

MINUTES
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Thursday, March 29, 2012

TIME: 8:00 A.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 8:05 am. The Committee Secretary called an attendance roll call; all Committee members were present.

H 563

To Reduce the Income Tax Rate on a Certain Amount of Idaho Taxable Income.

Chairman Corder introduced **Senator Winder**. **Senator Winder** said the Governor had proposed tax relief of \$45 million in his State of the State address. He thanked the Joint Finance and Appropriations Committee and its Chairman to enable the money to be available. There are times when priorities have to be rearranged. Not our values, but our priorities. The 35-35-35 compromise of teachers' salaries, tax relief and replenishing funds, is the final roadblock in going home, to work and to use the next six weeks to campaign for the primary elections.

Senator Werk asked why the Fiscal Note only discusses 2013, but does not carry beyond that, while the legislation does not sunset in 2013. **Senator Winder** said this bill is ongoing. **Senator Werk** asked if the Fiscal Note should be changed to reflect the ongoing nature of the legislation. **Senator Winder** said it does not need to be changed.

Chairman Corder introduced **Erik Makrush** of the Idaho Freedom Foundation, who spoke in support. See attachment #1.

Chairman Corder introduced **Bruce Perry** of Boise, who spoke in opposition. **Mr. Perry** said everyone would like to pay less taxes, but is this bill good policy. If there is interest in tax reform, then something meaningful should be done; this bill tinkers with the rates on the margin. This will not provide any kind of meaningful stimulus to the economy. A corporation that is investigating moving into this state will consider a multitude of factors: quality of workforce, quality of environment, and the quality of the schools. The last item on the list would be whether the tax rate is 7.6% or 7.4%. There are people who can really benefit from the \$35 million; if there is extra money in the budget, something should be done to restore cuts to Medicaid, to restore cuts to education, to do something meaningful.

Chairman Corder introduced **Shawn Bariger**, President and CEO of the Twin Falls Area Chamber of Commerce, who spoke in support. See attachment #2.

Senator Hill asked if the income tax rate would be a factor in businesses relocating to Idaho. **Mr. Bariger** said all of the things such as good work ethic are critical to businesses, but the income tax rate is the first thing businesses look at and Idaho is not competitive.

Chairman Corder asked if **Mr. Bariger** was aware of how many neighboring states also have industrial tax credit.

Chairman Corder introduced **Alex Neiwerth** of Idaho Association of Government Employees, who spoke in opposition. **Mr. Neiwerth** said he is in favor of fiscal responsibility, but the state finances are not in order yet to have a tax cut.

Chairman Corder introduced **Donna Yule**, Executive Director of the Idaho Public Employees association, who spoke in opposition. See attachment #3.

Chairman Corder introduced **John Watts**, representing the Idaho Chamber Alliance. **Mr. Watts** thanked the Chairman for being gracious at all times. **Mr. Watts** spoke in support. See attachment #4. **Mr. Watts** said they would have preferred a tax rate of 5.5%, but that was considered too deep of a cut. Nevada has no income tax. Most of the small businesses in Idaho file as an individual and that rate is 7.8%, rather than the corporate rate of 7.6%.

Chairman Corder introduced **Marty Durand**, representing the Idaho Building Trades Council, who spoke in opposition. See attachment #4.

Chairman Corder introduced **Cyndi Tiferet**, who spoke in opposition. **Ms. Tiferet** said there is money available in the state now to help those who need help the most.

Chairman Corder introduced **David Hensley** of the Governor's Office who spoke in support. **Mr. Hensley** said tax relief is a first step; tax reform is a longer-term endeavor that requires thoughtful consideration of time. JFAC has agreed there is enough money to meet the priorities the Governor has set forth. The taxable rate of 7.8% for individuals starts at \$26,700; \$53,000 for a joint filer.

Senator Rice asked if the Governor believes this will help attract businesses to Idaho. **Mr. Hensley** said the Governor believes this will attract new businesses and will help existing companies grow as well.

Chairman Corder introduced **Geoff Burns**, who spoke in opposition. See attachment #5.

