MINUTES

SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Tuesday, January 17, 2012

TIME: 3:00 P.M.

PLACE: Room WW53

MEMBERS PRESENT: Chairman Corder, Vice Chairman Johnson, Senators Hill, McKenzie, McGee, Hammond, Siddoway, Werk, and Bilyeu

ABSENT/ EXCUSED:

NOTE: The sign-in sheet, testimonies, and other related materials will be retained with the minutes in the committee's office until the end of the session and will then be located on file with the minutes in the Legislative Services Library.

Chairman Corder called the meeting to order at 3 pm.

PRESENTATION: <u>Review of Report Related to Repeal of the Idaho Personal Property Tax for Business Equipment</u>. **Chairman Corder** introduced **Dr. Stephen Cooke,** retired Associate Professor in Agricultural Economics, University of Idaho. See Attachments #1 - #3.

Dr. Cooke said his presentation was a critique of the Entin study that was completed in 2007 related to a repeal of Personal Property Tax on businesses.

Dr. Cooke presented a graph that showed the difference between 2007 and 2011 growth levels. The growth percent for both are very close. **Senator Hill** said the graph shows percentages of growth and not economic activity; therefore the graph does not show the economy being the same as it was in 2007. **Dr. Cooke** replied that is correct, the growth rate is the same, but the percent of growth is based on a smaller economy in 2011.

The Entin study was based on $108 million in property tax relief. Dr. Cooke compared the Entin study and the Cooke and Stodick study based on $45 million decrease in personal property tax. **Dr. Cooke** said the Entin study made no determination between benefits to federal and state governments. **Senator Hill** asked what assumptions were used for the study, what do the businesses who saved the tax do with the money. **Dr. Cooke** said the assumption was that the entire $45 million was saved by Idaho residents and spent in Idaho. The $45 million would be a one-time injection into the economy and any additional money would come from a multiplier affect.

Idaho historically has been near the top of the country in job creation; however, the wage levels are among the lowest in the country. In 2009, the average wage in Idaho was 24% lower than the United States average. **Senator Hammond** asked if the cost of living was compared as well. **Dr. Cooke** replied that if a state has a low cost of living that makes it a very attractive place to live, then the price of housing goes up. Cost of living becomes a confounding factor; to have a low cost of living means to have high housing prices. It is not an advantage to have a low cost of living. Idaho has above average growth in below-average wage jobs.

Senator McGee asked **Dr. Cooke** if he thought Idaho should raise taxes to help the economy. **Dr. Cooke** said taxes should complement the private investment; it is a partnership. High taxes per se are not a good idea, but starving the economy in the name of low wages is not a good idea. A well-planned strategy in which strategic investments are made in research and development, such as IGEM; an investment in an educated workforce and an infrastructure that is equal to or better than the national average would drive the economy of the state.

Senator Siddoway asked that with the current situation of high unemployment, should employers with lower-wage jobs available be taxed rather than have the ability to employ people. **Dr. Cooke** said tax policy requires subtlety and nuance. The State should prefer easing the burden on small business; however, a large proportion of property tax repeal would benefit the utilities. This is not an argument for raising taxes. Capital should be invested in local services that people who move into the state will need, rather than a decrease in personal property tax.

Senator Siddoway said that utilities will pass through any increase to consumers. **Dr. Cooke** said he is not interested in raising taxes on anyone, he was asked to review a study done in 2007. **Senator Siddoway** asked where the additional funding for education would then come from. **Dr. Cooke** said that would come from the decision of how to use the $45 million that the Governor said was available for tax relief.

Senator McKenzie asked if the criticism of the report by Dr. Entin was specific to a reduction in the personal property tax or based on a belief that any cut tax would hurt the economy. **Dr Cooke** referenced a 2011 statement by Stellman and Deller that all tax cuts are counter productive to economic performance.

Senator Werk said that in the presentation it was stated that reductions in taxes did not generate enough economic activity that they would pay for themselves. In 2001, there were overall business cuts in Idaho; should that have caused economic activity. **Dr. Cooke** said he has not analyzed that particular situation, but according to the Stallman/Deller study, tax cuts are not the road to economic development and increased business.

Senator Werk said small businesses have more work keeping track of personal property and there is a law that says there will be a $100,000 exemption, which will include 85-90% of small businesses in Idaho. **Dr. Cooke** said that policy is moving in the right direction. **Senator Werk** said Idaho does not have walls around the state, so when a tax credit is provided to a company, the benefit may be felt somewhere else, such as if the company opens a facility elsewhere. The state has then subsidized an operation elsewhere. **Dr. Cooke** said the modeling was done such that the tax proposal gets the benefit of the doubt, rather than trying to overstate or understate assumptions. The study assumes the first round of benefits are in Idaho; that money would go into the pockets of Idahoans.

Chairman Corder introduced Mike Ferguson, Director of the Idaho Center for Fiscal Policy. See Attachments #4 and #5.

Mr. Ferguson said the Entin study appears to grossly exaggerate the amount of induced economic activity associated with eliminating personal property tax and it barely makes mention of the fact there will need to be some other revenue source increase or reduction in public services.

Senator Hill said the states around us are better rated than Idaho on the State Business Tax Climate Index, but on property tax ratings, Idaho is doing well. We need to consider the competitive climate the state is in when discussing tax policy and not look at studies in a vacuum. **Mr. Ferguson** said the state cannot operate in a vacuum, the surrounding states must be surveyed. Idaho is unique in the nation in the number of neighboring states that do not have either state income tax or sales tax. In the period of the two decades from the late 1980's to the 2000's, Idaho had the second best economic performance in the nation. During the 1980's, the taxes increased in corporate, individual and sales. There was still unparalleled growth in the state. The taxes were raised in part to fund education in order to have a productive labor force. The importance of taxes in relation to economic growth seems to be exaggerated.

Senator Hill asked that when our ratings changed from 32-18, was that because other states changed their tax rates and Idaho did not. **Mr. Ferguson** replied that it would be speculation since that has not been studied. In 2000 and 2001 personal income tax rates were dropped.

Senator Johnson asked why the Cobbs-Douglas production model is considered mathematically convenient. **Mr. Ferguson** said it has a constant elasticity of supply on labor and capital. As the economy expands, the output gain from capital or labor does not change. That assumption is questionable.

ADJOURNMENT: The meeting was adjourned at 4:40 pm.

Senator Corder
Chairman

Jo Ann Bujarski
Secretary