

MINUTES
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Wednesday, February 15, 2017
TIME: 3:00 P.M.
PLACE: Room WW53
MEMBERS PRESENT: Chairman Johnson, Vice Chairman Bayer, Senators Hill, Siddoway, Smith(Rice), Vick, Burgoyne, and Nye
ABSENT/ EXCUSED: Senator Patrick

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 Johnson** convened the meeting of the Local Government and Taxation Committee (Committee) to order at 3:00 p.m.

H 83 **Relating to Taxation, New Construction Roll. Representative Trujillo** presented **H 83**, which provides provisions to ensure that if property becomes exempt from property tax rolls within a certain period time, the exempted value is subtracted from the dollar amount of property tax certified for annual budgets. **Representative Trujillo** noted that as a county appraiser, she has recognized this issue to be problematic in her line of work. She provided a scenario in which a building was appraised, placed on the new construction roll, and subsequently exempted from property tax; it was accounted for on the new construction roll but not in terms of budgeting capacity. If revenue is not being generated through collection of property tax, **Representative Trujillo** stated the county should not be budgeting against that value.

Senator Burgoyne asked if this bill applies solely to new construction, and **Representative Trujillo** affirmed.

Senator Siddoway asked for a definition and examples of the term "alteration." **Representative Trujillo** stated that "alteration" is being stricken from the statute because there is no clear definition; as such, determining whether an alteration adds substantial value to a property and is thus included on a new construction roll for budgeting capacity has become problematic for county appraisers. **Senator Siddoway** provided a scenario in which a change of use occurs with a commercial property and asked if provisions apply in that regard. **Representative Trujillo** replied that new construction rolls apply to real property rather than personal property. **Senator Siddoway** asked if a change of use of a commercial property constitutes an alteration, as provided in statute. **Representative Trujillo** responded that because there is no clear definition of what constitutes an alteration, the change in value in that regard is difficult to determine. The intent of the statute is to include new buildings or additions on new construction rolls, rather than alterations or remodels. **Senator Siddoway** asked if an addition to a property constitutes an alteration or new construction, and **Representative Trujillo** replied that additions would be placed on new construction rolls.

Senator Nye asked what the projected fiscal impact is at the local level and if the Idaho State Tax Commission (Commission) and the Idaho Association of Counties (IAC) were consulted. **Representative Trujillo** explained that the fiscal impact is dependent upon new exemptions granted in the future; because new construction will not be factored into budget capacity, the fiscal impact will be minimal. She indicated that the Commission and county and city representatives were involved in this process; their main concern was a retroactive fiscal impact which would not be applicable under these provisions.

Senator Burgoyne commented on a possible structural error within the bill, pointing out that Idaho Code § 63-301A(3)(g) may not be properly formatted. **Representative Trujillo** asked Alan Dornfest, Property Tax Policy Bureau Chief with the Commission, to address these concerns. A discussion ensued regarding possible structural errors within the legislation and potential difficulties regarding interpretation and implementation. **Mr. Dornfest** stated he interprets the language in § 63-301A(3)(g) to be an additional deduction and does not foresee it being problematic from an administrative standpoint. **Senator Burgoyne** followed up by seeking further clarification of the fiscal impact at the local level. **Mr. Dornfest** responded that the Commission does not have enough information to conduct a fiscal analysis; however, based on financial information provided by the counties, he feels the fiscal impact will be minimal. **Senator Burgoyne** asked for clarification regarding new language in Idaho Code § 63-802(j). **Mr. Dornfest** explained that when a dollar value is placed on a new construction roll, budget capacity increases in relation to the prior year's levy rate. For a deduction, the budget capacity is not just based on the prior year but on the highest budget from property tax for the previous three years. Idaho Code § 63-802(j) provides provisions for taxing districts in this regard.

Senator Nye asked if these provisions will result in a tax increase, and **Mr. Dornfest** stated that no tax increase is projected.

TESTIMONY:

Geoff Schroeder, Mountain Home City Councilman, spoke in opposition of **H 83**. **Mr. Schroeder** observed that new construction and development often result in new financial obligations for a city and these obligations remain even when a property becomes tax exempt. For instance, when a property is annexed, the city begins to provide services, such as fire protection and sewer and water services; after an exemption is granted to that property, the city is still obligated to provide these services. **Mr. Schroeder** argued that because budgeting capacity does not reflect this, these exemptions result in a tax shift to others in that taxing jurisdiction. Additionally, **Mr. Schroeder** commented on the removal of the term "alteration" from statute, arguing that such action is at odds with the definition of "development" as provided in statute. If an alteration of interior property creates an increase in the need for services and the alteration is not placed on a new construction roll, the city is unable to levy for that impact. **Mr. Schroeder** suggested there is a misperception regarding new construction and annexation in this regard, and the net benefit of these provisions does not always outweigh potential fiscal impact at the local level.