Senator Werk said the Committee spent a fair amount of time looking at the effectiveness of different kinds of tax strategy. This hit the nail on the head on what the Committee discovered, which is investment in higher education has probably the best long-term effectiveness. **Mr. Burns** said one of the inhibitors to high-paying jobs being attractive to the Valley is the lack of funding in higher education.

Chairman Corder introduced **Rod Clay**, of the Plumbers and Pipefitters Union, who spoke in opposition. **Mr. Clay** said when the higher tax brackets get a tax cut, it is not spent back in the economy. The money would be better invested in education.

Chairman Corder introduced **Barbara Kemp**, who spoke in opposition. See attachment #6.

Senator Winder said this has been characterized as a tax bill that only benefits the rich. The poverty level in this country is \$31,000 and this tax break begins at \$21,700. Thirty percent of the people in Idaho pay no taxes. There has been grocery tax relief that represents \$15-16 million/year; that every family benefits from. Pay for Performance in education is being funded at \$39 mm. Funding has been increased for higher education for this year. This will show that Idaho is a friendly state to business. Voting for this bill is also a vote to support higher funding for teachers, and allows for rainy-day funds.

Chairman Corder asked if a vote for this was the only way there would have been a vote for pay for performance or keeping the teachers whole. **Senator Winder** said pay for performance has nothing to do with this. The emphasis was that there have been a lot of things done to improve funding for education. This is a compromise that will work for the House, the Governor's office and the majority of the Senate.

Senator Werk asked if there was any indepth analysis done on job creation. Nothing has been given that shows there will be a single job created. Have any studies been done. **Senator Winder** said there has been testimony that various chambers believe this will help businesses to grow. There should have been testimony from the Department of Commerce and other chambers. One of the items businesses look at are tax rates. **Senator Werk** said there is an article of faith here; if we do something, something else good will happen.

Senator Hammond asked where the \$35 million of tax relief comes from and who are the beneficiaries. **Senator Winder** said the \$35 million was a compromise between the House and the Governor.

Senator Rice asked how many jobs would be created if tax relief is not done. **Senator Winder** said none.

MOTION:

Senator Rice made a motion to send H 563 to the floor with no recommendation. **Senator Hill** seconded. **Vice Chairman Johnson** said he appreciates all of the public input and takes it seriously. Many good things have been accomplished this legislative session. There are obstacles to economic development and one of those is the shrinking and struggling middle class. There has been a decrease of high-paying jobs in Idaho. This is an investment in the future of Idaho. Part of the tax policy is to lower tax rates, but more must be done. All members of the Senate need to be heard from on this issue. **Senator Hammond** said the issue has been are the funds really available to do this, can this be done safely. There has not been enough information to make an informed decision on this. **Senator Hammond** will support the motion, but perhaps vote against the bill on the floor. **Senator Werk** said there have been many thoughtful discussions in the committee to determine the most efficient and effective use of the dollars in the state. **Senator Werk** said he is being asked to take the tax money his lower-income constituents pay and redistribute it upwards to the wealthy, in the forlorn and unsubstantiated hope it will trickle back down to them. **Senator Hill** said he appreciated the comments as well. Targeted tax policy means the legislature chooses the winners and losers. Doing nothing does not impact the economy. It is difficult to determine the impact of tax cuts since there are always more factors involved. Businesses look at opportunities and costs when they are determining where to locate. If it creates a job so someone who did not have a paycheck now has a paycheck; they will notice. As the state went into the recession, a law was passed to increase the grocery tax credit for every family. Every year this credit costs the state \$15.5 million. The poor and the elderly now receive a credit of \$90 per person and everyone else receives \$70. This has a good chance of creating jobs.

Senator Rice said when a tax rate is cut, the state will take less of someone's money from them. They have more money to spend however they want to spend it. Jobs are created by the people who have the money to create jobs. There are families that are struggling that want jobs, not handouts. It is important to allow the Senate to vote on this bill.

