MINUTES
JOINT MEETING

HOUSE REVENUE & TAXATION COMMITTEE
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Wednesday, February 08, 2012

TIME: 9:00 A.M.

PLACE: WW02 - Auditorium

MEMBERS: Chairman Lake, Vice Chairman Collins, Representative(s) Barrett, Moyle, Raybould, Roberts, Schaefer, Smith(24), Wood(35), Bedke, Harwood, Barbieri, Bayer, Ellsworth, Gibbs, Killen, Burgoyne, Rusche

Chairman Corder, Vice Chairman Johnson, Senators Hill, McKenzie, McGee, Hammond, Siddoway, Werk, Bilyeu

ABSENT/ EXCUSED: Representative Killen, Senator Bilyeu

GUESTS: The sign-in sheet will be retained in the committee secretary's office until the end of the session. Following the end of the session, the sign-in sheet will be filed with the minutes in the Legislative Services Library.

Senator Corder called the meeting to order at 9:02 am.

Brent Olmstead, Food Producers of Idaho, spoke on behalf of the Food Production Sector. He stated that the Tax Policy Committee of the Food Producers of Idaho was formed this year. The guidelines of the Committee follow the Mission Statement and Guiding Principles. This is a commodity-based industry; they do not determine the costs.

The agriculture exemption is not uniform across all counties. The assessments are actually considered by the industry members to be a fee for service rather than an assessment. The multiplier generated by the agricultural industry is higher than in any other segment of Idaho economy. The 50 jobs at the Chobani plant near Twin Falls add an additional 70 jobs outside of the plant. He said that alternative energy development has a value-added effect. University of Idaho Research and Development is also an added value to agriculture in the state.

In response to Committee questions, **Mr. Olmstead** stated that the most onerous rules come from the Federal government. For example, a National Pollutant Discharge Elimination System (NPDES) permit is required to not discharge into streams. Agriculture enjoys the benefit of being exempt from tax. The business personal property tax is also onerous. Someone who is purchasing a digester at a dairy farm always includes the green credits in their calculations.

The top priority should be research and development; exemptions and having tax credits available do not spur economic growth. The industries that are performing the best (creating jobs, and with wages above the national level) would be those related to agriculture. Most of the agricultural groups do their marketing with the Department of Agriculture, not the Department of Commerce.

Clark Krause, Jobs for Idaho, spoke on behalf of the Jobs Sector. He stated that there should be a Job Expansion Fund. When a value-added company looks at Idaho, they would also look at this fund/model. This fund would award money to new and existing companies in amounts between $1,000 and $10,000, post performance. The length of funding for any specific company would be 1-4 years. Using Chobani, and Lactalis as examples, the commitments the companies make would have a deadline for implementation. A company using the fund would be required to come back to the Committee every year with a status on jobs that have been produced.

The idea that companies would take advantage of these funds and then move out is incorrect. Using the North Carolina model as an example, only two companies left the state and they closed due to the recession. Another myth is that states are moving away from these programs. Some states are becoming very aggressive with these programs because of the results they see. The State of Utah aggressively started a similar program about six years ago and has had good results. Arizona has grown by more than 10,000 jobs using this type of legislation. The Arizona housing crisis is over and they are still growing.

In response to Committee questions **Mr. Krause** stated that it would not matter if the funds were put on the expenditure side of the ledger or the income side of the ledger.

Sen. McKenzie and **Rep. Eskridge** spoke on behalf of the Energy Sector. They are co-chairmen of the Interim Committee on Environment and Technology. The committee is designed to promote diverse development and use of energy resources and renewable resources. The development of wind power is one example of the successful use of resources. Changing the tax structure helped get wind development technology off the ground. Tax incentives are not the only way to promote Idaho, but they can be helpful. Another measure of promotion would include research and development support.

The upcoming carbon regulation will cause problems with electricity costs. Policies that could assist in offsetting higher electricity costs are conservation and energy efficiency, updating building codes, encouraging better use of electricity, and promoting in-state resources. The Idaho National Laboratory (INL) does research and is too often overlooked. Lawmakers should avoid policies that unnecessarily increase or shift costs to users. The transmission grid is important; there are 1.8 million square miles included in the grid. We should think regionally with neighboring states.

