

**PROPERTY TAX
INTERIM COMMITTEE
PUBLIC HEARINGS
JULY 28, 2005
LEWISTON**

Committee members present were Cochairman Senator Shawn Keough, Cochairman Representative Dennis Lake, Senator John Goedde, Senator Brad Little, Senator Tim Corder, Senator Monty Pearce, Senator David Langhorst, Senator Elliot Werk, Representative Bill Deal, Representative Eric Anderson, Representative Wendy Jaquet and Representative George Sayler. Representative Gary Collins and Representative Mike Moyle were absent and excused. Staff members present for all meetings were Mike Nugent, Jason Hancock and Toni Hobbs.

Lewiston attendees that signed in were Robert Schloss; Irving Kalinosky; Werner Braemer; Karl Knoll; Jon Eaton, Idaho Association of Realtors; Bob Fulton, Library Board; Pam Eaton, Idaho Retailers Association; Representative John Rusche, District 7; Mellisa Stewart, Clearwater County Assessor; Stan Leach, Clearwater County; Jeannie Johnson, Clearwater County Treasurer; Robin Christensen, Clearwater County Clerk; Pam Howard and Patricia Tuthy, Lewiston City Library; Carla Bruegeman, Grangeville; Elizabeth and Jerry Chavez; Fred Jabbora; Claudean and Jerry Line; Charles Pottenger and Charles Cline, Idaho Property Tax Reform; Bobbi and David Bodine; Donald and Louise Solem; Tony Snodderly; Catherine Peterson; Virginia Edwards Hazelwood; Gilford Hazelwood; Jerry Northrup; Debbie Hays; Jan Vassar, City of Lewiston; Chet Johnson; Roger Hollibaugh and J.R. VanTassel. Due to the large turn out to this meeting, this list does not include everyone that was in attendance. There were about 75 people at this meeting.

Representative Lake introduced the following legislators from the Lewiston area that were present at the meeting: **Representative John Rusche, Representative Mike Mitchell and Senator Joe Stegner.**

The meeting in Lewiston was called to order at 7:00 p.m. by Cochairman Representative Dennis Lake. After opening remarks by the Cochairmen, Jason Hancock, Legislative Services Budget Analyst was introduced to give a short presentation on how property taxes are figured.

Mr. Hancock explained that there are two models used for determining property taxes; the budget model and the rate model. The budget model is used by all taxing districts in Idaho while the rate model is only used to determine the percentage of property taxes that go to school maintenance and operations. All other types of School District property tax levies (bond, supplemental, plant facilities, etc.) use the Budget Model.

Property taxes in Idaho fund local government only. \$1.14 billion in property taxes was collected in 2004. In 2002, Idaho ranked 31st among states, in terms of percentage of income paid in property taxes, or about 10% less than the national average. **Mr. Hancock** explained that this ranking is somewhat misleading because several states do not have all of the same taxes as Idaho.

After giving some examples, **Mr. Hancock** explained that the budget model is like a balloon. If taxable property value is exempted from the tax base, the property tax bill is shifted to other property taxpayers – the local taxing district is held harmless. Under the Rate Model (School District M&O levy), exempting taxable property from the tax base does not cause a shift to other property taxpayers – the loss of tax revenues is absorbed by the School District.

Mr. Hancock explained that there are two main reasons why residential property taxes are increasing rapidly in most taxing jurisdictions.

One is the frozen nature of the 50-50 homeowner's exemption, which causes a home's increase in taxable value to exceed the home's increase in assessed value.

The second is the Public Schools M&O levy rate, which does not decrease when property values rise rapidly, as do other, budget-driven levies.

Mr. Hancock's complete presentation will be available as an attachment to these minutes at: www.legislature.idaho.gov.

After **Mr. Hancock's** presentation, public testimony regarding the issue of

property taxes and possible solutions was taken by the committee.

Representative Lake said that the purpose of having **Mr. Hancock's** presentation was to try answer the question of how the property valuation equates to the property tax bill. He explained that Idaho's tax system is known as the "three legged stool made up of property tax, income tax and sales tax. He added that Idaho has a constitutional framework within which it has to work.