Senator Bilyeu said she can not see where this bill is going to help the Idaho economy. Money should be put into education, particularly higher education. The constituents want and need that. Money needs to be put into infrastructure. Nevada does not have a corporate income tax, but corporations are not flocking to Nevada either.

**ROLL CALL
VOTE:**

Vice Chairman Johnson, Senators Hill, McKenzie, Hammond, Siddoway and Rice voted aye; **Chairman Corder, Senators Werk and Bilyeu** voted no. The motion carried. Senator Winder will be the floor sponsor.

**MINUTES
APPROVAL:**

Senator McKenzie made a motion to approve the minutes of March 14, 2012. **Senator Rice** seconded, and the motion carried by Voice Vote.

Senator Bilyeu made a motion to approve the minutes of March 22, 2012. **Senator Hill** seconded, and the motion carried by Voice Vote.

Vice Chairman Johnson made a motion to approve the minutes of March 21, 2012. **Senator McKenzie** seconded, and the motion carried by Voice Vote.

H 697

Adds to, Repeals and Amends Existing Law Relating to Revenue and Taxation to Establish Provisions Relating to Levies for Payment of Certain Judgments.

Chairman Corder introduced **Representative Roberts**.

Representative Roberts said this bill is an effort to find an avenue forward for Boise County. In 2009 there was an applicant that claimed a violation of the fair housing act. The county lost the judgment, and had no insurance that covered this. A Federal jury trial took place in 2010 and while the Boise County board had approved the permit, the conditions were so onerous, it had the practical effect of denial. The applicant was awarded damages and attorneys' fees. The county commissioners explored all possible options to pay the award, including Chapter 9 bankruptcy.

Bankruptcy Court found the county could access funds. The judge then said the county could hold a levy to pay the award. The judge said the levy should exceed the 3% cap; which the State Tax Commission said they would not grant the excess. Three separate courts have said the county can rely on the State Constitution to exceed the cap.

The Constitution has a provision that allows for an additional, special tax to be collected up to 10 mills. Idaho Statute does not provide for that however, since there is a 3% cap. The federal court determined the judgment was an ordinary and necessary expense. There are a couple of ways to create debt. One way is by 2/3 approval of the voters. The other is by ordinary and necessary expense, which is done without a vote.

Instead of allowing a federal judge determine tax law in Idaho and potentially undermining the 3% cap; this bill was created. Two provisions were added to the original bill, a majority of the voters would need to pass the levy, and the bill has a sunset clause for 2017.

Representative Roberts said the legislation only allows for the payment of judgments by order of a court. The taxing district must first budget the maximum amount of property tax permitted, and all surplus funds must be spent. The amount can only be .1%. If there are new houses built, or an area annexed, that will allow the budget to grow by more than 3%.

Senator Rice said this allows the State Tax Commission and Boise County avoid litigation, saving both money. **Representative Roberts** said there is currently 5.5% interest on a 5-year note. This legislation will allow the county to go into a bonding situation that will benefit the taxpayers because longer-term bonds are currently at 1%-2%.

Chairman Corder introduced **Carl Olsson**, Deputy Attorney General working at the Tax Commission. **Mr. Olsson** said the Tax Commission is in support of the bill and the Attorney General's office is neutral.

Chairman Corder introduced **Brent Adamson**, Assessor for Boise County, who spoke in support. If this bill is not passed, there will be drastic budget cuts in Boise County. Several of the residents have suggested budgets should be cut, however the assessor's office has been cut 20%. There is nothing the Assessor's Office does that is not statutorily required, except for the website and a computer in the front area for citizens.

Representative Roberts said this legislation needs to be passed today, as it needs to be on the ballot, which is being printed on March 30, 2012 (Friday).

MOTION: **Senator Hammond** made a motion to send H 697 to the floor with a Do Pass. **Vice Chairman Johnson** seconded, and the motion carried by Voice Vote. **Senator Corder** will be the floor sponsor.

ADJOURNMENT: **Chairman Corder** adjourned the meeting at 10 am.

Senator Corder
Chairman

Jo Ann Bujarski
Secretary