

Senate Local Government & Taxation Committee

Minutes
2007



MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

- DATE:** January 10, 2007
- TIME:** 3:00 p.m.
- PLACE:** Room 428
- MEMBERS PRESENT:** Chairman Hill, Vice Chairman Corder, Senators Stegner, Heinrich, McKague, and Bilyeu
- MEMBERS ABSENT/
EXCUSED:** Senators McKenzie, Siddoway, and Langhorst
- CONVENED:** **Chairman Hill** called the meeting to order at 3:05 p.m. A silent roll call was taken. Members of the committee and guests were welcomed. **Chairman Hill** introduced Bethany Romney, Page, and Twyla Melton, Secretary.
- GUESTS:** The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).
- Chairman Hill** introduced Commissioner Dewey Hammond from the Idaho State Tax Commission who will review the results of H0001 relating to property taxes.
- Commissioner Hammond** distributed a report that detailed the impact of H0001 by comparing 2006 to 2005 showing both actual numbers that occurred after the passage of H0001 and what the numbers would have been if H0001 had not been in effect. **Commissioner Hammond** explained that if there had been no changes made, property taxes would have increased by 9% from 2005 to 2006. Actual property taxes collected in 2006 were down 11.4% compared to 2005. Therefore, property taxes actually collected for 2006 were 20% less than they would have been if no action had been taken. This decrease occurred even though taxable values increased by 19.9%.
- In addition, last year the Homeowners' Exemption for primary residences was increased to \$75,000.00, resulting in a savings of \$38,468,490 to those home owners. This savings, added to the \$104,169,975 in this same category, resulted in a total savings of over \$142.0 million for private, owner occupied, homes in Idaho.
- Chairman Hill** asked, "What was the effect new construction had on the numbers that Commissioner Hammond quoted?" **Alan Dornfest**, from the State Tax Commission, responded to this question. **Mr. Dornfest** explained that their analysis indicated there was about \$34.0 million in new construction over this last year. This resulted in about \$3.0 million in taxes. New construction was very strong in some areas

of the state in 2006.

Senator Heinrich asked how “forgone amounts” were affected by H0001. **Mr. Dornfest** described forgone amounts as being increases in budgets permitted by state law that a taxing district did not use in the current year. Those funds were not charged to the taxpayers. The tax commission tracks those funds and then, when there is a need for additional funds by that district, the district can use up to the amount of their balance of the forgone amounts. At that time the taxpayers will be charged. This year forgone amounts increased so spending was more frugal. Had the amounts gone down, it would mean that more districts needed to use those funds.

There were no more questions.

Commissioner Hammond commented that Mr. Dornfest had recently adopted a little girl from China named Hannah and he would now be adding a new dimension to his life. **Chairman Hill** extended congratulations to Mr. Dornfest.

Chairman Hill asked Senator Corder to explain how the Committee would address the Administrative Rules. **Senator Corder** distributed the Rule books and a schedule showing that the rules were divided among the senators. Two senators will be addressing certain pages within the rule book. The Rules will be covered during the meetings next week. If there are adjustments to the schedule, everyone will be notified in time to be prepared for their reviews.

ADJOURNMENT: There being no further business, the meeting adjourned at 3:45 p.m. until Tuesday, January 16th at 3:00 p.m.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: January 16, 2007

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Hill, Vice Chairman Corder, Senators Stegner, McKenzie, Siddoway, Heinrich, McKague, Langhorst, and Bilyeu

MEMBERS ABSENT/ EXCUSED: All Senators were present.

GUESTS: The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).

Chairman Hill convened the Senate Local Government and Taxation Committee at 3:00 p.m. on January 16, 2007.

Chairman Hill distributed copies of the Governor's General Fund Revenue Book. This is for review and discussion at a later meeting. Also, on Thursday, January 25, there will be a field trip to Hewlett Packard headquarters in Boise. They will provide transportation and the topic of discussion will be business tax policy in the state.

At this time **Chairman Hill** turned the gavel over to **Vice Chairman Corder** who will preside over the introduction of the Administrative Rules.

Jim Husted, Tax Policy Specialist for the Idaho State Tax Commission, will be presenting the Administrative Rules.

DOCKET #: 35-0102-0603
Sales and Use Tax Administrative Rules, Pages 2-4 (Temporary Rule). This rule is being amended to update the sales tax rate to 6% as of October 1, 2006 pursuant to H0001.

MOTION: **Senator Siddoway** moved to approve Docket #35-0102-0603. **Senator Langhorst** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

DOCKET #: 35-0102-0601
Sales Tax Administrative Rules, Pages 54-72. The changes in rules 001, 004, 005, 006, 037, 107, and 119 in this section are technical only.

Rule 011 strikes the statement that sales of intrastate charter flights are taxable, which is barred by federal law.

Senator Hill asked if the state had been charging sales tax on charter flights and what kind of economic impact will that have in the future. **Mr. Husted** responded that they have been charging sales tax on intrastate charter flights only, not on regularly scheduled charter flights and not on interstate charters. The rule was amended about 2 ½ years ago but this segment was an oversight which is being corrected now. However, instructions were given 2 ½ years ago to stop charging sales tax. There was some fiscal impact, but it was not a large one.

Rule 019 requires the filing of sales tax returns for assessors and sheriffs as for any other retailer.

Rule 051 specifically addresses how sales are taxed for discounts, coupons, rebates, and gift certificates.

Senator Hill inquired about those manufacturer's rebates relating to small businesses where the accumulation of coupons will not meet the minimum requirements set out by the manufacturer for submitting coupons. The small business "eats" the discount. Are they required to pay the sales tax? **Mr. Husted** responded that as a matter of statutory law, sales associated with manufacturer's coupons do not reduce the price subject to sales tax at any time.

When a retailer pays use or sales tax on items that are gifts to the consumer, then the consumer does not pay sales tax on the gift, only on the purchase.

Senator Hill asked if this was the case for banks who offered give-aways for opening an account. There is no sale, so there isn't any purchase price involved. **Mr. Husted** stated that this was something that had not been considered and they may have to investigate this scenario. **Senator Hill** concurred.

Rule 101 deletes obsolete language, corrects language and makes a technical correction regarding the registration period.

The Failure to Meet The Interstate Mileage Requirement was amended to show that use tax will become due if the 10% requirement is not met.

Chairman Corder stated that he thought the legislation that was passed last year took care of this issue, and, if it didn't, will there need to be more legislation next year? **Mr. Husted** answered that there would be more corrections next year.

Chairman Corder asked about the process, if, without this rule, the fleet did not meet the 10% rule. **Mr. Husted** responded that the entity is reviewed and then notified if they are in violation of the requirements. This is a use tax issue which is determined by the book value of the property not a sales tax issue.

Rule 107 is being amended to clarify that an Idaho resident who forms a Limited Liability Corporation (LLC) in another state for the purpose of

purchasing one or more motor vehicles does not qualify for the nonresident exemption in Idaho. This rule amendment clarifies that credit will be given against any Idaho use tax due for local sales taxes paid in another state if the goods are then brought to Idaho.

MOTION:

Senator Siddoway moved to approve Docket #35-0102-0601. **Senator Langhorst** seconded the motion.

VOTE:

The motion carried by unanimous voice vote.

**DOCKET #:
35-0102-0602**

Sales Tax Administrative Rules, Pages 73-78.

This rule is relative to sales tax as it applies to computer software and service agreements and to add a provision to designate a portion of the price allocated to services and to software.

MOTION:

Senator Langhorst moved to approve Docket #35-0102-0602. **Senator Stegner** seconded the motion.

VOTE:

The motion carried by unanimous voice vote.

**DOCKET #:
35-0106-0601**

Hotel/Motel Room Tax Administrative Rules, Pages 158-161.

Amendments are being made to these rules to reflect the current 5% rate and to allow that taxes may be reported as a one line item.

Senator Langhorst questioned the change where all tax rates would be combined into a one line item. He thought breaking them apart would show full disclosure. There is no substantive change except in reporting format.

Mr. Husted responded that the one substantive change was the move from 4% to 5% for a tax rate. Combining the tax rates into one line was what the industry requested.

Senator Stegner asked if the Tax Commission charged an administrative fee. **Dan Johns**, State Tax Commission, answered that they do for the Auditorium District portion but not for the Hotel/Motel portion.

MOTION:

Senator Langhorst moved to approve Docket #35-0106-0601. **Senator Siddoway** seconded the motion.

VOTE:

The motion carried by unanimous voice vote.

**DOCKET #:
35-0109-0601**

Idaho Kitchen & Table Wine Tax Administrative Rules, Pages 162-169.

These rules are being amended to add the definition of "wine direct shipper", and to state that wine direct shippers are required, by statute, to remit wine tax and collect use tax.

Senator Hill stated that we are now out of the realm of wine tax and we are saying that wine retailers now have to pay sales and use taxes. Are we in violation of a US Supreme Court ruling? **Mr. Johns** responded that it is not a violation because they have a permit to distribute in Idaho so the state can extend its taxation arm.

Senator Bilyeu asked why the Idaho State Police (ISP) were the ones to

issue the permit. **Mr. Husted** answered that the State Tax Commission administers the wine direct shipper statute in conjunction with the ISP as the statute specifies. The ISP ensures that permits are not issued to underage applicants.

MOTION:

Senator Heinrich moved to approve Docket #35-0109-0601. **Senator Langhorst** seconded the motion.

VOTE:

DOCKET #:
35-0110-0601

The motion carried by unanimous voice vote.

Idaho Cigarette & Tobacco Products Administrative Rules, Pages 170-173. The rules are being amended for purposes of clarification, correction, and, under exemptions, adding a requirement that distributors obtain copies of appropriate identification when selling to a qualified entity.

Senator Siddoway stated that his understanding was that the tax would be paid by the last consumer but in this case the tax is being paid by the first entity. **Mr. Husted** explained that this is not a sales tax, it is a tax on wholesale purchases and the first receiver bringing the product into Idaho pays the tax.

Senator Langhorst raised a syntax issue but did not want to change the rule. Senator Langhorst pointed out that the first three sub-sections; "a", "b", and "c" made sense but "d" should be a part of "c". It would be less confusing. **Mr. Husted** said they would take this under advisement, they could not change it at this point in time.

Senator Hill agreed that a change needed to be made, it is inappropriate the way it is currently written.

MOTION:

Mr. Husted also agreed that a change needed to be made and they would address the issue.

VOTE:

Senator Langhorst moved to approve Docket #35-0110-0601. **Senator Siddoway** seconded the motion.

ADJOURNMENT:

The motion carried by unanimous voice vote.

The meeting was adjourned at 4:20 p.m.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: January 17, 2007

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Hill, Vice Chairman Corder, Senators Stegner, McKenzie, Siddoway, Heinrich, McKague, Langhorst, and Bilyeu

MEMBERS ABSENT/ EXCUSED: All Senators were present.

GUESTS: The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).

Chairman Hill convened the meeting at 3:00 p.m. on Wednesday, January 13, 2007. He introduced **Janice Boyd**, Idaho State Tax Commission, who will be presenting the Administrative Rules.

DOCKET #: Idaho Income Tax Administrative Rules, Pages 2-49
35-0101-0601 This rule has been amended to reflect updates to current year, conformity, clarification, modification, and corrections.

Senator Hill asked if the changes to Rule 031, relating to the way nonresident aliens were treated for income tax purposes, would be a change in practice. **Ms. Boyd** responded that this would not be a change.

DOCKET#: Idaho Income Tax Administrative Rules, Pages 50-53
35-0101-0602 Rule 600 clarifies and expands the combined reporting elements for entities that are part of a unitary group.

Senator Heinrich asked if it was an option for an insurance company to be included in the combined report. **Ms. Boyd** said that it was not an option. Insurance companies needed to be included in order that the reporting would be more accurate.

Senator Hill asked if there had been any attendance or objections relating to Rule 600.05 from the insurance industry at the October 18 public hearing. **Ms. Boyd** said that there was only one individual from Primary Health that attended.

Senator Hill had one more question referring to page 20 in the previous docket - Rule 280. It seemed as if there was a substantial change in Rule 280.0. Currently this is basically a "safe harbor" where the taxpayer could use the apportionment schedule and feel confident that he is going to be able to file an accurate tax return. Then 280.02 gave the taxpayer

(partnership) the option to request to use some other apportionment formula if they so desired. Now, this addition states that not only is it at the request of the tax payer, but the Tax Commission may require an alternative method. This change seems to be giving the Tax Commission the authority to tell the tax payer that, even if he has filed appropriately according to the law, the Tax Commission could disagree and use any other apportionment schedule it deems more truly reflects that activity. **Ms. Boyd** stated that anyone requesting an alternative method must show good cause to use an alternative. Also, the statute already gives the Tax Commission the authority to determine if the correct formula is being used. **Senator Hill** confirmed that what this rule does is bring the wording in line with what is already in the statute. **Ms. Boyd** answered affirmatively.

MOTION: **Senator Siddoway** moved to approve Docket #35-0101-0601 and #35-0101-0602. **Senator McKenzie** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

DOCKET #: Idaho Tax Commission Administration and Enforcement Rules, Pages 174-182.
35-0201-0601

This rule is being amended for conformity, to adjust interest rates for 2007, and to modify rules passed in 2006.

MOTION: **Senator Langhorst** moved to approve Docket #35-0201-0601. **Senator Heinrich** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

ADJOURNMENT: The meeting adjourned at 4:05 p.m.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: January 18, 2007

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Vice Chairman Corder, Senators Stegner, McKenzie, Siddoway, Heinrich, McKague, and Bilyeu

MEMBERS ABSENT/ EXCUSED: Chairman Hill and Senator Langhorst

GUESTS: The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).

Vice Chairman Corder convened the meeting at 3:03 p.m., Thursday, January 18, 2007.

MINUTES: **Senator McKague** moved to approve the January 10, 2007 minutes as written. **Senator Siddoway** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

Vice Chairman Corder introduced Alan Dornfest, Idaho State Tax Commission, who will present the Administrative Rules.

DOCKET #: Property Tax Administrative Rules -Temporary Rules, Pages 5-11.
35-0103-0608 This Temporary Rule deals with budget certification by taxing districts.

Alan Dornfest introduced Valdi Pace, Blaine County Assessor's Office. He then proceeded to explain that the rule resulted from the passage of H0001. The Temporary Rule will remain in effect for 2007 because of a late publication date.

MOTION: **Senator McKenzie** moved to approve Docket #35-0103-0608. **Senator Heinrich** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

DOCKET #: Property Tax Administrative Rules, Pages 79-82.
35-0103-0602 This rule is being amended to update examples and make changes so the rule will conform to current law.

MOTION: **Senator Bilyeu** moved to approve Docket #35-0103-0602. **Senator Heinrich** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

DOCKET #:
35-0103-0603

Property Tax Administrative Rules, Pages 83-87.
These rules are being amended to provide clarification of requirements for H0422 relating to how annuities are treated in the computations for the circuit breaker, and updates an example showing calculation of the homeowner's exemption that is consistent with H0421.

Senator Stegner did not object to the rule but wanted to express a general concern because this is a complicated law. The Tax Commission is knowledgeable, however, the clerks/staff that are implementing the circuit breaker process may not be as educated about the nuances of annuities. This may result in a taxpayer not receiving the exclusions they are qualified to receive and they (taxpayers) are also not educated enough in this area to pursue further action if they are told they do not qualify. **Mr. Dornfest** responded that they do training for those on the front line and there is always access to the Tax Commission for questions. Applications can be sent to the Tax Commission for review. More examples might be made available. The Tax Commission will certainly review this process.

Senator Bilyeu explained that, as a past county tax assessor, she knew that the Tax Commission would come out to the counties and present specific directions about how to process these applications. In any case, the counties send the applications to the Tax Commission and they are the ones that make the final decisions.

Vice Chairman Corder asked why there was a difference between a voluntary and non-voluntary (condition of employment) purchase of an annuity. **Mr. Dornfest** responded that they are trying to help administrators of the program and taxpayers differentiate between a qualifying and non-qualifying instrument. The distinction being that the purchase of the annuity must be voluntary and cannot be a condition of employment where it might be construed to be part of a pension system.

Senator McKenzie asked if there would be a distinction when you buy in at the minimal level as required, but then, voluntarily pay an additional amount to increase the annuity. **Mr. Dornfest** answered that, yes, there would be a distinction in that case.

Senator Heinrich asked if applications that were brought into the county are part of public records or is confidentiality maintained. **Mr. Dornfest** could not answer for the county level but when they get to the Tax Commission, they are treated as confidential. **Senator Bilyeu** stated that the Blaine County Assessors' office would treat them as confidential although she could not speak for all county offices. She also stated that this would be a very good discussion to have with the assessors. **Dan John**, Idaho State Tax Commission, said that he would research this issue and if there is not a statute in place to ensure confidentiality, they will draft something.

Senator Stegner is skeptical about the confidentiality of the information, but, before the assumption is made that it is good public policy to make it confidential, consideration must be made for reasons it should not be

confidential. In Senator Stegner's view, don't jump to the conclusion that the committee is all of one mind on this issue. It needs some review.

Vice Chairman Corder asked Mr. John to research this issue. **Mr. John** agreed to do so.

Senator McKenzie commented that there were methods of putting out information without disclosing personal information.

MOTION: **Senator Siddoway** moved to approve Docket #35-0103-0603. **Senator Stegner** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

DOCKET #: Property Tax Administrative Rules, Pages 88-91.
35-0103-0604 This rule is being amended to conform to the changes resulting from the passage of H0676.

MOTION: **Senator Stegner** moved to approve Docket #35-0103-0604. **Senator McKague** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

DOCKET #: Property Tax Administrative Rules, Pages 92-96.
35-0103-0605 This rule is updated to meet the requirements of H0443 and to correct certain calculations related to the recapture percentage table.

MOTION: **Senator Stegner** moved to approve Docket #35-0103-0605. **Senator Bilyeu** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

DOCKET #: Property Tax Administrative Rules, Pages 97-101.
35-0103-0606 The amendment to this rule updates the changes in the homeowner's exemption resulting from H0421.

Senator Bilyeu questioned the calculations shown in the example. **Mr. Dornfest** will investigate and make any necessary corrections.

MOTION: **Senator Bilyeu** moved to approve Docket #35-0103-0606. **Senator Siddoway** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

DOCKET #: Property Tax Administrative Rules, Pages 102-157.
35-0103-0607 The substance of this docket is to provide references for tax year 2007, collect statistical information, enhance the equalization process, add consistency, implement new legislation, clarify various rules, add cross references to other property tax rules, provide for counties to submit data electronically, and create new rules to be in compliance with recent statutes.

Mr. Dornfest stated that the primary reason for this docket is to establish rules that will allow the Tax Commission to gather relevant information from county assessors and to report back to lawmakers. **Senator Heinrich** asked if the collection of this data will be automated. **Mr.**

Dornfest replied that it would be. The Tax Commission now has the appropriate software and the counties will be reporting to the extent of the capability of their software. The Tax Commission is working with all of the counties to put this reporting system in place.

Chairman Corder commended Mr. Dornfest for establishing these categories and developing an effective system.

Senator Bilyeu asked if this system would allow the counties to answer questions regarding personal property tax. **Mr. Dornfest** answered that, no, this system would not go into individual detail.

Senator Heinrich asked a question regarding Rule 225.02.d. Could a change in a fire district be a result of an election? **Mr. Dornfest** stated that an election that would swap or expand/contract territory would be a part of it, but the other unit of government would have to provide the written approval. For instance, the fire district got voter approval to expand into a city, but the city would also have to agree or there would be a conflict. **Senator Heinrich** asked which would prevail, the election or the city council. **Mr. Dornfest** responded that he did not know, they have not had this situation arise but the statute clearly stated that the other entity would have to give written consent.

Senator Bilyeu asked for an explanation of the difference between primary land and improvement categories and secondary land and improvement categories referred to in Rule 511. **Mr. Dornfest** explained that there are five primary categories and all property is lumped into those categories and then those five primary categories are further broken down into secondary categories. Currently, secondary categories are used to determine the ratio but in 2008, the primary categories will be used.

MOTION: **Senator Heinrich** moved to approve Docket #35-0103-0607. **Senator Bilyeu** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

Vice Chairman Corder asked if there was any more business before the committee.

ADJOURNMENT: There being none, the meeting adjourned at 4:35 p.m.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

NOTE: Any sign-in sheet, guest list, testimony, booklets, charts, or graphs will be retained in the Committee Secretary's office until the end of the session. After that time the material will be on file in the Legislative Services Library (Basement E).

MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: January 23, 2007

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Hill, Vice Chairman Corder, Senators Stegner, McKenzie, Siddoway, Heinrich, McKague, and Bilyeu

MEMBERS ABSENT/ EXCUSED: Senator Langhorst

GUESTS: The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).

Chairman Hill convened the meeting at 3:00 p.m. on January 23, 2007 and asked for a voice roll call.

Chairman Hill introduced Dan John, Idaho State Tax Commission. **Mr. John** is responding to a question that was raised at the January 18 meeting regarding confidentiality of documents related to the Circuit Breaker reduction for property tax. **Mr. John** referred to Section 63-703, Idaho Code, which states in part...*"Except as provided in section 63-707, Idaho Code, the claim and its documentation shall not be deemed to be public records and may not be used for any commercial purpose; provided however, the state tax commission and the county assessor may use the contents of such claims and documentation for general statistical analysis and may publish such analysis, or any part of such analysis, as appropriate."*

Chairman Hill introduced Daniel G. Chadwick, Executive Director, Idaho Association of Counties (IAC). Mr. Chadwick will present the annual report from the IAC.

Mr. Chadwick introduced the IAC Legislative Policy Staff: Tony Poinelli, Deputy Director, Kelci Karl-Robinson, Policy Analyst, and Kerry Elliott, Policy Analyst. The committee members were given a handout that gave a synopsis of IAC's legislative priorities. **Mr. Chadwick** explained that IAC adopts its policies in September and sets priorities in October. He gave a brief overview of each priority topic.

Vote by Mail: IAC strongly supports legislation that authorizes each county and city in Idaho to decide for themselves if they will adopt a vote by mail system. This topic is generating strong discussions within IAC .

Business Inventory Exemption-Residential Improvements Not Occupied: IAC strongly supports legislation to incorporate an application process

which will provide greater efficiency and statewide consistency in determining when newly constructed and improved buildings are occupied. IAC is still reviewing the options to resolve this issue.

Local Option for Detention Facilities: IAC supports legislation that removes the sunset provision for local option sales tax for detention facilities and also will extend the duration for financing for up to twenty years. This legislation will start on the House side.

Mosquito Abatement: IAC supports legislation that will give the ability to county commissioners to put the formation of an abatement district incorporating noncontiguous areas on the ballot. This issue will be addressed this session as soon as the language is finalized.

Ordinary and Necessary Expenses: IAC supports legislation that clarifies what qualifies as an “ordinary and necessary” expense, giving counties clear direction as to which capital improvements and expenditures require voter approval. Legislation will be presented sometime this session.

Mental Health/Substance Abuse: IAC supports legislation to clarify that counties are not responsible for treatment under indigent care since that responsibility lies with the Idaho Health and Welfare Department. IAC is having ongoing discussions, but nothing will be presented this session.

Undocumented Aliens: IAC supports legislation that would provide uniformity between state and county requirements for service to undocumented aliens. There is legislation in progress that addresses this issue.

Other Issues: IAC is addressing issues and legislative proposals for a variety of topics such as Community Colleges, Beer and Wine Tax, Religious Exemptions, Taxpayer Property Tax Notice, Community Guardians, Health District Board Memberships, Areas of Impact, and the Craig-Wyden Funding.

Senator Bilyeu asked how Mr. Chadwick intended to implement the notification process for builders to notify the assessor when a building is occupied. **Mr. Chadwick** said they had considered several alternatives but had not reached a decision on exactly what the process would be.

Senator Bilyeu asked if the percentage of votes needed to pass a change in the sales tax option for detention facilities would be lowered. **Mr. Chadwick's** response was that they would not, the percentage would remain at 66 2/3%.

Senator Corder inquired about the Craig-Wyden funding. If this funding is withheld by the US Congress, is it IAC's intention to remove the 3% cap? **Mr. Chadwick** replied that they would actually ask to levy outside the 3%. **Senator Corder** then asked about the other shortfalls that would occur if Craig-Wyden goes away. **Mr. Chadwick** stated “that is the question”. There are several options: Do we allow additional levy authority? Do we take away the cap? Do we provide direct state support, at least for the interim? It may be a combination of all of these options and any others that may be considered. We don't know the

answer at this time. **Senator Corder** asked when the decision would be made on Craig-Wyden and then how long will it take for us to react. **Mr. Chadwick** reported on a discussion he had with a representative of Senator Craig's (Idaho U. S. Senator, Larry Craig) staff. Right now, an emergency appropriation from Congress to fund one more year is being considered. The long-term question still has to be resolved. If Congress doesn't fix the problem appropriately this year, the tax commission will be back before the committee to resolve the issue. There will be a very short period of time to react. **Mr. Chadwick** went on to state that HJM21, on the national level, will provide some relief and the efforts to encourage the health of the economy will also help. Failure on the National level means that the state will have to come up with some way to cover the shortfall. Some schools have these monies built into their budgets and they will be hurt, others budget the monies outside their regular budget and they won't be hurt quite so much.

Senator Heinrich asked if schools would have the same opportunity for additional levies as the roads and bridges. **Mr. Chadwick** responded that they would not necessarily have the same opportunity. He said that additional levies might be a fix, but it could be debt authority or it may need to be a direct appropriation from the state of Idaho to fill in the gap.

Senator McKenzie stated that he could not anticipate replacing the amount of money that would be lost by taking off the 3% cap. If the \$20.0 - \$24.0 million has to be replaced, there would be a revolt by the taxpayers.

Chairman Hill asked Mr. Chadwick to define "Community Guardian" and asked if every county had one. **Mr. Chadwick** explained that a Board of Community Guardians is appointed by the Board of County Commissioners. A Community Guardian is a volunteer assisting people in need of protection, both health care and finances. This is a safety net for those people. Not every county has a Board of Community Guardians.

Chairman Hill introduced Ken Harward, Executive Director, Association of Idaho Cities.

Mr. Harward introduced other members of the Association of Idaho Cities (AIC): Nancy Merrill, Mayor of Eagle and President of AIC, Jerry Mason, Coeur d'Alene-Legal Counsel for AIC, and Leon Buce, Fiscal Officer.

Mr. Harward identified Idaho as a large geographic state that has a population of 1.25 million people, of which 1.0 million reside in incorporated city limits. There are 200 incorporated cities ranging in size from a little less than 200,000 (Boise) to 10 (Warm River). All cities operate under general laws so when legislation is passed it affects cities of all sizes. There is one charter city left in the state.

Senator Stegner asked how population was counted in university cities like the city of Moscow. **Mr. Buce** said that the census was based on the word of the citizen and is reported through the U. S. Census Bureau. It

depended on whether or not the citizen claimed residency in that city or said he/she was from somewhere else.

Mr. Harward explained that, like the diverse geography of Idaho, the cities are diverse as well. Some are full service cities and others have entered into partnership with the county. Services are determined by what the citizens want. **Mr. Harward** said that city impact status is another primary concern that will be coming before the legislature in the future.

Mr. Harward turned the meeting over to Jerry Mason. **Mr. Mason** explained that he travels around Idaho training city and county volunteer planning and zoning commissioners, governing board members, and staff on planning and zoning issues. **Mr. Mason** said that the growth that has occurred in certain areas of Idaho is beyond any precedent in his experience. He went on to explain that this growth has caused major changes at all levels of government; city, county, and state. In some cases, these changes have not been entirely welcomed by the citizens. From the governing standpoint, there has been freezing on the revenue side and volatility on the growth side. This growth is managed from the local level, counties have tasks assigned to them by the state and cities can decide what they want to do, then they have to follow the rules on how to do it. Both cities and counties are governed by the constitution and so the "*Doctrine of Separate Sovereignty*" has been established to restrict jurisdiction. This means that cities rule within the city limits and counties rule outside the city limits in a cooperative effort.

There has been controversy in the areas of annexation. The main question to ask is "what is its purpose?" In Idaho that purpose has been to enable planning and implementation where growth has expanded into the rural areas and to meet the needs of the citizens. This means extending utilities and municipal services that must be provided to go along with urbanization such as parks, libraries, fire stations, and urban policing. The revenue structure and the annexation policy of the state has always been to tie the authority of the planning responsibility to the local entity as the planning act provides.

Mr. Mason went on to say that even though these are challenging times, there have been very few moratoriums on growth. There has been a great deal accomplished with limited resources at the local level because Idaho has sound policy. In order to meet the needs of the growth phenomenon, there may need to be changes made in current policy. These changes need to be made from the ground up so there will be continuity.

Senator Bilyeu asked if cities and counties favored impact fees. **Mr. Mason** said that yes, they do.

Senator Stegner asked when the 3% cap went into effect. **Mr. Mason** responded that it was in 1996. **Senator Stegner** stated that, depending on where a city's tax rate was in 1996 affects what its current tax rate is. This has resulted in a wide variation of rates from city to city. Has any

thought been given to a creative way to allow adjustment because of the extreme changes in circumstances? **Mr. Mason** responded that yes, thought is being given to this problem but, as yet, there has been no definitive answer. **Mayor Merrill**, Mayor of Eagle, gave an example of what is happening in Eagle.

Chairman Hill welcomed Roger Christensen, County Commissioner, Bonneville County Commission.

Mayor Merrill as President of AIC, said the Association of Idaho Cities is looking forward to supporting the committee. Working together, much will be accomplished. She said that they were here to serve the committee as well as the cities, and they look forward to working with the committee.

Chairman Hill thanked the Mayor and said that AIC is very helpful to the committee, that the committee was there to serve the cities as well.

Chairman Hill announced that all RS's concerning sales tax on groceries or the grocery credit needed to be given to the House Revenue and Taxation Committee no later than this Friday. The committee will be touring the Hewlett Packard plant this Thursday.

ADJOURNMENT: There being no further business before the committee, **Chairman Hill** adjourned the meeting until 3:00 p.m. Wednesday, January 24, 2007.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

NOTE: Any sign-in sheets, guest list, testimony, booklets, charts, or graphs will be retained in the Committee Secretary's Office until the end of the session. After that time, the material will be on file in the Legislative Services Library (Basement E).

MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: January 24, 2007

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Hill, Vice Chairman Corder, Senators Stegner, McKenzie, Siddoway, Heinrich, McKague, Langhorst, and Bilyeu

MEMBERS ABSENT/ EXCUSED:

GUESTS: The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).

Chairman Hill convened the meeting at 3:06 p.m. on Wednesday, January 24, 2008. A silent roll call was taken and a quorum was present.

RS 16605C1 **Senator Stennett** presented this RS to the committee. The purpose of this measure is to ensure that affected persons have an opportunity to be heard at a public hearing in front of local decision makers regarding Confined Animal Feeding Operation sitings. It also eliminates the one-mile primary residency requirement currently in Idaho Code.

MOTION: **Senator Langhorst** moved to send **RS 16605C1** to print. **Senator Corder** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

MOTION: **Senator Siddoway** moved to accept the minutes as written for January 16, 2007. **Senator Heinrich** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

MOTION: **Senator McKenzie** moved to accept the minutes as written for January 17, 2007. **Senator Langhorst** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

Chairman Hill welcomed **Chuck Cline**, Chairman, Idaho Property Tax Reform Association, who, in turn, introduced Charlie Pottenger, Co Chairman, and Don Gross, from the Association.

Mr. Cline explained that the legislature will be hearing about property tax reform again this year. He said this will continue until there is true property tax reform. Taxpayers in all categories feel they do not have control over property taxes. Assessments are done by the county assessor and disposition of the dollars is determined by either a

budgeting source or the taxing district. **Mr. Cline** stated that past attempts to control property taxes have been done through exemptions. This just means that funds have to come from somewhere else. He suggested that exemptions could be eliminated. Religious and non profit organizations would continue to be exempt. He further stated that the 3% should be taken away. He claimed that taxing districts are actually getting 6-7% because of the valuation increases. The laws are set in the legislature, this is where the change is going to have to be made.

Senator Stegner welcomed Mr. Cline to Boise and stated that he looks forward to seeing creative ways to try to reduce this tax burden.

Chairman Hill thanked Mr. Cline and then introduced Commissioner **Dewey Hammond**, Idaho State Tax Commission. **Commissioner Hammond** stated that they have had a great year and that the reports the committee will hear will confirm the positive actions of the Idaho State Tax Commission. He turned the meeting over to **Commissioner Sam Haws**, Idaho State Tax Commissioner.

Commissioner Haws' area of responsibility includes receipt of all tax returns, collected and deposited revenues, and approval of refunds. The remarkable people in her department ensure that all the returns and refunds are processed on time which translates to processing 2,203,846 returns. She also handles taxpayer services which provide one-on-one service, communications outreach, and proposed legislation such as the Streamlined Sales Tax Project.

Dan John, Idaho State Tax Commission, explained that since the Project started, Idaho has attended the group meetings and, as of 2005, they became a member. He also stated that the Tax Commission has proposed legislation, H0007 which would make Idaho a participating state in this project. This sets up the groundwork to enter into interstate agreements, it sets up advisory counsels to give advice, it doesn't take Idaho all the way, it takes us half way. The Tax Commission will have to come back next year if H0007 passes with all the changes for Idaho to become a governing board state. That is an update of Idaho's part in the Streamlined Sales Tax Project.

Chairman Hill asked when the hearing was to be held in the house committee. **Mr. John** said it will be held on January 25. He further commented that the concern was that Idaho would lose its sovereignty. **Mr. John** explained that the agreement is really set up to make sales tax more uniform state to state. It does not tell a state what it can or cannot tax. The Project sets uniform definitions.

Chairman Hill introduced **Coleen Grant**, Commissioner, Idaho State Tax Commission and then was excused and turned the gavel over to **Vice Chairman Corder**.

Commissioner Grant's oversight responsibilities are individual income tax and withholding tax, policy management oversight for information technology, human resources, field services, and tax discovery.

Commissioner Grant stated that this has been a very busy and productive year. The Audit and Collection Unit completed a two year project to revise and develop the tax auditor series by establishing a career ladder approach to recruiting and retaining qualified professional staff. The most significant change in Audit and Collections, was the implementation of the stand alone collections module for the compliance staff. This project came in on schedule and under budget. In the first six months of operation, the number of field visits by the same number of field collectors doubled without compromising the in-house work of the field collectors. It also allowed the compliance officers to meet much earlier in the collection process with delinquent taxpayers and to provide much needed education on a timely basis.

Commissioner Grant said that technology is the backbone of the commission and without the combined effort of the Legislature, Governor's office and stake holders, they would not have been able to replace their aging network.

Senator McKenzie asked about the status of electronic filings.

Commissioner Grant said that they are currently working towards having business income tax returns filed electronically, but at this time there is not an implementation date.

Vice Chairman Corder asked if there are more non-filers now than previously reported. **Commissioner Grant** responded that there used to be "pockets" throughout the state of hard core tax protesters. This is not seen as much now. Technology has provided a better means of identifying them. High profile federal cases have impacted those people who refused to file returns. There are still some non-filers, but the instances have abated.

Vice Chairman Corder thanked Commissioner Grant and introduced **Tom Katsilometes**, Commissioner, Idaho State Tax Commission.

Commissioner Katsilometes outlined his assignments with the Idaho State Tax Commission as county support, which covers areas of timber and mining, product tax from tobacco and liquor, and operating tax for entities such as railroads, power companies, and utilities.

During 2006, due to unprecedented increases in property values, a record number of categories of property were out of compliance with ratio study standards. Due to the diligent work of the Tax Commission's Consulting Appraisers and the county offices, all categories were brought into compliance.

Improved technology has allowed counties and the Tax Commission to meet their statutory requirements.

Efficient management of the property tax reduction program, better known as Circuit Breaker, has allowed the counties to handle the increased number of applicants. In 2006 the counties processed 28,737

approved applications. This was an increase of 8.5% from 2005. There has also been an increase in the recovery of funds due to the improvement in the audit process that identified inaccurately reported information in past years.

The continued quality service provided to the taxpayer will ensure that all entitled applicants will receive this benefit.

Commissioner Katsilometes reviewed the property tax changes that occurred as a result of legislation passed during the summer of 2006.

Senator Langhorst asked what amount of decrease could be expected after the removal of the three mils. **Commissioner Katsilometes** could not comment specifically on that since there are a number of variances.

Senator Heinrich stated that there was not a large shift in who was paying the tax. **Commissioner Katsilometes** concurred.

Senator Bilyeu commented on the large decrease in operating tax. **Commissioner Katsilometes** stated that the Maintenance and Operations (M&O) dropped the percentage by quite a large amount.

Senator McKenzie asked if residential would pay a little more each year even after removing the three mil M&O. **Commissioner Katsilometes** said future changes were not reflected in the numbers they were reporting.

Senator Heinrich asked for information on the Manatron program and **Senator Langhorst** asked to have the provisions of the Manatron program explained. **Commissioner Katsilometes** explained that Manatron is a software program for assessors and for the calculation of taxes that counties use to compute tax notices. It is an "all inclusive property tax program" which will get tax bills to the taxpayer. The five counties that use this program meet periodically with the Tax Commission so they may keep apprised of the concerns and results generated by the program. This program works well in some areas and not so well in others. It has taken some time to get it all the "kinks" worked out.

Vice Chairman Corder thanked Commissioner Katsilometes and turned the meeting over to Commissioner Hammond.

Commissioner Hammond provided an overview of the accomplishments of the commission in the following areas:

- Promoting Voluntary Compliance
- Making Idaho Taxes Easier to Understand
- Making the Best Use of Tax Commission Resources
- Making Our Tax Administration Equitable

Idaho's total revenue is over \$3.0 billion; 2,204,846 returns were processed at a cost of \$.94 per tax dollar.

Annual ongoing operating costs are down by \$288,800 since FY 1999; 21% more tax returns are processed annually; there are 20% more business income accounts; 15% more sales tax accounts; and 5% fewer

Full Time Equivalent (FTEs) charged to the general fund.

Commissioner Hammond stated that a budget has been established for a system that will match all W2s that come from employees with those coming from the employers. This process will improve the reliability in both areas of reporting.

It is the goal of the Tax Commission to continue to spend their appropriation wisely and divert everything that is not needed. It is a great place to work. Thank you.

Senator Heinrich asked if the increase in (this is correction: "revenue from audits would lead to increase in staff".) **Commissioner Hammond** responded that it was a combination of increased volume and transfers from one department to another.

Senator McKenzie commended the Tax Commission on the work they are doing.

Vice Chairman Corder thanked Commissioner Hammond for providing the committee with a great report.

There being no further business, **Vice Chairman Corder** adjourned the meeting at 4:27 p.m.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

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MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: January 25, 2007

TIME: 3:00 p.m.

PLACE: Hewlett Packard Company

MEMBERS PRESENT: Chairman Hill, Vice Chairman Corder, Senators, Heinrich, McKague, and Bilyeu

MEMBERS ABSENT/ EXCUSED: Senators Stegner, McKenzie, Siddoway, and Langhorst

GUESTS: The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).

TOUR: The committee members were transported, by bus, to the Hewlett Packard facility at 3:00 p.m. on January 25, 2007.

Chairman Hill introduced **Mark Falconer**, Governmental Affairs Manager, Hewlett Packard Company (HP) and turned the meeting over to Mr. Falconer.

Mr. Falconer welcomed the committee and guests and gave a brief overview about HP and its business. The focus of HP is hardware, software, and imaging. HP has a strong research and development segment as well as production and marketing groups.

HP has facilities in 170 countries throughout the world and Boise is one of the largest, sitting on 200 acres. HP employs 3,000 people plus 1,000 outside contractors in the Boise area.

Marcus Ditzel, HP LaserJet Business; **Don Palmer**, HP Software Services; and **Mike Kaltenecker**, HP Boise Facility Operations, each explained to the committee what part their respective areas of expertise played in the business.

Mr. Falconer commented on how tax policy affects new businesses and how to keep existing businesses here. He said HP is a good example of how the accumulation of all decisions over the years has allowed businesses such as theirs to do what they are doing and be successful at it.

The highlight of the tour was a teleconference in HP's state-of-the-art Halo Room with **Dan Kostenbauder**, Vice President of Tax Policy for HP and **Shawn Vasell**, Federal Policy Manager for HP. The discussion focused on general tax policy. Federal rules for international taxation is very important to HP because 65% of HP's income comes from customers outside the U.S.

Mr. Kostenbauder further stated that Idaho tax incentives were very important as well. HP moved a call center to Boise that had previously been outsourced. They could do this because Idaho provided training incentives so there would be qualified employees to man the center. Senator Larry Crapo, Idaho U. S. Senator, was also instrumental in getting the Federal Research and Development Tax Credit extended. This legislation was signed by President Bush on December 20, 2006.

There was additional discussion regarding tax philosophy, appropriate funding sources, and opportunities when there is growth in economy and population such as there has been in Idaho. **Mr. Kostenbauder** elaborated to some extent on the opportunity to standardize definitions for all states with the Streamlined Sales Tax program. States would still determine methods and rates but definitions would be consistent from state to state, for example, what and when is a piece of equipment included as part of manufacturing.

Mr. Falconer wrapped up the tour.

Chairman Hill thanked Mr. Falconer and HP for the tour, and expressed his gratitude for the time spent with the committee.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

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MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

- DATE:** Tuesday, January 30, 2007
- TIME:** 3:00 p.m.
- PLACE:** Room 426
- MEMBERS PRESENT:** Chairman Hill, Vice Chairman Corder, Senators Stegner, McKenzie, Langhorst, Bilyeu, Siddoway, Heinrich, and McKague
- MEMBERS ABSENT/ EXCUSED:** All members were present.
- GUESTS:** The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).
- Chairman Hill** convened the meeting at 3:05 p. m., Tuesday, January 30, 2007. The secretary called the roll and all committee members were present.
- MINUTES:** **Senator Bilyeu** moved to accept the minutes for January 18, 2007 as corrected. **Senator Corder** seconded the motion.
- VOTE:** The motion carried by unanimous voice vote.
- Chairman Hill** introduced Commissioner Dewey Hammond, Idaho State Tax Commission.
- Using a Washington D. C. nationwide comparison study based on a family of three earning an annual income of \$50,000, **Commissioner Hammond** said that Idaho is about 12% below the national average. Idaho is in a period of transition since we have increased sales tax and decreased property taxes.
- Senator McKenzie** asked about the \$.25/gallon motor fuel tax which is lower than other states. **Commissioner Hammond** responded that he would cover that item a little later but did say that the tax rate itself is high but licensing and registration goes the other way.
- Commissioner Hammond** went on to explain that Idaho's overall tax burden is 96.8% of the national average compared to Wyoming's 122.9% and Utah's 98.2%; Montana has the lowest rate of the neighboring states at 90.8% of the national average.
- Tax structures vary between states. Idaho has a sales tax rate of 6.0%, a business income tax rate of 7.60% and an individual tax rate that is progressive and ranges from 2.6%-7.8% depending on the income bracket. Utah has the same elements but different tax rates. Montana, Nevada, Oregon, Washington, and Wyoming have varying combinations of the three basic elements and may have additional taxes such as a business and occupations tax. All seven states incorporate property taxes into their tax structures which is vital to their tax revenue base.

The majority of state and local tax revenues come from individual income tax, sales tax, and property tax at 30%, 26% and 30% respectively. Corporation and motor fuels tax are 5% of the pie and all others combined total 3%.

Some states allow local jurisdictions to tax, Idaho does not. Twenty-seven states exempt food from the sales tax and some tax food at a lower rate. Utah just changed from a tax rate of 4.75% to 2.75% on food. Some states provide for a grocery tax credit; Idaho is one of those that does.

Chairman Hill asked if there is a list of sales tax exemptions and how much they represent in dollars under the 6% rate. **Commissioner Hammond** said he would have that information a little further on in the presentation.

Idaho ranks 20th for corporate income tax rates across the nation for tax year 2006 and is 4th compared to the western states. On the corporate income tax burden side, Idaho ranks 27th nationally, and 6th in the western states.

Senator Bilyeu asked who Idaho's biggest competitors are for economic development and getting jobs. **Commissioner Hammond** responded that Oregon was very attractive. He stated that Utah, with recent cuts in its income tax and sales tax, is a major competitor. These are the two states that Idaho is being compared to most frequently.

Chairman Hill asked Commissioner Hammond to explain "listed transactions" and why that goes into the tax shelter area.

Commissioner Hammond answered that the Federal Government has listed out transactions that would identify potential abusive tax shelters. These transactions must be reported to the Internal Revenue Service.

Individual income tax rates in Idaho rank 11th compared to all states and 4th compared to the western states. The income tax burden for individuals ranks 25th nationally and 3rd compared to the western states.

Commissioner Hammond reviewed Idaho's individual income tax brackets. He stated that Idaho has an aggressive bracketed system.

Senator Stegner asked if this system was regularly reviewed. Is Idaho at risk of having inflation take away the advantage of this progression?

Commissioner Hammond confirmed **Chairman Hill's** statement that the brackets increase with inflation but the rates stay the same.

Commissioner Hammond covered the homeowners property tax burden. Idaho is at 77.6% of the national average before H 0001 was factored in. The projected percentage for next year, after H 0001, is 65% of the national average.

In the area of centrally assessed properties, which are utilities, telephone, gas, and other operating entities, the tax is flat. Over the last five years the taxable value of all operating property has increased by only 5%. Everything except telephones increased by 17.2%. The dismantling of the telephone industry is having a tremendous impact on operating property tax revenues. **Senator Langhorst** said he would like to better understand how that works and how value could be taken off

the taxable books. **Dan John**, Idaho State Tax Commission, responded that the value is just less as a result of changes in federal and state statutes and the advent of cell phones.

Senator Bilyeu asked if cell phones were centrally assessed. Mr. John stated that cell phone companies are locally assessed and the state does not assess them.

Commissioner Hammond presented comparative tax receipts on the "All Other Revenue" category. This category includes cigarettes, tobacco, beer, wine, and liquor.

Senator McKenzie asked if all states based the tax rate for wine on a per gallon basis. **Senator Stegner** asked what measurement other states were using, i.e. gallons or volume. **Chairman Hill** asked that the Tax Commission provide some information regarding this issue since it will be coming up for discussion in the future. (Later in the meeting Senator Langhorst reported that both types of measurements were used in other states.) **Senator Stegner** pointed out that rates on the sale of alcoholic beverages have not been adjusted since 1961. There is an issue of equality when viewing the problems and costs of substance abuse related to alcoholic beverages.

Commissioner Hammond continued on to explain how taxes on gasoline and other taxable items compared on a national level.

Sales tax exemptions and exclusions were the next items to be reviewed. **Senator Stegner** stated that manufacturing exemptions really need to be defined. There may be some alternative approaches that would remove some of these exemptions and could give taxpayers different options.

Commissioner Hammond explained what would happen if some of the sales tax exclusions/exemptions were removed.

Chairman Hill thanked Commissioner Hammond and introduced Dan John from the Idaho State Tax Commission.

Mr. John opened up his discussion on income tax by comparing an income tax return from 1973 to the 2006 tax return.

Chairman Hill asked Mr. John to return on Wednesday, January 31, to complete his presentation.

ADJOURNMENT: There being no further business, **Chairman Hill** adjourned the meeting at 4:40 p.m.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

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MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: January 31, 2007
TIME: 3:00 p.m.
PLACE: Room 426
MEMBERS PRESENT: Chairman Hill, Vice Chairman Corder, Senators McKenzie, Siddoway, Heinrich, McKague, Langhorst, and Bilyeu
MEMBERS ABSENT/ EXCUSED: Senator Stegner

Chairman Hill convened the meeting at 3:05 p. m. on Wednesday, January 31, 2007. Roll was called by the Secretary and there was a quorum present.

MINUTES: **Senator Corder** moved to accept the minutes for January 25, 2007, as written. **Senator Siddoway** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

Chairman Hill introduced Richard Rush, CEO, American Red Cross of Greater Idaho. Mr. Rush will report on the results of the Red Cross Check Off that was added to the Idaho State Income Tax Return for 2005.

Mr. Rush stated that The Red Cross has had a special relationship with the state and federal governments for many years. It was chartered by the United States Congress in 1900 to be the only official disaster responder that is a non-government entity. The Red Cross is included in many state and county disaster plans. In Idaho, there tends to be more individual disasters than large disasters. Other services the Red Cross provides include lifesaving training and armed forces emergency services.

The Red Cross maintains six offices across the state, employs 18 full-time staff members, and has 865 volunteers.

Mr. Rush extended a thank you to the committee for allowing the Check Off to be added to the state tax return.

Chairman Hill thanked Mr. Rush and called Dan John, Idaho State Tax Commission to continue with his presentation.

Mr. John continued with his explanation of the Idaho State Income Tax Return. **Chairman Hill** asked Mr. John to explain the difference between a deduction and a credit. **Mr. John** said a deduction subtracts from income and a credit subtracts from the tax. In most cases, credits are more beneficial to the taxpayer than deductions.

Mr. John proceeded with a brief description of each business credit that is allowed. **Chairman Hill** asked if it would be a new tax if Idaho started collecting sales and use tax on out of state sales. **Mr. John** replied that it would not. Currently, the state cannot require an out-of-state retailer to collect sales tax but the purchaser is still required to pay the use tax. The Streamlined Sales Tax Project is trying to address this issue for internet sales.

Senator Corder asked if there was any estimate of how many gallons of fuel is purchased on reservations. **Mr. John** stated that they have actual amounts. Those sales are growing and he thought the amount would be a little over \$3.0 million for the last fiscal year. This is mostly gasoline, not special fuels.

Chairman Hill thanked Mr. John and introduced Saul Cohen, Idaho State Tax Commission, who will discuss sales tax.

Mr. Cohen explained that, although he will speak specifically to sales tax, every state in the union that has sales tax also has a complimentary use tax. There are five states that do not have sales tax and Idaho is bordered by two of them. Except for vehicles that must be registered, use tax is voluntarily reported and usually breached.

Mr. Cohen defined sales tax as a transaction tax, not a property tax. Sales tax is a tax on the transfer of tangible personal property for a consideration. He stated that 80% of sales tax requirements are not all that difficult, there are just a lot of them. There are also many exemptions; some were built into the act when it was introduced in 1965, others have been added since that time. The other 20% of the sales tax law is much more difficult and requires specific knowledge of the facts.

Mr. Cohen concentrated on defining the exemptions to sales tax.

Senator Corder asked if a contractor had dyed fuel delivered to the work site, would the retailer collect the tax or would the contractor be expected to pay the use tax. **Mr. John** said that, in this case, the contractor does not enjoy an exemption. The dealer should be charging sales tax.

Senator Bilyeu asked if a contractor builds a building outside the state and the supplies are purchased in Idaho, would those supplies be exempt.

Mr. Cohen said that the contractor could seek an exemption.

Senator Corder requested a definition of mining. **Mr. Cohen** responded that mining is any natural element removed from the earth such as gravel, coal, or copper. **Mr. John** further explained that exemptions for mining operations had to be divided between the manufacturing segments and the transportation segments. For instance, equipment used to extract the element would be exempt but the truck hauling the element to the purchaser would be considered transportation and would not be exempt. The technicalities of this exemption make it a complex issue.

Senator McKenzie asked if a church purchased food for a church sponsored picnic, was it exempt. **Mr. Cohen** said that if the food was purchased then, prepared and sold on the church premises, the church would fill out an exemption certificate and would not pay sales tax. However, if food was purchased for a picnic off the church premises, those

purchases would not be exempt. (Mr. Cohen later sent a letter of explanation regarding this point, a copy of which is attached.)

Chairman Hill asked, if a car were purchased from a car lot on a reservation, would use tax have to be paid. **Mr. John** stated that there would not be use tax on a purchase from an enterprise on a reservation.

Mr. Cohen completed his explanation of all of the various types of exemptions. **Chairman Hill** asked how many sales tax exemptions exist. **Mr. Cohen** replied that there were roughly 80.

Chairman Hill said that he appreciated all the work that went into the presentation and asked if there were any more questions.

ADJOURNMENT: There being no further business before the committee, the meeting adjourned at 4:40 p.m.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

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MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: February 1, 2007

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Hill, Vice Chairman Corder, Senators Stegner, McKenzie, Siddoway, Heinrich, McKague, Langhorst, and Bilyeu

MEMBERS ABSENT/ EXCUSED: All members were present.

GUESTS: The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).

Chairman Hill convened the meeting at 3:03 p.m. on February 1, 2007.

MINUTES:

MOTION: **Senator McKague** moved to accept the minutes for January 23, 2007 as written. **Senator Stegner** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

MOTION: **Senator Heinrich** moved to accept the minutes for January 24, 2007 as corrected. **Senator Siddoway** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

Chairman Hill announced that S 1025 has been pulled at sponsor's request. He then turned the gavel over to **Vice Chairman Corder**.

RS 16780 Relating to Compensation Paid to Public Health District Board Members

Chairman Hill stated the purpose of this legislation is to increase the compensation for Public Health District Board members from \$50 to \$75 per day. He explained that Board members must take time from their regular jobs and duties to attend to the demands of the public on behalf of the districts. In looking at the fiscal impact, this is not really an increase in an appropriation from the state funds. It will come out of the Districts' budgets which comes partially from the general fund. This will have an impact of \$14,000 a year divided equally between the seven Districts. **Senator Stegner** asked if the \$75 option in Section 59-509, Idaho Code, includes the word "shall". **Chairman Hill** responded that there was a specific choice of \$75.

Vice Chairman Corder asked for any further questions.

MOTION: **Senator Stegner** moved to send RS 16780 to print. **Senator Bilyeu** seconded the motion.

Senator Siddoway asked about the \$14,000 that comes from the budget that was passed this year. Will it take effect July 1 of next year? **Chairman Hill** stated that is his understanding. **Senator Siddoway** asked if there is an increase in budget or is there a reduction of another item on the budget. Where does the \$14,000 come from? Chairman Hill deferred to Russ Duke, Director, Central District Health Department. **Mr. Duke** said it would come out of some excess in the existing budget.

VOTE: The motion carried by unanimous voice vote.

Vice Chairman Corder returned the gavel to Chairman Hill, who introduced Dan John and Ted Spangler, both from the Idaho State Tax Commission. They presented the following tax related bills:

H 0008 Relating to Notice of Tax Levies

Mr. John explained that, under current law, notices of levy or restraint can be served in person, left the notice at the dwelling place or usual business location, or sent by U. S. certified mail. This bill removes service by certified mail and adds service by regular mail. These notices are more likely to be picked up when delivered by regular mail and will save about \$25,000.

Senator Langhorst asked if a fourth alternative could be added for regular mail and still leave the certified mail option open. **Mr. John** explained that this change does not preclude the use of certified mail, in fact, there will still be some cases where certified mail will be used.

MOTION: **Senator Corder** moved to send H 0008 to the Senate floor with a do pass recommendation. **Senator Stegner** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

H 0009 Relating to Tax on Tobacco Products

Mr. John said the bill makes three changes to the tax on tobacco products: 1) changes wording from "certificate of authority" to "permit"; 2) allows distributors who ship tobacco products to retailers outside Idaho and receive a tax credit to also ship to distributors outside Idaho and receive that credit. The current law only allows the credit if shipment goes to a retailer; and 3) removes the requirement for an estimated monthly return relating to tobacco tax returns and will require a return for such period as the State Tax Commission may provide by rule.

MOTION: **Senator Heinrich** moved to send H 0009 to the Senate floor with a do pass recommendation. **Senator Stegner** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

H 0022 Relating to Notices to Taxpayers of New Assessments and Changes

Representative Harwood, Idaho House of Representatives, presented H0022. This bill is a "taxpayer friendly" bill. It will change the time allowed a taxpayer to appeal a new property valuation from five to ten working days after the new assessment has been mailed.

Senator Heinrich provided a brief example of an experience in Valley County where the time period to appeal was too short even if a taxpayer had wanted to appeal. The complaints that were heard were not about the change in valuations, but the process itself. There was no time to appeal. In this case, the Tax Commission agreed to grant an extended

time period to alleviate the problem.

Senator Bilyeu asked if the Association of Counties and the Assessors Association had an opportunity to review this legislation.

Representative Harwood responded that "yes, they did".

MOTION: **Senator Langhorst** moved to send H 0022 to the Senate floor with a do pass recommendation. **Senator Heinrich** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

H 0012 Relating to Corporate Franchise Tax

Mr. John outlined the several corrections to this bill.

- 1) Correct references to the Idaho engineering laboratory.
- 2) Remove set amount for The American Red Cross checkoff on Idaho Income Tax Return.
- 3) Clarifies the time for claiming refunds or credits for capital loss carrybacks and net operating loss carrybacks.
- 4) Corrects several references to sections of the code that are no longer valid.

Chairman Hill asked if the United States Olympic Account had dropped off the income tax return because of lack of activity. **Mr. John** said it was still in statute but it is off the tax return. **Chairman Hill** questioned why it was still in the statute. Would that be a clean-up that could be done? **Mr. John** answered that a clean-up could be done and that there were several others that could be eliminated. This is an area they will address.

MOTION: **Senator Langhorst** moved to send H 0012 to the floor with a do pass recommendation. **Senator Corder** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

H 0013 Relating to Depreciation

Mr. John explained that this bill clarifies provisions for bonus depreciation in computing Idaho taxable income. **Senator McKague** asked how would the emergency clause within this bill affect the people of Idaho Falls. **Mr. John** answered that the emergency clause is effective retroactive to the first of the year. **Senator McKague** asked if the taxes have already been sent in, will you fix it? **Mr. John** replied that they would. **Chairman Hill** asked which years would be affected. **Mr. John** said it would be effective for year 2007 and subsequent years.

MOTION: **Senator Siddoway** moved to send H 0013 to the Senate floor with a do pass recommendation. **Senator Corder** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

H 0015 Relating to Definition of Non-Resident Individuals

Mr. Spangler presented H 0015 explaining that the object of the bill is to amend language in Idaho Code § 63-3026A (3) (c) which was passed in 2005. Experience has shown the language in this bill was overly broad and had some unintended consequences. While the 2005 statute accomplished the purpose of exempting the investment income earned by out-of-state investors, it also unintentionally exempts income clearly earned in Idaho.

This bill rewrites the 2005 statute to clearly exempt only partnerships earning income from investments which, if made directly by a non-resident, would not be taxable. **Chairman Hill** asked Mr. Spangler to define exempt status. **Mr. Spangler** said that exempt status is an investment partnership that doesn't require the non-resident partner to file an Idaho tax return and report that income as an Idaho source of income. **Chairman Hill** wanted to know if Ken McClure had been contacted since he supported the language in the 2005 bill. **Mr. Spangler** said that Mr. McClure had been contacted and he had no objections to the changes.

MOTION: **Senator Stegner** moved to send H 0015 to the Senate floor with a do pass recommendation. **Senator Corder** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

H 0016 Relating to the Updating of the Internal Revenue Code
Mr. John stated that H 0016 is the annual bill to update Idaho income tax law to conform to the Internal Revenue Code changes made after January 1, 2006. **Mr. John** said that there would be a negative \$250,000 to the general fund.

MOTION: **Senator Corder** moved to send H 0016 to the Senate floor with a do pass recommendation. **Senator Langhorst** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

H 0017 Relating to Tax on S Corporations
Mr. Spangler opened the discussion by saying that H 0017 goes back to correct a *possible* flaw that was introduced into the income tax act back in 1987 when Idaho tax law conformed to the Federal Tax Reform Act of 1986. The purpose of this bill is to remove any ambiguity about the inclusion of net recognized built-in gain and excess net passive income of S corporations. Because the bill merely states the long-standing policy of the state, it has no fiscal impact.

Senator McKenzie clarified that there had not been a challenge to current practice by a taxpayer. **Mr. Spangler** confirmed that there was no challenge. It came up in some internal discussions within the Tax Commission.