Representative Lake stated that the committee is holding these meetings to listen to citizens regarding property taxes and to listen to suggestions for solutions to the problem. He said that after hearing from citizens in 12 communities throughout Idaho, the committee will meet again this fall to sort through the testimony to decide whether legislation should move forward. The committee will make a report, regardless of whether legislation is prepared, that will go to the entire legislature. He explained that tax bills start in the House Revenue and Taxation Committee of which he is the Vice-Chairman.

Representative Lake noted that there is also an initiative process that is being talked about across the state and in his opinion this is a tandem process for those that feel that the legislature is not progressing as it should.

Following are the people who testified

Mr. Robert Schloss - Orofino

He stated that even though this area is not seeing the high growth that other areas of the state is, they are still seeing property value increases and higher property taxes. He said that he is only semi-retired because he has to work to pay his property taxes.

He said that one thing that got his attention is the way the Legislature handles the school situation in the state. They are in serious trouble and this has happened over a long period of time.

There is no equity in the property tax system and it needs to be fixed. **Mr. Schloss** said there has got to be a way to develop a property tax system that spreads the burden more fairly. He said that bond elections in Clearwater County continue to fail because the people cannot afford it and they are scared. He said that he does not mind paying his share for education, it just needs to be reasonable.

Mr. Irving Kalinosky

He said the cities and persons annexed need to vote on annexation of property because it has a trickle down effect on existing services. Property that is annexed into cities needs to be provided with infrastructure and services offered by that city. Once the property is annexed without a vote of the people, bonds are necessary to pay for the cost of providing this infrastructure. This put more burden on property tax payers.

He also stated that not giving the homeowner's exemption to rental property ends up costing the renters more because as a landlord he has to add that on to any rent he charges. All property should be taxed on a level playing field.

Mr. Kalinosky added that the land a house is on should also be given the homeowner's exemption.

Mr. Werner Braemer

He said that the discrimination that is taking place within the property tax system is unconscionable. The middle class and small towns such as Orofino, Grangeville and Riggins are going to be destroyed because they cannot collect enough property tax to provide necessary services and to fund their schools.

He gave the example of a teacher earning \$40,000 and a superintendent earning \$80,000 live in the same market value house, the teacher pays twice the percentage of income to property tax as the superintendent.

He also said taxes need to be charged on money people have in banks, stocks, bonds and other similar instruments.

Even though the price of wheat went down, **Mr. Braemer** said the market value of his farm ground increased 20%. He was told this was because the interest rates were low. He asked what interest rates have to do with his income from the farm.

He said that he and his wife moved to Lewiston after she had a stroke in order to receive better medical care. He is now taxed in two counties and two school districts but can only vote in one county. In his opinion that is taxation without representation while people in the county he cannot vote in can vote for more taxes.

Mr. Braemer suggested that a surcharge to the state income tax would not tax debt and adversity. It would be collected by the State Tax Commission and sent back to the county and divided like the property tax is today.

The surcharge would cost millions of dollars less to collect and administer than property tax. The State Tax Commission said they could do this for a 2% charge or about \$18 million.

The surcharge would treat all people fairly, which the property tax does not. If one person pays \$2,000 in state income tax and another pays \$1,000 and the surcharge is 50%, the first person would pay an additional \$1,000 and the second an additional \$500. If a person has no income, they would pay nothing.

Only people living in the taxing district would pay taxes and only the people paying local taxes would vote.

This system would tell us the income of each taxing district. It would show where the poor school districts are because it would be based on income, not on market value. Taxes on market value are unfair.

If the people have the right to vote on the percentage of what the surcharge would be, then we would have a government for and by the people, and we could get a true representation of the people when they voted. Any tax increase could be passed by a simple majority.

Mr. Braemer said he would also like to see the state income tax take over the school M&O. That way someone who makes more money pays a higher percentage toward helping the children of this state. Everyone owes an obligation to this state according to their ability to pay, not because of the market value of their property.

Mr. Bob Fulton - Library Board

He thanked the committee for giving him the opportunity to discuss how property taxes impact trying to maintain infrastructure in small communities. This community has been trying to pass a bond levy to get a new library building and it is very difficult when it depends entirely on property taxes.

