

House Revenue & Taxation Committee

Minutes
2005



MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: January 17, 2005

TIME: 10:30 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representative Schaefer

Chairman Crow called the meeting to order and requested a silent roll call. She welcomed the members and apprized them of the committee rules and subcommittee rules.

Chairman Crow assigned the following subcommittees:

Representative Lake, Chairman
Representative Denney
Representative Barrett
Representative Collins
Representative Saylor

Representative Raybould, Chairman
Representative Moyle
Representative McKague
Representative Clark
Representative Martinez

The Chairman assigned the Idaho Tax Commission Rules to the Lake Subcommittee for review. The subcommittee will report their recommendations back to the full committee.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:37 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: January 18, 2005

TIME: 10:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representatives Moyle, Collins and Denney

GUESTS: Randy Nelson, Associated Taxpayers of Idaho: Dan John, Tax Policy Manager, Idaho State Tax Commission

MINUTES; Chairman Crow called the meeting to order and requested a silent roll call. Representative Martinez moved to accept the minutes of the meeting held on January 17, 2005 as written. Motion carried on a voice vote

Chairman Crow introduced Randy Nelson, Executive Director of the Associated Taxpayers of Idaho and Dan John, Tax Policy Manager, Idaho State Tax Commission to make their presentation.

Mr. Nelson provided the members a copy of a report entitled the "Tax Policy and Idaho's System – Addressing Issues." (Attachment #1)

Mr. John provided a copy of a report entitled "The Idaho Tax Structure—How Does It Compare." (Attachment # 2)

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:48 a.m.

Representative Dolores Crow
Chairman

Carolyn Johnson
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** January 19, 2005
- TIME:** 10:30 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** None
- GUESTS:** Dan John, Ted Spangler, State Tax Commission
- MINUTES:** Chairman Crow called the meeting to order and requested a silent roll call. Representative Lake moved to accept the minutes of the meeting held on January 18, 2005 as written. Motion passed on a voice vote.
- RS14428:** Chairman Crow announced the first item on the agenda was **RS14428** and recognized Mr. John to present the proposed legislation. **Mr. John, State Tax Commission**, explained that this proposed bill changes the way the State Tax Commission notifies the public that unclaimed property held by the state is available to be claimed by rightful owners. Instead of advertising names in a newspaper publication once a year, the Tax Commission will list the information on its Web site. The Web site will be updated at least quarterly.
- Mr. John explained that newspaper advertising is expensive and not very effective in returning money to the rightful owner.
- MOTION:** Representative Clark moved to introduce **RS14428**. Motion passed on a voice vote. Representative Wood requested to be recorded as voting no.
- RS14429C2:** Chairman Crow announced the next item on the agenda was **RS14429C2** and asked Mr. John to continue. He expressed that this was the annual bill to update references to the Internal Revenue Code (IRC). It also conforms the Idaho income tax to changes made to the IRC by:
1. The federal "American Jobs Creation Act of 2004" (AJCA) and requires that any deduction for general state sales taxes allowed by the AJCA, like state income taxes, be added back when computing state taxable income.
 2. Public Law 109-001 which allows taxpayers to deduct in 2004 charitable contributions made in January 2005 for the relief of victims in areas affected by the December 26, 2004, Indian Ocean tsunami.
- MOTION:** Representative Field moved to introduce RS14429C2 and be referred directly to second reading. Motion passed unanimously on a voice vote.

Representative Field will sponsor the bill on the floor.

RS14431: The Chairman announced the next item on the agenda was **RS14431** and asked Mr. Spangler to submit the proposed legislation. **Ted Spangler, State Tax Commission**, stated that this proposed bill excludes from the occasional sales exemption in the Idaho Sales Tax Act use tax on tangible personal property used to improve real property when the property is obtained from a person in the business of making like or similar improvements to real property.

He conveyed that problems had arisen in the interpretation of the original intention of the occasional sales exemption law dealing with use tax. For example, contractors try to avoid the use tax by transferring goods between sub-contractors. Some Court rulings have the potential for a substantial amount of abuse which was never intended.

MOTION; It was moved by Representative Clark to introduce **RS14431**. Motion passed unanimously on a voice vote.

RS14437: Chairman Crow announced that the next item on the agenda was **RS14437** and recognized Mr. John to address the proposed legislation. **Dan John, State Tax Commission**, stated that this bill grants relief to businesses that report taxable income that they later have to repay and are not entitled to an Idaho deduction for the repayment.

This involves the federal "Claim of Right" doctrine, which allows taxpayers to recalculate taxes paid on income that is reported in one year but is later found to be over-reported. In that case, taxpayers can deduct the amount in the year it is repaid. If the deduction is more than \$3,000, taxpayers can opt instead for a credit against federal, but not Idaho, taxes when the credit benefits them more than the deduction.

Under current Idaho law, taxpayers do not receive a credit or a deduction for Idaho income taxes when they elect the federal credit. This proposed bill would allow an Idaho deduction in the amount of federal credit instead of the deduction. If the original income was not taxed in Idaho, a deduction would not be allowed.

MOTION: Representative Moyle moved to introduce **RS14437**. Motion passed unanimously on a voice vote.

RS14441: Chairman Crow announced the next item on the agenda was **RS24441** and recognized **Mr. Spangler** to present the proposal. He stated that this proposed bill makes it easier to determine whether a State Tax Commission decision should be appealed to the district court or the Board of Tax Appeals. It also changes the requirement for the deposit a taxpayer makes when appealing a decision. Corporate income and sales tax cases must be filed in district court when tax, penalty and interest total more than \$25,000. Currently that \$25,000 is based on the amount in controversy when the State Tax Commission issues a notice of deficiency.

This proposed bill would base the \$25,000 threshold on the amount

asserted when the State Tax Commission issues its decision. Also, taxpayers currently deposit 20% of the tax penalty and interest due. This would change to 20% of the amount asserted when the State Tax Commission issues its decision.

MOTION: It was moved by Representative Wood to introduce **RS14441**. Motion passed unanimously on a voice vote.

RS14453: The Chairman announced the next item on the agenda was **RS14453** and asked **Mr. John** to explain the proposed legislation. Mr. John explained this RS before them is a result of an audit finding conflicting codes. He said that this proposed bill resolves the confusion caused by two Idaho Code sections with different instructions how to distribute sales and use tax revenue. Section 63-3638, Idaho Code, distributes "all" sales tax revenue, including a portion distributed to local governments. However, Section 63-3709, Idaho Code, requires that sales tax revenues collected through the Multistate Tax Compact, (MTC) be deposited into the MTC account.

This proposed bill excludes MTC sales tax revenue from the distribution requirement in Section 63-3638, Idaho Code, thus conforming to the State Tax Commission's existing practice. Due to the sunset of the 6% sales tax rate on August 1, 2005, Section 63-3638, Idaho Code, must be amended twice, once with an effective date before the sunset and once afterward.

MOTION: Representative Clark moved to introduce **RS14453**. Motion passed unanimously on a voice vote.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:48 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: January 20, 2005

TIME: 10:30 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representatives Jaquet, Saylor and Martinez
Representatives Moyle and Denney

GUESTS: Dan John and Ted Spangler, Idaho State Tax Commission

MINUTES: Chairman Crow called the meeting to order and requested a silent roll call. Representative Raybould moved to accept the minutes of the meeting held on January 19, 2005 as written. Motion passed on a voice

RS14432: Chairman Crow announced the first item on the agenda was **RS14432** and recognized **Ted Spangler , State Tax Commission**. Mr. Spangler testified that this proposed bill changes the Idaho income tax to include income earned in Idaho by a nonresident, any gains or losses from the sale of a partnership interest or stock in an S corporation, to the extent of the partnership's or corporation's business activities in Idaho in the year preceding the year of the sale.

MOTION: Representative Clark moved to **introduce RS14432**. Motion carried on a voice vote.

RS14438: The Chairman announced the next item on the agenda was **RS14438** and asked **Mr. Spangler** to continue. Mr. John explained that this proposed bill taxes Real Estate Investment Trusts (REIT) on income earned from investments in Idaho realty. It requires an REIT to add its federal deduction for dividends paid to its federal taxable income when calculating Idaho taxable income. Income earned on real property in Idaho will be subject to the Idaho corporate income tax and not exported to the state in which the investor resides.

In response to questions from members of the committee, Mr. Spangler explained in great detail how pass through income to investors living outside of the state are not paying Idaho taxes.

MOTION: It was moved by Representative Wood to **introduce RS14438**. Motion carried on a voice vote.

RS14339: Chairman Crow announced the next item on the agenda was **RS14439**

and recognized **Mr. John, State Tax Commission**. He stated that current Idaho statutes authorize the State Tax Commission to collect tax assessments by "levy and distraint," seizure of property. However the law does not specify the manner in which the Commission must give notice to taxpayers or holders of property subject to seizure. This proposed bill provides the manner in which notice can be given.

In subsection (1) of the new section allows three options

1. Notice in person,
2. Notice at the dwelling place or usual place of business, or
2. Notice by certified mail to the person's last known address.

These options conform to the federal law provisions governing the Internal Revenue Service.

Subsection (2) clarifies that by agreement with the party receiving the notice the State Tax Commission may give the notice electronically, in conformity with the Electronic Transactions Act.

MOTION: Representative Clark moved to **introduce RS14439**. Motion carried on a voice vote.

RS14454: Chairman Crow announced the next item on the agenda was **RS14454** and recognized **Dan John, State Tax Commission**, to explain the proposed bill. Mr. John remarked that this was the annual Tax Commission's clean up making several technical corrections and updates to the Idaho Income Tax Act:

He enumerated that Section 1. more clearly states that equipment purchases that qualify for a deduction under the Internal Revenue Code section 179, property expensed rather than treated as a capital asset, does not qualify for the investment tax credit.

Sections 2 & 3 correct new jobs credit errors relating to a revenue-producing enterprise and a trade or business.

Section 4 corrects cross-references relating to the investment credit for broadband equipment. The current references were not changed when the referenced statutes were amended and renumbered.

Section 5 permits individuals in combat zones to file Idaho income tax returns on the same extended tax filing date allowed by the Internal Revenue Code.

Section 6 includes certain farmers among employers who are required to file annual income tax withholding returns. These farmer-employers were overlooked in 2004 by H.B. 537, which changed withholding returns to an annual basis.

Section 7 provides that the statute of limitations on collecting assessed tax, in all cases, begins on the date the record of assessment is entered. This simplifies the statute and applies the same standard to all taxpayers.

MOTION: Representative Roberts moved to **introduce RS14454**. Motion passed

on a voice vote.

RS14455: Chairman Crow announced the next item on the agenda was **RS14455** and asked **Mr. John** to present the proposed bill. He stated that this is a simple bill allowing the State Tax Commission's authority to contract with commercial collection agencies. Currently the authority is limited to out-of-town collection of income taxes and income tax withholding. It would allow the Commission to contract for the collection of assessments, tax liabilities on which all appeals have expired, from in-state taxpayers for all taxes administered by the State Tax Commission.

MOTION: It was moved by Representative Lake to **introduce RS14455**. Motion passed on voice vote.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:58 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: January 24, 2005

TIME: 10:30 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representatives Field and McGeachin
Representative Moyle and Denney

GUESTS: Charles Campbell, Robert Aldridge, Attorney

Chairman Crow called the meeting to order and requested a silent roll call. Representative Collins moved to accept the minutes of the meeting held on January 20, 2005 as written. Motion passed on a voice vote.

RS14609: The Chairman announced the first item on the agenda was **RS14609** and recognized **Mr. Charles Campbell** to present the proposed legislation. Mr. Campbell explained that the purpose of this proposed legislation is to exempt sales and use taxes on public playground equipment, such as slides and swings and the shock absorbing material associated with the equipment.

Mr. Campbell explained in great detail the difference between materials used on projects regulated by building codes and installation of the products furnished by the manufacturer. Playground equipment is provided by manufacturers and only requires the installation of the equipment. As a contractor he only assembles and installs the equipment specified by the manufacturer.

MOTION: Representative Barrett moved to **introduce RS14609**. Motion passed on a voice vote. Representative Clark requested to be recorded as voting no.

RS14618: Chairman Crow announced the next item on the agenda was **RS14618** and asked Mr. Aldridge to explain the proposed legislation. **Robert Aldridge, attorney**, stated he was representing himself and had worked with the State Commission developing corrections of changes made last year relating to "property tax relief", Section 63-701, Idaho Code.

Section1 clarifies that the date of determination applying for the "circuit breaker" is January 1.

Section 2. Existing codes include the word "land" indicating that perhaps land must be included in the sales contract. The change would state that

sales contracts do not necessarily have to have "land" involved as part of the contract sale. Additionally, the verb "is", on page 3, paragraph 28, would be changed to "was", since the person had died and the estate becomes the owner of the property immediately upon such death.

MOTION: Representative Lake moved to **introduce RS14618**. Motion passed on a voice vote.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:44 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: January 25, 2005

TIME: 9:30 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Sayler, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representative Smith
Representatives Moyle and Denney

GUESTS: Chuck Winder, Chairman of the Idaho Transportation Department Board of Directors; Dave Ekern, Director, Idaho Transportation Department

Chairman Crow called the meeting to order and requested a silent roll call. Representative Martinez moved to accept the minutes of the meeting held on January 24, 2005 as written. Motion carried on a voice vote.

Chairman Crow introduced **Chuck Winder, Chairman of the Board of Directors for the Idaho State Department of Transportation.** Mr. Winder apprised the committee of the vision of connecting Idaho by modernizing the state's highway system. See attachment for details.

Mr. David Ekern, Director of Idaho Transportation Department, reviewed the financial analysis of funding by issuing "Garvee Bonds". See attachment for details.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:32 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: January 26, 2005

TIME: 10:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representative Clark
Representatives Moyle and Denney

GUESTS: Ted Spangler and Dan John, State Tax Commission

Chairman Crow called the meeting to order and requested a silent roll call. Representative Roberts moved to accept the minutes of the meeting held on January 25, 2005 as written. Motion carried on a voice vote.

H 12: Chairman Crow announced the first item on the agenda was H 12 and recognized Mr. Spangler to present the bill. **Ted Spangler, State Tax Commission**, testified that the statute on the occasional sales exemption has been misinterpreted by contractors transferring between sub-contractors. This bill excludes from the occasional sales exemption in the Idaho Sales Tax Act use tax on tangible personal property used to improve real property when the property is obtained from a person in the business of making like or similar improvements to real property.

Mr. Spangler explained this amendment closes a loophole to the "occasional sales" statute. This bill slightly expands the definition of "occasional sales". This clarification is needed because of litigation against the State Tax Commission and the interpretation of the law by a district court judge. He explained in detail how the "use tax" is administered relating to construction material of real property.

MOTION: Representative Jaquet moved to send **H 12** to the floor with a **do pass** recommendation. Motion passed on a voice vote. Representative Wood requested to be recorded as voting no. Representative Lake will sponsor the bill on the floor.

H 13: Chairman Crow announced the next item on the agenda was H 13 and asked **Mr. Dan John, State Tax Commission**, to address the bill. Mr. John declared that this legislation involves the federal "Claim of Right" doctrine which allows taxpayers to recalculate taxes paid on income that is reported in one year but is later found to be over-reported. This bill grants relief to businesses that report taxable income that they later have to repay and are not entitled to an Idaho deduction for the repayment.

Currently the use of the credit only applies on the federal with no Idaho statute to allow a credit. He explained two methods to correct the over-

reported income. This is a fairness issue and this bill would allow an Idaho deduction in the amount of the federal deduction taxpayers could take if they opted for the federal credit instead of the deduction. If the original income was not taxed in Idaho, a deduction would not be allowed.

MOTION: It was moved by Representative Smith to send **H 13** to the floor with a **do pass** recommendation. Motion passed on a voice vote. Representation Schaefer will sponsor the bill on the floor.

H 15 Chairman Crow announced the next item on the agenda was H 15 and recognized **Mr. John**. He advised the members that this legislation is needed because of a legislative audit. This bill resolves the conflict caused by two Idaho Code sections with different instructions on how to distribute sales and use tax revenue. Section 63-3638, Idaho Code, distributes "all" sales tax revenue, including a portion distributed to local governments. However, Section 63-3709, Idaho code, requires that sales tax revenues collected through the Multistate Tax Compact be deposited into the Multistate Tax Compact Account. This bill excludes the Multistate State Tax sales tax revenue from the distribution requirement in Section 63-3638, Idaho code, thus conforming to the state Tax Commission's existing practice. Due to the sunset of the 6% sales tax rate on July 1, 2005, section 63-3638, Idaho Code must be amended twice, once with an effective date before the sunset and once afterward.

He said that the Statement of Purpose had an error in the enacting date and requested that it be reprinted.

MOTION: Representative Wood Moved to send **H 15** to the floor with a **do pass** recommendation along with a corrected Statement of Purpose. Motion passed on a voice vote. Representative Smith will sponsor the bill on the floor.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 11:16 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION LAKE SUBCOMMITTEE

DATE: January 26, 2005

TIME: 9:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Lake, Representatives Denney, Barrett, Schaefer, Collins, Saylor

**ABSENT/
EXCUSED:** Representative Denney

GUESTS: Janice Boyd and James Husted

Chairman Lake called the meeting to order at 9 a.m. and requested the secretary to take a silent roll.

The Chairman recognized **Janice Boyd and James Husted, State Tax Commission, Tax Policy Specialists.** Janice Boyd began with explanation of proposed rules. (See attached - complete document of Idaho Income Tax Administrative Rules.)

Idaho State Tax Commission Administrative Rules Review Docket No. 35-0101-0401 Presented by Janice Boyd:

Rule No. 032: Amended to correct references to the Soldiers' and Sailors' Civil Relief Act which is now the Servicemembers Civil Relief Act.

Rule No. 075: Amended to add the table for the income tax brackets and rates for calendar year 2004.

Rule No. 120: Amend Income Tax Rule 120 to remove the fifty-percent (50%) limitation on the amount of long-term care insurance that is deductible and to clarify that the fifty-percent (50%) limitation was applicable for taxable years beginning between January 1, 2001 and December 31, 2003.

Rule No. 121: Amend Income Tax Rule 121 to clarify the types of railroad retirement benefits that qualify for the Idaho deduction allowed by Section 63-3022(1), Idaho Code.

Rule No. 122: Amend income Tax Rule 122 to add information related to the new deduction for dividends and distributions paid by a subsidiary to a mutual insurance holding company or intermediate holding company.

Rule No. 130: Amend Income Tax Rule 130 to add the definition of disabled found in Section 63-701, Idaho Code that is referenced in the statute and to add examples related to unremarried widows and how they compute the retirement benefits deduction.

Rule No. 193: Amend Income Tax Rule 193 to remove the fifty-percent (50%) limitation on the amount of long-term care insurance that is deductible and to clarify that the fifty-percent (50%) limitation was applicable for taxable years beginning between January 1, 2001 and December 31, 2003. Change the calculations in the tables accordingly.

Rule No. 719: Amend Income Tax Rule 719 to clarify who a qualifying taxpayer is with regard to claiming the property tax exemption in lieu of the investment tax credit. Add a reference to another income tax rule to aid unitary taxpayers in determining whether they meet the negative Idaho taxable income requirement to qualify for the property tax exemption.

Rule No. 720: Amend Income Tax Rule 720 to remove the reference to the sunset date for the credit for Idaho research activities in accordance with legislation that removed the ending effective date for this credit.

Rule No. 746: Amend Income Tax Rule 746 to discuss the requirements and calculations of the credit for qualifying new employees in light of HB651 passed in 2004, which enacted a one thousand dollar (\$1,000) credit in addition to the existing five hundred dollar (\$500) credit.

Rule No. 750: Amend Income Tax Rule 750 to remove the reference to the sunset date for the broadband equipment investment credit in accordance with legislation that removed the ending effective date for this credit.

Rule No. 770: Amend Income Tax Rule 770 to correct a reference to the Soldiers' and Sailors' Civil Relief Act which is now the Servicemembers Civil Relief Act.

Rule No. 871: Amend income Tax Rule 871 to correct information regarding the withholding of wages earned by water carrier employees who are covered by Title 46, Section 11108, United States Code.

Rule No. 872: Amend Income Tax Rule 872 to correct information about the filing of returns as modified by 2004 legislative changes. Delete information regarding Forms W-2, which is being moved to new Rule 874 to reduce the length of the rule. Organize rule more logically.

Rule No. 874: Promulgate new Income Tax Rule 874 to address Forms W-2, which information had been in Income Tax Rule 872.

Rule No. 880: Amend Income Tax Rule 880 to require that a timely claim for refund include the taxpayer's recalculation of the Idaho tax on an Idaho amended return to be consistent with Income Tax Rule 890, which addresses changes to a taxpayer's return due to a federal audit. Add qualifying private delivery service to information discussing duplicate returns and the mailing of a return consistent with 2004 legislative changes.

MOTION:

Representative Collins moved to **approve Docket No. 35-0101-0401** and send to committee. The motion passed on a voice vote.

Docket No. 35-0101-0402: The following is a nontechnical explanation of the substance and purpose of the proposed rulemaking:

Rule No. 325: Amend Income Tax Rule 325 in response to Multistate Tax Commission (MTC) regulation changes. Change terms in the definition of affiliated corporation to be consistent with terms used in other multistate income tax rules and add information to the definition of business activity.

Rule No. 330: Amend Income Tax Rule 330 in response to MTC regulation changes. Delete current information and replace with information from MTC Reg. IV.1.(a)(1) Business And Nonbusiness Income Defined - Apportionment And Allocation. One major change between the current and proposed rules is the recognition of the two tests, the transactional test and the functional test, for determining business income.

Rule No. 331: Promulgate a new Income Tax Rule 331 in response to MTC regulation changes. Incorporate information from MTC Reg. IV.1.(a)(2), Business and Nonbusiness Income Defined - Business Income and MTC Reg. IV.1.(a)(3), Terms Used in Definition of Business Income and in Application of Definition.

Rule No. 332: Promulgate a new Income Tax Rule 332 in response to MTC regulation changes. Incorporate information from MTC Reg. IV.1.(a)(4) Business And Nonbusiness Income Defined - Transactional Test.

Rule No. 333: Promulgate a new Income Tax Rule 333 in response to MTC regulation changes. Incorporate information from MTC Reg. IV.1.(a)(5), Business and Nonbusiness Income Defined - Functional Test.

Rule No. 340: Amend Income Tax Rule 340 in response to MTC regulation changes. Delete current information about a single trade or business of a corporation or an affiliated group of corporations and replace with information from MTC Reg. IV.1.(b)(1) Principles for Determining the Existence of a Unitary Business - Unitary Business Principle. Changes to the MTC regulations regarding the definition of a unitary business attempt to synthesize the various court decisions that define a unitary business into the regulations.

Rule No. 341: Promulgate a new Income Tax Rule 341 in response to MTC regulation changes. Incorporate information from MTC Reg. IV.1.(b)(2)(A) Principles of Determining the Existence of a Unitary Business - Determination of a Unitary Business.

Rule No. 342: Promulgate a new Income Tax Rule 342 in response to MTC regulation changes. Incorporate information from MTC Reg. IV.1.(b)(2)(B) Principles for Determining the Existence of a Unitary Business - Description and Illustration of Functional Integration, Centralization of Management, and Economies of Scale.

Rule No. 343: Promulgate a new Income Tax Rule 343 in response to MTC regulation changes. Incorporate information from MTC Reg. IV.1.(b)(3) Principles for Determining the Existence of a Unitary Business - Indicators of a Unitary Business.

Rule No. 344: Promulgate a new Income Tax Rule 344 in response to MTC regulation changes. Incorporate information from MTC Reg. IV.(b)(4) principles for Determining the Existence of a Unitary Business - Commonly Controlled Group of Business Entities.

Rule No. 345: Repeal Income Tax Rule 345 in response to MTC regulation changes. Information related to the application of definitions of business and nonbusiness income is addressed in proposed new Income Tax Rule 336.

Rule No. 365: Amend Income Tax Rule 365 in response to MTC regulation changes. Add a new subsection regarding dividends and other intangible income to address when this income should be included in a combined report and when intercompany eliminations are appropriate. This information currently is included in Income Tax Rule 330, but is proposed to be deleted from that rule and moved to Income Tax Rule 365.

Rule No. 485: Amend Income Tax Rule 485 in response to MTC regulation changes. Add additional information regarding the inclusion of the value of rented property in the property factor from MTC Reg.IV.11.(B) Property Factor: Valuation of Rented Property.

Rule No. 600: Amend Income Tax Rule 600 in response to Multistate Tax Commission (MTC) regulation changes. Delete the subsection addressing common ownership since a commonly controlled group is addressed in proposed new Income Tax Rule 344. Add a new reference to Rules 340 through 344 for the principles for determining the existence of a unitary business.

MOTION:

Representative Saylor moved to **accept the proposed rule amendments to Docket No. 35-0101-0402** and to present the rule changes to the full committee.

Docket No. 35-0201-0401, presented by Janice Boyd:

Rule No. 010: Amend Administration and Enforcement Rule 010 to include information related to the filing of returns, other documents, or payments with the Tax Commission by a qualified private delivery service in response to 2004 legislative changes in HB 478.

Rule No. 210: Amend Administration and Enforcement Rule 210 to replace obsolete references to the office of the county recorder with the Secretary of State. Correct information regarding the extension of a lien.

Rule No. 310: Section 63-3045, Idaho Code, establishes a formula for calculating the yearly interest rate applied to deficiencies of tax and refunds. The rates are published in Administration and Enforcement Rule 310. Amend Administration and Enforcement Rule 310 to add the

interest rate for calendar year 2005.

Rule No. 450: HB 799, passed by the 2004 Legislature, emended Section 63-3029B, Idaho Code, to change the penalty related to the property tax exemption in lieu of earning the investment tax credit to a recapture of the property tax benefit, when property fails to qualify for the entire five-year recapture period. Since the penalty is no longer applicable, repeal Administration and Enforcement Rule 450.

Rule No. 704: Amend Administration and Enforcement Rule 704 to include the Board of County commissioners and County Treasurers as officials the Tax Commission can exchange information with related to a claim for the homeowner's exemption, in response to 2004 legislative changes in HB 739.

MOTION:

Representative Collins moved to **accept the proposed rule amendments to Docket 35-0201-0401** and to present the rule change to the full committee. The motion passed by a voice vote.

Docket No. 35-0102-0401, presented by James Husted:

Rule No. 027: The provision on data processing agreements in Subsection 027.09 is outdated. The Commission is proposing that the subsection be struck.

Rule No. 033: Sales tax rule 033 states that free distribution newspapers must devote 10% of the newspaper to "editorial content." The statutory exemption for free distribution newspapers, Idaho Code Section 63-3622T, only requires "nonrevenue producing, informative content." The rule, therefore, seems more restrictive than the statute. Also there is a separate rule for free distribution newspapers. The Rule is being amended to strike the subsection on free distribution newspapers.

Rule No. 84: The container exemption, Idaho Code Section 63-3622E, Idaho Code, does not mention gift-wrapping. The Commission is proposing that the subsection on gift-wrapping be struck from the rule.

Rule No. 101: The reference to "calendar year" in this rule is in conflict with Idaho Code Section 63-3622R.

Rule No. 102: This rule contains an incorrect cross-reference to Section 63-3622H, Idaho Code. The cross-reference is being corrected to Idaho Code Section 63-3622HH.

Rule No. 105: Section 63-3620, Idaho Code requires retailers to obtain seller's permits from the Tax Commission. The Tax Commission is currently assigning variable filing cycles and "one-time only" filing requirements to different taxpayers. The rule is being amended to specifically provide for these filing cycles.

Rule No. 110: The Tax Commission has made several administrative changes to Form 852 Idaho Sales Tax Return - County Assessors or Sheriffs. Sheriff's offices no longer report sales tax collected on this form. Also, the assessors are no longer required to file an amended return for

tax collected at different rates. Finally, the Idaho Transportation Dept. Also receives a \$1 per registration reimbursement pursuant to Idaho Code Section 63-3638. The rule is being amended to conform to these administrative changes.

MOTION:

Rule No. 117: Section 63-3626, Idaho Code provides for refunds of sales tax paid in error. Rule 117 contains a confusing statement about taxes to be refunded to a retailer when tax was not collected by a retailer. The rule is being amended to strike the statement.

Representative Collins moved to **approve Document No. 35-0102-0401** and be recommended to the main committee.

Docket No. 35-0106-0401, presented by Husted:

MOTION:

Rule No. 010: The term "travel and convention" is used several times in the hotel/motel room and campground sales tax rules, yet the term is undefined. The amendment will state that the "travel and convention tax" is the tax imposed by Section 67-4718, Idaho Code.

Representative Saylor moved to **approve Document 35-0106-0401** and to present the rule change to the full committee for approval. The motion passed by a voice vote.

Docket No. 35-0110-0401, presented by Mr. Husted:

MOTION:

Rule No. 016: Cigarette distributor's are not allowed to sell cigarettes made by manufacturers not listed on the Attorney General's directory pursuant to Section 39-8403, Idaho Code. The amended rule will allow cigarette distributors to claim a credit for cigarettes purchased from manufacturers that were recently removed from the directory, if the manufacturer was listed at the time the cigarettes were purchased. Also, the rule will specify that credits shall be reduced by the stamper's allowance provided for by Section 63-2509, Idaho Code.

Representative Collins moved to **approve Document 35-0106-0401** and to present the rule change to the full committee for approval. The motion passed by a voice vote.

Docket No. 35-0111-0401, presented by Mr. Husted:

MOTION:

Rule No. 121: The unclaimed property rules do not provide any details on the necessary documentation required by the heirs of a deceased person to establish that the heirs have a right to claim the property pursuant to Section 14-524, Idaho Code. The proposed new rule will clarify the necessary documentation for an heir to make such a claim.

Representative Saylor moved to **approve Docket No. 35-0111-0401** and to present the rule change to the full committee for approval. The motion passed by a voice vote.

The meeting adjourned at 9:50 a.m.

Representative Dennis Lake
Chairman

Carolyn Johnson
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: January 27, 2005

TIME: 10:00 a.m

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representatives Moyle and Denney

GUESTS: Dr. William E. Schlosser, Northwest Management, Inc.

MINUTES: Chairman Crow called the meeting to order and requested a silent roll call. Representative Martinez moved to accept the minutes of the meeting held on January 26, 2005 as written. Motion carried on a voice vote.

Chairman Crow introduce **Dr. William E. Schlosser, Northwest Management, Inc.**, to present the report on the findings made by the Committee on Forest Taxation Methodologies.

Dr. Schlosser reported that the statutorily designated Committee on Forest Taxation Methodologies reached agreement on a methodology designed to replace the current Idaho statute used to determine the value of Idaho's forest land for taxation purposes and recommends it to the Idaho Legislature for enactment.

The Committee was composed of representatives of: Idaho Association of Counties; Idaho Forest Owners Association; Intermountain Forest Association and Office of the Superintendent of Public Instruction. Representatives of the rural school districts were also present at the meetings occurring throughout 2004.

