

MINUTES
Approved by the Committee
Property Taxes and Revenue Expenditures
Friday, August 27, 2021
9:00 A.M.
EW41
Boise, Idaho

Cochair Addis called the Property Taxes and Revenue Expenditures Study Committee meeting to order at 9:04 a.m.; a silent roll call was taken.

Committee members in attendance: Cochair Senator Jim Rice and Cochair Representative Jim Addis; Senators Jim Guthrie, Kelly Anthon, C. Scott Grow, and Jim Woodward; Representatives Mike Moyle, Jason Monks, Rod Furniss, Lauren Necochea, John Vander Woude, and John Gannon. Senator Ali Rabe participated via videoconference. Legislative Services Office (LSO) staff present were Kristin Ford, Keith Bybee, and Grace King.

NOTE: presentations and materials distributed to members are posted to the Legislature's website: <https://legislature.idaho.gov/sessioninfo/2021/interim>; and copies of those items are on file with the Legislative Services Offices located in the State Capitol.

Opening Remarks and Approval of Minutes

Cochair Addis began by inviting the committee members to introduce themselves. Cochair Addis called for the approval of the October 16, 2020, minutes. **Senator Guthrie made a motion to approve the October 16, 2020, minutes. Senator Grow seconded and the motion was passed by a voice vote.** Cochair Addis called for the approval of the November 19, 2020, minutes. **Senator Grow made a motion to approve the November 19, 2020, minutes. Senator Anthon seconded and the motion was passed by a voice vote.**

Review Past Committee Results

Cochair Addis called on Cochair Rice to discuss the results of the committee's work within the last year.

- Cochair Rice highlighted the changes made to the property tax budget formula during the 2021 legislative session. Cochair Rice stated his intent to introduce legislation that would exempt expiring urban renewal districts from the 8% budget cap. He recommended that the L2 form be adjusted.
- Cochair Addis praised the committee for its work on [House Bill \(HB\) 73](#), which was passed and signed into law during the 2021 legislative session.

Implementation of HB 73

Cochair Addis recognized Joshua Whitworth, Chief Deputy Controller of the State Controller's Office (SCO), to give a presentation regarding the implementation of HB 73. His presentation included introductions of the SCO staff and updates on the Local Government Central Registry, project approach, proposed pilot entities, and the project's next steps.

- Representative Vander Woude asked why larger cities were not included on the list of proposed pilot entities. Mr. Whitworth stated that the list of proposed pilot entities was not finalized and he expected that larger cities will be included.
- Senator Guthrie wondered if any entities had declined being in the pilot program. Mr. Whitworth assured that no entities had declined and SCO will ensure that large cities will be included in

the pilot program. Senator Guthrie asked if CARES Act funds could be used for implementing the project. Mr. Whitworth explained that, due to the limitations outlined in the U.S. Treasury's guidance, SCO did not plan on using CARES Act funding for the project. He added that the CARES Act funding the state of Idaho received would be tracked on the Transparent Idaho website.

- Cochair Addis inquired about education budgets. Mr. Whitworth stated that the State Board of Education (SBE) was collaborating on the project. He highlighted some of the challenges with reporting education budgets but added that, with the help of SBE and its vendors, SCO was working to adapt.
- Representative Gannon asked if the CARES Act funds were being tracked through the SCO's website and whether or not those funds were being applied to property tax relief. Mr. Whitworth explained that certain programs were available on the website, but the effect of those programs, whether it be property tax reduction or other types of relief, would not be reflected.
- Representative Moyle added that local entities had the capability to use certain CARES Act funds for property tax relief, but he knew of only one local entity that would do so.
- Cochair Addis commented on the importance of tracking local entities' budgets in order to spend and receive funds efficiently.

Discussion on Assessment Methods that Eliminate Tax Shifts

Cochair Addis called on Cochair Rice to begin the discussion on assessment methods that eliminate tax shifts.

- Cochair Rice described the process of using replacement cost methodology, a process used in Nevada, to assess homes. Cochair Rice highlighted the costs and potential problems with implementing a replacement cost methodology. He summarized that it would not be the best fit for Idaho. He concluded that an exemption methodology could avoid tax shifting between commercial, residential, and rental properties. Cochair Rice described the formula for the exemption methodology and added that he is working to obtain a model of the process for the committee's review.
- Representative Vander Woude wondered if homes would be valued the same across the state if the formula was based on replacement costs. Cochair Rice explained that the exemption methodology would not but the replacement cost methodology would. Cochair Rice added that if the exemption methodology were to be implemented, it would work alongside the current system. Representative Vander Woude stated that some assessors used income to assess value of businesses and he wondered how the exemption methodology would function if it were based on replacement costs instead of income. Cochair Rice responded that it would be a problem to address separately because income can significantly affect the tax-assessed value of a business.
- Senator Guthrie asked if Nevada strictly used the replacement cost methodology and if there was resistance during its implementation. Cochair Rice confirmed that Nevada used replacement cost methodology statewide and stated there was no resistance to it. Cochair Rice explained some of the nuances of Nevada's replacement cost system. Senator Guthrie commented that the replacement cost methodology should have some type of budget growth limitation in order to prevent tax shifts. Cochair Rice described how the replacement cost methodology and the exemption methodology would be affected by a budget growth limitation.
- Cochair Addis explained that, under the replacement cost methodology, land would be assessed at market value and structures would be assessed by replacement costs. He listed some concerns with using that method.
- Senator Grow inquired whether there would be a cumulative exemption after the first year. Cochair Rice confirmed that there would be.

