

**MINUTES
PROPERTY TAX INTERIM COMMITTEE
NOVEMBER 1, 2005
JOINT FINANCE-APPROPRIATION MEETING ROOM
STATEHOUSE, BOISE, IDAHO
9:30 A.M.**

The meeting was called to order at 9:45 a.m. by Cochairman Senator Shawn Keough. Other members present included Cochairman Representative Dennis Lake; Senator Brad Little, Senator Monty Pearce, Senator John Goedde, 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. Legislative Services Office staff members present were Mike Nugent, Jason Hancock, Paige Parker and Toni Hobbs.

Others present were Phil Homer and Mike Friend, Idaho Association of School Administrators; Russ Hendricks, Farm Bureau; Skip Smyser and Scott Pugrud, Connolly and Smyser; Fred Riggers; Ray Stark, Boise Metro Chamber of Commerce; Ben Ysursa, Secretary of State; Ken Robison; Chuck Moss, Owyhee Terrace Homeowners; Norm Semanko and Jonathan Parker, Idaho Water Users Association; Randy Nelson, Associated Taxpayers of Idaho; Ethel Ficks; William Bonner, AARP; Tim Hill, State Department of Education; Georgia Plischke, Washington County Assessor; Dallas Chaney, Idaho State Grange; Alan Dornfest, Dan John and Tom Katsilometes, State Tax Commission; Kerry Ellen Elliott, Idaho Association of Counties; Steve Purvis and Daniel McEwan, City of Boise; Robin Nettinga, Sherry Wood and Jim Shackelford, Idaho Education Association; Russell Westerberg, PacifiCorp; Roger Sherman, United Vision for Idaho; Mark Duffin, Idaho Sugarbeet Growers; Steve Ahrens, IACI; Ross Corthell; Dar Olberding, Idaho Grain Producers; Pam Eaton, Idaho Retailers Association; Suzanne Schaefer, SBS Associates; John Eaton, Realtors; Neil Colwell, Avista Corporation and Paul Jackson, Farmers Insurance.

Representative Deal moved that minutes from the October 7, 2005 meeting be approved. **Representative Collins** seconded. Minutes were approved unanimously.

Mr. Jason Hancock, Budget and Policy Office of Legislative Services Office was the first speaker. **Mr. Hancock** distributed a handout showing the application of a standard 3% property tax budget cap to school district M&O levies and the impact of a 1% rate cap on school M&O funding. This information is available in detail at the Legislative Services Office.

Mr. Hancock explained that a 3% cap would essentially cause the school M&O levy to behave more like the other property tax levies that are budget driven. His model compared FY2006 to FY2007 as the levy is currently calculated and he also compared that to FY2007 if a 3% cap was put on the M&O. His information shows that adding a 3% cap to school M&O would result in about a \$12 million decrease in total equalized discretionary funds. It would also lower the levy rate to 0.0027107. **Mr. Hancock** noted that under this model the state would uncap the state property tax replacement dollars and would simply replace 1/4 of the amount the districts would be entitled to raise.

Representative Jaquet asked about unintended consequences of this from the State Department of Education. **Mr. Hill** said he would be happy to respond to questions but this was the first time he had seen the worksheet. He reminded the committee that if any changes are made to the public school funding formula they have to be made up someplace else. It is a pool type of approach. If the M&O is capped at 3% per year, it would require offsetting funds to be provided elsewhere. **Representative Jaquet** said she was concerned that there has not been any talk about what the downside of this change would be. She said she is hearing that if the state did not pick up the difference, districts would have to go to property taxpayers for supplementals. **Mr. Hill** said that assuming a given level of student population, under our current formula the state would set an appropriation based on school enrollment. As long as that was set and fulfilled, it would be up to the local districts to decide if that was sufficient. Should they decide it was not sufficient, the district can ask for a supplemental levy.

In response to a question from **Representative Lake**, **Mr. Hill** said he was suggesting that given a certain estimated population of students and given the formula that funds that, there is a targeted funding amount statutorily. Once that dollar amount was determined, the concern would be the stability of those funds and whether they would continue.

Senator Werk asked whether new construction is included and why the property tax replacement is more under the 3% cap scenario. **Mr. Hancock** explained that new construction is taken out of the calculation for the levy rate. When levy rate is applied, it is applied to the entire amount of market value. He also explained that under the 3% cap scenario for 2007, the state property tax replacement is figured to be 1/4 of total amount needed instead of being capped as it is today.

Senator Goedde said regarding current versus a 3% cap, the M&O revenue amount is the amount that would be raised locally by districts. He asked how much of the total in each column would be provided by state. **Mr. Hancock** said that line 3 of his worksheet is what is being raised locally from taxpayers by the M&O levy. The amount being provided by the state under the 3% cap scenario on line 4 goes up to \$85 million. This is the state property tax replacement amount. **Senator Goedde** said he is seeing that this would be in the neighborhood of \$27 million in property tax relief to local taxpayers of which the state is going to make up about \$10.7 million and the rest is going to be shortfall to public education. **Mr. Hancock** said that was correct.

Senator Little asked if adding a cap would freeze poorer districts in a poor position. In his opinion districts that have low property tax will be hurt more. He asked what the impact is going to be downstream to the equalization formula. **Mr. Hancock** said he does not think it makes any difference for school districts that are property poor or property wealthy because of equalization. This would put some brakes on the amount of growth in M&O dollars coming in but all districts will get the same per unit increase. There are special circumstances for the four very wealthy school districts because they are governed more by the M&O levy than by equalization because they raise more money than the equalization formula would give them. **Senator Little** asked if this will increase the disparity between the districts that are getting the most out of the equalization formula. **Mr. Hancock** said he did not think so because everyone gets the same levy rate under the 3% cap scenario. **Senator Little** said that under status quo some districts go

above and are not eligible for equalization, if this is changed doesn't that require the state to put more money into equalization. **Mr. Hancock** said he did not think so because the bar shifts with the rate.

In response to a question from **Senator Werk**, **Mr. Hancock** changed some information on the chart so the committee would be able to compare things more easily.

Representative Lake said what is happening with the four wealthy school districts this year is that they will have \$25 million in excess of the equalization formula to spend next year because of the extreme growth in those districts, they will have \$38 million in excess and if capped they will get \$38 million in excess of equalization. **Mr. Hancock** said that was correct. **Representative Lake** said that points out the problem that exists by having a fixed mill levy for taxes in Idaho. It allows wealthy districts to get richer. He said he agrees with **Senator Little** regarding the poorer districts, regardless of the equalization formula, as the mill levy goes down, it would seem that the amount of money available goes down also.

Representative Jaquet said in her opinion more districts are moving into the poorer range such as Jerome. Their values are up so they get less state money. She added that Blaine County and probably Kootenai and Valley County as well, have teachers who accept jobs in those districts and cannot find a place to live. It is not like there is a major amount of excess money available in these districts. They have to pay higher salaries so teachers can afford to live there.

Senator Goedde said assuming that districts want to maintain the current funding level that is available under the current scenario, that difference would be made up through offering a supplemental levy. **Mr. Hancock** said some of the difference gets made up through the increase in the amount of state property tax replacement and the balance would have to be made up through a supplemental levy. **Senator Goedde** commented that this means we end up right back on property tax. The only difference being the voters would be allowed to impose that tax on themselves.

Mr. Hancock moved on to discuss the effect of a theoretical 1% cap and what that would do to schools. **Senator Keough** explained that the point of this presentation

is to talk about the what ifs that exist regarding property tax relief that could be instituted in one form or another.

Mr. Hancock's explained an example of how a 1% rate cap applied in Idaho might effect the school M&O levy based on statewide averages. This also assumes a 1% rate cap is workable and constitutional. He said this would not create an issue for richer areas such as Blaine because their levy rate already below 1%.

Mr. Hancock explained the impact of a 1% cap on school M&O as follows:

Average Total Levy Rate in Idaho	1.47%
Statutory School M&O Levy Rate	0.30%
Average Levy Rate "deflator" under 1% rate cap	0.680
Effective School M&O Levy Rate after application of "deflator"	0.20%
FY2007 Projected M&O Levy Funds (current system)	\$289,713,500
FY2007 Projected M&O Levy Funds after application of deflator	<u>\$197,084,014</u>
Revenue Difference	(\$92,629,486)

To figure the rate deflator **Mr. Hancock** divided 1% by the average total levy rate (1.47%). The rate deflator is what is needed to get each levy rate down enough to create a total 1% levy rate.

The next agenda item was a report on supplemental levies passing and those failing. **Mr. Hancock** distributed another handout showing the amount of supplemental levies listed by school district and year. The was supplied to him by the State Department of Education. This also shows the total dollar amount of levies for the school districts by year and the number of districts that have supplemental levies. Currently 57 of the 114 school districts have supplemental levies and the dollar amount is up to about \$76 million.

