

As Approved by the Interim Committee

**PROPERTY TAX
INTERIM COMMITTEE
PUBLIC HEARINGS
AUGUST 11, 2005
REXBURG**

Committee members present were Co-chairperson Senator Shawn Keough, Co-chairperson Representative Dennis Lake, Senator Brad Little, Senator Tim Corder, Senator David Langhorst, Senator Elliot Werk, Representative Eric Anderson, Representative Gary Collins, Representative Bill Deal, Representative Wendy Jaquet, and Representative George Sayler. Senator John Goedde and Senator Monty Pearce were absent and excused. Also present were Senator Brent Hill, Representative Dell Raybould, Representative Mack Shirley and Representative JoAn Wood. Staff members present for all meetings were Mike Nugent, Paige Alan Parker, Jason Hancock, and Toni Hobbs.

Citizens attending and signing the sign-in sheet were:

Dan John, Idaho State Tax Commission; Randy Nelson, Associated Taxpayers of Idaho; Paul Romrell, Fremont County; Ellen Romrell, Fremont County; Dick Rush, IACI, Justin Ruen Association of Idaho Cities; Chris Miller; Judy Dewey, Madison County Library District; Ralph Robison, Madison County; Sidney Highnote, Teton County; Ivel Burrell, Fremont County; Joyce Briggs, Jefferson County; Cleone Jolley, Bingham County, Wayne Brower, Bingham County; Michael Ward, Wits End Idaho Cattle; Ed Kinghorn; J'lene Cherry, Fremont County; Patricia McCoy, Fremont County; Varr Snedecker; Corey Taule; Bill Beck, City of St. Anthony; Former Senator Mark Ricks; Richard Horner, City of Rexburg; Holly Hancock; Vera Raybould; Errol Corington, Bingham County; Paul Pugmire, City of Rexburg, Nancy Meyers, School District 322, Michael Ferguson; Frank Nelson, ISL; Ross Farmer; Charlie Taylor, City of Rigby; Fred Behring; Jim Mathies; Marilyn Rasmussen, Madison County; Roger Jackson, Madison Library; Louis B. Christensen, City of Driggs; Dick Frandsen; Shawn Larsen, City of Rexburg; Donald Trupp, Fremont County; Robert Rodence; Catherine Jones and Gary Rhodes.

The hearing was called to order by Cochairman Lake at 7:00 p.m. After opening remarks by Cochairman Lake, 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.

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.

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.

Paul Romrell

Mr. Romrell said he is a Fremont County Commissioner and a farmer and a livestock operator. He has heard about the one percent property tax proposal and views it as very scary. Twenty five percent of government's budget in Idaho comes from property tax. If the property tax is reduced, the legislature needs to find a way to replace it with other dollars. The three percent cap contained in Section 63-802, Idaho Code, already limits Fremont County. The County can't maintain roads let alone build new ones.

Ellen Romrell

Ms. Romrell said she listened to a presentation by the backers of the one percent initiative in Moscow and got very angry. She felt she has never been gouged by the property tax and is proud to help pay for education and is proud of the services received because of the property tax. She said a friend of her's was complaining about his taxes on a \$1.2 million cabin. **Ms. Romrell** said her taxes percentage wise are actually higher than his.

Wayne Brower

Mr. Brower is a Bingham County Commissioner. He said the demand for services is at an all time high. His county is struggling and they don't know where to get the money to meet the budget this year and provide the services people want. He said the 50/50 homeowner's exemption is good for homeowners but is a tax shift. Some people are unaware that they have to file for the 50/50 homeowner's exemption and the circuit breaker. He said many people in Bingham County are eligible for Circuit Breaker relief. **Mr. Brower** said he would like the Legislature to examine the property tax exemptions on the books and see which one's are still timely.

Senator Corder asked which exemptions to eliminate. **Mr. Brower** said as a farmer he likes the Ag Exemption. He said he would get rid of the 50/50 homeowner's exemption, because of the tax shift it causes. However if that is done some kind of fix would be needed to protect homeowners.

Senator Corder asked how many nonprofit corporations were tax exempt. **Mr. Brower** said he was unsure but that some do need the exemption to offer the services they provide. The County has to monitor them to make sure they are non profit.