The agreed upon methodology, a soil expectation, net present value method is a well accepted method to value forest land. The method and data inputs as agreed by the committee will provide stability for Idaho's county budgets, school district budgets and forest land property taxpayers. It applies to only category 6 forest lands and treats small and large forest land acreages in Category 6 exactly the same.

He briefed that the members on the history of the statutorily mandated study in 2000 by HB513a with the formal meetings beginning in early 2004.

The Committee was led by State Tax Commission Mr. Larry Watson and staffed by the Tax Commission staff. As provided for by statute, a forest economist was hired to step the Committee through discussions of

income and soil expectation methodologies, determine by group consensus the best alternative for valuing forest land and provide a way to determine readily available information for the variables in the formula.

The State School Superintendent provided staff to assist in analyzing what, if any, impact might occur to school districts valuation reductions that might result from implementation of any committee recommendation. Also involved was the Tax Commission staff to determine that, if any, impact might be felt by county and school budgets. The method and data selected eliminated the last year of tax reduction under HB 513a thus eliminating a large reduction and further stabilizes future revenues, making county and school budgets easier to budget.

The committee previously reached agreement on use of a discounted cash flow/net present value method of valuing forest land. It has also agreed upon which sources of data will be used and has provided for limiting large swings in tax revenues, thus providing more certainty for county and school budgets as well as forestland owners. Forest land values will stabilize under this methodology as will county and school budgets.

The committee agrees in its recommendation to the State Legislature and will support legislation implementing the results of the committee efforts.

ADJOURN:

The Chairman complimented the committee for commendable efforts on developing the study. There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:22 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION LAKE SUBCOMMITTEE

DATE: January 27, 2005
TIME: 9 a.m.
PLACE: Room 404
MEMBERS: Chairman Lake, Representatives Denny, Barrett, Schaefer, Collins, Saylor
**ABSENT/
EXCUSED:** Representative Denney
GUESTS: Alan Dornfest

Chairman Lake called the meeting to order at 9 a.m and requested the secretary to take a silent roll.

The Chairman recognized **Alan Dornfest, Tax Policy Supervisor, Idaho State Tax Commission**. Mr. Dornfest proceeded with an explanation of the rules. (Refer to the attachment of January 26, 2005 subcommittee.)

Idaho State Tax Commission Administrative Rules Review Docket No. 35-0103-0401: Referring to Property Tax

Rule No. 006 is being updated to reference the appropriate editions of the guides used to determine the values of recreation vehicles and is being corrected and updated to reference the appropriate edition of the register used in the valuation of railroad equipment. To make technical corrections.

Rule No. 225 is being amended to correct the cross reference to the statute based on the change made by HB538.

Rule No. 304 is being amended to clarify that once a manufactured home has been declared real property, it remains real property until a reversal pursuant to Section 63-305, Idaho Code, has been completed. To make technical corrections.

Rule No. 317 is being amended to clarify what property is subject to the occupancy tax implementing HB649 and to provide direction to assessors on calculation of the homeowner's exemption.

Rule No. 404 is being amended to clarify that new electrical generation property is not to be apportioned over the wire miles throughout the county where located but to only be apportioned to the tax code area

where the property is located as provided by HB542.

Rule No. 609 is being amended to implement HB516 relating to ownership issues for the homeowners exemption by deleting subsections of the rule that are a duplication of the law.

Rule No. 613 is being amended to implement the new requirements in HB477 relating to procedures for determining crop prices and the capitalization rate to be used in the income approach to calculate the taxable value of agricultural use land. To make technical corrections.

Rule No. 803 is being amended to implement HB739 by clarifying procedures to be used by county officials when assessing and reporting recovered taxes on any improper homeowner's exemption and to clarify how to calculate the total levy for any taxing district with multiple funds. To make technical corrections.

Rule No. 961 is being amended to clarify which small acreages used as forestlands and contiguous with other property used as forestland and owned by the same owner are eligible for valuation and property taxation pursuant to Chapter 17, Title 63, Idaho Code. To make technical corrections.

Rule No. 988 is being amended to implement HB799aa relating to the optional property tax exemption in lieu of investment tax credit by making this rule consistent with the revised law about regulated operating property and providing reporting procedures for distribution of recaptured taxes. To make technical corrections.

Rule No. 989 is being created to implement HB799aa relating to recapture provisions of the property tax exemption in lieu of investment tax credit. The new rule establishes notification procedures consistent with income tax investment tax credit procedures and defines terms found in HB799aa relating to the computation of county and state average property tax levies.

Rule No. 990 is being amended to correct the cross reference to the statute based on the change made by HB538.

Rule No. 995 is being amended to delete bureaucratic procedures made unnecessary by using Web based notification.

Alan Dornfest continued with **Docket No. 35-0103-0402**:

Rule No. 635 is being amended to conform to a recent district court ruling by changing the definition of "previously eligible" to include eligibility for the speculative value exemption on agricultural land anytime since 1981. In addition, the definition of "continue to be eligible" was found in the court case to be inconsistent with the statute and was deleted.

MOTION: Representative Saylor moved to **approve Document 35-0103-0402** and

to present the rule change to the full committee for approval. The motion passed by a voice vote.

ADJOURN: The meeting adjourned at 9:38.

Representative Dennis Lake
Chairman

Carolyn Johnson
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: January 31, 2005

TIME: 10:30 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** None

GUESTS: Dan John and Ted Spangler, State Tax Commission

Chairman Crow called the meeting to order and requested a silent roll call. Representative Smith moved to accept the minutes of the meeting held on January 27, 2005 as written. Motion passed on a voice vote.

SUB COMMITTEE REPORT: Representative Lake reported that the Lake Subcommittee met January 26 and 27 and reviewed the pending rules of the Idaho State Tax Commission. The Subcommittee finds them to be in order and recommends they be approved by the full committee.

RS14610: The Chairman announced the first item on the agenda was RS14610 and asked the sponsor to explain the proposed legislation. **Representative Smith** stated that this proposed legislation adds "Southern Idaho Learning Center" to the list of charities listed in IC 63-3029A, so the center can receive the same individual and corporate tax credit given other Idaho charities to encourage charitable giving.

The Southern Idaho Learning Center is a non-profit organization that diagnoses and assesses instruction for children from five years to twenty-one years that have learning disabilities. It is located in Twin Falls, Idaho and is the only like agency between Salt Lake City and Boise. It functions with approximately twenty percent client fee and eighty percent grants and donations. Since inception in 1991, it has served more than 13,000 families, teachers and children.

MOTION: Representative Raybould moved to **introduce RS14610**. Motion passed on a voice vote.

Chairman Crow announced that it was her intention to refer all tax exemption bills to the **Raybould Subcommittee** for review and consider the bottom line of reductions to the General Fund. She assigned the previous bill and H 32. "Sales tax exemption on playground equipment" to the Raybould Subcommittee

H 11: Chairman Crow announced the next item on the agenda was H 11 and

recognized Mr. John to present the Bill. **Dan John, State Tax Commission**, testified that this bill changes the way the State Tax Commission notifies the public that unclaimed property held by the state is available to be claimed by rightful owners. Instead of advertising names in a newspaper publication once a year the Tax Commission will list the information on its Web site. The Web site will be updated at least quarterly.

MOTION: It was moved by Representative Raybould to send H 11 to the floor with a **do pass** recommendation. Motion passed on a voice vote. Representative Collins will sponsor the bill on the floor.

H 14: Chairman Crow announced the next item on the agenda was H 14 and asked **Mr. Spangler, Idaho Tax Commission** to present the bill. Mr. Spangler testified that this bill makes it easier to determine whether a State Tax Commission decision should be appealed to the district or the Board of Tax Appeals. It also changes the requirement for the deposit taxpayers make when appealing a decision.

Corporate income and sales tax cases must be filed in district court when tax, penalty and interest total more than \$25,000. Currently, \$25,000 is based on the amount in controversy when the State Tax Commission issues a notice of deficiency. This bill would base the \$25,000 threshold on the amount asserted when the State Tax Commission issues its decision. Taxpayers currently deposit 20% of the tax penalty and interest due. This would change to 20% of the amount asserted when the State Tax Commission issues its decision.

MOTION: It was moved by Representative Clark to send **H 14** to the floor with a **do pass** recommendation. Motion passed on a voice vote. Representative Raybould will sponsor the bill on the floor.

H 25: Chairman Crow announced the next item on the agenda was H 25 and asked **Mr. Spangler** to address the bill. Mr. Spangler explained that this bill changes the Idaho income tax law to include income earned by a nonresident. Any gains or losses from the sale of a partnership interest or stock in an S corporation to the extent of the partnership's or corporation's business activities in Idaho in the year preceding the year of the sales shall be included.

MOTION: Representative Wood moved to send **H 25** to the floor with a **do pass** recommendation. Motion passed on a voice vote. Representative Wood will sponsor the bill on the floor.

ADJOURN: The Chairman announced that the Committee was due on the floor and would continue the agenda tomorrow. She adjourned the meeting at 10:57 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: February 1, 2005

TIME: 10:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representatives Moyle and Denney

GUESTS: Dan John, State Tax Commission; Robert Aldridge, attorney

Chairman Crow called the meeting to order and requested a silent roll call. Representative Martinez moved to approve the minutes of the meeting held on January 31, 2005 as corrected. Motion passed. The Chairman announced that the first item on the was agenda H 26. She stated that there appears to be problems with the bill. The bill will be rescheduled at a later date at the Chairman's discretion.

H 27: Chairman Crow announced the next item on the agenda was H 27 and recognized **Dan John, State Tax Commission**, to present the bill. Mr. John testified that current Idaho statutes authorize the State Tax Commission to collect tax assessments by "levy and distraint" (seizure) of property. However, the law does not specify the manner in which the Commission must give notice to taxpayers or holders of property subject to seizure. This bill provides three ways in which notice can be given.

These options conform to the federal law provisions governing the Internal Revenue Service.

Subsection (1) allows three options: first, notice in person, second, notice at the dwelling place or usual place of business, or three, notice by certified mail to the person's last known address.

Subsection (2) clarifies that by agreement with the party receiving the notice the State Tax Commission may give the notice electronically, in conformity with the Uniform Electronic Transactions Act.

MOTION: Representative Lake moved to send **H 27** to the floor with a **do pass** recommendation. Motion passed on a voice vote. Representative Roberts will be the floor sponsor. Representative Barrett requested to be recorded as voting no.

H 28: Chairman Crow announced the next item on the agenda was H 28 and

asked **Mr. John** to continue. He explained that this is the annual Tax Commission's bill making several technical corrections and updates to the Idaho Income Tax Act.

Section 1. More clearly states that equipment purchases that qualify for a deduction under IRC Section 179, property expensed rather than treated as a capital asset, does not qualify for the investment tax credit.

Sections 2 and 3. Correct new jobs credit errors relating to a revenue-producing enterprise and a trade or business.

Section 4. Corrects cross-references relating to the investment credit for broadband equipment. The current references were not changed when the referenced statutes were amended and renumbered.

Section 5. Permits individuals in combat zones to file Idaho income tax returns on the same extended tax filing date allowed by the Internal Revenue Code.

Section 6. Includes certain farmers among employers who are required to file annual income tax withholding returns. These farmer-employers were overlooked in 2004 by HB 537, which changed withholding returns to an annual basis.

Section 7. Provides that the statute of limitations on collecting assessed tax, in all cases, begins on the date the record of assessment is entered. This simplifies the statute and applies the same standard to all taxpayers. There are several conflicts in the Idaho Code.

MOTION: It was moved by Representative Clark to send **H 28** to the floor with a **do pass** recommendation. Motion passed on a voice vote. Representative Clark will be the floor sponsor.

H 29: Chairman Crow announced the next item on the agenda was H 29 and recognized **Mr. John**. He testified that this bill expands the State Tax Commission's authority to contract with commercial collection agencies. Currently the authority is limited to out-of-state collection of income taxes and income tax withholding. The bill would allow the Commission to contract for the collection of assessments tax liabilities on which all appeals have expired from in-state taxpayers for all taxes administered by the Commission.

MOTION: After a brief discussion, Representative Smith moved to send **H 29** to the floor with a **do pass** recommendation. Motion passed on a voice vote. Representative Martinez will sponsor the bill on the floor.

H 31: Chairman Crow announced the next item on the agenda was H 31 and recognized **Robert Aldridge** to present the bill. Mr. Aldridge testified that the purpose of this bill is to make three changes to the "circuit breaker" and the "homeowners exemption."

The first change occurs in Section 63-701(1), I.C. clarifies that the date for determination is January 1.

There two changes in 63-701 (7), I.C. The first change occurs on page 3, line 7, "owner" includes a vendee in possession under a land sale contract." The word "land" indicates that land must be included in the sales contract, which causes confusion. This bill deletes the word "land."

The second change occurs on page 3, Line 28 , the verb "is" should more properly be "was", since the person had died and the estate of the person became the owner of the property immediately upon such death.

MOTION: Representative Smith moved to send **H 31** to the floor with a **do pass** recommendation. Motion passed on a voice vote. Representative Smith will be the floor sponsor.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:25 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION LAKE SUBCOMMITTEE

DATE: February 1, 2005

TIME: 9 a.m.

PLACE: Room 404

MEMBERS: Chairman Lake, Representatives Denny, Barrett, Schaefer, Collins, Saylor

**ABSENT/
EXCUSED:** Representative Denney

GUESTS: Susan Renfro

Chairman Lake called the meeting to order at 9 a.m and requested the secretary to take a silent roll.

The minutes of January 26 and 27 were recommended for approval by Rep. Collins. They were unanimously accepted by committee members.

The Chairman recognized **Susan Renfro, Clerk, Board of Tax Appeals**. Ms. Renfro proceeded with an explanation of the pending rules of the **IDAPA 36 - Idaho State Board of Appeals, Docket No. 36-0101-0401** (See attachment for details).

MOTION: Rep. Collins recommended to approve of Docket No. 36-0101-0401 with the exception of Rule 030, section 06; Rule 045, section 2b; and Rule 82 entirely. The recommendation was approved by committee members.

Representative Dennis Lake
Chairman

Carolyn Johnson
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: February 2, 2005

TIME: 10:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Sayler, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representative Wood

Chairman Crow called the meeting to order and requested a silent roll call. Representative Martinez moved to accept the minutes as written. Motion carried on a voice vote.

RS14742: Chairman Crow announced the first item on the agenda was RS14742 and asked Representative Moyle to explain the proposed legislation. **Representative Moyle** said this legislation would amend Section 62-802, Idaho Code, so that any taxing district may call an election for the purpose of asking the voters to approve, by a sixty-six and two-thirds percent or more, a budget increase from property tax revenues beyond the amount authorized by statute. In addition, when a non-school district consolidates with another non-school district or dissolves and a new district performing similar governmental functions as the dissolved forms with the same boundaries within three years, the maximum of the budget of the district from property tax revenues shall not be greater than the sum of the amounts that would have been authorized for the district itself or for the districts that were consolidated or dissolved and incorporated into a new district. Also, this legislation deletes language regarding an election by voters in a fire protection district to have the district reach a certain levy amount.

Representative Moyle stated that the Ada County Emergency Medical Service are short of funds and are considering dissolving the district to recreate a higher mill levy getting around the three percent cap.

The legislation declares an emergency and includes a retroactive date. This proposed bill limits the elections to be held in May or the November election dates.

MOTION: Representative Clark moved to **introduce RS14742**. Motion passed on a voice vote.

RS14777: Chairman Crow announced the next item on the agenda was RS14777 and asked **Representative Roberts** to explain the proposed legislation. Representative Clark stated that this proposal would allow fire protection districts to purchase ambulances and related equipment and to pay salaries and benefits if an ambulance service is not provided within the

district. This legislation would also allow fire protection districts to enter into a joint exercise of powers agreement with a county to share equipment and services.

In response to questions, Representative Roberts said some rural areas only have Fire Protection Districts and the practice of providing emergency services is going on now.

MOTION: Representative Lake moved to **introduce RS14777**. Motion passed on a voice vote.

RULES: Chairman Crow announced the next item on the agenda was the Idaho State Tax Commission Pending Rules.

MOTION: Representative Lake moved to accept the Tax Commission Rules in **IDAPA 35.01.01**, Income Tax Administrative Rules. Motion passed on a voice vote.

MOTION: Representative Lake moved to accept the Tax Commission rules in **IDAPA 35.01.02**, Idaho Sales and Use Tax Administrative Rules. Motion passed on a voice vote.

MOTION: Representative Lake moved to accept the Tax Commission Rules in **IDAPA 35.01.03**, Property Tax Administrative Rules. Motion passed on a

MOTION: Representative Lake moved to accept the Tax Commission Rules in **IDAPA 35.01.06**, Hotel/Motel Room and Campground Sales Tax

MOTION: Representative Lake moved to accept the Tax Commission Rules in **IDAPA 35.01.10**, Idaho Cigarette and Tobacco Products Tax

MOTION: Representative Lake moved to accept the Tax Commission Rules in **IDAPA, 35.01.11**, Idaho Unclaimed Property Tax Administrative Rules. Motion carried on a voice vote.

MOTION: Representation Lake moved to accept the Tax Commission Rules in **ADAPA 35.02.01**, Tax Commission Administration and Enforcement Rules. Motion passed on a voice vote.

MOTION: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:09 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: February 3, 2005

TIME:

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representatives Moyle and Denney

GUESTS: Representative Eskridge

Chairman Crow called the meeting to order and requested a silent roll call. Representative Collins moved to accept the minutes of the meeting held on February 2, 2005 as written.

RULES: The Chairman announced the first item on the agenda was the Idaho Board of Tax Appeals. She said there were some problems to be solved and will be reviewed on February 7, 2005

RS14575C1: Chairman Crow announced the next item on the agenda was RS14575C1 and asked **Representative Smith** to explain the proposed legislation. Representative Smith stated that this legislation would allow a 65-year-old person occupying a home to petition to opt for the deferment of annual tax increases above two percent until the 65-year-old resident moves out, dies or rents the residence. At that time the deferred taxes become due and they are payable within six months of vacating the premises. The deferred taxes shall be a lien upon the premises.

Fraudulent use of this statute, to escape payment of taxes, is punishable by civil penalty up to \$10,000 per year, in addition to the deferred taxes recovered.

In response to an inquiry of why a two percent increase in property tax yearly had been determined, Representative Smith responded that it was a number used by other states. He pointed out a typographical error in the Statement of Purpose.

MOTION: Representative Clark moved to **introduce RS14575C1 with a corrected Statement of Purpose**. Motion passed on a voice vote. Representative Barrett requested to be recorded as voting no.

Chairman Crow announced that all property tax bills will be assigned to the Lake Subcommittee to be considered altogether. She assigned the property tax deferment to the Lake Subcommittee.

RS14584: Chairman Crow announced the next item on the agenda was RS14584 and recognized **Representative Eskridge** to present the proposed

legislation. Representative Eskridge stated this proposed legislation is a way to help develop renewable energy sources. He explained that this proposed legislation will provide an exemption to the sales and use tax for purchases of machinery and equipment used in directly generating electricity using fuel cells, low impact hydro, wind, geothermal resources, co-generation, sun or landfill gas as the principal source of power.

The Fiscal Note states that the strategic plan of the Energy Division of the Department of Water Resources will have 300 MW of windpower installed in Idaho by the year 2011. If this is broken out into 50 MW per year, new energy coming on line would be an annual total investment of \$42,500.00 based on the cost of \$850. The impact to the state general fund would be \$2,125,000 annually. This impact would not take into account any increased sales or income taxes paid as a result of the construction of a facility by workers working on the facility.

The Chairman noted that the Fiscal Note should be reduced to reflect only the impact on the General Fund.

MOTION: After a brief question and answer period, it was moved by Representative Wood to **introduce RS14584 with a corrected Statement of Purpose.** Motion carried on a voice vote.

The Chairman assigned the sales & use tax exemption on alternative power sources to the Raybould subcommittee.

RS14683: Chairman Crow announced the next item on the agenda was RS14683 and recognized **Representative Clark** to present the proposed legislation. He said that the "Nonparticipating Manufacturers" equity fee legislation would help protect the states' tobacco settlement payments in the future and recoup for the state some of the tobacco settlement monies that the nonparticipating manufacturers have drained. This legislation will increase the tax by \$.50 per pack for those manufacturers who sell product in Idaho and are not a member of the Tobacco Master Settlement Agreement.

Representative Clark said that six percent of sales of cigarettes in Idaho are from nonparticipating manufacturers.

MOTION: Representative Roberts moved to **introduce RS14683.** Motion passed on a voice vote. Representative Barrett requested to be recorded as voting no.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10 :55 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: February 7, 2005

TIME: 10:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** None

GUESTS: David Lehman, Office of the Governor

Chairman Crow called the meeting to order and requested a silent roll call. Representative Field moved to accept the minutes of the meeting held on February 3, 2005 as written. Motion carried on a voice vote.

RULES: The Chairman announced the first item on the agenda was the annual Board of Tax Appeals Pending Rules. Representative Lake, Chairman of the Lake Subcommittee, reported that his subcommittee had reviewed the Idaho Board of Tax Appeals Pending Rules. The committee recommended approval of all the rules with **three exceptions: Rule 030, section 6, Rule 045 2b, and 082 in its entirety.** (Report-Attachment #1)

MOTION: Representative Lake moved to accept the approval of the Idaho Board of Tax Appeals Pending Rules with **three exceptions: Rule 030. Section 6, Rule 045 2b, and 082 in its entirety.** Motion passed on a voice vote.

RS14507: Chairman Crow announced that the next item on the agenda was RS14507 and explained that the sponsor of the RS had requested that it be returned to the sponsor because there were problem with the RS.

RS14495C1: Chairman Crow announced the next item on the agenda was RS14495C1 and recognized **Representative McKague.** She explained that the purpose of this proposed legislation was to provide the owner-occupied homestead used as the primary dwelling place of an individual who is at least seventy years of age and who is the record owner holding title or who has retained or been granted a life estate, may apply for an exemption from the property tax on that property each year. If the owner dies after the exemption has been approved it shall be in force the rest of the year.

MOTION: Representative Wood moved to **introduce RS14495C1.** Motion carried on a voice vote.

The bill was referred to the Lake Subcommittee.

RS14762: Chairman Crow announced the next item on the agenda was RS14762

and recognized David Lehman to explain the RS. **Mr. Lehman, Office of the Governor**, explained that this RS creates a new checkoff on the Idaho individual income tax return allowing an individual taxpayer to contribute to the Idaho Guard and Reserve Family Support Fund.

He briefly explained that the fund was administered by two non-commissioned officers for various financial needs of guardsmen.

MOTION: Representative Field moved to **introduce RS14762**. Motion passed on a voice vote.

RS14853: The Chairman announced the next item on the agenda was RS14853 and recognized Mr. Chadwick to present the RS. **Dan Chadwick, Association of Idaho Counties**, stated that this proposed legislation is the result of the Committee on Forestland Taxation Methodologies recommendation.

Passage of this legislation will encourage private forest land owners in taxation category 6 to retain and improve their holdings of forest lands and to promote better forest management by putting in place a new method of valuing forest land.

The new method as outlined in the 2005 Users Guide developed by the statutorily designated Committee on Forestland Taxation Methodologies, uses the soil expectation/net present value approach to value forest lands in category 6. Passage of the legislation will require the adoption of rules necessary for implementation of the new methodology.

MOTION: It was moved by Representative Roberts to **introduce RS14853**. Motion passed on a voice vote.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:15 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION LAKE SUBCOMMITTEE

DATE: February 7, 2005
TIME: 10:45 a.m.
PLACE: Room 404
MEMBERS: Chairman Lake, Representatives Denny, Barrett, Schaefer, Collins, Saylor
**ABSENT/
EXCUSED:** None

The Lake Subcommittee met after the regular Committee meeting to approve of the minutes of February 2, 2005. They were passed by a voice vote.

Representative Dennis Lake
Chairman

Carolyn Johnson
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: February 8, 2005

TIME: 10:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representatives Field and Clark

GUESTS: Brian Whitlock, Office of the Governor; Commissioner Dewey Hammond, Idaho State Commission

Chairman Crow announced the first item on the agenda was RS14825 and recognized Mr. Whitlock to present the RS. **Brian Whitlock**, Office of the Governor, referred to the Governor's State of the State Address listing a number of accomplishments around the state that are a direct result of his Rural Initiative.

Specifically, a month ago, the Governor drew special attention to economic development successes around the state. There are a number of very positive things happening in Idaho and in fact the January "new hire" numbers released by the Department of Commerce and Labor indicate that our January "new hire" numbers have now gone back to pre-911 and pre-recession numbers.

It is in this climate of recovery that they have developed a package that they think will grab the attention of corporate boards of directors around the country as they make decisions especially as they relate to the location of their headquarters or major facilities.

Specifically, they approached several companies in Idaho to gather their input on what the State of Idaho could do to provide incentives for Fortune 500 companies to either locate here or for those who are already in Idaho to expand here.

Each company would probably design their package a little differently, but the Corporate Headquarters Incentive Act is a good mix of incentives. This gives Idaho a tool to compete for major companies making decisions about their location.

Mr. Whitlock testified that their proposal offers:

An expanded Investment Tax Credit.

An additional new jobs tax credit with a graduated scale.

A 10% real property improvement tax credit for investment in headquarters and administrative buildings of up to \$500,000 in any one year.

A temporary property tax abatement for new headquarters and administrative buildings of up to \$2 million in any year which the state would cover, not local government.

And a temporary sales tax abatement for materials used in new headquarters and administrative buildings.

To qualify a company must meet these minimum qualifications:

Create at least 500 new jobs in Idaho.

Those jobs must have a starting annual salary of at least \$50,000 per year plus benefits.

The company must invest at least \$50 million in a new headquarters or facility.

They must do this within the next five years.

If a taxpayer fails to maintain these criteria the state will recapture all of the tax benefits. As shown on the fiscal note, if no company uses this it would not cost the state a dime.

He explained the fiscal impact on the General Fund for fiscal year 2006 and also the fiscal impact on the life of tax credits. He stated that this bill is actually a net gain to the state.

In response to a question relating the "fiscal note" on how these incentives affect local government, **Commissioner Dewey Hammond, State Tax Commission**, explained that local governments will receive "revenue sharing" of the sales tax and all of the property tax, thus being held harmless.

MOTION: Representative Lake moved to **introduce RS14825**. Motion passed on a voice vote.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:08 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: February 9, 2005

TIME: 10:30 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representative McGeachin

Chairman Crow called the meeting to order and requested a silent roll call. Representative Wood moved to accept the minutes of the meeting held on February 8, 2005 as written. Motion carried on a voice vote.

H100: The Chairman recognized Representative Roberts to explain problems that had arisen concerning H100. **Representative Roberts** reported that H100 allowed fire districts to purchase ambulances for emergency services. There was a supreme court decision that already allows these purchases.

MOTION: Representative Roberts moved to **HOLD H100** in committee. Motion passed on a voice vote.

RS14721: Chairman Crow announced the first item on the agenda was RS14721 and asked **Representative Clark** to explain the RS. Representative Clark stated that the Idaho Athletic Commission has not historically raised enough funds from fees and taxes imposed on regulated entities to pay expenses. This legislation modifies the existing law to enact a pay-per-view tax on the proceeds received by fight promoters who broadcast events on pay-per-view television into Idaho. The amount of the tax due would equal five percent of the subscription price charged to the consumer multiplied by the number of subscriptions sold to watch an event in Idaho.

MOTION: Representative Barrett moved to **introduce RS14721**. Motion carried on a voice vote.

RS14861: The Chairman announced the next item on the agenda was RS14861 and recognized **Representative Jaquet** to present the RS. Representative Jaquet said that this proposed legislation adds the Advocates for Survivors of Domestic Violence to the list of charities listed in 63-3029A, Idaho Code. She justified the various functions and the education provided for the victims of abuse. This is a much needed service.

There were several questions relating to the language in the bill referring

to learning institutions and whether this bill should be included in this section of the code. Representative Roberts observed that this income tax credit to the “advocates for survivors of domestic violence” is starting a new type of exemption by appearing in this section of the code.

MOTION: It was moved by Representative Roberts to **return RS14861 to the sponsor.**

SUBSTITUTE MOTION: A substitute motion was made by Representative Martinez to **introduce RS14861.**

Chairman Crow recognized Representative Jaquet to make closing remarks. Representative Jaquet requested to withdraw RS14861. Consent was given.

Representative Roberts and Representative Martinez withdrew their motions.

SCR105: Chairman Crow announced the next item on the agenda was SCR105 and recognized **Representative Lake** to present the resolution. Representative Lake informed the members that this Senate Concurrent Resolution slightly differs from the rejected rules approved earlier by this committee. This resolution repeals all of Rule 30 dealing with who can represent the taxpayer in court. Representative Lake could not see any problem with rejecting the whole rule.

MOTION: Representative Lake moved to concur with **SCR105** and send to the floor with a **do pass** recommendation. Motion passed on a voice vote. Representative Lake will sponsor the Senate Concurrent Resolution on the floor.

ADJOURN: There being no further business to come before the Committee. Chairman Crow adjourned the meeting at 10:59 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: February 10, 2005

TIME: 10:30 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representatives Moyle and Denney

GUESTS: Wayne V. Meuleman, Attorney at Law; Alex LaBeau, Idaho Association of Realtors.

Chairman Crow called the meeting to order and requested a silent roll call. Representative Lake moved to accept the minutes of the meeting held on February 9, 2005 as written. The Chairman reported that H 27 Fiscal Note, relating to "distrainment notices", was reprinted to reflect a \$100,000 instead of \$1 million dollar positive impact on the general fund. The Chairman assigned H 76, income tax credit, school choice, to the Raybould Subcommittee. She said this bill was filed as a personal bill.

RS14539: Chairman Crow announced the first item on the agenda was RS14539 and recognized Mr. Skip Smyser. Mr. Smyser introduced **Wayne Meuleman the attorney for the Boise Greater Auditorium District** to present the RS. Mr. Meuleman testified that the purpose of this proposed legislation is to clean up the language in the statute which has caused misplaced criticism and confusion to the property taxpayer.

Mr. Meuleman said since enacted in 1959, the Auditorium District Act has permitted certain districts to assess property taxes. By amendments adopted in 1978, the power to assess property taxes was limited to only those districts with a population less than 25,000. To date no district has assessed property taxes. One purpose of this legislation is to remove all provisions authoring assessment of property taxes by any districts and to make it clear that the sole sources of tax support for auditorium districts shall be hotel/motel room taxes.

This proposed legislation also expands the board of directors of auditorium districts from five to seven. The purpose of expanding the number of directors is to give broader representation to residents of the district.

Finally this RS clarifies those provisions of the act relating to application of the Campaign Reporting Law to expressly provide that such reporting laws apply to any election conducted by auditorium districts of directors and elections on any measure, including propositions of any kind submitted to vote of the district. This language will clarify that Campaign

Report Law requirements shall apply to elections to approve issuance of bonds or other long-term financing propositions. This proposed bill also contains some minor housekeeping changes to clarify the language of the act.

