

MINUTES
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Thursday, February 18, 2016

TIME: 3:00 P.M.

PLACE: Room WW53

MEMBERS PRESENT: Chairman Siddoway, Vice Chairman Guthrie, Senators McKenzie, Johnson, Rice, Vick, Bayer, Stennett and Burgoyne

ABSENT/ EXCUSED: None

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: **Chairman Siddoway** called the meeting of the Local Government and Taxation Committee (Committee) to order at 3:08 p.m. and asked the secretary to take a silent roll.

PAGE FAREWELL: **Chairman Siddoway** thanked Senate Page Caleb Richardson for his service, recognizing his hard work and dedication to the Committee.

MINUTES APPROVAL: **Senator Johnson** moved to approve the Minutes of February 3, 2016. **Senator Rice** seconded the motion. The motion carried by **voice vote**.

RS 24535 **Neil Colwell**, Avista Corporation, introduced **RS 24535**. **Mr. Colwell** stated that he also represents an ad hoc coalition that includes representatives from counties, highway districts, canal companies, irrigators and utility companies, among others. The coalition brought to attention legal issues pertaining to encumbrances when property is transferred by a county. **Mr. Colwell** specified that the bill clarifies for tax deed purposes that an encumbrance does not include easements, highways and rights-of-way.

MOTION: **Senator Rice** asked for unanimous consent to send **RS 24535** to the State Affairs Committee to print and be referred back to the Committee for consideration. There were no objections.

H 431 **John Eaton**, Director of Government Affairs, Idaho Association of Realtors, presented **H 431**, which removes the index on the Idaho homestead exemption and places the exemption value at \$100,000 or 50 percent of assessed value, whichever is less. **Mr. Eaton** indicated that this will provide taxpayers with a slightly larger exemption and a stable and predictable tax policy. He noted that in 2006, there was significant discourse about increasing the homeowners' exemption prior to the exemption being set at \$75,000 and the index being added; he then provided explanation about the resulting tax shift to other taxpayers. **Mr. Eaton** explained that the proposed \$100,000 exemption was chosen after examining median home values to strike a balance between higher- and lower-priced areas around the State. He stated that the Legislature should reexamine property exemption values in the future and the impact of resulting tax shifts.

TESTIMONY: **Chairman Siddoway** explained that he requested that the Idaho State Tax Commission present information regarding property taxes and effects of the homeowners' exemption.

Alan Dornfest, Property Tax Policy Bureau Chief, Idaho State Tax Commission (Commission), reiterated that the information he was presenting to the Committee did not represent a position by the Commission on this bill and that no recommendation would be provided. **Mr. Dornfest** outlined the history of the homeowners' exemption, emphasizing changes in Idaho property values and taxes beginning in 2006. He explained that the housing price index is a lagging indicator, demonstrating that there is a one-year lag in the homeowners' exemption ceiling as home values increase or decrease. **Mr. Dornfest** commented on possible tax shifting effects of capping the homeowners' exemption, explaining that if home values continue to increase, high value homes will pay more tax, which would be reflected as a decrease to other property types. **Mr. Dornfest** also referenced statewide data regarding the percent of homes receiving the maximum homeowners' exemption (see attachment 1). He then stood for questions.

Senator Stennett asked if the index alleviates a tax shift from one type of property to another. **Mr. Dornfest** replied that when the exemption ceiling and home values are increasing at a similar rate, it results in some tax relief to higher-value homes. **Senator Stennett** asked if removing the index would impact higher-value homes, to which **Mr. Dornfest** replied that if home values do not increase, there will be no resulting tax shift; however, if values continue to increase, especially for higher-end homes, there will be a resulting tax shift to that group. **Senator Stennett** then asked if removing the index will impact low income, elderly and/or rental properties. **Mr. Dornfest** responded that if home values continue to rise, the tax shift will impact higher-value properties while benefitting lower-value properties.

Senator Rice asked if indexing shifts taxes onto farms, businesses and lower-value properties, and if removal of the index will shift the tax burden to higher-value properties. **Mr. Dornfest** affirmed but explained that it is dependent on the assumption that the upward trend of increasing home values will continue in the future.

Dan Blocksom, Idaho Association of Counties (IAC), spoke in opposition to **H 431**. **Mr. Blocksom** explained that the IAC opposes a fixed homeowners' exemption that does not account for future fluctuations in property values. In response to a question from Senator Rice, **Mr. Blocksom** indicated that the IAC will support the legislation if the value of the homeowners' exemption is reconsidered on a regular basis.

