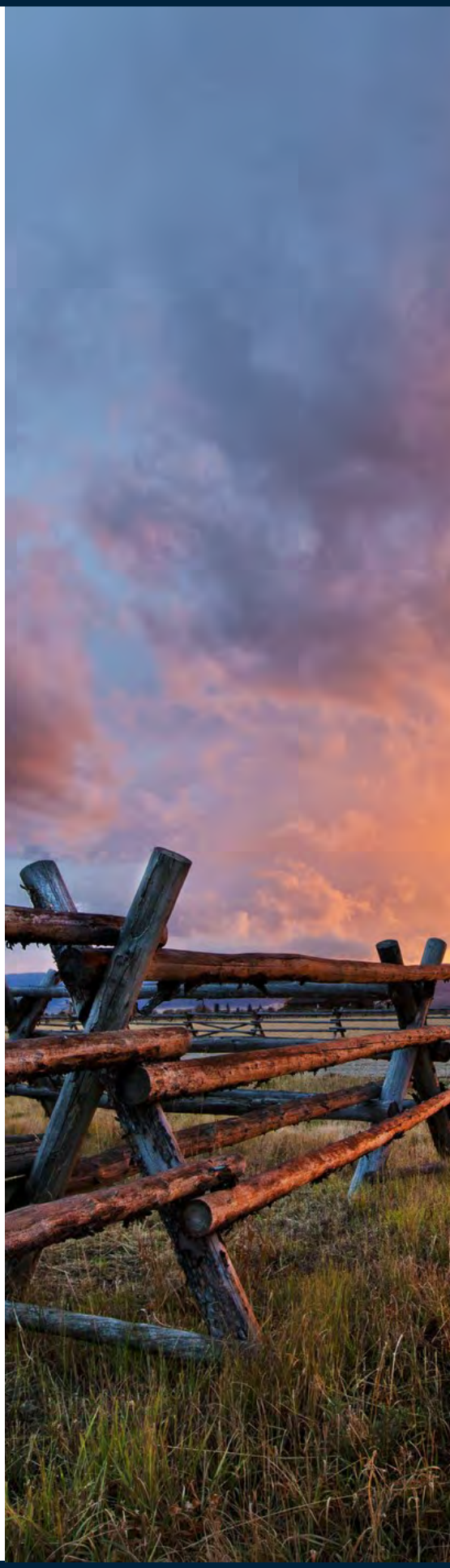
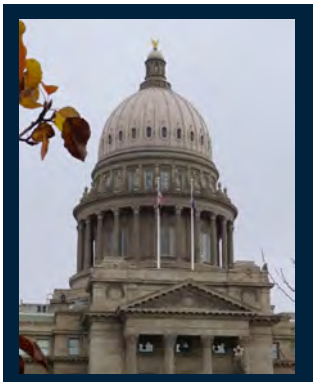
Evaluation report
December 2020

County Revenues



Office of Performance Evaluations
Idaho Legislature

Promoting confidence and accountability in state government



Office of Performance Evaluations

Established in 1994, the legislative Office of Performance Evaluations (OPE) operates under the authority of Idaho Code §§ 67-457–464. Its mission is to promote confidence and accountability in state government through independent assessment of state programs and policies. The OPE work is guided by professional standards of evaluation and auditing.

Joint Legislative Oversight Committee 2020

The eight-member, equally bipartisan Joint Legislative Oversight Committee (JLOC) selects evaluation topics; OPE staff conduct the evaluations. Reports are released in a public meeting of the committee. The findings, conclusions, and recommendations in OPE reports are not intended to reflect the views of the Oversight Committee or its individual members.

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Mark Harris

Dan Johnson

Michelle Stennett

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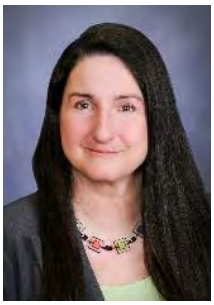
Representatives



Ilana Rubel

Caroline Nilsson Troy

Paul Amador

Elaine Smith

Senator Mark Harris (R) and Representative Ilana Rubel (D) cochair the committee.

From the director

December 22, 2020

Members
Joint Legislative Oversight Committee
Idaho Legislature

Idaho's rapid population growth has contributed to an increased demand for local services. County officials struggle to find ways to pay for those services while considering the tax burden on property owners.

This struggle is evident in discussions about property taxes, which are a key component of county revenues. Unfortunately, these discussions are hampered by limitations in the availability, uniformity, and specificity of data.

To promote transparency and generate useful information for policymakers, counties need more explicit direction from the Legislature about which data should be reported. In this report we highlight Colorado, Utah, and Wyoming with practices that are worthy of consideration in helping Idaho address its local government data limitations.

We thank the Idaho Tax Commission, the Association of Counties, and many county officials for their assistance on this project.

Sincerely,

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Formal responses from the Governor, the Tax Commission, and the Idaho Association of Counties are in the back of the report.

Amanda Bartlett conducted this evaluation with the assistance of Lauren Bailey. Margaret Campbell copy edited and desktop published the report.

Quality control review was provided by Bob Thomas of Robert C. Thomas and Associates and Jim Brock of Kinion Marsh & Co.

Contents

Executive summary

In 2019 Idaho led the country in population growth and housing price increases according to data from the US Census Bureau and the Federal Housing Finance Agency. With this growth has come a tension among county-elected officials who want to serve their communities and pay for increasing demands for service, property owners who are concerned with steep annual increases in property taxes, and state policymakers who want to foster economic growth and ease the tax burden.

To assist legislators in balancing these interests, requesters of this evaluation asked for the following information:

1. Overall revenue picture and funding sources for counties
2. Historical impact of levies and property tax exemptions on county budgets
3. Impact of state and federally owned land on county budgets

We designed our evaluation to use available data sources to address this request. We limited our analysis to county governments, including county road and bridge funds as overseen by the Board of County Commissioners. We did not include special taxing districts. We also focused our analysis on county revenues. We did not evaluate whether revenues were sufficient to meet the long-term needs of counties to accommodate population growth.

We found that limitations in the availability, uniformity, and specificity of data are an ongoing challenge to property tax analysis.

County budget documents are not accessible in a timely manner in the statutorily required, centralized data repository.

County published budgets and audits do not uniformly report revenue and expenditure categories.

Revenue categories reported to the Idaho Tax Commission, other than property tax, lack specificity.

The conditions under which tax policy changes are analyzed make it difficult to give policymakers thorough analysis in a timely manner.

Proposals to change the property tax system are presented frequently during legislative sessions. Changes to tax policy could have disparate impacts to counties, other local government districts, and taxpayers. These impacts are evaluated on an ad hoc basis under time constraints using data with known limitations. These conditions make it difficult to give policymakers a thorough analysis in a timely manner.

In spite of the data and reporting limitations noted above, we were able to use existing data to address several of the evaluation request questions by providing information on county revenue trends and to highlight how changes in tax policies impact taxpayers and the counties.

In our analysis of overall county revenue, we found that Idaho's total budgeted county revenue (adjusted for inflation) in 1996–2016 grew slower than the state population. Idaho's trend was unlike the national trend where revenue outpaced population growth. We used data from the Local Government Finance database to assess the trend in county revenues over time. The per capita, county-budgeted revenue was lower in county fiscal year 2016 than in 1996 when adjusted for inflation (2018 dollars using Consumer Price Index research series).

The reduction was caused by a decrease in charges, fees, and miscellaneous revenue, specifically hospital charges. Inflation adjusted hospital charges decreased 69 percent from $265 million to $83 million. While charges, fees, and miscellaneous revenues decreased, other types of revenue increased. Budgeted property taxes per capita increased from an adjusted $248 in 1996 to $311 in 2016. State intergovernmental revenue, or revenue transferred to counties from the state, was consistent at 15–20 percent of county-budgeted revenue.

To analyze the impact of levy rates and exemptions on county budgets, we used data from the Idaho Tax Commission. Budget limits capped property tax growth and constrained the property tax budgets for 20 of 44 counties in tax year 2018.

Property tax exemptions indirectly impact county budgets and more directly impact the proportion of tax burden to property owners. To illustrate this point, we used data in *Market Values and Property Taxes for 2019* from the Tax Commission to see what would happen if Idaho eliminated the homeowner's exemption on owner-occupied primary residences. Under this scenario, property taxes paid on owner-occupied primary residences would have increased an estimated 39.4 percent in tax years 2018–2019, instead of the actual increase of 12.9 percent. As a result, more taxes would have been paid by owners of primary residential properties and less taxes would have been paid by owners of property in other categories.

Levy limits are most constraining when market values are in decline. When property values increase faster than property tax budgets, the levy rates decrease. As the Tax Commission describes in *Market Values and Property Taxes for 2019*, "Because of [budget] caps that limit the amount by which most property tax budgets of taxing districts can grow each year, tax rates tend to decrease when values rise."