MOTION: **Senator McKenzie** moved to send H 0017 to the Senate floor with a do pass recommendation. **Senator Stegner** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

Chairman Hill thanked both Mr. John and Mr. Spangler. Sponsors for the following bills are:

H 0008	Senator Langhorst
H 0009	Senator Corder
H 0012	Senator Langhorst
H 0013	Senator Siddoway
H 0015	Senator Stegner
H 0016	Senator McKague
H 0017	Senator McKenzie
H 0022	Senator Heinrich

ADJOURNMENT: There being no further business before the committee, the meeting adjourned at 4:50 p.m.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

NOTE: Any sign-in sheet, guest list, testimony, booklets, charts, or graphs will be retained in the Committee Secretary's office until the end of the session. After that time the material will be on file in the Legislative Services Library (Basement E).

MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: February 6, 2007

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Hill, Vice Chairman Corder, Senators Stegner, McKenzie, Siddoway, Heinrich, McKague, Langhorst, and Bilyeu

MEMBERS ABSENT/ EXCUSED: All members were present.

GUESTS: The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).

Chairman Hill convened the meeting at 3:05 p. m. and introduced Larry W. Callicutt, Director, Idaho Department of Juvenile Corrections.

Mr. Callicutt reported that the Idaho Department of Juvenile Corrections (IDJC) has been in existence since the Juvenile Corrections Act of 1995. This act was created to develop partnerships between state and county governments to promote a restorative justice system for juveniles.

The state is divided into three regions. There are seven districts within those regions. Twelve detention centers and forty-four probation departments are spread throughout the state. The majority of juvenile services are provided on the county level. Trends have shown that juvenile arrests in the population ages 10-17 has decreased 32.2% from 1996 to 2004; substance abuse and mental health issues are the biggest cause of arrests; and, the younger population (ages 10 and under) have increased 70%. There has also been an increase in females as a percent of juvenile arrests.

The three top "gaps" in services that have been identified are: mental health and substance abuse services, transition and reintegration services, and female offender services.

Mr. Callicutt said the IDJC and their partners will be implementing consistent research-based substance abuse curriculum at all three state facilities. A 24-bed mental health unit is in the process of being developed at the Nampa juvenile corrections facility with a completion date of 2008. Religious opportunities and services within the three correctional centers are being delivered with objectives to identify needs and provide access as requested. IDJC is working in partnership with community treatment teams, and coordinating faith-based opportunities and resources for juveniles at re-entry. IDJC is also reviewing and updating rules, adopting levels of care and custody guidelines, certifying

probation and detention officers, and continuing to provide funding for training and technical assistance.

The IDJC and their partners have provided a continuum of care that focuses on prevention, intervention, rehabilitation and community transition.

Senator Corder asked who keeps all the groups focused in one direction. **Mr. Callicut** answered that each entity has a place all along the continuum and some are involved at each level. Each entity has a very defined mission as part of the whole process. **Chairman Hill** asked if IDJC coordinates these various agencies, and, what it's role would be. **Mr. Callicut** said that the IDJC is the larger body, there is a custody board that reviews cases of juveniles in custody and determines who is involved.

Senator McKenzie asked how the IDJC relates to the state hospital in relation to the growing mental health problems. Are they transferred out to another facility? **Mr. Callicut** responded that when a juvenile needs that level of care, they are transferred to an appropriate program or facility.

Senator Siddoway asked for an explanation of the arrest process when a small community would not have proper lock-up facilities. **Mr. Callicut** said that initially, the arresting officer has discretionary options. The officer can comment on the actions of the juvenile and send him on his way; the officer could turn the juvenile over to an adult and the adult would sign a document and bring the juvenile to court; the officer could write a ticket and turn the juvenile over to the adult, or the officer could take the juvenile to detention.

Senator Siddoway wanted to know what happens when the officer suspects substance abuse, does the officer make the call about testing? Does he have to call an attorney? What are the juvenile's rights? **Mr. Callicut** answered that all of those questions would depend on the detention center and what the intake process includes. Testing depends on the facility.

Senator Bilyeu inquired about specific mental health issues the IDJC sees, such as bi-polar disorders and the use of prescription antidepressants. **Mr. Callicut** said that the most prevalent is depression and he does not see a lot of bi-polar disorders.

Chairman Hill asked what happens to the larger number of juveniles on probation who are not in a facility. What kind of access to treatment do they have? **Mr. Callicut** answered that probation is a county function and it depends on the size of the county. **Chairman Hill** commented on the attitudes of past inmates of the Youth Service Center at St. Anthony. Those people have appreciated the program, they think that the facility is wonderful, and they like and respect the staff. The program has changed their life. **Chairman Hill** commended Mr. Callicut on that facility. If those activities are going on throughout the state, there are some real good things happening.

Chairman Hill thanked Mr. Callicut and introduced Alan Dornfest, Idaho State Tax Commission, who presented a report on property taxes.

Mr. Dornfest opened his discussion with the general basics of the property tax system and structure in Idaho and also some of the specifics in terms of more recent changes in the area of property tax.

Mr. Dornfest talked about how property is assessed and the valuation process; what types of property there are as far as taxation is concerned; who pays property taxes; who spends the tax dollars; where the money goes; how the tax is determined; and what relief mechanisms are available.

In general, property tax is a tax on the current value of most real and business personal property. There is \$107.0 billion in taxable value for 2006 in Idaho. Personal property taxes amounted to \$115.1 million, statewide. This is not evenly distributed. Some counties have more taxable personal property than others. **Chairman Hill** asked if agriculture was included in the \$115.1 million. **Mr. Dornfest** said it was not, agriculture equipment was exempted in 2001. However, the counties are still receiving tax dollars from the general fund. **Chairman Hill** said the question is determining whether something is real or personal property and why do we care. Isn't the rate the same? **Mr. Dornfest** answered that usually the rate is the same. There are a few exceptions.

In terms of valuation in Idaho, the general requirement is current market value annually updated January 1 of each year with the common definition in the real estate market of what market value is. The rules require appraisal methods to be used recognized by the professional appraisal community. All property is taxable unless exemptions have been granted by the legislature.

The Tax Commission has oversight duties and provides technical assistance to county assessors and personnel. **Senator Corder** asked if counties were having trouble keeping up with the software. **Mr. Dornfest** responded that the information he was getting was not problems of lack of software but that there have been changes in recent years and there has been some frustration with conversions interfacing with software. The problem is more in the line of communications.

Mr. Dornfest proceeded to cover the area of real property tax. The first inclination is to think of primary residences. However, primary residences pay about 40% of real property taxes. On the spending side, there is a myth that schools received all real property tax dollars. In actuality, before Maintenance & Operations (M&O) was removed, schools received 43% of the real property tax dollars and without M&O, they receive about 30%. When existing property values increase, government does not get more revenue. The burden shifts, someone else will pay lower taxes. **Chairman Hill** confirmed that someone in a district would pay increased taxes, but, someone else in the district would pay less. The tax revenue would remain the same.

Senator Corder called attention to the fact that, even though there had been conversations about the volatility of sales tax, the information he saw today did not reflect that volatility. **Mr. Dornfest** stated that in his experience, income tax was more volatile than sales tax. The amount of property tax paid when compared to each \$1,000.00 in personal income tax, remains level over the years. When Idaho is compared to the U. S. for per capita property taxes, Idaho is always lower.

Senator Siddoway asked how mining values could go up by 102.4% and yet property taxes show a -7.8%. **Mr. Dornfest** explained that all of the value increase occurred in Custer County because of the molybdenum mine. Taxes across the state went down, so the rest of the state could not take advantage of the increase in Custer County. There are many categories of property that are taxed but the formula for all of them is the same. General property tax budgets of taxing districts are limited to a 3% annual increase. **Senator Heinrich** wanted to know if any of the counties had reached their levy limits? **Mr. Dornfest** stated that the southeastern counties may be close to the limits.

Chairman Hill raised a question about how urban renewal areas get tax monies. Do the urban renewal districts have to be voted on by the people? **Mr. Dornfest** answered that there is no voting. Cities, and sometimes counties, initiate agencies through ordinances. The city appoints the agency and then the agency operates the district. The tax rates are related to the underlying taxing district. Properties within these areas still pay taxes at the prevailing rate, but money is not passed on to local taxing districts.

Senator Langhorst asked if the use of the word "increment" means that all of the tax does not go to urban renewal. **Mr. Dornfest** stated that only that portion of the tax above the base goes to urban renewal. **Senator Langhorst** wanted to know how long will this continue. **Mr. Dornfest** said it could go up to 24 years, that is the time limit.

Senator Bilyeu asked for an explanation about what happens when the property that has the base value is partially torn down and rebuilt under an urban renewal district. **Mr. Dornfest** said that the base could be adjusted downwards. **Senator Bilyeu** stated that she disagreed with this practice. The base should remain at the higher level so the taxing district maintains that value.

Chairman Hill asked what responsibilities the urban renewal district had when it took over from other entities or municipalities. **Mr. Dornfest** responded that it is covered in §50, Idaho Code, and they have broad powers but he could not elaborate on them.

Senator Heinrich stated that part of the displeasure in his area is that tax dollars are being spent without oversight by elected officials. The board is appointed by the city and they are not elected.

Mr. Dornfest summarized his remarks by stating that if one property tax goes down, someone else pays their tax. It is a tax shift. The whole system gets complicated by exemptions. Non-funded exemptions shift taxes. Funded exemptions shift responsibility to the state.

Senator Heinrich asked about the status of the process to reestablish timber values. **Mr. Dornfest** reported that there is now a committee that looks at this issue on an annual basis. There has been some new legislation that was agreed to by the counties, legislature and the timber industry. The process is flowing smoothly.

Chairman Hill thanked Mr. Dornfest for appearing before the committee.

ADJOURNMENT: There being no further business, the meeting adjourned at 4:50 p.m.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

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MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: February 7, 2007

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Hill, Vice Chairman Corder, Senators Stegner, McKenzie, Siddoway, Heinrich, McKague, Langhorst, and Bilyeu

MEMBERS ABSENT/ EXCUSED: All members were present.

GUESTS: The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).

Chairman Hill convened the meeting at 3:00 p.m. on Wednesday, February 7, 2007.

MINUTES: January 30, 2007

MOTION: **Senator Corder** moved to accept the minutes for January 30, 2007 as written. **Senator Heinrich** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

Chairman Hill welcomed Lyle R. Cobbs who is being confirmed for reappointment to the Idaho Board of Tax Appeals and introduced Susan Renfro and David Kinghorn, both Directors on the Idaho Board of Tax Appeals.

Mr. Cobbs gave a synopsis of his qualifications to serve on the Board of Tax Appeals. He served a total of seven terms in the Idaho Legislature; three in the House and four in the Senate. Mr. Cobbs has been a Director on the Board of Tax Appeals since 1997 and served as Chairman for the past eight years. He also has a business and real estate background.

Mr. Cobbs explained that the Board's caseload has increased from 200 appeals annually to 1,100 this year. Last year Bonner County alone sent in 600 appeals all at one time. **Senator Corder** was curious about how the Board was handling the increased caseload. **Mr. Cobbs** said they have been unable to meet the May 1 deadline because of lack of money or staff to handle the increased number of appeals. **Senator Langhorst** asked about the recent vacancy. **Mr. Cobbs** replied that the Governor will be making another appointment and then they will have a full Board.

Senator Bilyeu commented about her positive experience with the Tax Appeals Board as a former county assessor.

Chairman Hill asked Mr. Cobbs how he kept his enthusiasm. **Mr. Cobbs** said it is nice to be on a board. There is the opportunity to listen to the taxpayers' problems and help them and the counties resolve issues. It is a good position to be in.

Chairman Hill thanked Mr. Cobbs for his years of service. The appointment will come before the committee for vote on February 8, 2007.

RS 16853C1

Relating to Disclosure on Real Estate Transactions

Senator Keough explained that the purpose of this legislation is to put into place in Idaho a real estate sales price disclosure framework. Idaho's property tax system is based on "market value". However, there is very limited ability to obtain actual sales price data. New property owners can voluntarily disclose a sales price but they are not required to do so. The result of this bill would protect disclosure of the sales price to anyone but the county assessor. It would also state that the data could not be used for the assessment or collection of either a transfer tax or an excise tax.

Senator Corder said the interim property tax committee had some discussion about this issue. What was the outcome of that discussion?

Senator Keough said that the proposal did not move forward out of that committee. **Senator McKenzie** asked if the sale price information would be available under a freedom of information request or a subpoena.

Senator Keough responded that she did not know the answer to that question but she would research it. **Senator Heinrich** stated that it would not be available under the freedom of information statute.

Representative Wendy Jaquet gave an example of how data is collected in Blaine County—they get the information from newspaper advertisements. She explained that information is limited, there are few voluntary disclosures, and the information regarding high end sales is virtually non-existent.

Senator Bilyeu said that this type of legislation is long overdue and she is glad that Senator Keough has brought it forward. In her county, they did have access to MLS information but higher end homes were being excluded. This process will be a more fair way to assess property.

MOTION: **Senator Heinrich** moved to send RS 16853C1 to print. **Senator Stegner** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

ADJOURNMENT: There being no further business before the committee, the meeting adjourned at 3:22 p.m.

Senator Brent Hill, Chairman

Twyla Melton, Secretary

NOTE: Any sign-in sheet, guest list, testimony, booklets, charts, or graphs will be retained in the Committee Secretary's office until the end of the session. After that time the material will be on file in the Legislative Services Library (Basement E).

MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

- DATE:** February 8, 2007
- TIME:** 3:00 p.m.
- PLACE:** Room 426
- MEMBERS PRESENT:** Chairman Hill, Vice Chairman Corder, Senators McKenzie, Siddoway, Heinrich, McKague, Langhorst, and Bilyeu
- MEMBERS ABSENT/ EXCUSED:** Senator Stegner
- GUESTS:** The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).
- CONVENED:** **Chairman Hill** convened the meeting at 3:00 p.m. on Thursday, February 8, 2007.
- MINUTES:** **Senator McKague** moved to accept the January 31, 2007 minutes as written. **Senator Corder** seconded the motion.
- VOTE:** The motion carried by unanimous voice vote.
- Chairman Hill** asked for a motion on the Gubernatorial Appointment of Lyle R. Cobbs to the Idaho Board of Tax Appeals.
- MOTION:** **Senator Bilyeu** moved to send the resolution for the appointment of Lyle R. Cobbs to the Idaho Board of Tax Appeals to the Senate floor with a do pass recommendation. **Senator Heinrich** seconded the motion.
- VOTE:** The motion carried by unanimous voice vote.
- Chairman Hill** introduced Keith Allred, President, The Common Interest.
- Mr. Allred** described The Common Interest as a non-partisan, non-profit organization of over 1,000 citizens from every corner of Idaho and from across the political spectrum. The aim of the organization is to put practical solutions ahead of special interest and partisan politics. The organization has developed a system to identify important issues and present them to members of the legislature.
- The three issues identified as most important in 2007, both in the short and long term, are 1) Election Reform; 2) K-12 Education; and 3) Healthcare. As issues of major concern, The Common Interest will closely watch developments in these areas and may take a more proactive approach in looking at policy options.
- Mr. Allred** stated that they have a website that describes the issues as

candidly as possible. They do not take a stand for or against an issue, only make the information available to any interested person.

Chairman Hill thanked Mr. Allred for appearing before the committee and appreciates input from his organization as well as all citizens and taxpayers within the state.

Chairman Hill introduced Jeremy Pisca, an attorney representing the Idaho Allied Daily Newspaper Association.

RS 16770C1

Relating to Rates Charged to Public Agencies for Official Notices

Mr. Pisca stated that he represented daily newspapers that are circulated within the state of Idaho. He also introduced Bob Hall, Legal Adviser, Idaho Newspaper Association. Together, they are bringing this bill to the committee.

This is the public notice publication rate bill. Anytime an entity is required by Idaho law to publish a notice in the newspaper, the rate is set by law. The last change in the rate was in 2001. This bill adds one cent to the current rate and will be implemented over the period of two years, one-half cent each year. The Idaho Association of Cities and the Idaho Association of Counties have been consulted and they do not object to the increase.

Senator Heinrich asked for clarification that nothing will change except the rate. **Mr. Pisca** confirmed there would be no other change.

MOTION:

Senator Heinrich moved to send RS 16770C1 to print. **Senator Siddoway** seconded the motion

Senator Bilyeu asked what compromise had been reached between the counties, cities and newspapers. **Mr. Pisca** said that there are various requirements throughout Idaho code that require counties and cities to publish notices. Another piece of legislation will be presented regarding the quarterly auditor's report. If this legislation passes, that report will be printed annually which will result in a savings. With this in mind, agreement was reached between the counties, cities, and newspapers on the increased rate.

Senator Siddoway wanted to know how that negotiation took place. How many newspapers were involved? Do the executive directors of the associations for counties and cities get together for discussion? Do you have to go to individual newspapers and come up with an agreement?

Mr. Pisca responded that he represented the Allied Daily Newspaper Association. He said that all those concerned had negotiated this issue and come to an agreement.

Chairman Hill announced that, in interest of full disclosure, this is a bill he will be sponsoring if it goes to the floor. He has been involved in doing the analysis and in some of the negotiations with the interested parties.

Senator Siddoway asked if every newspaper in the state voted on whether or not to accept the one cent increase or just the association members. Chairman Hill referred this question to Mr. Pisca. **Mr. Pisca**

said every newspaper in his association got the opportunity to express concerns.

Chairman Hill asked if that included all newspapers in the state. **Mr. Pisca** answered that it includes all daily newspapers with circulation in Idaho.

VOTE: The motion carried by unanimous voice vote.

Chairman Hill thanked Mr. Pisca and Mr. Hall and introduced Stewart Davis from the Idaho Association of Highway Districts.

RS 16935 Relating to Ordinary and Necessary Expenses of Governmental Entities
Mr. Davis explained that this legislation clarifies that a lease and/or an agreement for purchase of personal property by a governmental entity is an ordinary and necessary expenditure as stated in Section 3, Article VIII of the Idaho Constitution.

Senator Heinrich asked if this legislation would alleviate the lending institutions' fear of this type of an agreement. **Mr. Davis** said the issues have been discussed and this bill does not meet all their criteria, but it is a start.

Senator Heinrich commented that this bill might ease legal council's opinion on this issue in local jurisdictions.

MOTION: **Senator Langhorst** moved to send RS 16935 to print. **Senator Bilyeu** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

RS 16873 **Chairman Hill** explained that Senator Goedde was out of town and could not present this bill. Chairman Hill did not take a stand for or against the bill but was asking the committee to extend the courtesy of having the bill printed.

Relating to an Interim Committee to Study Property Tax Exemptions
This resolution calls for establishing an interim committee to review existing property tax exemptions, consider how they are currently being used, and, make recommendations and report its findings to the Second Regular Session of the Fifty-ninth Idaho Legislature.

MOTION: **Senator Heinrich** moved to send RS 16873 to print. **Senator Bilyeu** seconded the motion. **Chairman Hill** asked for questions.

Senator Langhorst commented that there were concerns about tax exemptions and he would ask the chairman and committee members to consider other resolutions or ideas for attacking all exemptions and looking at the entire tax system and see what can be done. He looks forward to the discussion.

VOTE: The motion carried by unanimous voice vote.

RS 16963 **Senator Heinrich** presented this legislation which will repeal Section 31-

2306, Idaho Code, removing the requirement for quarterly publication of a summary of the joint financial statements by county auditors and treasurers. Instead, an annual summary would be published. An annual summary provides a more accurate picture of the financial status of the county.

Senator Siddoway asked for the rationale behind the mandate to have quarterly reports. Why were quarterly reports necessary? **Senator Heinrich** stated the quarterly reports were initiated in a time when the ledgers were hand entered. Computers have changed the need. Most requests are for annual reports.

Senator Bilyeu asked how much money will be saved. **Senator Heinrich** said he thought it would cut that budget item by 60% because the annual publication will be a little more than one quarterly summary would be. **Senator Bilyeu** asked if there is a budget savings because of the reduction in the number of publications and if the printing rates were increased by one cent, would there still be a savings. **Senator Heinrich** responded, yes there would be.

Chairman Hill commented that the newspapers are already subsidizing the public notices. They are charging between 19 and 43 percent of their standard rate before the increase. They are, to some degree, performing a public service.

MOTION: **Senator Corder** moved to send RS 16963 to print. **Senator Siddoway** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

Chairman Hill announced that the meeting on Wednesday will be held in the Gold Room. There will be public testimony on the bill concerning Confined Animal Feeding Operations (CAFOs).

ADJOURNMENT: There being no further business before the committee, the meeting adjourned at 3:40 p.m.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

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MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: February 13, 2007

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Hill, Vice Chairman Corder, Senators Stegner, McKenzie, Siddoway, Heinrich, McKague, Langhorst, and Bilyeu

MEMBERS ABSENT/ EXCUSED: All members were present.

GUESTS: The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).

CONVENED: **Chairman Hill** convened the meeting at 3:00 p.m. on Tuesday, February 13, 2007

MINUTES: **Senator Siddoway** moved to accept February 1, 2007 minutes as written. **Senator Heinrich** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

H 0071 Relating to Technical Corrections to the Sales Tax Act
Ted Spangler, Idaho State Tax Commission, explained that this bill provides technical corrections to Idaho statute. Section 63-3620C strikes a requirement that retailers participating in “promoter sponsored events” must provide their social security numbers to the event sponsor, and Section 63-3622R clarifies the exemption for glider kit vehicles.

Senator McKenzie asked about the language that was added “when the glider kit will be used to assemble a glider kit vehiclewhen the glider kit will be used to assemble a glider kit vehicle.” Should that second part of the language be stricken? **Mr. Spangler** explained that the language was to clarify that the glider kit will be used to make a glider kit vehicle. A glider kit vehicle will also have to be registered under the international registration plan required for any vehicle used in interstate commerce.

Senator Stegner asked if this bill violated the constitutionality of a single subject rule. Is the common denominator sales tax? **Mr. Spangler** responded that the common denominators are sales tax and technical corrections.

Senator Langhorst asked if the exemption for glider kits has been applied for this year. **Mr. Spangler** did not know the answer to that question. The use of the exemption occurs infrequently.

Mr. Spangler proceeded with Section 63-3622JJ which removes research as an exclusion from the logging exemption. This change will bring the section into agreement with the research and development section.

Chairman Hill referred back to the glider subsection and asked Mr. Spangler to explain to the committee exactly what it means. **Mr. Spangler** read the complete Section D of 63-3622R. **Chairman Hill** requested that the bill be held to allow Mr. Spangler to review the section and come back on Thursday, February 15. **Mr. Spangler** agreed.

H 0069

Relating to Property Tax Exemptions for Charitable Organizations

Bob Aldridge, attorney, explained that this bill was developed by a coalition of Idaho Association of Counties, assessors, and other parties to resolve problems in the language relating to religious and charitable organizations in Section 63-602B, Idaho Code. This bill provides for consistency for all types of charitable properties. It simplifies the tests to be applied for exemptions, making it easier for both the applicant and the county to determine whether property is exempt. It also allows proration of the property tax when there is a partial, non-exempt usage for property belonging to religious organizations as it does for all other charitable entities.

Senator Stegner asked if the new language for Section 63-602B is the same as the language in 63-602C. **Mr. Aldridge** said that it was.

Senator Stegner asked to address the language as it relates to fees. If fees were charged for a particular activity of property, would they be exempt? **Mr. Aldridge** answered that if it was for religious purposes, it would be exempt. If it was rented out to the general public, it would be taxed.

This is not expanding the exemption in any way, it is current practice for the way the assessors offices processes these now.

Senator Corder asked how all of this activity was tracked. Who makes these determinations? **Mr. Aldridge** stated that the very first time this type of property is used, there is a very detailed application submitted. Thereafter, applications must be made annually outlining any changes that have occurred. The annual applications will also update information to show compliance.

MOTION:

Senator McKenzie moved to send H 0069 to the Senate floor with a do pass recommendation. **Senator Siddoway** seconded the motion.

VOTE:

The motion carried by unanimous voice vote.

Chairman Hill introduced Kris Ellis who is representing the Idaho Land Title Association.

H 0070

Relating to Procedures for Property Tax Exemption

Ms. Ellis stated that this legislation enables a county assessor to determine if a homeowner's exemption was granted in error. It enables the Board of Commissioners to waive certain costs to facilitate the collection of property taxes, and it protects a bona fide purchaser from a lien for delinquent taxes when the lien was not filed prior to the sale.

Senator Bilyeu questioned whether the county treasurers should be the ones to attach liens instead of the county assessors since it is a process to collect taxes. **Ms. Ellis** deferred the question to Tony Poinelli, Idaho Association of Counties. **Mr. Poinelli** explained that the county assessor originally filed the intent to lean so the rescission process was also left with the county assessor.

MOTION: **Senator Heinrich** moved to send H 0070 to the Senate floor with a do pass recommendation. **Senator Bilyeu** seconded the motion.

VOTE: The motion carried with a unanimous voice vote.

Chairman Hill introduced Dan John, Idaho State Tax Commission.

H 0014 Relating to the Definition of Biodiesel

Mr. John stated that H 0014 deals with motor fuels tax related to biodiesel. It also clarifies the definition of biodiesel and biodiesel blends. **Mr. John** said that biodiesel is treated like any other fuel, whoever pays the tax will be the one who will get the deduction allowed for biodiesel usage. There is no deduction for those entities that are exempt from paying fuels tax.

Senator Siddoway asked if the percentage of the blend affected the deduction. **Mr. John** said that up to a 10% blend qualifies for the deduction.

MOTION: **Senator Corder** moved to send H 0014 to the Senate floor with a do pass recommendation. **Senator Stegner** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

H 0079 Relating to the New Construction Rule for Real Estate

Senator Hammond, District 5, Idaho State Senate, presented H 0079 to the Committee. **Senator Hammond** explained that this bill relates to issues that have arisen over the past two years regarding urban renewal districts and how the related tax distribution applied when the 3% budget cap rule went into effect. The urban renewal law was intended to be tax neutral to the taxpayers. But with the advent of the 3% budget cap rule, taxpayers were paying more taxes in areas surrounding the urban renewal district.

This bill says that when an urban renewal district is opened, all the affected taxing districts agree to forego the additional revenue created within that district until the improvements within that district are paid for. When the district is closed, the tax revenues generated by those improvements will go to the various taxing districts.

Chairman Hill asked if all the affected taxing districts have to agree to the creation of the urban renewal district. **Senator Hammond** answered that the city has the power to create an urban renewal district. The cities generally have discussions with the various affected agencies before they proceed to establish an urban renewal district. Criticism is not generally with the creation of the district but the length of time the district is open which can be up to 24 years. At this time there is no incentive to close it before the time is maxed out. This legislation will provide

incentives to close the district as soon as possible.

Chairman Hill restated his question regarding whether the city can go in and authorize an urban renewal district without the authorization of any other taxing districts. **Senator Hammond** answered that the city could do that.

Chairman Hill asked if Representative Bedke, District 27, Idaho House of Representatives, had any comments. **Representative Bedke** said that this bill forces the urban renewal districts to conduct business in a manner that was originally intended and not have the unintended consequences to other tax districts.

Senator Corder asked for further explanation about the end time for the district. How can the district pay off the improvements faster and can the district be terminated earlier than the date in the original plan? **Senator Hammond** gave an example of what happened when an urban renewal district in Post Falls closed the district in seven years, a much shorter period of time than anticipated. **Senator Corder** asked how all entities involved would be forced to cooperate. **Senator Hammond** spoke specifically to the urban renewal district in Burley and the unique situation where city council members also sat on the urban renewal district board and encouraged cooperation.

Senator Heinrich asked if it would be possible to keep extending the time period the urban renewal district could continue. **Senator Hammond** stated that the time period could not be extended.

Senator Bilyeu pursued the question of when new construction would be on the rolls. Would new construction be on the rolls for all taxing entities the first year after which time it would then go to the urban renewal district until the district closed? **Mr. Bob McQuade**, Ada County Assessor, stated that the only time the urban renewal district does not get all the tax revenue for new construction is during the first year. **Senator Hammond** said that when the life of the urban renewal district has closed, then those tax revenues would go to the taxing districts.

Commissioner Fred Tilman, Ada County Commissioner and Chairman, Idaho Association of Counties Legislative Committee is speaking for the Idaho Association of Counties. The committee has reviewed this legislation but would like to have more time to do an in depth study to understand the implications statewide. Their position is that there should not be a piece meal approach to all the issues in regard to urban renewal, there should be a study done addressing all the issues and questions that have come up including those in this testimony. They would like to see the effect on every taxing district and come up with solutions to address those issues. They are asking that this bill be held in committee.

Chairman Hill asked what some of the other problems were that Commissioner Tilman alluded to. **Commissioner Tilman** responded that there was the issue of approval, amending the original agreement and adding time, and other affected taxing districts having a voice in the approval process. **Chairman Hill** asked if urban renewal districts are going beyond their original intention. Also, if this legislation passed,

would the legislative committee have an interest in working on some of these other issues? **Commissioner Tilman** answered in the affirmative to both questions.

Senator Stegner asked if the Association of Counties could initiate legislation to have oversight for the urban renewal district.

Commissioner Tilman said that they certainly could do that, but they would rather put all issues in one package. **Senator Stegner** asked what additional services are being added to the districts that are so costly they deserve additional funding. **Commissioner Tilman** stated that nearly every service that counties provide are provided to everyone in the county, even those within the urban renewal district. All of these services are impacted because of increased service requirements due to the higher density in the area.

Senator Langhorst asked if it could be an option to have additional funding to a specific taxing district only if that district was being adversely impacted by the urban renewal district. **Senator Hammond** said you could work that option into a new proposal. Most urban renewal districts are under the old system. The taxing districts did not ever presume to include new construction in their calculation of levy rates. **Chairman Hill** clarified that "under the old system" meant prior to the 3% budget cap. **Senator Hammond** concurred.

Ken Harward, Association of Idaho Cities, spoke in support of H 0079. He said the intent of this bill is to be neutral to taxpayers and tax entities over time. This would establish a rule for reporting. Even though it is under the 3% cap, there still must be a method to know what portion of the value is new construction.

Senator Langhorst asked what the value of the increment would be to the taxing district when the urban renewal district dissolves. **Senator Hammond** answered that the assessor would assess the project. The taxing district would get 3% plus the new construction. **Mr. John** was asked to comment. He said it is important to note that the base value will be the value that first year then the budget increases at 3% plus new construction. Value starts at the base. The finance entity still gets the tax from the new construction until it is paid off.

