

MINUTES  
**HOUSE REVENUE & TAXATION COMMITTEE**

**DATE:** Tuesday, March 12, 2013

**TIME:** 8:00 A.M.

**PLACE:** Lincoln Auditorium

**MEMBERS:** Chairman Collins, Vice Chairman Wood(35), Representatives Barrett, Moyle, Raybould, Denney, Anderson(31), Anderst, Dayley, Hartgen, Kauffman, Patterson, Trujillo, Burgoyne, Erpelding, Meline

**ABSENT/  
EXCUSED:** Rep. Raybould

**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.

**Chairman Collins** called the meeting to order at 8:03 a.m.

**H 272:** **Seth Grigg**, Policy Analyst, Idaho Association of Counties, and representing, the Association of Idaho Cities, the Idaho School Boards Association, and the Association of School Board Administrators presented **H 272**. This legislation has three primary components; a de minimus exclusion of personal property valued at \$1,500 or less and purchased on or after January 1, 2013; the trigger of **H 599** exempting the first \$100,000 of personal property from taxation; and creation of a uniform tax exemption application process. Mr. Grigg stated **H 272** is a starting point but not the end point toward personal property tax repeal. **H 272** is believed to be a balanced alternative that provides tax relief to Idaho businesses and also maintains critical funding for services. All businesses would be able to take advantage of this legislation. Operating personal property would not be eligible for the triggered tax exemption. Mr. Grigg stated the estimated replacement amount is between \$18-19 million annually and the replacement funding would come out of sales tax revenue, before sales tax revenue is transferred to the General Fund. Any taxing district created after January 1, 2013 would not be eligible for replacement funding as a result of the tax exemption. Mr. Grigg clarified the \$100,000 exemption is a per county exemption. **H 272** would ensure uniformity in tax exemption as each county would use the same application. This legislation would also make technical corrections and is fully supported by local government across Idaho.

In response to a question, **Mr. Grigg** responded any loss of revenue to local governments would be replaced from sales tax. Mr. Grigg stated personal property taxation is operated on the honor system as businesses self-declare the value of all personal property and the \$1,500 de minimus would be treated in the same manner. In response to a question on personal property tax policy in neighboring states', Mr. Grigg noted in the west, none have fully repealed this tax. Hawaii does not have personal property tax and a 2012 Tax Foundation report indicates very few states nationally have repealed personal property tax. Mr. Grigg also stated the intent of **H 272** was to adhere as closely as possible to the 2009 legislation found in **H 599**, so operating property is not included in **H 272**. There was not a consideration of a step-down for operating property since that provision wasn't included in the original legislation.

**H 276:**

**Alex La Beau**, President of the Idaho Association of Commerce and Industry, presented **H 276**. The property tax issue is complex and Mr. La Beau stated he appreciates the opportunity to propose a solution. This legislation is not a starting point but a process to eliminate personal property tax once entirely. The process to eliminate personal property tax first began in 1901 and over the years, categories of taxed property were slowly eliminated. Personal property tax is very different than the tax on real property. Mr. La Beau stated personal property tax is not a good tax. As a part of the Idaho Project 60, businesses were interviewed and in the area of tax policy, the response to eliminate the personal property tax was frequently requested. The very first item that came out of the Project 60 report was to repeal personal property tax.

In response to a question on tax shift, **Mr. La Beau** stated in reality, there is already a tax shift. Budgets are set at the higher value of property and when the depreciation occurs, the value of the property does not change and tax is shifted. This legislation is the cumulation of years of discussion, negotiation and effort in an attempt to eliminate personal property tax in its entirety. Mr. La Beau stated there appears to be agreement that the tax is not necessarily good policy, but the decision on how to eliminate it is not as clear. Mr. La Beau pointed out for operating capital, which is generally centrally assessed property and largely multi-jurisdictional, it is more efficient for the state to provide an assessment. The determination of operating property percentages was developed by the Idaho State Tax Commission (ISTC). Mr. La Beau complimented ISTC for their work on the forecast of fiscal impact. In discussion with the various industry partners impacted by the estimates, with the exception of the electric sector, it was agreed the estimates are pretty close to actual.

