

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: August 25, 2006

TIME: 9:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** All Members Present

GUESTS: John Sandy, Office of the Governor; Steve Cook, Associate Professor at the University of Idaho; Ken Robison, Boise, Idaho. Guests submitting written testimony, Phil Homer, Idaho Association of School Administrators; Elinor Chehey, League of Women Voters, United Vision for Idaho

Chairman Crow convened the meeting at 9:00 a.m and requested a silent roll call. In her opening remarks the Chairman stated that the Legislature has been called into special session by Governor Risch to consider a property tax relief measure RS 16445 that the committee has seen several times and passed on the floor more than once. With the large surplus now in the bank to hold as security for schools, it's passage is highly likely. She pointed out that there are two additions to this bill, one being the one-hundred million dollar school security fund and the advisory ballot which was considered previously as a single bill.

Today we have been charged to again do the right thing and give the property taxpayers of Idaho immediate and meaningful relief. She said she hoped we could do the job with the same consideration, respect and courtesy that this committee has always displayed in the past.

The committee will follow the same rules here and on the floor as used in a regular session. Any testimony that may be allowed will be limited in both time and number of presenters. She knew that the committee would honor these restrictions and understand that time is very limited.

RS 16445: Chairman Crow recognized Mr. Sandy to present RS 16445. **John Sandy, Office of the Governor**, stated it was his honor to begin the presentation on introduction of RS 16445. Idaho's economy and needs have changed since 1931 when the "Property Tax Relief Act of 1931" was passed. The following RS is the "Property Tax Relief Act of 2005."

The purposes of the RS are as follows:

To permanently eliminate the 3 mil education maintenance and operation levy on Idaho real property immediately reducing property taxes by \$260 million and replacing that amount with the state sources described

below.

Raise the Sales Tax from 5% to 6% effective October 1, 2006, generating approximately \$210 million annually.

Protect education funding now and into the future by placing \$100 million into the Public Education Stabilization Fund.

Appropriate sufficient funds from the General Fund to accomplish the aforementioned.

Place an advisory question on the November 2006 general election ballot asking Idaho voters:

“Should the State of Idaho keep the property tax relief adopted in August 2006 reducing property taxes by approximately \$260 million and protecting funding for public schools by keeping the sales tax at 6%?”

Mr. Sandy said 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.

Property taxes had been discussed in the 2006 Legislature and the summer of 2005 statewide hearings. There were 40 to 50 bills presented last winter. There has been continuing discussion all over the state.

The Gentleman on the Second Floor agreed to revisit the issue with four conditions for property tax legislation. 1. Constitutional; 2. Immediate, substantial and permanent property tax relief; 3. Help education; 4. Votes to pass bill.

This RS as presented has had thirty days for public review. This is compromise legislation. There has been much input from across the state from citizens and legislators from both parties. He cited a letter from Rosalee from Worley struggling to pay her bills in order to pay her property taxes.

Mr. Sandy stated that much misinformation has and is being distributed about RS 16445. This bill meets the Gentleman on the Second floor's criteria. It is Constitutional, immediate, substantial and permanent property tax relief. It protects school with \$100 million. He yielded to Representative Lake to explain the bill.

Representative Lake walked the committee through RS 16445 page by page pointing out the changes in the law and the funding mechanism for the property tax relief.

MOTION: **Representative Raybould** moved to **introduce RS 16445 without recommendation** and be placed directly on **second reading**.

SUBSTITUTE MOTION: A substitute motion was made by **Representative Jaquet** to **introduce RS 16445A10 with a do pass recommendation** to be placed directly

on **second reading**.

Representative Denney advised the members that an RS could not be amended. He also requested that the sponsor provide copies of RS16445A10 to the members.

Statement of purpose of the Idaho Homeowners Tax Reduction Act, RS16445A10 is as follows:

It permanently eliminates the three mil education maintenance and operations levy on all Idaho properties currently qualifying for the Homeowner's Exemption, namely owner occupied primary residences, resulting in a \$104 million property tax cut for Idaho homeowners.

It retains the current property tax level for all other classes of Idaho property.

It provides targeted relief for homeowners without shifting tax burden onto other taxpayers or increasing sales tax. The Idaho Homeowner Tax Reduction Act does not raise any tax.

Appropriate the equivalent amount of reduced homeowner taxes into the school maintenance the 3 mil levy on all non-owner-occupied properties allowing schools to retain a stable source of ongoing maintenance and operations funding.

It immediately reduces Idaho homeowner property taxes \$104 million and relies on current state surplus and ongoing growth in state revenue to cover future costs.

There was considerable discussion on amending an RS. Representative Jaquet corrected her motion as it appears above.

**AMENDED
SUBSTITUTE
MOTION:**

An amended substitute motion was made by **Representative Moyle** to **introduce RS 16445 with a do pass recommendation** and be placed directly on **second reading**.

After a lengthy debate on the fairness of limited testimony, Chairman Crow declared a short break. She instructed the people representing RS 16445A10 to select two spokesmen to present their testimony and two in support of RS 16445. Representative Martinez requested to be recorded as saying it was not fair for those who wanted to testify not being notified before the meeting.