Senator McKenzie stated that without this change, budgets would go up in the taxing districts but the revenue from new construction goes to pay off financing and so all the other taxpayers are paying more because the budgets are going up. **Mr. John** confirmed this statement.

Mr. Poinelli commented on the value of the discussions regarding urban renewal that has been carried on during this committee meeting. Entities already in existence should not be impacted. The more recent districts can have a 24 year life, that is a long time. There is also a grandfather provision in the statute and the districts could always expand the time limit. There are some restrictions but there definitely needs to be some additional guidelines.

Senator Hammond closed with the statement that urban renewal was always intended to be revenue and tax neutral.

MOTION: **Senator Stegner** moved to send H 0079 to the Senate floor with a do pass recommendation. **Senator Corder** seconded the motion.

VOTE: **Senator Bilyeu** requested a roll call vote.
6 For and 2 Against – See attachment A

ADJOURNMENT: There being no further business, the meeting adjourned at 4:45 p.m.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

NOTE: Any sign-in sheet, guest list, testimony, booklets, charts, or graphs will be retained in the Committee Secretary's office until the end of the session. After that time the material will be on file in the Legislative Services Library (Basement E).

**LOCAL GOVERNMENT AND TAXATION COMMITTEE
ROLL CALL VOTE**

Attachment A

DATE: 2/13/07 SUBJECT: Relating to the New Construction Rule for Real Estate BILL #: H 0079

ORIGINAL MOTION IS: To send H 0079 to the Senate floor with a do pass recommendation.				SUBSTITUTE MOTION IS:				AMENDED SUBSTITUTE MOTION IS:			
	AYE	NAY	A/E		AYE	NAY	A/E		AYE	NAY	A/E
Sen Tim Corder, Vice Chairman	X			Sen Tim Corder, Vice Chairman				Sen Tim Corder, Vice Chairman			
Sen Joe Stegner	X			Sen Joe Stegner				Sen Joe Stegner			
Sen Curt McKenzie	X			Sen Curt McKenzie				Sen Curt McKenzie			
Sen Jeff Siddoway	X			Sen Jeff Siddoway				Sen Jeff Siddoway			
Sen Lee Heinrich		X		Sen Lee Heinrich				Sen Lee Heinrich			
Sen Shirley McKague	X			Sen Shirley McKague				Sen Shirley McKague			
Sen David Langhorst	X			Sen David Langhorst				Sen David Langhorst			
Sen Diane Bilyeu		X		Sen Diane Bilyeu				Sen Diane Bilyeu			
Sen Brent Hill, Chair				Sen Brent Hill, Chair				Sen Brent Hill, Chair			
TOTALS	6	2		TOTALS				TOTALS			
MOVED	Senator Stegner			MOVED	_____			MOVED	_____		
SECONDED	Senator Corder			SECONDED	_____			SECONDED	_____		

MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: February 14, 2007

TIME: 3:00 p.m.

PLACE: Gold Room

MEMBERS PRESENT: Chairman Hill, Vice Chairman Corder, Senators Stegner, McKenzie, Siddoway, Heinrich, McKague, Langhorst, and Bilyeu

MEMBERS ABSENT/ EXCUSED: All members were present.

GUESTS: The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).

CONVENED: **Chairman Hill** convened the Senate Local Government and Taxation Committee meeting at 3:00 p.m. on February 14, 2007.

Chairman Hill introduced Senator Clint Stennett who will present S 1056 to the committee and guests.

S 1056 Relating to Comments by Affected Persons at Public Hearings Regarding Confined Animal Feeding Operations (CAFOs)
Senator Stennett opened discussion by explaining that this bill will remove the one-mile residency requirement and allow any "affected person" as defined in Section 67-2521, Idaho Code, to testify at a public hearing.

Under current law, any person outside the one mile restriction, or a school, hospital, business, or any public or private entity, would not be able to testify in front of a county commission board regarding a CAFO without permission from the board. A person whose primary residence is within the one mile requirement could testify. The current law is not friendly as far as protecting the constitutional rights of people who appear before elected bodies to speak about their concerns.

This bill is clean up language in the sense that it allows anyone who has a property interest such as second homes, investment property, schools, hospitals, or business of any kind, to have the opportunity to speak in front of a county commission or board on the siting of CAFOs. There is no place in Idaho law that carves out a special exemption for any other siting facility. It is time to do away with this anomaly in Idaho Code and allow anyone who has a property interest to be able to go before an elected body and talk about what interest they may have.

The change outlined here will open the process. It is about fairness. It provides freedom of speech and gets down to basic civil liberties and the

right to appear before elected officials. At the same time the language of this bill takes away the potential of having people testify who live outside the community and do not have any interest in the siting.

Chairman Hill asked Senator Stennett to highlight the differences between the CAFO bill presented in 2005 and this one.

Senator Stennett said the biggest difference is adding the words “affected persons”. The public in general would be excluded from testifying and only people with a property interest could testify.

Senator Corder asked if the wording “affected persons” would expand upon an individual property owner’s right to seek action through the court if they have been wronged. **Senator Stennett** responded that this bill is not intended to expand any authority. **Senator Corder** asked if anyone from the Attorney General’s office had been contacted. **Senator Stennett** said that they had not.

Senator Bilyeu asked Senator Stennett to expand on the objections made to the 2005 bill. Was it the one-mile restriction? **Senator Stennett** answered that the primary objection to changing the law was that the members of the public who had no real interest in a CAFO siting would be able to come and testify. Using “affected persons” to replace the word “public” is a way to find the middle ground.

Chairman Hill thanked Senator Stennett for appearing before the committee. There are a number of people who would like to testify before the committee.

The following people testified in support of S 1056:

Dean Diamond-Neighboring Farmer representing self and neighbors
Rich Carlson-Lawyer representing Idaho Rural Council
Hannah Saona-Lobbyist representing American Civil Liberties Union
Alma Hasse-Executive Director, Idaho Concerned Area Residents for the Environment (I.C.A.R.E.)
Shavone Hasse, representing I.C.A.R.E.
Carl H. Nellis, Retired
Claudine Hanes, Investor
David P. Masters, Planning & Zoning, Gooding County
Kelci Karl-Robinson representing Idaho Association of Counties

The following people testified in opposition of S 1056:

Dennis Tanikuni, Lobbyist, Idaho Farm Bureau Federation
Lloyd Knight, Executive Director, Idaho Cattle Association & President, Food Producers of Idaho

Questions raised by committee members:

Chairman Hill asked Mr. Diamond why the board in Jerome County refused to allow testimony by those outside the one mile radius since the law allows for that testimony. What were the reasons given? **Mr. Diamond** stated that the reason given by the board’s lawyer was that the zoning ordinance stated that only people with their primary residence within one mile could testify. According to the Jerome County ordinance, the boundary line could not be extended.

Senator Heinrich asked Mr. Diamond if the bill passed in its present form, would it cure the problem. **Mr. Diamond** said it would go a long ways to help.

Senator Siddoway indicated that the current law states, “however the distance may be increased by the board”. Mr. Diamond, when you took this law to the board, were they aware that they had the authority to expand that hearing distance? **Mr. Diamond** said that they were aware they could expand the distance but their attorney told them the commissioners before them had made the choice when they wrote the ordinance not to exercise that right, and so now they were bound by their own ordinance.

Chairman Hill asked Mr. Carlson if he was speaking on behalf of the Idaho Rural Council. The answer was yes.

Senator Corder reiterated that this bill would not represent an expansion of any affected party’s ability to get redress to the courts. **Mr. Carlson** responded that it would not. “Affected persons” have, since the beginning of the Land Use Planning Act, been able to challenge land use decisions in court. Only in respect to CAFO hearings, are some of those affected persons, namely adjoining property owners, excluded from testifying by the one mile limit because their primary residence is not within that boundary.

Senator Corder asked the question in a different way. If the law is changed, adjoining property owners would become affected persons in relation to a CAFO. Would they have been affected persons anyway even though they could not testify? Could they have taken the same avenue for redress with or without what we are asked to do here today? **Mr. Carlson** said that they are all affected persons, they just can’t testify because of the one mile restriction. They still could go to court at the end of the process but property owners who have an interest should be allowed to testify.

Senator Langhorst wanted to know if this issue has been tested in court. There is a mechanism for people to petition for a public hearing. **Mr. Carlson** stated that, to his knowledge, Jerome County is the only county that has enforced this limitation. Mr. Carlson has no knowledge of a case where this has been challenged in court.

Senator McKague asked who the board was. Who are they? Are they elected or appointed? **Mr. Carlson** said it varies from county to county. **Senator McKague** asked if the local people could vote these people out. **Mr. Carlson** said that could be a remedy, but in some cases it is too late. **Senator McKague** clarified that the Jerome County Board could allow those outside the one mile restriction and affected persons to testify, they just won’t do it. **Mr. Carlson** agreed but further explained that Jerome is a unique situation. They have looked at the law and said if it is good enough for the legislature it is good enough for them. This has led to serious circumstances. The law needs to be changed.

Senator Corder pursued the fact that all counties except Jerome have interpreted “affected party” as they should have in the beginning

regardless of the narrow line that was drawn in the statute. **Mr. Carlson** confirmed that Jerome strictly followed the law while other counties were willing to listen to what everyone had to say.

Senator Langhorst asked Dennis Tanikuni about his remark that the passage of this bill might remove local control. **Mr. Tanikuni** said he was making the point that the commissioners have, if they choose, broad latitude to ignore the one mile restriction. However, to take away the one mile restriction would take away one tool in their toolbox.

Senator Heinrich asked if two new commissioners in Jerome County were elected this year. **Mr. Tanikuni** said that two were re-elected and one new commissioner was elected, three in total.

Senator Siddoway asked, If the first hearings were held by the Planning and Zoning Board (P & Z), was there an appeal that went to the county commissioners? How does that work in Jerome County on a proposed CAFO? Does it go to P & Z first? **Mr. Tanikuni** stated that P & Z reviews a proposal, makes a recommendation, and sends the proposal to the Jerome Board of County Commissioners to make the final decision. The Jerome P & Z has no latitude to change the ordinance as it is stated without going through public hearings. They have to abide by what the commissioners say.

Chairman Hill asked Lloyd Knight if his interpretation of this legislation is to restrict CAFOs in Idaho. **Mr. Knight** said that there are those who would travel great distances to oppose CAFOs and they would view this as a way to accomplish that purpose. **Chairman Hill** stated that he assumed the members of the Idaho Cattle Association (ICA) would want to know of any concerns of affected persons before they went ahead with such a large investment. **Mr. Knight** assured Chairman Hill that the ICA really tries to be good neighbors. They need to address local concerns about their operations and maintain the best relationships that they can. That is not always possible.

Senator Corder said that he agrees there is too much negative thought and conversation about the livestock industry as a whole. Jerome County seems to be the only county with a problem with the current legislation. **Mr. Knight** responded that all of the ICA members are very apprehensive about the approval process. The discussion is, if the current law says the board of county commissioners has the ability to handle those hearings however it wants to handle it, then that is really where that decision ought to lie, not with the legislature telling them how to run their business.

Senator Stennett concluded with a summary stating that local citizens that are affected by a siting of a CAFO have a right to testify.

MOTION:

Senator Langhorst moved to send S 1056 to the Senate floor with a do pass recommendation. **Senator Bilyeu** seconded the motion.

Senator Langhorst had comments regarding the bill. The passage of this bill is not going to stop CAFOs. More attorneys will give boards this same advice because economic interests can and do have a way of

intimidating a small group of decision makers. Why are CAFOs different? Why is a law carved out for a special interest group? The current law limits the peoples' participation in government. This discussion is about democracy. Why is there a small, special interest exemption; maybe it is about CAFOs and something they do not want discussed. It creates the question. This bill should be passed and let the CAFOs justify themselves to their localities just like every other business in the state of Idaho must do.

Senator Corder stated that dairies and cattle in this state have nothing to apologize for, they are part of what Idaho is all about. This is not the point of this discussion. He questions why he voted against this bill when it came up last time except that he believes local control is paramount. We are being forced to take an action that local officials should be doing for themselves. They would probably make the same decisions, even with more input. Senator Corder supports this bill.

Senator Heinrich said that he thinks this new language is more restrictive than what is currently in place. Anyone in the state of Idaho could have testified. He said shame on Jerome County for not taking the lead to exercise their local control and now have forced this legislature to say "you shall" permit affected persons to testify.

VOTE: **Senator Langhorst** called for a roll call vote. See Attachment A. The motion carried by unanimous vote.

ADJOURNMENT: There being no further business, the meeting was adjourned at 4:40 p.m.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

NOTE: Any sign-in sheet, guest list, testimony, booklets, charts, or graphs will be retained in the Committee Secretary's office until the end of the session. After that time the material will be on file in the Legislative Services Library (Basement E).

**LOCAL GOVERNMENT AND TAXATION COMMITTEE
ROLL CALL VOTE**

Attachment A

DATE: 02/14/07 SUBJECT: Confined Animal Feeding Operations (CAFOs) BILL #: S 1056

ORIGINAL MOTION IS: The motion was made to send S 1056 to the Senate floor with a do pass recommendation.				SUBSTITUTE MOTION IS:				AMENDED SUBSTITUTE MOTION IS:			
	AYE	NAY	A/E		AYE	NAY	A/E		AYE	NAY	A/E
Sen Tim Corder, Vice Chairman	X			Sen Tim Corder, Vice Chairman				Sen Tim Corder, Vice Chairman			
Sen Joe Stegner	X			Sen Joe Stegner				Sen Joe Stegner			
Sen Curt McKenzie	X			Sen Curt McKenzie				Sen Curt McKenzie			
Sen Jeff Siddoway	X			Sen Jeff Siddoway				Sen Jeff Siddoway			
Sen Lee Heinrich	X			Sen Lee Heinrich				Sen Lee Heinrich			
Sen Shirley McKague	X			Sen Shirley McKague				Sen Shirley McKague			
Sen David Langhorst	X			Sen David Langhorst				Sen David Langhorst			
Sen Diane Bilyeu	X			Sen Diane Bilyeu				Sen Diane Bilyeu			
Sen Brent Hill, Chair	X			Sen Brent Hill, Chair				Sen Brent Hill, Chair			
TOTALS		9		TOTALS				TOTALS			
MOVED	Senator Langhorst			MOVED	_____			MOVED	_____		
SECONDED	Senator Bilyeu			SECONDED	_____			SECONDED	_____		

MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: February 15, 2007

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Hill, Vice Chairman Corder, Senators Stegner, McKenzie, Siddoway, Heinrich, McKague, Langhorst, and Bilyeu

MEMBERS ABSENT/ EXCUSED: All members were present.

GUESTS: The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).

CONVENED: **Chairman Hill** convened the meeting at 3:00 p.m. on February 15, 2007. He requested all members to let the secretary know if they wanted the individual committee binders by Monday, February 19, 2007. Each committee member is entitled to their binder if they want it. There will always be a complete set of records in the Legislative Library and in the Chairman's Office.

H 0071 **Mr. Ted Spangler**, Idaho State Tax Commission, brought H 0071 back before the committee. He stated that the language was incorrect and an amendment would need to be made to the bill. **Mr. Spangler** presented the draft language for the amendment which deleted duplicate language related to glider vehicle kits.

MOTION: **Senator Langhorst** moved to send H 0071 to the 14th order for amendment. **Senator Heinrich** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

H 0076 Relating to the Siting of Manufactured Homes when Placed on a Basement Foundation
Chairman Hill welcomed Jack Lyman, Representative for the Idaho Manufactured Housing Association.

Mr. Lyman stated that this bill clarifies that a manufactured home can be placed on a basement foundation higher than twelve inches above grade.

MOTION: **Senator Stegner** moved to send H 0076 to the Senate floor with a do pass recommendation. **Senator Corder** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

S 1120 Relating to Publications by County Auditors
Senator Heinrich explained that the current statute requires county

auditors and treasurers to publish quarterly financial statements. The requirements originated when ledgers were hand written. Now reports are readily available by electronic means at any point in time. In the past, there have not been many requests for quarterly information, most requests were made on an annual basis. Annual reporting actually provides a better picture of the financial status of the counties. This bill will repeal the requirement for quarterly financial statements and only annual statements will be published by county auditors and treasurers.

Chairman Hill asked why these changes were being requested.

Senator Heinrich explained that part of the reason is cutting costs. Also, the information available to the public would be more reflective of the financial condition of the county.

MOTION:

Senator Corder moved to send S 1120 to the Senate floor with a do pass recommendation. **Senator Bilyeu** seconded the motion.

VOTE:

The motion carried by unanimous voice vote.

Chairman Hill announced that he will be giving a report to the Joint Finance and Appropriations Committee (JFAC) about what the Local Government and Taxation Committee is doing. He asked the committee to let him know what they wanted him to report, how the committee members view the direction the committee is going, and what might interest JFAC.

The following points were brought forward:

- Report on visit to Hewlett Packard and the possibilities of the teleconference facility in many different areas: business, education, and learning.
- Point out the high standard of quality and professionalism that members of the State Tax Commission demonstrate and the confidence level this committee has in their activities. They provide extensive support and training to assessors and taxpayers. They need full funding for the County Support Division within the State Tax Division.
- Initiate a systematic investigation of all exemptions with the intent of defining the tax base and have an equitable process to determine taxes for each of the three legs (income, sales and property taxes). There needs to be discussions about taxes and exemptions and stop the history of changing taxes and the piecemeal approach. There needs to be an evaluation of every tax increase or exemption and make conscious decisions about each item.
- Lower taxes paid by more people are generally better than higher taxes paid by a few. The current property tax process is antiquated and expensive to administer. The process needs to be updated. Sales tax needs to be as broad as possible. The state has a strong, progressive income tax that relieves the

poorest taxpayer. The current property tax system does not reflect a citizen's ability to pay nor does it reflect the wealth of the individual. Saying no to exemptions is a good effort on the part of the committee.

- The base should be considerably broader than it is today. There are too many exemptions. There needs to be property tax relief but do not eliminate it. Expanded sales tax could offset lower property taxes.
- It may not be a realistic expectation that this committee can make any fundamental changes or get beyond the reactive way legislation is handled. Things are accomplished on a piecemeal basis and it is very rare to have a debate about what the whole policy should look like beyond a particular bill. It will be hard to get a consensus.
- At this time, it is unknown what the affirmative action will be. This committee does have the power to make fundamental changes. The first step is to get the data and then develop a solution. It will be a drastic change and it will mean everyone will have to change the way they look at what the fundamental change will be and where the state will be twenty years from now.
- What will the methodology be to find a solution? There have been several attempts without success, because there was never enough interest from the Legislature as a whole. There was not the will to get it done. A great exercise would be to list all of the exemptions and find out what they cost the state and then make an attempt at prioritizing them. A budget could be set for exemptions and then prioritize them to fit the budget. The idea of this is to get rid of predispositions, keep an open mind, and see what options are available. Look at what other states are doing. Develop a committee, i.e., interim committee, this committee, outside committee, whatever it would be.

Chairman Hill is in general agreement with all the comments that have been put forth today. The question is "How can the Senate Local Government and Taxation Committee best serve the citizens of Idaho"? There is an interest in making changes to the tax policies in the state. It is frustrating to be reactive. There is a worry about how wise or how realistic it is to try to coerce the rest of the legislature into doing what is necessary. Nothing can be done without the cooperation of all parties. Every piece of tax legislation that comes before the committee must be reviewed and evaluated based on some principles that the committee can agree upon.

Chairman Hill said that this committee is as good as anyone else around and, with the help of a few others, can come up with good ideas. There is no need to get rid of any part of the three legged stool, but it does need some repair. Property taxes are archaic, sales taxes are regressive, and income taxes destroy incentive; there is not a perfect tax

out there. There are special problems; two neighboring states do not have income tax and two neighboring states do not have sales tax and those issues need to be taken into account. Here are five principles governing tax policy that could be considered:

- 1) **TAX BASE:** The broader the tax base, the lower the tax rate. This is a mathematical formula and cannot be disputed. The principle looks at the whole tax system.
- 2) **COMPLEXITY:** As complexity increases, compliance decreases. Internal Revenue Service (IRS) has conducted many studies and found that the more complex the rules, the harder it is for people to comply and more loopholes can be found.
- 3) **CONSISTENCY:** The more consistent the application, the more "FAIR" it is perceived. This is not only true for the taxpayer, but it is also true for the enforcer. The perception of fairness arises in areas such as exemptions, property values, and appreciation in values in homes versus business.
- 4) **PURPOSE:** Good tax policy should deal with creating a fair, equitable system to finance government programs. There should not be more than what the government needs to operate. Ideally the system should not be designed to solve social problems or to alter behavior; however, necessity sometimes requires it.
- 5) **COMPETITION:** State and local governments must consider the practices of surrounding states when establishing tax policies.

Chairman Hill outlined some of the items that should be considered:

SALES TAX: Reduce the exemptions, broaden the base, and be consistent.

USE TAX: Enforce the collection of use tax.

PROPERTY TAX: What should property tax pay for? Is there a way to get it so it is based on wealth? Look at exemptions.

INCOME TAX: Eliminate investment tax credit, capital gains exclusion, social security exclusion, and restrict contribution credits.

SUNSETS: Put sunsets on everything so they can be re-evaluated periodically.

When looking at the bills coming up, take the principles and apply them. Once principles are established for guidance, then set some goals.

Grocery Tax Credit—hard one to say no to. However it is something that could be traded off at a later date in exchange for an overall sales tax rate decrease. Other plans that are being considered do not have that option.

Personal Property Tax—if this bill comes to the committee, look at the possibility of sending it to the amending order. If business is receiving benefits, maybe the investment tax credit should be repealed. Maybe sales tax should be charged on some of this

equipment in the exchange.

Chairman Hill commended the committee for wanting to do more.

Committee members expressed their appreciation for the opportunities this committee offers to make a difference in tax matters. There are some concerns with state mandates and the restraints put on local governments. Local governments should have more authority.

Look at principles and see what can be done with them then there can be more discussions. We are in the business of the “people’s business” and so these discussions should be out in the open, although there is nothing wrong with one or two people talking among themselves.

Senator Corder agreed that this is the best committee in the Senate. This is where you are going to learn about government. Senator Bunderson did a great job and Senator Hill demonstrates his wisdom in continuing the openness within the committee.

Chairman Hill introduced Shonie Pegram, the incoming page who will be assisting the committee for the next few weeks.

Bethany Romney came forward to say her goodbyes to the committee and thanked them for having her for the past six weeks. **Chairman Hill** presented her with a watch in appreciation for all the help and work she has done for the committee.

ADJOURNMENT: There being no further business, the meeting adjourned at 4:30 p.m.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

NOTE: Any sign-in sheet, guest list, testimony, booklets, charts, or graphs will be retained in the Committee Secretary’s office until the end of the session. After that time the material will be on file in the Legislative Services Library (Basement E).

MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: February 20, 2007

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Hill, Vice Chairman Corder, Senators Stegner, McKenzie, Siddoway, Heinrich, McKague, Langhorst, and Bilyeu

MEMBERS ABSENT/ EXCUSED: All members were present

GUESTS: The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).

CONVENED: **Chairman Hill** convened the meeting at 3:10 p.m. on February 20, 2007.

MINUTES: **Senator Langhorst** moved to accept the February 8, 2007 minutes as written. **Senator McKenzie** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

Chairman Hill announced that there would not be a meeting on Wednesday, February 21 and there would be two bills presented on Thursday, February 22: publishing rates (S 1121) and the grocery credit bill (H 0081).

Chairman Hill introduced Julie Pipal, Manager, Budget, Policy and Intergovernmental Relations for the Idaho Department of Transportation (ITD). Ms. Pipal will be presenting a perspective on Idaho fuel taxes.

Ms. Pipal presented a plan that is being proposed by the Transportation Board. She explained that this is "a plan" not "the plan". The Idaho Legislature determines what "the plan" will be.

Ms. Pipal provided some statistics starting with the fact that the Idaho fuel tax rate has remained at \$.25/gallon since 1996. There have been no adjustments for inflation and no allowance for increased costs.

Chairman Hill asked if the tax rate had been indexed based on the cost of fuel, what would the tax be at this time. **Ms. Pipal** said they had not run those numbers but she would try to provide the committee with that information.

Senator Corder asked how Idaho rated in the nation for fuel tax rates and what is the highest rate in the nation. **Ms. Pipal** responded that Idaho is in the low range in regard to fuel tax. New York has the highest rate of fuel tax per gallon. The Transportation Board is proposing an

increase to \$.37 per gallon. This would place Idaho at fourth place in the nation.

Ms. Pipal explained that Idaho depended on an annual 3% increase in federal funding but there is a possibility that those federal funds will decrease. Normally a state funds 20% and the federal portion is 80%. However, Idaho funds 8% and the federal portion is 92%. There is a possibility that Idaho will lose all or a portion of the extra 12% they enjoy now.

Senator McKenzie asked if these increases would be passed on to the consumer. **Ms. Pipal** responded that they would. In addition to an increase in the fuel tax, there would also be an increase in registration fees. Impact fees and rental car fees are other opportunities to increase revenue.

Senator Corder stated that the gentleman on the second floor will not support any increase in fuel tax or registration. However, the Board is proposing to the legislature to do that very thing. What is the purpose of this proposal. **Ms. Pipal** responded that the hope is to open discussions in the form of an interim committee. **Senator Corder** is concerned with the impact on the trucking industry through the increased fuel tax while registration fees will see very little change. There should be more discussion regarding this issue.

Senator Bilyeu asked for an explanation of impact fees. **Ms. Pipal** said they would have partners through local units of government. That would be city, county and Ada County Highway District. Only those units of local government that have ordinance authority can determine impact fees. The Board would go to the local unit of government that is currently assessing an impact fee and enter into an agreement with them to participate. They would have to go through the same process as any other entity to find out what the impact is on their facility and what percentage of the impact would be theirs. They would be required by code to spend revenue in the area of impact where it is generated.

Senator Heinrich asked if there had been any discussions about changing the distribution formula in case Craig-Wyden disappears forever. **Ms. Pipal** said that there have been several discussions on that and other funding related to local government.

Ms. Pipal summarized by saying that there are four bills in process that address the Board's issues. There are two more that are being formed but will not be ready this session.

Senator Corder stated that an option that must be considered in this whole discussion is one that will close the disparity between commercial trucks and other users.

Senator Stegner asked if the funding planned by the Board has been drafted into legislation. **Ms. Pipal** said that it had, there are four bills in process. **Senator Stegner** asked if publishing this legislation was for information purposes only. **Ms. Pipal** answered that publishing the four pieces of legislation would give people a chance to see them and start

conversations.

Senator McKenzie wanted to know what the Board considered its top priorities in the event of a budget shortfall. **Ms. Pipal** responded that ITD's first priority is to come up with funding proposals for the legislature to discuss.

Senator McKenzie repeated his question by asking what programs would be eliminated if there was a shortfall. **Ms. Pipal** explained that there is a "horizon document" that contains future programs and some of the current programs would be moved to that horizon document.

Chairman Hill restated the fact that if the funding doesn't happen, the projects on the horizon document probably will not be funded. **Ms. Pipal** agreed.

Senator Bilyeu asked what legislation Congress has passed that would affect Idaho's funding. **Ms. Pipal** said that House Joint Resolution 20 had passed both houses but the President had not, as yet, signed it. That resolution would allow for funding at 9% over the 2006 budget.

Senator Bilyeu asked where those dollars would go and how does that help. **Ms. Pipal** responded that there is a formula for funded projects so it would first go to current projects. **Senator Bilyeu** wanted to know if the public understood about the shortfall and is there support for these measures and if not, why. **Ms. Pipal** explained that the Board held local meetings and very few people attended and so they brought the issues to the legislature and now people are starting to talk.

Senator Heinrich asked if, in addition to the funding side of the picture, could the total needs for the state be shown on one spread sheet so that it is clear where the shortfall occurs. **Ms. Pipal** said that a Transportation Committee had gathered all of that information from across the state and she would be glad to get that information for the committee.

Chairman Hill asked for any further questions and thanked Ms. Pipal for coming to the meeting.

ADJOURNMENT: There being no further business, the meeting adjourned at 4:00 p.m.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

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MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: February 22, 2007

TIME: 3:00 p.m.

PLACE: Gold Room

MEMBERS PRESENT: Chairman Hill, Vice Chairman Corder, Senators Stegner, McKenzie, Siddoway, Heinrich, McKague, Langhorst, and Bilyeu

MEMBERS ABSENT/ EXCUSED: All members were present

GUESTS: The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).

CONVENED: **Chairman Hill** convened the meeting at 3:25 p.m. with a quorum present. He introduced Jeremy Pisca, Attorney, representing Idaho Allied Dailies.

S 1121 Relating to Rates Charged to Public Agencies for Official Notices
Mr. Pisca stated that he represented daily newspapers that are circulated within the state of Idaho. He introduced Bob Hall, Legal Advisor, Idaho Newspaper Association and Stephanie Pressly, Publisher, Press Tribune/Nampa, Idaho.

Mr. Pisca stated that anytime a government entity is required by Idaho law to publish a notice in the newspaper, the rate is set by law. This bill adds one cent to the current rate and will be implemented over a period of two years, one-half cent each year. The Association of Idaho Cities and the Idaho Association of Counties have been consulted and they do not object to the increase.

Senator McKenzie asked how the costs related to printing were allocated. **Mr. Pisca** said that printing costs are more of a bottom line impact on small newspapers. Printing costs for larger newspapers are about 5%.

Ms. Pressly added that they are required to publish public notices and they must always consider the balance between the public's right to know versus costs. She went on to say that publishing costs are 5% of revenues for a daily publication and 9% of revenues for weekly publications.

Chairman Hill asked if the rates are less than regular rates, even with the increase this bill would provide. **Ms. Pressly** responded that the new rate will still be 35% less than the average rate they charge.

Senator Bilyeu asked what would happen to government agencies if this rate increase doesn't go through. **Ms. Pressly** said that, by law, they still have to publish the notices.

MOTION: **Senator McKenzie** moved to send S 1121 to the Senate floor with a do pass recommendation. **Senator Siddoway** seconded the motion.

VOTE: The motion carried by voice vote with a quorum present.

Senators Corder, Heinrich and Langhorst are now present.

Chairman Hill welcomed **Senator Russ Fulcher** who brings H 0081 to the committee.