Requiring that property taxes are the only method of financing local infrastructure

places an unfair burden on the property owner and severely limits a communities ability to manage its own destiny.

Libraries remain a cornerstone for information access and there is no charge for anyone to enter. The library not only provides the best source of information specific to local area but also provides a forum for community dialogue. Libraries need the ability to change with the needs of the populace. The internet is a powerful tool to access information and should be available to those who cannot afford a computer and ISP fees. Libraries provide the same reference assistance with online research as they still do with books. Libraries still remain best year round source for children's reading instruction. Libraries are a very important part of the infrastructure for a community.

Mr. Fulton said they recommend that communities be given more flexibility to raise funds by expanding the use of sales tax application similar to the method used by Nez Perce County to finance their jail. He added that Lewiston and other communities transitioning from a resource based economy to one based on services need the ability to generate infrastructure support for sources other than property taxes.

Mr. Fulton said that the 66 2/3 majority that is required to pass a bond levy gives a very vocal minority an unfair advantage as evidenced by Lewiston's inability to pass a bond levy for over 25 years for anything. It is very difficult to maintain the infrastructure of any community when it has to be financed by property taxes. They would request the majority requirement be lowered to 60% which is more in line with other states.

Representative John Rusche - District 7

He stated that the major issue seems to be residential valuations and the property tax that results from those increasing valuations. While Lewiston and Nez Perce County have not seen nearly the acceleration that has occurred elsewhere in the state, neither have we seen the growth in commercial or industrial activity or in household income that more booming areas have enjoyed.

As a result, the increased valuations and less rapid business growth appear to be affecting homeowners. Especially hard hit are those who own one home, are retired or in a job with wage growth much lower than the rate of property appreciation and who do not have a sizeable cash reserve. While their property

may be increasing in value, it is difficult or impossible to access that increasing asset to cover the expense of property taxes.

Representative Rusche said he does not believe this is because of wanton spending by local taxing districts. This area is seeing four day school weeks, reductions in school programs and personnel cuts in county and municipal employees and benefits. Local taxing districts need to be prudent stewards of the revenues and in his opinion, they, for the most part, do well managing their costs.

He stated that the constitutional requirement that equal property be valued equally is important. In fairness to all, special exemptions should be examined to assure that they are accomplishing what is desired and are still beneficial to the citizens of the state.

In order for the state to do better in maintaining needed services while decreasing the adverse effects of our current property system, **Representative Rusche** made the following suggestions.

Unburden local budgets of expenses that could be better handled by the state. Among others, these include the cost of indigent health care and mental health hospitalization. While no one wants an increase in the Medicaid budget, wouldn't it be better to have the federal government share in the cost of indigent care through federal-state matching of Medicaid rather than laying the cost totally on local taxpayers. Another example is the cost to small counties of an exceptional or sensational criminal trial. The cost should be borne as a state expense.

Update the homeowner's exemption and low-income circuit breaker to recognize the appreciation in property value that has occurred over the 20+ years since it was last revised. Any exemption will result in the transfer of tax burden to other taxpayers, and this would result in higher costs for commercial and business taxpayers and for those with second or third residences. This is a rebalancing step that needs to be done.

Communities need to be able to pay for needed capital improvements in a manner other than property tax. There should be a local option to assess a sales or income tax surcharge if desired by the voters. In **Representative Rusche's** opinion, this is best use for "capital improvements" like new

schools or municipal buildings or major roads or community development projects.

He urged the committee to find ways to unload the burden on local property tax and to allow other ways for communities to raise needed revenue, and to “reset” the homeowner’s exemption and low-income circuit breaker laws.

Daniel Anderson -Nez Perce County Assessor

He has been with the assessor’s office for 26 years and has been the county assessor for the last 17 years. **Mr. Anderson** agreed with **Representative Rusche** and said that his comments mirrored what **Mr. Anderson** was going to say.

He went on to say that it is very difficult to be a county assessor. It is his job as county assessor to enforce the laws that are given to him by the Legislature. **Mr. Anderson** said he tells people that have questions about their property values to call their legislators to get things changed.