Levy limits are also more constraining when there are many individual limits rather than a consolidated limit. For example, 20 counties were limited in one or more of the four major levies in tax year 2018. However, if those levies were combined into a single general purpose fund, the number of counties constrained by levies would have dropped from 20 to 2 without an increase in the aggregate levy amount.

Federal Payments in Lieu of Taxes (PILT) compensate counties for federal land, though the payments are somewhat unsteady. Idaho has 33.4 million acres of federal land and 2.6 million acres of state-owned land. The combined government-owned land, which is not included in the property tax rolls, comprises 68 percent of Idaho's 53 million acres. Yet, public land often require some level of local services, such as road maintenance, fire prevention and suppression, and emergency services.

Compensation to counties for state-owned land applies only to land owned by the Department of Fish and Game.

We found that compensation to counties for state-owned land applies only to land owned by the Department of Fish and Game. Idaho's constitution exempts state land from local government taxation. In 1990 the Legislature made an exception for "unimproved real property owned or held by the Department of Fish and Game." In county fiscal year 2019, the Department of Fish and Game paid $235,641 to counties. Nez Perce County received $56,886, the most of any of county. Fifteen counties received less than $1,000.

Consideration for policymakers. This report focuses on providing information requested by legislators and is not a performance review of county budgets or property taxes. We do not have any formal recommendations for the Legislature. However, several parts of the report, such as the section on how data shortcomings limit analyses of tax policy impacts, suggest areas where policymakers could consider remedial action. We highlight three states (Utah, Wyoming, and Colorado) with practices that are worthy of consideration in helping Idaho address its data limitations.

Introduction

Background

Idaho was the fastest growing state in the nation in 2019. The population increased by 2.1 percent compared with the national average increase of 0.5 percent, according to the US Census Bureau. Likewise, Idaho housing prices rose 12.6 percent, more than double the average increase among states.[1] The City of Boise had the largest annual growth in housing prices[2] among US metropolitan areas.

The increases in population and housing prices have been accompanied by growing pains, particularly for county governments. Demands for basic services and improved infrastructure have increased with the population. For example, in our 2019 report, *Impact of State Mandates on County Governments*, county commissioners reported difficulties providing required public services, such as public defense, adequate jail and court facilities, driver's licenses, indigent medical, and county roads and bridges. Commissioners reported that accelerated population growth, increased requirements from the state, and statutory limitations on property taxes were some factors that strained counties' budgets.

1. The average state housing price increase was 5.7 percent from the first quarter of 2019 to the first quarter of 2020. Federal Housing Finance Agency, Housing Price Index (Purchase-Only Index, seasonally adjusted), https://www.fhfa.gov/DataTools/Tools/Pages/Four-Quarter-Heat-Map.aspx.
2. Boise housing prices increased 13.1 percent from the first quarter of 2019 to the first quarter of 2020; the average increase among 100 US metropolitan areas was 5.8 percent. Federal Housing Finance Agency, Housing Price Index (Purchase-Only Index, seasonally adjusted), https://www.fhfa.gov/DataTools/Tools/Pages/Four-Quarter-Heat-Map.aspx.

We found that limitations in the availability, uniformity, and specificity of data are an ongoing challenge to property tax analysis.

Legislative interest and evaluation approach

While counties are concerned with how to best serve their communities and pay for increasing demands, property owners are concerned with the steep annual increase in their property tax bills. State leaders and legislators endeavor to foster and promote economic growth and ease the tax burden on residents while seeking reductions in spending from counties and other local governments.

With these disparate concerns comes inherent tension. To assist legislators in balancing these interests, requesters of this evaluation asked for the following information:

Overall revenue picture and funding sources for counties

Historical impact of levies and property tax exemptions on county budgets

Impact of state and federally owned land on county budgets

See appendix A for the evaluation request.

To address the request, we designed our evaluation methodology to use available data sources. We limited our analysis to county governments, including county road and bridge funds as overseen by the Board of County Commissioners. We did not include special taxing districts. We also focused our analysis on county revenues. We did not evaluate whether revenues were sufficient to meet the long term needs of counties to accommodate population growth. (see our scope of the evaluation in appendix B and our methodology in appendix C).[3]

Our report presents findings that describe the trend in overall county revenues; the impact of exemptions, levies, and other property tax limitations on county budgets; and payments to counties for state and federally owned land.

3. We did not include any special taxing districts, such as ambulance districts, which were reported separately and apart from county taxing districts in the L2 form submitted to the Idaho Tax Commission.

Data shortcomings

2

We came across several data shortcomings during fieldwork, which not only hampered our analysis but also create an ongoing barrier to future analysis. Data sources are not consistently available, lack specificity in key areas, and are not reported uniformly. In this chapter, we describe those data challenges.

Data shortcomings inhibited the depth of our analysis and present an ongoing barrier to county revenue and property tax analysis for the Legislature.

We found that limitations in the availability, uniformity, and specificity of data are an ongoing challenge to property tax analysis. Proposals to change the property tax system are presented frequently during legislative sessions. Changes to tax policy could have disparate impacts to counties, other local government districts, and taxpayers. These impacts are evaluated on an ad hoc basis and under time constraints, which makes it difficult to give policymakers a thorough analysis in a timely manner.

County budget documents are not accessible in a timely manner in the statutorily required centralized data repository. Local governments,[4] with the exception of school districts and districts with annual expenditures of $150,000 or less, are required by statute to submit their most recently adopted budget by December 1 of each year to the Local Governing Entities Central Registry.[5] If budgets are not submitted by September 1 of the following year, a financial penalty is assessed. As a result of this deadline structure, there is as much as one year before the repository has a complete set of budget data for a given fiscal year.

4. For the purpose of this requirement, local governments are defined in Idaho Code § 67-450B and include "all cities, counties, authorities and districts organized as separate legal and reporting entities under Idaho law, and include the councils, commissions and boards as appointed or elected and charged with fiscal management responsibilities of the local governmental entity." Districts with combined annual expenditures of less than $150,000 are exempt from submitting audit reports to the Local Governing Entities Central Registry.
5. The Local Governing Entities Central Registry was established in 2014 in Idaho Code § 67-450E. The registry was intended to "serve as a unified location for the reporting of and access to administrative and financial information of local governing entities." The registry is housed in the Legislative Services Office, Legislative Audits Division.

We made a data request for county fiscal year 2019 budgets in July 2019. The registry had received 20 county budgets. To obtain the remaining 24 budgets, we searched county websites or sent data requests to individual counties. In the end, we collected budget documents for 43 of the 44 counties.

County published budgets and audits do not uniformly report revenue and expenditure categories. This inconsistency in reporting is caused by the lack of a uniform chart of accounts.[6] Without a uniform chart of accounts, published county budgets cannot be compared from one county to the next without extensive background research for each of the 44 counties.

Revenue categories reported to the Idaho Tax Commission, other than property tax, lack specificity. The Tax Commission collects detailed data about property taxes from local governments through a series of forms submitted by counties. The forms require local governments to report budgeted revenue in five categories:

Total approved budget
Cash forward balance
Property tax replacement
Balance to be levied
Other revenue

The other revenue category is broad and includes large sources of revenue such as state revenue sharing, charges and fees, fines, payment in lieu of taxes, and grants. Local governments' cash forward balance likely comprises money collected from property taxes as well as other sources; however, not enough data are collected through these forms to report a definitive percentage. The Tax Commission does not collect more detailed data about other forms of revenue because its authority only pertains to property taxes and levies.

6. Budgeting and accounting guidelines have been published, but counties are not required to follow them. The Idaho Association of Counties has published the Idaho Counties Uniform Accounting and Budgeting Manual, which describes an accounting structure for consistent financial reporting across counties. In addition to describing the statutory requirements of county financing, the budget manual references rules and regulations and the Government Accounting Standards Board (GASB) standards for financial reporting.

Local governments report total revenues but only for funds that also collect property taxes. If a county has a fund that does not levy property taxes, the county is not required to report revenues of that fund to the Tax Commission. For example, in fiscal year 2019, Ada County had a total budget of $280,975,473 according to its published final budget document. The form completed by the county and submitted to the commission reported that county levies had total budgeted revenues of $218,880,350, a difference of $62,095,123. The difference came from the sum of special revenue, business type, and capital project funds that did not levy property taxes and were not reported to the commission. Only with a detailed knowledge of a county's operations can the commission forms be compared and reconciled with a county's approved budget.

Trends in county revenue sources

3

To begin our analysis of trends in county revenues, we queried data from the Local Government Finance Database, a compilation of survey data from the US Census Bureau. We selected this source because it had compiled longitudinal data for counties in Idaho as well as counties across the United States and used consistent categories to report revenues. We queried data for county governments in five-year increments in county fiscal years 1996–2016 because these were the years all 44 Idaho counties were surveyed and datasets were most complete.

Idaho's population outpaced national growth, but Idaho's inflation-adjusted county revenue was slower than the national average.

