IDAHO FREEDOM FOUNDATION

Property Tax Reform

Property Tax Working Group

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Property Tax Reform – Why Now?

- The average property tax increase since 1995 has been 4.7%
- The 2018 total property taxes charged to Idahoans was $1.91 billion, a 6.4% increase over 2017
- If no action is taken:
  - Growing $1.91 billion at a 6.4% compound annual growth rate (CAGR), the current rate, equates to a staggering $3.55 billion property tax charge in 10 years – the projected tax charge amount in 2028
  - This will drive people from their homes
- However, if the rate of property taxes increases is diminished:
  - Growing $1.91 billion at a 4.7% CAGR equates to $3.02 billion in 10 years
  - Growing $1.91 billion at a 3.0% CAGR equates to $2.57 billion in 10 years

Source: Tax Commission Report, 11/26/2018, 2018 Market Values and Property Taxes, Alan S. Dornfest, Property Tax Policy Bureau Chief, p.1

Property Tax Reform – Summary

- Since property tax growth is budget-driven, controlling city, county, and school budget growth is crucial to hold back property tax growth
- The 3% plus new construction and annexation formula, in reality, allows for actual increases to be much higher; e.g. the 2017 to 2018 property tax increase was 6.4% (from $1.796 BN to $1.910 BN)
- Based on Tax Commission data, in 2018, about 52% of taxable parcels were NOT valued over $200k and therefore did NOT quality for the maximum $100k homeowners exemption
- Primary Solution:
  - Use sales tax revenue sharing dollars to cities and counties, in excess of 3%, to reduce the certified tax charge by the amount of the revenue sharing over 3% (details reviewed later in presentation)
- Other solutions:
  - Consolidation of taxing districts, with the unit absorbing the activity subject to the spending cap; e.g. mosquito abatement and recreation could fall within county tax district and not be separate taxing districts
  - Lower maximum levy rates
  - Further reform forgone taxes, make it harder to claw these taxes back
  - Change the formula for new construction: For 2018, potential increase statewide for the 3% cap was $37.3 million, potential increase from new construction was $32.6 million

Source: Tax Commission Report, 11/26/2018, 2018 Market Values and Property Taxes, Alan S. Dornfest, Property Tax Policy Bureau Chief, p.1, 2

Tax Commission data, 2018 Frequency Dist. 135, including land report

Property Tax Reform- History

- "In 1995, some of (approximately ¼) school M&O taxes were replaced with state funds and a 3% budget increase cap with certain growth exceptions was imposed on non-school districts. Except for school M&O property taxes, largely repealed in 2006, this system is still in place."
- "2006 marked a departure due to the elimination of most school M&O property taxes."
- Impact of 2006 property tax changes on Idahoans AND separate changes to homeowners exemption over several years – estimates for 2018 tax year, major policy changes only

o Eliminated M&O levy except for Boise School District 1	$385 million – Boise M&O levy $79 million in 2018
o Increase of homeowners exemption (very rough est.)	$100 million circa – From $50k limit to $100k limit
o Cost of sales tax going from 5% to 6% (avg. of FY18-19)	($304 million) – Estimate in EROAC information packet
o Added budget stabilization levy, limited to 4 districts	($35 million) – Avery, Blaine, McCall-Donnelly, and Swan Valley
o School suppl. levies increase above 4.9% trend line after 2006	($59 million) - Trend line from FY06 to FY19 was 7.7%
o Net difference	$87 million – ex. Other budget driven property tax changes

Source: Tax Commission Report, 11/26/2018, 2018 Market Values and Property Taxes, Alan S. Dornfest, Property Tax Policy Bureau Chief, p. 7, 16

Calculation of 2006 impact by Fred Birnbaum using Tax Comm and FY19-20, EROAC data and supplemental levy data

Property Tax Reform – Avoid Tax Shifts

- Increasing the home owner's exemption, for example from $100k to $120k, simply shifts the burden to those not receiving the higher exemption, and commercial property tax payers. This shift benefits urban areas much more than rural areas (data below is 2018 data)
  - 73.5% of Ada County parcels are valued at over $200k
  - 85.5% of Blaine County parcels are valued at over $200k
  - 38.9% of Canyon County parcels are valued at over $200k
  - 15.9% of Cassia County parcels are valued at over $200k
  - 16.6% of Bonneville County parcels are valued at over $200k
  - 25.5% of Boundary County parcels are valued at over $200k
  - 27.4% of Fremont County parcels are valued at over $200k
- Increasing or adding circuit breakers merely pulls money from the sales tax distribution that would otherwise go to the General Fund. It does not put downward pressure on spending

Tax Commission data, 2018 Frequency Dist. 135, including land report

Property Tax Reform – Time for a Reset

- Add the following language to 63-802 LIMITATION ON BUDGET REQUESTS — LIMITATION ON TAX CHARGES — EXCEPTIONS:

