

MINUTES
JOINT MEETING
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE
HOUSE REVENUE & TAXATION COMMITTEE**

DATE: Wednesday, February 08, 2012

TIME: 9:00 A.M.

PLACE: WW02-Auditorium

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

Chairman Lake, Vice Chairman Collins, Representatives Barrett, Moyle, Raybould, Roberts, Schaefer, Smith, Wood, Bedke, Harwood, Barbieri, Bayer, Ellsworth, Gibbs, Burgoyne, and Rusche

**ABSENT/
EXCUSED:** Senator Bilyeu and Representative Killen

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 3:02 pm. **Chairman Corder** said guests were invited to make suggestions as to what can be done by the legislature to provide economic incentives.

PRESENTATION: **Chairman Corder** introduced **Brent Olmstead**, Chairman, Food Producers of Idaho Tax Committee. See attachment #1. **Mr. Olmstead** said the Tax Committee was formed this year and it is the first time the Food Producers have had a tax committee. The Food Producers consider a tax a fee for services from the government.

Alternative energy development will be a growing industry in agriculture. They would like the green credits that are accrued to stay with the developer of the alternative energy.

Representative Roberts said in the past he has requested a list of state and federal regulations that drive the cost of doing business higher. Which regulations are the worst. **Mr. Olmstead** said most of the regulations that are onerous are federal regulations. For example, the dairy industry has to get a permit to discharge; however, they are not allowed to discharge. The Food Producers have used zero-based budgeting and it has helped find efficiencies in the programs at lesser costs.

Representative Rusche said the guiding principals show "tax policy changes should not shift taxes from one category or class to another"; however, the proposal to eliminate personal property tax would shift taxes. **Mr. Olmstead** said most of agriculture does not have to pay personal property taxes and when those were eliminated, there were no other tax increases at the local level. Producers would rather remove the personal property tax than have a decrease in income tax. They would be willing to pay a little more in a different area than continue with the personal property tax.

Representative Harwood said since the energy has to be purchased by the deliverer, should not some of the green credits go with the energy. **Mr. Olmstead** said when the dairy industry installs a digester and electro ventilation panel, that will cost \$650-\$700/ head of cattle. That is not economically feasible without the green credits. Part of the payment for the digester is the green credit, which cuts the costs of the digester in half.

Representative Bedke asked all presenters to mention what they would like to use if there was \$45 million available for investments. **Mr. Olmstead** said the first priority would be more research and development by the universities. The exemptions and tax credits available do not necessarily spur economic growth. The only industry in Idaho that is growing and has wages above the national level is agriculture. The multiplier generated by the agricultural industry is higher than any other segment of the Idaho economy. Agriculture enjoys the most tax credits and exemptions in the state.

Representative Burgoyne asked what can be done to spur value-added activities. **Mr. Olmstead** said there is proposed legislation that will offer a tax credit for an Idaho-based company that uses Idaho agricultural products in a value-added system.

Chairman Corder introduced **Clark Krause**, of Jobs for Idaho. See Attachment #2. **Mr. Krause** said his organization is a coordinated effort of community economic development leaders. **Mr. Krause** is with Boise Valley Economic Development. The Boise Valley Economic Partnership is a regional group that represents ten cities in Idaho that puts together packages for businesses interested in moving to the area, or expanding in the area. **Mr. Krause** said he visited about 124 companies last year. Many companies are now using consultants for site selection. **Mr. Krause** said the state should create a job expansion fund. This fund would award money to new and existing companies.

The range of these awards would be \$1000-\$10000 depending on the job, wage, and which area they are locating in. These awards would be given post performance; the money would be awarded after the job creation over a period of one-four years. These jobs would export over 50% of a good or service out of state. All award commitments would have deadlines in order to ensure funds are not encumbered by companies not moving forward. The program would be transparent; there would be a report every year that showed what jobs were involved and whether the companies are still in Idaho.

Companies that move to Idaho under this plan will most likely stay in the area. Arizona just put together a plan that awards up to \$9000/ job. They have seen 300% more projects in the past one and half years and have already created 10,000 jobs.

Representative Roberts asked if the money is an increase on the expenditure side of the state budget, or a reduction to the income side of the state budget. **Mr. Krause** replied they would be happy with either one; these are suggestions and the organization would like the legislature to determine the best plan for Idaho.

Chairman Corder introduced **Representative George Eskridge**, and **Senator Curt McKenzie**, Co-Chairmen of the Interim Committee on Environment, Energy and Technology. See attachments #3 and #4. **Representative Eskridge** said the Monsanto study shows the Idaho Economy is largely based on low-cost energy. According to the Governor's Project 60 plan, low-energy costs are one of the most significant reasons to relocate a business to Idaho. Tax revenue for wind energy is estimated at \$4 mm for 2011. The tax structure for wind developers was changed from a property tax structure to a production tax methodology, which benefits the counties long term. The developers say they need certainty in the tax structure.

Senator McKenzie said economic development relies chiefly on two primary objectives: a secure, reliable and stable energy system; and maintaining a low cost energy supply. There will not be more large scale hydro projects in the future. Approximately 52% of the electricity in the state is imported as well as 100% of the transportation fuels. There are environmental concerns as well; 40% of the electricity in the state is from coal. A smart grid would give feedback to consumers related to their use of electricity. There needs to be more support for in-state energy resources such as wind and solar. Overly burdensome siting requirements should be avoided. All resources should be investigated. The Columbia River Basin treaty is due to expire in 2014 and should be renewed.

Representative Burgoyne asked if the state has good tax policy now or are there things that should be done. **Representative Eskridge** said it needs to be looked at on a case by case basis. The short-term tax incentive that is used for the development of wind was successful and it had a sunset. This allowed for certainty in tax policy.

