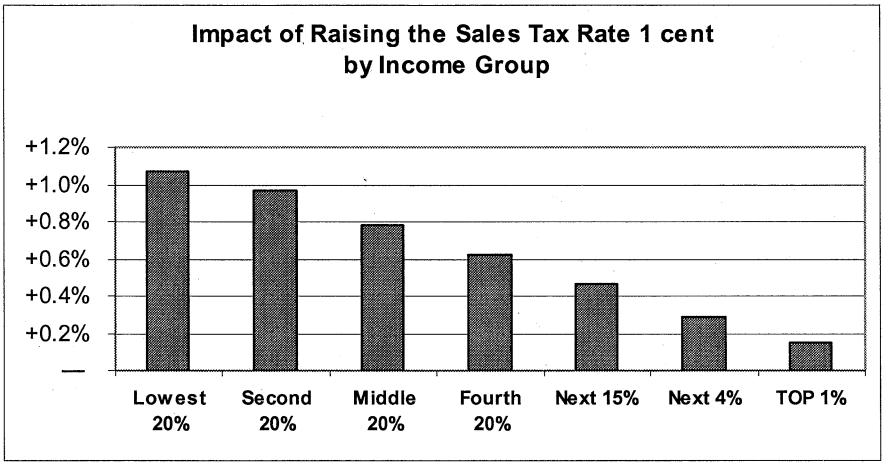
* In line 10, because the sales tax does not go into effect until October 1, $77.2 million of the increase will be subsidized by the one-time surplus. In FY 2008, that budget gap would be filled with a full 12 months of the increased sales tax collection.

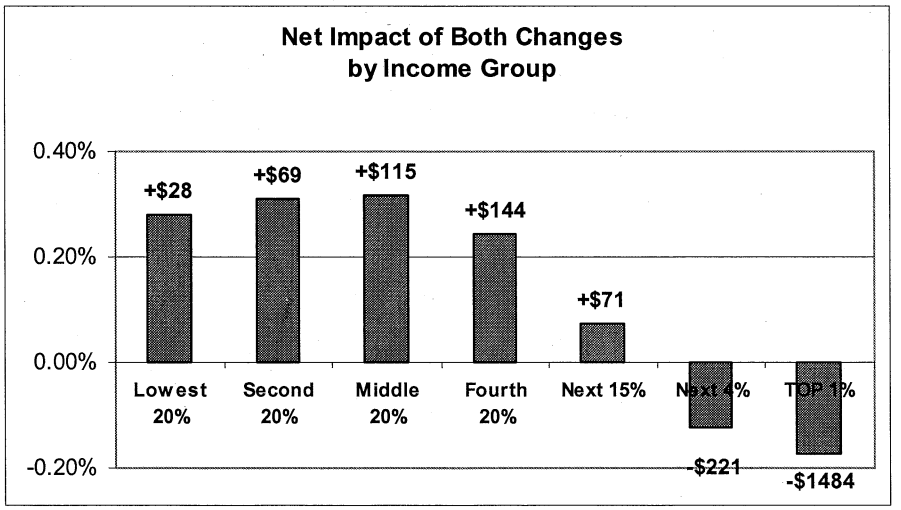
Staff Contact: Cathy Holland-Smith

Who Pays if the Property Tax M&O Levy Is Repealed and the Sales Tax Rate Increased?

Repealing all 3 mils of the property tax m&o levy and increasing the sales tax rate 1 cent will saddle most Idaho families with a net tax increase. The table on the other side provides additional detail.







Source: Institute on Taxation and Economic Policy Microsimulation Model

Impact of Property Tax M&O Levy - Sales Tax Swap

All Idaho Taxpayers, 2006 levels

2006 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $16,000	$16,000 – $28,000	$28,000 – $48,000	$48,000 – $74,000	$74,000 – $134,000	$134,000 – $298,000	$298,000 – Or More
Ave. Income in Group	$10,000	$22,000	$36,000	$59,000	$95,000	$179,000	$863,000

Repeal 3 mil Property Tax M&O Levy

Tax Change as % of Income	–0.8%	–0.7%	–0.5%	–0.4%	–0.4%	–0.4%	–0.3%
$ Average Change	–79	–145	–169	–225	–375	–744	–2,746

Raise sales tax rate 1 cent

Tax Change as % of Income	+1.1%	+1.0%	+0.8%	+0.6%	+0.5%	+0.3%	+0.1%
$ Average Change	+107	+214	+284	+369	+446	+523	+1262

Both changes, average tax increase/decrease

Tax Change as % of Income	**+0.3%**	**+0.3%**	**+0.3%**	**+0.2%**	**+0.1%**	**–0.1%**	**–0.2%**
$ Average Change	**+28**	**+69**	**+115**	**+144**	**+71**	**–221**	**–1484**

SOURCE: Institute on Taxation and Economic Policy Microsimulation Model