Vice Chairman Bayer sought clarification regarding the timing of annexation of property with regards to budgeting capacity. **Mr. Schroeder** explained that if it is known during the annexation process that a property will be tax exempt, the tax burden shifts to others in the taxing district.

Senator Burgoyne asked for further explanation regarding possible tax shifts. **Mr. Schroeder** replied that if the value of the exempted property is deducted from budgeting capacity, the ability of a local jurisdiction to provide services is constrained, resulting in a possible tax shift to other taxpayers. **Senator**

Burgoyne noted two areas of concern regarding this legislation which include possible tax shifts resulting from exemptions, and budgeting capacity that allows property owners to protect the value of property within the municipality.

Representative Trujillo returned to the podium to provide closing remarks. She stated that in general, budget capacity will be minimally affected unless the exemption is large; at that point, it is up to county commissioners to negotiate with local business regarding necessary expansions or improvements to infrastructure. **Representative Trujillo** emphasized that these decisions should be made at the local level.

Senator Burgoyne asked how the provisions of **H 83** apply if property ownership changes. **Representative Trujillo** responded that it is dependent upon when the change of ownership occurs.

MOTION: **Senator Vick** moved to send **H 83** to the floor with a **do pass** recommendation. There being no second, the motion failed.

Vice Chairman Bayer reemphasized structural observations regarding Idaho Code § 63-301A(3)(g) and commented that given other parameters relating to budgeting capacity, taxing district budgets will not be substantially affected by the provisions in this bill.

GUBERNATORIAL APPOINTMENT: **Chairman Johnson** welcomed Tom Katsilometes, Commissioner, Idaho State Tax Commission (Commission). **Mr. Katsilometes** provided a brief history of his professional experience, stating that he has served as a Commissioner for the past 12 years, and previously as a County Commissioner for Bannock County for 18 years.

Pursuant to Senate Rule 39(H), **Senator Burgoyne** disclosed a possible conflict of interest.

Senator Siddoway asked Mr. Katsilometes to comment on challenges he faces in his line of work, as well as recent efforts of the Commission to become more transparent and accessible. **Mr. Katsilometes** replied that the Commission is currently implementing public relations programs to improve its relationship with the citizens of the State. Additionally, the Commission is in the process of acquiring new office space; their current lease expires in June.

MOTION: **Senator Burgoyne** moved to send the Gubernatorial reappointment of Tom Katsilometes to the State Tax Commission to the floor with a recommendation that he be confirmed by the Senate. **Senator Vick** seconded the motion. The motion carried by **voice vote**.

H 32 **Relating to Sales Tax, Nonresident Vehicle Exemption.** **Marni Odermann**, Sales Tax Policy Specialist with the Commission, presented **H 32**. This legislation amends Idaho Code § 63-3622R to change the number of days a nonresident can use certain vehicles, vessels, or trailers before owing sales tax, from 60 to 90 days. Current statute allows for 60 days of use in a twelve-month period before tax is due. **Ms. Odermann** indicated there are three other sales and use tax statutes regarding personal property, aircraft, and equipment that allow for 90 days of use; **H 32** creates consistent statutory standards. **Ms. Odermann** projected a decrease to the General Fund of no more than \$25,000.

MOTION: **Senator Siddoway** moved to send **H 32** to the floor with a **do pass** recommendation. **Senator Burgoyne** seconded the motion. The motion carried by **voice vote**.

S 1080 **Relating to Property Tax, Missed Property Roll.** **Kelli Brassfield**, Idaho Association of Counties (IAC), presented **S 1080**. Current statute restricts delivery of a missed property roll to the tax collector until after the first Monday of March in the following year, which **Ms. Brassfield** stated is unnecessary. **S 1080** amends Idaho Code § 63-811 to remove language restricting delivery of a missed property roll, aligning this code section with other related statutes.

MOTION: **Vice Chairman Bayer** moved to send **S 1080** to the floor with a **do pass** recommendation. **Senator Siddoway** seconded the motion. The motion carried by **voice vote**.

MINUTES APPROVAL: **Senator Siddoway** moved to approve the Minutes of February 1, 2017. **Vice Chairman Bayer** seconded the motion. The motion carried by **voice vote**.

MINUTES APPROVAL: **Senator Vick** moved to approve the Minutes of February 2, 2017. **Vice Chairman Bayer** seconded the motion. The motion carried by **voice vote**.

PAGE GRADUATION: **Chairman Johnson** thanked Senate Page Madison Smith for her service, recognizing her hard work and dedication to the Committee.

ADJOURNED: There being no further business at this time, **Chairman Johnson** adjourned the meeting at 4:05 p.m.

Senator Johnson
Chair

Jennifer Carr
Secretary