H 0081 Relating to the Income Tax Credit for Groceries

Senator Fulcher outlined some of the highlights of the bill. The changes will provide \$47.5 million in tax relief to Idahoans.

>65 - increase tax credit from \$35 to \$70 - a 65% offset for grocery sales tax

Other Idahoans - increase tax credit from \$20 to \$50 - a 58% offset for grocery sales tax

There are some key components to maintain revenue:

- 1) Tourists and non-residents will not qualify for the income tax credit and will pay sales tax on groceries.
- 2) There will be a flat credit which helps low income families because they pay the largest percent of income for groceries.
- 3) There will be a mechanism in place to give back the grocery tax credit for those who do not have to file a tax return.
- 4) There will be a negative fiscal impact of a \$47.5 million but the dollars saved will come back into the economy.

Chairman Hill asked if there were any questions for Senator Fulcher. There being none, the floor was opened for public testimony.

The following people testified in opposition of H 0081:

Roger Sherman, Advisor, United Vision of Idaho
Adriane Wright, Legislative Advisor, Catholic Church
Rev. Jeff Lowery, Clergy, Hillview United Methodist Church
Vivian Parrish, Retired, Idaho Interfaith Roundtable Against Hunger
Ruth Schneider, Dietitian, Idaho Dietetic Association
Michael Ferguson, Chief Economist, Division of Financial Management
William Whitaker, Board Member, United Vision and National Association of Social Workers, Idaho Chapter

The following people testified in support of H 0081:

Julie Lynde, Legal Director, Cornerstone Institute of Idaho
Fred Turner, Retired, AARP and Capital City Task Force

The following people testified without a stand for or against H 0081:

Phil Homer, Legal Advisor, Idaho Association of School Administrators
Robin Nettinga, Director of Public Policy, Idaho Education Association

Senator McKenzie questioned **Mr. Sherman** about those who are exempted from receiving the grocery tax credit because they have used the maximum food stamp benefit. What is the maximum food stamp benefit? **Mr. Sherman** could not answer that question. **Senator Fulcher** explained that only those food recipients who received the maximum food stamp benefit for the full year would be excluded.

Chairman Hill asked Mr. Homer if he had any suggestions for the committee. **Mr. Homer** responded that his only request is that the committee consider the impact on funding for future state agencies as it considers this bill.

Senator Bilyeu asked **Mr. Turner** if AARP had taken a poll of AARP members in Idaho for the statistics that he presented. **Mr. Turner** said they had not.

Senator Stegner asked **Mr. Ferguson** if the Idaho Tax Commission has a method of tracking those people who are incarcerated and is there a procedure in place for identifying those potential applicants. **Dan John**, Idaho State Tax Commission (ITC), responded to this question. ITC does check social security numbers for validity and compares them to the social security data base. From that information, they can identify those not qualified for the grocery tax credit.

Senator Stegner asked if illegal residents are filing for the tax credit. **Mr. John** said that they normally do not file income tax returns and are not filing Form 24 for the grocery tax credit.

Senator Fulcher said that food stamp users and illegal residents are among those who do not file income tax returns and there is no mechanism in current law to the grocery credit.

Senator Stegner asked if Form 24 is an existing form. **Senator Fulcher** answered that section 63-3067, Idaho Code, is the mechanism that triggers a refund. **Mr. John** said that in actuality, 63-3067 does not trigger the refund but section 63-2034 and Form 24 does.

Senator Langhorst asked if recipients of other subsidies, like farm subsidies, would still receive the credit. **Senator Fulcher** replied yes.

Senator Langhorst asked Senator Fulcher if he would support alternative amendments if the committee were to find other subsidies to be excluded. **Senator Fulcher** said the sponsor would certainly look at any suggestions. **Chairman Hill** added that the people who are generally excluded from the grocery tax credit are those who are not paying sales tax on food.

Senator Siddoway asked how many seniors and how many non-senior taxpayers were counted. **Senator Fulcher** answered that the data came from the U. S. Department of Labor Data Survey. **Senator Siddoway** said he does not necessarily support different grocery tax credits for different age groups.

Senator Fulcher commented that reality and data show that seniors

expend more money on groceries than those under 65 because people under 65 tend to eat out more often.

MOTION:

Senator Stegner moved to send H 0081 to the 14th Order for possible amendment. **Senator Bilyeu** seconded the motion.

Senator Stegner made the following comments on the motion:

-The only way the Senate has to consider modifications and adjusting what is given them is through the 14th Order.

-There should be a recognition of the limited tools the Senate has for creative tax policy.

-Improving on House bills is a tradition.

Senator Corder stated that a lot of discussion concerns philosophy and part of that philosophy is designing a long-term policy to carry into the future. There are numerous possibilities.

**SUBSTITUTE
MOTION:**

Senator Corder moved to hold H 0081 in committee. **Senator Langhorst** seconded the motion.

Senator Langhorst agreed with the reasons previously stated regarding this bill and continued to say that this bill must be looked at in the context of other tax bills and the context of the entire tax system. There are 30 other states that do not tax groceries. One-fourth of the people did not benefit from property tax relief and saw a bump in sales tax. He votes for waiting.

Senator McKenzie would vote for going to the amending order.

1) This bill updates credits and is fiscally responsible. The grocery tax has diminished since 1965 and credits need to be adjusted over time.

2) There should be a progressive income tax structure. Those who have more pay more than those who do not. Idaho already has a very progressive income tax structure. On a more limited issue, we need to update the credit and this bill does that.

**SUBSTITUTE
MOTION
VOTE:**

The substitute motion failed with 4 ayes and 5 nays. See Attachment A

Senator Corder stated that data needs to be collected and discussed. The discussions in this committee should be based on data to support the goal to broaden the tax base and reduce the tax rate.

Senator Stegner said that the committee can have some influence at the 14th Order and not rush bills forward for consideration until time is taken to get information to the Committee of the Whole Senate, then engage in discussion. That is a fair process. There can be no manipulation of the process.

Senator Langhorst is against this motion. An option is being thrown away.

**ORIGINAL
MOTION VOTE:**

The original motion passed 6 ayes and 2 nays. See Attachment A

ADJOURNMENT:

There being no further business, the meeting adjourned at 5:15 p.m.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

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**LOCAL GOVERNMENT AND TAXATION COMMITTEE Attachment A
ROLL CALL VOTE**

DATE: _____ February 22, 2007 _____ SUBJECT: _____ Income Tax Credit, Food _____ BILL #: _____ H 0081 _____

ORIGINAL MOTION IS: Send H 0081 to the 14 th Order for Amendment				SUBSTITUTE MOTION IS: Hold H 0081 in Committee.				AMENDED SUBSTITUTE MOTION IS:			
	AYE	NAY	A/E		AYE	NAY	A/E		AYE	NAY	A/E
Sen Tim Corder, Vice Chair		X		Sen Tim Corder, Vice Chair	X			Sen Tim Corder, Vice Chair			
Sen Joe Stegner	X			Sen Joe Stegner		X		Sen Joe Stegner			
Sen Curt McKenzie	X			Sen Curt McKenzie		X		Sen Curt McKenzie			
Sen Jeff Siddoway	X			Sen Jeff Siddoway	X			Sen Jeff Siddoway			
Sen Lee Heinrich	X			Sen Lee Heinrich		X		Sen Lee Heinrich			
Sen Shirley McKague	X			Sen Shirley McKague		X		Sen Shirley McKague			
Sen David Langhorst		X		Sen David Langhorst	X			Sen David Langhorst			
Sen Diane Bilyeu	X			Sen Diane Bilyeu	X			Sen Diane Bilyeu			
Sen Brent Hill, Chair				Sen Brent Hill, Chair		X		Sen Brent Hill, Chair			
TOTALS	6	2		TOTALS	4	5		TOTALS			
MOVE _____ Senator Stegner _____				MOVED _____ Senator Corder _____				MOVED _____			
SECONDED _____ Senator Bilyeu _____				SECONDED _____ Senator Langhorst _____				SECONDED _____			

MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: February 27, 2007

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Hill, Vice Chairman Corder, Senators Stegner, McKenzie, Siddoway, Heinrich, Langhorst, and Bilyeu

MEMBERS ABSENT/ EXCUSED: Senator McKague

GUESTS: The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).

CONVENED: **Chairman Hill** called the Local Government and Taxation Committee meeting to order at 3:10 p.m.

MINUTES: February 13 and 15, 2007

MOTION: **Senator Heinrich** moved to accept the minutes for February 13, 2007, as written. **Senator Langhorst** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

MOTION: **Senator Langhorst** moved to accept the minutes for February 15, 2007, as written. **Senator Corder** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

Chairman Hill welcomed Senator Keough.

S 1099 (replace with RS 17132) **Senator Keough** requested that S 1099 be held in committee and to consider sending RS 17132 to a privileged committee for print thereby allowing it to be published on the Internet so it can be reviewed over the summer. The resulting legislation will then be brought forward next year. There has been a number of people involved in developing this piece of legislation including stakeholders, legislators, attorneys, and others.

Representative Wendy Jaquet, Idaho House of Representatives, agreed to the plan outlined by Senator Keough.

MOTION: **Senator Heinrich** moved to hold S 1099 in committee. **Senator Langhorst** seconded the motion.

Senator Bilyeu asked for an explanation of the differences between the bill and the RS. **Senator Keough** said the RS is a whole new bill with similar elements emphasizing privacy for the taxpayer. It also assures the public that this is not an effort to be a precursor for excise or real

estate taxes. The RS also narrows the scope from all property down to single family residences, residential townhouses, or residential condominiums. It simplifies the process regarding who has the responsibility to file with the assessors for transfer of property.

Representative Jaquet stated that this RS is superior to an earlier bill that was presented in 2004. It does narrow the scope to residential property and it outlines who can and cannot have the information and how the information can be used for comparative values. **Senator Bilyeu** asked if the information could be disclosed to realtors and appraisers. **Representative Jaquet** reviewed the portion of the RS that addressed that issue.

VOTE: The motion carried by unanimous voice vote.

**CONSENT
REQUEST FOR
RS 17132:**

Senator Heinrich asked for unanimous consent to send RS 17132 to a privileged committee for printing.

Senator Heinrich stated that this is an opportunity to send this RS out on the Internet so that all parties can review it during the summer and come together next year to form a piece of legislation that is workable for everyone. This is a great opportunity to gather this type of information.

ORDER:

Chairman Hill gave the order to send RS 17132 to a privileged committee for printing.

Chairman Hill thanked Senator Keough and Representative Jaquet for the time and effort that they have extended toward this piece of legislation. He then welcomed Norm Semanko, Idaho Water Users Association to present H 0085.

H 0085

Relating to Irrigation Facilities, Tax Exemption

Mr. Semanko explained that there is a long set of tax exemptions for irrigation districts including irrigation property, revenue bonds, and notes. There has never been a problem with any of these until a couple of years ago. Over the last three years, the Nampa/Meridian Irrigation District within Ada County has been asked to apply for tax exemptions that they are entitled to by law. When questioned, Ada County said that they would need language to clarify the law. That is what H 0085 is attempting to do.

Mr. Semanko is presenting this bill with an amendment attached. The amendment will clarify that this bill is not adding new exemptions, it only allows, without applications being filed, irrigation districts to get the exemptions they are entitled to by law.

Chairman Hill wanted to confirm that this is not a new exemption, it is to codify that the exemption is something that has been in the law for many years. Is that correct? **Mr. Semanko** answered that these facilities/properties/revenues have been exempt from taxation through the whole history of the tax law system.

Senator Bilyeu asked if the irrigation district is asked to fill these applications out every year. **Daren Coon**, Secretary/Treasurer, Nampa/Meridian Irrigation District, answered that the application has only been required for the last three years.

Senator Corder asked if this was the only irrigation district application that has been requested by the county even though the language is clear that those applications need to be made. **Mr. Semanko** stated that this is the only district.

Senator Corder asked what kind of certificate was given to the Nampa/Meridian district that exempted them from taxes or did they just pay the taxes. **Mr. Coon** responded to the question. Previous to receiving these forms three years ago, there was no paperwork at all. There was just notification that they were tax exempt.

Senator McKenzie asked what changed. Why are these forms being requested now? **Mr. Coon** said they were not certain. They thought there now may be a stricter interpretation of the law. **Mr. Semanko** said that the law has the same language for irrigation districts as for other water districts. It is not known why this is different.

Senator McKenzie asked what body decides if an entity fits into this class. **Mr. Semanko** said that decision is made by the county.

Senator McKenzie speculated that the county might be requesting this form to verify that this district qualified for the exemption so there would not be an issue in the future. **Mr. Semanko** was not sure why the request was being made.

Senator Corder stated that he wished that this language were in all the exemptions so that everyone would have to go to the county and apply for an exemption. This would provide an opportunity to determine which properties qualified for the exemptions and which ones did not. **Mr. Semanko** responded that there is a section of code that clearly identifies which facilities are exempted. We are not asking for a new exemption, we are asking for less paperwork and less burden for the district. No district in the history of this tax exemption has had to file annual applications.

Kerrie Ellen Elliott, Ada County, wanted to make a clarification. County commissioners must review exemptions each year. They send out a short form which is part of the normal process.

Senator Langhorst asked if Ted Spangler, Idaho State Tax Commission, had seen the amendment. Does this constitute an extension of the exemptions? **Mr. Spangler** explained that there are a couple of different kinds of irrigation entities. The reference here is irrigation districts and canal companies. Irrigation districts are governmental entities. Because they are a governmental entity, that in and of itself, gives them full statutory exception to property tax. Canal companies are not governmental entities and would not automatically qualify for this exemption.

Senator Bilyeu commented that it wasn't clear how the county can keep track of legal descriptions and what is, in fact, exempt and nonexempt property unless something is submitted that shows what is owned. Counties are asked for the value of exempt properties, which could be a guess because they normally do not appraise that property. However, they certainly should know where it is.

Dan Steenson, attorney, Nampa/Meridian Irrigation District, commented specifically to a question about recreational facility property. The bill specifically applies to irrigation districts except hydroelectric facilities. These properties are already exempted in other specific codes.

Senator Corder stated that it is clear that they haven't been paying taxes, they want to eliminate the paperwork. Over the last couple of years we have been trying to get counties to give the legislature more paperwork to tell us exactly what these exemptions are worth.

MOTION:

Senator Corder moved to hold the H 0085 in committee. **Senator Bilyeu** seconded the motion.

SUBSTITUTE MOTION:

Senator McKenzie made a substitute motion to send H 0085 to the 14th Order for possible amendment. **Senator Siddoway** seconded the motion.

Senator McKenzie made this motion so the proposal would survive in the form that was suggested in the amended language. The language that the exemption is not subject to the approval by the board of equalization because the county should decide whether or not the property is still being used for the designated purpose should remain intact. The counties still could require the irrigation districts to fill out some paperwork to make a declaration that it still qualifies for the exemption.

Senator Langhorst said that he understands the amendment is for irrigation districts while the other bill included canal companies. He cannot see where the bill or the amendment reduces paperwork. There still must be reports. What are we achieving by doing this?

Senator McKenzie commented that right now Ada County is the only one requesting this information. Maybe other counties will start requesting the same thing.

Senator Langhorst spoke to Senator Corder's interest in gathering data. It becomes a bigger discussion of whether this committee has to do something about asking some of the boards and commissions to gather that kind of information. However, this bill does not cover that issue.

Senator Corder said the bill could pass and it would be fine. However, an irrigation district could refuse to answer a request for the application and it would be difficult for a county to gather information.

Senator Stegner asked if there is any kind of authority for counties to demand this kind of information from any other districts such as cemetery or highway districts.

Mr. Spangler answered it is the overall responsibility of the Board of Equalization to see that property that is subject to taxation is on the tax roll and that property that is exempt from taxation is not. There is language in the law that says counties should do an annual review. Different counties handle this in different ways. Ada county has been more active in doing the annual reviews. The entity claiming an exemption has the initial responsibility to show why they are exempt. This is the only way the county will give an exemption, otherwise that property is on the tax rolls. The default always is that property is taxable. **Senator Stegner** said it is reasonable to assume that, under this scenario, Ada county is asking for this information from other districts.

Mr. Steenson said the county addressed the question by saying that irrigation districts are government entities and are not required to file an annual application. **Ms. Elliott** said the county legal committee had no problems with this bill.

Chairman Hill asked if there was any more discussion on the substitute motion.

Senator Bilyeu asked if this bill goes to the 14th Order, does it mean no more paperwork.

Senator Stegner stated that sending this bill to the 14th Order probably is the correct thing to do. Anyone in the Senate can present any amendment they want.

Mr. Semanko answered that the particular form now being used would not be requested but any other information request would have to be honored.

Senator Heinrich commented that this amendment just eliminates this application. Everything else will remain the same. It does not affect other annual reports.

**VOTE ON
SUBSTITUE
MOTION:**

The substitute motion passed by unanimous voice vote.

H 0116

Relating to Local Improvement District, Notices

Senator Jim Hammond explained that this bill corrects an omission of the word "or" when describing the methods of assessments in Section 50-1707 (c), Idaho Code so that it should reador a combination thereof, or in proportion to the benefits derived to such property by said improvements,

MOTION:

Senator Langhorst moved to send H 0116 to the consent calendar. **Senator Heinrich** seconded the motion.

Senator McKenzie asked for the vote count in the House. **Senator Heinrich** responded that the House had a unanimous aye vote.

VOTE:

The motion carried by a unanimous voice vote.

H 0141

Relating to Income Tax, Financial Institutions

Ted Spangler, Idaho State Tax Commission (IST), provided a brief history regarding financial institutions that do not maintain a physical office within the state. A 1980 law permitted very limited activity by out-of-state lenders to invest in Idaho loans without having to file Idaho income tax returns or pay income taxes. This law is not appropriate in today's financial atmosphere. It gives large multi-state banks an unfair advantage over small, instate banks that cannot take advantage of the exclusion. H 0141 closes this unintended loophole by repealing the out-dated 1980 law. The change will have a positive effect on the General Fund.

Senator Langhorst asked why there was such a large increase in revenues in 2009 compared to 2008. **Mr. Spangler** replied that the interstate and mortgage banking industry is growing and, by 2009, all of the implementation processes will be finished.

Chairman Hill asked why there was a delay on the effective date. **Mr. Spangler** said the delay would provide planning and implementation time.

Chairman Hill asked Dawn Justice, Idaho Bankers Association (IBA), if the IBA supported this legislation and does the IBA have any out-of-state bank members. **Ms. Justice** responded that IBA is maintaining a neutral position and it does have multi-state banks in its membership.

MOTION:

Senator Langhorst moved to send H 0141 to the Senate floor with a do pass recommendation. **Senator Corder** seconded the motion.

VOTE:

The motion carried by a unanimous voice vote.

ADJOURNMENT:

There being no further business, the meeting adjourned at 4:20 p.m.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

NOTE: Any sign-in sheet, guest list, testimony, booklets, charts, or graphs will be retained in the Committee Secretary's office until the end of the session. After that time the material will be on file in the Legislative Services Library (Basement E).

MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: February 28, 2007

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Hill, Senators McKenzie, Siddoway, Heinrich, McKague, Langhorst, and Bilyeu

MEMBERS ABSENT/ EXCUSED: Vice Chairman Corder and Senator Stegner excused

GUESTS: The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).

CONVENED: **Chairman Hill** called the meeting to order at 3:00 p.m. on Wednesday, February 28, 2007 with a quorum present.

MINUTES: **Senator Siddoway** moved to accept the minutes as written. **Senator Heinrich** seconded the motion.

VOTE: The motion passed with unanimous voice vote.

Chairman Hill opened the meeting with comments regarding today's business of discussing H 0081 and issues to be considered in constructing an amendment to that bill. **Chairman Hill** invited the audience to participate along with committee members in this discussion.

H 0081 relates to a grocery income tax credit.

Senator Bilyeu opened the discussion by saying that her biggest concern is the fiscal impact of \$47.5 million. The income tax credit would be a welcome credit for everyone, but the high dollar amount impacts other programs that need to be addressed like education, substance abuse, and others. The goal is to find a way to reduce this amount to an acceptable level.

Chairman Hill confirmed that Senator Bilyeu is still in favor of some kind of income tax credit but maybe a lower amount.

Senator Heinrich said that he concurred with Senator Bilyeu on the financial impact. In addition, there may be some amendments to be considered where all of the benefit does not go to all of the people. This is an area where the financial impact could be reduced and put the tax dollars back into the lower income brackets. The following should be considered:

-Credit should go to lower income residents

- Higher income taxpayers should not receive a credit
- Seniors over 65 should not receive a special benefit

Senator Heinrich posed a question to Mike Ferguson, Chief Economist, Division of Financial Management, State of Idaho. Where would the \$47.5 million come from?

Mr. Ferguson said he had no idea but the Governor's proposal factored in \$22.0 million. H81 would require an additional \$25.0 million. He really does not know where that would come from.

Senator Siddoway thinks that if we are going to give a tax credit, it should be an equal amount for everyone. He would favor a lower amount. He investigated the reasoning behind the higher tax credit for seniors. It seems about 200,000 seniors were used in a study group which showed some evidence that seniors over 65 and the younger generations spent about the same on groceries and eating out combined. However, seniors spent more on groceries and less on eating out than those under 65. There would always be those who say "the poor get groceries with food stamps". It just depends on "how poor, poor is".

Senator Bilyeu stated that the means test should be based on income, not age.

Senator McKenzie said he thinks there are two different issues involved:

- 1) Should we tax the purchase of groceries. At present, no change is being made on that issue. It makes sense for everyone to get the credit. There is some justification for those 65 and older to get a larger tax credit.
- 2) The approach should be a way to make our tax system progressive. A means test would get the credit to those who need it.

When we look at progressivity, the income tax rates are progressive now. Do we need to adjust those? Do the changes that are made in the policy arena justify going back and looking at income tax rates? Maybe the credit should be a percentage instead of a fixed dollar amount. The amount of credit would change with the change in income and would be adjusted for inflation. This may be a better way to do the grocery tax credit.

Senator Siddoway stated that if changes were only made through the income tax rates without having a credit, lower income people who do not pay income tax, would not get the reduction unless they filed a special form (Form 24). There would not be a way to get the money back to the lower income residents.

Chairman Hill stated that H 0081 does provide for a method to get the tax credit if tax returns are not required to be filed.

Senator Langhorst explained why the grocery tax was an issue this particular year. Discussions started during the special session for

property tax relief. The resulting property tax relief and increase in sales tax was supported with the thought that there would be some relief on the grocery tax. There are about 25% of Idahoans who do not own real estate. They only saw the sales tax increase.

Senator Langhorst held town meetings in his area and the ideas that were proposed were :

- 1) Remove sales tax from groceries
- 2) Use an income tax credit
- 3) Wait until the result of property tax relief is determined

Surprisingly, the third idea was thought to be best by the majority attending the meetings. **Senator Langhorst** mentioned a personal property bill that is being considered but he leans toward constructing some legislation regarding grocery taxes designed like the Governor's bill. A version that might be means tested. It would have the \$90 grocery tax credit on the lower end. The food stamp provision would be eliminated. These are some of the points that he could support.

Chairman Hill elaborated on the personal property bill. It is out of the House committee. It has no fiscal impact to the state until FY09 but it does have fiscal impact overall. This committee is interested in good, sound tax policy for all of Idaho's taxes. It is important that the committee be responsible in its actions. The question is, if we are interested in cutting back on the grocery tax and then here comes the personal property tax bill, will it appear to be a trade off between the two. The grocery tax benefits everyone, the personal property tax bill benefits businesses.

Senator McKenzie stated that many times credits or tax cuts are given out but there are not corresponding cuts in spending. The perception is that growth will pay for any spending. It is not responsible to say that growth will pay for all of these exemptions and credits.

Senator Langhorst asked how many people would say that personal property tax should be removed and then raise the sales tax. That could be perceived as a bias toward big business. That might be a bad policy. **Senator McKenzie** said it is not bad policy to get rid of an onerous tax, but offset that by getting rid of some other incentive.

Senator Bilyeu stated that when the personal property tax was removed for agriculture, the legislature replaced those dollars to the counties and taxing districts. **Senator Bilyeu** suggests that if the current personal property bill passes, the legislature should replace that money just like they did in the case of agriculture.

Chairman Hill said it is the plan to replace most of those funds with state dollars. The first year will be a redistribution among all taxpayers at no additional cost to the state. After the first year, the state would replace the funds.

Senator Bilyeu said, going back to the tax on groceries, perhaps we should pass the bill the way it is and hope the Governor will veto it and

send it back. Then the bill could start all over.

Senator Longhorst stated it would go back to the House and they would be responsible for drafting another bill.

Senator Heinrich asked if it is known what would be generated at the current sales tax rate if we eliminated the production exemption and used that to help finance the removal of the personal property tax.

Chairman Hill said that, based on current information, there are actually two production exemptions. One is for the supplies or materials that are used for production. That would be between \$60-\$70 million per year. The second is the sales tax exemption on the equipment used in production and that is between \$80-\$90 million per year.

Senator Heinrich asked what was being given away with the investment tax credit. **Chairman Hill** responded that FY2007 was just under \$42.0 million. The same people would be affected that will be affected by eliminating the personal property tax exemptions.

Chairman Hill explained that the Senate Leadership is very interested in this committee meeting during the summer to discuss some of the ideas set forth today, and particularly, look at tax policy as a whole. They would authorize such meetings.

Obviously, this committee cannot do anything without the House. All tax bills have to originate in the House. Would it be more beneficial to have an equal number of members of the House Revenue and Tax Committee and members of the Senate Local Government and Taxation Committee get together and go through the process of identifying areas of concern, then bring them forward next year for discussion. This format was not very successful three years ago but there are different people involved now and it might be more successful. What are your feelings?

If this is going to be a joint endeavor, then a resolution must be written that can go through the legislature. If it is just the committee, then leadership can authorize summer meetings. What action should be taken?

Senator Langhorst asked if Mr. Lake was aware of this idea. **Chairman Hill** said he was in the Leadership meeting when the discussions were taking place. **Senator Langhorst** agrees that others should be involved. The approach that was used to address the property tax issue was successful. Could Chairman Hill and Representative Lake set the standard for what the combined committee would achieve for an approach to the issues. **Chairman Hill** offered an alternative. This committee would set the standard and then we would invite others to participate.

Chairman Hill said he liked the result of the property tax effort and that is the type of effort that should be made with sales tax exemptions. It will open up the whole discussion about sales tax on food and other sales taxes as well. The goal is to set some goals and policies so that every time a bill is presented, there will be guidelines to see if it fits into the

overall picture of a sound tax policy.

Senator Langhorst said that it would benefit the whole legislature if the two tax committees knew each other better, adopted the same kind of schooling to possibly come to some sort of consensus, and come up with a common vocabulary so it would be easier to communicate. Taxes are a complex subject and if the two entities could “jell”, it would be a great goal.

Senator McKenzie stated that he would prefer to have this committee develop the issues. This committee has the luxury of time which the House does not have because all of the bills start over there and they do not have the time to study the issues in detail. As a committee, we have a lot of time to look over policies and consider them. It would be a benefit to have an interim committee and try and work through some of the policies prior to including others.

Chairman Hill asked Randy Nelson, Associated Taxpayers of Idaho, to comment. **Mr. Nelson** stated that he had worked with the committee on the property tax issue. The global economy is changing and the states around Idaho have their own policies. Whatever the committee does to change policy must include considerations of what is happening outside the state. It is a good idea to include the House.

Dan John, Idaho State Tax Commission, agrees with Mr. Nelson. The interim committee is not a good model to follow because it is not apparent that the House and the Senate share the same objectives. The House needs to be included to prevent animosity.

Senator Langhorst talked about the way money is spent. The joint committee (JFAC) decides how money is spent but there are many exemptions to consider. If there is an interim committee, it would be appropriate to get close to the same mix that is on that committee.

Chairman Hill asked for the committees approval to meet with Representative Lake and discuss some of the goals that might be set for a committee and, if Representative Lake is amenable, he would write a resolution to authorize an interim committee. The committee agreed.

Senator Siddoway stated that, if we are talking about philosophies today, he agreed with Mr. Nelson, competition is very important to consider. If we want to have 2-3 percent unemployment, if we want wages high enough for workers to afford to buy products that Idaho businesses create, we must have an atmosphere where those businesses can thrive. It is paramount that we have a system where business can grow and everyone can participate.

Chairman Hill stated that we should have a list of all the business exemptions that are available from every entity within the taxing system and see the economic costs they represent. **Mr. Nelson** suggested starting with a report in the back of the general fund budget that is called “Tax Expenditures” although it doesn’t include property taxes. Between the State and Federal governments, there are many programs that help the poor and others to help business. In addition, there are the programs

that are supported by appropriations.

Chairman Hill welcomed Representative Clifford Bayer and asked if he had any comments. **Representative Bayer** extended his appreciation for the comprehensive analysis he heard today. He would like to state, for the record, that a lot of different avenues were melded together before H81 emerged. All of the co-sponsors had a unique vested interest. The indication from this group is that the grocery tax credit is a high priority in the grand budget picture. The grocery tax issue is considered to be very important and serious.

Chairman Hill added that Representative Bayer and Senator Fulcher, who were the main sponsors of H81, have been good to work with and they will be helpful as we go through this whole process.

ADJOURNMENT: There being no further business the meeting adjourned at 3:55 p.m.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

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MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: March 1, 2007

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Hill, Vice Chairman Corder, Senators Stegner, McKenzie, Siddoway, Heinrich, McKague, Langhorst, and Bilyeu

MEMBERS ABSENT/ EXCUSED: All members were present.

GUESTS: The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).

CONVENED: **Chairman Hill** convened the meeting at 3:00 p.m. on Thursday, March 1, 2007.

MINUTES: **Senator McKague** moved to accept the minutes as written. **Senator Siddoway** seconded the motion.

VOTE: The motion carried by unanimous voice vote .

H 0190 Relating to Tax Rates for Dental Insurance
Woody Richards, Lobbyist, representing Blue Cross of Idaho, presented H 0190 to the committee. The purpose of the proposed legislation is to change the tax rates in Title 41, Idaho Code, so that all dental coverage carriers will pay the same tax rate to the State. **Mr. Richards** stated that all dental providers should pay the same amount of taxes. The current tax rates vary giving some providers an unfair advantage. There are several benefits to having all dental providers pay the same rate:

- 1) Equalization is fair.
- 2) Encourages competition.
- 3) Savings for purchasers.

