

**PROPERTY TAX INTERIM COMMITTEE
NAMPA, IDAHO
AUGUST 25, 2005
7:00 P.M.**

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

Others present were Randy Miller, Idaho Property Tax Reform; Dolly and Orrin Parmer; Robert and Gloria Pace; John O'Brien; Senator John McGee, District 10; Representative Darrell Bolz, District 10; Mary DeChambeau, Morgner Family; David Bills; Ron Harriman; Dr. Stan Tate; Don Johnson, Library District/Idaho State Grange; Guy and LaVern Francesconi; Marilyn Sartin; Charlotte Sherburn and Dick Reynolds, Owyhee County; Leon Huber; Ben Jones; Jackie Redd; Pam White; Frank and LaVonne Larvie; Doug Brown, Idaho Fire Chiefs Association; Colleen Fellows; Ralph Mellin; Cindy Schiller; Martin Thorne; Garret Nancolos, Mayor of Caldwell; Norman Mason; Tom Dale, Mayor of Nampa; Joan Deal; Dennis Tankuni, Farm Bureau; Laurie Boeckel and Maurice Clements.

After opening remarks from the cochairmen, **Mr. Dan John, State Tax Commission** was introduced to give a short presentation on how property taxes are figured. This complete presentation is available as an attachment to these minutes at www.legislature.idaho.gov.

Mr. John explained that property taxes are only used to fund local government in Idaho with \$1.14 billion being collected in 2004. This is the largest source of revenue in the state. In 2002, Idaho ranked 31st among the states in terms of the percentage of income that we spent on property tax. This is about 10% below the national average. **Mr. John** said that does not mean an individual's property tax is 10% below or above the national average. This is just the state as a whole.

Property taxes in Idaho are raised using a budget driven model and a rate driven model. The budget driven model is used by all taxing districts in one form or another.

The rate driven model is used as a way of computing the budgets for school maintenance and operation. It is only used by schools and only for maintenance and operations. All other types of school levies (supplemental, bond, plant facilities, etc.) use the budget model.

Mr. John explained that a taxing district's current year maximum budget is limited to the prior year's budget plus 3%. The budget is allowed to increase more than 3% based upon new construction and annexation. Districts are not required to levy to the maximum. If they do not levy the maximum, they end up with a "foregone balance." These districts can go back at a future time and levy for the foregone balance. Increases in value do not automatically result in an increase in tax.

The rate driven model is much different. State law requires school districts to compute the budget for maintenance and operation by multiplying the prior year's taxable value by .003. They have to do this in order to share in the equalization formula used for the money that comes from the state. Unlike the budget driven model, an increase in property value will result in a tax increase of the value increase with a one year delay. If your value goes up this year, you will have a tax increase next year.

Mr. John stated 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 with the local taxing district being held harmless. Under this set up, if someone gets an exemption, someone else picks up the difference. The district gets the same amount of money.

Under the Rate Driven 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.

According to **Mr. John**, there are two main reasons why residential property taxes are increasing so 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 maintenance and operation levy rate, which when property values rise rapidly, causes increases in tax.

Levies are calculated as follows:

- , Each property is appraised to find its market value.
- , All values within a taxing district (school, city, etc.) are summed.
- , Homeowner's (and other) exemptions are subtracted.
- , The taxing district computes its property tax budget by subtracting other revenue sources.
- , The levy rate is the property tax budget divided by the net taxable value.

$$\text{Example: } \frac{\$ 80,000}{\$10,000,000} = 0.0080 = .80\%$$

Property taxes are collected in the following manner.

1. Levies for your taxing districts are added together:
 - a) County
 - b) School
 - c) City
 - d) Special Districts
2. The total of these levies is multiplied by your taxable value to determine your tax.

Example of Computation

Assume levy = 0.01743 (average urban ooc-residential rate in 2004)

House Value: 60,000

Lot Value: 15,000

Total Value: 75,000

Less Homeowner's Exemption: < 30,000 >

Taxable Value: 45,000

$$45,000 \times 0.01743 = 784$$

Effective tax levy: $784 \div 75,000 = 1.05\%$

Representative Lake said that the purpose of having **Mr. John'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 and that he is the Vice-Chairman of that 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.

The following people testified.

Mr. Randy Miller, Idaho Property Tax Reform

Mr. Miller stated that there are many problems with our current property tax system including that fact that there are few, if any, meaningful checks and balances.