Mr. Hancock said the information on supplemental levies that have failed is requested by the Education Department but it is not always certain whether districts actually provide that data. He said they were aware that Grangeville has tried to run levies twice and failed both times and that Boundary County had a levy fail that passed the second time it was presented. **Representative Lake** noted that Snake River has also had a number of levies fail.

Senator Goedde commented that property taxes spent in your own district should be something people are willing to pay. In his opinion the number of districts with approved supplemental levies shows that it is obvious that taxpayers throughout the state are willing to do this.

Senator Werk asked what is the driving force for the increase in supplemental levies. **Mr. Hill** said they do not request the purpose for supplemental levies. In his opinion districts are faced with difficult choices of increasing class sizes or cutting programs or extracurricular activities.

Senator Langhorst asked corresponding with the increase in supplemental levies, if figures are available on the percentage of the overall state education budget that the state has funded compared to that funded by property taxes. **Mr. Hill** said at the first meeting of this committee in June he presented information showing a ten year history of state funds with respect to local money. In the year preceding the 1994 legislation to enact property tax relief, if the state and local funds are isolated that ratio is 30% local and 70% state. He reminded the committee that local funds also include bonds, plant facilities and local school taxes as well as M&O. In the year immediately following that change, the ratio changed to a 20% local and a 73% state. Over the course of the remaining 9 years, that pattern recovered not only to the 30-70 ratio, it went closer to a 33-67 ratio. **Mr. Hill** said those numbers strongly suggest that the percentage of state moneys over that period of time, even after property tax relief, has decreased.

Senator Pearce asked if there is a pattern of areas of the state that are implementing supplementals. **Mr. Hill** said they have not looked at geographic dispersion but could to that. **Representative Jaquet** said that some of her constituents have said they could not do more supplementals because they are maxed out. She asked if that was true **Mr. Hill** said his understanding of the statute is that the only limits for supplementals are term limits of 2 years; there is no dollar limit or rate limit.

Mr. Mike Nugent, Legislative Services Office was introduced to discuss four draft pieces of legislation dealing with local option taxes. Copies of these are available at the Legislative Services Office.

Mr. Nugent explained that these were “either/or” pieces of legislation. He began

by discussing RSCAL297 which is **Senator Goedde's** proposal. This is the current local option tax that is on the books and that Kootenai County has used to be able to build a detention facility. This legislation would require a minimum number of voters to vote in the election and remove the sunset clause. Also rather than property tax relief and debt retirement for expansion of detention facilities, this legislation provides for the funding of capital projects exclusive to maintenance and operation costs within the county.

Mr. Nugent reminded the committee, in going down the road of local option taxes, to be cognizant that the streamline sales tax bill might pass Congress and if that happens the tax commission has to be in compliance.

Senator Goedde said this was as tightly written as he could get local option sales tax written in order to get support. It requires a 2/3 majority of the voters and requires that 40% of registered voters vote. It is designed to only pass with a predominance of community support. It is a property tax relief bill in that at least one-half of the tax collected must go to property tax relief and the other half is designed to fund capital projects for local government. It removes the sunset and sets the maximum duration of the tax at 10 years.

Representative Jaquet asked if there is anything in the current statute that requires that 40% of registered voters must vote in election. **Mr. Nugent** said the plant facilities reserve fund levy has a sliding scale in that the more registered voters, the lower the percentage needed to implement the levy for school districts. **Representative Jaquet** said this would probably have an administrative impact to clerk's offices in counties and it seems a high threshold to require. In response to a question from **Representative Jaquet**, **Senator Goedde** said this is a county local option so the capital projects would be county projects.

Representative Jaquet asked if transportation could be funded through this. **Senator Goedde** said no. **Representative Jaquet** asked if workforce housing projects would be allowed. **Senator Goedde** said he would think if someone were purchasing housing for a workforce, it would be a capital expenditure.

Senator Little asked what impact these bills would have if the streamline sales tax were to pass. He asked whether it would mean that if the state had many different local option taxes across state, the Tax Commission has to collect them to be in

compliance. **Mr. John** said that was correct. If the state is a full participant in the streamline sales tax act, the Tax Commission has to be the collecting agency. He said they have done this with counties that have local option currently.

Representative Moyle asked if there is going to be a national average for a sales tax rate. **Mr. John** said entities can still have their own rate as long as there is only one rate in each jurisdiction. He said this legislation would be in compliance because it only allows a ½% rate.

RSMPN501

Mr. Nugent said this is an attempt to expand the authority of resort cities to impose certain sales taxes and give that authority to every city and county. It would be approved in the same manner as today but the population threshold is removed. An election is required with a 60% approval rating. In response to a question from **Senator Keough**, **Mr. Nugent** said that there is a property tax relief fund in this legislation but that the language for that is discretionary. He said that language could be changed to require a property tax relief fund. **Representative Lake** clarified that there is no qualification as to what the money can be used for. **Mr. Nugent** said that was correct.

RSMPN502

Mr. Nugent said this draft would apply a city or county local option sales or income tax. The income tax portion was added for counties near Oregon and other states that do not impose sales tax. **Senator Little** asked who would collect this. **Mr. Nugent** said it would be the state tax commission. **Senator Little** if someone owns property in three counties and only one county has local option income tax, how would the state determine where that exemption would come from. **Mr. Nugent** said if it is corporation there is a computation of corporate income and for an individual he would assume that would be wherever you filed your state income tax. **Senator Little** said he knows where he would file his income tax in this case.

Senator Goedde said other past legislation says sales tax, this language says sales and use. He asked if there is a difference. **Mr. Nugent** said that state sales tax act is a sales and use tax. **Senator Goedde** said since there is no restriction on use of the tax just a duration, there could be a problem if it is used for M&O because that is on going. **Mr. Nugent** agreed. **Senator Goedde** asked if a county commission could be allowed to set an indefinite duration. **Mr. Nugent** yes but there is the proviso for the repeal of a tax written into the draft.

Senator Werk asked if there is anything in the draft that allows for a real estate transfer tax. **Mr. Nugent** said that is included in another piece of legislation.

Representative Jaquet said in the draft, section 63-1806 looks like distribution based on population, not point of sale. **Mr. Nugent** agreed. **Representative Jaquet** commented that this probably needs to be adjusted because many areas with large point of sale revenue from tourists and such need to be able to benefit from such a tax.

RSMPN495

Mr. Nugent said this is very similar to the current county option sales tax. The difference is that this allows a county sales tax for sport, recreation, business, schools and other public buildings. **Mr. Nugent** said a school district sales tax would be impractical to administer. This would be a county sales tax and schools could share in the proceeds. He said this could probably be combined with **Senator Goedde's** draft. **Senator Goedde** said the red flag is what about school districts in more than one county and how to distinguish between different districts in a county that have different needs. **Mr. Nugent** said when this was put to voters it would have to explain which school district in which county this was for and for what reason. **Senator Goedde** clarified that if Coeur d'Alene had a building needed, the voters of entire county would have to vote on it and all of the taxpayers of the entire county would pay the tax. **Mr. Nugent** said that was correct. He said he could not figure a practical way to have school district sales tax.

Representative Saylor asked why the purpose of all of these local option proposals is for buildings, not for transportation, open space, etc. **Mr. Nugent** said RSMPN501 would authorize other purposes. The resort cities legislation allows the tax to be used for any purpose also. **Senator Goedde** asked if the definition of capital improvement could include the purchase of land for open space. **Mr. Nugent** said in his opinion that could be considered a capital project because one cannot exist without the other. **Senator Goedde** asked if RSCAL297 includes that. **Mr. Nugent** said language would need to be added to allow that.

Representative Moyle said his understanding was that there is concern about high property taxes in the state. He asked if there are any drafts that say all local option

tax goes directly to property tax relief. **Mr. Nugent** said no but it would be easy to do this from a drafting point of view. **Representative Moyle** said he would hate to see the property tax committee allow more spending without providing property tax relief. **Senator Goedde** said these drafts say at least 50% go to property tax. He asked if there anything that would disallow a county commission from recommending 100% go to property tax relief. **Mr. Nugent** said no as long it was stated in the question on the ballot.

Representative Jaquet said that during the hearings one theme that was heard repeatedly was to get a handle on rising property tax values due to high property valuations and another was the high cost of growth in high growth areas and how that is hurting many senior citizens. She discussed a memo from a county commissioner in Colorado that talks about why local option sales taxes are good. This memo talks about helping senior citizens and others on fixed income to continue to live in their long term residences in high growth areas with high property valuations. **Representative Jaquet** said she really embraces the idea of local option and has seen it happen in her area. She said she does have a problem making it 100% capital projects. She would want to be able to fund additional infrastructure needs and new services as well as property tax relief.