Mr. Anderson noted that property taxes can work well when there is an even balance. The system has gotten out of balance. The county assessor’s association recognized this in 2000 and had a referendum drawn up that was never taken to the Association of Counties because at that time there was a “no new exemption” stance taken. On the other hand, in the three succeeding years, the Idaho Legislature enacted a series of exemptions. Chief among these exemptions were the agricultural equipment exemptions, qualified investment exemption and the intangibles exemption. According to **Mr. Anderson**, these exemptions included the rural homesite exemption that is the worst piece of legislation in all of his years as assessor.

Mr. Anderson said that in 2004 the Assessor’s Association voted again to send a resolution to increase the homeowner’s exemption that was neither heard nor considered by the House Revenue and Taxation Committee.

He encouraged this committee to consider increasing the homeowner’s exemption for Idaho full-time residents. This will have a two pronged effect. It will help restore the balance of the tax burden that was shared by all at some point in the past. Additionally, the residual taxes left to pay for homeowner’s that qualify for the circuit breaker exemption will be less. He also encouraged them to adjust the circuit breaker.

Mr. Anderson went on to discuss the Rural Homesite Exemption. This exemption allows property located in a rural part of a county that has been farmed at any time since 1980 to be purchased and subdivided into rural homesite lots and the owner can receive a value on those lots commensurate with an agricultural value. It does not even have to be used for agricultural purposes. He gave the following real world example of this:

A \$70,000 piece of property that qualifies for the rural homesite exemption gets a value of \$2,438.00 with an accompanying tax bill of \$32.65.

Ms. Carla Bruegeman - Grangeville

She said that there needs to be a long term solution found for school funding. The last levy in the Grangeville School District failed by three votes. She does not mind paying property taxes but would like more control of what they pay for.

Ms. Bruegeman stated her support for a sales tax giving 1% of the tax revenue back to the county in which it was actually collected.

Mr. Wayne Davis - School Superintendent

He explained that his area has had votes on four different levies and only one has passed. His area is not experiencing the growth other areas of the state is and they are facing difficulties funding necessary services. He understands the property tax system is out of balance but cautioned that some areas need everything they get for necessary services.

Representative Lake asked if their financial difficulties were due to declining enrollment. **Mr. Davis** said yes. In the past seven years they have lost about 611 children.

In response to a question from **Senator Little** regarding deconsolidation of the school district, **Mr. Davis** said that would be due to the fact that people want more local control over the schools. There is dissension between the communities as to what the schools should offer and provide. He said deconsolidation is not being considered because they would get more money per classroom. **Senator Little** clarified that if schools drop below certain levels, they do receive more money per classroom unit. He said, in other words, deconsolidation could actually cost the state more money. **Mr. Davis** agreed.

Senator Pearce asked what the student to teacher ratio was. **Mr. Davis** said they average in the mid 20s for K through 8 and about 16 for mid through 12. Riggins has about 70 children in grades 7 through 12 and Elk City is very small about 36 students. Many of these students are bused in once a week and stay overnight with other families instead of going home each day after school. This is not popular with a lot of people.

Representative Jaquet asked whether the school districts are using the Idaho Virtual Academy and other technology this is available. **Mr. Davis** said yes. He is very proud of how they use technology. Their technology director is very strong and is very aggressive to get grant money to fund technology. The area is first or second as far as people participating in the Idaho Virtual Academy.

Mr. Fred Jabbora

He said that he has seen property taxes go from nice and low to sky high. In his opinion the law that was passed allowing everyone, regardless of whether they own property, to vote on bond issues is the most unfair law in existence. Bond issues are a vote to tax property and non-property owners can vote on them.

Mr. Jabbora said that as a landlord he has to pass on the cost of not receiving a homeowner's exemption on his rentals to tenants causing them to have to pay higher rent. In his opinion, the 50/50 homeowner's exemption should be eliminated. That would help level the playing field for everyone.