Speaker Newcomb said in his view testimony would result in an extension of the session which should be finished in one day. Property tax relief has been heard over and over and over. This proposal has been out for thirty days and the decision to allow some testimony has never before been allowed on an RS. The opposition to this proposal has had time to build a base for introduction when no one has seen the proposed alternate proposal. The public had the chance to respond before it came to this forum. Public access has been extraordinary because the Governor has heard advice from both sides. Allowing two spokesmen for both proposals is fair. The Legislature heard and

introduced last session every idea in that window of time. To allow compassionate testimony is way out of procedure which has never been allowed on RS's and that is extraordinary.

**PRO
RS 16445A10:**

Steve Cook, Associate Professor, University of Idaho, spoke in opposition to RS 16445 and in support of RS 16445A10. He compared RS 16445 to a pressure cooker and that the tax system was unfair and would shift to the homeowner and away from business.

Tax policy is an element of the economic development policy. This decision is symbolic of development. His concerns were relief versus reform of the tax shift creating a pressure cooker. There would be a decrease in property tax of \$260 million and \$210 million sales tax increase. See attached hand-out for his finding and conclusions.

**PRO
RS16445A10:**

Ken Robison, citizen of Boise, Idaho, testified against raising the sales tax to replace the \$3 per \$1,000 basic school levy. RS 16445 does not deliver a net tax relief to homeowners, those who need relief. Tax Commission figures indicate they would save \$104 million in property tax but would pay \$105 million in added sales tax.

Most Idahoans would pay more total taxes, including renters and many businesses would pay more in sales tax on business-related purchases than any property tax savings.

Basically this proposal would raise the sales tax to give property tax relief to property that needs no relief, commercial, utility and farm.

Inflation in the taxable value of commercial property has averaged only one percent a year since 1995 according to the Tax Commission. Many commercial properties in Ada County are paying only slightly more property tax in 2006 than they paid in 2000 and some are paying less. Total utility taxes are down \$8 million since 2000, eighteen percent, total farm property taxes in 2005 were less than in 2000.

Total non-residential property taxes have increased only thirteen percent in five years, mostly as a result of new commercial construction. This is less than one-fourth the rate of increase for residential property. In the last two years residential taxes increased nine times as much as total non-residential taxes. \$143 million compared to \$15 million.

No sales tax increase is needed to give relief to homeowners. That could be done by further increasing the limit on the homeowners exemption or by limiting levy replacement to owner-occupied homes, using surplus revenue.

The property tax problem is inflation in the taxable value of homes. The \$25,000 adjustment in the upper limit of the homeowner exemption which the Legislature approved in the regular session was a good step. It was not enough to catch up with inflation. Many homeowners had increases in taxable value in 2006 exceeding \$25,000.

One of the arguments being used for this legislation is that the adjustment in the exemption results in a \$47 million tax shift to other

kinds of property in 2006. The trouble with that argument is that there is no such shift.

Such a shift would happen only if there was no inflation in the taxable value of homes in 2006 and no new residential construction was coming on the tax rolls.

Current figures from the Tax commission for 2006 show that there is no such shift. After accounting for the update in the exemption, total taxable value of owner-occupied homes is still up \$5.4 billion. That is a near record.

The theory of the shift was that the updated exemption would reduce total taxable value of homes by more than \$4 billion in 2006 requiring local governments to raise levies, thus raising taxes for other kinds of property.

Because there is no reduction in the taxable value of homes there is no shift. In fact, adding the projected increase in the taxable value of other residential property, the total residential taxable value increase was \$13 billion. This exceeds the record \$9.3 billion increase of 2005.

With that increase, the Tax Commission numbers project a reduction in average levies of about ten percent. The result would be more than \$40 million in property tax savings for commercial, utility, farm, timber and mining property with no school levy replacement.

Mr. Sandy reiterated that the RS being considered had been discussed and out to the public for thirty days with the exact wording. This proposal brings true long-term, immediate and permanent property tax relief.

There was a lively, impassioned discussion about the fairness and the impact on public schools contained in RS 16445. There was also debate in support of the RS from members of the committee.

ORIGINAL MOTION:

Chairman Crow repeated the motions. The original motion was to **introduce RS 16445 without recommendation** and be referred to **second reading**.

SUBSTITUTE MOTION:

The substitute motion was to **introduce RS 16445A10** with a **do pass recommendation** and be referred to **second reading**.

AMENDED SUBSTITUTE MOTION:

The amended substitute motion was to **introduce RS 16445** with a **do pass recommendation** and be referred to **second reading**.

ROLL CALL VOTE:

Voting AYE - Representatives Barrett, Moyle, Field, Schaefer, Collins, Raybould, Roberts, Wood, Denney, McKague, Clark, Lake, Crow. Voting NAY- Representatives Smith, McGeachin, LeFavour, Jaquet, Saylor, Martinez. Motion **passed, 13-6-0**

WRITTEN TESTIMONY:

Phil Homer, Idaho Association of School Administrators, Attachment #2; Elinor K. Chehey, League of Women Voters, Attachment 3; United Vision for Idaho, Attachment #4 submitted

written testimony in **opposition to RS 16445**.

Steve Ahrens, Idaho Association of Commerce & Industry submitted testimony in **support of RS 16445, Attachment #5**.

ADJOURN:

There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:46 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary