

MINUTES
HOUSE REVENUE & TAXATION COMMITTEE

DATE: Thursday, February 16, 2012

TIME: 9:00 A.M.

PLACE: Room EW42

MEMBERS: Chairman Lake, Vice Chairman Collins, Representative(s) Barrett, Moyle, Raybould, Roberts, Schaefer, Smith(24), Wood(35), Bedke, Harwood, Barbieri, Bayer, Ellsworth, Gibbs, Killen, Burgoyne, Rusche

**ABSENT/
EXCUSED:** None.

GUESTS: Benjamin Davenport, Risch Pisca; Brad Wills, buildidaho.org; Gene Kuehn, Canyon County Assessor; Alex LaBeau, Idaho Association of Commerce & Industry (IACI); Miguel Legarreta & John Eaton, Ada County Association of Realtors; Seth Grigg & Tony Poinelli, Idaho Association of Counties (IAC); Steve Cope, SKC, Inc.; David Turnbull, Brighton Corporation; Brad Miller, Van Auker Properties; Jeremy Pisca, Idaho Building Contractors Association (IBCA)

Chairman Lake called the meeting to order at 9:01 am.

MOTION: **Rep. Collin** made a motion to approve the minutes of February 8, 2012. **Motion carried by voice vote.**

MOTION: **Rep. Collin** made a motion to approve the minutes of February 9, 2012. **Motion carried by voice vote.**

RS 21028C2: **Sen. Goedde** presented **RS 21028C2**. This proposed legislation is designed to expand the definition of port districts beyond what is in the Code. The previous statute referred to waterways. This legislation adds commercial, manufacturing or industrial enterprises to the port districts statute. It also expands the definitions to include aviation, rail, motor carrier or barges. This type of legislation has been used in the state of Washington, in ports such as Pasco, as an economic development tool.

In response to Committee questions, **Sen. Goedde** stated that the infrastructure system used in Pasco, Washington was subsidized by taxpayers.

MOTION: **Rep. Ellsworth** made a motion to introduce **RS 21028C2**. **Motion carried by voice vote. Reps. Barrett and Harwood** asked to be recorded as voting **NAY**.

RS 21168: **Kris Ellis**, Idaho Health Care Association (IHCA) presented **RS 21168**. If the RS is introduced, Ms. Ellis asked that it be referred to the Health & Welfare Committee. Previous legislation failed to exempt temporary or provisional licenses. This proposed legislation exempts those types of licenses.

MOTION: **Rep. Barbieri** made a motion to introduce **RS 21168** and refer it to the Health & Welfare Committee. **Motion carried by voice vote.**

RS 21315: **Russ Hendricks**, Idaho Farm Bureau Federation, presented **RS 21315**. This proposed legislation is designed to return the spending limit to 5.33% of total personal income from the current 6.16%. It also revises the definition to make it more relevant. It is not designed to require cuts from the current level of expenditures. The purpose is to allow expenditures to grow no more than 5.33% of personal income in the future.

The Idaho Tax Commission is also the Economic Estimates Commission. This proposed legislation revises the definition that has been used since 1980. Personal income as defined includes government transfer payments (Social Security, Medicare, unemployment, food stamps). It reverses the definition of personal income minus contributions for government social insurance, i.e. what is taken from a pay check. The language that is stricken is the adjustment mechanism. After 2014, the State Controller will certify if receipts are above expenditure limitations. This legislation states how excess revenue is allocated. Under existing law, partial personal property tax exemption occurs when the 2008 budget is exceeded by 5%. When excess revenue reaches \$20M, further reductions in personal property tax will be made. Excess revenue is then used to start reducing personal and corporate income tax in 1/10th of a percent increments. It will continue until the top rate is 5%. An escrow account will be created when there is excess revenue, but the income tax cannot be reduced a full 1/10th of a percent. This proposed legislation will not take effect until July 1, 2014. The rates remain unchanged in the Code unless changed by legislation.

In response to Committee questions, **Mr. Hendricks** stated that any money currently statutorily required would fund the reserve accounts. A one-time revenue excess converted into a permanent tax cut is a good idea because as the economy grows, it provides stronger revenue.

Under current law, the trigger to receive property tax relief occurs at 5% over the 2008 budget. The Budget Stabilization Fund gets filled first; the escrow account is to hold amounts of less than \$20M until the next year. If the RS is introduced, he will try to bring a lookback chart and be prepared to discuss the definition of personal property.

MOTION: **Rep. Barrett** made a motion to introduce **RS 21315**. **Motion carried by voice vote.** **Reps. Rusche** and **Smith** asked to be recorded as voting **NAY**.