Representative Lake asked if it would help the county if the state took over some functions like the courts or jails. **Mr. Brower** said that would be helpful. **Representative Jaquet** asked if it would be helpful if after a certain age people did not have to apply for circuit breaker relief annually. **Mr. Brower** said he was not sure what the age would be, but often a family member has to be reminded to apply for the occupant of the property.

Michael Ward

Mr. Ward said he ran a small cattle operation and is a teacher at an alternative high school. **Mr. Ward** said he was opposed to lowering the two-thirds vote threshold for bond elections after the U.S. Supreme Court invalidated the system of property owners and non-property owners voting at a bond election. He cited a study by Dr. Neil Meyer of the University of Idaho where urban lands received more governmental services than ag lands. He is opposed to any additional shift of tax burden to ag lands.

Mr. Ward discussed rich and poor school districts in Idaho. He felt a statewide teacher salary schedule needed to be implemented and that income tax rates be increased to help pay for this. **Senator Corder** asked if **Mr. Ward** favored eliminating the property tax. **Mr. Ward** responded that he was not in favor of eliminating the property tax but that the state should assume more responsibility for public schools. **Senator Corder** asked how many farmers paid income tax in the last ten years? **Mr. Ward** said he was not sure, but the income tax would be more fair than the

property tax. **Representative Lake** said a concept that has been talked about is getting rid of the M and O levy and replacing it with an increase in the sales or income tax.

Former Senator Mark Ricks

Former Senator Ricks said he was a member of the Governor's Blue Ribbon Task Force and was supportive of the temporary one cent increase in the sales and use tax rate. He indicated he was a legislator when the 50/50 homeowner's exemption was implemented and he was not in favor of it as it shifted some tax burden to agricultural land. He said that to repeal this exemption today would be political suicide for the Legislature.

Mr. Ricks said Idaho's tax system with the three legged stool is the envy of other western states. He said that most people will say that the only fair tax is that which falls on the other guy. He served in the Legislature when the last one percent initiative passed and the Legislature had to modify it substantially to implement it. **Mr. John** explained that the one percent initiative as enacted in 1978 was thought to be unconstitutional and the five percent cap was placed on budget increases or a 5% cap on the levy increase, whichever gave the taxing district more money.

Representative JoAn Wood

Representative Wood said that society has changed over the years. She said people are desirous of having more toys these days and also want more services while being taxed less. In the past people budgeted until they could afford to pay for things up-front. People also saved so they could afford to buy their homes. She said that is not fair to tax these people who are now on fixed incomes out of their homes.

Representative Wood said the current practice of having 5 year updates on market value is harmful and this might be the year to change the constitution so that doesn't happen anymore. She said she is disturbed by the recent U.S. Supreme Court decision on eminent domain allowing a person's property to be taken for a private facility.

Representative Wood indicated that perhaps it is time for the new generation to pay their fair share or the government should cut services.

Paul Pugmire--Rexburg City Council

Mr. Pugmire said Rexburg is a growing community and that the current valuation/assessment process at times lags behind in providing necessary dollars for growth making it is hard for local governments to keep up. **Senator Corder** asked the what impact would be on the elderly and fixed income people would be if the property valuation system was more responsive. **Mr. Pugmire** said the system does have safeguards built in with the circuit breaker and the homeowners exemption and he does not think they should be eliminated. He said that when the whole system is considered together, the assessment part of the system needs to be responsive to the growth of a community. Currently, according to **Mr. Pugmire** the demands on providing services are growing faster in the Rexburg area's growth environment then are the funds to provide those services.

Senator Keough asked in a situation where market value has hyper inflated in some areas and may

not accurately reflect a person's ability to afford the house, wouldn't impact fees be a better way to pay for growth. **Mr. Pugmire** said that the City of Rexburg uses impact fees and they are useful in dealing with growth, but they are not the entire answer. **Mr. Pugmire** said that inflated property values are coming to Rexburg and other areas around it like Driggs.

