

MINUTES
HOUSE REVENUE & TAXATION COMMITTEE

DATE: Thursday, March 14, 2013

TIME: 8:00 A.M.

PLACE: Room EW42

MEMBERS: Chairman Collins, Vice Chairman Wood(35), Representatives Barrett, Moyle, Raybould, Denney, Anderson(31), Anderst, Dayley, Hartgen, Kauffman, Patterson, Trujillo, Burgoyne, Erpelding, Meline

**ABSENT/
EXCUSED:** Rep. Wood(35)

GUESTS: Dr. John Church, Idaho Economics; Brad Wills, Idaho Building Contractors Association; Jeremy Pisca, M3 Companies, Idaho Building Contractors Association, and the Idaho Association of Realtors; Wayne Hammon, Idaho Associated General Contractors; Jeremy Chou, Givens Pursley; Caroline Merritt, Boise Metro Chamber; N.L. Clayville, DFM, Ross Borden, City of Boise; Mike Chakarun, Idaho State Tax Commission; John Eaton, Realtors; Jeff Sayer, Idaho Department of Commerce; Jayson Ronk, IACI; Miguel Legarreta, Realtors; Russell Westerberg, Pam Eaton, Retailers; Mayor Garrett Nancolas, City of Caldwell; Elizabeth Criner, NWFPA & FWAA; Wayne Hoffman, Idaho Freedom Foundation.

Chairman Collins called the meeting to order at 8:02 a.m.

H 267: **Jeremy Pisca**, Risch Pisca, representing M3 Companies, Idaho Building Contractors Association, and the Idaho Association of Realtors, presented **H 267**. This legislation would establish a financing tool for the construction of regional highway projects in Idaho, through the creation of Transportation and Economic Development Zones (TEDZ). Currently, the Idaho Department of Transportation (ITD) has a maintenance deficit of \$543 million and no identified funding for new construction. This legislation is viewed as a bridge to help in funding this gap. Mr. Pisca stated this legislation was introduced late in the session last year and based on the concept of STAR's. **H 267** will use sales tax from projected growth as a result of the construction, to finance identified projects. Mr. Pisca stated that previous attempts to generate revenue, including an increase tax on rental cars and increase of the gas tax, failed. This legislation blends economic development and highway construction.

H 267 would authorize the Idaho Department of Transportation (ITD) and the Idaho Department of Commerce (Commerce) to jointly identify highway construction projects that create economic and job corridors and that have a positive revenue impact to the state. **Mr. Pisca** stated this legislation would require an independent economist to be hired for the development of an economic analysis and to define the TEDZ boundaries. Eligible projects must meet the following criteria; create new, net positive sales tax impacts, have a revenue-positive economic impact greater than twice the cost of construction over a thirty year period and have the support of the majority of local governments within the proposed TEDZ. ITD would work with Idaho Housing and Finance Association to obtain loans or bonds to finance projects. The legislation contains a capitalized interest period of three years, where the first three years of interest payments are included in the loan amount. Mr. Pisca commented while not always considered, road construction is also a sales tax generator. **H 267** has accountability imbedded within. Every year the note or bond is outstanding, a report by an independent economist is required, to capture the economic activity within the zone. The report will be distributed to the Governor, the

Chair of Joint Finance and Appropriations Committee (JFAC), both the Senate and House Transportation Committee Chairs and would also be a public record.

In response to a question **Mr. Pisca** stated the concept of a TEDZ is patterned after STAR's and an Idaho solution to an Idaho problem. He does not believe roadways would be constructed in any area where the economic impact will not be realized. Mr. Pisca acknowledged that the projects would be backed by the sales tax. Mr. Pisca responded to a question that the cost of the economist hired to perform the analysis would be equally split between Commerce and ITD, but could also be recovered through the bond or loan utilized for the project.

Mr. Pisca responded to a question that an approved project would be regional in nature, connect multiple jurisdictions and improve one or more state highways or state highway systems. Mr. Pisca clarified that the STAR's program was the genesis of TEDZ, which assumes if the infrastructure is built, there will be growth. TEDZ uses the revenue from the anticipated growth and actually builds the infrastructure ahead of that growth. Mr. Pisca stated TEDZ is different than GARVEE bonds, which funds necessary state highways based on future gas tax receipts.