The next issue on the agenda was a discussion of helping more seasoned taxpayers pay property taxes through deferral and reverse mortgages. **Mr. Nugent** explained that there has been nothing drafted on this except **Representative Saylor's** bill from last year.

Mr. Nugent said this legislation provided for deferral of property tax at a certain age with a number of years living in the same residence requirement. **Mr. Nugent** recommended that this portion be taken out of the legislation. He also said legislation could include language allowing deferral if someone qualifies for the circuit breaker. Another possibility would be to limit the amount of deferral.

Representative Saylor said his legislation did require that seniors live in the home for 10 years. It allowed the increase in tax to be deferred after the point of enrollment in the program but it did not have an age limit. He said if he were to redo the legislation, he would put a limit on the amount of deferral allowed so that it could never exceed the equity of the home. He said there is some discussion about the idea of a state creating a temporary fund to help the counties where these

deferrals take place. He noted that he would also like to figure a way to do this type deferral for people that have second homes on lakes and such that have been in their families for many years.

Senator Werk said research he has done shows that many states have programs similar to this and they tend to not be highly utilized. He said Pennsylvania has about 10% usage. In his opinion deferral is a good tool to have available as an option for those that need it. He said if such a program works for someone, it can be a lifesaver for them and it does not have to be a costly program for a county.

Representative Jaquet commented that reverse mortgages, which are a similar idea to deferral and in the past have not been used by many people, are gaining popularity. An article she read says that reverse mortgages are being sought out, not only by cash strapped seniors, but by homeowners looking to enhance lifestyles and retirement. The loans are now being used to pay for second homes and vacations, according to this article.

She went on to discuss a property tax equity program, prepared by **Mr. Hancock**, using the Idaho Housing and Finance Agency that would basically pay that property tax for eligible senior cities to the county. The taxes paid by IHFA would accrue interest at the average rate used by IHFA for home loans each year and these taxes (plus interest) would accrue as a lien against the property, to be repaid upon the death of the owners.

For this program the homeowner must be at least 65 years of age. She noted that the age limit might need to be adjusted. They must get the homeowner's exemption on the property for each of the last five years or the homeowner must have claimed a 50/50 homeowner's exemption in Idaho for each of the last five years, and the purchase price of the current property being claimed is less than the sale price of the previous property claimed.

The homeowner must meet certain income criteria, perhaps:

- C Less than \$40,647, in the case of singles (150% of state per capita income)
- C Less than \$54,196, in the case of married couples (200% of state per capita income)

The total liens against the property (including IHFA property tax liens) may not exceed 80% of the property's assessed value; or IHFA liens take precedence over

all other non-tax liens.

Representative Jaquet suggested that even though a lot of people might not sign up for this, it is another tool in the toolbox for people to use if they can. She said in her opinion there is going to be a trend of more people signing up for some type of deferral and this program takes the burden off of the counties. She said that IHFA said this is a program they could administer. She added that this could be a good option to reverse mortgages that have quite high fees.

Senator Corder asked why this program has an income requirement and that it seems rather high. **Mr. Hancock** said the income criteria could be any amount or it could be eliminated. He added that this program would not cost the state or county anything. **Senator Corder** said he supports such a program but asked if once the liens reached 80% of the assessed value, would the IHFA be forced to remove people from their homes. **Mr. Hancock** explained that they would simply not loan the money if this limit was reached. **Senator Corder** commented that at this point the county would be back on the hook because the homeowner would not be able to take out any more equity and their income level would have declined. The county would be the one to kick them out of their home. **Mr. Hancock** said that was correct.

Representative Lake said he presumes that IHFA would be in second position. He asked how secure such a lien would be. **Mr. Hancock** said it depends how the legislation is drafted.

Senator Little said bankers might not support this idea.

Representative Moyle said he supports this idea because as the elderly people's property values are raising, they can not pay their taxes. He thinks this program can help and it will not cost the state, county or other taxpayers. **Representative Saylor** said this accomplishes the same ends as his legislation idea and he supports it.

Senator Pearce said he would like to see a scenario of if someone goes on the program at age 65 and what that would look like in 20 years. **Mr. Hancock** said said he could put that together using different interest rates and life spans.

The next discussion item was development impact fees. **Mr. Nugent** distributed a OLR Research Report that is a comparison of state development impact fee statutes that was prepared by the Office of Legislative Research in Connecticut and RSMPN486 and 487.

Mr. Nugent said that OLR report says that there are roughly 25 states that have development impact fees. Uses of such fees vary widely.

RSMPN487

Mr. Nugent said this legislation is similar to legislation that was presented in 1994 that dealt with using impact fees to build school buildings. MPN487 says if the board of trustees of a school district adopt a motion and impose an impact fee on all new residential construction within the school district, that money can be used for school buildings. **Mr. Nugent** said there are constitutional requirements including that an impact fee has to be related to the burden that is placed on the taxing district that is authorizing it. Some states allow impact fees to be used for schools.

RSMPN486

This version would authorize school building impact fees and is modeled somewhat after our current impact fee act. **Mr. Nugent** said he did not intend to put the enrollment cap in the legislation and that would need to be taken out.

Mr. Nugent stated that another option would be to change what our current impact fee statute can be used for.

Representative Jaquet said it was interesting to her that the existing development impact fee statute requires annual renewal with regard to the school budget but there is no long range plan requirement in legislation or a strategic plan. **Mr. Nugent** said that was correct.

Senator Goedde said in discussing impact fees for schools there have been several proposals but there is a constitutional problem dealing with nexus. He asked for more explanation of that. **Mr. Nugent** said the nexus is that there are court cases that say any impact fee cannot collect more than the burden the property would impose on the governmental unit. He said arguably this is why Idaho's current statute is complicated. He noted that some states do allow impact fees for schools.

According to **Mr. Nugent**, if you have a residential subdivision that is built, the argument will be made that there will be a certain number of children per household living there that will eventually put additional requirements on a school district. **Senator Goedde** asked if resale potential could be taken into consideration, such as if a senior citizen sells their property, the next owner might have many kids. **Mr. Nugent** said that is a slippery slope of the free, thorough, and uniform system of schools the state is supposed to set up. It is a policy question of whether the legislature wants to provide impact fees for schools. **Mr. Nugent** said language could be used saying for residential construction, not intended as a senior living facility. He said there would be more of tendency to have nexus on something like that as opposed to all residential construction. **Senator Goedde** asked if this is a U.S. Constitutional problem or Idaho. **Mr. Nugent** said it is more of a U.S. Constitutional problem.

Senator Little said Meridian talked about cash flow problem because of influx of new students. He asked if these proposals help with that **Mr. Nugent** said not completely. It helps but he does not believe impact fees can be used to pay teacher salaries. **Senator Little** said he was not concerned about teacher salaries as much as supplies and so on that are needed for students. **Mr. Nugent** said RSMPN487 provides that the money be put into the school plant facilities reserve fund.

Representative Jaquet said RSMPN486 adds a maximum school impact fee. She asked if this is wise to put in an actual number that would have to be revisited. **Mr. Nugent** said both pieces of legislation have caps. He said some people would be more nervous without a limit. **Representative Jaquet** said she understands the need for limits but said some areas are more costly to build in so having maximum limits might be a problem.

Senator Goedde asked if consideration has been given to basing the impact fee charge on the number of bedrooms over one or tying it to CPI or a construction index. **Mr. Nugent** said a formula could be put into statute. RSMPN486 exempts single bedroom housing units from school impact fees.

Senator Werk commented that it is also important to think of using impact fees for issues other than schools, such as libraries.

Representative Jaquet said this legislation is not addressing the issue that was

presented in a letter from someone in Nampa regarding the cost and complications and updating of the impact fee statute. She would hope the committee could recommend an impact fee in theory with the charge to the associations to help provide legislation that would enable communities to use impact fees more easily. She noted that the City of Nampa is working on such legislation at this time.

After lunch the committee began with a discussion of real estate transfer taxes.

Mr. Nugent distributed RSMPN498 and 503. He explained that RSMPN498 provides for a statewide real estate transfer tax and RSMPN503 is a local option real estate transfer tax that would require an election with a 2/3 majority for approval. Both proposals would impose a rate of 1% of the sales price that would be used to reduce property taxes on a dollar for dollar basis.

Representative Lake asked why the transfer tax is just on residential property.

Mr. Nugent said that seemed to be the main concern that was heard at the public hearings this summer. He said legislation could be written for all property.

Representative Lake asked if just taxing residential property could be a constitutional issue. **Mr. Nugent** said this is not a property tax, it is an excise tax.