Mike Ferguson

Mr. Ferguson discussed the statute providing the developer's discount. He said the statute was a Godsend for developers of agricultural land. It has allowed them to be able to develop farm ground without having to pay exorbitant taxes. He explained that he had 156 acres of agricultural ground that was tax at about \$120. The day after a plat was filed on that property, the taxes went to over \$120,000 or \$2,800 per lot per acre without anything being done to it. After spending \$4 million to bring the land up to a marketable situation, they were able to start selling the lots. People developing these pieces of property could be people that have not been able to make any money on the property other than be developing it. In his opinion, they deserve the exemption because it allows them to finally make some money. **Mr. Ferguson** said there is no tax shift with this statute as once homes are built and are lived in they are on the property tax rolls as residential property. Since he was able to take advantage of this exemption, his property has seven homes on it that are valued at over \$1 million. This brings over \$70,000 in property taxes that was originally paying \$120. Every single home that is built continues to add value to the tax base. According to **Mr. Ferguson** these are tax dollars that were not going to be received to begin with so there is no shift. These developments add income to the communities, they add to the tax base and the exemption is necessary to continue the growth in rural Idaho. He felt the statute is necessary for growth in rural Idaho as it applies in counties with less than 100,000 population.

Mr. Ferguson felt that county assessors are abusing the way property is being assessed. He said that he build a cabin in Island Park for \$156,000. Within seven years it was assessed at over \$750,000 or \$8,000 a year in taxes. He sold that cabin and said that today most of that property is owned by people from out of state. He said it is not fair that families from Idaho cannot enjoy these areas. **Mr. Ferguson** said that the fact that assessors are also reclassifying property before any plats are filed on it with the assumption that it is not going to agricultural land. It is assessed as rural homesite development land and he is required to prepay the taxes. He thinks this is an abuse of power and it is not right.

Mr. Ferguson said that local government should be run more like a business. If the money is not available, it cannot be spent. There is no reason to tax the people of Idaho more and more very year to pay for government.

Senator Langhorst asked what kind of purchasers bought the seven lots that **Mr. Ferguson** has sold. **Mr. Ferguson** said that all of the purchased were from California or other states so far.

Senator Langhorst asked about the potential fixes that were proposed in the Legislature this past year for the developer's discount in House Bill 254. **Mr. Ferguson** said that one of the problems with that bill was that if the property owner died and property was devised to an heir, the property lost its exemption. **Senator Langhorst** said if that problem was fixed would the solution be more

palatable. **Mr. Ferguson** agreed. However he said that the homebuilder that buys the lots needs to have time to build and market those homes because of the jobs that are provided to the community. They should be able to have the exemption until the house is sold. The bill needs to include a provision for that perhaps with a time frame.

Senator Langhorst asked what kind of purchasers bought the seven lots that **Mr. Ferguson** has for sale and at what price. **Mr. Ferguson** said that these homes are all taxes at full market value even though some of them are spec homes. They are all over \$1 million and all of the purchasers were from out of state so far.

Representative Jaquet commented that it is the American tradition to take risks as to what the market or economy is going to do. As a developer that is that chance they take that the homes will sell. What is the difference between buying ag land to develop and buying property in downtown. In her opinion why should one have to pay taxes and one get an exemption. She said the HB488 seems to be allowing an advantage to one type of development over another. **Mr. Ferguson** said he disagrees with that because the person buying more than one lot is also stimulating the economy of rural Idaho buy providing jobs and attracting new people to the communities.

Fred Bearing

Mr. Bearing said the developer discount is helpful to the builder who wants to buy lots to build spec homes and not get tagged with the full tax bill until the houses are sold and lived in. **Mr. Bearing** said a compromise to the developer discount issue might be to let the exemption run for a certain number of years more and then no more. **Senator Langhorst** asked if lots are purchased by individual homeowners who pays the taxes? **Mr. Bearing** said in that instance, the taxes are paid by the purchaser and the discount disappears.

Representative Jaquet said that we live in a market economy and why should rural subdivisions have exemptions that those in town do not. **Mr. Bearing** said that stimulating the economy in rural Idaho can provide jobs that did not exist before. **Mr. Bearing** expressed a frustration with appearing before the Board of Equalization.

Senator Werk asked **Mr. Bearing** how much land he owned. **Mr. Bearing** said he owned approximately 500 acres. **Senator Werk** asked about freezing the property tax rates for persons over a certain age. **Mr. Bearing** said he was not sure if he was in favor of that. He will pay his taxes if they are correct. He does not want a loophole.

