

PROPERTY TAX
INTERIM COMMITTEE
PUBLIC HEARINGS
AUGUST 10, 2005
TWIN FALLS

The meeting was called to order at 7:00 p.m. by Cochairman Senator Keough. Other members present included Cochairman Dennis Lake, Senator Tim Corder, Senator Elliot Werk, Senator David Langhorst, Representative Bill Deal, Representative Mike Moyle, Representative Gary Collins, Representative Eric Anderson, Representative Wendy Jaquet and Representative George Saylor. Senator Brad Little, Senator Monty Pearce and Senator John Goedde were absent and excused. Staff members present were Mike Nugent, Paige Alan Parker, Jason Hancock and Toni Hobbs.

Others present were Max Vaughn, Minidoka County Assessor; Bruce Allcott, Burley Fire/Idaho Fire Chiefs; V.C. Prudek; Tom Courtney, City of Twin Falls; John and Mary Prudek; Tony and Mary Salierno; Gary and Joyce Grindstaff; John A. Stevenson; Richard Amil, Buhl School District #416; Tim Mikesell, Twin Falls County; Jack Bell; Representative Maxine Bell, District 26; Elizabeth Lopez; Jim Cobble, Superintendent of Jerome School District; Charles Connell and Travis Rothweiler; City of Jerome; Janice Stover, AARP; Marlese Teasley; Lance Clow, City of Twin Falls and Association of Idaho Cities; Clark Kauffman; Filer Highway District; Debbie Kauffman, Twin Falls County Treasurer's Office; Dick Rush, IACI; Representative Doug Jones, District 23; Laura Twiss, Minidoka County; Representative Jim Clark, District 3; Representative Leon Smith, District 24; Melvin "Sandy" Sanderson; Wiley Dobbs, Twin Falls School District #411; Paul and Karen Isaacson; Bonnie Tolman, Jerome County; Mike Gibson, Jerome School District; Senator Dean Cameron, District 26; Representative Scott Bedke, District 27; Representative Sharon Block, District 24; Bill Brodeman, Twin Falls County Commissioner; Jon Anderson, City of Burley; Julie Woodford, Burley Library; Doug and Clarelyn Elgan; Mel Wiseman, Shoshone School District #312; Gary Lemmon; David Hanks, Mayor of Fairfield and Sharon DeHart/Goodhart?, Realtor.

After opening remarks by Cochairman Keough, Jason Hancock, Legislative Services Budget Analyst introduced and asked to give a short presentation on the calculation of property taxes.

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.

Senator Keough 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. She explained that Idaho's tax system is known as the "three legged stool made up of property tax, income tax and sales tax. She added that Idaho has a constitutional framework within which it has to work.

Senator Keough 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. She 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. She explained that tax bills start in the House Revenue and Taxation Committee and that Cochairman Representative Lake is the Vice-Chairman of that committee.

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

The following people testified.

Max Vaughn

Mr. Vaughn is the Minidoka County Assessor. He said that property taxes are the least popular taxes that exist. Over the past several years, Idaho property owners have seen a major shift in the property tax burden with the largest shift going to residential property owners in fast growing areas, recreational properties and those that have lake or river frontage. In his opinion the overall goal of the interim committee is to find a balanced property tax structure that encourages economic development and answers the concerns of rising property values and property taxes while meeting the revenue needs of local government.

He said these meetings are a good start in creating good tax policy in the state. Although the rising real estate market has something to do with the property tax shift to residential property, this shift has also occurred due to exemptions that have been passed by the Legislature. While some of the exemptions were beneficial, others were passed as a reaction by property owners. Instead of these exemptions, **Mr. Vaughn** said that changes in administrative procedures could

have cured these problems. Any change in property tax law should be clear and concise so as not to allow for multiple interpretations.

Mr. Vaughn noted that there have been many solutions presented to the committee and hopes that any policy changes in the property tax system be kept simple so as not to increase costs and emergencies for counties. He suggested considering the 20 points that **Mr. Randy Nelson, Associated Tax Payers of Idaho** presented at the June 29, 2005, meeting. This list is available at: www.legislature.idaho.gov under Randy Nelson's presentation attachment.

Mr. Vaughn made the following suggestions himself.