In response to a question, **Mr. Pisca** stated that the debt obligation of a TEDZ project would be subordinate to three existing obligations already backed by sales tax anticipation notes. Mr. Pisca responded to a question stating that maintenance of the roadway, while under construction, will be paid for out of bond proceeds, but subsequently, ITD would be responsible for ongoing maintenance. Mr. Pisca stated there was discussion and consideration to include ongoing maintenance costs in the bond, but only infrastructure is bondable, ongoing maintenance is not eligible.

Dr. John Church, represented M3 Companies, testified in support of **H 267**. Dr. Church has been an economist for 30 years and conducted numerous economic impact studies for a wide variety of industries and companies, including; Idaho Power, United Water, St. Luke's, Monsanto, Thompson Creek Mining, and Ada County Highway. Dr. Church was asked to prepare an economic growth analysis on three potential TEDZ locations; Highway 16, Highway 95 in north Idaho, and a hypothetical project in Twin Falls County. For the economic forecast on the Highway 16 project, Dr. Church stated the new revenue would be 13 times the cost of construction.

Dr. Church stated that Idaho employment growth is projected to be the 8th fastest growing in the country and the five metropolitan areas in Idaho will be in the top 100 in the country, for employment growth, over the next three years. Boise is projected to be 39th in employment growth and 24th in population growth.

In the projection of the various TEDZ areas, **Dr. Church** stated all three had a significant net positive gain to Idaho. For the Highway 16 project, a two mile corridor east and west of the highway is projected to generate \$7 million in sales tax revenue, over the five years of the construction. In the forecast, Dr. Church assumed the growth would include both commercial and government buildings which would not generate sales tax. Only 30% of the growth was assumed to be retail that would generate sales taxes on an ongoing basis. Dr. Church stated even with the very conservative projection of 30% retail, the forecast indicated a 13:1 benefit ratio, of revenue to cost.

In response to a question, **Dr. Church** acknowledged that not all of his projections have worked out as planned. More often than not, his projections were too conservative and growth outpaced the projections. He stated further, economists do not always agree, but economists outside of Idaho also project Idaho will grow, and grow rapidly.

Brad Wills, Developer and Executive Board member of the Idaho Building Contractors Association, testified in **support of H 267**. Mr. Wills believes growth should pay for itself and this is a way that can be accomplished.

Wayne Hammon, Executive Director, Association of Idaho General Contractors (IAGC), testified in **support of H 267**. IAGC members are the contractors that build schools and buildings. He said they are concerned about the insufficient maintenance revenue for roads. An ongoing, long term solution is an IAGC goal and while this bill will not remedy all of the concerns, it does address a critical need and does so without raising any taxes. Mr. Hammon stated his belief that Idaho is well positioned to take advantage of the growth that will occur.

Jeremy Chou, Givens Pursley and representing the American Council of Engineering Companies of Idaho (ACECI), testified in **support of H 267**. ACECI members believe a key issue in Idaho is the need for infrastructure and this legislation provides a mechanism to allow growth to pay for itself. **H 267** promotes business interests and growth and does so with no new taxes.

Caroline Merritt, Boise Metro Chamber of Commerce, spoke in **support of H 267**. Quality of life in Idaho is important and over the past 10 years, Idaho was the 4th fastest growing state in the country. The infrastructure has not kept pace with this growth. Ms. Merritt stated the Boise Valley Economic Partnership (BVEP) points out the lack of traffic as an advantage in the recruitment of new business to the area. However, traffic is increasing and becoming a growing issue. **H 267** is seen as a creative and innovative tool that allows growth but pays for itself.

Ross Borden, City of Boise, spoke in **opposition to H 267** by stating Idaho needs more funding for infrastructure. He gives credit to Mr. Pisca for attempting to address the issue. However, the City of Boise does not believe TEDZ is the answer. There is a lack of legislative oversight and this legislation cedes authority to individuals who are not accountable to taxpayers, nor does it include oversight of approved projects. Mr. Borden stated the Department of Commerce would be assuming a totally new responsibility which could put them at odds with cities and counties. Commerce and ITD would be authorized to trigger major projects with no consideration of locally developed Comprehensive Plans. This legislation puts too much power in the hands of one economist and TEDZ financing would violate the historical practice of using sales tax to pay for critical services.