MOTION: Representative Clark moved to **introduce RS14539**.

SUBSTITUTE MOTION: A substitute motion was made by Representative Barrett to **return RS14539 to sponsor**. Motion **failed** on a voice vote.

The original motion to **introduce RS14539** carried on a voice vote. Representative Barrett requested to be recorded as voting no.

RS14632: Chairman Crow announced the next item on the agenda was RS14632 and asked Mr. LaBeau to explain the RS. **Alex LaBeau, Idaho Association of Realtors**, stated that this measure would shorten the holding period required for Real Estate transactions from eighteen months to twelve months to qualify for long-term capital gains taxation.

MOTION: Representative Raybould moved to **introduce RS14632**. Motion passed on a voice vote.

RS14898: The Chairman announced the next item on the agenda was RS14898 and recognized Representative Jaquet to explain the RS. **Representative Jaquet** stated the purpose of this legislation is to increase the income threshold for the determining the "circuit breaker" eligibility to \$25,000 per person for the year 2005.

MOTION: Representative Roberts moved to **introduce RS14898**. Motion passed on a voice vote.

The Chairman stated that when the RS becomes a bill it will be referred to the Lake Subcommittee.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:50 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: February 14, 2005

TIME: 10:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representatives Moyle, Denney, Collins

GUESTS: Brian Whitlock, Office of the Governor; Commissioner Dewey Hammond, Idaho State Tax Commission; Lyn Darrington, Regence BlueShield of Idaho

Chairman Crow called the meeting to order and requested a silent roll call. Representative Wood moved to accept the minutes of the meeting held on February 10, 2005 as written. Motion carried on a voice vote.

RS14976: Chairman Crow announced the first item on the agenda was RS14976 and recognized Mr. Whitlock to present the new RS. **Brian Whitlock, Office of the Governor**, explained that last week he was before the committee introducing an RS for the Governor's Corporate Headquarters Incentive Act.

In looking over the Corporate Headquarters Incentive Act from a couple of different angles over the past few days and after further review the staff felt there were important improvements that needed to be made before proceeding further with this proposal.

This new and improved RS takes the recapture provision that was in the original proposal and makes it more reflective of current practice and current recapture provisions in Idaho Code.

Simply put, where there was a 100% recapture provision before, this RS recommends a scaled version so that if at any time after a company has hit the threshold, there is a measured approach to the recapture of the benefits that have been paid out if the company falls below that threshold.

If it is less than one year from the time the asset is placed in service there would be a 100% recapture. If more than one year, but less than two, there would be 80% recapture. If more than two, but less than three, there would be a 60% recapture. If more than three, but less than four, there will be 40% recapture. If more than four, but less than five, there would be a 20% recapture. This is how most all of our recapture provisions work in Idaho Code instead of 100% recapture plus penalties, plus interest.

Two other minor changes are to further clarify the siting requirements and it further clarifies the definition of income to what is shown on the W-2 which would mean that stock options etc are not included as income.

Mr. Whitlock informed the members that there were additional changes and yielded to Commissioner Hammond to explain.

Commissioner Hammond, Idaho State Tax Commission, provided a copy of changes to be inserted on page 7 of the RS14976. (Attachment #1.) There were two other changes on page 7, line 44 delete the word "credit" and insert "rebate"; delete "in which the exemption was allowed" insert "which disqualification first occurs."

MOTION: Representative Wood moved to **introduce RS14976 as RS14976C1 incorporating the changes**. Motion passed on a voice vote.

RS14896: Chairman Crow announced the next item on the agenda was RS14896 and recognized Ms. Darrington. **Lyn Darrington, Regence BlueShield of Idaho**, stated that obesity is an increasing worldwide health concern. Idaho has the 29th highest level of adult obesity and overweight levels for high school students and the 18th highest overweight levels for low-income children. Regence BlueShield of Idaho's "Legislators on the Move" program is designed to create public awareness of the importance of regular exercise to long-term health benefits and to promote personal responsibility by setting a positive example.

Ms. Darrington asked that this resolution be referred to the Health and Welfare Committee.

MOTION: Representative Martinez moved to **introduce RS14896 and recommend that it be referred to the Health and Welfare Committee**. Motion passed on a voice vote.

RS14897: Chairman Crow announced the next item on the agenda was RS14897 and recognized Representative Barrett to explain the RS. **Representative Barrett** said this proposed legislation with amendment passed the House last year but arrived in the Senate too late to complete the process. This proposed legislation clarifies that "land actively devoted to agriculture" includes land that is leased for the grazing of livestock. It changes the term "net profit making" enterprise to "for-profit" enterprise and provides a definition of "for-profit."

MOTION: Representative Wood moved to **introduce RS14897**. Motion passed on a voice vote.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:17 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** February 15, 2005
- TIME:** 10:00 a.m
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** Representatives Moyle and Denney
- GUESTS:** Dan John, State Tax Commission; Brett DeLange, Attorney Generals Office; Dan Chadwick, Idaho Association of Counties
- MINUTES:** Chairman Crow called the meeting to order and requested a silent roll call. Representative Field moved to accept the minutes of the meeting held on February 14, 2005 as written. Motion carried on a voice vote.
- HB 142:** Chairman Crow asked for **unanimous consent to HOLD H 142** which was replaced by HB 216. Consent was granted.
- RS14802:** Chairman Crow announced the first item on the agenda was RS14802 and asked Representative Martinez to explain the RS. **Representative Martinez** stated that the RS exempts food from the sales tax. The definition of food from the streamlined sales tax initiative is used to simplify conversion for retailers and prepare for a possible future transition to the streamlined sales tax initiative.
- The cost of exempting food from the sales tax is offset by retaining the six percent sales tax on non-food items.
- Representative Martinez reviewed the RS saying that Section 1 defines the food and food products exempted from the sales tax; Section 2 repeals the grocery tax credit; Section 3 repeals the sunset of the one cent sales tax. This RS keeps the six cent sales tax in place.
- Representative Martinez stated the reason for this RS is to help struggling low-income people. Exempting sales tax on food is used in other states. He distributed a handout depicting "How much will my family save without sales tax on food?" (Attachment #1.) A majority of the states do not have sales tax on food.
- In response to a question, **Dan John, State Tax Commission**, responded that this proposed legislation would have a positive number with the retention of the one cent sales tax less fifteen percent loss on sales tax on food. The repeal of the grocery tax increases the general fund by \$25 million.

MOTION: After a lengthy philosophical discussion Representative Roberts moved to **return RS14802 to sponsor.**

SUBSTITUTE MOTION: A substitute motion was made by Representative Jaquet to **introduce RS14802.** Motion **failed** on a voice vote.

The original motion to **return RS14802 to sponsor passed.**

H 108: Chairman Crow announced the next item on the agenda was H 108 and recognized Representative Clark to present the bill. **Representative Clark** explained that manufacturers who have not joined the tobacco Master Settlement Agreement are costing the states hundreds of millions of dollars a year in tobacco settlement payments and are undermining the states' policies against youth smoking. It is estimated to cost Idaho over a million dollars. The Non-Participating Fee Legislation would help remedy both of these problems.

In 1998, when the Master Settlement Agreement was signed, these non-participation manufacturers were one percent of the market. Today they are over six percent. More than half of all non-participating manufacturers are foreign companies and more than half of all non-participating manufacturers are produced abroad.

Unlike manufacturers that joined the Master Settlement Agreement, non-participating manufacturers do not have to make annual tobacco settlement and settlement related payments. As a result, they have been able to grow their sales exponentially at the expense of the participating manufacturers. They are able to market their cigarettes at extra-low prices that public health authorities believe are highly attractive to young people.

Non-participating manufacturers growth is costing the states hundreds of millions of dollars a year because the settlement payments of the participating manufacturers are based on their sales. When their sales decline, their payments to the states decline. As the non-participating manufacturers draw sales from the participating manufacturers the states lose settlement dollars. Four other states have passed similar legislation. The legislation was declared constitutional in the state of Minnesota.

Representative Clark stated that the Non-Participating Manufacturers Equity Fee Legislation would help protect the states' tobacco settlement monies that the Non-Participating Manufacturers have drained, help fund enforcement of the states' Tobacco Escrow Statutes and protect children from under-priced Non-Participating Manufacturers cigarettes. This legislation will increase the tax by \$.50 per pack for those manufacturers who sell product in Idaho and are not a member of the Tobacco Master Settlement Agreement.

In response to an inquiry, **Dan John, State Tax Commission,** stated that

the Tax Commission could administer the law if the enacting date was changed to July 1, 2005.

MOTION: Representative Smith moved to send **H 108** to the **Amending Order** to remove **Section 5 “the emergency clause”**.

CON: Chairman Crow recognized **Brett DeLange** to testify. **Mr. DeLange, Attorney General’s Office**, spoke against H 108 saying that the bill is premature and incomplete and urged the Committee to hold the bill until next year. He voiced concern that there is no final decision on the constitutionality in Michigan. This bill violates the non-participating manufacturers first amendment rights and may be challenged in court. Non-participating manufacturers pay into an escrow account.

Mr. DeLange said the Attorney’s Generals Office is attempting to craft a more comprehensive bill which should be ready by the next legislative session.

SUBSTITUTION MOTION: A substitute motion was made by Representative Barrett to **HOLD H 108**.

AMENDED SUBSTITUTE MOTION: An amended substitute motion was made by Representative Roberts to **HOLD H 108 Time certain for two weeks (March 1, 2005)**. Motion **passed** on a voice vote.

H 126: Chairman Crow announced the next item on the agenda was H 126 and recognized Dan Chadwick to present the bill. **Mr. Chadwick, Executive Director, Idaho Association of Counties**, recognized the people who worked on developing this legislation. Mr. Steve Fiscu, Idaho Association of Counties, Chair of County Team; Mark Benson, Intermountain Forest Association, Chair of forest Land Team; Dr. Bill Schlosser, NW Management, Inc. Forest Economist Consultant to CFTM; Larry Watson, Commissioner, Idaho Tax Commission, Chair of CFTM; Alan Dornfest, State Tax Commission; Tim Hill, Superintendent of Public Schools; and Jane Gorsuch, Intermountain Forest Association.

The passage of this legislation will encourage private forest land owners in taxation category 6 to retain and improve their holdings of forest lands and promote better forest management by putting in place a new method of valuing forest land. The new method, as outlined in the 2005 Users Guide, developed by the statutorily designated Committee on Forestland Taxation Methodologies, uses the soil expectation/net present value approach to value forest lands in category 6. Passage of the legislation will require the adoption of rules necessary for implementation of the new methodology.

Members were provided with a copy of an “Analysis of Proposed Timber Valuation Options” by Alan Dornfest, Idaho State Tax Commission. (Attachment #2.)

MOTION: After a brief discussion, Representative Lake moved to send **H 126** to the floor with a **do pass** recommendation. Motion **passed** on a voice vote.

Representative Denney will sponsor the bill on the floor.

ADJOURN:

There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:57 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: February 17, 2005

TIME: 10:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representative Moyle, Roberts, Denney

GUESTS: Representative Henderson; Representative Eskridge

Chairman Crow called the meeting to order and requested a silent roll call. Representative Lake moved to accept the minutes of the meeting held on February 15, 2005 as written. Motion carried on a voice vote.

RS15030: Chairman Crow announced the first item on the agenda was RS15030 and asked Representative Henderson to explain the RS. **Representative Henderson** said that the purpose of this proposed legislation is to provide property tax relief by increasing the amount of the "Homeowner's Exemption" for those over the age of 65 and by expanding its application to the land directly associated with the residential improvement. The relief is provided in three increments. First, it retains the "Homeowner's Exemption" for all owner-occupied residences at the present \$50,000 level but expands its applicability to the land.

Second it authorizes an increase in the "Homeowner's Exemption" to \$75,000 for all persons 65 years of age whose income is less than \$33,090 per year.

Third, this proposed legislation makes a \$75,000 "Homeowner's Exemption" available to special categories of people of any age who have an annual income of no more than \$33,090, including: Widow(er), Blind, former Prisoner of War/Hostage, Veteran with a 30 percent or more of service connected disability or a Disabled Person recognized by the Social Security Administration, Railroad Retirement Board or Federal Civil Service.

The Fiscal impact reflects an increase of \$1.7 million to the general fund. Representative Henderson explained that with the land included the value of the "50-50" will reduce the "circuit breaker" payments paid out of the general fund. This bill would be \$38 million reduction in property taxes. Representative Henderson commented that this RS would provide relief on the financial burden on a large and needy group.

In response from an inquiry, Representative Henderson said that there

would be a \$38 million shift in property taxes.

MOTION: Representative Clark moved to **introduce RS15030**. Motion passed on a voice vote.

The Chairman assigned the legislation to the Lake Subcommittee.

RS14849: Chairman Crow announced the next item on the agenda was RS14849 and recognized **Representative Eskridge**. He stated that this proposed legislation removes Section 63-3622G, Idaho Code, which prevents certain industries from the production exemption. There are four wood pellet manufacturing companies located in Idaho that are prohibited from fully participating in the State's sales and use tax exemption afforded to all other manufacturing companies.

MOTION: Representative Clark moved to **return RS14849 to sponsor**. Motion passed on a yes vote.

RS14920: Chairman Crow asked that without objection the next item on the agenda would be RS14920 and asked **Representative Eskridge** to continue. He explained that this proposed legislation increases the current homeowner's exemption from \$50,000 to \$75,000.

Representative Eskridge stated that the "50-50" homeowners exemption has not been raised for many years, however property values have raised significantly.

MOTION: Representative Smith moved to **introduce RS14920**. Motion passed on a voice vote.

The Chairman assigned the legislation to the Lake Subcommittee.

RS14856: The Chairman announced the next item on the agenda was RS14856 and asked **Representative Jaquet** to explain the proposed legislation. Representative Jaquet stated that the RS increases the homeowner's exemption value limit from \$50,000 to \$70,000 while retaining the 50% of market value cap. The exemption may also include up to 20% of the residential land value. A portion of land value is included to prevent a shift to the low value improvement owner who would not otherwise realize a benefit.

Representative Jaquet reviewed the "fiscal note" explaining the new exempt value and fiscal impact.

First, the total taxes shifted the first year would be about \$23.7 million. Second,, during the second year and each year thereafter schools will lose \$11.4 million in maintenance and operations property tax revenue. Third, on the average eligible homeowners would see about \$73 each in property tax reduction. She said the Tax Commission estimates that there would be a \$23.7 million shift.

MOTION: Representative Saylor moved to **introduce RS14856**. Motion passed on

a voice vote.

The Chairman assigned the legislation to the Lake Subcommittee.

RS14899: Chairman Crow announced the next item on the agenda was RS14899 and recognized **Representative Jaquet**. She said ths RS allows taxing districts to raise fees such as library copying charges without compliance with notice requirements when the fee increase is less than one dollar, is no more than 100% increase and is only a one time event per calendar year.

MOTION: Representative Wood moved to **introduce RS14899**. Motion passed on a voice vote. Representative Barrett requested to be recorded as voting no.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:30 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** February 21, 2005
- TIME:** 9:00 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** Representatives Moyle, Field, Denney, Clark
- GUESTS:** Mike Brassey, Suncor Development Company; Representative Eskridge; Moon Wheeler
- MINUTES:** Chairman Crow called the meeting to order and requested a silent roll call. Representative Collins moved to accept the minutes of the meeting held on February 17, 2005 as written. Motion passed on a voice vote.
- RS14723C1:** Chairman Crow announced the first item on the agenda was RS14723C1 and asked Mr. Brassey to explain the RS. **Mike Brassey representing Suncor Development Company** stated that the concept of public infrastructure improvement districts passed the House last year. This RS provides for the formation of a public infrastructure improvements district by a petition filed by 10% of the owners of all the land in which the proposed district would be located. A district would be formed for the purpose of building new public infrastructure improvements to serve new growth and development and to provide for the payment of those costs by new growth and development. The formation petition would be filed with the county commissioners or the city council of the county or city in which the proposed district would be located. A district would be governed by a district board comprised of the members of the board of county commissioners or the city council of the county or city in which the district would be located. After formation, a district would be able to issue general obligation and revenue bonds, following notice, hearing and election.
- General obligation bonds would require a 2/3rd super majority vote of the qualified electors of the district. Revenue bonds would require either a 2/3rd majority or a simple majority, as controlled by Article VIII section 3 of the Idaho Constitution.
- This proposed legislation will promote and accommodate orderly growth and development in both rural and non-rural areas.
- This proposed legislation provides a mechanism for paying for infrastructure for the property within the district. Only the property within

the district that is specially benefitted by those improvements will pay the cost of improvements.

Mr. Brassey reviewed the changes in detail from last year's bill and explained in detail how the system works.

MOTION: Representative Smith moved to **introduce RS14723C1**. Motion passed with a voice vote. Representatives McKague and LeFavour requested to be recorded as voting no.

RS14758C2: Chairman Crow announced the next item on the agenda was RS14758C2 and said the sponsor requested that RS14758C2 be held to make changes.

RS14924: Chairman Crow announced the next item on the agenda was RS14924 and asked Representative Eskridge to explain the proposed legislation. **Representative Eskridge** stated that current law requires a widow of a veteran to include income from the Dependency and Indemnity Compensation and widow's pension benefits when applying for the "circuit breaker" program. This measure allows the widow to exempt income from these veteran benefits.

MOTION: Representative Wood moved to **introduce RS14924**. Motion passed on a voice vote.

RS14939: Chairman Crow announced the next item on the agenda was RS14939. She recognized Mr. Wheeler to explain the proposed legislation. **Moon Wheeler** stated that he had worked with Power County Assessors and Commissioners to develop some method to preserve some of the property abandoned by business and industry sites. The purpose of this proposed legislation is to provide an incentive for the owners of defunct industrial sites to preserve imbedded infrastructure for possible use by a successor business. Defunct industries frequently remove all property improvements for salvage value and to reduce legal and tax liabilities. Imbedded rail track, water lines and electrical lines can be very expensive to install.

Preservation can be an asset for reuse or sale to another industry or business. County commissioners would have the sole authority to issue the ad valorem exemption for up to five years with a possible renewal if warranted.

The exemption would cause a tax shift but removal would result in a permanent loss of the same magnitude. Public notice and a public hearing are prerequisites to the county commissioners' action. The impact of the exemption would almost entirely be up to the county and other taxing districts within the county.

MOTION: It was moved by Representative Lake to **introduce RS14939**. Motion passed on a voice vote.

The Chairman assigned the legislation to the Lake Subcommittee.

RS15018C2:

Chairman Crow announced the next item on the agenda was RS15018C2 and asked Representative Roberts to explain the RS. **Representative Roberts** briefed the members on the history of the legislation starting with HB 488 which was amended by the Senate. Subsequently other legislation was drafted to correct problems that created loopholes.

The purpose of this RS is to Repeal Section 63-602FF, Idaho Code.

Section 2 replaces 63-602FF, Idaho Code with a new section that provides a ten year phased out exemption on parcels within rural subdivisions outside city limits. Qualifying parcels are appraised at full market value but receive a 95% exemption for assessment purposes for the first 5 years after being approved and recorded. In years 6 through 9 the exemption decreases to 80%, 60%, 40% and 20%. In the tenth year the parcel is appraised at full market value for assessment purposes. Those landowners enjoying the exemption provided for the repealed section are eligible to apply for this new exemption. The exemption is lost upon sale, annexation or improvement to the parcel. The exemption applies to all counties.

Section 3 amends section 63-509(1), Idaho Code, to provide for tracking of the exemption by the county and State Tax Commission.

Section 4 amends section 63-604(2), Idaho Code, to clarify for appraisal purposes that subdivision platting alone does not extinguish the agricultural exemption provided the requirements for the exemption continue to be met.

The purpose of such clarification language is to provide consistency among counties.

MOTION:

Representative Raybould moved to **introduce RS15018C2**. Motion passed on a voice vote.

ADJOURN:

There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 9:39 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** February 22, 2005
- TIME:** 10:30 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** Representatives Barrett, Moyle, Denney
- GUESTS:** David Lehman, Office of the Governor
- MINUTES:** Chairman Crow called the meeting to order and requested a silent roll call. Representative Smith moved to accept the minutes of the meeting held on February 21, 2005 as written. Motion passed on a voice vote.
- H 164:** The Chairman said that HB 164, relating to auditorium district requirements, was requested to be held by the sponsor Skip Smyser. She asked for unanimous consent to **HOLD H 164**. Consent was granted.
- H 125:** Chairman Crow announced that the first item on the agenda was H 125 and recognized Mr. Lehman to testify. **David Lehman** stated he was from the **Office of the Governor**, and introduced Major Dahle, Command Sergeant Major Lewis and Command Chief Master Sergeant Sinnema service officers who administer the family assistant program.
- Mr. Lehman testified that this bill creates a new check-off on the individual income tax form, allowing for contributions to the Idaho Guard and Reserve Family Support Fund.
- Mr. Lehman said the fund is designed to assist the families of guard and reservists who are confronted with financial hardships and extraordinary life events. For example the fund assists in medical expenses, auto repairs, rent and no-interest loans for families who may go extended periods of time without a paycheck as they transition from their current employment to active duty status.
- The Governor's Office receives many calls from individuals who want to help support the Guard and Reserve and their families.
- The check off will provide a way for individuals to make direct contributions to the Support Fund on their tax return.
- MOTION:** Representative Field moved to send **H 125** to the floor with a **do pass**

recommendation. Motion passed unanimously. Chairman Crow will sponsor the bill on the floor.

ADJOURN:

There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:38 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** February 23, 2005
- TIME:** 9:30 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** Representatives Wood and LeFavour
- GUESTS:** Brian Whitlock, Office of the Governor; Mike Reynoldson, Micron
- MINUTES:** Chairman Crow called the meeting to order and requested a silent roll call. Representative Collins moved to accept the minutes of the meeting held on February 22, 2005 as written. Motion passed on a voice vote.
- RS 15051:** Chairman Crow announced the first item on the agenda was RS 15051 and recognized Mr. Whitlock to present the RS. **Brian Whitlock, Office of the Governor**, testified that this RS is to establish the "Idaho Small Business Growth Incentive Act of 2005." and the "Medium Sized Business Growth Incentive Act of 2005."
- There is another bill (H216) before this committee that provides incentives to attract Fortune-500-type companies and corporate headquarters to Idaho and it encourages those companies that are already here to expand. As he mentioned previously to this committee, this package allows Idaho to play in the big leagues and to go after major companies.
- After visiting with individual members of the committee on the prior legislation, it became clear that there was strong support for a similar package that could be used to attract smaller companies that might benefit every community in the state.
- The Governor asked the State Tax Commission to draft a companion bill for a scaled version of the Corporate Headquarters Incentive Act. This RS has two thresholds that a company would need to meet.
- Chapter 39. The company has to create 125 net new jobs in Idaho; those 125 jobs would need to have at least a starting salary of \$32,240 with benefits; the company would need to invest at least \$15 million and a new headquarters or facility; and they would have to do this within a 5-year period.

Chapter 43. There is a 250 job threshold; those 250 jobs would have to have a minimum starting salary of \$40,000 with benefits; the company would need to invest at least 30 million in a new headquarters or facility; and they would have to do this within a 5-year period.

This companion legislation is based on the principle that the greater the investment made in Idaho the greater the incentive. In scaling back the thresholds that a company must meet there is corresponding scaling in the incentives.

The company would still receive an expanded Investment Tax Credit: 3.75% with a credit limitation of 62.5% for 125 jobs; or 4.5% with a credit limitation of 75% for 250 jobs.

There would be the same graduated scale for the new jobs tax credit. If a company created 125 jobs that paid very well they would get a greater credit up to \$3,000 per job if they qualify.

This RS also includes a real property improvement tax credit for investment in their facility. This allows 2.5% for 125 jobs and 5.0% for 250 jobs.

This proposed legislation also allows the counties the opportunity to offer additional property tax incentives if the county is in a position to do so.

MOTION:

Representative Field moved to **introduce RS15051**. Motion passed on a voice vote.

RS15050:

Chairman Crow announced the next item on the agenda was RS15050 and recognized Representative Moyle to present the proposed legislation. **Representative Moyle** said that this RS is the same as the Governor's proposal for small business incentives contained in the previous RS with few exceptions.

This RS is the "Idaho Small Employer Incentive Act of 2005." It provides qualifying businesses with:

Income tax credits:

A 3.75% investment tax credit with a credit limitation of 62.5%.

An additional new jobs tax credit with a graduated scale starting at \$1,000 per job and climbing to \$3,000 per job.

A 2.5% real property improvement tax credit for investment in headquarters or administrative buildings of up to \$125,000 in any one year.

A temporary sales tax abatement of 25% for materials used in new headquarters and administrative buildings.

To qualify a company must:

Create at least 10 new jobs in Idaho;

Jobs must have a starting annual salary of at least \$50,000 per year,, plus benefits;

Invest at least \$100,000 in new headquarters or administrative

buildings for each new employee added in Idaho;
Accomplish this within a five-year period.

Existing recapture provisions apply. Conveys authority to county boards of equalization to exempt new plant investment at project site from property taxation.

MOTION: It was moved by Representative Clark to **introduce RS15050**. Motion passed on a voice vote.

RS15053: Chairman Crow announced the next item on the agendas was RS15053 and recognized Mr. Reynoldson to explain the RS. **Mike Reynoldson, Micron**, said that the CEO of Micron spoke at the Boise Metro Chamber annual legislative forum giving an update on Micron's Idaho semiconductor manufacturing. He talked about the need for company expansion and that several locations were being looked at for expansion. From that event a number of legislators approached Micron to ask about incentives.

This proposal exempts from property tax "significant capital investment." The exemption is for the market value of all property of a business or person in excess of \$700 million within a single county.

The property tax cap will come into effect if an existing Idaho business, or a new business to the state, makes a significant capital investment which would put its market value over \$700 million.

There would be no effect on the general fund. The cost to local governments and schools should be zero or minimal as it is estimated that no single taxpayer would have a market value of more than \$700 million.

In response to Representative Lake's concerns relating to the fiscal impact, Mr. Reynoldson responded by saying fiscal impact is based on the value of the company's current property tax obligation.

MOTION: Representative Lake moved to **introduce RS15053**. Motion passed on a voice vote.

RS15055: Chairman Crow announced the next item on the agenda was RS15055 and asked Mr. Reynoldson to continue. **Mike Reynoldson, Micron**, stated that this RS provides a new exemption from sales and use taxes for property that is used in research and development activities. It amends the sales and use tax exemption for clean rooms to include those clean rooms used for research and development. It amends the production exemption to remove property used for research and development as an exclusion from the production exemption.

Exempting research and development property from the sales and use tax is intended to serve as an incentive for new jobs and investment from existing Idaho businesses along with attracting new research and development investment from businesses looking to locate such activities in the state.

This RS reduces sales and use taxes from \$6.8 million to \$7 million

based on past use and projected new investment in research and development activities.

MOTION: Representative Clark moved to **introduce RS15055**. Motion passed on a voice vote.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 9:48 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** February 24, 2005
- TIME:** 10:00 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** Representative McGeachin
Representative Denney
- GUESTS:** Tom Katsilometes, Athletic Commission; Ron Williams, Idaho Cable Telecommunications Association; Michelle Cameron, CableOne; Celynda Roach, CableOne; Steve Ahrens, Idaho Association of Commerce & Industry; Christopher Clark, Deputy Attorney General
- MINUTES:** Chairman Crow called the meeting to order and requested a silent roll call. Representative Martinez moved to accept the minutes of the meeting held on February 23, 2005 as written. Motion passed on a voice vote.
- RS14991:** Chairman Crow announced the first item on the agenda was RS14991 and asked Representative Schaefer to explain the RS. **Representative Schaefer** said that when urban renewal districts were established no one anticipated problems when the districts were terminated. Due to the mechanics of tax increment financing there would be a tax revenue loss to school districts for one year.
- This RS amends Section 33-802 to authorize a school district to add the increment value to a school district's actual or adjusted market value for assessment purposes as such valuation existed on December 31 of the previous year when calculating the maximum school maintenance and operation levies and the local district contribution levy in the event property with the district is contained in a revenue allocation area and such revenue allocation area has given notice of termination.
- MOTION:** It was moved by Representative Collins to **introduce RS14991**. Motion passed on a voice vote.
- H 151:** Chairman Crow announced the next item on the agenda was H 151 and recognized Representative Clark to present the bill. **Representative Clark** testified that this bill imposes a 5% fee on pay-per-view charged to the consumer. He reviewed the changes in the bill and stated that all fees for subscriptions on athletic events are collected by cable companies and would send back to the Athletic Commission 5% of the fees. He stated that the Idaho Cable Telecommunications Association does not oppose Section 2 of this legislation.

The statement of purpose states that this legislation modifies the existing law to enact a pay-per-view tax on the proceeds received by fight promoters who broadcast events on pay-per-view television into Idaho.

PRO: **Mr. Tom Katsilometes, State Athletic Commission**, briefed the members of the history of the commission. There is a 5% "live-gate" fee but closed-circuit telecast pay-for-view does not have the 5% fee.

The problem the Commission is having is to finance enforcement of rules and regulations for mixed sporting events. Live event gate receipts are approximately \$22,000 and the commissions expenses are over \$28,000. Currently the commission has a deficit and is unable to pay back old debts to the Attorney General and the Department of Administration.

CON: **Ron Williams, Idaho Cable Telecommunications Association (ICTA)**, spoke in opposition to H 151 stating that the new sections 4 and 5 of the bill impose a 5% tax on cable TV showing "in-home pay-per-view" professional boxing and wrestling events. The reasons for objection to these sections were outlined in the bullet points of the hand-out. (See attachment #1.)

The ICTA does not oppose section 2 of H 151 which amends Idaho code section 54-411 to impose a 5% fee on the gross receipts of in-state boxing and wrestling promoters. This group of individuals appears to be the "users" of the Commission's services and the "cost causers" at the Commission. Cable television is not a "user" of the Athletic Commission's services.

CON: **Michelle Cameron, CableOne Systems**, testified in opposition to H 151 and provided a hand-out depicting CableOne Systems boxing and wrestling cable television (in-home) pay per view table. (See Attachment #2) She drew the members attention to the fact that out of 381 cable pay-per-view purchases, the company only received 52% of the amount due.

CON: **Celynda Roach, CableOne Systems**, spoke in opposition to H 151, saying this legislation causes a burden to cable companies particularly the billing cycle. Billing the customer within the 72 hour time limit would be difficult.

CON: **Steve Ahrens, Idaho Association of Commerce & Industry**, testified in opposition to HB 151 saying Cable TV services are not exempt from sales and use taxation. The members of his association have consistently opposed extending sales and use taxes on services. (See Attachment # 3 for complete testimony.)

Chairman Crow recognized Representative Clark to make closing remarks. **Representative Clark** said that this bill gives the Athletic Commission the ability to regulate special sport events. It also would bring the Commission into the black and not resort to funding from the general fund.