This legislation provides a phase in process to eliminate all personal property tax, with full implementation in effect by 2019. Rate regulated industries are treated prospectively. New property acquired after January 1, 2013 would be eligible, however, existing personal property would be excluded from the exemption. **Mr. La Beau** stated there is a provision in the legislation that would give the Legislature an option, through concurrent resolution, to forestall the phase in of the exemption, in the event of an economic downturn. This provision mirrors existing legislation found in the grocery tax credit.

**Mr. La Beau** stated under the computation of personal property tax reimbursement, local governments would be 'made whole' for the full amount of revenue lost through the exemption process. The state would repay the loss in perpetuity or until a tax levy expires or the entity ceases. New Urban Renewal Agencies (URA) or taxing districts will not receive any reimbursement. The full effect of the economic impact is projected to be \$120 million, which Mr. La Beau described as the 'high water mark'. There will be changes made within the phase-in process so this is estimated to be the maximum amount needing to be replaced and the reality is likely to be less than \$120 million. There will be an income gain due to the projected increase in business activity. This legislation doesn't penalize success, but stimulates growth, helps create jobs and contributes to success.

**Mr. La Beau** stated **H 276** is not perfect and there are components that are not ideal, but it's a plan to get to full repeal of personal property tax. In response to a question on the projected fiscal impact if operating property was included in the exemption, Mr. La Beau stated it could put competitors at a disadvantage in rate regulated industries. Mr. La Beau confirmed this legislation does not contain an inflation component and an economic study conducted last year indicates there will be an increased growth in business as an outcome. In response to how this impact can be mitigated in rural counties, Mr. La Beau stated the growth in Ada and larger counties will also help in the smaller counties

**Jeff Sayer**, Director, Idaho Department Commerce, stated he does not envy the decision of the committee but does fully support the full elimination of personal property tax in Idaho. The cost of doing business must be decreased in order to be competitive. Mr. Sayer stated there are five key points to consider; the cost of taxing personal property creates an administrative burden, legislation should include operating property, legislation must protect counties, communities and schools, Urban Renewal Agencies need to maintain their bond revenue and a phase out approach is a positive aspect. Mr. Sayer stated personal property taxation is outdated and believes there is a better way of doing business. The Idaho Department of Commerce **supports H 276**.

**Donna Yule**, Idaho Public Employees Association, spoke in **support of H 272** and strong **opposition of H 276**. Ms. Yule stated Idaho continues to fall further behind and has the largest percentage of minimum wage workers in the country. It is time to rethink the philosophy and it's clear the current policies aren't working. Cutting revenue weakens the public school system and leaves roads and bridges in need of critical repair. The legislation proposed in **H 276** would result in Idaho's largest corporations not paying their share of funding for essential services. Idaho should stop giving tax cuts and collect adequate revenue to support Idaho's future. Ms. Yule urges passage of **H 272**.

**John Fiedler**, Board Chair of the Catholic Charities of Idaho and a small business owner, expressed concern and spoke in **opposition to H 276**. Mr. Fiedler stated we can't afford to lose this significant amount of revenue.

**Ray Stark**, Boise Metro Chamber of Commerce, **supports H 276**. A survey of Chamber members found that the personal property tax is onerous for businesses and is deemed inefficient by county assessors.

**Adrienne Evans**, Executive Director, United Action for Idaho, spoke in **opposition to H 272 and H 276**. The non partisan Congressional Research Service has concluded that the reduction in the top tax rate over the past 65 years has not resulted in economic growth. The elimination of Idaho's personal property tax will have a negative impact on local economies. Ms. Evans stated vital services will be cut, property taxes will increase, housing costs will rise and deeper cuts to public schools will be a result if either of these bills are passed.

**Matt Hunter**, CEO of the Greater Pocatello Chamber of Commerce, spoke in **support of H 276**. Mr. Hunter stated small business wants to see a full elimination of personal property tax, which will create a climate where business growth will occur.

**Rick Smith**, Tax Partner, Hawley Troxell, and representing Idaho Association of Commerce and Industry, spoke in **support of H 276**. Mr. Smith stated the greatest unfairness of **H 272** is the exclusion of operating property. Idaho is one of a few states that contains a uniformity clause in the treatment of taxation, which is imbedded in the constitution. **H 272** is bad policy, is unfair, and unconstitutional since operating property is treated differently. In response to a question, Mr. Smith spoke on the federal law protecting railroads. The 4R Act of 1976 (Railroad Revitalization and Regulatory Reform Act), bars forms of state taxation which "unreasonably burden and discriminate against interstate commerce".