John Eaton, Idaho Association of Realtors, which is comprised of 6,000 members statewide, spoke in **support of H 267**. Mr. Eaton stated viable transportation is important to support a strong Idaho economy. Real estate has suffered a significant downturn and is finally beginning to rebound. The in-migration to Idaho has slowed to a trickle due to the housing crisis. Mr. Eaton stated there are signs economic growth will occur and each house generates sales tax as it is constructed. Commercial construction follows and the new sales tax helps to facilitate orderly growth while paying for itself, which is known as smart growth. This legislation requires a majority of impacted political subdivisions to approve any project, along with ITD and Commerce. In response to an option to create a toll road, Mr. Eaton stated it is not exactly the most feasible option since the road must be built first before tolls are charged, and there is no funding to build the road.

Jeff Sayer, Director, Idaho Department of Commerce, testified in **support of H 267**. Mr. Sayer believes this legislation is a bold and innovative measure that is self sufficient, requires a lot of advance analysis, is regional focused and funded, contains a reasonable structure of checks and balances, and is scalable to tackle some of the larger projects needed. Mr. Sayer stated the Idaho Department of Commerce is up to the challenge of oversight for TEDZ projects which would involve the Idaho Economic Council Board review. Currently, Idaho is a fly over state and in order to get the attention of national industry, this bill would allow Idaho to get ahead of the growth that is coming. Mr. Sayer responded to a question stating although TEDZ would be backed by general sales tax, projects first look to the identifiable regional revenue of increased sales tax, before the project could even move forward. The checks and balances in the legislation would ensure general fund resources are not spent in a careless manner. The TEDZ process would be so involved that a nonviable project is unlikely to move forward.

Jayson Ronk, Idaho Association of Commerce & Industry, and **Pam Eaton**, Idaho Retailers Association, both testified in **support of H 267**.

Garret Nancolas, Mayor of Caldwell, testified in **opposition to H 267**. Mayor Nancolas stated he has heard a lot of testimony on growth projections, but does not believe a reliance can be placed on forecasts. He further stated he was unaware of a single economist who accurately projected the recent recession. Mayor Nancolas stated he fully supports economic development but encourages caution. He suggested consideration of alternative methods, such as having retail in the area of development pay for itself or following the example set by the City of Nampa in putting the bond financing to a vote of the citizens. Mayor Nancolas expressed concern in the use of statewide sales tax if the projections are wrong, stating this is not a case of "build it and they will come".

Wayne Hoffman, Executive Director, Idaho Freedom Foundation, spoke in **opposition to H 267**. Mr. Hoffman stated the funding should be straight forward and transparent and this legislation does not meet that test. Mr. Hoffman stated **H 267** would put transportation ahead of other needs associated with growth and there are other states that bond for ongoing public services. Good public policy requires that you have competing views and the language in this legislation does not accomplish that objective.

Dr. Church responded to a question regarding the Twin Falls forecast and Highway 30 and Highway 93 bypass (Pole Line Road) stating they are already in place and were constructed as a part of the Statewide Transportation Improvement Plan (STIP). TEDZ will fund future projects. Dr. Church stated the growth along Pole Line Road is a result of the construction of the bypass and was not there five or ten years ago.

Mr. Pisca closed his testimony by stating the issues raised in prior testimony are not a concern and believes the language in **H 267** ensures transparency and appropriate oversight. He noted the economic projections were made during the economic downturn and are very conservative. The issue of toll roads has been well vetted and considered. There are growth problems in many corridors and TEDZ is a potential solution for state highways. Mr. Pisca stated it's important to get the infrastructure constructed ahead of the growth. In response to a question, Mr. Pisca stated he was not familiar whether the Highway 16 project could be looked at as an interstate spur and able to take advantage of federal highway funding. However, he stated TEDZ is designed to be a controlled access system with separated interchanges.

MOTION:

Rep. Anderst made a motion to send **H 267** to the floor with a **DO PASS** recommendation.

SUBSTITUTE MOTION:

Rep. Moyle made a substitute motion to **HOLD H 267** in committee.

ROLL CALL VOTE ON THE SUBSTITUTE MOTION:

A roll call vote was requested. **Substitute Motion carried by a vote of 9 AYE, 6 NAY, 1 Absent/Excused. Voting in favor of the motion: Reps. Barrett, Moyle, Denney, Anderson, Hartgen, Patterson, Burgoyne, Erpelding, and Meline. Voting in opposition to the motion: Reps. Collins, Raybould, Anderst, Dayley, Kauffman, and Trujillo. Rep. Wood(35) was absent/excused.**

ADJOURN:

There being no further business to come before the committee, the meeting was adjourned at 9:53 a.m.

Representative Collins
Chair

Kathleen A. Simko
Secretary