From 1996 to 2016, Idaho's population grew 39 percent from 1.2 million to 1.7 million. The US population grew 20 percent over the same period. We adjusted total budgeted county revenue to 2018 dollars to accurately compare value over time.[7] Adjusted total budgeted county revenue increased 27 percent in Idaho, from $1 billion to just under $1.3 billion, during that same period. However, total budgeted county revenue fluctuated and was higher in 2006 than in 2016 in inflation adjusted dollars. This growth was slower than the 46 percent national average growth in budgeted revenues for counties across the United States during the same period. Exhibit 1 compares the trends in population and total budgeted county revenue for Idaho and the United States.

Total budgeted county revenue comprises five types of revenue sources:

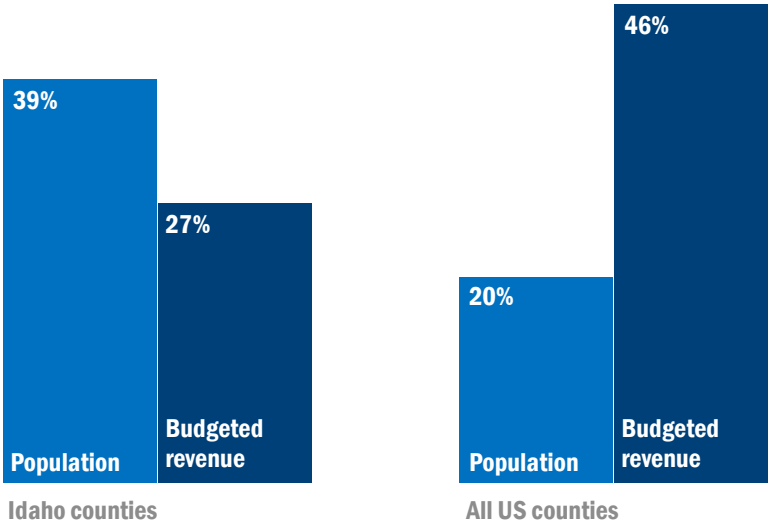
- Property taxes
- Charges, fees, and miscellaneous revenue
- State intergovernmental revenue
- Federal intergovernmental revenue
- Other sources

7. We adjusted dollar amounts using the Consumer Price Index research series to 2018 value, where 2018 was the most recent published index.

Exhibit 1

While Idaho's population grew faster than the inflation-adjusted budgeted county revenue, nationwide budgeted county revenue grew faster than the population.

Percentage of growth, county fiscal years 1996–2016.



Note: Percentage of growth for budgeted revenue calculated using dollars adjusted for inflation to 2018 values using the Consumer Price Index research series.

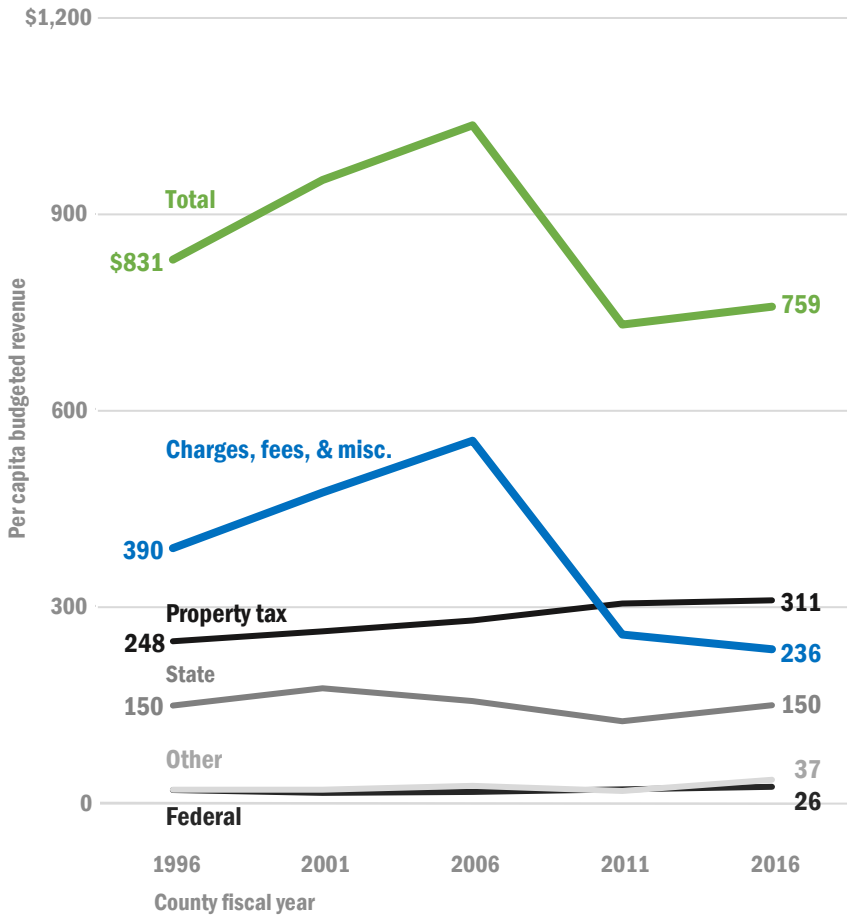
Source: Office of Performance Evaluations' analysis of population data from the US Census Bureau and revenue data from the Local Government Finance Database.

Per capita, total budgeted revenue for counties adjusted for inflation in Idaho increased in county fiscal years 1996–2006 from $831 to $1,036. In county fiscal year 2011, per capita revenue fell to $732, then increased to $759 in 2016. Exhibit 2 shows trends in adjusted per capita budgeted revenue for the five revenue categories that make up total budgeted revenue.

Budgeted property taxes per capita increased from an adjusted $248 in 1996 to $311 in 2016. State intergovernmental revenue was consistent, $150 per capita in 1996 and 2016. State intergovernmental revenue is money the state gives to counties and was 15–20 percent of county budgeted revenue. As a portion of the overall budget, counties received a small amount from the federal government, 3–5 percent of total adjusted budgeted county revenue. Money received from the federal government in 2016 was $26 per capita.

Exhibit 2

Per capita, total budgeted revenue was lower in 2016 than in 1996 for counties because of a drop in charges, fees, and miscellaneous revenue.



Note: Dollar amounts adjusted for inflation to 2018 values. Chart represents the 5-year increments in which the Census Bureau surveyed all counties.

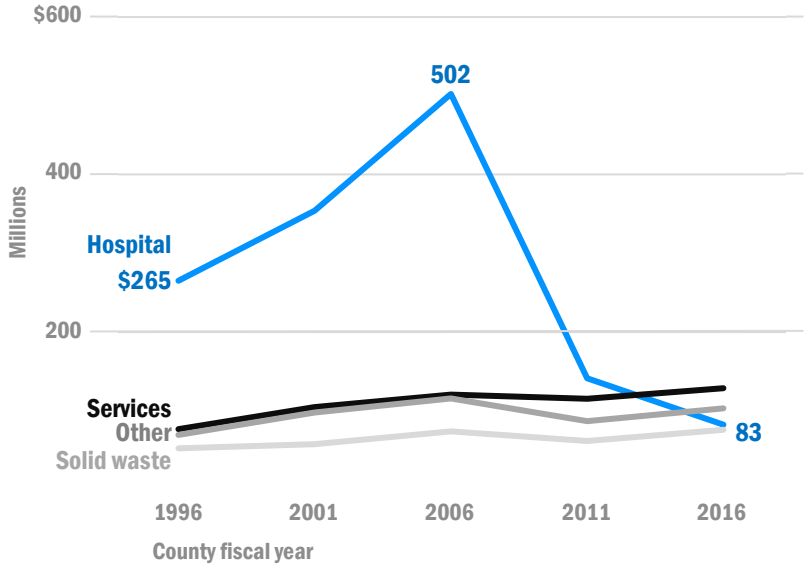
Source: Office of Performance Evaluations' analysis of data queried from the Local Government Finance Database.

A decrease in hospital charges slowed total budgeted county revenue growth.

The reduction in total budgeted county revenue was caused by a decrease in charges, fees, and miscellaneous revenue, specifically hospital charges. The Local Government Finance Database codebook defines hospital charges as "charges for care in publicly run hospitals."[8] Hospital fees decreased 69 percent from $265 million to $83 million. Exhibit 3 shows the dramatic decrease in hospital fees as the trends in other types of charges and fees increased.

Exhibit 3

Hospital charges dropped dramatically while charges for services, solid waste management, and other miscellaneous fees increased.



Note: Dollar amounts adjusted for inflation to 2018 values. Chart represents the 5-year increments in which the Census Bureau surveyed all counties.

Source: Office of Performance Evaluations' analysis of data queried from the Local Government Finance Database.

8. Kawika Pierson, Michael L. Hand, and Fred Thompson, "The Government Finance Database: A Common Resource for Quantitative Research in Public Financial Analysis," PLoS ONE (2015): 10, doi: 10.1371/journal.pone.0130119.

The hospital charges were disproportionately large given the small number of counties that incurred those charges. In tax year 2005, six counties had a hospital operating levy controlled by the Board of County Commissioners. That same year, 18 counties had a separate hospital special taxing district with an independent board. The remaining 20 counties did not have a public hospital.