- , Increasing the homeowner's exemption and include the homesite.
- , Expand the circuit breaker and increase the income limit.
- , Use a rolling average similar to the ag exemption to eliminate spikes in property values.
- , Full sales price disclosure would help assessors achieve fair market value of property.
- , Increase sales tax and dedicate the increase to reduce the amount of property taxes that fund schools, courts, juvenile justice, indigents and so on.

Any legislative changes of the property tax system needs to be fair and equitable. That is one thing that most property owners can agree on. **Mr. Vaughn** said that Idaho's tax system of income tax, sales tax and property tax, referred to as the three-legged stool works well and he stated his hope that the Legislature look at the entire system as one compliments the other.

Representative Saylor asked if full sales price disclosure would make his job as the assessor easier. **Mr. Vaughn** said that they have good cooperation with the realtors in their area but that commercial properties are reluctant to disclose such information.

Mr. Bruce Allcott

Mr. Allcott is the Fire Chief for the City of Burley and works with the Idaho Fire Chiefs Association on legislative issues. He explained that small local fire districts do not really have one leg of the three legged stool. Their funding mechanisms come primarily from property tax. He added that most people are in general agreement that fire service is one of those services that is best based on property

taxes because that is what it protects. Over the years the fire service has become involved in many other areas of protecting the public safety.

He explained that fire departments in Idaho use volunteers to provide a lot of protection in many areas. Burley has ten full time firefighters that are augmented by 25 volunteers. These are people that have other jobs and are called out at any time to provide the level of service that is expected from the community. It is becoming increasingly difficult to maintain these volunteers and this is happening all over the state. Fewer volunteers increases the need for more full time firefighters to provide the same level of service and this will come from property taxes.

Mr. Allcott asked the committee to keep in mind that whatever is done for property taxes will have a direct and distinct impact on the ability to provide for some of the more major public safety services in Idaho communities. He also suggested that the committee consider who and what requires services and identify how much of those services are being supported by those that require them. In his opinion that will provide some interesting insight.

He reminded the committee that areas not seeing high growth still rely on property taxes to support necessary services. He also said that any changes made need to be something that local governments can work with and plan for.

Mr. Tom Courtney

Mr. Courtney is the City Manager of Twin Falls. He said that property tax is the primary source of general revenue for local government in the state of Idaho. In Twin Falls about 50% of their general revenue comes from property tax and it is used to support police, fire, roads, airports, parks, recreation to some extent and capital improvements. To deal with this difficult issue, he asked the committee to keep in mind not only the cost of services but also what those mean to the community and the quality of life.

Mr. Courtney said that the Twin Falls government works hard to control their costs. Twin Falls has a self imposed cap on property tax that was adopted as part of their strategic plan in 1993. Over the last 15 years the city's tax rate has fallen by 22% from \$9.40 for each \$1,000 of market value, next year the tax rate is projected to be \$7.32 per \$1,000 of market value. Their foregone amount for next year is projected to increase by a minimum of \$150,000 to \$1,067,000. Since

1995, the city's internal tax policy has resulted in a savings of over \$8 million to taxpayers that could have been charged. They view the foregone balance as a rainy day fund that they hope will never be needed but is there just in case. Without provisions for a foregone amount, local governments are actually encouraged to take the maximum amount allowed by law.

He asked the committee to make sure when changing the tax law, not to make changes that penalize governments that are being frugal.

He stated that each day the population of Twin Falls based on traffic counts grows by somewhere between 50% and 100% as people come to town to work, shop, use facilities at CSI, and to use other professional services. Twin Falls is a community of 38,000 people that regularly provides services to somewhere between 58,000 to 72,000 on a daily basis. He encouraged the committee to look at options that broaden the tax base so that all users of municipal services pay their fair share.

Mrs. Marlese Teasley

Mrs. Teasley is a Blaine County property owner since 1967. This was a river lot and in 1978 they built a summer home there. When her husband died five years ago, the property appraised at \$300,000. Since that time it has increased 33%. The property is now rented full time at a reasonable rate. She also has a smaller property in the area that is rented. The rent she charges for both properties is very fair and her renters keep expecting her to raise it. She does not do this because in her opinion it is very important for young people to be able to afford a nice place to live so they can work in the area. According to **Mrs. Teasley**, Idahoans are being phased out of the area by Californians who can afford to pay the high property taxes.