Under current state law, property must be reassessed "at least" once every five years to determine its current market value. Assessments are not, however, limited to "once" every five years. There can be several assessments. The assessed value is then the basis for which property taxes are collected, except for farm land, which has value based on production capacity.

Businesses can pass the cost of taxes on to their customers. Farms are taxed on production capacity. Home owner property taxes and increases are paid out of either salaries or savings. In the case of senior citizens, they must pay out of savings, if they have any.

According to **Mr. Miller** assessments are highly subjective. Assessors make their best guess at “current market values” based on sales of similar homes. Property is unique and assessors can make their estimate without even looking at the property. There are many complaints of inflated valuations and the property owner must prove the property is worth less. Unless there is an error in computation, a valuation is seldom reversed. The present system is labor intensive, requiring a lot of time and many county employees. You never know how much your taxes will be until you see your assessment notice.

Per the Associated Taxpayers of Idaho, statewide the assessed values have increased 30% in five years. Some areas are a lot higher than 50%. You cannot budget or plan ahead, especially if you are on a fixed income for these kinds of increases.

Mr. Miller said that perhaps the underlying problem is that there is no effective cap on local government spending. When families make budgets, they make due when the money runs out. According to **Mr. Miller**, when local governments run out of money, they just reassess property values, increase property taxes and continue with their wish list.

Property values should be determined on true market value (cost of purchase) and capped at that value until sold with a property tax cap of 1% of that value. The assessment should not be based on a mythical market value of what the property might sell for.

Mr. Miller said that the total cost of new development should be the responsibility of the developer and passed on as a development cost to the new property owner. New growth costs should include streets, sidewalks, sewer, water, utilities, increased public safety protection, parks, libraries and school growth.

Cities and counties should have the ability and authority to ask citizens for permission to impose local option taxes.

Mr. Miller added that local governments, both city and county, should be required to use the zero based balance budgeting system and annually justify every need and increase in every part of their budgets. State agencies should also use this system.

According to the Legislative Information Office, the “all funds” state budget was \$4.7 billion. At the same time, the State Tax Commission shows that the Legislature approved tax exemptions to the tune of \$28,700,551,832. This is seven times the budget amount. In **Mr. Miller’s** opinion there are too many exemptions and they need to be reevaluated.

Mr. Miller said that judging from past performance, the legislature has not demonstrated that it has either the desire or intestinal fortitude needed to correct the state’s financial problems. Perhaps the

only solution is for a Citizen's Initiative.

Mr. David Bills

Mr. Bills stated that in his opinion property tax is one of the most punitive tax of all taxes. He understands that it does fund local government but why does property value have anything to do with the services provided by local government. It would seem that if each unit is serviced the same, it should pay the same amount.

He asked why an automatic rate increase is afforded to local school districts as valuations go up.

Mr. Bills proposed the following:

Capping property taxes at the purchase price until the property is sold. This allows people to budget and know they will be able to afford the taxes. Value increases that result because someone next to you paid more for their property are punitive. Property taxes need to be tied to someone's ability to pay, not just the value of their property.

Updating or eliminating the homeowner's exemption. In its current form it is very outdated.

Allow local option taxes

Impact fees charged to developers add to the value of the homes because developers pass those fees on. Sales tax charged on building materials also add to that value. In **Mr. Bills** opinion, 10% to 15% of the price of a home is due to fees or taxes and then the home is taxed again through property taxes.

Mr. Bills explained that by paying 2% in property taxes per year on increasing valuations amounts to a compounding tax rate whereby a property owner, over his life, will pay up to 50% or more of the purchase price of the home to local government.

Mr. Bills said that the appeals process is the "fox guarding the hen house." County commissioners are in charge of the budget and spend the taxes but also hear the appeals to lower the valuations. He said that even in the 1980s when the market was depressed, appeals to lower values were still denied.

Mr. Ron Harriman

Mr. Harriman is a real estate appraiser, developer and a builder. He said that Idaho is being faced with out of state real estate investment companies buying properties in the area. About 40% of the purchases currently are from out of state real estate investors and many houses are not even being lived in. Due to the inflation these purchasers are causing in the market, the levy rates are rising faster than the wage rates. This hurts everyone, especially those on fixed incomes. He said that twice over the last few months he has appraised houses for women over 65 years old that were losing their houses because the taxes were too high. This needs to be dealt with.