Senator McKenzie agreed that, in principal, it would make sense to have a level playing field. However, why not use a percentage instead of a set amount for the tax rates? **Mr. Richards** answered that the current tax rates are set amounts with the largest provider having the lowest rate. This solution would bring every provider to that lowest rate.

Senator Corder asked for the history of the current rate of \$.04. When was the last time the rate was changed? **Mr. Richards** said that the original tax was \$.01 which went into effect in the 1960s, the rate went to \$.02 in the 1970s, and to \$.04 in 1982.

Senator Stegner said that he had been involved in this issue for a number of years. There is a very narrow definition in the law that has allowed one company in the state to utilize a tax rate that is well below all other insurers. The state is currently going through a process to level the playing field for all insurance companies in the state.

Because of the licensing statute, one company, Delta Dental, is not taxed on a percentage like other insurance companies. They pay a head tax. The advantage is tremendous. They pay less than 5% of the tax everyone else pays. If this bill goes through, it will only compound the problem. There will be one whole segment of the insurance industry that is taxed at a different rate than any other entity in the state.

Senator Stegner went on to say that Idaho is on the way to having a very low and fair tax rate that will encourage insurance companies to locate in the state. Insurance companies do not pay an income tax but they are charged a premium tax. Soon the rates will be the same for all insurance companies except for Delta Dental. H 190 provides a very poor solution to the problem.

MOTION: **Senator Stegner** moved to send H 190 to the 14th Order for possible amendment. **Senator Corder** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

H 0189 Relating to Wind Energy Producers

Representative George Eskridge stated that this bill has been the result of the efforts by the Idaho Association of Counties, Association of Idaho Cities, Idaho Tax Commission, individual county treasurers, and county commissioners. He referred the committee to page 3, line 8 of the printed bill for a description of the bill. It reads:

63-3502B. LEVY OF TAX ON WIND ENERGY ELECTRICAL PRODUCTION. There shall be levied against every producer of electricity by means of wind energy a wind energy tax equal to three percent (3%) of such producer's gross wind energy earnings. This wind energy tax shall be in lieu of all other taxes on the operating property, as defined in section 63-3501(h), Idaho Code, of such wind energy producer.

This is a 3% tax, not a set dollar amount so as the earnings of the company goes up, then the revenues to the county will go up and that will replace the property tax. This bill simplifies the present Idaho Tax Commission property tax calculation method for wind energy operating property. It becomes more predictable and stable, it levels tax payments, and provides for a potential increase in revenue.

Rich Rayhill, Vice President, Ridgeline Energy-Wolverine Project testified in support of this bill. **Mr. Rayhill** agreed with the comments made by Representative Eskridge about the purpose of the bill and added that it would be a method to get wind energy projects in the state. He circulated a graph and explained that it compared the current tax structure, which is the greater of cost versus income, and the proposed

income method. He explained that in year one, under the current system, tax represents 23.3% of net revenue and that is a tremendous tax burden. The wind industry is paying 8-9 to 1 compared to other utilities in the state. Even under the income approach, the wind industry is still paying two times what other utilities pay.

Senator Langhorst commented that the gross revenue stays at an even line for 2009 and 2010 and then begins a dramatic drop in income. Why does that happen? **Mr. Rayhill** answered that there is a drop in income because of a fluctuation in prices. He could not answer any further than that.

Senator McKenzie stated that he thought the current method of taxing was straight property tax but it is not, it is the greater of the value of the property versus income. **Mr. Rayhill** agreed. **Senator McKenzie** confirmed that Mr. Rayhill had worked with the counties to develop this new methodology and they understand they will lose some income with this change.

Mr. Rayhill went on to say that there are wind energy projects that are being held until they know the outcome of this levelized property tax bill. The 23.3% tax burden is insurmountable at this time.

Chairman Hill asked why projects are still being built if it is so cost prohibitive. **Mr. Rayhill** said they are going up in Oregon. **Chairman Hill** responded that they also appear to be going up in Idaho.

Mr. Rayhill yielded to James Carkulos, Exergy Corp. **Mr. Carkulos** responded that, because of changes relative to Idaho Power, wind energy projects have had to do other things to be cost effective. The most efficient thing to do, would be to build projects sequentially. The problem is, if the evaluation method currently under cost is used, it costs the project approximately 80 basis points in their rate of return. The wind energy business goes to 1/100 basis point to determine whether or not a project will be built. The projects that are currently being built are marginal.

Chairman Hill asked how much state subsidy would be required to make the projects profitable. Two years ago, wind energy projects received a sales tax exemption on all turbines because the projects were marginal. This bill will give wind energy a property tax reduction.

Mr. Carkulos said Exergy has always looked at the property tax issue as a number one issue because of their meetings with the Tax Commission, which had indicated that there was a methodology that could be used which was net present value of net revenues. This is an ideal method but there are variables that make it undeterminable.

The answer to the question is that property tax has influenced the ability to build a project based on the 40% increased costs of turbine supply and about 40% increase in costs of other supplies. They are not looking to injure counties or to eliminate taxes, they are looking for a sustainable return from the project to the counties in year one and in year twenty.

Senator Bilyeu asked who has been assessing the properties at this time. **Mr. Rayhill** answered that they are centrally assessed by the Idaho Tax Commission to determine value but the taxes are levied by the county.

Senator Bilyeu commented that the counties are not assessing the projects at this time. Has the Tax Commission been placing the projects at cost? **Mr. Rayhill** answered yes. **Senator Bilyeu** asked if it wouldn't be better to be using an income approach rather than a cost approach.

Senator Bilyeu asked Dan John, Idaho State Tax Commission, about pollution exemptions for industrial properties. **Mr. John** responded that there is an exemption for pollution control equipment. **Senator Bilyeu** commented that she is making a jump that, at some point, there may be an application for a pollution exemption.

Chairman Hill stated that the committee members were due on the Senate floor and this bill will be continued for discussion on Tuesday, March 6.

ADJOURNMENT: The meeting adjourned at 3:32 p.m.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

NOTE: Any sign-in sheet, guest list, testimony, booklets, charts, or graphs will be retained in the Committee Secretary's office until the end of the session. After that time the material will be on file in the Legislative Services Library (Basement E).

MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: March 6, 2007

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Hill, Vice Chairman Corder, Senators Stegner, McKenzie, Siddoway, Heinrich, McKague, Langhorst, and Bilyeu

MEMBERS ABSENT/ EXCUSED: All members were present.

GUESTS: The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).

CONVENED: **Chairman Hill** convened the meeting at 3:03 p.m.

MINUTES:

MOTION: February 22, 2007 - **Senator Heinrich** moved to accept the minutes as written. **Senator Siddoway** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

MOTION: February 27, 2007 - **Senator Bilyeu** moved to accept the minutes as written. **Senator Siddoway** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

MOTION: March 1, 2007 - **Senator McKenzie** moved to accept the minutes as written. **Senator McKague** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

H 0181 Relating to Allowable Tax Levies for Community Colleges
Chairman Hill welcomed Senator John Goedde.

Senator Goedde presented H 0181 which reduces the maximum allowable tax levy for colleges from .16% to .125% of market value for assessment purposes. This action is being taken to make formation of other colleges in Idaho more attractive.

Senator McKenzie asked for the reasoning behind the current cap. **Senator Goedde** said he didn't know the historical process.

Senator Bilyeu asked what happens when the taxpayers vote on a new college district. Do they advertise what the new levy will be? **Senator Goedde** replied that the proponents would advertise but it has not been an issue because the colleges are generally below the allowable rate.

MOTION: **Senator Langhorst** moved to send H 0181 to the Senate floor with a do pass recommendation. **Senator Corder** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

H 0198

Relating to Financing Economic Development Projects - Revenue Bonds
Steve Rector, Idaho Housing and Finance Association (IHFA), brought this bill before the committee. He introduced Rick Skinner, Bond Counsel, IHFA.

This bill came about after a 2004 recommendation by the Economic Incentives Task Force to change the statute to allow IHFA to be a conduit for development bonds. Local Governments can offer Industrial Development Bonds but there is not a central entity to bring all financing tools together under a comprehensive, coordinated umbrella. There is neither fiscal nor taxpayer impact and other financing agencies have a choice about whether to use IHFA services or not.

Patrick Collins, General Counsel for the Idaho Bankers Association, testified in favor of H 0198.

MOTION:

Senator Heinrich moved to send H 0198 to the Senate floor with a do pass recommendation. **Senator McKenzie** seconded the motion.

VOTE:

The motion carried by unanimous voice vote.

H 0179

Relating to Information Contained in Tax Notices

Representative Ken Roberts explained that H 0179 will provide additional information to property taxpayers of Idaho. The percent of change in taxes from the prior year and the telephone number of the taxing district would appear on the tax bill. The changes would require some reprogramming for most taxing districts and new printers. October 1, 2008 would be the effective date for the changes to allow time for implementation.

Senator Langhorst asked if the percent of levy change that appears on the Ada County Consolidated Tax Bill would qualify for the percent change described in this bill. **Representative Roberts** said that it would not qualify.

Senator Bilyeu asked what the printers would cost. **Representative Roberts** responded that it would require industrial grade, laser printers that would print on both sides of the paper. He didn't know the exact cost. **Senator Bilyeu** asked if the treasurers agreed with these changes. **Representative Roberts** answered that there has been discussions with the treasurers and the goal is to provide the best information possible.

Senator Corder wanted to know who has asked for this information. There was a bill for truth in taxation presented last session and it failed. **Representative Roberts** could not respond as to why the bill didn't go through last year. Counties want this type of information to go out to the taxpayers because of the numerous telephone calls they receive regarding this question. If this information is printed on the bills, it is expected to reduce the numbers of calls and, if there is a question, a phone number to call without going through several different departments to get to the right entity. **Senator Corder** stated that the treasurers that are contacting him do not want this information to go out.

Senator Langhorst wanted to know if, by the time the taxpayer receives the tax notice with the percent change and the phone number, is it too late to do anything about the budget. **Representative Roberts** said that the budgets are already set in September by the counties. There is a time issue. There may be a need to review the calendars.

Senator McKenzie asked if this percent change in taxes is supposed to take the current amount of prior year and show the percentage or show the difference in the percentage of the current year over the prior year of assessed value. **Representative Roberts** answered that it would be the percent of the current year over the prior year in dollars.

Senator Stegner asked if it would be the change in the tax rate or the change in the tax. **Representative Roberts** said it would be a change in the tax.

Senator Bilyeu asked why this information is being added to the tax bills instead of the assessment notices. The information would go out sooner on the assessment notices. **Representative Roberts** stated that some counties may be sending out the information on the assessment notices already.

Chairman Hill asked Tony Poinelli, Idaho Association of Counties, to state the counties position on this bill. **Mr. Poinelli** voiced some of the counties' concerns.

- 1) Cost of printer (\$3,000-\$5,000 each).
- 2) More related to tax so the percentage should be shown in actual dollars not percentage.

Chairman Hill asked about the cost of reprogramming. **Mr. Poinelli** responded that the reprogramming would be done by the Tax Commission. **Chairman Hill** inquired if the Tax Commission did the reprogramming, would it only have to be done once or would each county have to do their own. **Mr. Poinelli** said that 32-34 of the counties would be done by the Tax Commission and the rest would be done by the county.

Chairman Hill asked Dan John, Idaho State Tax Commission, what it was going to cost the Tax Commission. **Mr. John** said that he didn't know exactly how much additional cost there would be. They are continually programming for the counties and this would be a part of that process.

MOTION:

Senator McKague viewed this bill as taxpayer friendly and moved to send H 0179 to the Senate floor with a do pass recommendation. **Senator Heinrich** seconded the motion.

Senator Corder commented that the state of Idaho is trying to "raise the bar" on education and instead of making things easier, let people do their own math. Also, it isn't clear who has asked for this information.

SUBSTITUTE MOTION:

Senator Corder made a substitute motion to hold this bill in committee. **Senator Stegner** seconded the motion.

Senator Langhorst spoke in support of the substitute motion. Giving notice to people when taxes are due is a good thing, but they need to have the information when the budgets are set. We need to work together to put together a better product for next year.

Senator McKenzie supports this bill because it is along the general principals of the truth in taxation discussion. There is more transparency to people when they receive their tax bills. It is not bad to provide this information clearly and a number to contact so, even if they may not be able to do anything for the current year, they can next year.

Senator Bilyeu commented that when assessment notices were mailed out, public hearing notices along with phone numbers for the taxing districts were sent out with them. It did not increase phone calls nor was it apparent that the number of people attending the budget hearings increased. It is very frustrating that there is not more citizen participation.

Chairman Hill asked Mr. Poinelli if any discussion about making notices more meaningful to the public occurred at his meetings with the counties.

Mr. Poinelli said that they do discuss issues such as this.

Senator Stegner said the statute mandates that the counties review certain parts of the bill so it will apply to current processes.

Senator Heinrich commented that misinformation was given to the taxpayer because it was published on the assessment notice as an estimated tax, and in some counties, that information generated phone calls because it reflected a tremendous increase in taxes. Tax information cannot be given at the time the assessment notices go out because accurate information isn't available at that time.

VOTE: The substitute motion carried with 5 ayes and 3 nays.

Chairman Hill requested that Mr. Poinelli communicate to the counties that this bill came very close to passing. Rather than mandating this type of action, it would be better for the counties to be proactive in providing useful information to the public.

H 0197 Relating to Technical Changes for School District Tax Calculations

Representative Roberts presented this bill. This legislation makes two technical changes necessary as a result of H0001.

- 1) The public school's Bond Levy Equalization calculation needed to be updated after 2006.
- 2) A change in the method the cap for school district tort levy calculations were made due to the way Ag replacement monies were handled.

MOTION: **Senator Heinrich** moved to send H 0197 to the Senate floor with a do pass recommendation. **Senator Siddoway** seconded the motion.

VOTE: The motion carried by a unanimous voice vote.

H 0191 Held in committee for one more day.

H 0189 Relating to Wind Energy Producers (cont.)

Mr. Poinelli stated that the counties have reviewed this bill and finds it to be a fair and reasonable approach. At this point in time, there would be no reduction in tax revenue. In the future, there would be a stable tax revenue.

Senator Heinrich asked for an explanation of the differences in the administration of the two types of taxing methods. **Mr. Poinelli**

answered that it is centrally assessed. If it was real property, it would be on the new construction rolls. At this time, because this type of property is so new, assessors do not necessarily know how to assess this property. The approach outlined in this bill seems to be the better method.

Boyd Hill, prospective wind farmer, testified in favor of H 0189.

Representative Eskridge summarized this discussion. He thinks this is a good bill. The increase in the cost of turbines over the last year has resulted in decreased incentives for development of wind farms. By using this alternative method of taxation, we actually parallel the revenue that is produced by wind generation facilities with their obligation to pay taxes. To answer the question “why are people still putting in wind farms”? It is probably because the equipment was already ordered before the escalation in price.

MOTION:

Senator McKenzie moved to send H 0189 to the Senate floor with a do pass recommendation. **Senator Langhorst** seconded the motion.

Senator McKenzie spoke in favor of H 0189. This bill is important to the goals of the energy plan. Wind energy has a lot of potential in this state. When the energy plan was established, one goal was to avoid mandates. Instead, the thought was to provide incentives that would be borne by all taxpayers or through items that would affect people’s conduct.

Senator Corder asked Mr. John: what is your interpretation of how this method will work for the state? **Mr. John** stated that it will not be much of a change. The Tax Commission has always assessed this property. The wind energy properties will provide similar data as before in addition to their gross energy receipts and the Tax Commission will do the math and will apportion the tax out to the districts. The counties will still do the tax calculations. The Tax Commission will provide value instead of tax.

Senator Corder stated that he intends to support this bill but there are still a couple of “troubling” concepts.

- 1) Think this is a good bill vs not certain it is a good bill.
- 2) Last year wind farms received a sales tax exemption; this year H 0189. What will it be next year?

Senator Heinrich agrees with Senator McKenzie’s comments. This is an opportunity to give an incentive to an industry without “giving away the farm”. This is in lieu of personal property tax. It will give the counties a stable revenue stream. The Tax Commission will not have to centrally assess the property. There are no arguments over economic obsolescence, depreciation, and, wind energy is offering revenue to the counties.

Senator Langhorst supports this bill. Most business investments look at income and base decisions and the valuation of an enterprise on income. By valuing wind energy projects up front, before receiving any income, is a barrier to entry. This is an industry the state wants to support. With that and all the other reasons outlined today, he will support this bill.

Senator Siddoway asked to be excused from the vote because he has signed over some of his acreage for a wind energy farm. **Senator Siddoway** directed some questions to Mr. Johns. How is the current taxing of a wind power facility calculated? Where does the money go? How does the county get it? What income does the state provide from those facilities? What does the 3% mean to the state? **Mr. John** answered that currently the Tax Commission appraises the property and then allocates the value back to the counties. The state does not receive any property taxes from this process. The property does get a rebate on the sales tax. The companies still pay income tax. The 3% is based on budget. The properties that are being added were never on the new construction rolls so when they were put on the roll, the budget could only go up by 3%. It ultimately lowered the levies and reduced the tax of the other taxpayers.

Senator Siddoway asked if, after all the assessments are finished, budgets are set, and mills are determined, would taxes be higher if wind energy facilities were not there. **Mr. John** said the budget would not go up more than 3%. If the wind properties were taken out of the mix, it will raise the levy rate for other taxpayers.

Senator Bilyeu asked if those revenues get applied to any revenue allocation area. **Mr. John** said that there was not a revenue allocation area.

Senator Heinrich stated that as a budget officer, he would take the total budget, subtract all other revenues such as sales tax, fees, etc., to arrive at the property tax. The revenue stream from wind energy facilities would be subtracted in the same way resulting in lower property taxes.

Senator Siddoway said that he agreed with Senator Heinrich.

VOTE: The motion carried by unanimous voice vote.

Chairman Hill:

Sponsors: H 0189 Senator McKenzie
H 0197 Senator Heinrich
H 0198 Senator Siddoway

ADJOURNMENT: There being no further business, the meeting adjourned at 4:12 p.m.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

NOTE: Any sign-in sheet, guest list, testimony, booklets, charts, or graphs will be retained in the Committee Secretary's office until the end of the session. After that time the material will be on file in the Legislative Services Library (Basement E).

**LOCAL GOVERNMENT & TAXATION COMMITTEE
ROLL CALL VOTE**

DATE: March 6, 2007

SUBJECT: Relating to Information Contained in Tax Notices

BILL #: H 0179

ORIGINAL MOTION IS:				SUBSTITUTE MOTION IS:				AMENDED SUBSTITUTE MOTION IS:			
To send H0179 to Senate floor with a do pass recommendation				Hold H0179 in committee							
	AYE	NAY	A/E		AYE	NAY	A/E		AYE	NAY	A/E
Sen Tim Corder, Vice Chair				Sen Tim Corder, Vice Chair	X			Sen Tim Corder, Vice Chair			
Sen Joe Stegner				Sen Joe Stegner	X			Sen Joe Stegner			
Sen Curt McKenzie				Sen Curt McKenzie		X		Sen Curt McKenzie			
Sen David Langhorst				Sen David Langhorst	X			Sen David Langhorst			
Sen Diane Bilyeu				Sen Diane Bilyeu	X			Sen Diane Bilyeu			
Sen Jeff Siddoway				Sen Jeff Siddoway	X			Sen Jeff Siddoway			
Sen Leland Heinrich				Sen Leland Heinrich		X		Sen Leland Heinrich			
Sen Shirley McKague				Sen Shirley McKague		X		Sen Shirley McKague			
Sen Brent Hill, Chair				Sen Brent Hill, Chair				Sen Brent Hill, Chair			
TOTALS				TOTALS				TOTALS			
					5	3					
MOVED	Senator McKague			MOVED	Senator Corder			MOVED			
SECONDED	Senator Heinrich			SECONDED	Senator Stegner			SECONDED			

MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: March 7, 2007

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Hill, Vice Chairman Corder, Senators Stegner, McKenzie, Siddoway, Heinrich, McKague, Langhorst, and Bilyeu

MEMBERS ABSENT/ EXCUSED: All members were present.

GUESTS: The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).

CONVENED: **Chairman Hill** convened the meeting at 3:03 p.m.

H 0154 Relating to Information Requests from Idaho State Agencies on Energy Facility Sitings
Representative Mark Snodgrass presented this bill to the committee. H 0154 enacts a recommendation from the Interim Committee on Energy, Environment and Technology that resources be made available at the request of local officials to provide information and advice on energy facility siting.

Representative Snodgrass stated that, as co-chair of the interim subcommittee, it was brought to that committee's attention in several different ways, that local units of government very often don't have specific technical expertise in dealing with issues related to siting of large electrical generation facilities. This bill creates a system in which cities or counties can request and receive information from state departments when considering applications for permits to establish a new facility.

Senator Bilyeu asked if an adjoining county can also request and receive assistance. **Representative Snodgrass** responded that an adjoining county would not be able to do that under this provision. Only the county in which the application is being considered would be able to request assistance.

Senator Heinrich stated that the bill gave one more definition of people who can testify. This bill overrides the local ordinance and anyone in the world can testify. Is that true? **Representative Snodgrass** agreed. It also states that the city or county shall hold at least one public hearing so the public can offer public comment on a proposed facility. There are affected parties that are not necessarily county or city officials. A planning commission can be formed to address these issues if they so desire.

MOTION: **Senator McKenzie** moved to send H 0154 to the Senate floor with a do pass recommendation. **Senator Siddoway** seconded the motion.

Senator Corder stated that it is an important point that we would now have two definitions of who can testify. Why wasn't it considered that adjoining counties might need some similar assistance? **Representative Snodgrass** said that the question had been considered. One issue the interim committee addressed was whether or not they wanted outside authorities or entities to override the local authority for siting of a facility. This bill just provides for access to as much information as possible by qualified people to assist city and counties in making an informed decision.

Senator Corder asked if the interim committee had made the determination that the county could allow anyone to participate. At their election, could multiple counties go together and form an agreement that would then require this information and make the request from the state? **Representative Snodgrass** said he did not believe that is what this bill allows. Those affected parties in adjacent or affected counties or cities would have to make their case to the local officials just like members of the public. They could come up with a joint planning commission which would allow them to participate in the process and give them the opportunity to testify at a public hearing, but they would not necessarily be able to vote.

VOTE: The motion carried with 7 ayes and 1 nay. Senator Langhorst voted no.

H 0215

Relating to Application to Claim Tax Status-Wildlife and Wildlife Habitat

Representative Lenore Barrett opened her comments by stating that this is a simple bill that amends and clarifies the application process to claim tax status for wildlife and wildlife habitat in an agriculture environment. The property tax status will remain at its agricultural rate. The requirements that the management plan must include are:

The control of noxious weeds.

Annual progress reports for target species and noxious weeds.

This bill provides guidelines for both parties that are fair to all. This bill does not do away with the property tax exemption used to protect wildlife and wildlife habitat.

Senator Heinrich stated that this is a good concept. When the report on the noxious weed ten year plan is submitted to the assessor, will the weed supervisor also be in contact with the assessor? **Representative Barrett** deferred to Wally Butler, Idaho Farm Bureau. **Mr. Butler** said that the report goes to both but the responsibility stays with county weed control.

Testimony in support of H 0215:

Commissioner Cliff Hanson, Custer County Board of County Commissioners

Mr. Wally Butler, Idaho Farm Bureau

Will Whelan, Governmental Affairs, Nature Conservancy of Idaho

Tony Poinelli, Idaho Association of Counties

Nate Helm representing sportsmen and fishermen

There was no testimony in opposition of the bill.

MOTION:

Senator Siddoway moved to send H 0215 to the Senate floor with a do pass recommendation. **Senator Stegner** seconded the motion.

Senator Bilyeu commented on the simplicity of the annual reporting after the initial application in comparison with the method relating to the irrigation

reporting the committee heard earlier this session.

Senator Langhorst stated his appreciation to all of the people involved in constructing this piece of legislation.

VOTE:

The motion carried by unanimous voice vote.

H 0177

Relating to Limited Increased Tax Credit for Capital Investments-Biofuel

Senator Curt McKenzie presented H 0177 to the committee. **Senator McKenzie** stated that he is Co-Chairman of the Interim Committee to develop an energy plan. Co-Chairman, Representative George Eskridge and several other members of the committee were in attendance.

This bill provides an additional 3% tax credit above the current 3% investment tax credit. It is directed to fuel retailers and wholesalers who invest in infrastructure dedicated to providing biofuels to their customers.

There are clear advantages to developing alternative fuels. Currently, all petroleum is imported into the state. There is no control over price fluctuations. There have been discussions about mandates to require fuel producers to sell a certain percentage of biofuels. The Interim Committee chose to have an incentive instead of a mandate and selected the tax credit as the best approach. It requires the investment before obtaining the credit and there is a sunset clause.

The question that is asked the most is, "Why not leave it to the market"? Let the consumers dictate the price. There are problems with the open market.

- Stations have contracts with pipeline owners and cannot sell biofuels.
- Biofuel pumps must be installed away from regular pumps so cost is prohibitive.

With this incentive, some stations would find it cost effective to offer biofuels.

The long-range benefit to the state would be new industry.

Biofuels would be assimilated into the system without a mandate.

Testimony in support of H 0177

Russ Hendricks, Legal Advisor, Farm Bureau

John Watts, Legal Advisor, Pacific Ethanol

Suzanne Schaefer, Executive Director, Idaho Petroleum Marketers

There was no testimony in opposition of the bill.

Questions for Mr. Hendricks

Senator Langhorst asked if the Phase I Vapor Recovery is not required but will be installed, can the retailer or wholesaler use the investment tax credit. **Mr. Hendricks** answered that his reading of the bill would indicate that, yes, it would be covered.

Senator Corder asked what would be the level of agreement by the people who took the survey relating to this bill if they knew it would mean increasing their taxes. **Mr. Hendricks** responded that there are currently three ethanol plants being constructed within the state and the tax revenue from just the payroll taxes from one plant alone would be more than enough to offset the tax credit and then, when the tax credit sunsets at the end of five years, the total revenue from

those plants will go to the taxing entities. There would not be increased taxes.

Chairman Hill asked if rules will have to be written to clarify what infrastructure will qualify for the tax credit. **Mr. Hendricks** stated that the bill limits the definition of infrastructure. However, there will probably need to be additional rules.

Questions for Mr. Watts

Senator Stegner asked if Mr. Watts knew what the federal production incentives are for biofuels. **Mr. Watts** responded “no”.

MOTION:

Senator McKenzie moved to send H 0177 to the Senate floor with a do pass recommendation. **Senator Bilyeu** seconded the motion.

Senator Corder noted that the exemptions allowed can be taken under three sections: tax on corporate income, franchise tax, and tax on estates and trusts. Have we always distributed it in this way?

Dan John, Idaho State Tax Department, answered that the language is standard language. Those items refer to federal income tax, not state income tax.

Senator Heinrich commented that he would like to support this bill but he cannot. Information he has received indicate that a bill to eliminate the investment tax credit as a way to replace personal property tax revenue would be more acceptable.

Senator Langhorst agreed with Senator Heinrich for the same reasons. He is thinking of the interim committee that will look at the big picture.

VOTE:

The motion carried by roll call vote. 5 ayes and 4 nays. See Attachment A

H 0204

Relating to Development Fee Agreements for Government Entities

Representative Jim Clark said that this bill is an amendment that allows government entities authorized to impose impact fees the authority to enter into agreements and lawfully distribute such fees to those taxing districts which provide “public facilities” and are directly affected by new development. This bill is supported by the Idaho Association of Counties.

Senator Heinrich asked why all taxing districts were not included.

Representative Clark responded that he only picked those that had something to do with public facilities.

Senator Heinrich stated that entities such as hospitals, cemeteries, and other taxing entities should be included. **Representative Clark** said those could be added at a later date.

Chairman Hill asked if government entities such as fire districts or water districts are authorized to assess impact fees. This bill just gives them the authority to enter into agreements with each other. **Tony Poinelli**, Idaho Association of Counties, answered that the only entities authorized to receive impact fees are cities, counties, and the Ada County Highway District. The authorized entities will create a capital improvement plan and determine the impact fees. That entity will meet with other government entities and get an estimated cost for each entity and then there will be negotiations to reach final

agreements on the distribution of those fees.

Testimony in support of H 0204

Commissioner Todd Tondi, Kootenai County

Testimony in opposition to H 0204

Steve Price, General Counsel, Ada County Highway District

Questions for Commissioner Tondi

Senator McKague asked how the impact fees were collected.

Commissioner Tondi stated that the developer would pay the fee at the time the project was being built.

Questions for Mr. Price:

Senator Stegner asked Mr. Price to explain the general concept of what this bill does. **Mr. Price** thinks that the general understanding of the bill is that it will allow unauthorized taxing districts to enter into an agreement with a governmental entity under statutory authority to impose impact fees and develop a joint capital improvement plan.

Senator Stegner said that the statute adds six districts to those entities that already have the authority to enter into joint agreements and impose impact fees. Will that give more districts jurisdiction to impose impact fees? **Mr. Price** answered that, no, the additional districts would not have the ability to impose impact fees.

Representative Clark summarized saying that this is a first step. This bill does not say that unauthorized government entities should get impact fees. **Senator Stegner** asked if Representative Clark believed that this bill might be interpreted by some of the other districts that they could be authorized to collect impact fees as long as they were working through an authorized agency. **Representative Clark** said no.

MOTION: **Senator Corder** moved to send H 204 to the Senate floor without recommendation. Motion died for lack of second.

MOTION: **Senator Corder** moved to send H 204 to the Senate floor with a do pass recommendation. **Senator Langhorst** seconded the motion.

VOTE The motion carried by unanimous voice vote.

H 0216

Relating to the Distribution of Proceeds of a Tax Deed Sale

Representative Phil Hart explained that this bill deals with seizure and sale of real estate for delinquent property taxes. When property taxes are three years delinquent the seizure process begins and it takes about a year to get to the point of actual sale. Anytime during that period, the property owner may redeem the property and pay the tax. Once the property is sold, there is no way to redeem it.