**Kristen Jensen**, City Council Member, City of American Falls, spoke in **support H 272**, stating Power County is the second most dependent county on personal property tax in the state. Full repeal of the tax as outlined in **H 276** would mean cuts to critical services.

**Lothar Pietz**, semi-retired Luthern pastor, Interfaith Alliance, spoke in **opposition to H 276**. Mr. Pietz stated he and his family recently relocated to Idaho from Washington but as a small business owner, pays personal property taxes in two Washington counties. He believes that businesses have a social responsibility and paying personal property taxes helps ensure strong schools and communities.

**David Lincoln**, Golden Gate Highway District, Canyon County, spoke in **support of H 272** and stated this legislation would have the least impact on systems. Local roads and highways are very fragile and revenue is critical to keep them maintained and safe.

**Mark Mitton**, City Administrator, City of Burley, **supports H 272** since it provides tax relief for small businesses and believes the best tax is the one with the widest base and lowest rate.

**Terry Greenman**, Mayor, City of Burley, **supports H 272**. Mr. Greenman stated that its been his experience that personal property taxes were not a significant issue in new business attraction and that infrastructure was more important.

**David Zaremba**, City Council with the City of Meridian and Association of Idaho Cities Board Member **supports H 272**. The current tax policy is burdensome on small businesses, not only from a taxing standpoint, but an administrative perspective as well. The loss of revenue that is not replaced would negatively impact police, fire and other essential services.

**Rep. Marc Gibbs**, District 32, stated he represents 1/35th of Idaho's population covering five counties, 22 cities, and ten school districts and he **supports H 272**.

**Jessica Harrison**, Idaho School Boards Association (ISBA) which represents over 500 locally elected school board trustees, spoke in **support of H 272**. Ms. Harrison stated the decline in General Fund school support has resulted in a heavy reliance on supplemental levies for essential educational services. The possibility of a tax shift from business to real property owners would be needed to replace the current level of voter supported educational funding. ISBA urges adoption of **H 272** as an affordable compromise.

**Phil Homer**, Idaho School Administrators Association, testified in **support of H 272**.

**Gaylen Smyer**, Superintendent of School District 151 in Cassia County, **supports H 272** and testified the replacement funding is critical to schools and prevents a tax shift from personal to real property.

**Pat Charlton**, Superintendent of Valley View School District in Canyon County, testified they have experienced rapid growth and now serving over 7,500 students and **supports H 272**.

**Travis Rothweiler**, Twin Falls City Manager, testified in **support of H 272**. Twin Falls has experienced, several significant expansions; Chobani yogurt manufacturing plant and the Glandia cheese innovation center. Tax Increment Financing (TIF) was an essential tool in attracting these businesses. **H 272** allows TIF to remain a tool that will continue to leverage funding while **H 276** excludes future URA or other taxing districts. In response to a question on how **H 276** would impact the two examples presented, Mr. Rothweiler stated they were able to use the entire value and estimated personal property tax revenue anticipated to accomplish the funding mechanism. Chobani has a 1 million square foot facility, employs more than 500 people and is still under construction. It is unlikely Twin Falls would have been able to put in the infrastructure needed without TIF.

**Harold Ott**, Executive Director, Idaho Rural Schools Association testified education and economic development go hand in hand and small rural communities need a strong partnership with business in order to survive and thrive. Eighty-one different school districts ran supplemental levies last year. Supplemental levies are not going away and have significantly increased in recent years. School buildings are aging and need repaired and replaced. Mr. Ott supports the testimony of Jessica Harrison, ISBA and urges the committee to **support H 272**.

**Brent Adamson**, Boise County Assessor and Vice Chair of the Idaho Association of Counties Legislative Committee, **supports H 272**. Mr. Adamson stated 'all tax ends up being a shift if you change what you are doing with it'.

**Arlen Whittrock**, ON Semiconductor, Pocatello and member of the Idaho Economic Development Council testified in **support of H 276** and a total repeal of personal property tax. Mr. Whittrock stated the personal property tax is a disincentive placed on high-tech business as they are equipment intensive and equipment is essential to efficiencies. Idaho is ranked #1 in the lowest take home pay and #2 in lowest per pupil spending on education. **H 276** would create a growth climate for business.