Representative Jaquet stated that in 1992 the Sun Valley Chamber of Commerce brought real estate transfer tax legislation to the legislature. She said this legislation was a resort county real estate transfer tax. The argument was that resort counties have larger infrastructure needs. This transfer tax would require a 60% majority vote and revenues would be allocated to capital projects and their maintenance. The list of the projects would be presented to voters as eligible projects. The buyer would pay the tax. The legislation contained a 2% cap with a six year sunset clause so voters could revisit the idea down the road. The resort county definition was a population of 30,000. This included an exemption for affordable housing at \$50,000 at that time. Property tax relief would be an eligible use for the funds collected. She said today 39 states have real estate transfer taxes and resort communities in Colorado use this extensively. **Representative Jaquet** said in Blaine County today charging just 1/2% of the sale price would generate, from last years sales, about \$4 million. This would be very helpful in allowing them to be able to build a new jail in that area.

Representative Jaquet said she supports this idea because of the testimony that

was heard throughout the state regarding imaginary values and people from outside the state paying large amounts for property, growth not paying for itself and not being able to improve the quality of life in communities because the property taxes are too high. She said a real estate transfer tax is not a shift of any kind, it is a new fee and should be considered.

Senator Little asked, since this provides dollar for dollar property tax relief, whether this would add more volatility if it is to be used for ongoing expenses, given the ups and downs of the real estate market. **Mr. Nugent** said that could be a downside and it might be necessary to specify where the money can be used.

Representative Jaquet said that was discussed a lot in 1992 but they did not want to tie it to operating expenses; they want to use it for one time activities that would not suffer due to the volatility of the real estate market. She said Colorado does tie it to operating expenses.

Senator Werk said he remembers hearing people's concerns with speculation driving values up during the public hearings. He noted that the local option version of this legislation is on any sale of residential property. He said he supports local option real estate transfer tax but would like to see a way for it to be charged on speculators or those flipping property, not someone who has owned their home for many years.

Senator Langhorst asked if any states exempted the payment of real estate transfer taxes in the event of hardship or divorce situations or when no profit is made. **Mr. Nugent** said he does not recall that but it could be written in. Given the federal tax laws it might be hard to determine whether profit was made or not.

Senator Langhorst said that divorce is actually covered in the legislation but he would like to cover financial loss situations.

Senator Keough asked if committee members had any other issues they would like to discuss before moving into the motion and voting process. **Representative Jaquet** said sales price disclosure is an issue that is very important in Blaine County. She said it was recommended in 1977 and only a few states do not require sales price disclosure. **Representative Lake** suggested that RSMPN498 also deals with sales price disclosure. **Representative Jaquet** agreed but if the committee decides not to recommend real estate transfer taxes, she wants sales price disclosure to be covered. **Representative Lake** said in his opinion it is on the table

and could be split into separate legislation. **Representative Jaquet** said she would like to see that done because they are different issues.

Senator Corder asked if someone can make a motion or a second and then not support the motion. **Representative Lake** said this has been researched and because the committee operates under Senate rules, if someone makes a motion, they have to support it. He added that there is nothing in Mason's that says a person can not vote against their motion. **Senator Little** said the Senate rules require a member to vote for a motion but they can change their vote before the role call is announced. **Representative Jaquet** apologized for not voting for her motion at the last meeting.

Representative Jaquet commented that she would like this part of the meeting to begin with the Homeowner's Exemption since that was left over from the last meeting without any consensus or conclusion. **Senator Keough** said that the minutes of the last meeting reflect that the committee recommended:

- C that the circuit breaker be increased to an income limit of \$28,000 with a cap of \$1,320 on the amount the state will contribute.
- C that the value of the land as defined by the definition of homestead be added to the 50/50 homeowner's exemption.

She said if committee members would like to discuss further expansion of the homeowner's exemption she would add that to the list. **Representative Jaquet** said she would like to discuss this further because she thought there was going to be discussion of where the exemption amount should be and whether it should be indexed. **Senator Keough** said she would put that on the list for discussion later today.

Representative Lake reported the findings of the subcommittee that was formed to discuss the developer's discount at the last meeting. He stated that they modified legislation as found in HB488 to disallow a developer having an ag exemption up to the time he builds on lot. This draft is RSMPN485. **Mr. Nugent** said the language in this legislation states that "each parcel of land in the rural homesite development plat previously eligible for the exemption pursuant to section 63-602K, Idaho Code, shall continue to be eligible for exemption."

Mr. Nugent explained that section 63-602K, Idaho Code, is the provision allowing a speculative exemption on agricultural land. He said section 63-602K picks up in the definitional section 63-604 which is the definition of land actively devoted to agriculture. There is a requirement of \$1,000 or 15% of gross income to qualify as land actively devoted to agriculture. He said this gets rid of the “hobby” farmer.

Mr. Nugent continued with the legislation language. It states “when any individual parcel is transferred, that individual parcel shall not be eligible for the exemption pursuant to section 63-602K, Idaho Code, unless the requirements of the exemption have been met, provided however the remaining parcels shall be eligible for the exemption pursuant to section 63-602K, Idaho Code, unless they are otherwise ineligible. Transfer of a parcel to a child or a spouse of the owner shall not cause ineligibility for the exemption pursuant to section 63-602K, Idaho Code, unless construction of improvements on the parcel has begun in which case the parcel shall not be eligible for the exemption.”

Mr. Nugent said this would still apply only to those counties with a population of 100,000 or less.

Representative Lake said the subcommittee recommends this legislation be introduced and that they think it will fix problem of county assessors assessing land at rural homesite rates even though it is still being used for agriculture. Under this legislation, if a developer comes in and does not use land as agriculture, they will not get the exemption. He said they are trying to address a farmer or rancher who is still in the agriculture business and allow him to plat his ground and sell lots one at a time but still get the exemption on the land devoted to agriculture.

Representative Lake moved that the committee recommend RSMPN485 to the full legislature. Senator Langhorst seconded.

Representative Deal asked if this language replaces the current language in statute that made exemption in the first place. **Representative Lake** said this would replace the current language. He explained that it takes some of the language that came through the amendments on HB488 out and moves back toward the original intent of HB488. **Representative Deal** asked if this replaces the phase out that was included in last year’s legislation. **Representative Lake** said yes, this legislation contains no phase out provisions.

Senator Werk said he is unclear whether legislation represents the subcommittee's position. **Representative Lake** said this legislation was put together by the subcommittee discussions. There were some reservations by members of the subcommittee but everyone was willing to support introduction of the legislation.

In response to a question from **Senator Werk**, **Mr. Nugent** said if someone bought a one acre lot that had originally been actively devoted to agriculture and it was not forest land, simply putting a cow on it will not give it an exemption under the requirements of 63-602K, Idaho Code. **Senator Langhorst** asked if someone has to meet all or some of the requirements in 63-602K to get the exemption. **Mr. Nugent** said the operative language is in section 63-604, Idaho Code for land to be actively devoted to agriculture it must be at least five acres. The either/or language is in 63-602K, Idaho Code requiring \$1,000 or 15% of adjusted gross income.

Senator Little asked if transfer means when the title changes. **Mr. Nugent** said yes. **Senator Little** commented that this would not address timber land, commercial land or land in three or soon to be four or five counties or cities so it still creates somewhat of a disincentive for a developer to have their ground annexed into a city. **Mr. Nugent** agreed this just addresses land that had been actively devoted to agriculture in certain areas. **Senator Little** asked if section 63-602FF was repealed, can land be developed under current code and still maintain the ag exemption even if the land is platted and surveyed on the remaining lots. **Mr. Nugent** said that would be true in some counties but the reason for HB488 was that some counties were not allowing that.

Senator Werk said the definition in section 63-604 seems different; one definition includes parcels of land that are 5 acres or less and one says parcels of land over 5 acres. **Senator Little** said that the definition also says land utilized for grazing of a horse or other animals kept primarily for personal use or pleasure, that are not part of a bonafide for profit enterprise, shall not be considered land actively devoted to agriculture. He said the Idaho Code was changed last year dealing with leasing pasture for the grazing of horses and asked if that was in this section 63-604. **Mr. Nugent** said it was changed to allow it to be a for profit enterprise if someone was raising a race horse that would actually bring in money. **Representative Lake** said the legislation last year had to do with someone who had a pack string of horses he used for business who was disallowed the exemption because these were horses. It was changed to allow the exemption, if that is your business.

Representative Jaquet said in her opinion HB488 was legislation developed for a certain geographic area of state. **Representative Lake** said that HB488 was originally brought to solve the problem of certain assessors in some areas that were assessing land differently than elsewhere. The problem with HB488 when it was finally passed was that it had been changed entirely from the original version. The HB488 that did pass introduced the concept of having something built on the property and still get the exemption. **Representative Jaquet** asked why not repeal the entire statute and have the county assessors solve the issue among themselves locally. **Representative Lake** said that could happen but in the hearings this summer it was apparent that something needs to be done about the issue. **Representative Jaquet** said that in her opinion this just seems to be getting worse as the legislature tries to fix it.