PRO: **Christopher Clark, Deputy Attorney General**, refuted opposition testimony saying the 72 hour assessment date and the 30 day payment

date does not create a billing problem scenario.

MOTION: Representative Smith moved to send **H 151** to the floor with a **do pass** recommendation.

SUBSTITUTE MOTION: A substitute motion was made by Representative Moyle to **HOLD H 151**.
Roll call vote was requested.

ROLL CALL VOTE: Voting AYE: Representatives Lake, Barrett, Moyle, Field, Schaefer, Collins, Raybould, Roberts, McKague, Jaquet, Sayler, Crow. Voting NAY: Representatives Smith, Wood, Clark, LeFavour, Martinez.

Motion to **HOLD H 151 PASSED. 12-5-2**

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:52 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** February 28, 2005
- TIME:** 10:00 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** Representative Schaefer
- GUESTS:** Representative Nonini; Ken McClure, Attorney
- MINUTES:** Chairman Crow called the meeting to order and requested a silent roll call. Representative Lake moved to accept the minutes of the meeting held on February 24, 2005 as written. The Chairman conveyed that the State Tax Commission revised the fiscal impact for H 216 and without objection the Statement of Purpose would be reprinted. There was no objection.
- RS14758C3:** Chairman Crow announced the first item on the agenda was RS14758C3 and asked Representative Saylor to explain the RS. **Representative Saylor** said that this proposed legislation would provide property tax relief for homeowners who have lived in their home for ten continuous years or more. The assessed value of their home would be frozen as of January 1st of the year they applied and qualified. They would continue to pay taxes on the frozen assessed value at current levy rates as long as they remained in the home. Taxes would continue to be calculated as if there was no freeze and the deferred taxes would be a lien on the property.
- There would be minimum initial shift to the property owners at the county level but would end over time as deferred taxes began to be repaid.
- Representative Saylor said this proposal is an alternative attempt to provide property tax relief due to rising costs in property values.
- MOTION:** It was moved by Representative Smith to **introduce RS14758C3**. Motion passed on a voice vote.
- The Chairman referred the bill to the Lake Subcommittee.
- RS15024:** Chairman Crow announced the next item on the agenda was RS15024 and recognized Representative Nonini to present the RS. **Representative Nonini** explained that the purpose of this proposed legislation was to change Title 41, Chapter 34, Idaho Code. This would make the tax consistent with the premium tax structure adopted as part of H 724 in the 2004 Legislative Session.

Unlike premium taxes assessed pursuant to Idaho Code, Section 41-402, the current method of taxation is based on \$.04 cents per subscriber contract per month in Chapter 34. It has not been adjusted for health care inflation rates since 1982.

A single premium tax rate should make the state more competitive in its efforts to attract insurance carriers to locate in Idaho as its "home" or "domiciliary" state. The change to a single premium tax rate for all dental insurance carriers will also eliminate legal and financial exposure to the state created by the dual rate system.

Representative Nonini alluded to the fact there are service companies operating in Idaho who have not opted to be in the premium tax structure. This proposed legislation will level the playing field by having a single tax rate.

Projections utilizing 2003 premium numbers provided by the Idaho Department of Insurance indicate that there would be a benefit to the General Fund of approximately \$400,000 in the next year.

MOTION: Representative Clark moved to **introduce RS15024**. Motion passed on a voice vote.

RS15059: Chairman Crow announced the next item on the agenda was RS15059 and recognized Mr. McClure to present the RS. **Ken McClure** stated that this proposed legislation was intended to clarify an income tax exemption relating to the taxation of interest, dividends and capital gains from investments placed with Idaho registered broker-dealers by non-residents. The Tax Commission has suggested that the exemption found in Section 63-3026A, Idaho Code, does not apply to investments in hedge funds or other investment vehicles in which a non-resident investor purchases from an Idaho broker-dealer. This RS clarifies that the exemption in fact applies in such cases.

If the exemption does not apply, because the Tax Commission lacks jurisdiction to collect the tax from non-resident investors, it seeks to collect the tax from the Idaho broker-dealer. Instead this causes the Idaho broker-dealer to be liable for the taxes which otherwise would be due from the non-residents.

There will be no, or negligible, refund liability. There may be foregone revenue of an unknown amount if the Commission's assertion of tax liability were to be upheld in court.

MOTION: It was moved by Representative Smith to **introduce RS15059**. Motion passed on a voice vote.

H 165: Chairman Crow announced the next item on the agenda was H 165 and recognized Mr. LaBeau to present the bill. **Alex LeBeau, Idaho Association of Realtors** testified that this measure would shorten the holding period required for Real Estate transactions from eighteen months to twelve months to qualify for long-term capital gains taxation. This proposal would bring Idaho into Federal Internal Revenue service compliance for tax treatment of long-term capital gains.

MOTION: Representative Clark moved to send **H165** to the floor with a **do pass** recommendation. Motion passed on a voice vote. Representative LeFavour requested to be recorded as voting no. Representative Moyle will sponsor the bill on the floor.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:36 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: March 1, 2005

TIME: 10:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** None

GUESTS: Gayle Batt, Idaho Water Users Association, Inc.; Dan Steenson, Idaho Waters Users Association, Inc.; Mitch Jacobs, Farmer-Rancher; Russell Westerberg, Snake River Property Owners Alliance; Phil Homer, Idaho Association of School Administrators; Max Vaugh, Minidoka County Assessor; Russ Hendricks, Idaho Farm Bureau Federation

Chairman Crow called the meeting to order and requested a silent roll call. Representative Martinez moved to accept the minutes of the meeting held on February 28, 2005 as written.

RS14913C1: Chairman Crow announced the first item on the agenda was RS14913C1 and asked Ms. Batt to explain the RS. **Gayle Batt, Assistant Director of the Idaho Water Users Association, Inc.**, said that the purpose of this proposed legislation was to extend a more reasonable time for the rehabilitation of adjacent lands. When large irrigation and drainage projects are undertaken by ditch and conduit owners, this RS would provide more time for the constructor of the project to record the specifications and location of the buried conduit.

The amendment would provide that global positioning system technology may be used in place of a certified survey in order to ascertain the location and specifications of the buried conduit for purposes of recording.

An amendment to Section 18-4308, Idaho Code, would eliminate any criminal liability for failure to record the specifications of the buried irrigation conduit or drain. Ms. Batt requested that the bill be referred to the Resources and Conservation Committee.

MOTION: Representative Roberts moved to **introduce RS14913C1** with the recommendation that it be **referred to the Resources and Conservation Committee**. Motion passed on a voice vote.

RS14912C1: Chairman Crow announced the next item on the agenda was RS14912C1

and recognized Mr. Steenson to explain the RS. **Dan Steenson, representing the Idaho Water Users Association, Inc.**, stated that most drownings in Idaho occur in irrigation ditches and drains. Most of these drownings involve children. Water users, police departments, parents and even the Environmental Protection Agency and the Department of Environmental Quality recognize that entering the water in irrigation facilities can be extremely dangerous and therefore contrary to public health and safety. Unauthorized recreational use of these facilities also interferes with the ownership and delivery of irrigation water and the operation and maintenance of irrigation facilities.

This proposed legislation addresses the urgent need for clear and consistent state policy on recreational use of irrigation facilities.

Provides that human contact recreation shall not be state-designated use of any irrigation facility that is constructed and used for irrigation or drainage purposes, unless such use is permitted by the owner or managing agent of the facility.

Provides that there shall be no such unauthorized use of irrigation facilities.

This RS also clarifies the legislature's intention that owners and operators of irrigation facilities shall not be liable for injuries resulting from authorized or unauthorized recreational use of irrigation facilities.

Mr. Steenson requested that the bill be referred to the Resources and Conservation Committee.

MOTION: Representative Raybould moved to **introduce RS14912C1** and recommend it be **referred to the Resources and Conservation Committee**. Motion pass on a voice vote.

RS15064: Chairman Crow announced the next item on the agenda was RS15064 and recognized Representative Moyle to explain the RS. **Representative Moyle** said that this proposed legislation requires use of surface water for irrigation on lawns and landscaping when available. He requested that the bill be referred to the Resources & Conservation Committee.

MOTION: It was moved by Representative Field to **introduce RS15064** and recommend that be **referred to the Resources and Commerce Committee**. Motion passed on a voice vote.

H 108: The Chairman advised the members that the sponsor of H 108 had requested the bill be held because it had been declared unconstitutional. Without objection **H 108** was **HELD**.

RS15088: Chairman Crow announced the next item on the agenda was RS15088 and recognized Representative Moyle to address the RS. **Representative Moyle** stated that this proposed legislation would delete the value of new construction from the three percent growth factor exemption.

MOTION: Representative Barrett moved to **introduce RS15088**. Motion passed on a voice vote.

H 254: Chairman Crow announced the next item on the agenda was H 254 and recognized Representative Roberts to present the bill. **Representative Roberts** explained that in the 2002 Legislative Session, H 488 relating to home-site development passed the House and was amended by the Senate. The amendment made a wide open window for developers. There were two other bills subsequently to fix the problems creating negotiations and discussion. This bill makes the following changes:

Section 1. The bill repeals section 63-602FF, Idaho Code.

Section 2. Replaces 63-602FF, Idaho Code with a new section that provides a ten year, phase-out exemption on parcels within rural subdivisions outside city limits. Qualifying parcels are appraised at full market value, but receive a 95% exemption for assessment purposes for the first 5 years after approval and recorded. In the years 6 through 9, the exemption decreases to 80%, 60%, 40% and 20%. In the tenth year the parcel is appraised at full market value for assessment purposes. Those landowners enjoying the exemption, provided for in the repealed section, are eligible to apply for this new exemption. The exemption is lost upon sale, annexation, or improvement to the parcel. The exemption applies to all counties.

Section 3. Amends section 63-509 (1), Idaho Code, to provide for tracking of the exemption by the county and state tax commission.

Section 4. Amends section 63-509 (2), Idaho Code, to clarify, for appraisal purposes, that subdivision platting alone does not extinguish the agricultural exemption, provided the requirements for the exemption continue to be met. The purpose of such clarification language is to provide consistency among counties.

CON: **Mitch Jacobs** identified himself as a farmer and a rancher from Eastern Idaho and testified in opposition to H 254. He said section 63-602FF is working very well in rural areas. He explained that he had developed property in Fremont County in good faith. Repealing section 63-602FF will stop economic growth in rural Idaho.

CON: **Russell Westerberg** stated he was testifying on behalf of the **Snake River Property Owners Alliance** whose members own over 200,000 acres of deeded property in eastern Idaho

H 254 makes two major changes one repeals 63-602FF which was created by the passage of H 488 during the 2002 session. The bill was approved by this committee three years ago for two reasons. One was to prevent agricultural property simply because a residential plat had been filed for that property. Two it was to encourage economic development that had heretofore not been happening in small rural counties.

63-602FF is working as intended. The construction of expensive new recreational homes are adding to the tax base of Idaho's smaller counties. Repeal of 63-602FF would "pull the rug out from under" those property owners who took the 2002 legislature at their word and commenced to use the act to foster economic development in rural areas without fear of the kind of confiscatory taxation that was taking place before H 488 became law.

In the policy change H 254 replaces 63-602FF with what has been referred to as a developer's discount. Developers in the three fast growing counties, of Ada, Canyon and Kootenai are no doubt excited about the benefits H 254 holds for them. They agree and would have no opposition to H 254 giving a developer's discount in counties over 100,000 population if lines 15 and 16 on page one of the bill were eliminated.

A true developers discount would also include plats filed inside city limits. Without including cities in fast-growing areas like Ada and Kootenai counties H 254 would encourage urban sprawl and create further unrest among property owners when they are eventually annexed.

The members of the Snake River Property Owners Alliance appreciate the sponsor's efforts to find some middle ground between the assessors who despise the fact they are precluded by law from escalating the value of property simply because a plat has been filed and the rural property owners who stand to lose their investments if it is repealed.

This year in light of all the various tax incentives that are being considered by this committee to encourage additional economic development in Idaho's population centers, a reversal of the tax policy put in place three years ago to protect rural land owners from aggressive assessment practice and stimulate investment and economic development in Idaho's rural counties would not only be misguided and patently unfair to those who have made investments based on the law, but would send a chilling message to outside investors about Idaho's tax policy commitment to economic development.

PRO: **Phil Homer, Legislative Advisor for the Idaho Association of School Administrators**, spoke in support of H 254 stating it will help schools get well again over a period of time.

PRO: **Max Vaughn, Minidoka County Assessor**, testified in support of H 254 stating that he had worked with the sponsors in drafting this bill. This legislation does not preclude farmers from the agricultural exemption if the property is used for agricultural purposes. Developers need their own exemption. To grant a huge exemption for developers is not fair.

PRO: **Russ Hendricks, Idaho Farm Bureau Federation**, testified in support of H 254 saying this legislation corrects prior legislation in H 488 allowing agriculture land to be plated and still receive the agricultural exemption.

Representative Roberts concluded the testimony by stating the Statement of Purpose should be corrected to reflect that the exemption applies to all counties with a population of one hundred thousand or less. This bill compromises work done over several years. If a lot is not sold the property remains in the agricultural classification. This bill is about fairness

MOTION: Representative McGeachin moved to **HOLD H 254**.

SUBSTITUTE MOTION: A substitute motion was made by Representative Smith to send **H 254** to the floor with a **do pass** recommendation with a reprint of the Statement of Purpose. Roll call vote was requested.

ROLL CALL VOTE: Voting AYE - Representative Lake, Moyle, Smith, Collins, Roberts, Denney, LeFavour, Sayler, Martinez, Crow. Voting NAY - Representatives Barrett, Field, Schaefer, Wood, McKague, McGeachin, Clark, Jaquet. **Substitute Motion passed, 10-8-1**

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:58 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: March 2, 2005

TIME: 9:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** None

GUESTS: Brian Whitlock, Office of the Governor; Dan Reading, Idaho Center on Budget and Tax Policy; Randy Nelson, Associated Taxpayers of Idaho; John Reed, Albertsons; Steve Ahrens, Idaho Association of Commerce & Industry; Jason Crawford, Treetop Technologies, Inc; Roger Madsen, Idaho Commerce and Labor; Speaker Newcomb

H 216: Chairman Crow called the meeting to order and requested a silent roll call. She announced the first item on the agenda was H 216 and recognized Mr. Whitlock to present the legislation. **Brian Whitlock, Office of the Governor**, testified that he was here today to discuss House Bill 216. There were a couple of very important points that need to be made at the outset about this legislation.

First, if no company decides to take advantage of these incentives there is absolutely no cost to the state.

Second, if a company does take advantage of these incentives it is a net gain to the general Fund.

This is a five-year package that allows Idaho to play in the big leagues when it comes to attracting Fortune 500 companies to the state or even encouraging those who are already here to expand.

Those two simple concepts seemed to have widespread support and as a result a companion bill was drafted which will be discussed later. This bill is a package of incentives designed for smaller companies and a package that would benefit nearly every corner of the state.

As a part of the toolbox we need a tool that tells Fortune 500 companies that we are serious about bringing them to Idaho.

Mr. Whitlock highlighted the provisions of the bill and said that Dewey Hammond of the Tax Commission would answer more specific questions that the committee might have.

House Bill 216 offers:

An expanded Investment Tax Credit.

An additional new jobs tax credit with a graduated scale.

A 10% real property improvement tax credit for investment in headquarters and administrative buildings of up to \$500,000 in any year.

A temporary property tax abatement for new headquarters and administrative buildings of up to \$2 million in any year which the state would cover leaving local government held harmless.

And, a temporary sales tax abatement for materials used in new headquarters and administrative buildings.

To qualify a company must meet these minimum qualifications:

Create at least 5000 new jobs in Idaho.

These jobs must have a starting annual salary of at least \$50,000 plus benefits.

The company must invest at least \$50 million in new headquarters or facility.

This must be accomplished within a five year period.

Mr. Whitlock said again that this is a package that pays for itself with good jobs, additional investments in the state and enhancements to the general fund. He yielded to Commissioner Hammond to answer any difficult or technical questions.

Commissioner Dewey Hammond, Idaho State Tax Commission, provided the members with a hand-out. (Attachment #1.) He said that on page 1 and 2 of the handout there is a summary of H 216's provision and how the incentives operate.

H 216 has some very distinct tax incentive criteria as Mr. Whitlock described. Mr. Hammond further explained that each employee involved in a project should earn at least \$50,000. However the bill would permit an employer to calculate an average compensation for all the project employees in so doing they must be held to a higher standard of \$60,000. No one earning over \$250,000 can be included in the averaged group.

The bill permits the project site to be in more than one geographical location but at least 80% of the \$50 million must be spent in one site in Idaho. Through certification the bill would permit a taxpayer to bridge tax years upon completion. The project must meet all the criteria before 12/31/09.

The three income tax benefits are: (1) An ITC that is credited at the rate of 6% for qualified investment made anywhere in Idaho only after the project begins. This rate is similar to that enjoyed by investment in Broadband equipment since 2001. The 50% of tax limitation is waived for new qualified investments within the bookends.

(2) A real property improvement tax credit allows up to 10% of the new building investment to be deducted. It is capped at \$500,000 per year per return. (3) A new jobs tax credit that installs a graduated scale

ranging from the current \$1,000 to \$3,000 for jobs that pay in excess of \$990,000. The jobs must be "Net New To Idaho."

None of these credits are refundable but may be carried forward pursuant to existing provisions.

As to the sales tax rebate, normal payment to vendors will occur by the taxpayer/contractor as the building is built. After verification and full documentation the State Tax Commission will initiate payment back to the company with a warrant drawn from the refund account.

The same procedure for payment of property taxes but only for the 80% concentrated facility.

Commissioner Hammond elaborated on the mechanics of the bill section by section.

He also explained in detail the assumptions made in the fiscal note set forth on page 3 of the handout. (Attachment #2)

CON: **Don Reading, Idaho Center on Budget and Tax Policy**, spoke in opposition to H 216 saying the approach being taken by this legislation does not get the desired results. Based on available statistics and economic activity the state would be better served by increasing the labor force and education.

PRO: **Randy Nelson, President of the Associated Taxpayers of Idaho**, said that at the Associated Taxpayers of Idaho annual conference, December 1, 2005, there were presentations focused on Idaho state and local budget policy, tax policy and economic policy. In the economic session Idaho business incentives were highlighted by Roger Madsen, Director, Idaho Department of Commerce and Labor. Also on the program were David McAlindin, the Economic Development Director in Twin Falls, and Robert Ady, Ady International Company in Prospect, Illinois.

All three economic speakers pointed to the importance of economic incentives as having become today's top location criteria among labor costs, availability of skilled labor, accessibility, construction costs and other criteria. Mr. Madsen also cited a number of Department of Commerce and Labor activities including employer services, workforce training around Idaho, technical assistance, export assistance, current financial incentives, community development block grants and others.

Mr. Ady cited a new study on State Business Tax Climate Index by the Tax Foundation, Washington, D.C. The Tax Foundation reports that the goal of their index is to focus lawmakers on good tax fundamentals in their states rather than short-term tax strategies to lure high profile companies from other states. The Tax Foundation points out that some state strategies have backfired when tax bonuses do not guarantee that jobs will stay permanently. Mr. Nelson said that he did not think that is the case with H 216. The bill within it's parameters, offers attractive incentives which are implemented via state administration and enforcement. If a qualifying company fails to meet the criteria in H 216 the state can still recapture the tax benefits. The bill is clear that rebates

will be provided but only after the taxes have been paid and a written refund claim is made by the taxpayer.

Mr. Nelson said he monitored as much as possible what other states are doing tax policy wise. The range of tax policy actions is quite broad. It does appear that states and locals are becoming more willing to offer higher stake incentives to attract and retain quality companies. H 216 and other incentive bills are an indication that Idaho also is willing to remain vigilant about maintaining its competitive edge. When used the corporate incentive expansion will extend to other supporting businesses of various types and sizes. The additional state individual income taxes for a \$50,000 or an average \$60,000 salary employee will bump up the segment of returns paying the largest share of this tax. The additional sales taxes will also provide stronger tax collections for statewide needs.

Mr. Nelson passed out a fiscal analysis on H 216. (Attachment #4) He said that one of his board members forwarded a report to him by PriceWaterhouseCoopers that documents the range of activities some states including Idaho are doing to grow their economies. The article pretty much sums up what is happening, "What is clear is that increasing in-state economic development by attracting jobs and plants is a major theme in today's state tax world."

PRO:

John Reed, Albertsons Vice President of Tax, testified in support of H 216 saying that as most of the committee members know Albertsons was one of the world's largest food and drug companies with revenues of nearly \$40 billion annually. There are locations in 37 states across the country. Albertsons operate about 2,500 stores, 34 of which serve communities right here in Idaho. The company employs more than 230,000 associates nearly 5,000 of whom work here in Idaho.

Albertsons is a national company with a long history in Idaho operating in a rapidly changing highly competitive retail industry. Operating in a state that recognizes the value or strong business development policies is important to the company as they move forward in making key business decisions.

Albertsons supports the Corporate Headquarters Incentive Act of 2005 because we see a great deal of merit in providing incentives for businesses to operate in this state and thereby create jobs here. As Mr. Whitlock said during the bill introduction, the Governor solicited input from a number of companies in order to craft this bill. Albertsons did provide input into that process and they are pleased with the proposal before the committee today. The incentives provide a reasonable balance and insure that the state has adequate protections.

Albertsons made an announcement in the early months of 2004 to consolidate 4 smaller divisions into one larger Intermountain West Division and locate approximately 50 positions for that division here in Boise.

In addition Albertsons recently announced the relocation of more than 150 corporate merchandising jobs to Idaho. They expect those relocations to be complete early this year.

As a result of the move of 150 merchandising jobs to Boise their vendor partners have chosen to send teams to Idaho to leverage the efficiencies of doing business closer to them. Among those companies are Kraft, Proctor & Gamble, Johnson & Johnson and Sara Lee.

Mr. Reed said he shared with the Economic Outlook Committee just a few weeks ago that Idaho is a model state for business in many ways and that's why Albertsons continue to choose to be headquartered here. The simplified and fair tax structure is a selling point for our business for their customers and for their associates. Albertsons appreciates the strength of the Legislature in maintaining the time-honored tax structure even when faced with difficult budget decisions. Additionally the ability to access government agencies and have an open and honest dialogue about their business is something they value highly.

Albertsons appreciates the business-friendly environment the Legislature has established in Idaho and looks forward to helping to maintain and enhance that environment. After all, the more business a state can attract, the better off its residents will be in jobs, in cost of goods and in community services. H 216 better situates Idaho to make business recruitment a reality.

Mr. Reed shared a bit of his background that was relevant to the issue. He previously worked in Texas, New York, Missouri, Ohio and Arkansas. He led the tax function of 3 other Fortune 500 companies and had been a partner with 2 international accounting firms. In those roles he had the opportunity to work with the development agencies of many other states and several countries. As a result he had an opportunity to see the significant economic benefits for states which can attract new jobs. This is why not only as a representative of Albertsons but also on a personal level he so strongly supports legislation which encourages job creation.

Many states now actively compete for new jobs by offering a variety of incentives to business to relocate or expand their presence. From time to time Albertsons is approached by other jurisdictions to expand or move business functions to those areas. Mr. Reed said he was happy to see Idaho take steps to compete for and attract its share of that growth. The economic benefits of new job creation cannot be overstated.

PRO:

Steve Ahrens, Idaho Association of Commerce & Industry (IACI), spoke in support of H 216 stating that the organization represents all kinds and all sizes of companies. Members of the IACI compete with businesses in other states or other nations as well as within Idaho.

Collectively the members understand the problems and opportunities, the challenges, of competing statewide, nationally and internationally. So they have a very basic understanding of the importance of the bills before the committee.

Just as businesses daily confront these challenges of competition so does Idaho compete with other states, other nations, in its efforts to foster a growing economy that provides jobs for the people and revenue for the governmental programs and services, including education, that all Idahoans depend on. That's the atmosphere in which IACI reacted to

the bills on the agenda.

At the annual meeting of the Associated Taxpayers of Idaho 3 months ago a nationally recognized economic development expert stated flatly that Idaho is seriously lacking in having the kind of economic development incentives that will allow it to compete with many other states in attracting new business into the state or encouraging existing businesses to grow and expand within Idaho.

That's why H 216 was so important. The Idaho Legislature, properly so, has always refused to "give away the farm" in terms of providing economic development incentives. H 216 does not give away anything. If no company takes advantage of the incentives the state will not lose one thin dime. On the other hand if companies do make use of these incentives any impact on income, sales or property tax revenues will be made up many times in new jobs, better wages and more tax revenues to local and state government. These are incentives, not giveaways. "We have nothing to lose, and everything to gain" except that the harsh reality is that the state does in fact have a great deal to lose.

Facts are facts. Idaho has many attractive features but other states have a broader, deeper arsenal of economic development incentives. Virginia and Utah, for example, two states in which Micron Technology already has made substantial investments, already offer some of the same or greater incentives that are included in the Governor's package. Albertson operates in many states with a wide variety of economic incentives available. He know of a small Pocatello manufacturer that employs about 150 people at jobs around \$20 an hour or more. That company has a company representative today looking at a possible expansion in Grand Island, Neb.

This is not "scare talk", it is just the realty of Idaho competing with other states and nations to grow our economy. We must protect the companies we have while we recruit others to come to Idaho.

California is waking up and smelling the coffee. A study came out this week showing that they have 1 million manufacturing jobs at risk of moving to other states. It would be outstanding if Idaho, with expanded economic development incentives, could successfully compete for some of those businesses, just as we attracted Buck Knives to relocate from San Diego to Post Falls.

In closing Mr. Ahrens made one final point about the significance of this legislation. It is every bit as important that the state provide growth incentives for businesses already located in Idaho as it is that we attract business into Idaho. This bill provides incentives that can do both of these things, especially for large businesses.

The IACI members said this week that this package is as important as any tax legislation in recent years, including the income tax reductions of 2001.

PRO:

Jason Crawforth, Treetop Technologies, Inc., spoke in support of H 216 stating that this legislation goes beyond helping just large

companies. Big companies that his smaller company relies on have to make decisions based on the bottom line. Without the bigger technology companies he would not be in business.

PRO: **Roger Madsen, Idaho Commerce and Labor**, passed out a brochure depicting "Idaho's Incredible Business Incentives." (Attachment #5) The brochure outlines five big reasons why businesses prosper in Idaho. "Idaho integrates programs, services, and incentives with an enviable lifestyle for employees to provide a strong, healthy and profitable climate for businesses here."

Mr. Maden spoke in support of H 216 saying that granting incentives would attract world class businesses by making the state competitive with other states and foreign countries.

This legislation expands the base and encourages companies already located in Idaho to stay in the state. This legislation could help several companies in Idaho.

PRO: **Bruce Newcomb, Speaker of the House of Representatives**, testified in support of H 216 stating we need to look carefully at this bill before voting on whether you want to stay in the sand and go backwards. The state needs to be competitive and go after clean technical companies with good pay. This bill makes the state's tax structure more competitive.

Idaho has a disadvantage of being a long way from being a populous state. With some states offering much larger incentives to companies, Idaho will have to find ways to entice them or risk losing them. He said that frankly, he had angst with the way our society has gone but that is the nature of the beast.

The Speaker suggested that if members could not support the bill consider sending it to the floor without recommendation therefore not binding members to support the bill on the floor.

Several members in a discussion period shared their opposition to the bill.

MOTION: Representative Denney moved to send **H 216** to the floor with a **do pass** recommendation.

SUBSTITUTE MOTION: A substitute motion was made by Representative Clark to **Hold H 216**.

AMENDED SUBSTITUTION MOTION: An amended substitute motion was made by Representative Moyle to send **H 216** to the floor **without recommendation**. Roll call was requested.

ROLL CALL VOTE: Voting on the Amended Substitute Motion - AYE - Representatives Crow, Moyle, Field, Schaefer, Collins, Raybould, Denney, McKague, Clark NAY - Representatives Lake, Barrett, Smith, Roberts, Wood, McGeachin, LeFavour, Jaquet, Sayler, Martinez. **Motion Failed -9-10-0**

**ROLL CALL
VOTE:**

Voting on the Substitute Motion - AYE - Representative Lake, Barrett, Smith, Roberts, McGeachin, Clark, LeFavour, Jaquet, Saylor, Martinez. NAY -Representatives Crow, Moyle, Field, Schaefer, Collins, Raybould, Wood, Denney, McKague. **Motion Passed 10-9-0.**

ADJOURN:

There being no further business to come before the Committee Chairman Crow adjourned the meeting at 11:14 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: March 3, 2005

TIME: 9:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** None

GUESTS: Jason Kreizenbeck, Micron Technology, Inc.

Chairman Crow called the meeting to order and requested a silent roll call. She reassigned the Subcommittee members and Chairman as follows:

Collins Subcommittee, Representative Collins, Chairman;
Representatives Barrett, Moyle, Denney, Saylor.

Raybould Subcommittee, Representative Raybould, Chairman;
Representatives Field, McKague, Clark, Martinez.

Representative Field said that she was giving notice to reconsider H 216. Chairman Crow said that it was duly noted.

**H 259; H 258;
H 260:** Chairman Crow announced the first two items on the agenda were H 259 and H 258 they would be held subject to the call of the Chair. The next item on the agenda was H 260. The Chairman said that the sponsor of the bill requested that it be held in order to address questions relating to local government. Without objection the three bills were held.

H 261: Chairman Crow announced the next item on the agenda was H 261 and recognized Mr. Kreizenbeck to present the bill. **Jason Kreizenbeck, Director of Government Affairs, Micron Technology, Inc.**, testified that Micron Technology, Inc. is one of the world's leading providers of advanced semiconductor solutions. Through its worldwide operation Micron manufactures and markets DRAMs, Flash memory, CMOS image sensors, other semiconductor components and memory modules for use in leading-edge computing, consumer networking and mobile products. Micron's common stock is traded on the New York Stock Exchange under the MU symbol.

Micron Technology is the only U.S. based DRAM company in the world and has major manufacturing operations in Boise, Idaho, Manassas, Virginia, Lehi, Utah, Nishiwaki, Japan, Avezzano, Italy, a fully owned facility in Singapore; and another joint venture operation, East Kilbride, Scotland and Puerto Rico. In Idaho, Micron has major operations in Ada

and Canyon Counties.

Micron employs over 18,500 people worldwide with over 10,000 of them in the Treasure Valley. The company has grown globally as a company. Nothing demonstrates this better than looking at their existing customer base. Today over half their customers are outside North America. This is a direct reflection of the changing geographic breakout of their customers. As the technology markets have increased and segmented, their customers are no longer centralized in the United States. If you were to look at this same information in 1998 you would have seen that nearly 70% of Micron's customer base was located in North America. The best information they have today indicates that demand for their products and electronic IT products in general will continue to dramatically increase in Asia with most of the growth focused in China.

Micron reported net sales of \$4.4 billion in fiscal year 2005. Micron makes capital expenditures at its global facilities on average of \$1 to \$1.5 billion annually.