The decrease in hospital fees corresponded to an equivalent decrease in hospital expenditures as reported in the in Local Government Finance Database. The reason for the decrease in fees and expenditures was that between 1996 and 2016, several community hospitals transitioned from public to private management. This change in management meant that revenue and expenditures were no longer reported through the county. The decrease in revenue and expenditures only reflects the amount of money managed by the counties and not the amount Idahoans paid for hospital charges.

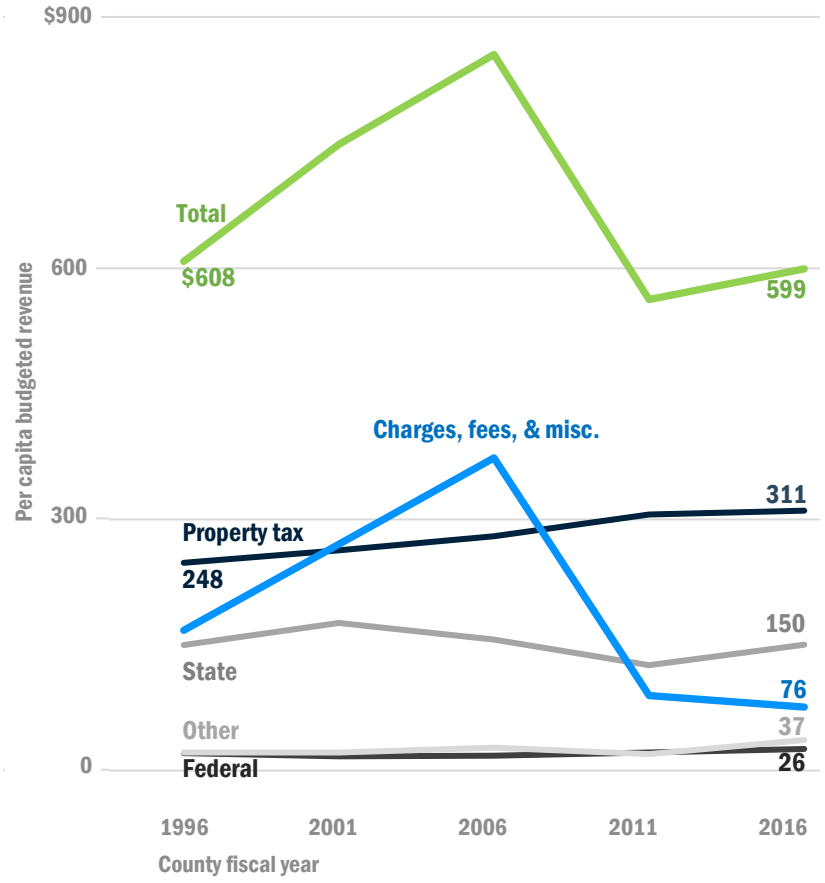
At the same time, other types of charges and fees steadily increased. The inflation adjusted value of charges for services (e.g., court fees, recording fees, charges for police, corrections, defense and public welfare services) grew 67 percent in county fiscal years 1996–2016. Miscellaneous revenue (e.g., interest, fines, impact fees, forfeits, and special assessments, sewerage, and utilities) increased 48 percent from $69 million in 1996 to $103 million in 2016. Solid waste management fees grew 45 percent from $52 to $76 million.

We found that property taxes were the highest source of revenue in all years except 2006.

To better reflect more typical county revenue trends, we removed the hospital charges from the dataset and recalculated the per capita county revenue by revenue type. As seen in exhibit 4, when hospital charges were excluded, we found that property taxes were the highest source of revenue in all years except 2006.

Exhibit 4

Without hospital charges, property tax was the largest source of county revenue in all years but 2006.



Note: Dollar amounts adjusted for inflation to 2018 values. Chart represents the 5-year increments in which the Census Bureau surveyed all counties

Source: Office of Performance Evaluations' analysis of data queried from the Local Government Finance Database.

4 Impacts of property tax limitations

Property taxes in Idaho are a local government tax. Counties collect the taxes and disburse funds to the various types of local districts (e.g., city, school, highway, fire, emergency medical, cemetery, library, and weed control). Counties themselves are a type of district and use property taxes as one source of revenue to finance services. Statute outlines a unique set of property tax limits that govern county budgets, taxable value, exemptions, and levies.

We used data from the Tax Commission to assess how budget limits, exemptions, levy limits, and other limitations impact how counties budget property taxes.

Budget limits cap property tax growth to 3 percent, which constrained 20 of 44 counties in 2018.

As with each local district, counties create a budget and determine the amount of property tax revenue needed to support the cost of services. Counties' budgets are broken into as many as 49 funds with statutorily defined purposes.

The budget cap limits growth for the portion of the budget funded by property taxes to 3 percent above the highest budgeted amount from the previous three years. The budget cap is applied to the total amount of property taxes budgeted for all county funds rather than applied to each fund. The budget cap constrained 15 counties in tax year 2017[9] and 20 counties in 2018. These counties budgeted 99.75 percent of the maximum allowable amount of property taxes and could not have increased their property tax budget for that fiscal year. Further analysis would be required to establish a meaningful trend.

The budget cap constrained 15 counties in tax year 2017 and 20 counties in 2018.

Statute allows four exceptions to the counties' budget cap: (1) use of previously forgone property tax increases, (2) new construction revenue, (3) voter approved bonds, and (4) override levies.[10]

> **Previously forgone property tax increases**, or forgone property taxes, as defined in Idaho Code § 63-802, are the portion of the maximum allowable increase (given the conditions of the budget cap) that a local government does not request in its property tax budget. In tax year 2019, 25 counties had available forgone increases of $1,000 or more. The sum of available forgone increases for these counties was $42.6 million in tax year 2019.

9. Tax years run from January to December. County fiscal years run from October to September. Tax years and county fiscal years have a one-year difference. For example, property taxes budgeted in tax year 2017 were used for county fiscal year 2018.
10. Other taxing districts may gain budget capacity through annexation.

No county used a voter approved override levy, and 5 counties had a voter approved bond in tax year 2019.

New construction, as defined in Idaho Code § 63-301A and the *Idaho Counties Uniform Accounting and Budgeting Manual*, is typically the increased value of new buildings, improvements to existing commercial buildings, and land that has changed use (e.g., from agricultural land to subdivision lots). The net value of new construction is multiplied by the previous year's nonexempt levy rate. The result is the amount above the 3 percent budget increase cap available for counties to include in their budget. New construction in urban renewal districts is allocated to urban renewal agencies and cannot be used by the county until the urban renewal revenue allocation area dissolves or has a de-annexation.

Voter approved bonds require a vote with two-thirds majority to pass. Five counties had approved bonds in 2019.

Voter approved override levies may be permanent or temporary with a limit up to two years. Permanent override levies require a two-thirds majority vote to pass. Temporary override levies only require a simple majority to pass. The override levies do not affect the levy limit but allow districts to override the budget cap. No county had an override levy in 2019.

Property tax exemptions indirectly impact county budgets but more directly impact taxpayers.

Statute exempts[11] the partial or full value of specific property under the following conditions:

Type (e.g., animals or agricultural commodities)
Use (e.g., nonprofit, primary residential home)
Ownership (e.g., state or federal government)

Exemptions may also be granted for events or circumstances that create a unique hardship, and specific exemptions may be granted for businesses that invest in the community.

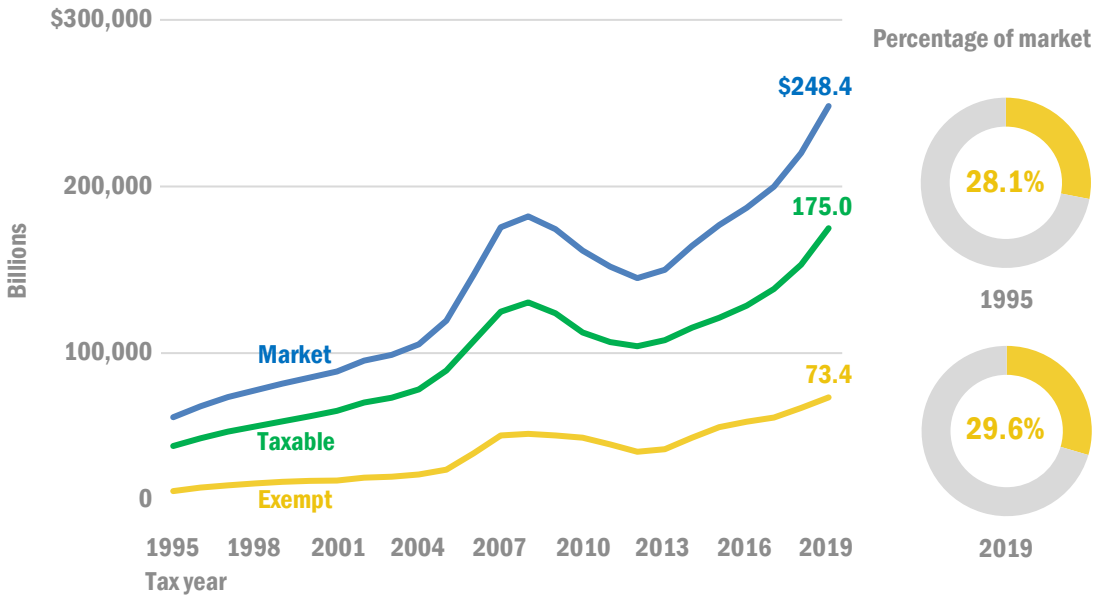
County assessors calculate market values (the amount a buyer would pay) for single units of property (parcels). Overall market values by category of property are subject to review by the Tax Commission through ratio studies to ensure compliance with statute and rule.