She made a substitution motion that the committee recommend repeal of section 63-602FF, Idaho Code, and to have the county assessors work together to solve the problem that caused this to be an issue.

Mr. John said just doing this will not solve the problem she is discussing. He suggested another way to solve the assessor issue is by saying that someone does not lose their ag exemption just by filing a plat on their land. That is what some assessors were doing.

Representative Jaquet commented that her motion is to repeal section 63-602FF, with the proviso that platting of subdivisions is not repealed. **Representative Lake** suggested that motion goes right back to language that is in this proposed legislation.

Representative Jaquet said this proposed legislation does not cover all parts of the code being affected and she is trying to get a whole issue. **Mr. John** explained that the proposed legislation covers the exemption issues as long as the land is still being farmed. It keeps the farmer whole even if he subdivides until he sells the land or quits farming. **Representative Jaquet** said this was a local issue until the legislation was amended. **Mr. John** said HB488 has no affect on timber land at all. The way HB488 was drafted it picked up any land that had ever had the ag exemption. This picked up land that had been on the books for years that had been paying tax at the residential rate. It went beyond what the sponsors envisioned.

Representative Lake said that the subcommittee struggled with this also but felt they needed a place to start. That is why they recommended this proposed legislation. He said this legislation could be changed as it goes through the legislation process to include her ideas. In his opinion this committee needs to present some legislation that will solve the issue of developers being given the ag exemption discount simply because they own property that was used for agriculture at some time in the past. **Representative Jaquet** said she is not sure this corrects what people in Valley county talked about. She withdrew her substitute motion.

Senator Little said he dislikes the discriminatory aspect because it only includes certain counties and because of what it does to cities. He said one ramification of the legislation is if someone purchases 40 acres next to city, the legislation gives them incentive to fight annexation. It is also unfair for those with timber land that when platted goes to full market value but land that has ever had an ag exemption still gets it. He agreed with **Representative Lake** that this is a difficult problem brought on by certain assessors. **Senator Little** said the timber issue, three counties and cities and the fact that this gives an entitlement to a landowner who utilizes the ag speculation exemption that exists in code goes to far and he will vote no on the motion.

Representative Lake said the legislation says that in order to get exemption the land must still be used for ag purposes even if the land is platted. **Senator Little** said it still does not address timber parcels, three counties, or cities. He also thinks this legislation does not distinguish between two parcels of land; one with 100 acres that can be split into two lots and another with 100 acres that can be split into 100 or 200 lots. This says both parcels are worth the same or that there is no difference in value. In the market place when these are sold, that would not be the case. **Representative Lake** said the whole purpose of the ag exemption is to encourage open spaces. He said he agrees with the comment about land next to a city. He added that as long as we have a tax system that takes the speculative value out of agricultural land, that speculative value should remain out of those lands even if they have been platted, the act of platting it should not increase the value. **Senator Little** said he thinks there is something in between.

Senator Werk made a substitute motion that the committee recommend that legislation be prepared that undoes HB488. The motion was seconded by

Representative Jaquet.

Representative Lake said that motion would just repeal 63-602FF and the Tax Commission has already explained that will not fix the problem.

Representative Moyle said in looking at ag ground when it is located next to a city, he can see some of **Senator Little's** concern but the key is use. People who live in subdivisions next to agricultural land like it. If someone is farming land, they should get the ag exemption. If not, they should be taxed accordingly. This is where the original problem came from and that is what this legislation is trying to fix. He cautioned that going after land that has been platted might force some farmers to subdivide. In his opinion going back to the fundamental of what is the use of land, will solve the problem.

Senator Langhorst said three years have been spent working on this issue. The question is how to protect legitimate farmers. He said he will vote for the substitute motion because, in his opinion, we need to start from scratch.

Senator Corder said he does not think HB488 went far enough because it did not address timber land. He would love to have a one page bill that solves the problem but does not think that will happen. He also said he does not think simply repealing it this will solve the problem either. He noted that no matter what comes out of this committee, it will be changed by legislature. On either hand, he said the committee needs to find a solution.

He made an amended substitute motion that the committee recommend to legislature that the issue of the developer's exemption be fixed. The motion was seconded by Senator Goedde.

Representative Lake commented that voting for the amended substitute motion is a case of punting. He said in his opinion the proposed legislation is a springboard for discussion and something for the legislature to start with. He said he would hate to see the committee not actually propose something.

The amended substitute motion failed 6 to 8.

The substitute motion failed 9 to 5.

The original motion passed 10 to 4.

Senator Goedde moved that the committee recommend RSCAL297 regarding local option taxes to the legislature. This motion was seconded by Senator Corder.

Representative Lake said he is not opposed to local option taxes except that all of the proposals before the committee are tax increase bills because only part of the local option taxes will be used to replace property taxes. Having said that, **Representative Lake** noted that if people are willing to vote 2/3 on an issue, why should the legislature stand in the way. Should that just be up to the counties? He said that generally it is thought that local governments use property tax to support themselves and the state uses sales and income tax, not property tax. In his opinion, it would be far better to continue down that path instead of having a lot of different taxing schemes throughout the state. He noted that local option sales tax works well for commerce centers but not so well for rural areas that go to those commerce centers to spend their money. **Representative Lake** said the argument from the commerce centers is that they have to provide infrastructure. He said he would make the argument that rural counties have to provide roads for those in commerce centers to travel on to recreate and so on.

Senator Goedde said the legislation says 50% will go to property tax relief but nothing precludes counties from presenting a ballot measure for more to go to property tax relief. This is a very versatile bill. He admitted that this is a tax shift but not a tax increase. He emphasized that while it requires two-thirds of the voters to approve the tax and it also requires that 40% of the registered voters must turn out to vote.

Senator Langhorst spoke in support of the motion partly because at almost every public hearing people spoke in favor of more local control over local budgets. He said it would be his hope that this legislation would allow the local option tax to be used for transportation. In his opinion because of the requests by county and city leaders at the public hearings, this deserves a good debate from the entire legislature.

Senator Corder said the 50% that goes to offset property taxes dollar for dollar is not hard to understand. He commented that in his opinion the other 50% goes to reduce property taxes also because those funds are used to fund something that

would have been levied for otherwise. He said it was his belief that the committee charge was to shift taxes around, not necessarily reduce all taxes.

Senator Little said he will vote no on this motion because if communities that use local option sales tax are near a state that has a higher sales tax, this is ok. If they are next to a state with no sales tax, those areas can not even consider local option taxes. In his opinion this gives considerable property tax relief to some areas while it makes it more difficult for others.

Senator Werk commented that there is no one size fits all solution to the property tax problem. In his opinion this is just one tool to help and that other tools should also be added to help different communities. He said he supports the motion.

Senator Goedde said he has a hard time accepting the argument that some areas are going to be hurt by this when he knows that 30% of income tax in Kootenai County comes from people out of state that are visitors. In his opinion this is a huge tool that helps Kootenai County taxpayers. He said it may not help taxpayers in counties such as Gem but it is one tool to have available and the benefits far outweigh the potential detriment to counties that cannot use it. He said there is probably a tool that could be added that would help these areas and make up for the local option.

The motion failed.

Representative Saylor moved that the committee recommend RSMPN501 dealing with local option taxes to the full legislature. Representative Langhorst seconded.

Representative Saylor commented that this is another tool to be added that would benefit his community. He said his mayor said this legislation could be a way to raise significant revenue for Coeur d'Alene in that it could allow them to implement a bed and breakfast tax. This legislation goes beyond the current statute by lifting the population cap and is a bigger tool for local government. Again he commented that there is no one size solution that will work for all areas.

The motion failed.

Representative Jaquet said that her area has regional transportation authorities

(RTAs) that have no taxing authority and no spending authority. She said often transportation districts cross county lines and **moved that the committee allow these RTAs to have local option sales tax as outlined in the other legislation that requires a 66 2/3 majority and that it would go for maintenance and operation as well as purchase of capital equipment for regional transportation. Senator Langhorst seconded.**

Senator Langhorst said he supports this idea because Idaho is one of the only three states that fund no public transportation at the state level and that we do not give local communities the option to do that either. He would like to send support of the idea to the legislature of a local option for public transportation. **Senator Werk** said currently the only way to fund public transportation is through property taxes and in his opinion it would be more appropriate to do this through local option taxes.

The motion failed.

Representative Anderson moved that the committee recommend support of local option taxes as a way to provide property tax relief by changing the wording of RSCAL297 to allow use of all local option tax proceeds to go to property tax relief. **Senator Keough** seconded.