H 216 amends Chapter 36, Title 3, Idaho Code, to create an exemption from sales and use tax for property used in research and development activities.

It creates a definition of Research and Development. It amends Section 63-3622NN of Idaho Code, to add the definition of Clean Rooms to include those rooms in which research and development occur. It amends Section 63-3622D to remove the exclusion of property used for research and development from the production exemption.

Section one of the legislation creates a new section, 63-3622RR, Idaho Code, defining "Research and Development."

The changes made by this bill are needed for the following reasons:

In the semiconductor industry Research and Development is closely tied to manufacturing. Under Idaho's current law purchases of equipment or material to be used in research and development are subject to the state sales and use tax. Oddly enough many of the same material and pieces of equipment that Micron uses in research and development are currently exempt from the state sales and use tax when they are used for manufacturing.

Mr. Kreizenbeck defined the equipment used in research and development noting that with exception of the design software and high-end computers used to design using that software, everything is the same as what is used in the manufacturing fabs today.

The company's feeling that it is a natural migration to include research and development as part of the production exemption.

Micron has made major investments in its research and development facilities in Idaho and the Boise site is their premiere research and development facility around the world. As you will see from the handout passed out, Micron has been consistently in the top ten patent filers in the United States over the past five years. Idaho also ranks first in the nation,

per capita, on patents granted. Clearly there is a lot of research and development going on here in the Gem State.

By including research and development property in the production exemption Idaho is sending a strong message to firms that perform research in our state that you want those operations to continue and expand. Firms that currently have significant research and development operations in Idaho include Micron, HP, Monsanto, AMI Semiconductor to name just a few. Many spin off firms also would benefit from this law change.

Its important to remember that Micron also started as a small research and development firm.

According to information from the Associated Taxpayers of Idaho currently 29 other states have sales and use tax exemption of some form in place for research and development. By creating this exemption the legislature will be sending a clear message to firms in Idaho today that it supports their efforts in research and development and wants them to expand. It will also send a message to companies that are looking to invest in Idaho that the state can see the value of research and development to business. This legislature will create an environment that may help grow the Micron's of tomorrow right here in Idaho.

In response to an inquiry, **Dan John, State Tax Commission**, said that Micron is not the only research company in Idaho and the INEL is the only company exempt from the sales and use tax. The fiscal impact was computed on Micron and all other research and development companies.

It was pointed out that the Statement of Purpose had the wrong enacting date.

MOTION: Representative Clark moved to send **H 261** to the floor with a **do pass** recommendation along with a reprint of the Statement of Purpose, Motion passed on a voice vote. Speaker Newcomb and Representative Moyle will sponsor the bill on the floor.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 9:40 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COLLINS SUBCOMMITTEE

- DATE:** March 4, 2005
- TIME:** 8 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Collins, Representatives Barrett, Moyle, Denney, Saylor
- ABSENT/
EXCUSED:** None
- GUESTS:** Representatives Smith (24), McKague, Jaquet, Estridge, Henderson, Bedke; Moon Wheeler, Bill Goodnight, Pat Young, Cleo Cline, Ken Robison, Patty Bauscher, Russ Hendricks, Phil Homer, Pat Collins, Randy Nelson
- H 253:** **Moon Wheeler** stated that the purpose of this legislation would be to preserve defunct industrial sites that have infrastructure imbedded into the property which could be used by a successor business. He explained that some of these are very valuable as the regular installation costs have appreciated over the years. The exemption would cause a tax shift but removal would result in a permanent loss of the same magnitude. Public notice and a public hearing are prerequisites to the county commissioner's action. The impact of the exemption would almost entirely be up to the county and other taxing districts within the county.
- Representative Scott Bedke** explained that there would be a tax shift, but there is a sunset clause of five years with a possibility of an extension.
- MOTION:** Representative Moyle moved to send **H 253** back to the full committee with **no recommendation**. The motion passed with a voice vote.
- H 109:** **Representative Smith** explained this bill applies to property taxes as they apply to senior citizens and people on fixed income. H 109 came about with a number of legislatures meeting to discuss the problems in their district. This legislation would allow a 65-year-old person occupying a home to petition to opt for the deferment of annual tax increases above two percent until the 65-year-old resident moves out, dies or rents the residence. At that time the deferred taxes become due and they are payable within six months of vacating the premises. The deferred taxes shall be a lien upon the premises. Counties most affected would be Valley, Blaine, Kootenai, Ada and Canyon counties. He stated that none of the assessors like this bill because it causes more work in another index, but the State Tax Commission had helped with the mechanics of this bill. A discussion was held with regards to the tax shift. Representative Smith agreed that it would take one or more years before deferrals would begin to be paid.
- H 275:** **Representative Saylor** explained that this legislation would provide property tax relief for homeowners who have lived in their home for ten

continuous years or more. The assessed value of their home would be frozen as of January 1 of the year they applied and qualified. They would continue to pay taxes on the frozen assessed value at current levy rates as long as they remained in the home. Taxes would continue to be calculated as if there were no freeze and the deferred taxes would be a lien on the property. Representative Saylor indicated that Allan Dornfest suggested changes to section 3, and an amendment to Section 3 changing the amount of taxes that would have to be deferred would be forthcoming. He also indicated that the assessors didn't indicate any trouble with the administration of this bill.

- H 166:** **Representative Jaquet** stated the purpose of this legislation is to increase the income threshold for determining the "circuit breaker" eligibility to \$25,000 per person for the year 2005. A discussion of the need to come up with legislation that would give relief to all taxpayers not just specific groups is necessary. This bill does not shift to other taxpayers, but does decrease the general fund.
- H 124:** **Representative McKague** explained the purpose of this proposed legislation was to provide the owner-occupied homestead used as the primary dwelling place of an individual who is at least 70 years-of-age and who is the record owner holding title or who has retained or been granted a life estate, may apply for an exemption from the property tax on that property each year. If the owner dies after the exemption has been approved, it shall be in force the rest of the year. This legislation is not based on how much income a person has, but it is based on fairness to the private ownership of the property. When a person moves or passes on the property, it will go back on the tax roles. Those on the "circuit breaker" may choose to use this plan as well. The state makes up the difference in the "circuit breaker." Local government would take the immediate cut to taxes.
- H 241:** **Representative Jaquet** stated that this legislation increases the homeowner's exemption value limit from \$50,000 to \$70,000 while retaining the 50% of market value cap. The exemption may also include up to 20% of the residential land value. A portion of land value is included to prevent a shift to the low value improvement owner who would not otherwise realize a benefit. She referred to the Fiscal Note citing this bill would create a tax shift to other property tax payers.
- H 242:** **Representative Eskridge** explained that this proposed legislation increases the current homeowner's exemption from \$50,000 to \$75,000. He stated that the "50-50" homeowners exemption has not been raised for many years, but property values have raised significantly. This bill would give relief to people with lower wages as well as people on fixed income. The tax shift would be to people who have second homes and people who have higher valued homes. A discussion followed as to the stair-stepping effect taxes create.
- H 243:** **Representative Henderson** stated the purpose of this proposed legislation would assist two classes of tax payers: 1) people in modest homes who have not been able to take advantage of the 50-50, and 2)

persons over age 65 on a limited income. This would provide property tax relief by increasing the amount of the "Homeowner's Exemption" for those over the age of 65 and by expanding its application to the land directly associated with the residential improvement. Attachments #1 and #2 were prepared using Idaho Tax Commission Data.

Bill Goodnight, residential tax payer, spoke in favor of lower property taxes. He stated his taxes have gone up steadily in the past 15 years. He stated his taxes have doubled and now reads in the paper that Micron wants to be exempt from any increases. Now is the time for property tax relief.

Pat Young, retired government worker, testified that there is a need to help people on limited income or those in business. His homeowner's tax is approximately what his house payment used to be. Deferring taxes only means paying taxes after one dies. Budget for what you need, not for what you want. Since 1990 our dollar purchasing power has decreased by 35 percent. If we keep protecting low income and business people, we will have more lower income people in his view.

Cleo Cline, chair of Capital Tax Force of AARP, was present representing Wildbrook Homeowners Association. She stated when residents moved into the Wildbrook subdivision, there was no landscaping nor covers for patios. Basic improvements caused taxes to be increased. She appeals for property tax relief not only for persons over 65, but young families as well.

Ken Robison presented Attachment #3 (based on state tax figures), showing the large continuous tax shift to homeowners. Expanding the homeowners exemption would mitigate to homeowner inequities. Total increase from 2000-2004 was \$15 billion dollars higher. (See charts for further details.)

Patty Bauscher, Gooding County Assessor, asked that there be no further exemptions. They have always supported to include the land, and they'd like to include the "circuit breaker."

Russ Hendricks, Idaho Farm Bureau, stated his members were sympathetic to the bills. They would like to see a reduction in taxes across the board, but felt to shift taxes would be the wrong approach. To shift to other classification of property rather than residential would be unfair, and he encouraged less spending. (See Attachment #4).

Phil Homer, Idaho Association of School Administrators, noted that the Revenue and Tax Committee has been very reluctant to pass bills that create tax shifts. He emphasized that school districts rely on property growth in order to meet their financial obligations. He felt we cannot afford too much property tax relief even though knowing there has to be some.

Pat Collins, Idaho Bankers Association, noted technical issues in H 109 and H 275, concerning deferral of taxes, and payment later. Any

mortgage lender would require real estate taxes be current. There would be an unknown pool of deferred taxes. No mortgage lender would be able to move their property. This would be difficult for secondary mortgages. Lending agencies would have to wait until the homeowner dies to find out how much tax deferral had occurred on a home.

Randy Nelson, Associated Taxpayers of Idaho, suggested we need to look at other studies comparing our state to other surrounding states to see how they are adjusting their property taxes, "circuit breaker", deferral policies, etc. He felt the deferral of taxes needed more attention.

ADJOURNED: There being no further business, the meeting adjourned at 9:48 a.m. The next meeting to continue subject to the call of the Chair.

Representative Gary Collins
Chairman

Carolyn Johnson
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** March 7, 2005
- TIME:** 9:00 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** Representatives Lake and McGeachin
Representative Barrett
- GUESTS:** Mike Brassey, Suncor Development Company; Joe Bleymaier, Idaho State Veterans Cemetery
- MINUTES:** Chairman Crow called the meeting to order and requested a silent roll call. Representative Martinez moved to accept the minutes of the meeting held on March 2, 2005 as corrected. Motion passed on a voice vote.
- RS15122:** Chairman Crow announced the first item on the agenda was RS15122 and asked Representative Denney to explain the RS. **Representative Denney** said that proposed legislation allows residential improvements to still qualify for the fifty-fifty homeowners exemption when the property has been leased when the owner is absent in the current year by reason of active military service in a designated combat zone.
- MOTION:** Representative Wood moved to **introduce RS15122**. Motion passed on a voice vote.
- RS14866C1:** Chairman Crow announced the next item on the agenda was RS14866C1 and recognized Representative Wood to explain the RS. **Representative Wood** said that this proposed Joint Memorial is to remind the Federal government that the State of Idaho reserves the rights and remedies offered by Title 7 of the U. S. Code, Section 11 (h) of the Endangered Species Act and the Idaho State Department of Agriculture law to manage for depredation pursuant to Section 22-103.
- Representative Wood asked that the bill be referred to the Resources and Conservation Committee.
- MOTION:** Representative Raybould moved to introduce **RS14866C1 and recommend that it be referred to the Resources and Conservation Committee** . Motion passed on a voice vote.
- RS15084:** Chairman Crow announced the next item on the agenda was RS15084 and said that without objection **H 251** be **held** because it was being replaced by RS15084. There was no objection. The Chair recognized Mr. Brassey to explain the RS. **Mike Brassey representing Suncor**

Development Company testified that the RS replaces HB 251 relating to the concept of public infrastructure improvement district. The original bill was introduced on February 21, 2005.

The changes appear on page 6, line 37 stating a governing body may provide a resolution that would appoint residents to serve on the district board.

A change appears on page 8 line 9 to preclude the district from competing with the Public Utilities Commission. Another change appears on page 16, line 15 allowing specific specification to provide information to purchasers of how much each parcel is encumbered with future bond repayment liability, the amount of additional taxes projected to become a tax.

MOTION: Representative Smith moved to **introduce RS15084**. Motion passed on a voice vote.

H 99: Chairman Crow announced the next item on the agenda was H 99 and recognized Representative Moyle to present the bill. **Representative Moyle** testified that the purpose of this bill is to allow districts to exceed the 3% cap by asking voters in the election to be held in the May or November to approve by a sixty-six and two-thirds percent or more.

This legislation would amend Section 62-802, Idaho Code, so that any taxing district may call an election for the purpose of asking the voters to approve, by a sixty-six and two-thirds percent or more, a budget increase from property tax revenues beyond the amount authorized by statute.

In addition when a non-school district consolidates with another non-school district or dissolves and a new district performing similar governmental functions as the dissolved forms with the same boundaries within three years, the maximum of the budget of the district from property tax revenues shall not be greater than the sum of the amounts that would have been authorized for the district itself or for the districts that were consolidated or dissolved and incorporated into a new district.

Also this legislation deletes language regarding an election by voters in a fire protection district to have the district reach a certain levy amount.

MOTION: Representative Field moved to send **H 99** to the floor with a **do pass** recommendation. Motion passed on a voice vote. Representative Moyle will sponsor the bill on the floor.

H 264: Chairman Crow announced that the sponsor was unable to be here to present the next item on the agenda H 252 and would consider the next item on the agenda, H 264. The Chair recognized **Representative Schaefer** to present the bill. He said that when the Urban Renewal Law was enacted in Nampa ten years ago, no one anticipated how it would affect the school district's certification for Maintenance and Operation budgets upon termination.

This bill amends Section 33-802 to provide that a school district in which a tax increment area is terminated may add back the tax increment value to

its market value for purposes of determining the proper amount of its dollar certification for its M & O budget and makes conforming amendments to section 33-1002D

MOTION: Representative Collins moved to send **H 264** to the floor with a **do pass** recommendation. Motion passed on a voice vote. Representative Schaefer will sponsor the bill on the floor.

H 252 Chairman Crow announced the next item to be considered was H 252 and asked Representative Denney to present the bill. **Representative Denney** testified that this bill exempts the portion of income received by widows from the Dependency and Indemnity Compensation and widow's pension benefits when applying for the "circuit breaker" program.

MOTION: Representative Roberts moved to send **H 252** to the floor with a **do pass** recommendation. Motion passed on a voice vote.

Joe Bleymaier stated that he is the Director of the Idaho State Veterans Cemetery and testified in favor of H 252. He gave an example of a widow who had cared for her veteran husband for 30 years before he died and is currently working three jobs to make ends meet. To include the veterans benefit income was not the purpose of the "circuit breaker" law.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 9:37 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION RAYBOULD SUBCOMMITTEE

- DATE:** March 7, 2005
- TIME:** 8 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Raybould, Representatives Field(18), Schaefer, McKague, Clark, Martinez
- ABSENT/
EXCUSED:** None
- GUESTS:** Representative Eskridge, Charles Campbell, Roald Doskeland, John Watts, James Cankules, Jim Shackelford, Phil Homes, Cliff Green, Ron Williams, Dan John
- H 32:** **Mr. Charles Campbell**, sponsor of this legislation, presented the bill requesting exemption of sales and use taxes on public playground equipment which he installs. **Dan Johns, State Tax Commission**, was asked the difficulty of tracking this exemption, if it should pass. Mr. Johns stated that it would be very difficult to track.
- MOTION:** **Representative Clark** moved that **H 32** be sent back to the full committee with the recommendation to **HOLD**. The motion passed on a voice vote.
- H 76:** Sponsor of this bill was absent. A discussion followed lending to the perception that the Fiscal Note figures weren't correct.
- MOTION:** **Representative Clark** moved that **H 76** be recommended back to the full committee with the recommendation to **HOLD**. The motion passed on a voice vote. Representative McKague wished to be recorded as voting no.
- H 77:** Chairman Raybould presented remarks in behalf of Representative Smith(24), sponsor of the bill. The purpose of this bill is that Southern Idaho Learning Center be added to the list of charities listed in IC 63-3029, so the Center can receive the same individual and corporate tax credit given to other Idaho charities to encourage charitable giving.
- The Southern Idaho Learning Center is a non-profit organization that diagnoses and assesses instruction for children from five to 21-years of age that have learning disabilities. It functions with approximately 20% client fees and 80% from grants and donations from the general public.

Responding to a inquiry from the committee, Dan John said that the Idaho Learning Center doesn't qualify for a tax credit under this section of Idaho Code. Representative Clark drew attention to the definition on page 1, line 16 which states, "organized and operated exclusively for the benefit of institutions of higher learning."

MOTION: **Representative Clark** moved that **H 77** be sent back to the full committee with a recommendation to **HOLD**. The motion passed on a voice vote.

H 110: **John Watts**, Shell Windland, Inc., began presenting the bill. He stated that this legislation was the product of an interim committee formed to review a variety of energy sources. The key item being that Idaho must import energy at present, and there is a 2% growth per year. The committee is trying to provide some stimulation to create renewable energy. They have conducted field trips to other states looking for ideas as well.

Representative Eskridge stated this legislation will provide an exemption to the sales and use taxes for purchases of machinery and equipment used in directly generating electricity using fuel cells, low impact hydro, wind, geothermal resources, co-generation, sun or landfill gas as the principal source of power. The exemption would be in effect until July 1, 2011.

Roald Doskeland, Shell Windland, Inc., expressed the difficulty of generating wind power in this state. He stated that surrounding states do not have sales tax on wind generating equipment which makes Idaho less competitive since Idaho does not exempt the sales tax. If renewable energy sources were exempt from sales tax, county property taxes, state income taxes, royalties to landowners, and rural economic activity would all generate tax dollars. He further explained the benefits of wind power. It is more predictable and a stable source of energy long term. He supported H110 with its amendments.

Those also in support of H110 were: Jim Shackelford, Phil Homer, Cliff Green, Ron Williams, and James Cankules. Mr. Cankules asked for consideration for this bill to be retroactive back to January 1, 2005.

MOTION: **Representative Clark** made a motion to send the bill **H110** back to the full committee with the recommendation that it be **amended** as follows: Page 1, line 14 should have "biomass" inserted after the word "resources." Line 19 should state "not less than 25 kilowatts of electricity" (striking (5) megawatts). Line 30 should include "biomass" after the word "resources." Page 2 Line 1, should include "biomass" after the word "resources." Line 4 should include the word "biomass" after the word "resources." Line 13 should read "production capacity of 25 kilowatts or greater" (striking five (5) megawatts.)

SUBSTITUTE MOTION: Representative Field made a substitute motion to include the original motion with the addition that the date to retroactive to January 1, 2005. The motion passed on a voice vote.

ADJOURN: The meeting adjourned at 8:52 a.m.

Representative Raybould
Chairman

Carolyn Johnson
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** March 8, 2005
- TIME:** 9:00 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** Representative Denney
- GUESTS:** Brian Whitlock, Office of the Governor; Representative Hart; Senator Stegner; Dan John, Idaho State Tax Commission
- MINUTES:** Chairman Crow called the meeting to order and requested a silent roll call. Representative Lake moved to accept the minutes of the meeting held on March 3, 2005 as written. Motion passed on a voice vote.
- SUBCOMMITTEE
REPORT:** Representative Raybould submitted his report on the bills assigned to his Committee making the following recommendations:
H 32 - Playground equipment, exempt from sales tax.-HOLD
H 76 - Income tax credit, school choice.-HOLD
H 77 - Southern Idaho Learning Center/tax credit.-HOLD
H110 - Electrical generation, alternative, tax.-AMEND
- RS15123:** Chairman Crow announced the first item on the agenda was RS15123 and recognized Mr. Whitlock to explain the RS. **Brian Whitlock, Office of the Governor**, said the objectives the Governor is trying to achieve with the Corporate Headquarters Incentive Act is for high paying jobs, lots of them; significant capital investments; and an expansion of the Governors' portfolio that Idaho has to attract new businesses or retain the one we have.
- There have been several changes to the original bill, H 142, and Mr. Whitlock walked briefly through changes.
- On page 2, line 19 under the "New Employee" subsection, the reference to part-time workers being able to be included in the 500 employee count has been eliminated.
- The Governor was going to address that issue through rule but had heard that there was a desire to have it in the legislative language and so the change was made.
- This legislation also tightens the language under the "New Employee" definition to reinforce what the governor has been saying all along, that this has to be net new jobs to Idaho payrolls.

Mr. Whitlock stated that finally the last change made was made on page 3. This legislation has an either/or provision. Jobs can start at a minimum of \$50,000, or, reach a higher threshold of an average salary of \$60,000. The legislation has also tightened up the "or" provision. If a company is going to choose the \$60,000 averaging threshold found on line 23 (\$28.85/hour), the ceiling has been lowered to \$200,000 (96.15) and established a firm floor of \$15.50 an hour.

Mr. Whitlock stated that these changes make this a better bill.

MOTION: Representative Field moved to **introduce RS15123**. Motion passed on a voice vote.

RS15075: Chairman Crow announced the next item on the agenda was RS15075 and asked Representative Hart to explain the RS. **Representative Hart** said when taxes become delinquent for three years the county takes over the property and sells it at auction.

The purpose of this proposed legislation is to provide for the distribution of the proceeds of a tax deed sale that is equitable and in conformance with common sense and fair play. As the law currently stands when a property is sold at tax deed, 100 percent of the proceeds are distributed among the various taxing districts associated with the property. None of the proceeds are distributed to the record owner and the record owner loses his entire equity.

This proposed legislation would provide that after the various taxing districts are made whole for any delinquent taxes and fees and after any perfected liens have been paid that the record owner would receive any funds that remain.

This measure also provides for a 3 percent penalty on the gross sale amount to be paid to the county if the record owner had made no reasonable attempt to satisfy the delinquency or to sell the property prior to the tax deed sale. It also provides that the remaining proceeds shall be distributed to the county if no claim has been made for the funds within a 3 year period of the sale.

MOTION: Representative Clark moved to **introduce RS15075**. Motion passed on a voice vote.

RS15013: Chairman Crow announced the next item on the agenda was RS15013 and recognized Senator Stegner to present the RS. **Senator Stegner** testified that this proposed legislation is a straight forward simple effort to put into statutes rules on how the county collects local option taxes with multi-interest.

The purpose of this proposed legislation is to clarify the Idaho Code dealing with optional county sales taxes for financing county jail facilities. It adds three new sections to the statute that clarify which county's tax is to be imposed when two counties have an interest in the same transaction.

The first section specifies that the applicable county tax will be the tax imposed by the county in which a purchaser accepts delivery of the goods or services.

The second section specifies that the applicable county tax on most vehicle sales will be the tax imposed by the county in which the address on the application for registration is located.

The third section specifies and clarifies the applicable county tax that will be imposed for leased or rented tangible personal property that requires periodic payments.

Senator Stegner said that the State Tax Commission wrote this proposed legislation at his request. In response to a question, **Dan John, State Tax Commission**, stated that anything bought out of the county subject to the tax would be treated the same as the state treats out-of-state purchases. This bill makes the county parallel with the state.

MOTION: Representative Jaquet moved to **introduce RS15013** with a corrected Statement of Purpose. Motion passed on a voice vote. Representatives Barrett and Wood requested to be recorded as voting no.

ADJOURN: There being no further business to come before the meeting, Chairman Crow adjourned the meeting at 9:24 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES
HOUSE REVENUE AND TAXATION COMMITTEE

DATE: March 9, 2005

TIME: 9:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** None

GUESTS: Brian Whitlock, Office of the Governor, Gabe Gabriel, Albertsons Executive Vice President of Supply Chain; Mayor Bieter, City of Boise; Steve Ahrens, Association Commerce & Industry; Speaker of the House, Representative Bruce Newcomb

MINUTES: Chairman Crow called the meeting to order and requested a silent roll call. Representative Wood moved to accept the minutes of the meeting held on March 8, 2005 as written. Motion passed on a voice vote. Representative Martinez moved to accept the minutes of the meeting held on March 7, 2005 with a correction. Motion passed on a voice vote.

H 306: Chairman Crow announced the first item on the agenda was H 306 and recognized Mr. Whitlock to present the bill. **Brian Whitlock, Office of the Governor**, said that the Governor's office believed that this Corporate Headquarters Incentive Act will really work. Roger Madsen from the Department of Commerce and Labor was ready to hit the road using House Bill 306 to help companies make decisions that benefit Idaho and asked for support of the legislation. House Bill 306 is a good bill and should pass.

The legislation will give Idaho the opportunity to compete for high-paying jobs in a highly competitive world. Mr. Whitlock emphasized that the state is competing in a global economy.

Businesses throughout the country are making business decisions each and every day. The driving forces are how many employees they have and where they are headquartered and that is the bottom line.

When those businesses are making decisions about where to locate so they can do business with the rest of the world, the state wants them to take a look at Idaho.

When the Governor's office first started designing a package to take to corporate CEO's and Boards of Directors asking they look at Idaho they checked to see what other states were doing.

For example the state of Georgia has what is called the "Headquarters Job Tax Credit" in their statutes. The language is very specific that the corporate headquarters must already be located in or move to Georgia.

Idaho's Corporate Headquarters Incentive Act is not a new or novel idea nor is providing incentives that will cause a company to make investments that anchor a company in one particular state.

Mr. Whitlock said that he guessed the question must be asked, "Are we doing enough here in Idaho that each of us is certain that companies, large or small, are in a business friendly climate?" And by business friendly, he meant are they able to grow and expand, make a profit and create jobs so that our children can continue to live in this state?

To further describe some of the competition that we are facing as a state. He referred to the State of the State speech from the Governor of Michigan that was delivered about a month ago. It had been his experience that a State of the State message covered a broad range of topics and so it would be difficult to give a title to such a speech. But this particular State of the State message has such a singular force that the entire speech was summed up in a four-word title: Jobs Today, Jobs Tomorrow.

As a state our competition for good jobs and good companies is heating up. Michigan's plan is to create 72,000 good paying jobs over the next 10 years. How are they going to do it? This November the voters will be asked to issue \$2 billion worth of General Obligation Bonds to pay for the incentives. The state of Michigan intends to borrow \$2 billion and secure that with their going and offering incentives to businesses to expand or locate in Michigan and the competition for those jobs is intense. Even with borrowing \$2 billion the return on investment is there.

House Bill 306 gives Idaho a seat at the table when talking to these same companies. The Governor thinks this package will capture the imagination of Fortune 500 companies and that they will take a look at Idaho.

The key feature of this package that the Governor and Dewey Hammond crafted is that it is a net gain to the general fund. As Mr. Hammond mentioned in testimony on the original presentation of HB 216 there is never a payout from the general fund until an equal or greater amount has flowed into the general fund.

This bill has been improved from the Governor's original bill to eliminate any reference to part-time workers and if a company chooses to use the higher average salary of \$60,000 this bill narrows the range of salaries that can be used to figure that average with a floor of \$15.50/hour and a ceiling of \$96.15 or \$200,000/year.

If a company meets the other criteria of 500 jobs and \$50 million capital investment, the company receives a mix of incentives on their income, sales and property tax.

Mr. Whitlock stated that it was his intention to brief and sum up House Bill 306 as a package that pays for itself with good jobs, additional investments in the state and enhancements to the general fund.

Whether we like it or not, Idaho is in completion with states from the Rust Belt to the Bible Belt and in fact, Idaho is in competition with the world for

high paying jobs.

He reiterated that in this highly competitive world, we must ensure that Idaho does not take a seat on the back bench when it comes to economic development.

The Chairman recognized **Gabe Gabriel** to testify. Mr. Gabriel submitted the following testimony:

“Good morning, Madame Chair and members of the Committee. I am Gabe Gabriel, Albertsons Executive Vice President of Supply Chain. On behalf of Albertsons, thank you for giving me the opportunity to speak to you this morning in support of House Bill 306, the Corporate Headquarters Incentive Act of 2005.

Albertsons testified in support of House Bill 216, the original legislation, and we continue to support the concept of the Corporate Headquarters Incentive Act as laid out in House Bill 306. This proposal would give incentives to businesses to consider Idaho as a headquarters location but it would also give businesses already located here important tools and incentives to grow their business in the state. Let me share an Albertsons example with you.

As you heard from John Reed, and as we've previously announced, Albertsons is considering consolidation of some of our key business functions. We must do this because of the increasingly competitive nature of our industry. The supermarket industry is experiencing a dramatic transformation. It's obvious by just looking around... groceries are being sold in super-centers, warehouse clubs, convenience stores, dollar stores, and other non-traditional retailers.

Our consumers and key stockholders are driving us to fundamentally challenge the way we go to market and serve our customers. We must react to the changing face and behaviors of our customers. Our consumers are becoming older and more diverse and they are also becoming more fragmented in their shopping patterns with over one-third shopping at over 29 different stores for their food needs each year.

The retail environment is so competitive that we are forced to make tough business decisions every day. In order to compete more effectively and efficiently and offer our customers more competitive offerings, Albertsons must make critical changes.

You heard last week that we have been piloting one consolidation in Boise, combining the merchandising and marketing functions of our Intermountain West Division here. This involved about 200 positions. While we are still evaluating the success of those pilots, the projects early results are encouraging.

Historically, we've not adequately leveraged our size, in large part, because our buyers, marketers and merchandisers have been located throughout the country. We've always operated with a decentralized planning structure and, as a result, our execution at the store level has

been inconsistent.

Therefore, our Intermountain West Pilot Project unites our merchandising, our marketing, and our supply chain functions into one cohesive support group called the Demand Chain. The sole purpose of the Demand Chain is to service our stores in a united and disciplined manner. In order to do that, we MUST capture the advantage of our size. Albertsons must leverage its size in order to get the right product at the right time in the right place at the right price. The most efficient and effective way to ensure that our Demand Chain is successful is to consolidate appropriate functions in a central location. This initial pilot is only the beginning of our effort to be more competitive.

Albertsons wants to be the retailer choice of consumers food, household, health and beauty, and healthy lifestyle needs and we want to provide a superior shopping experience. Our pilot will demonstrate to us just how far we must go in order to succeed.

If the company's consolidations take place in Boise, the state will not only benefit from the revenues established in the fiscal note of the bill, but Idaho will also be positively impacted by a number of additional benefits. We expect our vendor partners and their families to move here, which creates more high-paying jobs. In fact, we believe that there will be even more vendor jobs created here than the new positions that would be added at Albertsons. Additionally, we could expect increased air travel, hotel occupancy, telecom use, local entertainment, restaurant visits, car purchases and rentals, housing purchases and other types of related activities. These are significant benefits to the state.

Albertsons has analyzed the language in HB 306 carefully, and we believe the Fiscal Note, as it is outlined in the Statement of Purpose, is a conservative view of the potential revenue benefits to Idaho. As Mr. Hammond told this committee, he took a very cautious approach in estimating the benefits that could be earned by companies taking advantage of these incentives and estimated the incentives at a level higher than expected. Further, no multiplier effect has been included with regard to the revenue estimate. A more common practice used by economic development agencies is a multiplier of 2 to 4 times the revenue generated by the direct job creation. This is because, as you know, money earned by new employees is spent with other businesses in the state. Those businesses pay taxes on that income.