Mr. Harriman said that impact fees also need to be dealt with. Developers should not be subsidized for the expansion of the residential market. By giving developers these exemptions, the costs are transferred back to the people who already own homes.

Dr. Stan Tate

Dr. Tate said his testimony was going to be more philosophical in nature. He taught medical ethics at the University of Idaho Law School. He and his wife are retired and are worried about the taxes increasing on their property. If the prices keep increasing, they wonder if they will be able to afford to live there.

Dr Tate said that one of the principles of Rotary was “Is it fair to all concerned?”

In his opinion currently the system is not fair. He also has property in McCall and after living here and earning a living in Idaho, he is up against wealthy investors that are moving into the area. His home in McCall is 70 years old and is on endowment land on the lake. He said it is about the only one left standing because everyone else has sold, but not for long. It is on the market because he and his wife cannot afford to play the game. He has always been happy to pay his fees and taxes on this property but for next year the cost went up to \$25,000. They are appealing the increases on the McCall property but are not expecting much.

Dr. Tate asked if the committee can't do any good, at least don't do any harm. He asked them to do their best to find a solution to the property tax issue that will help long time Idahoans stay in the state and in their homes.

Mr. Don Johnson - Kuna Library Trustee and the Idaho State Grange

Mr. Johnson said that if local governments were not able to include the cost of new construction into their budget increases, the library district would be at least 1 ½ years behind in the collection of funds necessary to meet the needs of those they service. As communities grow, the new people demand services and without including that cost into local government budgets, they would not be able to keep up. He said the over the nearly 100,000 books the Kuna library has, almost 50,000 of those are checked out each month.

Mr. Johnson in speaking for the Idaho State Grange said that the agricultural exemption for agricultural land is good. Those trying to make a living in agriculture cannot afford to pay developer prices or taxes for this land.

Mr. Johnson suggested that the legislature look at adjusting the circuit breaker as well as the homeowner's exemption.

Representative Lake asked for clarification of **Mr. Johnson's** position on the ag exemption. **Mr. Johnson** said that in his opinion ag land should not be assessed at developer prices until it is developed.

Mr. Frank Larvie

Mr. Larvie stated his concern for the disparity between property taxes from community to

community and the growth in property taxes throughout the state. He explained that Nampa/Canyon County residential property taxes are assessed at 2.1% and Boise /Ada County the residential property tax is just over 1.5%. That is a fairly significant difference. In his opinion the basis for the tax evaluation is the problem.

He is also concerned with the piling on of the property tax. When the county decided it need more funds, they just increased the tax levy. The cities and school districts do the same thing. It appears that the growth in revenue is directed primarily toward property taxes.

Mr. Larvie suggested that the community look at alternate sources of revenue for cities and counties. In his opinion the residential property tax payers of Idaho are paying more than their fair share and at this point he would be happy to participate in a tax initiative.

Ms. Laurie Boeckel

Ms. Boeckel moved to Idaho from Wyoming. She said that Teton county in Wyoming has seen the same problem of long time residents being taxes out of their homes due to the rising property values. In her opinion everyone should be able to make money but not at the expense of those that have formed the communities.

Ms. Boeckel said that as a Republican she is concerned whether these meetings being held across the state will actually make a difference. She hopes that once the legislative session starts it won't result in the lobbyists taking over and dictating what happens. If that happens, she said everyone who has testified before this committee has wasted their time.

Mayor Garret Nancolos - City of Caldwell

Mayor Nancolos explained that municipalities rely on property taxes in order to be able to provide services for their citizens. He said that the City of Caldwell just passed a \$51 million budget. Of that only about \$12 million is general fund money with \$8.5 million coming from property taxes. Some of that budget money is consumed in enterprise funds, street funds, user fees, sewer fees water fees, grants and so on. A lot of their \$51 million budget is a pass through from the federal government to the county to build roads.

The \$12 million is what the city has available to pay for the services that are essential to the citizens in the community. About 80% of that fund goes to personnel costs. He said that most of the \$700,000 increase in the general fund balance came from new growth and development. Without being able to include this new growth in the budget, they would not be able to keep up with the new demand for services. Of that \$700,000, Caldwell spent almost \$400,000 hiring new police officers. The high cost of gasoline also has a great effect on local municipalities as does the increasing cost of health care.