Senator Keough said she supports this motion on the basis that she would like to see the full body discuss local option taxes. She said Idaho takes pride in local control and local option allows local taxpayers to make decisions as to what pays for certain projects.

Senator Langhorst commented on the irony of how readily acceptable it is to raise sales tax and how difficult it is to for the legislature to allow local people to vote on whether to raise theirs.

Representative Jaquet said the **Representative Anderson's** motion is to use local option to provide full property tax relief but that **Senator Keough's** statement was more general. **Senator Keough** said she might not agree totally on making local option go 100% to provide property tax relief but she believes it needs to be discussed by full body.

Representative Saylor commented that the earlier legislation was thought to be a springboard for discussion and that this is true of this legislation also. There was a lot of interest in local option at the hearings and there has been a number of proposals presented. He will support the motion.

Senator Goedde said since two local option bills died in the committee drawer last year, his fear is that if the committee recommends 100% to property tax relief, that will be only option discussed.

Representative Jaquet said that Nez Perce passed their local option by 72% and Kootenai County's passed by 80%. People want control of what to do with their taxes and she has a hard time supporting a motion requiring local option to be used 100% for property tax relief.

The motion failed.

The next item on the agenda was a discussion of replacing school M&O levy from property tax dollars to state funds.

Senator Werk distributed a budget projection handout and a cost of school district health insurance handout that had been distributed to JFAC members during their Northern Idaho tour. He explained that the budget projection sheet indicates that if budget projections continue unabated, our budget is going to be eaten by Medicaid and Corrections. He wanted to point out the starkness of those figures to committee members by reminding them that this is the money pool that the education budget will come from if school M&O is removed from property taxes to state funds. In his opinion based on those projections, education will lose.

Senator Werk said the cost of school district health insurance handout was an attempt to show that there are alternatives to which the M&O replacement can be tied to that would take a burden off of the school districts and let the state pick up instead of simply letting the budget float and swim in the same pond as the Medicaid and Corrections budgets. The figure for 2006 would be \$146 million and that increased about \$7,561 per position.

Representative Lake explained that from 2006 to 2007 just because of the increase in market values, the M&O will increase about \$40 million or 17%. Most of these dollars will flow to school districts that are seeing exceptional growth in

construction and valuation. He said in his opinion there is no way to offer substantial property tax relief without removing the school M&O from property tax. In responding to concerns about where the state will get the funding at last meeting, **Representative Lake** said it would be his idea to just go to general funds but that he is willing to discuss specifics.

Senator Corder agreed with **Senator Werk's** concerns. He said he supports moving the M&O to general funds but there needs to be safeguards built in to protect school budgets down the road. In his opinion the final piece of legislation needs a lot of discussion as well as the discussion of broadening the sales tax base to secure the sales tax fund. **Representative Lake** asked for more specifics on **Senator Corder's** suggestion of expanding sales tax. **Senator Corder** said he would suggest looking at taxing services and doing away with many, if not all, of the exemptions that exist. He said these are long term goals.

Senator Goedde said there was discussion at earlier meeting of a requirement to stabilize sales tax if that is to be the replacement. In his opinion the school M&O cannot just be put on the general fund without identifying where those funds will come from. He said besides funding the school M&O, the state will also have to substantially fund a stabilization account at the outset to allow districts to have confidence that there will be money available. This could be \$300 million or more.

Representative Anderson moved that the committee recommend moving the 3 mills of school M&O off of property taxes and onto the general fund.
Representative Lake seconded.

Representative Anderson said he appreciates **Senator Goedde's** comments that money needs to be earmarked to sales tax but he does not know how to do that and get it out of the committee.

Senator Goedde said he appreciates the broad stroke but without fleshing it out there is no way he can support the motion.

Senator Keough suggested a general recommendation that the larger body consider looking at moving school M&O off property tax to the general fund since it seems the committee wants to continue discussion and exploration of the idea. This would be a general recommendation to the legislature saying this committee

feels this idea deserves more time and more study.

Senator Little said the public meetings that were held in areas that are experiencing a lot of growth and where property values were increasing were much more volatile. One of the reasons for this is the fact that schools do not have to certify the 3 mills for school M&O. He said he is concerned that without stability of the property tax funding school M&O, schools might be in trouble. He is concerned that by removing the M&O from property tax to the state general fund it might relegate education to a lower class as far as the appropriations process.

Senator Little suggested implementation of some sort of truth in taxation so patrons of school districts would be aware that the trustees certified the 3 mills.

He made a substitute motion that the committee recommend removing 1.5 mills of the school M&O off of property tax with a truth in taxation where patrons of school districts are notified and can go and say they do not want property taxes to go up by 40% or whatever. Senator Goedde seconded.

Senator Goedde asked if this is 1.5 mills as it relates to future valuation or is it tied to a specific dollar amount. **Senator Little** said he would envision taking 1.5 mills off as was done in 1995 so that 2.5 mills would be paid by the state. In response to a question from **Senator Goedde** regarding the 4th mill being capped at \$75 million, **Mr. Hancock** said that was correct and that is what **Senator Little** is getting at. What is funding local schools today is not 4 mills, it is 3 mills plus \$75 million. The \$75 million no longer represents a full mill anymore. **Senator Little** said he wants to maintain some certainty for public school funding formula. **Senator Werk** asked if the additional 1.5 mills that would be taken off M&O would be funded year by year as a replacement or will that amount float with the budget. **Senator Little** said he does not have all of the details worked out but the effect would be to freezing it in same way as was done the first time.

Representative Lake asked if the intention would be for the 1 mill that is already replaced to stay frozen at \$75 million and another 1.5 mills would be frozen where it is today and the other 1.5 mill that would remain on property tax would float as assessed values go up. **Senator Little** agreed.

Senator Corder made an amended substitute motion that the committee make a general recommendation that the full legislature look at removing all or part

of school M&O from property taxes to the general fund. Representative Moyle seconded.

Representative Corder said he supports removing the full M&O but feels that the legislature should decide.

Representative Jaquet said she thought the committee would be more specific with recommendations because of time spent studying issue this summer and she could not support the amended substitute motion.

The amended substitute motion failed.

The substitute motion failed.

The original motion failed.

Deferral was the next discussion issue. **Representative Saylor** said that while there was not a lot of support for this issue, he thinks it would be worthwhile to keep it on the burner. He supports the idea of reverse mortgages and can work on legislation later.

Representative Jaquet move to approve the property tax equity outline as put together by Mr. Hancock that was discussed earlier. Representative Saylor seconded

Representative Lake said he likes the concept. In response to a question from **Representative Lake, Representative Collins** said the subcommittee that dealt with this issue last year did have support for a tax deferral concept.

Representative Lake said the idea makes sense even though there might not be a lot of use it can be available as a tool for those that want to use it. **Senator Little** said he is in favor of reverse mortgages and that he agrees with the concept as outlined but is not comfortable designating any one certain agency.

Representative Lake made a substitute motion that the committee approve the property tax equity outline as prepared by Mr. Hancock but that it not specify who the vendor is. Representative Deal seconded.

The substitute motion passed.

The next item for discussion was RSMPN486 dealing with schools ability to access impact fees. **Senator Werk** said that idea of having growth pay its own way is very important and he was surprised when testimony in Nampa said the statute is very difficult and needs to be adjusted.

Senator Werk made a motion that the committee support simplification of the impact fee statute and the allowance of impact fees to be used for school facilities. Representative Saylor seconded.

Senator Little said he was sympathetic to Nampa but impact fees can not fund ongoing costs because once the growth slows down the money is lost. Impact fees need to be used for one time moneys. **Senator Werk** said his intent was to simplify the law and to allow for funding of school facilities. **Representative Jaquet** said other agencies are already working on this idea and she agrees with the motion.

Representative Jaquet made a substitute motion allowing the expansion of impact fees for workforce housing.

Senator Keough asked if the substitute motion was specifically to allow the expansion of impact fees for workforce housing without including the language in **Senator Werk's** original motion. **Representative Jaquet** said that was correct.

The substitute motion failed for lack of a second.

Senator Langhorst asked for clarification of the substitute motion.

Representative Jaquet explained her idea was to add workforce housing as an eligible use for impact fees as well as simplification of the statute.

Representative Jaquet made another substitute motion that was the same as Senator Werk's original motion with the inclusion of workforce housing as an eligible use for impact fees. Senator Langhorst seconded.

Senator Little asked if a municipality can not already mandate a developer provide housing whenever they build hotels or restaurant. He said it would be his

preference not to put anymore requirements in the tax code. **Representative Jaquet** said he was correct but she would like to have it put in code because more that is more explicit.

Senator Corder asked how a county would own the buildings and maintain them and so on. **Representative Jaquet** said the county currently does not own units. She said basically the impact fee ordinance could be used to build up the fund to be used for construction or purchase of workforce housing for rentals.