**Bert Marley**, Director of Public Policy, Idaho Education Association spoke in **support of H 272**. Mr. Marley believes it provides the funds critical to Idaho students and schools.

**Abby Mace**, Fremont County Clerk, and IAC Legislative Committee member, **supports H 272**. The de minimus exemption aspect of this legislation applies to everyone and is fair.

**Molly Stein**, Soda Springs School District Superintendent, testified in **support of H 272**. Ms. Stein stated they saw an \$800,000 reduction in funding in the past year. This forced the closure of one elementary school, a one-room school and an alternative school. They moved to a four day a week school schedule, reduced salaries, and made other cuts to services. Ms. Stein stated Caribou County cannot afford the tax shift of business personal property tax to property tax.

**Dallas Clinger**, American Falls Hospital Administrator and elected school board trustee, **supports H 272** which would allow all taxing districts to grow through the exemption. He stated in his opinion this is a fair bill, allows every business in each county to exempt the first \$100,000, and provides stability within the county. They have seen a decrease of \$1.8 million dollars in the past three years for school funding in his district. Mr. Clinger believes it would be appropriate to backfill this shortfall before committing to further reductions.

**Brian Blad**, Mayor, City of Pocatello, **supports H 272**. Mr. Blad stated 'we are all in this together' and it's important to attract new business to Idaho. Big companies are looking for what local government can do for them in terms of infrastructure, natural amenities, schools, and safety of workers. The personal property tax is not a significant deterrent.

**David Swindell**, Chief Financial Officer, City of Pocatello **supports H 272** and he believes it presents a balanced approach where 89% of businesses are exempt.

**Steven England**, Mayor, City of Chubbock and Vice Chair of IAC, agrees with the testimony of the Pocatello Mayor and **supports H 272**.

**Earl Somsen**, Caribou County Commissioner, testified on the dependence on personal property tax for schools and other critical services. Mr. Somsen acknowledged it is an old and tired tax but stated there has been an increase in demand for services by the public over that time as well, with no identified way to pay for those services. He **supports H 272** and believes it will allow most of the revenue to continue without a huge tax shift.

**Aaron Cook**, Caribou County Assessor, **supports H 272**. In Caribou County this legislation would provide some tax relief to 100% and exempt 84% of the businesses and leave them 97% whole in terms of funding.

**Richard Horner**, City of Rexburg, testified in place of and at the request of the Mayor, who is unable to be here in person. The City of Rexburg **supports H 272**

**Alma Hasse**, Payette County small business owner and farmer spoke in **opposition to both H 272 and H 276**. Ms. Hasse stated **H 599** and **H 83** already exist and gives tax relief to 85% of small businesses through the trigger of the \$100,000 exemption, when the general fund grows by 5% over 2008 balance. Passage of either **H 272** or **H 276** would result in a negative impact to local services and would help a lot of large corporate employers but not small business owners.

**Gilbert Hofmeiseter**, Power County and President of the Idaho Association of Highway Districts **supports H 272**.

**Pam Chiarella**, is a teacher in Mt. Home, and testified both of these bills represent a redundancy in legislation. Ms. Chiarella stated it is the responsibility of the state, through the Legislature, to equally fund education in every community. An educated skilled workforce is the way to grow the economy and passage of either bill represents a shift in responsibility to the local communities. Ms. Chiarella **opposes H 272 and 276**.

**Gary Rohwer**, Idaho State Fire Commissioners, testified in **support of H 272**. Mr. Rohwer is also a small business owner and stated it is not the taxes, but the reporting, that is burdensome. Mr. Rohwer testified 50% of the fire districts in Idaho will be impacted negatively and half of those are already at the maximum levy rate and unable to generate additional revenue.

**Havilah Lyon**, American Falls District Library Director, in Power County, testified in **support of H 272**. All businesses would get the \$100,000 exemption, not just small business and Ms. Lyon questioned where the \$120 million estimated shortfall in **H 276** would come from.

Due to time constraints, Chairman Collins stated the Public Hearing would continue tomorrow and anyone who had signed up to testify and had not yet done so, would have the opportunity, however, no new requests would be accepted.

ADJOURN: There being no further business to come before the committee, the meeting was adjourned at 10:46 a.m.

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Representative Collins  
Chair

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Kathleen A. Simko  
Secretary