Mayor Nancolos said that the City of Caldwell is imposing impact fees and connection and capacity fees. The connection and capacity fees are for the sewage treatment plant to ensure that new growth pays for the \$18 million worth of sewage and water construction that has to be done next year. Caldwell also makes new developments pay for their own roads, landscaping, sidewalks, sprinkler systems and so on so the existing taxpayers do not have to pay those costs. This also helps the city

hold down their water and sewer fees. In his opinion Caldwell's city budget has very little waste.

Mayor Nancolos said different parts of the state are experiencing different problems. In his opinion one way to deal with all of the differences would be to allow local option taxes of some sort to let citizens in each community decide what is important.

Representative Jaquet asked if they found the impact fee statute difficult and whether he would be in favor of adding schools to the impact fee legislation. **Mayor Nancolos** said that their experience with the impact fee structure was not that difficult. It is time consuming but it is important to make sure the correct information is available to allow the impact fee to be set properly. It took them about seven or eight months to go through the process. He said he was not sure about adding schools to impact fee legislation.

Mr. Ralph Mellon

Mr. Mellon is a grower on the urban fringe near Boise. He stated that the ag exemption is what has allowed him to stay in business. Without that exemption, his land and other land on the urban fringe would be forced into development.

He said that the benefit of his land as agriculture to the public has been spoken about many times by his neighbors. They appreciated the green space, open land and the wild life. These are not monetary benefits but they are benefits.

Mr. Mellon noted that there are many smaller tracts of land that are not in crop that are checked closely by the county assessor and if they are not in crop, they are valued at market value. He is not sure if any changes to the existing law are necessary.

Ms. Mary DeChambeau

Ms. DeChambeau said that she wanted to put a younger face on the farming community. Her family, the Morgner family, has had the same farm land for many years. They have resisted selling it for development although they are approached daily.

The question is how to protect farmers while at the same time controlling the developers. Without the ag exemption, her family would have to sell and in her opinion that is what developers want. She said that everyone wants the open space but no one wants to help maintain it.

Senator Little said that he has heard a proposal that would split the ag exemption. It would give one rate if a document is signed saying the ground won't be developed for a certain number of years and another rate if the ground is on the market for development. Another proposal is that if the land is taken out of agricultural use, the owner is penalized for three years worth of taxes at the higher use. In response to that, **Ms. DeChambeau** said she likes it the way it is. She and her brother both sold their houses to pay estate taxes on their farm and to maintain the land. Her problem with these proposals is that they penalize if the land is sold. What happens if someone in the family gets a serious disease and they are forced to sell. It is wrong to penalize people that have been farming the same land for many years. Her land has not been out of production for 80 years.

Mayor Tom Dale - City of Nampa

Mayor Dale said he has had many discussions regarding the plight of long time residents especially in places such as McCall and Sun Valley being taxed out of their homes. This is also happening in the Treasure Valley. The urban renewal district greatly increased the value of homes on the north side of Nampa and now people in that area cannot afford to live there. In his opinion a major overhaul of the property tax system is necessary in order to help the people in this state.

Mayor Dale explained that Nampa is looking very closely at diversification of funding streams. Municipalities do not have that many tools available for diversification so the entire burden of services that people demand from a city falls mainly on property tax. Nampa has recently passed a development impact fee ordinance that includes parks, transportation (traffic signals and bridges) and public safety issues. He said they are somewhat limited by the fact that the development impact fees can only be used for things that last ten years or longer. This means the money cannot be used for police cars. Nampa is also thinking about developing an auditorium district that would add money directly to tourism. He said Nampa would like to have the opportunity to use local option taxes.

Senator Goedde asked if he would be in favor of expanding the use of impact fees to include school maintenance and operation costs. **Mayor Dale** said he was not sure about adding maintenance and operation costs but adding police cars or lowering the ten year cap would be helpful to the public safety area.

He said that the firm they hired to do their impact fee study took 18 months to complete it and they said Idaho's development impact fee code is the strictest code in the entire United States. This company does impact fee ordinance development throughout the nation and they said Idaho's is the most restrictive and difficult to work with. **Representative Jaquet** asked for a memo from the company that was hired stating why they found Idaho's statute so restrictive and difficult. **Mayor Dale** said he would ask them for that.