H 519: **Rep. Hartgen** introduced **Brad Wills**, buildidaho.org, who introduced **H 519**. The fiscal impact on local government is difficult to determine. If the value of the new construction that is developed is less, the reduction in the amount of revenue to local taxing districts would be lower. Properties that are used for ineffective farming to gain the agriculture exemption will have a greater effect on the local taxing district.

The developer's improved land is his business inventory. Idaho does not tax business inventory.

There are four basic stages of an assessed parcel. Stage 1 has a typical value of \$1,500 per acre. Stage 2 is platted without agriculture or forestry and has no improvements. The typical value is \$15,000 per acre. Stage 3 is improved with infrastructure but vacant (no services, structures) and has a typical value of \$150,000. Stage 4 is improved lots with structures completed and has a typical value of \$600,000 per acre. This bill would ensure properties stay ranked at Stage 2 until a structure has been started. This would be easy for the counties to administer.

Any reduction in revenue would not result in a tax shift. New land development keeps property taxes lower for others each year. It would continue the low cost of housing. Idaho housing costs are one of lowest in the 11 western states. This promotes well planned commercial and industrial growth. It allows land to stand shovel ready for new and existing businesses.

The new construction rolls go up or down, which is where counties get additional revenue. Between 2004 and 2012, there was \$33B in value added to the tax rates due to land development and \$13B added due to reclassification from agriculture land to development land. On average, 40% of the final market value is the parcel. Empty parcels require no services. Property tax revenue funds 1,245 different taxing districts in 44 counties. The levy rates vary from .66% in Challis to 2.56 in a local city nearby. Using the Stage 2 comparison, the tax would be \$100 vs \$380.

In response to Committee questions, **Mr. Wills** stated the tax receipt effect is difficult to measure. This legislation will typically address land that was originally agricultural or forest. If it's been zoned industrial or commercial, the use hasn't changed. The use doesn't change the levy rate.

Rep. Burgoyne invoked Rule 38 stating a possible conflict of interest as the next testifier, **Mr. Cope** is related to his wife.

In response to additional Committee questions, **Mr. Wills** said that the land will remain at the non-agricultural valuation until it is ready to sell. The building permit would be a clear trigger as to when to change property valuation. The assessors are clear on what constitutes site improvements. New construction will ensure that the property will increase in value.

Steve Cope, SKC Corp., spoke **in favor of H 519**. He stated that in 2006, he sold 100 lots. Since 2006, he has sold five, at one-half the cost to develop. This bill would benefit him. He has 54 lots on 15 acres of commercial land. He paid \$42,000 in property taxes last year. He believes the tax should not be collected until a home is built and occupied.

David Turnbull, Brighton Corp., spoke **in favor of H 519**. He has - developed 2M square feet in office space, 1M square feet of retail space and 4,000 home sites in the valley. This industry considers the state to be in a depression, not a recession. He said this is an equity argument; homeowners and farmers get exemptions and so should developers. This is still creating jobs; by having shovel ready sites, when a company is ready to expand, the infrastructure is in place. Direct TV, with 1,500 employees moved to Idaho because of a shovel ready site.

Brad Miller, Van Auker Properties, spoke **in favor of H 519**. He develops industrial warehouses and provides facilities for companies as they expand. He cannot keep a large inventory of shovel ready lots. He extends a preliminary plat as long as possible. Residential developers may not have the ability to hold property too long.

In response to Committee questions, **Mr. Miller** stated that he has lost out on projects because they could not move fast enough. Leaving property in the improvement stage gives a more marketable piece of property. The only services a tax district would provide when there are roads and no other improvements are street sweeping and storm drainage. The cost in a residential development at the same stage would be a little more intensive due to water and irrigation connections, which would not be there for an industrial development.

Gene Kuehn, Canyon County Assessor spoke **in opposition of H 519**. He stated that he believes this bill is a tax shift. If a developer comes in and buys out an existing developer, the new developer would lose the exemption of original owner. If property goes back to farming, it is valued at the function of use. There is a possible effect on an Urban Renewal District base. Urban Renewal Districts might have trouble paying their bond.

In response to Committee questions, **Mr. Kuehn** stated that as budgets go up 3%, levy limits can still impact the budget. The assessor would grant/process applications described in the bill.

Chairman Lake announced that the Committee would meet again on Friday, February 17, 2012 to continue hearing testimony on **H 519**.

ADJOURN: There being no further business to come before the committee, the meeting was adjourned at 10:32 am.

Representative Lake
Chair

Janet Failing
Secretary