Director Madsen has shared with you some of the incentives available in various states around the country to encourage companies to relocate their business to those states.

Many states now actively compete for offering a variety of incentives to businesses to relocate or expand their presence. Many other states offer substantial incentives that entice existing companies to expand or move business functions to those areas. I hope to see Idaho take steps to compete for and attract its share of that growth. The positive economic benefits of new job creation are dramatic.

We want to stay in Idaho—this is our home state and has been since Joe Albertson opened first store here in 1939. Our leadership team wants to stay here and I know our associates want to stay here. But, as a public company working for shareholders, we also have an obligation to protect our business and to consider every option available to us.

I can tell you that, for any company considering a consolidation or relocation of its business, House Bill 306 makes Idaho a very attractive destination. Albertsons urges your vote in support of this bill.

Thank you for your time this morning, Madame Chair. I'd be happy to answer any questions you might have for me.”

Chairman Crow recognized **Mayor Bieter** to testify. The following testimony was submitted:

“Good morning, Madame Chair and members of the committee. My name is David H. Bieter, Mayor of the City of Boise, and I come before you today to voice my support for House Bill 306.

I know that the committee has struggled with this measure, and I respect these concerns. I agree that in granting economic incentives to business and industry, we in government must walk a careful path. We must ensure that such inducements do, in fact, result in a net revenue gain for our communities through employment, tax revenues, and the indirect benefits from spinoff and support businesses.

And we must take care that these incentives do not simply shift the tax burden from one sector to another from major commercial entities to individual homeowners, or even to other smaller businesses.

The goal, in a word, is a “mix.” The Treasure Valley and the state of Idaho need diversity in our economic portfolio. We need a broad mix of businesses, by size and type, from high-wage, high-revenue-generating manufacturing, to small and medium-sized businesses, and service industries, along with healthy residential development. And the incentive packages we use to achieve that mix must strike a balance between what we give out and what we get back.

I've been accused of using too many sports metaphors, but I think this one is fitting: We're trying to put together a good offense. And we can't do that if we've recruited only linemen, or only running backs, or only pass receivers. We need all of them, and all of them working together, to win.

House Bill 306 is a winning package, because it is fair. The package of sales, property and income tax provisions apply to any company that creates at least 500 new jobs with starting salaries of \$50,000 plus benefits, invests at least \$50 million in new facilities, and does all of that within a five-year period.

I think two points are critically important. First, if a company doesn't meet these requirements, then the state of Idaho is out absolutely nothing; if one

or more companies do meet the requirements, then it's to all of our benefit. It means that we are adding some important players to our economic team.

And second, if we do attract or retain these companies, but for some reason they end up not meeting the requirements, then House Bill 306 includes a recapture provision that will make us whole again.

To the first point first: Yes, I hope the incentives in this measure will provide the impetus for Albertsons, an excellent corporate citizen of this community and this state for decades, to stay here and expand here. I think we can all agree that would be a good thing, a great thing.

But Boise and Idaho are home to several Fortune 500 companies, and I want us to be home to more. I'm convinced that this bill is structured broadly enough to make Idaho more competitive nationally in attracting other major companies here. And we know that large companies have a multiplier effect throughout the region's economy, providing business for support businesses, spinoffs and all the services that its employees demand. Again, a great thing.

As for failing to provide inducements to smaller businesses, yes, there's no question that House Bill 306 is aimed at a particular kind of large-scale corporation. If the approach to economic development in this bill is viable and I think it is, without question then consistency would suggest we do something for our smaller employers. Our understanding is that you in the Legislature will be looking at that.

We also understand, and basically support, the desire to take a comprehensive look at the entire corporate and personal tax structure in Idaho to ensure that it is equitable, that it provides a stable and predictable revenue stream to cover the states needs, and that it does the best job possible to give us the mix we need to compete and succeed.

But Idaho cannot put our development efforts on hold while we take on that enormous task. The economic rebound, nationally and regionally, is happening right now. Idaho is a great place to do business. But we in government need to make sure we do all that we can, within the bounds of fairness, to make our state an even better place to do business. The game is under way, and we need to put our best players on the field.

With that, I'll stop with the sports metaphors and gladly take your questions.

The five-year time limit will allow the state to adjust to changing economic conditions. And unlike the previous version of the bill, this one includes a higher wage floor and a lower ceiling to guarantee that these will uniformly attract higher-paying jobs.

I know that some of this committee expressed concern when considering a previous version of this legislation, that it applies only to a single company, Albertsons. I've also heard criticism that the bill doesn't do enough for small and mid-sized businesses."

Steve Ahrens, President of the Idaho Association of Commerce & Industry, stated that the association is a business lobbying group with about 300 member companies. The unique thing about the organizational structure is that it represents all kinds, and all sizes of companies.

He emphasized that he represents all kinds and all sizes of businesses to underscore the reason for their interest in the bill before the committee today. Their members compete with businesses in other states or other nations as well as within Idaho.

Collectively, their members understand the problems and opportunities and the challenges of competing statewide, nationally and internationally. So the members have a very basic understanding of the importance of the H 306.

In the Associated Taxpayers of Idaho annual meeting there were nationally recognized economic development experts stating flatly that Idaho is seriously lacking in having the kind of economic development incentives that will allow it to compete with many other states in attracting new business into the state or encouraging existing businesses to grow and expand within Idaho.

The Idaho Legislature, properly so, has always refused to “give away the farm” in terms of providing economic development incentives. This bill does not give away anything. If no company takes advantage of the incentives, the state will not lose one thin dime. On the other hand, if companies do make use of these incentives, any impact on income, sales or property tax revenues will be made up many times in new jobs, better wages and more tax revenues to local and state government. These are incentives, not giveaways.

We have nothing to lose and everything to gain except that the harsh reality is we do in fact have a great deal to lose.

Mr. Ahrens stated that facts are facts. Idaho has many attractive features but other states have a broader, deeper arsenal of economic development incentives. Virginia and Utah for example, two states in which Micron Technology already has made substantial investments already offer some of the same, or greater, incentives that are included in H 306. Albertsons operates in many states with a wide variety of economic incentives available.

This is not “scare talk,” it is just the reality of Idaho competing with other states and nations to grow our economy. Idaho must protect the companies here while recruiting others to come to Idaho.

California is waking up and smelling the coffee. A study came out last week showing that they have 1 million manufacturing jobs at risk of moving to other states. It would be outstanding if Idaho with expanded economic development incentives could successfully compete for some of those businesses just as we attracted Buck Knives to relocate from San Diego to Post Falls. It would be equally outstanding to pass legislation that would keep Idaho from falling into California's condition.

In conclusion, Mr. Ahrens said that it is every bit as important that Idaho

provide growth incentives for businesses already located in Idaho as it is to attract business into Idaho. H 306 provides incentives that can do both of these things especially for large businesses.

Speaker Newcomb stated that it was a pleasure to be engaged in the support of the original bill for Albertsons. If you look at the their cash flow every dollar invested will get two dollars in return. The fiscal note is very conservative when you add in other vendors that will be beneficiaries. The decision made today will either make Idaho competitive or not.

In the real world decisions remain competitive. The state of Virginia offers income tax credit and property tax credit to be competitive. Corporations with fiduciary responsibilities have to report to stockholders. It would be a huge mistake for Idaho to not to compete, this bill allows Idaho to compete.

In closing the testimony, Mr. Whitlock said large corporations are anchors supporting small businesses who stand to benefit.

Representative Smith question the omission of the \$2 million property tax cap. Commissioner Hammond responded that it should have been included and suggested a trailer bill to correct the error.

- MOTION:** Representative Raybould moved to send **H 306** to the floor with the recommendation that be placed on **general orders with committee amendment attached.**
- SUBSTITUTE MOTION:** A substitute motion was made by Representative Schaefer to send **HB 306** to the floor with a **do pass** recommendation, with the intent there would be a trailer bill to correct the omission. Roll call was requested.
- ROLL CALL VOTE:** Substitute motion voting AYE - Representatives Crow, Field, Schaefer, Collins, Raybould, Denney, McKague, Jaquet, Saylor, Martinez. Voting NAY - Representatives Lake, Barrett, Moyle, Smith, Roberts, Wood, McGeachin, Clark, LeFavour. **Motion passed, 10-9-0**
- H 259:** Chairman Crow announced the next item on the agenda was H 259 and recognized Mr. Whitlock to testify. **Brian Whitlock** requested that **H 259** be held in committee because combined elements of H 259 are in RS15135 on the agenda.
- UNANIMOUS CONSENT:** Chairman Crow asked for unanimous consent to **Hold H 259** subject to the call of the Chair. Consent was granted.
- H 258:** The Chairman announced the next item on the agenda was H 258 and recognized **Representative Moyle** who made the same request to hold HB 258.
- UNANIMOUS CONSENT:** Chairman Crow asked for unanimous consent to **Hold H 258** subject to the call of the Chair. Consent was granted.
- RS15135:** The Chairman announced the next item on the agenda was RS15135 and asked Representative Moyle to explain the RS. **Representative Moyle** testified that bill makes changes dealing with local government taxing districts with the option to opt out.

The purpose of this bill is "The Idaho Small Employer Incentive Act of 2005." it provides qualifying businesses with:

Income tax credits:

- (1) A 3.7% investment tax credit with a credit limitation of 62.5%;
- (2) An additional new jobs tax credit with a graduated scale starting at \$1,000 per job and climbing to \$3,000 per job.
- (3) A 2.5% real property improvement tax credit for investment on headquarters.

A temporary sales tax abatement of 25% for materials used in new headquarters and administrative buildings.

To qualify a company must:

- (1) Create at least 10 new jobs in Idaho;
- (2) Jobs must have a starting annual salary of at least \$40,000 per year, plus benefits;
- (3) Invest at least \$50,000 in new facilities and equipment for each new project employee added in Idaho; and
- (4) Accomplish this within a five-year period.

Existing recapture provision apply.

Conveys authority to county boards of equalization to exempt new plant investment at project site from property taxation.

MOTION: Representative Wood moved to send **RS15135** to the floor with a **do pass** recommendation.

SUBSTITUTION MOTION: A substitute motion was made by Representative Field to send **RS15135** to the floor with a **do pass** recommendation and recommend it be placed directly to second reading. **Motion failed** on a voice vote.

Original motion **passed** on a voice vote.

ADJOURN: There being no further business to come before the Committee, Chairman Crow adjourned the meeting at 10:09 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COLLINS SUBCOMMITTEE

DATE: March 9, 2005
TIME: 8 a.m.
PLACE: Room 404
MEMBERS: Chairman Collins, Barrett, Moyle, Denney, Saylor
**ABSENT/
EXCUSED:** None

Representative Saylor made a motion to approve the minutes of March 4, 2005. The motion was approved on a voice vote.

MOTION: **Representative Denney** moved to recommend bills: H 109; H275; H 166; H124; H241; H 242; H243 be HELD in committee requesting an Interim committee be established to study in full all issues of property tax. He suggested that city and county government as well as taxpayers be invited to participate in this committee. The motion passed on a voice vote.

ADJOURN: The meeting adjourned at 8:15 a.m.

Representative Gary Collins
Chairman

Carolyn Johnson
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: March 10, 2005

TIME: 9:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** None

GUESTS: Mike Reynoldson, Micron; Dan John, State Tax Commission; Representative Eskridge; John Watts, Shell Windland, Inc.; Russ Hendricks, Idaho Farm Bureau Federation; Rich Rayhill, Ridgeline Energy; Peter Richardson, Exerogy; Steve West, Centra

Chairman Crow called the meeting to order and requested a silent roll call. She announced the item on the agenda was RS14746 and asked Representative Moyle to explain the RS.

RS14746: **Representative Moyle** said that new construction is used to increase values for setting local government entity budgets. This legislation provides that there shall be no increase above the three percent property tax cap attributable to new construction or change land use classification in a revenue allocation area operated by a urban renewal agency.

Representative Moyle suggested that the bill be introduced and referred to an interim property tax committee for further study.

MOTION: Representative Barrett moved to **introduce RS14746**. Motion passed on a voice vote.

RS15090: Chairman Crow announced the next item on the agenda was RS15090 and recognized Representative Roberts to explain the RS. **Representative Roberts** stated he was presenting the RS for Jack Lyman, Idaho Mining Association. This proposed legislation is to establish a Cyanidation Facility Closure Fund.

MOTION: Representative Wood moved to **introduce RS15090**. Motion passed on a voice vote.

RS15132: Chairman Crow announced the next item on the agenda was 15132 and asked Mr. Reynoldson to explain the proposed legislation. **Mike Reynoldson, Micron Technology** testified that RS 15132 was a replacement of HB 260. While the overall concept of the bill is the same, Micron received positive feedback from members of this committee, along with members of local government, which we have incorporated into RS 15132.

As a brief refresher, the purpose of this legislation is to create an incentive for a major capital investment or reinvestment in Idaho.

By investing or reinvesting, and achieving a property valuation of \$800 million dollars in a single county, the taxpayer will receive the incentive of a property tax exemption on any property valuation which then exceeds the \$800 million valuation level.

Even if the taxpayer qualifies for the exemption, the taxpayer will continue to pay property taxes on all property value up to the \$800 million amount.

There are several changes and clarifications in the new bill.

First, the bill increases the amount of property valuation in which to qualify for the incentive to \$800 million. The value in HB 260 was \$700 million.

Next, the legislation clarifies that in the case of leased or rented property, only leased or rented personal property (such as equipment or tools) may qualify toward the \$800 million valuation.

Next, the taxpayer is now required to invest \$25 million annually in new capital investment within the county of the qualifying exemption.

Next, the taxpayer is now required to employ a minimum of 1,500 employees in the county of the qualifying exemption.

Finally, the bill clarifies that other exemptions from property tax or special investment in Idaho statute will not apply to the property which qualifies for this incentive.

Many of these changes are a result of direct feedback from this committee. The changes further create a positive result for the state by requiring reinvestment and jobs by the taxpayer in order to qualify for the incentive. Finally, if a taxpayer is able to qualify for the incentive, the legislation continues to result in an extremely large amount of property tax revenues to local governments and schools without shifting taxes to other taxpayers.

With that explanation, I ask for your support in introducing RS 15132.

MOTION: After a brief discussion Representative Lake moved to **introduce RS15132**. Motion passed on a voice vote.

H 32: Chairman Crow announced the next item on the agenda was H 32 and asked Representative Raybould to review his subcommittee recommendation. **Representative Raybould** said the committee heard testimony on H 32 granting a sales tax exemption on installing playground equipment. In discussion of the bill, Dan John, State Tax Commission, stated that it would be difficult to track the exemption. The subcommittee recommendation was to hold in the full committee.

MOTION: Representative Roberts moved to **HOLD H 32** in committee. Motion passed on a voice vote.

- H 76:** Chairman Crow announced the next item on the agenda was H 76 and recognized Representative Raybould to continue with his report. **Representative Raybould** said H 76 relating to income tax credit for school choice was scheduled and no one was available to testify. After a discussion it was their perception that the Fiscal Note was not accurate. The subcommittee recommended that the bill be held in the full committee.
- MOTION:** Representative Denney moved to **HOLD H 76** in committee. Motion passed on a voice vote.
- H 77:** Chairman Crow announced the next item on the agenda was H 77 and recognized **Representative Raybould**. He said Representative Smith, sponsor of the bill, submitted a letter asking that the "Southern Idaho Learning Center" be added to the list of charities listed for an income tax exemption. **Dan John, State Tax Commission**, responded to an inquiry saying this organization did not qualify for a tax credit under this section of the Idaho Code. The subcommittee recommended that H 77 be held in the full committee.
- MOTION:** Representative Clark moved to **HOLD H 77** in committee. Motion passed on a voice vote. Representative Smith voted no.
- H 110:** Chairman Crow announced the next item on the agenda was H 110 and recognized **Representative Raybould** to report on the subcommittee actions. He stated that several people testified in support of H 110 relating to exempting sales and use tax for purchases of machinery and equipment in directly generating electricity using fuel cells, low impact hydro, wind, geothermal resources, co-generation, sun or landfill gas as the principal source of power. The impact to the general fund was also discussed. The subcommittee recommended that the full Committee amend the bill.
- Representative Eskridge** spoke to two amendments suggested by the subcommittee. RS14584A2 adds "biomass" to the list of renewable energy sources eligible for the sales tax exemption on energy generation equipment contained in HB 110. Additionally, the amendment changes the energy generation qualifying threshold from 5mw to 25kw.
- The second amendment RS14584A3 will add a retroactive effective date of January 1, 2004. This retroactive effective date will make eligible at least one renewable energy project constructed during 2004. The fiscal impact is estimated to be \$446,200 to the general fund.
- Representative Eskridge stated that he did not support the second amendment.
- PRO:** **John Watts representing Shell Windland, Inc.** testified in support of H 110. He said Shell Windland was happy to help with energy demand and supported the first amendment.
- PRO:** **Russ Hendricks, Idaho Farm Bureau Federation**, testified in support of H 110 with "biomass" added to the bill. Methane gas is stored and used during peak demands. There is considerable up-front costs and a cut of

5% would go a long way for cash flow.

- PRO:** **Rich Rayhill, Ridgeline Energy**, testified in support of H 110 saying Idaho is the only regional state with sales tax on renewable energy sources.
- PRO:** **Peter Richardson, Attorney for Exergy**, spoke in support of H 110 and both amendments. He said the tax exemption would benefit two existing companies, that he knew about, by having the retroactive clause.
- PRO:** **Steve West, Centra**, testified in support of H 110 saying it sends the right kind of message to small alternative energy companies.
- MOTION:** Representative Wood move to send **H 110** with the recommendation that it be placed on the amending order with **committee amendments attached.**
- SUBSTITUTE MOTION:** A substitute motion was made by Representative Roberts to send **H 110** with the recommendation that it be placed on the amending order with **committee amendment RS14584A2 attached and a reprint of the Statement of Purpose adding the word "biomass."** Motion **passed** on a voice vote.
- ADJOURN:** There being no further business to come before the committee, Chairman Crow adjourned the meeting at 9:50 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** March 11, 2005
- TIME:** 9:30 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** None
- GUESTS:** Jason Kreizenbeck, Micron Technology, Inc.; Shirl Boyce, Boyce, Boise Valley Economic Partnership; Tom Ryder, Jr. Simplot Company; John Eaton, Idaho Association of Realtors; Steve Ahrens, Association of Industry and Commerce
- SUBCOMMITTEE
REPORT:** Chairman Crow convened the meeting at 9:30 a.m. and requested a silent roll call. Representative Collins submitted his subcommittee report. (Attachment #1) The Chairman announced that without objection the committee would **HOLD H 260** which was replaced by H 319. There was no objection.
- RS15028:** Chairman Crow announced the first item on the agenda was RS15028 and asked Representative Moyle to explain the RS. **Representative Moyle** said that if this proposed legislation is introduced he requested that it be referred to the Transportation Committee.
- The original definition of "Gasohol" contemplated up to but no more than ten percent anhydrous ethanol blended with gasoline. With advanced technological design this proposed legislation provides the same intent as originally drafted with the inclusion of E85 fuel being eligible to receive the same tax credit as 10% blended fuel. Currently there is only one station providing E85 fuel in Idaho. As demand increases there will be additional stations.
- MOTION:** Representative Roberts moved to introduce **RS15028** and recommended that it be referred to the Transportation Committee. Motion passed on a voice vote.
- R15146C1:** Chairman Crow announced the next item on the agenda was RS15146C1 and recognized Representative Moyle to explain the RS. **Representative Moyle** stated this new proposal is the result of negotiations for the "Idaho Small Employer Incentive Act of 2005." It provides qualifying businesses with:
- A 3.75% investment tax credit with a credit limitation of 62.5%.
An additional new jobs tax credit with a graduated scale starting at \$1,000 per job and climbing to \$3,000 per job.

A 2.5 % real property improvement tax credit for investment in headquarters or administrative buildings of up to \$125,000 in any one year.

A temporary sales tax abatement of 25% for materials used in new headquarters and administrative buildings.

To qualify a company must : Create at least 10 new jobs in Idaho; Jobs must have a starting annual salary of at least \$40,000 per year, plus benefits; Invest at least \$50,000 in new facilities and equipment for each new project employee added in Idaho; and Accomplish this within a five year period.

Existing recapture provisions apply. It conveys authority to county boards of equalization to exempt new plant investment at project site from property taxation.

MOTION: Representative Raybould moved to **introduce RS15146C1**. Motion passed on a voice vote.

H 319: Chairman Crow announced the next item on the agenda was H 319 and recognized Mr. Kreizenbeck to present the legislation.

Mr. Kreizenbeck identified himself as the **Director of Government Affairs, Micron Technology, Inc.** He introduced Mike Reynoldson, Idaho Government Affairs Manager, and Tom Laws, Tax Director.

Just another quick Micron Overview:

Micron Technology, Inc., is one of the world's leading providers of advanced semiconductor solutions. Through its worldwide operations, Micron manufactures and markets DRAMs, Flash memory, CMOS image sensors, other semiconductor components and memory modules for use in leading-edge computing, consumer, networking, and mobile products. Micron's common stock is traded on the New York Stock Exchange (NYSE) under the MU symbol. To learn more about Micron Technology, Inc., visit its web site at www.micron.com.

Micron Technology is the ONLY U. S. based DRAM company in the world and has major manufacturing operations in Boise, Idaho; Manassas, Virginia; Lehi, Utah; Nishiwaki, Japan; Avezzano, Italy; a fully owned facility in Singapore and another joint venture operation in East Kilbride, Scotland and Puerto Rico. In Idaho, Micron has major operations in Ada and Canyon Counties.

Micron employs over 18,500 people worldwide, with over 10,000 of them in the Treasure Valley. We have grown globally as a company and nothing demonstrates this better than looking at our existing customer base. Today over half of our customers are outside of North America, about 57%, which is a direct reflection of the changing geographic breakout of our customers. As the technology markets have increased and segmented, our customers are no longer centralized in the United States. If you were to look at this same information in 1998, you would

have seen that nearly 70% of Micron's customer base was located in North America. And the best information we have today indicates that demand for our products and electronic and IT products in general will continue to dramatically increase in Asia, with most of the growth focused in China.

Micron reported net sales of \$4.4 billion in fiscal year 2004. Micron makes capital expenditures at its global facilities on average of \$1 to \$1.5 billion annually.

Overview of Economic Impact in Idaho:

Micron and its team members contribute \$95.7 million in tax revenues to local governments and schools, which is \$42 million more than the cost of providing these governmental and educational services.

In addition, Micron and its charitable foundation have contributed over \$12 million to the Idaho community in the last 5 years. By creating a foundation, Micron has been able to provide stable support to our local communities, despite the volatile nature of the semiconductor industry. Through grants, sponsorships, collaboration, and scholarship programs, Micron has supported the constant improvement of Idaho's education as well as the quality of life in the communities where our employees live and work. Grants have provided for innovative education programs, advanced course offerings, faculty development, and tools for higher education. Community sponsorships and donations provide more opportunities for at-risk youth, community civic and cultural programs, as well as economic growth.

Micron is the type of company Idaho wants to invest in:

How did we get here? You will recall about 6 weeks ago, the President, Chairman and CEO of Micron was the featured speaker at the Boise Metro Chamber of Commerce "Welcome to the Legislature." At that meeting, he stated that 300mm production was the wave of the future for manufacturing at Micron and that our only 300mm site currently is in Manassas, Virginia. But he made it very clear that we were looking for the next place to deploy this technology and that Boise was in the mix, but not guaranteed for expansion. Market conditions will play a larger role in "when" we actually begin to deploy this new technology at our sites, but in order to meet our manufacturing capacity needs, we will have to bring more 300mm capacity on line very soon.

Following this announcement, Chairman Crow, Rep. Field and Rep. Moyle came to us and asked what kind of proposals would help Boise in our decision-making process. From that, we proposed the two pieces of legislation before you today.

Your committee already supported HB 261 related to Research and Development, and now I am pleased to present HB 319, which is a compromise piece of legislation that I hope this committee will support. The changes are a reflection of concerns raised by members of this committee and local government.

The purpose of this legislation is to provide an incentive for major capital

investment in Idaho without shifting the property tax burden at the local level.

Legislation HB 319:

By investing or reinvesting, and achieving a property valuation of \$800 million dollars in a single county, the taxpayer will receive the incentive of a property tax exemption on any property valuation which then exceeds the \$800 million valuation level.

Even if the taxpayer qualifies for the exemption, the taxpayer will continue to pay property taxes on all property value up to the \$800 million amount.

There are several changes and clarifications in HB 319 that were not in HB 260.

First, the bill increases the amount of property valuation in which to qualify for the incentive to \$800 million. The value in HB 260 was \$700 million. This is to ensure that the valuation level to qualify for this new exemption exceeds current valuations. This way local government will NOT have to shift the property tax burden to make up for lost revenue. Since no taxpayers in Idaho currently have a valuation over \$800 million, the exemption, or incentive, can ONLY be granted with NEW investment.

Next, the legislation clarifies that in the case of leased or rented property, only leased or rented personal property (such as equipment or tools) may qualify toward the \$800 million valuation. Leased Real Property would not be included and this was a concern raised by Ada County.

Next, the taxpayer is now required to invest \$25 million annually in new capital investment within the county of the qualifying exemption. This clause ensures continual re-investment within a county by the taxpayer in order to keep the exemption. It would only take one year of not meeting this re-investment requirement and the taxpayer would NO longer qualify for this incentive.

Next, the taxpayer is now required to employ a minimum of 1,500 employees in the county of the qualifying exemption. This may seem like a low number if you look at only Micron. However, we wanted to make sure other companies and industries could take advantage of this incentive as well, as opposed to writing a bill just for us.

In the semiconductor industry, however, it is common for a multi-billion dollar manufacturing facility to only employ 1-2,000 people. Micron is much larger because we have our corporate headquarters and research and development in Idaho as well. This new incentive could possibly help attract other capital intensive industries in manufacturing as well.

Finally, the bill clarifies that other exemptions from property tax or special investment in Idaho statute will not apply to the property which qualifies for this incentive. In other words, if you are going to take this exemption, you cannot claim another exemption in the Idaho code to further decrease the valuation of your facility.

Many of these changes are a result of direct feedback from this committee. The changes further create a positive result for the state by requiring reinvestment and jobs by the taxpayer in order to qualify for the incentive. Finally, if a taxpayer is able to qualify for the incentive, the legislation continues to result in an extremely large amount of property tax revenues to local governments and schools, without shifting taxes to other taxpayers.

Why is this a good idea for you to consider? If you will recall from Steve Appleton's speech in January, he suggested that as decision makers legislators should actively pursue the types of industries they want to come to the state. And without "giving away the farm," figure out what those industries need in order to invest in Idaho.

I would submit that Micron is the kind of company that Idaho should want to attract and retain—and I hope I have made that case with our economic impact analysis.

For capital intensive companies like Micron, we have to constantly re-invest in our facilities in order to stay competitive. In fact, we invested over \$1 billion dollars annually at our facilities around the world during the previous three fiscal years, despite losing \$2.8 billion dollars. We are in a cutthroat industry with heavy foreign competition. In fact, the memory industry is very similar to agriculture commodities because we are subject to large price swings based on supply and demand. And anyone who is in a commodity industry like DRAM or agriculture knows that the ability to control the costs of business inputs is the best way to be successful.

This legislation helps us control the cost of our equipment and maintenance on a regular basis.

Another issue to consider is that over 70% of the property tax value of our facility is based on personal property or our equipment. And since 300mm equipment is cutting edge technology, its some of the most expensive out there. If we invest in a new facility here in Idaho, it will help the long-term manufacturing stability of this site.

However, we may not create any new jobs—long term—and our required services from local government will not increase.

With that in mind, why would you want to help? I have been asked that question by local government that does not see this as traditional job creation proposal. I will submit that the focus is on re-investment and keeping our Idaho site competitive and helping keep the manufacturing base in Idaho. As a state and a nation, we have to decide at some point if we are going to stand up and help facilitate manufacturing within our borders, because much of it is migrating overseas. A lot of that is based on cost—I passed out a graph that points out there is a \$1 billion advantage over ten years to building a semiconductor fab in Asia as opposed to the U.S. This information was compiled by Intel and demonstrates that the major differentiating factor is tax policy.

Chairman Crow recognized Mr. Boyce to speak to the bill.

Shirl Boyce, representing **Boise Valley Economic Partnership** and **Jan Rogers, President of the Idaho Economic Development Association.**

Mr. Boyce stated he would like to focus his comments on the importance of HB 319 as an incentive for major capital investment or reinvestment in Idaho.

It is stretching it to say that this proposed legislation, and other proposals before this Legislature, may be some of the most important this decade, if not this century.

Micron Technology, Inc. is a "crown jewel" in Idaho's economy. It is a huge contributor to all of Idaho's economy, not just Southwest Idaho. It pays for far more services than it and its employees use.

Our best companies are our competition's prime targets for relocation. And they would like nothing better than to welcome Micron's next investment into their state or country.

- PRO:** **Tom Ryder, J. R. Simplot Company; John Eaton, Idaho Association of Realtors; Steve Ahrens, Association of Industry and Commerce** testified in support of H 306.
- MOTION:** After a short discussion, Representative Raybould moved to send **H 319** to the floor with a **do pass** recommendation.
- SUBSTITUTE MOTION:** A substitute motion was made by Representative Jaquet to send **H 319** to the floor with the recommendation that it be placed on the **Amending Order** to sunset in ten years. Motion failed.
- The original motion to **introduce H 319 passed** on a voice vote. Representatives Crow and Field were assigned as floor sponsors.
- ADJOURN:** There being no further business to come before the committee, Chairman Crow adjourned the meeting at 10:08 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** March 14, 2005
- TIME:** 9:30 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** None
- GUESTS;** Jeremy Pisca, Outfitters & Guides; Representative Bedke; Moon Wheeler; Ken McClure
- MINUTES:** Chairman Crow called the meeting to order and requested a silent roll call. Representative Raybould moved to accept the minutes of March 9, 2005 and March 10, 2005 as written. The Chairman informed the members that H 253, Property Tax, Unused Infrastructure, was returned to the committee with-out recommendation from the Collins Subcommittee.
- H 215** The Chairman announced the first item on the agenda was H 215 and recognized Representative Barrett to present the bill. **Representative Barrett** stated that this legislation clarifies that "land actively devoted to agriculture" includes land that is leased for the grazing of livestock. There has been misunderstanding between the assessors and land owners over the definition of this section.
- The legislation also changes the term "net profit making" enterprise to "for-profit" enterprise and provides a definition of "for-profit."
- This legislation passed the House last year and arrived in the Senate too late for action on the bill.
- PRO:** **Jeremy Pisca representing the Outfitters and Guides Association** spoke in support of H 215. This legislation makes clear that any rancher who lease out acres for horses, regardless who own the horses, the farmer should not lose the agricultural exemption.
- MOTION:** Representative Wood moved to send **H 215** to the floor with a **do pass** recommendation. Motion passed on a voice vote.