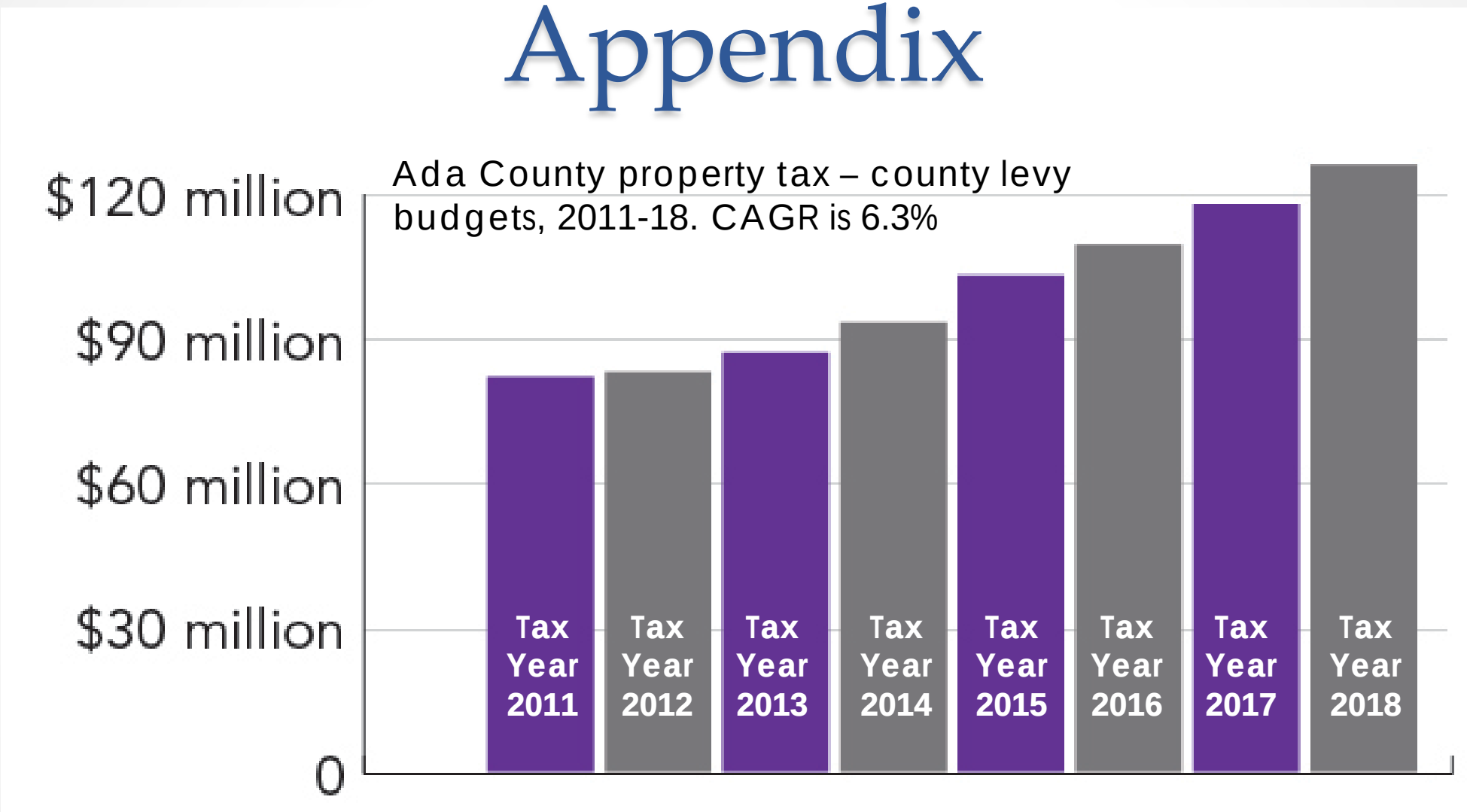
less the dollar amount by which the taxing district's total revenue sharing receipts under section 63-3638(10), Idaho Code, for the current year exceeds the taxing district's total revenue sharing receipts under section 63-3638(10), Idaho Code, from the previous year by more than three percent (3%)….

- Example of how this would impact Ada County – functions like a base reduction

  - Sales tax distribution in FY19 (tax year 2018) to Ada County was $61.0 million, up about 5.6% from FY18
  - FY18 estimate of $57.7 million grown at 3% equals to $59.4 million for FY19
  - So $61 million minus $59.4 million equals $1.6 million of tax reduction that must be applied to the Ada County certified tax charge of $125.6 million, lowering the certified tax charge to $124 million
  - Note that this would apply to all cities and counties that receive revenue sharing

Language for draft legislation prepared by LSO.
Impact calculated by Fred Birnbaum using LSO data,

Appendix



Source: Ada County budget books.