Senator Little asked how much of their budget comes from property taxes. **Mayor Dale** said he did not know exactly but it was less than 50%. He noted that Nampa also uses enterprise funds. The property tax people pay is divided between the county, city and school districts. Nampa is very conservative and had an 8% decrease in their property tax levy this year. In response to another question from **Senator Little**, **Mayor Dale** said if a 1% initiative was passed, they would not be able to lean more heavily on enterprise funds because they are very specific about what they can be used for. Enterprise funds are not allowed to be used to make up for a shortage in another area.

Representative Moyle asked if Nampa has a foregone balance and how much it is. **Mayor Dale** said it is substantial and that they have never taken any of it.

Mr. Martin Thorne - Nampa City Council

Mr. Thorne explained that when cities annex property from the county, the county levy does not change. People that have been annexed into a city no longer receive services from the county but they still pay the same amount of their property tax to that county. In his opinion this needs to be

addressed.

According to **Mr. Thorne**, another issue that needs to be looked at is the tax burden put on existing businesses by large chain stores such as Lowes that seem to have unlimited funds to spend on property taxes. When these stores purchase land and build, their assessment causes other businesses property values to go up costing them more in taxes.

He said that the city receives money from the county to operate the Canyon County animal shelter but the county is assessing the city an additional amount to run that shelter. That is double taxation in his opinion.

Senator Corder asked regarding the annexation issue whether **Mr. Thorne** would advocate the cities compensating the counties for roads and infrastructure that are built before the area was annexed into the city. **Mr. Thorne** said that in the case of the Nampa area, there is a highway district that is independent from the county so that is not an issue. He pointed out that as areas are annexed by the city, it should take away some of the burden that the county needs to serve so they should be able to reduce their levy. **Senator Corder** explained that counties still have to pay for the infrastructure and the highway districts get part of their funds from the counties to build the roads in these areas that are eventually annexed over to cities with no compensation. **Mr. Thorne** commented that perhaps cities should set up toll booths and charge people from counties as they come to Nampa every day.

Mr. Matt Beebe - Chairman of the Board of Canyon County Commissioners

Mr. Beebe stated that counties often are made out to be the scapegoat because it is their responsibility to collect the taxes. He said that Canyon County has 55 taxing districts that they collect taxes for. In 2004, Canyon County collected approximately \$130 million in property taxes. Of that the county portion was \$24 million.

Mr. Beebe explained that the county assessors do exactly what Idaho Code requires.

He also spoke in support of local option taxes as a way to provide some property tax relief. He said that Canyon County is currently looking at using the local option tax to build a jail as Kootenai County has done.

The rate of growth in Canyon County since 2000 has been 5.5% annually. If this continues there will be 280,000 people in the county by 2014. The 2006 budget for Canyon County increased to \$59 million. The levy was lowered by 4% due to new growth. There was almost \$4 million of new construction in the county over the past year.

Mr. Beebe commented that counties, like cities, are required to provide certain services. These include courts, prosecution, the defense of those who cannot afford their own, warrants, jails, medical indigency and so on. The jail population is growing at 13% while the county is only growing at 5.5%.

In his opinion the issues that exist between the cities and counties can be worked out. He spoke in support of using local option taxes to support public transportation since there are not provisions for funding of that in our state code. He added that impact fees are helpful but they too are limited. Road infrastructure is one of the biggest issues they face and there is not enough money available to do what needs to be done. He said that if the legislature could find a way to provide for increased registration fees or a sales tax override, it would be very helpful. They are going to need about \$1 billion to deal with the problem.

Mr. Tim Tetrault

Mr. Tetrault said that he is building a home in Caldwell valued at \$180,000. He has just learned that his property taxes will be \$4,100. That is a tax rate of over 2%. He asked why one side of the city pays more tax then the other side.

Mr. Ben Jones

Mr. Jones said that he purchased a ten acre farm one and a half years ago so that his children would be able to grow up on a farm. At that time it cost him \$150,000. His neighbors recently put their same size farm on the market for \$650,000 and it will sell for that. He said he doesn't mind paying his fair share of taxes.

Mr. Jones said that if there is an increase in taxes, he would rather pay that through income tax or sales tax because that is based on the ability to pay rather than just the value of property. He also would support capping property values at the purchase price until the home is sold again.

Several people who testified, those who had to leave early and others who could not attend the meeting submitted written testimony.

The meeting was adjourned at 8:45 p.m.