Under current law, when a property is sold at a tax deed auction, all proceeds are distributed among the various taxing districts. The owner loses his entire equity even if there are excess funds over any delinquent taxes, fees and liens. This bill provides that the proceeds of a tax deed sale will be distributed first to state, county and taxing districts to make them whole and then to any existing

liens. The surplus funds would go to the owner. The county has the right to be “made whole”, but anything over that is a “taking”.

Representative Hart said that the county is not entitled to the extra funds. There are about 300-400 seizures that take place in one year and about one-tenth of those would have surplus funds available. This is not about just the money, it is about principle.

Senator Mike Jorgenson stated that there is the potential of misuse with the current procedure. This is a serious issue. The argument that the administrative process would have to be changed completely just to be fair with the citizen is not appropriate.

Senator Heinrich wanted an explanation about “party of interest”. He is interpreting this bill to say that the county could not be a party of interest and they would lose their lien rights on any property. **Representative Hart** said that “party of interest” meant that the local tax district could not redeem the property. However, once the property is sold at auction, they are still reimbursed for their claims.

Senator Corder asked how it could be said that the property is coming off the tax rolls. If the property owner has not been paying taxes for the previous four years but the county has been making the assessments for that period and setting its budget, the levy rate would be based on a value with no income which would increase the levy rate for everyone else. In reality, the property is already off the tax rolls. **Representative Hart** said that it is on the tax rolls. A government entity could purchase a property and pay enough to reimburse the county, even if it was well below the market value, and the property would come off the tax rolls. Actually, in this case, the property should have gone to public auction and should not have been redeemed by a government entity.

Senator Heinrich thought that there was a separate code under which irrigation districts could “take” property. **Representative Hart** said that was right. The Treasurer, in the case of the example, applied the “party of interest” definition in the property tax code when they should have applied the “party of interest” definition for irrigation districts.

Testimony in support of H 216

Bruce Bistline, Attorney, member of American Civil Liberties Union Legal Council

Brian Fisher, Executive Director, Idaho Values Alliance

Testimony in opposition to H 216

Donna Peterson, Payette County Treasurer and member of Idaho Association of County Treasurers

Rick Currie, Commissioner, Kootenai County

Questions for Ms. Peterson

Senator Stegner commented that Ms. Peterson has made some very good points about this issue and the bill deserves more thought based on that testimony. The problem is, it is just not fair for a government entity to make a profit from a taxpayer. If this bill is not appropriate, it would be better to make a commitment to guarantee to be back with a new bill that will address the treasurers’ and counties’ concerns. **Ms. Peterson** stated that they will come

back with a new bill. It is time to make a change.

Questions for Mr. Bistline

Senator Stegner asked if Mr. Bistline drafted this bill. **Mr. Bistline** responded that he helped to draft it and did present some of the ideas and structures.

Questions for Commissioner Currie

Chairman Hill asked if the county was authorized to hire a realtor to handle these sales. **Commissioner Currie** didn't have an answer. He did know that they are authorized to hire an auctioneer. He does not think they can hire a realtor because, by statute, they have to go through the auction process.

Senator Stegner asked Representative Hart for an explanation of what has been alluded to as an ongoing effort over several years to resolve this issue. How did you engage the county association and what negotiations have transpired? **Representative Hart** responded that this is the third bill that he has attempted. In addition, there had been activity prior to that time. There has not been a working relationship with the counties. Interaction has been adversarial in nature, but the counties have been kept apprised of all activity.

Representative Hart explained the definition of "other encumbrances". H 0216 does not prevent the county from being reimbursed for its claim for taxes, fees, and expenses. It only prevents the taxing district from redeeming the property outside the auction process. They would still have a claim on that property and would be reimbursed from the proceeds of the auction.

As to the argument that the property owner lets the property go to auction to avoid realtor fees, it does not make sense. Properties generally sell for one-third to one-half of the fair market value. It does not make sense to sell at a loss to avoid a 6% fee.

It is not difficult to figure out reasonable costs. Many professionals must keep track of their time. That is not hard to do.

This is a structural problem in the law. There are takings that shouldn't happen. Nowhere else in Idaho Code does this happen. People always get the residual balance from the sale of property.

Senator Heinrich commented that he has been around the tax deed process for sixteen years and he has never seen an abuse. There are some exceptions. If this needs to be changed, then we should go through a process to change it. He is not aware of any bonafide and ongoing efforts between the Idaho Treasurers Association and the sponsors of this bill. Interested parties need to make a collaborative effort to come back next year with a better bill. The counties are not profiteering. They use it for the public good. There may be more excesses now with the high property valuations. It does not make sense that someone would let a \$500,000 piece of property go to tax deed sale. There are ways around that action. The commissioners do have the discretion to work with the property owner and not send the property to tax deed sale.

MOTION:

Senator Heinrich moved to hold H 0216 in committee. **Senator Siddoway**

seconded the motion.

Senator Langhorst agreed that this issue needs to be resolved. There needs to be a collaborative effort to solve the inequities. One taxpayer's equity should not be used to pay for costs or other funding. We don't disagree on the fact that it needs to be fixed. He will wait another year for a better bill. He will support the motion under those circumstances.

Senator Bilyeu asked Mr. Poinelli how the counties were involved in this issue and what objections the counties and treasurers have to this bill. **Mr. Poinelli** responded that there had been some discussion. There has never been any face-to-face interaction. The objections are basically everything that has been heard by the various members opposing the bill today. **Senator Bilyeu** asked if they specifically objected to the surplus going back to the property owner. **Mr. Poinelli** said he can't say yes or no. The issue is, what is a reasonable process. There are several options available. **Senator Bilyeu** agreed that the process could be cumbersome to the counties, but there is the possibility of a large surplus. She will support the motion.

Senator Stegnor stated that he will support the motion. This is a new issue to us and the counties should actively be engaged, in good faith, in the discussions so that next year there will be a good piece of legislation.

VOTE: The motion carried with 7 ayes and 1 nay. Senator McKague voted no.

H 0191 Relating to Process for Taxing Districts to Increase Existing or Impose New Fees

Representative Tom Loertscher stated that this is a simple piece of legislation that clarifies that a proposed fee from a taxing district can only increase by 5% over the fee last collected or a hearing must be held.

MOTION: **Senator Heinrich** moved to send H 0191 to the consent calendar. **Senator Langhorst** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

ADJOURNMENT: There being no further business, the meeting adjourned at 5:20 p.m.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

NOTE: Any sign-in sheet, guest list, testimony, booklets, charts, or graphs will be retained in the Committee Secretary's office until the end of the session. After that time the material will be on file in the Legislative Services Library (Basement E).

**LOCAL GOVERNMENT & TAXATION COMMITTEE
ROLL CALL VOTE**

Attachment A

DATE March 7, 2007

SUBJECT Relating to Limited Increased Tax Credit for Capital Investments - Biofuel

BILL # H 0177

ORIGINAL MOTION IS: To move H 0177 to the Senate floor with a do pass recommendation.				SUBSTITUTE MOTION IS:				AMENDED SUBSTITUTE MOTION IS:			
	AYE	NAY	A/E		AYE	NAY	A/E		AYE	NAY	A/E
Sen Tim Corder, Vice Chair		X		Sen Tim Corder, Vice Chair				Sen Tim Corder, Vice Chair			
Sen Joe Stegner		X		Sen Joe Stegner				Sen Joe Stegner			
Sen Curt McKenzie	X			Sen Curt McKenzie				Sen Curt McKenzie			
Sen David Langhorst		X		Sen David Langhorst				Sen David Langhorst			
Sen Diane Bilyeu	X			Sen Diane Bilyeu				Sen Diane Bilyeu			
Sen Jeff Siddoway	X			Sen Jeff Siddoway				Sen Jeff Siddoway			
Sen Leland Heinrich		X		Sen Leland Heinrich				Sen Leland Heinrich			
Sen Shirley McKague	X			Sen Shirley McKague				Sen Shirley McKague			
Sen Brent Hill, Chair	X			Sen Brent Hill, Chair				Sen Brent Hill, Chair			
TOTALS	5	4		TOTALS				TOTALS			
MOVED Senator McKenzie				MOVED _____				MOVED _____			
SECONDED Senator Bilyeu				SECONDED _____				SECONDED _____			

MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: March 8, 2007

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Hill, Vice Chairman Corder, Senators Stegner, McKenzie, Siddoway, Heinrich, McKague, Langhorst, and Bilyeu

MEMBERS ABSENT/ EXCUSED: All members were present

GUESTS: The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).

CONVENED: **Chairman Hill** convened the meeting at 3:05 p.m. with a quorum present.

H 0178a

Relating to Abatement District Formation

Tony Poinelli, Idaho Association of Counties, presented H 0178a to the committee. This legislation updates the current statutes dealing with abatement districts. It includes new definitions, provides for non-contiguous areas, makes changes to the procedures for formation of abatement districts, adds to powers of abatement districts, provides for disasters and emergencies, and provides for the operation of the districts.

In changing the terminology "mosquito" to "abatement", it allows for some expansion to deal with other insects or vermin. The property contained in the abatement district must be contiguous unless it is separated by at least forty acres that are owned by a federal, state, or local government. That non-contiguous property may be included in the district by election or agreement of the private property owners.

Currently the property owner initiates the petition to the county commissioners to be published and put on the ballot. With this bill, the county commissioners could initiate the petition and put it on the ballot.

Chairman Hill asked if county commissioners initiated these petitions very often. **Mr. Poinelli** responded that it could happen in an emergency situation. However, the bill clarifies that it could only be done during a primary or general election. Both options, require a majority vote.

A property owner may opt out of the abatement district. That property owner must submit a plan to control mosquitos and vermin. The district will not treat that property but will retain monitoring and surveillance responsibilities. In an emergency the commission can create an interim abatement district which will remain in effect for two years. If that district

needs to continue, it can be made permanent. There is a process to transfer the operation of the district to the county commissioners. The abatement district board would then act in an advisory capacity.

Senator McKague asked if this bill eliminates the mosquito abatement district and creates a new abatement district. **Mr. Poinelli** stated that this bill does not create anything new, it does expand the authority of the abatement district to cover more than just mosquitoes.

Senator Langhorst asked if it took a vote of all property owners to include non-contiguous property in the abatement district or to add a property that was missed in the original petition. **Mr. Poinelli** answered that yes, it would require the property owners' authorization.

Senator Bilyeu had some concerns about spray covering lands that were not intended to be sprayed. **Mr. Poinelli** pointed out the segment of the bill that addressed those landowners that opted out of the abatement district.

Testimony in support of H 0178a

Jack Bennett, Operations Manager, Ada County Mosquito Abatement District and President, Idaho Mosquito & Vector Control Organization

Senator Heinrich asked if the section of the bill relating to a property owner's option to decline to participate in the district would cover those organic farmers who have concerns about abatement methods. **Mr. Bennett** responded that anyone can opt out of the district but they must find a way to control the problem. He emphasized that they spray for adult mosquitoes only as a last resort. The focus is on containing the problem at the larvae stage.

MOTION:

Senator McKenzie moved to send H 0178a to the Senate floor with a do pass recommendation. **Senator Siddoway** seconded the motion.

Senator Bilyeu asked if anything was being done about federal lands. Are we asking the federal government to do something about abatement? **Mr. Poinelli** answered that no, they can try to work with the BLM and forest service, but they can't require the federal government to do anything. **Jason Kinley**, Director, Gem County Mosquito Abatement District, added that the Center for Disease Control does get involved because of West Nile Virus.

Senator Bilyeu asked if the State of Idaho could request the federal government to enter into the abatement district. **Mr. Poinelli** answered that the ability is there, the final say is up to the federal agency.

VOTE:

The motion carried with a unanimous voice vote.

H 0239

Relating to Withdrawals from the College Savings Program

Ron Crane, Treasurer, State of Idaho, opened the discussion for this bill. This bill closes a loophole where funds from a college savings plan outside the state are transferred into the Idaho College Savings Plan and the tax deduction is taken. Then those funds are transferred back to the original college savings program outside the state without penalty. This

bill closes that loophole.

Senator McKenzie asked a question regarding the mechanics of this bill. How does the wording of this bill accommodate the change? **Dan John**, Idaho State Tax Commission, responded that this bill states that the money has to stay in the Idaho account. If the amount is taken out, it must be claimed as income.

MOTION: **Senator Corder** moved to send H 0239 to the Senate floor with a do pass recommendation. **Senator Heinrich** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

Chairman Hill turned the gavel over to Vice Chairman Corder.

H 0240 Relating to a Credit for Income Tax Paid to Another State

Senator Hill explained that Idaho taxpayers must report all of their income no matter where it is earned, inside or outside the state, on their Idaho Income Tax Return. To avoid double taxation, the taxpayer is then entitled to a credit against his Idaho tax. The credit is limited by the amount of tax that would have been assessed by the State of Idaho if the same amount of income had been earned in Idaho rather than the other state. The problem arises in how the Tax Commission interprets the tax when dealing with multi-state pass-through entities.

The Tax Commission has erroneously interpreted Idaho Code 63-3029(3), claiming that the income from a pass-through entity must be recalculated not only at the individual level based on adjusted gross income, but also at the entity level based on Idaho apportionment formulas. By using this formula, the Idaho taxpayer can be taxed on over 100% of total income. This calculation is too complex and, in many cases, the taxpayer has no access to the information required to make this calculation. A Form K-1 is the only information given a taxpayer about his share of the income.

This bill is to clarify, simplify and most of all, to correct the existing law. This is not a new law.

Senator Stegner asked what can be done about this problem. **Senator Hill** responded that when there is a pass through entity involved, with respect to that income, the income shall be based on the proportion of the individual taxpayer's share of the entity's taxable income correctly reported to the other state, under the laws of the other state, and based on the individual's gross income.

Vice Chairman Corder asked if the fiscal note was a negative amount. **Senator Hill** said that it is a cost to the state based on an estimated cost, maybe an "opportunity" cost. The number comes from the Tax Commission.

MOTION: **Senator Stegner** moved to send H 0240 to the Senate floor with a do pass recommendation. **Senator Siddoway** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

Vice Chairman Corder returned the gavel to Chairman Hill.

ADJOURNMENT: There being no further business, the meeting adjourned at 3:57 p.m.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

NOTE: Any sign-in sheet, guest list, testimony, booklets, charts, or graphs will be retained in the Committee Secretary's office until the end of the session. After that time the material will be on file in the Legislative Services Library (Basement E).

MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: March 13, 2007

TIME: 3:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Hill, Vice Chairman Corder, Senators Stegner, Siddoway, Heinrich, McKague, Langhorst, and Bilyeu

MEMBERS ABSENT/ EXCUSED: Senator McKenzie

GUESTS: The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).

CONVENED: **Chairman Hill** convened the meeting at 2:15 p.m. with a quorum present.

H 0074 **Chairman Hill** explained that the intent is to make this a radiator cap bill and send it to the 14th Order for replacement with the language that will be presented by Senator Brad Little.

Relating to Sales and Use Taxes-Mail Order and Internet Sales
Senator Little explained that there have been many changes in the way retailers do business since the inception of the sales tax in Idaho. He also described the effects of the Quill decision that came out of the Supreme Court. This decision says that a state cannot compel a company without a physical presence in that state to collect sales tax. However, the purchaser must pay use tax on any purchases made from a company that does not collect sales tax.

This bill addresses the question of physical presence or nexus. Currently there is no definition of nexus between a retailer and online sales vendor in the sales tax statutes. The language in this bill defining nexus comes from the Multi-state Tax Commission. This bill will ensure a level playing field for all retailers and will not give an unfair competitive advantage to out of state vendors.

UNANIMOUS CONSENT: **Senator Corder** asked for unanimous consent for H 0074 to be sent to the 14th Order for possible amendment. There were no objections.

ORDER: **Chairman Hill** so ordered.

H 0250 Relating to Sales Tax Rebate/Certain Developers
Representative Bob Nonini and Senator Jim Hammond brought this bill before the committee. This bill will be referred to as STAR, State Tax Anticipation Revenue. It is a new concept and idea to Idaho. It is used to finance highways, freeways, public infrastructure, or road infrastructure with private dollars. The purpose of this legislation is to establish a new method of financing public transportation infrastructure

projects utilizing STAR. Private funds would be utilized to pay for all phases of qualified, approved projects for interstate and other state highways. The developer of the retail complex whose stores will sell tangible personal property or taxable services will qualify for a rebate of taxes paid on purchases at the site to reimburse the developer for project expenses incurred in the installation of approved transportation. The Department of Transportation (ITD), State Tax Commission, and Commerce Department have been involved in the crafting of this legislation. The Tax Commission will have oversight responsibilities for all monies disbursed to repay the costs incurred by the private sector. There will be no ITD budget funds or general funds used to construct these transportation improvements. It will be all private, up front dollars.

Senator Hammond went through the bill and explained the objectives of the bill, the requirements of the participants for qualified projects, and the responsibilities of the various government entities involved with the projects. **Senator Hammond** emphasized that nothing within the bill will hold the state of Idaho or any public subdivision liable. The liability is removed from any state or local system.

Why would the state be interested in this type of financing?

- There are very few tools to bring in industrial development.
- This is a tool, although a limited one.
- There could be a regional draw for tourism to the state because of potential retail centers.
- There are other projects that would be applicable to smaller localities.
- It will not shift tax dollars from one region to another.
- It will improve Idaho's competitive edge when competing with neighboring states for development.
- It can create necessary public infrastructure that is needed.
- It can create industry and retail business for the state.

Senator Corder asked if there was a history for the minimum dollar amounts set out in the bill and if there is flexibility for future contracts.

Representative Nonini said that the dollar requirements were set so the results would be enough to justify the projects. **Senator Hammond** said there may be some flexibility. But the caps were set for now because it is a change in policy; it is a change in how business is done in the state of Idaho; and the process is new.

Senator Bilyeu asked what happens after the project is transferred to the state, does the state take care of the upkeep. **Senator Hammond** said it becomes a state-owned facility and becomes part of the system. It will be treated as any other state system.

Senator Bilyeu asked if there were a recreation district that had additional sales tax, where would that sales tax go. Would it stay in that particular district? **Senator Hammond** first stated that there is not a recreational district. He went on to say that the revenues from anything that already exists would continue to go where they are going now.

Chairman Hill asked if interest is paid to the developer or does he only get the initial investment back. **Dan John**, Idaho State Tax Commission, responded that interest would not be paid.

Chairman Hill asked when is ownership transferred. **Senator Hammond** answered that from the start, ITD would always have ownership of the project. They will approve the plans and supervise construction of the project. They would take ownership of the rights-of-way before the project was built.

Chairman Hill asked if there was any precedence in Idaho Code where sales tax is used for the purpose of building highways. **Senator Hammond** was not aware of anywhere this had occurred.

Testimony in support of H 0250

Darrell Manning, Chairman, Idaho Transportation Board
Jay Engstrom, Deputy Director, State of Idaho Commerce and Labor
Lucas W. Braden, Public Affairs Manager, Coeur d'Alene Chamber of Commerce (written testimony)

MOTION: **Senator Corder** moved to send H 0250 to the Senate floor with a do pass recommendation. **Senator Stegner** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

MOTION: **Senator Corder** moved to bring H 0179 back to the committee. **Senator Siddoway** seconded the motion.

VOTE: The motion carried by unanimous voice vote and will be heard on Thursday, March 15,2007.

H 0251 Relating to Limits on Modification of Urban Renewal Development Plan
Representative Jim Clark stated that this bill is to update the 1965 law on boundaries for Urban Renewal Developments (URDs) and to provide a clear understanding of the original intent of the law.

There are currently 48 separate URDs in the state equal to \$1.2 billion. The first URDs were put in place in 1965. Originally bonds were used for funding. Now funding is through tax increment financing. The original intent was that the URD should be closed out at the time of completion. Only one URD has ever been closed out (Post Falls). The boundaries were drawn for this URD, the work was completed, and then it was closed down. That is the original intent of the law.

Senator Corder asked if Post Falls ever expanded the boundaries. **Representative Clark** replied that Seltese did not. Seltese was closed down five years early. However, there are four other URDs in Post Falls.

Senator Corder said that currently, we can choose a larger project when we start or there is the flexibility to grow as the need arises. With this bill, there will be a time limit set in statute. How do you address that?

Representative Clark stated that when the project is at a point of completion, according to the first study, it should be closed out and then go back, set new boundaries, and start all over again. Currently, the project can go on indefinitely. This bill sets a 24 year limitation.

Senator Corder asked if the URD expands its borders, does it also start the clock over or will it still be in the original 24 year time period.

Representative Clark said it stays within the original 24 years.

Senator Bilyeu has concerns about this bill. Originally URDs were used to rejuvenate blighted areas but now they are being used for urban

development. With this bill, they cannot expand the boundaries and they do need that flexibility. What is your opinion on that issue?

Representative Clark answered that now the whole concept of urban renewal is that of an economic development tool. Currently, there is not an exit strategy. When that happens, the URD can reap the benefits paid for by the taxpayer for an indefinite period of time. A second issue with the flexibility notion is that the other taxpayers in that district are paying more on their property taxes just for living in the county where there is a URD.

Representative Clark had one more comment. Every city in Idaho has a blighted area that would qualify under Idaho code. What really needs to be done is a complete rewrite of the statute. If it is going to be about economic development, lets say so. If it is going to be about URDs and increment financing, lets say that. It should not be both ways.

Senator Heinrich asked if H 0251 would force URDs to get the job done and get out. **Representative Clark** said exactly right!

Testimony in opposition of H 0251

Russell Westerberg, Capital City Development Corporation

John Wardle, Administrator, Meridian Development Corporation

Tim Komberec, Chairman, Board of Directors, Coeur d'Alene Area Chamber of Commerce (written testimony)

Senator Heinrich commented that legislation pertaining to these issues are being presented piece meal and until the experts in this field get together and look at the whole package and come back with some recommendations, we need to wait to pass another "portion" of the whole system.

MOTION: **Senator Bilyeu** moved to hold H 0251 in committee. **Senator Stegner** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

Chairman Hill announced the agenda for Wednesday, March 14. There will be a short meeting with two important bills to be discussed. On Thursday, there will be five bills and again, a short meeting time.

ADJOURNMENT: There being no further business, the meeting adjourned at 3:25 p.m.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

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MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: March 14, 2007

TIME: 2:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Hill, Vice Chairman Corder, Senators Stegner, McKenzie, Siddoway, Heinrich, McKague, Langhorst, and Bilyeu

MEMBERS ABSENT/ EXCUSED: All members were present

GUESTS: The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).

CONVENED: **Chairman Hill** convened the meeting at 2:05 p.m. on Wednesday, March 14, 2007 with a quorum present.

MOTION: **Senator Stegner** moved to accept the minutes of February 28, 2007 as written. **Senator Bilyeu** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

H 0249 Relating to Responsibility for Motor Fuels Tax on Distributors
Suzanne Budge Schaefer, State Director, Idaho Petroleum Marketers & C-Stores Association, appeared before the committee to present H0249. This bill places the legal incidence of motor fuels tax on distributors. This is consistent with historical practice and reverses the effect of recent court decisions. It also affords the opportunity for entering into tribal agreements.

This bill is about tax fairness. Those who use Idaho's roads should pay the taxes. There has been a steady increase of revenues lost to the state over the last four years. At the end of the 2006 calendar year, the loss to the state in fuel tax amounted to \$3.56 million based on the fuel volumes that are distributed into the tribal areas.

Representative JoAn Wood spoke to the fairness of the bill. The biggest problem is that other citizens are paying higher taxes because truckers coming through the state purchased fuel from a station that is affiliated with an Indian reservation which is exempt from collecting the state fuel tax. Those same truckers turn in receipts and mileage to get reimbursed for the fuel tax that they never paid.

Last year an agreement was made with the tribes to work with the Governor's office to come to some kind of an arrangement by December 1, 2007.

Vice Chairman Corder and Chairman Hill were excused to appear before other committees. The gavel was transferred to Senator Stegner.

Representative Wood stated that the gas stations are in favor of the distributors collecting the tax. It is much easier for the Tax Commission to reimburse exempt fuel tax if it is collected up front from the distributor. There are many transportation needs in this state. The state needs to be able to collect the tax money to meet these needs.

Testimony in opposition to H 0249

Lee Juan Tyler, Vice Chairman, Shoshone/Bannock Tribes
Bill Bacon, General Counsel, Shoshone/Bannock Tribes
Chief Allen, Chairman, Coeur d'Alene Tribe
Samuel Penney, Vice Chairman, Nez Perce Tribal Executive Committee
Bill Roden, Lobbyist & Attorney, Coeur d'Alene Tribe
David Kerrick, Attorney, Nez Perce Tribe
Richard John Kutch Sr, Treasurer, Shoshone/Bannock Tribes

Testimony in support of H 0249

Charlie Jones, Business Owner, Stinker Stores
Rob Franklin, Business Owner, United Oil Company

Senator Langhorst asked how close the tribes were in the negotiations with the Governor's office. **Mr. Tyler** responded that it was only one-sided. He invited the committee to come and visit the reservation and see how impoverished they are. **Mr. Bacon** also responded to the question by giving a time line of when letters were written and meetings were held. To date, there has been no resolution.

Acting Chairman Stegner reiterated that Chief Allen expressed his optimism about reaching some type of settlement with the state but wanted to know what time frame is expected. **Chief Allen** said it is close but he does not know if they will be able to reach an agreement by December 1. There are a lot of unanswered questions. **Acting Chairman Stegner** asked if Chief Allen was in any position to suggest that December 1st is a reasonable deadline. **Chief Allen** answered that they are always willing to sit at the table and work toward an agreement.

Senator McKague asked if it is correct that the federal government pays for roads on the Indian reservation. **Mr. Penney** explained that there were several categories of funding including federal monies. They have utilized some of the Indian reservation road monies to repair bridges and roads on and off the reservation. In one case the tribe, the state, and the county worked together to replace a bridge.

Questions for Mr. Kerrick

Senator McKague asked if the Nez Perce have casinos on the reservation. **Mr. Kerrick** answered yes.

Senator Heinrich asked how many miles of roads are maintained on the reservation. **Mr. Kerrick** said he personally did not have that information. He went on to explain that the Nez Perce Reservation is quite different than other reservations because of the "checkerboard"

land mass. Private, public, and reservation lands are intertwined. The 25¢/gallon tax that the Nez Perce have added to fuel goes to pay for social services, fuel for sheriffs outside the reservation, and asphalt. **Senator Heinrich** wanted clarification that the tax went to a general fund and was not allocated to roads. **Mr. Kerrick** stated it is not strictly for transportation.

Acting Chairman Stegner asked if negotiations are confidential. **Mr. Kerrick** said they are confidential and are not public information. They have had to start and stop with each change of governors. The tribes are not operating in bad faith. **Acting Chairman Stegner** asked if the Governor's office is dealing with each tribe individually and would that mean there could be five different arrangements coming out of these negotiations. **Mr. Kerrick** answered yes, each tribe acts independently.

Senator Bilyeu asked if the committee could get the information regarding the number of miles on the reservations that the Indian tribes are taking care of.

Acting Chairman Stegner requested that the information from the individual tribes be made available to the committee. It will be available at the next meeting when H 0249 will be summarized.

Acting Chairman Stegner returned the gavel to Chairman Hill.

**H 0249 HELD
FOR ONE
DAY:**

Chairman Hill closed the testimony portion of this bill. Ms. Schaefer will return on March 15 to summarize and debate H 0249. The vote will be taken on March 15.

H 0245a

Alex LaBeau, Idaho Association of Commerce & Industry, gave an overview of H 0245a. The objective of the bill is to eliminate personal property tax for businesses in the state of Idaho. Elements of the legislation include an immediate and retroactive exemption to January 1, 2007, in a reduction of \$50,000 taxable value. This exemption will eliminate the need for 81% of small businesses in Idaho from having to comply with the tax. The remaining Idaho businesses with personal property over \$50,000 will be phased out over time. Local governments will be reimbursed by the state general fund. After the initial exemption in 2007, the exemption will not create any shift to other classes of property. The immediate \$50,000 exemption would shift \$9.4 million or .86% in tax liability to other classifications of property. However, it is thought that increases in new investments, tax income will offset any decrease caused by this action.

The process at the county level will be similar to the circuit breaker process. The local governments will determine how much the exemption is and they will submit for reimbursement from the state. That process would continue until 100% of the personal property tax is eliminated, at which time the county would continue to receive that amount without having to apply for the reimbursement.

Another critical point in this bill addresses how mobile buildings will be defined.

Senator Stegner asked if the classification for a mobile home will be changed. **Mr. LaBeau** responded that yes, mobile homes will be classified as real property. At present, they are treated as personal property. **Senator Stegner** said that, today, they are not subject to the homeowner's exemption because they are personal property. **Mr. LaBeau** deferred to Dan John, Idaho State Tax Department. **Mr. John** could not answer at this time. There are cases when a mobile home is considered real property.

Senator Bilyeu stated that a mobile home can qualify for the homeowner's exemption even if it is personal property.

Mr. LaBeau explained that the rest of the legislation clarifies personal property as well as the anticipated process once the rules are in place to reimburse the local governments for the exemption.

Billy Norp, Business Owner, RVP Business Systems, testified in support of H 0245a. This tax is an inefficient tax. It is cumbersome for both business and county administrators to monitor and control.

Chairman Hill announced that testimony on this bill will continue on March 15 at a time to be determined.

ADJOURNMENT: The meeting adjourned at 3:45 p.m.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

NOTE: Any sign-in sheet, guest list, testimony, booklets, charts, or graphs will be retained in the Committee Secretary's office until the end of the session. After that time the material will be on file in the Legislative Services Library (Basement E).

MINUTES-AGENDA A

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: March 15, 2007

TIME: 8:00 a.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Hill, Vice Chairman Corder, Senators Stegner, McKenzie, Siddoway, Heinrich, McKague, Langhorst, and Bilyeu

MEMBERS ABSENT/ EXCUSED: All members were present.

GUESTS: The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).

CONVENED: **Chairman Hill** convened the meeting at 8:00 a.m. with a quorum present. The committee will hear the summary on H 0249 and vote on it. Testimony will be heard on H 0245a and it will be voted on at the afternoon meeting.