Mr. Lance Clow

Mr. Clow is a member of the Twin Falls City Council and second vice president of the Association of Idaho Cities. He said that in his opinion the property tax problem is not with the amount being collected but the way that money is distributed.

Twin Falls is experiencing growth, not to the extent that other parts of the state are but they are seeing some tremendous property valuation increases and it is difficult for assessors to keep up with it. When certain areas are reassessed, they take an undue burden of that new increase.

Mr. Clow said that neither counties or cities have much control over the revenue they receive. He noted the court costs for the county are a large burden and a lot of the money that is not paid through fees and fines falls on property tax to make. On the other hand there is a reluctance at the state level to increase those fees and fines to make those creating the volume of business at the courts responsible.

He said that due to the fact the population of Twin Falls increases each day, a local option tax could be helpful in providing property tax relief. This is good for the community because citizens are allowed to decide if they want to tax themselves for certain services. Especially in areas that are experiencing unusual situations that are placing more burden on services being provided.

He also stated communities whose property valuations have exploded are getting a bigger piece of the revenue sharing from sales tax than small communities with less growth. Cities like Twin Falls generate a large amount of sales tax to the state, but still get less because there is no point of sale recognition. It is his understanding that per capita Twin Falls collects more sales tax than any community in Idaho. The formula might need to be readjusted to balance this out.

Mr. Clow cautioned the committee to be careful to consider the unintended consequences of any changes made to fix the system.

Mr. Clark Kauffman

Mr. Kauffman is a commissioner for the Filer Highway District. He said that the Filer Highway District Budget was recently passed for \$664,000 and that property tax covers about 39% of that.

Mr. Kauffman said that property taxes are very important to highway districts and asked the committee to be careful of unintended consequences that might arise from any changes made.

Representative Jaquet asked whether there would be a savings if the various highway districts in the area were combined into one. **Mr. Kauffman** said that in his opinion only the salaries of the commissioners would provide savings. Counties already work together to share manpower and equipment and they work together in bidding for oil. He added that by combining districts local citizens would lose that local person to talk to.

Ms. Debbie Kauffman

Ms. Kauffman is the Twin Falls County Treasurer. She reminded the committee of the following services that are received daily that are funded by property taxes.

- , Street and highway rebuilding and repairs
- , Public school maintenance and operation budgets
- , Libraries
- , Recreation districts in some areas
- , The Sheriff's Department
- , The County Jail
- , The Local Junior College
- , The Public Defender
- , The Prosecutor's Office
- , The Coroner
- , The Veteran's Office on a county level
- , Auto Licensing
- , Driver's Licensing
- , The County Indigent Budget

She said that if major cuts are made in the property tax structure, these services will have to be reduced or in some cases eliminated.

Ms. Kauffman also serves as the tax collector in Twin Falls County and said that her office does everything they can to help people pay their taxes on time and avoid the loss of their property.

Ms. Kauffman stated that approximately \$45 million in property tax money is collected annually in Twin Falls County. It is distributed as follows:

- , 30% of the money goes to public schools
- , 27% goes to the cities
- , 25.8% goes to the county
- , 7.2% goes to the highway districts
- , 5.5% goes to the College of Southern Idaho
- , 3% goes to fire districts
- , 1% goes to the county ambulance district
- , .5% goes to various recreation, library or cemetery districts within the county

She added that in her opinion changing the homeowner's exemption just causes a tax shift to other taxpayers.

Ms. Kauffman said that in her opinion sales tax is the most fair tax because everyone pays it and suggested that if property taxes are cut, the replacement money could come from an increase in the sales tax or a change so that sale tax is paid on services.

Following is a list of Idaho's neighboring states listed from highest property taxes to the lowest for fiscal year 2002.

- 1) Wyoming (highest)
- 2) Montana
- 3) Oregon
- 4) Washington
- 5) Idaho
- 6) Nevada
- 7) Utah (lowest)

Senator Corder asked for the value of property in Twin Falls County that is eligible for exemptions. **Mr. Dan John, State Tax Commission** said the total is \$659.7 million.

In response to a question from **Representative Saylor**, **Ms. Kauffman** said that four homes had been sold due to nonpayment of taxes but not being able to afford the taxes was not the reason. These people just left the homes and moved on.

Representative Moyle asked if these homes were sold for more than the taxes owed and if so who gets the money. **Ms. Kauffman** said that state law requires that any extra money that is collected from such a sale goes to the taxing district. It is distributed as a levy for the year the property was taken of the tax deed. She said most of the properties were not sold for much more than the taxes owed.