The substitute motion failed.

The original motion passed.

RSMPN503 dealing with a real estate transfer tax was the next discussion item.

Senator Werk made a motion that the committee support the idea of real estate transfer taxes as proposed in RSMPN503 with changes that include an exemption for affordable housing units and that the tax apply to houses sold within two years of purchase and adding an exemption if the house is sold for a loss. Senator Langhorst seconded.

The motion failed.

The next discussion item was sales price disclosure. This is also included in RSMPN503.

Representative Jaquet moved that the committee recommend a system of sales price disclosure with confidentiality provisions that were worked out by the Association of Counties legislation in the past. Representative Saylor seconded.

Representative Jaquet said this has been discussed pretty thoroughly. She said it is a situation of fairness. Many county assessors have access to the Multiple Listing Service that gives them access to sale prices of homes, Blaine County and others do not have this access. She said it is hard to expect county assessors to comply with the constitutional mandate of fair market value when they do not have access to information. This is an unfair situation that exists in Blaine County as

well as others, with regard to knowing what a home would be valued at. She said Idaho is one of three states not requiring sales price disclosure.

Senator Little said he is sympathetic but this creates a new part to our property taxes. He said he also thinks that sales price disclosure will increase the acceleration of property values. He noted that one of the first things our territorial legislature in 1865 told county assessors was assess property equally. He said he would not be opposed to studying the idea further.

Representative Lake asked if the tax commission has problems in determining values when they audit assessors. **Mr. Dornfest** said yes, if determining value means testing the work of assessors. He said they often get insufficient data. It is nationally recognized as an issue and national standards call for full sales disclosure. He said Idaho is one of a few states that have very little information required regarding sales price of homes.

Representative Saylor said that property tax is our most unpopular tax. One reason for this is due to the lack of uniformity and fairness of assessments. Assessors say sales price disclosure would be helpful to them especially in the case of new homes or high end homes where there are not a lot of comparable sales.

Senator Little asked how other states how handle issues where a piece of property is sold for less than market value or where property is included in a stock sale. **Mr. Dornfest** said most of the time atypical sales are excluded from analysis. There are always going to be some sales that are not used but sales price disclosure might get twice as many as before.

Senator Langhorst clarified that sales price disclosure does not necessarily equal what a home will be assessed at, it is just information for the assessor. **Mr. Dornfest** said that was correct. He said that there is very little difference between the process today versus the process under sales disclosure except that in a voluntary situation only one-half or three-fourths of the sales are being reported, with sales price disclosure there would be more standardization. He said the tax commission does not teach that the price of the property should be the same as the assessed value.

The motion failed.

The committee moved on to discuss the homeowner's exemption.

Senator Langhorst moved to increase the homeowner's exemption to \$100,000 and index it going forward for inflation. Representative Jaquet seconded.

Senator Langhorst said this issue was the most mentioned in the public hearings this summer. **Representative Lake** reminded the committee that land will be included in the homeowner's exemption because that was voted for at the last meeting.

Senator Little commented that this would be a \$120 million tax shift and a \$27 million tax loss in the second year to schools. **Representative Lake** agreed. **Representative Jaquet** commented that instead of a shift, this should be considered a correction from when the original homeowner's exemption was not indexed.

Representative Saylor reminded the committee of the tone of the meetings in Sandpoint and Coeur d'Alene. He noted that this is another opportunity to provide significant property tax relief. One reason given for the rise in property taxes was because many people are maxed out on their homeowner's exemption. For someone who is maxed out, increasing the homeowner's exemption as suggested is a savings of about \$800 per year. He said this is also a chance to end the shift that has been going on and restore balance to our property tax system. **Representative Saylor** also reminded the committee of the threat of an initiative that was brought up at the Northern Idaho meetings.

Representative Lake commented that this does offer property tax relief for a certain segment of the state's population. But in doing that, this is a straight property tax shift to another segment of the population. It does not move property tax off of property taxpayers as a whole. He said without actually moving some of that property tax onto another revenue source, this is just a shift. **Representative Saylor** said in his opinion the same kind of shift happens in shifting the M&O to sales tax. **Representative Lake** responded that even the original homeowner's exemption was a shift.

Senator Werk reminded the committee that this process did not start because the business community was complaining about their property taxes. It began because

the residents; people that own residential property, are saying they are tired of the rapid valuation increases and increase in property taxes. In each of the 12 meetings around the state, people testified that they want to see the homeowner's exemption increased to give them a break in their property taxes. With regard to shifting, **Senator Werk** said a mistake was made in 1982 by not indexing the homeowner's exemption. The reality is if it had been indexed just to the CPI, that value would be at \$100,000 today and this discussion would not be necessary. He said this is one way the legislature can help the average citizen in the state.

Representative Jaquet asked if it is best to index this to the CPI. **Mr. Dornfest** said he has no opinion on the best way to index this.

Senator Little said he also heard this summer to look out for unintended consequences. Raising the homeowner's exemption to \$100,000 is a shift both up and down. He said Idaho probably has one of the most progressive real property residential taxes. In other words the low income people pay the least, relative to other states and it goes up faster than almost any other state. Increasing the homeowner's exemption will change that progressivity. By adding the land to the homeowner's exemption and by adjusting the circuit breaker, some of this has already been taken care of. In his opinion this is just another exemption that is on autopilot.

In response to a question from **Representative Lake**, **Mr. Hancock** explained that exempting taxable property in any category that pays property tax it gets shifted back out. He noted that since school M&O is a fixed rate, that results in a loss of revenue for school districts on their M&O levy. He used an example that was discussed at an earlier meeting raising the homeowner's exemption to \$60,000 and including land. This scenario would result in a property tax reduction of \$30 million in owner residential class and increases across the other classes. He said raising the homeowner's exemption to \$100,000 would not result in an increase five times greater because the more properties are maxed out as the homeowner's exemption increases. A property with a value of \$120,000 can utilize a \$60,000 exemption but if the exemption is \$100,000, their maximum benefit is still \$60,000. They will continue to accrue more benefit as the value of their home goes up.

Senator Langhorst pointed out that in talking about shifting back, since 1982 real estate values have gone up about three times as fast as values for commercial

properties and tax exemptions have been passed for businesses. He said this is really more of a corrective shift to make up for the shift since 1982.

Representative Anderson said this also shifts to other residential property owners including renters who may be less able to pay and those that have second homes.

Senator Corder said the mistake was made in 1982 to place yet another band-aid that was a problem. He said he cannot support the motion because the entire problem has not been looked at. He said increasing the homeowner's exemption is just another band-aid to make people think something was done to help them. Until he can be convinced that the shift goes in the right direction and consideration has been given to broadening the sales tax base, he cannot support the motion.

Senator Langhorst commented that he brought up the idea of property tax relief for renters and received very little committee support. He noted that many states have property tax relief for renters.

Representative Lake said the people want the homeowner's exemption increased but in his opinion it will not do what they think it will. It simply shifts the tax to another class and costs schools money. Removing the M&O from property tax to the state would provide much greater property tax relief to all classes of property taxpayers.

Representative Lake made a substitute motion that the committee support increasing the homeowner's exemption to \$100,000 and indexing it with prior removal of the M&O from property tax to the general fund. Representative Anderson seconded.

Senator Langhorst said that all the proposals for removal of the M&O off property tax have failed and asked if it is proper to attach this to his motion.

Senator Keough suggested that this substitute motion is exclusive of other M&O proposals.

Representative Jaquet suggested that the maker and seconder of this substitute motion withdraw it and let the committee vote on the original motion and then move to the M&O motion. **Senator Keough** said the way to do that would be to

vote the substitute motion down because in her opinion this really is its own concept.

Senator Little asked what would stop any other member from making a similar motion that included one of the issues that failed to pass earlier in the day such as real estate transfer taxes. **Senator Keough** said any motion would be in order. **Representative Jaquet** said she thinks the citizens deserve to see what this committee wants to do on the homeowner's exemption before adding other issues into it. In response to a question from **Senator Keough**, **Mr. Nugent** said in his opinion the two issues are causally related because they are both issues that have been studied by the committee.

Representative Anderson said in his opinion, as was stated earlier, only increasing the homeowner's exemption and not including the M&O only gives property tax relief to one class of people. **Representative Lake** said it also only deals with the group of taxpayers who will qualify between the \$50,000 and \$100,000. **Representative Jaquet** reminded the committee that the Kootenai County Property Tax Relief Task Force that has a business domination of its members recommended:

- C increasing the circuit breaker
- C increasing the homeowner's exemption to bring balance to the system
- C simplify and broaden the impact fee process
- C broaden local option

She said there was no discussion from the group of business people about school M&O. In her opinion the substitute motion should be voted down and the committee should vote on the original motion. **Representative Anderson** said the recommendations above were made many weeks ago and in discussion he has had with this group there is a lot of support for removal of the school M&O.