Charles Taylor -- Rigby City Council

Mr. Taylor said the City of Rigby is experiencing growth that require budgets to grow. Thirty percent of their budget comes from property tax. He said he is concerned about pitting the young people against older people as the budget grows. He is concerned with people on fixed income who have purchased a home and may lose the home because of the inability to pay property taxes but still not qualify for circuit breaker relief. **Mr. Taylor** is concerned that any change the Legislature makes to the tax structure be reasoned and not hurt local units of government.

Roger Jackson -- Madison Library District

Mr. Jackson said over seventy percent of the district's revenue comes from property taxes. As the area grows, so does the demand for library services. He said the three percent cap hurts the library district's ability to plan for the future particularly in building needs and increasing staff. **Senator Werk** asked if the district uses the foregone balance exception in the three percent cap. **Mr. Jackson** said they do use that.

Shawn Larsen--Mayor of Rexburg

Mr. Larsen said there are 12,000 students at BYU-Idaho in the city's 25,000 population. He said the university does not pay property taxes. He estimated the total taxable value of the city to be \$500,000,000 that includes the university market value of \$300,000,000 which is not taxed. He said it is a challenge for the city to provide infrastructure in a climate like this. He said Madison County is the fastest growing county in the state percentage wise. He felt the Legislature could allow university communities to help offset the growth by approving a local option tax. In response to a question from **Representative Saylor**, **Mr. Larsen** said he would be in favor of a local option sales tax because local citizens would be those who decide what to pay for. **Representative Lake** asked if the city imposed development impact fees. **Mr. Larsen** said they do. **Senator Langhorst** asked if it would be helpful to have broader discretion with impact fees to help with growth. **Mr. Larsen** said yes because university communities are unique. Roughly one-half of the property is not taxable in the city.

Jim Mathias

Mr. Mathias felt there were too many property tax exemptions. He would eliminate the agricultural, homeowner's and timber exemptions. He would particularly eliminate the hobby farmer exemption. When land is sold the speculative value rather than the productive value is what seems to be the measure of market value. He said a five acre lot size should be the minimum to get the agricultural exemption. If a person dies, their heirs should pay for the increased value.

Bill Beck--Mayor of St. Anthony

Mr. Beck felt the city is too dependent on property tax. He believes the property tax is unfair and that the sales tax imposed at the state or local level might be better. **Representative Lake** asked if he would favor a local option sales tax. **Mr. Beck** said he would if Rexburg and Idaho Falls also adopted one.

Robert Rodence

Mr. Rodence said fixed income people need relief from property taxes. He would favor taking schools away from property tax and use sales tax and income tax to make up the difference.

Ivel Burrell

Ms. Burrell is the County Assessor for Fremont County. She said the circuit breaker program is a good program and the maximum income limits need to be raised. She also said the 50/50 homeowner's exemption needs to be raised because \$50,000 is not very realistic in today's real estate market. She said we are seeing market value being driven by out of state people with money

and it is a tad unfair to local people who are living in the community. She said a sales tax would be more fair because if you purchase something, you pay the tax.

Senator Corder asked if farm land was on the five year cycle for reappraisal. **Ms. Burrell** said if the land is agriculture it is not reevaluated and it is given the ag exemption.

Sid Hancock

Mr. Hancock said he moved here from Georgia because of the property tax system in that state. He felt a consumption tax or increased sales tax would be better than the property tax. He would do away with property tax entirely. He used the example of Tennessee with a 12% sales tax rate, but no property or income taxes. **Mr. Hancock** said consumption taxes are used extensively in Europe. He said the Legislature is going to have to do something about property taxes because people are going to lose their homes if they don't. **Senator Langhorst** asked if **Mr. Hancock** felt that a sales tax on services would be appropriate. **Mr. Hancock** said he would favor taxing everything. There might be a need to exempt in process goods but the final goods should definitely be taxed.

Catherine Jones

Ms. Jones said she and her husband own a small business a meat processing plant. She indicated the personal property tax is troubling to her business as she has some equipment that is thirty years old and it is being assessed like it is new. She said in the last ten years their utilities have doubled and their property tax has increased and it is hard to pass on these costs to customers as they are in a very competitive business. She said increasing the sales tax would be fairer in her opinion and taking some of the property tax off. She also said full sales price disclosure would help assessors and county commissioners at Board of Equalization hearings.

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

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