Mr. Melvin "Sandy" Sanderson

Mr. Sanderson stated that in his opinion, his property assessment is not fair. He property value increased from \$107,000 last year to \$134,000 and he did not do anything to improve the property. He also said that his neighbors did not receive the same increase as he did. He believes in paying his fair share but, to him, this is

not fair. He said that if this keeps happening he is afraid he might lose his home.

Senator Keough asked if he was aware of the Board of Equalization hearings that are held for people to ask for adjustments to their assessments. **Mr. Sanderson** said he was not aware of that.

Mr. Jim Cobble

Mr. Cobble is the Superintendent of the Jerome School District. He also cautioned the committee to make sure to study any changes carefully so that unintended consequences are avoided. He agreed with **Mr. Hancock's** presentation that shifting taxes is like a balloon that when pushed in one place, pops out in another and that is often the unintended consequence.

He also clarified from **Mr. Hancock's** presentation that the School M&O levy rate is equalized which means that if a school district gets more local money, they get less state money. To actually get more money, school districts must pass supplemental levies, plant facility levies or bond levies that add to local property taxes. The state has contributed more money to education over the last several years but that does not necessarily come down to individual districts. In 2001, Jerome received \$3,708 per student from the state. Through the years 2001 to 2005 that amount varied from \$3,788 to \$3,699 that was received last year. They estimate they will receive \$3,691. This shows that it is very complicated to run a school district on a flat line revenue unless they rely on grants, federal money or local support.

Representative Jaquet asked what levies the school district has proposed and/or passed. **Mr. Cobble** said that from 1995 to 2000 there were five attempts at bond levies with very good community support. These went from \$10.2 to \$13.9 million with approval on all of them from 62.5% to 66.5%. The highest levy failed by 12 votes. He commented that there was a levy proposed for a new school in 2000 that was for \$10.2 million, that same school today will cost over \$17 million. This district grew at a rate of 7.1% from the beginning of school last year to February making them the fastest growing school district in the state.

Representative Moyle asked if they have considered passing an emergency levy to help with growth issues. **Mr. Cobble** said they have not because the community has passed supplemental levies several years in a row. That has stayed at \$650,000 for several years.

In response to a question from **Senator Keough**, **Mr. Cobble** said that he would agree with the suggestion to replace the school M&O with a portion of the state sales tax. In his opinion and from surveys taken, the sales tax is shown to be the least offensive tax to the people. Using the sales tax in this manner and increasing it to do so would be a way to provide property tax relief to the people of Idaho. He reiterated that in doing this the committee study the issue very carefully to avoid unintended consequences.

Mr. Travis Rothweiler

Mr. Rothweiler works for the City of Jerome. He said that he moved to Idaho from Montana and that they have a very bad tax structure. He said that since 1996, Jerome has increased its mill levy approximately 18% and has a foregone balance in excess of \$510,000. Their total tax collection this year is estimated to be \$2.3 million. They did have to increase the mill levy by about 2.6% last year due to the loss of a major employer that took \$13 million of both real and personal property off the roles. The communities total assessed valuation decreased from approximately \$210 million to \$206 million. Expenses also increased due to the fact that employees had more pay periods during the year.

He explained that the City of Jerome's budget this year is approximately \$24.9 million. \$2.3 million of that is property tax based and 41% of the total budget comes from sources outside of the city from grants. They are able to offer goods and services at a higher level so that the citizens do not have to pay for and absorb those costs by relying on grants.

Ms. Debbie Kauffman voiced her concern regarding a comment made earlier that if a home is sold for more than the taxes owed on it, the money be given back to the homeowner. She said her concern is that if this were done, it would make county treasurer's into realtors. Some states have systems that allow the private sector to handle these sales if there is going to be money that goes back to the property owner.

Senator Keough explained the reasoning behind the question of homes being sold for more than the taxes owed was due to an issue in Sandpoint. A widow with small children lost her property and was left homeless. The house sold for more than the taxes but she could not receive any of the money. She added that the Treasurer's Association has worked with legislators to try to find a way to balance that out.