Mr. Charles Cline - Idaho Property Tax Reform Chairman

He said he will be presenting a petition in Boise for an initiative to limit property tax to 1% of the market value of homes in Idaho to the Secretary of State. **Mr. Cline** said that the only way to truly change the property tax system is to do a complete revision of Title 63. This is what his initiative does.

Ms. Louise Solem

Her property tax bill in October, 2003, was \$2,973.74, in 2004, it went up to \$3,776.08. That is a 27% increase, a substantial increase for retired people. A home much bigger than hers in the neighborhood actually pays less tax than she does. **Ms. Solem** said they have many friends that want to move to Idaho but once they find out how much the property taxes are, they change their minds.

Ms. Catherine Peterson -Lapwai School District No. 341

She made the following points for the committee to consider.

Our state needs a balanced, stable revenue system.

The three legged stool of property taxes, sales tax and income tax has served us relatively well; we need to keep it intact.

Significant changes in any leg of the stool impacts not only that segment but the others as well; consequently, we need to be refining the system, not making major changes to it.

Property taxes for schools generate approximately \$400 million annually statewide; where would we find \$400 million if property taxes were eliminated.

As market values have increased, property tax revenue has increased to help districts keep up with inflation; now with the cap on property taxes, the help to defray inflation increases is diminished.

Consequently, increasing numbers of districts are having to run supplemental levies, with nearly half of the districts in the state having to do so.

Lapwai School District relies heavily on federal moneys due in part, to low market value.

A one cent sales tax generates approximately \$180 million; if that money were delegated to public schools, financing for education would be improved.

Ms. Peterson said that the Lapwai School District advocates a careful analysis of the system and all proposed changes so that more problems are not created.

Virginia Edwards Hazelwood

She explained that there are many millionaires coming into the Sandpoint/Coeur d'Alene area and buying up property that no one wanted to buy ten years ago. At Stoneridge in Blanchard, Idaho, houses have been being built there for six or seven years. In the last year, people from California are buying these houses sight unseen for whatever the asking price is. These people will be paying property taxes.

Ms. Hazelwood said that Lewiston is not seeing this outrageous growth but due to the prices people are willing to pay for property in the other areas, property values are also increasing. She is on a fixed income and now she cannot afford her property taxes.

In her opinion, if these new people want to move into the area, let them buy and pay any price they want for property and let them pay property taxes to help the state of Idaho. On the other hand, it is not fair to assess the long time residents that have lived in the same house for many years with no improvements at the same rates. **Ms. Hazelwood** said the Legislature has no right to make these long time residents pay the same amount of taxes as these people that are willing to spend outrageous amounts for these properties.

Mr. J.R. Van Tassel - Nez Perce County Commissioner

He said there are two crucial problems that exist at the local level. One is the increasing demand in breadth and scope of what the local officials are expected to take care of. At the same time the local governments are faced with a 3% budget cap. This is continually driving budgets higher and higher and the reliance on property tax is staggering.

In **Mr. Van Tassel's** opinion Governor Batt started down the road that would have saved that state from the problems that exist today when he started using sales tax dollars to offset local funding requirements.

Mr. Van Tassel said that he agrees with many other people that have suggested using an additional 1% sales tax to help local government pay for services. Collecting another 1% or \$180 million and putting that through the current distribution formula to be made available to local taxing districts would provide a huge amount of relief to local property taxpayers. He suggested this be used in the same manner the jail tax is used by setting the budgets up with the 3% cap and at the last minute supplant property tax dollars with the 1% sales tax dollars. This would provide immediate relief that would be noticeable.

Mr. Van Tassel said that in his opinion the property tax system is not bad, it is just overburdened. He stated his hope that the Legislature would consider an additional 1% sales tax as a possible solution.

Representative Mike Mitchell

He thanked the Legislators for bringing the committee to Lewiston to give the people in the area a chance to speak directly to them.

Ms. Jan Vassar - Lewiston City Manager

She stated that Lewiston is not experiencing the high growth other areas of the

state are. The growth in the area is about 1% per year but people are still experiencing rising property taxes. This is in spite of the fact the Lewiston elected officials have been very cautious about tapping property taxes and have not levied the 3% increase that is allowed by the state for many years. She said that Lewiston has \$930,000 in untapped property taxes that have not been levied. City and local government, other than school districts, do not levy a percentage when market values go up. A set dollar amount of property taxes to be collected is levied.