Thermal could be a good industry for Idaho and perhaps a tax incentive could be created to get this industry propelled forward.

Chairman Corder introduced **Alex LaBeau**, President of the Idaho Association of Commerce and Industry. See attachment #5. **Mr. LaBeau** said the elimination of the personal property tax is the number one priority for both large and small members of IACI. The tax is difficult to administer and is an unstable source of income for the state. The numbers from the Entin study were debated heavily, but no one denied there would not be a positive economic impact to eliminating the personal property tax. There should be a change in definition that delineates between real property and personal property.

Representative Burgoyne asked if the presentation stated the 6% sales tax is too high. **Mr. LaBeau** said that is not the suggestion. The sales tax is reasonably in line with other states. States do not consistently apply sales tax to the same items. Most states with a sales tax have a production exemption.

Representative Gibbs said his district includes many small counties and 50% of the county revenue comes from personal property tax. **Mr. LaBeau** said there is a plan to replace every dollar those counties would lose from a revenue-sharing formula from the state. This is not an appropriation process so there is some level of certainty the counties will continue to receive the money in an economic downturn.

Chairman Lake said there was a trigger of 3.14 billion mentioned; what would happen in the meantime. **Mr. LaBeau** said this trigger gives the state the opportunity to fully recover and put a plan in place. The trigger would be used if the personal property tax was going to be eliminated all at once and not phased out.

Representative Roberts asked if there was to be a definition of real versus personal property created during this session. **Mr. LaBeau** said there have been a multitude of meetings with county organizations and multiple meetings with assessors and county officials. The preference is to have rules set in place to give to the tax commission and test them. That way, a much more specific tax reduction number can be given to the legislature. **Representative Roberts** asked which item would benefit the state more: decreasing the top rate of the personal income tax or eliminating the personal property tax. **Mr. LaBeau** said economic benefit is not the first reason to get rid of the personal property tax. This is a bad tax and very difficult to administer. The issue then is between the S-Corporate rate and the C-Corporate rate. What is the current effective rate of C-Corporations in the state. There may be some companies paying the highest rate, but some may be paying nothing.

Chairman Corder introduced **Jeff Sayer**, Director, Department of Commerce. See attachment #6. **Director Sayer** said the three priorities for the Department of Commerce are: protect and retain businesses that are here; help existing businesses grow; and finally, assist in attracting new businesses to the state. Some of the current businesses' priorities are: improve transportation access, elevate supply of skilled workforce, help with onerous regulations, maintain low energy costs, and keep urban renewal tools. The highest priority was to help current businesses have access to doing business with the state.

Director Sayer said companies were asked; of these three taxes, which one is most important to reduce or eliminate: personal property tax, personal income tax and corporate income tax. The number one item was the elimination of the personal property tax. The businesses would like the tax to go away, but primarily they'd like it to be less onerous; easier to manage. Between personal income tax and corporate income tax, the most important was personal income tax since many companies pay that rate rather than the corporate rate. The Hire One Credit has not been utilized because businesses cannot currently hire employees with those hourly rates and provide insurance to meet the requirement levels. IGEM is a critical step forward. **Director Sayer** said companies are hiring site selectors and the site selectors are being compensated for the incentives they can bring to their company. Quality of life, skilled workforce, strong work ethic, immediate and quick access to state leadership across all levels are benefits of Idaho; however, these items are not seen by the site selectors because they are looking for specific requirements and our strengths are not on that list. If Idaho can make the top five in the site selection process, the company would come to Idaho. The effective tax rate is much lower than the actual tax rate, but all a site selector would see would be the tax rate.

Representative Rusche said the unemployment insurance ranking is low for Idaho, due to underfunding in the past. **Director Sayer** said it does show in an unfavorable light, but it is being worked on.

Senator Werk asked if flattening out the tax rates would be helpful. That would lower the corporate tax rate and eliminate some exemptions. **Director Sayer** said there are higher priorities than the corporate tax rate. Investments in an award fund would be more helpful. A discussion of the effective tax rates would be more useful at this time.

Chairman Corder introduced **John Watts**, representing the Chamber of Commerce Alliance. See attachment #7. **Mr. Watts** said what is missing now is the cash in employees' pockets to purchase items, and the cash for the employer to invest in the future. Approximately 80% of all businesses in the state of Idaho file an individual income tax return. The individual income tax rate needs to be modified before the corporate tax rate. The amount insurance will rise is very difficult for companies to estimate and plan for. Chobani would not be in Twin Falls without the Urban Renewal incentives. Some of the current incentives are no longer valuable because the cost of inflation has minimized the effect.

Representative Burgoyne asked if decreasing the income tax would be revenue neutral because of more growth, or because very few people pay the actual rates. **Mr. Watts** said part of the proposal is close to a neutral proposal. The state needs to look at a systemic policy shift. How should the taxes cover the expenses for the state. When there are 245,000 out of 606,000 income tax filers paying only \$4 mm in the general fund, but taking out \$28 mm in grocery tax credits, that should be examined.

Senator Hill said there has been much discussion against government subsidies for health insurance, how is this different. Would a rebate or deduction go to all health insurance premiums so people who are self-insured would receive the subsidy as well. **Mr. Watts** said the unpredictability of health insurance costs are as important to the businesses as the health insurance exchange conversations that are occurring. The businesses are paying the costs already, so they are not a subsidy. They hope to recapture some of those costs.

Chairman Corder introduced **Len Williams**, CEO and President of Home Federal Bank. See attachment #8. **Mr. Williams** said banks don't stimulate the economy, they are a result of the economy. The Idaho Banking community is not only willing, but eager to lend.

ADJOURNMENT: The meeting was adjourned at 10:55 am.

Senator Corder
Chairman

Jo Ann Bujarski
Secretary