Representative Sayler asked **Mr. Vaughn** if the different methods of assessment of classes of property are part of the cause of the property tax shift to residential property. **Mr. Vaughn** said that the assessors are required to consider all three approaches to valuing or assessing all properties in the county. They rely on the method that provides the best information. He added that residential properties are usually easier to assess, especially if they can get the sale price. In his county, he has the cooperation of realtors and property owners in getting sale prices. Commercial properties are more difficult because they do not sell that often and if they sell the buyers are reluctant to give the sales price.

Representative Sayler asked whether there were any aspects of the assessment system that could be changed. **Mr. Vaughn** said that over the years there has been a uniformity problem between counties regarding how legislation is interpreted.

In response to a question from **Representative Jaquet**, **Mr. Vaughn** explained that the State Tax Commission offers training for county commissioners with regard to uniformity and market value in order for them to better understand what is required of assessors. The Tax Commission is set up as the oversight authority over the work of the counties to promote uniformity. They also provide education for appraisal staff to make sure they are up to date on the current methods. **Mr. Vaughn** said his staff is responsible to defend their work at the Board of Equalization hearings. The Tax Commission also assist assessors with industrial appraisals. Small counties cannot afford to hire an outside appraiser for these properties at a cost of about \$60,000 per appraisal so the actual county assessors receive training and assistance from the Tax Commission.

Senator Corder asked for clarification of the appeal process and how many cases they had this year before the Board of Equalization. **Mr. Vaughn** explained that the appeal process is outlined on the back of the assessment notice that is mailed out. He said that the notice also encourages anyone with questions to contact the assessor's office by a certain date. He said that about 700 property owners had complaints or questions that resulted in 12 appeals. One is for industrial property that is ongoing and three were negotiated because the homeowner would not let the assessor into the house. Once this was allowed the property values were lowered. Two of them did not disagree with the valuation, they just did not like it.

Mr. David Hanks

Mr. Hanks is the Mayor of Fairfield in Camas County. He said that they have a population of 400 people and the county of Camas has a population of 1,100. He

explained that the value of almost every home in Fairfield increased by more than 100%. This has put a serious strain on people who are on fixed incomes. He said it is also interesting that about 1/3 of the burden to property taxes has been put on by the schools. They passed a bond levy of \$3.4 million. The total assessed value of the county is about \$110 million and that is a pretty severe increase for the people in the county in one year. He suggested capping the assessment so that it could only increase by a certain amount in any given year. **Mr. Hanks** also suggested increasing the sales tax or taxing services and using that money for public schools. He added that educating the public is very important.

Representative Moyle asked **Mr. Tom Courtney** if the cap the City of Twin Falls has imposed is based on valuation or the budget side. **Mr. Courtney** said that the intent has always been to limit the amount of property taxes the city collects. He read from the Strategic Plan:

Limit property tax increases to no more than 1% over the Municipal Cost Index (MCI) annually plus new development taxes; and for Strategic Plan Objectives, designate the potential use of the foregone amount.

He said what they really try to do is manage the rate.

Ms. Sherri Goodhart

Ms. Goodhart is a realtor in the area. She said that Twin Falls has done a very good job in keeping the property taxes low. They are actually lower than Jerome or Kimberly. This makes a big difference to people moving into the area.

Ms. Goodhart said she would hate to see taxing services as an avenue to take the burden off property taxes. Even though people say it is a more fair tax because you only pay for what you choose to buy, using an accountant is a service but is almost required in order to pay taxes. This would also be taxed. She thinks raising the sales tax is a much more fair way to get money.

Senator Werk asked how **Ms. Goodhart** felt about the sales tax on groceries. **Ms. Goodhart** said that while food is a necessity, it is something that everyone buys and they can choose what brands to buy according to what they can afford. On the other hand, property taxes give people no choice, they have to pay regardless of their income or lose their homes. This is not fair.

Mr. Lance Clow asked what can be done to make sure that lost sales tax revenue from internet sales is being collected. **Mr. Dan John** said that the Governor signed an executive order on July 29 making Idaho a participant in the Streamline Sales Tax Act project. Several states have conformed their laws so they can begin collecting sales tax on remote sales on a voluntary basis beginning in October. He said that Idaho will be watching that closely to see when we can join in. If it works on a voluntary basis, the states will ask congress to allow the states to impose the requirement of remote sellers to collect sales tax.

Several people who testified and others who could not attend the meeting submitted written comments.

The meeting was adjourned at 9:00 p.m.