H 253: Chairman Crow announced the next item on the agenda was H 253 and recognized Representative Bedke to present the legislation. **Representative Bedke** explained that this legislation provides for an owner of a defunct industrial site with imbedded infrastructure for possible use by a successor, the county can opt to exempt property tax on the property improvements. This legislation would be a useful tool for county commissioners when a departing business leaves property improvements.

Moon Wheeler provided a handout depicting examples of what could happen when a company leaves the area. (Schedule #1) FMC owns all installed track located off the mainline right-of-way. FMC and Simplot joint lease the "Don siding" serving their properties on a long-term basis. The rail itself is valuable and easily salvageable. It weighs 233 pound per lineal foot. The tracks installed on the property can accommodate over 400 rail cars with a replacement cost of \$4.9 million.

Due to the loss of the FMC tax base and the subsequent shift to the property remaining in Power County, American Falls, at a 2.5256 levy rate, trails only Wallace in Shoshone County at 2.9819 in accumulative tax rate of county seats according to the Associated Taxpayers of Idaho. Pocatello is third at 2.4535.

Idaho Power has filed with the IPUC to allow a 25 year lease for the right-of-ways on the Fort Hall Reservation in the amount of \$7,450,000 to be entered into their cost base.

MOTION: Representative Wood moved to send **H 253** to the floor with a **do pass** recommendation. Motion passed on a voice vote. Representative Bedke will sponsor the bill on the floor.

H 277: Representative Crow announced the next item on the agenda was H 277 and recognized Ken McClure to present the bill. **Ken McClure** stated that he was representing **Sawtooth Capital**. The purpose of this legislation is intended to clarify an income tax exemption relating to the taxation of interest, dividends and capital gains from investments placed with Idaho registered broker-dealer by non-residents.

The Tax Commission has suggested that the exemption found in section 63-3026A, Idaho Code, does not apply to investments in hedge funds or other investment vehicles in which a non-resident investor purchases an interest owned, with other investors, in whole or in part by an Idaho broker-dealer. This bill clarifies that the exemption in fact applies in such cases.

If the exemption does not apply, because the Tax Commission lacks jurisdiction to collect the tax from non-resident investors, it seeks to collect the tax from the Idaho broker-dealer instead, causing the Idaho broker-dealer to be liable for the taxes which otherwise would be due from the non-residents.

MOTION: Representative Collins moved to send **H 277** to the floor with a **do pass** recommendation. Motion passed on a voice vote. Representative Collins will sponsor the bill on the floor.

RS15143: Chairman Crow announced the next item on the agenda was RS15143 and asked Representative McGeachin to explain the memorial. **Representative McGeachin** stated that the purpose of this memorial is to endorse the language presented in the Congress of the United States regarding a blending bias for ethanol derived from agricultural byproducts. If this proposal passes Congress, Idaho's agricultural community will stand to benefit. She requested that the memorial be referred to the Agricultural Committee.

MOTION: Representative Wood moved to **introduce RS15143** with the recommendation that it be referred to the Agricultural Committee.

ADJOURN: There being no further business to come before the committee, Chairman Crow adjourned the meeting at 9:55 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** March 15, 2005
- TIME:** 9:00 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour
- ABSENT/
EXCUSED:** None
- GUESTS:** Mike Brassey and Bob Taunton, Suncor Development Company; Jerry Mason, Association of Idaho Cities; George Iliff, Colliers; Randy Nelson. Associated Taxpayers of Idaho
- SUBCOMMITTEE
REPORT:** Chairman Crow called the meeting to order and requested a silent roll call. Representative Collins reported that the Collins Subcommittee had met twice and discussed the following bills and made the following recommendations: H 253 was dealt with in a previous meeting. There were seven property tax bills addressing various property tax reductions. The subcommittee recommended that these bills be held in committee.
- It was the decision of the subcommittee to request that an interim committee be established to discuss the issues of property tax. The intent was to discuss the issue in detail.
- RS15158:** Chairman Crow announced the first item on the agenda was RS15158 and asked Representative Collins to explain the RS. **Representative Collins** said this resolution authorized the Legislative Council to form an interim committee to study and discuss the property tax issue. The interim committee would be charged with coming up with legislation to help the property tax situation across the state.
- MOTION:** Representative Smith moved to **introduce RS15158** and recommend that it be placed directly to second reading calendar. Representative Collins will sponsor the resolution on the floor. Motion passed on a voice vote.
- H 109:** Property Tax Exemption/over 65, sponsored by Representative Smith.
- MOTION:** Representative Collins moved to **HOLD H 109**. Motion passed on a voice vote. Representatives Wood, Jaquet and Martinez requested to be recorded as voting no.
- H 275:** Deferring Taxes on Certain Real Property sponsored by Representative Saylor.
- MOTION:** Representative Collins moved to **HOLD H 275**. Motion passed on a voice vote. Representatives Wood, LeFavour, Jaquet, Saylor and Martinez

requested to be recorded as voting no.

H 166: Increases threshold for the "Circuit Breaker" sponsored by Representatives Jaquet and Moyle.

MOTION: Representative Collins moved to **HOLD H 166**. Motion passed on a voice vote. Representatives Moyle, Wood, LeFavour, Jaquet and Martinez requested to be recorded as voting no.

H 124: Owner occupied homestead/70 years sponsored by Representative McKague.

MOTION: Representative Collins moved to **HOLD H 124**. Motion passed on a voice vote. Representatives Wood, McKague, Jaquet and Martinez requested to be recorded as voting no..

H 241: Property tax exempt/extend "50-50" to \$70,000 and to include 20% of land value sponsored Representative Jaquet.

MOTION: Representative Collins moved to **HOLD H 241**. Motion passed on a voice vote. Representatives Wood, LeFavour, Jaquet Sayler and Martinez requested to be recorded as voting no.

H 242: Increases homeowners exemption to \$70,000 sponsored by Representative Eskridge.

MOTION: Representative Collins moved to **HOLD H 242**. Motion passed on a voice vote. Representatives Wood, LeFavour, Jaquet and Martinez requested to be voted as voting no.

H 243: "50-50" homeowners exemption to include land sponsored Representative Henderson.

MOTION: Representative Collins moved to **HOLD H 243**. Motion passed on a voice vote. Representatives Wood, LeFavour, Jaquet and Martinez requested to be recorded as voting no.

H 298: Chairman Crow announced the next item on the agenda was H 298 and recognized Mr. Brassey to present the legislation. **Mike Brassey** representing the **Suncor Development Company** testified that this legislation authorizes cities and counties to approve the creation of taxing districts to fund public infrastructure within the district. The legislation allows the cost for public infrastructure to be identified and paid by the people who will benefit from the infrastructure.

A district can be formed if all of the property owners within the proposed district sign a petition requesting the formation of the district. Outlined on page 3, line 32 of the bill.

The petition shall include information relating to the location of the district, the plan for infrastructure, the government entities that will own the infrastructure and proposed agreement between the city or county and the landowners relating to the infrastructure proposed to be financed. Outlined on page 3, line 45.

The city or county receiving the petition can accept or reject the petition, this is not a mandate. Outlined page 4 line 38.

The creation of a district does not supercede the planning and zoning laws related to new development. This proposal is to create a financing vehicle that property owners and local government can use at their option. Outlined on page 6, lines 28-36.

No government entity can create a district unless all of the owners of property sign the petition. Outlined on page 3, line 31.

A board made up of the city or county officials in which the district is located will operate the district when it is formed unless the local government chooses to appoint others to serve as the board. Outlined on page 6, line 37.

The district can issue general obligation and revenue bonds to finance the construction of infrastructure within the district if the infrastructure will be owned by a public entity. Public infrastructure appears on page 2, line 48; bonding authority in general appears on page 10, line 46.

Improvements that will not be owned by a government entity cannot be financed. Definition appears on page 2, line 48.

Bonds issued by a district are not an obligation of the city or county in which the district is located. Outlined on page 9, line 12.

The creation of a district does not supercede or result in the elimination of any existing taxing system or system of fees. There is no language in the legislation proving for the preemption of other systems.

The board of the district will be the county commissioners if the district is entirely in a county or three members of the city council if the district is entirely within a city. The members of a city council who serve on the board are to be chosen by the city council.

The city or county may choose to have residents of their jurisdiction/district serve in their place on the board. Outlined on page 6, line 37.

PRO:

The Chairman recognized Mr Taunton to testify. **Bob Taunton** identified himself as the General Manager of the **Suncor Development Company** operations in Idaho. He described the success of developments near the Phoenix metropolitan area that have been in place for 20 years and used for the last 16 years. It works well for isolated new growth areas.

This legislation provides for public financing to be used as a tool for developers. It isolates new growth and enables a developer to bring in new commerce and industry to the area New business is attracted to finished roads, landscaped grounds that are installed up-front.

Mr. Taunton said this type of financing really makes it easier and better

for developers and the community.

CON: **Jerry Mason**, attorney for the **Association of Idaho Cities**, provided his printed testimony as follows:

“Even though I see many issues that I would like ask: How would that work? I will focus my comments on key points viewed from a distance.

First - The Purpose of the Legislation: To assist SOME project developers in ways unprecedented in Idaho throughout this legislation. And I want you to know timing is a key concern. From this great state's initial days of statehood the land where people live has been developed by the private sector. Private landowners ventured or solicited private capital to improve the land to support the homes in which many of us reside. They have built roads, streets, water systems, sewer systems, drainage facilities and so forth in order to support home development in cities and counties across the state.

For 115 years that free enterprise system has served us well. Cities and counties regulate subdivision pursuant to state law (67-65 13). They require that developers install public or common improvements in order to support residential uses. The legal obligations to do this exist today in almost every jurisdiction. The idea is to protect taxpayers from poorly designed or poorly constructed projects. The rewards of development efforts are accompanied by risks assumed in the marketplace by competition between private developers striving to meet demands of the consumer.

This bill changes the equation substantially. Instead of raising private capital, a developer promotes the creation of a public entity (the PID) that serves to borrow on behalf of the developer. But unlike the private sector model that has developed the state up to this point, the duty of repayment is shifted to future buyers who will be obliged to repay the debt incurred on their behalf by the developer. The proceeds of the borrowing authorized by the statute would go to pay the developer in full for capital costs of the project. The risk of success or failure is passed to the buyer or buyers for many years to come. They alone are responsible for repayment. That obligation could vary greatly depending on the ultimate market acceptance of the project into which they buy. If the project is a market success, the repayment obligation might meet expectations. If the project is a market failure, the repayment obligation will expand because each purchaser will carry a greater proportion of share of the repayment obligation.

I ask you, is this fair to purchasers? Is this fair to other developers? Is it consistent with the traditions of the Idaho economy that have placed reliance upon the private free-market economy that plays no favorites?

Second - Nearly Unfettered and Unknown Taxing Authority: Idaho's local governments operate with limited property taxing authority. Property taxes are limited by statutory levy caps and by a year-to-year 3 percent cap. This proposed legislation would provide 24 hundredths percent (.24%) of property taxing authority to a governing board either not solely elected by those subject to taxation or not elected at all by those

subject to taxation.

This taxation would be on top of all other regular property taxation. Compared to a privately financed, privately developed project the developer would be able to price the project lower than a privately funded competitor, or to price comparably to a privately funded competitor leaving the purchaser to bear the additional costs of taxation established by the Public Infrastructure District. As noted above the extent of such obligation could not be accurately disclosed to a purchaser because it would depend upon the ultimate success of a project — an aspect of a project completely out of the control of the subsequent purchaser.

By way of comparison the .24% taxing authority is roughly equivalent to the entire taxing authority of Custer County (.2395). or to the city of Mackay (.2383). Taxing authority greater than that currently applied by Valley County (.2055). Sugar City (.2161). or Midvale (.2164), two times the current levy of Teton County (.158). 1.75 times the current levy of the City of Driggs (.1371. 2.) 2 times the current levy of the city of Hayden (.1088).

Summarizing - No year-to-year cap, no direct voter control, future costs incurred by prior developers/owners for future purchasers. This is unprecedented in Idaho.

Third - Shortcomings Of Accountability: This proposal lacks the traditional controls applied to all other political subdivisions by Idaho law. Taxing authority traditionally rests only in the hands of those officials elected by residents of a jurisdiction. Here, a political subdivision can be created by those who live and work in other states and whose only contact with Idaho is an ownership interest in a company that owns property in Idaho. (Owner defined p.2, 1.16 through 1.41) Purchasing and procurement - Mandatory procedures and accountability for all other political subdivisions. No restrictions on procurement including contracts with owners (bottom page 7, top page 8). Any person acting on behalf of the District is excused from all personal liability for any action taken within the scope of their authority. Unlike other political subdivisions (Bottom of p. 16/top of (p. 17) effects of decisions to incur debt can last up to 30 years,(p. 12, line 32) ability to challenge decisions can last only 30 days (p.17,1line 7-8) (before any purchaser would likely take title to any part of the project). Entitlement to reimbursement of developer-incurred expenses. (p.4, line 50-51; p. 5, 1. 3)

In conclusion, the purpose of H 298 is to provide an advantage for SOME private market participants — but not for all. It is potentially at considerable disadvantage to future consumers — it's all about timing.

It's about property taxes, substantial property taxes, levied by a governing board that is elected by a far larger electorate, or not elected at all. Greater powers of taxation in some instances than can be levied by general purpose local governments — counties and cities.

Finally it is about accountability. Accountability through elections, through purchasing statutes, through liability of public officials for their conduct, through cutting off the right to challenge public conduct. Once again,

timing is important.

Hold it up to the light -- you can see this does not have Idaho origins. It is not sound public policy. We urge you to hold this bill.”

PRO: **George Iliff, Broker for Colliers**, testified in favor of H 298 saying that he had seen project development realized in other markets with this concept. Whenever a developer has the choice of where to work they will go to the area that they can make money and a profit.

This bill enables developers to provide infrastructure creating the type of community that folks would like to live in. It creates the type of environment to support quality homes.

PRO: The Idaho Association of Counties submitted a letter supporting H 298.

Mr. Brassey in closing urged the committee to vote favorably on the legislation with a do pass recommendation. This does not go on forever for it disappears when the bonds are paid off, therefore the 3% cap is not necessary.

MOTION: Representative McKague moved to **HOLD H 298** in committee. Roll call was requested

ROLL CALL VOTE: Voting AYE - Representatives Lake, Barrett, Moyle, Wood, McKague, McGeachin, Clark, LeFavour, Saylor Voting NAY - Representatives Crow, Field, Schaefer, Smith, Collins, Raybould, Roberts, Denney, Jaquet, Martinez. Motion **failed, 9-10-0**

MOTION: Representative Moyle moved to **TABLE H 298**. Roll call was requested.

ROLL CALL VOTE: Voting AYE - Representatives Lake, Barrett, Moyle, Wood, McKague, McGeachin, Clark, LeFavour, Saylor. Voting NAY - Representatives Crow, Field, Schaefer, Smith, Collins, Raybould, Roberts, Denney, Jaquet, Martinez. Motion **Failed, 9-10-0**

MOTION: Representative Raybould moved to **HOLD H 298** time certain March 21, 2005. Motion **passed** on a voice vote.

H 279: Chairman Crow announced the next item on the agenda was H 279 and recognized Representative Moyle to present the bill. **Representative Moyle** requested that this legislation be part of information for the interim committee study. This legislation would delete the value of new construction from the three percent growth factor exemption.

Randy Nelson, Associated Taxpayers of Idaho, provided the members with a hand-out reporting a “Five Year Summary-Local Property Tax Increases” reflecting a net five year increase of \$274.5M. “General Provisions Allowing For 1999-2004 Local Property Tax Increases” depicting counties, cities and other non-school districts provisions. Five year amount for 3% budget increase was \$67.6M. There was taxable **new construction value plus annexation value, time the previous year tax rate, at \$93.1M**. Net increase/decrease in non-school bond and voter approved levies at (\$4.15 million) Public School District Provisions, general .03%, \$62.3M and net increase in local school bond, plant facilities and supplemental levies, \$55.6M. Total five year increase, \$274.5M.

The hand-out analyzing the 2004 property tax budgets Ada, Bingham, Kootenai and Lemhi counties tax levy districts with new construction. (Attachment #1 available in the Legislative Library.)

MOTION: Representative Field moved to **HOLD 279** in committee and be referred to the Interim Property Tax Study Committee. Motion passed on a voice vote.

H 299: Chairman Crow announced the next item on the agenda was H 299. The purpose of this legislation is to allow residential improvements to continue to qualify for the fifty-fifty homeowners exemption when the property has been leased because the owner is absent in the current year by reason of active military service in a designated combat zone.

MOTION: Representative Raybould moved to send **H 299** to the floor with a **do pass** recommendation. Motion passed on a voice vote. Representative Denney will sponsor the bill on the floor.

ADJOURN: There being no further business to come before the committee, Chairman Crow adjourned the meeting at 10:15 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: March 16, 2005

TIME: 9:30 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** None

GUESTS: Commissioner Dewey Hammond, Idaho State Tax Commission; Jack Lyman, Idaho Mining Association; Senator Goedde; William von Tagen, Deputy Attorney General

Chairman Crow called the meeting to order and requested a silent roll call.

MOTION: Representative Roberts said he had requested earlier that H 100 be held in committee. Since that time further information from the Attorney's General Office clarified that it was legal to allow fire districts to buy ambulances. Representative Roberts moved to **return H 100** to the committee. Motion passed on a voice vote.

H 323: Chairman Crow announced the first item on the agenda was H 323 and recognized Representative Moyle. He deferred to Commissioner Hammond to explain the bill.

Dewey Hammond, Idaho State Tax Commission Commissioner, said he thanked the sponsor for giving him another opportunity to address the committee.

The structure of H 323 is virtually identical to that contained within HB 306. That is to say: the definitions in section 4402 are the same for headquarters or administrative facilities, the same also for investment in a new plant, the same for what constitutes a new employee, project period, project period site, and recapture period.

In terms of Requirements, the Tax Incentive Criteria are different: the minimum number of new employees is just 10 new employees earning at least \$40,000 with benefits made available (that's the \$19.23 per hour figure that you see). There is no averaging of compensation permitted under this bill. Another difference is that a ratio is specified for new investment to a new employee. It is pegged at \$50,000 to 1. That is one-half of this bill's predecessor, and is in response to testimony heard about the 'intellectual capital' office jobs of today.

Section 4403 is also structured similar to what you have seen, but it

raises the ITC rate to only 3.75% and the credit limitation to 62.5%. A cap of \$1.25 million is placed.

Section 4404 provides the ability to deduct "if you will" 2.5% of the employer's investment in new office facilities, but this is capped at \$125,000 per taxpayer per year.

The new jobs tax credit in section 4405 is identical to what you have seen before. It has the same gradations, etc. The credit limit for the new jobs tax credit is reinserted, but at 62.5%. Also, the language reinforces what has always been inferred namely, that the job must truly be net-new-to-Idaho.

There is not much to say about section 4406, other than unitary sharing is permitted, and the carry overs are the customary periods of 14 years for the ITC and Real Property Improvement Credit, and 10 years for the NJTC.

Recapture is laid out in section 4407, and again, conformance to existing practice is specified (proportional).

In section 4408, there is provision for a sales tax rebates, but it is capped at just 25% of the amount of sales tax the taxpayer or contractor actually paid for the new investment in new office space at the project site within the project period.

The "biggie" associated with this bill is in the New Section 2, located toward the end of the bill. It is subsection 63-606A. Contained within is your delegation of authority to a county board of equalization to exempt certain property from being taxed. The standard you are asking them to find is that doing so is "necessary and just". It needs to be said that it is not any property that we are talking about, or that you are conferring authority over. It is **only the property that qualifies under the Tax Incentive Criteria set forth in this bill.** Only the new investment that qualifies under this bill.

There is something else to note as well. Property so exempted under this section may not be included on any new construction roll until after the period of exemption ceases. This will insure no tax shift to the other taxpayers in that district occurs as a result of a decision of a county board of equalization.

Mr. Hammond distributed a two-page handout. Page 1 simply compares H. 323 to existing law. The numbers at the bottom reflected those contained within the fiscal note on the Statement of Purpose.

Page 2 provided a sampling of the fiscal results at various levels of participation. The primary assumptions used in developing the fiscal studies on the bottom of the page to review were available.

In comparison to H 306, the numbers are not as big – given the lower salaries and the follow-on assumptions as to liquidity. But the tax benefits are much less as well: No property tax rebate, a sales tax rebate of just 25% of what was spent on the new office building, and it was not assumed anyone earning above \$50,000 – so, no new jobs tax credit.

Still, it pencils out at all levels.

The committee secretary has copies of each spreadsheet for each growth scenario calculated. They are available upon your request. (Attachment #1)

CON: Testimony submitted in writing to the committee by Judith Brown, Idaho Center on Budget and Tax Policy.

“I am here today to oppose H 323, the Small Employer Incentive Act. The bill does offer some provisions we like to see in incentive packages, including wage standards, health insurance requirements and recapture provisions in an effort to ensure that the jobs created under this incentive program would be good jobs for Idaho, jobs that support economic development and broadly shared prosperity.

However, the proposal also has several serious flaws, namely:

1. It's subsidies are not targeted to the state's mid-sized and rural communities. This bill was designed to complement H 306, the Corporate Headquarters Incentive Act, which is targeted to big businesses and, therefore, the Boise area. In order to “spread the economic development around the state,” so to speak, H 323 lowers the wage standard to \$40,000 per year (\$19.23 per hour) and reduces the number of new jobs to 10.

However, the subsidies in P 4.8.323 are not but should be restricted in some way to development outside the Boise area. Median family income in the Boise metropolitan area is now \$55,000; it is undesirable and a waste of public resources to subsidize \$40,000 jobs in the Boise metropolitan area. A criterion to target H 323 to the less-metro areas could be based on

- County median family income of less than \$50,000 (see attached table)
- County population of less than 100,000 (see attached table)

- Recent rates of growth or decline
- Some other appropriate indicator.

In a related comment, the language of H 323 is still shaped around incentives for “headquarters and administrative facilities.” What are the implications of this language in view of the bill's intent to promote economic development through subsidizing small and mid-sized businesses in the less-metro areas? Small and mid-sized businesses may not require a separate, stand-alone headquarters facility.

2. We oppose the provision for property tax abatements. To date Idaho has stayed away from granting a lot of special exceptions to the uniform application of the tax code. This is one of the best things about Idaho's long, strong tradition of fiscal conservatism. In this regard, H 323 sets an undesirable and dangerous precedent.

Solid economic research consistently shows that property tax abatements are not effective economic development tools. I will include with my testimony the abstract of a study, for example, that examined the effects of property tax abatements in the El Paso area over a 13-year time span. Abatements over this extended period of time were found not to have

benefitted the local economy.

Property tax abatements are inherently and unavoidably unfair. (See “Reasons Against Real Property Tax Abatements” and “Tax Abatements Not Effective,” attached.) H 323 will cause unfair tax shifting at the local level.

The property tax provisions of H 306 attempt to hold local taxing districts whole. The property tax provisions of H 323 do not, which would impair the ability of cities, counties and school districts to fund service needs. Furthermore, Idaho already has some provisions for Tax Increment Financing which at least is designed to hold school districts whole.

The criterion for granting property tax abatements is that it be “necessary and just.” (63-606A(1)) This is vague and lacking in accountability. Minnesota law, for example, requires that political subdivisions granting economic development tax abatements must find that the public benefits exceed the costs. (See Minnesota’s “Property Tax Abatement for Economic Development,” attached.)

3. H 323 would change Idaho’s corporate tax policy in a number of ways. In this regard, it can be viewed as a proposal to reform Idaho’s corporate tax. If Idaho’s corporate tax needs to be reformed, it should be done in a thoughtful way and in a way that treats all Idaho’s businesses fairly rather than by granting special exemptions to some, which increases inequities within the corporate tax.

The same can be said of H 323 as economic development policy. Given the state’s very limited resources at this point in time, it is critical that economic development funds be spent so as to get the most “bang for the buck.” Particularly as regards promoting economic development in the less metro areas, a package of corporate tax cuts for the special few is not going to generate the most bang for the buck.

In closing, Idaho has had a long, strong tradition of fiscal conservatism, attempting to treat all businesses in an equitable way and to keep the playing field level. This tradition should be maintained.

Thank you. I am submitting my testimony in writing, along with the various citations referenced above, for the Committee’s records.”

All attachments referred to by Judith Brown’s testimony are attached. (Attachment #2)

MOTION:

Representative Field moved to send **H 323** to the floor with a **do pass** recommendation. Motion passed on a voice vote. Representatives Moyle and Crow will sponsor the bill on the floor.

H 318:

Chairman Crow announced the next item on the agenda was H 318 and recognized Mr. Lyman to present the bill. **Jack Lyman, Idaho Mining Association**, said this legislation establishes the Cyanidation Facility Closure Fund. Thirty-three percent of the mine license tax paid by a gold mining operation, which includes a cyanidation, facility and any fines or penalties recovered related to the cyanidation closure provisions of the

Surface Mining Act would be deposited in this fund.

He explained that Senate Bill 1169 would amend the Surface Mining Act to give the Department of Lands certain new responsibilities. The Cyanidation Closure Fund would be available to provide funds subject to legislative appropriation for these new responsibilities.

In response to an inquiry from the committee Mr. Lyman clarified that this legislation provides for a license tax on cyanidation facilities.

MOTION:

Representative Clark moved to send **H 318** to the floor with a **do pass** recommendation.

Denise Mills, Assistant Director for the **Department of Lands**, testified in favor of H 318 saying that the Department of Lands had worked with Mr. Lyman and other interested parties and agreed that there would be a lack of funds to administer new responsibilities created by S 1169.

There is no good projection on what the annual cost might be in administering the closing of mines.

The motion for a **do pass** recommendation passed on a voice vote. Representative Moyle will sponsor the bill on the floor.

H 307:

Chairman Crow announced the next item on the agenda was H 307 and recognized Representative Jacobson who was substituting for Representative Hart. **Representative Jacobson** testified saying that currently when property is sold at tax a deed sale 100 percent of the proceeds are distributed among the various taxing districts associated with the property. None of the proceeds are distributed to the owner of record and the record owner loses his entire equity.

This bill would provide that after the various taxing districts are made whole for any delinquent taxes and fees and after any perfected liens have been paid that the record owner would receive any funds that might remain.

The legislation also provides for a 3% penalty on the gross sale amount to be paid to the county if the record owner had made no reasonable attempt to cure the delinquency or to sell the property prior to the tax deed sale. It also provides that the remaining proceeds shall be distributed to the county if no claim has been made for the funds within a 3 year period after sale.

MOTION:

Representative Lake moved to send **H 307** to the floor with a **do pass** recommendation with a reprint of the Statement of Purpose to correct a typographical error.

CON:

Kerry Ellen Elliott, representing the **Idaho Association of Counties**, testified in opposition to H 307. She said that under state law, when a property is taken by the county under tax deed that property must be at least three years delinquent on its property taxes due to the county and all other taxing districts. It is obvious that the property owner has no intention of paying those taxes if in three years they have made no such

arrangements with the county treasurer. After taking the property the county assumes all liability and taxes owed and not one taxing district gets paid for either the taxes due or the administrative costs of selling the property until such time as the property is auctioned.

CON: **Lynda Fischer, Ada County Treasurer**, spoke in opposition to H 307 stating that when property is three years delinquent many notices have been sent out by the county treasurer to th owner of the property.

Tremendous attempts are made to home owners to get up to speed to refinance. After the 3 year period no other attempts are made. Delinquent homeowners do not want to take on the responsibility of selling the home and leave it to the county to handle the difficult problem.

By distributing all revenue to the taxing districts and not to the seller would tend to discourage property owners from using the county to do their work for them.

The motion to send **H 307** to the floor with **do pass** recommendation with a reprint of the Statement of Purpose passed on a voice vote. Representatives Hart and Loertscher will co- sponsor the bill on the floor.

H 308: Chairman Crow announced that the next item on the agenda was H 308 and recognized Senator Goedde to present the bill. **Senator Goedde** stated that this legislation clarifies language dealing with county local option taxes for financing county jail facilities.

The legislation adds three new sections to the statute that clarify which county's tax is to be imposed when two counties have an interest in the same transaction.

The first section specifies that the applicable county tax will be the tax imposed by the county in which a purchaser accepts delivery of the goods or services.

The second section specifies that the applicable county tax on most vehicle sales will be the tax imposed by the county in which the address on the application for registration is located.

The third section specifies and clarifies the applicable county tax that will be imposed for leased or rented tangible personal property that requires periodic payments.

In response to questions, **Dan John, State Tax Commission** said that if groceries were delivered to somewhere else they would be subject to the tax. It is the same as the state law . When a vehicle is taken immediately out-of-state they are not subject to the sales and tax. If a vehicle is brought into the state it is subject to the sales and use tax.

MOTION: Representative Roberts moved to **HOLD 308 in committee**.

SUBSTITUTE MOTION: A substitute motion was made by Representative Jaquet to send **H 308** to the floor with a **do pass** recommendation.

**AMENDED
SUBSTITUTE
MOTION:**

An amended substitute motion was made by Representative Clark to send **H 308** to the floor with the recommendation that it be placed on **General Orders** with committee amendment to delete the words “goods or services” on lines 17, 19 and 20 and insert the word “items. Representative Crow seconded the motion.

The amended substitute motion passed on a voice vote. Representative Nonini will sponsor the bill on the floor.

S 1078:

Chairman Crow stated that S 1078 was originated in the Senate which is unconstitutional and without objection **S 1078 would be tabled.** Consent was granted.

RS15142:

Chairman Crow announced the next item on the agenda was RS15142 which replaces S 1078. She asked Mr. von Tagen to explain the RS. **William von Tagen, Deputy Attorney General**, testified that the Idaho Children’s Trust Fund was created in 1985 to combat the problem of child abuse and neglect. The statutes of the Children’s Trust Fund are found in Chapter 60 of Title 39, Idaho Code.

The Children’s Trust Fund provides grants throughout the state to fund programs that prevent child abuse and neglect. The fund relies upon grants and donations for its funding. The primary source of donations is a check-off on the Idaho state income tax form. Unlike other tax check-offs that have graced the income tax forms, the Children’s Trust Fund check-off has a specific sunset provision. The original intent of the 1985 legislation was that once \$2,500,000 had been distributed to the Children’s Trust Fund from the tax check-off the check-off would expire and the fund would have to make do with the \$2,500,000 or rely on other means of funding,

The problem which arises is that the Children’s Trust Fund receives funding and donations from other sources. In addition money in the form of grants is distributed by the Children’s Trust Fund each year. Donations flow in and grants floor out. The multiple sources of funding for the Children’s Trust Fund, coupled with the fact that the Children’s Trust Fund is active in making grants to local programs throughout the state, makes it difficult to determine when exactly \$2,500,000 has been distributed to the Children’s Trust Fund from the tax check-off

He said that because of legislative changes that have taken place since 1985 it is no longer clear in reading the statute whether \$2,500,00 distributed to the fund means the money distributed via the tax check-off or money that the fund receives from all sources.

