ELAM & BURKE
ATTORNEYS AT LAW

RYAN P. ARMBRUSTER

251 East Front Street, Suite 300
Post Office Box 1539
Boise, Idaho 83701
Telephone 208 343-5454
Fax 208 384-5844
E-mail rpa@elamburke.com

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The Honorable Dan G. Johnson, Co-Chairman
The Honorable Rick D. Youngblood, Co-Chairman
The Honorable Jeff C. Siddoway
The Honorable Kathleen Sims
The Honorable Chuck Winder
The Honorable Robert Anderst
The Honorable Mary Souza
The Honorable Lance Clow
The Honorable Maryanne Jordan
The Honorable Hy Kloc

Re: Response to Example: Property Tax Shift – Urban Renewal Increment Prepared by: Max Vaughn, Minidoka Assessor

Dear Interim Committee Members:

The example provided to the Urban Renewal Interim Committee by Max Vaughn, Minidoka County Assessor on September 21, 2015, oversimplifies the impact of a revenue allocation area on the taxpayer and is not entirely accurate. In order to determine the true impact of a revenue allocation area on taxing districts and taxpayers, an independent, individualized study would need to be done on each individual revenue allocation area and the overlapping taxing districts.

The example provided by Mr. Vaughn stands for the proposition that the creation of a revenue allocation area directly leads to an increase in the taxpayer's taxes. His math is based on three flawed assumptions: 1) the taxing district annually increases its budget by 3%, 2) the only market value increase occurs within the boundaries of the revenue allocation area; none occurs outside of the boundaries of the revenue allocation area and within the boundaries of the taxing district, and 3) that the increased value and new construction would have occurred anyway without the creation of a revenue allocation area. As a result, the conclusion of a property tax shift to all taxpayers within a county is inaccurate.

Additionally, the value from new construction allows taxing districts to increase their budget capacity. Taxing districts are not immediately able to use the new construction value for new construction occurring within a revenue allocation area. Upon termination of a revenue allocation area, taxing districts may add the full value of the new construction since 2007 in calculating their budget increases. In sum, the new construction value is not lost to taxing districts; it is merely delayed.

Finally, the calculation fails to consider that revenue allocation areas are limited by time, many of which are terminating within the next five to ten years, and the impact of termination on the levy rate. It is challenging to provide the Committee with a complete mathematical analysis taking into consideration all of the relevant factors; however, please see the examples below:

2015 – No RAA

$1,000,000 (taxing district budget)/$100,000,000 (taxing district market value) = .01 (levy rate)
Property value $50,000 x .01 levy rate = tax liability of $500

2016 – Creation of RAA

RAA includes 20 parcels (base value of $20 million); taxing district market value, including base value, is $100,000,000
There are 100 parcels within the boundaries of the taxing district
Taxing district elects to increase its budget by 3%; there has been a 1% inflationary increase in value overall; no new construction inside/outside the RAA

$1,030,000 (taxing district budget)/$100,800,000 (taxing district market value [1% increase on properties outside the RAA (.08%)]) = .0102
Property value $50,000 x .0102 levy rate = tax liability of $510
Note: if the taxing district did not increase its budget by 3%, the levy rate would go down:
$1,000,000/$100,800,000 = .0099
The mere creation of a RAA has zero impact on the taxing district's election to increase its budget.

If no RAA:
$1,030,000/$101,000,000 = .01019
$50,000 x .01019 = $509.50

Conclusion: the taxing district's election to increase its budget has more impact on the levy rate than the RAA.

2017 – Growth in RAA
Due to efforts of URA, manufacturing facility locates within RAA; new construction value of $30,000,000

Taxing district elects to increase its budget by 3% (as it does as a matter of course annually); there has been a 1% inflationary increase in the value overall
$1,060,900 (taxing district budget)/$101,606,400 (taxing district market value [1% increase on properties outside the RAA (.08%)]) = .0104
Property value $50,000 x .0104 levy rate = tax liability of $520
Note: if the taxing district did not increase its budget by 3% annually, the levy rate would continue to go down:
$1,000,000/$101,606,400 = .0098

If no RAA:
$1,060,900/$102,010,000 = .01039
$50,000 x .01039 = $519.50

Conclusion: the taxing district's election to increase its budget has more impact on the levy rate than the RAA.

CONCLUSION

In 20 years or less, the RAA will terminate and the taxing district will be able to include the entire increment value within the RAA in setting its budget. The increment value, including the new construction that was essentially "deferred" when built (at least for budget capacity purposes), can now be used to generate additional budget capacity for the taxing districts. The addition of this value will likely drive down the levy rate depending on 1) the extent the taxing district increases its budget over the same period and 2) growth occurring outside of the RAA. Overall, any impact to the tax payer as a result of creation of a RAA is de minimus and but for the addition in value generated by the RAA, the tax rate would be significantly higher assuming a taxing district takes its 3% increase each year.

Thank you for allowing us the opportunity to present this information.

Sincerely,

ELAM & BURKE
A Professional Association

Ryan P. Armbruster

RPA/ksk
Enclosures
cc: Mike Nugent

4820-5653-2778, v. 1