

MINUTES  
**SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE**

**DATE:** Thursday, February 04, 2016

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

**PLACE:** Room WW53

**MEMBERS PRESENT:** Vice Chairman Guthrie, Senators Rice, Vick, Bayer, Stennett and Burgoyne

**ABSENT/ EXCUSED:** Chairman Siddoway, Senators McKenzie and Johnson

**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.

**CONVENED:** **Vice Chairman Guthrie** called the meeting to order at 3:01 p.m. and recognized that Chairman Siddoway and Senator Johnson were attending a panel discussion and absent from the Committee meeting.

**H 348** **Michael Chakarun**, Tax Policy Manager, Idaho State Tax Commission (Commission), presented **H 348**, which addresses a tax inequity pertaining to the purchases of certain watercraft by nonresidents. The bill adds paddleboards and similar vessels, defined as any boat intended to carry one or more person and is 11 or more feet in length, to the list of watercraft that are taxable to nonresident purchasers. **Mr. Chakarun** pointed out that under current law, paddleboards meeting these criteria may be purchased and used in Idaho by nonresidents without paying sales tax.

**Senator Stennett** asked if there are other watercraft besides paddleboards that fit the criteria outlined in **H 348**. **Mr. Chakarun** was unaware of any specific vessels but indicated the language is inclusive of other watercraft that may emerge in the future.

**MOTION:** **Senator Stennett** moved to approve **H 348** with a **do pass** recommendation. **Senator Vick** seconded the motion. The motion carried by **voice vote**.

**H 353** **Cynthia Adrian**, Tax Policy Specialist, Idaho State Tax Commission, presented **H 353**. This legislation modifies § 63-3035, Idaho Code, and allows employers who pay employees once a month to file and remit withholding on a monthly schedule instead of twice a month under current law. **Ms. Adrian** noted that this change will lessen the burden on employers who remit just once a month.

**MOTION:** **Senator Bayer** moved to approve **H 353** with a **do pass** recommendation. **Senator Burgoyne** seconded the motion. The motion carried by **voice vote**.

**H 358** **Alan Dornfest**, Property Tax Policy Bureau Chief, Idaho State Tax Commission, presented **H 358**. **Mr. Dornfest** explained the first technical change, which deletes the requirement that the Commission provide valuation information to the Idaho Department of Education and State Board of Education, indicating the report is no longer being utilized. The second change pertains to the distribution of sales tax revenue. **Mr. Dornfest** explained that there is a reference in the sales tax distribution law that is not found within current statute; the legislation clarifies that reference and provides direction to the appropriate section.

**MOTION:** **Senator Bayer** moved to approve **H 358** with a **do pass** recommendation. **Senator Vick** seconded the motion. The motion carried by **voice vote**.

## H 361

**Russell Westerberg**, speaking on behalf of Western Aircraft, introduced **H 361**. This legislation eliminates the June 30, 2016, expiration of the 1988 sales tax exemption on aircraft (and parts installed on them) used to provide passenger or freight service. **Mr. Westerberg** noted that the exemption was designed to encourage commercial aircraft to enlist repair and maintenance services in Idaho and has positively impacted aviation services around the State. He pointed out that the exemption was instrumental in Sky West's decision to build a \$18.5 million facility at Boise Airport, and he suggested that Sky West would consider relocating if the exemption were to expire. He then asked Austin Shontz, General Manager, Western Aircraft, to the podium.

**Mr. Shontz** provided an overview of Western Aircraft's operations, as well as the positive effects the exemption has had on its ability to compete with larger companies, increase its labor force and expand its operations. **Mr. Shontz** indicated that 47 out of 50 states currently have a sales exemption for aircraft parts, and the continuation of the exemption will help create a level playing field for aviation companies in Idaho.

**Senator Stennett** sought clarification regarding statistics pertaining to a decrease in the labor force in 2015, as presented in slide 23 (see attachment 1). **Mr. Shontz** explained that Western Aircraft restructured and resized its operations as a result of market changes.

### TESTIMONY:

**Jeff Jackson**, CEO of Jackson Jet Center, spoke in support of **H 361**. Mr. Jackson expressed how the exemption has allowed his business of aircraft management to grow and prosper. He stated his competitors are largely out-of-state operators, and without the exemption his company would be at a disadvantage.

**Jani Revier**, Administrator, Idaho Division of Financial Management (DFM), expressed concern about the fiscal note as recorded in **H 361**. She stated that DFM projects a fiscal impact of \$1.7 million in fiscal year (FY) 2017 and \$1.8 million in each subsequent year, which represents the projected sales tax that would be collected should the exemption expire. She pointed out DFM does not utilize dynamic scoring when preparing fiscal impacts. **Ms. Revier** explained that the projected fiscal impact is important because the forecasted revenue is used as the basis for the budgeting process.

### DISCUSSION:

**Senator Burgoyne** inquired if the projected fiscal impact is a net of increased employment and resulting income taxation that will occur as a result of a multiplier effect, to which **Ms. Revier** responded that DFM does not take into consideration dynamic scoring. She recognized that the multiplier effect does exist but explained that DFM takes a more conservative approach when examining fiscal impact.

**Vice Chairman Guthrie** invited Mr. Westerberg back to the podium to offer a closing statement. **Mr. Westerberg** noted that he consulted with DFM while preparing this legislation and then highlighted the economic benefits the exemption has provided the aircraft industry and the State of Idaho.

**Vice Chairman Guthrie** posed a question to Ms. Revier, asking if DFM reports projected revenue under similar circumstances when legislation calls for the continuation of an exemption. **Ms. Revier** replied that this is similar to tax extenders or conformity bills and indicated that DFM is not opposed to the content of **H 361** but wants to ensure accountability in the budgeting process.

**Senator Burgoyne** asked Ms. Revier if the projected fiscal impact figures take into account a situation in which there is no additional business or revenue generated

as a result of the exemption expiring. **Ms. Revier** responded that the fiscal impact does not take dynamic factors into account when projecting fiscal impact.

**MOTION:** **Senator Vick** moved to approve **H 361** with a **do pass** recommendation. **Senator Burgoyne** seconded the motion.

**Senator Bayer** commented that he appreciated the presentation and subsequent dialogue about the implications to business. He noted that although he does not necessarily support the foregone collections perspective, he recognizes the value of the exemption and supports the motion.

**Senator Burgoyne** commented that he believes the exemption has worked as originally intended and the approach taken by industry in this case is what should be expected from other stakeholders seeking a continuation of similar exemptions. He remarked that he recognizes the approach taken by DFM in regards to projecting fiscal impact, the Legislature should consider dynamic scoring, especially when examining the economic benefits and consequences of such exemptions.

The motion was carried by **voice vote**.

**ADJOURNED:** There being no further business, **Vice Chairman Guthrie** adjourned the meeting at 3:45 p.m.

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Senator Siddoway  
Chair

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Jennifer Carr  
Secretary