H 0249 In answer to a question raised at the March 14th meeting, the Nez Perce Reservation has 766 road miles. (See written testimony in permanent file)

Suzanne Budge Schaefer, Idaho Petroleum Marketers and Convenience Stores Association, answered some of the questions that were raised at the committee meeting on March 14, 2007 in reference to the road miles on the reservations. According to the Idaho Department of Transportation (ITD) CY 2005 data, road mileage that is currently maintained by state and local entities on reservations in Idaho is 1,292 miles. The accumulated three-year total through FY 2008 provided to the reservation from the Federal Lands Highway Program is \$6,378,232. This is in addition to the roads that are maintained by state and local entities.

There are three major points in this bill:

- 1) The distributor has always been liable for the fuel tax and this bill eliminates any exceptions.
- 2) This bill recognizes the triple hit Idaho takes in relationship to fuel tax:
 - a) The loss of fuel taxes (last year \$3.5 million and growing).
 - b) The loss of IFTA refunds for the substantial number of truckers coming through the state.
 - c) The impact on the federal highway formula by calculations decreasing the amount of fuel that is being taxed.
- 3) This is a step to address the serious state of Idaho's transportation system acknowledging that more must be done.

This is an issue of fairness. Those who drive on the roads pay the taxes. It is an issue of fairness to businesses who compete in the marketplace. It enables them to do so on an equal basis.

Senator Bilyeu asked if the 1,292 road miles was a total for all reservations. **Ms. Schaefer** answered yes. **Senator Bilyeu** said that this number does not match the numbers the tribes provided. **Julie Pipal**, Idaho Department of Transportation, clarified that the 1,292 miles are miles maintained by the state.

Senator Bilyeu asked what the impact was on the federal highway formula. **Ms. Pipal** answered that, first, there are certain costs taken off the top and then the distribution is 5% to the police, 38% to 288 local units of government, and the balance to the transportation department. **Senator Bilyeu** restated her question to Ms. Schaefer regarding her statement about a big impact to the formula. What is that impact? **Senator Bilyeu** asked for a dollar amount. **Ms. Schaefer** responded that the federal formula match is based on what Idaho's state fuel tax is. To the extent that our state fuel tax is reduced due to any factor, federal funds are reduced. Ms. Schaefer said she does not have a dollar amount. **Ms. Pipal** said she would get that information for the committee.

Representative JoAn Wood verified that the Federal Bureau of Indian Affairs gives a substantial amount to the Indian tribes for their roads. In summary, **Representative Wood** said the effect of this bill will put the collection of the fuels tax back where it was before the Ninth Circuit Court decision. It is in line with a more recent Supreme Court decision where distributors collect the fuel tax. It will be much more efficient if the distributors collect the fuel tax for the state of Idaho.

Ms. Pipal explained that the federal funding component that is impacted by the fuel tax will be the inability of the state to match federal funds. The normal match is 80/20 percent. Up to this time, Idaho has had a preferential match of 8% instead of 20%. Because of the decrease in the dollars we collect, we could lose that preferential treatment.

Senator Siddoway wanted to confirm that for every dollar that we are able to match, we get a 1-4 federal match. **Ms. Pipal** stated that the allocation of federal dollars is by formula, it is not a ratio. What is happening in Idaho is the inability to have enough money. There must be a certain base amount before the match goes into effect.

Senator Langhorst asked if there was a similar fund for reservations to get the same funding that the state gets. **Richard John Kutch**, Treasurer, Shoshone/Bannock Tribes, said that they do not get the same match. **Representative Wood** answered that the reservations are allocated funds from the Indian Reservation Roads (IRR) Transportation Planning Funds.

MOTION:

Senator Corder moved to send H 0249 To the Senate floor with a do pass recommendation. **Senator McKague** seconded the motion.

Senator Stegner will vote against the motion. This is about a political situation in the state, not money. This bill does not enhance the chance for the Governor and the tribes to come to a settlement.

Senator Langhorst will vote against the motion for the same reasons as

Senator Stegner mentioned. If this law passes we will see a lawsuit that will take us long past December. Under the circumstances, with three governors, there is good reason that a negotiated agreement has not been reached. The need for funds for highways is real and resolution to that problem should fall on this body. Until there has been a proper amount of time to come up with an agreement, we should wait.

Senator Bilyeu will be voting against the motion. She recognizes the need for additional dollars for Idaho's roads, but this bill would be harmful to the negotiations.

Chairman Hill stated that he will be supporting the motion. His obsession with fairness supports this motion. There are a lot of retailers that are struggling because some of the tribes are not even close to the prices those retailers must charge. It is not about the negotiations over the last few months, it has been going on for years and there has not been a resolution. It is time to take a position and to come to some agreement that is fair for all people across the state.

VOTE:

The motion carried by roll call vote with 5 ayes and 3 nays.

H 0245a

Relating to Personal Property Tax Exemptions

Alex LaBeau, Idaho Association of Commerce & Industry, continued with his presentation of H 0245a. Eliminating personal property tax is right for the state. This is the first step to ultimately relieve the state of the personal property tax. The citizens own the businesses in the state and this tax is burdensome and inefficient. By eliminating the tax, it will allow businesses to expand, hire employees, and invest in tools and equipment which will go a long way in replacing the funding lost by eliminating the personal property tax.

This bill will reduce the amount of the taxable value of personal property in each business by \$50,000. In turn, that will exclude 81% of Idaho businesses from paying personal property tax.

Chairman Hill confirmed that 81% would be totally eliminated from paying the tax but 100% would receive some relief.

Mr. LaBeau stated that this is a tax shift. There will be a .86% shift to other property taxpayers. He also pointed out that the increase in the homeowner's exemption in 2006 shifted taxes to businesses. **Mr. LaBeau** continued to go through this legislation, section by section. He did confirm that manufactured homes that are considered personal property can receive the homeowners exemption.

The legislature will have the opportunity to vote on each step along the way, ultimately eliminating the personal property tax. It is a fiscally responsible plan since there will be an annual review in order to receive a state appropriation.

Chairman Hill questioned the process of the appropriations. When the legislature decides to appropriate a certain amount for personal property reduction and the formula is applied, what happens the following year? Is the same amount locked in? **Mr. LaBeau** answered that the amount would be locked in until 100% of the personal property value is excluded.

Chairman Hill asked if this legislation clearly states that process or does the language of the appropriation bill cover the amount. **Mr. LaBeau** said that the language of H 0245a gets to the point of 100% but additional steps will need to be taken as the process goes forward through the appropriation process.

Senator Stegner asked if future appropriations would be left up to the legislature to fund or are they left up to a one-time funding mechanism. **Mr. LaBeau** responded that it would be left up to the legislature but the intent is that it would be ongoing.

Senator Stegner asked what the cost would be the first year in 2007 with the \$50,000 exemption. **Mr. LaBeau** answered that there were several things to look at for the cost but a flat line shift is \$9.4 million the first year.

Senator Bilyeu asked if there had been a calculation made as to what would go to agriculture properties. **Mr. LaBeau** said no, that calculation had not been done.

Senator Bilyeu asked if the tax shift had been calculated by county. **Mr. LaBeau** said that had not been calculated. Each county handles personal property tax differently and each county would have to be determined separately based on what they are currently doing.

Senator Heinrich said that according to the information he has, the maximum levy amounts will affect three counties and push them over the levy limits. They will lose dollars. Is there a way through rule making that exceptions can be made to offset that loss in funding for those particular counties? As this progresses, it will affect more counties. What is the solution? **Mr. LaBeau** answered that this could certainly be handled during rule making. However, consideration must also be given to the additional funds they will receive in fee revenues, revenue sharing, and the additional money businesses will spend as a result of this legislation. They do not foresee any losses.

Testimony in opposition of H 0245a
Retired Representative Ken Robinson

Testimony in support of H 0245a
Suzanne Schaefer, National Federation of Independent Businesses

Chairman Hill announced that public testimony will continue at this afternoon's meeting.

H 0265

Relating to Revisions Applicable to Sales Tax Exemption for Pollution Control Equipment

Jack Lyman, Idaho Mining Association is presenting this legislation to the committee. **Mr. Lyman** stated that this bill is to clarify the exemption for pollution control equipment. The exemption would be available to businesses that qualify for the production exemption and who purchase personal property that is primarily used to meet government standards even if that property becomes a component, fixture or improvement to realty. This was a collaborative effort with the Tax Commission to develop this bill. This bill is limited in scope and is specific to who will

qualify for the exemption.

Testimony in support of H 0265

Trent Clark, Monsanto Company

Ken McClure, Attorney, Milk Producers of Idaho

There was no testimony in opposition to H 0265

Questions for Mr. Clark

Senator Stegner stated his concern is with concrete that is part of a whole building as opposed to the small part of that concrete that has pollution control equipment attached to it. How is the concept applied as to what portion of a full plant is exempt? **Mr. Clark** answered that when designing the building, the contract is designed around the whole building and that portion of the installation applying to pollution control will be identified in the contract. **Senator Stegner** asked if it is possible someone might take the entire foundation to a building simply because it houses pollution control equipment in a very small part of the building. **Mr. Clark** responded that there is a problem in that area right now. But, if you draw more recognizable lines, enforcement is easier. This legislation does that.

Senator McKenzie commented that one of the reasons that pollution control was exempted out is because it is a required expense to meet government standards. Every business has to meet pollution standards. This bill provides clarification and it is good policy.

MOTION:

Senator McKenzie moved to send H 0265a to the Senate floor with a do pass recommendation. **Senator Siddoway** seconded the motion.

Senator Stegner said that there could be some issues because of the inconsistency in the standards. However, this is a specific, unique application i.e. foundations for a particular need that can be very expensive and is a requirement of construction. For that reason, the clarification is necessary.

Senator Bilyeu commented that any encouragement that can be given for pollution control in the design of those facilities should be supported.

VOTE:

The motion carried by unanimous voice vote.

ADJOURNMENT:

There being no further business, the meeting adjourned at 9:43 a.m.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

NOTE: Any sign-in sheet, guest list, testimony, booklets, charts, or graphs will be retained in the Committee Secretary's office until the end of the session. After that time the material will be on file in the Legislative Services Library (Basement E).

**LOCAL GOVERNMENT & TAXATION COMMITTEE ATTACHMENT A
ROLL CALL VOTE**

DATE March 15, 2007-Agenda A-8:00 a.m. SUBJECT Relating to Responsibility for motor Fuels Tax on Distributors BILL # H 0249

ORIGINAL MOTION IS: To move H 0177 to the Senate floor with a do pass recommendation.				SUBSTITUTE MOTION IS:				AMENDED SUBSTITUTE MOTION IS:			
	AYE	NAY	A/E		AYE	NAY	A/E		AYE	NAY	A/E
Sen Tim Corder, Vice Chair	X			Sen Tim Corder, Vice Chair				Sen Tim Corder, Vice Chair			
Sen Joe Stegner		X		Sen Joe Stegner				Sen Joe Stegner			
Sen Curt McKenzie	X			Sen Curt McKenzie				Sen Curt McKenzie			
Sen David Langhorst		X		Sen David Langhorst				Sen David Langhorst			
Sen Diane Bilyeu		X		Sen Diane Bilyeu				Sen Diane Bilyeu			
Sen Jeff Siddoway	X			Sen Jeff Siddoway				Sen Jeff Siddoway			
Sen Leland Heinrich	X			Sen Leland Heinrich				Sen Leland Heinrich			
Sen Shirley McKague	X			Sen Shirley McKague				Sen Shirley McKague			
Sen Brent Hill, Chair	X			Sen Brent Hill, Chair				Sen Brent Hill, Chair			
TOTALS		6	3		TOTALS				TOTALS		
MOVED	Senator Corder			MOVED				MOVED			
SECONDED	Senator McKaague			SECONDED				SECONDED			

MINUTES-AGENDA B

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: March 15, 2007

TIME: 2:00 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Hill, Vice Chairman Corder, Senators Stegner, McKenzie, Siddoway, Heinrich, McKague, Langhorst, and Bilyeu

MEMBERS ABSENT/ EXCUSED: All members were present.

GUESTS: The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).

CONVENED: **Chairman Hill** convened the meeting at 2:00 p.m. with a quorum present.

PRESENTATION: **Chairman Hill** presented Shoni Pegram, Local Government and Taxation Committee Page, with a Senate watch, a letter of appreciation, and a letter of recommendation from the committee. The committee also expressed its appreciation for the excellent work of the committee secretary, Twyla Melton.

H 0245a Relating to Personal Property Tax Exemptions continued from previous meeting on March 15th at 8:00 a.m.

Testimony in opposition of H 0245a
Joe Gallgos, Lobbyist, AARP
Roger Sherman, Program Director, United Vision for Idaho

Senator McKague asked Mr. Gallgos if it wasn't possible that when a business gets a tax break, they pass it on to their customers. **Mr. Gallegos** said he couldn't answer that question, he didn't know that they do. Profits seem to increase and costs continue to rise. **Senator McKague** commented that she had been involved in several pieces of legislation that would have benefitted for the citizens Mr. Gallgos represents and he always opposed them. **Mr. Gaellgos** said he couldn't speak to legislation he may or may not have supported, what he can say is, AARP carefully considers the position that it is going to take and supports legislation that is consistent with its policy.

Senator McKenzie questioned Mr. Sherman's statement that this legislation will reduce state revenue. **Senator McKenzie** said that taking off the first \$50,000 in personal property value shifts taxes to other properties, but in the future, a revenue source to cover that shift would have to be found. There will not be a loss of state revenue because other funding must be found or the appropriation won't be made. **Mr. Sherman** responded that by taking \$50,000 away, the lack of revenue reduces the opportunity for funding for everything else on the priority list. **Senator McKenzie** stated that it will probably raise state revenue since it

takes away a huge expenditure that businesses must pay and allows them to invest elsewhere.

Mr. Alex LaBeau summarized by stating that tax issues are very complex and they take time to resolve. **Mr. LaBeau** will address some of the questions from the morning meeting.

1) Senator Bilyeu's question regarding agriculture properties....

The net total to agriculture on a one-time basis would be \$1.2 million.

2) Senator Heinrich's question on the three counties...

Bonneville County-looking at an .86% shift on \$10.0 million in capital, the amount would be \$86,000.

Jerome County-on \$2.0 million, the loss would be \$17,700.

Shoshone County-on \$620,000, the loss would be \$5,238.

This is before the increase in market value those counties would experience in new construction, revenue sharing, and the 3% budget increase.

3) There was a question in respect to the grocery taxes. This is not a conflict with the grocery tax.

4) The decline in the amount of personal property tax that has been collected since 1999 will be offset by two things:

- eventually eliminates administrative costs.
- stabilizes the revenue source.

5) This bill does not commit future legislatures to do anything. Once the rules are in place, future legislatures can make the determination whether or not to eliminate the personal property tax.

Although there are some who would like to eliminate the personal property tax all at once, that is not a realistic goal. With this legislation, the process begins and will go forward one step at a time.

Senator Langhorst asked if **Mr. LaBeau** accepted the figures given in regard to the tax shift given in testimony this morning where, since 2003, over a three year period, for owner occupied homes, taxes went up \$30.0 million and for the same time period commercial taxpayers paid \$45.0 million less. **Mr. LaBeau** answered that he had not seen those numbers but the State Tax Commission is a good source of information. Rapid residential real estate expansion within the state in market values, new construction, and more people would naturally cause the dollar amount to grow at a faster pace than other taxpayers.

Senator Langhorst agreed that residential values have gone up a lot. How much has commercial property appreciated over that same time period; three to five years? **Mr. LaBeau** said that commercial property is valued on a different basis. Taxes are not necessarily based on the market value of the property. Some of the value is derived from the business itself and perhaps the personal property contained within that business. What he is saying is that personal property tax should be

eliminated for every citizen in the state of Idaho. It is the right policy step.

Senator Langhorst said he was really addressing what was mentioned about the relative tax shift. This was just a chance to refute any statements that have been made.

Senator Bilyeu asked for clarification that the first year there will be a tax shift to homeowners and businesses of \$9.0 million. **Mr. LaBeau** answered \$9.4 million. **Senator Bilyeu** asked if additional new business projections for personal property is being considered in all of these calculations. **Mr. LaBeau** answered that no, they had not included new business projections. The \$92.8 million is based on 2006 dollars using a worst case scenario. **Mr. LaBeau** stated that the \$92.8 million will drop dramatically when the rules are in place to determine what is real property and what is personal property.

Senator Bilyeu asked how the \$92.8 million had been determined. **Mr. LaBeau** answered by referring to the bill itself: Section 1, 63-608, (1) and (2). He asked for time to get into the rule making process and get a real figure, then come back to the legislature and they can decide whether or not to allocate funds.

Chairman Hill interjected a comment that the amount of the \$92.8 million, whether it is that number or a lower number is not going to affect the amount of funds that actually goes toward reducing the value, it just affects the percentage that would be applied. **Mr. LaBeau** agreed.

Senator Bilyeu said that determining what is real and what is personal property does not affect the bill. If the \$92.8 million is based on what is personal property today, then if additional new personal property is added, do you forget the new items and not include them in any calculations? **Mr. LaBeau** said that some items would go to the operations segment and would be reclassified and others would be added to the personal property records.

MOTION:

Senator Stegner moved to send H 0245a to the 14th order for possible amendment. **Senator Corder** seconded the motion.

Senator Stegner commented that there is a sincere interest in working with this concept. There was hope that time would be available to work on an amendment to this bill applying the philosophy of this committee. He has some major concerns about how the bill is written and does not want to go forward with it as it is. Verified funding sources need to be identified before proceeding to adopt the legislation. He is disappointed with the \$50,000 limit. That reduction is not enough for businesses and they still have to maintain the paperwork. There also needs to be a distribution formula worked out for state payment.

Senator McKague stated that the money is not the state's money, it is the taxpayers' money. This is a step in the right direction to give businesses more money. It will broaden the tax base and generate more revenue in the long run.

**SUBSTITUTE
MOTION:**

Senator McKague made a substitute motion to send H 0245a to the Senate floor with a do pass recommendation. **Senator Siddoway** seconded the motion.

Senator Langhorst stated that he will not vote for the substitute motion, but will support the original motion. The bill needs to go to the amending order because, as it is written, there is not enough assurance that there will not be more of the tax burden shifted onto the homeowners. Based on the house price index and the housing increases in value, residential taxes will increase about 4% this year. Commercial property values are not increasing as much as homes. That is probably going to change since there is more commercial construction. If this tax could be replaced all at once and develop a good methodology to replace the revenue, he could support that kind of bill. We are not close enough to get all of that done.

Senator Siddoway will support the substitute motion. The principle of paying personal property tax on every thing you own that you put into your office or business is very unpalatable. This principle alone, is a reason to drive forward and hope it is a start towards a brighter future and to take a serious look at what an unfair tax this is for any personal property.

Senator McKenzie agrees with Senator Stegner on a lot of the fundamental issues. Lack of funding sources is the biggest concern. If the \$50,000 is taken off, the incentive to find the funding sources will be lost. However, there is agreement on the principle that this tax on personal property, all those personal items that sit in an office and are continually taxed by the government, is a bad tax. The compliance issues with the personal property tax are extremely cumbersome. Over the interim, the committee will deal with this issue along with other tax issues. This bill is a statement of where we want to be as a state. The better policy is not to have a personal property tax and to go forward and look for ways to replace the lost taxes. It sends the right message. He agrees this bill should go to the floor with the caveat to continue to work on finding the funding.

Chairman Hill stated that -- a substitute motion is before the committee to send H 0245a to the floor with a do pass recommendation.

VOTE: The motion failed by roll call vote with 4 ayes and 5 nays. (Attachment A)

Chairman Hill stated that the original motion to send H 0245 to the 14th order for possible amendment is now before the committee.

VOTE: The motion carried by roll call vote with 6 ayes and 3 nays. (Attachment B)

**H 0272, H 0273
H 0274** Relating to Taxing District: Bond Elections, New Elections, Election Notices respectively.

Representative Raul Labrador is explaining these three bills in tandem since they all do similar things. Each bill deals with the issue of providing notice to residents of any county or district when it comes to increasing property taxes, incurring bond indebtedness, or creating a new taxing district. This legislation requires that notices be mailed to residents of all

eligible voters within the prescribed area as opposed to a newspaper notice.

Senator Heinrich asked if Representative Labrador was aware that in 1990-1991 the legislature repealed a law that required this very same thing that these three bills are doing now. **Representative Labrador** was not aware of that fact.

Senator Heinrich referred to the information that is required on the notice as stated within each of the three bills and asked if that information was not already required by the Bond council.

Representative Labrador said it is required by the Bond Council but it is not required to be mailed to the home.

Senator Langhorst stated that some of the smaller taxing districts, such as the library districts, are concerned about the cost. What is the overall cost for doing these mailings? **Representative Labrador** said the cost is twenty cents per mailing.

Senator Bilyeu asked what the opposition was in the House.

Representative Labrador said that there was no stated opposition. There was only a question on the cost.

Senator Bilyeu asked if there was a comparison available for the cost of mailing compared to the cost of the newspaper ad. **Representative Labrador** stated that he did not have a comparison. The question is the effectiveness of the notification. Newspaper ads are not effective.

Testimony in opposition to H 0272, H 0273, and H 0274

John Watts, Legal Advisor, Idaho Library Association
Patricia Younger, Librarian, Idaho Library Association

Representative Labrador summarized by saying that this bill will encourage more voter participation because the voter will be informed about the election.

Senator Heinrich commented that he went through that period when there was this type of notification and watched the performance results. The repeal was the result of lack of performance. He said Mr. Watts and Representative Labrador should work on these bills and improve them by replacing newspaper publication with mail notification.

MOTION:

Senator Heinrich moved to hold H 0272, H 0273, and H 0274 in committee. **Senator Langhorst** seconded the motion.

Senator Langhorst said he is not convinced much can be gained by doing notification by mail. It is a high cost for small taxing districts.

VOTE:

The motion carried by voice vote with 1 nay.

H 0179

Relating to Information Contained in Tax Notices

Representative Ken Roberts brought this bill before the committee. This legislation will require that tax notices show the percentage change in taxes from the prior year and will require the phone numbers of each taxing district to be listed.

Testimony in opposition to H 0179

Donna Peterson, Treasurer, Idaho Association of County Treasurers

Representative Roberts stated that this is a taxpayer information bill. Those taxpayers want to know why their taxes are going up.


MOTION: **Senator McKenzie** moved to send H 0179 to the Senate floor with a do pass recommendation. **Senator Siddoway** seconded the motion.

VOTE: The motion failed by roll call vote with 4 ayes and 4 nays and 1 excused (Attachment B)

ADJOURNMENT: There being no further business, **Chairman Hill** adjourned the meeting subject to the call of the Chair.



Senator Brent Hill
Chairman



Twyla Melton
Secretary

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MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: March 22, 2007

TIME: 1:15 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Hill, Vice Chairman Corder, Senators Stegner, McKenzie, Siddoway, Heinrich, and Bilyeu

MEMBERS ABSENT/ EXCUSED: Senators McKague and Langhorst

GUESTS: The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).

CONVENED: **Chairman Hill** convened the meeting at 1:18 p.m. with a quorum present.

RS 17200 Relating to Elections for Creation of a New Taxing District
Senator Brad Little explained that this legislation adds a new section to Chapter 8, Title 63, Idaho Code, allowing for notices to be mailed to all residences or to residents in the proposed taxing district, who are eligible to vote in the election, when an election to create a new taxing district is held. The 3% budget cap makes it easier to form a new district rather than justify going over the 3% cap. **Senator Little** requested that this committee recommend that the State Affairs Committee print RS 17200.

Senator Bilyeu asked if, when a new taxing district is created, does the new budget have to be changed a little. **Senator Little** answered that if the counties are looking at the budget for the services they provide, and they go over the 3% cap, it is easier for them to form a new district. They can then start all over with another budget and another 3% cap.

Representative Raul Labrador commented that all this legislation does is require mail notification to the eligible voters when a new taxing district is being created.

Senator Heinrich said he assumed that if this legislation was passed, the sponsors would be open to some severe amendments for next year.
Representative Labrador concurred.

Testimony in support of RS 17200
John Watts, Legal Advisor, Idaho Library Association
Greg Smith, Concerned Citizen

Chairman Hill asked if the Library Association supports this RS or just doesn't oppose it. **Mr. Watts** stated that the Association supports the legislation and asked that it be referred for printing.

Chairman Hill asked Representative Labrador if he could foresee the possibility of this action opening up a taxing district to lawsuits causing an election to be null and void where an innocent mistake may result in improper notification. **Representative Labrador** said they addressed this issue in the House committee. In the original legislation, there was a line that said that the “lack of substantial compliance with this bill will invalidate the election”. This raised the question of whether or not this language would encourage people to file lawsuits. There is a law already in place that provides for challenging a bonding election that would cover this type of an election. The decision was made to leave the language out.

MOTION: **Senator Siddoway** moved to send RS 17200 to the State Affairs Committee for print and then to the Senate floor with a do pass recommendation. **Senator Corder** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

MINUTES:

MOTION: **Senator Bilyeu** moved to accept the minutes for March 8, 2007 as written. **Senator Corder** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

MOTION: **Senator McKenzie** moved to accept the minutes for March 13, 2007 as written. **Senator Bilyeu** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

ADJOURNMENT: **Chairman Hill** adjourned the meeting at 1:33 p.m. and the committee will convene at the call of the Chair.

Senator Brent Hill
Chairman

Twyla Melton
Secretary

NOTE: Any sign-in sheet, guest list, testimony, booklets, charts, or graphs will be retained in the Committee Secretary's office until the end of the session. After that time the material will be on file in the Legislative Services Library (Basement E).

MINUTES

SENATE LOCAL GOVERNMENT AND TAXATION COMMITTEE

DATE: March 28, 2007

TIME: 1:15 p.m.

PLACE: Room 426

MEMBERS PRESENT: Chairman Hill, Vice Chairman Corder, Senators Stegner, McKenzie, Siddoway, Heinrich, McKague, Langhorst, and Bilyeu

MEMBERS ABSENT/ EXCUSED: All members were present

GUESTS: The sign-in sheet is attached to the original minutes on file in the Committee Office until the end of the 2007 legislative session after which it will be retained in the Legislative Library (Basement E).

CONVENED: **Chairman Hill** convened the meeting at 1:20 p.m. with a quorum present.

MINUTES: March 14, 2007:
Senator Heinrich moved to accept the minutes for March 14, 2007, as written. **Senator Siddoway** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

March 15, 2007-Agenda A:

Senator McKague moved to accept the minutes for March 15, 2007, Agenda-A, as written. **Senator Siddoway** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

March 22, 2007:

Senator Corder moved to accept the minutes for March 22, 2007, as written. **Senator Heinrich** seconded the motion.

VOTE: The motion carried by unanimous voice vote.

H 0210 aa, aa Relating to School Bonds

Senator Brad Little explained that the purpose of this legislation is to amend Section 33-1103, Idaho Code, to allow school districts to use market value currently exempt under the homeowners exemption. The amendment is exactly as you see it on the unamended bill before you, lines 13-14 contain the only changes within the bill.

The new language fixes an unintended problem caused by H 0001 when the homeowner's exemption was raised to \$75,000 and incorporated the Housing Price Index. Because of these changes, some school districts lost a significant amount of bonding ability.

The districts most affected were those experiencing rapid growth in property that is primarily mid-priced homes rather than commercial and industrial property. This legislation also adjusts the basis before it is

affected by the 5% cap related to debt capacity.

This bill will not raise taxes. It does not affect a local taxing district's ability to choose whether or not to hold a bond election. It is only intended to fix a problem that was created by previous legislation.

Testimony in support of H 0210 aa, aa

Phil Homer, Legal Advisor, Idaho Association of School Administrators
Rich Bauscher, Superintendent, Middleton School District
Matt Newton, Trustee and Vice Chairman, Middleton School District
Cliff Green, Idaho School Boards Association entered written testimony
Mike Vuittonet, Appraiser, Meridian School Board
Eric Heringer, Investment Banker, Northwest Securities

There was no testimony in opposition to H 0210 aa, aa

Senator McKague asked Superintendent Bauscher if the Middleton School that burned down was insured. **Superintendent Bauscher** said it was. They are still working on the final settlement.

Senator Little explained that the Meridian School District will not be exempted as a result of this bill because the school district is large enough that this will not apply to them. In the case of Middleton, the taxpayers could vote for a bond if it is put before them and since they are approaching the cap, this bill will apply.

This is good policy—letting growth pay its way.

Chairman Hill asked why the cap was put in law in the first place. **Senator Little** responded that this body continues to pass mandates down to the schools. Whenever a tax exemption is implemented, the remaining taxpayers must pick up the difference. It is getting more difficult to cover that difference.

Senator Stegner asked what Idaho Code 63-602G in line 13 of the bill referred to. **Senator Little** said it referred to the homeowner's exemption.

Senator Corder asked why the cap couldn't be eliminated altogether. **Senator Little** said it was a matter of doing what could be done at the time and waiting until the time was right to follow up with something better.

Senator Siddoway commented that Senator Little had mentioned that Jefferson County may not have the capacity they did when they last pursued a bond election and the voters turned it down. It appears we give an increased homeowner's exemption and other tax breaks and this looks like a loophole to take those back. **Senator Little** responded that one of the issues is that residential property is primarily affected, not commercial, industrial or agriculture. There is a continued increase in the cost for schools and a decrease in revenue. There is a question of taking off the cap or raising the cap. Provision for an adjustment did not happen in H 0001.

Chairman Hill observed that this bill does not take away the benefits of

the homeowner's exemption, it just adjusts the cap needed for bonding capacity.

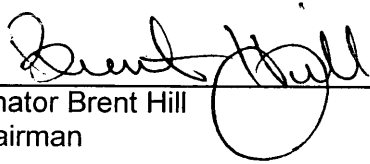
MOTION: **Senator Heinrich** moved to send H 0210 aa, aa to the Senate floor with a do pass recommendation. **Senator Stegner** seconded the motion.

Senator McKague commented that we promised property tax relief, we promised grocery tax relief and so far we have nothing.

Chairman Hill said that this bill allows the taxing district to vote themselves a tax increase and no one else tells them they have to do that.

VOTE: The motion carried by unanimous voice vote.

ADJOURNMENT: **Chairman Hill** adjourned the meeting at 1:48 p.m. Any future meetings will be at the call of the Chair.



Senator Brent Hill
Chairman



Twyla Melton
Secretary

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