

MINUTES  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Thursday, March 08, 2012

**TIME:** 3:00 P.M.

**PLACE:** Room WW53

**MEMBERS PRESENT:** Chairman Corder, Vice Chairman Johnson, Senators Hill, McKenzie, Hammond, Siddoway, Rice, 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 3:10 p.m. **Chairman Corder** said there is an email in the packets that was received shortly before the meeting from the Twin Falls Urban Renewal Agency that is in opposition to this legislation.

**H 519**

To Provide that Certain Site Improvements Shall be Exempt from Property Taxation.

**Chairman Corder** introduced **Representative Hartgen**. **Representative Hartgen** said land starts as either agricultural or forestry. See attachment #1. If it is being developed, it goes to a platted stage with no improvements; however the value increases and therefore the taxes. This bill proposes to deal with a problem that has held back development projects. There is inconsistency as to how the land valuations are determined across the state. In the second stage, the value and taxation increases substantially, but there is no income for the developer of this property.

**Chairman Corder** introduced **Senator Heider**. **Senator Heider** said the email from Twin Falls Urban Renewal Agency is no longer an issue. **Senator Heider** spoke to them and they are at peace with the legislation because of the wording in Section G on page 3.

**Chairman Corder** introduced **Brad Wills**, land developer from the Magic Valley. See attachment #2. **Chairman Corder** said the Fiscal Impact on the Statement of Purpose in the presentation is different than the one on the bill. There is no Local Level Impact on the SOP attached to the legislation.

**Mr. Wills** said Idaho does not tax business inventory. The IRS and State Tax Commission consider site improvements a product until the land is sold or utilized and then a taxable transaction occurs. This land should be considered business inventory. Stage 1 is when the land is agriculture or forestry. In Stage 2 the land is platted without any improvements. Stage 3 the land has been improved with infrastructure, but it is still vacant. In Stage 4 the lots have been improved and the structures are completed. The valuations of Stages 2 and 3 vary across counties. This bill requires an application to receive the exemption and the land must be developer-owned. If the land goes back to the bank, the bank is a lienholder, not a developer so this exemption would not apply.

**Mr. Wills** said new construction is where most of the site improvement value has been added to the tax rolls.

**Senator Bilyeu** said the county budget can increase 3%, not the tax revenue.

**Mr. Wills** said that is correct.

**Mr. Wills** said there are a lot of properties in Stage 3 that are being farmed in order to get the lower tax rate that is available in Stage 1. This is called inefficient farming. With this legislation, there would be a postponement of taxes; these properties would be fully taxed eventually. In the last years, new construction rolls have totaled \$33 billion. Of that, there is an estimate of \$13 billion in land development. Empty parcels require minimal services. Levy rates vary from .66% in Challis to 2.56% in a local city. Property in Challis for Stage 2 would be taxed at \$100 versus \$380 in the local city. Urban Renewal Agencies are not in the land development business.

**Senator Rice** asked if there is a definition for "land developer". The land could be placed under a corporation and the corporation sold rather than the land. **Mr. Wills** said there was a meeting a month ago with the State Tax Commission. They requested that an official definition would not be created because it may not be done properly. The Board of Equalization will determine if someone is a developer, with guidance from the State Tax Commission.

**Senator Bilyeu** said the document showed \$1500/ acre valuation for Stage 1, however that is not market value because the land already has an exemption on it. What would the market value be. **Mr. Wills** said a year ago it would have been \$2500 and now it would be \$4500/ acre. **Senator Bilyeu** said the Stage 1 acreage has an exemption already. Stage 2 land could still be farmed even though it has been platted, is that correct. **Mr. Wills** said typically when land is platted, the water rights are given to the municipality, so the type of farming is limited. The Stage 4 value includes the value of the home on the property. **Senator Bilyeu** asked if it would be fair for a purchaser of an individual lot to have their value rise substantially when they purchase the lot, but for the developers it would not. **Mr. Wills** said that was determined to be legal about six years ago. One developer, because they own multiple lots, is considered to have a discounted value on the lots. This is business inventory. It would be similar to a tree farm; if an individual buys a tree, they would have to pay sales tax on it.

**Vice Chairman Johnson** asked if the Idaho Association of Counties was in favor of this legislation. **Mr. Wills** said the counties are here and can speak to their concerns. The tax on the property increases 10x from one stage to the next higher one. There are no exemptions in Stage 3.

**Senator Werk** asked why the bill does not just say "when there is a conveyance" the exemption is lost. **Mr. Wills** said once the developer sells the property, the land is no longer inventory so there is no implied application of this legislation.

**Senator Hill** said under current law, when a developer makes improvements, he pays sales tax on the cost of materials. When the property is sold, it is not subject to sales tax because it is real estate. Items that go into inventory do not have sales tax paid on them, but the finished product has sales tax charged. When the land is classified as inventory would that require purchasers to pay 6% on the purchase of the lot. **Chairman Corder** introduced **Steve Fiscus** of the State Tax Commission. **Mr. Fiscus** said this would be similar to the house itself, in that no tax would be paid when it is sold.

**Chairman Corder** introduced **John Eaton** of the Idaho Association of Realtors, who spoke in support. **Mr. Eaton** said this was the most fair legislation related to this issue he has seen. When ineffective farming is used, the land reverts from Stage 3 to Stage 1 which creates a substantial tax shift on the taxpayers in the county. The value of the land has been severely decreased. An exemption is the only tool available and this legislation would create a much smaller tax shift.

**Chairman Corder** introduced **Jayson Ronk**, Vice President of the Idaho Association of Commerce and Industry, who spoke in support.

**Chairman Corder** introduced **Max Vaughn**, Minidoka County Assessor and Chairman of the Idaho Association of Counties Legislative Committee, who spoke in opposition. **Mr. Vaughn** said this legislation is a departure from tax policy and it is difficult to understand that infrastructure is inventory. There is a lack of uniformity between counties on this issue. Minidoka County has no site improvements; the infrastructure is not valued that way; it is all fair market valuation. The developers are encouraged to develop in phases, so there are not a lot of developed lots available that cannot be sold. If there is an exemption on site improvements, Minidoka County would not know what to deduct since their valuation is based on market value.

**Senator Rice** asked for clarification that in Minidoka County there is no difference in the tax amount for the developer between a platted lot and one just sold. **Mr. Vaughn** said the market could change every year because it is assessed by market value. Site improvements do not necessarily increase the value of the lot.

**Vice Chairman Johnson** asked if a lot could be subdivided by a private individual and then receive the exemption. **Mr. Vaughn** said that is a possibility.

**Chairman Corder** introduced **Brent Adamson**, Assessor for Boise County who spoke in opposition. **Mr. Adamson** said there is no consistency across the state as to how land is valued, and that is necessary because no piece of dirt will have the same value from area to area. There are only a minority of counties in the state that value land the same way Twin Falls County does. The rest use market value.

**Chairman Corder** said due to the time limit, testimony would continue on Wednesday, March 14, 2012.

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

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Senator Corder  
Chairman

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Jo Ann Bujarski  
Secretary