Exempted value is subtracted from market value to calculate taxable value. Taxable value for all parcels in a county is added to create total taxable value. Exhibit 5 shows the 25-year trend in market values, taxable values, and exempt values for Idaho properties.

11. Chapter 6 of Idaho Code Title 63 lists or references more than 60 types of exemptions.

Exhibit 5

Taxable value, as a proportion of assessed market value has been stable for the past 25 years.



Source: Office of Performance Evaluations' analysis of Idaho Tax Commission data.

Limits on market value

Idaho statute requires that property be annually assessed at market value (minus exemptions), regardless of the resulting change in value of any parcel from the prior year. Some states limit the annual growth of a parcel's assessed taxable value.[12] For example, in 1997 Oregon passed Measure 50, which reduced parcel values to 90 percent of the 1995–1996 market value and restricted the annual growth of assessed parcel value to a maximum of 3 percent. Measure 50 changed the idea that assessed value should reflect market value.[13]

12. Arizona, Arkansas, California, Colorado, Florida, Michigan, New Mexico, Oklahoma, Oregon, South Carolina, Texas, Washington D.C., For more on tax and expenditure limitations among the states, see: Bethany P. Paquin, "Chronicle of the 161-Year History of State-Imposed Property Tax Limitations," Lincoln Institute of Land Policy (April 2015), https://www.lincolninst.edu/publications/working-papers/chronicle-161-year-history-state-imposed-property-tax-limitations.
13. Oregon Department of Revenue, "A Brief History of Oregon Property Taxation" (2009), 3, https://www.oregon.gov/DOR/programs/gov-research/Documents/303-405-1.pdf.

In 2019, exemptions reported by the Tax Commission were valued at $73.4 billion, 29.6 percent of assessed market value.[14] The exemption for owner-occupied residential properties and a portion of the value of agricultural property[15] were 96 percent of the value of all reported exemptions in tax year 2019.

Exemptions indirectly impact county budgets by affecting how close the levy rate is to the levy limit. The more taxable value within a county, the higher the denominator in the levy rate formula and the less likely a county will be in reaching a levy limit.

Exemptions indirectly impact county budgets by affecting how close the levy rate is to the levy limit.

Levy rate

A levy rate is the budgeted property tax for a fund divided by the total taxable value, excluding certain values in urban renewal revenue allocation areas. A levy limit is the ceiling set by statute for a specific levy rate.

14. Assessed market value was $248.4 billion in tax year 2019. We calculated market value by summing all reported exemptions ($73.4 billion) and the sum of taxable value ($175 billion).
15. Speculative portion of agricultural land as defined in Idaho Code § 62-603K. During the 2020 legislative session, the Legislature passed House Bill 560, which removed the exemption on agriculture land from statute on July 1, 2020. Instead of exempting a portion the value, the assessment methodology was changed to measure the actual use value of agricultural land. As a result, the agricultural exemption will be $0 (down from $32.7 billion in tax year 2019), and market value will decrease as a result of the change in assessment methodology.

Exemptions more directly impact taxpayers because exemptions change the proportion of levied tax a property owner must pay.

Exemptions more directly impact taxpayers because exemptions change the proportion of levied tax a property owner must pay. To illustrate, we used data reported in *Market Values and Property Taxes for 2019* from the Tax Commission to see what would happen if Idaho eliminated the homeowner's exemption on owner-occupied primary residences. As shown in exhibit 6, if the homeowner's exemption were eliminated, the following would have occurred:

1. The total tax revenue would have stayed the same. The actual change in property taxes levied in 2018–2019 was a 6.5 percent increase. Eliminating the homeowner's exemption would not change the total amount.

2. Property taxes levied on owner-occupied primary residences would have increased an estimated 39.4 percent in tax years 2018–2019 instead of the actual increase of 12.9 percent. As a result, more taxes would have been paid by owners of primary residential properties.

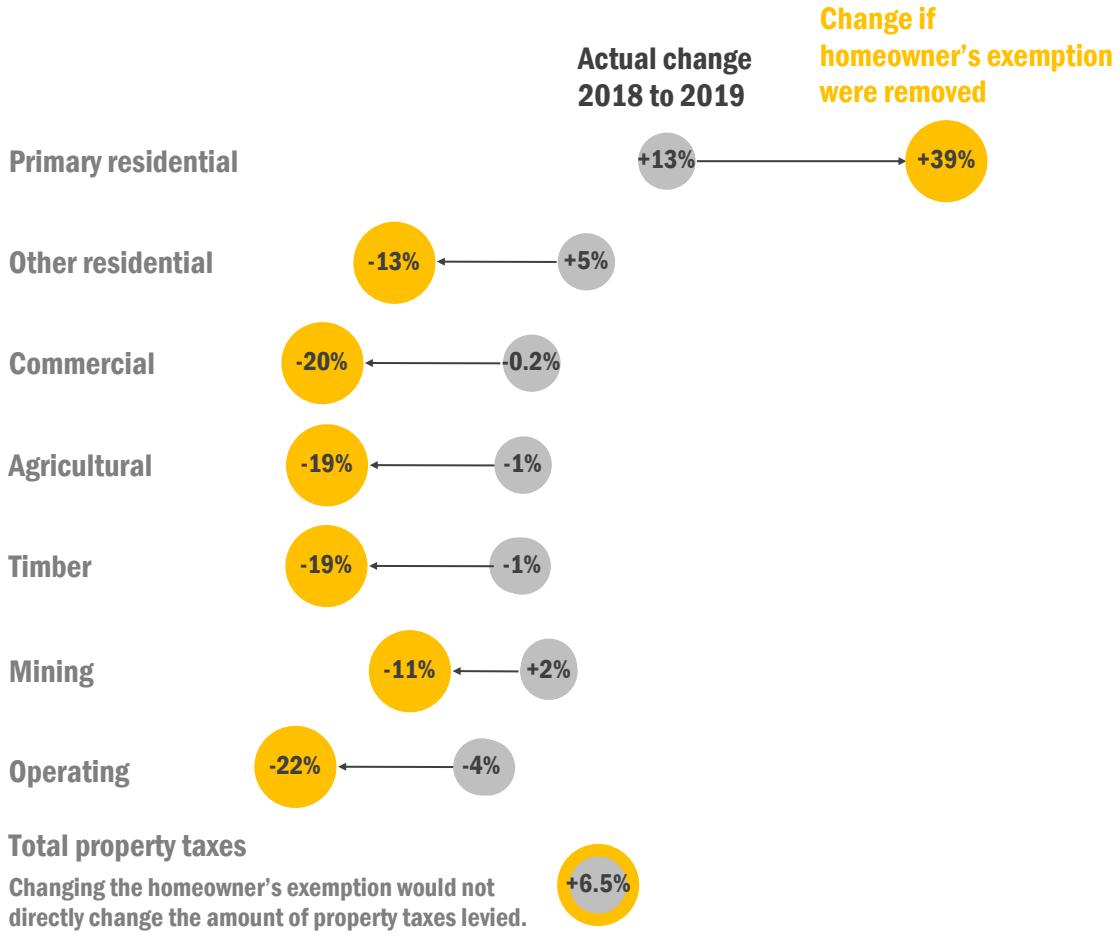
3. Property taxes levied on other types of property would have decreased.

Because primary residential properties are appreciating faster than other types of properties, homeowners may not be able to predict how much their property taxes will go up.

Because primary residential properties are appreciating faster than other types of properties, homeowners may not be able to predict how much their property taxes will go up based on increases in property tax budgets of local governments. As seen in exhibit 6, total property taxes levied by all local taxing districts increased 6.5 percent in tax years 2018–2019. However, residential property owners' taxes increased an average of 12.9 percent and commercial property taxes increased an average of 0.2 percent while agricultural property taxes decreased.

Exhibit 6

If the homeowner's exemption were removed, property taxes levied on primary residential property would increase, taxes on other property types would decrease, and total taxes levied would not be directly affected.



Source: Idaho Tax Commission, *Market Values and Property Taxes for 2019.*

Levy limits are most constraining when market values are in decline and when there are many individual limits rather than a consolidated limit.

The budgeted property tax for each fund is divided by the total taxable value resulting in a levy rate. Levy limits are set in statute and confine the levy rate for each fund. For example, the levy limit for the current expense fund (counties' general fund) is .0026,[16] or $260 per $100,000 of the net taxable property value of the county.