This RS provides that the tax form check-off will expire when the Children’s Trust Fund reaches a balance of \$2,500,000. As a practical matter this change will probably mean that the fund will retain its check-off for another five or so years and may receive, if donations continue at the current rate, approximately \$700,000 more from the check-off donations.

MOTION:

Representative Field moved to **introduce RS15142** with the recommendation that it be placed directly to the **second reading calendar.** Motion passed on a voice vote. Representatives Field and

Roberts will co-sponsor the bill on the floor.

ADJOURN:

There being no further business to come before the committee, Chairman Crow adjourned the meeting at 10:25 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: March 17, 2005

TIME: 9:30 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representatives Moyle, Field and Denney

GUESTS: Dia Gainor, Department of Health and Welfare

MINUTES: Chairman Crow called the meeting to order and requested a silent roll call. Representative Lake moved to accept the minutes of the meeting held on March 11, 2005 and March 14, 2005 as written. Motion carried on a voice vote.

H 100: Chairman Crow announced the first item on the agenda was H 100 and recognized Representative Roberts to present the bill. **Representative Roberts** explained that H 100 was brought back to the committee yesterday for further action.

This legislation would allow fire protection districts to purchase an ambulance and related equipment and to pay salaries and benefits if an ambulance service is not otherwise provided within the district. This legislation would also allow fire protection districts to enter into a joint exercise of powers agreement with a county to share equipment and services.

Representative Roberts explained that the Supreme Court decision has been cleared up and this bill will statutorily enable fire protection districts to purchase ambulances without forming a formal district if there is no other emergency medical districts in the area.

A copy of the Attorney General opinion was passed out to the members.

The decision as follows:

“This letter is in response to your recent inquiry of this office regarding the necessity of H 100. Specifically, you questioned whether this bill was necessary in light of recent Idaho Supreme Court decision in “Big Sky Paramedics, LLC.V. Sagle Fire District,” 140 Idaho 435, 95P 3.d 53. Within that decision, the court held that a fire district had the power and authority to operate an ambulance service based upon the district’s authority to conduct activities related to the preservation of life.

This holding appears to be consistent with the statutory amendment proposed by HB 100, which would take this holding by the court and place it into statute.

H 100 appears to more accurately clarify the power and authority of fire districts. It is of note that within the "Big Sky" case, there were two justices dissenting (Trout and Burdick) and one justice in the majority who is no longer a member of the court (Kidwell). Given the closeness of this question the better solution for the legislature is to eliminate the debates, whereby the court must debate the legislative intent of Idaho Code Section 31-1401 and provide a plain language authorization, such as that proposed in the amendment to Idaho Code, Section 31-1420, to allow fire district to provide ambulance services. By placing the authorization into the plain language of the statute, a court will no longer be required to analyze the legislative intent of these statutes."

CON: **Dia Gainer** identified herself as the **EMS Bureau Chief** for the **Department of Health and Welfare**, responded to Representative Martinez question of whether this legislation would create problems.

Ms. Gainer stated that there are 39 fire districts currently licensed as EMS agencies in Idaho today, 12 of which operate ambulance services.

Jurisdictions such as Blaine County and Kootenai County are examples of counties where both an ambulance district and fire district are separately licensed as transport agencies.

Current EMS dedicated grant funding of \$1.4 million a year is available for the purchase of ambulances and equipment. The language in the bill would raise a challenge among competing EMS agencies. For example an ambulance district may protest an award to a fire district based on the language in H 100 if ambulance service is provided to the ambulance district. The EMS Bureau has no way to reconcile the eligibility in the dedicated grant section of code and the language.

Representative Roberts reiterated that this legislation only applies where there is not an ambulance district.

MOTION: Representative Raybould moved to send **H 100** to the floor with a **do pass** recommendation.

SUBSTITUTE MOTION: A substitute motion was made by Representative Jaquet to **HOLD H 101** in committee. Roll call was requested.

ROLL CALL VOTE: Voting on the substitute motion - AYE – Representative Barrett, Wood, McGeachin, LeFavour, Jaquet, Saylor, Martinez. NAY - Representatives Crow, Lake, Schaefer, Smith, Collins, Raybould, Roberts, McKague, Clark. Motion **failed, 7-9-3**.

Original motion passed on a voice vote. Representatives Barrett, McGeachin, LeFavour, Jaquet, Saylor and Martinez requested to be recorded as voting no. Representative Roberts will sponsor the bill on the floor

ADJOURN: There being no further business to come before the committee, Chairman Crow adjourned the meeting at 9:50 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: March 21, 2005

TIME: 9:30 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representative Denney

GUESTS: Mike Brassey and Steve Betts, Suncor Development Company; Ken McClure, Fidelity Investments; Scott Turlington, Tamarack Resort; Steve Ahrens, Association of Commerce and Industry; Ted Johnson, Skyline Corporation.

Chairman Crow called the meeting to order and requested a silent roll call. Representative Martinez moved to accept the minutes of the meetings held on March 15, 16 and 17, 2005 be accepted as written. The Chairman thanked the Collins subcommittee for their work on the tough property tax issues and the bills will be looked at with other issues in the interim property tax committee.

H 308: Chairman Crow said that H 308 needed a floor sponsor. Without a volunteer she assigned the floor sponsor responsibility to Representative Clark.

H 244: The Chairman advised the members that H 244, relating to taxing district fees, had been replaced by another RS and asked for unanimous consent to **table H 244**. Consent was granted.

H 298: Chairman Crow announced the first item on the agenda was H 298 and recognized Mr. Brassey to continue testimony from the meeting held on March 15, 2005. **Mike Brassey** representing **Suncor Development Company**, testified that the concept of this legislation is to authorize cities and counties the creation of taxing districts so that the infrastructure required to support new growth will be paid for by the new growth.

After the owners of property have completed the planning and zoning process they may apply to the city or county in which the project is located to form a public infrastructure district to finance public infrastructure.

Mr. Brassey explained the formation process statute.

The process begins with the filing of a petition signed by all of the property owners in the district containing:

- a) Description of the district with a map and legal description.
- b) A statement that the creation of the district will result in additional taxes.
- c) The proposed general plan for the development of the district.
- d) A proposed agreement or the financing of the infrastructure in the district if a district is created.

After a petition is filed a hearing is held at which any resident or property owner in the jurisdiction may appear and testify. The last step in the process is the approval or disapproval of the infrastructure agreement and the formation of the district. This is not a mandate for the boards can turn down the petition.

If the formation of the district is approved by the district board the board members will be comprised of the county commissioners or three members of the city council or their designees. When the district is formed the board of the district will determine the scope of the infrastructure to be constructed and it's estimated cost. An election will be held to authorize the issuance of bonds to cover the estimated cost of the construction.

The potential bonded indebtedness must be approved by 2/3rd of the voting owners of the property in the district. During this time, the developer will be building the infrastructure that will be financed through the bond issues.

Mr. Brassey reviewed the bond procedure saying at some point after the election the board of the district will make the decision to actually issue bonds. The board must at that time consider the ability of property owners other than the developer to pay the taxes that will result from the bond issue.

- 1) They must then consider the ability of the developer to pay the taxes that will result from the bond issue.
- 2) The board must consider whether it will require collateral from the developer to assure the payment tax.
- 3) The board will consider whether to issue the bond and the amount of bonds to be issued. If there is more than one issue, the process is the same for each issue

Amendment #1 provides more extensive disclosure.

Mr. Brassey stated that the sponsor would not object to an amendment replacing the 60/40% "loan to value ratio" with an absolute "maximum of 5% of the assessed value" limitation. Amendment #2.

When the bonds are issued the money the district receives will be placed in a separate account. The district will record a disclosure statement disclosing the effect of the bond issue on taxing levels for property in the district. The sponsor would not object to the amendment to strengthen the required disclosure.

When the developer has completed construction of all or a part of the infrastructure and all liens on the infrastructure have been released the developer will request that the district pay the developer the cost for the improvements as was determined in advance by the district and the developer.

The taxes to pay for the bonds will be collected by the county in the manner in which all such property taxes are collected. When the obligations of the district have been satisfied the district is dissolved.

There are two additional amendments to clarify the application of the public bidding laws and to clarify the requirements for residency of the appointed members of the board who will serve in the place of city or county officials to which the sponsor would not object.

Mr. Brassey deferred to Mr. Betts to explain how these projects work on the ground.

Steve Betts, President, Suncor Development Company, testified that he had worked several years with major developments and had great deal of opportunity to work with this kind of legislation.

Way back in the 60s and 70s there were no large scale development and the local community paid for the infrastructure and issued bonds. A change in size of development projects changed dramatically in the 80s and there was movement that growth should pay its own way.

Larger companies in the growth states, California, Texas, Florida and Arizona developed the concept to let the home buyer pay for the infrastructure. Most developers want to be responsible and protect their good reputation. Local governments want to protect their residents. This legislation provides for large-scale infrastructure to be financed up-front.

Mr. Betts suggested two methodologies: Do not sell bonds up front without a tax base but wait for the property tax base to grow before bonding. This legislation allows developers to keep prices down.

Second this legislation puts in place the reassurance of establishing a bank letter of credit for a stand-by credit agreement to protect the bond.

In summary Mr. Betts said this legislation allows larger developments to pay their way for infrastructure and ends up helping the home owner.

There were many questions relating to off-site costs, payment of bonds and who was liable for repayment.

Ken McClure representing **Fidelity Investments**, spoke in support of H 298 saying that this legislation helps most smaller projects, not just Suncor. This bill gives significant help to smaller projects that are difficult to finance. Many projects end up being developed by piece meal.

This legislation makes it cheaper for the homeowners. It provides a tool which is a significant benefit that communities might use. The safeguard is that the homeowner must be notified of the tax which the homeowner is being asked to accept. This bill with the amendments will provide homeowners a better product at a cheaper price.

Scott Turlington, Tamarack Resort, apprised the members of the success of the all season destination resort. He spoke in favor of H 298 saying this legislation is not just the Suncor bill.

The Tamarack resort is a \$1.5 billion project and to date the real estate sales amount to \$170 million. The project is a mix of condos and townhouses, etc. It requires a great deal of utility to build the infrastructure up-front.

Steve Ahrens, Association of Commerce and Industry, testified in favor of H 298 and supported the amendments.

Ted Johnson, Skyline Corporation, spoke in favor of H 298 saying that this legislation would be helpful in planned developments. It will benefit local people as well as big out-of-state developers. There is a building explosion in the valley with an expected 6,000 new homes within the next year and half. Where will people live? This legislation is a good approach for planned communities.

Representative Moyle asked for time for the committee to look over the amendments and requested that the bill be held until tomorrow.

ADJOURN:

Chairman Crow announced that the committee was past due on the floor and would allow continue committee discussion on H 298 for one half hour tomorrow. She adjourned the meeting at 10:18 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: March 22, 2005

TIME: 9:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representative Wood

GUESTS: Mike Brassey, Suncor Development Company; Representative Bastian; Representative Eskridge; Representative Bolz

Chairman Crow called the meeting to order and requested a silent roll call. Representative Field moved to accept the minutes of the meeting held on March 21, 2005 as written.

H 298: Chairman Crow announced the first item on the agenda was H 298 and said the bill was carried over from yesterday to be discussed for one half hour only. There was a lengthy discussion and questions answered by **Mr. Brassey** and the following amendments were presented.

The amendments are as follows:

(1) Provides that the governing board of a public infrastructure improvements district will be members of the city council or the county commissioners of the city or county in which the district is located unless those officials choose to have other people serve in their place. This provides that those people must be residents of the city or county.

(2) Provides that public infrastructure improvements district will be subject to the general government procurement statutes to the extent those laws apply to taxing districts.

(3) Requires both disclosures that will be recorded with the county and disclosures that must be provided to people who purchase property in a public infrastructure improvements district.

(4) That the amount of bonds issued by a public infrastructure improvements district shall not exceed 5% of the assessed value of the property in the district.

MOTION: Representative Lake moved to send **H 298 to the floor with amendments, heard and approved by the committee, attached to be placed on General Orders for consideration.** Roll call was requested.

ROLL CALL Voting Aye- Representatives Crow, Lake, Field, Schaefer, Smith, Collins,

VOTE: Raybould, Roberts, Denney, Clark, Jaquet. Voting Nay - Representatives Barrett, Moyle, McKague, McGeachin, LeFavour, Saylor, Martinez.
Motion **passes, 11-7-1.**

Representative Roberts moved, Representative Field seconded the amendments. Representative Roberts was assigned as the floor sponsor.

RS 15167: Chairman Crow announced the next item on the agenda was RS 15167 and asked Representative Bastian to explain the RS. **Representative Bastian** said the purpose of this proposed legislation is to change Idaho Code 63-317- (3) (b) to require the county assessors provide a notice of full market value in an appraisal notice before any exemptions or prorations are listed. This proposed legislation sets the time for an appeal to commence with the time of full notice.

MOTION: Representative Moyle moved to recommend that **RS 15167 be introduced.** Motion passed on a voice vote.

RS 15169: Chairman Crow announced the next item on the agenda was RS 15169 and recognized Representative Eskridge to present the RS. **Representative Eskridge** said that there are four wood pellet manufacturing companies located in Idaho that are prohibited from fully participating in the state's sales and use tax exemption afforded to all other manufacturing companies.

This proposed legislation removes Section 63-3622, Idaho Code, which prevents certain industries from receiving the production exemption.

MOTION: Representative Clark moved to recommend that **RS 15169 be introduced.** Motion passed on a voice vote.

S 1106: Chairman Crow apprised the members that the next issue on the agenda was started in the wrong legislative body and without objection S 1106 would be **tabled.** There was no objection.

RS 15183: Chairman Crow announce the next item on the agenda was RS 15183 and asked Representative Bolz to explain the RS. **Representative Bolz** stated that the purpose of this proposed legislation is to up-date the current statute on Idaho Mosquito Abatement Act Chapter 28, Title 39, Idaho Code. There is an imminent threat of West Nile Virus to the state and recently the Black Fly outbreaks in Magic Valley and Treasure Valley. There is the potential for rapid movement of pest and diseases around the world.

The need to change the language in statute is particularly necessary where land is not contiguous. On page 1 line 32 and 33 adds the following: "provided such districts need not be contiguous, but each noncontiguous area must be greater than or equal to forty acres in size." It also provides for county commissioners to deal with the situation of health problems.

MOTION: Representative Raybould moved to recommend that **RS 15183 be introduced.** Motion passed on a voice vote. Representatives Barrett and

McGeachin requested to be recorded as voting no.

ADJOURN:

There being no business to come before the committee, Chairman Crow adjourned the meeting at 9:38 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: March 23, 2005

TIME: 9:30 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** None

GUESTS: Gary Thompson, Techhelp

Chairman Crow called the meeting to order and requested a silent roll call. Representative Lake moved to accept the minutes of the meeting held on March 22, 2005 as written.

RS 15182: Chairman Crow announced the first item on the agenda was RS 15182 and recognized Mr. Thompson to explain the RS. **Gary Thompson** representing **Techhelp** explained that Techhelp is a University based manufacturers partnership program that is providing technical and training assistance to Idaho manufacturers.

The purpose of this proposed legislation would amend the enabling legislation of the Idaho Housing and Finance Association (IHFA) to permit the financing of economic development projects through the issuance of revenue bonds by IHFA. No assets of IHFA or the state will be pledged for issuance of the bonds.

These amendments will permit the financing of industrial, commercial or other projects to promote economic development throughout the state and will allow the pooling of loans for such projects to save financing transaction costs.

Financing of these projects will still be permitted to the extent available through local issuers. However, some areas of the state do not have local issuers established to issue such bonds.

The amendments would provide for a central statewide point of contact for issuance of bonds for economic development projects.

MOTION: After a short discussion about the late timing, Representative Clark moved to **return RS 15182 to sponsor**. Motion passed on a voice vote.

Chairman Crow reviewed the following bills:

H 26 - Income tax/real estate investment trust. The Tax Commission requested the committee to hold in committee.

H 258, H 259, H 314 relating to "Employers Incentive" which were replaced and passed the House.

H 317 - Taxing district budget limits-Representative Moyle, bill sponsor, requested that the bill be part of the Interim Study.

H 276 - Insurers, certain reports and tax (Delta Dental) The Chairman said that all parties involved will meet during the summer and come back next year with new legislation.

The Chairman asked for unanimous consent to **HOLD H 26, H 258, H 259, H 314, H 317 and H 276**. There being no objection consent was granted.

ADJOURN:

There being no further business to come before the committee, Chairman Crow adjourned the meeting at 9:41 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: March 24, 2005

TIME: 9:30 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representatives Moyle and Denney

GUESTS: Gary Thompson, TECHHELP; Representative Eskridge; Brian Stone, Lignetics of Idaho Inc.; Representative Bastian; Dan John, State Tax Commission

Chairman Crow called the meeting to order and requested a silent roll call. Representative Lake moved to accept the minutes of the meeting held on March 23, 2005 as written.

RS15182C1: Chairman Crow announced the first item on the agenda was RS15182C1 relating to economic development projects bonds. She said this proposal was heard yesterday and returned to sponsor. The intention of the sponsor was to have the bill printed so it can be distributed statewide during the summer.

MOTION: Representative Clark moved to **introduce RS15182C1** and **HOLD** the bill in committee. Motion passed on a voice vote.

H 369: Chairman Crow announced the next item on the agenda was H 369 and recognized **Representative Eskridge** to present the bill. He said that there are four wood pellet manufacturing companies located in Idaho that are prohibited from fully participating in the state's sales and use tax exemption afforded to all other manufacturing companies. This legislation puts Idaho manufactures of pellets on a level playing field with neighboring states.

Representative Eskridge explained that the bill needed to be amended to remove a section that repeals section 63-3622G.

The Chairman recognized Mr. Stone to testify. **Brian Stone**, Chief Financial Officer, representing **Lignetics of Idaho, Inc.** submitted the following statement:

"Lignetics of Idaho, Inc. is not allowed to utilize the production use tax exemption because the products it manufactures, densified wood pellets and wood logs, are sold at the retail level tax free, no sales tax charged to the consumer.

Section 63-3622D, Idaho Code governing this was put in place either to

encourage consumers to use an alternative energy source or treat the wood pellet industry like an utility company.

There are four pellet manufacturers in Idaho. It is estimated that the production use tax collected would be \$40,000 to \$50,000. The pellet manufacturers employ 100 people in Bonner and Kootenai counties. The manufactured alternative is an economically viable energy source from sawdust, a waste product generated by sawmill operations.

Lignetics sells 20% of its product in the State of Idaho but is subject to 100% of the production use tax. If his company ever invested a significant amount in new plant facilities a large use tax liability would result encouraging their company to look to other states to add production capacity.

Competitors in Montana, Washington and Oregon sell wood pellets and logs in Idaho to the consumer tax free but are not burdened with a production use tax in their respective states. This places his company and the other three Idaho pellet producers at a competitive disadvantage. The pellet producers are not subject to a utility PUC but direct market forces to price products to the market.

He urged the state provide a level playing field for wood pellet and log producers by removing the production use tax exemption.”

MOTION: Representative Wood moved to send **H 369** to the floor with amendments, heard and approved by the committee, attached to be placed on **General Orders** for consideration. Motion passed on a voice vote.

H 368: Chairman Crow announced the next item on the agenda was H 368 and recognized **Representative Bastian** to present the legislation. He said legislation requires the county assessors to provide a notice of full market value in an appraisal notice before any exemptions or prorations are listed. He explained that when people move into the home during the middle of year they receive a notice of the pro-rated assessment and its too late to appeal.

In response to an inquiry, **Dan John, State Tax Commission**, the assessment notice includes the full market value which is in the rule. This legislation codifies that rule.

MOTION: Representative Raybould moved to send **H 368** to the floor with a **do pass** recommendation. Motion passed on a voice vote.

ADJOURN: There being no further business come before the committee, Chairman Crow adjourned the meeting at 9:49 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: March 28, 2005

TIME: 9:00 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representative Denney

GUESTS: Charlie Jones, Stinker Stations; Mary MacConnell, American Heart Association; Randy Nelson, Associated Taxpayers of Idaho; Brent Reinke, Department of Juvenile Corrections; Dan Chadwick, Idaho Association of Counties; Dan John, Idaho State Tax Commission

Chairman Crow called the meeting to order and requested a silent roll call. Representative Lake moved to accept the minutes of the meeting held on March 24, 2005 as written.

H 386: Chairman Crow announced the only item on the agenda was H 386 and recognized **Representative Clark** to present the bill. He explained that on the Statement of Purpose the fiscal impact was incorrect and needed to be corrected and reprinted.

Representative Clark stated that two years ago the legislative intent was to sunset the cigarette tax in the year 2005. However because of the water emergency this bill provides funds to repay proposed the bridge loan. The purpose of this legislation is to amend current law to extend the current cigarette tax rate of 57 cents per pack though June 30, 2007. At that time the tax rate would revert back to 28 cents per pack. The legislation also specifies the distribution of the revenues from the cigarette tax.

This legislation will have a negative impact on the General Fund of approximately \$8M. However, the distribution formula in the legislation will distribute approximately \$30.1M to the state Economic Recovery Reserve Fund. The legislature will decide the distribution of monies in that fund, which may include distributions to the General Fund.

Other distributions will be made to the following funds:

Permanent Building Fund -15% - approximately \$6.8M
Central Tumor Registry Account - .3%, Cancer Control Account - .7%-
approximately \$455,000
Public School Income Fund - \$4,055,700
Department Of Juvenile Corrections - \$4,055,700
Total diversion of approximately \$15,390M

CON: **Charlie Jones** stated that he is the co-owner of the **Stinker Stations** and testified in opposition to H 386. He said that the cigarette tax is a regressive tax. Two years ago the cigarette tax was increased to meet the budget crisis and smokers have paid more than their share. Now this bill extends the cigarette tax to use for water issues and the Governor wants the cigarette tax to renovate the capital building in the future.

PRO: **Mary MacConnell** testifying for the **American Heart Association** spoke in favor of H 386 saying that when you raise the price of tobacco products it benefits health issues. It curtails smoking, especially among young people. She read from a list of organizations who supported the bill.

Randy Nelson, Associated Taxpayers of Idaho, provided a hand-out depicting the current distribution of 57 cents cigarette tax and change in distribution made by H 386. (Attachment #1) He also distributed a report on state excise tax rates on cigarettes in other states. (Attachment #2)

Mr. Nelson said in the long run it is not sound tax policy to rely on excise taxes.

Brent Reinke, Department of Idaho Juvenile Corrections, stated he was not testifying pro or con but related the history of the Department of Juvenile corrections relations with the counties and magistrates. He provided a chart reflecting the "then and now" county funding sources. (Attachment #3) Mr. Reinke pointed out the level of funding for the county juvenile correction will be reduced by \$500,000 by H 386.

Dan Chadwick, Idaho Association of Counties, stated that there was a serious problem for counties because of the \$4,055,700 cap. The counties would lose nearly one-half million dollars in providing juvenile services.

There were many questions relating to the juvenile correction distribution. **Dan John, Idaho State Tax Commission** responded to the Chairman's inquiry stating that the \$4,055,700 distribution in H 386 is only on cigarettes and does not include all other tobacco products.

MOTION: Representative Lake moved to send **H 386** to the floor with a **do pass** recommendation. Roll call was requested.

ROLL CALL VOTE: Voting AYE - Representatives Lake, Field, Smith, Raybould, Wood, Clark, LeFavour, Jaquet, Sayler, Martinez. Voting NAY - Representatives Barrett, Moyle, Schaefer, Collins, Roberts, McKague, McGeachin, Crow. Motion **passed 10-8-1**.

ADJOURN: There being no further business to come before the committee, Chairman Crow adjourned the meeting at 9:50 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

DATE: March 30, 2005

TIME: 9:309 a.m.

PLACE: Room 404

MEMBERS: Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor, Jaquet, LeFavour

**ABSENT/
EXCUSED:** Representatives Barrett, McGeachin
Representative Clark

GUESTS: Representative Bolz; Laird Noh; Dan Wingard, M.D.; Stan Boyd, Idaho Wool Growers Association and Idaho Cattle Association

MINUTES: Chairman Crow convened the meeting at 9:39 a.m. and requested a silent roll call. Representative Lake moved to accept the minutes of the meeting held on March 28, 2005 as written. Motion passed on a voice vote.

H 370: Chairman Crow announced that the only item on the agenda was H 370 and recognized Representative Bolz to present the bill. **Representative Bolz** said that there has been some misunderstanding and concern in the area of the district being non-contiguous. The people in the non-contiguous area have to go through the same procedure of voting for when forming a mosquito district.

Representative Bolz explained that Section 3, subsection (10) the following language has been added : "To require, at its discretion, a landowner to submit to the district officials for prior approval, a written mosquito or other vermin management plan specific to the landowner's property. If, in the opinion of the district officials, the landowner fails to follow the plan and does not provide adequate control measures, the district officials may cause the property to be treated in order to control the mosquitoes or other vermin. "

There is an emergency clause due to the recent "black fly" outbreaks. He explained that the problem arises in the control of two different insects. because mosquitoes breed in still water and the "black fly" breeds in swift water.

Representative Bolz said great losses occur because of the "black fly" and there needs to some means for counties to solve the problem. This legislation allows county commissioners to declare an emergency for the whole county and form a district. Then they have up to 24 months and then the district can be dissolved by the vote of the people. In response to questions relating to the district's authority, Representative Bolz said it was his interpretation that the district and land owners would work together.

Laird Noh stated he was representing himself and the Rocky Mountain Sheep Marketing Association testified in favor of H 370. He briefed the members of the losses caused by the "black fly". The livestock producers and horse owners in the Twin Falls area and the western part of Idaho have been hard hit. The Twin Falls area has been bad since 1970.

He explained the problem of the "black fly" is that they breed in canals. Dealing with the biological problem of breeding is complex. The current property tax code does not allow non-contiguous boundaries.

MOTION: Representative Smith moved to send **H 370** to the floor with a **do pass** recommendation.

SUBSTITUTE MOTION: A substitute motion was made by Representative Raybould to send **H 370** to the floor with **amendments, heard and approved by the committee**, attached to be placed on **General Orders** for consideration. The amendment would delete sub-section (1) in Section 3 of the bill.

Dan Wingard, M.D. stated he was responsible for the mosquito abatement problems in Canyon County where there are a lot of wet lands. He spoke in favor of H 370 stating that it is not much different than the current statute. The bill allows non-contiguous district boundaries. The district will be formed and a plan will be put in place to take care of mosquitoes created by wet lands.

Stan Boyd representing the Idaho Wool Growers Association and the Idaho Cattle Association testified in support of H 370 saying the bill gives farmers the tools to use to fight the "black fly" problem.

AMENDED SUBSTITUTE MOTION: An amended substitute motion was made by Representative Moyle to **HOLD H 370** in committee. Roll call was requested.

ROLL CALL VOTE: Voting on the amended substitute motion - AYE - Representatives Lake, Moyle, Field, Raybould, Roberts, McKague. Voting NAY - Representatives Crow, Schaefer, Smith, Collins, Wood, Denney, LeFavour, Jaquet, Sayler, Martinez. Motion **FAILED - 6-10-3**.

Voting on the substitute motion to amend H 370 - AYE - Representatives Crow, Lake, Moyle, Field, Schaefer, Smith, Collins, Raybould, Roberts, Wood, Denney, McKague, Jaquet, Sayler, Martinez. Voting NAY - Representatives Barrett, McGeachin, Clark. Motion **PASSED-15-1-3**.

ADJOURN: There being no further business to come before the committee, Chairman Crow adjourned the meeting at 10:23 a.m.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary

MINUTES

HOUSE REVENUE AND TAXATION COMMITTEE

- DATE:** April 4, 2005
- TIME:** 9:30 a.m.
- PLACE:** Room 404
- MEMBERS:** Chairman Crow, Vice Chairman Lake, Representatives Barrett, Moyle, Field(18), Schaefer, Smith(24), Collins, Raybould, Roberts, Wood, Denney, McKague, McGeachin, Clark, Martinez, Saylor (Callen), Jaquet, LeFavour
- ABSENT/
EXCUSED:** Representatives Barrett, Moyle, Roberts, Wood, McKague
- GUESTS:** Ken McClure
- MINUTES:** Chairman Crow called the meeting to order and requested a silent roll call. Representative Field moved to accept the minutes of the meeting held on March 30, 2005 as written.
- RS15235:** Chairman Crow announced the first item on the agenda was RS15235 and recognized Mr. McClure to explain the RS. **Ken McClure** said that this RS replaces H 277 which was vetoed by the Governor. The purpose of this legislation is intended to clarify an income tax exemption relating to the taxation of interest, dividends and capital gains from investments placed with Idaho registered broker-dealers by non-residents.
- MOTION:** Representative Field moved to send **RS15235** to the floor with the recommendation that it be placed **directly on second reading**. Motion passed on a voice vote. Representative Collins will be the floor sponsor.
- Chairman Crow announced that without objection the following bills will be held in committee:
- H 65 Sales tax, reduced - sponsored by Representative Trail-personal bill.
 - H 273 Economic expenditure accountability-sponsored by Representative LeFavour
 - H 308a Vehicle, county tax, when-sponsored by Senators Stegner and Goedde
 - H 335 Liquor dispensary/surcharge/increase-sponsored by Representative Field (18)
 - H 367 School, maintenance & operation levy-sponsored by Representative Jaquet
 - HJR 1 Taxpayer's bill of Rights-sponsored by Representative Barrett and Laird Maxwell
 - H 398 Taxing district, budget limits-sponsored by Representative Moyle
- Representative Moyle who requested that it be referred to the interim property tax study committee for reference only.
- Representative LeFavour objected.
- MOTION:** Representative moved to **HOLD H 65, H 273, H 308a, H 335, H 367,**

HJR 1 and H 398, to be referred to interim committee for reference only. Motion passed on a voice vote. Representative LeFavour requested to be recorded as voting no.

**UNANIMOUS
CONSENT:**

Chairman Crow asked for unanimous consent to hold the following Senate bills which were started in the wrong house:

S 1106 Mosquito abatement district, operations-sponsored by Senators Little and Representative Bolz

S 1201 Simplified sales & use tax administration-sponsored by Idaho Retailers Association, co-sponsors Senators Bunderson, Andreason and Representatives Deal and Bell

SJM 110 Streamlined sales tax agreement-sponsored by the Idaho Retailers Association, co-sponsored by Senators Bunderson, Andreason and Representatives Deal, Bell.

Consent was granted.

ADJOURN:

Chairman Crow declared that this concludes committee business and adjourned the meeting at 10:00 a.m. until further notice.

Representative Dolores Crow
Chairman

Kathryn Yost
Secretary