Patrick Vaughan, Latah County Assessor, expressed concerns regarding removal of the index. He remarked that the index has mitigated tax shifts to other property owners in Latah County and disagreed with the characterization that it was injurious to homeowners during the recession.

Chairman Siddoway asked if the exemption is capped at \$100,000, would Latah County act to reduce the levy amount to keep the county at a neutral net income. **Mr. Vaughan** responded that careful consideration is given when examining variables pertaining to property tax values.

Senator Vick sought clarification regarding tax shifts in Latah County, specifically if indexing minimizes the effects of tax shifts, to which **Mr. Vaughan** affirmed. **Senator Vick** then asked if the lagging effect of the index has an impact on tax rates. **Mr. Vaughan** answered that there are other variables that impact property tax values, such as levy rates and changes in overall home values, that make that determination difficult. He noted that Latah County employs a homeowner

exemption adjustor to monitor long-term shifts in residential values. In response to a question from Senator Johnson, **Mr. Vaughan** stated he first learned of the bill a few weeks ago.

Senator Guthrie asked which model is easier to administer, and **Mr. Vaughan** responded that there is no difference because data is computer-generated.

Justin Baldwin, Gooding County Assessor, spoke in opposition to the bill. He stated that because of the nature of the property tax system, which is constantly in flux, indexing will continue to serve a purpose. In response to a question from Senator Johnson, **Mr. Baldwin** stated he first learned of this legislation a few weeks ago.

Russ Hendricks, Idaho Farm Bureau Federation, spoke in support of **H 431**. He commented that indexing has been problematic for his membership and provided an example. Although this legislation does not address high tax rates, **Mr. Hendricks** stated it does address the issue of tax shifts under the current system. He pointed out that agricultural landowners in Idaho pay in excess of \$8 million or more per year in property tax due to tax shifts, which impacts farming communities.

John Eaton was invited back to the podium to provide closing remarks. **Senator Johnson** asked when the Idaho Association of Realtors first introduced this legislation, to which **Mr. Eaton** replied that since 2006, there have been numerous discussions about property tax with the Legislature, including the Interim Tax Working Group, regarding how to address these issues legislatively. **Senator Johnson** expressed concern about the apparent lack of public input received prior to introduction of this legislation and lack of support from citizens in his district.

Senator Vick asked for clarification as to why the Association of Realtors supports legislation that will seemingly shift the tax burden onto residential property owners. **Mr. Eaton** explained that realtors represent many other interests besides owner-occupied residential property that are impacted by tax policy; furthermore, decisions regarding tax policy should be made by the Legislature.

MOTION:

Vice Chairman Guthrie moved to approve **H 431** with a **do pass** recommendation. **Senator Rice** seconded the motion.

Senator Burgoyne stated that he does not support the motion, questioning if this legislation will improve current tax policy or provide any real benefit to taxpayers because the projected impact is based on predictions and assumptions. He remarked that capping the homeowners' exemption now will result in a need to reconsider that cap in the future as it becomes outdated in a changing economic climate.

Senator Rice expressed support for the motion, commenting that indexing is a failed system that burdens working class families by shifting taxes from higher-value to lower-value property owners.

Chairman Siddoway expressed support for the motion, pointing out that indexing negatively impacts lower-value property owners. He commented that although property tax determinations would be more appropriately made by local taxing districts, the proposed changes will create stability for Idaho counties while alleviating some of the tax burden from lower-value property owners.

Senator McKenzie indicated that he was involved in the legislative process that originally incorporated the index and noted consequences that were not anticipated; such consequences include the significant downshift in residential values and the

one-year lag that resulted in homeowners paying higher property taxes as their home values decreased. He expressed support for the motion and commented that any cap on the homeowners' exemption should and will likely be revisited by the Legislature in the future.

Senator Bayer noted that he was also involved with the original legislation and expressed disappointment in unanticipated outcomes. **Senator Bayer** recognized that current system has provided little relief to taxpayers in his district and expressed support for the motion.

Vice Chairman Guthrie noted that the \$100,000 exemption is unique to Idaho compared to surrounding states. He recognized the impact of tax shifts on lower-value property owners and expressed support for the motion.

Senator Stennett stated that she will not support the motion due to a lack of support for this legislation from citizens in her district.

Chairman Siddoway called for a roll call vote. **Chairman Siddoway, Vice Chairman Guthrie, Senators McKenzie, Rice, Vick and Bayer** voted aye. **Senators Johnson, Stennett and Burgoyne** voted nay. The motion carried.

ADJOURNED: There being no further business, **Chairman Siddoway** adjourned the meeting at 4:38 p.m.

Senator Siddoway
Chair

Jennifer Carr
Secretary