Levy limits have less impact on county budgets when property values increase rapidly.

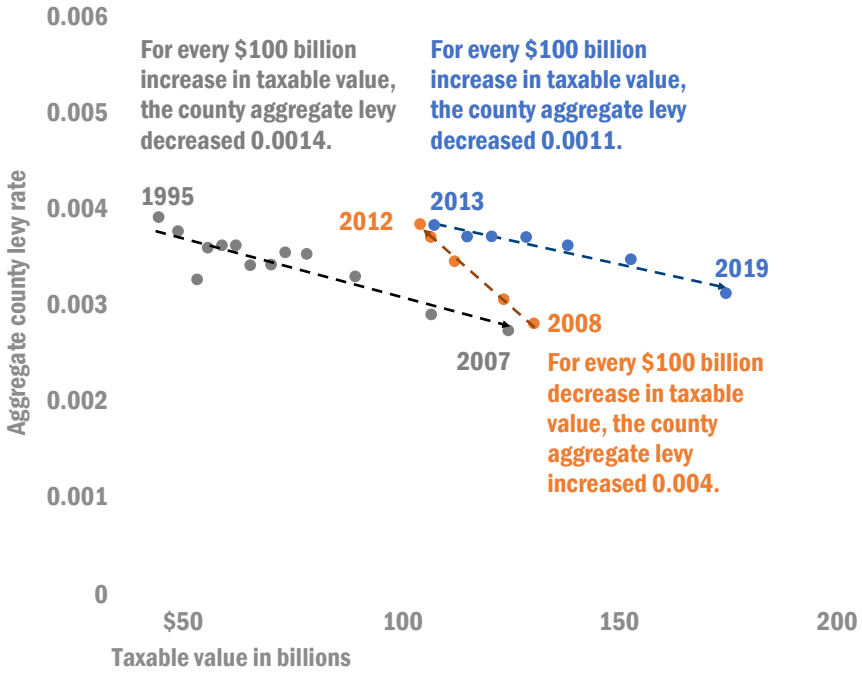
Levy limits have less impact on county budgets when property values increase rapidly. When property values increase faster than property tax budgets, the levy rates decrease. As the Tax Commission describes in *Market Values and Property Taxes for 2019*, "Because of [budget] caps that limit the amount by which most property tax budgets of taxing districts can grow each year, tax rates tend to decrease when values rise."

Exhibit 7 illustrates the relationship between taxable value and aggregate county levy rates.[17] In 1995–2007, taxable value increased $80.1 billion. During that time, the aggregate levy decreased by 0.00117, or $117 for every $100,000 of taxable value. During the recession in 2008–2012, taxable value fell by $26.2 billion and the aggregate county levy rate increased by 0.00104, or $104 for every $100,000 of taxable value. Now, the statewide trend is for every $100 billion increase in taxable value, the county aggregate levy decreases by 0.00106.

16. The levy limit for the current expense fund is reduced to 0.002 if the county also levies property taxes in the justice fund.
17. The aggregate county levy rate is the sum of property tax budgets for all counties divided by the taxable value for all counties.

Exhibit 7

In 1995–2019, when taxable value increased, the aggregate county levy rate decreased.



Source: Office of Performance Evaluations' analysis of Idaho Tax Commission data.

Four levies accounted for 85 percent of the budgeted property taxes levied by counties in tax year 2018:

- Current expense (44 counties budgeted a combined $229.8 million)
- Justice (32 counties budgeted a combined $148.1 million)
- Charity and indigent (42 counties budgeted a combined $33.7 million)
- District court (44 counties budgeted a combined $31.5 million)

The remaining 15 percent of budgeted property taxes were levied in the remaining 45 funds defined in statute.

Four levies accounted for 85% of the budgeted property taxes levied by counties in tax year 2018.

In tax year 2018, levy limits constrained the following number of counties:

17 counties in the district court levy
13 counties in the justice levy
10 counties in the current expense levy
8 counties in charity and indigent levy

The large number of different funds with levy limits also restricts county budgets. For example, 20 counties were limited in one or more of the four major levies in tax year 2018. However, if those levies were combined into a single, general purpose fund, the number of counties constrained by levies would have dropped from 20 to 2 without an increase in the aggregate levy amount.

Estimated effects of hypothetical tax policy changes

We examined three hypothetical scenarios using assessed property tax levies from all taxing districts within a single county (sampling 175,130 existing parcels in both tax years 2017 and 2018) to illustrate ***how*** property owners could be impacted by each of the three tax policy changes:

A budget freeze
An increase in the homeowner's exemption
An increase in the business personal property exemption

This analysis is not intended to communicate ***what*** the statewide impacts would be from the scenarios.

The first scenario would be a freeze in the portion of the budget supported by property taxes. Local governments would be required to cap property taxes at the same dollar amount as the previous year. In this scenario, we assumed that new construction would be under the cap and could not be used to increase the property tax budget. We found that property taxes would decrease for many parcels. However, more than half of owner-occupied residential parcels would still see a property tax increase because their parcels appreciated much faster than commercial, agriculture, or other types of parcels.

In the second scenario, we assumed an increase in the homeowner's exemption. In 2006 the maximum exemption was set at $75,000 and was tied to the house price index published by the Office of Federal Housing Enterprise Oversight. In 2016 the index was removed, and a static maximum cap was set at $100,000. In our scenario, we calculated the value of the exemption if the house price index were still being used to calculate the maximum exemption. We found that if the index to the homeowner's exemption had remained in place, fewer owner-occupied residential parcels would have had increased property taxes levied, and the increases would have been smaller. However, the tax burden would shift to owners of other nonowner-occupied residential, commercial, and other types of property.

In the last scenario, we estimated the effect of exempting the value of 100 percent of business personal property. We found that, if business personal property were exempt, the estimated median percentage change in property taxes for residential, commercial, and other parcels would increase 2–3 percent.

If we repeated this analysis in other counties, we would likely see a larger impact from exempting business personal property for two reasons. First, the business personal property tax base in other counties is larger. In the county we analyzed, property taxes assessed to business personal property was about 4.3 percent of total assessed taxes. In 2017, on average, business personal property was 8.4 percent of the property tax base. In Caribou and Power counties, business personal property was more than 40 percent. Second, in the county data we analyzed, removing business personal property from the tax base did not result in the county hitting a levy limit. However, according to an analysis by the Tax Commission in 2017, 11 counties would experience a decrease in total property taxes collected because removing business personal property taxes would cause the county to hit a levy limit.

There is no clear statutory definition of business personal property. If the Legislature were to decide to use a more inclusive definition of business personal property and to exempt more property, the impacts would be greater than if a narrower definition were used.

Impact of state and federally owned land

5

Idaho has 33.4 million acres of federal land and 2.6 million acres of state-owned land. The combined government-owned land comprises 68 percent of Idaho's 53 million acres. This land is off the property tax rolls. Yet, public land often requires some level of local services, such as road maintenance, fire prevention and suppression, and emergency services.

Though somewhat unsteady, PILT payments compensate counties for federal land.

In 1976 the federal government established the Payments in Lieu of Taxes (PILT) program to compensate local governments for federal land that cannot be taxed but still may require services. PILT payments have been unsteady. In federal fiscal years 1994–2007, PILT payments were discretionary. Congress could decide how much to appropriate to the program even after a formula determined the dollar amount due each county. During this time, congressional appropriations were 60 percent less than the amount computed by the formula. In 2008–2014, Congress approved mandatory spending on PILT. The program was funded to 100 percent of the formula amount. In 2015 PILT returned to discretionary spending. Consequently, PILT funds are no longer guaranteed and could fluctuate depending on congressional priorities.

Instability is built into the PILT payment formula itself.

Instability is built into the PILT payment formula itself. The formula accounts for money received from other federal programs, such as secure rural schools or mineral leasing. Because of offsets from other federal programs, Idaho received 10.6 percent less PILT in 2019 than in 2018. This decrease had a disproportionate impact on Idaho counties. Adams, Boise, Boundary, and Shoshone counties all had PILT payment decreases of more than 50 percent while other counties had increases of close to 8 percent.

Compensation to counties for state-owned land applies only to land owned by the Department of Fish and Game.

Idaho's constitution exempts state land from local government taxation. In 1990 the Legislature amended the constitution and made an exception for "unimproved real property owned or held by the Department of Fish and Game." Unimproved real property can be subject to a fee in lieu of taxes if fees do not "exceed the property tax for the property at the time of acquisition by the department…unless the tax for that class of property [increased]."[18]

In county fiscal year 2019, the Department of Fish and Game paid $235,641 to counties. Nez Perce County received $56,886, the most of any of county. Fifteen counties received less than $1,000.