Ms. Vassar said that when voters are given a local choice of how to fund community improvements such as schools or jails, they make different choices than they are likely to make when the only choice is to increase property taxes. After four elections to raise property tax to fund a new jail that failed, it was funded by a vote for a local option tax.

Mr. Garry Bush

He said that it is unfortunate that the balance of the state tax system has shifted to put so much of the burden on the property tax payer.

Throughout the state people have focused on funding prisons and have done so by taking money out of the general fund while schools have suffered. In his opinion funding prisons over schools is setting the state up for failure.

Schools are very important. As a teacher for 30 years, he watched mandates come from the federal government to the state government to the local level. These were unfunded mandates that schools have to absorb. Unfortunately the amount of the budget from the Legislature for education continues to decline as a percentage. Even though the amount increases, the percentage funded goes down.

Mr. Bush added that while the Superintendent of Public Schools is an elected official there is in fighting and others have decided that person is not effective and will not be a representative of the people.

In **Mr. Bush's** opinion, the only vote the taxpayer has comes when they are faced with voting for a school or a jail that they know will increase their property tax bill.

He said that a 1% initiative like Proposition 13 will not solve the problem because it will take about 15 years to get back on top of the money issue for schools. There needs to be a better way to solve the problem that will not take 15 years to work.

He said the system needs to be reorganized. The Legislature needs to provide the leadership necessary to solve the problem.

Senator Goedde explained that the state spent almost \$1 billion on education last year. He also explained that the powers and duties of the Superintendent of Public Schools are spelled out in the state constitution. **Mr. Bush** said that the people simply want leadership from elected officials and that children should not suffer due to politics.

In response to a question from **Senator Langhorst**, **Mr. Bush** said that teachers are often told certain requirements have to be met regardless of funding available. He added that there is a court case in Idaho that has been going on for some time that has cost a lot of money that after 15 years should be dropped. It is not helping anyone.

Mr. Roger Hollibaugh

He proposed that senior citizens that qualify for the circuit breaker should be given a locked tax break at that level so that increased property values will not affect them. Seniors deserve the right to be able to live in their own homes.

Mr. Chris Roach - Grangeville

He is a parent with five children and said he is being faced with making a decision whether to stay in Grangeville or move to another school district that has more class options. In his opinion, although the state is already funding schools, funding needs to be increased.

Mr. Roach said that while he understands that deconsolidation could cost the state more, it is frustrating when there is consistently one community that wants to fund the school district and one that is unwilling to do so.

Ms. Patricia Tuthy

She said that while property taxes are unpopular, where else will the funding for schools and libraries and such come from without it. She suggested using the income tax and placing the money in one fund for the entire state to be disbursed based on need rather than population. She said that someone needs to look out for the little guy and those that have money should be willing to pay more than those who don't.

Mr. Craig Spencer - Grangeville School Board Member

He said the school district is in the worst financial position in 20 years. The district is consolidated, it is up to date and very conservative. The reasons for the financial problems are due to decreased enrollment and the fact that the equalization formula the state uses takes money away from Grangeville. The area has high property values with low student enrollment and low income. This makes the state consider it a rich district and takes funds away to give to districts with low property values per student. **Mr. Spencer** said they lost about \$780,000 of their \$3 million base levy that went to other districts.

The funding per child in the Grangeville district is not adequate. Besides sports, pep band, some academic programs, they lost 75% of their text book budget and 25% of their classified staff. Bus drivers and janitors have been made part time employees so they do not receive benefits.

Mr. Spencer said that the fact the state spends \$1 billion to fund education is not the point. The point is each school district is different and in Grangeville the education funding being provided is not adequate.

Mr. Chester Johnson

He has been a landlord for 30 years. He said that renters do pay property tax because landlords pass the cost on to them. He said that if anything is done with the homeowner's exemption, he hopes it is extended to people for rental property.

The meeting was adjourned at 9:30 p.m.