Representative Sayler stated that the letter **Representative Jaquet** read from was dated October 7, 2005 and was their last recommendations to the committee. He added that in speaking to **Representative Henderson** another member of the task force, he did not get the impression he was strongly in favor of removing school M&O. **Senator Langhorst** called the question.

The substitute motion failed.

The original motion failed.

Senator Werk moved that the committee support increasing the homeowner's exemption to \$75,000 and index it to the CPI. The motion was seconded by Representative Jaquet.

Senator Werk explained that in his opinion at some point relief needs to be provided to property taxpayers. He said in his opinion any impact increasing the homeowner's exemption is going to have on schools will be mitigated due to the rapidly increasing property values.

The motion failed.

The next agenda item was a discussion of finding sources of revenue to pay for property tax replacement. **Senator Keough** said she did not know if the committee had voted on anything that would make this discussion necessary. **Senator Corder** agreed and said it would have made more sense to him to find the funding source first. He said then members might have been more willing to vote for some of the issues that failed today.

Senator Pearce said in listening to the testimony regarding the rapidly escalating values and people's frustrations, the committee got a good education this summer.

He moved that the committee recommend limiting property taxes collected to a 3% increase for the coming year. The motion died for lack of a second.

Senator Goedde commented that if property tax relief is not provided, citizens of this state are going to act. So that matters do not get worse in the meantime, **he moved that the committee recommend freezing property taxes for one year. The motion was seconded by Representative Deal.**

Senator Pearce said he agrees with the motion and thinks it answers the needs of the people. His only concern would be what this would do to the schools.

Representative Jaquet asked if **Senator Goedde** would entertain amending his motion to create a reserve fund to keep the schools whole while this freeze is in place. **Senator Goedde** asked if this means committing other state funds to balance

that account. **Representative Jaquet** said yes. Given the number of supplementals that have passed already and anticipating that there might not be any increase, is there any way this committee could adopt a policy saying that during this time of freeze, sales tax revenue would flow to the districts to make sure they were held harmless. **Senator Goedde** said in his opinion if districts feel the need to supplement what the state would give them next year for a short term basis, a supplemental levy would be in order. He noted that most supplementals offered have passed.

Representative Jaquet commented that information showing supplementals that have been passed by region shows Northern Idaho to have the most. She said it appears to be districts that have been hurt by the economy (timber and mining) and have lost students. These areas have difficulty going to their citizens to get a supplemental and that is why she would like to be able to hold districts harmless.

Senator Little asked if this motion is to freeze dollars, levy rates or values and for what year. **Senator Goedde** said he would anticipate freezing dollars. **Senator Little** commented that a small community with a manufacturing plant that shut down would lose all of their revenue. **Senator Goedde** said he did not know. **Mr. Nugent** said the dollars or the levy rate could be frozen as could the assessed value. This was done In 1979. **Mr. Dornfest** said in 1979 the state froze the overall tax dollars being raised by property tax per taxing district. Bonds and voter approved things were not frozen. **Senator Goedde** said he would be ok with that. **Representative Deal** said he thought the motion was to freeze the assessed valuation so he withdrew his second.

Senator Pearce said he would second Senator Goedde's motion.

Senator Little clarified that this was freezing dollars per taxing district and the budget for FY08 would be the same as FY07. **Mr. Dornfest** said yes except the fiscal years for most taxing districts would be for FY07 because FY06 is set currently and the budgets would frozen at that rate. **Senator Little** said he is assuming that new growth will be allowed because if not that could cause significant tax revenue reductions or increases in certain areas. **Mr. Dornfest** said that under current law new growth is allowed but in his opinion this would not include new growth. In that case with in an area that added a large new building or industrial complex, the rates would tend to decrease and spread the taxes according

because the tax dollars would not be allowed to increase.

Representative Deal made a substitute motion to freeze assessed valuation based upon the assessed valuation in 2005 for next year. Representative Lake seconded.

Representative Lake asked if that would include new growth. **Representative Deal** said yes.

Senator Little asked if just freezing assessed valuation allows a taxing district to change their levy rate. **Representative Deal** said yes. **Senator Goedde** clarified that with this motion taxes could go up 3% even if the assessed value was frozen. **Representative Deal** said his idea is simply to freeze the assessed valuations so the other functions of budgeting and such are not changed.

Senator Langhorst said he had great hope for this committee during the summer and the public hearings but that they seem to have reached a standstill. He said with negotiations the committee can come up with some concrete solutions from some of the proposals that have failed today. He asked if the maker of the motion would withdraw it for 30 minutes and allow the committee to go at ease. He said he is not suggesting the committee go into closed meetings but that they be allowed to hold informal discussions in front of everyone present.

Senator Keough allowed a 15 minute recess and asked that when the committee return discussions resume in the committee forum.

After the break **Representative Deal** said he would withdraw the substitute motion and **Senator Goedde** agreed to withdraw his original motion.

Senator Langhorst made a motion that the committee recommend removing 1.5 mills of the school M&O off of property taxes and replace it with state revenue and to increase the homeowner's exemption to \$75,000 and index it. The motion was seconded by Representative Lake

Representative Sayler asked for information on what impact this will have. **Mr. Hancock** said this will provide a fairly substantial amount of relief to owner

residential property taxpayers but the other categories will not see much relief.

Senator Goedde asked if the 1.5 mills is a fixed dollar amount or does that float with valuation. **Senator Langhorst** said his motion was meant to mirror the proposals that were made earlier. He said he saw this motion as a midway point between two of the competing relief measures discussed today. His desire to strike a compromise is based on the fact that this committee went across the state and listened to people's concerns about the issue. He said he does not see the full legislature being able to get the benefit of the input that was received or the in-depth analysis the committee enjoyed. For the committee to send a message to the legislature that it was unable to reach a solution does not sit well. **Senator Langhorst** said that does not reflect on what the committee has done or wants to do.

Representative Lake spoke as seconder of motion that the intent of the motion was to remove 1.5 mills from property tax. **Senator Langhorst** added that the motion includes language saying the state would replace that 1.5 mills.

Representative Lake said he agrees with **Senator Langhorst** that it is essential for the committee to deliver a recommendation to the full legislature and he is willing to compromise to get that.

Senator Goedde made a substitute motion that includes Senator Langhorst's motion and adds a recommendation of local option as outlined in RSCAL297. Senator Pearce seconded.

Senator Langhorst said it was stated in discussions with proponents of removing the M&O that school districts that needed the funds would be in a better position to pass the local funds needed because they would enjoy this property tax relief. In support of the motion and the compromise which is as close as the committee has come to meaningful property tax relief, that would be somewhat palliative.

Senator Pearce said compromises are great and this will seem like the committee did something wonderful. In his opinion the import of the earlier motion was missed. This is still just a shift. The earlier motion just called for freezing the property taxes collected for one year and would allow property tax values to increase which would drive the levies down which would provide real property tax relief. In his opinion the committee has not really accomplished what it set out to

do.

Senator Little said he would like to have a review of this including the intended and unintended consequences and to look at a freeze. He is uncomfortable because in picking a number such as \$75,000, unless someone is right at that number, there are winners and losers. Before he votes on it he would like to see the consequences as far as making a final recommendation to the full legislature.

Senator Langhorst pointed out that there will be two months of time for members and others to go over this solution before the legislative session begins and then the legislature will go over it. If the committee sends this recommendation to the legislature there will still be time to get feedback from all involved before it goes to the full legislature. He said this will happen with any recommendation from the committee. His hope is that this recommendation can be approved so the committee has something to take to the legislature.

Senator Pearce said he likes the idea of more study because there is some history of what worked 30 years ago and in his opinion that needs to be looked at in developing a recommendation.

The substitute motion failed.

The original motion passed.

Senator Keough reviewed what the committee voted for as follows:

- C That the circuit breaker be increased to an income limit of \$ 28,000 with a cap of \$ 1,320 on the amount that the state will contribute.
- C That the value of the land as defined by the definition of homestead (elsewhere in tax code) be added to the homeowner's exemption.
- C That the so called "developer's loophole" be closed via RSMPN485 presented at the Nov. 1st meeting.
- C That the concept of a Property Tax Equity Program - an "easier" type of reverse mortgage or deferral - be established with details fleshed out as the concept progresses through the legislative process.
- C That the impact fee statute be simplified and opened to use for construction of school facilities.
- C That 1.5 mills of the school maintenance and operations (M & O) levy be

removed from local property taxes and be replaced by state dollars plus increase the homeowners exemption to \$ 75,000.00 with indexing for future growth.

The meeting was adjourned at 5:45 p.m.