Most state land[19] is an endowment from the federal government originating at the time of statehood. The endowment is overseen by the Idaho Land Board. The endowment's purpose is to create trust funds to support state institutions, primarily public schools. Distributions from investment earnings must be used specifically for the funds' beneficiaries.[20]

When endowment property is bought or sold, the property shifts off or onto the property tax rolls. For example, in 2019 the State Endowment Fund purchased 32,160 acres in Benewah, Bonner, Boundary, Latah, and Shoshone counties. The tax impact to the taxing districts in these counties was $153,550 for a single year. Because of the structure of the endowment funds, the state cannot use investment earnings to offset the negative revenue impact to taxing districts.

In county fiscal year 2019, the Department of Fish and Game paid $235,641 to counties.

Nez Perce County received $56,886, the most of any of county.

15 counties received less than $1,000.

18. Idaho Const. Art. VII, Section 4.
19. 2.5 million acres, or 91 percent of total state ownership.
20. There are nine beneficiaries of the state endowment funds: Idaho public schools, University of Idaho, state hospitals for the mentally ill, Lewis-Clark State College, state veterans homes, Idaho State University, the Capitol Commission, the Idaho School for the Deaf and Blind, and Idaho's juvenile corrections system and prison system.

6 Next steps

This report provides information requested by legislators and is not a performance review of the budgeting and tax assessment process of counties. We do not have any formal recommendations for the Legislature. However, several parts of the report, such as the section on how data shortcomings limit analyses of tax policy impacts, suggest areas where policymakers could consider remedial action.

If the goal is to promote transparency and generate useful information for policymakers, then counties and other districts need more explicit direction from the Legislature about which data should be reported. More allocated resources to the collection and analysis of that data would further promote transparency as the data could be translated into useful knowledge.

We found examples in other states that address data limitations of availability, specificity, and uniformity. The following examples are not exhaustive of how other states manage local government data but provide ideas for further review.

Utah

Utah has a Local Government Resource Center housed in the Local Government Division of the Office of the State Auditor. The mission of the division is to "ensure uniform accounting, budgeting, and financial reporting by Utah's local governments."[21] The division provides capacity building services such as training and consultation as well as publishes budget forms and uniform accounting guidelines. The division also reviews the independent audits of local governments.

Local governments are required to complete an annual financial

21. https://resources.auditor.utah.gov/s/.

survey. Utah has a published uniform chart of accounts. Local governments are not required to use the chart of accounts for their own operations. However, local governments are required to crosswalk their chart of accounts to the uniform chart.[22]

Utah and Wyoming have published uniform charts of accounts.

Wyoming

The Public Funds Division within Wyoming's Department of Audit publishes reports on the cost of government. These reports have a side-by-side comparison of a standard set of expenditures and revenues for counties, cities, and special districts.[23] The division also administers a survey of local government finances and publishes a unified chart of accounts to promote a uniform reporting structure from all government entities.

Colorado

The Division of Local Government within Colorado's Department of Local Affairs houses a local government information system for budget, finance, elections, organizational charts, and contact information. The division publishes research reports such as a 2014 comparison of county budgets, property tax information, retail sales information, and other population and economic indicators.[24]

Colorado has a local government division that has developed financial measures to assess fiscal health.

Within the Office of the State Auditor, Colorado also has a Local Government Division.[25] The division ensures compliance with the state's requirements for an annual independent audit. The division also developed a set of financial measures that can be used to assess the fiscal health of local governments, which can identify concerning trends or policy items needing further examination or action.

22. Detailed accounting information for local governments is available on the Transparent Utah website, https://utah.gov/transparency.
23. https://sites.google.com/a/wyo.gov/division-of-public-funds/public/reportstolegislature.
24. https://cdola.colorado.gov/.
25. https://leg.colorado.gov/agencies/office-state-auditor/local-government.

A Request for evaluation

CAROLINE NILSSON TROY
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LATAH & BENEWAH COUNTIES

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House of Representatives
State of Idaho

March 11, 2019

Joint Legislative Oversite Committee
Idaho Legislature

Dear Esteemed Colleagues,

The recent study "Impact of State Mandates on County Government" conducted by the Office of Performance Evaluations uncovered significant issues facing rural counties because of mandated tax and expenditure limitations placed upon counties. Rural counties are more likely to be constrained than urban counties, as they are not experiencing the growth in tax revenue from new construction and increasing values.

While ranked the "fastest growing state in the nation," Idaho's counties and communities are also experiencing a rapid and growing divide between the "have's" and the "have nots." These measurements include population growth, economic development and job growth, median income levels, and property values.

While these measurements of community vitality are wildly fluctuating across the state, one thing remains consistent: the cost of doing business is going up. Comprehensive services are required and provided by every local unit of government (counties, cities, schools and highway districts) across the state, regardless of the economic health of the region, the size of the taxing district, or the constraints imposed by the state on their ability to tax residents.

The Idaho Legislature passes laws and imposes rules that make a tremendous impact on local units of government regardless of economic vitality or decreasing tax base that underpins the ability to provide these required and necessary services. The purpose of this study is to more clearly understand what is causing budget problems for the counties. Specifically, it is requested that the Office of Performance Evaluation review the following issues:

1. Review the overall Revenue picture for counties, including all funding sources

2. Determine the impact of state and federally owned lands on the county's budgets

3. Specifically review the impact of levy's and property tax exemptions, both real and personal, on the historical budgets of counties.

Additional follow-up surveys should be considered that measures the impact of mandates on other units of local government, such as cities, highway districts and schools.

Thank you for your consideration,

Caroline Troy

Caroline Troy

Scott Bedke

Scott Bedke

Mark Harris

Terry Gestrin

Sally Toone

Judy Boyle

Judy Boyle

Paul Shepherd by CNT

Paul Shepherd

Tom Dayley

Laurie Lickley

Laurie Lickley

Evaluation scope

The purpose of this evaluation is to provide additional descriptive data on the trend in overall revenue for counties, the trend in federally owned land and federal payments in lieu of taxes, and the trend in taxing capacity for counties.

In addition, to aid legislators in their discussion on property tax policy, we will conduct two types of analysis. First, we will analyze the impact on county budgets for a single fiscal year if certain variables in the sales tax distribution formula were changed. We will estimate whether counties would have had the property tax capacity in county fiscal year 2019 to make up the difference if changes to the formula resulted in loss of revenue for the county.

Second, we will conduct a case study using parcel-level property tax data from a single county to better understand how different changes would impact the tax burden for property owners. Specifically, we will estimate the number of parcels by property category in which taxes would increase if the following occurred:

- Dollar amount for the homeowner's exemption were indexed
- All business personal property were exempted
- Property tax budgets for all local governments within the county were capped at the fiscal year 2018 dollar amount

C Methodology

After our 2019 report, *State Mandates on County Governments*, requesters of this evaluation asked for a survey of county revenues, an explanation of federal payment in lieu of taxes, and an analysis of property tax exemptions and levy limits. To scope this evaluation, we interviewed legislators and the Director of Intergovernmental Affairs in the Governor's Office. We attended two conferences for county-elected officials sponsored by the Idaho Association of Counties, and we attended the legislative work group on property taxes and the Equitable Assessment of Costs Related to Medicaid Expansion Committee.

Two things became evident. First, insufficient data availability, specificity, and uniformity add to the cost of providing detailed analysis to all questions that legislators were presenting. For example, requesters of this evaluation wanted to know about the trend in all revenue sources for counties and why certain revenues fluctuate. Current-state data are not sufficient to answer those questions. To create a data set to fully answer those questions would take several years.

Second, different stakeholders value different things when determining whether policies affecting property taxes or other county revenues are "good." For example, when considering property tax exemptions, some homeowners may want an exemption that scales in proportion to the rate of increase to residential property values compared with other types of taxable property, which would shift some property tax burden to other property types. Some business owners may want to see all business personal property exempted, which would shift some property tax burden to residential properties. Some policymakers feel more controls are needed to limit the amount of property tax revenue growth for local governments. Some county-elected officials would like more discretion to raise revenues either through the consolidation of funds and the increase of levy limits or through lowering the threshold of necessary voter approval for bonds from two-thirds to a simple majority.

We took the data limitations and the complexity of interests into consideration when designing this evaluation. We provide descriptive statistics using available data. We also discuss the data limitations in some detail in chapter 2.

Data analysis

Government Finance Database

The Government Finance Database is maintained by professors at Willamette University to make local government finance data from the US Census Bureau Annual Survey of State and Local Government Finance more accessible. Our analysis is based on data reported every five years in county fiscal years 1996–2016 because the Census Bureau surveys all 44 Idaho counties in these years.

To analyze these data, we queried data for the following revenue categories:

Property tax

Sales and gross receipts taxes
License taxes
Taxes NEC
Total intergovernmental revenue
Federal intergovernmental revenue
State intergovernmental revenue
Local intergovernmental revenue
Charges and miscellaneous revenue

Then we collapsed the following categories into an “other” category:

Sales and gross receipts taxes
License taxes
Taxes NEC
Local intergovernmental revenue

Finally, we focused our analysis on five summary categories:

Property tax
Federal intergovernmental revenue
State intergovernmental revenue
Charges and miscellaneous revenue

Dollar amounts were adjusted using the Consumer Price Index research series (CPI-U-RS). This index comprises improvements made to the CPI for all Urban Consumers (CPI-U) from 1978 to present and allows for a consistently measured historical series. More information about the CPI-U-RS can be found at https://www.bls.gov/cpi/research-series/home.htm.