In response to Committee questions, **Rep. Eskridge** said that incentives should be reviewed on a case by case basis. A short-term tax incentive was given for wind development. That incentive had a sunset that the developers recognized. Using that model would assist in the development of geothermal resources.

Alex LaBeau, Idaho Association of Commerce & Industry (IACI), spoke on behalf of the Commerce and Industry Sector, representing large to small corporate partners. He reminded the committee that Project 60 was formulated two years ago. From that project, a list of ideas was generated. They only have been addressed to an small extent. Progress has been made by Education & Human Resources; there has been a change to laws regarding unemployment issues. Progress has been made to the Infrastructure with the Garvy projects; Resources have initiated better planning, i.e. aquifers; there has been no progress on Tax Policy.

IACI's first recommendation is to eliminate the personal property tax. The process to eliminate that tax was started in 1901. The elimination of the personal property tax would create 2,800 new jobs. There should be a change in the definition of commercially related property and removal of the $100,000 cap. There are three options to reach elimination of personal property tax: 1. Freeze the assessment and depreciate on a schedule (which costs nothing); 2. Phase it out and replace the money over 4-5 years; or 3. Eliminate it all at once when State revenues reach $3.143B and replace the revenue loss to local units of government.

In response to Committee questions, **Mr. LaBeau** stated that the 6% sales tax is reasonable and Legislators should use caution in applying local option taxation. Counties that rely heavily on personal property tax (such as Caribou and Power Counties) would receive their money using a revenue-sharing formula. They would be assured of continuation of incoming funds, even in a downturn. The interim phase-out option would give the state an opportunity to fully recover as the phase-out occurs.

The reasons for removal of the personal property tax: 1. It is a bad tax; 2. Reap economic benefits. The current or average effective rate for C-Corporations and S-Corporations is less than 7.6%.

Jeff Sayer, Department of Commerce, spoke on behalf of the Small/Moderate Business Sector. The first goal should be to protect and maintain existing businesses, then attract new companies. This can be accomplished by improving access to broadband, having and improving a skilled workforce, and keeping the urban renewal tools.

Access to other Idaho companies will help keep business in Idaho. The personal property tax is the biggest issue. The second biggest issue is the personal income tax. The Hire One credit program is not accessible for most companies. IGEM is a critical step forward in the process. One major item site selectors look at is that the Idaho corporate tax rate is the highest incremental rate on any chart.

In response to Committee questions, **Mr. Sayer** stated that the Idaho unemployment fund cost is high. The unemployment fund had previously been underfunded. The decrease of the corporate tax rate should be a higher priority than ending the personal tax exemption. He advocates discussion on effective tax rates. He does not want to affect too many people with broadstroke decisions.

John Watts, Idaho Chamber Alliance, spoke on behalf of the Chamber of Commerce Sector. He is an advocate for cuts in personal income tax. Approximately 80% of businesses file an individual income tax return rather than a corporate tax return. Health insurance costs need to become predictable. Currently, health insurance is a deduction. It should be a tax credit.

The Chambers of Commerce want to keep the infrastructure development tools in place. They are the catalyst that brings the companies. Chobani has opened a plant in Idaho because of Urban Renewal policies that are in place.

In response to Committee questions, **Mr. Watts** stated corporations want to control health care insurance costs and recapture some of them back.

Len Williams, Home Federal Bank, spoke on behalf of the Banking Sector. The Banking Sector is very liquid and has a lot of money to lend. The demand for loans is weak. Strong businesses have kept their money. Loan requests have mostly been to support sustenance of a business rather than to support growth of a business. Current rates are low and terms are competitive. Lending practices were affected by the economy. The financial profile of businesses has deteriorated. Banks support a growing economy, they don't spur it.

The primary driver is cash flow. After that, the strength of the balance sheet and outside support (individuals behind the business) are reviewed. Businesses need to start borrowing money. There are very few undercapitalized Idaho banks. There must be competitive incentives for companies currently in Idaho and willing to grow or for companies willing to relocate to Idaho. Those incentives must be tangible, such as a Recruiting and Retention Fund or a short term tax abatement. Growth requires investment. That investment could be from a cooperative alliance or some other financial resource for small businesses such as the angel investors.

ADJOURN: There being no further business to come before the committee, the meeting was adjourned at 10:55 am.

Representative Lake
Chair

Janet Failing
Secretary