- Representative Gannon asked if Cochair Rice was considering only part of Nevada's property tax system. Cochair Rice responded that he examined Nevada's assessment methodology and decided it would not be a good fit for Idaho. Cochair Addis commented that it would be an issue if there were a homeowner's exemption along with depreciation. Representative Gannon wondered if the levy rate system would remain in place. Cochair Rice responded that local budget systems would remain unaffected.
- Senator Woodward inquired about the cumulative exemption and its fairness in taxation, specifically in situations where taxpayers who have owned their home for decades start paying less for services such as road maintenance. Cochair Rice confirmed that the cumulative exemption would allow those who have owned their property for decades to start paying less in taxes than those who have owned their property for a shorter amount of time but assured members that the methodology was intended to stabilize tax increases. Senator Woodward speculated that the Idaho Constitution may have to be reworded to allow for types of property to be classified differently. Cochair Rice explained how using different types of assessment methodologies affects property tax and warned that using several methodologies would make the situation worse.
- Representative Furniss wondered if a property owner would lose the cumulative exemption if they moved and whether they would get credit for how long they have owned the property. He also asked what stopped the local governments from raising levy rates. Cochair Rice responded that the budget increase cap would prevent local governments from raising the levy rates. He confirmed that the property owner would lose the cumulative exemption if they moved and suggested that, in situations like widows and elders who need specific property tax relief, there should be a targeted type of exemption instead of a general one.
- Representative Moyle commented that the best way to find property tax relief is to control spending.
- Representative Necochea asked how this methodology would address the tax shifts that have already happened. Cochair Rice stated his concern with deciding how far back in time to address tax shifts and suggested that it should be handled separately. Representative Necochea encouraged creating a model to show the effects on young families and first-time home buyers. Cochair Rice assured members that a model is being worked on.
- Representative Gannon stated his appreciation with the committee's focus on the revenue side of the property tax issue and encouraged the committee to continue focusing on it.
- Cochair Rice commented that there were five school districts in the state that have a mill rate levy, which posed a challenge to the assessment methodologies.

Break from 10:42 a.m. to 11:02 a.m.

Discussion on Impact Fees for Local Highway Districts

Cochair Addis began the discussion on impact fees for local highway districts by explaining that the Ada County Highway District was allowed to levy for impact fees but other highway districts could not. He estimated that allowing all highway districts to levy for impact fees would help ease the burden on taxpayers.

- Representative Gannon expressed his appreciation for this idea and added that there should be some assurances that it would lower property tax.
- Cochair Addis stated that this idea was not intended to damage developers but to help growth pay for itself.
- Representative Necochea proposed that schools should be considered in this option.

- Senator Woodward wondered about the counties that do not have highway districts but have road and bridge departments instead. Cochair Addis responded that including road and bridge departments could be considered.

Discussion on Excess Fund Balances

Cochair Addis called on Senator Guthrie to begin the discussion on excess fund balances.

- Senator Guthrie explained that his bill draft would allow three months of fund balances plus an additional month for rainy day funds. He added that the bill draft excludes enterprise funding.
- Cochair Addis provided an example of a broken water well to explain why enterprise funds were not included and explained that day-to-day funds are the focus of the bill draft.
- Senator Woodward wondered about the taxing districts that receive semiannual payments and how this proposal would affect their budgets. Senator Guthrie emphasized that the details are open for discussion and suggested that taxing districts could use the opportunity to reexamine how they structure their budgets. Cochair Addis reiterated that the funds outlined in the bill draft are day-to-day expenses and added that allowances could be made for those districts.

Closing Comments

Cochair Addis invited the committee members to make closing comments.

- Representative Monks encouraged the committee to consider using the state's budget surplus for property tax relief.
- Representative Furniss noted that some counties have high judiciary costs and wish to see those costs covered by the state. He advised that, if the committee found ways to reduce expenses, it also has to make sure that it equates to property tax relief.
- Representative Vander Woude encouraged the committee to also reduce debt and pay back bonds.
- Representative Moyle gave past examples, such as raising sales tax on alcohol, that did not provide permanent property tax relief. He urged the committee to find solutions that provide ongoing relief.
- Representative Monks clarified his earlier stance, stating that he meant using the ongoing surplus from sales tax and not the onetime federal relief funds.
- Senator Anthon gave an example of areas in his district that turn to the taxpayers for road repair because funding from the state was not adequate. He also commented that, if the committee was to consider addressing excess fund balances, it needs to be aware of the needs of the local governments so as not to potentially harm their budgets.
- Senator Guthrie urged the committee to consider pausing tax incentive programs to avoid shifting taxes from one person to another.
- Representative Necochea charged the committee to discuss the circuit breaker program.
- Representative Gannon warned the committee about the January 1st deadline when assessors use home values to base property tax.
- Representative Moyle encouraged the committee to consider urban renewal agencies.
- Cochair Rice suggested eliminating supplemental levies without increasing sales tax.

With no further business, the committee was adjourned at 11:41 a.m.