A limitation of data in the Government Finance Database is that data are most accurate in aggregate. Nonsampling error can occur when financial items are assigned to categories or when the data are imputed for nonresponsive counties. The data are not designed to compare individual governments with each other, so we did not report county-level statistics.

Property tax revenue

We submitted a data request to the Idaho Tax Commission and received the following reports and forms:

Report or form	Description	Tax years
Budget increases by category	Lists by county the property taxes from new construction, the maximum amount of forgone available, the amount of forgone taken, and the property taxes not subject to forgone.	2010–2019
Dollar certification of budget request to the Board of County Commissioners (L2 form)	Counties submit this form to the commission as part of the budget and levy certification process. The form includes levies and property tax budgets for every local government that levies property taxes.	1995, 2000, 2005, 2010–2018
Historical exemptions report	Lists the taxable value for property tax exemptions.	1999–2019
Maximum budget and forgone amount worksheet	Provided by the commission to cities and counties, the worksheet shows the calculation of the highest, nonexempt property tax budget plus 3 percent (budget cap) calculation. The worksheet also reports the maximum available forgone amount.	2010–2018

table continued

Report or form	Description	Tax years
Major category excluding homeowner's exemption report	Lists by county the net taxable value of residential, commercial, agriculture, timber, mining, and operating property.	2010–2018
Property tax budgets report	Lists by district the certified property tax budget	1995–2018
Report 04 fund detail within county	Lists the taxable market value, levy rates by fund, and property tax budget by fund. It includes data for all districts that levied property taxes.	2010–2018

We replicated our analysis in our 2019 report, *Impact of State Mandates on County Governments*, to see how many counties were constrained by the budget cap and by levy limits in tax year 2018.

We found that 20 counties were constrained by the budget cap. These counties' certified property tax budgets were within 0.25 percent or less of the maximum allowable property tax budget. We found that in tax year 2018, levy limits constrained:

17 counties in the district court levy
13 counties in the justice levy
10 counties in the current expense levy
8 counties in charity and indigent levy

These counties could not increase these individual levies by enough to collect the maximum allowable amount of property taxes.

We wanted to know if consolidating the levies would have an impact on the number of counties that were levy limited. We consolidated the budgets and levy limits of the four levies listed above. We found that if those levies were combined into a single, general purpose fund, the number of counties constrained by levies would drop from 20 to 2 without an increase in the aggregate levy amount.

Property tax scenarios

We wanted to understand how different changes to property tax policy would impact the percentage of parcels that would have higher levied property taxes. We used data from a single county and compared the estimated property tax amounts for parcels in tax years 2017–2018 in three scenarios:

Budget freeze—property tax budgets were the same dollar amount in tax year 2018 as in 2017

Indexed homeowner's exemption—the homeowner's exemption continued through tax year 2018

Business personal property exemption—100 percent of business personal property was exempted in tax year 2018

Property category	Number of parcels	Median assessed value	
		2017	2018
Owner-occupied residential	118,732 (68%)	$266,100	$298,300
Nonowner-occupied residential	32,900 (19%)	$195,800	$220,390
Commercial	8,145 (5%)	$469,200	$510,400
Business personal property	4,722 (3%)	$15,650	$15,700
Other (farm, operating, and vacant land)	10,631 (6%)	$92,615	$99,629
Total	175,130		

To establish a baseline, we calculated the percentage change in the dollar amount of levied property taxes for tax years 2017 and 2018 for every parcel in our sample. Then we calculated the percentage change in the dollar amount of levied property taxes for every parcel in our sample under three hypothetical property tax policy changes:

Scenario 1: Budget freeze—property tax budgets were the same dollar amount in tax year 2018 as in 2017

Scenario 2: Indexed homeowner's exemption—the homeowner's exemption continued through tax year 2018

Scenario 3: Business personal property exemption—100 percent of business personal property was exempted in tax year 2018

The table below shows the median percentage change in property taxes by scenario for the types of parcels in our sample.

	Base	Property tax budget freeze	Indexed homeowner's exemption	Business personal property exemption
Owner-occupied residential	10.0%	1.36%	8%	12%
Nonowner-occupied residential	7.0%	-1.14%	8%	9%
Commercial	0.0%	-7.46%	1%	3%
Business personal property	-20.0%	-25.87%	-19%	-100%
Other	0.3%	-6.94%	2%	3%

Payment in lieu of taxes analysis

We analyzed data available in public documents from the US Department of the Interior to trend payments in lieu of taxes made to counties in calendar years 1999–2019.

Responses to the evaluation

Idaho has been and continues to be one of the fastest growing states in the nation, and our residents and county governments continue to feel the many impacts of growth.... This [report] will be critical resource as stakeholders come together, analyze, and create public policy on this important and complex issue.

—Brad Little, Governor

We have no issues or concerns with your analysis.

—Jeff McCray, Chairman
Idaho Tax Commission

Funding for county roads and bridges, public defense, and district courts are three areas in which counties need help. By providing greater state funding for these services, policy makers can relieve some of the burden placed on property tax payers.

—Seth Grigg, Executive Director
Idaho Association of Counties

Governor Brad Little
State Capitol :: Boise, Idaho 83720
(208) 334-2100 :: gov.idaho.gov

December 3, 2020

Rakesh Mohan, Director
Office of Performance Evaluations
954 W. Jefferson St., Ste. 202
Boise, ID 83720

Dear Director Mohan,

I want to thank you and the Office of Performance Evaluations on your thorough report regarding county revenues. Idaho has been and continues to be one of the fastest growing states in the nation, and our residents and county governments continue to feel the many impacts of growth.

The report does a great job describing the needs of all the stakeholders involved. On one hand, county governments are committed to provide public services for the increasing demands of a growing population. On the other hand, Idaho residents are feeling the recoil of fast rising home prices and the property taxes that go along with it. The report takes a deeper dive into county revenues and simultaneously highlights the complexities and history of their revenue sources.

Thank you again to you and your team for providing a thorough report on county revenues. This will be critical resource as stakeholders come together analyze and create public policy on this important and complex issue. I look forward to working with the Idaho Legislature to study policies and actions we can take to make Idaho a place where we all can have the opportunity to thrive, where our children and grandchildren choose to stay, and for the ones who have left to choose to return.

Sincerely,

Brad Little
Governor of Idaho

IDAHO
State Tax Commission

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11321 W. Chinden Blvd., Boise ID 83714-1021

December 3, 2020

Rakesh Mohan
Director
Office of Performance Evaluations
Idaho Legislature

Dear Mr. Mohan:

Thank you for your letter of November 13, inviting our agency to formally respond to the findings, conclusions, and recommendations contained in your report on county revenues. After reviewing the final draft that we received on December 2, we have no issues or concerns with your analysis.

We enjoyed contributing information we compile to your report and appreciate your willingness to collaborate with our staff in the editing process.

Please let us know when you will present your report to the Joint Legislative Oversight Committee and if you would like our staff to be present.

Sincerely,

Jeff McCray, Chairman
Idaho State Tax Commission

cc. George Brown, Property Tax Division Administrator
Alan Dornfest, Property Tax Policy Bureau Chief

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December 23, 2020

Mr. Rakesh Mohan, Director
Office of Performance Evaluation
934 W. Jefferson Street, Suite 202
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Dear Mr. Mohan,

Thank you for the opportunity to comment on the Office of Performance Evaluation's report on county revenues. Because the state has limited the ability of counties to raise non-property tax revenues, property taxes are the primary funding source of county government services. The OPE study highlights three important aspects of county budgeted revenues.

First, counties are fiscally conservative. As the study points out, when controlling for inflation, county budgets increased a total of 27% between 1996 and 2016, while the state's population grew 39%. Per capita county budgeted funds were actually less in 2016 than in 2006. Second, state and federal per capita revenue sharing has remained flat over the same 20 year period despite the population surge. Increased state funding for county roads, public defense, and district courts would reduce county reliance on property taxes and provide immediate tax relief to hard-working Idahoans.

Third, property tax caps impact the ability of counties to fund government services. The study highlights OPE research showing that in 2018, 20 of 44 counties were constrained by the 3% cap on property tax budget increases. Budget caps force county commissioners to make difficult decisions when allocating budgeted revenues to county programs and services, many of which pertain to public safety and the criminal justice system. Without additional state revenues, counties will be challenged in providing essential services to a growing state without increasing property taxes.

State policy makers have an opportunity to address budget challenges facing counties and property tax pressures facing taxpayers. Funding for county roads and bridges, public defense, and district courts are three areas in which counties need help. By providing greater state funding for these services, policy makers can relieve some of the burden placed on property tax payers.

Respectfully,

Seth Grigg
Executive Director

Office of Performance Evaluations

ope

Idaho Legislature